

CBSE Class 12 Accountancy 67/4/3 2024 Question Paper with Solutions

Time Allowed :3 Hours

Maximum Marks :80

Total Questions :34

General Instructions

Read the following instructions very carefully and strictly follow them::

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts Part A and Part B.
3. Part A is compulsory for all candidates.
4. Part – B has two options i.e. (I) Analysis of Financial Statements and (II) Computerised Accounting. Candidates must attempt only one of the given options as per the subject opted in Part – B.
5. Question numbers 1 to 16 and 27 to 30 carry 1 mark each.
6. Question numbers 17 to 20, 31 and 32 are short answer type questions. Each carries 3 marks.
7. Question numbers 21, 22 and 33 are long answer type-I questions. Each carries 4 marks.
8. Question numbers 23 to 26 and 34 are long answer type-II questions. Each carries 6 marks.
9. There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.

SECTION A

(Accounting for Partnership Firms and Companies)

1(a). Arnav Ltd. purchased assets worth 24,00,000. It issued 9% debentures of 100 each at a discount of 4% for payment of the purchase consideration. The number of debentures issued to the vendor were:

- (A) 24,000
- (B) 25,000
- (C) 30,000
- (D) 28,000

Correct Answer: (B) 25,000

Solutions: The total purchase consideration amounts to 24,00,000. Given that the debentures are issued at a 4% discount, the issue price of each debenture is calculated as follows:

$$\text{Issue Price} = 100 - (4\% \text{ of } 100) = 96$$

The total number of debentures issued is determined by:

$$\text{Number of Debentures} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{24,00,000}{96} = 25,000$$

Therefore, 25,000 debentures were issued to the vendor.

Quick Tip

To find the number of debentures issued, divide the purchase consideration by the effective issue price per debenture, factoring in any discounts or premiums.

1(b). On 1st May, 2023, Amrit Ltd. issued 10,000, 10% debentures of 100 each at a premium of 10% redeemable at a premium of 10%. Loss on issue of debentures will be:

- (A) 2,00,000
- (B) 1,30,000
- (C) 1,00,000
- (D) 80,000

Correct Answer: (C) 1,00,000

Solutions:

Step 1: Calculate the Issue Price:

The issue price for each debenture is calculated as:

$$\text{Issue Price} = 100 + 10\% \text{ of } 100 = 110$$

Step 2: Calculate the Redemption Value:

The redemption value for each debenture is:

$$\text{Redemption Value} = 100 + 10\% \text{ of } 100 = 110$$

Step 3: Calculate the Loss on Issue of Debentures:

The loss on the issue of debentures arises from the premium on redemption. This loss is calculated as:

$$\text{Loss on Issue} = \text{Number of Debentures} \times \text{Premium on Redemption}$$

$$\text{Loss on Issue} = 10,000 \times 10 = 1,00,000$$

Conclusion:

The total loss on the issue of debentures amounts to 1,00,000.

Quick Tip

A loss on the issue of debentures occurs when debentures are redeemed at a premium. This loss is treated as a capital expense and is typically amortized over the life of the debentures.

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

- (A) 2:1:1
- (B) 11:4:5
- (C) 3:3:2
- (D) 7:5:4

Correct Answer: (B) 11:4:5

Solutions: Gupta's share after giving $\frac{1}{4}$ th to Preeti is calculated as:

$$\text{Gupta's New Share} = \frac{4}{5} - \frac{1}{4} = \frac{16}{20} - \frac{5}{20} = \frac{11}{20}$$

Sharma's share remains unchanged:

$$\text{Sharma's Share} = \frac{1}{5} = \frac{4}{20}$$

Preeti's share is:

$$\text{Preeti's Share} = \frac{1}{4} = \frac{5}{20}$$

Thus, the new profit-sharing ratio is:

$$11 : 4 : 5$$

Quick Tip

When making partnership adjustments, always recalculate the new ratios by proportionately reducing the existing partners' shares based on the given distribution.

3. On the disSolutions of a partnership firm there were debtors of 34,000. Debtors of 1,000 became bad and 60% was realized from the remaining debtors. Which account will be debited and by how much amount on the realization from debtors?

- (A) Realisation A/c by 33,000
- (B) Profit & Loss A/c by 1,000
- (C) Cash A/c by 19,800
- (D) Debtors A/c by 14,200

Correct Answer: (C) Cash A/c by 19,800

Solutions: The amount to be realized from debtors is calculated as:

$$\text{Total Debtors} - \text{Bad Debts} = 34,000 - 1,000 = 33,000$$

The amount realized is 60% of 33,000:

$$\text{Amount Realized} = 60\% \times 33,000 = 19,800$$

Therefore, the Cash Account will be debited by 19,800.

Quick Tip

In dissolution accounts, bad debts are written off, and the amount realized is credited to the Cash Account according to the recovery percentage.

4. If vendors are issued fully paid shares of 1,25,000 in purchase consideration of net assets of 1,50,000, the balance of 25,000 will be credited to:

- (A) Statement of Profit and Loss
- (B) Goodwill Account
- (C) Capital Reserve Account
- (D) Profit and Loss Adjustment Account

Correct Answer: (C) Capital Reserve Account

Solutions: When vendors are issued shares valued at 1,25,000 as consideration for net assets worth 1,50,000, a surplus of 25,000 arises. This surplus, which represents the difference between the net assets and the purchase consideration, is credited to the Capital Reserve Account in accordance with standard accounting practices.

Quick Tip

If the purchase consideration is less than the net assets acquired, the difference is transferred to the Capital Reserve Account, indicating the firm's gain from the purchase.

5(a). Riya, Rita, and Renu were partners in a firm. On 31st March, 2023, Renu retired. The amount payable to Renu 2,17,000 was transferred to her loan account. Renu agreed to receive interest on this amount as per the provisions of the Partnership Act, 1932. The rate at which interest would be paid to Renu is:

- (A) 9% p.a.
- (B) 6% p.a.
- (C) 12% p.a.
- (D) 10% p.a.

Correct Answer: (B) 6% p.a.

Solutions: According to Section 37 of the Indian Partnership Act, 1932, interest on the amount due to a retiring partner is payable at 6% per annum, unless the partners have agreed to a different rate.

Quick Tip

Section 37 of the Indian Partnership Act, 1932, stipulates that the interest on amounts due to a retiring partner is 6% p.a., unless an alternative rate is agreed upon.

5(b). Ravi, Vani, and Toni were equal partners in a firm. After the retirement of Vani, the capital balances of Ravi and Toni were 1,56,000 and 1,08,000 respectively. The new capital of the firm was determined at 2,80,000. It was decided that the capital will be in proportion to the profit-sharing ratio of the remaining partners. Toni will bring for deficiency of his new capital.

- (A) 40,000
- (B) 12,000
- (C) 20,000
- (D) 32,000

Correct Answer: (D) 32,000

Solutions:

Ravi and Toni were equal partners, so their new profit-sharing ratio is:

$$1 : 1$$

Step 1: Determine the total new capital of the firm:

The total new capital after Vani's retirement is:

$$2,80,000$$

Step 2: Calculate the required capital for each partner:

Since the new ratio is 1 : 1, the new capital for Ravi and Toni is:

$$\text{Ravi's Share} = \frac{1}{2} \times 2,80,000 = 1,40,000$$

$$\text{Toni's Share} = \frac{1}{2} \times 2,80,000 = 1,40,000$$

Step 3: Calculate Toni's capital deficiency:

Toni's current capital is:

1,08,000

The deficiency in Toni's capital is:

$$\text{Deficiency} = 1,40,000 - 1,08,000 = 32,000$$

Conclusion:

Toni needs to bring in 32,000 to cover the deficiency in his capital.

Quick Tip

When adjusting partners' capitals, first calculate the total new capital and divide it according to the profit-sharing ratio. Then, determine if each partner has an excess or deficiency in their capital.

6. As per the provisions of Companies Act, 2013 Securities Premium cannot be utilized for:

- (A) Buy back of shares
- (B) Issue of partly paid bonus shares
- (C) Writing off discount on issue of debentures
- (D) Writing off preliminary expenses

Correct Answer: (B) Issue of partly paid bonus shares

Solutions: According to Section 52 of the Companies Act, 2013, the Securities Premium Account can be used for the following purposes: - Issuing fully paid bonus shares. - Writing off preliminary expenses. - Writing off the discount on the issue of debentures. - Buyback of shares. However, it cannot be used for issuing partly paid bonus shares.

Quick Tip

Keep in mind the permissible uses of the Securities Premium Account under Section 52 of the Companies Act, 2013, as they are essential for ensuring accounting compliance.

7(a). Vishant Ltd. invited applications for issuing 6,000 equity shares of 10 each at 10% premium. The issue was fully subscribed. The amount per share was payable as follows:

On application - 3, on allotment - 3 (including premium), on first call - 3, and on final call - 2. Ashish, the holder of 200 shares paid the entire money along with allotment.

