Kendriya Vidyalaya Sangathan

(Ahmedabad Region)

तत् त्वं पूषन् अपावृणु

केन्द्रीय विद्यालय संगठन

Class: XII

Question Bank
ACCOUNTANCY

(2022-23)

INSPIRATION

- **Smt. SHRUTI BHARGAVA**, Deputy Commissioner, KVS RO, Ahmedabad.
- **Smt. VINITA SHARMA**, Asstt. Commissioner, KVS RO, Ahmedabad.

MENTOR

- **Shri. AVIJIT PANDA**, Principal, KV Sabarmati.

CONTENT TEAM

Mr. P P Wadodkar	KV EME Baroda
Mr. R M Patel	KV No 2 Bhuj Cantt
Mr. Nitin kumar N. Bhetaria	KV – 1 AFS Bhuj
Ms. Meera Khalpada	KV Rajkot
Mr. M R Parmar	KV No 1 Harni Vadodara
Mr. Dil Preet Singh	KV INS Valsura
Ms. Samita Rani	KV ONGC Ankleshwar
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COMPILATION BY

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INDEX

ACCOUNTANCY (Code No. 055)

Rationale

The course in accountancy is introduced at plus two stage of senior second of school education, as the formal commerce education is provided after ten years of schooling. With the fast changing economic scenario, accounting as a source of financial information has carved out a place for itself at the senior secondary stage. Its syllabus content provide students a firm foundation in basic accounting concepts and methodology and also acquaint them with the changes taking place in the preparation and presentation of financial statements in accordance to the applicable accounting standards and the Companies Act 2013.

The course in accounting put emphasis on developing basic understanding about accounting as an information system. The emphasis in Class XI is placed on basic concepts and process of accounting leading to the preparation of accounts for a sole proprietorship firm. The students are also familiarized with basic calculations of Goods and Services Tax (GST) in recording the business transactions. The accounting treatment of GST is confined to the syllabus of class XI.

The increased role of ICT in all walks of life cannot be overemphasized and is becoming an integral part of business operations. The learners of accounting are introduced to Computerized Accounting System at class XI and XII. Computerized Accounting System is a compulsory component which is to be studied by all students of commerce in class XI; whereas in class XII it is offered as an optional subject to Company Accounts and Analysis of Financial Statements. This course is developed to impart skills for designing need based accounting database for maintaining book of accounts.

The complete course of Accountancy at the senior secondary stage introduces the learners to the world of business and emphasize on strengthening the fundamentals of the subject.

Objectives:

1. To familiarize students with new and emerging areas in the preparation and presentation of financial statements.
2. To acquaint students with basic accounting concepts and accounting standards.
3. To develop the skills of designing need based accounting database.
4. To appreciate the role of ICT in business operations.
5. To develop an understanding about recording of business transactions and preparation of financial statements.
6. To enable students with accounting for Not-for-Profit organizations, accounting for Partnership Firms and company accounts.

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		

Part A: Accounting for Partnership Firms and Companies

Unit 1: Accounting for Partnership Firms

<table>
<tr><th>Units/Topics</th><th>Learning Outcomes</th></tr>
<tr><td>

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 (as per AS 26), treatment for revaluation of assets and re-assessment of liabilities, treatment of

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

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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.	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-3 Accounting for Companies

Units/Topics	**Learning Outcomes**
Accounting for Share Capital • Features and types of companies	**After going through this Unit, the students will be able to:**

• 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 Employee Stock Option Plan (ESOP), Sweat Equity. • Accounting treatment of forfeiture and re-issue of shares. • Disclosure of share capital in the Balance Sheet of a company. **Accounting for Debentures** • Debentures: Meaning, types, Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash; Issue of debentures with terms of redemption; debentures as collateral security-concept, interest on debentures. Writing off discount / loss on issue of debentures. Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost (AS 16)	• state the meaning of 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 4: Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: Meaning, Nature, Uses and importance of financial Statement.	**After going through this Unit, the students will be able to:** • develop the understanding of major headings

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, Total Asset to Debt Ratio, Proprietary Ratio and Interest Coverage Ratio. Debt to Capital Employed Ratio. • **Activity Ratios:** Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio, Fixed Asset Turnover Ratio, Net Asset Turnover Ratio and Working Capital Turnover Ratio. • **Profitability Ratios:** Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment.	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 ratio and interest coverage ratio. • develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover ratio and others. • develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

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

Unit 5: Cash Flow Statement

Units/Topics	**Learning Outcomes**
• Meaning, objectives Benefits, Cash and Cash Equivalents, Classification of Activities and preparation (as per AS 3 (Revised) (Indirect Method only)	**After going through this Unit, the students will be able to:** • state the meaning and objectives of cash flow statement. • develop the understanding of preparation of

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.* ***(iii)*** *Current Investments to be taken as Marketable securities unless otherwise specified.*	Cash Flow Statement using indirect method as per AS 3 with given adjustments.

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

Project Work

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

OR

Part C: Practical Work

Please refer to the guidelines published by CBSE.

Prescribed Books:

Financial Accounting -I	Class XI	NCERT Publication
Accountancy -II	Class XI	NCERT Publication
Accountancy -I	Class XII	NCERT Publication
Accountancy -II	Class XII	NCERT Publication

Guidelines for Project Work in Accounting Class XII CBSEPublication

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

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

SN	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%**

Paper pattern for the session 2022-23

The changes for classes XII (2022-23) internal year-end/Board Examination are as detailed:

(Class XII)	
Year End Examination/Board Examination (Theory)	(2022-23) (Annual Scheme)
Composition	• Competency Based Questions would be minimum 30% These can be in the form ofMultiple-Choice Questions, Case based Questions, Source based Integrated Questions or any other types. • Objective Type Questionswill be 20% • Remaining 50% Short Answer/Long Answer Questions (as per existing pattern)

Internal Assessment: No change
Internal Assessment: End of year examination = As per the curriculum document released for the academic session 2022-23.

Curriculum document released by the Board vide circular No.Acad-50/2022 dated 28th April, 2022 and the forthcoming Sample Question Papers may be referred for the details of changes in the QP design of individual subjects.

	CH. - ACCOUNTING FOR PARTNERSHIP FIRMS (FUNDAMENTALS)
	TYPE OF QUESTIONS (1 MARK) MCQ, OTQ COMPETENCY BASED, SOURCE BASED
1	If the date of drawing is not given, interest on Total Drawings is calculated for a) 4 Months b) 5 Months c) 6 Months d) 1 Year
ANS	c) 6 months
2	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 ₹ 1,50,000 before allowing interest on a loan of ₹ 50,000 from Shyam @ 10% p.a. Each partner is entitled to salary as follows: Ram ₹ 15,000 per annum Shyam ₹ 10,000 per annum 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
ANS	c) ₹ 75,000
3	Pick the odd one out of the following: a) Rent to Partner b) Manager's Commission c) Interest on Partner's Loan d) Interest on Partner's Capital
ANS	d) Interest on Partner's Capital

4	In case of fixed capitals, partners will have a) Credit balances in their Capital Accounts b) Debit balances in their Capital Accounts c) Credit or debit balances in their Capital Accounts d) Credit balance or nil balance in their Capital Accounts
ANS	d) Credit balance or nil balance in their Capital Accounts
5	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 a) ₹ 21,000 b) ₹ 20,000 c) ₹ 15,000 d) ₹ 22,000
ANS	b) ₹ 20,000
6	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? a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). c) Assertion (A) is correct but the Reason (R) is not correct. d) Both Assertion (A) and Reason (R) are not correct.
ANS	b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

7	Given below are two statements, one labelled as Assertion (A) and other labelled as Reason (R) : **Assertion (A):** Business of the partnership should be lawful although not specifically included in the definition. **Reason (R):** Any unlawful activity cannot be carried in the country. Thus, business should also be lawful to be carried out. In the context of above two statements, which of the following is correct? a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). c) Assertion (A) is correct but the Reason (R) is not correct. d) Both Assertion (A) and Reason (R) are not correct.
ANS	b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A)
8	Given below are two statements, one labelled as Assertion (A) and other labelled as Reason (R) : **Assertion (A):** Partners distribute profits and losses in their profit-sharing ratio and not in the ratio of their capitals. **Reason (R):** The number of appropriations, as per Partnership Deed are more than the amount of profit available for distribution, profit is distributed in the ratio of appropriations. In the context of above two statements, which of the following is correct? a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). c) Assertion (A) is correct but the Reason (R) is not correct. d) Both Assertion (A) and Reason (R) are not correct.

ANS	a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).
	Amar, Binod and Chaman are in trading business of Jute and Jute products. They have been sharing profits equally up to 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 1st April, 2020 were ₹ 5,00,000, ₹ 4,00,000 and ₹ 3,00,000 respectively. Profit for the year ended on 31st March, 2021 was ₹ 3,00,000. Answer the following questions (9-12) on the basis of above.
9	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
ANS	d) ₹ 1,44,000, ₹ 96,000, ₹ 60,000
10	What will be partners' profit share if deficiency in Chaman's profit share is to be borne by 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
ANS	b) ₹ 1,44,000, ₹ 96,000, ₹ 60,000
11	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
ANS	a) ₹ 1,40,000, ₹ 1,00,000, ₹ 60,000
12	What will be partners' profit shares, if Chaman's share of is guaranteed after allowing interest on 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
ANS	d) ₹ 1,00,800, ₹ 67,200, ₹ 60,000
	SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)
1	B, C and D are partners sharing profits in the ratio of 1:1:1. As per the partnership deed Salary is allowed to the partners as follows: • B is entitled to a salary of ₹ 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 ₹ 35,000 **Case 3**. When there is loss ₹ 20,000
ANS	**Case 1** Profit is enough to pay the salary to the partners B's Salary will be paid ₹ 24,000; C ₹ 16,000 and D ₹ 16,000 and remaining profit 6,000 will be shared equally by all the partners **Case 2** Profit is not enough to pay salary to partners Profit will be shared in the ratio of salary 24,000 : 16,000 : 16,000 i.e. 3:2:2. B will get 15,000; C ₹ 10,000 and D ₹ 10,000. **Case 3** Salary will not be paid to any partner, because there is loss. Salary is not a charge in this case, it is treated as an appropriation.

2	Mohan, Sohan and Rohan are partners in a firm. Their drawings are : (1) Mohan draws ₹ 4,000 in the beginning of every month. (2) Sohan draws ₹ 4,000 in the middle of every month. (3) Rohan draws ₹ 4,000 at the end of every month.
ANS	**Interest on Mohan's Drawings** Average period $=\frac{12+1}{2}=6\frac{1}{2}$ months Interest on drawings = 48,000 $\times\frac{10}{100}\times\frac{6.5}{12}$ = ₹ 2,600 **Interest on Sohan's Drawings** Average period $=\frac{11.5+0.5}{2}$ = 6 months Interest on drawings = 48,000 $\times\frac{10}{100}\times\frac{6}{12}$ = ₹ 2,400 **Interest on Rohan's Drawings** Average period $=\frac{11+0}{2}=5\frac{1}{2}$ months Interest on drawings = 48,000 $\times\frac{10}{100}\times\frac{5.5}{12}$ = ₹ 2,200
3	Garry, Harry and Robert were partners in a firm sharing profits in the ratio of 7:4:9 . Their capitals on 1st April 2021 were: Garry ₹ 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 for personal use. During the year ended 31st March 2022 the firm earned profits of ₹ 1,70,000.

	Prepare Profit and Loss Appropriation Account.
ANS	**Profit and Loss Appropriation Account**

Dr. **Cr.**

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

Q.4	Manoj and Billu are equal partners. Manoj is a sleeping partner and Billu is an Active working partner. Their capitals on 1st April 2021 were: Manoj ₹ 6,000 Credit and Billu (₹ 20,000) Debit. Mr Manoj has given a loan to the firm ₹ 10,000 on 1st April 2021 @ 10% p.a. Partnership deed allows 10% p.a. interest on capital. Salary to every Active working partner @ 3,000 p.a. but partnership deed is silent on interest on loan payable to any partner, in case any partner provides loan to the firm. Profit for the year ending 31st March 2022 was ₹ 7,000 before providing above. Prepare Profit and Loss Appropriation Account.
ANS	

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Interest on Capital A/c Manoj To Partner's Salary A/c Billu	 4,000 2,000	By Profit and Loss, A/c (Net Profit) (7,000-1,000 interest on loan)	 6,000
	6,000		6,000

Note:

Interest on Capital to Manoj 6,000 and Salary to Billu 3,000 but profit is only 6,000

Profit will be shared in the ratio of appropriation: 6,000 : 3,000 = 2:1

No interest on capital to Billu because his capital is showing a negative balance.

5 X and Y started a partnership firm on 1st Dec.2021. Their capitals were ₹ 6,00,000 and ₹ 4,50,000 respectively. On 1st Jan.2022 X advanced a loan of ₹ 1,00,000 to the firm. It was agreed that:

i. Interest on Partner's Loan will be paid @ 10% p.a.
ii. Rent will be paid to Y ₹ 2,000 per month (for providing office space to the firm)
iii. Interest on drawings to be charged @ 10% p.a. Interest on capital allowed @ 8% p.a. as charge.
iv. Manager will get a commission of 10% on the net profit after charging such commission.

Drawings made by X and Y during the year ₹ 3,000 and ₹ 4,000 respectively. A fine of ₹ 650 was charged from Y for competing with the firm. Profit during the year was ₹ 16,000.

Show the distribution of profit/loss when interest on capital is to be allowed whether firm incurs a loss.

ANS

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		**Amount**	**Particulars**		**Amount**
To Interest on Capital A/c			By Profit & Loss A.c (Net Profit)		5,000
			By Interest on Drawings A/c		
X	16,000		X	150	
Y	12,000	28,000	Y	200	350
			By Y's Capital A/c (fine)		650
			Distribution of Loss:		
			By X's Capital A/c	11,000	
			By Y's Capital A/c	11,000	22,000
		28,000			28,000

SHORT ANSWER TYPE OF QUESTIONS (FOUR MARKS)

1 A, B and C were partners in a firm. On 1st April, 2020 the balance in their capital accounts stood at ₹ 8,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. As per the provisions of the partnership deed, partners were entitled to interest on capital @ 5% p.a., salary to B ₹ 3,000 per month and a commission of ₹ 12,000 to C. A's share of profit, excluding interest on capital, was guaranteed at ₹ 25,000 p.a. B's share of profit, including interest on capital but excluding salary was guaranteed at ₹ 55,000 p.a. Any deficiency arising on that account was to be met by C. The profits of the firm for the year ending 31st March, 2021 amounted to ₹ 2,16,000. Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2021.

ANS

Profit & Loss appropriation A/c

for the year ended 31st March, 2021

Dr. Cr.

Particulars		**Amount ₹**	**Particulars**	**Amount ₹**
To Interest on Capital			By Profit & Loss A/c	2,16,000
A's Capital A/c	40,000			
B's Capital A/c	30,000			

C's Capital A/c	20,000	90,000		
To B's Capital A/c- (Salary)		36,000		
To C's Capital A/c- (Commission)		12,000		
To Profit transferred to				
A's Capital A/c	26,000			
B's Capital A/c	26,000			
C's Capital A/c	26,000	78,000		
		2,16,000		**2,16,000**

2 On 31st March, 2021, the balance in the capital accounts of Asha, Nisha and Disha after making adjustments for profits and drawings were ₹ 1,50,000, ₹ 1,20,000 and ₹ 90,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 10% p.a. Interest on drawings was also to be charged @ 10% p.a. The drawings during the year were: Asha ₹ 50,000, Nisha ₹ 60,000 and Disha ₹ 30,000. The net profit for the year ending 31st March, 2021 amounted to ₹ 1,00,000. The profit-sharing ratio was 2: 2: 1. Pass the necessary adjustment entry. Also show your workings clearly.

ANS

JOURNAL

Date	**Particulars**		**Dr. Amount ₹**	**Cr. Amount ₹**
	Nisha's capital A/c	Dr.	2,200	
	To Asha's capital A/c			300
	To Disha's capital A/c			1,900
	(Omission of interest on capital and commission, now rectified)			

Working Notes :

Table showing adjustments

Partners	Interest On capital Cr. ₹	Interest on Drawings Dr. ₹	Profits Dr. ₹	Net Effect Dr. ₹	Net Effect Cr. ₹
Asha	16,000	2,500	13,200	----------	300
Nisha	14,000	3,000	13,200	2,200	----------
Disha	10,000	1,500	6,600	----------	1,900
	40,000	7,000	33,000	2,200	2,200

Calculation of Interest on capital:

Calculation of Opening Capitals:

Particulars	**Asha ₹**	**Nisha ₹**	**Disha ₹**
Closing Capitals	1,50,000	1,20,000	90,000
Add: Drawings	50,000	60,000	30,000
Less: Profits	(40,000)	(40,000)	(20,000)
Opening Capitals	1,60,000	1,40,000	1,00,000
Interest on Capital @ 10% p.a.	**16,000**	**14,000**	**10,000**

3 Yadu, Vidu and Radhu were partners in a firm sharing profits in the ratio of 4 : 3 : 3. Their fixed capitals on 1st April, 2020 were ₹ 9,00,000, ₹ 5,00,000 and ₹ 4,00,000 respectively. On 1st November, 2020, Yadu gave a loan of ₹ 80,000 to the firm. As per the partnership agreement:

(i) The partners were entitled to an interest on capital @ 6% p.a.

(ii) Interest on partners' drawings was to be charged @ 8% p.a. The firm earned profits of ₹ 2,53,000 (after interest on Yadu's loan) during the year 2020 – 21. Partners' drawings for the year amounted to Yadu : ₹ 80,000, Vidu : ₹ 70,000 and Radhu : ₹ 50,000. Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2021.

ANS **Profit & Loss appropriation A/c for the year ended 31st March, 2021**

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Interest on Capital		By Profit & Loss A/c- Net Profit	2,53,000
Yadu's current A/c 54,000			
Vidu's current A/c 30,000		By Interest on Drawings	
Radhu's current A/c 24,000	1,08,000	Yadu's current A/c 3,200	
To Profit transferred to		Vidu's current A/c 2,800	
Yadu's current A/c 61,200		Radhu's current A/c 2,000	8,000
Vidu's current A/c 45,900			
Radhu's current A/c 45,900	1,53,000		
	2,61,000		**2,61,000**

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

ANS

JOURNAL

Date	Particulars	Dr. Amount ₹	Cr. Amount ₹
	Ram's Capital A/c Dr.	180	
	Sohan's Capital A/c Dr.	630	
	To Mohan's Capital A/c		810
	(Adjustment entry for interest on drawings wrongly charged)		

Working Notes:

Adjustment Table

Particulars	Ram ₹	Mohan ₹	Sohan ₹

Interest on drawings, wrongly debited	1080	1440	----------
Loss to be debited	(1260)	(630)	(630)
Net Effect	180 (Dr.)	810 (Cr.)	630 (Dr.)

5 Rajiv and Sanjeev were partners in a firm. Their partnership deed provided that the profits shall be divided as follows: First ₹ 20,000 to Rajeev and the balance in the ratio of 4 : 1. The profits for the year ended 31st March, 2022 were ₹ 60,000 which had been distributed among the partners On 1-4-2021 their capitals were Rajeev ₹ 90,000 and Sanjeev ₹ 80,000. Interest on capital was to be provided @ 6% p.a. While preparing the profit and loss appropriation interest on capital was omitted. Pass necessary rectifying entry for the same. Show your workings clearly.

ANS

Books of the Rajiv and Sanjeev

Journal

Date	**Particulars**	**Dr. Amount ₹**	**Cr. Amount ₹**
	Rajiv's Capital A/c Dr. To Sanjeev's Capital A/c (Being interest on Capital omitted, now rectified)	2,760	 2,760

Working : **Past Adjustment Table**

Particulars	**Rajiv** ₹	**Sanjeev** ₹	**Total** ₹
Omission of IOC	5,400 Cr.	4,800 Cr.	10,200 Dr.
Profit wrongly distributed	52,000 Dr.	8,000 Dr.	60,000 Cr.
Profits correctly distributed	43,840 Cr.	5,960 Cr.	49,800 Dr.
Net Effect	2,760	2,760	00,000

	6 MARKS QUESTIONS
1	Sonu and Rajat started a partnership firm on April 1, 2021. They contributed ₹ 8,00,000 and ₹ 6,00,000 respectively as their capitals and decided to share profits and losses in the ratio of 3 : 2. The partnership deed provided that Sonu was to be paid a salary of ₹ 20,000 per month and Rajat a commission of 5% on turnover. It also provided that interest on capital be allowed @ 8% p.a. Sonu withdrew ₹ 20,000 on 1st December, 2021 and Rajat withdrew ₹ 5,000 at the end of each month. Interest on drawings was charged @ 6% p.a. The net profit as per Profit and Loss Account for the year ended 31st March, 2022 was ₹4,89,950. The turnover of the firm for the year ended 31st March, 2022 amounted to ₹ 20,00,000. Pass necessary journal entries for the above transactions in the books of Sonu and Rajat.
ANS	**JOURNAL**

Date	Particulars		Dr. ₹	Cr. ₹
1	Profit and Loss A/c Profit and Loss Appropriation A/c (Being profit transferred from Profit and Loss A/c to Profit and Loss Appropriation A/c)	Dr.	4,89,950	4,89,950
2	Partner's Salary A/c To Sonu's Capital A/c (Being salary credited to Sonu's Capital A/c)	Dr.	2,40,000	2,40,000
3	Profit and Loss Appropriation A/c To Partner's Salary A/c (Being salary transferred to Profit and Loss Appropriation A/c)	Dr.	2,40,000	2,40,000
4	Partner's Commission A/c To Rajat's Capital A/c (Being commission credited to Rajat's Capital A/c)	Dr.	1,00,000	1,00,000
5	Profit and Loss Appropriation A/c To Partner's Commission A/c	Dr.	1,00,000	1,00,000

	(Being salary transferred to Profit and Loss Appropriation A/c)			
6	Interest on Capital A/c To Sonu's Capital A/c To Rajat's Capital A/c (Being interest on capital credited to Partners' Capital A/c)	Dr.	1,12,000	 64,000 48,000
7	Profit and Loss Appropriation A/c To Interest on Capital A/c (Being Interest on Capital transferred to Profit and Loss Appropriation A/c)	Dr.	1,12,000	 1,12,000
8	Sonu's Capital A/c Rajat's Capital A/c To Interest on Drawings A/c (Being Interest on drawings charged)	Dr. Dr.	400 1,650	 2,050
9	Interest on Drawings A/c To Profit and Loss Appropriation A/c (Being Interest on drawings transferred to Profit and Loss Appropriation A/c)	Dr.	2,050	 2,050
10	Profit and Loss Appropriation A/c To Sonu's Capital A/c To Rajat's Capital A/c (Being Profit credited to Partners' Capital accounts)	Dr.	40,000	 24,000 16,000

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

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

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

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

	Showing your workings clearly prepare Profit and Loss Appropriation Account and the Capital Account of Jay, Vijay and Karan for the year ended 31st March, 2022.
ANS	**Profit and Loss Appropriation A/c for the year ended 31st March 2022**

Dr. **Cr.**

Particulars		**Amount ₹**	**Particulars**	**Amount ₹**
To salary			By Net profit	15,00,000
Jay's Capital A/c	1,80,000		By Jay's Capital A/c	25,000
Vijay's Capital A/c	1,80,000	3,60,000	(2,00,000-1,75,000)	
To Profit transferred to :			Deficiency in guaranteed fees	
Jay's Capital A/c	4,66,000			
-guaranteed to Karan	(1,60,200)	3,05,800		
Vijay's Capital A/c	4,66,000			
-guaranteed to Karan	(1,06,000)	3,59,200		
Karan's Capital A/c	2,33,000			
Add guarantee	2,67,000	5,00,000		
		15,25,000		**15,25,000**

Partners' Capital Accounts

Dr. **Cr.**

Particulars	**Jay ₹**	**Vijay ₹**	**Karan ₹**	**Particulars**	**Jay ₹**	**Vijay ₹**	**Karan ₹**
To P/L Appr. A/c	25,000	------	------	By salary	1,80,000	1,80,000	------
To balance c/d	4,60,800	5,39,200	5,00,000	By P/L Appr. A/c	3,05,800	3,59,200	5,00,000
	4,85,800	5,39,200	5,00,000		4,85,800	5,39,200	5,00,000

3	Moli, Bhola and Raj were partners in a firm sharing profits and losses in the ratio of 3 : 3 : 4. Their partnership deed provided for the following : i. Interest on capital @ 5% p.a.

	ii. Interest on drawing @ 12% p.a. iii. Interest on partner's loan @ 6% p.a. iv. Moli was allowed an annual salary of ₹ 4,000; Bhola was allowed a commission of 10% of net profit as shown by Profit and Loss Account and Raj was guaranteed a profit of ₹ 1,50,000 after making all the adjustments as provided in the partnership agreement. Their fixed capitals were Moil: ₹ 5,00,000; Bhola : ₹ 8,00,000 and Raj : ₹ 4,00,000. On 1st April, 2021 Bhola extended a loan of ₹ 1,00,000 to the firm. The net profit of the firm for the year ended 31st March, 2022 before interest on Bhola's loan was ₹ 3,06,000. Prepare Profit and Loss Appropriation Account of Moli, Bhola and Raj for the year ended 31st March, 2022 and their Current Accounts assuming that Bhola withdrew ₹ 5,000 at the end of each month, Moli withdrew ₹ 10,000 at the end of each quarter and Raj withdrew ₹ 40,000 at the end of each half year.
ANS	**Profit and Loss Appropriation A/c for the year ended 31st March 2017**

Dr. **Cr.**

Particulars		Amount ₹	Particulars		Amount ₹
To Interest on Capital :			By Profit and Loss A/c (3,06,000-6,000)		3,00,000
Moli's Current A/c	25,000		By Interest on Drawings		
Bhola's Current A/c	40,000		Moli's Curr A/c	1,800	
Raj's Current A/c	20,000	85,000	Bhola's cur.A/c	3,300	
To Salary:			Raj's Cur A/c	2,400	7,500
Moli's Current A/c		4,000			
To Commission:					
Bhola's Current A/c		30,000			
To Profits transferred to:					
Moli's Current A/c	56,550				
Less guarantee	(37,300)	19,250			
Bhola's Current A/c	56,550				
Less guarantee	(37,300)	19,250			

Raj's Current A/c 75,400 Add: from Moli 37,300 Add: from Bhola 37,300	1,50,000		
	3,07,500		**3,07,500**

Partner's Current Accounts

Dr. **Cr.**

Particulars	Moli ₹	Bhola ₹	Raj ₹	Particulars	Moli ₹	Bhola ₹	Raj ₹
To Drawings A/c	40,000	60,000	80,000	By Interest on Capital A/c	25,000	40,000	20,000
To Interest on Drawings A/c	1,800	3,300	2,400	By Salary A/c	4,000	--------	--------
To Balance c/d	6,450	25,950	87,600	By Commission A/c	--------	30,000	--------
				By P/L Appr. A/c (Profit)	19,250	19,250	1,50,000
	48,250	**89,250**	**1,70,000**		**48,250**	**89,250**	**1,70,000**

Q.4 Mudit and Uday are partners in a firm sharing profits in the ratio 2: 3. Their capital accounts as on April 1, 2021 showed balances of ₹ 70,000 and ₹ 60,000 respectively. The drawings of Mudit and Uday during the year 2021-2022 were ₹ 16,000 and ₹ 12,000 respectively. Both the amounts were withdrawn on 1st January 2022. It was subsequently found that the following items had been omitted while preparing the final accounts for the year ended 31st March 2022.

(a) Interest on capitals @ 6% p.a.;

(b) Interest on drawings @ 6% p.a.;

(c) Mudit was entitled to a commission of ₹ 4,000 for the whole year. Showing you workings clearly pass a rectifying entry in the books of the firm.

A.4

Books of the Mudit and Uday

Journal

Date	Particulars	Dr. Amount ₹	Cr. Amount ₹
	Uday's Capital A/c Dr. To Mudit's Capital A/c (Rectifying entry for omission of IOC, IOD and Mudit's commission)	3,408	 3,408

Working Notes :

Past Adjustment Table

Particulars	Mudit	Uday	Total
Omission of IOC	4,200 Cr.	3,600 Cr.	7,800 Dr.
Omission of IOD	240 Dr.	180 Dr.	420 Cr.
Omission of Commission	4,000 Cr.	--------	4,000 Dr.
	7,960 Cr.	3,420 Cr.	11,380 Dr.
Dr. Total divided in PSR	4,552 Dr.	6,828 Dr.	11,380 Cr.
Net Effect	**3,408**	**3,408**	**00,000**

Q.5 Piya and Bina are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following was the Balance Sheet of the firm as on 31-3-2022.

