KENDRIYA VIDYALAYA SANGATHAN

STUDENT SUPPORT MATERIAL

CLASS XII

ACCOUNTANCY

Session-2022-23

ACCOUNTANCY

ERNAKULAM REGION

KENDRIYA VIDYALAYA SANGATHAN, ERNAKULAM REGION

केन्द्रीय विद्यालय संगठन, एरणाकुलम क्षेत्र

CHIEF PATRON

Mr R Senthil Kumar
Deputy Commissioner
KVSRO Ernakulam

PATRONS

Smt. Deepti Nair
Assistant Commissioner
KVS RO, Ernakulam

Sh. Santhosh Kumar N
Assistant Commissioner
KVS RO, Ernakulam

Sh. S Ajaya Kumar
Assistant Commissioner
KVS RO, Ernakulam

Sh. Anil Mohan
Coordinator
Principal, KV 1, Kochi

आर सेन्दिल कुमार
उपायुक्त
R. Senthil Kumar
Deputy Commissioner

केन्द्रीय विद्यालय संगठन

केन्द्रीय विद्यालय संगठन,
क्षेत्रीय कार्यालय, एरणाकुलम
KENDRIYA VIDYALAYA SANGATHAN
REGIONAL OFFICE,
ERNAKULAM,
KOCHI – 682 020

Ph. No.0484- 2205111(DC)
Website: www.roernakulam.kvs.gov.in
Email : dcernakulamregion@gmail.com

F.31/Acad/KVS(EKM) **Date :** *07/10/2022*

MESSAGE FROM DEPUTY COMMISSIONER

It gives me immense pleasure to publish the study material for Class XII Accountancy. I am sure that the support material will definitely be great help to the Class XII Students of all Kendriya Vidyalayas of our region.

This students' Support Material has been prepared to improve their academic performance. This is a product of the combined efforts of a team of dedicated and experienced teachers with expertise in their subjects. This material is designed to supplement the NCERT text book.

The support material contains all the important aspects required by the students. Care has been taken to include the latest syllabus, summary of all the chapters, important formulae, sample question papers, problem solving and case-based questions. It covers all essential components that are required for quick and effective revision of the subject.

I would like to express my sincere gratitude to the in-charge Principal and all the teachers who have persistently striven for the preparation of this study material. Their selfless contribution in making this project successful is commendable.

"An ounce of practice is worth tons of Knowledge, "Students will make use of this material meticulously to reap the best out of this effort.

With Best Wishes

(R SENTHIL KUMAR)
DEPUTY COMMISSIONER

KENDRIYA VIDYALAYA SANGATHAN

ERNAKULAM REGION

STUDENT SUPPORT MATERIAL

CONTENT AND REVIEW TEAM

NAME OF THE TEACHER	**NAME OF KV**
Compiled by:	
Ms Laila Kumari KM	KV Pangode
Members:	
Ms Sudheera	KV Pallipuram
Ms Bindu	KV No 2 Kochi
Mr Muhammad Nizar	KV Thrissur
Ms Nisha	KV AFS Akkulam
Ms Sudha	KV No 1 Calicut
Mr Nagarajan	KV Kollam
Ms Jayasree	KV Ernakulam
Ms Ambily	KV INS Dronacharya
Mr Jubin	KV Pattom Shift 1

"This study material for class XII Accountancy is for revision and practice.
It is to be used as support material and is not a substitute for NCERT Textbook."

KENDRIYA VIDYALAYA SANGATHAN

ERNAKULAM REGION

STUDENT SUPPORT MATERIAL

CONTENTS

SYLLABUS

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			

Part A: Accounting for Partnership Firms and Companies

Unit 1: Accounting for Partnership Firms

Units/Topics	Learning Outcomes
• Partnership: features, Partnership Deed. • Provisions of the Indian Partnership Act 1932 in the absence of partnership deed. • Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. • Past adjustments (relating to interest on capital, interest on drawing, salary and profit sharing ratio). • Goodwill: meaning, nature, factors affecting and methods of valuation - average profit, super profit and capitalization. ***Note:*** *Interest on partner's loan is to be treated as a charge against profits.* Goodwill: meaning, factors affecting, need for valuation, methods for calculation (average profits, super profits and capitalization), adjusted through partners capital/ current account or by raising and writing off goodwill (AS 26) **Accounting for Partnership firms - Reconstitution and Dissolution.** • **Change in the Profit Sharing Ratio** among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves, accumulated profits and losses. Preparation of revaluation account and balance sheet. **Admission of a partner** - effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill	**After going through this Unit, the students will be able to:** • state the meaning of partnership, partnership firm and partnership deed. • describe the characteristic features of partnership and the contents of partnership deed. • discuss the significance of provision of Partnership Act in the absence of partnership deed. • differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. • develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits. • develop the understanding and skill of making past adjustments. • state the meaning, nature and factors affecting goodwill. • develop the understanding and skill of valuation of goodwill using different methods. • state the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners. • develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of

(as per AS 26), treatment for revaluation of assets and re-assessment of liabilities, treatment of reserves, accumulated profits and losses, adjustment of capital accounts and preparation of capital, current account and balance sheet. • **Retirement and death of a partner:** effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits, losses and reserves, adjustment of capital accounts and preparation of capital, current account and balance sheet. Preparation of loan account of the retiring partner. • Calculation of deceased partner’s share of profit till the date of death. Preparation of deceased partner’s capital account and his executor’s account. • **Dissolution of a partnership firm:** meaning of dissolution of partnership and partnership firm, types of dissolution of a firm. Settlement of accounts - preparation of realization account, and other related accounts: capital accounts of partners and cash/bank A/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)). **Note:** (i) If the realized value of tangible assets is not given it should be considered as realized at book value itself. (ii) If the realized value of intangible assets is not given it should be considered as nil (zero value). (ii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment thereof.	reserves and accumulated profits by preparing revaluation account and balance sheet. • explain the effect of change in profit sharing ratio on admission of a new partner. • develop the understanding and skill of treatment of goodwill as per AS-26, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm. • explain the effect of retirement / death of a partner on change in profit sharing ratio. • develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits, losses and reserves on retirement / death of a partner and capital adjustment. • develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's and executor's account. • discuss the preparation of the capital accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner. • understand the situations under which a partnership firm can be dissolved. • develop the understanding of preparation of realisation account and other related accounts.

Unit-2 Accounting for Companies

Units/Topics	Learning Outcomes
Accounting for Share Capital • Features and types of companies Share and share capital: nature and types. • 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 Employees Stock Option Plan (ESOP), Sweat Equity. • Accounting treatment of forfeiture and re-issue of shares. • Disclosure of share capital in the BalanceSheet of a company. **Accounting for Debentures** • Debentures: Meaning, types, Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash; Issue of debentures with terms of redemption; debentures as collateral security-concept, interest on debentures. 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 fromStatement of Profit and Loss as Financial Cost (AS16)	**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. • explain the accounting treatment of different categories of transactions related to issue of debentures. • develop the understanding and skill of writing of discount / loss on issue of debentures. • understand the concept of collateral security and its presentation in balance sheet. • develop the skill of calculating interest on debentures and its accounting treatment. state the meaning of redemption of debentures.

Part B: Financial Statement Analysis

Unit 3: Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: • Meaning, Nature, Uses and importance of financial Statement. Statement of Profit and Loss and Balance Sheet in prescribed form with major headings and sub headings (as per Schedule III to the Companies Act,2013) **Note:** *Exceptional items, extraordinary items and profit (loss) from discontinued operations are excluded.* • **Financial Statement Analysis: Meaning, Significance** Objectives, importance and limitations. • **Tools for Financial Statement Analysis:** Cash flow analysis, ratio analysis. • **Accounting Ratios:** Meaning, Objectives, Advantages, classification and computation. • **Liquidity Ratios:** Current ratio and Quick ratio. • **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.	**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. • discuss the meaning of different tools of 'financial statements analysis'. • state the meaning, objectives and significance of different types of ratios. • develop the understanding of computation of current ratio and quick ratio. • develop the skill of computation of debt equity ratio, total asset to debt ratio, proprietary ratioand interest coverage ratio. • develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover ratio and others. • develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

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

Unit 4: Cash Flow Statement

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

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

Project Work:-

Note: Kindly refer to the Guidelines published by the CBSE. The comprehensive project may contain simple GST calculations.

OR

Part B: Computerised Accounting

Unit 4: Computerised Accounting

Overview of Computerised Accounting System

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

Accounting Application of Electronic Spreadsheet.

- Concept of electronic spreadsheet.
- Features offered by electronic spreadsheet.
- Application in generating accounting information - bank reconciliation statement; asset accounting;loan

repayment of loan schedule, ratio analysis

- Data representation- graphs, charts and diagrams.
-

Using Computerized Accounting System.

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

Part C: Practical Work

Please refer to the guidelines published by CBSE.

Prescribed Books:

Financial Accounting -I	Class XI	NCERT Publication
Accountancy –I	Class XI	NCERT Publication
Accountancy -I	Class XII	NCERT Publication
Accountancy -II	Class XII	NCERT Publication
Accountancy – Computerised Accounting System	Class XII	NCERT Publication

Guidelines for Project Work in Accounting and Practical work in computerised Accounting Class XII CBSE Publication

Suggested Question Paper Design Accountancy

(Code No. 055)

Class XII (2022-23)

Theory: 80 Marks ***3 hrs***

Project: 20 Marks

SNo.	Typology of Questions	Marks	Percentage
1	**Remembering and Understanding**: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
3	**Applying**: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
4	**Analysing, Evaluating and Creating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	TOTAL	**80**	**100%**

UNIT 1-ACCOUNTING FOR A PARTNERSHIP FIRM

CHAPTER - 1

PARTNERSHIP -FUNDAMENTALS

“Section 4 of the Indian Partnership Act, 1932 defines partnership as the relation between persons who have agreed to share the profit of the business carried on by all or any of them acting for all”

The partnership comes into existence by an oral or written agreement. The written document known as Partnership Deed details the terms and conditions of the partnership.

In the absence of a partnership Deed or where it is silent, the provisions of the Indian partnership Act 1932 apply:

1	Sharing of profit/loss	Profit/losses are shared equally
2	Interest on capital	No interest on capital shall be allowed
	**partnership deed provides for interest on capital, but incurred loss instead of profit	No interest on capital shall be allowed
	** partnership Deed provides that interest on capital shall be allowed even at the time of loss(charge)	Interest on capital is allowed but shows in Profit and Loss a/c instead of profit and Loss appropriation A/C
	** in case of insufficient profit	Available profit shall be distributed among all partners in the ratio of their interest on capital/their entitlement.
3	Interest on drawing	No interest on drawings shall be charged
4	Salary /remuneration to the partner	No remuneration/salary shall be paid
5	Interest on loan by a partner	Interest on loan is allowed @6% p a. (Interest on loan is a charge against profit, it is paid whether the firm earns profit or loss. Hence shows in profit and Loss A/C not in Profit and Loss Appropriation A/C)

Financial statement of a Partnership business includes:

- Profit and Loss Account
- Profit and loss Appropriation
- Capital accounts of Partners
- Balance sheet

PROFIT AND LOSS APPROPRIATION ACCOUNT

It is an extension of the Profit and Loss Account prepared by the partnership firms to show the appropriation of profit. The divisible profit after the appropriation is transferred to partners' capital accounts in their profit-sharing ratio.

Journal entries.

1. If profit and loss a/c show credit balance or Net Profit.

   Profit and Loss A/c Dr
   To Profit and loss appropriation A/c

2. If profit and loss a/c shows debit balance or Net loss.

   Profit and loss appropriation A/c Dr
   To Profit and loss a/c

3. Interest in Capital

   (a). For allowing Interest on capital
   Interest on capital A/c Dr
   To Partners capital/ current a/c (individually)
   (b). for transferring int. on capital to profit and loss appropriation a/c
   Profit and loss appropriation a/c Dr
   To interest in capital
4. **Interest on Drawings**

   (a) For charging interest on drawings to partners' capital accounts:
   Partners' Capital/Current A/Cs (individually) Dr.
   To Interest on Drawings A/c
   (b) For transferring interest on drawings to the Profit and Loss Appropriation Account:
   Interest on Drawings A/c Dr.
   To Profit and Loss Appropriation A/c

5. **Partner's Salary:**

   (a) For Allowing partner's salary to partner's capital account:
   Salary to Partner A/c Dr.
   To Partner's Capital/Current A/c's (individually)
   (b) For transferring partner's salary to Profit and Loss Appropriation Account:
   Profit and Loss Appropriation A/c Dr.
   To Salary to Partner's A/c

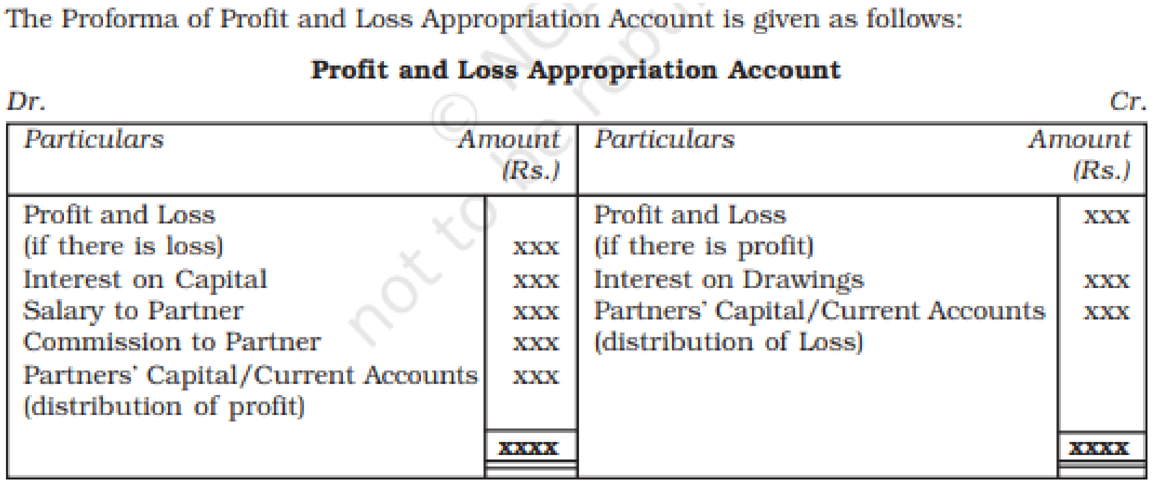
6. **Partner's Commission:**

   a) For crediting commission allowed to a partner, to partners capital account:
   Commission to Partner A/c Dr.
   To Partner's Capital/Current A/c's (individually)
   (b) For transferring commission allowed to partners to Profit and Loss Appropriation Account.
   Profit and Loss Appropriation A/c Dr.
   To Commission to Partners Capital/Current A/c

Share of Profit or Loss after appropriations:

(a) If Profit:
Profit and Loss Appropriation A/c Dr.
To Partner's Capital/Current A/c's (individually)

(b) If Loss:
Partner's Capital/Current A/c (individually)
To Profit and Loss Appropriation A/c
Note: In case the firm suffers a loss, no interest on capital, salary, remuneration is to be allowed to be partners.



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

Profit and Loss Appropriation Account

Dr. *Particulars*	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)* Cr.
Profit and Loss (if there is loss)	xxx	Profit and Loss (if there is profit)	xxx
Interest on Capital	xxx	Interest on Drawings	xxx
Salary to Partner	xxx	Partners' Capital/Current Accounts (distribution of Loss)	xxx
Commission to Partner	xxx		
Partners' Capital/Current Accounts (distribution of profit)	xxx		
	xxxx		**xxxx**

- ➢ Charge against profits shall not be recorded in the Profit and Loss Appropriation Account, instead to be recorded in the profits and loss Account.
  - ✓ Interest on loan by the partner
  - ✓ Rent to the partner
  - ✓ Commission to the manager

II. Interest on capital:

Interest on capital = **Amount of capital x Rate /100x Period**

POINTS TO NOTE;

- It is an appropriation of profit, therefore to be allowed only when there is sufficient profit in the firm.
- It is to be calculated on the Opening capital of the partners.

Note: When Opening Capital is not given in the question.
It is to be calculated by using the following formula:

Capital at the end	XXXX
Add: Drawings	XXXX
Less: Additional Capital	(XXX)
Less: Share of profit for the year	(XXX)
Opening Capital	XXXX

III. Interest in Drawings.

Drawings may be of two types:

- ➢ Drawings out of capital (permanent withdrawal)
- ➢ Drawings out of profit (temporary withdrawal)

Note: No interest shall be charged on permanent withdrawal
Interest on drawings is charged as per the partnership deed if provides for.

METHODS OF CALCULATING INTEREST ON DRAWINGS

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

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

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

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

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

2. **When equal amounts are withdrawn at regular/equal intervals of time**.

Interest on a drawing can be calculated on the total amount drawn, for the average of the period.

Average Period =

No. of months left after the first drawings + No. of months left after the last drawings)/2

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

3. Monthly Drawings

a. When equal amounts are withdrawn at the **beginning of every month** throughout the year**:**

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

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

b. **w**hen equal amounts are withdrawn **at the end of every month** throughout the year:

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

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

c. When equal amounts are withdrawn **in the middle of every month** throughout the year:

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

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

4. Quarterly Drawings:

a. When equal amounts are withdrawn **at the beginning of each quarter** throughout the year:

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

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

b. When equal amounts are withdrawn **in the middle of each quarter** throughout the year:

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

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

c. When equal amounts are withdrawn **at the end of each quarter** throughout the year:

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

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

5. When the Date of withdrawal is not specified:

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

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

PAST ADJUSTMENTS

Sometimes after the final accounts have been prepared and the Partners Capital Accounts are closed, it is found that certain items have been omitted by mistake or have been wrongly treated. Such omissions/mistakes are usually related to the:

* Interest in Capital
* Interest in drawings
* Salary/ Commission to partners
* Distribution of profit in the wrong ratio

Where errors have been discovered after closing the accounts, instead of altering the closed accounts, an adjustment entry for such errors or omissions is made at the beginning of the next year.

Table showing adjustments in capital Accounts

	A	B	TOTAL
Interest on capital Cr	**Xxxx**	**xxxx**	**Xxxx**
Interest in drawings Dr	**(Xxxx)**	**(xxxx)**	**(Xxxx)**
Salary or commission Cr	**xxxx**	**xxxx**	**xxxx**
(Take the net effect, if the credit amount is more) (a) Cr	**xxxx**	**xxxx**	**Xxxx (b)**
Share of loss Dr (amount "b" is distributed among the partners in their profit sharing ratio) (c)	**xxxx**	**xxxx**	**xxxx**
a-c	**Xxxx (Cr)**	**Xxxx (Dr)**	**-**

Adjustment Journal Entry:

Gaining Partner's Capital A/c Dr **ie, B's Capital A/C Dr**
To Sacrificing Partner's Capital A/c **To A's Capital A/C**

VI. GUARANTEE OF PROFIT TO A PARTNER

Sometimes, a partner may be guaranteed a minimum amount of profit irrespective of his share in the profits of the business.

When the share of profit of the partner is less than that of guaranteed profit, the deficiency is borne by the partner or partners who have guaranteed the profit in an agreed ratio. The guarantee may be provided by one or some or all of the partners in an existing ratio or some other agreed ratio.

A partner to whom a guarantee of minimum profit is given is called a guaranteed partner.

The partner, who has given the guarantee is called guaranteeing partner.

Different Conditions Regarding Guarantee of Profits:

Guarantee by the firm to a Partner
Guarantee by One Partner to another Partner
Guarantee is given by the Partner to the Firm

Accounting Treatment of Guarantee of Profit to a Partner

On charging deficiency to guaranteeing partners

Guaranteeing partner's Capital, A/c Dr.
To Guaranteed Partner's Capital A/c

Profit and loss appropriation a/c

To A's Capital xxxx		By profit /Loss A/c	XXXX
-Share in deficiency xx	XXXX		
To B's Capital xxxx			
-Share in deficiency xx	XXXX		
To C's Capital xxxx			
+Deficiency received from A xx			
+Deficiency received from B xx	XXXX		
Total	xxxxx	Total	Xxxxx

GOODWILL

Goodwill is the **value of the reputation of a firm** which enables it to earn higher profits in comparison to the normal profits earned by other firms in the same trade.

Characteristics or features of goodwill

It is an intangible asset.
It helps in earning higher profits.
Its value is liable to constant fluctuations:
It is valuable only when the entire business is sold

Goodwill is divided into two categories.

1. **Purchased Goodwill:** Purchased goodwill means goodwill for which consideration has been paid
2. **Self-generated Goodwill is** also called inherent goodwill. It is an internally generated goodwill that arises from a number of factors that a running business possesses due to which it is able to earn more profits in the future.

Factors Affecting the Value of Goodwill

1. **Efficient management:** If the business is run by experienced and efficient management, its profits will go on increasing, which results in increase in the value of goodwill.
2. **Quality of products:** If the firm is supplying good quality of products, then the customer will come again and again for the same and thus will create the goodwill and brand name for the same.
3. **Location of business:** If the business is located at a convenient or prominent place, it will attract more customers and therefore will have more goodwill.
4. **The Longevity of the business:** An older business is better known to its customers, therefore it is likely to have more goodwill. When a business enterprise has built up good reputation over a period of time, the number of customers will be more in comparison to the customers of new entrants. Number of customers is an indicator of profit earning capacity of a business.
5. **Monopolistic and other Rights:** If a business enjoys monopoly market, it will have assured profits. Similarly, if it holds some special rights such as patents, trademarks, copyrights or concessions, etc., it will have more goodwill
6. **Other factors:**

(i) Good industrial relations.
(ii) Favourable Government regulations
(iii) Stable political conditions
(iv) Research and development efforts
(v) Effective advertising to establish brand popularity
(vi) Popularity of product in terms of quality.

Need for Valuing Goodwill:

Whenever the mutual rights of the partner's changes the party which makes a sacrifice must be compensated. This basis of compensation is goodwill so we need to calculate goodwill.

Under following circumstances, Goodwill will be valued

1. When profit sharing ratio changes
2. On admission of a partner
3. On Retirement or death of a partner
4. When amalgamation of two firms taken place
5. When partnership firm is sold.

Method of valuation of goodwill:

Usually, there are three methods of valuing goodwill:

1. Average profit method
   (a) Simple average profit method

Formula for calculation of goodwill

Goodwill = Average Profits × Number of years of purchase

Number of years of purchase means for how many years the firm will earn the same amount of profits in future.

Average Profits = Total Profits/Number of years

NOTE

i. Abnormal income of a year should be deducted from the net profit of that year.
ii. Abnormal loss of a year should be added back to the net profit of that year.
iii. Income from investments should be deducted from the net profits of that year because this income is received from outside the business.
iv. Recurring expenses are to be deducted from the average profit.

(b) Weighted Average Profit Method:

Weighted Average Profit: = $\frac{Total\ product\ of\ profits}{Total\ of\ weights}$

Goodwill = Weighted Average Profit × No. of years of purchase.

2. Super profit method.
   Super Profit are the excess of actual profit over normal profits. Where Normal profits are profits earned by similar business.

Goodwill is calculated by the formula

Goodwill = Super Profit × Number of years of purchase

Super Profit = Average profit – Normal profits

Normal Profit = Investment (Capital Employed) $\times \frac{Normal\ Rate\ of\ Return}{100}$

Capital Employed = Capital + Free Reserves – fictitious Assets (if any), or

All Assets – (Goodwill, fictitious assets and non-trade Investment) – Outsider's Liabilities

3. Capitalization method:
Under this method, goodwill can be calculated in two ways:

(a) Capitalisation of Average Profit Method:

Capitalized value of the firm = $\frac{Average\ profits \times 100}{Normal rate\ of\ return}$

Goodwill is calculated by deducting the actual capital employed in business from the capitalized value of average profits. There will be no goodwill if the actual capital employed in the business exceeds or equals the capitalized value of the average profits.

Net Assets or Capital employed = Total assets – Outside liabilities

Goodwill = Capitalized value of average profits – Capital Employed

(b) Capitalisation of Super Profit Method: Under this method, first of all, we calculate the super profits and then we assess the capital needed for earning such super profits on the basis of the normal rate of return. Such capital is actually the amount of goodwill. Super profits are calculated in the same manner as calculated in the super profits method.

Goodwill of the firm = Super Profits * 100 / Normal rate of return.

****

OBJECTIVE TYPE QUESTIONS

Q1. As per the Companies Act 2013, the Central Government is empowered to prescribe the maximum number of partners in a firm, but the number of partners cannot be more than ---

a.50

b.100

c.20

d.10

Q2 A partnership Deed provides for the payment of interest on capital, but there was a loss instead of profits during the year 2020-21. At what rate will the interest on capital be allowed?

a. 6% p.a
b. 12%p.a
c. The rate specified in the partnership deed
d. No interest on capital will be allowed

Q3. In the absence of Partnership deed, the profits of a firm are divided among the partners

a. In the ratio of capital
b. Equally
c. In the ratio of time devoted for the firm's business
d. According to the managerial abilities of the partners

Q4. P and Q are partners in a firm. They had advanced a loan of ₹.60, 000, contributed equally to the firm on 1st August 2020.The Partnership Deed is silent regarding the rate of interest on loan. What amount of interest on loan is payable to P, if the firm closes its books of account on 31st March every year.

a. ₹.1200

b. ₹.3,600

c. ₹.1,800

d. None of these

Q5. Which of the following transactions is always recorded in the partner's Capital account irrespective of whether the partners' capitals are fixed or fluctuating?

a. Additional capital introduced
b. Withdrawal of Capital by a partner
c. Interest on partner's loan
d. Both (a) & (b)

Q6.	Nima & Hima are partners sharing profits and losses equally. On 1st April 2020, their capital accounts showed balance of Rs.4, 00,000 & 1, 00,000 respectively. Calculate the share of divisible profit of the partners if the partnership deed provided for interest on capital @ 10% p.a. and the firm earned a profit of Rs.50,000 for the year ended 31st March 2021 a.Nima ₹.40,000 & Hima ₹.10,000 b.Nima ₹,000 & Hima ₹.25,000 c.Nima Nil & Hima Nil d. None of these
Q7	Bobby and Sanjay were partners sharing profits & losses in the ratio of 5:3. On 1st April 2020, their capital accounts showed balances of ₹.3, 00,000 and ₹.2, 00,000 respectively. The Partnership Deed provided for interest on capital @10% p.a and the firm earned a profit of Rs.45, 000 for the year ended 31st March 2021. The interest on partners' capitals to Bobby & Sanjay will be: a. ₹.22,500 to both partners b. ₹.27,000 & ₹.18,000 respectively c ₹.28,125 & ₹.16,875 respectively d. None of the above
Q8.	X and Y are partners in a firm having Rs.4, 00,000 & Rs.8, 00,000 respectively. The partnership deed provides for charging interest on drawings @5% pa. X withdrew Rs.1, 00,000 for his personal use during the year 2020-21.Y withdrew Rs.1, 00,000 from his capital on 1.9,2020. The amount of interest that will be charged on partners' drawings are a. X-.₹.2,000 & Y-₹.4,000 b. ₹.5,000 from X &Y c. X-₹.5,000 &Y- Nil d. X-₹.2,500 & Y-Nil
Q9.	Goodwill of the firm on the basis of 2 years' purchase of average profit of the last 3 years is ₹.25, 000. Find Average profit a. ₹.50, 000, b. ₹.37, 500 c. ₹.12, 500 d. None of these

Q10.	Interest on Capital of Partners is a a. Charge on profit b. Loss to the firm c. Profit to the firm d .None of these
Q11.	Goodwill is valued at the time of a. Change in profit sharing Ratio b. Admission of a partner c. Retirement of a partner d. All of the above
Q12.	A, B & C are partners in a firm sharing profits & losses in the ratio of 5:3:2. A guaranteed profit of ₹.20, 000 to C.Net profit for the year ending 31st March 2021, was ₹.80, 000. A's share in the profit of the firm will be a. ₹.36,000 b. ₹.16,000 c. ₹.38,000 d. ₹.44,000
Q13.	Which of the following will be shown on the credit side of Profit & Loss Appropriation account a. Interest on Capital b .Interest on Loan c. Interest on drawings d. Salary to partners
Q14.	X & Y are partners sharing profits and losses in the ratio of 2:1 with capitals ₹.1,00,000 and ₹.80,000 respectively. The interest on capital has been provided to them @8% instead of 10%. In the rectifying entry a. Y will be debited by ₹.400 b. Y will be credited by ₹.400 c. Y will be debited by ₹.800 d. Y will be credited by ₹.800

Q15.	Capital employed of a firm is ₹.25, 00,000.Its average profit is ₹.3, 10,000. The normal rate of return in similar type of business is10%.What is the amount of super profit?a. ₹.2, 50,000 b. ₹.60, 000 c. ₹.50, 000 d. None of these
	ASSERTION –REASON-BASED QUESTIONS
Q16	**Assertion (A):** Mohit, a partner in the firm gave a loan of ₹.2,00,000 to the firm without an agreement as to the rate of interest. At the year-end, the remaining partners agreed to allow interest on the loan of @6% p.a
	Reason (R): In the absence of a Partnership deed, provisions of the Partnership Act 1932 is applicable and hence interest on loan of @6% p.a can be provided
	In the context of the 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 and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
Q17	**Assertion(A):**The value of Goodwill calculated on Average profit Method and Super profit Method is not the same
	Reason (R): The value of Goodwill calculated on Average profit Method and Super profit Method is not the same as the basis of valuation is different
	In the context of the 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 and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
Q18	**Assertion(A):** A guarantee of minimum profit may be given to a partner
	Reason (R): Minimum profit must be guaranteed by the remaining partners in equal ratio
	In the context of the 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 and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
Q19	**Assertion(A):** Rent to partner is shown in Profit& Loss Appropriation Account
	Reason (R): Rent to partner is a charge against profit
	In the context of the 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 and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
Q20	**Assertion(A):**A partnership firm can have a maximum of 50 partners
	Reason (R): Maximum limit of partners is prescribed in Indian Partnership Act,1932
	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 and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
	ASSERTION –REASON BASED QUESTIONS
Q21	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. **Assertion (A):** In a specified situation, interest on the Partners' Capital is shown in the Profit and Loss Account. **Reason(R):** Interest on capital is transferred to the debit of the Profit and Loss Account if it is specified to be a charge. 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 Assertion (A). (c)Assertion (A) is true but the Reason (R) is false (d)Assertion (A) is false but the Reason (R) is true
Q22	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. **Assertion (A):** If drawings by a partner are on the different dates and/or amounts of drawings is not the same interest on drawings is calculated using the product method. **Reason (R**) : Interest on drawings is charged for the period it is drawn by a partner, in case the amount of drawings and/or period for which is drawn is not uniform, average method cannot be applied to determine interest on capital. 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 Assertion (A). c) Assertion (A) is true but the Reason (R) is false d) Assertion (A) is false but the Reason (R) is true
Q23	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. **Assertion (A)**: Adith, a partner in the firm gave a loan of ₹. 50,000 to the firm without an agreement to rate of interest. Interest on Loan by Adith is to be allowed at @6% p.a. **Reason (R):** In the absence of the Partnership Deed, Provisions of the Partnership act 1932, apply. Thus interest on a loan to a Partner should be charged @6% p.a 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 for Assertion (A). c) Assertion (A) is true but the Reason (R) is false d) Assertion (A) is false but the Reason (R) is true
Q24	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. **Assertion (A)**: Ankur, Bhaskar and Rakesh are partners with capitals of ₹. 3, 00,000, 4, 00,000 and 5, 00,000 respectively. The partnership deed provided to allow remuneration to each partner of ₹, 50,000 p.a. and interest on capital @5% p.a. Profit for the year ended 31st March 2021 of ₹. 2, 10,000 was distributed without allowing remuneration and interest on capital. Rectifying entry for the above will be Dr. Ankur and Cr Rakesh by ₹. 5000. **Reason (R):** Remuneration and Interest to Ankur, Bhaskar and Rakesh are ₹. 65000, 70,000 and 75000 respectively. Each partner was credited by ₹. 70000. As a result Ankur was excess credited by 5000 and Rakesh was short credited by 5000. Thus Ankur will be debited and Rakesh will be credited by ₹. 5000. 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 Assertion (A).
c) Assertion (A) is true but the Reason (R) is false
d) Assertion (A) is false but the Reason (R) is true

Q25

Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below.

Assertion (A) Sandhya, Sudheer, and Namitha are partners sharing profits in the ratio of 3:2:1, Sandhya is guaranteed a minimum profit share of ₹. 75000 p.a after appropriations. Profit for the year after all adjustments were ₹. 1, 80,000. The profit share of Sandhya and Namitha will be Rs.90000, 30000 respectively.

Reason (R): The profit share of Sudheer is ₹. 75000 since her actual share is ₹. 60000(1, 80000*2/6). Balance profit ₹, 105000 will be distributed between Sandhya and Namitha in the ratio of 3:1. Thus Sandhya will get ₹. 78750, and Namitha ₹. 26,250.

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

Case studies – MCQs.

Q26

Read the hypothetical text and answer the following questions.
Arun, Varun, and Tarun were partners in firm sharing profits equally. On 1st April, 2020, their capitals stood at ₹ 2, 00,000, ₹ 1, 50,000 and ₹ 1, 00,000 respectively. As per the provisions of the Partnership Deed:

1) Arun was entitled to a salary of ₹ 2,500 p.m.
2) Partners were entitled to interest on capital @ 10% p.a.

The net profit for the year ended 31st March 2021, ₹ 1, 50,000 were distributed among the partners without providing for the above items.

Q1. What is the amount of interest on capital Varun?
a) ₹ 20,000
b) ₹ 15,000
c) ₹ 10,000
d) ₹ 30,000

Q2. What is the amount of distributable profit for the partners after providing salary and interest on capital to the partners?
a) ₹ 50,000 each
b) ₹ 25,000 each
c) ₹ 10,000 each
d) ₹ 15,000 each

Q3. Arun's Capital A/c will be credited with Rs……………for giving the adjustment to the above omissions.
a) Rs 20,000 b) Rs15,000 c) Rs 25,000 d) Rs10,000

	Q4. Capital Account/Accounts of …………………… will be debited to give the effect of the above adjustments. a) Varun b) Tarun and Arun c) Arun and Varun d) Varun and Tarun
Q27	Read the hypothetical text and answer the following questions. A B and C are partners in a firm. Their capitals are ₹ 30,000, ₹ 20,000 and ₹ 10,000 respectively. As per the partnership deed, i) C is to be allowed remuneration of ₹ 3,000 p.a. ii) Interest on capital @ 5% p.a. iii) Profits should be distributed in the ratio of 2:2:1. Ignoring the above terms, a net profit of ₹ 18,000 was distributed among the partners equally. Q1. How much interest on capital is to be credited to partner A? a) ₹ 1,500 b) ₹ 1,000 c) ₹ 900 d) ₹ 800 Q2. How much profit is to be credited to Partner B after all adjustments? a) ₹ 2,400 b) ₹ 4,800 c) ₹ 1,000 d) ₹ 1,200 Q3. What is the total profit to be credited to A, B, and C after all adjustments? a) ₹ 12,000 b) ₹ 8,000 c) ₹ 9,000 d) ₹ 10,000 Q4. What is the amount of the past adjustment entry? a) ₹ 350 b) ₹ 450 c) ₹ 250 d) ₹ 55
Q28	Read the hypothetical text and answer the following questions. A, B, and C are partners in a firm. Their capitals are ₹ 30,000, ₹ 20,000 and ₹ 10,000 respectively. As per the partnership deed, i) C is to be allowed remuneration of ₹ 3,000 p.a. ii) Interest on capital @ 5% p.a. iii) Profits should be distributed in the ratio of 2:2:1. Ignoring the above terms, a net profit of ₹ 18,000 was distributed among the partners equally. Q1. How much interest on capital is to be credited to partner A? a) ₹ 1,500 b) ₹ 1,000 c) ₹ 900 d) ₹ 800

	Q2. How much profit is to be credited to Partner B after all adjustments? a) ₹ 2,400 b) ₹ 4,800 c) ₹ 1,000 d) ₹ 1,200 Q3. What is the total profit to be credited to A, B, and C after all adjustments? a) ₹ 12,000 b) ₹ 8,000 c) ₹ 9,000 d) ₹ 10,000 Q4. What is the amount of the past adjustment entry? a) ₹ 350 b) ₹ 450 c) ₹ 250 d) ₹ 55
Q29	Read the hypothetical text and answer the following questions. A, B and C are partners in a firm sharing profits and losses in the ratio of 2:2:1. Their capitals (Fixed) are ₹ 1, 00,000, ₹ 80,000, and ₹ 70,000 respectively. For the year 2018-19, interest on capital was to be credited to them @ 9% p.a. instead of 12% Q1. What was the net amount that should be credited to partner B? a) ₹ 1,500 b) ₹ 2,400 c) ₹ 1,800 d) ₹1,200 Q2. What was the net amount that should be credited to partner C? a)₹ 1,800 b) ₹ 2,000 d) ₹ 2,100 d) ₹ 1,700 Q3. What was the amount that was debited to partner B? a) ₹ 1,500 b) ₹ 2,000 c) ₹ 3,000 d) ₹ 4,000 Q4. What was the number of past adjustment entries? a)₹ 400 b) ₹ 300 c) ₹ 600 d) ₹ 500
Q30	Read the hypothetical text and answer the following questions. X and Y started business on 1St April 2020 with a capital of ₹ 5,00,000 each. As per the partnership Deed, both X and Y are to get a monthly salary of ₹ 10,000 each, and interest on capital is ₹ 50,000 each. Interest in drawings is as follows X: ₹ 3,000 and Y: ₹ 5,000. During the year, the firm incurred a loss of ₹ 2,00,000. Q1. What is the amount to be transferred to the Profit and Loss Appropriation Account? a) ₹ 5,00,000 b) ₹ 2,00,000 c) ₹ 3,00,000 d) ₹ 1,50,000 Q2. What is the total amount of salary to be credited to the Partners' capital account? a) ₹ 1,20,000 b) ₹ 2,40,000 c) ₹ 1,80,000 d) No salary will be given Q3. What amount of loss is to be transferred to the capital account of both partners? a) ₹ 1,92,000 b) ₹ 2,00,000 c) ₹ 1,96,000 d) ₹ 1,80,000 Q4. What is the share of loss of X? a)₹ 1,00,000 b) ₹ 96,000 c) ₹ 98,000 d) ₹ 90,000
Q31	Read the hypothetical text and answer the following questions. A B and C started a firm on 1st October 2020 sharing profits equally. A drew regularly ₹ 4,000 at the beginning of every month for the six months ended 31st March 2021. B drew regularly ₹ 4,000 at the end of every month for the six months ended 31st March 2021. C drew regularly ₹ 4,000 in the middle of every month for the six months ended 31st March 2021. IOD is charged at 5% p.a

Q1. What is the total amount of drawings of the partners?
a)₹ 1,44,000 b) ₹ 72,000 c) ₹ 24,000 d) 96,000
Q2. What is your interest in drawings of B?
a)₹ 350 b) ₹ 300 c) ₹ 200 d) ₹ 250
Q3. What is your interest in drawings of A?
a)₹ 300 b) ₹ 250 c) ₹ 350 d) ₹ 400
Q4. What is the total amount of interest on the drawings of the partners?
a)₹ 1,200 b) ₹1,500 c) ₹ 600 d) ₹ 900.

MULTIPLE CHOICE QUESTIONS

Q32 Ram, Raghav, and Raghu are partners in a firm sharing profits in the ratio of 5:3:2. As per Partnership Deed, Raghu is to get a minimum amount of ₹ 10,000 as profit. Net profit for the year is ₹ 40,000. Find the deficiency amount in the above case.

a) ₹ 750 b) ₹ 1,000 c) ₹ 1,500 d) ₹ 2,000

Q33 A B and C are partners sharing profits equally. A drew regularly ₹ 4,000 at the beginning of every month for six months ended 30th September 2020. Calculate interest of A's drawing @ 5% p.a.

a) ₹ 200 b) ₹ 1,200 c) ₹ 350 d) ₹ 700

Q34 On 1st April 2018, a partner introduced additional capital of ₹ 50,000 to the firm but Partnership Deed is silent. The partner demands interest on capital @ 5% p.a. How much interest on capital will be payable to the partner:

a) ₹ 3,000 b) Interest on capital will not be allowed c) ₹ 2,500 d) ₹ 1,800

Q35 MATCH THE FOLLOWING

Col. I	Col. II
A Interest in Drawings	i. Credit side of partners' capital a/c
B Commission to a Partner	ii. Credit side of P&L Appropriation a/c
C Interest on partners loan	iii. Debit side of P&L Appropriation a/c
D Interest in partners' capital	iv. Debit side of P&L a/c

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

Q36 Steps involved in the distribution of profit under minimum guarantee to partner will be…………………..
i)Calculate the amount of deficiency
ii)Calculate distributable profit between/among the partners
iii)Distribute the amount of deficiency between/among the partners who have given the guarantee
iv)Calculate the actual share of profit of each partner

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

Q37	If super profit is zero or negative, it means that the actual average profit is less than or equal to the normal profit (a) True (b) False (c) Partially true (d) Can't say
Q38	Capital employed by a partnership firm is ₹. 5, 00,000. Its average profit is ₹. 60,000. The normal rate of return for a similar type of business is 10%. The amount of super profit is. a) ₹ 50000 (b) ₹ 10000 (c) ₹ 6000 (d) ₹ 56000
Q39	The average profit over the last five years was ₹. 60000. The normal yield on capital invested in such a business is estimated at 10% pa. Capital invested in the business is ₹. 500000. Amount of goodwill, it is based on 3 years purchase of last 5 years super profit will be a) 1, 00,000 (b) 1, 80,000 (c) 30000 (d) 1, 50,000.
Q40	As per AS-26 -------------------Goodwill is recorded in the books of accounts. (a) Purchased (b) Self-generated (c) Both a) and b) (d) None of these
Q41	A form earns a profit of ₹. 1.10,000. The Normal Rate of return is 10%. Assets of the firm are ₹. 11, 00,000 and liabilities ₹. 1, 00,000. Value of goodwill by the capitalization of average profit will be (a) ₹ 2,00,000 (b) ₹ 10,000 (c) ₹ 5000 (d) ₹ 1, 00,000
	SHORT ANSWER TYPE QUESTIONS
Q1	Gupta is a partner in a firm. He drew regularly ₹ 8,00 at the beginning of every month for the six months ending 31st March 2022. Calculate interest on drawings @15% p.a.
Q 2	X and Y are partners in the firm sharing profits and losses in the ratio of 3:2 with capitals of ₹ 10,00,000 and ₹ 5,00,000 respectively. As per the partnership deed, they are to be allowed interest on capital @ 8% p.a. The net profit for the year ended 31st March 2021 before providing for interest on capital amounted to ₹ 45,000. Show the distribution of profit.
Q 3	Aman, Babita, and Suresh are partners in a firm. Their profit-sharing ratio is 2:2:1. However, Suresh is guaranteed a minimum amount of ₹ 10,000 as a share of profit every year. Any deficiency arising on that account shall be met by Babita. The profits for the two years ending 31st March 2020 and 2021 were ₹ 40,000 and ₹ 60,000 respectively. Prepare Profit and Loss Appropriation Account for the two years.
Q 4	W, X, and Y were partners sharing profits and losses in the ratio of 2:2: 1. X was guaranteed a profit of ₹ 10,00,000. The firm earned a profit of ₹ 17,50,000 for the year ended 31st March 2020. Pass Journal entries for the year ended 31st march 2020.

Q 5 A, B, and C are partners in a firm sharing profits and losses in the ratio of 2:3:5. Their fixed capitals were 15,00,000, 30,00,000, and 60,00,000 respectively. For the year ended 31st march 2021 interest on capital was credited to them at @12% instead of 10%. Pass necessary adjusting journal entry.

Q 6 The goodwill of the firm is valued at 4 years purchase of average profit of five years. The profits for the last five years were:

Year		Profit
2013-14	:	2,00,000
2014-15	:	(3,00,000)
2015-16	:	4,50,000 (including an abnormal gain of ₹ 50,000)
2016-17	:	3,50,000 (after charging an abnormal loss of ₹ 90,000)
2017-18	:	2,60,000

Calculate the amount of goodwill.

Q 7 The capital of the firm of Anuj and Benu is ₹ 10,00,000 and the market rate of interest is 15%. The annual salary of the partners is ₹ 60,000 each. The profit for the last three years were ₹ 2,80,000, ₹ 3,80,000, and ₹ 4,20,000. Goodwill of the firm is to be valued on the basis of two years' purchases of the last three years' average super profits. Calculate the goodwill of the firm.

Q 8 A firm earned profits of ₹ 80,000, ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,80,000 during 2010-11, 2011-12, 2012-13 and 2013-14 respectively. The firm has a capital investment of ₹5,00,000. A fair rate of return on investment is 15% pa. Calculate goodwill of the firm
based on three years' purchase of average super profits of last four yours.

Q 9 A Firm's average profits are 70,000. It includes an abnormal profit of 5,000. Capital invested in the business is 5,50,000 and the normal rate of return is 10%. Calculate goodwill at four times the super profit.

Q 10 The average profit of a firm is ₹ 48,000. The total assets of the firm are ₹ 8,00,000. The value of other liabilities is ₹ 5,00,000. The average rate of return in the same business is 12%.
Calculate goodwill from 22capitalization of average profits method.

LONG ANSWER TYPE QUESTIONS

Q 11 A and B started a partnership business on 1st April 2021. They contributed ₹ 6,00,000 and ₹ 4,00,000 respectively, as their capitals. The terms of the partnership agreement are as under:

(i) Interest on capital and drawings @ 6% per annum.
(ii) B is to get a monthly salary of ₹ 2,500.
(iii) Sharing of profit or loss will be in the ratio of their capital contribution.

The profit for the year ended 31st March 2022, before making the above appropriations was ₹ 2,07,400. The drawings of A and B were ₹ 48,000 and ₹ 40.000 respectively. Interest on drawings amounted to ₹ 1,500 for A and ₹ 1,100 for B.
Prepare profit and loss appropriation accounts and partner's capital accounts
assuming that their capitals are fluctuating.

Q 12 Y and Z are partners with capitals of ₹ 25,000 and ₹ 15,000 respectively on 1st April 2020. Each partner is entitled to 9% p.a. interest on his capital. Z is entitled to a salary of ₹ 6,000 p.a. together with a commission of 6% of Net Profit remaining after deducting interest on capital and salary and after charging his commission. The profits for the year ended 31st March 2021 before making any of the above-mentioned adjustments amount to ₹ 30,800. Prepare Partner's Capital Accounts:

(1) when capitals are fixed, and
(2) when capitals are fluctuating.

Q 13	The capital accounts of Alka and Archana showed a credit balance of Rs.4,00,000 and 3,00,000 respectively, after taking into account drawings and a net profit of RS.2,00,000. The drawings of the partners during the year 2018-19 were a. Alka withdrew Rs.10,000 at the end of each quarter b. Archana's drawings were 31st May 2018 Rs.8,000 1st November 2018 Rs. 7,000 1st February 2019 Rs. 5,000 Calculate interest on partner's capitals@10% p a and interest on partners' drawings @ 6% p a for the year ended 31st March 2019.
Q14.	Lata and Mamata are partners with capitals of ₹3,00,000 and ₹ 2,00,000 respectively sharing profits as Lata 70% and Mamata 30%. During the year ended 31st March 2021, they earned a profit of ₹ 2,26,440 before allowing interest on the partner's loan. The terms of the partnership are as follows: (i) Interest on Capital is to be allowed @ 7% p.a. (ii) Lata is to get a salary of ₹ 2,500 per month. (iii) Interest on Mamata's Loan account of 80,000 for the whole year. (iv) Interest on drawings of partners at 8% per annum. Drawings being Lata ₹36,000 and Mamata ₹ 48,000. (v) 1/10th of the distributable profit should be transferred to General Reserve. Prepare the Profit and Loss Appropriation Account.
Q 15	Ajay and Vijay are partners sharing profits and losses in the ratio of 3:2. Ajay is a nonworking partner and contributes Rs.20,00,000 as his capital. Vijay is a working partner of the firm. The partnership deed provides for interest on capital of @8%. Pa and salary to the working partner @8000 per month. Profits before providing interest on capital and partner's salary for the year ended 31st march 2021 was Rs. 80,000. Show the distribution of profit.
Q 16	P and Q were partners in the firm sharing profits in the 3:1 ratio. Their respective fixed capitals were ₹ 10,00,000 and ₹ 6,00,000. The partnership deed provided interest on capital @ 12% p.a. The partnership deed further provided that interest on capital will be allowed fully even if it will result in a loss to the firm. The net profit of the firm for the year ended 31st March 2018 was ₹ 1,50,000. Pass necessary journal entries in the books of the firm allowing interest on capital and division of profit/loss among the partners.
Q 17	Ankur and Bobby were into business for providing software solutions in India. They were sharing profits and losses in the ratio of 3:2. They admitted Rohit for 1/5th share in profits. Rohit is guaranteed a minimum profit of Rs.2,00,000 for the year. Any deficiency in Rohit share is to be borne by Ankur and Bobby in the ratio 4:1. Losses for the year were RS.1,00,000. Pass necessary journal entries.
Q 18	Rohit, Raman, and Raina are partners in a firm. Their capital accounts on 1st April, 2019, stood at ₹ 2,00,000, ₹ 1,20,000 and ₹ 1,60,000 respectively. Each partner withdrew ₹ 15,000 during the financial year 2019-20. 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 of 5:4:1. The net profit of ₹ 72,000 for the year ended 31st March 2020, 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).

Q 19	The goodwill of the firm is valued at rs.1,35, 000 at three years purchase of the super profit. Determine the missing values. Average profit = 3,60,000/3= Rs.1,20,000 Normal profit= ________*15/100 =? Super profit = ?
Q 20	The capitals of X, Y, AND Z as of 31st march 2021 amounted to Rs. 1,50,000, 5,50,000 and 11,00,000 respectively. Divisible profit amounting to Rs.3,00,000 for the year ended 31st March 2021 was distributed in the ratio of 4:1:1 after allowing interest on capital @10% p a. During the year each partner withdrew Rs. 50,000 per month at the beginning of each month. The partnership deed was silent as to profit sharing ratio and interest on drawings but provided for interest on capital @12 p.a. Showing your workings, pass necessary adjusting entries to rectify the above error.

****

ANSWERS -MCQ

1. b. 2.d 3.b 4.a 5.d 6.c 7.b 8.d 9.c 10.b 11.d 12.a 13.c

14.b 15.b 16.a 17.a 18.c 19.d 20.c 21.b 22.b 28. C 24.a 25.d

26. 1.(a) 2(b) 3(c) 4(d) 27. 1(a) 2(b 3(a) 4(b) 28. 1(b) 2(c) 3(c) 4(c)

29. 1(b) 2(d) 3(a) 4(b) 30. 1(b) 2(d) 3(c) 4(d)

31.d 32.c 33.b 34. C 35.a 36.a 36. b 38. c 39. a 40. d

SHORT ANSWER TYPE QUESTIONS -ANSWERS

1 Interest on drawings Rs.240

2 Interest on capital allowed to X Rs.30,000 and Y Rs.15,000
(Insufficient profit. Hence 45,000 is distributed among the partners in the ratio of 2:1)

3 For the year ending 31st March 2020
Aman :40,000*2/5 = 16,000
Babitha : 40,000*2/5 =16,000
Suresh : 40,000*1/5 = 8,000
Deficiency of Suresh Rs.2,000 will be bore by Babitha
For the year ending 31st march 2021
Aman :60,000*2/5 = 24,000
Babitha : 60,000*2/5 =24,000
Suresh : 60,000*1/5 = 12,000
Suresh share of profit is more than the guaranteed amount , no adjustment is needed.

4

Profit and loss A/C	Dr	17,50,000	
To profit and Loss Appropriation A/C			17,50,000
profit and Loss Appropriation A/C		17,50,000	
To W's capital A/C			5,00,000
To X's capital A/C			10,00,000
To Y's capital A/C			2,50,000

5

	A	B	C	TOTAL
Interest on capital wrong credit Dr	1,80,000	3,60,000	7,20,000	12,60,000
Interest on capital to be credited Cr	1,50,000	3,00,000	6,00,000	10,50,000
Dr	30,000	60,000	1,20,000	2,10,000
Share of profit (2,10,000-2;3:5) Cr	42,000	63,000	1,05,000	2,10,000
	12,000 (cr)	3,000 (cr)	15,000 (Dr)	------

C's current A/C	Dr	15,000	
To A's current A/C			12,000
To B's current A/C			3,000

<table>
<tr><td>6</td><td>Goodwill Rs.8,00,000</td></tr>
<tr><td>7</td><td>Goodwill Rs.1, 80,000</td></tr>
<tr><td>8</td><td>Goodwill Rs. 1,35,000</td></tr>
<tr><td>9</td><td>Goodwill Rs.40,000</td></tr>
<tr><td>10</td><td>Goodwill Rs.1,00,000 (capital employed = Asset-Liabilities)</td></tr>
<tr><td></td><td>LONG ANSWER TYPE QUESTIONS – ANSWERS</td></tr>
<tr><td>11</td><td>Divisible profit Rs.1,20,000.
Capital balance : A ‘s capital Rs. 6,58,500 B’s capital Rs. 4,60,900</td></tr>
<tr><td>12</td><td>Divisible profit of Rs.20,000
When capitals are fixed: current a/c balance Y Rs.12,250(cr) Z Rs. 18,550(cr)
When capitals are fluctuating: capital accounts Y Rs. 37,250 (cr) Z Rs.33,550(cr)</td></tr>
<tr><td>13</td><td>Interest on capital: Alka Rs.34,000 Archana Rs.22,000
Interest on drawings: Alka 40,000*6/100*4.5/12 = 900/-
Archana 1,25,000*6/100*1/12 =625/-</td></tr>
<tr><td>14</td><td>Share of profit : Lata Rs.1,00,800 Mamata Rs.43,200
(interest on drawings will be calculated for an average period of 6 months.
Transfer to general reserve will be 10% of Rs.1,60,000)</td></tr>
<tr><td>15</td><td>Profit and Loss Appropriation A/C for the year ended 31st March 2021
<table>
<tr><th>Particulars</th><th>Amount</th><th>Particulars</th><th>Amount</th></tr>
<tr><td>To interest on capital: Ajay</td><td>50,000</td><td>By profit and Loss A/C</td><td>80,000</td></tr>
<tr><td>To, salary: Vijay</td><td>30,000</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>80,000</td><td></td><td>80,000</td></tr>
<tr><td colspan="4">Insufficient profit, hence available profit is distributed in the ratio of their appropriations.
X Y
1,60,000 96,000
5 : 3</td></tr>
</table></td></tr>
<tr><td>16</td><td>Net loss transferred to current Account : P Rs.31,500 Q Rs.10,500</td></tr>
<tr><td>17</td><td>Ankur’s capital A/C Dr 48,000
Bobby’s capital A/C Dr 32,000
Rohit’s capital A/C Dr 20,000
To profit and Loss A/C 1,00,000

Ankur’s capital A/C Dr 1,76,000
Bobby’s capital A/C Dr 44,000
To Rohit’s capital A/C 2,20,000</td></tr>
<tr><td>18</td><td>Raina’s capital A/C Dr 11,410
To Rohit’s capital A/C 10,150
To Ramana’s capital A/C 1,260</td></tr>
</table>

19	Goodwill = super profit* no. of years purchase 1,35,000 = super profit*3 Then super profit =1,35,000/3= 45,000 Super profit = average profit-normal profit 45,000 = 1,20,000-normal profit Then Normal profit =1,20,000-45,000 = 75,000 Normal profit = capital employed*rate/100 75,000 = capital employed *15/100 Then capital employed 75,000*100/15 =5,00,000
20	X's capital A/C Dr 1,10,000 To Y's capital A/C 50,000 To Z's capital A/C 60,000

……………………………………………………..

WORKSHEET

Marks :20 **Time :45 min**

SECTION A (4×1MARK=4MARK)

1. In the case of fixed capital, where will you record interest on capital?
2. A partner introduced additional capital of Rs. 50,000 and advanced a loan of Rs. 30,000 to the firm on 1st October 2020. What is the amount of interest the partner can receive on his loan at the end of the year?
   a. Rs.4200 b. Rs.1800 c. nil d. Rs.900
3. If a fixed amount is withdrawn in the middle of every quarter of a calendar year, for what period will the interest on the total amount withdrawn be calculated?
4. Sara Traders is a partnership firm with 48 partners. They want to admit 5 more members. Can they do so? Justify your answer.

