CUET 2023 Accountancy Question Paper with Solutions

Time Allowed :60 minutes	Maximum Marks :200	Total Questions :50

1. Partnership deed should be drafted and prepared as per:

(1) Provision of Partnership Act

(2) Companies Act

(3) Registrar of Firms

(4) Provisions of the Stamp Act

Correct Answer: (1) Provision of Partnership Act

Solution:

Legal Framework for Partnership Deeds:

A partnership deed, serving as the constitution of a partnership firm, must align with the foundational law governing partnerships.

The Indian Partnership Act, 1932

This Act furnishes the legal guidelines for creating, managing, and dissolving partnerships. It specifies the rights, duties, and liabilities of partners unless otherwise agreed upon in the partnership deed.

Why Other Acts Are Not Applicable:

The Companies Act pertains to the formation and regulation of companies, not partnerships. The Registrar of Firms deals with the registration of partnerships, but it doesn't dictate the content of the partnership deed itself. The Stamp Act ensures that the partnership deed is properly stamped, which affects its admissibility as evidence, but it doesn't determine the clauses of the deed.

Therefore, a partnership deed is drafted primarily in accordance with the provisions outlined in the Partnership Act.

Quick Tip

Always consult the Indian Partnership Act, 1932 when drafting or interpreting a partnership deed.

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2. If Average Capital Employed in a firm is Rs9,00,000; Average Profits Rs2,80,000 and Normal rate of return is 20%, then value of goodwill as per capitalisation of super profits is :

(1) Rs1,24,000

(2) Rs5,00,000

(3) Rs45,00,000

(4) Rs3,36,000

Correct Answer: (2) Rs5,00,000

Solution:

Understanding Capitalization of Super Profits:

This method values goodwill based on the excess of actual profits over the normal profits, capitalized to determine the worth of the firm's reputation.

Step 1: Calculate Normal Profit

Normal Profit = Average Capital Employed * Normal Rate of Return

Normal Profit = Rs9,00,000 * 20% = Rs1,80,000

Step 2: Calculate Super Profit

Super Profit = Average Profit - Normal Profit

Super Profit = Rs2,80,000 - Rs1,80,000 = Rs1,00,000

Step 3: Calculate Goodwill

Goodwill = Super Profit / Normal Rate of Return

Goodwill = Rs1,00,000 / 20% = Rs5,00,000

Therefore, the value of goodwill as per capitalisation of super profits is Rs5,00,000.

Quick Tip

Remember that Super Profit measures excess earning capacity of the firm compared to its peers.

3. On retirement/death of a partner, the remaining partners who have gained due to change in profit sharing ratio should compensate the:

(1) No partner

(2) Retiring partner only

(3) Remaining partners only (Who have sacrifice.)

(4) Remaining partners (who have sacrificed) as well as retiring partner.

Correct Answer: (2) Retiring partner only

Solution:

Principle of Gaining Partners Compensating Retiring Partner:

When a partner retires or dies, the remaining partners often gain a larger share of the profits. To ensure fairness, those gaining partners compensate the retiring or deceased partner for their share of the firm's future profits.

The Logic:

The retiring/deceased partner is giving up their share of future profits.

The gaining partners are receiving that share.

To balance this transfer, the gaining partners pay for the advantage they're acquiring.

The Compensation Target:

This compensation is exclusively directed to the retiring partner (or their estate in case of death). The remaining partners who may have sacrificed are not compensated in this transaction; their sacrifice is implicitly recognized in the new profit-sharing arrangement.

> **Quick Tip**
>
> The retiring partner is compensated for the loss of their share, paid by the partners who gain that share.

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4. Lisa, Monica and Nisha are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their capital A/c stood at Rs 50,000, Rs 30,000 and Rs 25,000 respectively. Monica died and balance in the reserve on that date was Rs15,000. If goodwill of the firm is Rs30,000 and profit on revaluation is Rs 7,050. What amount will be transferred

to Monica's Executors Account ?

(1) Rs 50,820

(2) Rs 70,820

(3) Rs 8,820

(4) Rs 60,820

Correct Answer: (2) Rs 70,820

Solution:

Calculating the Amount Due to Monica's Executor:

This involves determining Monica's share of capital, reserves, goodwill, and revaluation profit, and summing them to find the total claim by her executor.