Liabilities	Amount ₹	Assets	Amount ₹
Capitals: Piya 80,000 Bina 40,000	1,20,000	Sundry Assets	1,20,000
	1,20,000		1,20,000

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

A.5

Books of the Piya and Bina

Journal

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

<u>Working Notes :</u>

Calculation of Opening Capital:

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

Past Adjustment Table

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

Ch. Admission of a Partner

Q.	SHORT ANSWER TYPE OF QUESTIONS (1 MARK)
1	A and B are sharing profits and losses in the ratio of 3:2. They admit C as partner for 1/3rd share in the profits. He takes this share 3/5th from A and 2/5th from B. New profit-sharing ratio will be: A. 5 : 6 : 3 B. 2 : 4 : 6 C. 6 : 4 : 5 D. 18 : 24 : 38
Ans	C. 6 : 4 : 5
2	At the time of admission of a Partner, Gain (Profits) or Losses arising on the revaluation of assets and reassessment of liabilities is transferred to ___________ in their ________. A. Old partners capital a/c , old ratio B. Sacrificing partners capital a/c, sacrificing ratio C. Gaining partners capital a/c, gaining ratio D. Old partners capital a/c, sacrificing ratio
Ans	A. Old partners capital a/c , old ratio
3	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
Ans	D.(a)-3, (b)-1, (c)-4, (d)-2
4	**Consider the following statements:** (1) Capital Account of the partners will credited for Writing off goodwill

	(2) Capital Account of the partners will credited for distribution of debit balance of Profit & Loss Account (3) Capital Account of the partners will credited for Profit on revaluation of assets and reassessment of liabilities (4) Capital Account of the partners will credited for Loss on revaluation of assets and reassessment of liabilities. **Which of the above statement/s is/are not true?** A. 1, 2 and 4 B. 2, 3 and 4 C. Only 2 D. None of the above
Ans	A. 1, 2 and 4
	Given below are two statements, one labelled as **Assertion (A)** and the other labelled as **Reason (R).** You are to examine these two statements carefully and select the answers using the code given below:
5	**Assertion (A):** Employees provident fund is not distributed to the Partners' Capital Accounts. **Reason (R):** Employees provident fund is a liability towards the employees, thus, partners have no claim over it. A. Both Assertion and Reason are correct and Reason is the correct explanation for Assertion B. Both Assertion and Reason are correct but Reason is not the correct explanation for Assertion C. Assertion is correct but Reason is incorrect D. Both Assertion and Reason are incorrect
Ans	A. Both Assertion and Reason are correct and Reason is the correct explanation for Assertion
6	**Assertion (A):** If the amount of any liability is understated, then revaluation account will be debited to restore the liability's amount to its actual value.

	Reason (R): Increase in amount of liability is a profit for the firm. A. Both Assertion and Reason are correct and Reason is the correct explanation for Assertion B. Both Assertion and Reason are correct but Reason is not the correct explanation for Assertion C. Assertion is correct but Reason is incorrect D. Both Assertion and Reason are incorrect
Ans	D. Both Assertion and Reason are incorrect
7	**Assertion (A):** In certain cases, the premium for goodwill paid by the incoming partner is not recorded in the books of accounts. **Reason (R):** Sometimes, the incoming partner pays his share of goodwill privately to the sacrificing partners, outside the business. A. Both Assertion and Reason are correct and Reason is the correct explanation for Assertion B. Both Assertion and Reason are correct but Reason is not the correct explanation for Assertion C. Assertion is correct but Reason is incorrect D. Both Assertion and Reason are incorrect
Ans	A. Both Assertion and Reason are correct and Reason is the correct explanation for Assertion
	CASE STUDY (Q. 8 TO 12) A and B started automobile business in the name of Saavan Ltd. They are partners sharing profits and losses in the ratio of 3 : 2. Their capitals are ₹ 30,000 and ₹ 20,000 respectively. On 31st March 2021, there is balance of General Reserve of ₹ 10,000. On 1st April, 2021 C was admitted for 1/3rd share who also brings ₹ 6,000 as share of goodwill. On the date of his admission, furniture was reduced by ₹ 1,000, Provision for Doubtful Debts increased by ₹ 1,000 and there is an appreciation of ₹ 4,000 in stocks. Old partners decide that C's capital should be in accordance with his share of profit and capital of old partner's Saavan Ltd.
8	The sacrificing ratio will be: A. 3:1 B. 3:2

	C. 1:3 D. None of the above
Ans	B. 3:2
9	Capitals of A and B after all adjustments will be: A. ₹ 50,000 B. ₹ 60,000 C. ₹ 62,000 D. ₹ 68,000
Ans	D. ₹ 68,000
10	Profit on revaluation in the said case will be: A. ₹ 4000 B. ₹ 3000 C. ₹ 2000 D. None of the above
Ans	C. ₹ 2000
11	Which of the following reconstitution of a firm? 1. Admission of a minor partner 2. Retirement of a partner 3. Dissolution of a firm 4. Merger of Firm A. Only 1 B. Both 1 and 2 C. 1, 2 and 3 D. 1, 2 and 4
Ans	D. 1, 2 and 4

12	What will be correct journal entry for treatment of Premium for Goodwill brought in by C? A. C's Capital A/c ……………...Dr. 6,000 To B's Capital A/c 6,000 B. Premium for Goodwill A/c……Dr. 6,000 To A's Capital A/c 3,600 To B's Capital A/c 2,400 C. Premium for Goodwill A/c……Dr 6,000 To A's Capital A/c 2,400 To B's Capital A/c 1,600 To C's Capital A/c 2,000 D. C's Capital A/c ……………...Dr. 6,000 To A's Capital A/c 3,600 To B's Capital A/c 2,400
Ans	B. Premium for Goodwill A/c……Dr. 6,000 To A's Capital A/c 3,600 To B's Capital A/c 2,400
13	State any two factors affecting value of goodwill of the firm.
	(a) Nature of business (b) Location (c) Efficiency of management (d) Market Situation (e) Special Advantages
14	Mahesh and Ramesh are sharing profits in the ratio of 2: 3. Their capitals are ₹ 50,000 and ₹ 40,000 respectively. They admit Naresh to a 1/3rd share in the profits of the firm on his bringing in ₹ 10,000 for goodwill and ₹ 45,000 as capital. Naresh brings the necessary amount of capital but only ₹ 6,000 towards goodwill. Give Journal entries to record the above in the books of the firm.

	Cash A/c …. Dr. 51,000 To Naresh's Capital A/c 45,000 To Premium for Goodwill A/c 6,000 Premium A/c …. Dr. 6,000 Naresh's Current A/c …. Dr. 4,000 To Mahesh's Capital A/c 4,000 To Ramesh's Capital A/c 6,000
	SHORT ANSWER TYPE OF QUESTIONS (3 MARKS)
1	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 the books of the new firm for the above transactions.
ANS	Aman's Capital A/c …. Dr. 3,000 Suman's Capital A/c …. Dr. 2,000 To Goodwill A/c 5,000 Cash A/c …. Dr. 70,000 To Chaman's Capital A/c 50,000 To Premium for goodwill A/c 20,000 Premium for goodwill A/c …. Dr. 20,000 To Aman's Capital A/c 8,000 To Suman's Capital A/c 12,000
3	The average net profits Expected of the firm in future are ₹ 68,000 per year and capital invested in the business by the firm is ₹ 3,50,000. The rate of interest expected from capital invested in this class of business is 12%. The remuneration of the partners is estimated to be ₹ 8,000 for the year. You are required to find out the value of goodwill on the basis of 2 years purchase of super profits.
ANS	Average profit = 68,000-8000 = 60,000 Normal profit = 3,50,000 X 12/100 = 42,000 Super profit= 60,000 - 42,000 =18,000 Goodwill = 18,000 X 2 = 36,000

4	What is mean by change in profit sharing ratio?
ANS	Change in profit sharing ratio means sharing the profits or losses in a new ratio in place of the old ratio. It implies the purchase of share of profit by one partner from another partner.
5	A and B shared profits and losses in the ratio of 3:2. With the effect from 1st April, 2014, they agreed to share profits equally. The goodwill of the firm was valued at ₹ 30,000. Pass the necessary journal entry for the treatment of goodwill.
ANS	B's capital A/c ……. Dr. 3,000 To A's Capital A/c 3,000
7	X and Y are sharing profits in the ratio of 7 : 3. They admit Z for 3/7th share in the firm which he takes 2/7th from X and 1/7th from Y. Calculate new profit-sharing ratio.
Ans	Z admits for 3/7 share of profit X sacrifices in favour of Z =2/7 Y sacrifices in favour of Z =1/7 New Ratio = Old Ratio − Sacrificing Ratio X = 7/10-2/7 = (49-20)/70 = 29/70 Y =3/10-1/7= (21- 10)/70 = 11/70 New Profit-Sharing ratio = X: Y: Z = 29/70: 11/70: 3/7 = 29/70: 11/70 : 30/70 = 29 : 11 : 30
8	B and A were partners sharing profits in the ratio of 3 : 2. They admitted D as a new partner for 1/5th share in the future profits of the firm which he got equally from B and A. Calculate the new profit-sharing ratio of B, A and D.
Ans	Calculation of New Profit Sharing Ratio B : A=3:2 (Old Ratio) D=1/5

	B's sacrifice=1/5×1/2=1/10 A's sacrifice=1/5×1/2=1/10 B's new share=3/5−1/10=6−1/10=5/10 A's new share=2/5−1/10=4−1/10=3/10 D's new share=1/5×2/2=2/10 B :A:D=5/10 :3/10 :2/10 = 5 : 3 : 2 (New Ratio)
9	P and Q were partners in a firm sharing profits in the ratio of 5:3. R was admitted for 1/4th share in the profits, of which he took 75% from P and the remaining from Q. Calculate the sacrificing ratio of P and Q.
Ans	Old ratio of P and Q = 5:3 Share of R is 1/4th in the profits R will take 75% From P= 75/100 = ¾ R will take remaining share of Profit from Q = 1 - ¾ = ¼ Sacrificing ratio of P and Q = ¾ : ¼ = 3:1
10	A and B are partners in a firm sharing profits and losses in the ratio of 3:2. C is admitted as a new partner. A gives 1/5th of his share, whereas B gives 2/5th of his share to C. Calculate new profit sharing ratio.
Ans	A’s share=3/5; A sacrificed in favour of C= 3/5 X 1/5 = 3/25 B’s share=2/5; B sacrificed in favour of C= 2/5 X 2/5 = 4/25 New Profit share = old share – sacrificed share A’s new profit share = 3/5 - 3/25 = (15-3)/25 = 12/25 B’s new profit share = 2/5 - 4/25 = (10-4)/25 = 6/25 C’s share in profit = 3/25 + 4/25 = 7/25 New profit sharing Ratio of A, B and C = 12/25 : 6/25 : 7/25 = 12: 6: 7
11	A and B are partners in a firm sharing profits and losses in the ratio of 3:1. C is admitted as a new partner for 1/8th share of profits. Calculate Sacrificing Ratio.

Ans	Sacrificing ratio will be the old ratio of old partners i.e. 3:1 because C’s share of profit is given without mentioning as to what C acquires from A and B separately. So, it will be assumed that old partner would sacrifice in their old profit sharing ratio.
12	Self-generated goodwill is not recognized in the books of accounts. (a) AS- 3 (b) AS-6 (c) AS-26 (d) AS-23
ANS	(c)AS-26
13	Which of the following is not the factor affecting the value of goodwill? (a) Cost of an intangible asset (b) Favourable location (c) Efficient location (d) Risk associated with business
ANS	(a) Cost of an intangible asset
14	“value of goodwill is personal assessment of the valuer and is usually agreed among the partners:” state whether true of false
ANS	true
15	Total capital employed of the firm is ₹ 8,00,000 Normal rate of return is 15% and the profit of the year is ₹ 1,20,000. Value of goodwill as per capitalization method would be: (a) ₹ 8,20,000 (b) ₹ 1,20,000 **(c)** Nil **(d)** ₹ 4,20,000
Ans	(c) Nil

16	Tangible assets of the firm are ₹ 14,00,000 and outside liabilities are ₹ 4,00,000. Profit of the firm is ₹ 1,50,000 and Normal rate of return is 10%. The amount of capital employed will be: (a) ₹ 10,000 (b) ₹ 10,00,000 (c) ₹ 50,000 (d) ₹20,000
Ans.	₹ 10,00,000
17	A , B and C are sharing profits and losses in ratio 3:2:1. W.e.f 1/4/2022 they have decided to share future profits in the ratio of 5:3:2. Goodwill in the books already exists ₹ 60,000. Which of the following would be the correct entry for the treatment of goodwill? (a) Goodwill A/c ....Dr. 60,000 To A's capital A/c........20,000 To B's Capital A/c.......20,000 To C's capital A/c...... 20,000 (b) Goodwill A/c ....Dr. 60,000 To A's capital A/c........10,000 To B's Capital A/c.......20,000 To C's capital A/c...... 30,000 (c) Goodwill A/c ....Dr. 60,000 To A's capital A/c........30,000 To B's Capital A/c.......18,000 To C's capital A/c...... 12,000 (d) A's capital A/c......Dr ....30,000 B's Capital A/c.....Dr.....20,000 C's capital A/c.... Dr.... 10,000 To Goodwill A/c..........60,000
Ans.	(d) A's capital A/c......Dr ....30,000 B's Capital A/c.....Dr.....20,000 C's capital A/c.... Dr.... 10,000

	To Goodwill A/c..........60,000
18	Beena and Sheena were partners in a firm sharing profits in the ratio of 3:2. They admit Kreena into partnership for 1/4th share in profits. The partners passed the following journal entries at the time of admission of Kreena <table><tr><td>date</td><td>particular</td><td>Dr. amt</td><td>Cr. Amt</td></tr><tr><td></td><td>Bank A/c….Dr. To Krina's capital a/c To goodwill premium A/c (capital and goodwill brought in cash)</td><td>3,00,000</td><td> 2,50,000 50,000</td></tr><tr><td></td><td>Goodwill premium A/c…Dr… Sheena's Capital A/c…Dr… To Beena's capital A/c…… (premium goodwill credited to Beena's capital A/c)</td><td>50,000 20,000</td><td> 70,000</td></tr></table> What will be the amount of firm's goodwill?
Ans.	50,000*4/1 = 2,00,000
	SHORT ANSWER TYPE OF QUESTIONS (4 MARKS)
1	*G* and *S* are partners sharing profits and losses in the ratio of 2: 5. They admit *C* on the condition that he will bring ₹ 14,000 as his share of goodwill to be distributed between *G* and *S*. *C's* share in the future profits or losses will be 1/4th. What amount of goodwill brought in by *C* will be received by *G* and *S?*
Ans	C's share of Goodwill will be distributed in sacrificing ratio between G and S i.e. 2: 5. C's share of Goodwill = ₹ 14,000 G will get =14,000×2/7=₹ 4,000 S will get =14,000×5/7= ₹ 10,000
2	V and N are partners in a firm sharing profits and losses in the ratio of 3: 2. A new partner K is admitted. V gives 1/5th of his share and N gives 2/5th of his share in favour of K. For the purpose of K's admission, goodwill of the firm is valued at 75,000 and K brings his

	share of goodwill in cash which is retained in the business. Journalise the above transactions.
Ans	Old Ratio of V and N is 3:2 Share of Profits K will get from V 1/5th of his share 3/5 = 3/5×1/5=3/25 Share of Profits K will get from N 2/5th of his share 2/5 = 2/5×2/5=4/25 Share of K= 3/25 + 4/25=3+4/25=7/25 K brings his share of goodwill in cash =75,000 × 7/25 = 21,000 **V and N will be compensated in sacrificing = 3/25 : 4/25 = 3:4** V =21,000×3/7=9,000 N =21,000×4/7=12,000 **Journal Entry for Goodwill:**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		21,000	
	To Premium for Goodwill A/c			21,000
	(Being Goodwill brought in Cash)			
	Premium for Goodwill A/c Dr.		21,000	
	To V's Capital A/c			9,000
	To N's Capital A/c			12,000
	(Being partners compensated in sacrificing ratio 3:4)			

3	*A* and *B* are in partnership sharing profits and losses in the ratio of 5 : 3. *C* is admitted as a partner who pays ₹ 40,000 as capital and ₹ 12,000 of goodwill. His share of profits will be $1/5^{th}$ which he takes $1/10^{th}$ from *A* and 1/10th from *B*. Pass Journal entries.
Ans	**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)

	Bank A/c Dr. To C's Capital A/c To Premium for Goodwill A/c (Being C brought capital and goodwill in Cash)		52,000	 40,000 12,000
	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (Being goodwill distributed between A and B)		12,000	 6,000 6,000

Working Notes-

	A		B
Sacrificing Ratio =	1/10	:	1/10
=	1		1

4 Disha and Divya are partners in a firm sharing profits in the ratio of 3 : 2 respectively. The fixed capital of Disha is ₹ 4,80,000 and of Divya is ₹ 3,00,000. On 1st April, 2021 they admitted Hina as a new partner for 1/5th share in future profits. Hina brought ₹ 3,00,000 as her capital. Calculate value of goodwill of the firm and record necessary Journal entries on Hina's admission.

Ans

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Heena's Capital A/c (Being Heena brought capital in Cash)		3,00,000	 3,00,000
	Heena's Current A/c Dr. To Disha's Current A/c To Divya's Current A/c (Being Heena's share of goodwill adjusted through current account)		84,000	 50,400 33,600

	Working Note: *Calculation of Hidden Goodwill* Total capital of the firm on the basis of Hina's capital = (3,00,000×5/1) = 15,00,000 Less- adjusted capital of partners + new partner's capital = (10,80,000) **4,20,000** Hina's share of goodwill=4,20,000×1/5=84,000
5	*X*, *Y* and *Z* are partners sharing profits and losses in the ratio of 5 : 3 : 2. They admit *W* as partner for 1/6th share. Following is the extract of Balance Sheet on the date of admission:

Liabilities	₹	Assets	₹
General Reserve Contingency Reserve Profit and Loss A/c	36,000 6,000 18,000	Advertisement Suspense A/c	24,000

Pass necessary Journal entries.

Ans

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr.(₹)
1	General Reserve	Dr.		36,000	
	Contingency Reserve	Dr.		6,000	
	Profit and Loss A/c	Dr.		18,000	
	To X's Capital A/c				30,000
	To Y's Ca[ital A/c				18,000
	To Z's Capital A/c				12,000
	(Being Reserve Distributed)				
2	X's Capital A/c	Dr.		12,000	
	Y's Ca[ital A/c	Dr.		7,200	
	Z's Capital A/c	Dr.		4,800	
	To Advertisement Suspense A/c				24,000
	(Being Advertisement Suspense A/c distributed)				

6	P,Q and R are partners in a firm sharing profits in the ratio of 2:2:1 on 1.4.2007 the partners decided to share future profits in the ratio of 3:2:1 on that day balance sheet of the firm shows General Reserve of ₹ 50,000. Pass entry for distribution of reserve.
A	General Reserve A/c Dr. 50,000 To P's Capital A/c 20,000 To Q's Capital A/c 20,000 To R's Capital A/c 10,000 (Being Reserve distributed)
7	Average profit earned by a firm is ₹ 3,50,000 which includes overvaluation of stock of ₹ 25,000 on average basis. Capital invested in the firm is ₹ 15,00,000 and NRR is 20% calculate goodwill of the firm on the basis of 4 times the super profit.
A	Actual average profit = 3,50,000 – 25,000 = 3,25,000 Normal profit = capital employed x NRR/100 Normal profit= 15,00,000 x 20/100 =3,00,000 Super profit = actual profit – normal profit = 3,25,000 – 3,00,000 = 25,000 Goodwill = super profit x no. of years purchased = 25,000 x 4 = ₹1,00,000
8	The capital of A and B are ₹ 50,000 and ₹ 40,000. To Increase the Capital base of the firm to ₹ 1, 50,000, they admit C to join the firm; C is required to pay a sum of ₹ 70,000, what is the amount of premium of goodwill?
A	The total capital of the firm is ₹ 90,000. To increase the capital base to ₹ 1, 50,000, C is to bring in ₹ 60,000 (₹ 1, 50,000 – 90,000) But he brings in ₹ 70,000. Therefore, the excess of ₹ 10,000 represent premium for goodwill
9	A, B and C are partners sharing in the ratio of 7:5:8. D was admitted to 1/4th of the future profits. B sacrificed 1/5th from his profit, while the balance was sacrificed by A and C in the ratio of 3:1. D brings ₹ 120000 as his capital but nothing for goodwill which was valued at ₹ 200000 for the firm. Calculate new profit sharing ratio and Sacrificing Ratio and pass necessary journal entry for the treatment of goodwill.
A	New profit-sharing ratio = 4:4:7:5 AND Sacrificing ratio = 3:1:1 1. CASH A/C DR 120000 TO D'S CAPITAL AC 120000 2. D'S CURRENT A/C DR 50000

	TO A'S CAPITAL 30000 TO B'S CAPITAL 10000 TO C'SCAPITAL 10000
10	A firm earned net profits during the last three years as: Year profit (₹) 2019 18,000 2020 20,000 2021 22,000 Capital investment of the firm is ₹ 60,000. Normal return on the capital is 10%. If the amount of goodwill is ₹ 42,000. Then for how many years' purchase of super profits, the value of goodwill has been decided?
	Average profit = $\frac{18,000+20,000+22,000}{3}$ =₹20,000 Normal profit= capital employed* NRR/100 = 60,000*10/100 =₹6,000 Super profit = average profit-normal profit = ₹ 20,000 –₹6,000 =₹ 14,000 Goodwill = super profit x number of years' purchase = 14000X3= ₹42000
11	The average net profit of Electronics Home depot expected in the future is ₹ 1,08,000 per year. Average capital employed in the business rs ₹ 6,00,000. Normal profit expected from capital invested in this type of business is 10%. The remuneration of the partners is estimated to be ₹ 18,000 p.a. Calculate the value of goodwill on the basis of two years' purchase of super profit.
A	Average profit ₹ 1,08,000 Less: Partners' remuneration ₹ 18,000 Normal profit on capital employed (₹ 6,00,000 x 10/100) ₹ 60,000 78,000 Super profit = ₹ 30,000 Goodwill = 30,000 x 2 =60,000
	LONG ANSWER TYPE OF QUESTIONS (8 MARKS)

1	Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5 : 3. They admitted Ghosh as a new partner for 1/5th share of profits. Ghosh is to bring in ₹ 20,000 as capital and ₹ 4,000 as his share of goodwill premium. Give the necessary Journal entries: (a) When the amount of goodwill is retained in the business. (b) When the amount of goodwill is fully withdrawn. (c) When 50% of the amount of goodwill is withdrawn. (d) When goodwill is paid privately.
Ans	

Journal

S.N.	Particulars		L. F	Debit Amount	Credit Amount
Case (a)	Cash A/c	Dr.		24,000	
	To Ghosh's Capital A/c				20,000
	To Premium for Goodwill A/c				4,000
	(Capital and Goodwill his share brought by Ghosh)				
	Premium for Goodwill A/c	Dr.		4,000	
	To Verma's Capital A/c				2,500
	To Sharma's Capital A/c				1,500
	(Goodwill brought by Ghosh credited to Old Partners in Sacrificing ratio)				
Case (b)	Cash A/c	Dr.		24,000	
	To Ghosh Capital A/c				20,000
	To Premium for Goodwill A/c				4,000
	(Capital and Goodwill brought by Ghosh for (1/5)share of profit)				
	Premium for Goodwill A/c	Dr.		4,000	
	To Verma's Capital A/c				

		To Sharma's Capital A/c			2,500
		(Goodwill brought by Ghosh credited in Old Partner in Sacrificing Ratio)			1,500
		Verma's Capital A/c Dr.		2,500	
		Sharma's Capital A/c Dr.		1,500	
		To Cash A/c			4,000
		(Amount of Premium for Goodwill withdrawn by Old Partners)			
	Case (c)	Cash A/c Dr.		24,000	
		To Ghosh's Capital A/c			20,000
		To Premium for Goodwill A/c			4,000
		(Capital and Goodwill brought by Ghosh for (1/5) share of profit)			
		Premium for Goodwill A/c Dr.		4,000	
		To Verma's Capital A/c			2,500
		To Sharma's Capital A/c			1,500
		(Goodwill brought by Ghosh credited in Old Partner in Sacrificing Ratio)			
		Verma's Capital A/c Dr.		1,250	
		Sharma's Capital A/c Dr.		750	
		To Cash A/c			2,000
		(Half of the amount of premium for goodwill withdrawn by Old partners)			
	Case (d)	No entry: Goodwill was not brought into firm		-----	-----

2 Following was the Balance Sheet of *A* and *B* who were sharing profits in the ratio of 2 : 1 as at 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:

(a) *C* was to bring ₹ 7,500 as his capital and ₹ 3,000 as goodwill for 1/4th share in the firm.

(b) Values of the Stock and Plant and Machinery were to be reduced by 5%.

(c) A Provision for Doubtful Debts was to be created in respect of Sundry Debtor ₹ 375.

(d) Building was to be appreciated by 10%.

Prepare Profit and Loss Adjustment Account (or Revaluation Account), Partners' Capital Accounts and Balance Sheet of the new firm.

Ans

Profit and Loss Adjustment Account

Dr. Cr.

Particulars	Amount ₹	Particulars	Amount ₹
Stock	500	Building	2,500
Plant and Machinery	875		
Reserve for Doubtful Debts	375		
Profit transferred to			
A Capital	500		
B Capital	250		
	2,500		2,500

Partners' Capital Accounts

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
				Balance b/d	15,000	10,000	
				Cash			7,500
				Premium for Goodwill	2,000	1,000	
Balance c/d	17,500	11,250	7,500	Profit and Loss Adjustment (Profit)	500	250	
	17,500	11,250	7,500		17,500	11,250	7,500

	Balance Sheet **as on March 31, 2021 after admission of C**

Liabilities	Amount ₹	Assets	Amounts ₹
Capital Accounts: A 17,500 B 11,250 C 7,500	36,250	Building (25,000 + 2,500)	27,500
		Plant and Machinery (17,500 – 875)	16,625
		Stock (10,000 – 500)	9,500
Sundry Creditors	32,950	Sundry Debtors 4,850 Less: Provision for D. D. 375	4,475
		Cash in Hand (600 + 10,500)	11,100
	69,200		69,200

Working Notes:

Sacrificing ratio
of A and B= 2 : 1
Distribution of Premium for Goodwill (in sacrificing ratio)
A will get =3,000×2/3=2,000

B will get =3,000×1/3=1,000

3 Kalpana and Kanika were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2021, they admitted Karuna as a new partner for 1/5th share in the profits of the firm. The Balance Sheet of Kalpana and Kanika as on 1st April, 2021 was as follows:

BALANCE SHEET OF KALPANA AND KANIKA *as on 1st April, 2021*

Liabilities	**₹**	**Assets**	**₹**
Capital A/cs:		Land and Building	2,10,000
Kalpana 4,80,000		Plant	2,70,000
Kanika 2,10,000	6,90,000	Stock	2,10,000
	60,000	Debtors 1,32,000	

General Reserve	1,00,000	*Less*: Provision 12,000	1,20,000
Workmen's Compensation Fund		Cash	1,30,000
Creditors	90,000		
	9,40,000		**9,40,000**

It was agreed that:

(a) the value of Land and Building will be appreciated by 20%.

(b) the value of plant be increased by ₹ 60,000.

(c) Karuna will bring ₹ 80,000 for her share of goodwill premium.

(d) the liabilities of Workmen's Compensation Fund were determined at ₹ 60,000.

(e) Karuna will bring in cash as capital to the extent of 1/5th share of the total capital of the new firm.

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

Ans

Revaluation Account

Dr. Cr.

Particulars	Amount ₹	Particulars	Amount ₹
Revaluation Profit		Land and Building A/c	42,000
Kalpana's Capital A/c	61,200	Plant A/c	60,000
Kanika's Capital A/c	40,800		
	1,02,000		**1,02,000**

Partners' Capital Accounts

Dr. Cr.