SECTION **B** (2×3MARK=6MARK)

5. Mention the difference between the fixed capital method and fluctuating capital method.
6. A, B, and C are partners in a firm. Their profit-sharing ratio is 3:2:1. However, C is guaranteed a minimum amount of Rs. 10,000 as a share of profit every year. Any deficiency arising on that account shall be met by A. The profits for the two years ending 31st March 2017 was 30,000. Prepare profit and loss appropriation a/c for the two years.

SECTION **C** (1×4MARK=4MARK)

7. MOUNTAIN, HILL & PEAK are partners in a firm. On 1.04.2018 their capitals stood at Rs.50, 000, Rs.25, 000 and Rs.25, 000 respectively. As per the provisions of the partnership deed:

a. Peak was entitled for a salary of Rs.1500 per month

b .partners were entitled to interest on Capital at 5%p.a.

The net profit for the year 2014-15 of Rs.45000 was divided equally without providing for the above terms. Pass an adjustment entry in the journal to rectify the above error.

SECTION **D** (1×6 MARK=6 MARK)

8. Aima and Aireen are partners in the firm sharing profits and losses in the ratio of 2:1. Their fixed capital A/Cs as of 1st APRIL 2013 stands at RS 70,000 and 30,000 respectively. The partners are allowed interest on capital @ RS 12% p.a. the drawing of the partner during the year ended 31st March 2014 amounted to RS 4,000 and RS 2,600 respectively. Interest is changed on drawing at the rate of 10%p.a.
   Aima has given a loan to the firm as of 30th November 2013 of RS 30,000

   The profit of the firm for the year ended 31st March 2014 before the above adjustment was RS 80,000. 10% of this profit is to be kept in a reserve account. Prepare profit and loss appropriation accounts and partner capital accounts.

CHAPTER 2

RECONSTITUTION OF PARTNERSHIP FIRM

CHANGE IN PROFIT - SHARING RATIO

UNITS/TOPICS

- **Sacrificing Ratio**
- **Gaining Ratio**
- **Accounting for revaluation of assets and reassessment of liabilities**
- **Treatment of reserves and accumulated profits**
- **Preparation of revaluation account and Balance Sheet**

Reconstitution of a Partnership Firm Partnership is the result of an agreement between persons for sharing the profits of a business. Any change in the partnership agreement brings to an end the existing agreement and a new agreement comes into force. The change in the agreement results in changes in the relationship among the partners. In such a case, although the firm continues, it amounts to the reconstitution of the partnership firm.

Reconstitution of the firm may happen in the following circumstances:

- Change in Profit sharing ratio among partners.
- Admission of a new partner
- Retirement and Death of Partner
- Sale of Business to others.
- Amalgamation of firms.

(i) **Change in the profit-sharing ratio among the existing partners**: For example, A and B are partners in a firm sharing profits in the ratio of 2:1. In future, they decide to share profits in the ratio of 3:1. It amounts to reconstitution of the firm.

(ii) **Admission of a new partner**: For example, Charu and Dinesh are partners sharing profits equally. On April 1, 2019, they decided to admit Sudha as a new partner with l/4th share. It results into reconstitution of the firm.

(iii) **Retirement of an existing partner**: For example, Babita, Gita and Sita are partners sharing profits in the ratio of 1 : 2 : 3. Sita Retires from the firm on March 31, 2019. It amounts to reconstitution of the firm.

(iv) **Death of a Partner**: For example, P, Q and R are partners In a firm sharing profits in the ratio of 4:3 :2. R dies on March 31, 2019. P and Q decide to share future profits equally. It also amounts to reconstitution of the firm.

(v) **Amalgamation of two partnership firms**: For example, Λ and B are partners in a firm sharing profits in the ratio of 2 : 1. To eliminate competition they amalgamate their firm with the firm of C and D who are sharing profits in the ratio of 3 : 1. The new ratios for A, B, C and D are agreed at 2 : 1 : 3 : 1. It amounts to reconstitution of the firm of A and B on the one hand and the firm C and D on the other hand and a new reconstituted firm is formed.

Change in Profit Sharing Ratio Among the Existing Partners:

Sometimes the existing partners decide to change their profit -sharing ratio. The change is necessitated due to the change in capital contribution or in active participation in management. As a result of change in profit sharing ratio, one or more of the existing partners may acquire extra share in profits at the cost of one or more of other partners. In such a case, in order to maintain equity among the partners, it is necessary to make adjustments for goodwill, revaluation of assets and liabilities, reserves, accumulated profits and losses etc. These adjustments are similar to those made at the time of admission or retirement of a partner.

Adjustments required at the time of change in the profit sharing ratio:

- Determination of Sacrificing Ratio and Gaining Ratio
- Accounting for Goodwill
- Accounting Treatment of Reserves and Accumulated Profits
- Accounting for Revaluation of Assets and Liabilities
- Adjustment of Capitals

Sacrificing Ratio

Whenever there is a change in the profit- sharing ratio, one or more of the existing partners have to surrender some of their old share in favour of one or more of other partners. The ratio of surrender of profit -sharing ratio is called sacrificing ratio. It is calculated as follows:

Sacrificing Ratio = Old Ratio - New Ratio

The purpose of calculating sacrificing ratio is to determine the amount of compensation to be paid by the gaining partner (i.e., the partner whose share has increased as a result of change) to the sacrificing partner (i.e., the partner whose share has decreased as a result of change). Such compensation is usually paid on the basis of proportionate amount of goodwill.

Gaining Ratio

As a result of change in profit sharing ratio, one or more of the existing partners gain some portion of other partner‘s share of profit. The ratio of gain of profit- sharing ratio is called gaining ratio. It is calculated as follows:

Gaining Ratio = New Ratio - Old Ratio

- **ACCOUNTING TREATMENT OF GOODWILL**

Goodwill to be adjusted through partners' capital/current accounts or by raising and writing off goodwill

- Treatment of existing Goodwill appearing in the Balance Sheet:

Journal entry:

Old Partners‘ Capital/Current a/c… Dr	**xxx**	
To Goodwill a/c **(Being the existing goodwill is written off** **In Old profit sharing ratio)**		**xxx**

TREATMENT OF NEW GOODWILL

- **Method 1: When goodwill is adjusted through partners' capital /current accounts**

Journal Entry:

Gaining Partners' Capital/Current a/c… Dr	**xxx**	
To Sacrificing Partners 'Capital /Current a/c (Being the compensation of gaining partners to Sacrificing partners In Gaining sharing ratio)		**xxx**

- **Method 2: When Goodwill is raised and Written off**

(i) **Full revised value of Goodwillraised in books:**

Goodwill A/c … Dr	**xxx**	
To Old Partners 'Capital /Current a/c (Being the goodwill raised and credited to Partners Capital accounts in old profit sharing ratio)		**xxx**

(i) **Writing off revised value of Goodwillraised in books:**

All Partners' Capital/Current a/c… Dr	**xxx**	
To Goodwill a/c (Being the revised goodwill written off In New profit sharing ratio among all partner)		**xxx**

- **Accounting treatment of Reserves and Accumulated profits**

- **Case (i) When Reserves and Accumulated Profits/Losses are to be transferred to Capital Accounts:**
- Reserves or Accumulated profits/losses existing in the books of the firm, should be transferred to the Partner's Capital Accounts (if capitals are fluctuating) or to Current Accounts (if capitals are fixed) in their old profit sharing ratio.
- **Following entries are passed for this purpose:**

For Transfer of Reserves and Accumulated Profits:

	Debit	**credit**
Reserve A/c Dr	Xxx	
Profit & Loss A/c Dr	Xxx	
To Old Partner's Capital or Current A/c (in Old Ratio)		**xxx**

(ii) For transfer of Accumulated Losses:

	Debit	Credit	Remark
Old Partner‘s Capital or Current A/c Dr	xxx		
To Profit & Loss A/c		Xxx	
To Deferred Revenue Expenditure A/c (in Old Ratio)		Xxx	(foreg. Advertisement Suspense A/c)

Treatment of Workmen Compensation Reserve:

This reserve is created out of firm‘s profits to pay compensation to employees. It is treated as follows:

- **If there is no claim against Workmen Compensation Reserve:**

In such a case, the entire amount of Workmen Compensation Reserve is credited to the Capital Accounts of partners in their old profit sharing ratio:

The Journal Entry passed is:

Workmen Comp.Reserve a/c… Dr	**Xxx**	
To Old Partners‘ Capital/Current a/c (Workmen Compensation Reserve credited to partners‘ Capital AccountsIn Old profit sharing ratio		**xxx**

- **If the claim for workmen compensation is lower than the amount of Workmen Compensation Reserve:**

The amount of claim is credited to _Provision for Workmen Compensation Claim A/c‘ and balance is credited to the Capital Accounts of partners in their old profit sharing ratio

(Suppose Workmen Compensation Reserve is Rs 50,000 and liability for claim is Rs20,000). The Journal Entry passed is:

Workmen Comp.Reserve a/cDr	**50,000**	
To Provision forWorkmen Compensation Claim a/c		**20,000**
To Old Partners‘ Capital/Current a/c… (Amount of claim transferred to liability and balance to partner‘s Capital Accounts in their old profit- sharing ratio)		**30,000**

- **If the claim is equal to Workmen Compensation Reserve:**

Entire amount of Workmen Compensation Reserve is transferred to Provision for Workmen Compensation Claim A/c :

Workmen Comp.Reserve a/cDr	**xxx**	
To Provision forWorkmen Compensation Claim a/c (Provision made for workmen compensation claim)		**xxxx**

- **If the claim is more than the amount of Workmen Compensation Reserve:**

Entire amount of Workmen Compensation Reserve along with the excess claim is credited to Provision for Workmen Compensation Claim A/c‘. The amount of excess claim is debited to Revaluation Account‘ because the loss must be borne by partners in their old profit sharingratio.

(Suppose Workmen Compensation Reserve is ` 50,000 and liability for claim is ` 60,000).

The Journal entries passed are:

(i)

Workmen Compensation Reserve a/cDr	**50,000**	
Revaluation a/c Dr	**10,000**	
ToProvision forWorkmen Compensation Claim a/c (Amount of claim debited to Workmen Compensation Reserve and Revaluation A/c)		**60,000**

(ii) Partners‘ Capital A/c Dr. 10,000
To Revaluation A/c 10,000
(Loss on revaluation transferred to capital accounts of partners in their old profit sharing ratio)

TREATMENT OFINVESTMENT FLUCTUATION RESERVE

This reserve is created out of firm‘s profits to meet the fall in the market value of investments. This reserve is treated as follows:

- **When Book Value and Market Value of Investments is same:**

  The entire amount of Investment Fluctuation Reserve is transferred to the Capital Accounts of partners in their old profit sharing ratio.

Investment Fluctuation .Reservea/c… Dr	**xxx**	
To Old Partners‘ Capital/Current a/c (Investment Fluctuation Reserve credited to partners‘ Capital AccountsIn Old profit sharing ratio)		**xxx**

- **When Market value of Investments is less than the Book Value:**

  In such a case, the accounting treatment depends on the quantum of decrease. **There may be three possibilities:**

(i) Fall in the value is Less Than Investment Fluctuation Reserve:

In such a case, Investment Fluctuation Reserve, to the extent of fall in value, is credited to Investments A/c and the balance is credited to Partner's Capital A/c in their old profit sharing ratio. (EX: Investment Fluctuation Reserve is Rs20,000; Investment at Book Value Rs 50,000 ; Market value Rs45,000)

Investment Fluctuation .Reservea/c… Dr	**20,000**	
To Investment a/c		**5,000***
To Old Partners' Capital/Current a/c (Rs5,000 Investment Fluctuation Reserve credited to investment a/c and balance to partners' Capital AccountsIn Old profit sharing ratio)		**15,000**

***(50,000 - 45,000)= 5,000 i.e Book value – Market Value**

(ii) Fall in the value is Equal to Investment Fluctuation Reserve:

In such a case, entire amount of Investment Fluctuation Reserve is credited to Investments A/c. (EX: Investment Fluctuation Reserve is Rs20,000; Investment at Book Value Rs 50,000 ; Market value Rs30,000)

The entry is:

Investment Fluctuation .Reservea/c… Dr	**20,000**	
To Investment a/c		**20,000**
(Investment Fluctuation Reserve fully utilised)		

(iii) Fall in the value is more than Investment Fluctuation Reserve:

In such a case, entire amount of Investment Fluctuation Reserve, along with the amount of excess fall in value is credited to Investments A/c. The amount of excess fall is debited to Revaluation A/c because the loss must be borne by the partners in their old profit sharing ratio.(EX: Investment Fluctuation Reserve is Rs10,000; Investment at Book Value Rs 50,000 ; Market value Rs35,000) The entries are:

(a)

Investment Fluctuation .Reservea/c… Dr	**10,000**	
Revaluation a/c Dr	**5,000**	
To Investment a/c (Investment Fluctuation Reserve fully utilised balance debited to Revaluation a/c)		**15,000**

(b) Partner's Capital A/c Dr. (In old ratio)

To Revaluation A/C **(being revaluation loss)**

- **3. When Market Value of Investments is more than the Book value:**
  (EX: Investment Fluctuation Reserve is Rs10,000; Investment at Book Value Rs 50,000 ; Market value Rs55,000)

  In such a case entries passed are : (i)

Investment Fluctuation .Reservea/c… Dr	**10,000**	
Investment a/c Dr	**5,000***	
To Revaluation a/c		**5,000**
To Partner's Capital a/c a/c (Being entire Investment Fluctuation Reserve Credited to Partners Capital a/c)		**10,000**

* Increase in the value of Investments is debited to Investments A/c and credited to Revaluation A/c

(ii) Revaluation A/c Dr.

To Partner‘s Capital A/c (being revaluation profit In old ratio)

Accounting for Revaluation of Assets and Liabilities :

Assets and liabilities of a firm must also be revalued at the time of change in profit sharing ratio of existing partners. The reason is that the realizable or actual value of assets and liabilities may be different from those shown in the Balance Sheet. It is possible that with the passage of time some of the assets might have appreciated in value while the value of certain other assets might have decreased and no record has been made of such changes in the books of accounts. Revaluation of assets and liabilities becomes necessary because the change in the value of assets and liabilities belongs to the period prior to change in profit sharing ratio and hence must be shared by the partners in their old profit-sharing ratio.

Steps to be followed in reconstitution of partnership

- **Step1** Distribute all the reserves,accumulated profits or losses or any other balance of surplus in the old profit sharing ratio.
- **Step 2** Now, find the sacrificing ratio and gaining ratio of the existing partners with the help of the following formulae:
  - Sacrificing ratio = Old ratio – New ratio
  - Gaining ratio = New ratio – Old ratio
- **Step 3** Find the goodwill of the firm by any of the methods
- **Step 4** Revaluate the assets and liabilities (if any) .Distribute the profit or loss on revaluation of assets and liabilities (if any) among all existing partners in their old profit sharing ratio
- **Step 5** Debit the capital of gaining partners with the gaining proportion of the goodwill and credit the capital of sacrificing partner with the proportionate sacrifice amount of goodwill.

After this process, transfer the balance of revaluation account to the existing partner's capital accounts.

Preparation of Revaluation Account

Revaluation Account is opened to transfer the revalued amount of Assets and Liabilities
(i) Debit the revaluation a/c if assets decrease or liabilities increase
(ii) Credit the revaluation a/c if assets increase or liabilities decrease
After this process, transfer the balance of revaluation account to the existing partner's capital accounts.

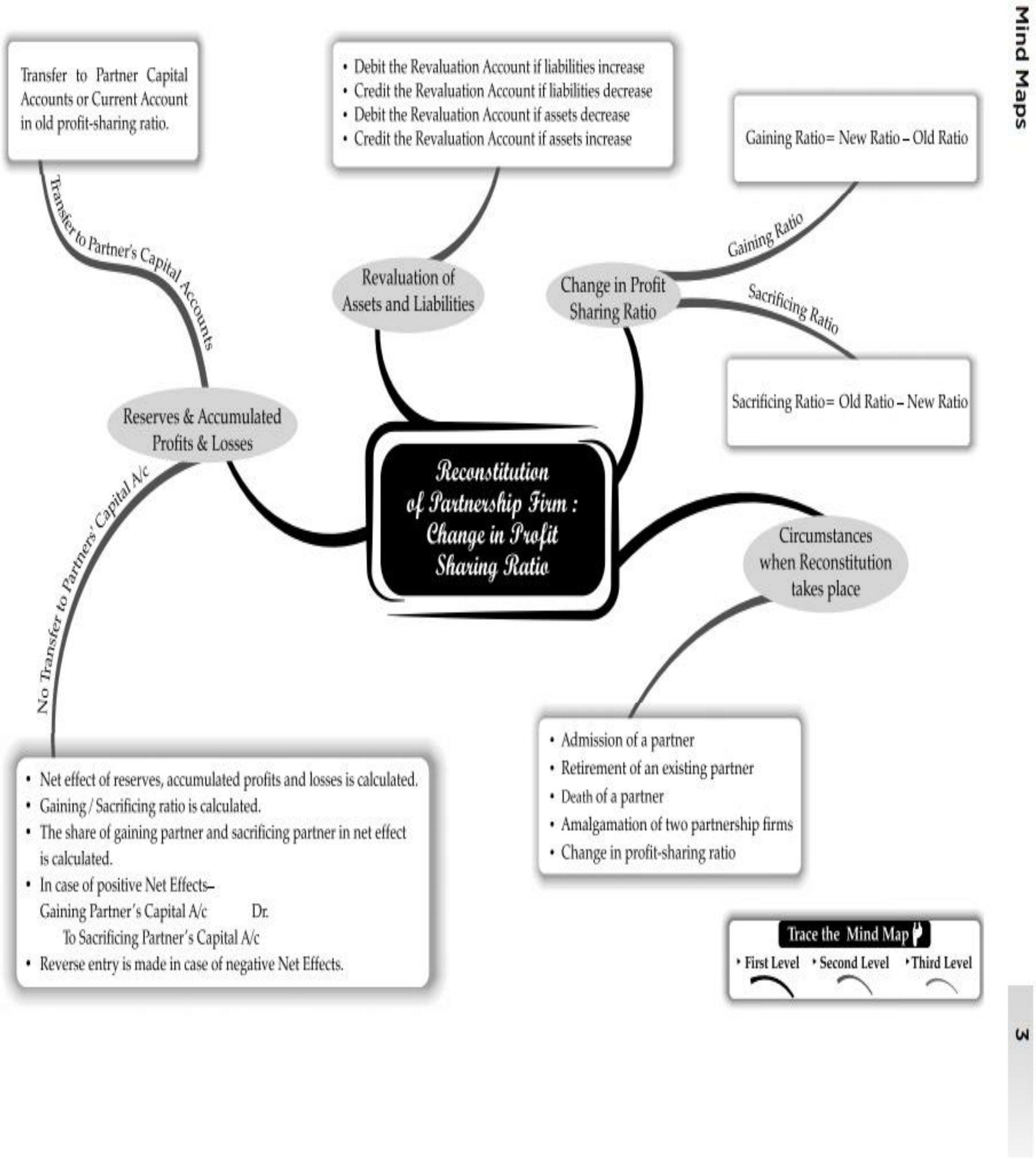
Dr Revaluation account Cr

Particulars	Amount	Particulars	Amount
To Assets (individually) **-Decrease in value on Revaluation**	**Xxx**	**By Assets(individually)** **-Increase in value on revaluation**	**xxx**
To Liabilities (individually) **-Increase in value on revaluation**	**xxx**	**By Liabilities (individually)** **-Decrease in value on revaluation**	**xxx**
To unrecorded liabilities	**xxx**	**By unrecorded Assets**	**xxx**
To Partners Capital (remuneration)	**xxx**	❖ **By Loss on revaluation transferred to Partners Capital/Current A/C**	**xxx**
To Cash/Bank (expenses paid)	**xxx**		
❖ **To Profit on revaluation transferred to Partners Capital/Current A/C**	**xxx**		
	xxx		**xxx**

❖ **Only one will appear at a Time.**

Balance Sheet

Now the Balance Sheet is prepared with the help of adjusted capital accounts and revalued assets and liabilities.



Transfer to Partner Capital Accounts or Current Account in old profit-sharing ratio.

- Debit the Revaluation Account if liabilities increase
- Credit the Revaluation Account if liabilities decrease
- Debit the Revaluation Account if assets decrease
- Credit the Revaluation Account if assets increase

Gaining Ratio= New Ratio – Old Ratio

Sacrificing Ratio= Old Ratio – New Ratio

- Admission of a partner
- Retirement of an existing partner
- Death of a partner
- Amalgamation of two partnership firms
- Change in profit-sharing ratio

- Net effect of reserves, accumulated profits and losses is calculated.
- Gaining / Sacrificing ratio is calculated.
- The share of gaining partner and sacrificing partner in net effect is calculated.
- In case of positive Net Effects–
  Gaining Partner's Capital A/c Dr.
  To Sacrificing Partner's Capital A/c
- Reverse entry is made in case of negative Net Effects.

PRACTICE QUESTIONS

1. **MCQ**

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

2. Assets are revalued and liabilities are reassessed at the time of change in profit sharing ratio so that

(a) assets and liabilities are shown at their present values

(b) no partner is put to an advantage or disadvantage

(c) sacrificing partner is partly compensated

(d) assets and liabilities are shown at their market value.

3. A,B and C are partners sharing profits in the ratio of 5:3:2. They decided to share future profits in the ratio of 2:3:5. Workmen compensation Reserve appearing in Balance Sheet on that date when no information as to workmen compensation claim is given will be

(a) distributed among partners in their capital ratio

(b) distributed among partners in their new profit sharing ratio

(c) distributed among partners in their old profit sharing ratio.

(d) carried forward to new Balance Sheet.

4 A and B are partners sharing profits in the ratio of 3:2. They changed their profit sharing ratio to 2:3 w.e.f 1st April,2021. The Balance Sheet as on the date of change in profit sharing ratio showed credit balance in profit and loss a/c of Rs.1,00,000,which the partners decide to carry forward and not distribute. The balance of Rs.1,00,000 will be adjusted by

(a) crediting A's capital a/c and debiting B's capital a/c by Rs.1,00,000

(b) crediting A's capital a/c and debiting B's capital a/c by Rs.20,000

(d) debiting A's capital a/c and debiting B's capital a/c by Rs.1,00,000

(b) debiting A's capital a/c and debiting B's capital a/c by Rs.20,000

5	Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of new· agreement is called: (a) Revaluation of partnership (b) Reconstitution of partnership (c) Realisation of partnership (d) None of the above
6	A and B are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share future profits equally. Calculate A's gain or sacrifice (a) 2/10 (sacrifice) (b) 5/10 (gain) (c) 1/10 (Gain) (d) 1/10 (sacrifice)
7	In case of change in profit-sharing ratio, the gaining partner must compensate the sacrificing partners by paying the proportional amount of (a) capital (b) cash (c) goodwill (d) none of the above
8	In case of change in profit-sharing ratio, the accumulated profits are distributed to the partners in (a) new ratio (b) old ratio (c) sacrificing ratio (d) equal ratio
9	A partnership is reconstituted due to change in profit sharing ratio.State whether True or False
10	A,B and C are sharing profits in the ratio of 3:2:1.They decided to share equally in future .B's has neither sacrificed nor gained . State whether True or False

11	A,B and C were are partners in a firm sharing profits in the ratio of 3:4:1 .They decided to share profits equally w.e.f from 1 .4.2019. On that date the profit and loss account showed the credit balance of 96,000.instead of closing the profit and loss account ,it was decided to record an adjustment entry reflecting the change in profit sharing ratio .In the journal entry: a) Dr. A by 4,000; Dr. B by 16,000; Cr C by 20,000 b) Cr. A by 4,000; Cr. B by 16,000; Dr C by 20,000 c) Cr. A by 16,000; Cr. B by 4,000; Dr C by 20,000 d) Dr. A by 16,000; Dr. B by 4,000; Cr C by 20,000
12	Increase in the value of assets and decrease in the value of liabilities result in ……………for the existing partners and should be ……….to P/L Adjustment a/c
13	Out of the following which is not a part of change in profit sharing ratio (a) Determination of sacrificing and gaining ratio (b) Accounting of goodwill (c) Accounting of reserves, accumulated profits and losses (d) Dissolution of partnership firm
14	Ankita and Neha are sharing profits in the ratio of 2:1.Now they have decided that new profit sharing ratio will be equal. What will be the Gain/Sacrifice ratio? (A) Ankitagain1/6and Nehasacrifice1/6 (B) Ankitasacrifice1/6andNehagain1/6 (C)Ankita gain 4/5 and Neha sacrifice 4/5 (D)Ankitasacrifice2/3andNehagain1/6
15	In which of the following situation, partner’s capital a/c is credited? (a) Transfer of accumulated profit or reserves (b) Transfer of revaluation loss (c) Writing off the existing book value of goodwill (d) All of the above

Short Answer Questions

16

Read the passage below and answer the questions given:

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

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

Mohan readily agreed to it.

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

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

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

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

17 Bhavna and Rajiv were partners in a partnership firm carrying on a restaurant in Kolkata. Bhavna noticed that a lot of food is left at the end of the day. To avoid wastage, she suggested that it can be distributed to the needy. Rajiv wanted that it should be mixed with the food being served in the next day. Rajiv then give a proposal that if his share in the profit increased, he will not mind free distribution of leftover food. Bhavna happily agreed. So, they decided to change their profit-sharing ratio 1:2 with immediate effect. On that day revaluation of assets and reassessment of liabilities was carried out that resulted into again of Ra. 18,000. On that date the good will of the firm wasvaluedatRs.1,20,000.

Based on the above in formation, you are required to answer the following questions:

1.Sacrifice/Gain of Bhavna and Rajiv will be

2. At thetimeofchangeinProfitSharingratio,gaining partnercapitalaccountis ……………………andsacrificingpartneris....................... foradjustmentofGoodwill.

18 Joseph and Monu were partners in a firm carrying on a tiffin service in Mumbai. Joseph noticed that a lot of food is left at the end of the day. To avoid wastage, she suggested that it should be distributed to the needy. Monu wanted that it should be mixed with the food being served the next day. Monu then gave a proposal that if his share in the profit is increased, he will not mind free distribution of left over food. Joseph happily agreed. So they decided to change their profit sharing ratio to 2:3 with immediate effect. On that date, revaluation of assets and reassessment of liabilities was carried out that resulted into a profit of ₹8,000. On that date, the good will of the firm was valued as₹30,000.

1. Profit on revaluation will be :

(A) Debited to capital account of partners in 2:3

(B) Debited to capital account of partners in

(C) 1:1

(D) Credited to capital account of partners in 2:3 \

(E) Credited tocapital account of partner sin 1:1

2. Sacrifice/Gain of Joseph and Monu will be:

(A) Josephsacrifice1/10,Monugains1/10

(B) Monusacrifice1/10,Josephgains1/10

(C) OnlyJosephgain1/10

(D) OnlyMonusacrifice1/10

3 At the time of change in profit sharing ratio, gaining partner capital is_________________ and Sacrificing partner is_____________for adjustment of goodwill.

(A) Credited, Debited

(B) Debited, Credited

(C) Increased, Decreased

(D) Decreased, Credited

4 The journal entry for adjustment of goodwill will be

(A) Monu's capitalA/c Dr. 30,000

To Joseph's capitalA/c 30,000

(B) Joseph'scapital A/c Dr. 15,000

To Monu's capital A/c 15,000

(C) Monu's capitalA/c Dr. 3,000

To Joseph's capitalA/c 3,000

(D) Joseph's capitalA/c Dr. 27,000

To Monu's capitalA/c 27,000

19 Nithya and Anand are partners in a firm sharing profits and losses equally. With effect from 1st April,2022, they decided to share profits in the ratio of 3:2. On the date of change in the profit sharing ratio, he profit and loss A/c had a credit balance of Rs.1,50,000.

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

20 Karthik and Amit were partners in a firm carrying on a tiffin service in Delhi. Karthik noticed that a lot of food is left at the end of the day. To avoid wastage he suggested that it can

	be distributed to the needy, Amit wanted that it should be mixed with the food being served the next day. Amit then gave a proposal that if his share in the profit increased, he will not mind free distribution of left over food. Karthik happily agreed. So, they decided to change their profit sharing ratio 1:2 with immediate effect. On that date, revaluation of assets and reassessment of liabilities was carried out that resulted into a gain of Rs.36,000 On that date the goodwill of the firm was valued at Rs.2,40,000 1. Sacrifice/gain of Karthik and Amit will be 2. At the time of change in profit sharing ratio, gaining partner's capital a/c is-------- and sacrificing partner's capital a/c is ---------------- for adjustment of goodwill 3. Pass the journal entry for adjustment of goodwill
21	What adjustments are required at the time of reconstitution of a partnership firm ?
22	Any changes in the relations of partnership will result in the reconstitution of the partnership firm. Why are reserves and surplus distributed among the partners into existing profit-sharing ratio.
23	A and B are partners sharing profits and losses in the ratio of 3:1. It was decided that with effect from 1st April,2021 the profit sharing ratio will be 5:3. Goodwill is to be valued at 2year's purchase of average of 3years profits. The profits for the years ending 31st March 2019,2020 and 2021 were Rs.36,000 , Rs.32,000 and Rs.40,000 respectively. Pass the necessary journal entry for the treatment of goodwill.
24	A, B and C are partners sharing profits and losses in the ratio of 5:3:2. A was unable to devote time to business due to her other commitments. Therefore adjustments were required in the agreed terms of partnership. They decided to share future profits and losses in the ratio of 2:3:5. With effect from 1st April,2021.The values of assets and liabilities did not require any adjustments. However, an unrecorded computer of value Rs.60,000 and a claim of a customer of Rs.30,000 was to be brought in the books. The balance sheet has goodwill of Rs.10,000 as an asset, other assets(excluding goodwill were Rs.6,00,000 whereas liabilities were Rs.50,000. Normal rate of return is 15% and average profit is Rs.90,000. 1. Calculate Goodwill under capitalisation of average profit will be 2. Calculate Sacrificing and gaining ratio of the partners 3. Who is neither a gaining nor a sacrificing partner
25	Sonu and Monu are partners in a firm sharing profits in the ratio of 3:2. With effect from 1st April,2022 they agreed to share profits equally. For this purpose goodwill of the firm is valued at Rs.75,000. You are required to fill up the following journal entry: Monu's capital A/c Dr -------- To Sonu's capital A/c ---- -(--)

LONG ANSWER QUESTIONS

26 A and B are partners 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 A and B

As at 31st March,2018

Liabilities	Amount	Assets	Amount
Sundry Creditors	13,800	Furniture	16,000
General Reserve	23,400	Land & Building	56,000
Investment fluctuation Fund	20,000	Investments	30,000
A's capital	50,000	Trade Receivables	18,500
B's capital	40,000		26,700
		Cash in Hand	
	1,47,200		1,47,200

The partners have decided to change their profit sharing ratio to

1:1 with immediate effect. For this purpose, they decided that

(a) Investments to be valued at Rs.20,000
(b) Goodwill of the firm valued at Rs.24,000
(c) General Reserve not to be distributed between the partners.

You are required to pass necessary journal entries in the books of the firm.

27 S,T,U and V were partners in a firm sharing profits in the ratio of 4:3:2:1. On 1.4.2016 their Balance Sheet was as follows:

Liabilities	Amount	Assets	Amount
Capitals		Fixed Assets	440000
S	200000	Current Assets	200000
T	150000		
U	100000		
V	50000		
Sundry Creditors	80000		
Workmen compensation Reserve	60000		
	640000		640000

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

(i) The claim for workmen compensation has been estimated at Rs.70,000
(ii) To adjust the capitals of the partners according to new profit sharing ratio by opening partners current accounts

Prepare Revaluation A/c, partners capital Accounts and the Balance Sheet of the reconstituted firm.

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

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

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

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

Balance Sheet of A,B and C

As at 31st March,2015

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

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

(i) Goodwill of the firm be valued at Rs.300000
(ii) Land be revalued at Rs.1,60,000 and building be depreciated by 6%
(iii) Creditors of Rs.12,000 were not likely to be claimed and hence written off.
Prepare Revaluation A/c, Partner's Capital A/c and Balance sheet of the reconstituted firm.

30 B,C and D are partners sharing profits and losses in the ratio of 3:2:1.Their Balance sheet as at 31st March 2021 was as follows:

Liabilities	Amount	Assets	Amount
Sundry Creditors	87000	Cash	30000
General Reserve	42000	Debtors 62000	
Profit & loss A/c	21000	Less: prov for	
Capital Accounts		Doubtful debts 2000	60000
B 300000		Stock	180000
C 300000		Furniture	30000
D 50000		Plant	200000
	650000	Building	300000
	800000		800000

The partners agreed that from 1st April,2021 they will share profits and losses in the ratio of 4:4:1. They agreed that

(i) Stock is to be valued at 20% less
(ii) Provision for doubtful debts to be increased by Rs.1500/-
(iii) Furniture is to be depreciated by 20% and plant by 15%
(iv) Rs.3500/- are outstanding for salaries
(v) Building is to be valued at Rs.3,50,000
(vi) Goodwill is valued at Rs.45,000

Partners do not want to record the altered values of assets and liabilities in the books and want to leave the reserves and profits `undisturbed.You are required to pass journal entry to give effect to the above. Also prepare the revised balance sheet

31 L,M and N were partners in a firm sharing profits in the ratio of 2:3:5. From 1st April 2018 they decided to share the profits in the ratio of 1:2:2. On this date, the Balance Sheet showed a credit balance of Rs.1,17,000 in general reserve and a debit balance of Rs.35,000 in Profit and Loss account. The goodwill of the firm was valued at Rs.5,00,000. The revaluation of assets and reassessment of liabilities resulted into a gain of Rs.30,000.

Pass necessary journal entries for the above information on the reconstitution of the firm.

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

BALANCE SHEET as at 31.3.2013

Liabilities		**(Rs)**	**Assets**	**(Rs)**
Bills Payable		20,000	Cash	40,000
Creditors		20,000	Bills Receivable	5,000
General Reserve		30,000	Debtors	15,000
Capitals			Stock	50,000
Ram	50,000		Furniture	20,000
Shyam	30,000		Machinery	30,000
Hari	25,000	1,05,000	Goodwill	15,000
		1,75,000		1,75,000

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

Goodwill of the firm should be valued at Rs 30,000.

Furniture and Machinery is to be revalued at Rs 25,000 and Rs 35,000 respectively.

Value of Stock is to be reduced by Rs 4,000.

You are required to give necessary journal entries to give effect to the above arrangement and prepare Revaluation Account, Partners’ Capital Accounts and Balance Sheet of the firm after reconstitution.

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

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

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

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

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

Pass the journal entry and Revaluation Account

34 Ram, Shyam and Mohan sharing profits and losses in the ratio of 4:3:2, decide to share future profits and losses in the ratio of 2:3:4 with effect from 1st April,2022. An extract of their Balance Sheet as at 31st March,2022 is

Liabilities	Amount	Assets	Amount
Workmen compensation Reserve	90,000		

Show the accounting treatment under the following alternative cases:

1. When no information as to claim is given\
2. When there is no claim
3. When a claim on account of workmen compensation is Rs.45,000
4. When a claim on account of workmen compensation is Rs.99,000
5. When a claim on account of workmen compensation is Rs.90,000

35 Ram, Shyam and Mohan sharing profits and losses in the ratio of 4:3:2, decide to share future profits and losses in the ratio of 2:3:4 with effect from 1st April,2022. An extract of their Balance Sheet as at 31st March,2022 is

Liabilities	Amount	Assets	Amount
Investment fluctuation Reserve	18,000	Investments(at cost)	200000

Show the accounting treatment under the following alternative cases

1. When there is no other information
2. When market value of investments is Rs.2,00,000
3. When market value of investments is Rs.1,91,000
4. When market value of investments is Rs,2,18,000
5. When market value of investments is Rs.1,73,000

……………………………..

ANSWERS-MCQ

1	**D**	**6**	**D**	**11**	**B**
2	**B**	**7**	**C**	**12**	**GAIN, CREDITED**
3	**C**	**8**	**B**	**13**	**D**
4	**B**	**9**	**TRUE**	**14**	**B**
5	**B**	**10**	**TRUE**	**15**	**A**

ANSWERS-SHORT ANSWER TYPE

16 1. Debit Sohan and Credit Mohan by Rs 3.000

2. Workmen Compensation Reserve A/c Dr. 90,000

To claim on Workmen Compensation Reserve A/c 45,000

To Mohan's capital A/c 27,000

To Sohan's capital A/c 18,000

3. General reserve A/c Dr. 12,000

To Mohan's capital A/C 7,200

To Sohan's capital A/C 4,800

17. 1.A. Bhavna sacrifice1/6,Rajiv Gain1/6

2. B. Debited, Credited

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

19. Profit & Loss A/c Dr 1,50,000

    To Nithya's capital A/c 75,000

    To Anand's capital A/c 75,000

20. 1. Karthik sacrifice 1/6, Amit gains 1/6

    2. debited, credited

    3 Amit's capital A/c Dr 40,000

    To Karthik's capital A/c 40,000

21. Following adjustments are required at the time of reconstitution of a partnership firm:

    (i) Determination of sacrificing ratio

    (ii) Accounting for Goodwill

    (iii) Accounting treatment of reserves and accumulated profits

    (iv) Accounting for revaluation of assets and liabilities

    (v) Adjustment of capitals

22. Reserves and accumulated profits are credited to the capital accounts of all partners in their old profit sharing ratio because they have been set apart out of the profits earned in the period before change. If they are not adjusted , they will get adjusted later in the new profit sharing ratio which will result in loss to the sacrificing partner and gain to the gaining partner.

23. B's capital A/c Dr 9000

    To A's capital A/ 9000

24. (1) Rs.20,000

    (2) A-3/10 (sacrifice), B-nil, c-3/10(gain)

    (3) B

25. Monu's capital A/c (7500 x 1/10) 7500

    To Sonu's capital A/c 7500

    (Adjustment made for goodwill on change in

    The profit sharing ratio)

26	Date	Particulars	LF	Amount	Amount
	31.3.18	Investment Fluctuation Fund A/c Dr		20,000	
		To Investment A/c			10,000
		To A's capital A/c			6,000
		To B's capital A/c			4,000
		(Being Investment Fluctuation Fund adjusted against the fluctuations in market value and balance distributed among partners)			
		B's capital A/c Dr		2,400	
		To A's capital A/c			2,400
	31.3.18	(Being adjustment of goodwill made between partners due to change in profit sharing ratio)			
		B's capital A/c Dr		2,340	
		To A's capital A/c			2,340
		(Being general reserve adjusted among the partners without writing it off)			
	31.3.18				

27

Revaluation A/c

Particulars	Amount	Particulars	Amount
To claim for Workmen Compensation	10,000	By loss transferred S 4000 T 3000 U 2000 V 1000	10000
	10000		10000

Partner's capital A/c

Particulars	S	T	U	V	Particulars	S	T	U	V
Revaluation A/c	4000	3000	2000	1000	Balance b/d	200000	150000	100000	50000
S's capital A/c				9000	V' capital	9000	18000		
T's capital A/c				18000	V's current A/c				174000
Partners current	58000	116000							
Balance c/d	147000	49000	98000	19600					
	209000	168000	100000	224000		209000	168000	100000	224000

Balance Sheet of S,T,U,V

As at March 31st 2016

Liabilities	Amount	Assets	Amount
Sundry Creditors	80,000	Fixed Assets	440000
Partners capital A/c	23,400	Current Assets	200000
S 147000		V's current A/c	174000
T 49000	20,000		
U 98000	50,000		
V 196000	40,000		
Claim for workmen Compensation	70,000		
Partners current A/c			
S 58000			
T 116000	174000		
	814000		814000

28

Sl.No	Particulars	LF	Amount	Amount
	B’s capital A/c To A’s Capital A/c (Adjustment made for revaluation without effecting the market value)		25833	 25833

Working Note

Rs.1,55,000 x 1/6 = Rs.25,833

Sacrificing ratio = Old ratio – New Ratio

A= 2/3 -1/2 = 1/6 (sacrifice)

B = 1/3- ½ = - 1/6(gain)

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

29

Revaluation A/c

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

	72000		72000

Partners Capital Accounts

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

Balance Sheet of A, B ,C

As at March 31st 2015

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

30 Workings:

Loss due to decrease in value of stock	36000		
Loss due to provision for doubtful debts	1500		
Loss due to decrease in value of furniture	6000		
Loss due to decrease in value of plant	30000		
Loss due to unrecorded liability	3500	77000	
Profit due to increase in value of Building		50000	
Loss on revaluation		--------	
			27000
Adjustment of Reserves			42000
Adjustment for profit & loss			21000
Adjustment for goodwill			45000
Net amount to be adjusted			81000

Sacrifice/Gain ratio

B = 3/9-4/9 = 1/18 (sacrifice)

C = 2/6-4/9 = 2/18 (gain)

D = 1/6-1/9 = 1/18 (sacrifice)

Journal entry

C's capital A/c Dr 9000

To B's capital A/c 4500

To D's Capital A/c 4500

Balance Sheet as at 1st April, 2021

Liabilities	Amount	Assets	Amount
Sundry Creditors	87000	Cash	30000
Reserves	42000	Debtors 62000	
Profit & loss A/c	21000	Less: Prov. D. debts 2000	60000
Capital Accounts		Stock	180000
B 304500		Furniture	30000
C 291000		Plant	200000
D 54500	650000	Building	300000
	800000		800000

31

Books of L,M and N Journal

Date	Particulars	LF	Amount	Amount
2018	General Reserve A/c Dr		1,17,000	
April1	To L's Capital A/c			23,400
	To M'scapital A/c			35,100
	To N's capital A/c			58,500
	(General reserve transferred in the old ratio)			
	L's capital A/c Dr		7000	
	M's capital A/c Dr		10500	
	N's Capital A/c Dr		17500	
	To Profit & loss A/c			35,000
	(Debit balance of profit &loss A/c transferred in old ratio)			
	M's capital A/c Dr		50,000	
	To N's capital A/c			50,000
	(Adjustment of goodwill)			

	Revaluation A/c Dr To L's capital A/c To M's capital A/c To N's capital A/c (Gain on revaluation transferred in old ratio)		 30000	 6000 9000 15000

32

Revaluation Account

Dr.				Cr.
Particulars		(Rs)	Particulars	(Rs)
To Stock A/c		4,000	By Machinery A/c	5,000
To Profit transferred to:			By Furniture A/c	5,000
Ram's Capital A/c	3,000			
Shyam's Capital A/c	2,000			
Hari's Capital A/c	1,000	6,000		
		10,000		10,000

Partner's Capital Account

Dr.							Cr.
Particulars	Ram (Rs)	Shyam (Rs)	Hari (Rs)	Particulars	Ram (Rs)	Shyam (Rs)	Hari (Rs)
To Goodwill A/c	7,500	5,000	2,500	By Balance b/d	50,000	30,000	25,000
To Ram's Capital A/c	—	—	5,000	By General Reserve A/c	15,000	10,000	5,000
To Balance c/d	65,500	37,000	23,500	By Hari's Capital A/c	5,000	—	—
				By Revaluation A/c (Profits)	3,000	2,000	1,000
	72,000	42,000	31,000		73,000	42,000	31,000
				By Balance b/d	65,500	37,000	23,500

BALANCE SHEET

Liabilities		**(Rs)**	**Assets**	**(Rs)**
Bills Payable		20,000	Cash	40,000
Creditors		20,000	Bills Receivable	5,000
Capitals			Debtors	15,000
Ram	65,500		Stock	46,000
Shyam	37,000		Furniture	25,000
Hari	23,500	1,26,000	Machinery	35,000
		1,66,000		1,66,000

Journal

33

Date	Particulars	LF	Amount	Amount
2022 April 1	General Reserve A/c Dr		20,000	
	To A's capital A/c			10,000
	To B's capital A/c			6,000
	To C's capital A/c			4,000
	(General Reserve credited to capital accounts in their old ratio)			
	Workmen Compensation Reserve A/c Dr		30,000	
	To Workmen compensation claim A/c			10,000
	To A's capital A/c			10,000
	To B's capital A/c			6,000
	To C's capital A/c			4,000
	(Workmen compensation Reserve, after adjusting claim, credited to partners capital A/c in their old ratio)			
	Land & Building A/c Dr		26,000	
	Stock A/c Dr		10,000	
	To Revaluation A/c			36,000
	(Increase in value of land & building and stock recorded)			
	Revaluation A/c Dr		57,500	
	To Machinery A/c			52,500
	To provision for doubtful debts			5,000
	(Decrease in value of machinery recorded and provision for doubtful debts made)			
	Sundry Creditors A/c Dr		5,000	
	To Revaluation A/c			5,000
	(Amount not payable written back)			

	Revaluation A/c Dr		2,000	
	To cash/Bank A/c			2,000
	(Expense for valuation of Land and Building)			
	A's capital A/c Dr		9,250	
	B's capital A/c Dr		5,550	
	C's capital A/c Dr		3,700	
	To Revaluation A/c			18,500
	(Loss on revaluation debited to partners capital accounts in their old profit sharing ratio)			

34

Revaluation A/c

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

	72000		72000

35

Journal

Date	Particulars	LF	Amount	Amount
2022 April1	Workmen compensation Reserve A/c Dr		90,000	
	To Ram's capital A/c			40,000
1.	To Shyam's capital A/c			30,000
	To Mohan's capital A/c			20,000
	(Transfer of workmen compensation reserve to partner's capital accounts in their old profit sharing ratio)			
2.	Same entry as case 1			
3.	Workmen compensation Reserve A/c Dr		90,000	
	To Workmen compensation claim A/c			45,000
	To Ram's capital A/c			20,000
	To Shyam's capital A/c			15,000
	To Mohan's capital A/c			10,000

	(Transfer of surplus of workmen compensation reserve to partner's capital accounts in their old profit sharing ratio)			
4.	Workmen compensation Reserve A/c Dr Revaluation A/c Dr To Workmen compensation claim A/c (Shortfall debited to Revaluation A/c)		90,000 9,000	 99,000
5.	Ram's capital A/c Dr Shyam's capital A/c Dr Mohan's capital A/c Dr To Revaluation A/c (Transfer of loss on revaluation to partner's capital Accounts in their old profit sharing ratio)		4000 3000 2000	 9000
	Workmen compensation Reserve A/c Dr To Workmen compensation claim A/c (Workmen compensation claim accounted)		90,000	 90,000

****

CHAPTER 3

ADMISSION OF A NEW PARTNER

Why a newpartner is admitted?	A new partner may be admitted when the firm needs a. Additional Capital b. Managerial Help c. Both
How can a new partner be admitted?	Unless it is otherwise provided in the partnership deed a new partner can be admitted only when the existing partners unanimously agree for it.
Two main Rights acquired by a newly admitted partner	1. Right to share the assets of the partnership firm. 2. Right to share the profits of the partnership firm and Right to participate in the business activity
What does a new partner bring to acquire the rights?	To acquire share in the assets and profits of the firm, the partner brings 1. An agreed amount of Capital either in Cash or kind and / orsome technical skill 2. Additional amount known as premium of Goodwill
Why is new partner required to bring premium?	This is due to compensate the existing partners for loss of their Share in the Super Profits of the firm. When a person pays for Goodwill, he pays for sacrifice of the profits by old partners.
New profit sharing ratio and sacrificing Ratio	The ratio in which all partners, including new partner will share future profits losses of the firm is known as new profit sharing ratio.Sacrificing ratio is the ratio in which old or existing partners forego their share of profit in favour of the new partner.
New Profit SharingRatio and Sacrificing Ratio	
When share of new partner is given but sacrifice made by old partners is not given	(i) Deduct the new partner's share from 1 (ii) Divide the remainingshare among old partnerin old profit sharing ratio. **Sacrificing Ratio** issame as that of **Old Profit Sharing Ratio.**
When share of new partner is given and new share of old partner is given	(i) Deduct the new partners' share from 1 Divide the remainingshare among old partnerin new profit sharing ratio. **Sacrificing share = Old share – New share**
When new partner acquires his share from old partners' equally or in particular ratio.	**(i)** Deduct the sacrifice made in favour of new partner from the old share of old partners. **(ii)** Share surrendered by old partners is added to calculate new partnershare

When existing partner retains his original share on admission of a partner	(i) Deduct the new partners' share and share ofexisting partner (who retains his old share) from1 **(ii)** Divide the remaining share among old partnerin profit sharing ratio.
When Goodwill is Paid Privately	**No Entry**
When capital and goodwill is brought in cash or cheque by new partner and retained in the firm	Cash / Bank A/c Dr. To new partner' capital A/c To premium for goodwill A/c (Being capital and premium for goodwill brought in) **Premium for Goodwill A/c** Dr. **To Sacrificing Partners' Capital/Current A/cs** (Being premium for goodwill is distributed among sacrificing partners'in sacrificing ratio) Current A/c in case of Fixed capitals
When capital and goodwill isbrought in cash or cheque by new partner	**Cash/Bank A/c Dr.** **To New partners' Capital A/c** **To premium for Goodwill A/c** (Being capital and premium for goodwill brought in)
Partner and Withdrawn by sacrificing partners	**Premium for Goodwill A/c Dr.** To sacrificing Partners Capital /Current A/cs (Being premium for goodwill is distributed among sacrificing partners'in sacrificing ratio) **Sacrificing Partners' Capital /*Current A/Cs Dr.** **To Cash / Bank A/c** (Being withdrawal of premium bythe partners) *Current A/C in case of Fixedcapitals
When Goodwill is Brought in Kind	Asset A/c Dr To New Partners' Capital A/c To Premium for Goodwill A/c To Liabilities A/c (Being asset contributed as capital and premium for goodwill) **Premium for Goodwill A/c Dr.** To sacrificing Partners' Capital / Current A/c (Being premium for goodwill is distributed among sacrificing partners' insacrificing ratio) Current A/c in case of Fixed capitals
When Goodwill is not Brought in Full or Part by the New Partner (In case	**Cash / Bank A/c Dr.** **To new Partners' Capital A/c** **To Premium for Goodwill A/c** (withshare of goodwill brought in) (Being capital and premium for good-will brought in)

Goodwill is not Raised)	**Premium for Goodwill A/c (with paidshare of goodwill) Dr.** **Incoming partners' Current A/c (with unpaid share of goodwill) Dr.** **To sacrificing partners' Capital /Current A/cs** (Being premium for goodwill is distributed among sacrificing partners in sacrificing ratio) Sacrificing partners current A/c in case of Fixed capital
When Goodwill is Raised and Written Off (In case Goodwill is Brought in Part By the New Partner	Cash / Bank A/c To New Partners' Capital A/c To Premium for Goodwill A/c (Being capitals premium for goodwill brought in)
When Existing Goodwill is written off	Old Partner's Capital / *Current A/c Dr To Goodwill A/c (Being goodwill written off among old partner's in old ratio) *Current A/c in case of Fixed capitals
Treatment of Reserves, Accumulated Profits and Losses	**Accumulated profits include credit balance of P and L A/c, General Reserves, Reserve Fund, Workmen Compensation Reserves, Investment Fluctuation Reserve etc**. (A) When question is silent of when accumulated profits of losses are to be distributed or when accumulated profits or losses are not to be shown in new balance sheet Contingency Reserve A/c **Dr.** Reserve A/c **Dr.** P and L A/c (Cr. Balance) **Dr.** Workmen Compensation Reserve A/c **Dr.** Investment Fluctuation Reserve A/c **Dr.** To Old Partners' Capital / Current A/cs (Being reserves and accumulated profits transferred to old partners in old ratio) **Accumulated Losses include debit balance of P and L A/c, Deferred Revenue Expenditure i.e., Advertisement Suspense A/c.** Old Partners' Capital / Current A/Cs **Dr.** To P and L A/c (Dr. balance) To Deferred Revenue Expenditure A/c (Being accumulated losses transferred to old partners in old ratio)Current A/c in case of Fixed capitals.

Treatment of Reserves,Accumulated Profits and Losses

	Accumulated profits include credit balance of P and L A/c, General Reserves, Reserve Fund, Workmen Compensation Reserves, Investment Fluctuation Reserve etc.

(A) When question is silent of when accumulated profits of losses are to be distributed or when accumulated profits or losses are not to be shown in new balance sheet

Contingency Reserve A/c **Dr.**
Reserve A/c **Dr.**
P&L A/c(Cr. Balance) **Dr.**
Workmen Compensation Reserve A/c **Dr.**
Investment Fluctuation Reserve A/c **Dr.**
To Old Partners' Capital / Current A/cs
(Being reserves and accumulated profits transferred to old partners in old ratio)

Accumulated Losses include debit balance of P and L A/c, Deferred Revenue Expenditure i.e., Advertisement Suspense A/c.

Old Partners' Capital / Current A/Cs **Dr.**
To P and L A/c (Dr. balance)

Treatment of Workmen Compensation Reserve

Case 1. When there is no Claim	Workmen Compensation ReserveA/c Dr. To Old Partners' Capital / Current A/cs
Case 2. WCC= WCR (equal)	Workmen Compensation Reserve A/c Dr To Provision for Workmen Compensation Claim A/c
Case 3. WCC < WCR (less)	Workmen Compensation ReserveA/c Dr. To Provision for Workmen CompensationClaim A/c To Old Partners' Capital / Current A/cs
Case 4. WCC > WCR (more)	Workmen Compensation ReserveA/ c Dr. Revaluation A/c Dr To Provision for Workmen CompensationClaim A/c To Old Partners' Capital / Current A/cs To Revaluation A/c

Revaluation of Assets and Reassessment of Liabilities

It is a nominal account and prepared to revalue assets and reassess liabilities.

(A) When Revised Values of Assets and Liabilities are to be Recorded Revaluation A/c is prepared and Profit/Loss of revaluation is distributed among old partners' in old ratio

REVALUATION A/C

Dr **Cr**

Particulars	Amount(Rs)	Particulars	Amount(Rs.)
To asset (decreasein value)	xxx	By asset (increase invalue)	xxx
To liability (increasein value)	xxx	By liability (decreasein value)	xxx
To Unrecorded li-ability	xxx	By Unrecorded asset	xxx
To profit (trans-ferred to old partners capital ac-count in old ratio)	xxx	By Loss (transferred to old partners' capi- tal account in oldra- tio)	xxx
Total	**xxx**	**Total**	**xxx**

ADJUSTMENT OF CAPITAL

Adjustment of Old Partners' Capital on the basis of newPartners' Capital

Step 1. Calculate total Capital of the firm on the basis of New Partners' Capital:

$$\text{Total Capital of the firm} = \frac{\textbf{Capital of the New Partner}}{\textbf{Share of profit of New Partner}}$$

Step 2. Determine New Capital of each Partner by dividing the Total Capital in new profit sharing ratio.

Step 3. Ascertain Present Capital of the Old Partners' after all adjustments

Step 4. Find Surplus / Deficit—

Surplus = Present Capital > New Capital

Deficit = Present Capital < New Capital

Step 5. In case of **Surplus** (Present Capital > New Capital)

Concerned partners' Capital A/c Dr.
To Bank / Cash A/c
To Concerned Partners' Current A/c

In case of **Deficit** (Present Capital < New Capital)

Bank / Cash A/c Dr.
Concerned Partners' Current A/c Dr.
To Concerned Partners' Capital A/c

(ii) **Adjustment of New Partners' Capital on the basis of Old Partners' Capital**

Step 1. Determine Total Adjusted Capital of the Old Partners' after all adjustments

Step 2. Calculate Total Capital of the new firm on the basis of Old Partner's after all adjustment:

$$\text{Total Capital of the new firm} = \frac{Total\ adjusted\ capital\ of\ old\ partners}{Total\ share\ of\ old\ partners}$$

Step 3. Determine Capital of New Partner by multiplying the total capital by Share of New Partner.