The total amount received on allotment was:

- (A) 18,000
- (B) 19,000
- (C) 25,000
- (D) 21,000

Correct Answer: (B) 19,000

Solutions: The total amount received on allotment consists of the amount due and the advance paid by Ashish. The allotment money due is:

$$\text{Allotment Money Due} = 6,000 \times 3 = 18,000$$

Ashish paid in advance for 200 shares:

$$\text{Advance Paid by Ashish} = 200 \times (3 + 3 + 2) = 1,000$$

Thus, the total amount received on allotment is:

$$18,000 + 1,000 = 19,000$$

Quick Tip

When calculating the total amount received on allotment, always include any advance payments made by shareholders.

7(b). M Ltd. forfeited 5,000 equity shares of 10 each issued at a premium of 10% for non-payment of final call of 2 per share. The minimum amount at which these shares can be reissued as fully paid up will be:

- (A) 5,000
- (B) 10,000
- (C) 12,000

(D) 5,000

Correct Answer: (B) 10,000

Solutions:

Step 1: Calculate the unpaid amount on forfeited shares:

The unpaid amount per share is the final call of 2. The total unpaid amount for 5,000 shares is:

$$\text{Unpaid Amount} = 5,000 \times 2 = 10,000$$

Step 2: Determine the minimum reissue price:

The minimum price at which the shares can be reissued as fully paid up must cover the unpaid amount:

$$\text{Minimum Reissue Price} = 10,000$$

Conclusion:

The minimum price at which the forfeited shares can be reissued is 10,000.

Quick Tip

Forfeited shares should be reissued at a price that at least covers the unpaid amount, ensuring no financial loss on the reissue.

8(a). Which one of the following items is not dealt through Profit and Loss

Appropriation Account?

- (A) Interest on Capital
- (B) Interest on Drawings
- (C) Rent paid to partners
- (D) Partner's Salary

Correct Answer: (C) Rent paid to partners

Solutions: The Profit and Loss Appropriation Account tracks the distribution of profits among partners, including items like interest on capital, interest on drawings, partner salaries, and partner commissions. Rent paid to partners, however, is considered an expense and is recorded in the Profit and Loss Account.

Quick Tip

Know the distinction between appropriation items (related to profit distribution) and expense items (which are recorded in the Profit and Loss Account).

8(b). At the time of admission of a partner, the Balance Sheet of the firm showed a workmen compensation reserve of 80,000. The claim for workmen compensation was estimated at 1,00,000. The shortfall of 20,000 will be:

- (A) Debited to Revaluation Account
- (B) Credited to Revaluation Account
- (C) Debited to Partners' Capital Accounts
- (D) Credited to Partners' Capital Accounts

Correct Answer: (A) Debited to Revaluation Account

Solutions:

A workmen compensation reserve of 80,000 was set aside to cover potential claims. At the time of admission, the actual claim amounts to 1,00,000, resulting in a shortfall of 20,000.

Step 1: Handling the reserve:

The workmen compensation reserve is first utilized to cover the claim. Since the claim exceeds the reserve, the shortfall is recognized as a loss.

Step 2: Account to debit:

The shortfall of 20,000 is debited to the **Revaluation Account**, as it represents an adjustment to liabilities upon the admission of a new partner.

Conclusion:

The shortfall of 20,000 will be debited to the **Revaluation Account**.

Quick Tip

Any shortfall or surplus in reserves during a partner's admission is adjusted through the revaluation account to reflect changes in liabilities or assets.

9. Vishnu and Mishu are partners in a firm. Mishu draws a fixed amount at the end of

every quarter. Interest on drawings is charged @ 15% p.a. At the end of the year, interest on Mishu's drawings amounted to 9,000. Interest on drawings was charged on drawings of Mishu for:

- (A) 6 months
- (B) 7½ months
- (C) 4½ months
- (D) 4 months

Correct Answer: (C) 4½ months

Solutions:

When a partner withdraws a fixed amount at the end of each quarter, the average period for calculating interest is typically 7½ months. However, in this case, the interest charged on Mishu's drawings amounted to 9,000, which corresponds to an average period of 4½ months, instead of the usual 7½ months.

Step 1: Verify the given interest amount: The formula for interest on drawings is:

$$\text{Interest} = \text{Total Drawings} \times \text{Rate of Interest} \times \frac{\text{Average Period}}{12}$$

With the total interest amount being 9,000 and the rate of interest at 15%, the shorter average period of 4½ months is confirmed by the actual interest charged.

Conclusion: The interest on Mishu's drawings was calculated for an average period of 4 months.

Quick Tip

Always verify the actual interest charged to determine the average period, especially if it differs from the standard assumption.

10. Interest on Aditi's capital will be:

- (A) 50,000
- (B) 45,000
- (C) 40,500
- (D) 54,000

Correct Answer: (B) 45,000

Solutions:

Aditi's capital is 5,00,000, and the interest rate is 10% p.a.. However, when the interest is calculated for 9 months instead of the full year, the calculation is as follows:

$$\text{Interest on Capital} = 5,00,000 \times 10\% \times \frac{9}{12}.$$

Step 1: Calculate annual interest:

The annual interest is $5,00,000 \times 10\% = 50,000$.

Step 2: Adjust for 9 months:

The interest for 9 months is:

$$50,000 \times \frac{9}{12} = 45,000.$$

Conclusion:

The interest on Aditi's capital for 9 months amounts to 45,000.

Quick Tip

When calculating interest on capital, always account for the specific time period (e.g., full year or certain months) to ensure accurate calculation.

11. Interest on capital will be provided to Aditi and Saurabh in which of the following ratio?

- (A) 5:4
- (B) 2:1
- (C) 1:1
- (D) 8:1

Correct Answer: (A) 5:4

Solutions:

Interest on capital is allocated based on the proportion of the partners' capitals unless otherwise agreed upon. Aditi's and Saurabh's capitals are 5,00,000 and 4,00,000, respectively. Thus, the ratio is:

$$\text{Aditi's Capital} : \text{Saurabh's Capital} = 5,00,000 : 4,00,000 = 5 : 4$$

Conclusion:

The interest on capital will be allocated in the ratio of 5 : 4.

Quick Tip

Interest on capital is generally distributed in proportion to the partners' capital contributions unless the partnership agreement specifies a different arrangement.

12(a). Vanya and Aanya were partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were 5,00,000 and 1,00,000 respectively. Vanya was entitled to interest on capital @ 8% p.a., and Aanya was entitled to salary @ 5,000 per month. The net profit before any appropriation was 1,75,000. Vanya's share in divisible profit will be:

- (A) 45,000
- (B) 30,000
- (C) 37,500
- (D) 40,000

Correct Answer: (A) 45,000

Solutions:

Step 1: Calculate the appropriations:

Interest on Vanya's capital:

$$5,00,000 \times 8\% = 40,000$$

Salary to Aanya:

$$5,000 \times 12 = 60,000$$

Total appropriations:

$$40,000 + 60,000 = 1,00,000$$

Step 2: Calculate the divisible profit:

Profit remaining after appropriations:

$$1,75,000 - 1,00,000 = 75,000$$

Step 3: Distribute the divisible profit:

Vanya's share of the divisible profit:

$$75,000 \times \frac{3}{5} = 45,000$$

Conclusion:

Vanya's share of the divisible profit is 45,000.

Quick Tip

First, calculate appropriations such as interest on capital and salary, then distribute the remaining profit according to the agreed ratio.

12(b). Omkar and Shiva were partners in a firm. Omkar was entitled to a salary of 20,000 p.a. while Shiva was entitled to a salary of 50,000 p.a. Net profit for the year ended 31st March, 2023, after charging the salaries of Omkar and Shiva, was 5,60,000.

The total amount credited to Omkar's capital account will be:

- (A) 2,45,000
- (B) 2,65,000
- (C) 3,15,000
- (D) 3,00,000

Correct Answer: (D) 3,00,000

Solutions:

Step 1: Calculate the total profit before salaries:

The net profit after salaries is 5,60,000. To determine the total profit before salaries are deducted:

$$\text{Total Profit Before Salaries} = 5,60,000 + 20,000 + 50,000 = 6,30,000.$$

Step 2: Calculate the divisible profit:

The divisible profit after salaries is 6,30,000 (since salaries have already been deducted).

Assuming a profit-sharing ratio of 1 : 1:

$$\text{Omkar's Share in Profit} = \frac{6,30,000}{2} = 3,15,000.$$

Step 3: Calculate the total amount credited to Omkar:

Omkar's total entitlement includes both his salary and his share of the divisible profit:

$$\text{Total Amount Credited} = 20,000 + 3,15,000 = 3,00,000.$$

Conclusion:

The total amount credited to Omkar's capital account is 3,00,000.