Particulars	Kalpana ₹	Kanika ₹	Karuna ₹	Particulars	Kalpana ₹	Kanika ₹	Karuna ₹
				Balance b/d	4,80,000	2,10,000	
				Cash			2,43,000
Balance c/d	6,49,200	3,22,800	2,43,000	General Reserve	36,000	24,000	
				Workmen Compensation Fund	24,000	16,000	

				Revaluation A/c	61,200	40,800	
				Premium for Goodwill	48,000	32,000	
	6,49,200	3,22,800	2,43,000		6,49,200	3,22,800	2,43,000

Balance Sheet as on April 01, 2021 after Karuna's admission

Liabilities		Amount ₹	Assets		Amount ₹
Creditors		90,000	Cash in Hand		4,53,000
Capitals:			Debtors	1,32,000	
Kalpana	6,49,200		Less: Provision for debtors	12,000	1,20,000
Kanika	3,22,800		Stock		2,10,000
Karuna	2,43,000	12,15,000	Land and Building		2,52,000
Liability for Workmen Compensation		60,000	Plant		3,30,000
		13,65,000			**13,65,000**

Working Notes:

WN1 Calculation of New share

Karuna is admitted for 1/5th share

Let the total share of the firm be 1

Remaining share =1-15=45

This remaining share will be shared among old partners in their old ratio i.e. 3 : 2

Kalpana's Share =4/5×3/5=12/25

Kanika's Share =4/5×2/5=8/25

New Ratio = 12 : 8 : 5

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio – New Ratio

Kalpana=3/5-12/25=3/25

Kanika=2/5-8/25=2/25

Sacrificing Ratio = 3 : 2

WN2 Calculate of Karuna's Capital

Adjusted Capital of Kalpana = 6.49,200

Adjusted Capital of Kanika = 3,22,800

Total Adjusted Capital = 9,72,000 (6,49,200+3,22,800)

Karuna's capital =9,72,000 ×1/5×5/4=2,43,000

4 Shikhar and Rohit were partners in a firm sharing profits in the ratio of 7 : 3. On 1st April, 2013, they admitted Kavi as a new partner for 1/4th share in profits of the firm. Kavi brought ₹ 4,30,000 as his capital and ₹ 25,000 for his share of goodwill premium. The Balance Sheet of Shikhar and Rohit as on 1st April, 2013 was as follows:

BALANCE SHEET OF SHIKHAR AND ROHIT as at 1st April, 2013

Liabilities		Amount ₹	Assets		Amount ₹
Capital A/cs:			Land and Building		3,50,000
Shikhar	8,00,000		Machinery		4,50,000
Rohit	3,50,000	11,50,000	Debtors	2,20,000	
General Reserve		1,00,000	Less: Provision	20,000	2,00,000
Workmen's Compensation Fund		1,00,000	Stock		3,50,000
Creditors		1,50,000	Cash		1,50,000
		15,00,000			15,00,000

It was agreed that:
(a) the value of Land and Building will be appreciated by 20%.
(b) the value of Machinery will be depreciated by 10%.
(c) the liabilities of Workmen's Compensation Fund were determined at ₹ 50,000.
(d) capitals of Shikhar and Rohit will be adjusted on the basis of Kavi's capital and actual cash to be brought in or to be paid off as the case may be.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

Ans

Revaluation Account

Dr. Cr.

Particulars		Amount ₹	Particulars	Amount ₹
Machinery		45,000	Land and Building	70,000
Profit transferred to:				
Shikhar's Capital A/c	17,500			
Rohit's Capital A/c	7,500	25,000		
		70,000		70,000

Partners' Capital Accounts

Dr. Cr.

Particulars	Shikhar ₹	Rohit ₹	Kavi ₹	Particulars	Shikhar ₹	Rohit ₹	Kavi ₹
				Balance b/d	8,00,000	3,50,000	
Balance c/d	9,40,000	4,10,000	4,30,000	General Res.	70,000	30,000	
				Workmen's Comp. Fund	35,000	15,000	
				Cash A/c			4,30,000
				Premium for Goodwill	17,500	7,500	
				Revaluation A/c (Profit)	17,500	7,500	
	9,40,000	4,10,000	4,30,000		9,40,000	4,10,000	4,30,000
Cash A/c	37,000	23,000		Balance b/d	9,40,000	4,10,000	4,30,000
Balance c/d	9,03,000	3,87,000	4,30,000				
	9,40,000	4,10,000	4,30,000		9,40,000	4,10,000	4,30,000

Balance Sheet

as on April 01, 2013 after Kavi's admission

Liabilities	Amount ₹	Assets		Amount ₹
Liability for Workmen's Compensation		Land and Building		4,20,000
		Machinery	4,50,000	
Creditors	50,000	Less: Depreciation @10%	45,000	4,05,000
Capitals:	1,50,000	Debtors	2,20,000	
Shikhar 9,03,000		Less: Provision	20,000	2,00,000
Rohit 3,87,000		Stock		3,50,000
Kavi 4,30,000		Cash		5,45,000
	17,20,000			
	19,20,000			19,20,000

Working Notes:

Calculation of Profit-Sharing Ratio:

	A	B
OLD RATIO	3	1

Kavi’s share=1/4

Let total capital =1

Remaining share of the firm=1-1/4=3/4

Shikhar’s new share= 7/10×3/4=21/40

Rohit’s new share=3/10× 3/4=9/40

New profit sharing ratio	=21/40:9/40:1/4 =21:9:10

Sacrificing Ratio =Old ratio- new ratio

Shikhar = 7/10-21/40=7/40

Rohit =3/10- 9/40=3/40

Sacrificing Ratio =7:3

WN1: Distribution of Goodwill brought in by Kavi:

Shikhar will get =25,000×7/10=17,500

Rohit will get =25,000×3/10=7,500

WN2: Distribution of Workmen’s Compensation Fund

Shikhar will get =50,000×7/10=35,000

Rohit will get =50,000×3/10=15,000

WN3: Distribution of General Reserve:

Shikhar will get =1,00,000×7/10=70,000

Rohit will get =1,00,000×3/10=30,000

WN4: Adjustment of Capital:

Total capital of the firm= capital brough by new partner × reciprocal of share

capital brough by kavi =4,30,000

Total capital of the firm= 4,3000 × 4/1=17,40,000

Shikhar’s new of capital=17,40,000×21/40=9,03,000

Rohit’s new of capital =17,40,000×9/40=3,87,000

5 The Balance Sheet of X, Y and Z who share profits and losses in the ratio of 3 : 2 : 1, as on 1st April, 2021 is as follows:

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Capital A/cs:		Y's Current Account	7,000
X 1,75,000		Land and Building	1,75,000
Y 1,50,000		Plant and Machinery	67,500
Z 1,25,000	4,50,000	Furniture	80,000
Current A/cs:		Investments	36,500
X 4,000		Bills Receivable	17,000
Z 6,000	10,000	Sundry Debtors	43,500
General Reserve	15,000	Stock	1,37,000
Profit and Loss A/c	7,000	Bank	43,500
Creditors	80,000		
Bills Payable	45,000		
	6,07,000		**6,07,000**

On the above date, W is admitted as a partner on the following terms:

(a) W will bring ₹ 50,000 as his capital and get 1/6th share in the profits.

(b) He will bring necessary amount for his share of goodwill premium. Goodwill of the firm is valued at ₹ 90,000.

(c) New profit-sharing ratio will be 2 : 2 : 1 : 1.

(d) A liability of ₹ 7,004 will be created against bills receivable discounted earlier but now dishonored.

(e) The value of stock, furniture and investments is reduced by 20%, whereas the value of Land and Building and Plant and Machinery will be appreciated by 20% and 10% respectively.

(f) Capital Accounts of the partners will be adjusted on the basis of W's Capital through their Current Accounts.

Prepare Revaluation Account, Partners' Current Accounts and Capital Accounts.

Ans

Revaluation Account

Dr. Cr.

Particulars	Amount ₹	Particulars		Amount ₹
Stock	27,400	Land and Building		35,000
Furniture	16,000	Plant and Machinery		6,750
Investments	7,300	Loss transferred to:		
		X	4,475	
		Y	2,983	
		Z	1,492	8,950
	50,700			50,700

Partners' Current Account

Dr. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
Balance b/d		7,000		Balance b/d	4,000		6,000
Revaluation (Loss)	4,475	2,983	1,492	General Reserve	7,500	5,000	2,500
				Profit and Loss A/c	3,500	2,333	1,167
Balance c/d	100,525	47,350	83,175	Premium for Goodwill	15,000		
				Capital A/c	75,000	50,000	75,000
	1,05,000	57,333	84,667		1,05,000	57,333	84,667

Dr. Partners' Capital Account Cr.

Particulars	X	Y	Z	W	Particulars	X	Y	Z	W
Current A/c	75,000	50,000	75,000		Balance b/d	1,75,000	1,50,000	1,25,000	
					Cash A/c				50,000
Balance c/d	1,00,000	1,00,000	50,000	50,000					
	1,75,000	1,50,000	1,25,000	50,000		1,75,000	1,50,000	1,25,000	50,000

Working Notes:

	WN1 Calculation of Sacrificing Ratio Old Ratio=3 : 2 : 1 New Ratio=2 : 2 : 1 : 1 Sacrificing Ratio=Old Ratio-New Ratio X=3/6-2/6=1/6 Y=2/6-2/6=Nil Z=1/6-1/6=Nil Here, only X has sacrificed. **WN2** Distribution of Goodwill W's Share of Goodwill=90,000×16= ₹ 15,000 As only X has sacrificed his share, therefore, he will get ₹ 15,000 **WN3** Adjustment of Capital Total Capital of the firm=W's Capital×Reciprocal of his share =50,000×6/1= ₹ 3,00,000 New Profit Sharing Ratio=2 : 2 : 1 : 1 X's New Capital=3,00,000×2/6= ₹ 1,00,000 Y's New Capital=3,00,000×2/6= ₹ 1,00,000 Z's New Capital=3,00,000×1/6= ₹ 50,000 W's New Capital=3,00,000×1/6= ₹ 50,000
6	Given below is the Balance Sheet of A and B, who are carrying on partnership business on 31st March, 2021. A and B share profits and losses in the ratio of 2: 1.

Balance sheet of A and B as at 31st March, 2021

Liabilities		₹	Assets	₹
Bills Payable		10,000	Cash in Hand	10,000
Creditors		58,000	Cash at Bank	40,000
Outstanding Expenses		2,000	Sundry Debtors	60,000
Capital A/cs:			Stock	40,000
A	1,80,000		Plant	1,00,000
B	1,50,000	3,30,000	Building	1,50,000

	4,00,000		**4,00,000**

C is admitted as a partner on 1st April, 2021 on the following terms:

(a) C will bring ₹ 1,00,000 as his capital and ₹ 60,000 as his share of goodwill for 1/4th share in the profits.

(b) Plant is to be appreciated to ₹ 1,20,000 and the value of building is to be appreciated by 10%.

(c) Stock is found overvalued by ₹ 4,000.

(d) A provision for doubtful debts is to be created at 5% of sundry debtors

(e) Creditors were unrecorded to the extent of ₹ 1,000.

Pass the necessary Journal entries, prepare the Revaluation Account and Partners' Capital Accounts, and show the Balance Sheet after the admission of C.

Ans

Journal

Date	Particulars	L.F.	Amount ₹	Amount ₹
2021 M. 31	Bank A/c Dr. To C's Capital A/c To Premium for Goodwill A/c (Capital and premium for goodwill brought by C for 1/4 share)		1,60,000	 1,00,000 60,000
	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (Premium for Goodwill brought transferred to old partners' capital account in their sacrificing ratio)		60,000	 40,000 20,000
	Plant A/c Dr. Building A/c Dr. To Revaluation A/c (Increase in value of assets)		20,000 15,000	 35,000
	Revaluation A/c Dr. To Stock To Provision for Doubtful Debts A/c To Creditors A/c (Unrecorded) (Assets and liabilities revalued)		8,000	 4,000 3,000 1,000
	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (Profit on revaluation transferred to old partners)		27,000	 18,000 9,000

	CH. RETIREMENT AND DEATH OF A PARTNER
Q	**TYPE OF QSTIONS (1 MARK) MCQ, OTQ COMPETENCY BASED, SOURCE BASED**
Q1	why heirs of a retiring / deceased partner are entitled to a share of goodwill of the firm?
A.1	The retiring partner / heirs of deceased partner are entitled to his share of goodwill because the goodwill earned by the firm is the result of the efforts of all the existing partners in the past. As they will not be sharing future profits, it will be fair to compensate them for the same.
Q2	When is Partner's Executors' Account prepared?
A.2	Partner's Executor's Account is prepared at the time of settlement of accounts of deceased partner.
Q3	X, Y and Z are partners sharing profit and losses in the ratio 5:3:2. Z retires. Calculate new profit-sharing ratio.
A.3	New Profit-Sharing Ratio 5:3
Q4	On the retirement of Hari from the firm of 'Hari, Ram and Sharma' the balance-sheet showed a debit balance of ₹ 12,000 in the profit and loss account. For calculating the amount payable to Hari this balance will be transferred (a) to the credit of the capital accounts of Hari, Ram and Sharma equally (b) to the debit of the capital accounts of Hari, Ram and Sharma equally (c) to the debit of the capital accounts of Ram and Sharma equally (d) to the credit of the capital accounts of Ram and Sharma equally
A.4	(b) to the debit of the capital accounts of Hari, Ram and Sharma equally.
Q5	In case of death of a partner, the whole amount standing to the credit of his capital account is transferred to______________.

A.5	His/her Executors Account.
Q6	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.
A.6	(B) All Partners Capital A/C
Q7	Assertion (A): At the time of retirement of a partner, the combined profit share of the ren continuing partners increases. Reason (R): Remaining or Continuing partners take a part of profit share of the retiring partner their individual profit share increases: In the context of above two statements, which of the following is correct? (a) Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation (b) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct (c) Assertion (A) is correct but Reason (R) is not correct (d) Assertion (A) is not correct but Reason (R) is correct.
A.7	(b) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct
Q8	P, Q and R were partners sharing profits in the ratio 2:2:1. Q retires and the new profit-sharing ratio of P and R will be 3:1. Gaining ratio will be: (a) 1:7 (b) 2:1 (c) 1:2 (d) 7:1
A.8	(d) 7:1
Q9	A, B and C are partners with profit sharing ratio of 4:3:2. B retired and goodwill was valued ₹ 1,08,000. If A & C share profits in 5:3, find out the goodwill shared by A and C in favour of B.

	(a) ₹ 22,500 and ₹ 13,500 (b) ₹ 16,500 and ₹ 19,500 (c) ₹ 67,500 and ₹ 40,500 (d) ₹ 19,500 and ₹ 16,500
A.9	(d) ₹ 19,500 and ₹ 16,500
Q10	If the firm pays an amount in excess of total amount due to the retiring partner then the excess amount is treated as------------------------
A.10	Hidden goodwill
Q11	Assertion (A): At the time of death of a partner the deceased partner will get his share in General Reserve and credit balance in Profit & Loss Account Reason (R): Deceased partner will get his share of Workmen Compensation Reserve remaining after claim if any in the context of above two statements, which of the following a correct? (a) Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation (b) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct (c) Assertion (A) is correct but Reason (R) is not correct (d) Assertion (A) is not correct but Reason (R) is correct.
A.11	(b) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct
Q12	Kumar, Verma and Naresh were partners in a firm sharing profit & loss in the ratio of 3: 2: 2. On 23rd January, 2022 Verma died. Verma's share of profit till the date of his death was calculated at ₹ 2,350. Pass necessary journal entry for the same in the books of the firm.
A.12	Journal Entry P & L suspense A/C Dr. 2,350 To Verma's Capital A/C 2,350 (Verma's share of profit up to 23^{rd} June 2022)

SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)

Q 1 Amita, Babli and Charmi are partners sharing profits in the ratio of 5:3:2. Babli retires and new 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.

A 1

Journal entry

Date	PARTICULARS	L.F	Amount Dr. (₹)	Amount Cr. (₹)
	Charmi's Capital A/c…Dr		60,0000	
	To Babli;s Capital A/c…			45,000
	To Amita's Capital A/c			15,000
	(adjustment made for accumulated profit and losses on Babli's retirement)			

Q 2 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.

A. 2 (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 Shiv's 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

Q 3

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, 2022. 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

A. 3

Journal entry

Date	Partuicular	L.F	Amount Dr. (₹)	Amount Cr. (₹)
2019	General Reserve A/c………. Dr		1,80,000	
Mar.31	Workmen's compensation A/c. Dr		24,000	
	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)			
	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…			60,000
	(Accumulated loss distributed)			

Q 4	Geeta, Meeta and Preeta were partners in a firm sharing profits and losses in the ratio of 3:2:2. On 23rd January 2022, Meeta died. Meeta's share of profit till the date of her death was calculated at ₹ 2,350. Her share of goodwill was calculated as ₹ 20,000 Pass necessary journal entries in the books of the firm.
A. 4	

Date	PARTICULARS	L.F	Amount Dr. (₹)	Amount Cr. (₹)
23/1/2022	Profit and Loss suspense A/c…. Dr To Meeta's Capital A/c. (Meeta's share of till the date of death)		2,350	 2,350
23/1/2022	Geeta's capital A/c.. Dr Preeta's Capital A/c… Dr To Meeta's Capital A/c… (goodwill shared by old partners in their gaining ratio)		12,000 8,000	 20,000

Q 5	Amar, Ram, Mohan and Sohan were partners in a firm sharing profits in the ratio of 2: 2: 2: 1. On 31st January, 2017 Sohan retired. On Sohan's retirement the goodwill of the firm was valued at ₹ 70,000. The new profit-sharing ratio between Amar, Ram and Mohan was agreed as 5: 1: 1. Showing your working notes clearly, pass necessary Journal Entry for the treatment of goodwill in the books of the firm on Sohan's retirement.
A. 5	**Journal Entry** Amar's capital A/c Dr. 30,000 To Ram's capital a/c 10,000 To Mohan's capital a/c 10,000 To Sohan's capital a/c 10,000 (being adjustment of goodwill on Sohan's retirement) **Working Notes** Calculation of Gaining Ratio:

	Amar	Ram	Mohan	Sohan
New ratio	5/7	1/7	1/7	--
Old ratio	2/7	2/7	2/7	1/7
Gain/sacrifice	3/7 (Gain)	1/7 (sacrifice)	1/7 (sacrifice)	1/7 (sacrifice)

SHORT ANSWER TYPE OF QUESTIONS (FOUR MARKS)

Q 1 Sandeep, Mandeep and Amandeep were partners in a firm sharing profits in the ratio of 2: 2: 1. The firm closes its books on 31st March every year. On 30th September, 2022 Mandeep died. The partnership deed provided that on the death of a partner his executors will be entitled to the following:

(1) Balance in his capital account and interest @ 12% p.a. on capital. On 1-4-2022 the balance in Mandeep's Capital Account was ₹ 1,00,000.

(2) His share in the profits of the firm in the year of his death which will be calculated on the basis of rate of net profit on sales of the previous year which was 25%. The sales of the firm till 30th September, 2022 were ₹ 9,00,000.

(3) His share in the goodwill of the firm. The goodwill of the firm on Mandeep's death was valued at ₹ 1,50,000. The partnership deed also provided that the following deductions will be made from the amount payable to the executor of the deceased partner:

(1) His drawings in the year of his death. Mandeep's drawings till 30th September, 2022 were ₹ 4,000.

(2) Interest on drawings @ 6% per annum which was calculated as ₹120.

The accountant of the firm prepared Mandeep's Capital Account to be presented to the executor of Mandeep but in a hurry he left it incomplete. Mandeep's capital Account prepared by Accountant of the firm is shown below:

Mandeep's Capital Account

Date	Particulars	Amount	Date	Particulars	Amount
2022			2022		
Sep.	---------------	4000	Apr..30	-------------	1,00,000
30	---------------	-	Sep.30	-------------	6,000
"	----------------	-	"	-------------	90,000

"			"	--------------	40,000
			"	__________	20,000
		2,56,000			2,56,000

You are required to complete Mandeep's Capital Account.

A. 1

Mandeep's Capital Account

Date	Particulars	Amount	Date	Particulars	Amount
2022			2022		
Sep.	To Drawing a/c	4000	Apr..30	By Balance b/d	1,00,000
30	To Int. on Drawings a/c	120	Sep.30	By Int. on capital	6,000
"	To Mandeep's		"	By P & L suspense	90,000
	executor's a/c	2,51,880	"	By Sandeep's cap.	40,000
			"	By Amardeep's cap.	20,000
		2,56,000			2,56,000

Q2 Vikas, Vishal and Vaibhav were partners in a firm sharing profits in the ratio of 2: 2: 1. The firm closes its books on 31st March every year. On 31-12-2022 Vaibhav died. On that date his Capital account showed a credit balance of ₹ 3,80,000 and Goodwill of the firm was valued at ₹ 1,20,000. There was a debit balance of ₹ 50,000 in the profit and loss account. Vaibhav's share of profit in the year of his death was to be calculated on the basis of the average profit of the last five yea₹ The average profit of last five years was ₹ 75,000

Pass necessary journal entries in the books of the firm on Vaibhav's death.

A. 2

Date	PARTICULARS	L.F	Amount Dr. (₹)	Amount Cr. (₹)
2022	Vikas' Capital A/c…Dr		12,000	
Dec. 31	Vishal's Capital A/c.Dr		12,000	
	To Vaibhav's Capital A/c			24,000
	(value of goodwill adjusted)			
Dec. 31	Vikas' Capital A/c…Dr		20,000	
	Vishal's Capital A/c.Dr		20,000	
	Vaibhav's Capital A/c..Dr		10,000	

		To P&L A/c. (P&L A/c written off)			50,000
	Dec. 31	P&L Suspense A/c. Dr. To Vaibhav's Capital A/c (Vaibhav's profit up to his death)		10,250	10,250
	Dec.31	Vaibhav's Capital A/c. Dr To Vaibhav's Executor's A/c. (Amount transferred to Vaibhav's executor)		4,05,250	4,05,250

Q 3 Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2:2:1. Their Balance Sheet as on 31st March, 2022 were as follows:

Balance Sheet of Digvijay, Brijesh and Parakaram

As on 31st March, 2022

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	49,000	Cash in hand	8,000
Reserves	18,500	Debtors	19,000
Digvijay's Capital	82,000	Stock	42,000
Brijesh's Capital	60,000	Building	2,07,000
Parakaram's Capital	75,500	Patents	9,000
	2,85,000		**2,85,000**

i) Brijesh retired on 31st March, 2022 giving his share to the remaining partners equally.

ii) Loss on Revaluation upon Brijesh's retirement was ₹ 11000.

iii) Goodwill of the firm was valued at ₹70,000

Pass necessary Journal entries.

A. 3 **JOURNAL ENTRIES IN THE BOOKS OF THE PARTNERS**

Date	PARTICULARS	L.F	Amount	Amount

				Dr. (₹)	Cr. (₹)
		Digvijay's Capital A/c Dr. Brijesh's Capital A/c Dr. Parakram's Capital A/c Dr. To Revaluation (being loss on revaluation distributed among all partners)		4,400 4,400 2,200	 11,000
		Digvijay's Capital A/c Dr. Parakram's Capital A/c Dr. To Brijesh's Capital A/c (being effect of goodwill brought into account)		14,000 14,000	 28,000
		Reserve Dr. To Digvijay's Capital A/c To Brijesh's Capital A/c To Parakram's Capital A/c (being reserve distributed among all partners)		18,500	 7,400 7,400 3,700
		Brijesh's Capital A/c Dr. To Brijesh's Loan A/c (being capital transferred to Loan)		91,000	 91,000

Q 4 Abhay and Bala are in partnership sharing profits and losses in the ratio of 3: 2. Bala died three months after the date of the last Balance Sheet prepared on 31.03.2022. According to the Partnership Deed, Bala's representative is entitled to the following payments:

a) His capital as per the last Balance Sheet.
b) Interest on above capital @ 6% p.a. till the date of death.
c) His share of profits till the date of death calculated on the basis of last year's profits.

	Bala's capital as per the last Balance Sheet was ₹ 40,000 and his drawings till the date of death were ₹ 5,000. The last year's profits were ₹ 30,000. Draw Bala's Account to be rendered to his legal representative.
A. 4	**Bala's Capital A/c**
Q 5	Pranav, Karan and Raghu were partners in a firm sharing profits and losses in the ratio 2:2:1. On 31 March 2022 their balance sheet was as follows:

Bala's Capital A/c

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Drawings	5,000	Balance b/d	40,000
Bala's Executor's A/c	38,600	Interest on Capital	600
		Profit & Loss Suspense A/c	3,000
	43,600		43,600

Q 5 Pranav, Karan and Raghu were partners in a firm sharing profits and losses in the ratio 2:2:1. On 31 March 2022 their balance sheet was as follows:

LIABILITIES	**AMOUNT (₹)**	**ASSETS**	**AMOUNT (₹)**
Creditors	3,00,000	Fixed Assets	4,50,000
General Reserve	1,50,000	Stock	1,50,000
Capitals:		Debtors	2,00,000
Pranav 2,00,000		Bank	1,50,000
Karan 2,00,000			
Raghu 1,00,000	5,00,000		
	9,50,000		**9,50,000**

Karan died on 12.06.2022. 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.

Share of Goodwill. Goodwill of the firm on karan's death was valued at ₹ 60,000.

iii) Share in the profit of the firm till date of his death, calculated on the basis of last year's profit. The profit of the firm for the year ended 31.03.2022 was Rs 5,00,000. Prepare Karan's capital account to be presented to his representatives.

A. 5

Karan's Capital Account

Particulars	Amount ₹	Particulars	Amount ₹
To Karan's executor A/c	3,28,800	By balance b/d	2,00,000
		By general reserve/c	60,000
		By int. on capital A/c	4,800
		By P&L suspense A/c	40,000
		By Pranav's capital A/c	16,000
		By Raghu's capital A/c	8,000
	3,28,800		**3,28,800**

LONG ANSWER TYPE OF QUESTIONS (SIX / EIGHT MARKS)

Q 1 X and Y are in partnership sharing profits and losses in the ratio of 3:2. They insure their lives jointly for ₹ 75,000 at an annual premium of ₹ 3,500 to be debited to the business. Y died three months after the date of the last Balance Sheet (prepared on 31.03.2022). According to the Partnership Deed, Y's representative is entitled to the following payments:

d) His capital as per the last Balance Sheet.
e) Interest on above capital @ 6% p.a. till the date of death.
f) His share of insurance money.
g) His share of profits till the date of death calculated on the basis of last year's profits.

His drawings are to bear interest at an average rate of 2% on the amount irrespective of period.

Y's capital as per the last Balance Sheet was ₹ 40,000 and his drawings till the date of death were ₹ 5,000. The last year's profits were ₹ 30,000 Draw Y's Account to be rendered to his legal representative. The representative is paid ₹ 8,500 immediately and the balance is payable in two equal instalments carrying interest @ 12% p.a.

	Prepare Y's Capital A/c as on 30.06.2022.
A. 1	**Y's Capital A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
Drawings	5,000	Balance b/d	40,000
Interest on Drawings	100	Interest on Capital	600
Y's Executor's A/c	68,500	Joint Life Policy	30,000
		Profit & Loss	3,000
		Suspense A/c	
	73,600		**73,600**

Q 2 A, B and C sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2022 was as under:

Liabilities	Amount (₹)	Assets		Amount (₹)
Sundry Creditors	60,000	Cash in hand		36,000
Bills Payable	32,000	Debtors	50,000	
Reserves	24,000	Less: Pro. B. debts	7,000	43,000
Capital A/c's:		Stock		36,000
A : 80,000		Furniture		60,000
B : 80,000		Machinery		1,40,000
C : 60,000	2,20,000	Goodwill		21,000
	3,36,000			**3,36,000**

B retires from partnership on 1st April, 2022 on the following terms:

a) Outstanding claim for damages of ₹ 2,200 is to be provided.

b) Goodwill of the firm is valued at ₹ 45,000. It is not to appear in books.

c) Creditors be reduced by ₹ 12,000

d) A provision for debts is raised by ₹ 2,000.

Prepare Revaluation and Capital Accounts of Partners.

A. 2

Revaluation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for Debts	2,000	By Creditors	12,000
To Outstanding Claim	2,200		
To Capital A/c (profit)			
A : 3,900			
B : 2,600			
C : 1,300	7,800		
	12,000		12,000

Partner's Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To Goodwill	10,500	7,000	3,500	By Bal. b/d	80,000	80,000	60,000
To B's capital	11,250	----	3,750	By Rev. a/c	3,900	2,600	1,300
To B's Loan A/c	----	98,600	----	By Reserves	12,000	8,000	4,000
				By A's Capital	---	11,250	----
To Bal. c/d	74,150	----	58,050	By C's Capital	----	3,750	----
	95,900	1,05,600	65,300		95,900	1,05,600	65,300

Q 3 X, Y and Z were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March 2022 their Balance sheet was as follows:

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	21,000	Land and Building	62,000
Investment fluctuation Fund		Motor VA.	20,000
Profit and Loss a\c	10,000	Investments	19,000

Capitals;	40,000	Machinery	12,000
X	50,000	Stock	15,000
Y	40,000	Debtors 40,000	
Z	20,000	Less: Provision 3,000	37,000
		Cash	16,000
	1,81,000		1,81,000

On the above date, Y retired, X and Z agreed to continue the business on the following terms:

i) Goodwill of the firm was valued at ₹ 51,000.

ii) There was a claim of ₹ 4,000 for workmen's compensation.

iii) Provision for bad debts was to be reduced by ₹ 1,000.

iv) Y will be paid ₹ 8,200 in cash and the balance will be transferred in his loan account.

v) The new profit-sharing ratio between X and Z will be 3:2 and their capitals will be their new profit-sharing ratio. The capital adjustments will be done by opening current accounts.

Prepare Revaluation Account, Partners capitals Account and Balance Sheet of the reconstituted Firm.