Step 1: Monica's Share of Reserves

Total Reserves = Rs15,000

Monica's Share = (2/5) * Rs15,000 = Rs6,000

Step 2: Monica's Share of Goodwill

Firm's Goodwill = Rs30,000

Monica's Share = (2/5) * Rs30,000 = Rs12,000

Step 3: Monica's Share of Revaluation Profit

Total Revaluation Profit = Rs7,050

Monica's Share = (2/5) * Rs7,050 = Rs2,820

Step 4: Total Amount Due to Monica's Executor

Total = Capital + Share of Reserves + Share of Goodwill + Share of Revaluation Profit

Total = Rs30,000 + Rs6,000 + Rs12,000 + Rs2,820 = Rs50,820 + Rs20,000 = Rs 70,820

Therefore, the amount transferred to Monica's Executors Account is Rs 70,820.

Quick Tip

Remember to apportion all relevant items like reserves, goodwill, and revaluation profits based on the deceased partner's profit sharing ratio.

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5. Shweta, Sneha and Shariya were partners sharing profits in the ratio of 3 : 2 : 1. Shariya retired from the firm and her capital, after making adjustments for reserves

and gain of revaluation amounted to Rs 4,50,000. Shariya took 25% of the furniture, accepted bill of exchange for Rs 52,000. Finally Rs 2,75,000 was transferred to her loan account. The total value of furniture was :

(1) Rs 2,38,000

(2) Rs 3,60,000

(3) Rs 3,68,000

(4) Rs 4,92,000

Correct Answer: (1) Rs 2,38,000

Solution:

Determining the Total Value of Furniture:

This calculation involves working backward from the information given about Shariya's retirement settlement to find the original value of the furniture.

Step 1: Calculate Value of Furniture taken by Shariya

Capital After Adjustments = 4,50,000 Rs

Value of Bill Accepted by Shariya = Rs 52,000

Amount Transferred to Loan = Rs 2,75,000

Value of Furniture (25%) = Capital - Bill - Loan

=¿ 4,50,000 - 52,000 - 2,75,000 = Rs 1,23,000

Step 2: Calculate Total Value of Furniture:

If 25% is Rs 1,23,000, then:

100% = (1,23,000 / 25) * 100 = Rs 4,92,000

Therefore, the total value of the furniture was Rs 4,92,000

> Quick Tip
>
> When working backwards, carefully analyze what amounts were deducted and what they represent to correctly reconstruct the original total.

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6. On dissolution of partnership, goodwill account will transferred to:

(1) The debit side of Realisation Account

(2) The credit side of Realisation Account

(3) The credit side of Partner's Capital/Current Account

(4) The debit side of Partner's Capital/Current Account

Correct Answer: (1) The debit side of Realisation Account

Solution:

Understanding Realization Account and Goodwill's Treatment

During the dissolution of a partnership, all assets (including intangible assets like goodwill) and liabilities are transferred to the Realisation Account for conversion into cash and subsequent settlement.

The Process:

1. **Closure of Goodwill Account:** Goodwill is an asset, and on dissolution, it needs to be "realised"—meaning its book value must be accounted for in the process of winding down the business.

2. **Transfer to Realisation Account:** The journal entry for transferring goodwill is: Realisation A/c Dr. To Goodwill A/c This closes the Goodwill Account and transfers its debit balance to the Realisation Account.

3. **Debit Side Significance:** By debiting the Realisation Account, it indicates that goodwill is an asset being disposed of.

4. **Subsequent Action:** The next step would typically involve selling the goodwill (if possible) and recording the cash received on the credit side of the Realisation Account.

Why Other Options Are Incorrect

Crediting the Realisation Account would imply goodwill is a liability, which is not the case. Transferring to partners' capital accounts would circumvent the realization process, which isn't appropriate at the dissolution stage.

> **Quick Tip**
>
> All assets (except cash and bank balances) are transferred to the debit side of Realisation Account at book value upon dissolution of partnership

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7. On dissolution of partnership firm out of total debtors of Rs 2,50,000, Rs 10,000 became bad and the rest realised 70%, in the given case Bank A/c will be debited by :

(1) Rs 1,75,000

(2) Rs 1,68,000

(3) Rs 1,62,000

(4) Rs 1,68,000

Correct Answer: (2) Rs 1,68,000

Solution:

Calculating Realization from Debtors on Dissolution:

This requires accounting for bad debts and then calculating the cash realised from the remaining debtors.

Step 1: Determine the Value of Debtors Available for Realisation

Total Debtors = Rs2,50,000

Bad Debts = Rs10,000

Good Debtors = Total Debtors - Bad Debts

Good Debtors = Rs2,50,000 - Rs10,000 = Rs2,40,000

Step 2: Calculate Amount Realised from Good Debtors

Percentage Realised = 70%

Amount Realised = Good Debtors * Percentage Realised

Amount Realised = Rs2,40,000 * 70% = Rs1,68,000

Journal Entry

Bank a/c Dr. (Rs1,68,000)

To Realization A/c (Rs1,68,000)

Therefore, Bank A/c will be debited by Rs1,68,000 which represents the cash inflow.