****

Multiple Choice Questions/Objective type Questions:

Q. 1 Which of the following is not the reconstitution of partnership?

a) Admission of a partner
b) Dissolution of Partnership
c) Change in Profit Sharing Ratio
d) Retirement of a partner

Q. 2 On the admission of a new partner:

a) Old partnership is dissolved
b) Both old partnership and firm are dissolved
c) Old firm is dissolved
d) None of the above

Q. 3 Sacrificing ratio is used to distribute -------------------- in case of admission of a partner.

a) Goodwill
b) Revaluation Profit or Loss
c) Profit and Loss Account (Credit Balance)
d) Both b and c

Q. 4 A and B are partners sharing profit and losses in ratio of 5:3. C is admitted for 1/4th share. On the date of reconstitution, the debtors stood at Rs 40,000, bill receivable stood at Rs. 10,000 and the provision for doubtful debts appeared at Rs. 4000. A bill receivable, of Rs 10,000 which was discounted from the bank, earlier has been reported to be dishonored.The firm has sold, the debtor so arising to a debt collection agency at a loss of 40%. If bad debts now have arisen for Rs 6,000 and firm decides to maintain provisions at same rate asbefore then amount of Provision to be debited to Revaluation Account would be:

a) Rs 4,400
b) Rs 4,000
c) Rs 3,400
d) None of the above

Q. 5 Heena and Sudha share Profit & Loss equally. Their capitals were Rs.1,20,000 and Rs. 80,000 respectively. There was also a balance of Rs. 60,000 in General reserve and revaluation gain amounted to Rs. 15,000. They admit friend Teena with 1/5 share. Teena brings Rs.90,000 as capital. Calculate the amount of goodwill of the firm.

a) Rs.85,000
b) Rs.1,00,000
c) Rs.20,000
d) None of the above

Q. 6 Which of the following is not true with respect to Admission of a partner?

a) A new partner can be admitted if it is agreed in the partnership deed.
b) If all the partners agree, a new partner can be admitted.
c) A new partner has to bring relatively higher capital as compared to the existing partners
d) A new partner gets right in the assets of the firm

Q. 7 As per ----------- , only purchased goodwill can be shown in the Balance Sheet.

a) AS 37
b) AS 26
c) Section 37
d) AS 37

Q. 8 A, and B are partners sharing profits in the ratio of 2:3. Their balance sheet shows machinery at ₹ 2,00,000; stock ₹ 80,000, and debtors at ₹ 1,60,000. C is admitted and thenew profit sharing ratio is 6:9:5. Machinery is revalued at ₹ 1,40,000 and a provision is made for doubtful debts @5%. A's share in loss on revaluation amount to ₹ 20,000. Revalued value of stock will be:

a) ₹62,000
b) ₹1,00,000
c) ₹60,000
d) ₹98,000

Q. 9 At the time of admission of a partner, Employees Provident Fund is:

a) Distributed to partners in the old profit sharing ratio
b) Distributed to partners in the new profit sharing ratio
c) Adjusted through gaining ratio
d) None of the above

Q. 10 If at the time of admission if there is some unrecorded liability, it will be to -- ....Account.

a) Debited, Revaluation
b) Credited, Revaluation
c) Debited, Goodwill
d) Credited, Partners' Capital

Q. 11 At the time of admission of a new partner, the balance of Workmen Compensation Reserve will be transferred to:

a) Old partners in the old profit sharing ratio
b) Sacrificing partners in the sacrificing ratio
c) Revaluation Account
d) All partners in the new profit sharing ratio

Q. 12 The firm of P, Q and R with profit sharing ratio of 6:3:1, had the balance in General Reserve Account amounting Rs. 1,80,000. S joined as a new partner and the new profit sharing ratio was decided to be 3:3:3:1. Partners decide to keep the General Reserve unchanged in the books of accounts. The effect will be:

a) P will be credited by Rs. 54,000
b) P will be debited by Rs. 54,000
c) P will be credited by Rs. 36.000
d) P will be credited by Rs. 36,000

Q. 13 Which statement is true with respect to AS-26?

a) Purchased goodwill can be shown in the Balance Sheet
b) Revalued goodwill can be shown in the Balance Sheet
c) Both purchased goodwill and revalued can be shown in the Balance Sheet
d) None of the above

Q. 14 Premium brought by newly admitted partner should be:

a) Credited to sacrificing partners
b) Credited to all partners in the new profit sharing ratio
c) Credited to old partners in the old profit sharing ratio
d) Credited to only gaining partners

Q. 15 Sacrificing ratio is calculated because:

a) Profit shown by Revaluation Account can be credited to sacrificing partners
b) Goodwill brought in by the incoming partner can be credited to the new partner
c) Goodwill brought in by the incoming partner can be credited to the sacrificing partners
d) Both a and c

SHORT ANSWER TYPE-QUESTIONS

Q. 16 Himanshu and Naman share profits & losses equally. Their capitals were Rs.1,20,000 and Rs. 80,000 respectively. There was also a balance of Rs. 60,000 in General reserve and revaluation gain amounted to Rs. 15,000. They admit friend Ashish with 1/5 share. Ashish brings Rs.90,000 as capital. Calculate the amount of goodwill of the firm.

Q. 17 Yash and Manan are partners sharing profits in the ratio of2:1. They admit Kushagra into partnership for 25% share of profit. Kushagra acquired the share from old partners in the ratio of 3:2. Calculate the new profit sharing ratio.

Q. 18 On what occasions does the need for valuation of goodwill arise?

Q. 19 Why is it necessary to revalue_assets and reassess liabilities at the time of admission of new partner?

Q. 20 The capital of a firm of Arpit and Prajwal is Rs. 10,00,000. The market rate of return is 15% and the goodwill of the firm has been valued Rs. 1,80,000 at two years purchase of super profits. Find the average profits of the firm.

Q. 21 A and B were partners sharing profits in the ratio of 3:2. A surrenders 1/6th of his share and B surrenders 1/4th of his share in favour of C, a new partner. What is the new ratio and the sacrificing ratio.

Q. 22 Aarti and Bharti are partners sharing profits in the ratio of 5:3. They admit Shital for 1/4th share and agree to share between them in the ratio of 2:1 in future. Calculate new and sacrificing ratio.

Q. 23 X and Y are partners sharing profits in the ratio of 5:4. They admit Z in the firm for 1/3rd profit, which he takes 2/9th from X and 1/9th from Y and brings Rs. 1500 as premium. Pass the necessary Journal entries on Z's admission.

Q. 24 A and B are partners sharing profits equally. They admit C into partnership, C paying only Rs. 1000 for premium out of his share of premium of Rs. 1800 for 1/4th share of profit. Goodwill account appears in the books at Rs. 6000. All the partners have decided that goodwill should not appear in the new firms books.

Q. 25 X, Y and Z are 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, 2002. They also decide to record the effect of the reserves without affecting their book figures, by passing a single adjusting entry.

	Book Figure
General Reserve	Rs. 40,000
Profit and loss A/C (Cr)	Rs. 10,000
Advertisement Suspense A/C (Dr)	Rs. 20,000

Pass the necessary single adjusting entry.

LONG ANSWER TYPE QUESTIONS

Q26 . Rajat and Ravi are partners in a firm sharing profits and losses in the ratio of 7:3. Their balance sheet as on 31st March, 2017 is as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	60,000	Cash in hand	36,000
Reserve	10,000	Cash at Bank	90,000
Capital Accounts:		Debtors	44,000
Rajat 1,00,000		Furniture	30,000
Ravi 80,000	1,80,000	Stock	50,000
	2,50,000		**2,50,000**

On 1st April 2017, they admit Rohan on the following terms: Goodwill is valued at Rs.40,000 and Rohan is to bring in the necessary amount in cash as premium for goodwill and Rs.60,000 as capital for 1/4th share in profits. Stock is to reduced by 40% and furniture is to reduced to 40%.Capitals of the partners shall be proportionate to their profit sharing ratio taking Rohan's Capital as base. Adjustments of capitals to be made by cash. You are required to prepare revaluation account and partner's capital accounts.

Q27. A and B were partners in a Firm sharing profits in the ratio 3:2. They admitted C as a new partner for 1/6th share in the profits. C was to brings Rs.40000 as his capital and the Capitals of A and B were to be adjusted on the basis of C's Capital having regard to profit sharing ratio. The balance sheet of A and B as on 31.3.2006 was as follows:

Liabilities	Amount	Assets	Amount
Creditors	36000	Cash	10000
Bills payable	20000	Debtors	34000
General Reserve	24000	Stock	24000
Capital		Machinery	42000
A 150000		Building	200000
B 80000	230000		
	3,10,000		310000

The other terms of agreement on C's admission were as follows:

1. C will bring Rs.12000 as his share of Goodwill.
2. Building will be valued at Rs.185000 and Machinery at Rs.40000
3. A provision of 6% will be credited on Debtors for Bad Debts.
4. Capital Accounts of A and B will be adjusted by opening current accounts

Prepare Revaluation Account, Partner's Capital Account and the Balance Sheet of A, B, and C.

28. Sun & Moon are partners in a firm sharing profits in the ratio of 2:1. Star is admitted into the firm with 1/4th share in profit. He will bring in Rs 1,20,000 as capital and capitals of Sun & Moon are to be adjusted in the profit sharing ratio. Their balance sheet as on 31st March 2009 was as follows

Liabilities	**Amount**	**Assets**	**Amount**
Creditors	32,000	Cash in hand	8,000
Bills payable	16,000	Cash at bank	40,000
General reserve	24,000	Sundry Debtors	32,000
Capitals		Stock	40,000
Sun : 2,00,000		Furniture	20,000
Moon : 1,28,000	3,28,000	Machinery	1,00,000
		Building	1,60,000
	4,00,000		**4,00,000**

Other terms of agreement are as under

- i) Star will bring in Rs 48,000 as his share of goodwill
- ii) Building was valued at Rs 1,80,000 & Machinery at Rs 92,000
- iii) A provision for bad debts is to be created at 6% on debtors
- iv) The capital accounts of sun & Moon are to be adjusted by opening current accounts

Prepare revaluation account, capital account & balance sheet of the new firm.

Q29. Badal and Bijli were partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2019 was as follows :

Balance Sheet of Badal and Bijli as at 31st March, 2019

Liabilities	Amount	Assets	Amount
Capitals :		Building	1,50,000
Badal 1,50,000		Investments	73,000
Bijli 90,000	2,40,000	Stock	43,000
Badal's Current A/c	12,000	Debtors	20,000
Investment Fluctuation Reserve	24,000	Cash	22,000
Bills PayableCreditors	8,000	Bijli's Current A/c	2,000
	26,000		
	3,10,000		3,10,000

Raina was admitted on the above date as a new partner for 1/6TH share in the profits of the firm. The terms of agreement were as follows :

- (i) Raina will bring Rs. 40,000 as her capital and capitals of Badal andBijli will be adjusted on the basis of Raina's capital by opening current accounts.
- (ii) Raina will bring her share of goodwill premium for Rs.12,000 incash.
- (iii) The building was overvalued by Rs. 15,000 and stock by Rs. 3,000.
- (iv) A provision of 10% was to be created on debtors for bad debts.

Prepare the Revaluation Account and Current and Capital Accounts of Badal, Bijli and Raina.

Q30. Sanjana and Alok were partners in a firm sharing profits and losses in the ratio 3 : 2. On 31st March, 2018 their Balance Sheet was as follows :

Liabilities	Amount(`)	Assets	Amount(`)
Creditors	60,000	Cash	1,66,000
Workmen's Compensation Fund	60,000	Debtors 1,46,000	
Capitals :		Less : Provision	
Sanjana 5,00,000		for doubtful debts 2,000	1.44.000
Alok 4,00,000		Stock	1,50,000
	9,00,000	Investments	2,60,000
		Furniture	3,00,000
	10,20,000		**10,20,000**

On 1st April, 2018, they admitted Nidhi as a new partner for 1/4th share in the profits on the following terms :

(a) Goodwill of the firm was valued at ` 4,00,000 and Nidhi brought the necessary amount in cash for her share of goodwill premium, half of which was withdrawnby the old partners.

(b) Stock was to be increased by 20% and furniture was to be reduced to 90%.

(c) Investments were to be valued at `3,00,000. Alok took over investments at this value.

(d) Nidhi brought `3,00,000 as her capital and the capitals of Sanjana and Alokwere adjusted in the new profit sharing ratio.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of there-constituted firm on Nidhi's admission.

Q31. C and D are partners in a firm sharing profits in the ratio of 4 : 1. On31.3.2016, their Balance Sheet was as follows :

Liabilities	Amount	Assets	Amount
Sundry Creditors	40,000	Cash	24,000
Provision for Bad Debts	4,000	Debtors	36,000
Outstanding Salary	6,000	Stock	40,000
General Reserve	10,000	Furniture	80,000
Capitals :		Plant and Machinery	80,000
C 1,20,000			
D 80,000	2,00,000		
	2,60,000		**2,60,000**

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

E will bring Rs. 1,00,000 as his capital and Rs. 20,000 for his share of goodwill premium, half of which will be withdrawn by C and D.

(i) Debtors Rs. 2,000 will be written off as bad debts and a provision of 4% will be created on debtors for bad and doubtful debts.

(ii) Stock will be reduced by Rs. 2,000, furniture will be depreciated by Rs. 4,000 and 10% depreciation will be charged on plant and machinery.

(iii) Investments of Rs. 7,000 not shown in the Balance Sheet will be taken into account.

(iv) There was an outstanding repairs bill of Rs. 2,300 which will be recorded in the books.

Pass necessary journal entries for the above transactions in the books of the firm on E's admission.

Q32. Om, Ram and Shanti were partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 1st April, 2014 their Balance Sheet was as follows :

Liabilities		Amount	Assets	Amount
Capital Accounts :			Land and Building	3,64,000
Om	3,58,000		Plant and Machinery	2,95,000
Ram	3,00,000		Furniture	2,33,000
Shanti	2,62,000	9,20,000	Bills Receivables	38,000
General Reserve		48,000	Sundry Debtors	90,000
Creditors		1,60,000	Stock	1,11,000
Bills payable		90,000	Bank	87,000
		12,18,000		**12,18,000**

On the above date Hanuman was admitted on the following terms :

(i) He will bring Rs. 1,00,000 for his capital and will get 1/10th share in the profits.

(ii) He will bring necessary cash for his share of goodwill premium. The goodwill of the firm was valued at Rs. 3,00,000.

(iii) A liability of Rs. 18,000 will be created against bills receivables discounted.

(iv) The value of stock and furniture will be reduced by 20%.

(v) The value of land and building will be increased by 10%.

(vi) Capital accounts of the partners will be adjusted on the basis of Hanuman's capital in their profitsharing ratio by opening current accounts.

Prepare Revaluation Account and Partners' Capital Accounts.

****

ANSWERS - MCQ'S

Q1	**B**	**Q6**	**C**	**Q11**	**A**
Q2	**A**	**Q7**	**B**	**Q12**	**A**
Q3	**A**	**Q8**	**C**	**Q13**	**A**
Q4	**C**	**Q9**	**D**	**Q14**	**A**
Q5	**A**	**Q10**	**A**	**Q15**	**C**

ANSWERS- SHORT ANSWER TYPE

Q16	Rs. 85,000
Q17	31:14:15
Q18	Need of valuation of goodwill arises on the following occasions:- (i) Change in profit sharing ratio of existing partners. (ii) Admission of a partner. (iii) Retirement of a partner. (iv) Death of a partner.
Q19	It is necessary to revalue assets and reassess liabilities at the time of admission of new partners as if assets and liabilities are overstated or understated in the books then its benefits or loss should not affect the near partner.
Q20	(i) Super profit = Value of goodwill /Number of years purchase = 180000/2 = 90000 (ii) Normal Profit = Capital employed X Normal rate of return /100 = 1000000 X 15/ 100 = 150000 (iii) Average Profit = Normal Profit + Super profit = 150000 + 90000 = 240000

Q21	Old ratio = A: B = 3:2 A surrender = 3/5 X 1/6 = 3/30 =1/10 B surrender = 2/5 X 1/4 = 1/10 A's new share = 3/5 – 1/10 = 5/10 B's new share = 2/5 – 1/10 = 3/10 C's new share = 1/10 +1/10 = 2/10 **New ratio = 5/10, 3/10, 2/10 OR 5:3:2** Sacrificing Ration = Old ratio – New ratio A = 3/5 – 5/10 = 1/10 B = 2/5 – 3/10 = 1/10 **Sacrificing ratio = 1:1**
Q22	Old ratio = 5:3 Shital = 1/4th Share Let the profit be Rs. 1 Remaining profit = 1-1/4 =3/4 Arti : Babita = 2:1 Arti's share = 3/4 X 2/3 = 1/2 Babita's Share = 3/4 X 1/3 = 1/4 **New Ratio = 1/2, 1/4, 1/4 Or 2:1:1** Sacrificing ratio = Old ratio – New ratio Arti's sacrifies = 5/8 – 2/4 = 1/8 Babita's Sacrifies = 3/8 – 1/4 = 1/8 **Sacrificing Ratio = 1:1**
Q23	Cash A/C Dr. 1500 To premium A/C 1500 (cash brought in by Z for his share of goodwill)

<table>
<tr><td></td><td>Premium A/C Dr. 1500
To X's capital A/C 1000
To Y's Capital A/C 500
(Goodwill distributed among sacrificing partners in the ratio of 2:1.)</td></tr>
<tr><td>Q24</td><td>Cash A/C Dr. 1000
To premium A/C 1000
(Amount of goodwill brought in by C)

Premium A/C Dr. 1000
C's capital A/C Dr. 800
To A's capital A/C 900
To B's capital A/C 900
(Rs. 1800 distributed among sacrificing partners in sacrificing ratio)

A's capital A/C Dr. 3000
B's capital A/C Dr. 3000
To goodwill A/C 6000
(Old goodwill written off among old partners in old ratio)</td></tr>
<tr><td>Q25</td><td><table><tr><td>Z's Capital A/C Dr.</td><td>Rs. 9000</td><td></td></tr><tr><td>To X's Capital A/C</td><td></td><td>Rs. 9000</td></tr></table></td></tr>
</table>

Ans. 24

Cash A/C Dr. 1000

To premium A/C 1000

(Amount of goodwill brought in by C)

Premium A/C Dr. 1000

C's capital A/C Dr. 800

To A’s capital A/C		900
To B’s capital A/C		900

(Rs. 1800 distributed among sacrificing partners in sacrificing ratio)

A’s capital A/C	Dr. 3000	
B’s capital A/C	Dr. 3000	
To goodwill A/C		6000

(Old goodwill written off among old partners in old ratio)

Ans. 25

Z’s Capital A/C Dr.	Rs. 9000	
To X’s Capital A/C		Rs. 9000

ANSWERS LONG ANSWER TYPE QUESTIONS

Ans 26 Dr Revaluation a/c Cr

Particulars	**Amount**	**Particulars**	**Amount**
		By Loss on revaluation	
To Stock	20,000	Rajat 26,600	
To Furniture	18,000	Ravi 11,400	38,000
	38,000		**38,000**

Dr **Capital Account** **Cr**

Particular	**Rajat**	**Ravi**	**Rohan**	**Particular**	**Rajat**	**Ravi**	**Rohan**
To Revaluation	26,600	11,400	--	By Bal b/d	1,00,000	80,000	--
To Balancec/d	1,26,000	54,000	60,000	By Cash	--	--	60,000
To Bank	---	26,000	---	By Reserve	7,000	3,000	--
				By Goodwill	7,000	3,000	--
				By Bank	38,400	---	--
	1,52,600	**86,000**	**60,000**		**1,52,600**	**86,000**	**60,000**

Dr **Cash Account** **Cr**

ToBalance To Rohan To Goodwill To Rajat Cap	36,000 60,000 10,000 30,600	By Ravi Cap By Balance c/d	20,600 1,24,000
	1,44,600		**1,44,600**

Capital adjustment

60,000 x4/1=2,40,000, 2,40,000-60,000= 1,80,000 ,

Rajat 1,80,000 x7/10 =1,26,000 , Ravi 1,80,000 x3/10 = 54,000

Q 27. Revaluation loss to A---Rs.11424

to B---Rs.7616

Capital A/cs A ---Rs.120000

B----Rs.80000

C-----Rs.40000 Balance sheet total ---Rs.342960

Q28

Dr **REVALUATION ACCOUNT** Cr

Particulars	**Amount**	**Particulars**	**Amount**
To Machinery	8,000	By Building	20,000
To Prov.for Debtors	1,920		
To Capital A/C(Profit)			
Sun : 6720			
Moon : 3360	10,080		
	20,000		**20,000**

Dr **CAPITAL ACCOUNT** **Cr**

Particulars	Sun	Moon	Star	Particulars	Sun	Moon	Star
				By Balance B/D	2,00,000	1,28,000	-
				By Cash	-	-	1,20,000
				By Goodwill	32,000	16,000	-
By CurrentA/C	14,720	35.360		By Revaluation A/C	6720	3360	-
By Balance C/D	2,40,000	1,20,000	1,20,000	By General Reserve	16,000	8,000	-
	2,54,720	**1,55,360**	**1,20,000**		**2,54,720**	**1,55,360**	**1,20,000**

Balance sheet of Sun,Moon & Star as on 31st March 2009

Liabilities	Amount	Assets	Amount
Creditors	32,000	Cash in hand	1,76,000
Bills payable	16,000	Cash at bank	40,000
Current account : Sun - 14,720 Moon - 35,360	50080	Sundry Debtors 32,000 Less prov 1,920	30,080
Capital a/c		Furniture	20,000
Sun - 2,40,000		Stock	40,000
Moon - 1,20,000		Machinery	92,000
Star - 1,20,000	4,80,000	Building	1,80,000
	5,78,080		**5,78,080**

29 Dr **REVALUATION A/C** **Cr**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Building	15,000	By Loss on Realisation tfd to:	
To Stock	3,000	Badal's Current A/c 12,000	
To Provision for Bad Debts	2,000	Bijli's Current A/c 8,000	20,000
	20,000		**20,000**

Dr **CAPITAL A/C** Cr

Particulars	**Badal (₹)**	**Bijli (₹)**	**Raina (₹)**	**Particulars**	**Badal (₹)**	**Bijli (₹)**	**Raina (₹)**
To Badal's Current A/c	30,000	-	-	By balance b/d	1,50,000	90,000	-
				By Cash A/c	-	-	40,000
To Bijli's Current A/c	-	10,000	-				
To Balance c/d	1,20,000	80,000	40,000				
	1,50,000	**90,000**	**40,000**		**1,50,000**	**90,000**	**40,000**

Dr **CAPITAL A/C** Cr

Particulars	**Badal**	**Bijli**	**Particulars**	**Badal**	**Bijli**
To Balance b/d	-	2,000	By Balance b/d	12,000	-
To Revaluation A/c	12,000	8,000	By Premium for Goodwill A/c	7,200	4,800
To Balance c/d	51,600	14,400	By Investment Fluctuation Reserve	14,400	9,600
			By Badal's Capital A/c	30,000	
			By Bijli's Capital A/c	-	10,000
	63,600	**24,400**		**63,600**	**24,400**

Q30.Revaluation profit- Sanjana:24000 Alok:16000;Capital Balances -Sanjana:540000, Alok:360000,Nidhi:300000; Balance sheet Total-12,60,000

Sanjana will take Rs.50000 and Alok will bring Rs.200000

Q31.

Particulars	LF	Dr (`)	Cr (`)
General Reserve A/c To C's Capital A/c To D's Capital A/c (Being General Reserve distributed amongpartners)	Dr	10,000	 8,000 2,000
Cash A/c To E's Capital A/c To Premium for Goodwill A/c (Being cash received as E's capital andpremium for goodwill)	Dr	1,20,000	 1,00,000 20,000
Premium for Goodwill A/c To C's Capital A/c To D's Capital A/c (Being premium for Goodwill credited to old partner's capital account in sacrificing ratio)	Dr	20,000	 16,000 4,000
C's Capital A/c D's Capital A/c To Cash A/c (Being half of goodwill amount withdrawnby C and D)	Dr Dr	8,000 2,000	 10,000
Bad debts A/c To Debtors A/c (Being debtors ` 2,000 written off)	Dr	2,000	 2,000
Provision for bad and doubtful debts A/c To Bad debts A/c (Being provision utilised for writing off baddebts)	Dr	2,000	 2,000
Provision for bad and doubtful debts A/c To Revaluation A/c (Being provision for bad debts decreased)	Dr	640	 640

Revaluation A/c To Stock A/c To Furniture A/c To Plant & Machinery A/c (Being decrease in assets recorded)	D r	14,000	 2,000 4,000 8,000
Investments A/c To Revaluation A/c (Being increase in investments recorded)	Dr	7,000	 7,000
Revaluation A/c To Outstanding Repairs A/c (Being increase in liabilities recorded)	D r	2,300	 2,300
C's Capital A/c D's Capital A/c To Revaluation A/c (Being loss on revaluation transferred toPartner's CapitalA/c)	Dr Dr	6,928 1,732	 8,660

Q32 Dr **PARTNER'S CAPITAL ACCOUNT** Cr

Particulars	**Om**	**Ram**	**Shanti**	**Particulars**	**Om**	**Ram**	**Shanti**
To Revaluation a/c	25,200	16,800	8,400	By Balance B/D	3,58,000	3,00,000	2,62,000
To Current A/c		9,200	1,16,600	By General Reserve	24,000	16,000	8,000
				By PremiumA/c	15,000	10,000	5,000
				By Current A/C	78,200	-	-
	4,75,200	**3,26,000**	**2,75,000**		**4,75,200**	**3,26,000**	**2,75,000**

Dr **Hanuman's Capital A/C** **Cr**

Particulars	**Amount**	**Particulars**	**Amount**
To Balance C/D	1,00,000	By Bank A/C	1,00,000
	1,00 000		**1,00 000**

Working Notes:

Hanuman's capital = 1,00,000 Hanuman's share = 1/10

Capital of the firm = 1,00,000 X 10 = 10,00,000

Less: Hanuman's capital = 1,00,000 9,00,000

Om's capital = 9,00,000 X 3/6 = 4,50,000 Ram's capital = 9,00,000 X 2/6 = 3,00,000

Shanti's capital = 9,00,000 X 1/6 = 1,50,000 Hanuman's capital = 1,00,000

****

CHAPTER 4 –

RETIREMENT AND DEATH OF A PARTNER

INTRODUCTION

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

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

i. if there is agreement of this effect

ii. all partners give consent

iii. At will by giving written notice.

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

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

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

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

Accounting Treatment

Various matters that need accounting adjustment at the time of retirement are:

i. Determination of new profit-sharing ratio
ii. Determination of gaining ratio
iii. Treatment of goodwill
iv. Revaluation of assets and liabilities
v. Adjustment of accumulated profits and losses
vi. Determination of the amount payable to the retiring partner.

NEW PROFIT-SHARING RATIO & GAINING RATIO

New profit-Sharing Ratio: It is the ratio in which the remaining partners share future profits after retirement/death.

Gaining ratio: It is the ratio in which the continuing partners have acquired the share of profit from the outgoing partner.

Gaining Ratio = New Ratio -Old Ratio.

Difference between Sacrificing Ratio and Gaining Ratio

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

TREATMENT OF GOODWILL

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

Steps to be followed:

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

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

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

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

Hidden Goodwill

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

3. REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES

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

4. ADJUSTMENT OF RESERVES AND SURPLUS (PROFITS)

(Appearing in the Balance Sheet – Liability Side)

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

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

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

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

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

Settlement of Amount Due to Retiring Partner

1. Calculation of Amount Payable to Retiring/Deceased Partner

The amount due to a retiring partner is ascertained by preparing retiring partner's capital account.

2. Settlement of the Amount Due to the Retiring Partner

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

Journal Entries

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

(ii) If the Amount is not paid immediately
(a) For amount due, transferred to retiring partner's loan account

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

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

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

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

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

Adjustment of Partners' Capitals

At the time of retirement or death of a partner, the remaining partners may decide to adjust their capital contributions in their profit-sharing ratio. In such a situation, the sum of balances in the capitals of continuing partners may be treated as the total capital of the new firm, unless specified otherwise. Then, to ascertain the new capital of the continuing partners, the total capital of the firm is divided amongst the remaining partners as per the new profit-sharing ratio, and the excess or deficiency of capital in the individual capital account's may be worked out. Such excess or shortage shall be adjusted by withdrawal of contribution in cash, as the case may be, for which the following journal entries will be recorded.

(i) For excess capital withdrawn by the partner:

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

To Cash / Bank A/c

(ii) For amount of capital to be brought in by the partner:

Cash / Bank A/c Dr.

To Partners' Capital / Current A/c

The adjustment of the continuing partner's capitals may involve any one of the three ways as illustrated as follows:

1. When the capital of the new firm as decided by the partners is specified.
2. When the total capital of new firm is not specified.
3. When the amount payable to retiring partner will be contributed by continuing partners in such a way that their capitals are adjusted proportionate to their new profit-sharing ratio

DEATH OF A PARTNER

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

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

Calculation of profit/Loss for the intervening Period.

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

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

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

Profits for the current year up to the date of death =

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

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

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

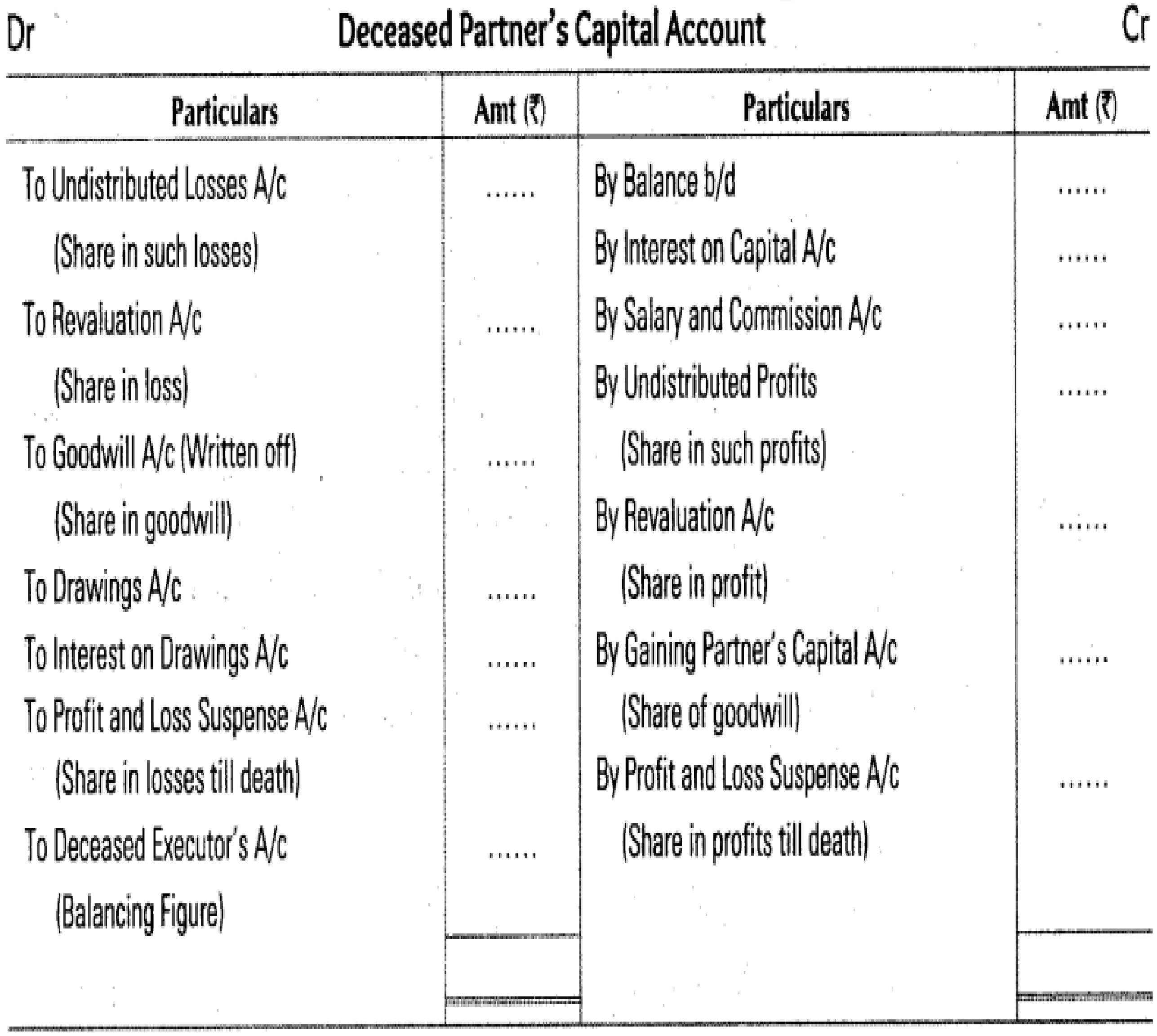
Settlement of Deceased Partners' Executor Account

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

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

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

Format of Deceased Partner's Capital Account



Dr **Deceased Partner's Capital Account** Cr

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

PRACTICE QUESTIONS

VERY SHORT ANSWER:

1.	P, Q and R sharing profit and losses in the ratio of 8:5:3. P retire from the firm, Q takes 3/16 from P and R takes 5/16 from P. New profit-sharing ratio between Q and R will be (A) 1:1 (B)10:6 (C)9:7 (D)5:3
2	On the death of a partner, the amount due to him will be credited to: A) All partner's capital accounts. B) Remaining partner's capital accounts. C) His executor's account. D) Government's revenue account.
3	Sam, Tom and Ram were partners in a firm sharing profits in the ratio 1:2:2. On 30th June 2020, Sam died, and the new profit-sharing ratio was 3:2. On Sam's death, goodwill of the firm was valued at Rs 300000. Calculate the gaining ratio and give journal entry on the treatment of goodwill.
Case:	Analyse the case given below and answer the questions that follow: A, K and S were partners in a firm sharing profits in the ratio of 5: 3: 2. Goodwill appeared in their books at the value of Rs 60,000. 'K' decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at Rs2,40,000. The new profit-sharing ratio decided among A and S was 2: 3.
4	How much of the existing goodwill will be transferred to K's Capital Account? (A) Rs 18,000 (B) Rs30,000 (C) Rs 12,000 (D) Rs 72,000
5	What is A's gaining or sacrificing ratio: A) 1/10 Gain B) 1/10 Sacrifice C) 4/10 Gain (D) 4/10 Sacrifice
6	What amount of goodwill will be transferred to K's capital account as compensated by A and S? (A)Rs96,000 (B) Rs 72,000 (C) Rs 24,000 (D) Rs18,000
7	At the time of retirement or death of a partner, the undistributed profits or losses and reserve are distributed among all partners in their old profit-sharing ratio. (True or False)
8	Provident Fund is credited to all partners in their old ratio at the time of Retirement of a Partner. (True /False)
9	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?
10	X Y and Z were partners in a firm sharing profit in the ratio ½, 1/3, and 1/6 respectively. Z decided to retire from the firm on the date workman compensation reserve of Rs 120000 was appearing in the balance sheet of the firm. The claim on account of workmen compensation was determined at Rs 67500 excess of amount over the claim will be a) Debited to revaluation account b) Credited to revaluation account c) Debited to partner capital account d) Credited to partner capital account

11 Give the journal entry to distribute workmen's compensation reserve of Rs 70000 at the time of retirement when there is a claim of Rs 25000 against it. The partners are R S and T.

12 A, B and C are partner sharing profit in the ratio 4/9:1/3:2/9. B retires and A and C decide to share profits in the ratio 1:2. It was decided to adjust B's share of goodwill in the accounts of continuing partners, fill in the missing figures in the following journal entry and also find out the total goodwill of the firm.

DATE	PARTICULARS	LF	DEBIT	CREDIT
	C’s capital A/c… Dr		----------	
	To A’s capital A/c			---------
	To B’s capital A/C			30000
	(Compensated A and B for the loss)			

13 Match the following cases of retirement of a partner

A	B
i) Sacrifice ratio	a) Old + Gaining
ii) Gaining ratio	b) Old - New
iii) New ratio	c)New - Old

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

14 A and B were partners sharing profits and losses in ratio 3:2. On April 2018 they decided to admit C for ⅕ th share in the future profits. They had a reserve of 25000, which they wanted to show in their new balance sheet. C agreed and the necessary adjustments were made in the book. On October 1st 2018, A met with an accident and died. B and C decided to admit A's Daughter F in their partnership, who agreed to bring Rs. 200000 as capital. Calculate A's share in the reserve on the date of her death.

15 The share of goodwill of the retiring partners debited to remaining partners in their ----
a) Capital ratio
b) New ratio
c) Gaining ratio
d) Sacrifice ratio

SHORT ANSWERS:TYPE QUESTIONS

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

	(b) *P, Q* and *R* were partners sharing profits in the ratio of 5: 4 : 1. *P* retires from the firm.
17	Laly, Malu and Neelu are partners sharing profits and losses in the ratio of 4: 3 2. Malu retires and the goodwill is valued at ₹ 72,000. Calculate Malu's share of goodwill and pass the Journal entry for Goodwill. Laly and Neelu decided to share the future profits and losses in the ratio of 5 : 3.
18	X, Y and Z are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹ 60,000. *Y* retires and at the time of Y's retirement, goodwill is valued at ₹ 84,000. X and Z decided to share future profits in the ratio of 2: 1. Pass the necessary Journal entries through Goodwill Account.
19	Kumar, Lakshya, Manoj and Naresh are partners sharing profits in the ratio of 3: 2: 1: 4. Kumar retires and his share is acquired by Lakshya and Manoj in the ratio of 3: 2. Calculate new profit-sharing ratio of the remaining partners. **(CBSE Previous year's question)**
20	*X*, *Y* and *Z* are partners in a firm sharing profits and losses in the ratio of 3:2:1 *Z* retires from the firm on 31st March, 2019. On the date of *Z*'s retirement, the following balances appeared in the books of the firm: General Reserve ₹ 1,80,000 Profit and Loss Account (Dr.) ₹ 30,000 Workmen Compensation Reserve ₹ 24,000 which was no more required Employees' Provident Fund ₹ 20,000. Pass necessary Journal entries for the adjustment of these items on *Z*'s retirement **(CBSE Previous year's question)**
21	Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3 : 2 : 1. Manisha retired and goodwill of the firm is valued at ₹ 1,80,000. Aparna and Sonia decided to share future profits in the ratio of 3 : 2. Pass necessary Journal entries.
22	A, B and C were partners sharing profit in the ratio of 3/8 1/ 2 and 1/8. A retires and surrender's 2/3 of the share in favour of B and remaining in favour of C .Calculate new ratio and gaining ratio. (CBSE 2017)
23	A,B,C and D are partners in a firm sharing profit in the ratio 3:3:2:2 respectively. D retires and A,B and C decided to share future profit in the ratio 3:2:1. Goodwill of the firm is valued at Rs 600000 goodwill already appears in the book at Rs 450,000 the profit for the first year after D's retirement amount to Rs 1200000 Give necessary journal entries to record and to distribute the profits show your calculation clearly.
24	A, B and C are partners in a firm sharing profit in the ratio of 2:3 as on 31st March 2022 A retires and B and C decided to share future profits in the ratio 2:1 ,following balances appeared in the book on this date Profit and loss(Dr) 72000 Emp. Provident fund 1,50,000 Workmen compensation reserve 45000 General reserve 120000 It was agreed that WCR is no more required 25 % of general reserve is to be transferred to provision for doubtful debts .Pass journal entries for the adjustment of these terms on A's retirement

25 A,B and C are partners in a firm whose books are closed on 31st March each year. A died on 30th June 2022 and according to the agreement the share of profits of a deceased partner up to the date of death is to be calculated on the basis of the average profit for the last 5 year. The net profits for the last 5 year have been

2018-Rs 14000

2019-Rs 18000

2020-Rs 16000

2021-10000 (loss)

2022-Rs 16000

Calculate A's share of the profit up to the date of death and past necessary journal entry

a) assuming there is no change in profit share ratio of remaining partner

b) there is change in profit sharing ratio of remaining partners new ratio being 3:2.

LONG ANSWERS QUESTIONS :

26 X, Y and Z were partners in a firm sharing profits in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2019 was:

Liabilities		**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors		49,000	Cash	8,000
Reserve		18,500	Debtors	19,000
Capital A/cs: *X*	82,000		Stock	42,000
Y	60,000		Building	2,07,000
Z	75,500	2,17,500	Patents	9,000
		2,85,000		**2,85,000**

Y retired on 1st April, 2019 on the following terms:
(a) Goodwill of the firm was valued at ₹ 70,000 and was not to appear in the books.
(b) Bad Debts amounted to ₹ 2,000 were to be written off.
(c) Patents were considered as valueless.
Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of *X* and *Z* after *Y*'s retirement.

27 The Balance Sheet of *X, Y* and *Z* as at 31st March, 2018 was:

Liabilities		Amount (₹)	Assets	Amount (₹)
Bills Payable		2,000	Cash at Bank	5,800
Employees' Provident Fund		5,000	Bills Receivable	800
Workmen Compensation Reserve		6,000	Stock	9,000
General Reserve		6,000	Sundry Debtors	16,000
Loans		7,100	Furniture	2,000
Capital A/cs:			Plant and Machinery	6,500
X	22,750		Building	30,000
Y	15,250		Advertising Suspense	6,000
Z	12,000	50,000		
		76,100		**76,100**

The profit-sharing ratio was 3 : 2 : 1. *Z* died on 31st July, 2018. The Partnership Deed provides that:

(a) Goodwill is to be calculated on the basis of three years' purchase of the five years' average profit. The profits were: 2017-18: ₹ 24,000; 2016-17: ₹ 16,000; 2015-16: ₹ 20,000 and 2014-15: ₹ 10,000 and 2013-14: ₹ 5,000.

(b) The deceased partner to be given share of profits till the date of death on the basis of profits for the previous year.

(c) The Assets have been revalued as: Stock ₹ 10,000; Debtors ₹ 15,000; Furniture ₹ 1,500; Plant and Machinery ₹ 5,000; Building ₹ 35,000. A Bill Receivable for ₹ 600 was found worthless.

(d) A Sum of ₹ 12,233 was paid immediately to *Z*'s Executors and the balance to be paid in two equal annual instalments together with interest @ 10% p.a. on the amount outstanding.

Give Journal entries.

(CBSE Previous year's question)

28 X, Y and Z were partners in a firm sharing profits and losses in the 5: 4 : 3. Their

Balance Sheet on 31st March, 2018 was as follows:

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors		2,00,000	Building	2,00,000
Employees' Provident Fund		1,50,000	Machinery	3,00,000
General Reserve		36,000	Furniture	1,10,000
Investment Fluctuation Reserve		14,000	Investment (Market value ₹ 86,000)	1,00,000
Capital A/cs:			Debtors	80,000
X	3,00,000		Cash at Bank	1,90,000
Y	2,50,000		Advertisement Suspense	1,20,000
Z	1,50,000	7,00,000		
		11,00,000		**11,00,000**

X died on 1st October, 2018 and *Y* and *Z* decide to share future profits in the ratio of 7 : 5. It was agreed between his executors and the remaining partners that:

(i) Goodwill of the firm be valued at 2 ½ years' purchase of average of four completed years' profit which were:

Year	2014-15	2015-16	2016-17	2017-18
Profits (₹)	1,70,000	1,80,000	1,90,000	1,80,000

(ii) *X*'s share of profit from the closure of last accounting year till date of death be calculated on the basis of last years' profit.
(iii) Building undervalued by ₹ 2,00,000; Machinery overvalued by ₹ 1,50,000 and Furniture overvalued by ₹ 46,000.
(iv) A provision of 5% be created on Debtors for Doubtful Debts.
(v) Interest on Capital to be provided at 10% p.a.
(vi) Half of the net amount payable to *X*'s executor was paid immediately and the balance was transferred to his loan account which was to be paid later.
Prepare Revaluation Account, *X*'s Capital Account and *X*'s Executor's Account as on 1st October, 2018.

29 *X*, *Y* and *Z* were partners in a firm sharing profits in the ratio of 2 : 2 : 1. On 31st March, 2018, their Balance Sheet was as follows:

Liabilities		**Amount (₹)**	**Assets**	**Amount (₹)**
Trade Creditors		1,20,000	Cash at Bank	1,80,000
Bills Payable		80,000	Stock	1,40,000
General Reserve		60,000	Sundry Debtors	80,000
Capital A/cs:			Building	3,00,000
X	7,00,000		Advance to *Y*	7,00,000
Y	7,00,000		Profit and Loss A/c	3,20,000
Z	60,000	14,60,000		
		17,20,000		**17,20,000**

Y died on 30th June, 2018. The Partnership Deed provided for the following on the death of a partner:
(i) Goodwill of the business was to be calculated on the basis of 2 times the average profit of the past 5 years. Profits for the years ended 31st March, 2018, 31st March, 2017, 31st March, 2016, 31st March, 2015 and 31st March, 2014 were ₹ 3,20,000 (Loss); ₹ 1,00,000; ₹ 1,60,000; ₹ 2,20,000 and ₹ 4,40,000 respectively.
(ii) *Y*'s share of profit or loss from 1st April, 2018 till his death was to be calculated on the basis of the profit or loss for the year ended 31st March, 2018.
You are required to calculate the following:
(a) Goodwill of the firm and *Y*'s share of goodwill at the time of his death.
(b) *Y*'s share in the profit or loss of the firm till the date of his death.
(c) Prepare *Y*'s Capital Account at the time of his death to be presented to his executors.

30 Kanika, Disha and Kabir were partners sharing profits in the ratio of 2 : 1 : 1. On 31st March, 2016, their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Trade creditors	53,000	Bank	60,000
Employees' Provident Fund	47,000	Debtors	60,000
Kanika's Capital	2,00,000	Stock	1,00,000
Disha's Capital	1,00,000	Fixed assets	2,40,000
Kabir's Capital	80,000	Profit and Loss A/c	20,000
	4,80,000		**4,80,000**

Kanika retired on 1st April, 2016. For this purpose, the following adjustments were agreed upon:

(a) Goodwill of the firm was valued at 2 years' purchase of average profits of three completed years preceding the date of retirement. The profits for the year:

2013-14 were ₹ 1,00,000 and for 2014-15 were ₹ 1,30,000.

(b) Fixed Assets were to be increased to ₹ 3,00,000.

(c) Stock was to be valued at 120%.

(d) The amount payable to Kanika was transferred to her Loan Account.

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

31 *N*, *S* and *G* were partners in a firm sharing profits and losses in the ratio of 2 : 3: 5. On 31st March, 2016 their Balance Sheet was as under:

G retired on the above date and it was agreed that:

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		1,65,000	Cash		1,20,000
General Reserve		90,000	Debtors	135000	
Capitals:			*Less*: Provision	15,000	1,20,000
N	2,25,000		Stock		1,50,000
S	3,75,000		Machinery		4,50,000
G	4,50,000	10,50,000	Patents		90,000
			Building		3,00,000
			Profit and Loss Account		75,000
		13,05,000			**13,05,000**

(a) Debtors of ₹ 6,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(b) Patents will be completely written off and stock, machinery and building will be depreciated by 5%.

(c) An unrecorded creditor of ₹ 30,000 will be taken into account.

(d) *N* and *S* will share the future profits in 2 : 3 ratio.

(e) Goodwill of the firm on *G*'s retirement was valued at ₹ 90,000.

Pass necessary Journal entries for the above transactions in the books of the firm on *G*'s retirement.

32 Khushboo, Leela and Meena were partners in a firm sharing profits in the ratio of 5:3:2. Their Balance Sheet on March 31,2015 was as follows:

Balance Sheet of Khushboo, Leela and Meena
As at March 31, 2015

Liabilities	₹	Assets	₹
Creditors	70,000	Bank	44,000
Capitals:		Debtors	24,000
Khushboo 90,000		Stock	60,000
Leela 56,000		Buildings	1,40,000
Meena 60,000	2,06,000	Profit & Loss A/c	8,000
	2,76,000		2,76,000

On April 1,2015 Leela retired on the following terms:

i. Building was to be depreciated by ₹10,000.
ii. A Provision of 5% was to be made on Debtors for doubtful debts.
iii. Salary outstanding was ₹4,800
iv. Goodwill of the firm was valued at₹1,40,000.
v. Leela was to be paid ₹20,800 through cheque and the balance was to be paid in two equal quarterly instalments (starting from June 30,2015) along with interest @ 10% p.a.

Prepare Revaluation Account, Leela’s Capital Account and her Loan Account till it is finally paid.

(CBSE Sample Paper 2017)

33 B G and M are partners in a firm sharing profit and losses in the ratio of 4:5:6 on 31st March 2014 G retired. On that date the capital of B G and M before the necessary adjustments stood at Rs 200000, Rs 100000 and Rs 50000 respectively. On G's retirement goodwill of the firm was valued at Rs 114000. Revaluation of assets and reassessment of liabilities resulted in a profit of Rs 6000 general reserve which stood in the book of the firm at Rs 30000.

The amount payable to G was transferred to his loan account. B and M agreed to pay G , 2 yearly instalments of Rs 75000 each including interest at the rate 10% p.a on the outstanding balance during the first two years and the balance including interest in the third year the firm closes its book on 31st March every year.

Prepare G's loan account till it is finally paid showing the working notes clearly.

(CBSE 2018)

34 S Y and Z were partners in a firm sharing profits and losses in the ratio of 4:3:3. On 31st March 2016, their balance sheet was as follows:

Liabilities	Amount	Assets	Amount
Creditors	110000	Cash	80000
General Reserve	60000	Debtors 90000	
Capitals		Less Provision10000	80000
S 300000	700000	Stock	100000
Y 250000		Machinery	300000
Z 150000		Building	200000
		Patents	60000
		Profit & loss A/c	50000
	870000		**870000**

On the above date, S retired and it was agreed that

a) Debtors of Rs 4000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained
b) An unrecorded creditor of Rs 20000 will be recorded
c) Patents will be completely written off and 5% depreciation will be charged on stock, machinery and building
d) Y and Z will share future profits in the ratio 3:2
e) Goodwill of the firm on S's retirement was valued at Rs 540000

Pass necessary journal entries for the above transaction in the book of firm on S 's retirement.

35 The Balance Sheet of Rohit, Nisha and Sunil who are partners in a firm sharing profits according to their capitals as on 31st March 2014 was as under:

Liabilities	Amount	Assets	Amount
Creditors	25000	Cash	18000
General Reserve	22000	Debtors 30000	29000
Bills payable	13000	Less provision 1000	
Capitals		Stock	23000
Rohit 60000	140000	building	90000
Nisha 40000		Bank	
Shiba 40000		Machinery	40000
	200000		**200000**

On the date of Balance Sheet, Nisha retired from the firm, and following adjustments were made:
(i) Building is appreciated by 20%.
(ii) Provision for bad debts is increased to 5% on Debtors.
(iii) Machinery is depreciated by 10%.
(iv) Goodwill of the firm is valued at Rs 56,000 and the retiring partner's share is adjusted.
(v) The capital of the new firm is fixed at Rs 1,20,000.
Prepare Revaluation Account, Capital Accounts of the partner and Balance Sheet of the new firm after Nisha's retirement

ANSWERS

VERY SHORT ANSWERS.

<table>
<tr><th>Q NO</th><th>ANSWERS</th></tr>
<tr><td>1</td><td>1:1</td></tr>
<tr><td>2</td><td>His Executors A/c</td></tr>
<tr><td>3</td><td>. Gaining ratio :
Tom = New share – Old share = 3/5-2/5 =1/5
Ram = 2/5 -2/5 = nil
Share of goodwill = 300000 x 1/5 = 60000
<table>
<tr><th>DATE</th><th>PARTICULARS</th><th>LF</th><th>DEBIT</th><th>CREDIT</th></tr>
<tr><td></td><td>Toms capital A/c… Dr
To Sam’s capital A/C
(Goodwill adjusted)</td><td></td><td>60000</td><td>60000</td></tr>
</table></td></tr>
<tr><td>4</td><td>A) Rs 18000</td></tr>
<tr><td>5</td><td>(B) 1/10 sacrifice</td></tr>
<tr><td>6</td><td>B) Rs 72000</td></tr>
<tr><td>7</td><td>True</td></tr>
<tr><td>8</td><td>False</td></tr>
<tr><td>9</td><td>Profit and loss suspense A/c</td></tr>
<tr><td>10</td><td>D) Credited to partners capital A/C</td></tr>
<tr><td>11</td><td>
<table>
<tr><th>DATE</th><th>PARTICULARS</th><th>LF</th><th>DEBIT</th><th>CREDIT</th></tr>
<tr><td></td><td>WCR A/c… Dr
To,
Liability to WC Claim A/c
R’s capital A/c
S’s capital A/c
T’s capital A/c
(Transfer of WCR)</td><td></td><td>70000</td><td>25000
15000
15000
15000</td></tr>
</table></td></tr>
<tr><td>12</td><td>
<table>
<tr><th>DATE</th><th>PARTICULARS</th><th>LF</th><th>DEBIT</th><th>CREDIT</th></tr>
<tr><td></td><td>C’s capital A/c… Dr
To A’s capital A/c
To B’s capital A/C
(Compensated A and B for the loss)</td><td></td><td>**40000**</td><td>**10000**
30000</td></tr>
</table>
Calculation of Sacrificing and gaining ratio
A = 1/3- 4/9 = (3-4)= -1/9
B= 2/3-2/9 = (6-2)/9= 4/9
Total Goodwill =
30000x3/1 = 90000</td></tr>
</table>

	C's share = 90000 x 4/9 = 40000 A's share = 90000 x 1/9 =10000
13	A) i-b, ii-c, iii-a
14	A's share of reserve = Rs 12000 NPSR = 12:8:5 A's share = 25000 x 12/25 = Rs 12000
15	c) Gaining ratio

SHORT ANSWERS

16 a) Old Ratio (Shiv, Mohan and Hari) = 5 : 5 : 4

Mohan's Profit Share = 5/14

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

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

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

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

Shivs new share = 5/14 + 5/28 = 15/28

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

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

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

P's Profit Share = 5/10

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

∴New Profit Ratio (Q and R) = 4 : 1

17

Journal

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

Working Note:

WN 1 Calculation of Gaining Ratio

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

Malu retires and New Ratio = 5 : 3

Gaining RatioNew Ratio − Old Ratio

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

∴ Gaining Ratio = 13 : 11

WN 2 Adjustment of Goodwill

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

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

Lali's share = 24000 x13/24 = 13000

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

18

Journal

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

Working Notes:

WN1: Calculation of Gaining Ratio

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

X's Gain=2/3−3/6=1/6

Z's Gain = 1/3 -1/6 = 1/6
X:Z=1:1.

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

20

Journal

Date	**Particulars**		**L.F.**	**Debit Amount (₹)**	**Credit Amount (₹)**
2019 Mar.31	General Reserve A/c	Dr.		1,80,000	
	Workmen Compensation reserve	Dr		24000	
	To X's Capital A/c				1,02,000
	To Y's Capital A/c				68,000
	To Z's Capital A/c				34,000
	(Accumulated profits distributed among partners in old ratio)				
	X's Capital A/c	Dr.		15,000	
	Y's Capital A/c	Dr.		10,000	
	Z's Capital A/c	Dr.		5,000	
	To Profit and Loss A/c				30,000
	(Debit balance in Profit and Loss A/c distributed among partners in old ratio)				

***WN*1**: Calculation of Share in Credit Balance of Reserves

Total Credit Balance of Reserves = General Reserve + WCF

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

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

*N*2: Calculation of Share in Debit Balance of Profit and Loss A/c

5. X’s share = 30,000 x 3/6 = 15000

Y’s share = 30000 x 2/6 = 10000

Z’ s share = 204000 x 1/6 = 5000

21

Journal

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

Working Notes:

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

Manisha's share=Firm's Goodwill ×Manisha's share of profit

Manisha's share=1,80,000×1/3=60,000

***WN*2**: *Calculation of Gaining Ratio*

Gaining Ratio = New Ratio − Old Ratio

Aparna's gain=3/5−3/6=3/30

Sonia's gain=2/5−1/6=7/30

Gaining Ratio=3:7

Aparna's share=60,000×3/10=18,000

Sonia's share=60,000×7/10=42,000

22

B’s Gain = 2/3 X 3/8 = 6/24 =2/8

C’s Gain = 1/3 X 3/8 = 3/24 = 1/8

NPSR of B = ½ + 2/8 = (4+2)/8 = 6/8

NPSR of C= 1/8+1/8 = 2/8

Gaining ratio = 2/8:1/8 = 2:1

NPSR of B and C = 6/8 :2/8 = 6:2 = 3:1

23

Date	Particulars	L F	Debit	credit
	A’s Capital A/c…Dr		135000	
	B’s Capital A /c..Dr		135000	
	C’s Capital A/c…Dr		90000	
	D’s Capital A/c…Dr		90000	
	To, Goodwill A/c			450000
	(Existing Goodwill Written off)			
	A’s Capital A/c…Dr		120000	
	B’s Capital A /c..Dr		20000	

	To,			
	C’s Capital A/c			20000
	D’s Capital A/c			120000
	(Adjustment of goodwill on D’s retirement)			
	P/L Appropriation A/c…dr		1200000	
	To, A’s Capital A/c			600000
	B’s Capital A /c.			400000
	C’s Capital A/c			200000
	(profit distributed among partners in new ratio)			

24

Date	Particulars	LF	Debit	credit
	A’s Capital A/c…Dr		16000	
	B’s Capital A /c..Dr		24000	
	C’s Capital A/c…Dr		32000	
	To, profit and loss A/c			72000
	(accumulated profits written off)			
	WCR A/c… Dr		45000	
	To,			
	A’s Capital A/c…Dr			10000
	B’s Capital A /c..Dr			15000
	C’s Capital A/c			20000
	(WCR transferred to partners capital A/c on D’s retirement)			
	General Reserves A/c…dr		120000	
	To.			
	Provision for doubtful debs A/c.			30000
	To, A’s Capital A/c			20000
	B’s Capital A /c.			30000
	C’s Capital A/c			40000
	(25 % general reserve transferred to partners capital partners in new ratio)			

25. Total profit =(14000+18000+16000+16000)/5
Average profit = 54000/5= 10800
A’s share of profit = 10800 x1/3 x 3/13 = 900

Date	Particulars	LF	Debit	credit
Case 1	P/L Suspense A/c.. Dr		900	
	To, A’s capital A/c			900
	(A’s share of profit till the date of death)			

	Case 2	B’s capital A/c..Dr C’s capital A/c..Dr To, A’s capital A/c (B’ share of profit debited to remaining partners in Gaining ratio)		720 180	900	

Working notes:

B’s G/R = 3/5 – 1/3 = (9-5)/15= 4/15

C’s G/R = 2/5-1/3 = (6-5)/15 = 1/15.