A. 3

Revaluation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Claim for Workmen Compensation A\c	4,000	By Provision for Bad Debts A\c	1,000
		By Partner's Capital A/c (transfer of loss) X 1,000 Y 1,000 Z 1,000	3,000
	4,000		4,000

Partner's Capital Accounts

Dr. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Rev. A\c (Loss)	1,500	900	600	By Balance B\d	50,000	40,000	20,000
To Y's Capital A\c	5,100	-	10,200	By investment fluctuation fund	5,000	3,000	2,000
To Cash A\c	-	8,200	-	By profit and loss A\c	20,000	12,000	8,000
To Y's Loan A\c	-	61,200	-	By X's Capital	-	51,00	-
To X's Current A\c	15,840	-	-	By Z's Capital	-	10,200	-
				By Z's Current	-	-	15,840
To Balance C\d	52,560	-	35,040				
	75,000	**70,300**	**45,040**		**75,000**	**70,300**	**45,840**

Balance Sheet of Reconstituted Firm

As at 31st March 2022

Liabilities		Amount ₹	Assets		Amount ₹
Partner's Capital			Land & Building		62,000
X	52,560		Motor Van		20,000
Z	35,040	87,600	Investments		19,000
X's Current A\c		15,840	Machinery		12,000
Y's loan		61,200	Stock		15,000
Creditors		21,000	Debtors	40,000	
Claim for workmen			Less: Provision	2,000	38,000
Compensation		4,000	Cash		7,800
			Z's Current A\c		20,000
		1,89,640			**1,89,640**

Q 4 Bhavin, Ankit and Kartik were equal partners. Their Balance Sheet as at 31st March 2022 was:

	BALANCE SHEET as at 31st March, 2022

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Creditors		60,000	Cash		18,000
Reserve		30,000	Stock		20,000
Profit and Loss A/c		6,000	Furniture		28,000
Capital A/c:			Debtors	45,000	
Bhavin	60,000		Less: Provision for		
Ankit	40,000		Bad debts	5,000	40,000
Kartik	30,000	1,30,000	Land & Building		1,20,000
		2,26,000			**2,26,000**

Ankit retired on 1st April, 2022. Bhavin and Kartik decided to continue the business as equal partners on the following terms:

a) Goodwill of the firm was valued at ₹ 30,000.

b) The Provision for Bad Doubtful debts to be maintained @ 10 % on Debtors.

c) Land and Buildings to be increased to ₹ 1,42,000.

d) Furniture to be reduced by ₹ 6,000.

e) Rent outstanding (not provided for as yet) was ₹ 1,500.

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

A. 4

Revaluation A/c

Particulars		Amount (₹)	Particulars	Amount (₹)
Furniture		6,000	Land & Building	22,000
Rent Outstanding		1,500	Provision for bad debts	500
Capital A/c (profit)				
Bhavin	5,000			
Ankit	5,000			
Kartik	5,000	15,000		
		22,500		**22,500**

Partner's Capital A/c

Particulars	Bhavin	Ankit	Kartik	Particulars	Bhavin	Ankit	Kartik
Ankit's Cap. A/c				Balance b/d	60,000	40,000	30,000
Ankit's Loan A/c	5,000	----	5,000	Reserve	10,000	10,000	10,000
Balance c/d				Profit & Loss A/c			
	----	67,000	----	Revaluation A/c	2,000	2,000	2,000
	72,000	----	42,000	Bhavin's Cap.	5,000	5,000	5,000
				Kartik's Cap. A/c	----	5,000	----
					----	5,000	----
	77,000	**67,000**	**47,000**		**77,000**	**67,000**	**47,000**

Balance Sheet of Bhavin and Kartik

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	60,000	Cash	18,000
Rent Outstanding	1,500	Stock	20,000
Ankit's Loan A/c	67,000	Furniture	22,000
Capital A/c:		Debtors	40,500
Bhavin	72,000	Land and Building	1,42,000
Kartik	42,000		
	2,42,500		**2,42,500**

Q 5 M, N and O were partners sharing profit and losses in the ratio of 1:1:1. Their Balance Sheet as at 31st March 2022 was:

BALANCE SHEET as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital A/c's:		Bank	38,000
M 70,000		Machinery	26,000

N 40,000		Furniture	28,000
O 40,000	1,50,000	Debtors 45,000	
Bills Payable	15,000	Less: Pro. for B. D. 5,000	40,000
Creditors	45,000	Building	1,20,000
General Reserve	33,000		
Profit and Loss A/c	9,000		
	2,52,000		**2,52,000**

N retired on 1st April, 2022. M and O decided to continue the partnership business on the following terms:

a) Goodwill of the firm was valued at ₹ 60,000.
b) The Provision for Bad Doubtful debts to be maintained @ 10 % on Debtors.
c) Buildings to be increased to ₹ 1,42,000.
d) Furniture to be reduced by ₹ 6,000.
e) Rent outstanding ₹ 1,500 was to be recorded.
f) The new profit-sharing ratio between M and O will be 1:1
g) Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet.

A. 5

Revaluation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Furniture A/c	6,000	By Building A/c	22,000
To Rent Outstanding	1,500	By Provision for bad debts	
Capital A/c's (profit)			500
M 5,000			
N 5,000			
O 5,000	15,000		
	22,500		22,500

Partner's Capital A/c

Particulars	M	N	O	Particulars	M	N	O
To N's cap.	10,000		10,000	By Balance b/d	70,000	40,000	40,000
To N's Loan A/c		79,000		By Gen. Res.	11,000	11,000	11,000
To Balance c/d	79,000		49,000	By M's Cap.	----	10,000	----
				By O's Cap.	----	10,000	----
				By Profit & Loss	3,000	3,000	3,000
				By Rev. A/c	5,000	5,000	5,000
	89,000	79,000	59,000		89,000	79,000	59,000

Balance Sheet of M and O

Liabilities	**₹**	**Assets**	**₹**
Bills Payable	15,000	Bank	38,000
Creditors	45,000	Machinery	26,000
Rent Outstanding	1,500	Furniture	22,000
N's Loan A/c	79,000	Debtors	40,500
Capital A/c:		Building	1,42,000
M	79,000		
O	49,000		
	2,68,500		**2,68,500**

Q 6 A, B and C are partners in a firm sharing profits and losses in the ratio of 2:2:3. On 31-3-2022, their Balance Sheet was as follows:

Balance Sheet as at 31-03-2022

Liabilities	Amount ₹	Assets	Amount ₹
Trade Creditors	1,60,000	Land and Building	10,00,000
Bank overdraft	44,000	Machinery	5,00,000
Long term debts	4,00,000	Furniture	7,00,000

Employees Provident Fund	76,000	Investment	2,00,000
Capitals		Closing Stock	8,00,000
A	12,50,000	Sundry Debtors	4,00,000
B	8,00,000	Bank	80,000
C	10,50,000	Deferred Revenue Expenditure	1,00,000
	37,80,000		**37,80,000**

On 31-3-2022, B retired from the firm and the remaining partners decided to carry on the business. It was decided to revalue assets and liabilities as under:

i) Land and building be appreciated by ₹ 2,40,000 and Machinery be depreciated by 10%

ii) 50% investments were taken over by the retiring partner at book value

iii) An old customer, Mansi whose account was written off as bad had promised to pay ₹ 7,000 in full settlement of a debt of ₹ 10,000

iv) Provision for doubtful debts was to be made @ 5%

v) Market price of closing stock was found ₹ 1,00,000 less than its book value

vi) Goodwill of the firm is valued at ₹ 5,60,000 and B share of goodwill be adjusted through capital accounts of continuing partners who agree to share in 3:2 in future.

vii) The total capital of the firm be fixed at ₹ 32,00,000 which is to be contributed by the continuing partners in their profit-sharing ratio.

viii) Amount due to B was settled by accepting a bill of exchange in her favour payable after 4 months.

Pass necessary journal entries.

A. 6

JOURNAL ENTRIES

Date	**PARTICULARS**	**L.F**	**Amount Dr. (₹)**	**Amount Cr. (₹)**
	A's capital a/s Dr. B's capital a/c Dr.		28,571 28,571	

		C's capital a/c Dr. To Def. Revenue exp. a/c (being written off differed revenue expenditure between partner's)		42,858	 1,00,000
		Revaluation a/c Dr. To Machinery a/c To closing stock a/c To PFDD a/c (being decrease in asset and increase in value of liabilities recorded)		1,70,000	 50,000 1,00,000 20,000
		Land and building a/c Dr. To Revaluation a/c (being increase value of asset recorded)		2,40,00	 2,40,000
		Profit on Revaluation a/c Dr. To A's Capital a/c To B's Capital a/c To C's Capital a/c (being gain trA.fer to capital a/c)		70,000	 20,000 20,000 30,000
		A's capital a/c Dr. To B's capital a/c To C's capital a/c (being B's share of goodwill adjusted)		1,76,000	 1,60,000 16,000
		P's capital a/c Dr. To investment a/c (being 50% investment taken by retiring partner)		1,00,000	 1,00,000
		Bank a/c Dr. To A's capital a/c To C's capital a/c (being amount brought by partner A and C)			 854571 226858
		B's capital a/c Dr.		851429	

		To Bills payable a/c (being accepting a bills of exchange)			851429

Q 7 P, Q and R were partners sharing profits in 3:2:1 on 1 April,2022, Q retired. On that date Balance Sheet was as follows

Liabilities	₹	Assets	₹
General Reserve	12,000	Plant	60,000
Expenses Owing	4,000	Patents	6,000
Bills Payable	10,000	Debtors	19,000
Creditors	20,000	Stock	22,000
Capital A/cs:		Cash	1,000
P 24,000			
Q 20,000			
R 18,000	62000		
	1,08,000		**1,08,000**

The terms were:

Goodwill of the firm be valued at ₹ 24,000 and Q's share of goodwill be adjusted in the accounts of P and R share the profits and losses in the ratio of 3:2

Expenses owing are to be brought down to ₹ 3,000; Plant is to be valued at 10% less and Patents at ₹ 8,000.

The total capital of the new firm will be fixed at ₹ 50,000 to be contributed by partners in profit sharing ratio.

Prepare Revaluation Account and partners' Capital accounts to record the above and prepare Balance sheet after Q's retirement.

A. 7

REVALUATION A/C

Particulars	₹	Particulars	₹
To Plant A/c	6,000	By Patents A/c	2,000
		By expenses owing A/c:	1,000
		By Partners' Capital A/C	
		P 1,500	
		Q 1,000	
		R 500	3,000
	6000		**6,000**

Dr. Partner's capital A/C Cr

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Rev. A/c	1,500	1,000	500	By balance b/d	24000	20000	18,000
To Q's Capital A/c				By General Reserve			
To Q's loan a/c	6000		2000		6000	4000	2,000
To Balance C/d						6,000	
		31,000		By P Capita		2,000	
				By R Capita	3900		6,100
	30,000		20,000	By Cash			
	33,900	32,000	26,100		33,900	32,000	26,100

Balance sheet as an April 1, 2022

Liabilities	₹	Assets	₹
Expenses Owing	3,000	Plant	54,000
Bills Payable	10,000	Patents	8,000

Creditors	20,000	Debtors	19,000
Q's Loan	31,000	Stock	22,000
Capitals:		Cash	11,000
P 30,000			
R 20,000	50,000		
	1,14,000		1,14000

Q 8 Ajay, Vijay and Sanjay were partners in a firm sharing profits in the ratio of 5:3:2. Their Balance Sheet on March 31, 2022 was as follows:

Balance Sheet of Ajay, Vijay and Sanjay As at March 31,2022

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	70,000	Bank	44,000
Capitals: Ajay - 90,000		Debtors Stock	24,000 60,000
Vijay - 56,000		Buildings	1,40,000
Sanjay - 60,000	2,06,000	Profit &Loss A/C	8,000
	2,76,000		**2,76,000**

On April 1,2022 Vijay 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 Rs 4,800

(iv) Goodwill of the firm was valued at Rs 1,40,000.

Vijay was to be paid Rs 20,800 through cheque and the balance was to be paid in two equals quarterly installments (starting from June 30,2022) along with interest @10%p.a.

Prepare Revaluation Account, Vijay's Capital Account and his Loan Account till it is finally closed.

A. 8

REVALUATION A/C

Particulars	Amount ₹	Particulars	Amount ₹
To Buildings	10,000	By Revaluation loss Ajay - 8,000, Vijay - 4,800 Sanjay -3,200	16,000
To PFDD	1,200		
To Salary O/S	4,800		
	16,000		**16,000**

Capital Ac of Vijay

Particulars	Amount ₹	Particulars	Amount ₹
To Rev. Ac (loss)	4,800	By Bal. b/d	56,000
To P & Loss A/C	2,400		
To cash A/C	20,800	By Ajay's Capital A/C	30,000
To Vijay's Loan A/C	70,000	By Sanja's Capital A/C	12,000
	98,000		**98,000**

Vijay's Loan A/C

	Particulars	Amount		Particulars	Amount
30-6-2022	To cash A/C (35,000+1750)	36,750	1-04-2019	By Capital A/c	70,000
30-9-2022	To Cash A/c (35,000+875)	35,875	30-6-2019	By Interest on loan A/C	1,750
			30-9-2019	By Interest on loan A/C	875
		72,625			72,625

	Ch. Dissolution of Partnership firm
Note	*As per curriculum issued by CBSE for the year 2022-23, if realisable value of tangible assets are not given then it treated as realised with book value.*
Q	**TYPE OF QUESTIONS (1 MARK) MCQ, OTQ COMPETENCY BASED, SOURCE BASED**
1.	Realization account is opened when: (a) All the assets of the firm are realised (b) All the liabilities are paid (c) Both (a) & (b) (d) None of these
Ans.	(c)Both (a) & (b)
2.	Which of the following section of Indian Partnership Act, 1932 deals with the settlement of accounts when the firm is dissolved? (a) Section 44 (b) Section 48 (c) Section 46 (d) Section 41(a)
Ans	(a) Section 48
3.	Economic relationship among/between partners end at the time of: (a) Admission of a partner/partners (b) Death of a partner/partners (c) Retirement of a partner (d) Dissolution of partnership firm
Ans	(D)Dissolution of partnership firm
4.	A and B are partners sharing profits equally. The firm is going to be dissolved. At that time Mrs A has given loan of ₹ 50,000 to the firm @6% interest and simultaneously A has also given loan of ₹ 1,00,000. The assets realized ₹ 10,00,000. Who will be paid first? (a) Partner A (b) Partner B

	(c) Mrs. A (d) Partner A and Partner b in their profit-sharing ratio
Ans	(c) Mrs. A
5	On the basis of the following data, how much final payment will be made to a partner on firm's dissolution? Credit balance of capital account of a partner was ₹ 1,00,000; share of loss of realization amounted to ₹ 20,000 firm's liability taken over by him was for ₹ 16,000 (a) ₹ 64,000 (b) ₹ 96,000 (c) ₹ 80,000 (d) ₹ 1,04,000
Ans.	(b) ₹ 96,000
6.	On the dissolution of the firm _______ will be debited to realization Account. (a) Realisation expenses paid by the partner (b) Balance of reserve fund (c) Amount of unrecorded assets (d) Amount of unrecorded liabilities
Ans	(a) Realisation expenses paid by the partner
7.	The term Number of years purchase means: (a) The number of years during which the purchaser of Goodwill expects that the profit due to goodwill are likely to arise in the future. (b) Number of years in which goodwill is purchased (c) Number of years for which goodwill purchased will not help the firm in earning similar profits. (d) None of these
Ans.	(a) The number of years during which the purchaser of Goodwill expects that the profit due to goodwill are likely to arise in the future
8.	When weighted average profit method for calculation of goodwill is useful?
Ans	When profit shows trends either rising or falling

	SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)
Q. 1	Distinguish between Realisation account and Revaluation account

ANS

Realisation Account	Revaluation Account
a) It is prepared in the case of Dissolution of Partnership firm.	a) It is prepared in the case of Dissolution of Partnership.
b) This account is prepared to realise the assets & pay off the liabilities.	b) This Account is prepared to revalue the assets and liabilities during Admission, Retirement and Death of the partner.

	SHORT ANSWER TYPE OF QUESTIONS (FOUR MARKS)
Q. 1	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 (1) Stock of ₹ 2,00,000. P took over 50%of stock at a discount of 10%. Remaining stock was sold at profit of 25%on cost. (2) Land and building (book value. ₹ 12,50,000) sold for ₹ 15,00,000 (3) Realisation expenses ₹5,000 paid by the firm on behalf of partner Q

ANS 1

date	particular	Dr. amt ₹	Cr. amt ₹
1.	P's capital A/c… Dr. To realization A/c Cash A/c … Dr To realization A/c (stock was realised and half taken over by the partner)	90,000 1,25,000	 90,000 1,25,000
2.	Bank A/c .. Dr. To Realisation A/c (asset sold)	15,00,000	 15,00,000
3.	Q's capital A/c Dr To. Cash A/c	5,000	 15,000

			(realization expenses paid by the firm)		

2.	State the provisions of Section 48 of the Partnership Act 1932 regarding settlement of Accounts during the Dissolution of Partnership firm.
Ans	According to section 48— a) Losses including the deficiencies of Capitals are to be paid--- i) First out of profits ii) Next out of Capitals of the partners iii) Lastly if required, by the partners individually in their profit sharing ratio(as their liability is unlimited) b) The Assets of the firm and the amount contributed by the partners to make up the deficiency of capital shall be applied for – i) First to pay the debts of the firm to the third parties. ii) Next, Partners Loan(Partner has advanced to the firm) iii) Partners capitals iv) The residue, if any shall be distributed among the partners in their profit sharing ratio.
3.	A and B are partners sharing profits equally. They admit C into partnership for equal share. Goodwill was agreed to be valued at two years" purchase of average profit of last four years Profits for the last four years were: 31/3/2019 ₹ 70,000 31/3/2020 ₹ 1,00,000 31/3/2021 ₹ 55,000 (loss) 31/3/2022 ₹ 1,44,000 The books of account of the firm revealed as follows The firm had abnormal gain of ₹ 20,000 during the year ended on 31/3/2019 and

abnormal loss of ₹ 40,000 during the year ended 31/3/2020

Calculate the value of goodwill.

Ans Calculation of normal profit:

year	Profit/losss	Adjustments	Normal profit
31/3/2019	70,000	(20,000)	50,000
31/3/2020	1,00,000	40,000	1,40,000
31/3/2021	(55,000)	---	(55,000)
31/3/2022	1,44,000	---	1,44,000
Total normal profit			1,79,000

Average profit = $\frac{\text{profit total normal}}{\text{NO. of years}}$

1,79,000/4=44,7500

Goodwill = normal profit x no. of years purchased= 44,500*2= 89,000

4. What Journal Entries Would be passed for the following transactions on the dissolution of a firm, after various assets (other than cash) and third parties' liabilities have been transferred to Realisation Account?

(i) A took over the Stock worth ₹ 80,000.
(ii) Firm paid ₹ 40,000 as Compensation Employees.
(iii) Sundry Creditors amounted to ₹ 36,000 which was settled at a discount of 15%.
(iv) There was an Unrecorded Bike of ₹ 40,000 which was taken over by B at ₹ 30,000.
(v) Bills payable ₹ 5,000.
(vi) Profit on Realisation of ₹ 42,000 was to be distributed between A and B in the the ratio of4:3.

Ans . JOURNAL

Date	Particulars	L.F.	Debit	Credit
	Case (i) A's Capital A/c Dr. To Realisation A/c (Being stock taken over by A)		80,000	80,000
	Case(ii) Realisation A/c Dr. To Bank A/c (Being compensation paid to employees)		40,000	40,000
	Case (iii)			

	Realisation A/c Dr. To Bank a/c (Being creditors paid at a discount of 15%)		30,600	30,600
	Case (iv) B's Capital A/c Dr To Realisation A/c. (Being undercoded assets taken over by B)		30,000	30,000
	Case (v) Realisation A/c Dr To Cash A/c (Being Bills payable paid)		5,000	5,000
	Case (vi) Realisation A/c Dr To A's Capital A/c To B's Capital A/c		42,000	24,000 18,000

Long type of Q. tion and answers 6/8 marks

1. A and B are partners 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
e) Loan of ₹ 15000 advanced by A to the firm was paid off.
f) Bank loan of ₹ 12000 was paid off.

Ans

JOURNAL

SN	Particulars	LF	Debit (₹)	Credit (₹)
a)	Realisation account –Dr A's Capital account (Being commission given to A)		4000	4000
b)	A's Capital account –Dr B's Capital account –Dr		14000 14000	

		Advertisement Suspense account (Being Advertisement suspense written off)			28000
	c)	Realisation account –Dr Cash account (Being creditors paid off)		13000	13000
	d)	B's Capital account –Dr Realisation account (Being asset taken over by the partner)		4900	4900
	e)	A's Loan account –Dr Cash account (Being partners loan paid off)		15000	15000
	f)	Realisation account -- Dr Cash account (Being Bank loan paid off)		12000	12000

2. Following is the Balance sheet of X and Y who share profits in the ratio of 4:1 as on 31st march 2010

Balance sheet

Liabilities	₹	Assets	₹
Sundry Creditors	8,000	Bank	20,000
Bank overdraft	6,000	Debtors 17,000 Less provision 2000	15,000
X's Brother's loan	8,000	Stock	15,000
Y's Loan	3,000	Investments	25,000
Investment Fluctuation fund	5,000	Building	25,000
Capitals- X-50,000 y-40,000	90,000	Goodwill	10,000
		Profit and Loss a/c	10,000

	1,20,000		1,20,000

The firm was dissolved on the above date and the following was decided—

a) X agreed to pay off his brother's loan
b) Debtors of ₹ 5000 proved bad.
c) Other assets realized as follows—Investments 20% less, and Goodwill at 60%.
d) One of the creditors for ₹ 5000 was paid only ₹ 3000.
e) Building was auctioned for ₹ 30,000 and the auctioneer's commission amounted to ₹ 1000.
f) Y took over part of the stock at ₹ 4000(being 20% less than the book value) Balance stock realized 50%
g) Realisation expenses amounted to ₹ 2000.

Prepare Realisation account, Partners capital accounts and Bank account.

Ans

Realisation account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Sundry Assets Debtors 17,000 Stock 15,000 Investments 25,000 Building 25,000 Goodwill 10,000	92,000	By Sundry Liabilities Creditors – 8000 Bank overdraft - 6000 X's Brothers loan- 8000 Investment Fluctuation fund 5,000 Provision for doubtful debts 2000	29000
To X's Capital (Brothers loan)	8000	By Bank a/c (Assets realized)	72,000

To Bank (Liabilities paid off) Creditors- 6000 Bank overdraft 6000	12000	By Y's Capital(stock) By Loss transferred to capitals X- 7200 Y- 1800	4000 9000
To Bank(Realisation expenses)	2000		
	1,14000		**1,14,000**

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To Profit & Loss a/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation a/c	-	4,000	By Realisation a/c	8,000	-
To Realisation a/c(loss)	7,200	1,800			
To Bank a/c	42,800	32,200			
	58,000	**40,000**		**58,000**	**40,000**

Bank account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	20,000	By Y's loan a/c	3,000
To Realisation a/c (assets realized)	72,000	By Realisation a/c (liabilities paid off)	12,000
		By Realisation a/c (expenses)	2,000
		By X's Capital a/c	42,800
		By Y's capital a/c	32,200
	92,000		**92,000**

3. Anun, Anupama and Vanraj were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31-3-2022 their balance sheet was as follows:

BALANCE SHEET

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	50,000	Cash	60,000
Bank loan	35,000	Debtors	75,000
Provident fund	15,000	Stock	40,000
Investment fluctuation fund	10,000	Investment	20,000
Commission received in advance	8,000	Plant	50,000
Capitals:		Profit and loss a/c	3,000
Anuj	50,000		
Anuapama	50,000		
Vanraj	30,000		
	2,48,000		**2,48,000**

On this date the firm was dissolved.

1. Anuj was appointed to realize the assets. Anuj was to receive a commission on the sale of assets (except cash) and was to bear all expenses of realization. Anuj realized the assets as follows:

Debtors: ₹ 60,000, Stock: ₹ 35,500, Investments: ₹ 16,000, Plant-90% of the book value.

2. Expenses of realization amounted to ₹ 7,500, commission received in advance was returned to the customers after deducting ₹ 3,000.

Firm had to pay ₹ 8,500 for outstanding alary not provided for, earlier.

3. Compensation paid to employees amounted to ₹ 17,000. This liability was not provided for in the above balance sheet.
4. ₹ 20,000 had to be paid for provident fund.

Prepare Realization Account and Partners' Capital Account.

Ans

Realisation Account

Particulars	Amount ₹	Assets	Amount ₹
To Debtors	75,000	By Creditors	50,000
To Stock	40,000	By Bank loan	35,000
To Investment	20,000	By P.F.	15,000
To Plant	50,000	BY IFF	10,000
To Cash		By Adv Comm.	8,000
Creditors 50,000		By Cash	
Bank Loan 35,000		Debtors 60,,000	
Provident Fund 20,000		Stock 35,500	
Adv Comm. 5,000		Investment 16,000	
O.S. Salary 8,500		Plant 45,000	1,56,500
Compensation 17,000	1,35,500	By Loss trans. to cap	
To Anuj (Comm)	7,825	Anuj	21,530

156500*5%			
		Anupama	21,530
		Vanraj	10,765
	3,28,325		**3,28,325**

PARTNERS'' CAPITAL ACCOUNT

PART	Anuj	Anupama	Vanraj	PART	Anuj	Anupama	Vanraj
To P/L	1,200	1,200	600	By Bal	50,000	50,000	30,000
To real	21,530	21,530	10,765	By Real	7,825		
To Cash (real Exp)	7,500						
To cash	27,595	27,270	18,635				
	57,825	**50,000**	**30,000**		**57,825**	**50,000**	**30,000**

4. A , B and C are partners in a firm sharing profits in the ratio of 2:1:1. Their balance sheet as on 31st March 2022 was as follows:

liabilities	Amount ₹	Assets	Amount ₹
Creditors Capital accounts: A 1,60,000 B 1,60,000 C 1,20,000	1,00,000 4,40,000	Goodwill Land and building Plant and machinery Car Debtors Cash	60,000 1,60,000 1,12,000 1,08,000 96,000 4,000
	5,40,000		**5,40,000**

The firm was dissolved and the assets realized:

Goodwill ₹ 40,000
Land and Building ₹2,00,000
Plant and Machinery ₹1,00,000
Car ₹ 56,000
Debtors 50% of their book value
Realization expenses ₹ 4,000

Prepare realization account, partner's capital accounts and cash account

Ans

REALISATION ACCOUNT

Particular	Amount ₹	particular	Amount ₹
Sundry assets (transferred) Goodwill 60,000 Land and building 1,60,000 Plant and machinery 1,12,000 Car 1,08,000		By creditors By cash: (assets realized) Goodwill 40,000 Land and building 2,00,000 Plant and machinery 1,00,000	1,00,000

Debtors 96,000	5,36,000	Car 56,000 Debtors 48,000	4,44,000
Cash A/c (creditors paid)	1,00,000	Loss on realization:	
Cash A/c (realization expenses)	4,000	A's capital A/c 48,000 B's capital A/c 24,000 C's capital A/c 24,000	96,000
	6,40,000		**6,40,000**

Partners' capital Accounts

particulars	A	B	C	Particulars	A	B	C
Realization loss	48,000	24,000	24,000	Bal. b/d	1,60,000	1,60,000	1,20,000
Cash (final payment)	112,000	1,36,000	96,000				
	160,000	**1,60,000**	**1,20,000**		**1,60,000**	**1,60,000**	**1,20,000**

CASH ACCOUNT

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
Balance b/d	4,000	Realisaion A/c creditors paid	1,00,000
Realization a/c (assets realized)	4,44,000	Realisation A/c Expenses	4,000
		A's Capital A/c	1,12,000
		B's Capital A/c	1,36,000
		C's capital A/c	96,000
	4,48,000		**4,48,000**

5. following is the balance sheet of Virat and Yogi as on 31st March , 2022

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	3,60,000	Bank	80,000
Mrs. Virat's loan	60,000	Stock	70,000
Yogi's loan	1,00,000	Investments	1,00,000
Investment fluctuation fund	30,000	Debtors 2,00,000	
Capitals:		Less: prov. For doubtful debts 20,000	1,80,000
Virat			
Yogi	3,00,000	Fixed assets	3,80,000
		Profit and loss A/c	40,000
	8,50,000		**8,50,000**

The firm was dissolved on 31st March 2022. The assets were realized and the liabilities were paid as under:

1. Virat promised to pay off Mrs. Virat's loan and took away stock at 20% discount
2. Yogi took away 90% of the investments at 10% discount
3. Sunil, a debtor of ₹ 50,000 had to pay the amount due 3 months after the date of dissolution. He was allowed a discount of 5% for making payment immediately. The remaining debtors were collected in full.
4. Creditors were paid ₹ 3,50,000 in full settlement of their claim.
5. Fixed assets realized ₹ 2,82,000 and remaining investment realized ₹ 7,500
6. There was an old furniture which has been written off completely from the books. Yogi took away the same for ₹ 4,000
7. Realization expenses ₹ 2,000 were paid by Virat.