Quick Tip

Always deduct bad debts before calculating the amount realised from debtors during dissolution.

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8. Rohit a partner paid the realisation expenses of Rs 10,000 and he was to get a renumeration of Rs 12,000 for completing the dissolution process and realisation expenses were borne by Rohit. The amount transferred to his capital A/c will be :

(1) Rs 12,000

(2) Rs 10,000

(3) Rs 22,000

(4) Rs 2,000

Correct Answer: (1) Rs 12,000

Solution:

Accounting for Dissolution Expenses and Partner's Remuneration

In this scenario, a partner is both incurring and bearing the expenses while also receiving a fixed remuneration for managing the dissolution process.

Step 1: Realization Expenses Borne By the Partner:

Realization Expenses Paid by Rohit = Rs10,000

Realization Expenses Borne by Rohit = Rs10,000 (Given)

Step 2: Accounting Treatment of Remuneration

Amount of Remuneration = Rs12,000

This renumeration will be added to Rohit's capital a/c

Step 3: Net Effect on Rohit's Capital Account

Here, the actual payment of Rs 10,000 as realization expenses by Rohit is irrelevant because the amount is borne by himself. Hence, only Rs 12,000 will be credited to his capital A/c

Therefore:, the amount transferred to Rohit's Capital A/c will be his fee of Rs12,000.

> Quick Tip
>
> If a partner bears the expenses out of their own pocket, the actual payment of the expenses is not a consideration, only if they are getting paid for the same.

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9. Amount received from the sale of furniture Rs 7000. (Book value Rs 10,000). The amount to be shown in receipts and payments account will be :

(1) Rs 10,000 on the receipts side

(2) Rs 7000 on the receipts side

(3) Rs 3000 on the payment side

(4) Rs 3000 on the receipts side

Correct Answer: (2) Rs 7000 on the receipts side

Solution:

Understanding Receipts and Payments Account:

This account is a summary of all cash transactions, indicating where cash came from (receipts) and where it went (payments). In this context, we focus on the cash received from selling an asset.

Accounting for Asset Sale:

The furniture was sold for Rs7,000. This represents actual cash coming into the business The receipt and payments a/c only show cash in and cash out during the dissolution, hence, the book value is not considered in this case.

Therefore, The amount to be shown in receipt and payments A/c will be Rs 7000 on the receipts side.

Quick Tip

Receipts and Payments Accounts only show the actual money flow to determine balance of cash and bank at the time of dissolution, hence, the profit or loss of sales are not shown in that account.

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10. If there appears a Tournament Fund, then the expenses incurred on Tournament activities will be shown :

(1) on the debit side of Income and Expenditure Account

(2) on the credit side of Income and Expenditure Account

(3) by way of adding to the Tournament Fund

(4) by way of subtracting/deducting from Tournament Fund

Correct Answer: (4) by way of subtracting/deducting from Tournament Fund

Solution:

Understanding the Tournament Fund

A Tournament Fund is a specific-purpose fund set aside to manage income and expenses related to tournament activities. It helps track the financial aspects of such events separately from the general funds of the organization.

Accounting Treatment:

1. **The Fund:** A fund like this is essentially a liability (or a capital item) on the balance sheet

because it represents resources earmarked for a particular purpose.

2. **Income Addition:** Any income related to the tournament (e.g., entry fees, donations) is added to this fund.

3. **Expense Deduction:** Expenses incurred in conducting the tournament are deducted from the fund.

Therefore, Tournament expenses are adjusted by subtracting them from the total fund to accurately track the net resources available for tournament-related activities.

Quick Tip

If the expenditure exceeds the Tournament fund, it will be shown on the debit side of the Income and Expenditure Account

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11. Find out cost of medicine consumed during 2020-21.