B’s Share = (900 x 4/5) = 720

C’s Share = (900 x 1/5) =180

LONG ANSWERS

26

Revaluation Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
Bad Debts	2,000	Loss transferred to:		
Patents	9,000	X’s Capital A/c	4,400	
		Y’s Capital A/c	4,400	
		Z’s Capital A/c	2,200	11,000
	11,000			**11,000**

Partners’ Capital Accounts

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
Revaluation A/c (Loss)	4,400	4,400	2,200	Balance b/d	82,000	60,000	75,500
Y’s Capital A/c (Goodwill)	18,667	–	9,333	Reserve (Old Ratio)	7,400	7,400	3,700
Y’s Loan A/c	–	91,000	–	X’s Capital A/c (Goodwill)	–	18,667	–
Balance c/d	66,333	–	67,667	Z’s Capital A/c (Goodwill)	–	9,333	–
	89,400	**95,400**	**79,200**		**89,400**	**95,400**	**79,200**

Balance Sheet

as on March 31, 2019 (after Y's Retirement)

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors		49,000	Cash	8,000
Y's Loan		91,000	Debtors	17,000
Capital A/cs: *X*	66,333		Stock	42,000
			Building	2,07,000
Z	67,667	1,34,000		
		2,74,000		**2,74,000**

27

Journal

Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
Workmen's Compensation Reserve	Dr.		6,000	
To X's Capital A/c				3,000
To Y's Capital A/c				2,000
To Z's Capital A/c				1,000
(Workmen's Compensation Reserve distributed among partners in their old ratio)				
General Reserve A/c	Dr.		6,000	
To X's Capital A/c				3,000
To Y's Capital A/c				2,000
To Z's Capital A/c				1,000
(General Reserve distributed among partners in their old ratio)				
X's Capital A/c	Dr.		3,000	
Y's Capital A/c	Dr.		2,000	
Z's Capital A/c	Dr.		1,000	
To Advertisement Suspense A/c				6,000
(Advertisement suspense written off among partners in their old ratio)				
X's Capital A/c	Dr.		4,500	
Y's Capital A/c	Dr.		3,000	
To Z's Capital A/c				7,500
(Z's share of goodwill adjusted)				
Revaluation A/c	Dr.		3,600	
To Sundry debtors A/c	Dr.			1,000
To Furniture A/c				500
To Plant and Machinery A/c				1,500
To Bills Receivable A/c				600

	(Decrease in value of Assets transferred to Revaluation Account)			
	Stock A/c Dr.		1,000	
	Building A/c Dr.		5,000	
	To Revaluation A/c			6,000
	(Increase in value of Assets transferred to Revaluation Account)			
	Revaluation A/c Dr.		2,400	
	To X' Capital A/c			1,200
	To Y's Capital A/c			800
	To Z's Capital A/c			400
	(Revaluation profit distributed among partners in their old ratio)			
	Profit and Loss Suspense A/c Dr.		1,333	
	To Z's Capital A/c			1,333
	(Z's share of profit transferred his capital account)			
	Z's Capital A/c Dr.		22,233	
	To Z's Executor's A/c			22,233
	(Amount due to Z transferred to his Executor's Account)			
	Z's Executor's A/c Dr.		12,333	
	To Bank A/c			12,333
	(Amount paid to Z's Executor)			

<u>WN1</u> *<u>Calculation of Goodwill</u>*

Goodwill = Average Profit × Number of Year's Purchase

∴ Goodwill = Average Profit × Number of Years' Purchase
= 15,000 × 3 = Rs 45,000

<u>WN2</u> *<u>Adjustment of Goodwill</u>*
Old Ratio = 3 : 2 : 1
Z died.
∴ New Ratio (X and Y) = 3 : 1 and

Gaining Ratio = 3 : 2
Z's Share in Goodwill = 45000 x 1/6 = 7500

This share of goodwill is to be distributed between X and Y in their *gaining ratio (i.e. 3 : 1).*
X s share = 7500 x3/5 = 4500

Ys share = 7500 x 2/5 = 3000

<u>WN3</u> *<u>Calculation Z's Share of Profit</u>*

Profit for 2017-18 (Immediate Previous Year) = Rs 24,000
∴ Z's Profit Share = 24000 x 4/12 x 1/6 = 1333

WN4

Revaluation Account

Dr. **Cr.**

Particulars		**Amount Rs**	**Particulars**	**Amount Rs**
Sundry Debtors		1,000	Stock	1,000
Furniture		500	Building	5,000
Plant and Machinery		1,500		
Bills Receivable		600		
Profit transferred to:				
X's Capital A/c	1,200			
Y's Capital A/c	800			
Z's Capital A/c	400	2,400		
		6,000		**6,000**

28

Revaluation Account

Dr. Cr

Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Machinery	1,50,000	Building	2,00,000
Furniture	46,000		
Provision for Doubtful Debts	4,000		
	2,00,000		2,00,000

X's Capital Account

Dr. Cr

Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Advertisement Suspense A/c	50,000	Balance b/d	3,00,000
X's Executors A/c	5,05,000	General Reserve	15,000
		Y's Capital A/c	1,12,500
		Z's Capital A/c	75,000
		Profit & Loss Suspense	37,500
		Interest on Capital	15,000
	5,55,000		5,55,000

X's Executors Account

Dr. Cr.

Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Bank A/c	2,52,500	X's Capital A/c	5,05,000
X's Executors Loan Account	2,52,500		
	57,000		57,000

Working Notes:

WN1: *Calculation of Share in General Reserve*

Reserve=36,000×5/12=Rs 15,000

Reserve=36,000×5/12=Rs 15,000

WN2: *Calculation of Interest on Capital*

Interest on capital=3,00,000×10/100×6/12=Rs 15,000

Interest on capital=3,00,000×10/100×6/12=Rs 15,000

WN3: *Calculation of Profit & Loss Suspense*

Profit & Loss Suspense=1,80,000×5/12×6/12=Rs 37,500

Profit & Loss Suspense=1,80,000×5/12×6/12=Rs 37,500

WN4: *Calculation of Share in Goodwill*

Gaining Ratio = New Ratio - Old RatioY's Gain = 7/12−4/12=7/12−4/12=3/12

Z's Gain = 5/12−3/12=5/12−3/12=2/12

Goodwill=Average Profit ×No. of years' Purchase

=1,80,000×2.5=Rs 4,50,000

X's share in Goodwill = 4,50,000×5/12=Rs 1,87,500, should be contributed by Y & Z in gaining ratio i.e. 3:2.

Y s share of Goodwill = 187500 x 3/5 = 112500

Z s share of goodwill = 187500 x 2/5 = 75000.

29

Y's Capital Account

Dr . Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit & Loss A/c	1,28,000	Balance b/d	7,00,000
Profit & Loss Suspense (Share of Loss)	32,000	General Reserve	24,000
Advance to Y	7,00,000	X's Capital A/c	64,000
		Z 's Capital A/c	32,000
		Y's Executors A/c	40,000
	8,20,000		8,20,000

<u>Working Notes:</u>

WN1: *<u>Calculation of Share in General Reserve</u>*

Reserve=60,000×2/5=Rs 24,000

WN2: *<u>Calculation of Share in Goodwill</u>*

Goodwill=Average Profit×No. of years' Purchase =1,20,000×2=Rs 2,40,000

Y's share in Goodwill=2,40,000×25=Rs 96,000, should be contributed by X & Z in 2:1

Average Profit=Total Profits of past years givenNumber of years

=1,00,000+1,60,000+2,20,000+4,40,000−3,20,000 / 5 = Rs 1,20,000

Goodwill=Average Profit ×No. of years' Purchase

=1,20,000×2=Rs 2,40,000

Y's share in Goodwill=2,40,000×2/5=Rs 96,000, should be contributed by X & Z in 2:1

Average Profit=Total Profits of past years givenNumber of years

=1,00,000+1,60,000+2,20,000+4,40,000−3,20,000/5 =Rs 1,20,000

WN3: *<u>Calculation of Profit & Loss Suspense</u>*

Profit & loss Suspense (Loss)=3,20,000×2/5×3/ 12=Rs 32,000

30

Revaluation Account

Dr. **Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Revaluation Profit		Fixed Assets	60,000
Kanika's Capital 40,000		Stock	20,000
Disha's Capital 20,000			
Kabir's Capital 20,000	80,000		
	80,000		**80,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Kanika	Disha	Kabir	Particulars	Kanika	Disha	Kabir
Profit & Loss A/c	10,000	5,000	5,000	Balance b/d	2,00,000	100,000	80,000
Kanika's Capital A/c		35,000	35,000	Disha's Capital A/c	35,000		
Kanika's Loan A/c	3,00,000			Kabir's Capital A/c	35,000		
Balance c/d		80,000	60,000	Revaluation	40,000	20,000	20,000
	310000	**12000**	**100000**		**310000**	**120000**	**100000**

Balance Sheet
as on March 31, 2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Employees' Provident Fund		47,000	Bank	60,000
Trade Creditors		53,000	Sundry Debtors	60,000
Kanika's Loan A/c		3,00,000	Stock	1,20,000
Capitals			Fixed Assets	3,00,000
Disha	80,000			
Kabir	60,000	1,40,000		
		5,40,000		**5,40,000**

Working Notes:

***WN*1**: *Calculation of Goodwill*

Goodwill=Average Profits×Number of Years' Purchase

Average Profits = Total Profits /Number of Years

=1,00,000+1,30,000−20,000/3

=2,10,000/3 =Rs 70,000

Goodwill=70,000×2=Rs 1,40,000

Kanika's share=1,40,000×2/4=70,000 (will be shared by old partners in their gaining ratio)

Since no information is given about the share of gain, it is assumed that the old partners are gaining in their old profit sharing ratio.

Hence

Disha – 70000 x ½ = 35000

Kabir – 70000 x ½ = 35000

31

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	General Reserve A/c Dr.		90,000	
	To N's Capital A/c			18,000
	To S's Capital A/c			27,000
	To G's Capital A/c			45,000
	(Balance in reserve distributed among all partners in old ratio)			

	N's Capital A/c Dr.		15,000	
	S's Capital A/c Dr.		22,500	
	G's Capital A/c Dr.		37,500	
	To Profit & Loss A/c			75,000
	(Debit balance P&L A/c written off among all partners in old ratio)			
	N's Capital A/c Dr.		18,000	
	S's Capital A/c Dr.		27,000	
	To G's Capital A/c			45,000
	(Goodwill adjusted in gaining ratio)			
	Revaluation A/c Dr.		1,65,000	
	To Patent A/c			90,000
	To Stock A/c			7,500
	To Machinery A/c			22,500
	To Building A/c			15,000
	To Creditors A/c			30,000
	(Decrease in assets and increase in liabilities debited to Revaluation A/c)			
	Provision for Doubtful Debts A/c Dr.		2,550	
	To Revaluation A/c			2,550
	(Excess provision written back)			
	N's Capital A/c Dr.		32,490	
	S's Capital A/c Dr.		48,735	
	G's Capital A/c Dr.		81,225	
	To Revaluation A/c			1,62,450
	(Loss on revaluation debited to partners' capital accounts in old ratio)			
	G's Capital A/c Dr.		4,21,275	
	To G's Loan A/c			4,21,275
	(Amount due to G transferred to his loan A/c)			

Working Notes:

***WN*1**: *Calculation of G's Share of Goodwill*

G's share=Firm's Goodwill×G's Profit Share
G's share=90,000×5/10=45,000 (to be borne by gaining partners in gaining ratio)
G's share=Firm's Goodwill×G's Profit Share
G's share=90,000×5/10=45,000 (to be borne by gaining partners in gaining ratio)

***WN*2**: *Calculation of Gaining Ratio*
Gaining Ratio = New Ratio − Old Ratio
N's gain=2/5−2/10=2/10
S's gain=3/5−3/10=3/10
Gaining Ratio=2:3

N's share=45,000×2/5=18,000
S's share=45,000×3/5=27,000

***WN*2**: *Calculation of Excess/Deficit Provision for Doubtful Debts*

Required Provision (@5%)=(1,35,000−6,000)×5/100=6,450
Existing Provision (after writing bad−debts)= 9,000
Excess Provision (to be written back)=2,550 (9,000−6,450)

***WN*3**: *Calculation of G's Loan Balance*
Amount due to G = Opening Capital + Credits – Debits
= 4,50,000 + (45,000 + 45,000) – (37,500 + 81,225)
= Rs 4,21,275

32

Dr. **Revaluation Account** *Cr.*

Particulars	LF	Amount	Particulars	LF	Amount
To Buildings To Prov. for Doubtful Debts To Salary Outstanding		10,000 1,200 4,800	By Loss Distributed: Khushboo 8,000 Leela 4,800 Meena 3,200		16,000
		16,000			16,000

Dr. **Leela's Capital Account** *Cr.*

Particulars	LF	Amount	Particulars	LF	Amount
To Profit & Loss A/c To Revaluation A/c To Bank A/c To Leela's Loan A/c		2,400 4,800 20,800 70,000	By Balance b/d By Khushboo's Capital By Meena's Capital		56,000 30,000 12,000
		98,000			98,000

Dr **Leela's Loan Account** *Cr.*

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
2015				2015			
June30	To Bank A/c (35000+1750)		36,750	April 1	By Leela's Capital		70,000
	Bal c/d		35,000	June 30	By Interest (70000 X $^{10}/_{100}$ X $^{3}/_{12}$)		1,750
			71,750				71,750
Sep 30	To Bank A/c (35000+875)		35875		Bal B/d		35,000
				Sep 30	By Interest (35000 X $^{10}/_{100}$ X $^{3}/_{12}$)		875
			35,878				35,878

33

G's Loan A/c

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
2015 march 31	To, Bank A/c	75000	2014 April 1	By , G's capital A/c	150000
	To Balance c/d	90000		By Interest A/c	15000
		165000			**165000**
31 march 2016	To, Bank	75000		By Balance B/d	90000
	Balance c/d	24000		By Interest	9000
		99000			99000
31 march 2017	To, Bank	26400	2015 April 1	By Balance B/d	24000
				By Interest	2400
		26400			**26400**

G s Capital A/c

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
		By Balance b/d	100000
G's loan A/c	150000	Provision on revaluation	2,000
		B's capitalA/c	15200
		M's capital A/c	22800
		General reserve	10000
	1,50,000		**1,50,000**

Total goodwill = 114000
G's share = 11400 x 5/15
B's share =38000 x 4/10 = 15200
M's share= 38000 x 6/10 = 22800

34

JOURNAL

DATE	PARTICULARS	LF	DEBIT	CREDIT
	G Reserve A/C…	Dr	60000	
	To S's capital A/c			24000
	To Y's capital A/c			18000
	To Z's capital a/c			18000
	(General reserve transferred among partners)			
	S's capital A/c.. Dr		20000	
	Y's capital A/c… Dr		15000	
	Z's capital a/c… Dr		15000	
	To, Profit and Loss A/c			50000
	(Accumulated losses distributed)			
	Provision for bad and doubtful debts A/c.. Dr		1700	
	To, Revaluation A/c			1700
	(Excess provision transferred to revaluation A/c)			
	Revaluation A/c.. Dr		20000	
	To, Creditors A/c			20000

			(increase in creditors recorded) Revaluation A/c.. Dr To Patents A/c To Stock A/c To Machinery A/c To Building A/c (decrease in assets recorded)		90000	60000 5000 15000 10000
			S's capital A/c.. Dr Y's capital A/c…Dr Z's capital a/c…Dr To, Revaluation A/c (revaluation losses distributed)		43320 32490 32490	108300
			Y 's capital A/c.. Dr Z 's capital A/c…Dr To, S s capital a/c… (goodwill adjusted)		162000 54000	216000
			S's capital A/c.. Dr To,S's loan A/c (Balance transferred to his loan A/C)		476680	476680

35

Dr. REVALUATION A/C Cr

Particulars		Amount Rs	Particulars	Amount Rs
Provision for doubtful debts machinery Revaluation Profit		500 4000	Building	18000
Rohits 's Capital	5786			
Nisha's Capital	3857			
Sunils's Capital	3857	13500		
		18,000		**18,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	**Rohit**	**Nisha**	**Sunil**	**Particulars**	**Rohit**	**Nisha**	**Sunil**
				Balance b/d	60,000	40,000	40,000
				G. reserve A/c	9428	6286	6286
Sunil's Capital A/c	9600		6400	Rohit's Capital A/c		9600	
Bank A/c		66143		Sunils's Capital A/c		6400	
Balance c/d	72000		48,000	Revaluation	5786	3857	3857
				Bank A/c	6386		4257
	81600	**66143**	**54400**		**81600**	**66143**	**54400**

Balance Sheet
as on March 31, 2014

Liabilities		Amount (₹)	Assets		Amount (₹)
Bills payable		13000	Building		108,000
Trade Creditors		25000	Sundry Debtors	30000	28,500
			Less prov.	1500	
Bank overdraft A/c		37500	Stock		23,000
Capitals			Machinery		36,000
Rohit	72,000				
Sunil	48,000	1,20,000			
		1,95,500			**1,95,500**

Working notes: gaining ratio:

Rohit- 3/5-3/7 = 6/35

Sunil – 2/5- 2/7 = 4/35

Gaining Ratio = 6:4 = 3: 2

a) Nisha's share of Goodwill – 56000 x 2/7 = 16000
   Rohit's share – 16000 x3/5 = 9600
   Sunil's share – 16000 x 2/5 = 6400

b) New capital of the firm Rs 120000

Particulars	Rohit	Sunil
New capital as per 3: 2	72000	48000
Less :Adjusted capital	65614	43743
Cash to be brought in	**6386**	**4257**

c) Bank overdraft = 66143 – (18000+6386+4257) = 37500

****

Chapter 5 -

DISSOLUTION OF A PARTNERSHIP FIRM

MEANING OF DISSOLUTION OF PARTNERSHIP FIRM

When the business of the firm is closed down and the firm comes to an end, it is termed as dissolution of partnership firm. On the dissolution of the firm the assets of the firm are sold and liabilities are paid off and balance, if any, is paid to the partners in settlement of their accounts.

According to Section 39 of the Indian Partnership Act, 1932, "Dissolution of the firm means dissolution of partnership among all the partners in the firm"

Difference between Dissolution of Partnership and Dissolution of Firm.

Dissolution of Partnership: Dissolution of Partnership refers to termination of old partnershipagreement and reconstitution of the firm due to change in profit sharing ratio among the existing partners, admission of a partner, retirement or death of a partner. It may or may not result into closing down of the business as the remainingpartnersmayagree tocarryonthe business underanew agreement.

Dissolution of partnership firm: Dissolution of partnership firm means that the firm closes down its business and comes to an end. In such a case, the assets of the firm are sold and liabilities are paid off and out of the remaining amount, the accounts of the partners are settled.

Basis	Dissolution of Firm	Dissolution of Partnership
Meaning	Closure of the firm and end of business relationship among all the partners	Change in business relationship among the partners. The firm continues its business.
Effect on business	Business of the firm comes to an end.	Business is continued by the remaining partners
Effect on accounts	Books of accounts have to be closed	Books of accounts need not be closed
Dissolution by court intervention	It may be either voluntarily by the partners or compulsorily by the court's order	It is always voluntary
Settlement of accounts	Assets are realized and liabilities are paid by preparing realization account and profits/losses are distributed among the partners	Assets are revaluated and liabilities are reassessed by preparing Revaluation account. Profit or loss on revaluation is distributed among the partners In their old profit sharing ratio.
Economic relationship	Economic relationship between partners ends	Economic relationship between partners changes

Modes of Dissolution of a firm

1. **Dissolution by mutual agreement :**A firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners.
2. **Compulsory dissolution:** A firm may be compulsorily dissolved
   - **a)** When all the partners or all the partners except one become insolvent
   - **b)** When business of the firm becomes unlawful
3. **On happening of an event**: A firm may be dissolved in any of the following events, if the partnership deed so provides
   - a) On expiry of the term for which the firm was constituted
   - b) On completion of the venture
   - c) On death of a partner
   - d) On adjudication of a partner as insolvent
4. **By Notice**: In case of Partnership at Will, the firm may be dissolved by any partner by giving notice in writing to all the other partners of his intention to dissolve the firm.
5. **Dissolution by court**: Court may dissolve a firm on any of the following grounds, namely
   - a) When apartnerhas becomeofunsoundmind
   - b) When apartnerhasbecomepermanentlyincapableofperforminghisdutiesaspartner.
   - c) When a partneris foundguiltyofmisconduct
   - d) When there is a BreachofAgreementbypartner
   - e) Thatthebusinessofthefirmcannotbecarriedonexceptataloss.
   - f) Court finds dissolution of the firm justified

On any other ground which renders it just and equitable that the firm should be dissolved

ACCOUNTINGON DISSOLUTION OF PARTNERSHIP FIRM

Dissolution process starts by preparing the following accounts in Firm's books:

1 RealisationA/C–For realizing assets and payment of outside liabilities
2. Partner'sLoan A/C-For payment of partner's loan if any
3. Partner'scapitalA/C-calculation of amount due to/due by partners.
4. Cash A/C-to check the receipts and payments of cash(should be tallied)

1. Realisation Account

- Realisation Account is a nominal account.
- The main purpose of this account is to calculate the profit or loss after realising the assets and paying the liabilities.
- Transfer All the assets (except Cash/Bank and fictitious assets)on the debit side of Realisation account from the Balance sheet and show the realized value on the credit side of realization account.
- Transfer all the liabilities (outsider) to the credit side of realization account and liabilities paid on the debit side of realization account.
- Do not transfer capitals of the partners, Partner's loan A/C and accumulated reserve and profit.

ACCOUNTING ENTRIES

1. When assets are transferred to the Realisation Account
Realisation A/cDr.
To Sundry Assets A/c

2. When Provisions of related assets are transferred to realization A/c
Provisionfor doubtfuldebtsA/c Dr.

ProvisionforDepreciationA/c Dr.

ToRealisationA/c

3. WhenAssetsarerealized:
Cash/bankA/c Dr.
ToRealisationA/c

4. When liabilities are transferred to the Realisation Account: Sundries Liabilities A/c Dr.
To Realisation A/c

5. WhenLiabilitiesarepaid:
RealisationA/c Dr.
ToCash/BankA/c

6. When Asset is taken over by the partner:
Partners' Capital A/c Dr.

To Realisation A/c

7. When Liability taken over by the partner
Realisation A/c Dr.

To Partners capital A/c

8. When unrecorded Assets are realized
Cash/bank A/c Dr.

To Realisation A/c

9. When unrecorded liabilities are realized
Realisation A/c Dr.

To Cash /Bank A/c

10. When Realisation expense are paid
Realisation A/c Dr.

To Cash/bank A/c

11. When Realisation expenses are paid by the partner
Realisation A/c Dr.

To Partners capital A/c

12. When bank overdraft is paid:
Bank overdraft A/c Dr.

To Cash/Bank A/c

13. When realization profit is transferred to the partners:

Realisation A/c Dr.

To partner's capital A/c

- If there is loss on realization Account following entry should be recorded:

Partner'sCapitalA/c Dr.

To Realisation A/c

Proforma of Realisation Account

Particulars	Amount	Particulars	Amount
ToSundryAssets:	-	BySundriesLiabilities	--
Land and Building	-	(Only outsider'sliabilities)ByProvisiononAssets	--
PlantandMachineryFurniture		ByCash/Bank(assets realized)	--
Debtors		By Cash/Bank(unrecoredasset)	--
Bills Receivable etc.			
ToCash/Bank(Liabilitypaid)	-	By Partners Capital A/c(Assettakenbypartner)	--
To Partners Capital A/c(liabilitytakenbypartner)	-	ByPartnersCapitalA/c	
ToCash/Bank(RealisationExp.)	-	(Losstransfertopartnersifany)	--
	-		
To Partners Capital A/c's(profit-Transfertopartners)			
	-		

2. Partners Loan Account: -

- ➢ Partners Loan Account(shown in B/S) is not transferred to the Realization account or Partners' capital account
- ➢ A separate account (Loan A/c) is prepared for this purpose.

3. Partner's Capital Account

- ➢ Balances of Partner's capital accounts and Current accoun's balance are shown in this account
- ➢ All Reserve and undistributed profitsetc. should be recorded in the Partner's capital account.
- ➢ Profit/loss calculated in realization account will be transferred to the partner's capital account.
- ➢ If any asset is taken over by the partner, it will take place on the debit side of partner's capital accounts. If any liability is taken over by the partner, it will be shown on the credit side of partner's capital accounts.
- ➢ Final settlement with partners or closing the account by bringing or paying cash

FORMAT OF PARTNER’S CAPITAL ACCOUNT

Particulars	A	B	Particulars	A	B
To Realisation A/c(LossonRealisation)	xxxx	xxxx	By Balance b/d	xxxx	xxxx
To Realisation A/c(Asset takenover)	xxxx	xxxx	By General Reserve	xxxx	xxxx
ToBankA/c(finalPayment)	xxxx	xxxx	By Realisation A/c(Profit on realization)	xxxx	xxxx
			By Realisation A/c(Liability taken over)	xxxx	xxxx

4. **Preparation of Bank A/c :** Since the business is being closed, no need to prepare a balance sheet ,we prepare Cash/Bank Account. All cash realized are shown on the debit side of cash/Bank account and all cash payments are shown on the credit side of Cash/BankA/c.

DIFFERENCE BETWEEN REVALUATION ACCOUNT AND REALISATION ACCOUNT

Basis	RevaluationAccount	RealisationAccount
Meaning	Revaluation accounts is related with therevaluation of assets and re-assessment of liabilities	Realisation account is prepared to realize the assets and to pay the liabilities.
Objective	Main purpose is to record the fluctuatingvalues of assets and liabilities and to calculate the profit or loss on revaluation	Mainpurposeistocalculatetheprofit/losafter realizing the assets and payment ofliabilities.
Need	Revaluation account is needed at the time of admission and retirement or death of apartner.	Realisation Account is needed when dissolution takes place.
Result	Profit or loss calculated in Revaluation account is distributed among the old partners only.	Profit or loss calculated in Realisation Account is distributed among the all the partners

TREATMENT OF REALISATION EXPENSES

CASE NO1: -RealisationExpensesare borne andpaidbythefirm

Realisation A/c---------- Dr
To Cash/Bank A/c
(Being Realisation expenses paid by the firm)

CASE NO 2: When Realisation expenses are borneby firm but paid by the partner

Realisation A/c ------------Dr.
To Partner's Capital A/c
(Being Realisation expenses paid by a partner)

Note : Students must remember that these expenses are paid by the partner on behalf of the firm Because this is not the duty of partner to pay the realization expense

CASE NO 3:When Realisation expenses are borne by a Partner and paid by the Firm.

Partner'scapital A/c---------Dr.
ToCash/BankA/c
(Being expense by paid by firm and borne by partner)

CASE NO4: When Expenses for realization are borne and paid by the same partner

NO ENTRY

Reason: According to Business Entity concept Business and Businessman are separate entity and we record only business transactions.

****

VERY SHORT ANSWER QUESTIONS

1 Which o the following will be Transferred to Realisation Account?

- A. Goodwill appearing in the books at the time of Dissolution of Firm
- B. Investment Fluctuation Reserve
- C. Provision for Doubtful Debts
- D. General Reserve

Choose the Correct Option:
1.D Only
2. A, B, C Only
3.Band C Only
4.Aand C Only

2 In the event of dissolution of a partnership firm, the provision for doubtful debts is transferred to:

a) Realization account b) Partner's Capital Accounts c) Cash account d) Partner's loan account

3 On dissolution of a partnership firm, profit or loss on realization is distributed among the partners:

a) In capital ratio b) In profit sharing ratio c) Equally d) None of the above

4 Unrecorded liability, when paid on dissolution of a firm is debited to:

a) Profit & Loss account b) Realizationaccount c) Liabilities account d) No need to record

5 On dissolution of a firm, a partner paid Rs 700 for firm's realization expenses. Which account will be debited?

a) Cash account b) Realisation account c) Capital account of the partner d) Profit & Loss account.

6 On dissolution of a firm, It's Balance Sheet revealed total creditors Rs 50,000, total capital Rs 48,000, Cash balance Rs 3000, It's assets were realized at 12% less. Loss on realization will be:

a) Rs 6000 b) Rs 11760 c) Rs 11400 d) Rs 3600

7 An unrecorded asset was valued ar Rs 100000.On Firm's dissolution, it was sold for 52%.Realisation Account will be credited with

a)Rs 48000 b) Rs 100000 c) Rs 52000

8 A Partner took over the Investments of Rs 15000 at Rs 19000 on dissolution of a Firm. What amount will be credited in Realisation Account?

a) Rs 15000 b) Rs 19000 c)Rs 4000 d) Rs 23000

9. Identify the sequence of application of assets at the time of Dissolution of a Firm:

- A. Partner's Loans and Advances
- B. Partner's Capital
- C. Profit among the Partners at their profit sharing Ratio
- D. Third Parties such as Creditors and Bank Loan

Choose the correct option:

1. D, C, B and A
2. A, B, C and D
3. D, B, C and A
4. D, A, B and C

10 What journal entry will you pass when an asset is given away to any of the Firms creditors towards full payment of dues?

11 On Firm's Dissolution, what entry will be Passed on realization of Goodwill which was shown in Balance sheet?

a) Goodwill A/C----Dr
To Realisation

b) Cash A/C-----Dr
To Realisation

c) Goodwill A/C---Dr
To Cash

12 Name the Asset that is not transferred to the Realisation account, but bring certain amount of cash against its disposal at the time of dissolution of the Firm?

SHORT ANSWER QUESTIONS

13 ZENIT and JANET are two partners sharing profits in the ratio 2:1. Give the journal at the time of dissolution in the following cases:

i) Deferred revenue advertising expenditure appeared at Rs 30,000
ii) Profit & Loss A/c was appearing on the asset side of the Balance Sheet at Rs 60,000
iii) An unrecorded investment realized Rs 6,000
iv) Partner ZENIT paid to a creditor Rs 20,000

14 Rohit and Suresh are in partnership sharing profit in the ratio 2:3. On March 31.2005, they agree to dissolve the business. Pass necessary journal entries at the time of dissolution to record the following:

a) Realisation expenses amounted to Rs 2000
b) Deferred revenue advertising expenditure appeared in the books at Rs 60,000
c) P & L A/c on the asset side of the balance sheet was Rs 30,000
d) An unrecorded asset of Rs 3,000 was taken over by Suresh
e) Liabilities amounting to Rs 24,000 already transferred to Realisation account, was settled at Rs 22,000.
f) Loan to Rohit was adjusted through his Capital A/c Rs 15,000

15 Pass necessary journal entries for the following transactions on the dissolution of the firm of Sudha and Shiva after the various assets (other than cash) and liabilities were transferred to Realisation A/c:

i) Sudha agreed to pay off her husband's loan Rs 19,000
ii) A debtor whose debt of Rs 9,000 was written off in the books paid Rs 7,500 in full settlement
iii) Shiva took over all investments at Rs 13,300
iv) Sundry creditors Rs 10,000 was paid at 9% discount
v) Realisation expenses Rs 3.400 were paid by Sudha for which she was allowed Rs 3,000
vi) Loss on realization Rs 9,400 was divided between Sudha and Shiva in 3:2 ratio

16	A & B share profits and losses in the ratio 3:2. They have decided to dissolve the firm. Assets and external liabilities have been transferred to Realisation A/c. Pass the journal entries to effect the following: a) Bank Loan of Rs 12,000 is paid off b) A was to bear all expenses of realization for which he is given a commission ofRs 400. c) Deferred Advertisement Expenditure A/c appeared in the books at Rs 28,000. d) Stock worth Rs 1,600 was taken over by B at Rs 1,200. e) An unrecorded computer realized Rs 7,000. f) There was an outstanding bill of repairs for Rs 2,000 which was paid off.
17	What journal entries would be passed for the following transactions on the dissolution of a firm, after various assets (other than cash) and third party liabilities have been transferred to Realisation A/c: i) Stock worth Rs 15,000 is taken over by partner A ii) Compensation to employees paid by the firm amounting to Rs 20,000 iii) Sundry creditors amounted to Rs 8,000. They were paid at a discount of 5% iv) There was an unrecorded asset of Rs 2,000 which was taken over by B at Rs 1,500 v) Profit on Realisation Rs 21,000 was to be distributed between A and B in the ratio 4:3
18	Pass the necessary Journal entries for the following transactions on the dissolution of the firm T and p after the various assets (other than cash) and outside liabilities have been transferred to Realisation Account: i) Bank Loan Rs 34,000 was paid ii) Furniture work Rs 70,000 was taken over by partner T at Rs 43,000 iii) Partner P agreed to pay creditor Rs 7,500 iv) A computer previously written off fully realized Rs 3,900 v) Expenses on realization s 3,200 was paid by partner T vi) Profit on realization Rs 4,800 was distributed between T and P in 5:3 ratio
19	Manu and Nandu were partners sharing profits in the ratio of 3:2. Pass journal entries under the following situations at the time of dissolution of Firm: (a) Workmen Compensation Reserve stood at Rs. 1,00,000 and there was no liability towards Workmen Compensation. (b) Workmen Compensation Reserve stood at Rs.1,00,000 and liability in respect of it was ascertain at Rs.75,000. (c) Workmen Compensation Reserve stood at Rs.1,00,000 and liability in respect of it was ascertained at Rs. 1,20,000. (d) Workmen Compensation Reserve stood at Rs. 1,00,000 and liability in respect of it was ascertained at Rs. 1,00,000.

20 Disha, Mohit and Nandan are partners. They decided to dissolve the firm. Pass necessary journal entries for the following after the various assets (other than cash and bank) and outside liabilities have been transferred to Realisation Account:

a) Ann old typewriter which was not recorded in the books was sold for Rs 2,000 whereas the expected value was Rs 5,000
b) Stock of Rs 70,000 was taken by Disha at a discount of 30%
c) Total creditors of the firm were Rs 20,000. A creditor for Rs 2,000 was untraceable and other creditors accepted payment allowing 10% discount.
d) Mohit paid realization expenses of Rs 18,000 out of his private funds, who was to be paid remuneration of Rs 13,000 for completing the dissolution process and was responsible to bear all the realization expenses.
e) Nandan had taken a loan of Rs 50,000 from the firm, which was paid fully by him to the firm
f) Rs 12,000 were recovered from a debtor which was written off as Bad Debts last year.

21 Record necessary journal entries in the following cases:

a) Creditors worth Rs 85,000 accepted Rs 40,000 as cash and investment worth Rs 43,000 in full settlement of their claim
b) Creditors were Rs 16,000. They accepted machinery valued at Rs 18,000 in settlement of their claim
c) Creditors were Rs 90,000. They accepted buildings valued at Rs 1,20,000 and paid cash to the firm Rs 30,000

22 Record necessary journal entries to record the following unrecorded assets and liabilities in the books of Paras and Priya:

i) There was an old furniture in the firm which had been written off completely in the books. This was sold for Rs 3,000
ii) Ashish, an old customer whose account for Rs 1,000 was written off as bad in the previous year, paid 60% of the amount.
iii) Paras agree to take over the firm's goodwill (not recorded in the books of the firm) for a valuation of Rs 30,000
iv) There was an old typewriter which had been written off completely from the books. It was estimated to realize Rs 400. It was taken away by Priya at an estimated price less 25%
v) There were 1000 shares of Rs 10 each in Star Limited acquired at a cost of Rs 2000 which had been written off completely from the books. These shares are valued at Rs 6 each and divided among the partners in their profit sharing ratio

23 The book value of assets other than cash and bank transferred to realization account is Rs 1,00,000. 50% of the assets are taken over by a partner Atul, at a discount or 20%. 40% of the remaining assets are sold at a profit of 30% on cost; 5% of the balance being obsolete, realized nothing and remaining assets are handed over to a creditor, in full settlement of his claim. You are required to record the journal entries for realization of assets

24 Pass necessary journal entries to record the following at the time of dissolution of the partnership firm assuming that the Assets and third party liabilities have already been transferred to Realisation A/c:

- a) An unrecorded asset of Rs 300 was taken over by A, one of the partners
- b) Creditors were paid Rs 14,000 in full settlement of their claims for Rs 15,000
- c) Sundry assets realized Rs 1,95,000
- d) B (another partner) was to bear the expenses on dissolution, which amounted Rs 1,500
- e) Value of Sundry liabilities including creditors at the time of dissolution was Rs 1,90,000
- f) A take over the loan payable to MrsA Rs 15,000

LONG ANSWER QUESTIONS

25 Parul, Payal and Priyanka are partners. They decided to dissolve the firm. Pass necessary journal entries for the following after the various assets (other than cash and Bank) and outside liabilities have been transferred to Realisation Account:

- a) There were total debtors of Rs 76,000. A provision of Bad and Doubtful Debts also stood in the books at Rs 6,000. Rs 12,000 debtors proved bad and rest paid the amount due
- b) Parul agreed to pay off her husband’s loan of Rs 7,000 at a discount of 5%
- c) Total creditors of the firm were Rs 40,000. Creditors worth Rs 10,000 were given a piece of furniture costing Rs 8,000 in full and final settlement. Remaining creditors allowed a discount of 10%
- d) Payal had given a loan of Rs 70,000 to the firm which was duly paid
- e) A contingent liability (not provided for) of Rs 4,000 was also discharged
- f) The firm had a debit balance of Rs 27,000 in the Profit & Loss A/C on the date of dissolution

26 A, B and C were partners sharing profits and losses in the ratio 2:1:1. The partners decided to dissolve the firm. Their Balance Sheet as at 31.3.2020 was as under:

Liabilities		Amount(Rs)	Assets	Amount(Rs)
Creditors		50000	Goodwill	30000
Capital A/c			Land and building	80000
A	80000		Plant and machinery	56000
B	80000		Motor car	54000
C	60000	220000	Debtors	48000
			Cash	2000
		270000		270000

Following transactions took place

a) The assets realised Goodwill Rs 20,000, Land and Building Rs 1,00,000, Plant and machinery Rs 50,000, Motor car Rs 25,000 and Debtors Rs 24,000

b) Realisation expenses were Rs 2,000

Prepare the Realisation A/C,Partner's Capital Accounts and Cash A/C to close the books of the firm.

27 Arun and Tarun were partners sharing profit and losses in the ratio 3:2. They decided to dissolve the firm on 31.3.2019, when their balance sheet was as under:

Particulars		Amt	Particulars		Amt
Creditors		40000	Cash		14000
Mrs Arun's loan		10000	Stock		8000
Tarun's loan		15000	Debtors	18000	
General Reserve		5000	Less: provision for		
Capital A/cs			Doubtful debts	1000	17000
Arun	10000		Furniture		4000
Tarun	8000	18000	Plant		30000
			Investment		10000
			Profit and Loss A/c		5000
		88000			88000

The firm was dissolved on 1.4.2019 on the following terms:

a) Arun took over the investment at Rs 8,000 and agreed to pay off the loan of his wife

b) The assets realized as follows: Stock Rs 2,000, Debtors Rs 20,500, Furniture Rs 1,000 more than its book value, Plant Rs 20,000 less than its book value.

c) Expenses of realization were Rs 1,200

d) Creditors were paid off at a discount of 3%

e) Firm had an unrecorded asset which was valued at Rs 5,000 which was accepted by unrecorded liability of Rs7,000, in full settlement of their claims

Prepare the Realisation A/C, Partner’s Capital Accounts and Bank A/C to close the books of the firm.

28 A, B and C were partners sharing profit in the ratio 3:1:1. Their Balance Sheet 31.3.2019, the date on which they dissolve their firm, was as follow:

BALANCE SHEET AS ON 31.3.2019

Particulars	Amt	Particulars	Amt
Creditors	6000	Sundry Assets	17000
Loan	1500	Stock	7800
		Debtors24200	
		Less: provision1200	
Capital A/cs		Bills Receivable	23000
A 27500		Cash	1000
B 10000			3200
C 7000	44500		
	52000		52000

It was agreed that:

a) A to take over Bills receivable at Rs 800, debtors amounting to Rs 20,000 at Rs 17,200 and the Creditors of Rs 6,000 were to be paid by him at this figure.

b) B to take over all Stock for Rs 7,000 and some Sundry assets at Rs 7,200 (being 10% less than the book value)

c) C to take over remaining sundry assets at 90% of the book value and assume the responsibility of discharge of loan together with accrued interest of Rs 300. The remaining debtors were sold to a debt collecting agency at 50% of the book value.

d) The expenses of realization were Rs 270.
Prepare Realisation A/c, Partner’s Capital A/c and Cash A/C

29 X and Y were partners sharing profit and losses in the ratio 3:2. The partners decided to dissolve the firm. Their Balance sheet as on 31.3.2021 was as under:

Particulars	Amt	Particulars	Amt
Creditors	97500	Land and Building	30000
Capital A/cs		Motor Vehicles	18300
X 85000		Stock	65000
Y 63000	148000	Furniture	7800
		Debtors 113200	
		Less: provision for	
		Doubtful debts 2450	110750
		Bank	13650
	245500		245500

Following transactions took place:

a) Motor Vehicles and Stock were sold for cash at Rs 16,950 and Rs 77,600 respectively. Debtors were realized in full.
b) X took over the Land and Building at an agreed valuation of Rs 43,500
c) Creditors were paid off subject to discount of Rs 1,700
d) Expenses for realization were Rs 1,250

Prepare the Realisation Account, partner's Capital Accounts and Bank Account to close the books of the firm.

30 Following is the Balance Sheet of Ramesh and Suresh as at 30.3.2021:

Particulars	Amt(Rs)	Particulars	Amt (Rs)
Creditors	20000	Land and Building	40000
Bills payable	40000	Furniture and fitting	28000
Capital A/cs		Truck	20000
Ramesh 30000		Stock	10000
Suresh 30000	60000	Debtors	12000
		Cash	10000
	120000		120000

On the above date Suresh and Ramesh decided to dissolve the firm. Ramesh took over the creditors and Suresh took over the Bills payable. Assets realized as follows:

a) Debtors Rs 9,000, Furniture Rs 21,000, Stock Rs 6,000, Truck Rs 32,000 and Land and Building Rs 60,000.
b) Expenses on Realisation paid by Ramesh were Rs 1,200.

Prepare Realisation Account, Cash Account and Capital Accounts of the Partners to close the books of the firm.

31 Amit and Sumit were partners sharing profit and losses in the ratio 3:2. They decided to dissolve the firm on 31.12.2014, when their Balance Sheet was as under:

BALANCE SHEET

Particulars		Amt(Rs)	Particulars	Amt (Rs)
Creditors		2000	Machinery	16000
Profit and Loss A/c		1500	Investments	4000
Capital A/cs			Debtors	2000
Amit	17500		Stock	3000
Sumit	10000	27500	Bank	6000
		31000		31000

The firm was dissolved on the following terms:

a) Assets were realized as follows: Debtors Rs 1,800 and Stock Rs 2,800
b) Machinery was sold for Rs 20,000 at commission of 10%
c) Amit took over the investments at an agreed value of Rs 3,800
d) Creditors of the firm agreed to accept 5% less
e) Expenses of Realisation amounted Rs 400
f) An unrecorded furniture is sold for Rs 10,000

Prepare Realisation A/C, Partner's Capital Accounts and Bank A/C to close the books of the firm.

32 A, B and C who share profits in the ratio 3:3:1 agreed upon the dissolution of their partnership firm on 31.3.2014, at which date their Balance Sheet was as under:

Particulars		Amt	Particulars		Amt
Creditors		20500	Goodwill		10000
Investment fluctuation fund		20000	Machinery		44000
Mrs. A's loan		8000	Stock		8050
Capital A/c			Investments		20830
A	50000		Debtors	9400	
B	10000	60000	Less: provision for		
			Bad debts	700	8700
			Cash at Bank		5420
			C's Capital A/c		11500
		108500			108500

	Following transactions took place: a) The investments were taken over by A for Rs 17,500. A also agreed to discharge his wife's loan. B took over stock at Rs 7,500. b) Machinery realized Rs 65,000 and debtors realized 50% of their book value c) The expenses of realization amounted to Rs 500. Prepare the Realisation Account, Partner's Capital Accounts and Bank Account to close the books of the firm.

****

MCQ – ANSWERS

1.	A, B, C only	7	Rs 52000
2.	Realisation Account	8	Rs 19000
3	In profit sharing ratio	9	D, A, B and C
4	Realisation Account	10	No Entry
5	Realisation Account	11	Cash A/C----Dr To Realisation
6	Rs 11400	12	Unrecorded Asset

ANSWER SHORT ANSWER QUESTIONS

3

	Particulars	Dr	Cr
(i)	ZENIT's Capital A/c Dr JANET's Capital A/c Dr To Deferred Revenue Advertising Expenditure A/C (Being transfer of fictitious asset to Partner's Capital A/C)	20000 10000	 30000
(ii)	ZENIT's Capital A/c Dr JANET's Capital A/c Dr To Profit & Loss A/c (Transfer of accumulated loss to partner's capital accounts)	40000 20000	 60000
(iii)	Bank A/c Dr To Realisation A/c (amount realized from unrecorded investment)	6000	 6000
(iv)	Realisation A/c Dr To ZENIT's Capital A/c (creditor paid by ZENIT)	20000	 20000

14

JOURNAL Dr Cr

	Particulars		Rs	Rs
a)	Realisation A/c To Cash A/c (For realization expenses paid)	Dr	2000	 2000
b)	Realisation A/c To Deferred Revenue Advertisement Exp A/c (For Deferred revenue advertisement expenditure transferred to realization A/c)	Dr	60000	 60000
c)	Rohit's Capital A/c Suresh's Capital A/c To P & L A/c (For P &L A/c (loss) distributed among partners in their ratio 2:3)	Dr Dr	12000 18000	 30000
d)	Suresh's Capital A/c To Realisation A/c (For unrecorded asset taken over by partner)	Dr	3000	 3000
e)	Realisation A/c To Cash A/c (For liabilities of Rs 24,000 were settled at Rs 22,000)	Dr	22000	 22000
f)	Rohit's Capital A/c To Rohit's Loan A/c (For loan to Rohit transferred to Rohit's Capital A/c)	Dr	15000	 15000

15

Dr Cr

	Particulars		Rs	Rs
i)	Realisation A/c To Sudha' s Capital A/c (Sudha's husband loan taken over by Sudha)	Dr	19000	19000
ii)	Bank A/c To Realisation A/c (Debtors realized)	Dr	7500	7500
iii)	Shiva's capital A/c To realization A/c (investments taken over by Shiva)	Dr	13300	13300
iv)	Realisation A/c To Bank A/c (Creditors for Rs 10000 paid off at 9% discount)	Dr	9100	9100
v)	Realisation A/c To Sudha's Capital A/c (Realisation expenses allowed to Sudha)	Dr	3000	3000
vi)	Sudha's Capital A/c Shiva's Capital A/c Dr To Realisation A/c (Loss on realization transferred to partner's Capital A/C)	Dr Dr	5640 3760	9400

16

JOURNAL

	Particulars		Rs	Rs
a)	Realisation A/c To Bank A/c (Bank Loan discharged)	Dr	12000	12000
b)	Realisation A/c To A's Capital A/c	Dr	400	400
c)	A's Capital A/c B's Capital A/c Dr To Deferred Advertisement Expenditure A/c (Transfer of fictitious asset to partner's Capital accounts)	Dr Dr	16800 11200	28000
d)	B's Capital A/c Dr To Realisation A/c (Stock taken over by B)	Dr	1200	1200
e)	Bank A/c To Realisation A/c (amount realized from unrecorded computer)	Dr	7000	7000
f)	Realisaion A/c To Bank A/c (payment of outstanding repairs)	Dr	2000	2000

17

JOURNAL

i)	A's Capital A/c To Realisation A/c (stock taken over by A)	Dr	15000	15000
ii)	Realisation A/c To Bank A/c (compensation paid to employees)	Dr	20000	20000
iii)	Realisation A/c To Bank A/c (creditors paid at discount of 5%)	Dr	7600	7600
iv)	Capital A/c To Realization A/c (assets taken over by B)	Dr	1500	1500
v)	Realisation A/c To A's Capital A/c To B's Capital A/c (profit on realization)	Dr	21000	12,000 9,000

18 JOURNAL

S No	Particulars	L F	Dr(Rs)	Cr(Rs)
i)	Realisation A/c To Bank A/c (being the bank loan paid off)	Dr	34000	34000
ii)	T's Capital A/c To Realisation A/c (being the furniture taken over by T)	Dr	43000	43000
iii)	Realisation A/c To P's Capital A/c (being the creditors paid off by P)	Dr	7500	7500
iv)	Bank A/c To Realisation A/c (being the computer previously written off now realized)	Dr	3900	3900
v)	Realisation A/c To T's capital A/c (being the realization expenses paid by T on behalf of the firm)	Dr	3200	3200
vi)	Realisation A/c To T's Capital A/c To P's Capital A/c (being the profit on realization transferred to the capital accounts of the partners)	Dr	4800	3000 1800

19

	Particulars		Dr (Rs)	Cr (Rs)
a)	Workmen Compensation Reserve A/c To Manu's Capital A/c To Nandu's Capital A/c (being balance in WCR transferred to Partners capital account)	Dr	100000	 60000 40000
b)	Workmen Compensation Reserve A/c To Realisation A/c To Manu's Capital A/c To Nandu's Capital A/c (balance in WCR transferred to Partners capital account) Realisation A/c To Bank A/c (Being payment of liability on account of W Compensation	Dr Dr	100000 75000	 75000 15000 10000 75000
c)	WorkmenCompensationReserveA/c ToRealisation (Being WCR transferred to realization A/c.)	Dr	100000	 100000
	Realization A/c To Bank A/c Being payment of liability on account of workmen compensation)	Dr	100000	 100000
d)	WorkmenCompensationReserveA/c Dr ToRealisationA/c (BeingWCRtransferred to realisationA/c) Realisation A/c ToBank A/c (Being payment of liability on account of WCompensation)	Dr Dr	100000 100000	 100000 100000

20 JOURNAL

Sl No	Particulars	LF	Dr (Rs)	Cr (Rs)
a)	Bank A/c To Realisation A/c (being the realization of unrecorded asset)	Dr	2000	 2000
b)	Disha's Capital A/c To Realisation A/c (being stock taken over by Disha at a discount of 30%)	Dr	49000	 49000
c)	Realization A/c To Bank A/c (20000-2000)x90/100 (being the creditors paid off)	Dr	16200	 16200
d)	Realization A/c To Mohit's Capital A/c (being remuneration allowed to Mohit credited to his capital A/c)	Dr	13000	 13000
e)	Bank A/c To Realisation A/c (being Nandan's loan released)	Dr	50000	 50000
f)	Bank A/c To Realisation A/c (being bad debts recovered)	Dr	12000	 12000

21

JOURNAL

S No	Particulars		Dr (Rs)	
a)	Realisation A/c To Cash A/c (being creditors worth Rs 85,000 settled with Rs 40000 cash and investment worth 43000)	Dr	40000	40000
b)	No entry will be passed as Liability is settled against asset without any cash/bank transfer			
c)	Cash A/c To Realisation A/c (being creditors worth Rs 90,000 accepted building worth Rs 1,20,000 and paid back Rs 30,000 in cash after settlement of the claim)	Dr	30000	30000

22

	Particulars		Dr	Cr
i)	Cash A/c To Realisation A/c (being the realization of unrecorded asset)	Dr	3000	3000
ii)	Cash A/c To Realisation A/c (being bad debts previously written off now recovered)	Dr	600	600
iii)	Paras's capital A/c To Realisation A/c (being unrecorded goodwill taken over by Paras)	Dr	30000	30000
iv)	Priya's Capital A/c To Realisation A/c (being unrecorded typewriter worth Rs 400 taken over at 25% less by Priya)	Dr	400	400
v)	Paras's capital A/c Priya's capital A/c To Realisation A/c (being 100 shares of Rs 10 each unrecorded in the books taken at Rs 6 each by Paras and Priya in their profit sharing ratio)	Dr Dr	300 300	600

23

JOURNAL

	Particulars		Dr (Rs)	Cr (Rs)
1	Realization A/c To Sundry Assets A/c (being assets transferred to realization account)	Dr	100000	100000
2	Atul's Capital A/c (50% of 100000) To Realisation A/c (being 50% of assets worth Rs 100000 taken over by Atul at 20% discount)	Dr	40000	40000
3	Bank A/c (40% of 50000) +30%) To Realisation A/c (being 40% of remaining assets sold at profit of 30%)	Dr	26000	26000
4	No entry will be passed for 5% of remaining assets being obsolete and remaining asset hand over to creditors in full settlement			

24

S No	Particulars	LF	Dr (Rs)	Cr (Rs)
a)	A's capital A/c To Realisation A/c (being unrecorded asset taken over by A)	Dr	300	300
b)	Realisation A/c To Cash A/c (being creditors paid)	Dr	14000	14000
c)	Cash A/c To Realisation A/c (being asset realized)	Dr	195000	195000
d)	B's capital A/c To Cash A/c (being the realization expenses paid by the firm on behalf of B)	Dr	1500	1500
e)	Realization A/c To Cash a/c (being sundry liabilities other than creditors paid)	Dr	175000	175000
f)	Realization A/c To A's Capital A/c (being wife's loan taken over by A)	Dr	15000	15000

LONG ANSWER QUESTIONS

25 JOURNAL

S No	Particulars	LF	Dr (Rs)	Cr (Rs)
a)	Bank A/c (76000-12000) To Realization A/c (being the debtors realized)	Dr	64000	64000
b)	Realisation A/c To Parul's Capital A/c (being husband's loan taken over by Parul)	Dr	6650	6650
c)	Realization A/c To Bank A/c ((40000-10000) x90/100) (being the creditors paid off	Dr	27000	27000
d)	Payal's Loan A/c To Bank A/c (being Payal's loan paid off)	Dr	70000	70000
e)	Realisation A/c To Bank A/c (being the contingent liability paid off)	Dr	4000	4000
f)	Parul's Capital A/c Payal's Capital A/c Priyanka's Capital A/c To Profit and Loss, A/c (being the accumulated loss distributed among the partners)	Dr Dr Dr	9000 9000 9000	27000

26

REALISATION ACCOUNT

Particulars	Amt	Particulars		Amt
To Goodwill A/c	30000	By Creditors A/c		50,000
To Land and building A/c	80000	By Cash A/c		
To plant and Machinery A/c	56000	Goodwill	20000	
To Motor Car A/c	54000	Land and Building	100000	
To Debtors A/c	48000	Plant and Machinery	50000	
To Cash A/c (creditors)	50000	Motor Car	28000	
To Cash A/c (Realisation expenses)	2000	Debtors	24000	222000
		By Loss transferred to		
		A's Capital A/c	24000	
		B's Capital A/c	12000	
		C's Capital Ac	12000	48000
	320000			320000

PARTNERS' CAPITAL ACCOUNTS

Particulars	A(Rs)	B(Rs)	C(Rs)	particulars	A(Rs)	B(Rs)	C(Rs)
To realisation A/c (Loss)	24000	12000	12000	By Balance b/d	80000	80000	60000
To Cash A/c (final payment	56000	68000	48000				
	80000	80000	60000		80000	80000	60000

CASH ACCOUNT

Particulars	Amt (Rs)	Particulars	Amt (Rs)
To Balance b/d	2000	By Realisation A/c (creditors)	50000
To Realisation A/c (Assets realised)	222000	By Realisation A/c (Realisation expenses)	2000
		By A's Capital (final payment)	56000
		By B's Capital (final payment)	68000
		By C's Capital (final payment)	48000
	224000		224000