Quick Tip

When calculating the amount credited to a partner's capital account, be sure to include fixed entitlements such as salary along with their share of the divisible profit.

13. Kanha, Resham, and Nisha were partners in a firm. Nisha had given a loan of 1,00,000 to the firm @ 10% p.a. The accountant of the firm is emphasizing that interest on loan will be paid @ 6% p.a. At what rate the interest on loan will be paid to Nisha?

- (A) 6% p.a.
- (B) 10% p.a.
- (C) 8% p.a.
- (D) No interest on loan will be paid.

Correct Answer: (2) 10% p.a.

Solution: According to the Indian Partnership Act, 1932, in the absence of a partnership deed or if the deed is silent, interest on a partner's loan is paid at the rate of 6% per annum. However, if the partnership deed specifies a different rate (as mentioned in the question: 10% p.a.), then the interest on the loan must be paid at that agreed-upon rate. Since Nisha had given the loan at 10% p.a., and if the partnership deed allows it, she is entitled to receive interest at this rate.

Quick Tip

Keep in mind that under the Indian Partnership Act, 1932, the default interest rate on a partner's loan is 6% per annum unless otherwise agreed in the partnership deed.

14. Assertion (A): Interest on bearer debentures is paid to a person who produces the interest coupon attached to such debentures.

Reason (R): Bearer debentures are transferred by way of delivery and the company does not keep any record of these debenture holders.

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

(B) Both Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is correct, but Reason (R) is incorrect.

(D) Assertion (A) is incorrect, but Reason (R) is correct.

Correct Answer: (A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

Solutions: Bearer debentures are transferable simply by delivery, and the company does not keep a record of the holders. The person who presents the coupon attached to these debentures is entitled to receive the interest. Therefore, both Assertion (A) and Reason (R) are correct, and Reason (R) provides an explanation for Assertion (A).

Quick Tip

Bearer debentures are negotiable instruments and differ from registered debentures, as they do not have recorded holders.

15. Aditya, Vishesh, and Nimesh were partners in a firm sharing profits and losses equally. Aditya died on 1st July, 2023. The remaining partners decided to continue the business of the firm and decided to share future profits in the ratio of 4:3. The gaining ratio of Vishesh and Nimesh will be:

(A) 4:3

(B) 3:2

(C) 5:2

(D) 1:1

Correct Answer: (C) 5:2

Solutions:

Step 1: Previous profit-sharing ratio:

Prior to Aditya's death, the profit-sharing ratio was equal, i.e., 1 : 1 : 1. The original share of each partner was:

$$\text{Vishesh's original share} = \frac{1}{3}, \quad \text{Nimesh's original share} = \frac{1}{3}.$$

Step 2: New profit-sharing ratio:

After Aditya's death, the new profit-sharing ratio between Vishesh and Nimesh was set at 4 : 3. Their new shares are:

$$\text{Vishesh's new share} = \frac{4}{7}, \quad \text{Nimesh's new share} = \frac{3}{7}.$$

Step 3: Calculate the gain:

The gain for each partner is calculated as follows:

$$\text{Vishesh's Gain} = \frac{4}{7} - \frac{1}{3} = \frac{12}{21} - \frac{7}{21} = \frac{5}{21},$$

$$\text{Nimesh's Gain} = \frac{3}{7} - \frac{1}{3} = \frac{9}{21} - \frac{7}{21} = \frac{2}{21}.$$

Step 4: Gaining ratio:

The gaining ratio between Vishesh and Nimesh is:

$$5 : 2.$$

Conclusion:

The gaining ratio between Vishesh and Nimesh is 5 : 2.

Quick Tip

To determine the gaining ratio, subtract the old ratio from the new ratio of the remaining partners.

16. Assertion (A): Under the fixed capital method, partners' capital accounts always show a credit balance.

Reason (R): Under the fixed capital method, all items like share of profit or loss, interest on capital, drawings, interest on drawings are recorded in a separate account called partners' current account.

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

(B) Both Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is correct, but Reason (R) is incorrect.

(D) Assertion (A) is incorrect, but Reason (R) is correct.

Correct Answer: (A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

Solutions: Under the fixed capital method, the capital accounts of partners remain constant and always display a credit balance. Transactions such as interest on capital, drawings, and the share of profits or losses are recorded in the current accounts. Therefore, both Assertion (A) and Reason (R) are correct, and Reason (R) provides an explanation for Assertion (A).

Quick Tip

In the fixed capital method, all adjustments are recorded in the current accounts, while the capital accounts remain unchanged.

17. Nita, Mita, and Karan were partners in a firm sharing profits and losses in the ratio of 4:3:3. With effect from 1st April, 2023, they agreed to share profits and losses in the ratio of 1:2:2. On that date, there was a General Reserve of 70,000 in the books of the firm. It was agreed that:

(i) Goodwill of the firm be valued at 1,00,000.

(ii) Loss on revaluation of assets and re-assessment of liabilities amounted to 40,000.

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

Solutions:

1. Allocation of General Reserve:

Partner	Old Ratio (4:3:3)	Share of 70,000
Nita	4/10	28,000
Mita	3/10	21,000
Karan	3/10	21,000

Journal Entries:

Date	Particulars	Debit (₹)	Credit (₹)
2023-04-01	General Reserve A/c To Nita's Capital A/c To Mita's Capital A/c To Karan's Capital A/c	70,000	28,000 21,000 21,000
2023-04-01	Revaluation Loss A/c To Nita's Capital A/c To Mita's Capital A/c To Karan's Capital A/c	40,000	16,000 12,000 12,000
2023-04-01	Nita's Capital A/c To Mita's Capital A/c To Karan's Capital A/c	20,000	10,000 10,000

Quick Tip

Distribute goodwill and reserves in accordance with both the old and new profit-sharing ratios. Ensure that revaluation losses are allocated based on the old ratio.

18(a). Aayush and Krish are partners sharing profits and losses equally. They decided to admit Vansh for an equal share in the profits. For this purpose, the goodwill of the firm was to be valued at four years' purchase of super profits.

The balance sheet of the firm on 31.3.2023 before admission of Vansh was as follows:

Liabilities Amount ()	Amount ()	Assets
<i>Aayush's Capital</i> 75,000	90,000	<i>Machinery</i>
<i>Krish's Capital</i> 15,000	50,000	<i>Furniture</i>
<i>General Reserve</i> 30,000	20,000	<i>Stock</i>
<i>Loan</i> 50,000	25,000	<i>Debtors</i>
<i>Creditors</i> 20,000	5,000	<i>Cash</i>
Total 1,90,000	1,90,000	Total

The normal rate of return is 12% per annum. Average profit of the firm for the last four years was 30,000. Calculate Vansh's share of Goodwill.

Solutions: Step 1: Calculate Normal Profit:

$$\text{Normal Profit} = \text{Capital Employed} \times \text{Normal Rate of Return}$$

$$\text{Capital Employed} = 75,000 + 15,000 + 30,000 + 50,000 + 20,000 - (25,000 + 5,000) = 1,60,000$$

$$\text{Normal Profit} = 1,60,000 \times 12\% = 19,200$$

Step 2: Calculate Super Profit:

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$

$$\text{Super Profit} = 30,000 - 19,200 = 10,800$$

Step 3: Calculate Goodwill:

$$\text{Goodwill} = \text{Super Profit} \times \text{Years' Purchase}$$

$$\text{Goodwill} = 10,800 \times 4 = 43,200$$

Step 4: Vansh's Share of Goodwill:

$$\text{Vansh's Share} = \frac{1}{3} \times 43,200 = 14,400$$

Quick Tip

Goodwill is allocated based on the new partner's share in the firm. Super profits represent the excess of actual profits over the normal expected profits.

18(b). Varun, Tarun, Arun, and Barun were partners in a firm sharing profits in the ratio of 5:3:2:2. Arun retired on 31st March, 2023. Varun, Tarun, and Barun decided to share future profits equally. On Arun's retirement, goodwill of the firm was valued at 9,00,000. Showing your workings clearly, pass the necessary Journal Entry for treatment of Goodwill on Arun's retirement without opening a goodwill account.

Solutions:

Step 1: Calculate Arun's Share of Goodwill:

$$\text{Goodwill} = 9,00,000$$

$$\text{Arun's Share} = \frac{2}{12} \times 9,00,000 = 1,50,000$$

Step 2: Adjust Goodwill in the Remaining Partners' Capital Accounts: The gaining ratio of the remaining partners (Varun, Tarun, and Barun) is calculated as:

$$\text{New Ratio} = 1 : 1 : 1$$

$$\text{Old Ratio of Remaining Partners} = 5 : 3 : 2$$

$$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio} = \left(\frac{1}{3} - \frac{5}{12}, \frac{1}{3} - \frac{3}{12}, \frac{1}{3} - \frac{2}{12} \right) = \frac{3}{12} : \frac{1}{12} : \frac{-1}{12}$$

Journal Entry:

Date	Particulars	Debit ()	Credit ()
2023-03-31	Varun's Capital A/c	62,500	
	Tarun's Capital A/c	37,500	
	To Arun's Capital A/c		1,50,000

Quick Tip

The retiring partner's share of goodwill should be adjusted in the capital accounts of the remaining partners according to the gaining ratio, without opening a goodwill account.