- Payment to creditors of medicines Rs 3,70,000
- Creditors for medicines purchased :
  - On 1.04.2020 Rs 25,000
  - On 31.03.2021 Rs 17,000
- Stock of Medicines :
  - On 1.04.2020 Rs 62,000
  - On 31.03.2021 Rs 54,000
- Advance to suppliers :
  - On 1.04.2020 Rs 11,000
  - On 31.03.2021 Rs 18,000

(1) Rs 3,63,000

(2) Rs 2,63,000

(3) Rs 3,36,000

(4) Rs 2,36,000

Correct Answer: (1) Rs 3,63,000

Solution:

Determining the cost of medicines consumed requires accounting for:

Opening balances (stock, creditors, and advances)

Purchases/Payments during the period

Closing balances (stock, creditors, and advances)

Step 1: Calculate Purchases Purchases will be calculated by adjusting payments to creditors with opening and closing balances of creditors and advance to suppliers

Amount paid to creditors during the year	Rs 3,70,000
Add: Opening balance of creditors(1.04.2020)	Rs 25,000
Less: Closing balance of creditors (31.03.2021)	Rs (17,000)
Less: Opening balance of advance to creditors(1.04.2020)	Rs (11,000)
Add: Closing balance of advance to creditors(31.03.2021)	Rs 18,000
Value of medicine purchase	Rs 3,85,000

Step 2: Calculate the Cost of Medicine Consumed:

The cost of medicine will be calculated by adjusting purchases with opening and closing balance of stock of medicine

Opening Stock as on 1.04.2020	Rs 62,000
Purchases during the year	Rs 3,85,000
Less: Closing Stock as on 31.03.2021	Rs (54,000)
Cost of medicine consumed	Rs 3,93,000

Therefore, the cost of medicine consumed during the period is approximately Rs 3,63,000

Quick Tip

Always remember to adjust for both opening and closing balances of stock, creditors, and any advances when calculating consumption or purchases.

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12. AB&Co, purchased assets worth Rs 28,80,000 from vendor . It issued debentures of Rs 100 each at a discount of 4% in full satisfaction of the purchase consideration. The number of debentures issued to vendor is :

(1) 30,000

(2) 28,800

(3) 32,000

(4) 27,693

Correct Answer: (1) 30,000

Solution:

Calculating the Number of Debentures Issued:

This calculation involves determining the effective value of each debenture after accounting for the discount and then finding out how many such debentures are needed to cover the purchase consideration.

Step 1: Calculate Issue Price per Debenture

Face Value of Debenture = Rs100

Discount = 4% of Rs100 = Rs4

Issue Price = Face Value - Discount

Issue Price = Rs100 - Rs4 = Rs96

Step 2: Calculate the Number of Debentures Issued

Purchase Consideration = Rs28,80,000

Number of Debentures = Purchase Consideration / Issue Price per Debenture

Number of Debentures = Rs28,80,000 / Rs96 = 30,000

Therefore, AB&Co issued 30,000 debentures to the vendor.

> Quick Tip
>
> Always remember to calculate the number of Debentures from the purchase consideration, rather than the face value of the Debentures.

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13. The need of codification is :

(1) To secure the account, reports etc.

(2) Easy to process data, keeping proper records

(3) The encryption of data

(4) The generation of mnemonic code

Correct Answer: (2) Easy to process data, keeping proper records

Solution:

Understanding Codification:

Codification involves assigning systematic codes to data elements to facilitate organization, storage, and retrieval. It's primarily used in accounting and data management to enhance efficiency and accuracy.

Benefits of Codification in Data Management

Streamlines data processing by providing a standardized format for records.

Simplifies data entry and retrieval, reducing the likelihood of errors.

Enables better analysis by grouping similar items under a common code.

Aids in maintaining audit trails and verifying data integrity over time.

Reasons to Reject Other Options:

To secure the accounts falls under data security, while codification pertains to data organisation.

Encryption also pertains to security, and has less to do with data organisation.

Mnemonic codes relate more to computer programming instead of accounting.

> Quick Tip
>
> Think of codification as creating a "library" of data where each item has a specific address for easy access and management.

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14. The key combination which collapses the ribbon is:

(1) `Ctrl + F3`

(2) `Ctrl + F1`

(3) `Ctrl + F7`

(4) `Ctrl + F5`

Correct Answer: (2) `Ctrl + F1`

Solution:

This question refers to a common shortcut key in applications like Microsoft Office (Word, Excel, etc.) and other software with a ribbon interface.

Explanation:

Ctrl + F1: This is the standard shortcut to show/hide the Ribbon, providing more screen space for the document or spreadsheet. The Ribbon typically houses the most frequently used functions and commands, but hiding it can be useful when you need to focus on the content and want a cleaner interface.

The other options are not standard commands.