27

REALISATION ACCOUNT

Particulars	Amt	Particulars	Amt
To Stock A/c	8000	By provisions for doubtful debts A/c	1000
To debtors A/c	18000	By Creditors A/c	40000
To furniture A/c	4000	By Mrs Arun's loan A/c	10000
To Plant A/c	30000	By Arun's capital A/c(investment)	8000
To Investment A/c	10000	By Cash A/c:	
To Arun's Capital A/c(wife's loan)	10000	Stock 2000	
To Cash A/c (creditors 40000-3%)	38800	Debtors 20500	
To Cash A/c (realization expenses)	1200	Furniture (4000+1000) 5000	
		Plant (30000-20000) 10000	37500
		By Loss transferred to:	
		Arun's Capital A/c 14100	
		Tarun's Capital A/c 9400	23500
	120000		120000

PARTNERS CAPITAL ACCOUNT

Particulars	Arun	Tarun	Particulars	Arun	Tarun
To Profit and Loss, A/c	3000	2000	By Balance b/d	10000	8000
To Realisation A/c (investments)	8000	-------	By General Reserve	3000	2000
To Realisation A/c (loss)	14100	9400	By Realisation A/c(Mrs. Arun's loan)	10000	————
			By Cash A/c (cash brought in)	2100	1400
	25100	11400		25100	11400

TARUN'S LOAN ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Cash A/c	15000	By balance b/d	15000
	15000		15000

CASH ACCOUNT

Particulars	Amt	Particulars	Amt(Rs)
To Balance b/d	14000	By Realisation A/c (creditors)	38800
To Realisation A/c (assets realized)	37500	By Realization A/c (Realisation expenses)	1200
To Arun's Capital A/c (cash brought in)	2100	By Tarun's loan A/c	15000
To Tarun's Capital A/c (cash broughtin)	1400		
	55000		55000

28

REALISATION ACCOUNT

Particulars	Amt	Particulars	Amt
To Sundry Assets A/c	17000	By provisions for doubtful debts	1200
To Stock A/c	7800	By Creditors	6000
To debtors A/c	24200	By loan	1500
To Bills Receivable A/c	1000	By A's capital A/c	
To A's Capital A/c(creditors)	6000	Bills receivable 800	
To C's Capital A/c		Debtors 17200	18000
Loan 1500		By B's Capital A/c:	
Interest 300	1800	Stock 7000	
To Cash A/c (realization expenses)	270	Sundry assets 7200	14200
		By C's Capital A/c (sundry assets)	8100
		By Cash A/c (debtors)	
		By Loss transferred to:	2100
		A's Capital A/c 4182	
		B's Capital A/c 1394	
		C's Capital A/c 1394	
			6970
	58070		58070

PARTNERS CAPITAL ACCOUNTS

Particulars	A	B	C	particulars	A	B	C
To realisation A/c (assets)	18000	14200	8100	By Balance b/d	27500	10000	7000
To Realisation A/c (loss)	4182	1394	1394	By Realisation A/c(liabilities)	6000	----	1800
To Cash A/c (final payment	11318	----	----	By Cash A/c (cash brought in)	-----	5594	694
	33500	15594	9494		33500	15594	9494

CASH ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt
To Balance b/d	3200	By Realisation A/c (Realisation expenses)	270
To Realisation A/c (debtors)	2100		
To B's Capital A/c (cash brought in)	5594	By A's Capital A/c (final payment)	11318
To C's Capital A/c (cash brought in)	694		
	11588		11588

29

REALISATION ACCOUNT

Particulars		Amt(Rs)	Particulars		Amt(Rs)
To Land and building A/c		30000	By provisions for doubtful debts A/c		2450
To Motor Vehicle A/c		18300	By Creditors A/c		97500
To Stock A/c		65000	By Bank A/c:		
To furniture A/c		7800	Motor Vehicles	16950	
To debtors A/c		113200	Stock	77600	
To Bank A/c(creditors 97500-1700)		95800	Debtors	113200	207750
To Bank A/c (Realisation Expenses)		1250	By X's Capital A/c (land & building)		43500
To Profit transferred to:					351200
X's Capital A/c	11910				
Y's Capital A/c	7940	19850			
		351200			

PARTNERS' CAPITAL ACCOUNTS

Particulars	X(Rs)	Y(Rs)	Particulars	X Rs)	Y(Rs)
To Realisation A/c (land & building)	43500	---	By Balance B/d	85000	63000
To Bank A/c (final payment)	53410	70940	By Realisation(profit)	11910	7940
	96910	70940		96910	70940

BANK ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Balance b/d	13650	By Realisation A/c (creditors)	95800
To Realisation A/c (assets realized)	207750	By Realization A/c (expenses)	1250
		By X's capital (final payment)	53410
		By Y's capital(final payment)	70940
	221400		221400

30

REALISATION ACCOUNT

Particulars	Amt	Particulars	Amt
To Land and building A/c	40000	By Sundry Creditors A/c	20000
To Furniture and Fitting A/c	28000	By Bills Payable A/c:	40000
To Truck A/c	20000	By Cash A/c (Assets)	
To Stock A/c	10000	Debtors 9000	
To Debtors A/c	12000	Furniture 21000	
To Ramesh Capital A/c(creditors)	20000	Stock 6000	
To Suresh Capital A/c (Bills payable)	40000	Truck 32000	
To Profit transferred to:		Land & Building 62000	128000
Ramesh's Capital A/c 8400			
Suresh's Capital A/c 8400	16800		
	188000		188000

PARTNERS CAPITAL ACCOUNT

Particulars	Ramesh	Suresh	Particulars	Ramesh	Suresh
To Cash A/c(final payment)	59600	78400	By Balance b/d	30000	30000
			By Realisation A/c (liabilities))	20000	40000
			By Realisation A/c (Expenses)	1200	
			By Realisation A/c (profit)	8400	8400
	59600	78400		59600	78400

CASH ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Balance b/d	10000	By Ramesh's capital (final payment)	59600
To Realisation A/c (assets realized)	128000	By Suresh's capital(final payment)	78400
	138000		138000

31

REALISATION ACCOUNT

Particulars	Amt	Particulars	Amt
To Machinery A/c	16000	By Creditors A/c	2000
To Investments A/c	4000	By Amit's Capital A/c(investments)	3800
To Debtors A/c	2000	By Bank A/c	
To Stock A/c	3000 1900	Machinery (20000-10%) 18000	
To Bank A/c Creditors (2000-5%)	400	Debtors 1800	
To Bank A/c(Realisation expense)		Stock 2800	22600
To Profit transferred to:		By Bank A/c (unrecorded furniture)	
Amit's Capital A/c 6660	11100		10000
Sumit's Capital A/c 4440			
	38400		38400

PARTNERS CAPITAL ACCOUNTS

Particulars	Amit	Sumit	Particulars	Amit	Sumit
To Realisation A/c (investments)	3800	-----	By Balance b/d	17500	10000
			By Profit & Loss A/c	900	600
To Bank A/c	21260	15040	By Realisation A/c (profit)	6660	4440
	25060	15040		25060	15040

BANK ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Balance b/d	6000	By Realisation A/c (creditors)	1900
To Realisation A/c (assets realized)	22600	By Realisation A/c (Realisation Expenses)	400
To Realisation A/c (unrecorded furniture)	10000	By Amit's capital (final payment)	21260
		By Sumit's capital(final payment)	15040
	38600		38600

32

REALISATION ACCOUNT

Particulars		Amt(Rs)	Particulars		Amt(Rs)
To Goodwill A/c		10000	By Creditors A/c		20500
To Machinery A/c		44000	By Investment Fluctuation Fund A/c		20000
To Investment A/c		20830	By Mrs A's loan A/c		8000
To Stock A/c		8050	By Provision for Bad Debts A/c		700
To Debtors A/c		9400	By A's Capital A/c(investments)		17500
To A's Capital A/c(Mrs A's loan)		8000	By B's Capital A/c (Stock)		7500
To Bank A/c (realization expenses)		500	By Bank A/c:		
To Bank A/c (creditors)		20500	Debtors	4700	
To Profit transferred to:			Machinery	65000	69700
A's Capital A/c (3/7)	9694				
B's Capital A/c (3/7)	9694				
C's Capital A/c (1/7)	3232	22620			
		143900			143900

PARTNERS CAPITAL ACCOUNTS

Particulars	A(Rs)	B(Rs)	C(Rs)	particulars	A(Rs)	B(Rs)	C(Rs)
To Balance b/d	---	---	11500	By Balance b/d	50000	10000	----
To Realisation A/c (assets)	17500	7500	----	By Realisation A/c (Mrs A's loan)	8000	---	----
To Bank A/c (final payment	50194	12194	----	By Realisation A/c (profit)	9694	9694	3232
				By Bank A/c (cash brought in)	----	----	8268
	67694	19694	11500		67694	19694	11500

BANK ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Balance b/d	5420	By Realisation (creditors)	20500
To Realisation A/c (Assets realized)	69700	By Realisation (Realisation expenses)	500
To C's Capital A/c (cash brought in)	8268	By A's Capital (final payment)	50194
		By B's Capital (final payment)	12194
	83388		83388

****

Chapter 6

Accounting for Share Capital

Meaning and definition of company

Share capital AccountingMeaning of company: A company is an organization formed by an association of persons through a process of law for undertaking (usually) a business venture.

Definition –“Company means a company incorporated under this Act or any previous company - Section 2(20) of the Companies Act, 2013 Share Capital - Schedule III of the Companies Act, 2013 classified Share Capital as:

i. Authorized Share Capital is the maximum amount up to which a company can issue shares.
ii. Issued share capital is a part of authorized share capital that is issued by a company for subscription.
iii. Subscribed share capital is a part of issued share capital that is subscribed. Subscribed share capital is shown as
   a. Subscribed and fully paid – up
   b. Subscribed but not fully paid – up
iv. Called–up amount is the amount of nominal value of shares that has been called up for payment. v. Paid–up amount is the amount that is received by the company.
v. 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 company being wound up.
vi. PREFERENCE SHARES - These are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.
vii. EQUITY SHARES – These shares are the shares that are not preference shares. Shares can be issued (i) for cash and (ii) for consideration other than cash. Further, the shares can be issued (i) at par, or (ii) at premium
viii. OVER SUBSCRIPTION OF SHARES – It means shares applied for are more than the shares offered for subscription.

UNDER SUBSCRIPTION OF SHARES –It means shares applied for are less than the shares offered for subscription.

PRO RATA ALLOTMENT – It means allotment of shares in a fixed proportion.

Pro rata allotment takes place only when the shares are oversubscribed.

SECURITIES PREMIUM RESERVE – It can be utilized for the purpose prescribed in section 52(2) of the Companies Act, 2013, which are:

i. writing off preliminary expenses;
ii. Writing off expenses such as share such as share issue expenses, commission, discount allowed on issue of securities;

iii. Providing for the premium payable on redemption of debentures or Preference Shares;
iv. In buying-back its own shares.
v. Issuing fully paid bonus shares;

CALL – It is a demand by a company from the holders of partly paid shares to pay a further instalment towards full nominal value.

CALLS-IN-ARREARS-It is the amount not yet received by the company against the call or calls demanded.

CALLS-IN –ADVANCE- It is the amount received by the company from its allotters against the calls not yet made. Calls- In- Advance is shown as 'Other Current Liability' under 'Current Liabilities'.

FORFEITURE OF SHARES- It means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

Securities premium-How dealt when shares are forfeited

In case where Securities Premium Reserve Account has been credited and also it has been received- Securities Premium Reserve Account is not debited because of the restrictions imposed by Section52(2) of the Companies Act,2013 . In case Securities Premium Reserve Account has been credited but the amount has not been received –Securities Premium Reserve Account is debited because the amount has not been received and therefore Section 52(2) of the Companies Act, 2013 does not apply.

REISSUE OF FORFEITED SHARES-

Forfeited Shares can be reissued and they might have been reissued at par at premium or at a discount. But the discount on reissue of a share cannot be more than the forfeited amount of that share credited to Forfeited Share account at the time of forfeiture.

Regarding Reissue of Forfeited Shares, always keep in mind that:

1. Discount on reissue cannot exceed the forfeited amount.
2. If the discount on reissue is less than the amount forfeited, the surplus (i.e., gain on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited share is reissued then the gain on reissue of such share is transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the paid-up share capital.
5. When the shares are reissued at discount, such discount is debited to Forfeited Shares Account. 6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Reserve Account.
6. In case of the Forfeited Shares are reissued at a price higher than the paid- up value, the excess of issue price over paid up value is credited to 'Securities Premium Reserve Account'.

PRIVATE PLACEMENT OF SHARES-

It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons, is called Private Placement Of Shares.

EMPLOYEES STOCK OPTION PLAN (ESOP) –

It is the plan for granting options to subscribe shares by employees and employee directors. A company may issue stock (shares) options fulfilling the following conditions:

a) These shares are of the same class of shares already issued;
b) It is authorized by a special resolution passed by the company;
c) The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
d) Not less than one year has, at the date of issue, elapsed since the date on which the company had commenced business and
e) These shares are issued in accordance with SEBI regulations, if the shares are listed

Journal Entries Regarding Issue of Shares Capital

1. ISSUE OF SHARES FORCASH

1). Shares Payable in Lump Sum:

For Receiving Share Application Money:

Banka/c……..Dr.

To Share Application and Allotment a/c

(Being the application money received)

For Allotment of Shares:

Share Application and Allotment a/c…….Dr

To Share Capital a/c [With Nominal (face) Value]

To Securities Premium Reserves a/c [With Premium Amt]

(Being the shares against share application and allotment money received)

Transaction	**Journal Entry**		**Amount**
On Receipt of Application Money	Banka/c …… To Share Application a/c	Dr	Amount received with application.
On Allotment of Shares Share Application Money	Share application a/c	Dr	Application money on allotted shares

	To share capital		
Amount due on Allotment	Share allotment a/c To Share Capital a/c	Dr	Amount due on allotment
On receipt of allotment money	Bank a/c To Share allotment a/c	Dr	Amount received on allotment
On first and final call due	Share first and final call a/c To Share capital a/c	Dr	Amount due first and final call
On receipt of first and final call	Bank a/c To Share first and final call	Dr	Amount received on first and final call

Accounting Entries in Case of Over subscription

1. For Application Money Received

Bank A/c ……Dr

To Share Application A/c

Application Money For Allotted Shares

Share Application A/c ……Dr

To Share Capital A/c

2 Excess Application Money

Refund

To Share Application A/c ……Dr

To Bank A/C

Adjustment :

Share Application A/c ……Dr

To Share Allotment A/c

To Calls – in- Advances A/c

Combined Entry:

Share Application A/c ……Dr

To share Capital A/c

To Bank A/c

To Share Allotment A/c

To Calls-in–Advance A/c

SHARE ISSUED FOR CONSIDERATION OTHER THAN CASH

The journal entries passed are:

I. (a) On Purchase of Assets

Sundry Assets A/cs (Individually) …Dr [With the amount of purchase price]

To Vendor’s A/cs [With purchase consideration]

(b) On Purchase of Business

Sundry Assets A/cs …Dr [Agreed value of assets]

Goodwill A/c* ….Dr

To Sundry Liabilities A/c [Agreed value of liabilities]

To Vendor’s A/c ** [With purchase consideration]

To Capital Reserve A/c***

Note: Purchasing consideration is an amount paid by purchasing company in consideration for purchase of assets/business from other enterprise. It may be given in the question otherwise it will be equal to net assets, i.e, sundry assets minus sundry liabilities.

*If purchase consideration given is more than net assets, then the difference is debited in Goodwill Account.

** Vendor is credited by purchase consideration payable to him.

*** If purchase consideration given is less than the net assets, then the difference is credited to Capital Reserve. Either Goodwill or Capital Reserve will appear at a time.

II. On Issues of Shares

If shares are issued to vendor at par:

Vendor'sA/c ….Dr [With the nominal value of share allotted]

To share Capital A/c

(b) If share are issued to vendor at a premium:

Vendor's A/c ….Dr [With the purchase price]

To share Capital A/c [With the nominal value of share allotted]

To Securities Premium Reserve A/c [With the amount of premium]

FORFEITURE OF SHARES –

Forfeiture of shares issued at par:

The entry for forfeiture of shares is:

Shares capital a/c (called up value) Dr.

To Share forfeited A/c

To share allotment a/c

To share call a/c

Forfeiture of shares which were originally issued at premium:

i. securities premium amount has been received; and

ii. Securities Premium amount has not been received.

Accounting Entries for Forfeiture of Shares Issued at a Premium:

i) If premium has been received:

Share Capital a/c Dr

To Share Allotment a/c

To Share Call/calls a/c

To Share forfeited A/c

ii) If premium has not been received:

Share Capital a/c Dr.

Securities Premium Reserve a/c Dr.

To Share Allotment a/c

To Share call / calls a/c

To Share forfeited A/c

REISSUE OF FORFEITED SHARES

In case, they are reissued at par, accounting entry is:

Bank a/c Dr

To Share Capital

In case, they are reissued at discount,

Accounting entry is:

Banka/c Dr.

Share forfeited A/c Dr

To Share Capital a/c

If the forfeited shares are reissued at a price higher than that of paid-up value, the excess of reissues price over paid-up value is credited to Securities Premium Reserve a/c.

Following entry is passed:

Banka/c Dr.

To Share capital a/c

To Securities Premium Reserve a/c

NOTE: Maximum Permissible Discount on Reissue of Forfeited Shares:

Maximum Permissible Discount on Reissue of Forfeited Shares is the amount forfeited, i.e., the amount credited to the forfeited shares.

****

VERY SHORT ANSWER-QUESTIONS

1. Name the head of Capital Clause of Memorandum of Association of a company in which maximum amount of share capital mentioned is called .

a. Reserve Capital (b) Subscribed Capital (c) Authorised Capital (d) Issued Capital

2. A shareholder allotted to whom 9,000 shares of ₹ 10 per share failed to pay first & final of ₹ 2 per share. ₹ 18,000 to be recorded in the books of company with

(a) Dr. to Calls-in Arrears A/c

(b) Dr. to Share Forfeiture

(c) Cr. to Calls-in Arrears A/c

(d) Cr. to Share Forfeiture A/c

3. Arrange the following in proper sequence as types of "Share Capital"

a) Paid up capital

b)Issued capital

c) Subscribed capital

d)Authorised capital

a) a) ,c) , d) , b)

b) d), c) , b), a)

c) d), b), c),a)

4. Shobha Limited was formed with share capital of Rs. 50,00,000 divided into 50,000 shares of Rs.100 each. 8,000 shares were issued to the vendor as fully paid for purchase consideration of a Machinery acquired. 30,000 shares were allotted in payment of cash on which Rs.70 per share was called and paid. State the amount of subscribed capital:

A) Rs. 50,00,000 B) Rs. 30,50,000 C) Rs. 29,00,000 D) Rs. 20,00,000

5. Star Ltd forfeited 1,000 shares of Rs.10 each (which were issued at par)of Jeevan, a share holder of the company, for non payment of allotment money of Rs.4 per share. The called up value per share was Rs.7. On forfeiture, the amount debited to share capital:

a) Rs.3,000 b) Rs.7,000 c)Rs.4,000 d)Rs.10,000

6. The allowed amount of discount on re-issue of shares will be

(a) @ 10% of issue price (b) Up to the amount of forfeited money (c) Could not issue at discount (d) None of these

7. Once, forfeited shares reissued, balance of share forfeiture money will be transferred to:

a. General Reserve (b) Capital Reserve (c) Reserve Capital (d) Securities Premium Reserve

8. 12,000 shares of ₹ 100 each forfeited due to non-payment of allotment of ₹ 40 per share and first & final call of ₹ 30 per share. Out of the forfeited shares, 9,000 shares were reissued at ₹ 80 per share fully paid. Which of the following amount of share forfeiture account will be transferred to Capital Reserve Account?

(a) 90,000 (b) 1,80,000 (c) 3,60,000 (d) 2,70,000

CASE STUDY BASED QUESTIONS

Read the following statement carefully and give the answer for the questions: Shine Firework Ltd is authorised to issue shares 5,00,000 of ₹ 100 each. Company raised the capital by issue of 2,00,000 shares through e-IPO. As per the decision of Managing Board of Directors of company, company issued 75,000 shares to their parent company and 40,000 shares issued to existing employees of company as per their choice and option at the below price than the market price.

9. "Company issued 75,000 shares to their parent company" is an example of .

(a) Public Issue (b) Private Placement (c) ESOP (d) Issue other than cash

10. "40,000 shares issued to existing employees of company as per their choice and option at the below price than the market price." Is an example of

(a) Public Issue (b) Private Placement (c) ESOP (d) Issue other than cash

Read the following statement carefully and give the answer for the questions: X Ltd issued 2,00,000 shares of ₹ 100 each. Amount to be paid on Application ₹ 30 per share; on allotment ₹ 40 per share and on first & final call ₹ 30 per share. All money was duly subscribed and paid towards the nominal value of shares except on 9,000 shares who failed to pay allotment and calls money. These shares were forfeited. 5,000 shares were re-issued at ₹ 80 per share fully paid.

11. Which amount of the following will be shown into the Balance Sheet of the company under the sub-head "Share Capital"?

(a) ₹ 1,96,00,000 (b) ₹ 1,97,20,000 (c) ₹ 2,00,00,000 (d) ₹ 1,97,70,000

12. Which of the following amount will be, balance in Share Forfeiture Account?

(a) ₹ 4,00,000 (b) ₹ 1,50,000 (c) ₹ 1,20,000 (d) ₹ 50,000

13 Given below are two statements, one labelled as Assertion the other labelled as Reason (R):

Assertion(A): Preferential allotment means allotment of shares at a pre determined price to the identified people who are interested in taking shares in the company.

Reason(R): Employee Stock Option Plan is a category of sweat Equity In the context of the above two statements, which of the following is correct?

(A) Both (A) and (R) are correct and (R) is the correct reason of (A)

(B) Both (A) and (R) are correct but (R) is not the correct reason of (A).

(C) Only (R) is correct.

(D) Both (A) and (R) are wrong.

14. Given below are two statements, one labelled as Assertion the other labelled as Reason (R):

Assertion (A): The forfeited shares may be reissued by the company at par, at premium or at discount.

Reason(R): Reissue of forfeited shares is not an issue of shares but is selling the shares that were issued earlier and were cancelled by the company. In the context of the above two statements, which of the following is correct?

(A) Both (A) and (R) are correct and (R) is the correct reason of (A).

(B) Both (A) and (R) are correct but (R) is not the correct reason of (A).

(C) Only (R) is correct.

(D) Both (A) and (R) are wrong.

15 Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R)

Assertion (A) The part of un-called capital, to be called only in the liquidation of a company is called Reserve Capital.

Reason (R) :It can be used for writing off capital losses.

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

(A) is correct, but (R) is wrong.

(B) Both (A) and (R) are correct.

(C) (A) is wrong, but (R) is correct.

(D) Both (A) and (R) are wrong

SHORT ANSWER-QUESTIONS

16. Rajesh Ltd purchased land costing Rs.9,50,00000/- from YLtd Rs.50,00,000 were paid through bank and the balance by issuing equity shares of rs.100 each at a premium of 50% . Pass the necessary journal entries for making payment through bank and by issue of equity shares.

17. What do you mean by minimum subscription?

18. Distinguish between reserve capital and capital reserve.

19. Guru limited invited applications for 500000 equity shares of Rs.10/- each at a premium of Rs.5/- per share. Because of favourable market conditions, the issue was over subscribed. Suggest the alternatives available to the Board of Directors for the allotment of shares.

20. What is meant by Private Placement of share?

21. State any three purposes other than issue of bonus shares for which securities premium can be utilised.

22. Read the information given below and give the answer for the questions 15 to 18: Exe Ltd issued 50,000 shares of ₹ 100 per share for public subscriptions at 20% premium. Amount payable as under: On Application : ₹ 40 per share (including 10% premium) On Allotment : ₹ 40 per share (excluding 10% premium) On First & Final Call : ₹ Balance Application received for 75,000 shares. Allotment was made to 60,000 share applicants. All due money was duly received except from a shareholder (Amal) allotted to whom 12,000 shares, failed to pay allotment and calls. These shares were forfeited.

a.Write the amount of excess application money adjusted on allotment?

b. What the amount received on allotment?

c. How much amount did not receive on allotment?

d. What the amount forfeited on 12,000 shares?

23. A company issued 40,000 preference shares of ₹ 100 per share at par payable as under: On Application : 20% On Allotment : 40% On First & Final Call : balance Applications were received for 50,000 shares. Allotment was made on pro-rata basis. How much amount will be received in cash on allotment?

24. Love 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 50,000 equity shares at a premium of Rs.5 per share. Rs.2/ per share payable with application, Rs.8/-per share (including premium) on allotment and the balance amount on first and final call. The issue was fully subscribed and all the amount due was received except the first and final call money on 500 shares allotted Balaram. Present the Share capital in the Balance Sheet of Love India Ltd as per Schedule III, part I of the Companies Act,2013. Also prepare Note to Accounts for the same.

25. What is meant by Preferential Allotment of Shares?

LONG ANSWER-QUESTIONS

26. Bombay Limited invited applications for issuing 100000 Equity shares of Rs.10 each at a premium of Rs.10 per share. The amount was payable as follows:

On applicationRs.10 per share (including Rs.5premium)

On allotment the balance

The issue was over subscribed. A shareholder holding300 shares paid the full share money with application. Another shareholder holding 200 shares failed to pay the allotment money. His shares were forfeited. Later on, these shares were reissued for Rs.4000/- as fully paid. **Pass necessary journal entries for the above transactions in the books of Bombay Ltd.**

27. ABC Ltd forfeited 150 shares of Rs.10 each issued at a premium of Rs.5 per share, for non payment of allotment of Rs.8 per share including premium of Rs.5 per share), the first call of Rs.2 pershare and the final call of Rs.3 per share. Out of these,100 Equity shares were reissued at Rs.14/share.

Give journal entries to record forfeiture and re- issue.

28. Fill in the blank spaces in the journal entries given below.

Date	Particulars	L/F	Dr Amt	Cr Amt
	Share capital a/c ? To share forfeited a/c To Share allotment a/c To Share First call (1000 shares of Rs.10 each, Rs. 8/- called up issued at a premium of rs.2 per share forfeited for non payment of allotment of Rs.5 per share including premium and first call of Rs.2 per share)	Dr Dr	? ?	 3000 ? ?
	Bank a/c To Share capital To? (700 shares reissued @Rs.14 per share fully paid-up)	Dr	9800	 ? ?
	Share forfeited a/c To capital reserve (gain on re-issue of forfeited shares transferred to capital reserve)	Dr	?	 ?

29 A . X. Ltd forfeited 10 shares of 10 each, Rs.7 called up on which shareholders had paid application and allotment money of Rs.5 per share. Out of these 8 shares were reissued to Y for Rs.8 per share at Rs.8 paid up. **Record the journal entries for forfeiture and re-issue of shares by opening calls-in arrears and calls in advance accounts.**

B. L. Ltd forfeited Mr. M’s shares who had 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.2 only. **Pass journal entries for forfeiture of shares by opening calls in arrears and calls in advance accounts.**

30. DN Ltd issued 50000 shares of Rs.10 each payable as Rs.2 per share on application, Rs. 3 on allotment, and Rs.5 on first and final call. Applications were received for 70000 shares. It was decided that

a.to refuse allotment to the applicants for 10000 shares b.to allot 20000 shares to Mohan who had applied for similar number and

c.to allot the remaining shares on pro rata basis

Mohan failed to pay the allotment and Sohan who belonged to category ‘c’ and was allotted 3000 shares paid the call money with allotment.

Calculate the amount received on allotment.

31. Mam Ltd issued 50000 shares of Rs.100 each payable as Rs.20 on application, Rs. 40 on allotment and Rs.20 each on two calls. Applications were received for 75000 shares. Applications of 25000 shares were sent letters of regret and application money was refunded.

Mohan, a holder of 1500 shares failed to pay allotment money which he paid along with the first call. Raman, a shareholder , holding 500 shares paid both the calls along with allotment. Kamal, a shareholder, holding 1000 shares did not pay first call and second and final call. His shares were forfeited. The forfeited share were reissued atRs.120 per share as fully paid up.

Pass necessary journal entries for the above transactions in the books of the compan . The company maintains calls in arrears account.

32. ABC Ltd is registered with an authorised capital of Rs. 80000000 divided into equity shares of Rs.12 each. Subscribed and fully paid up share capital of the company was Rs.40000000. For providing employment to the local youth and for the development of rural area of Jammu and Kashmir state, the company decided to set up a food processing unit in Anantnag District. The company also decided to open skill development centres in Ladakh, Srinagar and Punch. To meet its new financial requirements, the company decided to Issue 100000 equity shares of Rs 10 each and 10000, 9% Debentures of Rs.100 each. Te debentures were redeemable after 5 years. The issue of equity shares and debentures was fully subscribed. A shareholder holding 1000 shares failed to pay the final call of Rs 2/share. **Present the share capital in the Balance sheet of the company as per the provisions of schedule III of te Companies Act 2013..**

33. XYZ Ltd purchased machinery of Rs.430000 from perfect machines Ltd and paid as follows.

a. Issued 10000 equity shares of Rs.10 each at a premium of Rs.3

b. Issued an acceptance of Rs.100000 payable after 3 months.

c. Balance by issuing post-dated cheque of two month of Rs.200000

Pass journal entries in the books of XYZ Ltd and Perfect Machines Ltd

34. Pooram Ltd forfeited 2000 shares of rs.10 each, fully called up, on which they have received only Rs.14000. 50 of the forfeited shares were reissued for Rs.9 per share fully paid up.

Pass journal entries for forfeiture and re-issue of shares. Also prepare share forfeited a/c.

35. Sun star Ltd invited applications for issuing 200000 equity share of Rs.50 each. The amount was payable as follows.

On application Rs.15/share, on allotment Rs. 10 per share, on first and final call Rs.25/share. Applications for 300000 shares were received. Allotment to the applications were made as follows.

category	No of shares applied	No of shares allotted
I	200000	150000
II	100000	50000

Excess money received with application was adjusted towards sums due on allotment and calls. Namita, a shareholder of category I , holding 3000 shares failed to pay the allotment money. Her shares were forfeited immediately after allotment. Manav , a shareholder of category II, who had applied for 1000 shares failed topay the first and final call. His shares were also forfeited. All the forfeited shares were reissued at Rs.60/share , fully paid up.

Pass necessary journal entries and prepare cash book for the above transactions.

****

ANSWERS

Q .No	Answers
1	Ans, (c) Authorised Capital
2	(a) Dr. to Calls-in Arrears A/c
3	Ans. C) Authorised, Issued, Subscribed, Paid-up.
4	C) Rs. 29,00,000
5	b) Rs.7,000
6	(b) Up to the amount of forfeited money
7	(b) Capital Reserve
8	(a) 90000
9	(b)Private placement
10	(c) ESOP
11	(a) ₹ 1,96,00,000
12	(d)50000
13	(B) Both (A) and (R) are correct but (R) is not the correct reason of (A).
14	(A) Both (A) and (R) are correct and (R) is the correct reason of (A).
15	(A) is correct, but (R) is wrong.

16

Ans. No of shares issued = 90000000/150=600000

Date	Particulars	L/F	Debit Amount	Credit Amount
	Land a/c	Dr	9,50,00,000	
	Y Ltd			9,50,00,000
	(Land purchased)			
	Y Ltd a/c	Dr	50,00,000	
	Bank a/c			50,00,000
	(Cash paid to the vendor)			
	Y Ltd a/c	Dr	9,00,00,000	
	To Equity share capital a/c			6,00,00,000
	To security premium reserve a/c			
	(shares issued to the vendor)			3,00,00,000

17

Minimum subscription is the minimum amount to be received by the subscription of shares within the prescribed period. If the minimum subscription is not received within the prescribed period, the application money received will be returned to the applicants within 15 days of closure of the issue. Minimum subscription is 90% of the issued capital.

18

Basis	Reserve capital	Capital Reserve
Meaning	It is that part of the uncalled capital which cannot be called up except in the event of winding up	It is that part of reserve which is not free for distribution as dividend
Creation	It is created out of uncalled capital	It is created out of capital profits
Optional/mandatory	It is optional	It is mandatory
Spl resolution	Spl resolution is required to create reserve capital	Spl resolution is not required.
disclosure	It is not disclosed in the company's balance sheet	It is disclosed under the head reserves and surplus.

<table>
<tr><td>19</td><td>Ans. A. First alternative. Rejection of excess application
B. Second alternative. Pro rata allotment
c. Third alternative . Rejection and Pro rata allotment.</td></tr>
<tr><td>20</td><td>It means allotment of shares to a select group of persons privately and not to public in general through public issue.</td></tr>
<tr><td>21</td><td>A. To write off preliminary expenses
b. to purchase its own shares
c. To write off discount or loss on issue of shares/debentures
d. To pay premium payable on the redemption of redeemable preference shares or debentures.</td></tr>
<tr><td>22</td><td>(a) 4,00,000
(b) ₹ 15,96,000
(c) ₹ 5,04,000
(d) ₹ 4,56,000</td></tr>
<tr><td>23</td><td>Rs.14,00,000</td></tr>
<tr><td>24</td><td>Love India Limited
Balance Sheet (Extract) as at
<table>
<tr><th>Particulars</th><th>Note No</th><th>Amount</th></tr>
<tr><td>I. EQUITY AND LIABILITIES
Shareholders funds
Share Capital</td><td>1</td><td>4,97,500</td></tr>
</table>
Notes to Accounts
<table>
<tr><th>Particulars</th><th>Amount</th><th>Amount</th></tr>
<tr><td>1. Share Capital</td><td></td><td></td></tr>
<tr><td>Authorised Capital</td><td></td><td></td></tr>
<tr><td>100000 Equity shares of Rs.10 each</td><td></td><td>10,00,000</td></tr>
<tr><td>Issued Capital</td><td></td><td></td></tr>
<tr><td>50000 Equity shares of 10 each</td><td></td><td>500000</td></tr>
<tr><td>Subscribed capital</td><td></td><td></td></tr>
<tr><td>Subscribed and fully paid up</td><td>495000</td><td></td></tr>
<tr><td>49500 equity shares of 10 each</td><td></td><td></td></tr>
<tr><td>Subscribed but not fully paid-up</td><td></td><td></td></tr>
<tr><td>500 equity shares of 10 each 5000</td><td>2500</td><td>497500</td></tr>
<tr><td>Less: calls in arrears (500x5) 2500</td><td></td><td></td></tr>
</table></td></tr>
</table>

25 Ans. Preferential Allotment of Shares is one that is made at a predetermined price to the identified people, such as promoters, venture capitalists, financial institutions, buyers of company's products or its suppliers, who wish to take a strategic stake in the company.

26 Ans.

Date	particulars		Dr. Amount	Cr. Amount
	Bank a/c To Equity Share application (Application money received on100000 equity shares@Rs.10 per share with full amount received on 300 shares.)	Dr	10,03000	10,03,000
	Equity share application a/c To Equity share application a/c To Equity share allotment a/c To Security premium Reserve a/c (Application money adjusted)	Dr	10,03,000	5,00,000 3000 5,00,000
	Equity share allotment a/c To Equity share capital a/c To Security premium reserve a/c (Allotment money due on 100000 shares)	Dr	10,00,000	5,00,000 5,00,000
	Bank a/c To equity share allotment (Allotment money received except on 200 shares)	Dr	9,95,000	9,95,000
	Equity share capital a/c Security premium reserve a/c To Forfeited shares a/c To Equity share allotment a/c (200 shares forfeited for non payment of allotment money)	Dr Dr	2000 1000	1000 2000
	Bank a/c To Equity share capital a/c To Security premium reserve a/c (200 forfeited shares reissued @ Rs.20/ shareas fully paid up)	Dr	4000	2000 2000
	Forfeited shares a/c To Capital reserve (gain on reissue transferred to capital reserve)	Dr	1000	1000

27

Date	particulars		Dr. Amt	Cr. Amt
	Share capital a/c (150*10) Security premium reserve a/c(150*5) To Forfeited shares a/c (150*2)	Dr Dr	1500 750	300

		To share allotment a/c (150*8)			1200
		To Share first call a/c (150*2)			300
		To share 2nd& final call a/c (150*3)			450
		(150 shares forfeited for non payment of allotment and both the calls.)			
		Bank a/c (100*14)	Dr	1400	
		To Share capital a/c (100*10)			1000
		To Security premium reserve a/c 100*4			400
		(re issue of 100 forfeited shares @14/share)			
		Forfeited shares a/c	Dr	200	
		To Capital Reserve a/c			200
		(Gain on re issue of 100 shares transferred to Capital Reserve)			
28	Date	particulars		Dr Amt	Cr Amt
		Share capital a/c	Dr	8000	
		?	Dr	2000	
		To share forfeited a/c			3000
		To Share allotment a/c			5000
		To Share First call			2000
		(1000 shares of Rs.10 each, Rs. 8/- called up issued at a premium of rs.2 per share forfeited for non payment of allotment of Rs.5 per share including premium and first call of Rs.2 per share)			
		Bank a/c		9800	
		To Share capital	Dr		7000
		To ?			2800
		(700 shares reissued @Rs.14 per share fully paid-up)			
		Share forfeited a/c	Dr	2100	

	To capital reserve (gain on re-issue of forfeited shares transferred to capital reserve)			2100

29

Date	particulars		Dr Amt	Cr Amt
	Equity share capital a/c To forfeited shares a/c To calls in arrears a/c (Being forfeiture of 10 shares executed)	Dr	70	 50 20
	Bank a/c To Equity share capital a/c (Being 8 shares reissued to Y as Rs.8 per share paid up for Rs.8 per share)	Dr	64	 64
	Forfeited shares a/c To Capital Reserve (Gain on re-issue of forfeited shares transferred to capital reserve	Dr	40	 40

B

Date	particulars		Dr Amt	Cr Amt
	Equity share capital a/c Security premium reserve a/c To forfeited shares a/c To calls in arrears a/c (Being M's shares forfeited)	Dr Dr	1600 800	 1200 1200

30

Category	Shares applied	Shares allotted
A	10000 shares	Nil
B	20000 shares	20000 shares allotted
C	40000 shares	30000 shares allotted
Total	70000 shares	50000 shares

Calculation of amount received on allotment.

Amount due on allotment (50000*3)	150000

	Less: Excess application money adjusted on allotment	
	Pro rara allotment. 10000*2	(20000)
	Less: class in arrears Mohan . 20000*3	(60000)
		____________
		70000
	Add: Calls in advance(3000*5)	
	Amount Received on allotment	85000
31	Ans.	

Date	Particulars		Dr Amt	Cr Amt
	Bank a/c To Share Application a/c (application money received @20 each on75000 shares)	Dr	15,00,000	 15,00,000
	Share Application a/c To Share capital a/c 50000*20 To Bank a/c (application money adjusted)	Dr	15,00,000	 10,00,000 5,00,000
	Share allotment a/c 50000*40 To Share capital a/c Allotment money due	Dr	20,00,000	 20,00,000
	Bank a/c Calls in arrears a/c To Share allotment a/c To Calls in advance a/c (Allotment money received on 48500 shares and shareholder holding 500 shares paid both the calls along with allotment)	Dr Dr	19,60,000 60,000	 20,00,000 20,000
	Share first call a/c	Dr	10,00,000	

	To Share capital a/c			10,00,000
	(First call money due)			
	Bank a/c	Dr	10,30,000	
	Calls in arrears a/c	Dr	20,000	
	Calls in advance a/c	Dr	10,000	
	To Share first call a/c			10,00,000
	To calls in arrears a/c 1500*40			60,000
	(First call money received except on 1000 shares and calls in arrears and calls in advance adjusted)			
	Shares second &final call a/c	Dr	10,00,000	
	To Share capital a/c			10,00,000
	(Second call and final call due)			
	Bank a/c	Dr	9,70,000	
	Calls in arrears a/c	Dr	20,000,	
	Calls in advance a/c	Dr	10,000	
	To Share 2nd&final call a/c			10,00,000
	(Second and final call money received except on 1000 second and calls in advance adjusted)			
	Share capital a/c	Dr	1,00,000	
	To Forfeited shares a/c			60,000
	To calls in arrears a/c			40000
	(1000 shares forfeited for non payment of both the calls)			
	Bank a/c 1000*120			
	To Share capital a/c	Dr	1,20,000	
	To Security premium reserve a/c			100000
	1000 forfeited shares re-issued @120/ share as fully paid			20000

	Forfeited share a/c	Dr	60,000	
	To Capital reserve a/c			60000
	(Profit on reissue transferred to capital reserve)			

32

Particulars	Note No	Amount
2. Equity and Liabilities Shareholder’s fund		
Share capital	1	4,09,98,000

NOTES TO ACCOUNTS :

Particulars		Amount
Share capital:		
Authorised capital		
8000000 equity shares of Rs.10 each		80000000
Issued capital		
4100000 equity shares of Rs.10 each		41000000
Subscribed capital		
Subscribed and fully paid up		
4099000 equity shares of Rs 10 each		40990000
Subscribed and not fully paid up		
1000 equity shares of Rs.10 each	10000	
Less: calls in arrears 1000*2	2000	8000
		40998000

33

In the books of XYZ Ltd

Date	Particulars		Dr Amt	Cr Amt
	Machines a/c	Dr	430000	
	To Perfect Machines Ltd			430000
	Purchase of machines recorded			
	Perfect machines Ltd	Dr	430000	
	To Share capital			100000
	To security premium reserve a/c			30000
	To bills payable a/c			100000
	To Bank a/c			200000
	Payment made to perfect machines Ltd by issue of share, bill payable and cheque			

In the books of Perfect Machines Ltd

Date	Particulars	f	Dr Amt	Cr Amt
	XYZ Ltd	Dr	430000	

	To sales a/c Sales made to XYZ Ltd			430000
	Investment a/c Bills receivable a/c Cheque in hand a/c To XYZ Ltd Shares, acceptance and cheque received from XYZ Ltd	Dr Dr Dr	130000 100000 200000	 430000

34

Date	Particulars		Dr Amt	Cr Amt
	Share capital a/c 2000*10 To Share forfeited a/c To calls in arrears a/c 2000 shares forfeited for non payment of Rs.6000	Dr	20000	 14000 6000
	Bank a/c 50*9 Share forfeited a/c To Share capital a/c 50 shares reissued for Rs.9 per share	Dr Dr	450 50	 500
	Share forfeited a/c To capital Reserve (Gain on reissued shares transferred to capital reserve)	Dr	300	 300

SHARE FORFEITED A/C

Dr Cr

particulars	Amount	particulars	Amount
To share capital To capital reserve To balance c/d	50 300 13650	By share capitala/c	14000
	14000		14000

35

Journal entries

Date	Particulars	L/F	Dr. Amt	Cr. Amt
	Equity share application a/c To equity share capital a/c To equity share allotment a/c To calls in advance a/c (Adjustment of application money)	Dr	4500000	 3000000 1250000 250000
	Equity share allotment a/c To equity share capital a/c (allotment money due)	Dr	2000000	 2000000
	Calls in arrears a/c To equity share allotment a/c (allotment money received except 3000 on shares)	Dr	15000	 15000
	Equity share capital a/c To forfeited share a/c To equity share allotment a/c (calls in arrears on 3000 equity shares forfeited)	Dr	75000	 60000 15000
	Equity share 1st and final call a/c To equity share capital a/c	Dr	4925000	 4925000

	(first and final call money due on 197000 shares)			
	Calls in advance a/c Calls in arrears a/ To equity share first and final calla/c First and final call money received except on500 share and advance adjusted	Dr Dr	250000 10000	260000
	Equity share capital a/c To forfeited share a/c To equity share 1st and final call a/c(call in arrears a/c0 (500 shares forfeited)	Dr	25000	15000 10000
	Forfeited shares a/c To capital reserve a/c Gain on reissue transferred to capital reserve	Dr	75000	75000

CASH BOOK (BANK COLUMN ONLY)

Dr Cr

Particulars	Amt	Particulars	Amt
To equity share application a/c	4500000		10110000
To equity share allotment a/c	735000		
To equity share 1st and final call a/c	4665000		
To equity share capital a/c	175000		
To security premium reserve a/c	35000		
	10110000		10110000

CHAPTER 7

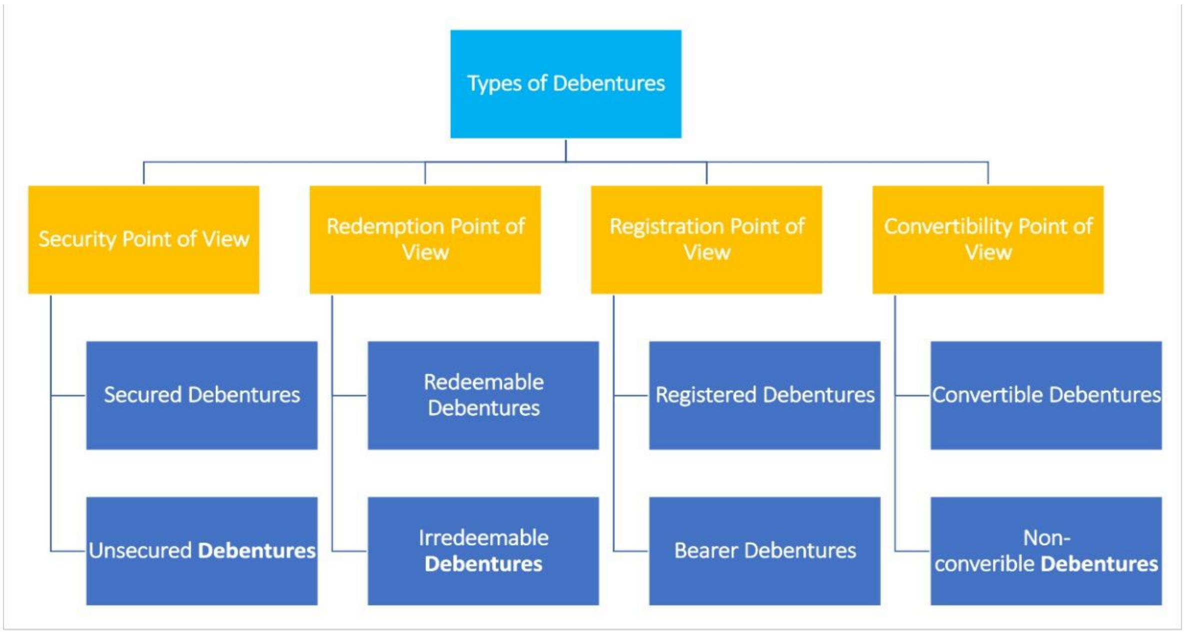
ACCOUNTING FOR ISSUE OF DEBENTURES

Meaning of Debentures:

Debentures are one of the frequently used methods by which a business can procure long-term funds for its initial financial needs or for its subsequent requirements of growth and modernization. Funds acquired by means of debentures represent debt and its holders are the company's creditors.

Debenture is merely a written instrument signed by the company under its common seal, acknowledging the debt due by it to its holders. Through this instrument the company promises to pay a specific amount of money as stated therein at a fixed date in future together with periodic payment of interest to compensate the holders for the use of the funds.

Types of Debentures



There are various types of debentures that a company can issue, based on security, tenure, convertibility etc. Let us take a look at some of these types of debentures.

Secured Debentures: These are debentures that are secured against an asset/assets of the company. This means a charge is created on such an asset in case of default in repayment of such debentures. So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan. The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.

Unsecured Debentures: These are not secured by any charge against the assets of the company, neither fixed nor floating. Normally such kinds of debentures are not issued by companies in India.

Redeemable Debentures: These debentures are payable at the expiry of their term. Which means at the end of a specified period they are payable, either in the lump sum or in installments over a time period. Such debentures can be redeemable at par, premium or at a discount.

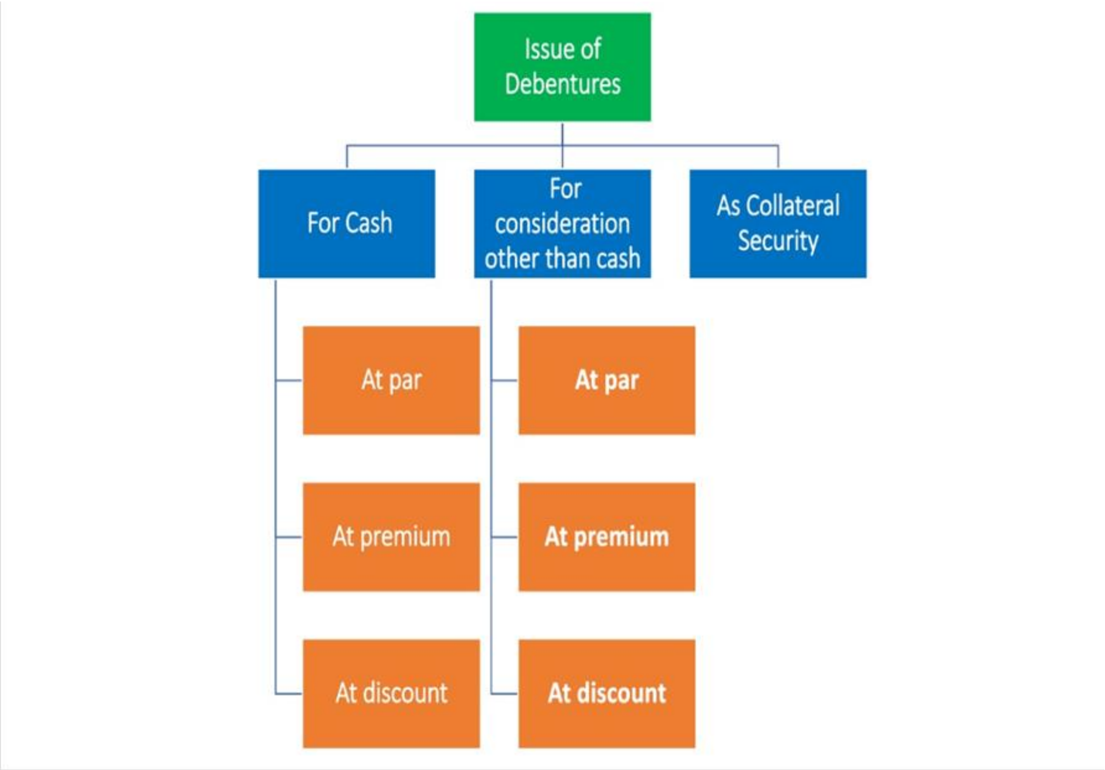
Irredeemable Debentures: Such debentures are perpetual in nature. There is no fixed date at which they become payable. They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long time interval.

Fully Convertible Debentures: These shares can be converted to equity shares at the option of the debenture holder. So if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.

Partly Convertible Debentures: Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.

Non-Convertible Debentures: As the name suggests such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

Issue of Debentures:



Debentures can be issued in following ways:

a) for cash
b) for consideration other than cash
c) As collateral security

Terms of Issue

Debentures can be issued in following ways:

a) Issue of Debentures at Par
b) Issue of Debenture at Premium
c) Issue of Debentures at Discount.
d) Debenture Payable in Installments

First installment paid along with application is called as application money.

Second installment paid on allotment is called as allotment money.

Subsequent installments paid are called as call money calls can be more than one and called First call, second call or as the case may be.

Issue of Debentures for Cash

(a) When Debentures amount received in lump sum with the application

On receipt of application money	*Bank A/c Dr.* *To Debenture Application and Allotment A/c*	With the application money received
On acceptance of application money	*Debenture Application and Allotment A/c Dr.* *To X% Debentures A/c* *To Bank A/c*	With Amount of application money on allotted debentures, and Excess amount refunded.

Issue of Debentures for Consideration other than Cash

When Debentures are issued for purchased of asset

When Debentures Issued for purchases Asset at par	**Sundry Asset A/c Dr.** **To Vendor**	**With the purchases Consideration**
	Vendor Dr. To Debenture Account	
When Debentures are issued for purchases of asset at premium	Sundry Assets A/c Dr. To Vendor	With the purchases Consideration No. of debentures par value No. of debentures x premium
	Vendor Dr. To Debenture A/c To Security Premium Reserve A/c	
When business is Purchased : 1 .when Purchase consideration equal to Net assets)	**Sundry Asset A/C Dr** **To Liabilities A/C** **To Vendor A/C**	Value of asset Value of liabilities Purchases consideration

2 When Purchase Consideration is less than net value of asset	**Sundry Assets Account Dr.** **To Sundry Liabilities A/c** **To Capital Reserve** **To Vendor**	Value of Asset Value of Liabilities **(B ;Fig)** Purchases Consideration
3 When Purchase Consideration is more than net value of asset	**Sundry Assets Account Dr.** **Goodwill A/C Dr** **To Sundry Liabilities A/c** **To Vendor**	Value of Asset\ **(B ;Fig)** Value of Liabilities Purchases Consideration

Collateral Security : Collateral security means security provided to lender in addition to the principal security. It is a subsidiary or secondary security. Whenever a company takes loan from bank or from any financial institution it may issue its debentures as secondary security which is in addition to the principal security. Such an issue of debentures is known as 'issue of debentures as collateral security'. The lender will have a right over such debentures only when company fails to pay the loan amount and the principal security is exhausted. In case the need to exercise the right does not arise debentures will be returned back to the company. No interest is paid on the debentures issued as collateral security because company pays interest on loan.

In the accounting books of the company issue of debentures as collateral security can be credited in two ways :
First method : No Journal entry to be made in the books of accounts of the company for debentures issued as collateral security. A note of this fact is given in this case.
Second method : Entry to be made in the books of accounts of the company.
A journal entry is made on the issue of debentures as a collateral security, Debentures Suspense Account is debited because no cash is received for such issue.
Following journal entry will be made
Journal entry is made on the issue of debentures as a collateral security, Debentures Suspense Account is debited because no cash is received for such issue.

Following journal entry will be made
Journal
Debenture Suspense A/c Dr.
To % Debentures A/c
(Being the issue of Debentures of Rs…. each issued as collateral security)

VARIOUS CASES FROM THE POINT OF VIEW OF REDEMPTION

Debentures can be redeemed at Par or at Premium. Conditions of issue and conditions of redemptions are given below: **Journal entries in the different situations:**

Issued at Par, redeemable at Par	**Issued at Par, redeemable at Premium**
Bank A/c Dr. To Deb. Application A/c (App. Money received)	Bank A/c Dr. To Deb. Application A/c (App. Money received)

Deb. Application A/c Dr. To Debentures A/c (Being App. Money transferred to Deb. A/c)	Deb. Application A/c Dr. Loss on issue of Deb. A/c Dr To Debentures A/c To Premium on Redemption of Deb. A/c (Being Deb. Issued at par redeemable at premium)
Issued at Premium, redeemable at Par Bank A/c Dr. To Deb. Application A/c (App. Money received) Deb. Application A/c Dr. To Debentures A/c To Securities Premium A/c (Deb. Issued at Premium redeemable at par)	**Issued at Premium, redeemable at Premium** Bank A/c Dr. To Deb. Application A/c (App. Money received) Deb. Application A/c Dr. Loss on issue of Deb. A/c Dr To Debentures A/c To Securities premium A/c To Premium on Redemption of Deb. A/c (Deb. Issued at Premium redeemable at premium)
Issued at discount , redeemable at par Bank a/c To Debenture Application A/c (app money received Debenture Application A/c Discount on issue of debenture A/c To Debenture A/c (Deb.. issued at discount redeemable at par)	**Issued at discount, redeemable at premium** Bank A/c To Debenture Application A/c (Application money received) Debenture Application A/c To Debenture A/c To Securities premium A/c (Being Deb. Issued at discount redeemable atPremium)

Interest on Debentures

Interest on Debentures is calculated at a fixed rate on its face value and is usually payable half yearly & is paid even company is suffering from loss because it is charge on profit.