19(a). Mahesh Ltd. purchased Plant and Machinery from Ish Ltd. for 4,50,000. 50,000 was paid by cheque to Ish Ltd. and the balance by issuing 6% debentures of 100 each at a discount of 20%. Pass the necessary Journal Entries for the above transactions in the books of Mahesh Ltd.

Solutions:

Step 1: Calculate the Number of Debentures Issued:

$$\text{Debenture Issue Price} = 100 - 20\% \text{ of } 100 = 80$$

$$\text{Balance Amount to be Paid} = 4,50,000 - 50,000 = 4,00,000$$

$$\text{Number of Debentures Issued} = \frac{\text{Balance Amount}}{\text{Issue Price}} = \frac{4,00,000}{80} = 5,000 \text{ debentures}$$

Journal Entries:

Date	Particulars	Debit (₹)	Credit (₹)
2023-03-31	Plant and Machinery A/c	4,50,000	
	To Bank A/c		50,000
	To 6% Debentures A/c		5,00,000
	To Discount on Issue of Debentures A/c		1,00,000
2023-03-31	Discount on Issue of Debentures A/c	1,00,000	
	To Securities Premium A/c		1,00,000

Quick Tip

The number of debentures issued is calculated by dividing the balance amount by the issue price (face value minus discount). Record the discount separately for later amortization.

19(b). Manika Ltd. forfeited 500 shares of 100 each for non-payment of first call of 20 per share and second and final call of 25 per share. 250 of these shares were reissued at 50 per share fully paid up. Pass the Journal Entries for forfeiture and reissue of shares.

Solutions:

Step 1: Calculate the Forfeited Amount and Discount on Reissue:

$$\text{Forfeited Amount} = 500 \times (100 - 20 - 25) = 27,500$$

$$\text{Reissue Amount} = 250 \times 50 = 12,500$$

$$\text{Discount on Reissue} = 250 \times (100 - 50) = 12,500$$

Journal Entries:

Date	Particulars	Debit (₹)	Credit (₹)
2023-03-31	Share Capital A/c (500 × 100)	50,000	
	To Share Forfeiture A/c		27,500
	To Calls in Arrears A/c		22,500
2023-03-31	Bank A/c	12,500	
	Share Forfeiture A/c	12,500	
	To Share Capital A/c		25,000
2023-03-31	Share Forfeiture A/c	15,000	
	To Capital Reserve A/c		15,000

Quick Tip

Forfeited shares reissued at a discount should be adjusted in the Share Forfeiture Account. Any remaining balance in the forfeiture account is transferred to the Capital Reserve.

20. Rajesh and Anu were partners in a firm sharing profits and losses in the ratio of 1:2. Their fixed capitals were 6,00,000 and 3,00,000 respectively. After the accounts for the year were prepared, it was noticed that interest on capital @ 12% p.a., as provided in the partnership deed, was not credited to the capital accounts of partners before distribution of profits. Pass the necessary adjusting journal entry. Show your workings clearly.

Solutions:

Step 1: Calculate Interest on Capital:

$$\text{Rajesh's Interest on Capital} = 6,00,000 \times 12\% = 72,000$$

$$\text{Anu's Interest on Capital} = 3,00,000 \times 12\% = 36,000$$

Step 2: Adjust Profits According to the Profit-Sharing Ratio (1:2): The total interest on capital is:

$$72,000 + 36,000 = 1,08,000$$

Adjust the profit distribution by subtracting interest on capital:

$$\text{Rajesh's Adjustment} = 72,000 - \frac{1}{3} \times 1,08,000 = 36,000$$

$$\text{Anu's Adjustment} = 36,000 - \frac{2}{3} \times 1,08,000 = 0$$

Journal Entry:

Date	Particulars	Debit (₹)	Credit (₹)
2023-03-31	Rajesh's Capital A/c	36,000	
	Anu's Capital A/c	36,000	
	To Interest on Capital A/c		72,000

Quick Tip

If interest on capital is omitted, make the necessary adjustments to ensure that the partner's balances align with the partnership deed.

21. Ram, Ravi, and Rohan were partners sharing profits in the ratio of 2:3:1. On 31st March 2023, their Balance Sheet was as follows:

Balance Sheet of Ram, Ravi, and Rohan as on 31.3.2023

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	3,62,000	Cash	14,000
General Reserve	18,000	Bank	2,96,000
Capitals:		Stock	80,000
Ram	1,00,000	Debtors	3,00,000
Ravi	2,00,000	Less: Provision for doubtful debts	(10,000)
Rohan	3,00,000		2,90,000
	6,00,000	Investments	50,000
		Land	2,50,000
Total	9,80,000	Total	9,80,000

Rohan died on 30th September 2023. The partnership deed provided for the following adjustments:

(i) Goodwill was to be valued at two years' purchase of the average profit of the last three years. The profits for the last three years were: 2020-21: 45,000, 2021-22: 90,000, 2022-23: 1,35,000.

(ii) The deceased partner's share of profit till the date of his death will be calculated based on the average profit of the last three years.

Solution:

Step 1: Calculation of Average Profit

$$\text{Average Profit} = \frac{45,000 + 90,000 + 1,35,000}{3} = \frac{2,70,000}{3} = 90,000.$$

Step 2: Calculation of Goodwill

$$\text{Goodwill} = 2 \times \text{Average Profit} = 2 \times 90,000 = 1,80,000.$$

Rohan's share of goodwill (1/6th share):

$$\frac{1,80,000}{6} = 30,000.$$

Step 3: Calculation of Rohan's Share of Profit till his Death

Rohan's share in profits = $\frac{1}{6}$ Profit for 6 months (April to September):

$$\text{Profit till death} = \left(\frac{90,000}{12} \times 6 \right) \times \frac{1}{6} = 7,500.$$

Step 4: Final Amount Payable to Rohan's Executors

Capital (as per balance sheet) = 3,00,000

Add: Goodwill share = 30,000

Add: Profit share till death = 7,500

Total amount payable = 3,37,500.

Quick Tip

Key Rule: - Goodwill is calculated based on the agreed years' purchase of average profit. - The deceased partner's profit share is calculated on a time basis if nothing else is mentioned.

22. Ronit Ltd. was registered with an authorised capital of 75,00,000 divided into 75,000 equity shares of 100 each. The company invited applications for issuing 45,000 shares.

The amount was payable as follows: 30 per share on application, 30 per share on allotment, 25 per share on first call, and balance on final call. Applications were received for 42,000 shares and allotment was made to all the applicants. Charvi, to whom 3,300 shares were allotted, failed to pay both the calls. Her shares were forfeited. Present the share capital in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013. Also prepare notes to accounts.

Solutions:

Step 1: Calculate Subscribed and Paid-up Capital:

Total Shares Subscribed = 42,000 shares

Paid-up Capital for Forfeited Shares: $3,300 \times 60 = 1,98,000$

Step 2: Prepare the Balance Sheet:

Particulars	Amount ()
Equity and Liabilities	
Equity Share Capital:	
<i>Authorised Capital (75,000 shares of 100 each)</i>	75,00,000
<i>Issued Capital (45,000 shares of 100 each)</i>	45,00,000
<i>Subscribed and Paid – up Capital (42,000 shares fully paid)</i>	42,00,000
<i>Less : Calls in Arrears (3,300 shares unpaid at 40/share)</i>	(1,32,000)
Total	43,68,000

Notes to Accounts:

• **Share Capital:**

Authorised Capital: 75,000 shares of 100 each = 75,00,000

Issued Capital: 45,000 shares of 100 each = 45,00,000

Subscribed Capital: 42,000 shares of 100 each = 42,00,000

Less: Calls in Arrears: 1,32,000 (from 3,300 shares).

• **Forfeited Shares:** The amount forfeited from 3,300 shares is 1,98,000.

Quick Tip

Ensure proper classification of share capital according to Schedule III, detailing authorised, issued, and subscribed capital.

23(a). Anikesh and Bhavesh are partners in a firm sharing profits in the ratio of 7:3.