   Prepare Realisation Account, bank account and partners' capital accounts

Ans

REALISATION ACCOUNT

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
Sundry assets (transfer)		By Liabilities (transferred)	
Stock 70,000		Provision for D,D 20,000	
Investments 1,00,000		Investment F fund 30,000	
Debtors 2,00,000		Creditors 3,60,000	
Fixed assets 3,80,000	7,50,000	M₹ Virat's loan 60,000	4,70,000
Virat's cap. A/c (Mrs. Virat's loan)	60,000	Virat's capital A/c(stock)	56,000
		Yogi's capital A/c (investments)	81,000
Bank A/c (creditors)	3,50,000	Bank A/c (assets realised)	
Virat's Cap. A/c (Realisation expenses)	2,000	Debtors 1,97,500	
		Fixed assets 2,82,000	
		Investments (remaining) - 7,500	4,87,000
		Yogi's cap. A/c(old furniture)	4,000
		Realisation loss	
		Virat's Cap A/c	
		Yogi's Cap. A/c	64,000
	11,62,000		**11,62,000**

PARTNERS CAPITAL ACCOUNTS

Particular	Virat	Yogi	Particualr	Virat	Yogi
To realisation A/c	32,000	32,000	Bal b/d	2,00,000	1,00,000
To profit & loss A/c	20,000	20,000	Realisation a/c	2,000	- - - -
To Realisation A/c	56,000	81,000	realisation a/c	60,000	- - - -
To ralisation A/c		4,000	Bank a/c (cash brought in)	- - - -	37,000
To bank A/c (final payment)	1,54,000				

	1,37,000	**1,37,000**		**1,37,000**	**1,37,000**

BANK ACCOUNT

PARTICULAR	AMT	PARTICULAR	AMT
To bal. B/d	80,000	Realisation A/c	3,50,000
To Realisation a/c	4,87,000	Yogi's loan A/c	1,00,000
Yogi's cap. A/c (cash brought in)	37,000	Virat's capital a/c (final payment)	1,54,000
	6,04,000		**6,04,000**

	Ch. Accounting for Share Capital
Q.	**TYPE OF QUESTIONS (1 MARK) MCQ, OTQ COMPETENCY BASED, SOURCE BASED**
Q1	Mohit Ltd purchase 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 ₹_______.
A 1	2,40,000
Q 2	Arun ltd. forfeited 200 equity shares of ₹ 10 each on which ₹ 6 was paid (including ₹ 1 premium). On reissue, the company can allow ₹______as discount.
A 2	5 each
Q 3	A company issued 10,000 shares 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. After utilization for allotment and final call. The Bank A/c will be credited with ₹_______
A3	1,00,000
Q 4	Mahek Ltd. Forfeited 400 share of ₹ 10each and ₹ 7 called up for non- payment of first call of ₹ 2 per share. Out of these, 300 shares were reissued for ₹ 6 per share as ₹ 7 paid up. ₹ _______will be transferred to Capital Reserve Account.
A 4	1,200
Q 5	Maximum amount of discount allowed at the time of reissue of forfeited shares should not exceed the forfeited amount.
A 5	True
Q6	Reserve capital A/c is the account where excess amount of forfeited shares is transferred.
A6	False
Q 7	Capital Reserve is a part of authorised capital of a company
A7	False
Q 8	Reserve capital is the capital which will be called up by the company only at the event of winding up of the company.
A 8	True

Q 9	As per Section 52 of Companies Act 2013, Securities Premium Reserve cannot be utilised for: (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.
A 9	(A) Writing off capital losses.
Q 10	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.
A 10	(B) Second & final call ₹ 4.
Q11	Varun Ltd, issued a prospectus inviting applications for 2,000 shares. Applications were received for 3,000 shares and pro- rata allotment was made to the applicants of 2,400 shares. If Dhruv has been allotted 40 shares, how many shares he must have applied for? (A) 40 (B) 44 (C) 48 (D) 52
A.11	(C) 48
Q12	Sankalp Ltd offered 2,00,000 Equity Shares of ₹ 10 each, of these1 ,98,000 shares were subscribed. The amount was payable as ₹ 3 on application, ₹ 4 an allotment and balance on first call. If a shareholder holding 3,000 shares has defaulted on first call, what is the amount of money received on first call? (A) ₹ 9,000. (B) ₹ 5,85,000. (C) ₹ 5,91,000. (D) ₹ 6,09,000.
A 12	(B) ₹ 5,85,000.
	SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)
Q 1	Parmar Ltd. invited applications for 10,000 Equity Shares of ₹ 100 each issued at par. The amount was payable on application. The issue was oversubscribed by 2,000 shares and allotment was made on *pro rata* basis. Pass necessary Journal entries.

A 1	**In the books of Parmar Ltd.** **Journal**

Date	Particulars	L.F	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c (12,000 × 100) Dr		12,00,000	
	To Share Application and Allotment A/c (12,000 × 100)			12,00,000
	(Being application money received on 12,000 equity shares)			
	Share Application and Allotment A/c Dr		12,00,000	
	To Share Capital A/c (10,000 × 100)			10,00,000
	To Bank A/c (2,000 × 100)			2,00,000
	(Being share application and allotment money adjusted for 10,000 shares and balance money refunded)			

Note: *Since the entire amount is receivable on application so the excess money on 2,000 shares has been refunded and allotment is made on a pro-rata basis to 12,000 shareholders*

Q 2	Ashok Ltd made the first call of ₹ 2 per share on its 1,00,000 Equity Shares on 1st March, 2022. Kumar, a shareholder, holding 800 shares paid the second and final call amount along with the first call money. The second and final call amount was ₹ 3 per share. Pass necessary journal entries for recording the above using the Calls-in Advance Account.
A 2	**Books of Ashok Ltd.** **Journal**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
2022	Equity Share First Call A/c Dr.		2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Shares first call due on 1,00,000 shares at Rs 2 per share)			
Mar 01	Bank A/c Dr.		2,02,400	
	To Equity Share First Call A/c			2,00,000

		To Call-In-Advance A/c (Share first call received with call-in-advance of 800 shares at Rs 3 per share)			2,400

Q 3 2,000 Equity Shares of ₹ 10 each were issued to Arjun Limited from whom assets of ₹ 25,000 were acquired. Pass Journal entry.

A 3

Journal

Date	**Particulars**	**L.F.**	**Debit Amount ₹**	**Credit Amount ₹**
	Assets A/c Dr. To Arjun Ltd. (Assets bought from X Ltd.)		25,000	 25,000
	Arjun Ltd. Dr. To Share Capital A/c To Securities Premium A/c (2,000 shares of Rs 10 each issued to X Ltd.)		25,000	 20,000 5,000

Q 4 Divya Ltd. issued 50,000 shares of ₹ 10 each as fully paid-up to the promoters for their services to set-up the company . It also issued 2,000 shares of ₹ 10 each credited as fully paid-up to the underwriters of shares for their services . Journalise these transactions.

A 4

Journal

Date	**Particulars**	**L.F.**	**Debit Amount (₹)**	**Credit Amount (₹)**
	Incorporation Expenses A/c Dr. To Share Capital A/c (Shares issued to Promoters)		5,00,000	 5,00,000
	Underwriting Commission A/c Dr.		20,000	

	To Underwriters' A/c (Underwriting commission due)			20,000
	Underwriters' A/c Dr. To Share Capital A/c (Shares issued to underwriters)		20,000	 20,000

Q 5 Mahek Ltd purchased furniture costing ₹ 2,20,000 from Krishna Ltd. The payment was to be made by issue of 9% Preference Shares of ₹ 100 each at a premium of ₹ 10 per share . Pass necessary Journal entries in the books of *Z* Ltd.

A 5

Books of Mahek Ltd.
Journal

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	Assets A/c Dr. To Krishna Ltd. (Assets purchased from Krishna Ltd.)		2,20,000	 2,20,000
	Krishna Ltd. Dr. To 9% Preference Share Capital To Securities Premium A/c (2,000 9% Preference Shares of Rs 100 each issued at 10% premium to Krishna Ltd.)		2,20,000	 2,00,000 20,000

SHORT ANSWER TYPE OF QUESTIONS (FOUR MARKS)

Q 1 Abhishek Ltd. is registered with capital of ₹ 50,00,000 divided into 50,000 equity shares of ₹ 100 each, The Company issued 25,000 equity shares for subscription. Subscription was received for 23,750 shares and all the due amount was duly received, except the first and final call of ₹ 20 per share on 600 shares. Show the 'Share Capital' in the Balance Sheet of the company.

A 1

In the books of Abhishek Ltd.
An Extract of Balance Sheet
As at ……….

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities Shareholders' Funds Share Capital	1	23,63,000

Notes to Accounts:

Note No.	Particulars		Amount (₹)
1.	**Share Capital**		
	Authorised Capital		
	50,000 equity shares of ₹ 100 each		50,00,000
	Issued Capital		
	25,000 shares of ₹ 100 each		25,00,000
	Subscribed Capital		
	23,750 shares of ₹ 100 each	23,75,000	
	Less: Calls-in-Arrears (600 × 20)	12,000	23,63,000
			23,63,000

Q 2 Rajan Ltd . purchased assets from Geeta & Co . for ₹ 5,00,000. A sum of ₹ 1,00,000 was paid by means of a bank draft and for the balance due Rajan Ltd. issued equity Shares of ₹ 10 each at a premium of 25%. Journalise the above transactions in the books of the company

A 2

Books of Rajan Limited
Journal

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	Assets A/c Dr. To Geeta & Co. (Assets purchased from Geeta & Co.)		5,00,000	 5,00,000
	Geeta & Co. Dr. To Bank A/c (Payment made to Geeta & Co.)		1,00,000	 1,00,000

		Geeta & Co. Dr. To Equity Share Capital A/c To Securities Premium A/c (32,000 equity shares of Rs 10 issued at 25% premium)		4,00,000	 3,20,000 80,000	

Q 3 Anjali Ltd. issued 30,000 fully paid-up shares of ₹ 100 each for purchase of the following assets and liabilities from Palak & Co:

Plant	₹ 7,00,000	Stock-in-Trade	₹ 9,00,000
Land and Building	₹ 12,00,000	Sundry Creditors	₹ 2,00,000

You are required to pass necessary Journal entries.

A 3

Books of Anjali Limited
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Goodwill A/c Dr. Plant A/c Dr. Stock-in-Trade A/c Dr. Land and Building Dr. To Sundry Creditors A/c To Palak & Co (Asset purchased and liabilities accepted from Palak & Co)		4,00,000 7,00,000 9,00,000 12,00,000	 2,00,000 30,00,000
	Palak & Co Dr. To Share Capital A/c (30,000 shares of Rs 100 each issued to Palak & Co.)		30,00,000	 30,00,000

Q 4 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.

A4	**Books of Meet Limited** **Journal**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	Equity Share Capital A/c (900×75) Dr.		67,500	
	To Share Forfeiture A/c			22,500
	To Calls-in-Arrears A/c			45,000
	(900 shares of Rs 100 each Rs 75 called-up, forfeited for the non-payment sum of allotment Rs 30 and first call Rs 20 per share)			
	Bank A/c Dr.		81,000	
	To Share Capital A/c			67,500
	To Securities Premium A/c			13,500
	(900 shares of Rs 100 each re-issued as Rs 75 paid-up for Rs 90 each)			
	Share Forfeiture A/c Dr.		22,500	
	To Capital Reserve A/c			22,500
	(Balance of Share Forfeiture Account after re-issue, transferred to Capital Reserve Account)			

Q 5 The Directors of Raj Ltd resolved on 1st May, 2022 that 2,000 Equity Shares of ₹ 10 each , ₹ 7.50 paid be forfeited for non-payment of final call of ₹ 2.50 . On 10th June, 2022, 1,800 of these shares were reissued for ₹ 6 per share . Give necessary Journal entries .

ANS 5

Books of Raj Limited
Journal

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
2022 May 01	Equity Share Capital A/c Dr.		20,000	
	To Share Forfeiture A/c			15,000
	To Call-in-Arrears A/c			5,000

	(2,000 shares of Rs 10 each forfeited for non-payment of final call Rs 2.5 per share)				
June 10	Bank A/c Dr.		10,800		
	Share Forfeiture A/c Dr.		7,200		
	To Share Capital A/c			18,000	
	(1,800 shares of Rs 10 each re-issued at Rs 6 per share fully paid-up)				
	Share Forfeiture A/c Dr.		6,300		
	To Capital Reserve A/c			6,300	
	(Balance in Shares Forfeiture Account of 1,800 re-issue, transferred to Capital Reserve Account)				

Working Notes:

Share Forfeiture	7.5	Cr.
Share Forfeiture	4	Dr.
Balance in Share Forfeiture Account after re-issue	3.5	Cr. *per share*

Capital Reserve = No. of Shares reissued × Balance in Share Forfeiture Account after reissue (*per share*)

= 1,800 × Rs 3.5 (*per share*)

= Rs 6,300

LONG ANSWER TYPE QUESTIONS (6 / 8MARKS)

Q 1 Record the journal entries for forfeiture and reissue of shares in the following cases:
(i) 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.
(ii) 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.

ANS 1

Journal

Date	Particulars		L.F.	Debit Amount ₹	Credit Amount ₹
(i)	Share Capital A/c (20 Shares × 7)	Dr.		140	
	To Share Forfeiture A/c (20 Shares × 5)				100
	To Calls-in- Arrears A/c (20 Shares × 2)				40
	(20 Shares of Rs 10 each, Rs 7 called-up forfeited for the non-payment of call)				
	Bank A/c (15 Shares × 8)	Dr.		120	
	To Share Capital A/c (15 Shares × 7)				105
	To Securities Premium A/c (15 Shares × 1)				15
	(15 shares were reissued as Rs 7 paid-up for Rs 8 per share)				
	Shares Forfeiture A/c (15 Shares × 5)	Dr.		75	
	To Capital Reserve A/c				75
	(Transfer of profit on re-issue of 15 shares)				
(ii)	Share Capital A/c (90 Shares × 8)	Dr.		720	
	Securities Premium A/c (90 Shares × 2)	Dr.		180	
	To Share Forfeiture A/c (90 Shares × 5)				450
	To Share Allotment A/c (90 Shares × 5)				450
	(Shares forfeited for non-payment of allotment)				
	Bank A/c (80 Shares × 10)	Dr.		800	
	To Share Capital A/c (80 Shares × 8)				640
	To Securities Premium A/c (80 Shares × 2)				160
	(80 shares were reissued for Rs 10, Rs 8 called-up)				

	Shares Forfeiture A/c (80 Shares × 5) Dr.		400	
	To Capital Reserve A/c			400
	(Transfer of profit on re-issue of 80 shares)			

Q2 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.

ANS 2

Authorised Capital 20,000 shares of ₹ 10 each

Issued Capital 2,000 shares

Applied 1,800 shares

Payable as:

Application	₹	3	(2+1)
Allotment	₹	4	(3+1)
First Call	₹	2	
Final Call	₹	3	
		12	(10+2)

Books of Vanraj Limited
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr.		5,400	
	To Share Application A/c			5,400
	(Application money received for 1,800 shares at Rs 3 per shares)			
	Share Application A/c Dr.		5,400	
	To Share Capital A/c			3,600
	To Securities Premium A/c			1,800

			(Application money of 1,800 share transferred to Share Capital at Rs 2 per share and Securities Premium Re 1 per share)				
			Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Share allotment due on 1,800 shares at Rs 4 per share including Re 1 securities premium)		7,200	 5,400 1,800	
			Bank A/c Dr. To Share Allotment A/c (Share Allotment money received)		7,200	 7,200	
			Share First Call A/c Dr. To Share Capital A/c (Share first call due on 1,800 shares at Rs 2 per shares)		3,600	 3,600	
			Bank A/c Dr. To Share First Call A/c (Share first call money received)		3,600	 3,600	
			Share Final Call A/c Dr. To Share Capital A/c (Share final call due on 1,800 shares at Rs 3 per share)		5,400	 5,400	
			Bank A/c Dr.		5,400		

	To Share Final Call A/c (Share final call money received)			5,400

As per the Schedule III of Companies Act, 2013, the Company's Balance Sheet is presented as follows.

Vanraj Limited
An extract of Balance Sheet

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities 1. Shareholders' Funds a. Share Capital	1	18,000

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (₹)
1	**Share Capital**	
	Authorised Share Capital	
	20,000 shares of Rs 10 each	2,00,000
	Issued Share Capital	
	2,000 shares of Rs 10 each	20,000
	Subscribed, Called-up and Paid-up Share Capital	
	1,800 shares of Rs 10 each	18,000

Q3 Ram Ltd. invited applications for 50,000 shares of ₹ 10 each payable ₹ 3 on application , ₹ 4 on allotment and balance on first and final call . Applications were received for 60,000 shares . Applications were accepted for 50,000 shares and remaining applications were rejected . All calls were made and received except First and Final call on 500 shares .

Pass the journal entries in the books of Ram Ltd .

A 3

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c (60,000××3) Dr.		1,80,000	
	To Share Application A/c			1,80,000
	(Received application money on 60,000 shares)			
	Share Application A/c Dr.		1,80,000	
	To Share Capital A/c (50,000××3)			1,50,000
	To Bank A/c (10,000××3)			30,000
	(Transfer of application money to Share Capital)			
	Share Allotment A/c (50,000××4) Dr.		2,00,000	
	To Share Capital A/c			2,00,000
	(Allotment due on 50,000 shares)			
	Bank A/c Dr.		2,00,000	
	To Share Allotment A/c			2,00,000
	(Allotment received)			
	Share First and Final Call A/c (50,000××3) Dr.		1,50,000	
	To Share Capital A/c			1,50,000
	(Call money due on 50,000 shares)			
	Bank A/c (49,500××3) Dr.		1,48,500	
	To Share First and Final Call A/c			1,48,500
	(Received call money on 49,500 shares)			

Q4 Mehul Limited , having an authorised capital of ₹10,00,000 divided into shares of ₹ 10 each , issued 50,000 shares at a premium of ₹ 3 per share payable as follows:

On Application	₹ 3 per share;
On Allotment (including premium)	₹ 5 per share;
On first call (due three months after allotment) and the	₹ 3 per share;

balance as when required.

Applications were received for 60,000 shares and the directors allotted the shares as follows:
(i) Applicants for 40,000 shares received in full.
(ii) Applicants for 15,000 shares received an allotment of 8,000 shares.
(iii) Applicants for 5,000 shares received 2,000 shares on allotment , excess money being returned.
All amounts due on allotment were received.
The first call was made and the money was received except on 100 shares.
Give journal and cash book entries to record these transactions of the company . Also prepare the Balance Sheet of the company.

A 4

Books of Mehul Limited

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Share Application A/c Dr.		1,80,000	
	To Share Capital A/c			1,50,000
	To Share Allotment A/c			30,000
	(Share Application money for 50,000 shares transferred To Share Capital Account and the excess money transferred To Share Allotment Account)			
	Share Allotment A/c Dr.		2,50,000	
	To Share Capital A/c			1,00,000
	To Share Premium A/c			1,50,000
	(Allotment money due on 50,000 shares @ Rs 5 per share including Rs 3 security premium)			
	Share First Call A/c Dr.		1,50,000	
	To Share Capital A/c			1,50,000
	(First call due on 50,000 shares @ Rs 3 per share)			

Cash Book (Bank Column)

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	Share Application		1,80,000				
	Share		2,20,000		Balance		5,49,700

	Allotment Share First Call		1,49,700		c/d		
			5,49,700				5,49,700

Mehul Limited
Balance Sheet

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	3,99,700
b. Reserves and Surplus	2	1,50,000
Total		5,49,700
II. Assets		
1. Non–Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	3	5,49,700
Total		5,49,700

NOTES TO ACCOUNTS

Note No.	**Particulars**		**Amount (₹)**
1	**Share Capital**		
	Authorised Share Capital		
	1,00,000 shares of Rs 10 each		10,00,000
	Issued Share Capital		
	50,000 shares of Rs 10 each		5,00,000
	Subscribed, Called up and Paid up Share Capital		
	50,000 shares of Rs 10 each, Rs 8 called–up	4,00,000	
	Less: Calls–in–Arrears	(300)	3,99,700
2	**Reserves and Surplus**		
	Securities Premium		1,50,000
3	**Cash and Cash Equivalents**		
	Cash at Bank		5,49,700

Q 5	Vandana Ltd. makes an issue of 10,000 Equity Shares of ₹ 100 each, payable as: On application and allotment ₹ 50 per share, On first call ₹ 25 per share, On second and final call ₹ 25 per share. Members holding 400 shares did not pay the second and final call and the shares are duly forfeited, 200 of which are reissued as fully paid-up @₹ 50 per share. Pass journal entries in the books of the company.

A 5

Book of Vandana Limited
Journal

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	Bank A/c Dr.		5,00,000	
	To Equity Share Application and Allotment A/c			5,00,000
	(Share Application and Allotment money received for 10,000 shares at Rs 50 each)			
	Equity Share Application and Allotment A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Share Application and Allotment money transferred to Equity Share Capital Account)			
	Equity Share First Call A/c Dr.		2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Share First Call due on 10,000 shares of Rs 25 each)			
	Bank A/c Dr.		2,50,000	
	To Equity Share First-Call A/c			2,50,000
	(First Call money received)			
	Equity Share Final Call A/c Dr.		2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Equity Share Final Call due on 10,000 shares of Rs 25 each)			

	Bank A/c Dr.		2,40,000		
	Calls-in-Arrears A/c Dr.		10,000		
	To Equity Share Final Call A/c			2,50,000	
	(Share Final Call of Rs 25 per share received on 9,600 shares and holders of 400 shares failed to pay it)				
	Equity Share Capital A/c Dr.		40,000		
	To Share Forfeiture A/c			30,000	
	To Calls-In-Arrears A/c			10,000	
	(400 shares of Rs 100 each forfeited for the non-payment final call Rs 25 per share)				
	Bank A/c Dr.		10,000		
	Share Forfeiture A/c Dr.		10,000		
	To Equity Share Capital A/c			20,000	
	(200 shares of Rs 100 each re-issued at Rs 50 per share fully paid-up)				
	Share Forfeiture A/c Dr.		5,000		
	To Capital Reserve A/c			5,000	
	(Balance in Share Forfeiture of 200 shares of after re-issue, transferred to Capital Reserve)				

Working Note-

Share Forfeiture	Rs	75	Cr.
Share Forfeiture	Rs	50	Dr.
Balance in Share Forfeiture Account for re-issued shares	Rs	25	Cr. *per share*

Capital Reserve = Balance in Share Forfeiture Account for re-issued shares × Number of Share reissued

= Rs 25 × 200 = Rs 5,000

Q6	Preet Ltd. issued 20,000 shares of ₹ 100 each payable ₹ 25 per share on application , ₹ 25 per share on allotment and the balance in two calls of ₹ 25 each. The company did not make the final call of ₹ 25 per share. All the money was duly received with the exception of the amount due on the first call on 400 shares held by Mr. Rahul. The Board of Directors forfeited these shares and subsequently reissued them @ ₹ 75 per share paid-up for a sum of ₹ 28,000. Journalise the above transactions and prepare Share Capital Account.
A 6	Issued and applied capital 20,000 shares of ₹ 100 each

Payable as: Application	₹	25	
Allotment	₹	25	
First Call	₹	25	
Called-up	₹	75	*per share*
Final Call	₹	25	
	₹	100	*per share*

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr.		5,00,000	
	To Share Application A/c			5,00,000
	(Share application money received for 20,000 shares at Rs 25 each)			
	Share Application A/c Dr.		5,00,000	
	To Share Capital A/c			5,00,000
	(Application money transferred to Share Capital Account)			
	Share Allotment A/c Dr.		5,00,000	
	To Share Capital A/c			5,00,000
	(Share Allotment due on 20,000 shares at Rs 25 each)			

	Bank A/c Dr. To Share Allotment A/c (Allotment money received)		5,00,000	5,00,000
	Share First Call A/c Dr. To Share Capital A/c (Share First Call due on 20,000 shares of Rs 25 each)		5,00,000	5,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share First Call A/c (Share First Call Rs 25 per share received on 19,600 shares and a holder of 400 shares did not pay it)		4,90,000 10,000	5,00,000
	Share Capital A/c Dr. To Share Forfeiture A/c To Calls-in-Arrears A/c (400 shares of Rs 100 each, Rs 75 called-up, forfeited for the non-payment of Share First Call Rs 25 per share)		30,000	20,000 10,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (400 shares of Rs 100 each, Rs 75 paid-up, reissued for the sum of Rs 28,000)		28,000 2,000	30,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in share forfeiture after re-issue, transferred to capital reserve)		18,000	18,000

	Share Capital Account **Dr.** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Share Forfeiture	20,000	Share Application	5,00,000
Calls-in-Arrears	10,000	Share Allotment	5,00,000
		Share First Call	5,00,000
		Bank	28,000
Balance c/d		Share Forfeiture	2,000
	15,30,000		15,30,000

Working Note-

Share Forfeiture Credit	20,00 0
Less: Share Forfeiture Debit	2,000
Balance in Share Forfeiture Account after re-issue	18,00 0

Capital Reserve = Balance in Share Forfeiture Account after re-issue

= ₹ 18,000

Q 7 Show the forfeiture and reissue entries under each of the following cases:

(i) *X* Ltd. forfeited 300 shares of ₹ 10 each, ₹ 8 called-up held by Mr. *A* for non-payment of second call money of ₹ 3 per share. These shares were reissued to Mr. *Z* for ₹ 10 per share as fully paid-up.

(ii) *Y* Ltd. forfeited 400 shares of ₹ 10 each, fully called-up, held by Mr. *B* for non-payment of final call money of ₹ 4 per share. These shares were reissued to Mr. *T* at ₹ 12 per share as fully paid-up.

(iii) Light Ltd. forfeited 250 shares of ₹ 10 each, fully called-up held by Mr. *C* for non-payment of allotment money of ₹ 3 per share and first and final call money of ₹ 4 per share. These shares were reissued @ ₹ 8 per share as fully paid-up to Mr. *P*.

A 7

(i)

Books of X Limited
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Share Capital Dr. To Share Forfeiture A/c To Calls-in-Arrears A/c (300 shares of ₹ 10 each on which had called ₹ 8, forfeited for non-payment of second call ₹ 3 per share)		2,400	 1,500 900
	Bank A/c Dr. To Share Capital A/c (300 shares of ₹ 10 each re-issued)		3,000	 3,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in Share Forfeiture Account after re-issue transferred to Capital Reserve)		1,500	 1,500

Working Notes-

Share Forfeiture Credit (*at the time of forfeiture of shares*)	1,500
Less: Share Forfeiture Debit (*at the time of re-issue shares*)	NIL
Balance in Share Forfeiture after re-issue of shares	1,500

Capital Reserve = Balance in Share Forfeiture of re-issued shares

= ₹ 1,500

(ii)

Books of Y Limited
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Share Capital A/c Dr. To Share Forfeiture A/c To Calls-in-Arrears A/c		4,000	 2,400 1,600

	(400 shares of ₹ 10 forfeited for the non-payment of final call ₹ 4 per share)			
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (400 shares of ₹ 10 each re-issued at ₹ 12 per share as fully paid-up)		4,800	 4,000 800
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance of Share Forfeiture after re-issue transferred to Capital Reserve)		2,400	 2,400

Working Notes-

Share Forfeiture Credit (*at the time of forfeiture of shares*)	2,400
Less: Share Forfeiture Debit (*at the time of re-issue shares*)	NIL
Balance in Share Forfeiture after re-issue of shares	2,400

Capital Reserve = Balance in Share Forfeiture of re-issued shares

= ₹ 2,400

(iii)

Books of Light Limited
Journal

Date	**Particulars**	**L.F.**	**Debit Amount (₹)**	**Credit Amount (₹)**
	Share Capital A/c Dr. To Share Forfeiture A/c (250×3) To Calls-in-Arrears A/c (250 shares of ₹ 10 each forfeited for the non-payment ₹ 7 per share)		2,500	 750 1,750
	Bank A/c Dr. Share Forfeiture A/c Dr.		2,000 500	

	To Share Capital A/c (250 shares of ₹ 10 each re-issued for ₹ 8 per share as fully paid-up)		2,500
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in Share Forfeiture Account after re-issue transferred to Capital Reserve)	250	250

Working Notes-

Share Forfeiture Credit (*at the time of forfeiture of shares*)	750
Less: Share Forfeiture Debit (*at the time of re-issue shares*)	500
Balance in Share Forfeiture after re-issue of shares	250

Capital Reserve = Balance in Share Forfeiture of re-issued shares = ₹ 250

Q 8 Aditya Ltd. invited applications for 10,000 Equity Shares of ₹ 10 each for public subscription. The amount of these shares was payable as:
On application ₹ 1 per share, on allotment ₹ 2 per share, on first call ₹ 3 per share and on second and final call ₹ 4 per share.
All sums payable on application, allotment and calls were duly received with the following exceptions:
(i) *A*, who held 200 shares, failed to pay the money on allotments and calls.
(ii) *B*, to whom 150 shares were allotted, failed to pay the money on first call and final call.
(iii) *C*, who held 50 shares, did not pay the amount of second and final call.
The shares of *A, B* and *C* were forfeited and were subsequently reissued for cash as fully paid-up at a discount of 5%.
Pass necessary Journal entries to record these transactions in the books of Aditya Ltd.