When interest is Due and tax is ignored
Debentures Interest A/c Dr. (Gross Interest)
To Debentures holder A/c (Net Interest)
To Income Tax Payable A/c (Income Tax Deducted

When Interest is paid
Debentures Holder A/c Dr. (With Interest)
To Bank A/c

On Transfer of Interest on Debenture to statement of profit and Loss A/c (Tax deducted at source)
Statement of Profit and Loss Dr.
To Debenture Interest A/c (Amount of Interest)

Writing off discount or loss on issue of debentures

discount or loss on issue of debentures is a capital loss for a company, which is written off in the year it is incurred , i.e ., in the year the debentures are allotted from;

1) Securities premium reserve , if it has a balance
2) Statement of profit and loss

Journal entry passed is

Securities premium reserve A/c Dr

Statement of profit and loss A/c Dr
To Discount or loss on issue of debentures A/c
(being the discount or loss on issue of debenture written off)

****

PRACITCE QUESTIONS OF ISSUE OF DEBENTURES

VERY SHORT ANSWER - QUESTIONS

1
Debenture holders are
A) Debtors of the Company
B) Creditors of the Company
C) External users
D) Owners of the Company

2
Debenture Application A/c is in the form of
A) Current Account
B) Nominal Account
C) Personal Account
D) Real Account

3
A company issued Rs.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 Rs.…………………….
5,000

4
Dharm Ltd issues 2,000 ,10% debentures of Rs.100 each at a premium of 20%.The total amount of interest on debentures for one year will beRs.………………………….
20,000

5
Debenture holders are the creditor of a company True /Falase.

6
Name the head under which "discount on issue of debentures " appears in the Balance sheet of a company. Current assets and sub-head other current assets

7
Name the type of debentures whose ownership passes on mere delivery of debentures certificates.

Bearer debentures

8
Company can issue debenture to its vendor True/False.

9
Debentures issued as collateral security will be debited to:
a) Bank Account
b) Debentures Suspense Account
c) Debentures Account
d) Bank Loan Account

10
When debentures of ₹1,00,000 are issued as Collateral Security against a loan of ₹1,50,000, the entry for issue of debentures will be :
a) Credit Debentures ₹1,50,000 and debit bank A/c ₹1,50,000
b) Debit Debenture Suspence A/c ₹1,00,000 and Credit Bank A/c ₹1,00,000
c) Debit Debenture Suspence A/c ₹1,00,000 and Credit Debentures A/c ₹1,00,000.
d) Debit Cash A/c ₹1,50,000 and Credit Bank A/c ₹1,50,000.

11
Debentures are shown in the Balance Sheet of a company under the head of
a) Non-current Liabilities
b) Current Liabilities
c) Share Capital
d) None of these

12
When debentures are to be redeemed at premium an extra entry has to be made at the time of issue of debentures, which a/c should be credited in this entry?
a) Loss on issue of debentures a/c
b) Debenture redemption premium a/c
c) Bank a/c
d) Debenture holder's a/c

13
Debentures represent the :
a) Long term Borrowings of a company
b) The Investment of Equity-Shareholders
c) Directors' shares in a company
d) Short-term Borrowings of a Company

14
Premium on Redemption of Debentures Account is:
a) Personal Account
b) Real Account
c) Nominal Account
d) All of the above

15

X Ltd. acquired assets of ₹20 lakhs and took over creditors of ₹20 thousand from Y Ltd. X Ltd. issued 8% debentures of ₹200 each at a discount of 10% as purchase consideration. Number of debentures issued will be:

a) 11,000
b) 9,000
c) 10,000
d) 10,100

SHORT ANSWER TYPE QUESTIONS

16

Give journal entries for the issue of debentures in the following conditions.

A)Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable atpar.
B)Issued 2,000, 12% debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of10%.

17

National Packaging Company purchased assets of the value of Rs 1,90,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs 100 each at a discount of 5%.
Record necessary journal entries.

18

Complete the following journal entries.

Date	Particulars	l.f	Amount	Amount
2021 April	Sundry assets A/c --------------------------- To sundry liabilities A/c To Siv Shankar Ltd. (being shiv. Shankar ltd . was taken over by Parvati Ltd. For the purchase consideration of Rs.18,20,000)		25,00,000 --------------	 7,80,000 18,20,000
	Shiv. Shankar Ltd ---------------- To -------------------- To 8% Debentures A/c (being paying Shiv. Shankar Ltd by issuing a bill of Rs.20,000 and the balance was paid by issue of 8% Debenture of Rs. 100 each at a discount of 10%)		18,20,000 ------------------	 20,000 --------------

19

A company took a loan of Rs. 10,00,000 from Punjab National Bank and issued 10% debentures of Rs. 12,00,000 of Rs. 100 each as a collateral security. Explain how you will deal with the issue of debentures in the books of the company.

20 ABC Lmited issued Rs 10,000, 12% debentures of Rs 100 each payable Rs 30on application and remaining amount on allotment. The public applied for 9,000debentures which were fully allotted, and all the relevant allotment money was duly received. Give journal entries in the books of ABC Ltd., .

21
Aashirward Company Limited purchased assets of the book value of Rs 2,00,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs 100 each. Record the necessary journal entries.

22
TV Components Ltd., issued 10,000, 12% debentures of Rs 100 each at a discount of 5% payable as follows:
On application Rs 40
On allotment Rs 55
Show the journal entries including those for cash, assuming that all the instalments were duly collected.

23
XYZ Industries Ltd., issued 2,000, 10% debentures of Rs 100 each, at a premium of Rs 10 per debenture payable as follows:
On application Rs 50
On allotment Rs 60
The debentures were fully subscribed and all money was duly received.
Record the journal entries in the books of a company

24
Rai Company purchased assets of the book value of Rs 2,20,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs 100 each at a premium of 10%.
Record necessary journal entries.

25
A Limited took over the assets of Rs 3,00,000 and liabilities of Rs 10,000 from B & Co. Ltd. for an agreed purchase consideration of Rs 2,70,000 to be satisfied by issue of 15% debentures of Rs 100 at 20% premium. Show the journal entries in the journal of A Limited.

LONG ANSWER TYPE QUESTIONS

26

Star Ltd. took over the assets of ₹ 6,60,000 and liabilities of ₹ 80,000 of Moon Ltd. for ₹ 6,00,000. Give necessary Journal entries in the books of Star Ltd. assuming that:

Case (a): The purchase consideration was payable 10% in cash and the balance in 5,400; 12% Debentures of ₹ 100 each.

Case (b): The purchase consideration was payable 10% in cash and the balance in 4,500; 12% Debentures of ₹ 100 each issued at 20% premium.

27

X Limited Issued 10,000, 12% debentures of Rs. 100 each payable Rs. 40 on application and Rs. 60 on allotment. The public applied for 14,000 debentures. Applications for 9,000 debentures were accepted in full; applications for 2,000 debentures were allotted 1,000 debentures and the remaining applications, were rejected. All money was duly received. Journalise the transactions.

28

On 1st April, 2017, S Ltd. issued 6,000, 8% Debentures of nominal (face) value of Rs. 100 each redeemable at 5% premium in equal proportions at the end of 5, 10 and 15 year It has a balance of Rs. 10,000 in Securities Premium Reserve.

Pass Journal entries. Also give Journal entry for writing off Loss on Issue of Debentures.

29

A company issued debentures of the face value Rs 10,00,000 at a discount of 6% on

1st April 2012. These debentures are redeemable by annual drawings of Rs 2,00,000

made on 31st march each year. The directors decided to write off discount based on

debentures outstanding each year.

1) Amount of discount to be written off on 31st march 2013

(A) 20000

(B) 15000

(C) 25000

(D) 10000

2) Amount of discount to be written off on 31st march 2014

(A)12000

(B) 14000

(C) 16000

(D) 18000

3) Amount of discount to be written off on 31st march 2015

(A) 8000

(B) 10000

(C) 12000

(D) 14000

4) Amount of discount to be written off on 31st march 2016

(A) 5000

(B) 6000

(C) 7000

(D) 8000

30

Nandan Ltd.' Is a manufacturer of heavy machines in a town of Telangana. It follows high

standards of environment safety in the process of manufacturing.

The company runs a school to provide quality education and a medical centre to address health issues of the resident of the resident of that area.

The company is doing well and is going to start new manufacturing unit in Jharkhand creating livelihood for people, especially those from disadvantage section of the society. To raise fund company decided to issue 50,000 shares of ₹100 each at par and 80,000, 10% debentures of ₹100 at 95, repayable at ₹105.

a)Total Fund raised by the company:

A. 50,000

B. 1,30,00,000

C. 1,26,00,000

D. 80,00,000

b)When debentures are allotted, 10% debenture account is:

A. Debited with ₹ 80,00,000

B. Credited with ₹80,00,000

C. Debited With ₹ 76,00,000

D. Credited with ₹ 76,00,000

c) Loss on issue of debenture:

A. 4,00,000

B. 80,000

C. 8,00,000

D. None of the above

31

Wellbeing Ltd. took over assets of ₹ 9,80,000 and liabilities of ₹ 40,000 of HDR Ltd. at an agreed value of ₹ 9,00,000. Wellbeing Ltd. paid to HDR Ltd. by issue of 9% Debentures of ₹ 100 each at a premium of 20%. Pass necessary Journal entries to record the above transactions in the books of Wellbeing Ltd.

CBSE BOARD QUESTIONS

32

Blue Prints Ltd., purchased building worth Rs 1,50,000, machinery worth Rs 1,40,000 and furniture worth Rs 10,000 from XYZ Co., and took over its liabilities of Rs 20,000 for a purchase consideration of Rs 3,15,000. Blue Prints Ltd., paid the purchase consideration by issuing 12% debentures of Rs 100 each at a premium of 5%. **Record necessary journal entries.**

33

Y Ltd. issued Rs. 2,00,000, 10% Debentures at a discount of 5% .The terms of issue provide the repayment at the end of 4 years . Y Ltd. has a balance of Rs. 5, 00,000 in Securities Premium Reserve. The company decided to write off discount on issue of debentures from Securities Premium Reserve in the first year.

Pass the journal entry.

34

Pass the necessary journal entries for the issue of 7,500,9% Debenture of Rs. 50 each at discount of 6%, redeemable at premium of 10%.

35

XYZ Industries Ltd., issued 2,000, 10% debentures of Rs 100 each, at a premium of Rs 10 per debenture payable as follows:

On application Rs 50

On allotment Rs 60

The debentures were fully subscribed and all money was duly received.

Record the journal entries in the books of a company.

****

Answers

	VERY SHORT ANSWERS
1	B) Creditors of the Company
2	B) Nominal Account
3	5,000
4	20,000
5	True
6	Current assets and sub-head other current assets
7	Bearer debentures
8	True
9	b) Debentures Suspense Account
10	c) Debit Debenture Suspence A/c ₹1,00,000 and Credit Debentures A/c ₹1,00,000
11	a) Non-current Liabilities
12	b) Debenture redemption premium a/c
13	a) Long term Borrowings of a company
14	a) Personal Account
15	a) 11,000
16	**SOLUTION (SHORT ANSWER QUESTION)** A) Bank a/c Dr. 1,96,000 To 12% debentures application & allotment a/c 196,000 (Application money received) B) 12% debentures application &allotment a/c Dr. 1,96,000 Discount on issue of debentures a/ c Dr. 4,000 To 12% debentures a/c 2,00,000 (Transfer of application money to debentures a/c, issued at a discount of 2%)

	b) Bank a/c Dr. 2,10,000 To 12% debentures application & allotment a/c 2,10,000 (application money received) 12% debentures application &allotment a/c Dr. 2,10,000 Loss on issue of debentures a/c Dr. To 12% debentures a/c 20,000 To Securities premium reserve a/c 10,000 To premium on redemption a/c 20,000 To 12% debentures a/c 2,00,000 (transfer of application money to debentures a/c, issued at a premium of 5% and redeemable at a premium of 10%)
17	Sundry Assets A/c Dr. 1,90,000 To Vendors 1,90,000 (Assets purchased from vendors) Vendors Dr. 1,90,000 Discount on Issue of Debenture A/c Dr. 10,000 To 10% Debentures A/c 2,00,000 (Allotment of 2,000 debentures of Rs 100 each at a discount of 5% as purchase consideration)
18	Goodwill a/c Dr 1,00,000 Discount on issue of Debentures A/c Dr 2,00,000 To bills payable A/c 20,000 To Debenture A/C 3,80,000

19

Books of National Packaging Company
Journal

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Sundry Assets A/c	Dr.		1,90,000	
	To Vendors				1,90,000
	(Assets purchased from vendors)				
	Vendors	Dr.		1,90,000	
	Discount on Issue of Debenture A/c	Dr.		10,000	
	To 10% Debentures A/c				2,00,000
	(Allotment of 2,000 debentures of Rs. 100 each at a discount of 5% as purchase consideration)				

20

Books of ABC Limited
Journal

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c	Dr.		2,70,000	
	To 12% Debenture Application A/c				
	(Application money on 9,000 debentures received)				2,70,000
	12% Debenture Application A/c	Dr.		2,70,000	
	To 12% Debentures A/c				2,70,000
	(Application money transferred to debentures Account on allotment)				
	12% Debenture Allotment A/c	Dr.		6,30,000	
	To 12% Debentures A/c				6,30,000
	(Amount due on 9,000 debentures on allotment @ Rs. 70 per debenture)				
	Bank A/c	Dr.		6,30,000	
	To 12% Debenture Allotment A/c				6,30,000
	(Amount received on allotment)				

21

Sundry Assets A/c Dr. 2,00,000
To Vendors 2,00,000
(Assets purchased from vendors)

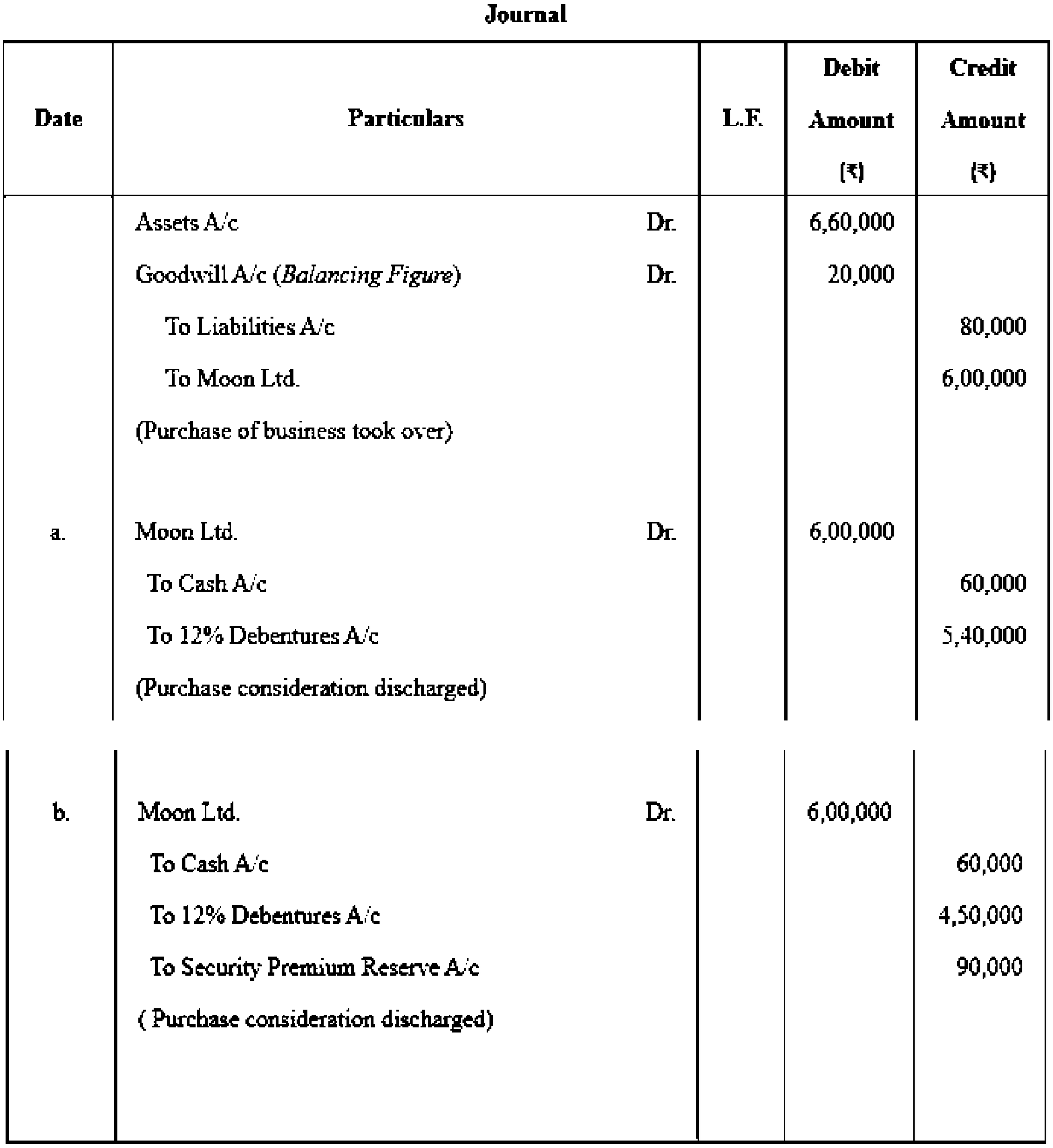
Vendors Dr. 2,00,000
To 10% Debentures A/c 2,00,000
(allotment of debentures to vendors as purchase consideration)

22	**Books of TV Components Ltd.** Bank A/c Dr. 4,00,000 To 12% Debenture Application A/c 4,00,000 (Receipt of application money @ Rs 30 per debenture) 12% Debenture Application A/c Dr. 4,00,000 To 12% Debenture A/c 4,00,000 (Transfer of application money to debenture account) 12% Debenture Allotment A/c Dr. 5,50,000 Discount on Issue of Debentures A/c 50,000 To 12% Debenture A/c 6,00,000 (Allotment money due on debentures) Bank A/c Dr. 5,50,000 To 12% Debenture Allotment A/c 5,50,000 (Receipt of allotment money on debentures)
23	**Books of XYZ Industries Limited** Bank A/c Dr. 1,00,000 To 10% Debenture Application A/c 1,00,000 (Application money Rs 50 per debentures received) 10% Debenture Application A/c Dr. 1,00,000 To 10% Debentures A/c 1,00,000 (Transfer of application money) 10% Debenture Allotment A/c Dr. 1,20,000 To 10% Debentures A/c 1,00,000 To Securities Premium A/c 20,000 (Allotment money due on debentures including the premium) Bank A/c Dr. 1,20,000 To 10% Debenture Allotment A/c 1,20,000 (Allotment money received)
24	**Books of Rai Company Limited** Sundry Assets A/c Dr. 2,20,000 To Vendors 2,20,000 (Assets purchased from vendors) Vendors Dr. 2,20,000 To 10% Debentures A/c 2,00,000 To Securities Premium A/c 20,000 (Allotment of 2,000 debentures of Rs 100 each at a premium of 10% as purchase consideration)
25	**Books of A Limited** Sundry Assets A/c Dr. 3,00,000 To Sundry Liabilities A/c 10,000 To B & Co. Ltd. 2,70,000 To Capital Reserve 20,000 (Purchased assets and took over liabilities from B Ltd.)

B & Co. Ltd. Dr. 2,70,000
To 15% Debentures A/c 2,25,000
To Securities Premium A/c 45,000
(Issue of 2,250 debentures of Rs 100 each at a premium of 20%)

26

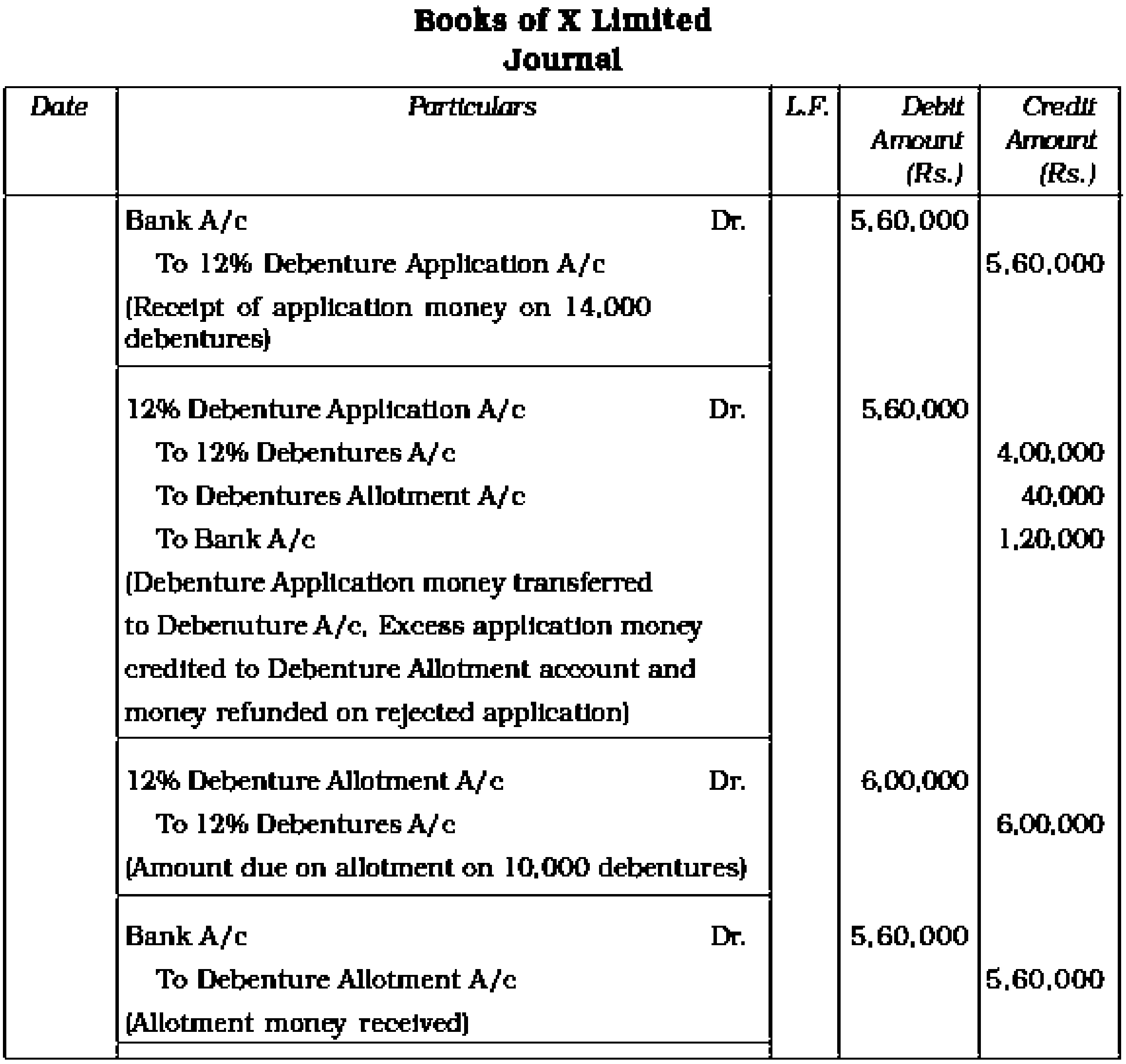
SOLUTION (LONG ANSWER - QUESTIONS)



Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Assets A/c	Dr.		6,60,000	
	Goodwill A/c (*Balancing Figure*)	Dr.		20,000	
	To Liabilities A/c				80,000
	To Moon Ltd.				6,00,000
	(Purchase of business took over)				
a.	Moon Ltd.	Dr.		6,00,000	
	To Cash A/c				60,000
	To 12% Debentures A/c				5,40,000
	(Purchase consideration discharged)				
b.	Moon Ltd.	Dr.		6,00,000	
	To Cash A/c				60,000
	To 12% Debentures A/c				4,50,000
	To Security Premium Reserve A/c				90,000
	(Purchase consideration discharged)				

27



Books of X Limited
Journal

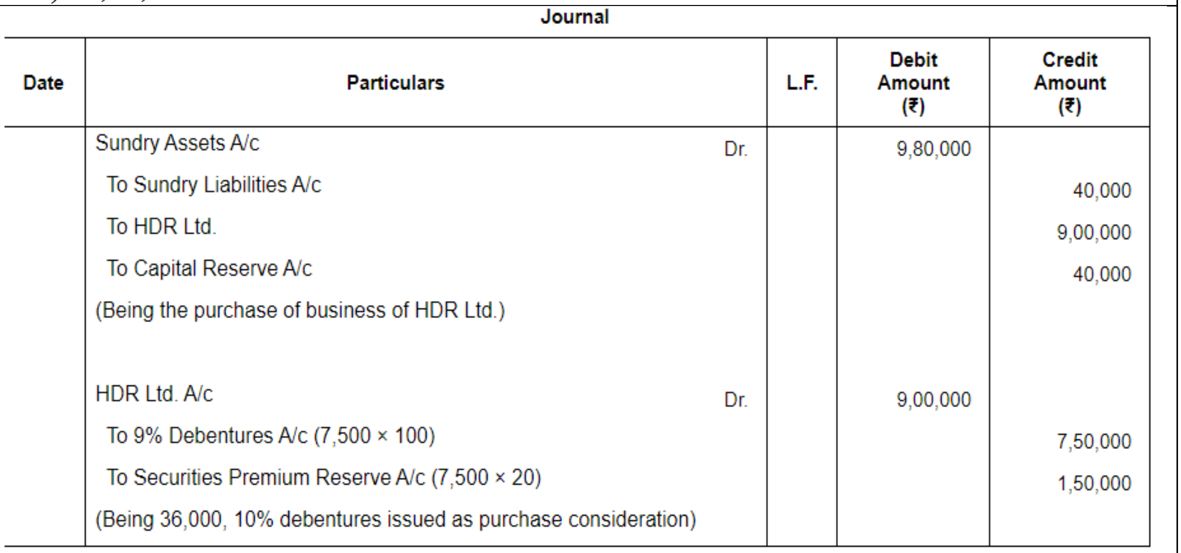
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr.		5,60,000	
	To 12% Debenture Application A/c			5,60,000
	(Receipt of application money on 14,000 debentures)			
	12% Debenture Application A/c Dr.		5,60,000	
	To 12% Debentures A/c			4,00,000
	To Debentures Allotment A/c			40,000
	To Bank A/c			1,20,000
	(Debenture Application money transferred to Debenuture A/c, Excess application money credited to Debenture Allotment account and money refunded on rejected application)			
	12% Debenture Allotment A/c Dr.		6,00,000	
	To 12% Debentures A/c			6,00,000
	(Amount due on allotment on 10,000 debentures)			
	Bank A/c Dr.		5,60,000	
	To Debenture Allotment A/c			5,60,000
	(Allotment money received)			

28

Date	Particulars	LF	Debit Rs.	Credit Rs.
2017				
Apr1	Bank A/c		6,00,000	
	To Debenture Application &Allotment A/c			6,00,000
	(Being application money received)			
Apr 1	Debenture Application &Allotment A/c		6,00,000	
	Loss on issue of debentures A/c		30,000	
	To 9% Debentures A/c			6,00,000
	To Premium on redemption of Debentures			30,000
	(Being application money transferred)			
2018	Securities Premium Reserve A/c		10,000	
	Statement of Profit &Loss A/c		20,000	
	To Loss on issue of debentures A/c			30,000
	(Being Loss on issue of debentures written off)			

29 1) 20,000 2) 16,000 3)12,000 4) 8,000

30
a) 1,26,000
b) Credited with Rs.80,00,000
c) 8,00,000

31


Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Sundry Assets A/c	Dr.		9,80,000	
	To Sundry Liabilities A/c				40,000
	To HDR Ltd.				9,00,000
	To Capital Reserve A/c				40,000
	(Being the purchase of business of HDR Ltd.)				
	HDR Ltd. A/c	Dr.		9,00,000	
	To 9% Debentures A/c (7,500 × 100)				7,50,000
	To Securities Premium Reserve A/c (7,500 × 20)				1,50,000
	(Being 36,000, 10% debentures issued as purchase consideration)				

CBSE QUESTION PAPER SOLUTION

32
Building A/c Dr. 1,50,000
Plant & Machinery A/c Dr. 1,40,000
Furniture A/c Dr. 10,000
Goodwill A/c 1 Dr. 35,000
To Liabilities (Sundry) 20,000
To XYZ Co. 3,15,000
(Purchase of assets and taking over of liabilities of XYZ Co.)

XYZ Co. Dr. 3,15,000
To 12% Debentures A/c 3,00,000
To Securities Premium A/c 15,000
(Issue of 3,000 debentures at a premium of 5%)
Note: 1. Since the purchase consideration is more than net assets taken over, the difference has been debited to goodwill account.
2. No. of debentures issued = Purchase Consideration
Issue Price of a Debenture
= Rs 3,15,000/105 = 3,000

33

		Debit Rs.	Credit Rs.
Securities Premium Reserve A/c	Dr	10,000	
To Discount on issue of debentures A/c			10,000
(Being Discount on issue of debentures written off)			

Note: Discount on issue of Debentures = 2, 00,000×5% = Rs 10,000

34
(i) Bank A/c Dr Rs. 3,52,000
To Debenture Application and Allotment A/c Rs. 3,52,000
(being application received)

(ii)Debenture Application and Allotment A/c	Dr	Rs. 3,52,000	
Discount of issue of Debenture A/c	Dr	Rs. 22,500	
Loss on issue of Debenture A/c	Dr	Rs. 37,500	
To 9% Debenture A/c			Rs. 3,75,000
To premium on rebemption of Debenture A/c			Rs. 37,500
(being allotment issued at discount…)			

35	Bank A/c Dr. 1,00,000 To 10% Debenture Application A/c 1,00,000 (Application money Rs 50 per debentures received) 10% Debenture Application A/c Dr. 1,00,000 To 10% Debentures A/c 1,00,000 (Transfer of application money) 10% Debenture Allotment A/c Dr. 1,20,000 To 10% Debentures A/c 1,00,000 To Securities Premium A/c 20,000 (Allotment money due on debentures including the premium) Bank A/c Dr. 1,20,000 To 10% Debenture Allotment A/c 1,20,000 (Allotment money received)

****

Chapter - 8

FINANCIAL STATEMENT

Financial Statements

Meaning

The statements which are prepared to ascertain the profit earned or loss suffered and position of assets and liabilities at a particular date are known as financial statements. These are the final product of accounting process.

A set of financial statements as per Section 2(40) of the Companies Act, 2013 include

i. Balance sheet i.e. position statement
ii. Statement of profit and loss i.e. income statement
iii. Notes to accounts
iv. Cash flow statement

Section 129 of the Companies Act, 2013 requires the company to prepare its financial statements every year in prescribed form i.e. Schedule III of the Companies Act, 2013.

Characteristics of Financial Statements

i. Financial statements are historical documents as they relate to past period.
ii. Financial statements are prepared in monetary terms.
iii. Balance sheet reveals the financial position and statement of profit and loss shows the profitability of the business organisation.

Nature of Financial Statements

i. Recorded facts
ii. Accounting conventions
iii. Postulates

Objectives of Financial Statements

i. Financial statements provide the information about the earning capacity of the business.
ii. Financial statements provide the information about the economic resources and obligation of an enterprise.
iii. Financial statements also provide the information about the cash flows.
iv. Financial statements supply the information useful for judging the management's ability to utilise the resources of business effectively.
v. Financial statements have to report the activities of the business organisation affecting the society, which is important in its social environment.

Uses and Importance of Financial Statements

i. Report on stewardship function
ii. Basis for fiscal policies
iii. Basis of granting of credit
iv. Basis for prospective investors
v. Guide to the value of the investment already made
vi. Aids trade associations in helping their members

Financial statement analysis

Meaning:

Financial statement analysis is a judgmental process which aims to estimate current and past financial positions and the results of the operation of an enterprise, with primary objective of determining the best possible estimates and predictions about the future conditions. It essentially involves regrouping and analysis of information provided by financial statements to establish relationships and throw light on the points of strengths and weaknesses of a business enterprise, which can be useful in decision-making involving comparison with other firms (cross sectional analysis) and with firms' own performance, over a time period (time series analysis).

Features

1. To present the complex data contained in financial statements in simple and understandable form.
2. To classify the items contained in financial statements in convenient and rational groups
3. To make comparisons between various groups to draw variousconclusions.

Objectives:

- To assess the current profitability and operational efficiency of the firm as a whole as well as its different departments so as to judge the financial health of the firm.
- To ascertain the relative importance of different components of the financial position of the firm.
- To identify the reasons for change in the profitability/financial position of the firm.
- To judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm.

Importance:

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss. Financial analysis can be undertaken by management of the firm, or by parties outside the firm, viz., owners, trade creditors, lenders, investors, labour unions, analysts and others. The nature of analysis will differ depending on the purpose of the analyst.

Financial analysis is useful and significant to different users in the following ways:

(a) Finance manager: Financial analysis focusses on the facts and relationships related to managerial performance, corporate efficiency, financial strengths and weaknesses and creditworthiness of the company. A finance manager must be well-equipped with the different tools of analysis to make rational decisions for the firm. 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. The techniques are equally important in the area of financial control, enabling the finance manager to make constant reviews of the actual financial operations of the firm to analyse the causes of major deviations, which may help in corrective action wherever indicated.

(b) Top management: The importance of financial analysis is not limited to the finance manager alone. It has a broad scope which includes top management in general and other functional managers. Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most efficiently and that the firm's financial condition is sound. 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, through an analysis of financial statements, appraises not only the ability of the company to meet its short-term obligations, but also judges the probability of its continued ability to meet all its financial obligations in future. 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: Suppliers of long-term debt are concerned with the firm's longterm solvency and survival. 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). Long-term lenders analyse the historical financial statements to assess its future solvency and profitability.

(e) Investors: Investors, who have invested their money in the firm's shares, are interested about the firm's earnings. As such, they concentrate on the analysis of the firm's present and future profitability. They are also interested in the firm's capital structure to ascertain its influences on firm's earning and risk. They also evaluate the efficiency of the management and determine whether a change is needed or not. However, in some large companies, the shareholders' interest is limited to decide whether to buy, sell or hold the shares.

(f) Labour unions: Labour unions analyse the financial statements to assess whether it can presently afford a wage increase and whether it can absorb a wage increase through increased productivity or by raising the prices.

(g) Others: The economists, researchers, etc., analyse the financial statements to study the present business and economic conditions. The government agencies need it for price regulations, taxation and other similar purposes.

Limitations of Financial Analysis

Financial analysis helps the interested parties to make an assessment of the eaming capacity and financial soundness of a business enterprise. But such analysis has its own limitations. Such limitations should be kept in mind while using the informations provided by the financial analysis. Some of the limitations are as follows:

(1) Limitations of Financial Statements:
Financial analysis is based on financial statements. But financial statements themselves suffer from certain limitations, hence the limitations of financial statements are also the limitations of their analysis. For example, (a) Sometimes the informations given in financial statements are incomplete and unauthentic, (b) Financial Statements are based on accounting concepts and conventions. As such, the utility of financial analysis is decreased due to the shortcomings of financial statements.

(2) Affected by Window-dressing:
Some firms resort to window-dressing their financial statements to cover up bad financial position on the eve of accounting date. For example, they may not record the purchases made at the end of the year or they may overvalue their closing stock. In such cases, the results obtained by analysis of financial statements will be misleading.

It is clear from the above mentioned limitations that the results analysis of financial should not be taken as the true in strength and weaknesses of the concern. The results obtained from and read carefully and cautiously. The limitations of analysis must be kept taking decisions based on the results obtained from such analysis.

(3) Do not Reflect Changes in Price Level:
Figures given in financial statements do not show the effect of changes in price level. As such, the comparison of past year figures with current year figures may lead to misleading conclusions. For example, if in 2021 a firm sells 10,000 metre of cloth for 10 lakhs and the same firm in 2022 sells the same type of 10,000 metre of cloth for 15 lakhs, it discloses an increase of 50% in sales, whereas, in actual, the sales have not increased at all. As such, sufficient adjustments must be made for changes in price level before making the analysis.

(4) Different Accounting Policies:
If two firms adopt different accounting policies, the comparison between the two will be unreliable. For example, one firm may provide depreciation on original cost method, whereas the other firm may adopt the written-down value method for providing the depreciation. Similarly, the method of valuation of closing stock may also differ from one firm to another. The results obtained from the comparison of the financial statements of such firms may give misleading picture.

(5) Effect of Personal Ability and Bias of the Analyst:
Figures given in financial statements do not speak by themselves, hence, any conclusion can be drawn from these figures. Conclusions obtained from the analysis of these figures are affected to a great extent by the personal ability and knowledge of the analyst. For example, for calculating 'return on capital' one analyst may consider the profits after taxes, whereas, the other analyst may consider the profits before taxes. Similarly, the term "Capital' may mean only the "Shareholder's Funds' for one analyst, whereas the other analyst may take the 'Shareholder's Funds and Long Term Debts' as capital.

(6) Difficulty in Forecasting:
Financial statements are a record of past events and historical facts. In the fast changing and developing modern business, the analysis of past information may not be of much use in future forecasting. Continuous changes take place in the demand of the product, policies adopted by the firm, the position of competition etc. As such, no estimate based on the analysis of historical facts can be made for future.

(7) Lack of Qualitative Analysis:
Financial statements record only those events and transactions which can be expressed in terms of money. Qualitative aspects of business units are omitted from the books at all as these cannot be expressed in monetary terms. Thus, changes in management, reputation of the business, cordial management-labour relations, firm's ability to develop new products, efficiency of management, satisfaction of firm's customers etc. which have a vital bearing on the profitability of the company are all ignored and omitted from being recorded because all of these are qualitative in nature.

(8) Limited Use of Single Year's Analysis of Financial Statements:
Results obtained from financial analysis assume significance only when compared with the figures of previous periods. For example, the profit of a firm to sales is 12%, whether this is satisfactory or not will depend upon the figures of previous years. If the firm earned 10% of sales as profit in the previous year, it may be considered to have done better this year. However, the financial statements of two years may not be comparable due to the changes in accounting policies.

It is clear from the above mentioned limitations that the results obtained from analysis of financial statements should not be taken as the true indicators of the strength and weaknesses of the concern. The results obtained from analysis must be read carefully and cautiously. The limitations of analysis must be kept in mind while taking decisions based on the results obtained from such analysis.

Tools for analysis of Financial Statements

Cash flow statement:

The Cash Flow Statement was previously known as the flow of Cash statement. Cash Flow Statement is a statement of inflow and outflow of cash and cash equivalents. The cash flow statement is divided into three parts namely: (1) Cash flow from operating activities; (2) Cash flow from investing activities; and (3) Cash flow from financing activities. Cash flow statement is helpful in knowing the movement of cash into the business and movement of cash out of the business.

Ratio Analysis:

Ratio Analysis is a study of relationship among various financial factors in a business. Ratio Analysis is a tool of Financial Statement Analysis that is used to know the firm's financial performance. Ratio Analysis is based on the availability of accounting information. The main objective of ratio analysis is the comparative measurement of financial data.

Format: As prescribed in Part I of Schedule III of the Companies Act, 2013, Balance Sheet is prepared as follows:

Particulars (1)	Note no. (2)	Figures at the end of the Current Reporting Period (3)	Figures at the end of the Previous Reporting Period (4)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a) Share Capital		…	…
b) Reserves and Surplus		…	…
c) Money received against Share Warrants		…	…
2. Share Application Money			
Pending Allotment		…	…
3. Non-Current Liabilities			
a) Long-term Borrowings			
b) Deferred Tax Liabilities (Net)		…	…
c) Other Long-term Liabilities		…	…
d) Long-term Provisions		…	…
4. Current Liabilities		…	…
a) Short-term Borrowings			
b) Trade Payables		…	…
c) Other Current Liabilities		…	…
d) Short-term Provisions		…	…
		….	…
Total		…	…
II. ASSETS			
1. Non-Current Assets			
a) Fixed Assets:			
i. Tangible Assets		…	…
ii. Intangible Assets		…	…
iii. Capital Work-in-Progress		…	…
iv. Intangible Assets under Development		…	…
b) Non-current Investments		…	…
c) Deferred Tax Assets (Net)		…	…
d) Long-term Loans and Advances		…	…
e) Other Non-Current Assets		…	…
2. Current Assets			
a) Current Investments		…	…
b) Inventories		…	…
c) Trade Receivables		…	…
d) Cash and Cash Equivalents		…	…
e) Short-term Loans and Advances		…	…
f) Other Current Assets		…	…
Total		…	…

PART II

Format of Statement of Profit and Loss

Particulars (1)	Note no. (2)	Figures at the end of the Current Reporting Period (3)	Figures at the end of the Previous Reporting Period (4)
I. Revenue from Operation		…	…
II. Other Income		…	…
III. Total Revenue		…	…
IV. Expenses:			
Cost of materials consumed		…	…
Purchases of Stock-in-Trade		…	…
Changes in inventories of finished g		…	…
work-in progress and Stock-in-Trade		…	…
Employee benefits expenses		…	…
Finance costs		…	…
Depreciation and amortization exper		…	…
Other expenses		…	…
Total expenses		…	…
V. Profit before tax (III-IV)		…	…
VI. Tax		…	…
VII. Profit after tax		…	…

Details of major Headings and sub- Headings

Particulars	**Major headings**	**Sub- headings**
➢ Land ➢ Building ➢ Plant and Machinery ➢ Furniture and Fixtures ➢ Vehicles ➢ Live Stock	Non current assets	Fixed tangible assets
➢ Goodwill ➢ Mastheads and Publishing titles ➢ Patents ➢ Trademarks ➢ Brand ➢ Mining Rights ➢ Computer software ➢ Licences ➢ Franchise ➢ Copyrights ➢ Prototypes ➢ Recipes ➢ Formulae ➢ Models ➢ Designs		

	Non current assets	Fixed Intangible assets
➢ Raw Material ➢ Work-in-Progress ➢ Finished Goods ➢ Stock-in-Trade Stores and Spares ➢ Loose Tools	Current assets	Inventories
➢ Cash in Hand ➢ Bank Balance ➢ Demand Deposits with Bank ➢ Cheques in hand ➢ Drafis in hand ➢ Marketable Securities (short term)	Current assets	Cash and cash equivalents
➢ Debtors ➢ Bills Receivables/Bills of Exchange	Current assets	Trade receivables
➢ Creditors ➢ Bills Payable	Current Liabilities	Trade payables
➢ Deposits with customs Authorities	Non current assets	Long term loans and advances
➢ Investment in Equity Shares ➢ Investment in Preference Shares ➢ Investment in GovernmentSecurities ➢ Investment in Trust Securities ➢ Investment in Equity Shares (Short-term) ➢ Investment in Preference Shares (Short-term) ➢ Investment in Government Securities (Short-term) ➢ Investment in Trust Securities ➢ (Short-term) Investment in Mutual Funds (Short-term)	Current assets	Current investment
➢ Mortgage Loan ➢ Debentures ➢ Bonds ➢ Bank Loan ➢ Public Deposits	Non Current Liabilities	Long term borrowings
➢ General Reserve ➢ Securities Premium Reserve ➢ Balance in Statement of P/L ➢ Capital Reserve		

➢ Capital Redemption Reserve ➢ Revaluation Reserve ➢ Debenture Redemption Reserve ➢ Retained Earnings ➢ Contingencies Reserve ➢ Workmen Compensation Reserve ➢ Debenture Sinking Fund	Share holder's fund	Reserves and surpluses
➢ Prepaid Insurance Interest Accrued on Investment ➢ Accrued Income ➢ Expenses paid in Advance	Current assets	Other Current assets
➢ Provision for Tax ➢ Provision for doubtful debts	Current liabilities	Short term provisions
➢ Share Forfeiture Account	Share holder's fund	Add in subscribed capital while preparing notes to accounts
➢ Calls in Arrears	Share holder's fund	Deduct in subscribed capital while preparing notes to accounts
➢ Preliminary Expenses ➢ Loss on issue of Debentures ➢ Share issue Expense	Deduct from securities premium reserve/capital reserve/ statement of P & L	----
➢ Interest Accrued and due on Debentures ➢ Interest Accrued but not due on DebenturesInterest Accrued and due on ➢ Secured Loans ➢ Interest Accrued and due on unsecured Loans ➢ Advance Received from Customers ➢ Unclaimed Dividends ➢ Calls in Advance ➢ Outstanding Expenses	Current liabilities	Other Current liabilities
➢ Arrears of Fixed Cumulative Dividend ➢ Proposed Dividend	It is a contingent liability and will be shown as footnote to the Balance sheet	

****

Practice Questions:

1.	**Main objective of analysis of financial statements is:** (A) To know the financial strength (B) To make a comparative study with other firms (C) To know the efficiency of management (D) All of the Above
2.	**Financial analysis becomes significant because it:** (A) Ignores price level changes (B) Measures the efficiency of business (C) Lacks qualitative analysis (D) Is effected by personal bias
3.	**Main limitation of analysis of financial statements is** (A) Affected by window dressing (B) Difficulty in forecasting (C) Do not reflect changes in price level (D) All of the Above
4.	**According to prescribed order of assets in a Company's Balance Sheet** ……………………… assets should be shown first of all. (A) Non-Current Assets (B) Current Assets (C) Current Investments (D) Loans and Advances
5.	**Calls in advance appear in a Company's Balance Sheet under** ………………. (A) Share Capital (B) Current Liability (C) Long-term Borrowings (D) Reserve & Surplus
6.	**………appear in a Company's Balance Sheet under the Sub-head Short-term Provision** (A) Interest Accrued but not due on Borrowings (B) Provision for Tax (C) Unpaid Dividend (D) Calls in Advance
7.	**Change in Inventories means :** (A) Difference between Opening Inventories and Closing Inventories (B) Difference between Closing Inventories and Opening Inventories (C) Difference between Opening Inventories and Closing Inventories, if Opening Inventories are higher (D) Difference between Closing Inventories and Opening Inventories, if Closing Inventories are higher.

8. **Which of the following points out nature of financial statements?**

(i) Financial statements are prepared on the basis of recorded facts.

(ii) Certain accounting conventions are followed while preparing financial statements.

(iii) Financial statements are prepared on certain basic assumptions (pre-requisites) known as postulates.

(iv) Facts and figures presented through financial statements are based on personal opinion, estimates and judgements.

(a) Only (i)

(b) (i),and(ii)

c) (i),(ii) and (iii)

(d) (i) ,(ii),(iii) and (iv)

9. **Bank overdraft and cash credit are treated as 'short-term borrowings' in the balance sheet of a company.**

(a) True

(b) False

(c) Partially true

(d) Can't say

10 **Amount provided for any known liability whose amount as yet isuncertain is known as:**

(a) Liability

(b) Reserve

(c) Provision

(d) None of the above

11 **The assets which cannot be realised incash or from which no further benefit can be derived are known as:**

(a) Tangible asset

(b) Fictitious asset

(c) Intangible asset

(d) None of the above

12	**Livestock is an item of......... under sub-head fixed asset and the major** head non-current assets. (a) tangible assets. (b) inventories (c) trade receivables (d) intangible
13	**What will be the amount shown under the head current liabilities when the following data is given?** Short-term borrowings=₹2,00,000 Trade Payables = 1,00,000 Other Current Liabilities = 1,50,000, Short-term Provisions=20,000 (a) ₹ 5,00,000 (b) 600,000 (c) 2,00,000 (d) 4,70,000
14	**Goodwill of a company amounting to 35,000 is shown on the assets side of the balance sheet under which of the following head?** (a) Non-current assets (b) Current assets (c) Non-current liabilities (d) None of the above
	Directions (Q.Nos. 15 to 17) **There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below:** (a) Both Assertion (A) and Reason (R) are true and Reason (R) is 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

15 **Assertion (A)** Bills receivable are shown as trade receivables in the balance sheet of the company.

Reason (R) Debtors and bills receivable forms the part of trade receivables.

16 **Assertion (A)** The bank charges charged by the bank are included in finance cost.

Reason (R) Bank charges are an expense not incurred in connection with raising finance but for availing the services of the bank.

17 **Assertion (A)** Analysis of financial statements is done to assess the managerial efficiency.

Reason (R) Financial statement analysis helps to identify the areas where the managers have been efficient and the areas where they have been inefficient.

Direction : Read the following case study and answer questions 18 to 22 on the basis of the same.

Care Ltd is a company that deals in manufacturing of pharmaceutical products. Dev has recently been hired as an assistant to the accountant of Care Ltd. The accountant of the firm Mr. Raj asks Dev to go for financial statement analysis to assess the financial position of the firm. To judge the knowledge and capabilities of Dev, Mr. Raj asked him to analyze the financial statements from the view point various parties interested in the firm like the management, the lenders, the investors, government etc.

18 **Which of the following statements will primarily be utilised by Dev for the purpose of financial statement analysis?**

(a) Balance sheet and cash flow statement.
(b) statement of profit and loss and cash flow statement
(c) balance sheet and statement of profit and loss
(d) cash flow statement and fund flow statement.

19 **If Dev is to analyse the financial statements for the top management,**

what should he consider?

a) Short-term liquidity of the firm.
b) Ability to pay its long-term lenders.
c) The resources of the firm are used most efficiently and that the firm's financial condition is sound.
d) None of the above

20 **If Dev is to analyse the financial statements for the short-term lenders,**

what should he consider?

(a) Short-term liquidity of the firm

(b) Long-term solvency of the firm

(c) The resources of the firm are used most efficiently and that the firm's financial condition is sound

d) None of the above

21 **If Dev is to analyse the financial statements for the investors, what should he consider?**

a) Firm's present and future profitability
b) Ability to pay its long-term lenders
c) Firm's capital structure
d) Both (a) and (c)

22 **While analysing the financial statements, Dev should be conscious of which of the following?**

a) Changes in accounting policies of the firm
b) Personal judgements
c) Window dressing of financial statements
d) All of the above

23 **Match the following:**

a. Interest paid on debentures	(i)depreciation
b. Fixed assets written off over their useful life	(ii)other expenses
c. cheques	(iii) financial cost
d. discount allowed	(iv) other current liabilities

24 **Explain the importance of financial analysis for**
(i) labour unions, and
(ii) creditors

25 **State the objectives of 'Analysis of Financial Statements'.**

26 **State any four limitations of analysis of financial statements.**

27 **State the importance of Financial Analysis?**

28 **State under which major headings and sub-headings will the following items be presented in the BalanceSheet 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
(v) Capital Reserve

29 **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
(iii) Securities Premium Reserve
(iv) Long-Term Investments with maturity period less than six months
(viii) Debtors

30 W 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 employee were selected from the village and neighbourhood 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**

- Loose Tools -Trade Receivable
- Cheque in Hand- Current Investment
- Term Loan from Bank- Other long Term Liabilities
- 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.

31 **How would you show 'Employee Benefit Expenses with the help of Notes to Accounts in the Statement of Profit &Loss.**

(i) Salaries & wages ₹ 5,20,000
(ii) Dividend received ₹ 5000,
(iii) Leave encasement ₹ 400,000
(iv) Salaries to manages ₹ 10,00,000
(v) Depreciation on fixed assets ₹ 200,000
(vi) Contribution to provident fund ₹ 50,000.

32 K M 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: Present it correctly**.

- Securities Premium Reserve
- Calls in Advance
- Stores & Spares

****

Answers:

1.	(D) All of the Above
2.	(B) Measures the efficiency of business
3.	(D) All of the Above
4.	(A) Non-Current Assets
5.	(B) Current Liability
6.	(B) Provision for Tax
7.	(A) Difference between Opening Inventories and Closing Inventories
8.	(d) (i) ,(ii),(iii) and (iv)
9.	(a) True
10.	(c) Provision
11.	(b) Fictitious asset
12.	(a) tangible assets.
13.	(d) 4,70,000
14.	(a) Non-current assets
15.	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
16.	(c) Assertion (A)is false, but Reason (R) is true
17.	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
18.	(c) balance sheet and statement of profit and loss
19.	c) The resources of the firm are used most efficiently and that the firm's financial condition is sound.
20.	a)Short-term liquidity of the firm
21.	d) Both (a) and (c)
22.	d) All of the above
23.	a(iii),b(i),c(iv),d(ii)

24.	Answer: (i) Importance for Labour Unions: Labour unions analyse the financial statements to assess whether it can presently afford a wage increase and whether it can absorb a wage increase through increased productivity or by raising the prices. (ii) Importance for Creditors: Creditors through an analysis of Financial Statements appraises not only the ‘ ability of the company to meet its short term obligations but also judges the probability of its continued ability to meet its financial obligations in future.
25.	Answer: Objectives of‘Financial Statements Analysis’: 1.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. 2. Assessing the managerial efficiency by using financial ratios to identify favourable and unfavourable variations in managerial performance.
26.	Limitations of ‘Financial Statements Analysis’: (a) Different Accounting Principles and Practices. Financial analysis is subject to limitations inherent in the financial statements like following different accounting principles or practices regarding depreciation methods, inventory valuation and pricing, etc. (b) Ignores the Quality Elements. Financial statements contain only financial data and exclude from the preview of qualitative information, which cannot be expressed in money terms. Thus, analysis of such financial statements will also lack quality element. (c) Ignores Price Level Changes. Transactions, in financial statements, are recorded on historical cost basis and generally no adjustment is made for price level changes. Thus, the analysis of financial statement will not yield comparable results due to lack of adjustments for the price level changes. (d) Affected by Window Dressing. Some firms may resort to window dressing (showing better picture) to cover-up bad financial position. For example, closing stock may be overstated. In such case, the results of analysis will also be misleading.
27.	Financial Analysis has great importance to various accounting users on various matters. Income Statements, Balance Sheets and other financial data provides information about expenses and sources of income, profit or loss and also helps in assessing the financial position of a business. These financial data are not useful until they are analysed. There are various tools and methods such as Ratio Analysis, Cash Flow Statements that make the financial data to cater varying needs of various accounting users. The following are the reasons that advocate in favour of Financial Analysis:

1. It helps in evaluating the profit earning capacity and financial feasibility of a business.

2. It helps in assessing the long-term solvency of the business.

3. It helps in evaluating the relative financial status of a firm in comparison to other competitive firms.

4. It assists management in decision making process, drafting various plans and also in establishing an effective controlling system.

28.

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. Capital Reserve	Shareholder Fund	Reserve and Surpluses

29.

Items	Major heads	Sub-heads
1. Cheques and Bank Drafts in Hand	Current Assets	Cash & Cash Equivalents
2. Securities Premium Reserve	Shareholders' Funds	Reserves & Surplus
3. Long-Term Investments with maturity period less than six months	Current Assets	Current Investments
4. Debtors	Current Assets	Trade Receivables

30.

Items	Major heads	Sub-heads
1. Loose Tools	Current Assets	Inventories
2. Cheque in Hand Current Investment	Current Assets	Cash and Cash Equivalent
3.Term loan from Bank	Non-Current Liabilities	Long Term Borrowings
4. Computer Software	Non-Current assets	Fixed Assets-Intangible Assets

31.

Statement of Profit and Loss

Particulars	Note no.	Amount
I.Revenue from operation		
II.Other income		
III. Total revenue		
IV. Expenses : Employee benefit expenses		19,70,000

Note to employee benefit expenses

Details	**amount**
(i) Salaries & wages	₹ 5,20,000
ii) Leave encasement	₹ 400,000
iii) Salaries to manages	₹ 10,00,000
iv) Contribution to provident fund	₹ 50,000.
total	19,70,000

32.

Items	**Major heads**	**Sub-heads**
1. Securities Premium Reserve	Shareholders’ Funds	Reserves & Surplus
2. Calls in Advance	Current Liabilities	Other Current Liabilities
3.stores and spares	Current Assets	Inventory

****

Chapter - 09

ACCOUNTING RATIOS

Meaning:

A ratio is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage and a number of times. When the number is calculated by referring to two accounting numbers derived from the financial statements, it is termed as accounting ratio. It needs to be observed that accounting ratios exhibit relationship, if any, between accounting numbers extracted from financial statements. Ratios are essentially derived numbers and their efficacy depends a great deal upon the basic numbers from which they are calculated. Further, a ratio must be calculated using numbers which are meaningfully correlated.

Objectives of Ratio Analysis:

Ratio analysis is indispensable part of interpretation of results revealed by the financial statements. It provides users with crucial financial information and points out the areas which require investigation. Ratio analysis is a technique which involves regrouping of data by application of arithmetical relationships, though its interpretation is a complex matter. It requires a fine understanding of the way and the rules used for preparing financial statements. Once done effectively, it provides a lot of information which helps the analyst:

1. To know the areas of the business which need more attention;
2. To know about the potential areas which can be improved with the effort in the desired direction;
3. To provide a deeper analysis of the profitability, liquidity, solvency and efficiency levels in the business;
4. To provide information for making cross-sectional analysis by comparing the performance with the best industry standards; and
5. To provide information derived from financial statements useful for making projections and estimates for the future.

Importance (or Advantages) of Ratio Analysis:

1. Helps to understand efficacy of decisions: The ratio analysis helps you to understand whether the business firm has taken the right kind of operating, investing and financing decisions. It indicates how far they have helped in improving the performance.
2. Simplify complex figures and establish relationships: Ratios help in simplifying the complex accounting figures and bring out their relationships. They help summarise the financial information effectively and assess the managerial efficiency, firm’s credit worthiness, earning capacity, etc.
3. Helpful in comparative analysis: The ratios are not be calculated for one year only. When many year figures are kept side by side, they help a great deal in exploring the trends visible in the business. The knowledge of trend helps in making projections about the business which is a very useful feature.