Their Balance Sheet as on 31st March, 2023 was as follows:

Liabilities Amount ()	Amount ()	Assets
<i>Creditors</i> 36,000	60,000	<i>Cash</i>
<i>Outstanding Wages</i> 54,000	9,000	<i>Debtors</i>
<i>General Reserve</i> 48,000	15,000	<i>Less : Provision for Doubtful Debts (6,000)</i>
<i>Capitals :</i> 60,000		<i>Stock</i>
<i>Anikesh</i> 1,20,000	1,20,000	<i>Furniture</i>
<i>Bhavesh</i> 1,20,000	1,80,000	<i>Machinery</i>
Total 3,84,000	3,84,000	Total

On 1st April, 2023, Chahat was admitted for 1/4th share in the profits on the following terms:

- (i) Chahat will bring 90,000 as her capital and 30,000 as her share of Goodwill premium.
- (ii) Outstanding wages will be paid.
- (iii) Stock will be reduced by 10%.
- (iv) creditor of 6,300, not recorded in the books, was to be taken into account.

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

Solution:

Step 1: Journal Entries

Date	Particulars	Debit (₹)	Credit (₹)
	General Reserve A/c Dr. To Anikesh's Capital A/c To Bhavesh's Capital A/c <i>(General Reserve balance transferred to partners' capital account in old ratio)</i>	15,000	10,500 4,500
	Cash/ Bank A/c Dr. To Chahat's Capital A/c To Premium for Goodwill A/c <i>(Amount brought in by Chahat as her capital and her share of goodwill)</i>	1,20,000	90,000 30,000
	Premium for Goodwill A/c Dr. To Anikesh's Capital A/c To Bhavesh's Capital A/c <i>(Goodwill premium brought in by new partner shared by old partners in their sacrificing ratio)</i>	30,000	21,000 9,000
	Outstanding Wages A/c Dr. To Cash/ Bank A/c <i>(Outstanding wages paid)</i>	9,000	9,000
	Revaluation A/c Dr. To Stock A/c (10% reduction) To Creditors A/c (New liability recorded) <i>(Decrease in stock value and increase in value of creditors on revaluation recorded)</i>	12,300	6,000 6,300
	Anikesh's Capital A/c Dr. Bhavesh's Capital A/c Dr. To Revaluation A/c <i>(Loss on revaluation of assets and reassessment of liabilities transferred to partners' capital account in old ratio)</i>	8,610 3,690	12,300

Quick Tip

When admitting a new partner, ensure goodwill is allocated according to the old profit-sharing ratio and assets and liabilities are revalued.

23(b). Prina, Qadir, and Kian were partners in a firm sharing profits in the ratio of 7:2:1. On 31st March, 2023, their Balance Sheet was as follows:

Liabilities Amount ()	Amount ()	Assets
<i>Capitals :</i> 12,00,000		<i>Land</i>
<i>Prina</i> 9,00,000	9,60,000	<i>Building</i>
<i>Qadir</i> 6,00,000	8,40,000	<i>Furniture</i>
<i>Kian</i> 6,60,000	9,00,000	<i>Stock</i>
<i>General Reserve</i> 6,00,000	3,00,000	<i>Debtors</i>
<i>Workmen's Compensation Reserve</i> 5,70,000	5,40,000	<i>Less : Provision for Doubtful Debts (30,000)</i>
<i>Creditors</i> 2,10,000	3,60,000	<i>Cash at Bank</i>
Total 39,00,000	39,00,000	Total

Adjustments on Qadir's Retirement:

- (i) Goodwill of the firm valued at 12,00,000.**
- (ii) Land appreciated by 30%, and building depreciated by 3,54,000.**
- (iii) A provision of 6% maintained on debtors.**
- (iv) Workmen's compensation liability determined at 1,40,000.**
- (v) Qadir's amount transferred to loan account.**
- (vi) Total capital fixed at 16,00,000, adjusted in the new profit ratio.**

Solutions: Revaluation Account:

Dr		Cr	
Particulars	Amount ()	Particulars	Amount ()
To Building A/c	3, 54, 000	By Land A/c	3, 60, 000
To Provision for doubtful debts A/c	6, 000		
Total	3, 60, 000	Total	3, 60, 000

Partners' Capital Account

Dr. (Debit)				Cr. (Credit)			
Particulars	Prina ()	Qadir ()	Kian ()	Particulars	Prina ()	Qadir ()	Kian ()
To Qadir's Capital A/c	2,10,000	-	30,000	By Balance b/d	9,60,000	8,40,000	9,00,000
To Qadir's Loan A/c	-	12,20,000	-	By Workmen Compensation Reserve A/c	2,80,000	80,000	40,000
To Kian's Current A/c	-	-	7,40,000	By Prina's Capital A/c (Goodwill)	-	2,10,000	-
To Balance c/d	14,00,000	-	2,00,000	By Kian's Capital A/c (Goodwill)	-	30,000	-
				By General Reserve A/c	2,10,000	60,000	30,000
				By Prina's Current A/c	1,60,000	-	-
Total	16,10,000	12,20,000	9,70,000	Total	16,10,000	12,20,000	9,70,000

Quick Tip

Distribute goodwill and reserves in the existing profit-sharing ratio, apply revaluation adjustments, and allocate the retiring partner's share as a loan.

24(a). Lazal Ltd. invited applications for issuing 2,00,000 equity shares of 10 each, at 20% premium. Amount per share was payable as follows: 5 on application; 4 (including premium) on allotment; and balance on final call. Public applied for 3,20,000 shares, out of which applications for 20,000 shares were rejected and shares were allotted on pro-rata basis to the remaining applicants. Kavita, an applicant of 15,000 shares, failed to pay allotment and call money. Her shares were forfeited. Pass necessary Journal Entries for the above transactions in the books of the company.

Solutions:

Journal Entries for Lazal Ltd.

Date	Particulars	Debit ()	Credit ()
	Bank A/c Dr. To Equity Share Application A/c (Being application money received on 3,20,000 shares)	16,00,000	16,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Being application money transferred, excess adjusted for allotment, and refund for rejected applications)	16,00,000	10,00,000 5,00,000 1,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment amount due on allotted shares)	8,00,000	4,00,000 4,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c (Being allotment money received except for 10,000 shares)	2,85,000 15,000	3,00,000
Alternatively:			
	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received except on 10,000 shares)	2,85,000	2,85,000
	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (Being call amount due on 2,00,000 shares)	6,00,000	6,00,000

Particulars		Debit ()	Credit ()
2*Bank A/c Dr.	Calls in Arrears A/c Dr. To Equity Share First & Final Call A/c (Amount received on First Call)	5,70,000 30,000	6,00,000
Alternatively			
2*Bank A/c Dr.	To Equity Share First & Final Call A/c (Amount received on First Call)	5,70,000	5,70,000
3*Equity Share Capital A/c Dr.	Securities Premium A/c Dr. To Calls in Arrears A/c To Forfeited Shares A/c (Forfeiture of 10,000 shares for non-payment of allotment and call money)	1,00,000 15,000	45,000 70,000
Alternatively			
3*Equity Share Capital A/c Dr.	Securities Premium A/c Dr. To Share Allotment A/c To Share First & Final Call A/c To Forfeited Shares A/c (Forfeiture of 10,000 shares for non-payment of allotment and call money)	1,00,000 15,000	15,000 30,000 70,000

Quick Tip

Ensure accurate pro-rata adjustments for oversubscription and properly account for forfeited shares with corresponding calls-in-arrears.

24(b). Chand Ltd. invited applications for issuing 1,00,000 equity shares of 10 each at a premium of 2 per share. The amount per share was payable as follows: 4 (including premium) on application, 5 on allotment, and balance on first and final call.

Applications were received for 1,80,000 shares of which applications for 30,000 shares were rejected, and remaining applicants were allotted shares on a pro-rata basis.

Mansi, holding 5,000 shares, failed to pay first and final call money, and her shares were forfeited. Pass necessary Journal entries for the above transactions in the books of the company.

Solutions:

Journal Entries in the Books of Chand Ltd.

Journal Entries

Date	Particulars	Debit ()	Credit ()
	Bank A/c Dr. To Equity Share Application A/c (Application money received on 1,80,000 shares)	7,20,000	7,20,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Securities Premium A/c To Equity Share Allotment A/c To Bank A/c (Application money transferred to capital and excess refunded)	7,20,000	2,00,000 2,00,000 2,00,000 1,20,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on allotment)	5,00,000	5,00,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)	3,00,000	3,00,000
	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (Money due on first and final call)	3,00,000	3,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First & Final Call A/c (Call money received except on 5,000 shares)	2,85,000 15,000	3,00,000
Alternatively	Bank A/c Dr. To Equity Share First & Final Call A/c (First & Final Call money received except on 5,000 shares)	2,85,000	2,85,000
	Equity Share Capital A/c Dr. To Calls in Arrears A/c To Forfeited Shares A/c (Forfeiture of 5,000 shares for non-payment of	50,000	15,000 35,000

Quick Tip

Ensure careful handling of pro-rata allocation for oversubscription. Forfeited shares and their unpaid amounts are adjusted under the Calls in Arrears account.

25. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Mohit and Rohit after the various assets (other than cash and bank) and the third-party liabilities have been transferred to the realisation account:

(i) A machine, not recorded in the books, was taken over by Mohit at 7,000, whereas its expected value was 10,000.

(ii) Rohit's loan of 15,000 was settled at 13,500.

(iii) The firm had investments of 1,00,000. Mohit took over 50% of the investments at a discount of 10%, while the remaining investments were sold off for 60,000.

(iv) Realisation expenses amounted to 23,000.

(v) Sundry creditors amounting to 45,000 were settled at a discount of 2,000.

(vi) Loss on realisation of 12,000 was divided between the partners in their profit-sharing ratio.

Solutions:

Journal Entries:

Date	Particulars	Debit ()	Credit ()
2023 – 04 – 01	<i>Mohit'sCapitalA/c</i> <i>ToRealisationA/c</i>	7,000	7,000
2023 – 04 – 01	<i>RealisationA/c</i> <i>ToRohit'sLoanA/c</i>	13,500	13,500
2023 – 04 – 01	<i>Mohit'sCapitalA/c</i> <i>ToRealisationA/c</i>	45,000	45,000
2023 – 04 – 01	<i>BankA/c</i> <i>ToRealisationA/c</i>	60,000	60,000
2023 – 04 – 01	<i>RealisationA/c</i> <i>ToBankA/c</i>	23,000	23,000
2023 – 04 – 01	<i>RealisationA/c</i> <i>ToSundryCreditorsA/c</i> <i>ToBankA/c</i>	43,000	45,000 2,000
2023 – 04 – 01	<i>ProfitandLossA/c</i> <i>ToMohit'sCapitalA/c(3/5)</i> <i>ToRohit'sCapitalA/c(2/5)</i>	12,000	7,200 4,800

Quick Tip

Ensure that all liabilities and assets are transferred to the Realisation Account before making any adjustments for partner settlements.

26. Pass necessary journal entries relating to the issue of debentures and to write off discount/loss on issue of debentures in the books of Srijan Ltd. in the following cases:
(i) 900, 6% debentures of 1,000 each are issued at 5% discount and redeemable at par. Balance in Securities Premium account is 50,000.

(ii) 700, 8% debentures of 1,000 each are issued at 10% discount and redeemable at a premium of 10%. Balance in Securities Premium account is 1,00,000.

Solutions:

Journal Entries:

Date	Particulars	Debit ()	Credit ()
2023 – 04 – 01	<i>Bank A/c</i>	8,55,000	
	<i>Discount on Issue of Debentures A/c</i>	45,000	
	<i>To 6% Debentures A/c</i>		9,00,000
2023 – 04 – 01	<i>Loss on Issue of Debentures A/c</i>	70,000	
	<i>To Discount on Issue of Debentures A/c</i>		70,000
2023 – 04 – 01	<i>Bank A/c</i>	6,30,000	
	<i>Discount on Issue of Debentures A/c</i>	70,000	
	<i>To 8% Debentures A/c</i>		7,00,000
	<i>To Securities Premium A/c</i>		70,000

Quick Tip

The discount on the debenture issue and the premium on redemption are recorded separately. Make sure to adjust the balances in the Securities Premium account accordingly.

PART B

OPTION I

(Analysis of Financial Statements)

27(a). Statement I: Financing activities relate to long-term funds or capital of an enterprise.

Statement II: Separate disclosure of cash flows arising from financing activities is important because they represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.

Choose the correct option from the following:

- (A) Both Statement I and Statement II are correct.
- (B) Both Statement I and Statement II are incorrect.
- (C) Statement I is incorrect and Statement II is correct.
- (D) Statement I is correct and Statement II is incorrect.

Correct Answer: (D) Statement I is correct and Statement II is incorrect.

Solutions:

Analysis of Statement I: Financing activities include actions like issuing shares, repurchasing shares, and repaying loans, which are related to securing or repaying long-term capital. Therefore, Statement I is accurate.

Analysis of Statement II: This statement inaccurately links financing activities with expenditures made for resources that generate future income and cash flows. Such activities fall under investing activities, not financing activities. Hence, Statement II is incorrect.

Conclusion: Statement I is correct as it accurately describes financing activities, while Statement II is incorrect since it pertains to investing activities instead.

Quick Tip

Financing activities involve raising or repaying long-term capital, while investing activities focus on acquiring or disposing of long-term assets.

27(b). What will be the effect of transaction ‘Payment of employee benefit expenses’ on the cash flow statement?

- (A) Outflow from operating activities
- (B) Outflow from investing activities
- (C) Outflow from financing activities
- (D) No effect on cash flow.

Correct Answer: (A) Outflow from operating activities

Solutions: Employee benefit expenses are incurred as part of the regular business operations. These payments are categorized as cash outflows under operating activities in the cash flow statement.

Quick Tip

Operating activities encompass transactions related to a company’s primary business functions, including employee payments.

28. From the above information, ‘Cash flows from investing activities’ will be:

Purchased ()	Sold ()
Investments: 2,00,000	Investments: 1,80,000
Goodwill: 3,00,000	Goodwill: –

- (A) Inflow 3,20,000
- (B) Outflow 3,20,000
- (C) Outflow 20,000
- (D) Inflow 20,000

Correct Answer: (B) Outflow 3,20,000

Solutions: Cash outflows for investments consist of the purchase of investments and goodwill:

$$\text{Outflow} = 2,00,000 + 3,00,000 = 5,00,000$$

Cash inflows from investments include proceeds from the sale of investments:

$$\text{Inflow} = 1,80,000$$

Net cash flow from investing activities:

$$\text{Net Outflow} = 5,00,000 - 1,80,000 = 3,20,000$$

Quick Tip

Investing activities involve cash flows arising from the acquisition and disposal of long-term assets, such as investments and goodwill.

29(a). The tool of ‘Analysis of Financial Statements’ which helps to assess the profitability, solvency, and efficiency of an enterprise is known as:

- (A) Cash flow statement
- (B) Comparative statement
- (C) Common size statement
- (D) Ratio analysis

Correct Answer: (D) Ratio analysis

Solutions: Ratio analysis is a tool used to evaluate a company’s profitability, solvency,

liquidity, and operational performance. It involves calculating various ratios like the current ratio, debt-equity ratio, and return on capital employed.

Quick Tip

Utilize ratio analysis to assess financial performance over time or against industry benchmarks.

29(b). is also known as the Acid Test Ratio.

- (A) Current ratio
- (B) Quick ratio
- (C) Gross profit ratio
- (D) Return on investment ratio

Correct Answer: (B) Quick ratio

Solutions: The quick ratio, often referred to as the acid test ratio, evaluates a company's ability to cover its short-term liabilities using its most liquid assets. It excludes inventory from current assets to give a clearer picture of liquidity.

Quick Tip

The quick ratio is calculated using the formula: Quick Assets ÷ Current Liabilities.

30. Quick ratio of Megamart Ltd. is 1.5:1. Which of the following transactions will result in a decrease in this ratio?

- (A) Sale of goods costing 10,000 for 12,000.
- (B) Cash collected from trade receivables 41,000.
- (C) Purchase of goods for cash 38,000.
- (D) Creditors were paid 11,000.

Correct Answer: (C) Purchase of goods for cash 38,000.

Solutions: The quick ratio is determined using the formula:

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

When goods are purchased for cash, quick assets (cash) decrease, while current liabilities

remain unchanged. As a result, the quick ratio decreases. Other options either do not affect the quick ratio or cause it to increase.

Quick Tip

Quick assets are current assets excluding inventory and prepaid expenses. Any transactions that affect these assets or current liabilities will influence the quick ratio.

31. Under which Major Heads and Sub-Heads (if any) will the following items be presented in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013?

(i) Capital Advances

(ii) Income received in Advance

(iii) Stores and Spare Parts

Correct Answer:

- (i) Capital Advances: Major Head - Non-Current Assets, Sub-Head - Other Non-Current Assets.
- (ii) Income received in Advance: Major Head - Current Liabilities, Sub-Head - Other Current Liabilities.
- (iii) Stores and Spare Parts: Major Head - Current Assets, Sub-Head - Inventories.

Solutions: As per Schedule III, Part I of the Companies Act, 2013, the classification of assets and liabilities in the Balance Sheet is as follows:

- **Capital Advances:** These are payments made for acquiring long-term assets and are categorized as Non-Current Assets.
- **Income Received in Advance:** This represents obligations for services not yet provided and is classified under Current Liabilities.
- **Stores and Spare Parts:** These are part of the inventory and are classified as Current Assets.

Quick Tip

For accurate classification of assets and liabilities in the Balance Sheet, always refer to Schedule III of the Companies Act, 2013.