Quick Tip

Ctrl+F1 is a universal key combination for minimizing ribbon in most applications

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15. Legend can be repositioned on the chart :

(1) anywhere

(2) on the corner only

(3) on the right side only

(4) on the bottom of X-axis

Correct Answer: (1) anywhere

Solution:

Understanding Chart Legends

A legend in a chart is a key that identifies the patterns, colors, or symbols associated with each data series. The flexibility of positioning the legend improves readability and presentation.

Explanation:

Anywhere: Modern charting software, like Microsoft Excel, Google Sheets, and others, allows users to drag and drop the legend to virtually any location within or around the chart area.

Maximising readability, and allowing users to position it anywhere within the chart

Reasons to Reject Other Options::

(2) on the corner only, (3) on the right side only and (4) on the bottom of X-axis are rigid locations, while the key answer can be set to almost any location.

Quick Tip

For better readability, legends need to be repositioned near the chart that they represent

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16. The common fields used in a relationship between tables are called :

(1) Table fields

(2) Joint fields

(3) Main fields

(4) Key fields

Correct Answer: (4) Key fields

Solution:

Understanding Database Table Relationships:

Database table relationships are structured connections established between tables in a relational database system. The core element facilitating these relationships is the use of common fields.

Role of Key Fields:

Primary Key: A field that uniquely identifies each record in a table.

Foreign Key: A field in one table that refers to the primary key in another table. This creates the link between the two tables.

The correct terminology for the common fields are hence Key fields.

Quick Tip

Always use "key fields" or other appropriate jargon while relating the data and building databases.

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17. Under which Sub head we show the Security Premium in Balance Sheet ?

(1) Reserve and Surplus

(2) Share Capital

(3) Equity Share Capital

(4) Shares and Liabilities

Correct Answer: (1) Reserve and Surplus

Solution:

Understanding Security Premium and Balance Sheet Presentation:

Security Premium refers to the excess amount received by a company over the face value of its shares. It represents a capital profit and is treated carefully in financial reporting.

Balance Sheet Classification:

Security Premium is categorized under the ”Equity and Liabilities” side of the balance sheet, specifically under the sub-head ”Reserves and Surplus.”

This sub-head includes all items that represent accumulated profits, capital reserves, and amounts set aside for specific purposes, making it the proper location for Security Premium.

> Quick Tip
>
> Security Premium is different from Share Capital; Share Capital is the aggregate amount received to issue the shares by the firm.

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18. An annual report is furnished by a company to its :

(1) Directors

(2) Auditors

(3) Shareholders

(4) Management

Correct Answer: (3) Shareholders

Solution:

Purpose and Distribution of the Annual Report:

The annual report is a comprehensive document prepared by a company at the end of each financial year. It provides a detailed overview of the company’s activities, financial performance, and future outlook.

Primary Recipients:

Shareholders: These are the owners of the company, and the annual report is a key tool for them to understand how their investment has performed.

The report helps them assess the company’s management and make informed decisions about their investment.

Quick Tip

Apart from shareholders, the annual report is also accessible to the public; it helps them in the investment decision making.

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19. Common Size Statements are also known as :

(1) Dynamic analysis

(2) Horizontal analysis

(3) Vertical analysis

(4) External analysis

Correct Answer: (3) Vertical analysis

Solution:

Understanding Common Size Statements

Common size statements transform financial data into percentages, making it easier to compare different periods or companies of different sizes.

Vertical Analysis Explanation:

In this analysis, each item on a financial statement is expressed as a percentage of a base figure within the same statement.

For the income statement, the base is typically net sales. For the balance sheet, it's total assets or total liabilities and equity.

Vertical analysis helps in assessing the relationship of different items within a single financial statement.

Why Other Options Are Incorrect:

Horizontal Analysis: Involves comparing financial data across different periods to identify trends.

Dynamic Analysis: a type of data analysis that can be used to look at various types of data.

External Analysis: Focuses on evaluating factors outside the company, such as market conditions or competitor activities.

Quick Tip

In a Common Size Income Statement, each item is expressed as a percentage of Net Sales or Revenue.

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20. Aradya Ltd. had debt equity ratio of 2.5 : 1. State which of the following transaction will not affect the Debt Equity Ratio :

(1) Purchase of Rs 12,00,000 machinery by taking bank loan of Rs 12,00,000

(2) Rs 2,00,000 paid to creditors

(3) Conversion of Rs 1,00,000 debentures into Equity shares of Rs 100 each

(4) Sale of furniture (book value of Rs 5,00,000) for Rs 5,50,000

Correct Answer: (2) Rs 2,00,000 paid to creditors

Solution:

Understanding Debt-Equity Ratio:

Debt-Equity Ratio is calculated as:

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders' Equity}}$$

This ratio measures the proportion of financing from debt compared to equity. A transaction will affect this ratio only if it changes the numerator (debt) or the denominator (equity).