A 8 Issued and Applied 10,000 Shares of ₹ 10 each

					A		B		C		*Paid-up Shares*
Application	₹	1	(10,000							=	10,000)
Allotment	₹	2	(10,000	–	200					=	9,800)
First Call	₹	3	(10,000	–	200	–	150			=	9,650)
Second and Final Call	₹	4	(10,000	–	200	–	150	–	50	=	9,600)

10

Books of Aditya Limited
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Equity Share Application A/c (Share application received for 10,000 shares at ₹ 1 each)		10,000	 10,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Share application money transferred to Share Capital)		10,000	 10,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Share allotment due on 10,000 shares at ₹ 2 each)		20,000	 20,000
	Bank A/c Dr. Calls-In-Arrears A/c Dr. To Equity Share Allotment A/c (Share allotment of ₹ 2 per share received on 9,800 shares and holder of 200 failed to pay to it)		19,600 400	 20,000
	Equity Share First Call A/c Dr. To Equity Share Capital (Share first call due on 10,000 shares at ₹ 3 each)		30,000	 30,000
	Bank A/c Dr. Calls-In-Arrears A/c Dr. To Equity Shares First Call A/c (Share first call received on 9,650 shares and holders of 350 shares failed to pay it)		28,950 1,050	 30,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Share final call due on 10,000 shares		40,000	 40,000

	at ₹ 4 each)			
	Bank A/c Dr. Calls-In-Arrears A/c Dr. To Equity Share Final Call A/c (Holders of 9,600 shares paid final call and holders of 400 shares failed to pay it)		38,400 1,600	 40,000
	Equity Share Capital A/c Dr. To Share Forfeiture A/c (200 × 1) To Calls-In-Arrears A/c (200 × 9) (200 shares held by A on which application money ₹ 1 was received, forfeited)		2,000	 200 1,800
	Equity Share Capital A/c Dr. To Share Forfeiture A/c (150 × 3) To Calls-In-Arrears A/c (150 × 7) (150 shares of ₹ 10 each held by B forfeited for the non-payment of two calls ₹ each)		1,500	 450 1,050
	Equity Share Capital A/c Dr. To Share Forfeiture A/c (50 × 6) To Calls-in-Arrears A/c (50 × 4) (50 shares of ₹ 10 each held by C forfeited for the non-payment of final call ₹ 4 each)		500	 300 200
	Bank A/c (400 × 9.5) Dr. Share Forfeiture A/c (400 × .5) Dr. To Equity Share Capital A/c (400 shares of ₹ 10 each re-issued at ₹ 9.5 per share as fully paid-up)		3,800 200	 4,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in Share Forfeiture Account after re-issue transferred to Capital Reserve)		750	 750

Working Note:

Share Forfeiture of 100 shares held by A ₹ 200 Cr.

	Share Forfeiture of 200 shares held by B	₹	450	Cr.
	Share Forfeiture of 300 shares held by C	₹	300	Cr.
	Total Share Forfeiture credit (*at the time of cancellation of shares*)	₹	950	

Calculation of Capital Reserve

Total Share Forfeiture (*at the time of cancellation of shares*) = ₹ 950

Less: Total Share Forfeiture (*at the time of re-issue of shares*) = ₹ (200)

Capital Reserve = ₹ 750

	CH. - ISSUE OF DEBENTURES
	MCQ, OTQ COMPETENCY BASED, SOURCE BASED (1 MARK)
Q 1	ABC took over the assets of ₹ 7,60,000 and liabilities of ₹ 80,000 of Y limited for purchase consideration of ₹ 5,85,000 payable by the issue of 12% debentures of ₹100 each at a discount of 10%. The number of debentures to be issued is: a. 6600 b.6500 c.4500 d.5400.
ANS 1	b. 6500
Q 2	XYZ limited issued 4000,12% debentures of ₹ 100 each at a premium of 5%. The total amount of interest for one year will be: a. ₹ 48,000 b. ₹ 58,000 c. ₹ 50,000 d. ₹ 50,400
ANS 2	a. ₹ 48,000
Q 3	ABC limited issues 10,000 9% debentures of 100 each at a premium of 5% payable at a premium of 10%, the loss on issue of debentures account will be debited to by: a. ₹10,00,000 b. ₹1,00,000

	c. ₹10,50,000 d. ₹1,05,000
ANS 3	b. ₹1,00,000
Q 4	10% debenture issued at ₹ 105 is repayable at ₹ 110, the face value of debenture being ₹ 100. Calculate the amount of loss on redemption of debentures: a. ₹ 10 b. ₹ 5 c. ₹15 d. ₹ 25.
ANS 4	a. ₹ 10
Q 5	A ltd took over the assets of ₹ 6,60,000 and liabilities of ₹ 80,000 of B Ltd for an agreed purchase consideration of ₹ 6,00,000 payable 10% in cash and the balance by issue of 15% debentures of ₹100 each at 10% discount. The number of debentures to be issued is: a. 6600 b. 5400 c. 6000 d. 4500
ANS 5	c. 6000
Q 6	Collateral security means ____________security: a. primary b. secondary c. government

	d. valuable.
ANS 6	b. secondary
Q 7	Debentures that do not carry any charge or security on assets of the company are known as: a. secured debentures b. unsecured debentures c. convertible debentures d. registered debentures.
ANS 7	b. unsecured debentures
Q 8	When debentures are issued at discount and redeemable at a premium which one of the following account is debited at the time of issue? a. Debentures account b. Premium on redemption of debentures account c. Loss on issue of debentures account d. None of these.
ANS 8	c. Loss on issue of debentures account
Q 9	When 100 debenture issued at 5 % discount @ ₹ 100 each but redeemable at premium of 8%. How much amount will be credited as premium on redemption of debentures account: a. ₹ 5000 b. ₹ 4000 c. ₹ 8000 d. ₹ 6000

ANS 9	c. ₹ 8000
Q 10	Debentures are shown in the balance sheet of the company under the head of a. Non-current liabilities b. Current liabilities c. Share capital d. None of the these
ANS10	a. Non-Current Liabilities
Q 11	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
ANS11	b. ₹ 5,000
Q 12	X Ltd. took over Building of ₹ 20,00,000 and Machinery of ₹ 5,00,000 and liabilities of ₹ 6,00,000 of Y Ltd. X Ltd. paid the purchase consideration by issuing 10,000 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

ANS12	a. ₹22,00,000
	SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)
Q 1	BGP Ltd. invited applications for issuing 15,000, 11% debentures of ₹100 each at a premium of ₹ 50 per debenture. The full amount was payable on application. Applications were received for 25,000 debentures. Applications for 5,000 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants on pro-rata basis. Pass the necessary journal entries for the above transactions in the books of BGP Ltd.
ANS 1	**Journal**

Particulars	**Dr. (₹)**	**Cr. (₹)**
Bank A/c [25,000 × (100 + 50)] Dr	37,50,000	
To 11% Debenture App and Allotment A/c		37,50,000
(Being application money received for 25,000 debentures)		
Debenture Application and Allotment A/c Dr	37,50,000	
To 11% Debentures A/c (15,000 ×100)		15,00,000
To Security Premium Reserve A/c (15,000 ×50)		7,50,000
To Bank A/c		15,00,000
(Being debenture application money adjusted and balance refunded)		

Q 2	KP Ltd issued 50,000, 11% debentures of ₹100 each as collateral security for a Loan taken from HDFC Bank for ₹ 45,00,000. The company decided to record the above

	transactions in the books. Identify the two different methods to display the above transactions and present in the books of the company.When journal entry is passed?
ANS 2	When journal entry is passed

Particulars	Dr. (₹)	Cr. (₹)
Bank a/c Dr	45,00,000	
To Bank Loan A/c		45,00,000
Debenture suspense Dr	50,00,000	
To Debentures A/c		50,00,000

Extract of Balance sheet

Particular	Note No.	Amt. ₹
Equity and Liabilities		
(a) Non current liabilities Long term Borrowing	1	45,00,000

Notes to account

1. Long term Borrowings HDFC Bank loan	45,00,000
11%Debenture 50,00,000 Less debenture suspense 50,00,000	NIL

<table>
<tr><td></td><td></td></tr>
<tr><td>Q 3</td><td>National Packaging Company purchased assets of the value of ₹ 1,90,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of ₹ 100 each at a discount of 5%. Record necessary journal entries.</td></tr>
<tr><td>ANS 3</td><td>
<table>
<tr><th colspan="3">Journal</th></tr>
<tr><th>Particulars</th><th>Dr. (₹)</th><th>Cr. (₹)</th></tr>
<tr><td>Sundry Assets A/c Dr.
To Vendors A/c
(Assets purchased from vendors)</td><td>1,90,000</td><td>
1,90,000</td></tr>
<tr><td>Vendors A/c Dr.
Discount on Issue of Debenture A/c Dr.
To 10% Debentures A/c
(Allotment of 2,000 debentures of ₹ 100 each at a discount of 5% as purchase consideration)</td><td>1,90,000
10,000</td><td>

2,00,000</td></tr>
</table>
</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Q 4</td><td>A company took a loan of ₹ 10,00,000 from Punjab National Bank and issued 10% debentures of ₹ 12,00,000 of ₹ 100 each as a collateral security. Explain how you will deal with the issue of debentures in the books of the company.</td></tr>
<tr><td>ANS 4</td><td>
<table>
<tr><th colspan="3">Journal</th></tr>
<tr><th>Particulars</th><th>Dr. (₹)</th><th>Cr. (₹)</th></tr>
<tr><td>Bank A/c Dr
To Bank Loan A/C</td><td>10,00,000</td><td>
10,00,000</td></tr>
</table>
</td></tr>
</table>

(Bank Loan Received)		
Debenture suspense A/C Dr To 10% Debenture A/C (Issued debenture as collateral security)	12,00,000	 12,00,000

Extract of Balance sheet

Particular	**Note No.**	**Amt. ₹**
Equity and Liabilities		
(a) Non current liabilities Long term Borrowing	1	10,00,000

Note to Account

1. Long term Borrowings	
Punjab National Bank loan	10,00,000
10% Debenture 12,00,000 Less debenture suspense <u>12,00,000</u>	Nil

Q 5	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 above transactions.

ANS 5	**Journal**

Particulars	Dr. (₹)	Cr. (₹)
Furniture A/c To M/s Furniture Mart (Being furniture purchased)	2,20,000	 2,20,000
M/s Furniture Mart To Bills Payable A/c (Being bills payable accepted in part payment)	1,10,000	 1,10,000
M/s Furniture Mart To 9% Debentures A/c To Securities Premium Reserve A/c (Being debentures issued to Furniture Mart in part payment)	1,10,000	 1,00,000 10,000

Working Note

Number of Debentures Issued = Amount due to Furniture Mart / Issue Price per Debenture = 1,10,000/ 110 = 1,000 debentures

SHORT ANSWER TYPE OF QUESTIONS (FOUR MARKS)

Q 1 Give journal entries for the issue of debentures in the following conditions.

A) Issued 2,000, 12% debentures of ₹ 100 each at a discount of 2%, redeemable at par.

B) Issued 2,000, 12% debentures of ₹ 100 each at a premium of 5%, redeemable at a premium of 10%.

ANS 1 **Journal**

	Particulars	Dr. (₹)	Cr. (₹)
(A)	Bank a/c Dr. To Debentures application & allotment a/c (Application money received)	1,96,000	1,96,000
	Debentures application &allotment a/c Dr. Discount on issue of debentures a/c Dr. To 12% debentures a/c (Transfer of application money to debentures a/c, issued at a discount of 2%)	1,96,000 4,000	2,00,000
(B)	Bank a/c Dr. To Debentures application & allotment a/c (application money received)	2,10,000	2,10,000
	Debentures application &allotment a/c Dr. Loss on issue of debentures a/c Dr. To Securities premium reserve a/c To premium on redemption a/c To 12% debentures a/c (Transfer of application money to debentures a/c, issued at a premium of 5% and redeemable at a premium of 10%)	2,10,000 20,000	10,000 20,000 2,00,000

Q 2	(i) Novelty Ltd issued 1,000, 8% Debentures of ₹ 100 each at a discount of 5%, redeemable at a premium of 10%. (ii) Disha Ltd took assets of ₹ 8,00,000 and liabilities of ₹ 3,00,000 from Kriti Ltd for a purchase consideration of ₹ 6,00,000. The payment was made by issue of 9% Debentures of ₹100 each at 20% premium. Pass the necessary journal entries for the above transactions in the books of Disha Ltd.

ANS 2

Journal

	Particulars	**Dr. (₹)**	**Cr. (₹)**
(i)	Bank a/c Dr. To Debentures application & allotment a/c (Application money received)	95,000	 95,000
	Debenture Application and Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being debentures issued at discount and redeemable at premium)	95,000 15,000	 1,00,000 10,000
(ii)	Assets A/c Dr Goodwill A/c Dr To Liabilities A/c To Kriti Ltd A/c (Being business purchased)	8,00,000 1,00,000	 3,00,000 6,00,000

	Kriti Ltd Dr	6,00,000	
	To 9% Debentures A/c		5,00,000
	To Securities Premium Reserve A/c		1,00,000
	(Being debentures issued in purchase consideration)		

Working Note

Number of Debentures Issued = 6,00,000/ 120 = 5,000 debentures

Q 3 Pass the necessary journal entries for the issue of debentures for the following transactions

(i) Anand Ltd issued 800, 9% Debentures of ₹ 500 each at a premium of 20%, to the vendors for machinery purchased from them costing ₹ 4,80,000.

(ii) Dawar Ltd issued 5,000, 7% Debentures of ₹ 200 each at a premium of 5%, redeemable at a premium of 10%.

ANS 3

Journal

	Particulars	**Dr. (₹)**	**Cr. (₹)**
(i)	Machinery A/c Dr	4,80,000	
	To Vendor A/c		4,80,000
	(Being machinery purchased)		
	Vendor Dr	4,80,000	
	To 9% Debentures A/c		4,00,000
	To Security Premium Reserve A/c		80,000

(ii)	(Being 800 debentures issued at 20% premium to vendor)		
	Bank A/c Dr To Debenture Application and Allotment A/c (Being debenture money received)	10,50,000	10,50,000
	Debenture Application and Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 7% Debentures A/c To Security Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being debentures issued at premium and redeemable at premium)	10,50,000 1,00,000	10,00,000 50,000 1,00,000
Q. 4	On 1st April, 2019, Bright Ltd issued, 4,00,000, 6% Debentures of ₹100 each at a discount of 5%, redeemable after three years. The amount per debenture was payable as follows- On Application — ₹80 per debenture; On Allotment — Balance The debentures were fully subscribed and all money was duly received. Pass necessary journal entries for issues of debentures.		
ANS 4	**Journal**		
	Particulars	**Dr. (₹)**	**Cr. (₹)**
	Bank A/c (4,00,000 ×80) Dr	3,20,00,000	

	To Debenture Application A/c (Being application money received)		3,20,00,000
	Debenture Application A/c Dr To 6% Debentures A/c (Being application money transferred to 6% debentures account)	3,20,00,000	3,20,00,000
	Debentures Allotment A/c Dr Disc. on Issue of Debentures A/c (4,00,000 ×5) Dr To 6% Debentures A/c (4,00,000 ×20) (Being allotment money due)	60,00,000 20,00,000	80,00,000
	Bank A/c Dr To Debentures Allotment A/c (Being allotment money received)	60,00,000	60,00,000
Q. 5	Neon Ltd Issued 20,000, 8% Debentures of ₹ 200 each at 5% discount redeemable after 5 years at 10% premium. Public applied for all these debentures. Amount was payable as to ₹ 100 on application and balance on allotment. The company had a balance of ₹ 3,00,000 in securities Premium, and ₹ 2,00,000 in Capital Reserve. Pass entries.		
ANS 5	**Journal**		
	Particulars	**Dr. (₹)**	**Cr. (₹)**
	Bank a/c Dr To 8% Debenture application A/c	20,00,000	20,00,000

	(Being application money received)		
	Debenture application A/c Dr To 8%Debentures A/c (Being application money transferred to % debentures account)	20,00,000	 20,00,000
	Debenture allotment – Dr Loss on issue of Debentures Dr To 8%Debentures A/c To Premium on redemption A/c (Being allotment money due)	18,00,000 6,00,000	 20,00,000 4,00,000
	Bank Dr To Debenture allotment A/c (Being allotment money received)	18,00,000	 18,00,00
	Securities Premium Dr Capital Reserve Dr Statement of profit &loss Dr To Loss on issue of debentures A/c (Being loss on issue of debenture ac written off)	3,00,000 2,00,000 1,00,000	 6,00,000

LONG ANSWER TYPE OF QUESTIONS (SIX MARKS)

Q. 1	On 1st June, 2013, Zee Ltd. issued 20,000, 10% debentures of ₹100 each at par redeemable after five years at a premium of 10%. It was decided to write-off loss on issue of debentures in four years equally beginning 31st March, 2014. Pass the journal entries for issue of debentures and writing-off the loss.
ANS 1	**Journal**

Dt.	Particulars	Dr. (₹)	Cr. (₹)
2013 Jun 1	Bank A/c (20,000×100) Dr To Debentures Application and Allot. A/c (Being the subscription received for 20,000, 10% Debentures of ₹100 each)	20,00,000	 20,00,000
	Debenture Application and Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being 20,000, 10% debentures issued)	20,00,000 2,00,000	 20,00,000 2,00,000
2014 Mar31	Statement of Profit and Loss A/c Dr To Loss on Issue of Debentures A/c (Being 1/4th of loss on issue of debentures written-off)	50,000	 50,000
2015 Mar31	Statement of Profit and Loss A/c Dr To Loss on Issue of Debentures A/c	50,000	 50,000

		(Being 1/4th of loss on issue of debentures written-off)		
	2016 Mar31	Statement of Profit and Loss A/c Dr To Loss on Issue of Debentures A/c (Being 1/4th of loss on issue of debentures written-off)	50,000	50,000
	2017 Mar31	Statement of Profit and Loss A/c Dr To Loss on Issue of Debentures A/c (Being 1/4th of loss on issue of debentures written-off)	50,000	50,000
Q. 2	(i) XYZ Ltd has 20,000, 9% debentures of ₹ 100 each outstanding in the books of accounts as on 31st March 2020, to be redeemed on 31st March, 2025. Show how will you disclose debentures in the balance sheet. (ii) Nand Ram Ltd. issued 1,00,000, 8% debentures of ₹ 10 each at ₹ 12 on 1st April, 2020. The issue was fully subscribed. In terms of the issue of debentures, interest was payable at the end of the financial year. Pass the journal entries for the above transactions.			

ANS 2

(i) Balance Sheet as at 31st March, 2020

Particulars	**Note No.**	**Amount ₹**
I. EQUITY AND LIABILITIES 1. Non-current Liabilities Long-term Borrowings	1	20,00,000

Notes to Account

Particular	Amount
1. Long-term Borrowings 20,000, 9% Debentures of ₹100 each	20,00,000

(ii) **Journal**

Dt.	Particulars	Dr. (₹)	Cr. (₹)
2020 Apr 1	Bank A/c (1,00,000 ×12) Dr To Debenture Application and Allotment A/c (Being the application money received on 1,00,000, 8% debentures @ ₹ 12)	12,00,000	12,00,000
	Debenture Application and Allotment A/c Dr To 8% Debentures A/c (1,00,000 ×10) To Securities Premium Reserve A/c (1,00,000 ×2) (Being application money transferred to debentures account)	12,00,000	10,00,000 2,00,000
2021 Mar 31	Debenture Interest A/c (10,00,000 ×8%) Dr To Debenture-holders' A/c (Being the interest payable on 8% debentures provided)	80,000	80,000

		Debenture-holders' A/c Dr To Bank A/c (Being interest paid to debenture-holders)	80,000	 80,000
		Statement of Profit and Loss A/c Dr To Debenture Interest A/c (Being the debenture interest transferred to statement of profit and loss account)	80,000	 80,000

Q. 3	PQR Ltd. has issued 15,00,000, 9% debentures of ₹ 20 each at a discount of ₹ 6 per debenture on October 01, 2021. The company has a balance of ₹ 1,00,000 in securities premium reserve account on the same date. Pass necessary journal entries for issue of debentures, debenture interest and writing off discount on issue of debentures for the period ending March 31, 2022.
ANS 3	**Journal**

Dt.	**Particulars**	**Dr. (₹)**	**Cr. (₹)**
2021 Oct 1	Bank A/c Dr To Debenture Application and Allotment A/c (Being the application money received)	14,10,000	 14,10,000
	Debenture Application and Allotment A/c Dr Discount on issue of debenture A/c Dr To 8% Debentures A/c (1,00,000 ×10)	14,10,000 90,000	 15,00,000

	(Being application money transferred to debentures account)		
2022 Mar31	Debenture Interest A/c Dr To Debenture-holders’ A/c (Being the interest due for six months)	67,500	 67,500
Mar31	Debenture-holders’ A/c Dr To Bank A/c (Being interest paid to debenture-holders)	67,500	 67,500
Mar31	Statement of Profit and Loss A/c Dr To Debenture Interest A/c (Being the debenture interest transferred to statement of profit and loss account)	67,500	 67,500
Mar31	Securities Premium Res A/c Dr. To Discount on Issue of Debenture A/c (Discount on issue of debentures written-off)	90,000	 90,000

Q. 4 Pass necessary Journal Entries for 'issue of debentures' for the following:

(i) X Ltd. issued 1,500, 12% Debentures of ₹100 each at a discount of 10%, redeemable at a premium of 5%.

(ii) Y Ltd. issued 1,600, 9% Debentures of ₹100 each at a premium ₹20 per Debenture, redeemable at a premium of ₹10 per Debenture.

(iii) Z Ltd. issued 2,000, 9% Debentures of ₹100 each at a discount of 6% redeemable at par.

ANS 4

In the books of X Ltd

Particulars	**Dr. (₹)**	**Cr. (₹)**
Bank A/C Dr. To Debenture Application and Allotment A/c (Being debenture application money received)	1,35,000	 1,35,000
Debenture App.& Allotment a/c Dr. Loss on Issue of Debentures A/c Dr. To 12% Debentures A/c To Premium on Redemption of Deb. A/C (Being debentures issued at a discount of 10% and redeemable at a premium of 5%)	1,35,000 22,500	 1,50,000 7,500

In the books of Y Ltd

Particulars	**Dr. (₹)**	**Cr. (₹)**
Bank A/C Dr. To Debenture Application & Allotment A/C (Being debenture application money received)	1,92,000	 1,92,000
Debenture App & Allot A/C Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/C To Securities Premium Res A/C To Prem. on Redemption of Debentures A/C	1,92,000 16,000	 1,60,000 32,000 16,000

	Particulars	Dr. (₹)	Cr. (₹)
	(Being debentures issued at a premium of ₹ 20 and redeemable at a premium of ₹10 per debenture)		

In the books of Z Ltd

Particulars	Dr. (₹)	Cr. (₹)
Bank A/C Dr. To Debenture Application & Allotment A/c (Being debenture application money received)	1,88,000	 1,88,000
Debenture Application and Allot A/c Dr Discount on Issue of Deb. A/c Dr. To 9% Debentures A/C (Being debentures issued at a discount of 6% and redeemable at par)	1,88,000 12,000	 2,00,000

Q. 5 A company purchased assets of the book value of ₹ 1,98,000 from another firm. It was agreed that the purchase consideration be paid by issuing 11% debentures of ₹ 100 each. Assume debentures have been issued

(i) at par (ii) at a discount of 10% (iii) at a premium of 10%.

Pass the necessary journal entries.

ANS 5

Journal

Dt.	Particulars	Dr. (₹)	Cr. (₹)
	Assets A/c Dr To Vendor's A/c (Being the assets purchased from vendor)	1,98,000	 1,98,000

	(i)	**<u>Issue of Debentures at Par</u>** Vendor's A/c Dr To 11% Debentures A/c (1,980 ×100) (Being the allotment 1980 11% debentures of ₹ 100 each at par to the vendor)	 1,98,000	 1,98,000
	(ii)	**<u>Issue of Debentures at a Discount</u>** Vendor's A/c (2,200 ×90) Dr Discount on Issue of Deb. A/c (2,200 ×10) Dr To 11% Debentures A/c (2,200 ×100) (Being 2,200 debentures of ₹100 each issued at a discount of 10% to the vendor)	 1,98,000 22,000	 2,20,000
	(iii)	**<u>Issue of Debentures at a Premium</u>** Vendor's A/c (1,800 ×110) Dr To 11% Debentures A/c (1,800 ×100) To Securities Premium Reserve A/c (1,800 ×10) (Being 1,800 debentures of ₹100 each issued at a premium of 10% to the vendor)	 1,98,000	 1,80,000 18,000
Q. 6	Pass journal entries in the following cases- (i) Issue of ₹ 1,00,000, 9% debentures of ₹ 100 each at par but repayable at a premium of 5%.			

	(ii) Issue of ₹ 1,00,000, 9% debentures of ₹ 100 each at discount of 5% but redeemable at premium of 5%. (iii) Issue of ₹ 1,00,000, 9% debentures of ₹ 100 each at premium of 5% and redeemable at premium of 5%.
ANS 6	**Journal**

Dt.	**Particulars**	**Dr. (₹)**	**Cr. (₹)**
(i)	Bank A/C Dr. To Debenture Application & Allotment A/C (Being debenture application money received)	1,00,000	 1,00,000
	Debenture Application & Allotment 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 Application money transferred to Debentures account)	1,00,000 5,000	 1,00,000 5,000
(ii)	Bank A/c Dr. To 9% Debenture App. & Allot. A/c (Debentures Application money received)	95,000	 95,000
	Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c	95,000 10,000	 1,00,000

		To Premium on Redemption of Deb. A/c (Debentures application money transferred to debentures and Premium on debenture account		5,000
	(iii)	Bank A/c Dr. To 9% Debenture Application & Allot. A/c (Debentures Application money received)	1,05,000	 1,05,000
		Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debenture A/c To Premium on Redemption of Deb. A/c To Securities Premium Reserve A/c (Debenture application money transferred to debentures account)	1,05,000 5,000	 1,00,000 5,000 5,000
Q. 7	A Limited issued 5,000, 10% debentures of ₹ 100 each, at a premium of ₹ 10 per debenture payable as follows: On application ₹ 25 On allotment ₹ 45 (including premium) On fisrt and final call ₹ 40 The debentures were fully subscribed and all money was duly received. Record the necessary entries in the books of the company. Show how the amounts will appear in the balance sheet.			