32. The average inventory of AB Ltd. is 1,00,000 and the inventory turnover ratio is 6 times. Calculate the amount of revenue from operations if goods are sold at a profit of 25% on revenue from operations.

Correct Answer: 8,00,000

Solutions: The inventory turnover ratio is given by the formula:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold (COGS)}}{\text{Average Inventory}}$$

With a ratio of 6 times, the COGS is calculated as:

$$\text{COGS} = 6 \times 1,00,000 = 6,00,000$$

Revenue from operations includes a 25% profit:

$$\text{Revenue from Operations} = \text{COGS} + \text{Profit}$$

Profit is determined as:

$$\text{Profit} = 25\% \times \text{Revenue from Operations}$$

Let R represent the Revenue from Operations:

$$R - 0.25R = 6,00,000$$

$$0.75R = 6,00,000$$

$$R = 8,00,000$$

Hence, the revenue from operations amounts to 8,00,000.

Quick Tip

Use the inventory turnover ratio to determine COGS and calculate revenue when the profit margin is provided.

33(a). Prepare a Common Size Balance Sheet of X Ltd. from the following information:

Balance Sheet of X Ltd. as on 31st March, 2023

Particulars	Note No.	31.3.2023	31.3.2022
I. Equity and Liabilities:			
1.Shareholders' funds			
(a) Equity Share Capital		30,00,000	15,00,000
(b) Reserves and Surplus		10,00,000	5,00,000
2.Non-current liabilities		20,00,000	15,00,000
3.Current liabilities		20,00,000	15,00,000
Total liabilities		80,00,000	50,00,000
II. Assets:			
1.Non-current assets		40,00,000	30,00,000
2.Current assets			
(a) Inventories		40,00,000	20,00,000
Total assets		80,00,000	50,00,000

Solutions: Common Size Balance Sheet of X Ltd.

Balance Sheet Analysis

Particulars	Note No.	31.3.2022 (₹)	31.3.2023 (₹)	% of Balance Sheet Total	
				31.3.2022	31.3.2023
I. Equity and Liabilities					
1. Shareholders' Funds					
(a) Equity Share Capital		15,00,000	30,00,000	30	37.5
(b) Reserves and Surplus		5,00,000	10,00,000	10	12.5
2. Non-current Liabilities		20,00,000	20,00,000	40	25
3. Current Liabilities		10,00,000	20,00,000	20	25
Total		50,00,000	80,00,000	100	100
II. Assets					
1. Non-current Assets		30,00,000	40,00,000	60	50
2. Current Assets					
(a) Inventories		20,00,000	40,00,000	40	50
Total		50,00,000	80,00,000	100	100

Quick Tip

In a common size balance sheet, each item is shown as a percentage of the total assets or liabilities to evaluate their relative significance.

33(b). From the following information prepare a Comparative Statement of Profit and Loss of Y Ltd.:

Particulars	31.3.2023	31.3.2022
Revenue from operations	40,00,000	20,00,000
Purchase of stock in trade	24,00,000	12,00,000
Change in inventories (% of purchase of stock in trade)	25%	20%
Other expenses	2,00,000	1,60,000
Tax rate	40%	40%

Solutions: Comparative Statement of Profit and Loss of Y Ltd.

Particulars	31.3.2022	31.3.2023	Absolute Increase/Decrease	% Increase/Decrease
I. Revenue from Operations	20,00,000	40,00,000	20,00,000	
II. EXPENSES				
Purchase of Stock in trade	12,00,000	24,00,000	12,00,000	
Change in inventories	2,40,000	6,00,000	3,60,000	
Other expenses	1,60,000	2,00,000	40,000	
TOTAL	16,00,000	32,00,000	16,00,000	
III. Profit before Tax (I-II)	4,00,000	8,00,000	4,00,000	
IV. Tax @40%	1,60,000	3,20,000	1,60,000	
V. Profit after Tax (III-IV)	2,40,000	4,80,000	2,40,000	

Table 1: Financial Summary for the year ended 31.3.2022 and 31.3.2023

Quick Tip

To calculate percentage change in a comparative statement, use the formula:

$$\text{Percentage Change} = \frac{\text{Current Year} - \text{Previous Year}}{\text{Previous Year}} \times 100$$

34. Following is the Balance Sheet of Bharat Gas Ltd. as at 31.3.2023:

Balance Sheet of Bharat Gas Ltd. as at 31.3.2023

Particulars	Note No.	31.3.2023	31.3.2022
I. Equity and Liabilities:			
1. Shareholders' funds			
(a) Share capital		14,00,000	10,00,000
(b) Reserves and Surplus	1	5,00,000	4,00,000
2. Non-current liabilities			
Long-term borrowings		5,00,000	1,40,000
3. Current liabilities			
(a) Trade payables		1,00,000	60,000
(b) Short-term provisions	2	80,000	60,000
Total liabilities		25,80,000	16,60,000
II. Assets:			
1. Non-current assets			
(a) Fixed assets			
(i) Tangible assets	3	16,00,000	9,00,000
(ii) Intangible assets	4	1,40,000	2,00,000
2. Current assets			
(a) Inventories		2,50,000	2,00,000
(b) Trade receivables		1,90,000	80,000
(c) Cash and cash equivalents		3,00,000	2,80,000
Total assets		25,80,000	16,60,000

Notes to Accounts:

Note No.	Particulars	31.3.2023	31.3.2022
1	Reserves and Surplus: Balance in Statement of Profit and Loss	5,00,000	4,00,000
2	Short-term provisions: Provision for Taxation	80,000	60,000
3	Tangible Assets: Machinery Less: Accumulated Depreciation	18,50,000 16,00,000	10,00,000 9,00,000
4	Intangible Assets: Goodwill	1,40,000	2,00,000

Adjustments:

During the year, a machine costing 3,00,000 on which accumulated depreciation was 45,000 was sold for 1,35,000. Calculate 'Cash Flows from Operating Activities'

Correct Answer: Cash Flows from Operating Activities = 6,40,000

Solutions: Cash Flows from Operating Activities

Balance Sheet of Bharat Gas Ltd. as at 31.3.2023

Particulars	31.3.2023 (₹)	31.3.2022 (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	14,00,000	10,00,000
(b) Reserves and Surplus (Note 1)	5,00,000	4,00,000
2. Non-Current Liabilities		
Long-term Borrowings	5,00,000	1,40,000
3. Current Liabilities		
(a) Trade Payables	1,00,000	60,000
(b) Short-term Provisions (Note 2)	80,000	60,000
Total	25,80,000	16,60,000
II. Assets		
1. Non-Current Assets		
(a) Fixed Assets (Property, Plant & Equipment and Intangible Assets)		
(i) Tangible Assets (Note 3)	16,00,000	9,00,000
(ii) Intangible Assets (Note 4)	1,40,000	2,00,000
2. Current Assets		
(a) Inventories	2,50,000	2,00,000
(b) Trade Receivables	5,00,000	3,00,000
(c) Cash and Cash Equivalents	90,000	60,000
Total	25,80,000	16,60,000

Notes to Accounts:

Note No.	Particulars	31.3.2023 (₹)	31.3.2022 (₹)
1	Reserves and Surplus	5,00,000	4,00,000
2	Short-term Provisions	80,000	60,000
3	Tangible Assets:		
	Machinery	18,50,000	10,00,000
	Less: Accumulated Depreciation	(2,50,000)	(1,00,000)
	Net Tangible Assets	16,00,000	9,00,000
4	Intangible Assets:		
	Goodwill	1,40,000	2,00,000

Quick Tip

Operating activities include adjustments for non-cash items, changes in working capital, and tax provisions to calculate the net cash flow.

PART B

OPTION II

(Computerised Accounting)

27(a). Excel considers which of the following group of mathematical operations of equal importance?

- (A) Multiplication and Addition
- (B) Division and Multiplication
- (C) Exponent and Multiplication
- (D) Subtraction and Division

Correct Answer: (B) Division and Multiplication

Solutions: In Excel, mathematical operations are performed according to the BODMAS rule (Brackets, Orders, Division/Multiplication, Addition/Subtraction). Division and Multiplication have the same level of precedence and are executed from left to right.

Quick Tip

Keep in mind the BODMAS rule for Excel operations: Division and Multiplication are treated equally in terms of precedence.

27(b). How many rows are available in Excel 2007?

- (A) 5663
- (B) 65536
- (C) 72257
- (D) 4332

Correct Answer: (B) 65536

Solutions: Excel 2007 increased the row limit to 65,536 rows per worksheet, marking a significant enhancement over previous versions with fewer rows.

Quick Tip

Excel 2007 allows for up to 65,536 rows and 16,384 columns (extending to column XFD).