4. Identification of problem areas: Ratios help business in identifying the problem areas as well as the bright areas of the business. Problem areas would need more attention and bright areas will need polishing to have still better results.
5. Enables SWOT analysis: Ratios help a great deal in explaining the changes occurring in the business. The information of change helps the management a great deal in understanding the current threats and opportunities and allows business to do its own SWOT (Strength-Weakness-Opportunity-Threat) analysis.
6. Various comparisons: Ratios help comparisons with certain bench marks to assess as to whether firm's performance is better or otherwise. For this purpose, the profitability, liquidity, solvency, etc. of a business, may be compared: (i) over a number of accounting periods with itself (Intra-firm Comparison/Time Series Analysis), (ii) with other business enterprises (Inter-firm Comparison/Crosssectional Analysis) and (iii) with standards set for that firm/industry (comparison with standard (or industry expectations).

Types of Ratios

1. **Liquidity Ratios:** To meet its commitments, business needs liquid funds. The ability of the business to pay the amount due to stakeholders as and when it is due is known as liquidity, and the ratios calculated to measure it are known as 'Liquidity Ratios'. These are essentially short-term in nature.
2. **Solvency Ratios:** Solvency of business is determined by its ability to meet its contractual obligations towards stakeholders, particularly towards external stakeholders, and the ratios calculated to measure solvency position are known as 'Solvency Ratios'. These are essentially long-term in nature
3. **Activity (or Turnover) Ratios:** This refers to the ratios that are calculated for measuring the efficiency of operations of business based on effective utilisation of resources. Hence, these are also known as 'Efficiency Ratios'.
4. **Profitability Ratios:** It refers to the analysis of profits in relation to revenue from operations or funds (or assets) employed in the business and the ratios calculated to meet this objective are known as 'Profitability Ratios'.

(1) Liquidity Ratios:

(a) Current Ratio

Current Ratio = Current Assets : Current Liabilities or Current Assets / Current Liabilities

Current assets include current investments, inventories, trade receivables (debtors and bills receivables), cash and cash equivalents, short-term loans and advances and other current assets such as prepaid expenses, advance tax and accrued income, etc.

Current liabilities include short-term borrowings, trade payables (creditors and bills payables), other current liabilities and short-term provisions

(b) Quick Ratio/Liquid Ratio

It is the ratio of quick (or liquid) asset to current liabilities. It is expressed as Quick ratio = Quick Assets: Current Liabilities or Quick Assets / Current Liabilities

(2) Solvency Ratios

(a) Debt-Equity Ratio:

Debt-Equity Ratio measures the relationship between long-term debt and equity. If debt component of the total long-term funds employed is small, outsiders feel more secure.

Debt-Equity Ratio = Long term Debts / Shareholders' Funds

Where:

Shareholders’ Funds (Equity) = Share capital + Reserves and Surplus + Money received against share warrants

Share Capital = Equity share capital + Preference share capital

Or

Shareholders’ Funds (Equity) = Non-current assets + Working capital − Non-current liabilities

Working Capital = Current Assets − Current Liabilities

(b) Total Assets to Debt Ratio

This ratio measures the extent of the coverage of long-term debts by assets

Total assets to Debt Ratio = Total assets/Long-term debts

(c) Proprietary Ratio:

Proprietary ratio expresses relationship of proprietor’s (shareholders) funds to net assets and is calculated as follows:

Proprietary Ratio = Shareholders, Funds / Capital employed (or net assets)

Significance: Higher proportion of shareholders’ funds in financing the assets is a positive feature as it provides security to creditors. This ratio can also be computed in relation to total assets instead of net assets (capital employed)

(d) Interest Coverage Ratio:

It is a ratio which deals with the servicing of interest on loan. It is a measure of security of interest payable on long-term debts. It expresses the relationship between profits available for payment of interest and the amount of interest payable.

It is calculated as follows:

Interest Coverage Ratio = Net Profit before Interest and Tax / Interest on long-term debts

Significance: It reveals the number of times interest on long-term debts is covered by the profits available for interest. A higher ratio ensures safety of interest on debts.

(e) The debt-to-capital employed ratio :

It is a measurement of a company's financialleverage. The debt-to-capital ratio is calculated by taking the company's interest-bearing debt, both short- and long-term liabilities and dividing it by the total capital.

Debt-to-Capital Ratio = Debt / Debt + Shareholder’s Equity

(3) Activity (or Turnover) Ratios

These ratios indicate the speed at which, activities of the business are being performed. The activity ratios express the number of times assets employed. Higher turnover ratio means better utilisation of assets and signifies improved efficiency and profitability, and as such is known as efficiency ratios.

(a) Inventory Turnover Ratio: It determines the number of times inventory is converted into revenue from operations during the accounting period under consideration. It expresses the relationship between the cost of revenue from operations and average inventory

The formula for its calculation is as follows:

Inventory Turnover Ratio = Cost of Revenue from Operations / Average Inventory

(b) Trade Receivables Turnover Ratio:

It expresses the relationship between credit revenue from operations and trade receivable. It is calculated as follows:

Trade Receivable Turnover ratio = Net Credit Revenue from Operations / Average Trade Receivable

Where Average Trade Receivable = (Opening Debtors and Bills Receivable + Closing Debtors and Bills Receivable)/2

(c) Trade Payable Turnover Ratio:

Trade payables turnover ratio indicates the pattern of payment of trade payable. As trade payable arise on account of credit purchases, it expresses relationship between credit purchases and trade payable.

It is calculated as follows:

Trade Payables Turnover ratio = Net Credit purchases / Average trade payable

Where,

Average Trade Payable = (Opening Creditors and Bills Payable + Closing Creditors and Bills Payable)/2

Average Payment Period = No. of days/month in a year ÷Trade Payables Turnover Ratio

(d) Working Capital Turnover Ratio: It reflects relationship between revenue from operations and net assets (capital employed) in the business.

Working capital turnover ratio = Net Revenue from Operation / Working Capital

(e)The Fixed Asset Turnover ratio:

It reveals how efficient a company is at generating sales from its existing fixed assets. A higher ratio implies that management is using its fixed assets more effectively. A high FAT ratio does not tell anything about a company's ability to generate solid profits or cash flows.

Fixed Asset Turnover Ratio = Revenue from operations/ Net Fixed Assets

or

Fixed Asset Turnover =

Revenue from operations/ (Gross Fixed Assets – Accumulated Depreciation)

(f) Net Asset Turnover ratio:

The asset turnover ratio measures the efficiency of a company's assets in generating revenue or sales.

It shows the efficiency of a company to convert its assets into sales. As asset turnover is calculated as net sales of a percentage of assets, it shows how much sales have been made for each rupee of assets.

Revenue from operations / net Assets or capital employed

4) Profitability Ratios

Profitability ratios are calculated to analyse the earning capacity of the business which is the outcome of utilisation of resources employed in the business. There is a close relationship between the profit and the efficiency with which the resources employed in the business are utilised.

(**a) Gross Profit Ratio**: Gross profit ratio as a percentage of revenue from operations is computed to have an idea about gross margin. It is computed as follows:

Gross Profit Ratio = Gross Profit / Net Revenue of Operations × 100

(b) Operating Ratio: It is computed to analyse cost of operation in relation to revenue from operations.

It is calculated as follows:

Operating Ratio = (Cost of Revenue from Operations + Operating Expenses)/ Net Revenue from Operations × 100

(b) Operating Profit Ratio

It is calculated to reveal operating margin. It may be computed directly or as a residual of operating ratio. It is calculated as under:

Operating Profit Ratio = Operating Profit/ Revenue from Operations × 100

Where,

Operating Profit = Revenue from Operations − Operating Cost

(d) Net Profit Ratio: It relates revenue from operations to net profit after operational as well as non-operational expenses and incomes.

It is calculated as under:

Net Profit Ratio = Net profit / Revenue from Operations × 100

(e) Return on Capital Employed or Investment: Capital employed means the long-term funds employed in the business and includes shareholders' funds, debentures and long-term loans.

Capital employed may be taken as the total of non-current assets and working capital. Profit refers to the Profit before Interest and Tax (PBIT) for computation of this ratio.

Thus, it is computed as follows:

Return on Investment (or Capital Employed) = Profit before Interest and Tax / Capital Employed × 100

****

PRACTICE QUESTIONS -MCQ’S

1.	Ratio of Current Assets (Rs.6,00,000) to Current Liabilities (Rs.4,00,000) is 1.5:1. The accountant of the firm is interested in maintaining a Current Ratio of 2:1, by paying a part of the current liabilities. **How much amount of current liabilities should be paid so that current ratio at the level of 2:1 may be maintained?** (a) Rs.4,00,000 (b) Rs.3,00,000 (c) Rs.2,00,000 (d) Rs.1,00,000
2.	**'Return on Investment' (ROI) is calculated under:** (a) Liquidity Ratio (b) Solvency Ratio (c) Profitability Ratio (d) Activity Ratio
3.	**Which of the following item is not included to the current assets while calculating current ratio?** (a) Cash and Cash Equivalents (b) Only Loose Tools (c) Only Stores and Spares (d) Both Loose Tools and Stores & Spares
4.	Deep Ltd. has a Current Ratio of 3.5:1 and Quick Ratio of 1.5:1. If the excess of current assets over quick assets as represented by stock is Rs.60,000, **what will be the value of current assets and current liabilities?** (a) Current Assets Rs. 1,20,000 and Current Liabilities Rs.30,000 (b) Current Assets Rs. 1,05,000 and Current Liabilities Rs.30,000 (c) Current Assets Rs. 1,05,000 and Current Liabilities Rs.40,000 (d) Current Assets Rs. 1,20,000 and Current Liabilities Rs.40,000

5.	**Cash Balance 15,000; Trade Receivables 35,000; Inventory 40,000;** **Trade Payables 24,000 and Bank Overdraft is 6,000. Current Ratio will be:** (a) 3.75: 1 (b) 3:1 (c) 1:3 (d) 1:3.75
6.	**A company's Current Ratio is 2: 1. After cash payment to some of its creditors, Current Ratio will:** (a) Decrease (b) As before (c) Increase (d) None of these
7.	**A Company's Current Assets are 8,00,000 and its current liabilities are 4,00,000.** **Subsequently, it purchased goods for 1,00,000 on credit. Current** ratio will be............ (a) 2:1 (b) 2.25:1 (c) 1.8:1 (d) 1.6:1
8.	**A company's Current assets are ₹3,00,000 and its current liabilities are 2,00,000. Subsequently, it paid 50,000 to its trade payables. Current ratiowill be..........** (a) 2:1 (b) 1.67: 1 (c) 1.25:1 (d) 15:1
9.	**The Current Ratio of a company is 1.8:1 and its Quick Ratio is 1.6: 1.** **From the following transactions, pick out the transaction which involves an increase in both the Current Ratio and Quick Ratio:**

(a) Goods worth 10,000 sold at a loss of ₹2,000.

(b) Insurance premium of 3,000 paid in advance.

(c) Plant and Machinery purchased for ₹9,000.

(d) Bills Payable of ₹2,000 honoured on the due date.

10. **Inventory Turnover Ratio is:**

(a) Average Inventory/Revenue from Operations

(b) Average Inventory/Cost of Revenue from Operations

(c) Cost of Revenue from Operations/Average Inventory

(d) G.P/Average Inventory

11. **Which of the following is not operating expenses?**

(a)office expenses

(b) selling expenses

(c) bad debts

(d) loss by fire

12. **Revenue from Operations 8,00,000; Gross Profit Ratio 25%; Opening Inventory 1,00,000; Closing Inventory 60,000. Inventory Turnover Ratiowill be:**

(a) 10 Times

(b) 7.5 Times

(c) 8 Times

(d) 12.5 Times

13. **On the basis of following data, the cost of revenue from operations by acompany will be: Opening Inventory 70,000; Closing Inventory 80,000; Inventory Turnover Ratio 6 Times.**

(a) 1,50,000

(b) 90,000

(c) 4,50,000

(d) 4,80,000

14. **Assertion (A):** Liquidity Ratios are used to assess the short-term financial obligations of the firm.

Reason (R): Current Ratio and Acid-test Ratio are two liquidity ratios which measure the firm's ability to meet its current obligations in time.

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

Codes:

(a) Both (A) and (R) are correct and (R) is the correct reason of (A).

(b) Both (A) and (R) are correct but (R) is not the correct reason of (A)

(c) Only (R) is correct.

(d) Both (A) and (R) are wrong.

15. **Assertion (A):** A high Operating Ratio indicates a favourable position.

Reason (R): A high Operating Expenses leaves a high margin to meet Non-operating expenses.

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

Codes:

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

(b) Both (A) and (R) are correct but (R) does not explain (A).

(c) Both (A) and (R) are incorrect.

(d) (A) is correct but (R) is incorrect.

16. **Assertion (A):** If Gross Profit Ratio is 20%, goods for 50,000 sold to employees at cost will decrease the ratio.

Reason (R): There will be no change in Gross Profit Ratio, because both Cost of Revenue from Operations and Revenue from Operations will increase by the sameamount

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

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

(b) Both (A) and (R) are correct but (R) does not explain (A).

(c) Both (A) and (R) are incorrect.

(d) (A) is correct but (R) is incorrect.

Read the following case study and answer questions 17 to 21. FORTUNE Ltd. is a company engaged in textilebusiness having a share capital of Rs. 2,00,000.

Rema, the accountant of the firm is analysingits financial figures and intends to prepare its statement of profit and loss for 2021. The sales of the company during this period were 7,00,000 and sales return were 40,000. Its purchases were 4,95,000, wages amounted to 1,00,000, salaries amounted to 15,000, rent amounted to 9,900, sundry expenses were worth 14,100 and also there was a discount (Cr.) worth 10,000.

17. **What is the amount that will be shown in revenue from operations in the statement of profit and loss?**

(a) 7,00,000

(b) 7,40,000

(c) 6,60,000

(d) 28.10,000

18. **What is the amount that will be shownin other income in the statement ofprofit and loss?**

(a)5,000

(b) 10,000

(c) 20,000

(d) None of these

19. **What is the amount that will be shown in employee benefit expenses in the statement of profit and loss?**

(a) 71,00,000

(b) 15.000

(c) 1,07,500

(d)1,15,000

20. **What is the amount that will be shownin other expenses in the statement ofprofit and loss?**

(a) 24,000

(b) 14,100

(c) 9,900

(d) None of these

21.	**Calculate 'Liquidity Ratio' from the following information:** Current liabilities = Rs. 50,000 Current assets = Rs. 80,000 Inventories = Rs. 20,000 Advance tax = Rs. 5,000 Prepaid expenses = Rs. 5,000
22.	**X Ltd., has a current ratio of 3.5 : 1 and quick ratio of 2 : 1. If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate current assets and current liabilities.**
23.	**From the following information calculate Debt equity Ratio:-** Share capital: 10,000 shares of 10 eachRs. 1,00,000, debentures Rs.75,000 General Reserve45000, Long term provision Rs.25,000 Surplus Rs.30,000 Outstanding Expenses Rs.10,000
24.	Shareholders' funds Rs. 14,00,000 Total Debts (Liabilities) Rs. 18,00,000 Current Liabilities = Rs. 2,00,000. **Calculate total assets to debt ratio.**
25.	**From the following details, calculate interest coverage ratio:** Net Profit after tax Rs. 60,000; 15% Long-term debt 10,00,000; and Tax rate 40%.
26.	**From the following information, calculate inventory turnover ratio:** Inventory in the beginning = 18,000 Inventory at the end = 22,000 Net purchases = 46,000 Wages = 14,000 Revenue from operations = 80,000 Carriage inwards = 4,000

27.	**Calculate the Trade receivables turnover ratio from the following information:** Total Revenue from operations 4,00,000 Cash Revenue from operations 20% of Total Revenue from operations Trade receivables as at 1.4.2020Rs.40,000 Trade receivables as at 31.3.2021Rs.1,20,000
28.	**Calculate the Trade payables turnover ratio from the following figures:** Credit purchases during 2020-21 = 12,00,000 Creditors on 1.4.2020 = 3,00,000 Bills Payables on 1.4.2020 = 1,00,000 Creditors on 31.3.2021 = 1,30,000 Bills Payables on 31.3.2021 = 70,000
29.	**From the following information, calculate –** Trade receivables turnover ratio Average collection period Trade payable turnover ratio Given: Revenue from Operations Rs.8,75,000 Creditors Rs.90,000 Bills receivable Rs.48,000 Bills payable Rs.52,000 Purchases Rs.4,20,000 Trade debtors Rs.59,000
30.	**Following information is available for the year 2020-21, calculate gross profit ratio:** Revenue from Operations: Cash Rs.25,000 Credit Rs.75,000 Purchases: Cash Rs15,000

	Credit Rs60,000 Carriage Inwards Rs2,000 Salaries Rs25,000 Decrease in Inventory Rs10,000 Return Outwards Rs2,000 Wages Rs5,000
31.	**Given the following information:** Revenue from Operations 3,40,000 Cost of Revenue from Operations 1,20,000 Selling expenses 80,000 Administrative Expenses 40,000 **Calculate Gross profit ratio and Operating ratio.**
32.	**Net profit after interest but before tax1,40,000; 15% Long-term debts Rs.4,00,000, Share holder's funds 2,40,000; Tax rate 50%. Calculate Return on Capital employed.**
33.	**Fixed Assets or Non-current Assets (at cost) 7,00,000, Accumulated Depreciation** **1,00,000,Revenue from Operations 18,00,000. Calculate Fixed Assets/Non-current Assets turnover Ratio.**
34.	**Based on the following information :** **Calculate Net Assets or Capital Employed Turnover Ratio:** Shareholders' Funds 40,00,000, Equity Share Capital 15,00,000, 7% Preference Share Capital 10,00,000, Reserves and Surplus 15,00,000, 8% Debentures 10,00,000 and Revenue om Operations75,00,000.

****

Answers:

1)	(c) Rs.2,00,000
2)	(c) Profitability Ratio
3)	(d) Both Loose Tools and Stores & Spares
4)	(b) Current Assets Rs. 1,05,000 and Current Liabilities Rs.30,000
5)	(b) 3:1
6)	(c) Increase
7)	(c) 1.8:1
8)	(b) 1.67: 1
9)	(d) Bills Payable of ₹2,000 honoured on the due date.
10)	(c) Cost of Revenue from Operations/Average Inventory
11)	(d) loss by fire
12)	(b) 7.5 Times
13)	(c) 4,50,000
14)	(a) Both (A) and (R) are correct and (R) is the correct reason of (A).
15)	(c) Both (A) and (R) are incorrect.
16)	(d) (A) is correct but (R) is incorrect.
17)	(c) 2 6,60,000
18)	(b) 10.000
19)	(d)1,15,000
20)	(a) 24,000
21)	Solution: Liquidity Ratio = Liquid Assets/Current Liabilities Liquidity Assets = Current assets − (Inventories + Prepaid expenses + Advance tax) = Rs. 80,000 − (Rs. 20,000 + Rs. 5,000 + Rs. 5,000) = Rs. 50,000 Liquidity Ratio = Rs. 50,000 / 50,000 = 1 : 1.

22)	Solution: Current Ratio = 3.5 : 1 Quick Ratio = 2 : 1 Let Current liabilities = x Current assets = 3.5x and Quick assets = 2x Inventories = Current assets − Quick assets 24,000 = 3.5x − 2x 24,000 = 1.5x Current Liabilities = Rs. 16,000 Current Assets = 3.5x = 3.5 × Rs. 16,000 = Rs. 56,000. Verification: Current Ratio = Current assets : Current liabilities = Rs. 56,000 : Rs. 16,000 = 3.5: 1 Quick Ratio = Quick assets : Current liabilities = Rs. 32,000 : Rs. 16,000 = 2 : 1
23)	Solution: Debt to equity ratio = Debt / Equity (shareholder funds) = 1,00,000 / 1,75,000 = 0.57 : 1 Debt = Debentures + Long term provisions = 75,000 + 25,000 = 1,00,000 Equity = Share Capital + General Reserve + Surplus = 1,00,000 + 45,000 + 30,000 = 1,75,000
24)	Solution: Total Assets to debt ratio = Total Assets / Long term Debts = 32,00,000 / 16,00,000 = 2 : 1 Long term debts = total debts (Liabilities) − Current Liabilities = 18,00,000 − 2,00,000 = 16,00,000 Total assets = shareholder funds + total debts (liabilities)

25)	Solution: Net Profit after Tax = Rs. 60,000 Tax Rate = 40% Net Profit before tax = Net profit after tax × 100/ (100 − Tax rate) = Rs. 60,000 × 100/(100 − 40) = Rs. 1,00,000 Interest on Long-term Debt = 15% of Rs. 10,00,000 = Rs. 1,50,000 Net profit before interest and tax = Net profit before tax + Interest = Rs. 1,00,000 + Rs. 1,50,000 = Rs. 2,50,000 Interest Coverage Ratio = Net Profit before Interest and Tax/Interest on long-term debt = Rs. 2,50,000/Rs. 1,50,000 = 1.67 times
26)	Solution: Inventory Turnover Ratio = Cost of Revenue from Operations / Average Inventory Cost of Revenue from Operations = Inventory in the beginning + Net Purchases + Wages + Carriage inwards − Inventory at the end = Rs. 18,000 + Rs. 46,000 + Rs. 14,000 + Rs. 4,000 − Rs. 22,000 = Rs. 60,000 Average Inventory = Inventory in the beginning + Inventory at the end / 2 = Rs. 18,000 + Rs. 22,000/ 2 = Rs. 20,000 ∴ Inventory Turnover Ratio = Rs. 60,000/ Rs. 20,000 = 3 Times
27)	Solution: Trade Receivables Turnover Ratio = Net Credit Revenue from Operations / Average Trade Receivables Credit Revenue from operations = Total revenue from operations − Cash revenue from operations Cash Revenue from operations = 20% of Rs. 4,00,000 = Rs. 4,00,000 × 20 / 100 = Rs. 80,000 Credit Revenue from operations = Rs. 4,00,000 − Rs. 80,000 = Rs. 3,20,000 Average Trade Receivables = Opening Trade Receivables + Closing Trade Receivables / 2

	= Rs. 40,000 + Rs. 1,20,000 / 2 = Rs. 80,000 = Net Credit Revenue Form Operations / Average Inventory = Rs. 3,20,000 / Rs. 80,000 = 4 times.
28)	Solution: Trade Payables Turnover Ratio = Net Credit Purchases / Average Trade Payables Average Trade Payables = Creditors in the beginning + Bills payables in the beginning + Creditors at the end + Bills payables at the end / 2 = Rs. 3,00,000 + Rs. 1,00,000 + Rs. 1,30,000 + Rs. 70,000 2 = Rs. 3,00,000 ∴ Trade Payables Turnover Ratio = Rs. 12,00,000 / Rs. 3,00,000 = 4 times
29)	Solution: Trade Receivables Turnover Ratio = Net Credit Revenue from operation / Average Trade Receivable = Rs. 8, 75,000 / (Rs. 59,000 + Rs. 48,000) = 8.18 times Average Collection Period = 365 / Trade Receivables Turnover Ratio = 365 / 8.18 = 45 days Trade Payable Turnover Ratio = Purchases / Average Trade Payables = Purchases / Creditors + Bills payable = 4,20,000 / 90,000 + 52,000 = 4,20,000 / 1,42,000 = 2.96 times
30)	Solution: Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operation = Rs.25, 000 + Rs.75, 000 = Rs. 1,00,000 Net Purchases = Cash Purchases + Credit Purchases − Return Outwards = Rs. 15,000 + Rs. 60,000 − Rs. 2,000 = Rs. 73,000 Cost of Revenue from operations = Purchases + (Opening Inventory − Closing Inventory) + Direct Expenses = Purchases + Decrease in inventory + Direct Expenses = Rs. 73,000 + Rs. 10,000 + (Rs. 2,000 + Rs. 5,000) = Rs. 90,000 Gross Profit = Revenue from Operations − Cost of Revenue from Operation

	= Rs. 1,00,000 − Rs. 90,000 = Rs. 10,000 Gross Profit Ratio = Gross Profit/Net Revenue from Operations × 100 = Rs.10,000/Rs.1,00,000 × 100 = 10%.
31)	Solution: Gross Profit = Revenue from Operations − Cost of Revenue from Operations = Rs. 3,40,000 − Rs. 1,20,000 = Rs. 2,20,000 Gross Profit Ratio = Gross Profit / Revenue from operation × 100 = Rs. 2,20,000 / Rs. 3,40,000 × 100 = 64.71% Operating Cost = Cost of Revenue from Operations + Selling Expenses + Administrative Expenses = Rs. 1,20,000 + 80,000 + 40,000 = Rs. 2,40,000 Operating Ratio = Operating Cost / Net Revenue from Operations × 100 = Rs. 2,40,000 / Rs. 3,40,000 x 100 = 70.59%
32)	Solution: Return on Capital Employed/capital employed x100 <u>Calculation of Profit before Interest and Tax</u> Net Profit after Interest but before Tax Interest =1,40,000 (15% on 4,00,000) =60,000 Net Profit before Interest andTax =2,00,000 Capital Employed Shareholder's Funds + Long-term Debts= 2,40,000 +4,00,000 =6,40,000 Return on Capital Employed =2,00,000/6,40,000x 100 =31.25%
33)	Fixed Assets/Non-current Assets Turnover Ratio= Revenue from Operations/ Net Fixed Assets 18,00,000/6,00,000=3 Times "Net Fixed Assets = Fixed Assets (at Cost) - Accumulated Depreciation =7,00,000-1,00,000=6,00,000.
34)	Net Assets or Capital Employed Turnover Ratio = Revenue from Operations /Net Assets or Capital Employed = 75,00,000/5000000=1.5 Times Revenue from Operations= 75,00,000 (Given) Capital Employed (Note) - Shareholders' Funds + Long-term Borrowings

****

Chapter 10

Cash Flow Statement

A cash flow statement is the financial statement that measures the cash generated or used by a company in a given period. A cash flow statement provides information about the historical changes in cash and cash equivalent so fan enterprise by classifying cash flows into operating, investing and financing activities. *A Cash-Flow statement may be defined as a summary of receipts and disbursements of cash fora particular period of time.*

Benefits of Cash Flow Statement

- It enables to assess the financial structure of an organization.
- It helps in assessing the ability of the enterprise to generate cash and cash equivalents.
- It also helps in fine tuning its cash inflow and cash outflow, keeping in response to changing condition.
- It helps in comparing inflows and out flows of cash.

Cash from Operating Activities

Cash flows from operating activities are primarily derived from the main activities of the enterprise. They generally result from the transactions and other events that enter into the determination of net profit or loss.

Cash Inflows & Outflows from operating activities

Inflow

- Cash receipts from sale of goods and the rendering of services.
- Cash receipts from royalties, fees, commissions and other revenues.

Outflow

- Cash payments to suppliers for goods and services.
- Cash payments to and on behalf of the employees.
- Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits.
- Cash payments of income taxes

Cash from Investing Activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, etc. Transactions related to long-term investment are also investing activities.

Cash Inflows from Investing Activities

- Cash receipt from disposal of fixed assets including intangibles.
- Cash receipt from the repayment of advances or loans made to third parties
(except in case of financial enterprise).

- Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes.

- Interest received in cash from loans and advances.
- Dividend received from investments in other enterprises

Cash Outflows from investing activities

- Cash payments to acquire fixed assets including intangibles and capitalized research and development.
- Cash payments to acquire shares, warrants or debt instruments of other enterprises other than the instruments those held for trading purposes.
- Cash advances and loans made to third party (other than advances and loans made by a financial enterprise wherein it is operating activities).

Cash flow from financing Activities

Financing activities are activities that result in changes in the size and composition of the owners' capital and borrowings of the enterprise. Separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds

Cash Inflows & Outflows from financing activities

Cash Inflows from Financing Activities

- Cash proceeds from issuing shares (equity or/and preference).
- Cash proceeds from issuing debentures, loans, bonds and other long term borrowings.

Cash Outflows in Financing Activities

- Cash repayments of amounts borrowed.
- Repayment and redemption of share capital.
- Interest paid on debentures and long-term loans and advances.
- Dividends paid on equity and preference capital.

CASH FLOW STATEMENT FORMAT

Particulars	**Amount**
(A) Cash Flows From Operating Activities	
Net Profit/Loss before Tax and Extraordinary Items	****
+ Deductions already made in Profit and Loss on account of Non-cash items such as Depreciation, Goodwill to be Written-off.	****
+ Deductions already made in Profit and Loss on Account of Non-operating items such as Interest.	****
– Additions (incomes) made in Profit and Loss on Account of Non-operating Items such as Dividend Received, Profit on sale of Fixed Assets.	****
Operating Profit before Working Capital changes	****
+ Increase in Current Liabilities	
+ Decrease in Current Assets	
– Increase in Current Assets	
– Decrease in Current Liabilities	
Cash Flows from Operating Activities before Tax and Extraordinary Items.	****
– Income Tax Paid	****
+/– Effects of Extraordinary Items	****
Net Cash from /used in Operating Activities-A	****

(B) Cash Flows From Investing Activities	****
Cash receipt from disposal of fixed assets including intangibles.	
(-)Cash payments to acquire fixed assets including intangibles and capitalized research and development.	****
Cash receipt from the repayment of advances or loans made to third parties (except in case of financial enterprise).	****
(-)Cash payments to acquire shares, warrants or debt instruments of other enterprises other than the instruments other than those held for trading purposes.	****
Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes.	****
(-)Cash advances and loans made to third party	****
Interest received in cash from loans and advances.	
Dividend received from investments in other enterprises.	
	*****
Net cash from/used in Investing Activities-B	
(C) Cash Flows from Financing Activities	
Cash proceeds from issuing shares (equity or/and preference).	****
Cash proceeds from issuing debentures, loans, bonds and other long term borrowings.	****
(-) Cash repayments of amounts borrowed.	****
(-) Interest paid on debentures and long-term loans and advances.	****
(-) Dividends paid on equity and preference capital.	
Net cash from/used in Financing Activities-C	
Net increase/decrease in Cash and Cash Equivalents (A+B+C)	****
(+) Cash and cash equivalents at beginning of period	****
Cash and cash equivalents at the end of period	****

Objectives of Cash Flow Statement

1. To ascertain how much cash or cash equivalents have been generated or use in different activities i.e., operating / investing / financing activity.
2. To ascertain the net changes in cash and cash equivalents.
3. To assess the causes of difference between actual cash& cash equivalent and related net earnings/income.
4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.
5. To help in short-term financial planning.
6. To ascertain the liquid it yof enterprises

Important Points to Remember:

1. Firstdecide the nature of enterprise it is financial or Non-Financial.
2. For Calculating depreciation, check the Balance Sheet to find out thatvalues of assets are given at net value (i.e., written down value) or atGross Block (Shown Accumulated dep. A/c also). There after attemptquestion accordingto the instructions.
3. CurrentInvestmentormarketablesecuritiesisapartofCashandCash equivalent as per As-3 (revised.) if both are given separately thanmarketable securities will be considered as cash equivalent and remainingcurrentInvestment will consider in Investing activities.
4. Bank overdraft and cash credit will be considered in financial activity notunderworking capital changes in operating activities.

I. Computation of Cash flows from operating activities.

Operating activities are the main revenue generating activities of the enterprises. It also includes all thosetransactionswhich are not included in investing and financing activities.

(A) Calculation of Net Profit before Tax and Extra-ordinary Items:

Difference between closing balance and opening balance of Balance in Statement of Profit & Loss	****
(Add) 1. Dividend (final or proposed) paid during the year	***
2. Interim Dividend paid during the year	***
3. Profit Transferred to Reserve	***
(Ifreserve of current year increased from previous year)	***
4. Provision for Taxation made during the year	
Net Profit before Tax and Extra-ordinary items	****

(B) For the calculation of provision for Taxation made during the current year, the Provision for Taxation A/c is to be prepared as follows

Dr. Provision for Taxation Account Cr.

Date	Particulars	`	Date	Particulars	`
	To BankA/c(TaxP aid During the current year)	....		By Balance b/d By Statement of P&L (Prov.for taxation made during the currentyear)	....
	To Balance c/d	....			
		....			....

Format: Cash Flow from Operating Activities

Particulars	**Rs**
I. **Cash Flow from OperatingActivities** (A) Net Profit before Tax and Extra ordinary Items (as per Working Note) Adjustmentfor Non-cash and Non-operating Items (B) *Add:* **Items to be Added** — Depreciation — Goodwill, Patents and Trade marks Amortised — Interest on Bank Overdraft/Cash Credit — Interest on Borrowings (Short-term and Long-term) and Debentures — Writing off Underwriting Commission /Share Issue Expenses — Loss on Sale of Fixed Assets — Increase in Provision for Doubtful Debts	
(C)*Less:* **Items to be Deducted** — Interest Income — Dividend Income — Rental Income — Gain (Profit) on Sale of FixedAssets — Decrease in Provision for Doubtful Debts	

(C) **Operating Profit before Working Capital Changes (A+ B- C)**	
***(E)Add*:Decrease in Current Assets and Increase in Current Liabilities** — Decrease in Inventories (Stock) — Decrease in Trade receivables (Debtors / Bills Receivable) — Decrease in Accrued Incomes — Decrease in Prepaid Expenses — Increase in Trade Payables (Creditors/Bills Payable) — Increase in Outstanding Expenses — Increase in Advance Incomes **(F)Less: Increase in Current Assets and Decrease in Curent Liabilities** — Increase in Inventories (Stock) — Increase in Trade Receivables (Debtors/Bills Receivable) — Increase in Accrued Incomes — Increase in Prepaid Expenses — Decrease in Trade Payables (Creditors/Bills Payable) — Decrease in Outstanding Expenses — Decrease in Advance Incomes **Cash Generated from Operations (D + E-F)** Less: Income Tax Paid **Cash Flow from (or Used in) Operating Activities**	—— ***

II.Calculation of Cash Flow from Investing Activities

Investing activities are those activities which are related to the acquisition (buying) and disposal (selling) of fixed assets and investment (other than cash equivalents). It also includes income from fixed assets and investment like rent received, interest received on investment, dividend received on investment in shares and mutualfunds.

Inflowsof Cash: (Plus items)	Outflowsof Cash (minus items)
1. CashReceived from sale of FixedAssets. 2. Cash Received from sale of Investment. (Excluding Marketable Securities) 3.Cash Received from sale of intangible Assets like Patent, goodwill and copy rights 4.Interest Received, 5.Dividend Received, 6.Rent Received	1. Cash paid for purchase of fixed assets. 2. Cash paid for purchase of investment. (Excluding MarketableSecurities) 3.Cash paid for purchase of intangible Fixed assets like good will, patents and copy rights

For the calculation of sale or purchase of fixed assets , Fixed assets accounts may be prepared

Dr Fixed Assets Account Cr.

Date	Particulars	Rs	Date	Particulars	Rs
	To Balance b/d	………		ByBankA/c (Saleof Asset)	…………..
	To Bank A/c (Additional Purchase)	………			
	To Profit on sale of fixed assets A/c	--------		ByDepreciationA/c (Depreciation on fixed assets sold)	…………
				By Loss on sale of fixed assets A/c	…………
				By DepreciationA/c (Current year Depreciation on remaining fixed assets)	………..
				By Balance c/d	-----------
		………			………….

When provision for depreciation account or accumulated depreciation account has been separately maintained, the following account is prepared to calculate the depreciation charged to Asset account.

Dr Provision for DepreciationAccount Cr

Date	Particulars	`	Date	Particulars	`
	To Fixed AssetsA/c	….		By Balance b/d	………..
	(Depreciation provided till the date of sale on Fixed assets sold)	…. .		By Statement of Profit & LossA/c (Depreciation charged on fixed assets during the current year including the part sold)	.. ……….
	To balance c/d	…..			

III. Calculation of Cash Flow from FinancingActivities

Financing activities are those activities that result in the change in size andcomposition of the share capital (equity and preference) and borrowed fund of thebusiness enterprises. Generally cost related to these funds are also included in financing activities like interest paid on loans and debentures and dividend paid on equity and preference share capital.

Inflows of Cash:(Plus items)	Outflows of Cash(minus items)
1. Proceeds from Issue of equity shares capital. 2. Proceeds from Issue of preference share capital. 3. Proceeds from taking long-term loan and issue of debentures. 4. Proceeds from Bank Overdraft and Cashcredit.	1. Amount paid for repayment of long-term loan. 2. Redemption of Preference share capital in cash. 3. Redemption of Debenture in cash. 4. Buyback of Equity shares(Extra-OrdinaryItem) 5. Payment of BankOverdraft and CashCredits. 6. Interest paid on long term loan and debentures 7. Final Dividend paid. 8. Interim dividend paid. 9. Dividend paid on Preference Shares. 10.

Financing Business Enterprise Transaction Treatment in Cash Flow Statement

Financing business enterprises are the business enterprises which deal in finance like investment companies, mutual fund house and banks. These enterprises purchases and sale , securities as their stock, so it is treated as operating activities and interest received, dividend received and interest paidare considered as routine business activities and included in their operating activities.

****

Practice Questions

Very short Answer Type (Including CBSE modified questions)

1. From the following particulars, what will be the amount of provision for tax made during the year?

Provision for Taxation

31.3.2018 - 50,000

31.3.2019 - 40,000

The Company paid taxes Rs 45,000 for the year 2018-2019.

(a) Rs 45,000

(b) Rs 35,000

(c) Rs 40,000

(d) Rs 50,000

2. From the following information, the outflow of cash for the purchase of machinery will be:

Written down value of machinery as on 1.4.2018 - Rs 5,00,000

Written down value of machinery as on 31.3.2019 -Rs7,00,000

Depreciation on machinery charged during the year Rs 60,000

Machinery having book value Rs 25,000 sold for Rs 20,000

(a) Rs 2,70,000

(b) Rs 2,80,000

(c) Rs 2,75,000

(d) Rs 2,85,000

3. Which of the following transactions would result inflow of cash:

(a) Cash withdrawn from Bank for office use.

(b) Purchase of machinery worth Rs 2,00,000 and issued shares in consideration thereof.

(c) Sale of furniture for Rs 3,000 to Mr. Mohan.

(d) Cash received from Debtors Rs 6,000

4. Which of the following transactions would not create a cash flow?

(a) A company purchased some of its own stock from a stockholder

(b) Amortization of a patent

(c) Payment of a Cash Dividend

(d) Sale of equipment at book value

5.Declaration of Final Dividend would result in ___

(a) Outflow in Financing activities.

(b) Outflow in Operating activities.

(c) Inflow in Operating activities.

(d) No Flow of cash.

6. For a company manufacturing garments, procurement of raw material, incurrence of manufacturing expenses, sale of garments are classified as ……………………..

(a) Financing Activity

(b)Investing Activity

(c)Operating Activity

(d) None of these

7. Issue of share for consideration other than cash will result into cash

(a)Inflow

(b) Outflow

(c) No flow

(d)None of these

8. Interest received in cash on loans and advances results in cash inflow from ……….. activity

(a)Financing

(b)Investing

(c)Operating

(d)None of the above

9. How is 'dividend paid' by a financial enterprise treated while preparing Cash Flow Statement?

10. Under which type of activity will you classify 'Cash advances and loans made to third party' while preparing Cash Flow Statement?

11. Give the meaning of 'Cash' for the purpose of preparing Cash Flow Statement.

12. What is meant by Cash Equivalents?

13. X Ltd. Redeemed Rs.1,00,000, 9% debentures at 10% premium. What will be the amount of 'Cash flows from financing activities?

14. Which of the following statements is/are correct?

(a) Dividend paid is always shown as operating activity.

(b)Depreciation and amortization, being non-cash expenses, are deducted from net profit before tax and extraordinary items.Alternatives

(a) Only (a) (b) Only (b)
(c) Both (a) and (b) (d) None of these

15. Why is depreciation added back to net profit while preparing Cash Flow Statement?

Short Answer Type (Including CBSE Modified Questions)

1.**X Ltd. Made a profit of 1,00,000 after considering thef ollowing items:**

Depreciation of fixed assets-Rs 20,000
Writingoff preliminary expenses-Rs10,000
Losson sale of furniture - Rs1,000
Provision of Taxation – Rs 1,60,000
Transfer to General reserve - Rs14,000
Profiton sale of Machinery - Rs6,000
Income tax Paid- Rs 1,60,000

Additional information

Particulars	2020(Rs)	2021(Rs)
Debtors	24,000	30,000
Creditors	20,000	30,000
BillsReceivables	20,000	17,000
BillsPayables	16,000	12,000
PrepaidExpenses	400	600

Calculate Cash Flow from OperatingActivities.

2. **From the following information calculate cash flow from investing activities:**

Particulars	31-03-2020(Rs)	31-03-2021(Rs)
Machinery(at Cost)	5,00,000	5,50,000
AccumulatedDepreciation	1,00,000	1,20,000
Patents	2,00,000	1,20,000
Goodwill	1,50,000	1,00,000
Investment	2,50,000	5,00,000

Additional Information

1.During the year,a machine costing Rs.50,000 with its accumulated depreciation of Rs.25,000 was sold for Rs.20,000
2. Patents were written off to the extent of Rs.60,000 and some patents were sold at a profit of Rs.10,000.
3. 40% of the investments held in the beginning of the year were sold at10% Profit.
4. Interest received on investment Rs.25,500.
5. Dividend received on investment Rs.8,500.
6. Rentr eceivedRs.5,000.

3.From the following information ,calculate the net cash flow from financing Activities

Particlars	31- 3- 2020(Rs)	31-3-2021(Rs)
EquityShare Capital	10,00,000	16,00,000
9%Debentures	1,50,000	1,00,000
DividendPayable	....	50,000
10%Preference Share Capital	2,00,000	3,00,000

Additional Information

a) Interest paid on DebenturesRs.12,500

b) During the year2020-2021,company issued bonus shares to equity shareholders in the ratio of 2:1 by capitalizing reserve.

c) The interim dividend of Rs.75,000 has been paid during the year.

d) 9%Debentures were redeemed as 5% premium.

e) Proposed equity dividend for the years ended 31/3/2020 and 31/3/2021 ended Rs.3,00,000 and Rs.1,50,000 respectively.

4. From the following information calculate the Net profit before tax and Extraordinary Items

Statement of Profit and Loss as on 31.03.2021-Rs.1,00,000

Statement of Profit and Loss as on 31.03.2020-Rs.25,000

Proposed Dividend as on 31.03.2021- Rs.75000

Proposed Dividend as on 31.03.2020- Rs.50000

Provision for Tax as on 31.03.2021 – Rs.125000

Provision for Tax as on 31.03.2020 – Rs.75000

5. **From the information given below, calculate the amount of cash flow from investing activities**

Particulars	31st march 2021	31st march 2020
Tangible assets		
Plant and machinery	8,86,000	6,04,000
Accumulated depreciation	(1,40,000)	(80,0000
	7,46,000	5,24,000

Additional information:

A machinery of the book value of Rs.90,000(Depreciation provided thereon was Rs.23,000), was sold at a profit of Rs.12,000

6. **How the various activities are classified (as per AS-3 revised)while preparing the cash flow statement?**

7. **Following Extracted information of V Ltd. is available on 31st March 2022:**

Particulars	2022	2021
Share capital	5,00,000	3,00,000
Securities Premium	50,000	-
Bank Overdraft at the rate of 8% p.a	1,20,000	-

Additional information:

a) Bank overdraft was availed on 1st December 2021. Interest on Bank Overdraft was paid on 31st March 2022.
Find out Cash Flow from Financing Activities.

8. **State any two objectives of preparing 'Cash flow statement'**
9. **From the following information, calculate cash flow from investing and financing activities.**

Particulars	2021	2022
Machine at cost	5,00,000	9,00,000
Accumulated Depreciation	3,00,000	4,50,000
Equity share capital	28,00,000	35,00,000
Bank Loan	12,50,000	7,50,000

In year 2022, machine costing Rs.2,00,000 was sold at a profit of Rs.1,50,000, depreciation charged on machine during the year 2022 amounted to Rs.2,50,000.

10. **Under Which type of activity will you classify the following while preparing cash flow statement?**
    1) Dividend paid by manufacturing company
    2) Dividend paid by a finance company.
    3) Interest paid by an Investment company.
    4) Payment of interest on loan by manufacturing company.
    5) Cash receipt from sale of goods by a trading company.
    6) Rent received on property held as investment.
    7) Interest paid on long term borrowing.
    8) Dividend received by a finance company.
    9) Proceeds from sale of investment.
    10) Refund of Income Tax received.

Long Answer Type Questions

1. **From the following Balance Sheets of X Ltd. as on31.03.2020and 31.03.2021.**

Prepare a cash flow statement.Balance Sheet as at 31st March, 2020 and 2021

Particulars	Note No.	Figures as at 31.3.2020(Rs)	Figures as 31.3.2021(Rs)
I. Equity and Liabilities-			
Share holders' funds	1		
(a) Share capital		45,000	65,000
(b) Reserves and surplus		25,000	42,500
Current liabilitie			
Trade payables		8,700	11,000
Total		78,700	1,18,500
II.Assets			
(1) Non-current assets			
(a) Fixedassets			
(i)TangibleAssets		46,700	83,000
(2) Current Assets			
Inventories		11,000	13,000
Trade receivables		18,000	19,500
Cashand cash equivalents		3,000	3,000
Total		78,700	1,18,500

Notes to Accounts:

Particulars	**31.3.2020(Rs)**	**31.3.2021(Rs)**
Reserve and Surplus:		
General Reserve	15,000	27,500
Balance in Statement of P&LA/c	10,000	15,000
Total	**25,000**	**42,500**

Additional Information: (i) Depreciation on fixed assets for the year2020-21 wasRs.14,700.

(ii) An interim dividend Rs.7,000 has been paid to the shareholders during the year.

2. Prepare a cash Statement on the basis of the information given in the Balance Sheets of L Ltd. as at 31.3.2021 and 31.3.2020:

Particulars	Note No.	31.3.2021 (Rs)	31.3.2020 (Rs)
I. **Equity and L iabilities**			
(1) Share holders' funds			
(a) Share capital		2,10,000	1,80,000
(b) Reserves and surplus	1	1,32,000	24,000
(2) Non-current Liabilities			
(a) Long term-borrowings		1,50,000	1,50,000
(4) Current Liabilities			
(a) Trade Payables		75,000	27,000
Total		**5,67 ,000**	**3,81,000**
II. **Assets**			
(1) Non-current Assets			
(a) Fixed Assets			
(i)Tangible Assets		2,94,000	2,52,000
(b)Non-current Investments		48,000	18,000
(2) Current Assets			
Current-Investments(Marketable)		54,000	60,000
Inventories		1,07,000	24,000
Trade Receivables		40,000	17,500
Cash and Cash-equivalents		24,000	9,500
Total		**5,67,000**	**3,81,000**

Notes to Accounts:

Note No:1

Particulars	**2021(Rs)**	**2020(Rs)**
Reserve and Surplus:		
Surplus(Balance in statement of profit and loss)	1,32,000	24,000

3. Following are the Balance sheet of K Ltd. For the year ended31stMarch 2020 and 2019.

Particulars	Note.	31.03.2020	31.03.2019
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share Capital		12,00,000	8,00,000
(b) Reserves and Surplus		3,50,000	4,00,000
(2) Non-current Liabilities			
Long term borrowings		4,40,000	3,50,000
(3) Current Liabilities			
Trade payables		60,000	50,000
Total		**20,50,000**	**16,00,000**
II. ASSETS			
(1) Non-Current Assets			
Tangible Assets		12,00,000	9,00,000
(2) Current Assets			
(a) Inventories		2,00,000	1,00,000
(b)Trade Receivables		3,10,000	2,30,000
(c)Cash and Cash Equivalents		3,40,000	3,70,000
Total		**20,50,000**	**16,00,000**

Prepare a cash flow statement after considering the following adjustments:

(a) Interest paid on long term borrowing Rs.36,000
(b) Depreciation on Tangible assets during the year Rs.1,20,000.

4. Prepare Cash Flow Statement from the following Balance Sheet:

Particulars	**Note.**	**31.03.2022**	**31.03.2021**
I. EQUITY AND LIABILITIES			
(1)Shareholders' funds			
(a) Share Capital		6,30,000	5,60,000
(b) Reserves and Surplus	1	3,08,000	1,82,000
(2)Current Liabilities			
Trade payables		2,80,000	1,82,000
Total		**12,18,000**	**9,24,000**
II. ASSETS			
(1)Non-Current Assets			
Tangible Assets			
Plant and Machinery		3,92,000	2,80,000
(2)Current Assets			
(a) Inventories			
(b)Trade Receivables		98,000	1,40,000
(c)Cash and Cash Equivalents		6,30,000	4,20,000
		98,000	84,000
Total		**12,18,000**	**9,24,000**

Notes to Accounts:Particulars	**31.03.2022**	**31.03.2021**
1.Reserve and Surplus Surplus (Balance in statement of profit and loss)	3,08,000	1,82,000

Additional information:

An old Machinery having book value of Rs.42,000 was sold for Rs.56,000. Depreciation provided on machinery during the year was Rs.28,000.

5. From the following, calculate the net cash flow from operating activities.

Particulars	Note.	31.03.2021	31.03.2020
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a)Share Capital	1	3,75,000	3,75,000
(b)Reserves and Surplus	2	1,55,000	(10,000)
(2) Non-current Liabilities			
Long term borrowings (8% Debentures)		1,30,000	75,000
(3) Current Liabilities			
(a)Short term borrowing**(8% Bank Loan)**		20,000	25,000
(b)Trade payables		60,000	55,000
(c)Short term provisions (Provision for Tax)		25,000	20,000
Total		**7,65,000**	**5,40,000**
II. ASSETS			
(1) Non-Current Assets			
(i) Tangible Fixed Assets		4,30,000	3,10,000
(ii) Intangible Assets(Goodwill)		7,500	20,000
(iii)Non-current Investments		62,500	40,000
(2) Current Assets			
(a) Current Investments		2,500	7,500
(b) Inventories		97,500	50,000
(b)Trade Receivables		1,00,000	1,00,000
(c)Cash and Cash Equivalents		65,000	12,500
Total		**7,65,000**	**5,40,000**

Notes to Accounts

Particulars	2021	2020
1.Share capital		
Equity share capital	2,75,000	2,25,000
5 % Preference share capital	1,00,000	1,50,000
	3,75,000	**3,75,000**
2.Reserves and Surplus		
General Reserve	75,000	
Statement of Profit and Loss	75,000	60,000
Securities Premium Reserve	5,000	(70,000)
	1,55,000	**(10,000)**

Additional information:

During the year, a piece of machinery costing Rs.30,000 on which depreciation charged Rs.10,000 was sold for Rs.10,000. Depreciation provided on fixed assets Rs.30,000. Dividend on equity shares @8% was paid on opening balance. Income tax Rs.22,500 was provided. Additional debentures were issued at par on 1st October, 2020 and the bank loan was repaid on the same date. At the end of the year, preference shares were redeemed at a premium of 5%

6. From the following, Calculate Cash Flow from Investing Activities.

Particulars	**31-03-2022**	**30-03-2021**
Goodwill	3,00,000	1,00,000
Patents	1,60,000	2,80,000
Machinery	12,40,000	10,20,000
10% Non-current Investment	1,60,000	60,000
Investment in Land	1,00,000	1,00,000
Shares of A Ltd.	1,00,000	1,00,000

Additional information:

(i) Patents were written off to the extent of Rs.40,000 and some patents were sold at a profit of Rs.20,000.

(ii) A machine costing Rs.1, 40,000(Depreciation provided thereon Rs.60, 000) was sold for Rs.50, 000. Depreciation charged during the year was Rs.1,40,000.

(iii) On March 31, 2022, 10% Investments were purchased for Rs.1,80,000 and some investments were sold at a Profit of Rs.20,000. Interest on investment was received on March 31, 2022.

(iv)A Ltd. paid dividend @10% on its shares.

(v)A plot of land was purchased out of surplus funds for investment purposes and let out for commercial use and rent received Rs.30,000

7. Following are the Balance sheet of V Ltd. For the year ended 31st March 2021 and 2020

.

Particulars	**Note.**	**31.03.2021**	**31.03.2020**
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a)Share Capital	1	8,00,000	4,00,000
(b)Reserves and Surplus		1,50,000	(50,000)
(2) Non-current Liabilities			
Long term borrowings		3,00,000	40,000
(3) Current Liabilities			
(a)Short term borrowing	2	2,00,000	4,00,000
(b)Trade payables		1,40,000	1,00,000
(c)Short term provisions(Provision for Tax)		1,00,000	60,000
Total		**16,90,000**	**9,50,000**
ASSETS			
II (1)Non-Current Assets			
Fixed Assets		14,00,000	8,00,000
(2) Current Assets			
(a) Inventories		50,000	60,000
(b)Trade Receivables		1,80,000	50,000
(c)Cash and Cash Equivalents	3	60,000	40,000
Total		**16,90,000**	**9,50,000**

Notes to Accounts:

Particulars	**2021**	**2020**
1.Share capital		
Equity share capital	6,00,000	4,00,000
Preference share capital	2,00,000	----------
	8,00,000	**4,00,000**

2.Short term borrowings		
Bank Loan	--------	4,00,000
Bank Overdraft	2,00,000	--------
	2,00,000	**4,00,000**
3. Cash and cash equivalents	60,000	20,000
Cash in Hand	-------	20,000
Bank Balance	**60,000**	**40,000**

Prepare a cash flow statement after considering the following adjustments:

(a) Depreciation was charged at the end Rs.1,00,000 on Fixed Asset.
(b) Dividend paid during the year Rs.1,00,000.
(c) Tax provision made during the year Rs.1,20,000

8.Following was the Balance sheet of S Ltd. For the year ended31st March 2021 and 2020.

Particulars	**Note.**	**31.03.2021**	**31.03.2020**
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share Capital	1	20,00,000	15,00,000
(b) Reserves and Surplus		5,00,000	3,00,000
(2) Non-current Liabilities			
Long term borrowings	2	3,00,000	2,00,000
(3) Current Liabilities			
(a)Trade payables		1,50,000	2,00,000
(b)Short term provisions		70,000	60,000
Total		**30,20,000**	**22,60,000**
II. ASSETS	3		
(1)Non-Current Assets	4		
Fixed Assets:			
(i)Tangible Assets		19,00,000	15,00,000
(ii)Intangible Assets		4,70,000	2,70,000
(2) Current Assets			
(a) Inventories		2,50,000	1,60,000
(b)Trade Receivables		2,10,000	2,10,000
(c)Cash and Cash Equivalents		1,90,000	1,20,000
Total		**30,20,000**	**22,60,000**

Notes to Accounts:

Particulars	2021	2020
1.Reserve and Surplus		
Surplus i.e., Balance in statement of Profit and Loss	5,00,000	3,00,000
2.Short term provisions		
Provision for tax	70,000	60,000
3.Tangible Assets		
Machinery	27,00,000	21,00,000
Less : Accumulated Depreciation	8,00,000	6,00,000
	19,00,000	**15,00,000**
4. Intangible Assets		
Goodwill	4,70,000	2,70,000

Prepare a cash flow statement after considering the following adjustments:
During the year , a piece of machinery costing Rs.30,000 on which accumulated depreciation was Rs.6,000, was sold for Rs.20,000.

9.From the following Balance sheet of J Ltd. For the year ended 31st March 2022 and 2021, prepare a cash flow statement.

Particulars	Note.	31.03.2022	31.03.2021
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus	1	1,00,000	(25,000)
(2) Non-current Liabilities			
Long term borrowings	2	2,50,000	1,50,000
(3) Current Liabilities			
(a)Short term Borrowing	3	1,50,000	1,00,000
(b)Short term provisions	4	2,00,000	1,25,000
Total		**12,00,000**	**8,50,000**
II. ASSETS			
(1)Non-Current Assets			
Fixed Assets:			
Tangible Assets	5	6,00,000	4,50,000
(2) Current Assets			
(a) Trade Receivables		2,75,000	2,25,000
(b)Cash and Cash Equivalents		1,25,000	75,000
(c) Short term Loans and Advances		2,00,000	1,00,000
Total		**12,00,000**	**8,50,000**

Notes to Accounts:

Particulars	**2022**	**2021**
1.Reserve and Surplus		
Surplus i.e., Balance in statement of Profit and Loss	1,00,000	(25,000)
2.Long term Borrowing		
10% Debentures	2,50,000	1,50,000
3.Short term Borrowings		
Bank Overdraft	1,50,000	1,00,000
4.Short term provisions		
Proposed Dividend	75,000	50,000
Provision for tax	1,25,000	75,000
	2,00,000	**1,25,000**
5.Tangible Assets		
Machinery	7,37,500	5,25,000
Less : Accumulated Depreciation	(1,37,500)	(75,000)
	6,00,000	**4,50,000**

Additional information

Rs.1,00,000, 10% debentures were issued on 31st March 2022.