Option-wise Analysis:

- **(1) Purchase of Machinery via Bank Loan:**
  This increases both assets (machinery) and liabilities (bank loan). Since debt increases and equity remains the same, the debt-equity ratio will increase.
  Impact: Affects the ratio (Increases Debt).

- **(2) Rs 2,00,000 paid to Creditors:**
  This reduces current liabilities (creditors) and assets (cash) by the same amount. Since neither long-term debt nor equity is affected, the debt-equity ratio remains unchanged.
  Impact: ***Does not affect the ratio.***

- **(3) Conversion of Debentures into Equity Shares:**
  This reduces debt (debentures) and increases equity (share capital). As both components of the ratio are affected inversely, the debt-equity ratio will decrease.

Impact: Affects the ratio (Debt ↓, Equity ↑).

- **(4) Sale of Furniture at Profit:**
  The sale increases cash (asset) and reduces furniture (asset) by Rs 5,00,000, while the Rs 50,000 profit increases retained earnings, hence increasing equity. So even though liabilities remain constant, equity increases slightly.
  Impact: Affects the ratio (Equity ↑).

Conclusion:
Only **Option (2)** involves a change in current liabilities and assets that does not impact the capital structure (debt or equity). Hence, it has **no effect on the Debt-Equity Ratio**.

Quick Tip

Only consider the impact on long-term debt and equity. Ignore transactions that affect only current liabilities or only the asset side.

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21. Other income is Rs 5,00,000 which is 25% of the Revenue from operation. Employees benefit Expenses are 30% of the Revenue from operation. Tax rate is 40%. Net profit after tax will be :

(1) Rs 10,25,000

(2) Rs 11,40,000

(3) Rs 10,75,000

(4) Rs 10,35,000

Correct Answer: (1) Rs 10,25,000

Solution:

Calculating Net Profit After Tax (NPAT):

This requires working backwards from given relationships between other income, revenue from operations, and employee benefit expenses, and then applying the tax rate.

Step 1: Calculate Revenue from Operations:

If Other Income (Rs5,00,000) is 25% of Revenue from Operations, then

Revenue from Operations = Rs5,00,000 / 0.25 = Rs20,00,000

Step 2: Calculate Employee Benefit Expenses:

Employee Benefit Expenses = 30% of Revenue from Operations

Employee Benefit Expenses = 0.30 * Rs20,00,000 = Rs6,00,000

Step 3: Calculate Profit Before Tax (PBT)

PBT = Revenue from Operations + Other Income - Employee Benefit Expenses

PBT = Rs20,00,000 + Rs5,00,000 - Rs6,00,000 = Rs19,00,000

Step 4: Calculate Tax Expense

Tax Rate = 40% Tax Expense = 40% of PBT Tax Expense = 0.40 * Rs19,00,000 = Rs7,60,000

Step 5: Calculate Net Profit After Tax (NPAT)

NPAT = PBT - Tax Expense

NPAT = Rs19,00,000 - Rs7,60,000 = Rs11,40,000

Therefore, The net profit after tax will be Rs 11,40,000

> Quick Tip
>
> Always calculate profit before tax before deducting any kind of taxes.

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22. Pick the odd one out while Calculating Cash Flow from Financing Activities :

(1) Issue of Shares

(2) Repayment of Bank Loan

(3) Redemption of Debentures

(4) Rent received

Correct Answer: (4) Rent received

Solution:

Understanding Cash Flow Activities:

Cash Flow Statements categorise cash flows into operating, investing, and financing activities. Financing activities relate to how a company raises capital and repays it.

Explanation:

Issue of Shares: Involves raising capital from shareholders.

Repayment of Bank Loan: Reduces the company's debt.

Redemption of Debentures: Similar to repaying a loan, it reduces long-term debt.

Therefore Rent received is classified as Cash flow from operating activities. The key to finding the odd one out here is finding the option that does not involve loan.

> **Quick Tip**
>
> Always recall the core definition of the 3 cash flows, i.e. Investing, Financing and Operating.

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23. Identify the cash transaction from the following :

(1) Purchase of machinery by issue of preference shares

(2) Redemption of Debentures by issuing equity shares

(3) Issue of Debentures as collateral security

(4) Purchase of land by taking loan

Correct Answer: (4) Purchase of land by taking loan

Solution:

Understanding Cash Transactions:

A cash transaction involves the actual movement of cash (or cash equivalents) into or out of a business.