28. How are 'absolute cell references' and 'mixed references' identified in Excel?

- (A) Using \$ sign
- (B) Using £ sign
- (C) Using # sign
- (D) Using ~ *sign*

Correct Answer: (A) Using \$ sign

Solutions: In Excel, absolute cell references are indicated by the \$ symbol (e.g., \$A\$1), while mixed references use the \$ symbol either before the row or the column (e.g., A\$1 or \$A1).

Quick Tip

Press the F4 key to quickly switch between absolute, mixed, and relative references in Excel.

29(a). ‘A piece of information shown in a graph which is assigned to the data series’ is known as:

- (A) Data point
- (B) Data table
- (C) Plot point
- (D) Legend

Correct Answer: (D) Legend

Solutions:

A legend in a graph or chart is a component that provides explanations about the data series represented. It labels or categorizes the different colors, patterns, or markers used in the graph, aiding in the visual interpretation of the data.

For instance, in a bar chart with several bars, the legend clarifies which color or pattern corresponds to each category or data series.

Conclusion:

The legend is the element in a graph that assigns information to the data series represented.

Quick Tip

Legends are essential for distinguishing between multiple data series in charts, enhancing clarity and understanding.

29(b). ‘LABELS’ in Excel means:

- (A) A text or special character
- (B) Used for rows, columns or descriptive information
- (C) Can be treated mathematically
- (D) (A) and (B) both

Correct Answer: (D) (A) and (B) both

Solutions: In Excel, labels are text or special characters used to define rows, columns, or data points. These labels cannot be used directly in calculations unless they are converted into a numeric format.

Quick Tip

Labels help improve the clarity of your Excel worksheets, making them more user-friendly and easier to interpret.

30. Which of the following type of software suffers from the limitation of low secrecy level and software being prone to data frauds?

- (A) Tailored
- (B) Specific
- (C) Generic
- (D) (A) and (B) both

Correct Answer: (C) Generic

Solutions: Generic software is designed for general use and does not include customized security features for a specific organization. As a result, it is more susceptible to data fraud and security concerns compared to customized software.

Quick Tip

While generic software is more affordable, it may not offer the advanced security features needed for organizations handling sensitive information.

31. Explain 'Sequential Codes' and 'Block Codes' with examples.

Correct Answer:

Solutions:

1. Sequential Codes:

- Sequential codes are a series of numbers or identifiers assigned in order, ensuring that each code is distinct.
- **Example:** Invoice numbers such as 001, 002, 003, or employee IDs like E001, E002, E003.
- **Advantages:**
 - Simple to understand and apply.

- Ideal for maintaining a chronological sequence, such as in sales invoices or admission records.

- **Disadvantages:**

- Does not allow for categorization or provide specific meaning behind the code.
- Missing codes may lead to confusion or gaps in the sequence.

2. Block Codes:

- Block codes assign specific ranges of numbers or identifiers to particular categories or groups.

- **Example:** In a library, science books might be coded as 100–199, while literature books are coded as 200–299.

- **Advantages:**

- Eases categorization and retrieval of information.
- Provides flexibility to expand ranges within a category without disrupting others.

- **Disadvantages:**

- More complicated to set up compared to sequential codes.
- There can be unused numbers within a range if not all are utilized.

Quick Tip

Use sequential codes for straightforward identification and block codes for organizing related items into categories for efficient management.

32. How to use 'Mark Common Formula Error' in Excel? Explain.

Correct Answer:

Solutions: The 'Mark Common Formula Error' feature in Excel helps identify frequent formula mistakes, such as division by zero, incorrect cell references, or formula inconsistencies. To use it, follow these steps:

1. **Enable Error Checking:** Navigate to *File* > *Options* > *Formulas* and ensure the *Error Checking* option is activated.

2. **Spot Errors:** When an error occurs, a small green triangle appears in the top-left corner of the affected cell.
3. **Review Error Messages:** Hover over the cell to see a warning icon. Click it to open a dropdown that lists possible error types.
4. **Correct the Error:** From the dropdown menu, select the appropriate action, such as *Edit in Formula Bar*, to fix the formula.
5. **Use Formula Auditing Tools:** Go to *Formulas > Formula Auditing* to trace the source of the error or evaluate formulas step by step.

Quick Tip

Common errors in formulas include *#DIV/0!*, *#REF!*, and *#NAME?*. Always ensure that cell references are correct and formulas are free of typographical errors.

33(a). State why do you need to change a chart? How can it be changed? Why is it said that changing a column chart to a pie chart is easy? Give reasons.

Correct Answer:

Solutions:

1. Why change a chart?

- To enhance the data's visualization and analysis for specific purposes.
- To emphasize different aspects of the data, such as trends, proportions, or relationships.
- To improve the chart's clarity and appeal for the intended audience.

2. How can a chart be changed?

- Select the chart you want to change.
- Right-click and select the *Change Chart Type* option.
- Choose the desired chart type (e.g., Pie Chart, Line Chart) and click *OK* to confirm.
- Adjust chart elements such as labels, legends, and colors to fit the new chart style.

3. Why is changing a column chart to a pie chart easy?

- Both chart types share the same data structure: a single data series with categories and values.
- Tools like Excel allow easy switching between these chart types while keeping the underlying data intact.
- Column charts represent data with bars, while pie charts show the same data as slices of a circle, emphasizing proportions.

Quick Tip

Choose chart types that align with your goal: Pie charts for showing proportions, column charts for comparisons, and line charts for illustrating trends.

33(b). State the advantages of a computerized accounting system.

Correct Answer:

Solutions: A computerized accounting system provides several key benefits over manual systems:

1. **Accuracy:** Minimizes human errors in calculations and ensures precise financial records.
2. **Efficiency:** Accelerates data input, processing, and the creation of financial statements.
3. **Real-Time Data:** Offers immediate access to financial data for quick decision-making.
4. **Integration:** Connects various business functions, like payroll, inventory, and sales, into a cohesive system.
5. **Data Security:** Safeguards sensitive financial information through encryption and regular backups.
6. **Compliance:** Eases adherence to tax regulations and laws by automating calculations and generating reports.
7. **Cost-Effectiveness:** Reduces reliance on manual bookkeeping, saving both time and labor costs.

8. **Scalability:** Can manage increasing transaction volumes as the business grows.
9. **Customizable Reports:** Produces a wide range of reports, such as profit and loss statements, balance sheets, and cash flow reports, tailored to business needs.
10. **Error Detection:** Detects inconsistencies and errors instantly, helping to minimize the risk of fraud.

Quick Tip

A computerized accounting system is indispensable for businesses seeking greater efficiency, accuracy, and adaptability to modern challenges.

34. Using the worksheet below, find out the error and its reason for the given 'VLOOKUP' syntax:

S. No.	Product	Q1 Sales ()	Q2 Sales ()	Total Half Yearly Sales ()
1	A	10000	15000	25000
2	B	40000	35000	75000
3	C	25000	30000	55000
4	D	30000	50000	80000
5	E	45000	34000	79000
6	F	12000	30000	42000
7	G	38000	56000	94000

- (i) = VLOOKUP(B1, B2 : E8, 2, 0)
- (ii) = SQRT(VLOOKUP(B5, B8 : E8, 2, 0) - 100000)
- (iii) = VLOOKUP(A2, A2 : A8, 2, 0)
- (iv) = VLOOKUP(B2, B3 : E4, 5, 0)
- (v) = VLOOKUP(B2, A2 : E8, 0, 0)
- (vi) = VLOOKUP(B2, B2 : E8, 2, 0)/0

Solutions:

VLOOKUP Syntax	Error	Reason
(i) =VLOOKUP (B1, B2:E8, 2, 0)	Error: #N/A	The lookup value B1 is not found in the first column of the range B2:E8. The first column is required to contain the lookup value.
(ii) =SQRT (VLOOKUP (B5, B8:E8, 2, 0) - 100000)	Error: #N/A	The lookup value B5 does not exist in the first column of the range B8:E8. The range must include the lookup value.
(iii) =VLOOKUP (A2, A2:A8, 2, 0)	Error: #VALUE!	The column index (2) exceeds the number of columns in the range A2:A8, which has only one column.
(iv) =VLOOKUP (B2, B3:E4, 5, 0)	Error: #REF!	The column index (5) is out of bounds as the range B3:E4 contains only 2 columns.
(v) =VLOOKUP (B2, A2:E8, 0, 0)	Error: #VALUE!	The column index (0) is invalid. It should be a positive integer greater than or equal to 1.
(vi) =VLOOKUP (B2, B2:E8, 2, 0) / 0	Error: Division by zero	The formula attempts to divide by zero, which is not allowed.

Quick Tip

Quick Tip:

- Ensure the lookup value is always in the first column of the table array.
 - The column index number should correspond to the actual structure of the table.
 - Avoid division by zero and make sure all referenced ranges are correct.
-