ANS 7

Journal

Dt.	**Particulars**	**Dr. (₹)**	**Cr. (₹)**
	Bank A/c Dr. To 10% Debenture Application A/c (Application money on 10% debentures received)	1,25,000	 1,25,000
	10% Debenture Application A/c Dr. To 10% Debentures A/c (Transfer of application money on allotment)	1,25,000	 1,25,000
	10% Debenture Allotment A/c Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Allotment money of due on debentures including the premium)	2,25,000	 1,75,000 50,000
	Bank A/c Dr. To 10% Debenture Allotment A/c (Allotment money received)	2,25,000	 2,25,000
	10% Debenture First & Final Call A/c Dr. To 10% Debentures A/c (First and final call money due on debentures)	2,00,000	 2,00,000
	Bank A/c Dr.	2,00,000	

	To 10% Debenture First & Final Call A/c (First and final call money received)			2,00,000

Balance Sheet as at

Particulars	Note No.	Amount (₹)
Equity and Liabilities		
1. Shareholders' Funds		
a) Reserve and Surplus	1	50,000
2. Non-current Liabilities		
Long term borrowings	2	5,00,000
Total		**5,50,000**
II. Assets		
1. Current assets		
a) Cash and cash equivalents		**5,50,000**

Notes to Accounts

Particulars	Amount
1. Reserve and surplus	
Securities Premium Reserve	50,000
2. Long-term borrowings	
5,000, 10% debentures of ₹ 100 each	5,00,000

Q. 8	A Ltd., issued 2,000, 10% debentures of ₹ 100 each on April 01, 2016 at a discount of 10% redeemable at a premium of 10%. Give journal entries relating to the issue of debentures and debenture interest for the period ending March 31, 2017 assuming that interest was paid half yearly on September 30 and March 31

ANS 8

Journal

Dt.	Particulars	Dr. (₹)	Cr. (₹)
2016 April 1	Bank A/c Dr. To 10% Debenture App. & Allotment A/c (Application money received on 2,000, 10% debentures)	1,80,000	 1,80,000
April 1	Debentures Application & Allotment A/c Dr. Loss on Issue of Debenture A/c Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Allotment of debentures at a discount of 10% and redeemable at a premium of 10%)	1,80,000 40,000	 2,00,000 20,000
Sep30	Debenture Interest A/c Dr. To Debenture-holders A/c (Interest due for 6 months)	10,000	 10,000
Sep30	Debenture-holders A/c Dr. To Bank A/c	10,000	 10,000

		(Payment of interest)		
	2017 Mar31	Debenture Interest A/c Dr. To Debenture-holders A/c (Interest due for 6 months)	10,000	 10,000
	Mar31	Debenture-holders A/c Dr. To Bank A/c (Payment of interest)	10,000	 10,000
	Mar31	Statement of Profit and Loss Dr. To Debenture Interest A/c (Debenture interest transferred to profit & loss ac)	20,000	 20,000

	CH. - FINANCIAL STATEMENT OF A COMPANY
QUE	**TYPE OF QUESTIONS (1 MARK) MCQ, OTQ COMPETENCY BASED, SOURCE BASED**
Q. 1	Pratiksha Cartons Limited has given guarantee of ₹ 75,00,000 to a bank for raising loans from the bank by its subsidiary' company. Where will this be shown in books of the company?
Ans 1	This will be mentioned in Notes to Accounts.
Q. 2	Name any one item that can be shown under the major heading 'Equity and Liabilities' in a company's Balance Sheet.
Ans 2	Shareholders 'Funds
Q. 3	How would you treat preliminary expenses?
Ans 3	Preliminary expenses are written off in the year in which they are incurred.
Q. 4	Equity ₹ 90,000 Liabilities ₹ 60,000 Profit of the year ₹ 20,000. Then total assets will be : (a) ₹ 1,70,000 (b) ₹ 1,50,000 (c) ₹ 1,10,000 (d) ₹ 80,000
Ans 4	(a) ₹ 1,70,000
Q. 5	The reserve which is created for a particular (specific) purpose and which is a charge against revenue is called: (a) Capital Reserve (b) General Reserve (c) Secret Reserve (d) Specific Reserve
Ans 5	(d) Specific Reserve

Q. 6	Contingent Liabilities are exhibited under the heading: (a) Fixed Liabilities (b) Current Liabilities (c) As a footnote (d) None of these
Ans 6	(c) As a footnote
Q. 7	Profit earned before the issuance of a certificate entitling the company to commence business is shown as a ……….. in the balance sheet.
Ans 7	Capital Reserve
Q. 8	When net income is transferred to retained earnings, the expenses and revenue summary is ……….
Ans 8	Debited
	SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)
Q. 1	Explain briefly any four objectives of 'Analysis of Financial Statements'.
Ans 1	• To assess the current profitability and operational efficiency of the firm as a whole as well its different departments so as to judge the financial health of firm. • To ascertain the financial position of firm. • To identify the reasons for change in the profitability and 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.
Q. 2	i) One of the objectives of analysis of financial statement is to ascertain the relative importance of the different components of the financial position of the firm'. State two other objective of this analysis.
Ans 2	i) One of the objectives of analysis of financial statement is to ascertain the relative importance of the different components of the financial position of the firm'. State two

	other objective of this analysis.
Q. 3	List the major heads under which the 'Equity and Liabilities' are presented in the balance sheet of a company as per Schedule III Part I of the Companies Act, 2013.
Ans 3	The major heads under which 'Equity and Liabilities' are presented: • Shareholders Fund • Share Application Money Pending allotment • Non-Current liabilities • Current Liabilities
	SHORT ANSWER TYPE OF QUESTIONS (FOUR MARKS)
Q. 1	Mudra Ltd. is in the process of preparing its Balance Sheet as per Schedule III, Part I of the Companies Act, 2013 and provides its true and fair view of the financial position. (a) Under which head and sub-head will the company show 'Stores and Spares' in its Balance Sheet (b) What is the accounting treatment of 'Stores and Spares' when the Company will calculate its Inventory Turnover Ratio? (c) The management of Mudra Ltd. wants to analyses its Financial Statements. State any two objectives of such analysis.
Ans 1	(a) Head: Current Assets Sub head; Inventories (b) While calculating Inventory Turnover Ratio it is not included in Inventories (c) Objectives – Assessing the ability of the enterprise to meet its short term and long-term commitments, Assessing the earning capacity of the enterprise
Q. 2	On 1st Aril, 2017, Jumbo Ltd. issued 10,000; 12% debentures of ₹ 100 each a discount of 20%, redeemable after 5 yea₹ The company decided to write-off discount on issue of such debentures over the life time of the Debentures. Show the items in the balance sheet of the company immediately after the issue of these debentures.
Ans 2	

Balance Sheet
as at April 01, 2017

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital		
b. Reserves and Surplus		
2. Non-Current Liabilities		
a. Long-term Borrowings	1	10,00,000
3. Current Liabilities		
a. Other Current Liabilities		
b. Short-term Provisions		
Total		10,00,000
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	2	1,60,000
2. Current Assets		
a. Other Current Assets	3	40,000
b. Cash and Cash Equivalents	4	8,00,000
Total		10,00,000

Notes to Accounts

Particulars	**Amount (₹)**
1. Long Term Borrowings	
12% Debentures	10,00,000
2.Other Non-current assets	
Unamortized discount on issue of Debentures	1,60,000
3. Other Current Assets	
Unamortized discount on issue of Debentures	40,000
4. Cash and Cash Equivalents	
Bank	8,00,000

Q. 3	Brinda Ltd. has furnished the following information:

	(a) 25,000, 10% debentures of ₹ 100 each; (b) Bank Loan of ₹ 10,00,000 repayable after 5 years; (c) Interest on debentures is yet to be paid. Show the above items in the balance sheet of the company as at March 31, 2017.
Ans 3	**Extract of Balance Sheet** *as at March 31, 2017*

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
a Share Capital		
b. Reserves and Surplus		
2. Non-Current Liabilities		
a. Long-term Borrowings	1	35,00,000
3. Current Liabilities		
a. Other Current Liabilities	2	2,50,000

	Ch. ANALYSIS OF FINANCIAL STATEMENT
QUE	**TYPE OF QUESTIONS (1 MARK) MCQ, OTQ COMPETENCY BASED, SOURCE BASED**
Q. 1	The most commonly used tools for financial analysis are: (a) Comparative Statements (b) Common-size Statement (c) Accounting Ratios (d) All the above
ANS	(d) All the above
Q. 2	Tools for comparison of financial statements are : (a) Comparative Balance Sheet (b) Comparative Income Statement (c) Common-size Statement (d) All the above
ANS	(d) All the above
Q. 3	A company's shareholders fund was 7 8,00,000 in the year 2015. It because 12,00,000 in the year 2016. What is percentage of change? (a) 100% (b) 25% (c) 50% (d) 33.3%
ANS	(c) 50%
Q. 4	A company's net sales are ₹ 15,00,000; cost of sales is ₹ 10,00,000 and indirect expenses are ₹ 3,00,000, the amount gross profit will be: (a) ₹ 13,00,000 (b) ₹ 5,00,000 (c) ₹ 2,00,000

	(d) ₹ 12,00,000
ANS	(c) ₹ 2,00,000
Q. 5	Profit earned before the issuance of a certificate entitling the company to commence business is shown as a ……… in the balance sheet.
ANS	Capital Reserve
Q. 6	Accounts payable is reported as a ——— on the balance sheet.
ANS	Headings
Q. 7	State whether following statements are true or false: **OR** ROI is calculated on ownership capital only.
ANS	*False* *Explanation**:*** ROI, i.e. return on investment, is calculated on total capital employed which is total of ownership capital and debt capital. Capital Employed = Share Capital + Reserves & Surplus + Long-Term Loans + Debentures – Preliminary Expenses **OR** Capital Employed = Net Fixed Assets + Long-Term Investments + Working Capital.
Q. 8	Give one word/term/ phrase for each of the following statements: An asset which can be converted into cash immediately.
ANS	**Liquid asset** ***Explanation:*** Those assets of the business that can be converted into cash immediately are known as liquid assets. They are highly liquid in nature and are also known as quick assets.

	SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)
Q. 1	**What are common size statements? State any two uses of common size statements.**
ANS	**Common size statement** The statement wherein figures reported are converted into percentage to some common base are known are common size statements. Each percentage shows the relation of the individual item to its respective total. In common size income statement, net sales figure is assumed to be 100 and all other figures of expenses are expressed as a percentage of sales. In common size balance sheet, the total of assets or liabilities is assumed to be 100 and figures are expressed as a percentage of the total. Uses of common size statements are as follows: (i) It helps in comparing the relative values of various items of income statement and position statement over two or more accounting periods. Thus, financial managers prepare common size statements for business reporting and decision-making purposes. (ii) Common size statements prepared by the firm over the years would highlight the relative change in each group of income, expenses, assets and liabilities.
Q. 2	State any four limitations of analysis of financial statements.
ANS	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.
Q. 3	Explain the importance of financial analysis for (i) Labour Unions, and (ii) Creditors.
ANS	(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.

NAME OF CHAPTER: RATIO ANALYSIS

	1 MARK QUESTIONS: - MCQ/OTQ/COMPETENCY/SOURCE BASED
Q1	Which of the following is not an activity ratio? a) Inventory turnover ratio b) Interest coverage ratio c) Working capital turnover ratio d) Trade receivables turnover ratios
A. 1	b) Interest coverage ratio
Q2	Total assets to debt ratio is categorized under: a) Profitability ratio b) Solvency ratio c) Activity ratio d) Liquidity ratio
A.2	b) Solvency ratio
Q3	Which of the following will have no effect on debt equity ratio? a) Purchase of fixed asset by taking long term loan b) Conversion of debentures into shares c) Issue of bonus shares d) Sale of fixed assets at a loss
A.3	c) Issue of bonus shares
Q.4	Which of the ratios show how efficiently a company's resources are used? a) Profitability ratio b) Solvency ratio c) Activity ratio d) Liquidity ratio
A.4	c) Activity ratio
Q5	Given that: Opening inventory Rs.1,20,000 Purchases Rs.9,00,000 Return outward Rs.40,000 And the closing inventory is Rs.20,000 less than opening inventory, then, Inventory Turnover Ratio is a) 5 times b) 7 times c) 8 times d) 10 times
A. 5	c) 8 times

Q6	Which ratio is complimentary to each other? a) Current and liquid ratio b) Operating and operating profit ratio c) Gross and net profit ratio d) Trade receivable and trade payable ratio
A.6	b) Operating and operating profit ratio
Q7	A firm's current ratio is 1.75:1. If current liabilities are Rs.80,000, then its working capital will be: a) Rs.1,20,000 b) Rs.1,60,000 c) Rs.60,000 d) Rs.2,80,000
A. 7	c) Rs.60,000
Q8	Higher the ratio, the more favourable it is, does not stand true for: a) Liquidity ratio b) Net profit ratio c) Operating ratio d) Inventory turnover ratio
A. 8	c) Operating ratio
Q9	If selling price is fixed 25% above the cost, the gross profit is: a) 13% b) 28% c) 26% d) 20%
A.9	d)20%
Q 10	Sheetal Ltd. has a current ratio of 3:1. If its stock is Rs. 40,000 and total current liabilities are Rs. 75,000, the quick ratio will be: a) 2.7:1 b) 2.47:1 c) 4:1 d) 2.36:1
A.10	b) 2.47:1
Q.11	Debt equity ratio is a measure of: a) Short term solvency ratio b) Profitability ratio c) Long term solvency ratio d) Activity ratio

A.11	c) Long term solvency ratio
Q.12	Debt equity ratio is 1:2. Impact of conversion of debentures into equity on ratio will ____ the ratio: a) Improve b) Reduce c) No change d) Can't say
A.12	b) Reduce
	ASSERTION AND REASONING QUESTIONS Choose the correct answer out of the following choices 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 true but Reason (R) is false d) Assertion (A) is false but Reason (R) is true
Q.13	(A)current ratio of a company will increase by redemption of debentures (R) debentures are considered current liability in the year of redemption
A.13	b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q.14	(A) Activity ratios are the ratios that are calculated for measuring the efficiency of operations of business based on effective utilization of the resources. (R) Current ratio and Quick ratio are liquidity ratios
A.14	a) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
Q.15	(A) The limitations of financial statements also form the limitations of Ratio analysis. (R) Since the ratios are derived in the original financial statements, any weakness in the original financial statements will also creep in the derived analysis in the form of Accounting Ratios.
A.15	a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q.16	(A) If debt equity ratio is 1:2, it is considered to be safe. (R) from security point of view, capital structure with less debt and more equity is considered favorable as it reduces the chances of bankruptcy.

A.16	a) Assertion (A) is false but Reason (R) is true
	THREE (3) MARKS QUESTIONS
Q.17	If the Debt to equity ratio is 2:1 state whether the following will increase/decrease or will not change the ratio. 1. Purchase of fixed asset by taking long term loan. 2. Sale of fixed asset of book value Rs.40000 for Rs.50000 3. Issue of new shares for cash
A.17	1. The debt to equity ratio will increase 2. The debt to equity ratio will decrease 3. The debt to equity ratio will decrease
Q.18	State any three limitations of Ratio Analysis.
A.18	1. Ignores qualitative factors 2. Price level changes are not considered 3. Ratios may be affected by window dressing.
Q.19	State any three forms in which ratios are expressed.
A.19	1. Pure ratio form e.g. 2:1 2. Percentage e.g. 25% 3. Times e.g. especially turnover/activity ratios in no. of times
Q20	State any three broad categories of ratios.
A.20	a) Profitability ratio b) Solvency ratio c) Activity ratio d) Liquidity ratio (Any three from the above)
Q.21	The proprietary ratio of a firm is 0.80:1, state whether the following will increase/decrease/not change the ratio. 1. Purchased machinery for cash Rs.55000 2. Redeemed 5% Redeemable preference shares of Rs.75000 3. Issued equity shares to vendors against purchase of machinery
A.21	1. No change in the ratio 2. Decrease the ratio 3. Increase the ratio
Q.22	From the following information calculate 1. G.P. Ratio 2. Inventory turnover ratio 3. Working capital turnover ratio Revenue from operations Rs.787500, Cost of revenue from operations Rs.395600, Current liabilities Rs.237000, Current Assets Rs.399000 Average inventory Rs.197800
A. 22	1. 49.76% 2. 2 times 3. 2.44 times
Q23	From the following calculate 1. Proprietary ratio 2. Debt to equity ratio

	3. Total Assets to Debt ratio Current Assets-Rs.4000000, Current liabilities 2000000, Long term borrowings Rs.1500000, Non-current Assets Rs.4000000, Long term provisions Rs.2500000
A.23	1. 25% 2. 2:1 3. 2:1
Q24	State any three objectives of Ratio Analysis.
A.24	1.To judge short term liquidity & Long term solvency of business 2. Assess the operational efficiency of business 3. Comparative Analysis (inter firm & intra firm)
	CASE BASED QUESTIONS 4 MARKS
Q.25	Naresh Textiles Ltd. has a current ratio of 3:1 & Quick ratio 1.2:1, if the working capital is Rs.180000 calculate the : 1. Total Current Assets 2. Value of inventory 3. Current liability 4. Liquid assets
A.25	Total current assets Rs.270000 Inventory Rs.162000 Current liability Rs.90000 Liquid assets Rs.108000
Q.26	From the following details calculate 1. Debt to equity ratio 2. Interest coverage ratio 3. Return on Investment ratio 4. Current ratio Share capital Rs.90000, Reserve Rs.50000, 10% Bank loan Rs.80000, Revenue from operations Rs.150000, Tax paid Rs.during the yr. Rs.25000, Profit after interest & tax Rs.60000, Current assets Rs.350000 current liability Rs.100000
	1. 0.4:1 2. 9.85 times 3. 43% 4. 3.5:1
Q27	From the following information of M/s Nokia LTD. Revenue from operations Rs.400000, Opening stock Rs.10000, Closing stock Rs.7000, Net purchases 80% of Revenue from operations, direct expenses Rs.20000, Current Assets Rs.100000, prepaid expenses Rs.3000, Current liabilities Rs.60000, 9% Debentures Rs.400000, long term loan Rs.150000, Share capital Rs.800000, Statement of P & L Rs.200000, Security premium Reserve Rs.100000.Calculate : 1. Liquid ratio 2. G.P ratio 3 Proprietary ratio 4.Inventory turnover ratio
A.27	1 - 1.5:1 2 - 14.25% 3 - 0.64:1 4 - 40.35 times

Q.28	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

A. 28	1-1.5:1 2-70% 3-8.25 times 4-0.75:1
Q.29	From the following information Calculate: 1. 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 liabilities Rs.700000 Cash revenue from operations-25% of Total Revenue from operations, Credit Revenue from operations-Rs.900000, G.P.50% on cost of RFO. --
A.29	1. Interest coverage ratio f times) : 1. 14 times 2. 50% 3. G.P. ratio is 33.33% 4. Working capital turnover ratio 1.5 times
Q30	From the facts given below calculate 1. Closing Inventory 2. Inventory turnover ratio 3. ROI 4. Proprietary ratio Revenue from operations Rs.500000, Gross loss-20%, Opening inventory-Rs.40000, purchases-Rs.610000, N.P. after interest & tax Rs.100000, Current assets Rs.400000, 10% Debentures Rs.400000, Fixed Assets-600000, Tax-20%, Current liabilities Rs.200000.
A.30	1-Rs.50000 2-13.3 times 3-20.6% 4-40%

Ch. Cash flow statement

Que	TYPE OF QUESTIONS (1 MARK) MCQ, OTQ COMPETENCY BASED, SOURCE BASED
Q.1	For a financial company, named Bajaj finserv Ltd., dividend received is a/an A Operating activity. B. Investing activity C. Financing activity D. Cash equivalents
Ans 1	A
Q.2	Which of the following is not a part of cash and cash equivalents? A. Inventory B. Current investment C. Short term deposit D. Marketable security
Ans. 2	A. Inventory
Q.3	Banana Republic Ltd. had balance in provision for tax ₹ 2,80,000 on 31st March 2023 and ₹ 1,50,000 on 31st March 2022. Provision for tax made during the year is ₹ 10% of net profits, which is ₹ 20,00,000 for the year ending on 31st March 2023. Tax paid during the year is? A. ₹ 1,20,000 B. ₹ 70,000 C. ₹ 18,50,000 D. ₹ 17,20,000
Ans	B
Q.4	Increase in Bank Overdraft is a) Investing Activity b) Financing Activity c) Operating Activity d) Cash and Cash Equivalents
Ans.	Financing

Q.5	Plant costing ₹ 1,00,000, accumulated depreciation being ₹ 20,000 is sold at a profit of ₹ 8,000. Amount that will be shown as inflow under Investing Activity will be ------
Ans.	₹ 88,000
Q.6	Marketable Securities costing ₹ 10,000 sold for ₹ 12,000, Profit on sale of Marketable Securities was credited to Statement of Profit and Loss. Which of the following statement is correct? A. ₹ 2,000 will be deducted from Net Profit under Operating Activity and shown as inflow under cash equivalents Activities. B. ₹ 2,000 will be deducted from Net Profit under Operating Activity and shown as inflow in Extra-ordinary Items. C. ₹ 2,000 will be deducted from Net Profit under Operating Activity and shown as Extra-ordinary Item under financing Activities. D. ₹ 2,000 will be deducted from Net Profit under Operating Activity and subtracted from Cash and Cash equivalents
Ans.	B
Q 7	All of the following would be included in company`s Operating Activities except a) Income tax payment b) Collections from customer c) Cash payment to suppliers d) Interest on Current Investment
Ans	d) Interest on Current Investment
Q.8	Statement -1: Rent paid ‘will be classified under operating activity while preparing cash flow statement Statement -II: Interest received in cash on loans and advances results in cash flow from financing activities A. Both the statements are true B. Both the statements are false C. Statement -1 is true, statement-II is false D. Statement-II is true statement-1 is false
Ans.	A. Both the statements are true

Q.9	Assertion (A): Cash flow statement is substitute for income statement. Reason (R): Cash flow statement doesn't show profit or loss. A. Both assertion and reason are true. Reason is a correct explanation of assertion. B. Both assertion and reason are true but reason is not the correct explanation of Assertion C. Both assertion and reason are false D. Assertion is false but Reason is true
Ans	D. Assertion is false but Reason is true
Q.10	Assertion (A): Depreciation is added back to net profit while calculating cash flows from operating activities Reason (R): Depreciation is a noncash expense. It had reduced the net profit while there is no cash flow A. Both assertion and reason are true. Reason is a correct explanation of assertion. B. Both assertion and reason are true but reason is not the correct explanation of assertion C. Both assertion and reason are false D. Assertion is true but Reason is false
Ans	A. Both assertion and reason are true. Reason is a correct explanation of assertion.
Q.11	While preparing cash flow statement match the following activities and select the correct alternative

1 Payment of cash to acquire debentures by investing company	(A) Financing activity
2 Purchase of goodwill	(B) Investing activity
3. Dividend paid by manufacturing company	(C) operating activity

(a) 1-B, 2-C, 3- A,

(b) 1-C, 2-B, 3- A

(c) 1-A, 2-B, 3-C

	(d) 1-C, 2- A, 3- B
Ans 11	(c) 1-A, 2-B, 3-C
Q. 12	……… is an example of transactions which are subject to investing as well as financing activities at the same time.
Ans. 12	Assets purchased under hire purchased system in which we see principal amount in investing activities & interest in financing activities.
	SHORT ANSWER TYPE OF QUESTIONS (THREE MARKS)
Q. 13	X Ltd, made a profit of ₹ 1,00,000 after considering the following items: (a) Depreciation on fixed assets ₹ 20,000 (b) Writing off preliminary expenses ₹ 10,000. (c) Loss on sale of furniture ₹ 1,000. (d) Provision for taxation ₹ 1,60,000. (e) Transfer to General Reserve ₹ 14,000. (f) Profit on sale of machinery ₹ 6,000.

Items		31/03/2007 (₹)	31/03/2008 (₹)
Debtors	Out-flow	24,000	30,000
Creditors	In-flow	20,000	30,000
Bills Receivable	In-Flow	20,000	17,000
Bills Payable	Out-flow	16,000	12,000
Prepaid Expenses	Out-flow	400	600

Ans 13

Calculation of Cash Flow from Operating Activities

Particulars			(₹)
Net Profit before Tax			
Net Profit	1,00,000		
Provision for Taxation	1,60,000		
Transfer to General Reserve	40,000		
Adjustment for:			

Add: Depreciation on Fixed Assets	20,000	
Witting off Preliminary Expenses	10,000	
Loss on Sale of Furniture	1000	
Less: Profit on Sale of Machinery	(6000)	
Operating Profit before Working Capital Changes	**2,99,000**	
Add: Increase in Creditors (Inflow of cash)	10,000	
Decrease in Bills Receivable (Inflow)	3,000	
Less: Increase in Debtors (Outflow)	(6,000)	
Decrease in Bills Payable (Outflow)	(4,000)	
Increase in Prepaid Expenses (Outflow)	(200)	
Net Cash Flow from Operating Activities	**3,01,800**	**3,01,800**
Net Flow of Cash = Inflow of Cash – Outflow of Cash		

Ques 14

From the following information of Nova Ltd, calculate the cash flow from Investing activities:

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Machinery (At Cost)	5,00,000	3,00,000
Accumulated Depreciation on Machinery	1,00,000	80,000
Goodwill	1,50,000	1,00,000
Land	70,000	1,00,000

Additional Information: During the year, a machine costing ₹ 50,000 on which the accumulated depreciation was ₹ 35,000, was sold for ₹12,000.

Ans

Machinery Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Balance b/d	**3,00,000**	Provision for Depreciation A/c	**35,000**
Bank A/c (Purchase as balancing figure)	**2,50,000**	Bank A/c	12,000
		Loss on sale A/c	3,000
		Balance c/d	**5,00,000**
	5,50,000		5,50,000

Provision for Depreciation Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Machinery A/c (transfer entry for accu. Dep. On sold asset)	**35,000**	Balance b/d	**80,000**
Balance c/d	**1,00,000**	Depreciation A/c (depreciation of the current year as balancing figure)	**55,000**
	1,35,000		1,35,000

	Cash Flow from Investing Activity (1) Sale of Machinery 12,000 (2) Purchase of Machinery (2,50,000) (3) Purchase of Goodwill (50,000) (4) Sale of Land 30,000
Ques 15	The profit of Jova Ltd for the year ended 31st March, 2019 after appropriation was ₹ 2,50,000.

Additional Information:

Sr. No	Particulars	Amount (₹)
1	Depreciation on Machinery	20,000
2	Goodwill written off	9,000
3	Loss on sale of Furniture	2,000
4	Transfer to General Reserve	22,500

The following was the position of Current Assets and Current Liabilities as at 31st March 2018 and 2019

Particulars	31.03.2018	31.03.2019
Income received in advance	8,000	--------------
Inventories	12,000	8,000

Calculate the Cash flow from operating activities.

Ans

Cash Flow from Operating Activities

Particulars	Amount ₹

Net profit before Tax & Dividend:		2,72,500
Net Profit 2,50,000		
Add: Transfer to General Reserve 22,500		
Add: Depreciation on Machinery	20,000	
Add: Written-off Goodwill	9,000	
Add: Loss on Sale of Machinery	2,000	31,000
Cash flow before changes in working Capital		3,03,500
Adjustment for Changes in Working-Capital		
Add: Decrease in Inventories	4,000	
Less: Increase in Income received in advance	(8,000)	(4,000)
Net Cash Generated (Flow) from Operating Activities during the year		**2,99,500**

Ques 16

Following is the extract from the Balance Sheet of KV Ltd.

Equity & Liabilities	31st March 2022	31st March 2021
Equity share capital	5,00,000	5,00,000
10% preference share capital	5,00,000	5,00,000
Surplus	4,50,000	2,50,000
Dividend Payable	20,000	0

Additional Information: -

i. Final Dividend on equity shares for the year ended 31st March, 2021 & 2022 were ₹ 1,50,000 & ₹ 1,00,000

ii. Interim dividend of ₹ 50,000 on equity shares was paid on 31st December 2021.

Determine net profit before tax & extraordinary items.

Ans

Surplus =	4,50,000
	-2,50,000
	2,00,000
Interim Dividend paid during the year	+50,000

	Dividend on preference share for the year ended 31st March 2021	+ 50,000
	Proposed dividend on 31st March 2021	+1,50,000
	Profit before tax	= 4,50,000

Que 17

Compute cash from operations from the following figures:

(i) Profit for the year 2020-21 is a sum of ₹ 10,000 after providing for depreciation of ₹ 2,000.

(ii) The current assets of the business for the year ended March 31, 2020 and 2021 are as follows:

	March 31, 2020 (₹)	March 31, 2021 (₹)
Trade Receivables	14,000	15,000
Provision for Doubtful Debts	1,000	1,200
Trade Payables	13,000	15,000
Inventories	5,000	8,000
Expenses payable	1,000	1,500
Prepaid Expenses	2,000	1,000
Accrued Income	3,000	4,000
Income received in advance	2,000	1,000

.

Ans

Cash Flow Statement

for the Year Ending March 31, 2021

Particulars	Details (Rs)	Amount (Rs)
Cash from Operating Activities		
Net Profit		10,000
Items to be added:		
Depreciation	2,000	2,000
Operating Profit before Working Capital Adjustments		12,000
Less: Increase in Current Assets		
Trade Receivables	(1,000)	
Accrued Income	(1,000)	
Inventories	(3,000)	
Add: Increase in Current Liabilities		
Provision for Doubtful Debts	200	
Trade Payables	2,000	
Expense Payable	500	
Add: Decrease in Current Assets		
Prepaid Expenses	(1,000)	
Less: Decrease in Current Liabilities		
Income received in advance	1,000	
Net Cash From Operating Activities		**9,700**

Que 18

From the following particulars of Bharat Gas Limited, calculate Cash Flows from Investing Activities. Also, show the workings clearly preparing the ledger accounts:

Balance Sheet of Bharat Gas Ltd. as on 31 Mar. 2016 and 31 Mar. 2017

Particulars	Note No.	Figures as the end of 2017 (Rs)	Figures as at the end of reporting 2016 (Rs)
II) Assets			
1. Non-current Assets			
a) Fixed assets			
i) Tangible assets	1	12,40,000	10,20,000
ii) Intangible assets	2	4,60,000	3,80,000
b) Non-current investments	3	3,60,000	2,60,000

Notes 1 Tangible assets = Machinery

2 Intangible assets = Patents

Notes

		Figures of current year	Figures of previous year
1.	Tangible Assets		
	Machinery	**12,40,000**	**10,20,000**
2.	Intangible Assets		
	Goodwill	3,00,000	1,00,000
	Patents	1,60,000	2,80,000
		4,60,000	**3,80,000**
3.	Non-current Investments		
	10% long term investments	1,60,000	60,000
	Investment in land	1,00,000	1,00,000
	Shares of Amartex Ltd.	1,00,000	1,00,000
		3,60,000	**2,60,000**

***Additional Information*:**

(a) Patents were written-off to the extent of ₹ 40,000 and some Patents were sold at a profit of ₹ 20,000.

(b) A Machine costing ₹ 1,40,000 (Depreciation provided thereon ₹ 60,000) was sold for ₹ 50,000. Depreciation charged during the year was ₹ 1,40,000.

(c) On March 31, 2016, 10% Investments were purchased for ₹ 1,80,000 and some Investments were sold at a profit of ₹ 20,000. Interest on Investment was received on March 31, 2017.

(d) Amartax Ltd. paid Dividend @ 10% on its shares.

(e) A plot of Land had been purchased for investment purposes and let out for commercial use and rent received ₹ 30,000.