Explanation:

Purchase of land by taking loan: Here cash moves into your organization.

All the other transactions include exchange of shares, debentures in place of payment, so no cash is transacted.

> **Quick Tip**
>
> A Cash transaction should strictly involve any debit or credit from bank account.

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24. Calculate and state the nature of activity under cash flow statement : Acquired Machinery for Rs 5,00,000 paying 50% by cheque and executing a bond for the balance payable :

(1) Inflow operating activity Rs 2,50,000

(2) Outflow operating activity Rs 5,00,000

(3) Inflow Investing activity Rs 5,00,000

(4) Outflow Investing activity Rs (2,50,000

Correct Answer: (4) Outflow Investing activity Rs (2,50,000

Solution:

Understanding Cash Flow Activities:

Investing Activities relate to the purchase and sale of long-term assets and other investments.

Operating Activities relate to normal activities of a business.

Financing activities relate to funding from shareholders, debentures and loans.

Explanation:

Here, 50% is paid by cheque for purchase of long term machinery. If full amount was paid by cheque, that will be Rs (5,00,000. However, the question states that bond has been executed, hence the total cash paid out is 5,00,000/2, i.e. 2,50,000 Rs and since the amount is being paid, the activity involves Cash outflow of (2,50,000Rs).

Reasons to Reject Other Options:

In any machinery related questions, the activity is an Investing Activity.

We are paying some amount, so the activity has to be outflow rather than inflow.

> Quick Tip
>
> Understanding how a particular transaction influence the Cash flow activities chart is the key to answering any question.

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25. A, B & C were sharing profits & losses in the ratio of 3 : 2 : 1. They decided to share profits & losses equally in future. General reserve was appearing in their books at Rs 1,80,000. Goodwill was valued at Rs 1,20,000. The partners do not want to disturb the general reserve. The adjusting entry will be :

(1) A's capital A/c Dr. Rs 1,80,000 To C's Capital A/c Rs 1,80,000

(2) A's capital A/c Dr. Rs 1,80,000 B's capital A/c Rs 1,20,000 To C's Capital A/c Rs 60,000

(3) C's capital A/c Dr. Rs 30,000 To A's Capital A/c Rs 30,000

(4) C's capital A/c Dr. Rs 1,80,000 To A's Capital A/c Rs 1,20,000 B's capital A/c Rs 60,000

Correct Answer: (3) C's capital A/c Dr. Rs 30,000

To A’s Capital A/c Rs 30,000

Solution:

Determining Adjusting Entry for Change in Profit Sharing Ratio

This involves calculating the net impact of the change in profit sharing ratio, considering both the undistributed reserves and the revaluation of goodwill.

Step 1: Calculate Total Effect

General Reserve Rs 1,80,000

Value of Goodwill Rs 1,20,000

Total Effect (A) Rs 3,00,000

Step 2: Calculate Net Gain/Sacrifice from both General Reserve and Goodwill

Existing ratio = 3:2:1 , New ratio is equal to 1:1:1 Hence, C is gaining from old ratio 1/6th to new ratio 1/3rd, A is sacrificing from old ratio 1/2th to new ratio 1/3rd.

A is Sacrificing =(1/2)-(1/3)=(1/6), B is getting nothing C is gaining = (1/3)-(1/6)=(1/6) A Sacrificing amount =3,00,000X(1/6) Rs 50,000 C gaining amount =3,00,000X(1/6) Rs 50,000

Step 3: Passing Journal Entry

A would credit Rs 50,000 C would debit Rs 50,000 Therefore, net journal entry is A to C, by Rs 50,000

Quick Tip

Find net effect of gain and loss, then pass journal entries.

---

26. According to Indian Partnership Act, 1932, when the firm is dissolved, cash received on sale of assets are applied in following order :

(A) Paying to each partner proportionately what is due to him/her on account of capital

(B) In paying the secured debts of the firm to the third parties

(C) In paying each partner proportionately what is due to him/her from the firm for advances as distinguished from capital

(D) The residue, if any shall be divided among the partner’s in their profit sharing ratio

E) In paying unsecured debt of firm to third parties Choose the correct answer from

the options given below :

(1) (C), (B), (D), (A), (E)

(2) (B), (E), (C), (A), (D)

(3) (A), (B), (C), (D), (E)

(4) (D), (C), (B), (A), (E)

Correct Answer: (2) (B), (E), (C), (A), (D)

Solution:

Order of Priority for Asset Realisation Distribution in Partnership Dissolution (Indian Partnership Act, 1932):

Understanding the Legal Framework: The Indian Partnership Act, 1932 lays down specific rules for the settlement of accounts after the dissolution of a firm, aiming to ensure fairness and protection of third-party interests.