10. State whether the following would result in inflow, outflow or no flow of cash while preparing cash flow statement. Give your answer with reason:

a) Charging of depreciation on furniture.

b) Issue of 9% debentures to the vendors for the purchase of machinery of Rs.50,000.

c) Declaration of final dividend

d) Sale of marketable securities at par

e) Interest paid on debentures

f) Redemption of debentures

g) Interest received on debentures

h) Purchase of Patents in cash

i) Cash paid as salaries to workers

j) Deposit of Cash into Bank

****

Answers

Very short answer type questions

Q No	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Ans	**b**	**d**	**D**	**b**	**d**	**c**	**c**	**b**

Q No.9 – Dividend paid is treated as Financing Activity

Q No.10- Investing Activity

Q No.11- Cash comprises of Cash in hand and demand deposits with banks

Q No.12- Cash Equivalents are short-term,highly liquid investments that are readily convertible into known amount of cash.

Q No.13 – Cash Outflow in Financing Activity will be Rs.1,10,000 where
Debenture redeemed = Rs.1,00,000
Premium on Redemption = Rs.10,000(10% of Rs.1,00,000)

Q No.14 – (d) None of these.

Q No.15 – Depreciation is added back because it does not result in outflow of cash but decreases the profit.

Short Answer Type Questions

1. Calculation of Net Profit beforeTax and Extra-ordinary items

Net Profit(Given)	**1,00,000**
Add:Provision forTaxation	**1,60,000**
Transfer to general reserve	**14,000**
Net Profit before Tax and Extra-ordinary item	**2,74,000**

Cash flow from operating activities

Particulars	**Details**	**Amount`**
Net Profit Before Tax And Extra-ordinary Item		2,74,000
Adjustment for non-cash and non-operating items:		
Add: Depreciation on fixed assets	20,000	
Add ; Preliminary expenses written off	10,000	
Add : Loss on sale of furniture	1,000	
Less: Profit on sale on machinery	(6000)	25,000
Operating Profit before working capital changes		**2,99,000**
Adjustment for Working Capital Changes		
Add: Increase in creditors	10,000	
Add : Decrease in Bills Receivables	3,000	
Less: Increase in Debtors	(6,000)	
Increase in prepaid Expenses	(200)	
Decrease in Bills Payable	(4,000) ---------------	**2,800**
Cash generated from operation before Tax		**3,01,800**
Less: Income tax Paid		(1,60,000)
Net cash flow from operating Activities		**1,41,800**

2. Cash Flow from Investing Activities

Particulars	`
Proceeds from sale of machinery	20,000
Proceeds from sale of investment	1,10,000
Proceeds from sale of Patents	30,000
Cash paid for purchase of machinery	(1,00,000)
Cash paid for purchase of Investment	(3,50,000)
Interest Received	25,500
Dividend Received	8,500
Rent Received	5,000
Net Cash Used in Investing Activities	**(2,51,000)**

Working Notes:

Dr. **Investment Account** **Cr.**

Date	Particulars	`	Date	Particulars	`
	To Balance b/d	2,50,000		By BankA/c (Sale of investment)	1,10,000
	To Profit on sale of Investment A/c	10,000		By balance c/d	5,00,000
	To Bank A/c B/F) (Additional Purchase)	3,50,000			
		6,10,000			6,10,000

Dr **Machinery Account** **Cr**

Date	Particulars	`	Date	Particulars	`
	To Balance b/d	5,00,000		By BankA/c (Sale of investment)	20,000
	To BankA/c(additional Purchase)(B/F)	1,00,000		By Provision for DepreciationA/c(Dep. on Machinery sold)	25,000
				By Loss on sale of Machinery A	5,000
				By balance C/d	5,50,000
		6,00,000			6,00,000

Dr. **Patents Account** **Cr**

Date	Particulars	`	Date	Particulars	`
	To Balance b/d	2,00,000		By Bank A/c(B/F–Sale of Patents)	30,000
	To Profit on sale of patentsA/c	10,000		By Statement of Profit &Loss (Written off)	60,000
				By balance c/d	1,20,000
		2,10,000			2,10,000

3. Cash Flow from Financing Activities

Particulars	Amount`
Proceeds from Issue of Equity Share Capital	1,00,000
Proceeds from Issue of 10% Preference Share Capital	1,00,000
Cash paid for Redemption of 9% Debentures (50,000 × 105%)	(52,500)
Interest paid on Debentures	(12,500)
Interim Dividend paid	(75,000)
Final Dividend paid (3,00,000-50,000)	(2,50,000)
Net Cash Used in Financing Activities)	**1,90,000**

Important points to be noted in this problem

1. Bonus shares worth Rs.5, 00,000 issued to equity shareholder are not to be shown in the cash flow statement because there is no flow of cash by this activity.

2. Previous year proposed dividend-unpaid dividend =final dividend paid during the current year, is cash used in financing activities.

4. Calculation of Net profit before tax and Extra ordinary items

Particulars	Amt
Surplus ie, Balance in the statement of Profit and Loss (Closing)	1,00,000
(-)Surplus ie, Balance in the statement of Profit and Loss (Opening)	(25,000)
(+) Proposed Dividend for Current year	75,000
(+) Provision for tax-Current year	1,25,000
Net Profit Before Tax and Extra ordinary Item	**2,75,000**

5. **Plant and Machinery account**

Particular	Rs	Particulars	Rs
To Balance B/d	6,04,000	By Accumulated Depreciation	23,000
To statement of profit and loss(Gain on sale)	12,000	ByBank	1,02,000
To Bank a/c(bal. fig)	**3,95,000**	By Balance c/d	8,86,000
	10,11,000		10,11,000

Cash flow from Investing Activities

Cash receipt on sale of Plant and Machinery	1,02,000
Cash payment on purchase of Plant and Machinery	(3,95,000)
Net Cash used in Investing Activity	**(2,93,000)**

6.Cash from Operating Activities

Cash flows from operating activities are primarily derived from the main activities of the enterprise. They generally result from the transactions and other events that enter into the determination of net profit or loss.

Cash from Investing Activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, etc. Transactions related to long-term investment are also investing activities.

Cash flow from financing Activities

Financing activities are activities that result in changes in the size and composition of the owners' capital and borrowings of the enterprise. Separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds

7. **Cash flow from Financing Activities**

Particulars	Amount
Proceeds from Issue of Share Capital Securities Premium Bank Overdraft Interest on Bank Overdraft	2,00,000 50,000 1,20,000 (3,200)
Cash flow from Financing Activities	**3,66,800**

8. Objectives of Cash Flow Statement:

(i) To provide information of cash inflow and outflow from Operating/Investing/ Financing Activities.

(ii) To determine net change in Cash and Cash Equivalents.

9. **Cash Flow from Investing Activities**

Particulars	Rs
Purchase of Machinery Sale of Machinery	(6,00,000) 2,50,000
Net cash used in Investing Activity	**(3,50,000)**

Cash Flow from Financing Activities

Particulars	Rs
Issue of Equity Share Capital Payment of Bank Loan	7,00,000 (5,00,000)
Net Cash flow from Financing Activities	**2,00,000**

Working notes: **Machinery Account**

Particulars	Rs	Particulars	Rs
To Balance B/d	5,00,000	By Bank A/c (Sale)	2,50,000
To Statement of P/L(Profit on sale)	1,50,000	By Accumulated Depreciation A/c	1,00,000
To Bank A/c (Purchase Bal fig)	6,00,000	By Balance C/d	9,00,000
	12,50,000		12,50,000

Accumulated Depreciation A/c

Particulars	Rs	Particulars	Rs
To Machinery A/c To Balance c/d	1,00,000 4,50,000	By Balance B/d By Statement of P/L	3,00,000 2,50,000
	5,50,000		5,50,000

10.

1) Financing Activity	6) Investing Activity
2) Financing Activity	7) Financing Activity
3) Operating Activity	8) Operating Activity
4) Financing Activity	9) Investing Activity
5) Operating Activity	10) Operating Activity

Long Answer Type Questions

1.

Calculation of Net Profit before Tax and Extra ordinary item:	`
Net Profit as per Balance in Statement of Profit & Loss A/c (15000-10,000)	5,000
Add: Transfer to General Reserve (27,500–15,000)	12,500
Add: Interim dividend paid during the year	7,000
Net Profit before Tax and Extra ordinary item	**24,500**

Cash Flow Statement For the year ended 31st March2021

Particulars	**Details(Rs)**	**Amount(Rs)**
A Cash flow from Operating Activities		
Net Profit Before Tax And Extra-ordinary Item	24,500	
Adjustment for non-cash and non-operating items		
Add: Depreciation on fixed assets	14,700	
Operating Profit before working capital changes	39,200	
Adjustment for Working Capital Changes:		
Add: Increase in Trade Payables	2,300	
	41,500	
Less: Increase in trade receivable	(1,500)	
Increase in Inventories	(2,000)	
Net Cash Inflow from Operating Activities		**38,000**
B.Cash Flow from Investing Activities		
Purchase of Fixed Assets	(51,000)	
Net Cash Used in Investing Activities		**(51,000)**
C. Cash Flow from Financing Activities		
Issue of share capital	20,000	
Payment of interim dividend	(7,000)	
Cash Flow from Financing Activities		**13,000**
Net Increase in Cash & Cash Equivalent(A+C-B)		**Nil**
Add: Cash & Cash Equivalent at the beginning of year		3,000
Cash& Cash Equivalent at the end of year		**3,000**

Dr Fixed Assets Account Cr

Date	Particulars	`	Date	Particulars	`
	To Balance b/d To Bank A/c (additional purchase) (B.F)	46,700 51,000		By Depreciation A/c (Current year dep.on remaining fixed assets) By Balance c/d	14,700 83,000
		97,700			**97,700**

2 **.Cash Flow Statement of L Ltd For the year ended 31st March 2021**

Particulars	**Details (Rs)**	**Amounts (Rs)**
1.Cash Flows from Operating Activities:		
Net Profit before tax & extraordinary items	1,08,000	
Add: Non cash and Non-operating charges	–	
Operating profit before working capital changes	**1,08,000**	
Add: Increase in Current Liabilities:		
Increase in trade payables	48,000	
Less :Increase in Current Assets:		
Increase in trade receivables	(22,500)	
Increase in inventories	(83,000)	
Cash generated from Operating Activities		**50,500**
2.Cash flow from Investing Activities:		
Purchase of fixed assets	(42,000)	
Purchase of non current investments	(30,000)	
Cash used in investing activities.		**(72,000)**
4. **Cash flows from Financing Activities:**		
Issue of share capital	30,000	
Cash flow from financing activities		**30,000**
Net increase in cash & cash equivalents(A+C-B)		**8,500**
Add: Opening balance of cash & cash equivalents:		
Marketable Securities	60,000	
Cash & cash Equivalents :	9,500	**69,500**
Closing Marketable Securities	54,000	
Closing Cash & Cash equivalents	24,000	
Closing balance of cash & cash equivalents:		**78,000**

3. Answer

Cash flow statement

Particulars	**Detail**	**Amount**
A. Cash flow from operating Activities		
Difference in statement of Profit and Loss	(50,000)	
Add: Depreciation	1,20,000	
Add: Interest paid	36,000	
Operating profit before working capital changes	**1,06,000**	
Add: Decrease in current assets and increase in current liabilities		
Increase in trade payables	10,000	
Less: Increase in Current assets and decrease in current liabilities		
Increases in Trade Receivables	(80,000)	
Increase in Inventory	(1,00,000)	**(64,000)**
Cash used in Operating Activity		
B. Cash flow from Investing Activities		**(4,20,000)**
Purchase of Tangible assets	(4,20,000)	
Cash used in investing activities		
C. Cash flow from financing activities		
Proceeds from issue of equity shares	4,00,000	
Proceeds from Long term borrowings	90,000	
Interest paid	(36,000)	**4,54,000**
Cash flow from financing activities		
Net decrease in Cash and Cash Equivalents (A+B+C)		**(30,000)**
Add: Cash and cash Equivalent in the beginning		3,70,000
Cash and cash equivalents at the end		**3,40,000**

Working notes :

Tangible Assets A/c

Particulars	**Rs**	**Particulars**	**Rs**
To Balance B/d	9,00,000	By Depreciation A/c	1,20,000
To Bank A/c (Purchase. Bal fig)	4,20,000	By Balance C/d	12,00,000
	13,20,000		**13,20,000**

4. **Cash flow statement**

Particulars	**Detail**	**Amount**
A. Cash flow from operating Activities		
Net Profit before Tax(3,08,000-1,82,000)	1,26,000	
Add: Depreciation	28,000	
Less: Gain on Sale of Machinery	(14,000)	
Operating profit before working capital changes	**1,40,000**	
Add: Decrease in current assets and increase in current liabilities		
Increase in trade payables	98,000	
Decrease in Inventories	42,000	
Less: Increase in Current assets and decrease in current liabilities		
Increases in Trade Receivables	(2,10,000)	
Cash flow from Operating Activity		**70,000**
B. Cash flow from Investing Activities		
Proceeds from sale of Machinery	56,000	
Purchase of Plant and Machinery	(1,82,000)	
Cash used in investing activities		**(1,26,000)**
C. Cash flow from financing activities		
Proceeds from issue of shares	70,000	
Cash flow from financing activities		**70,000**
D. Net increase in Cash and Cash Equivalents (A+B+C)		**14,000**
Add: Cash and cash Equivalent in the beginning		84,000
Cash and cash equivalents at the end		**98,000**

Working notes

Plant and Machinery A/c

Particulars	**Rs**	**Particulars**	**Rs**
To Balance B/d	2,80,000	By Bank (Sale)	56,000
To Gain on Sale of Machinery	14,000	By Depreciation A/c	28,000
To Bank A/c (Purchase. Bal fig)	1,82,000	By Balance C/d	3,92,000
	4,76,000		**4,76,000**

5. **Calculation of Net Cash Flow from Operating Activities**

Particulars	**Amount**
Cash flow from operating Activities	
Profit before tax	2,08,000
Add: Depreciation	30,000
Loss on Sale of machinery	10,000
Interest on debentures(75000 x 8/100)+(55000 x 8/100 x 6/12)	8,200
Interest on Bank loan(20000 x 8/100)+(5000 x 8/100 x 6/12)	1,800
Goodwill Amortised	12,500
Premium on Redemption of Preference shares	2,500
Operating profit before working capital changes	**2,73,000**
Add: Decrease in current assets and increase in current liabilities	
Increase in Trade payables	5,000
Less: Increase in Current assets and decrease in current liabilities	
Increases in Inventories	(47,500)
Cash generated from operations	**2,30,500**
Less: Tax paid	(17,500)
Cash Flow from Operating Activity	**2,13,000**

Working notes : **Calculation of profit before tax**

Difference in the statement of profit and loss(75,000)+(70,000)	1,45,000
Add : Transfer to reserve	15,000
Dividend on Equity shares	18,000
Dividend on Preference shares	7,500
Provision for tax made during the year	22,500
Net profit before tax	**2,08,000**

Tangible Fixed Assets A/c

Particulars	**Rs**	**Particulars**	**Rs**
To Balance B/d	3,10,000	By Depreciation A/c	30,000
To Bank A/c (Purchase Bal fig)	1,70,000	By Bank (sale)	10,000
		By Loss on sale (Statement of profit and loss)	10,000
		By Balance C/d	4,30,000
	4,80,000		**4,80,000**

Provision for Tax A/c

Particulars	**Rs**	**Particulars**	**Rs**
To Bank(bal fig)	17,500	By Balance B/d	20,000
To Balance c/d	25,000	By Statement of P/L	22,500
	42,500		**42,500**

6. **Cash Flow from Investing Activities**

Particulars	**`Rs**
Purchase of Goodwill	(2,00,000)
Proceeds from sale of machinery	50,000
Proceeds from sale of investment	1,00,000
Proceeds from sale of Patents	1,00,000
Cash paid for purchase of machinery	(4,40,000)
Cash paid for purchase of Investment	(1,80,000)
Interest Received	6,000
Dividend Received	10,000
Rent Received	30,000
Net Cash Used in Investing Activities	**(5,24,000)**

WorkingNotes:

Dr. 10% Non-current Investment Account Cr.

Date	**Particulars**	**Rs`**	**Date**	**Particulars**	**Rs`**
	To Balance b/d	60,000		By Bank A/c (sale) (B.Fig)	1,00,000
	To Profit on sale of Investment A/c	20,000			
	TO Bank A/C(purchase)	1,80,000		By balance c/d	1,60,000
		2,60,000			**2,60,000**

Dr Machinery Account Cr

Date	**Particulars**	**`**	**Date**	**Particulars**	**`**
	To Balance b/d	10,20,000		By Bank A/c (sale)	50,000
	To BankA/c (Purchase)(B/F)	4,40,000		By DepreciationA/c	1,40,000
				By Profit & Loss A/c (Loss on sale)	30,000
				By balance c/d	12,40,000
		14,60,000			**14,60,000**

Dr. Patents Account Cr

Date	**Particulars**	**`Rs**	**Date**	**Particulars**	**`Rs**
	To Balanceb/d	2,80,000		By BankA/c (B/F–Sale of Patents)	1,00,000
	To Profit &Loss A/C (profit on sale of Patents)	20,000		By Statement of Profit&Loss (written off)	40,000
				Bybalance c/d	1,60,000
		3,00,000			**3,00,000**

7.**Answer**

Cash flow statement

Particulars	**Detail**	**Amount**
A. Cash flow from operating Activities		
Profit before tax(1,50,000+50,000+1,20,000+1,00,000)	4,20,000	
Add: Depreciation	1,00,000	
Operating profit before working capital changes	5,20,000	
Add: Decrease in current assets and increase in current liabilities		
Decrease in inventories	10,000	
Increase in Trade payables	40,000	
Less: Increase in Current assets and decrease in current liabilities		
Increases in Trade Receivables	(1,30,000)	
Cash generated from operations	4,40,000	
Less: Tax paid	(80,000)	
Cash Flow from Operating Activity		**3,60,000**
B. Cash flow from Investing Activities		
Purchase of Fixed assets	(7,00,000)	**(7,00,000)**
Cash used in investing activities		
C. Cash flow from financing activities		
Proceeds from issue of equity shares	2,00,000	
Proceeds from issue of preference shares	2,00,000	
Proceeds from Long term borrowings	2,60,000	
Repayment of bank loan	(4,00,000)	
Dividend paid	(1,00,000)	
Increase in Bank overdraft	2,00,000	
Cash flow from financing activities		**3,60,000**
D. Net increase in Cash and Cash Equivalents (A+B+C)		**20,000**
Add: Cash and cash Equivalent in the beginning		40,000
Cash and cash equivalents at the end		**60,000**

Working notes :Calculation of profit before tax

Difference in the statement of profit and loss	2,00,000
Add : Provision for tax made during the year	1,20,000
Add : Dividend paid	1,00,000
Net profit before tax	**4,20,000**

Fixed Assets A/c

Particulars	Rs	Particulars	Rs
To Balance B/d To Bank A/c (Purchase)	8,00,000 7,00,000	By Depreciation A/c By Balance C/d	1,00,000 14,00,000
	15,00,000		**15,00,000**

Provision for Tax A/c

Particulars	Rs	Particulars	Rs
To Bank(bal fig) To Balance c/d	80,000 1,00,000	By Balance B/d By Statement of P/L	60,000 1,20,000
	1,80,000		**1,80,000**

8.(i) Cash Flow from Operating Activities = Rs. 2,80,000

(ii) Cash used in Investing Activities = Rs.8,10,000

(iii)Cash Flow from Financing Activities = Rs.6,00,000

(iv)Net Increase in Cash and Cash Equivalent = Rs.70,000

Working notes:

Machinery Account

Particulars	Rs	Particulars	Rs
To Balance B/d To Bank A/c (Purchase Bal fig)	21,00,000 6,30,000	By Bank A/c (Sale) By Accumulated Depreciation A/c By Loss on Sale (Statement of P/L) By Balance C/d	20,000 6,000 4,000 27,00,000
	27,30,000		**27,30,000**

Accumulated Depreciation A/c

Particulars	Rs	Particulars	Rs
To Machinery A/c To Balance c/d	6,000 8,00,000	By Balance B/d By Statement of P/L	6,00,000 2,06,000
	8,06,000		**8,06,000**

9. (i) Cash Flow from Operating Activities = Rs. 1,77,500

(ii) Cash used in Investing Activities = Rs.2,12,500

(iii) Cash Flow from Financing Activities = Rs.85,000

(iv) Net Increase in Cash and Cash Equivalent = Rs.50,000

Working notes :

Calculation of profit before tax

Difference in the statement of profit and loss(1,00,000+25,000)	1,25,000
Add : Provision for tax made during the year	1,25,000
Add : Proposed Dividend	75,000
Net profit before tax	**3,25,000**

10. a) No flow of cash because depreciation is not paid in cash.

b)No flow of cash because it does not affect either cash or cash equivalents.

c)No flow of cash because it is a proposed dividend which is not to be paid during current year.

d) No flow of cash because there is no change in cash as both the accounts involved in the transaction are of cash nature only

e) Out flow of cash because it decreases cash

f) Out flow of cash because it decreases cash.

g) Inflow of cash because it increases cash.

h) Outflow of cash because it decreases cash.

i) Outflow of cash because it decreases cash.

j) No flow of cash because there is no change in cash as both cash and bank components are the part of cash management.

CBSE CASE BASED QUESTIONS

Class -XII

SUBJECT: ACCOUNTANCY

CASE STUDY 1

Read the following hypothetical text and answer the given questions:

Amit and Mahesh were partners in a fast-food corner sharing profits and losses in ratio 3:2. They sold fast food items across the counter and did home delivery too. Their initial fixed capital contribution was ₹1,20,000 and ₹80,000 respectively.

At the end of first year their profit was ₹ 1,20,000 before allowing the remuneration of ₹.3,000 per quarter to Amit and ₹.2,000 per half year to Mahesh. Such a promising performance for first year was encouraging, therefore, they decided to expand the area of operations.

For this purpose, they needed a delivery van, a few Scotties and an additional person to support. Six months into the accounting year they decided to admit Sundaram as a new partner and offered him 20% as a share of profits along with monthly remuneration of ₹ 2,500. Sundaram was asked to introduce ₹1,30,000 for capital and ₹.70,000 for premium for goodwill. Besides this Sundaram was required to provide Rs.1,00,000 as loan for two years.

Sundaram readily accepted the offer. The terms of the offer were duly executed and he was admitted as a partner.

1 Remuneration will be transferred to _______________ of Amit and Mahesh at the end of the accounting period.

a. Capital account.
b. Loan account.
c. Current account.
d. None of the above.

2 Upon the admission of Sundaram the sacrifice for providing his share of profits would be done:

(a) by Amit only.
(b) by Mahesh only.
(c) by Amit and Mahesh equally.
(d) by Amit and Mahesh in the ratio of 3:2.

3 Sundaram will be entitled to a remuneration of _____________at the end of the year.

4 While taking up the accounting procedure for this reconstitution the accountant of the firm Mr. Suraj Marwaha faced a difficulty. Solve it be answering the following:

For the amount of loan that Sundaram has agreed to provide, he is entitled to interest thereon at the rate of ____________.

CASE STUDY 2

Read the following hypothetical text and answer the given questions:

Dr. Rajani Mehta a qualified M.B.B.S. doctor got voluntary retirement at the age of 50 years from a renowned hospital. She was residing in a flat of a wide apartment which is surrounded by a slum which is inhabited by economically weaker strata of the society. As the people in that area were not aware about importance of health care, a widespread ailment had been persistently prevailing. Rajani met with some of the well-off people of apartment and decided to open a dispensary named as `LOCAL Clinic' to provide them cost free medical assistance and make them aware about hygienic living, physical fitness, and economic balance diet. Many of the apartment members agreed to it. She approached health department of the town with her proposal which was accepted and an initial one time grant of ₹.2,00,000 was sanctioned immediately for purchase of medical equipment and test kits for pathological tests. 10 members of the apartment contributed ₹.20,000 each as lifetime subscription to the clinic. Rajni decided to charge ₹10 as one time registration fee from patients. Apart from above Rajni made following transactions for first year:

S. No.	Particulars	Amount in (₹)
1	Purchased Equipment	1,20,000
2	Purchased Medicines	95,000
3	Purchased Furniture	10,000
4	Rent paid	12,000
5	Fee received for medical tests	45,000
6	Honorarium paid to Yoga teacher	35,000
7	Honorarium paid to physiotherapist and sports teacher	38,000

Rajni informed that during the first year 10,500 patients were registered for treatment and for other services. Taking reference from the above, answer following questions.

1 Not for profit organization prepares
- (i) Income and Expenditure account
- (ii) Trading and Profit loss account
- (iii) Receipt and Payment account
- (iv) None of the above

Options:
- (a) Only (ii)
- (b) Only (iii)
- (c) Both (i) and (ii)
- (d) Both (i) and (iii)

2 Honorarium paid to Physiotherapist and sports teacher Will be posted to
- (a) Debit side of Income and Expenditure Account.
- (b) Debit side of Receipt and Payment Account.
- (c) Debit side of Profit and Loss Account.
- (d) Credit side of Income And Expenditure account

3 State whether the following statements are true or false:
"Donations received by Ms Rajani Mehta from health department should be capitalized."

4 Lifetime subscription paid by 10 members will be posted in
- (a) Expenditure side of Income and Expenditure Account
- (b) Liability side of closing Balance Sheet
- (c) Income side of Income and Expenditure Account
- (d) Assets side of closing Balance Sheet

CASE STUDY – 3

Read the following hypothetical text and answer the given questions on the basis of the same:

Krishika an alumni of IIM Ahemdabad initiated her startup Krishika 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

1 Net Profit before tax will be ₹……………………………. (Choose the correct alternative)

(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 ₹…………………… (Choose the correct alternative)

(a) 52,17,500 (b) 64,67,500 (c) 39,67,500 (d) 39,69,500

3 Cash from operating activities before tax will be₹…………………… (Choose the correct alternative)

(a) 35,57,500 (b) 40,67,500 (c) 37,87,500 (d) 35,67,300

4 Cash flow from Operating Activities will be₹…………………… (Choose the correct alternative)

(a) 39,95,000 (b) 31,20,000 (c) 40,67,500 (d) 31,00,000

CASE STUDY – 4

Read the following hypothetical extract of Rehan Limited and answer the given questions on the basis of the same:

YEAR	2020	2019	2018
AMOUNT	**(IN ₹)**	**(IN ₹)**	**(IN ₹)**
Outstanding Expenses	50,000	40,000	25,000
Prepaid Expenses	3,00,000	2,50,000	3,50,000
Trade Payables	18,00,000	16,00,000	14,00,000
Inventory	12,00,000	10,00,000	11,00,000
Trade Receivables	11,00,000	8,00,000	10,00,000
Cash in hand	17,00,000	12,00,000	15,00,000
Revenue from operations	24,00,000	18,00,000	20,00,000
Gross Profit Ratio	12%	15%	18%

1 Current Ratio for the year 2020 will be_______________ (Choose the correct alternative)

(a) 2:1 (b) 1.8:1 (c) 2.32:1 (d) 2.4:1

2 Quick Ratio for the year 2018 will be______________(Choose the correct alternative)

(a) 1.75:1 (b) 1.8:1 (c) 0.94:1 (d) 1.25:1

3 Inventory turnover ratio for the year 2020 will be______(Choose the correct alternative)

(a) 1.62times (b) 1.82 times (c) 1.55times (d) 1.92 times

4\. Cost of Revenue from Operations for the year 2020 would be _____________________ (Choose the correct alternative)

(a) ₹21,12,000 (b) ₹21,13,000 (c) ₹21,15,000 (d) ₹21,17,000

CASE STUDY – 5

Talent sports Club is engaged in the activity of identifying and promoting sports talent from rural and tribal areas of the country. Identifying with this Noble cause Mr Manohar a renowned industrialist donated ₹ 50,00,000 on 1st July 2020, for the construction of a new hostel and mess for upcoming sportsmen.

Besides this Mr Manohar offered the services of his personal chartered accountant,free of charge, to streamline the account of Total Sports Club. The chartered accountant visited the office of the NPO on 31st March 2021 and found that till date rupees 35,00,000 had been spent on construction of hostel and mess building. he also noted that the NPO had a capital fund of Rs.1,20,00,000 in the beginning of the year. Other important points that he noted were that NPO had 2000 regular members each having an annual subscription of Rs.2000 per annum.

On 1st April 2020, 180 members had not paid for subscription of previous year and 20 members had paid for 2020-2021 in advance (out of which 5 had paid advance of2021-2022 as well)

31st March 2021, 110 Members he had outstanding balance (hey including 50 who had not paid for 2019-20 as well) and 25 members had paid for 2021- 2022 in advance (including all 5 who had paid in advance in 2019-20)

Since the accountant of NPO was not clear about how to deal with all the above information he drafted a set of questions for guidance.

Considering that you are the Chartered Accountant of Mr. Manohar answer the following questions based on the information detailed above.

1 The amount of Rs. 50,00,000 received from Mr Manohar towards building and mess should be transferred to

a. Capital fund
b. General fund
c. Income and Expenditure account
d. Building fund

2 The amount of Rs. 35,00,000 spent on construction of building should be:

I. reflected on debit side of income and expenditure account as an expense.
II. reflected on asset side of balance sheet.
III. reflected as a deduction from Building fund and addition to capital fund.
IV. Not be recorded till the building is complete.

On basis of given information choose which of the following stands true

a. Only IV
b. BothI and IV
c. Both II and III
d. None of these

3 The amount of subscription in arears on 1st April 2020 is:

a. ₹ 3,60,000
b. ₹ 3,00,000
c. ₹ 2,000

	d. ₹ 1,80,000	
4.	The amount of subscription in arears on 31st March 2021 is: a. ₹ 2,20,000 b. ₹ 3,60,000 c. ₹ 3,20,000 d. ₹ 1,80,000	
5.	The amount of subscription in advance on 31st March 2021 is: a. ₹ 40,000 b. ₹ 50,000 c. ₹ 10,000 d. None of these	
6.	The amount of subscription to be transferred to income and expenditure account for the year ended 31st March 2021 is: a. ₹ 40,00,000 b. ₹ 20,00,000 c. ₹ 43,20,000 d. ₹ 43,60,000	

CASE STUDY – 6

Nidiya limited was incorporated on 1st April 2017 with registered office in Mumbai. The capital clause of memorandum of Association reflected a registered capital of 8,00,000 equity shares of Rs.10 each and 1,00,000 preference shares of Rs.50 each.

Since some large investments were required for building and machinery the company in consultation with vendors,Ms.VPS Enterprises, issued 1,00,000 equity shares and 20,000 preference shares at par to them in full consideration of assets acquired. Besides this the company issued 2,00,000 equity shares for cash at par payable as Rs 3 on application, 2 on allotment, 3 on first call and 2 on second call.

Till date second call has not yet been made and all the shareholders have paid except Mr. Ajay who did not pay allotment and calls on his 300 shares and Mr. Vipul who did not pay first call on his 200 shares. Shares of Mr. Ajay were then forfeited and out of them 100 shares were reissued at Rs.12 per share.

Based on above information you are required to answer the following questions.

1 Shares issue to vendors of building and machinery, Ms. VPS Enterprises, would be classified as:

a. Preferential Allotment
b. Employee Stock Option Plan
c. Issue for Consideration other than cash
d. Right Issue of Shares

2 How many equity shares of the company have been subscribed?

a. 3,00,000
b. 2,99,500
c. 2,99,800
d. None of these

3 What is the amount of security premium reflected in the balance sheet at the end of the year?

a. ₹200
b. ₹600
c. ₹400
d. ₹ 1,000

4 What amount of share forfeiture would be reflected in the balance sheet?

a. ₹600
b. ₹900
c. ₹200
d. ₹ 300

CASE STUDY – 7

Sterlingenterprises is a partnership business with Ryan, Williams and Sania as partners engaged in production and sales of electrical items and equipment.

Their capital contributions were Rs.50,00,000, Rs.50,00,000 and Rs.80,00,000 respectively with the profit the sharing ratio of 5:5:8. As they are now looking forward to expanding their business, it was decided that they would bring in sufficient cash to double their respective capitals.

This was duly followed by Ryan and Williams but due to unavoidable reasons Sania could not do so and ultimately it was agreed that to bridge the shortfall in the required capital a new partner should be admitted who would bring in the amount that Sania could not bring and that the new partner would get share of profits equal to half of Sania's share which would be sacrificed by Sania only.

Consequent to this agreement Ejaz was admitted and he brought in the required capital and Rs.30,00,000 as premium for goodwill.

Based on the above information you are required to answer the following questions.

1 What will be the new profit-sharing ratio of Ryan, Williams, Sania and Ejaz?
- (a) 1:1:1:1
- (b) 5:5:8:8
- (c) 5:5:4:4
- (d) None of the above

2 What is the amount of capital brought in by the new partner Ejaz?
- (a) Rs.50,00,000
- (b) Rs.80,00,000
- (c) Rs.40,00,000
- (d) Rs.30,00,000

3 What is the value of the goodwill of the firm?
- (a) Rs.1,35,00,000
- (b) Rs.30,00,000
- (c) Rs.1,50,00,000
- (d) Cannot be determined from the given data.

4 What will be correct journal entry for distribution of Premium for Goodwill brought in by Ejaz?

(i) Ejaz Capital A/c ……………..Dr. 30,00,000
To Sania's Capital A/c 30,00,000
(Being…………………………..)

(ii) Premium for Goodwill A/c……Dr. 30,00,000
To Sania's Capital A/c 30,00,000
(Being…………………………..)

(iii) Premium for Goodwill A/c……Dr 30,00,000
To Reyan's Capital A/c 8,33,333
To William's Capital A/c 8,33,333

		To Ejaz's Capital A/c		13,33,333	
		(Being…………………………..)			
	(iv)	Premium for Goodwill A/c……Dr	30,00,000		
		To Reyan's Capital A/c		10,00,000	
		To William's Capital A/c		10,00,000	
		To Ejaz's Capital A/c		10,00,000	
		(Being…………………………..)			

	CASE STUDY – 8	
	VIJAYA SHANKAR, an Ex-Indian cricketer decided to start a cricket academy to train the young enthusiastic players of down south. With the support and guidance of his family he started the Star cricket academy at Tirunelveli township area on 1st April 2020. Land was donated by his grandfather worth Rs. 10,00,000 as per his will. His father Shankar donated Rs.5,00,000 for the construction and running the academy. He spent Rs.3,00,000 for construction of the pavilion. 200 players of Tirunelveli joined the academy and they paid yearly subscription of Rs.1200 each. 10 players paid in advance for the next year 2021 -22. Vijayashankar appointed well experienced coach for them, the coach fee amounted to Rs. 1,20,000 p.a. The maintenance expenses amounted to Rs.75,000. Bats and balls purchased during the year amounted to Rs.15,000. Closing stock of bats and ball amount to Rs.1000. Based on the above information you are required to answer the following question.	
1	What is the Primary source of income for the academy?	
2	The amount of subscription to be credited to income and expenditure account-------------	
3	How will you treat the land donated by his grandfather?	
4	The liability towards advance subscription amounted to: (a) Rs. 12,000 (b) Rs.24,000 (c) Rs.1,200 (d) Rs.1,20,000	
5	The amount of subscription received as per Receipts and payments Account of Star cricket club is: (a) Rs.2,52,000 (b) Rs.2,40,000 (c) Rs.2,50,000 (d) None of the above	
6	What amount should be charged to the Income and Expenditure account for bats and balls consumed during the year? (a) Rs.15,000 (b) Rs.16,000 (c) Rs.14,000 (d) Rs.13,500	

	Class –XII	
	Subject: ACCOUNTANCY	
	CASE STUDY 1	
1	(c) Current Account	
2	(d) By Amit and Mahesh in the ratio of 3:2	
3	Rs.15,000	
4	6% p.a.	
	CASE STUDY 2	
1	(d) Both (i) and (iii)	
2	(a) Debit side of Income and Expenditure Account.	
3	True	
4	(b) Liability side of closing Balance Sheet	
	CASE STUDY – 3	
1	(d) 44,37,500	
2	(c) 39,67,500	
3	(a) 35,57,500	
4	(b) 31,20,000	
	CASE STUDY – 4	
1	(c) 2.32:1	
2	(b) 1.75:1	
3	(d) 1.92 times	
4	(a) ₹21,12,000	
	Case Study – 5	
1	(d) Building Fund	
2	(c) Both II and III	
3	(a) Rs. 3,60,000	
4	(c) Rs.3,20,000	
5	(b) Rs.50,000	
6	(a) Rs.40,00,000	

	Case Study – 6	
1	(c) Issue for consideration other than cash.	
2	(c) Rs.2,99,800	
3	(c) Rs.400	
4	(a) Rs. 600	
	Case Study – 7	
1	(c) 5:5:4:4	
2	(b) Rs.80,00,000	
3	(a) Rs.1,35,00,000	
4	(b) Premium for Goodwill A/c…………….Dr 30,00,000 To Sania's Capital A/c 30,00,000	
	Case Study - 8	
1	Subscription	
2	Rs.2,40,000	
3	Vijaya Shankar's grandfather donated a land for cricket coaching which is to be treated as legacy and is to be capitalized.	
4	(a) Rs.12,000	
5	(a) Rs.2,52,000	
6	(c) Rs.14,000	

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)

S.No.	Question	Marks
	Part A :- Accounting for Partnership Firms and Companies	
1.	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:	1

Date	Particular	LF	Debit (₹)	Credit (₹)
	Shreya's Current A/c. Dr. To Navya's Capital A/c. To Radhey's Capital A/c (Being entry for goodwill treatment passed)		24,000	 8,000 16,000

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

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)

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

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. To Arshiya's Capital A/c. To Divya's Capital A/c	9,000	 6,000 3,000
b)	Arshiya's Capital A/c. Dr. To Samiksha's Capital A/c. To Divya's Capital A/c.	5,000	 2,000 3,000
c)	Arshiya's Capital A/c. Dr. Divya's Capital A/c. Dr. To Samiksha's Capital A/c	2,000 1,000	 3,000
d)	Arshiya's Capital A/c. Dr. Divya's Capital A/c. Dr. To Samiksha's Capital A/c	6,000 3,000	 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

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 Premium was ₹ 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. Public had 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:- 1

a) ₹ 40,000	b) ₹ 44,000

c) ₹ 36,000	d) ₹ 36,440

10. Puneet’s share of profit will be :- 1

a) ₹ 1,80,000	b) ₹ 1,44,000
c) ₹ 2,16,000	d) ₹ 1,60,000

11. Choose the correct sequence of the following transactions in context of Division of Profits. 1

(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)

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? 1

a) ₹ 28,000	b) ₹ 21,000
c) ₹ 9,000	d) ₹ 16,000

13. As per Companies Act 2013, Securities Premium Balance can be utilised for which of the following purpose? 1

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

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? 1

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

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: 1

a) ₹ 8,000

	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 profits equally. For this purpose, goodwill is to be valued at two year's purchase of the average profit of last four years which were as follows: Year ending on 31st March,2019 ₹ 50,000 (Profit) Year ending on 31st March,2020 ₹ 1,20,000 (Profit) Year ending on 31st March,2021 ₹ 1,80,000 (Profit) Year ending on 31st March,2022 ₹ 70,000 (Loss) On 1st April, 2021 a Motor Bike costing ₹ 50,000 was purchased and debited to travelling expenses account, on which depreciation is to be charged @ 20% p.a by Straight Line Method. The firm also paid an annual insurance premium of ₹ 20,000 which had already been charged to Profit and Loss Account for all the years. 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:- 6

Date	Particulars	L.F	Debit (₹)	Credit (₹)
	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)		1,80,000 1,20,000	 3,00,000

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 be paid 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.

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. 6

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.

Part B :- Analysis of Financial Statements
(Option – I)

27. Financial statements are prepared on certain basic assumptions (pre-requisites) known as____________. 1

a) Provision of Companies Act,2013	b) Accounting Standards
c) Postulates	d) Basis of Accounting

Or

Which one of the following is correct?

(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 1

Net profit after tax Rs 12,00,000; 10% debentures Rs 1,00,00,000; Tax Rate 40%

a) 1.2 times	b) 3 times
c) 2 times	d) 5 times

29. 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? 1

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.

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.

4

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.

(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 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.

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

<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>a) 41: 7: 12</td><td>1</td></tr>
<tr><td>2.</td><td>c) Both (A) and (R) are incorrect</td><td>1</td></tr>
<tr><td>3.</td><td>b) ₹ 4 per share
OR
d) Non – Redeemable Debentures</td><td>1</td></tr>
<tr><td>4.</td><td><table><tr><td>a)</td><td>Samiksha’s Capital A/c. Dr.
To Arshiya’s Capital A/c.
To Divya’s Capital A/c</td><td>9,000</td><td>
6,000
3,000</td></tr></table>Or
d) Share of Loss Sohan –₹ 1,180 Mohan – ₹ 1,770</td><td>1</td></tr>
<tr><td>5.</td><td>d) ₹ 3,00,000</td><td>1</td></tr>
<tr><td>6.</td><td>c) 6%
OR
b) 5%</td><td>1</td></tr>
<tr><td>7.</td><td>c) ₹ 30,000</td><td>1</td></tr>
<tr><td>8.</td><td>d) ₹70,500
Or
d) A ₹ 50,000; B ₹ 50,000 and C ₹ 50,000</td><td>1</td></tr>
<tr><td>9.</td><td>c) ₹ 36,000</td><td>1</td></tr>
<tr><td>10.</td><td>a) ₹ 1,80,000</td><td>1</td></tr>
<tr><td>11.</td><td>c) (iii) ; (ii) ; (i); (iv)</td><td>1</td></tr>
<tr><td>12.</td><td>b) ₹ 21,000</td><td>1</td></tr>
<tr><td>13.</td><td>b) Providing for Premium payable on Redemption of Debentures.</td><td>1</td></tr>
<tr><td>14.</td><td>c) ₹ 50,000</td><td>1</td></tr>
<tr><td>15.</td><td>d) 5,000
Or
d) 12% p.a</td><td>1</td></tr>
<tr><td>16.</td><td>d) ₹ 30,000 (loss)</td><td>1</td></tr>
<tr><td>17</td><td>Journal Entry<table><tr><th>Date</th><th>Particulars</th><th>L.F.</th><th>Dr. Amount</th><th>Cr. Amount</th></tr></table></td><td>3
(1 + 2)</td></tr>
</table>

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= $\frac{1,00,000 \text{ X } 3}{10}$ = ₹ 30,000

18

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**

3 (1/2 x6)

** Guarantee met for 9 months.

Or

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

Or

3 (1+2)

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.

Books of Anthony Ltd.

Journal Entries

3

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

Journal Entry

3 (1+2)

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.

Books of Altaur Ltd.
Balance Sheet (Extract) as at …..

4
(1+3)

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.

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

4

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

6

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

	(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:			Plant and Machinery	14,000
X	19,200		Buildings A/c	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

2020				2020			
June 30	Bank A/c		2,36,000	Apr. 1	Balance b/d		6,27,000
2021				June 30	Interest A/c		9,000
Mar. 31	Balance c/d		4,18,000	2021			
				Mar. 31	Interest A/c		18,000
			6,54,000				6,54,000
2021				2021			
June 30	Bank A/c		2,24,000	Apr. 1	Balance b/d		4,18,000
2022				June 30	Interest A/c		6,000
Mar. 31	Balance c/d		2,09,000	2022			
				Mar. 31	Interest A/c		9,000
			4,33,000				4,33,000
2022				2021			
June 30	Bank A/c		2,12,000	Apr. 1	Balance b/d		2,09,000
				June 30	Interest A/c		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.		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.	

KVS ERNAKULAM REGION

SAMPLE QUESTION PAPER 1-2022-23

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 agreement 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: 6

Balance Sheet of Sandhya, Karan and Sooraj as on 31.3.2022

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." 6

(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.

Part B :- Analysis of Financial Statements

(Option – I)

27 Under the sub head of short – term provision which one is shown from the following : 1

(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

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		7,00,000	6,00,000
(b) Reserves and Surplus (Profit & Loss Balance)		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
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

****

KVS ERNAKULAM REGION
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. 9,000 Mili'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 gaining ratio of 3:2)	3
18	Profit after charging Babu salary 12,500 add 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 ,170 Babu'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)	

<table>
<tr><td>19</td><td>
<table>
<tr><td>Dat e</td><td>Particulars</td><td>L/F</td><td></td><td>D</td></tr>
<tr><td></td><td>Bank A/c. Dr.
To 9% Debenture Application & Allotment A/c (Debentures Application money received)</td><td></td><td>95,000</td><td>95,000</td></tr>
<tr><td></td><td>9% Debenture Application & Allotment A/c. Dr
Loss on Issue of Debentures A/c. Dr</td><td></td><td>95,000
10,000</td><td></td></tr>
</table>
</td><td>1 mark</td></tr>
</table>

	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						4
		I. Abhishek's CapitalA/c Dr To Realisation A/c (50% of Stock taken over)		40,500	40,500	
		II .Realisation account. Dr To Bank A/c		2,000	2,000	
		iii. Cash/ Bank A/c Dr To Realisation A/c (30% of stock sold)		24,300	24,300	
		IV.Realisation A/c To Bank A/c To Navin's capital A/c (Remaining creditors settled)		78,400	30,400 48,000	
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

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.) 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		2,25,000 25,000 15,000 10,000	 2,50,000 25,000	1mk

	(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	

KENDRIYA VIDYALAYA SANGATHAN, ERNAKULAM REGION

SAMPLE PAPER - 2 (2022-23)

ACCOUNTANCY (055)CLASS XII

MAX MARKS: 80 **TIME : 3 Hrs**

GENERAL INSTRUCTIONS:

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

---

PART A (Accounting for Partnership Firms and Companies)

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 intereston 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

(b)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 application 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 inthe 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 ofgoodwill.
- 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		50000	50000
(Bank OD)			
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:			
		31-3-2021	**31-3-2020**
Particulars **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/-

****

KENDRIYA VIDYALAYA SANGATHAN, ERNAKULAM REGION

SPQ - 2 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 turnover 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) 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. 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 between 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, stood at 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 ofIncome 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
I. 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. To Virar's Capital A/c To Sanvi's Capital A/c	20,000	 15,000 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	95,400 1,600 3,000	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/c Dr 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
				By Balance b/d	1,00,000	80,000	
				By Rev.Profit	84,000	56,000	
To balance c/d	3,92,000	2,08,000	1,20,000	By G.reserve	96,000	64,000	
				By W.C.R	12,000	8,000	
				By pre.for GW	1,00,000		
				By cash a/c			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	1,00,000	By fixed assets	50,000
To Outstanding rent	1,900	By prepaid insurance	1,900
		By loss:	
		X's capital 25,000	
		Y's capital 15,000	

		Z's capital 10,000	50,000
	1,01,900		1,01,900

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
	2,60,000	1,66,000	1,92,000		2,60,000	1,66,000	1,92,000

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 1,44,000	3,60,000		
	4,21,900		4,21,900

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
	1,70,800		1,70,800

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 Premium 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 Interest = 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
			11,00,000
	13,80,000	By Balance c/d	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. Vayu's Capital Dr. To Agni's Capital A/c	250 100	 350
(B)	Agni's Capital Dr. Vayu's Capital Dr. To Jal's Capital A/c	270 330	 600
(C)	Jal's Capital Dr. To Agni's Capital Dr. To Vayu's Capital A/c	600	 270 330

1

(D)	Agni's Capital Dr. To Jal's Capital Dr. To Vayu's Capital A/c	350
		250 100

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:

(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

3

<table>
<tr><td></td><td>March 31, 2020 amounted to ₹ 40,000; Prepare firm’s Profit and Loss Appropriation Account.</td><td></td></tr>
<tr><td>19</td><td>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.</td><td>3</td></tr>
<tr><td>20</td><td>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
<table>
<tr><th>Liabilities</th><th>Amount (₹)</th><th>Assets</th><th>Amount (₹)</th></tr>
<tr><td>Sundry Creditors</td><td>13,800</td><td>Furniture</td><td>16,000</td></tr>
<tr><td>General Reserve</td><td>23,400</td><td>Land and Building</td><td>56,000</td></tr>
<tr><td>Investment Fluctuation Fund</td><td>20,000</td><td>Investments</td><td>30,000</td></tr>
<tr><td>Bhavya’s Capital</td><td>50,000</td><td>Trade Receivables</td><td>18,500</td></tr>
<tr><td>Sakshi’s Capital</td><td>40,000</td><td>Cash in Hand</td><td>26,700</td></tr>
<tr><td></td><td>1,47,200</td><td></td><td>1,47,200</td></tr>
</table>
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.</td><td>3</td></tr>
<tr><td>21</td><td>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</td><td>4</td></tr>
<tr><td>22</td><td>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</td><td>4</td></tr>
<tr><td>23</td><td>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.</td><td>6</td></tr>
</table>

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₹	30000	Cash in Hand	18000
Bills Payable	16000	Debtors 25000	

General Reserves	12000	Less: Provision For	
Capital A/c:		Doubtful Debts 3000	22000
A 40000		Stock	18000
B 40000		Furniture	30000
C 30000	110000	Machinery	70000
		Goodwill	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

<table>
<tr><th>Q.No</th><th>Question</th><th>Marks</th></tr>
<tr><td>1.</td><td>(B) 42 : 26 : 7</td><td>1</td></tr>
<tr><td>2.</td><td>(d) Both (A) and (R) are correct, and (R) is the correct explanation of (A)</td><td>1</td></tr>
<tr><td>3.</td><td>(C) Irredeemable Debentures
OR
(d) 2 Rs. per share</td><td>1</td></tr>
<tr><td>4.</td><td>(A) X ₹16,000; Y ₹8,000
Or
(B) Cr. A by ₹4,000; Cr. B by ₹16,000; Dr. C by ₹20,000</td><td>1</td></tr>
<tr><td>5.</td><td>(B) X — ₹20,000 : Y — ₹15,000 : and Z — ₹10,000</td><td>1</td></tr>
<tr><td>6.</td><td>c) 10%
Or
(A) 4,500</td><td>1</td></tr>
<tr><td>7.</td><td>(A) ₹ 7,500</td><td>1</td></tr>
<tr><td>8</td><td>(B) Rs 1,08,000
OR
(C) ₹ 2,400</td><td>1</td></tr>
<tr><td>9.</td><td>(B) Profit ₹ 2,55,500</td><td>1</td></tr>
<tr><td>10</td><td>(A) ₹ 1,65,500</td><td>1</td></tr>
<tr><td>11.</td><td>C) Revaluation A/c Credited by ₹60,000 and Building to be shown in the reconstituted firm’s balance sheet as ₹ 3,00,000.</td><td>1</td></tr>
<tr><td>12.</td><td>(B) ₹ 8,85,000</td><td>1</td></tr>
<tr><td>13.</td><td>(D) ₹ 14,000</td><td>1</td></tr>
<tr><td>14.</td><td>(B) 7 : 5 : 4</td><td>1</td></tr>
<tr><td>15</td><td>(D) ₹72,000 and ₹1,08,000 respectively.
OR
<table>
<tr><td>☐B)</td><td>Agni’s Capital Dr.
Vayu’s Capital Dr.
To Jal’s Capital A/c</td><td>270
330
</td><td>

600</td></tr>
</table></td><td>1</td></tr>
<tr><td>16.</td><td>(C) Rs. 5,000</td><td>1</td></tr>
<tr><td>17</td><td>AAditi’s share of goodwill Rs 50,000
Aaditi’s share of profits Rs 28,000</td><td>3</td></tr>
<tr><td>18</td><td>Statement showing adjustment
<table>
<tr><th>Particulars</th><th colspan="2">Alok</th><th colspan="2">Bimal</th><th colspan="2">Chethan</th><th colspan="2">Firm</th></tr>
<tr><td></td><td>Dr</td><td>Cr</td><td>Dr</td><td>Cr</td><td>Dr</td><td>Cr</td><td>Dr</td><td>Cr</td></tr>
<tr><td>Profits wrongly credited</td><td>18,000</td><td></td><td>6,000</td><td></td><td>6,000</td><td></td><td></td><td>30,000</td></tr>
<tr><td>Interest on capital to be credited</td><td></td><td>2,500</td><td></td><td>2,000</td><td></td><td>1,500</td><td>6,000</td><td></td></tr>
<tr><td>Salary to be credited</td><td></td><td>500</td><td></td><td>750</td><td></td><td>-</td><td>1250</td><td></td></tr>
<tr><td>Interest on drawings to be debited</td><td>350</td><td></td><td>250</td><td></td><td>150</td><td></td><td></td><td>750</td></tr>
<tr><td>Profit share to be credited (30,000-6000-1250+750) in 3:1:1</td><td></td><td>14,100</td><td></td><td>4,700</td><td></td><td>4,700</td><td>23,500</td><td></td></tr>
<tr><td></td><td>18350</td><td>17100</td><td>6250</td><td>7450</td><td>6150</td><td>6200</td><td>30750</td><td>30750</td></tr>
<tr><td></td><td>1250 Dr</td><td></td><td></td><td>1200 Cr</td><td></td><td>50 Cr</td><td></td><td></td></tr>
</table></td><td>3</td></tr>
</table>

(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 To Debenture application and Allotment A/c (Application money received on 300, 12%debentures @₹95)		28,500	28,500
	Debenture application and Allotment A/c Dr Discount on issue of Debenture A/c Dr To 12% Debenture A/c (Debenture application money transferred to to 12% debentures)		28,500 1,500	 30,000
	Bank A/c Dr To Debenture application and Allotment A/c (Application money received on 600, 12%debentures @₹95)		57,000	57,000
	Debenture application and Allotment A/c Dr Loss on issue of Debenture A/c Dr To 12% Debenture A/c To premium on Redemption of DebenturesA/C(600X5) (Debenture issued at discount and redeemable at premium)		57,000 6,000	 60,000 3,000

20

Workings:

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 To Investment A/c To Bhavya's Capital A/c To Sakshi's Capital A/c (Being Investment Fluctuation Fund adjusted against the Fluctuations in market Value and balance was distributed amongst partners)		20,000	 10,000 6,000 4,000
31.3.18	Sakshi's Capital A/c Dr To Bhavya's Capital A/c (Being adjustment of goodwill made between partners due to change in profit sharing ratio between partners)		2,400	2,400
31.3.18	Sakshi's Capital A/c Dr To Bhavya's Capital A/c (Being General Reserve adjusted		2,340	2,340

3

among the partners without writing it off)			

21

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

4

22

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

4

23

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

6

	Share Allotment A/c Dr		400000	
	To share capital			300000
	To Securities premium A/c			100000
	Bank A/c Dr		400000	
	To Share allotment			400000
	Share First and Final call A/c Dr		350000	
	To share capital			350000
	Bank A/c Dr		346500	
	To Share first and final call			346500
	Share capital A/c Dr		10000	
	To share first and final call			3500
	To share forfeited A/c			6500
	Bank A/c Dr		5400	
	Share forfeited A/c Dr		600	
	To Share capital			6000
	Share forfeited A/c Dr		3300	
	To Capital Reserve			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		2,50,000	
	To Share application and allotment			2,50,000
	(Application money received)			
	Share application and allotment A/c Dr		2,50,000	
	To Share capital			2,00,000
	To Calls in advance			50,000
	(allotment done)			
	Share First and final call A/c Dr		10,00,000	
	To Securities Premium			8,00,000
	To Share Capital			2,00,000
	(Share First and final call money due)			
	Bank A/c Dr		9,40,500	
	Calls in advance A/c Dr		50,000	
	To Share First and final call			990500
	(Share First and final call money received)			
	Share Capital A/c Dr		10,000	
	Securities premium A/c Dr		2,000	
	To Share Share First and final call			9500
	To Share forfeited A/c			2500
	(Forfeited 400 shares)			
	Bank A/c Dr		4800	
	Share Forfeited A/c Dr		1200	
	To Share capital			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 | 6

Revaluation A/c

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 1

or

b) Either increase equity or reduce debt

28 b) 8 Times 1

29 (B) purchase of fixed Assets 1

OR

(D) short term investment

30 (D) Rs. 13,00,000 1

31 3

	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

32 b) 8 Times 3

33 45% 4

OR

5.8:1

34 6

…………………. Limited

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		

****