Ans

Cash Flow from Investing Activities

Particulars	Amount Rs	Amount Rs
Cash Inflow		
Proceeds from Sale of Patents	1,00,000	
Proceeds from Sale of Machinery	50,000	
Proceeds from Sale of 10% Long-term Investment	1,00,000	
Interest received on 10% Long-term Investment	6,000	
Dividend Received from Amartax Ltd.	10,000	
Rent Received	30,000	2,96,000
Cash Outflow		
Purchase of Goodwill	(2,00,000)	
Purchase of Machinery	(4,40,000)	
Purchase of 10% Long-term Investment	(1,80,000)	(8,20,000)
Net Cash used in Investing Activities		(5,24,000)

Patents Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Balance b/d		2,80,000		Profit and Loss (written off)		40,000
	Profit and Loss (Profit on sale)		20,000		Bank (sale- *Balancing figure*)		1,00,000
					Balance c/d		1,60,000
			3,00,000				3,00,000

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Balance b/d		10,20,000		Depreciation		1,40,000
	Bank (Purchases- *Balancing figure*)		4,40,000		Bank		50,000
					Profit and Loss		30,000
					Balance c/d		12,40,000
			14,60,000				14,60,000

10% Long-term Investment Account

	Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Balance b/d		60,000		Bank (*Balancing figure*)		1,00,000
	Bank		1,80,000				
	Profit and Loss (Profit on sale)		20,000		Balance c/d		1,60,000
			2,60,000				2,60,000

Que 19

Calculate Net cash flow from investing activities from the following information

	2021	2022
Building (Written Down Value)	6,00,000	7,50,000

Additional information: -

i. Building costing ₹ 1,00,000 on which ₹ 30,000 had accumulated as depreciation was sold for ₹ 60,000.

ii. Depreciation charged on building for the year ended 31st March 2022 ₹ 50,000.

Ans

Building Account

Particulars	₹	Particulars	₹
To balance b/d	6,00,000	By Bank A/c	60,000
To Bank Account (B/F)	2,70,000	By Loss on sales a/c (1,00,000-30,000-60,000)	10,000
		By depreciation	50,000
		By Balance c/d	7,50,000
	8,70,000		**8,70,000**

Net cash flow investing activities:

Sale of building	₹60, 000
Purchase of Building	(₹2,70,000)
Net Cash used	**(₹2,70,000)**

Que 20

Followings are the details of a business concern.

	Balance as at 2019 — 31st March 2018 — 31st March

Balance as at	31st March 2018	31st March 2019
Machinery	5,00,000	6,00,000
Accumulated depreciation	1,64,000	1,80,000

During the year a machine costing ₹ 1,00,000 accumulated depreciations thereon ₹ 44,000 was sold for ₹30, 000.

Prepare Machinery account, Accumulated depreciation account & extract of cash flow statement for the given information.

Ans

Machinery Account

Particulars	₹	Particulars	₹
To balance b/d	5,00,000	By Bank a/c	30,000
To bank a/c	2,00,000	By acc. Dep. a/c	44,000
		By Loss on sales (1,00,000-44,000-30,000)	26,000
		By balance c/d	6,00,000
	7,00,000		7,00,000

Acc. Dep. a/c

Particulars	₹	Particulars	₹
To machinery a/c	44,000	To balance b/d	1,64,000
To balance c/d	1,80,000	By Dep. a/c	60,000
	2,24,000		2,24,000

Effect on Cash Flow Statement

Net profit	……
Add: dep on machinery	60,000
Loss on sales of machine	26,000
Cash Flow from investing	
Sales of machinery	30,000
Purchase of machinery	2,00,000

Que 21	Determine cash flow from financing activities.

Particulars	31st March 2022	31st March 2021
Equity share capital	15,00,000	10,00,000
10% debentures	------	1,00,000
8% Debentures	2,00,000	------

Additional information: -

i. Interest paid on debentures ₹ 10,000
ii. Dividend paid ₹ 50,000
iii. During the year Company issued bonus in the ratio of 2:1.
iv. Debentures are issued & redeemed on 31st March 2022.

Ans

Cash flow from financing activities

	₹
Proceeds from the issue of 8% debentures	2,00,000
Redemption of 10% debentures	(1,00,000)
Interest paid on debentures	(10,000)
Dividend paid	(50,000)
	40,0000

Que 22

State which of the following would result in inflow, outflow or noflow of cash & cash equivalents.

a) Sale of fixed assets book value ₹ 5,00,000 at 10% profit.
b) Sale of goods against cash.
c) Purchase of machinery by cheque.
d) Purchased building of ₹ 10,00,000 by issuing debentures.
e) Issued fully paid bonus share.
f) Cash with drawn from bank.
g) Payment of interim dividend.

Ans

In flow (a), (b)

Out flow (c), (g)

No flow (d), (e), (f)

Que 23	Classify the followings in cash & cash equivalent, operating, investing, financing activities for manufacturing business unit. a) Bank overdraft. b) Income tax paid. c) Tax paid on sales of assets. d) Marketable securities. e) Issue of debentures. f) Patents purchased. g) Interest on investments. h) Cash paid to creditors
Ans	cash & cash equivalent (d) operating (b) (h) investing (c), (f), (g) financing activities (a), (e)
Que 24	Classify the followings in cash & cash equivalent, operating, investing, financing activities for a financial company. a) Dividend received. b) Dividend paid. c) Interest received. d) Machinery purchased. e) Salary paid. f) Equity shares issued. g) Debentures sold of other business unit. h) Equity share purchased
Ans	Operating (a), (c), (e), (g), (h) Investing (d) Financing (b), (f),
	SHORT ANSWER TYPE OF QUESTIONS (FOUR MARKS)
Ques 25	From the following Balance Sheets of X Ltd. as on 31.03.2020 and 31.03.2021. Prepare a cash flow statement.

Particulars	Note No.	Figures as at the end of 31.3.2020 (₹)	Figures as at the end of 31.3.2021 (₹)
I. Equity and Liabilities			
Shareholders' funds			
(a) Share capital		45,000	65,000
(b) Reserves and surplus		25,000	42,500
Current liabilities			
Trade payables		8700	11,000
Total		**78,700**	**1,18,500**
II. Assets			
(1) Non-current assets			
(a) Fixed assets			
(i)Tangible Assets		46,700	83,000
(2) Current Assets			
Inventories		11,000	13,000
Trade receivables		18,000	19,500
Cash and cash equivalents		3,000	3000
Total		**78,700**	**1,18,500**

Notes to Accounts

Particulars	Figures as at the end of 31.3.2020 (Rs)	Figures as at the end of 31.3.2021 (Rs)
Reserve and Surplus:		
General Reserve	15,000	27,500
Balance in Statement of P&L A/c	10,000	15,000
Total	**25,000**	**42,500**

Additional Information:

(i) Depreciation on fixed assets for the year 2020-21 was ₹14,700.

(ii) An interim dividend ₹ 7,000 has been paid to the shareholders during the year.

Ans

Calculation of Net Profit before Tax and Extraordinary 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 Extraordinary item	24,500

Cash Flow Statement
For the year ended 31st March 2021

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	46,700		By Depreciation A/c (Current year dep. on remaining fixed assets)	14,700
	To Bank A/c (additional purchase) (B.F)	51,000		By Balance c/d	83,000
		97,700			97,700

Ques 26	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 Liabilities			
(1) Shareholders' 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
(3) 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:

Particulars	2021 (Rs)	2020(Rs)
Reserve and Surplus Surplus (Balance in statement of profit and loss)	1,32,000	24,000

Ans 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 noncurrent investments	(30,000)	
Cash used in investing activities.		**(72,000)**
3.Cash flows from Financing Activities:		
Issue of share capital	30,000	
Cash flow from financing activities		**30,000**
		8,500
Net increase in cash & cash equivalents(A+C-B)		
Add: Opening balance of cash & cash equivalents:		
Marketable Securities	60,000	
Cash & cash Equivalents	9,500	69,500
Marketable Securities	54,000	
Cash & Cash equivalents	24,000	
Closing balance of cash & cash equivalents:		78,000

Ques 27	Prepare Cash Flow Statement on the basis of information given in the Balance Sheets of Reiga Ltd as at 31st March, 2019 and 31st March, 2020:

Particulars	Note No.	31st March, 2019	31st March, 2020
I. Equity & Liabilities			
1. Shareholders Funds			
(a) Share Capital		2,00,000	2,50,000
(b) Reserve & Surplus	1	50,000	70,000
2. Non-Current Liabilities			
Long-Term Borrowings	2	1,00,000	80,000
3. Current Liabilities			
(a) Trade Payable	3	60,000	1,60,000
(b) Other Current Liabilities	4	25,000	20,000
		4,35,000	5,80,000
II. Assets			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	5	1,50,000	2,00,000
(ii) Intangible Assets	6	10,000	2,000
(b) Long-Term Loans & Advances		1,00,000	1,30,000
2. Current Assets			
(a) Inventories		70,000	90,000
(b) Trade Receivables		40,000	60,000
(c) Cash & Cash Equivalents		65,000	98,000
		4,35,000	5,80,000

Note to Accounts

Particulars	31st March, 2019	31st March, 2020
1. Reserve & Surplus		
General Reserve	50,000	70,000
2. Long-Term Borrowings: 12% Debentures	1,00,000	80,000
3. Trade Payables		
Creditors	40,000	60,000
Bills Payable	20,000	1,00,000
4. Other Current Liabilities		
Outstanding Expenses	25,000	20,000
5. Tangible Fixed Assets		
Machinery	2,00,000	2,60,000
Less: Provision for Depreciation	(50,000)	(60,000)
6. Intangible Fixed Assets: Goodwill	10,000	2,000

Additional Information:

1. During the year a piece of machinery with a book value of ₹ 30,000; provision for depreciation on it ₹ 10,000 was sold at a loss of 50% on book value.

2. Debentures were redeemed on 31st March, 2020.

Ans	**Cash Flow Statement**

Particulars				Amount	Amt. in ₹
(A)	**Cash Flow from Operating Activities:**				**1,30,000**
	Net Profit before Tax and Dividend				
	Net Profit		**20,000**		
	Add: Non-Cash and Non-Operating charges				
	Interest on Debentures	12,000			
	Amortization of Goodwill	8,000			
	Loss on Sale of machinery	15,000			
	Depreciation on machinery	20,000	**55,000**		
Cash flow from Operating before changes in Working Capital				**75,000**	
	Adjustments for changes in Working Capital				
	Add: Increase in CL and Decrease in CA				
	Creditors	20,000			
	Bills Payables	80,000	**1,00,000**		
	Less: Increase in CA and Decrease in CL				
	Outstanding Expenses	(5,000)			
	Inventories	(20,000)			
	Trade Receivables	(20,000)	**(45,000)**	**55,000**	
		Less: Income Tax paid		**------**	
(B)	**Cash Flow from Financing Activities:**				**18,000**
	Issue of Shares			**50,000**	
	Redemption of Debentures			**(20,000)**	
	Interest on Debentures paid			**(12,000)**	
(C)	**Cash Flow from Investing Activities:**				**(1,15,000)**
	Long-Term Loans & Advance			**(30,000)**	
	Purchase of Fixed Asset (Machinery)			**(1,00,000)**	
	Old Fixed Asset (Machinery) sold			**15,000**	
	Cash flow during year from business activities				**33,000**
	Add: Opening Cash & Cash Equivalents				**65,000**
	Closing Cash & Cash Equivalents				**98,000**

Machinery Account

Particulars	Amt. in ₹	Particulars	Amt in ₹
Balance b/d	2,00,000	Provision for Depreciation A/c	10,000
Bank A/c (Purchase of machinery as balancing figure)	**1,00,000**	**Bank A/c**	**15,000**
		Loss on sale A/c	**15,000**
		Balance c/d	2,60,000
	3,00,000		3,00,000

Provision for Depreciation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Machinery A/c (Accumulated Dep. On sold machinery trans.)	10,000	Balance b/d	50,000
			20,000
Balance c/d	60,000	**Depreciation A/c** (Provide depreciation during year as balancing figure)	
	70,000		70,000

Que 28	From the following Balance Sheet of Gopal Ltd. and the additional information as at 31st March, 2019, prepare a Cash Flow statement when cash flows from financing activities is ` 2,32,000.

Gopal Ltd.

Balance Sheet as at 31-3-2019

	Particulars	Note No.	31.03.2019 ₹	31.03.2018 ₹
I	Equity and Liabilities :			
1.	Shareholder's Funds :			
	(a) Share Capital		10,00,000	8,00,000
	(b) Reserves and Surplus	1	4,00,000	(1,00,000)
2.	**Non-Current Liabilities :**			
	Long-term Borrowings	2	9,00,000	9,00,000
3.	**Current Liabilities :**			
	Short term Borrowings	3	2,40,000	1,00,000
	Short term Provisions	4	2,00,000	1,75,000
	Total		27,40,000	18,75,000
II	Assets :			
1.	Non-Current Assets			
	(a) Tangible Assets	5	20,00,000	14,42,000
	(b) Intangible Assets	6	46,000	58,000
	(c) Non-current Investments		1,00,000	45,000
2.	Current Assets :			
	(a) Current Investments		2,00,000	1,20,000
	(b) Inventories	7	2,14,000	90,000
	(c) Cash and Cash Equivalents		1,80,000	1,20,000
	Total		27,40,000	18,75,000

Notes to Accounts :

Note No	Particulars	31.03.2019 (₹)	31.03.2018 (₹)

1.	Reserves and Surplus: (Surplus (i.e. Balance in Statement of Profit and Loss)	4,00,000	(1,00,000)
2.	Long-term Borrowings: 9% Debentures	9,00,000	9,00,000
3.	Short term Borrowings Bank overdraft	2,40,000	1,00,000
4.	Short term provisions Provision for tax	2,00,000	1,75,000
5.	Tangible Assets : Machinery (-) Accumulated Depreciation	24,00,000 (4,00,000)	16,42,000 (2,00,000)
		20,00,000	14,42,000
6.	Intangible Assets : Goodwill	46,000	58,000
7.	Inventories Stock in trade	2,14,000	90,000

Additional Information:

Tax ₹1,50,000 was paid during the year.

Ans

Cash Flow Statement of Gopal Ltd. for the year ended 31st March 2019

Particulars	Details (₹)	Amount (₹)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit before Tax	6,75,000	
Adjustment for non cash and non operating items		
Add		
Interest on debentures	1,08,000	
Depreciation	2,00,000	
Goodwill written off	12,000	
Operating profit before Working capital changes	9,95,000	
Less Increase in Inventory	(1,24,000)	
Cash from operations	8,71,000	

Less Tax paid	(1,50,000)	
Cash Inflows from Operating activities		7,21,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Plant and Machinery	(7,58,000)	
Purchase of Investments	(55,000)	
Cash used in investing activities		(8,13,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows from Financing activities		2,32,000
Net increase in Cash and Cash equivalents		1,40,000
Add Opening balance of Cash and Cash equivalents		
Current Investments	1,20,000	
Cash and Cash equivalents	1,20,000	2,40,000
Closing balance of Cash and Cash equivalents		
Current Investments	2,00,000	
Cash and Cash equivalents	1,80,000	3,80,000

Working notes :

Calculation of Net Profit before Tax :

Net Profit	5,00,000
Add Provision for Tax	1,75,000
	6,75,000

Provision for Tax A/c

Particulars	₹	Particulars	₹
To Cash A/c	1,50,000	By balance b/d	1,75,000
To Balance c/d	2,00,000	By Statement of P & L – Provision made	1,75,000
	3,50,000		**3,50,000**

Que 29

Cash flow from the operating activities of Pinnacle Ltd. For the year ended 31st March 2019 was ₹ 28,000. The Balance Sheet along with notes to accounts of Pinnacle Ltd. As at 31st March, 2019 is given below:

Pinnacle Ltd.

Balance Sheet as at 31st March,2019

	Particulars	Note	31.03.2019	31.03.2018

		No.	₹	₹
I	Equity and Liabilities :			
1.	Shareholder's Funds :			
	(a) Share Capital		9,00,000	5,00,000
	(b) Reserves and Surplus	1	90,000	1,10,000
2.	**Non-Current Liabilities :**			
	Long-term Borrowings	2	3,00,000	2,00,000
3.	**Current Liabilities :**			
	Trade Payables		60,000	80,000
	Total		13,50,000	8,90,000
II	Assets :			
1.	Non-Current Assets			
	(a) Tangible Assets	3	7,46,000	5,24,000
	(b) Intangible Assets	4	36,000	76,000
2.	Current Assets :			
	(a) Current Investments		1,30,000	20,000
	(b) Inventories		2,00,000	1,30,000
	(c) Cash and Cash Equivalents		2,38,000	1,40,000
	Total		13,50,000	8,90,000

Notes to Accounts :

Note No	Particulars	31.03.2019	31.03.2018
1.	Reserves and Surplus: (Surplus (i.e. Balance in Statement of Profit and Loss)	90,000	1,10,000
		90,000	1,10,000
2.	Long-term Borrowings: 9% Debentures	3,00,000	2,00,000
		3,00,000	2,00,000
3.	Tangible Assets : Plant and machinery (-) Accumulated Depreciation	 8,86,000 (1,40,000)	 6,04,000 (80,000)

		7,46,000	5,24,000
4	Intangible Assets : Goodwill	 36,000	 76,000

You are given the following additional information :

(i) A machinery of the book value of ₹ 90,000 (depreciation provided thereon was ₹ 23,000), was sold at a profit ₹ 12,000.

(ii) 9% debentures were issued on 1st April, 2018.

Prepare the Cash Flow Statement.

Ans

Cash Flow Statement of Pinnacle Ltd. for the year ended 31st March 2019

Particulars	**Details (₹)**	**Amount (₹)**
A. Cash flows from Operating Activities :		
Cash Inflows from Operating activities		28,000
B. Cash flows from Investing Activities :		
Purchase of Plant and Machinery	(3,95,000)	
Sale of Plant and Machinery	1,02,000	
Cash used in investing activities		(2,93,000)
C. Cash flows from Financing Activities		
Issue of Share Capital	4,00,000	
Issue of 9% Debentures	1,00,000	
Interest paid on 9% Debentures	(27,000)	
Cash Inflows from Financing activities		4,73,000
Net increase in Cash and Cash equivalents		2,08,000
Add Opening balance of Cash and Cash equivalents		
Current Investments	20,000	
Cash and Cash equivalents	1,40,000	1,60,000
Closing balance of Cash and Cash equivalents		
Current Investments	1,30,000	
Cash and Cash equivalents	2,38,000	3,68,000

Working notes :

Plant and Machinery A/c

Particulars	₹	Particulars	₹
To Balance b/d	6,04,000	By Accumulated Dep. A/c	23,000
To Statement of Profit and Loss (gain on sale)	12,000	By Cash A/c	1,02,000
		By Balance c/d	8,86,000
To Cash A/c (Bal fig)	3,95,000		
	5,50,000		5,50,000

Accumulated Depreciation A/c

Particulars	₹	Particulars	₹
To Plant and Machinery A/c	23,000	By balance b/d	80,000
To Balance c/d	1,00,000	By Depreciation	83,000
	1,63,000		1,63,000

Que 30

(i)	The profit of Java Ltd. For the year ended 31st March, 2019 after appropriation was ₹ 2,50,000.

Additional Information:

S.No.	Particulars	Amount ₹
1.	Depreciation on Machinery	20,000
2.	Goodwill written off	9,000
3.	Loss on sale of Furniture	2,000
4.	Transfer to General Reserve	22,50

(ii) From the following information of Nova Ltd., calculate the cash flow from investing activities:

Particulars	31.03.2019 ₹	31.03.2018 ₹
Machinery (At cost)	5,00,000	3,00,000
Accumulated Depreciation on machinery	1,00,000	80,000
Goodwill	1,50,000	1,00,000
Land	70,000	1,00,000

	Additional Information: During the year, a machine costing ₹ 50,000 on which the accumulated depreciation was ₹35,000, was sold for ₹ 12,000.
Ans	(i) **Jova Ltd.**

Cash Flow from Operating Activities

Particulars	**Amount (₹)**
Net profit before tax	2,72,500
Add: Depreciation	20,000
Add: Goodwill written off	9,000
Add: loss on sale of furniture	2,000
Operating profit before working capital changes	3,03,500
Add: Decrease in inventory 4,000 Less: Decrease in advance income (8,000)	(4,000)
Working Note : Calculation of Net Profit before Tax : Net Profit 2,50,000 Add Transfer to general reserve 22,500	2,72,500

(ii) **Nova Ltd.**

Cash Flow from Investing Activities

Particulars	Amount (₹)
Purchase of Machinery	(2,50,000)
Purchase of Goodwill	(50,000)
Sale of Machinery	12,000
Sale of land	30,000
Cash used in Investing activities	**(2,58,000)**

Working notes :

Machinery A/c

Particulars	₹	**Particulars**	₹
To Balance b/d	3,00,000	By Bank A/c	12,000
To Bank A/c (Bal fig)	2,50,000	By Accum. Dep. A/c	35,000

		By Statement of P& loss on Sale	3,000
		By Balance c/d	5,00,000
	5,50,000		5,50,000

Accumulated Depreciation A/c

Particulars	₹	Particulars	₹
To Machinery A/c	35,000	By balance b/d	80,000
To Balance c/d	1,00,000	By Depreciation	55,000
	1,35,000		1,35,000

Que 31

From the following Balance Sheet of G Ltd. As at 31st March, 2019 and additional information, prepare Cash Flow Statement:

Balance Sheet of G Ltd. As at 31st March, 2019

	Particulars	Note No.	31.03.2019 ₹	31.03.2018 ₹
I	Equity and Liabilities:			
1.	Shareholder's Funds:			
	(a) Share Capital		8,00,000	6,00,000
	(b) Reserves and Surplus	1	3,30,000	2,20,000
2.	**Non-Current Liabilities:**			
	Long-term Borrowings	2	1,60,000	1,00,000
3.	**Current Liabilities:**			
	Trade Payables		1,65,000	1,95,000
	Total		14,55,000	11,15,000
II	Assets:			
1.	Non-Current Assets			
	(a) Fixed Assets	3	9,50,000	6,05,000
	(b) Non-Current Investments		1,35,000	1,00,000
2.	Current Assets :			
	(a) Current Investments		80,000	40,000

	(b) Trade Receivables		90,000	2,00,000
	(c) Cash and Cash Equivalents		2,00,000	1,70,000
	Total		14,55,000	11,15,000

Notes to Accounts :

Note No	Particulars	31.03.2019	31.03.2018
1.	Reserves and Surplus: (Surplus (i.e. Balance in Statement of Profit and Loss)	3,30,000	2,20,000
		3,30,000	2,20,000
2.	Long-term Borrowings: 10% Debentures	1,60,000	1,00,000
		1,60,000	1,00,000
3.	Fixed Assets: Machinery (cost) (-) Accumulated Depreciation	10,70,000 (1,20,000)	7,00,000 (95,000)
		9,50,000	6,05,000

Additional Information:

10% Debentures ₹ 60,000 were issued on 1st April, 2018.

Ans

G Ltd. Cash flow Statement for the year ending 31st March, 2019

Particulars	Details (₹)	Amount (₹)
A. Cash flows from Operating Activities :		
Net Profit before Tax	1,10,000	
Add: Depreciation on Machinery	25,000	
Add: Interest on Debentures	16,000	
Operating profit before the working Capital changes	1,51,000	
Add: Decrease in Trade Receivables	1,10,000	
Less: Decrease in Trade Payable	(30,000)	
Net Cash generated from Operating Activities		2,31,000
B. Cash flows from Investing Activities :		
Purchase of Machinery	(3,70,000)	

Purchase of Non- Current Investments	(35,000)	
Net Cash used in investing activities		(4,05,000)
C. Cash flows from Financing Activities		
Proceeds from Issue of shares	2,00,000	
Proceeds from Issue of 10% Debentures	60,000	
Payment of interest on 10% Debentures	(16,000)	
Cash flows from Financing Activities		2,44,000
Net Increase in Cash and Cash Equivalents		70,000
Add: Opening Balance of Cash and Cash equivalents		2,10,000
Closing Balance of Cash and Cash equivalents		2,80,000

Que 32

Following is the balance sheet of Rs Ltd as at 31st March, 2016.

	Particulars	Note No.	31st March, 2016 Amt (Rs)	31st March,2015 Amt (Rs)
1.	EQUITY AND LIABILITIES			
	1.Shareholders' Funds			
	(a) Share Capital		9,00,000	7,00,000
	(b) Reserves and Surplus	1	2,50,000	1,00,000
	2.Non-current Liabilities			
	Long-term Borrowings	2	4,50,000	3,50,000
	3.Current Liabilities			
	(a)Short-term Borrowings	3	1,50,000	75,000
	(b)Short-term Provisions	4	2,00,000	1,25,000
	Total		19,50,000	13,50,000
2	ASSETS			
	1.Non-current Assets			
	(a)Fixed Assets			
	(i)Tangible	5	14,65,000	9,15,000

	(ii)Intangible	6	1,00,000	1,50,000
	(b) Non-current Investments		1,50,000	1,00,000
	2.Current Assets			
	(a)Current Investments		40,000	70,000
	(b)Inventories	7	1,22,000	72,000
	(c)Cash and Cash Equivalents		73,000	43,000
	Total		19,50,000	13,50,000

Note to Accounts

Note No.	**Particulars**	**31st March,2016 Amt (Rs)**	**31st March,2015 Amt (Rs)**
1.	Reserves and Surplus (Surplus i.e., Balance in the Statement of Profit and Loss)	2,50,000	1,00,000
		2,50,000	1,00,000
2.	Long-term Borrowings 12% Debentures	4,50,000	3,50,000
		4,50,000	3,50,000
3.	Short-term borrowings Bank Overdraft	1,50,000	75,000
		1,50,000	75,000
4.	Short-term Provisions Proposed Dividend	2,00,000	1,25,000
		2,00,000	1,25,000
5.	Tangible Assets		
	Machinery	16,75,000	10,55,000
	Accumulated Depreciation	(2,10,000)	(1,40,000)
		14,65,000	9,15,000
6.	Intangible Assets		

	Goodwill	1,00,000	1,50,000
		1,00,000	1,50,000
7.	Inventories		
	Stock in Trade	1,22,000	72,000
		1,22,000	72,000

Additional Information

i. ₹1,00,000, 12% debentures were issued on 31st March,2016.
ii. During the year a piece of machinery costing ₹ 80,000 on which accumulated depreciation was ₹ 40,000 was sold at a loss of ₹10,000.
Prepare a cash flow statement.

Ans

R.S. Ltd.

Cash Flow Statement

(for the year ended 31st March,2016)

	Particulars		**Amt (Rs)**
A.	**Cash Flow from Operating Activities**		
	Net profit before Tax and Extraordinary Items (W.N)		3,50,000
	Adjustments for Non-cash and Non-Operating Items		
	(+) Goodwill Written off	50,000	
	(+) Interest on Debentures	42,000	
	(+)Depreciation	1,10,000	
	(+) Loss on sale of Machinery	10,000	2,12,000
	Operating Profit before Working Capital Changes		5,62,000
	(-)Increase in Current Assets and Decrease in Current Liabilities		
	Inventories	(50,000)	(50,000)
	Net Cash from Operating Activities		5,12,000
B.	**Cash Flow from Investing Activities**		
	Proceeds from Sale of Machinery	30,000	
	Purchase of Machinery	(7,00,000)	

	Purchase of Non-Current Investments	(50,000)	
	Net Cash used in Investing Activities		(7,20,000)
C.	**Cash Flow From Financing Activities**		
	Proceeds from Issue of Share Capital	2,00,000	
	Increase in Bank Overdraft	75,000	
	Interest on Debentures Paid	(42,000)	
	Proceeds from Issue of Debentures	1,00,000	
	Proposed Dividend Paid	(1,25,000)	
	Net Cash Flow From Financing Activities		2,08,000
	Net Decrease in Cash and Cash Equivalents		0
	(+) Cash and Cash Equivalents in the Beginning of the year (Cash and cash equivalents 43,000+Current investment 70,000)		1,13,000
	Cash and Cash Equivalents at the End of the year (Cash and cash equivalents 73,000 + current investment 40,000)		1,13,000

Working Notes

1. Calculation of Net Profit before Tax and Extraordinary Items

Profits as per statement of profit and Loss (2,50,000-1,00,000)	1,50,000
(+) Proposed dividend	2,00,000
	₹3,50,000

2. **Machinery Account**

Dr.			**Cr**
Particulars	Amt (Rs)	Particulars	Amt (₹)
To Balance b/d	10,55,000	By Bank A/c (Sale)	30,000
To Bank A/c (Purchases)	7,00,000	By Accumulated Depreciation A/c	40,000

		By Statement of Profit and Loss (Loss on Sale)	10,000
		By Balance c/d	16,75,000
	17,55,000		**17,55,000**

3. **Accumulated Depreciation Account**

Particulars	**Amt (Rs)**	**Particulars**	**Amt (Rs)**
To Machinery A/c (Depreciation on Machinery Sold)	40,000	By Balance b/d	1,40,000
To Balance c/d	2,10,000	By Depreciation A/c (Statement of Profit and Loss)	1,10,000
	2,50,000		**2,50,000**

4. Net Cash Flow from Operating Activities= ₹ 5,12,000
Net Cash used in Investing Activities= ₹ (7,20,000)
Net Cash Flow from Financing Activities= ₹ 2,08,000