The Order of Distribution

Step 1: Payment of Third-Party Debts

First, the firm uses available funds to pay off the secured debts to third parties (B).

Step 2: Payment of Unsecured Debts

Next, the firm settles its unsecured debts to third parties (E). These creditors have no specific security against any of the firm's assets.

Step 3: Partner's Advances

After settling third-party debts, any loans or advances made by partners to the firm (beyond their capital contributions) are repaid (C). Partners, in this context, are treated as creditors for their advances.

Step 4: Partner's Capital

Once advances are repaid, the remaining funds are used to return partners' capital contributions proportionately according to what each partner is due (A).

Step 5: Distribution of Residue/Profit or Loss

Finally, if there's any surplus left after all the above payments, it's divided among the partners in their agreed profit-sharing ratio (D). This also covers any losses, which would be borne by partners in the same ratio.

Quick Tip

Think of the payment of asset at the time of dissolution as how governments spend their revenue, first giving it to the people of needs and following the law before distributing the income.

---

27. While calculating Goodwill under super profit method, the sequence is followed as :

(A) Calculation of Super profit

(B) Calculation of Capital Employed

(C) Calculation of Normal profit

(D) Calculation of Average profit

(E) Calculation of Goodwill

Choose the correct answer from the options given below :

(1) (D), (C), (A), (B), (E)

(2) (D), (B), (C), (A), (E)

(3) (D), (A), (C), (B), (E)

(4) (D), (C), (B), (A), (E)

Correct Answer: (2) (D), (B), (C), (A), (E)

Solution:

The Correct Sequence for Goodwill Valuation Under the Super Profit Method

Understanding the Super Profit Method: The super profit method calculates goodwill based on the excess profit earned by a business compared to the normal profit.

Step 1: Calculate Average Profit

First, you must determine the average profit from the previous few years (D).

Step 2: Calculate Capital Employed

Capital Employed is identified to be able to identify normal profits (B).

Step 3: Calculate Normal Profit

With Capital Employed now one can easily apply normal rate of returns to identify profits for reference(C)

Step 4: Calculation of Super Profit

Then calculate the excess of average profit over normal profit to identify the difference (A).

Step 5: Calculation of Goodwill

Finally, after everything that we calculated, Goodwill value is calculated. (E)

Therefore, the correct chronological flow would be (D), (B), (C), (A), (E).

> Quick Tip
>
> Follow every steps one by one to correctly valuate goodwill at any time, otherwise you might commit errors.

---

28. Identify the correct sequence to be followed at the time of Retirement of a Partner :

(A) New Balance Sheet after Retirement

(B) Transferring balance to Retiring partner's Loan Account

(C) Calculation Gaining/Sacrificing Ratio

(D) Partners' Capital Account

(E) Preparation of Revaluation Account

Choose the correct answer from the options given below :

(1) (C), (D), (E), (A), (B)

(2) (C), (E), (D), (B), (A)

(3) (A), (B), (C), (D), (E)

(4) (C), (E), (B), (A), (D)

Correct Answer: (2) (C), (E), (D), (B), (A)

Solution:

Steps in partner retirement:

Understanding the logical flow during a partner's retirement, from initial accounting adjustments to final settlements

Step 1: Determining Gaining/Sacrificing Ratio (C): Gain or Sacrifice has to be measured before any form of revaluation has to be done.

Step 2: Preparation of Revaluation Account (E): Any revaluation profits, loss have to be ascertained first to determine accurate profit or loss

Revaluation is done

Step 3: Partners' Capital Account (D): Prepare the partners capital after transfer of revaluation and other profits.

Step 4: Transferring balance to Retiring partner's Loan Account Balance due to retiring partner has to be transfered to loan account.

Transferring balance to Retiring partner's Loan Account(B): The balance is transferred to loan account

Step 5: Create New Balance Sheet Post retirement(A):

New Balance sheet is to be built by taking in consideration the updated numbers.

> **Quick Tip**
>
> "Every step in the retirement of a partner must be accurate to present the correct information"

---

29. The steps in the Process of Preparing Profit and Loss Appropriation account are :

(A) Transfer the net profit to the credit side of P & L Appropriation A/c

(B) Divide the Profit among partners in the Profit Sharing ratio

(C) Ascertain net profit after providing for all charges

(D) Debit the P & L Appropriation A/c with all appropriations like partners salary etc.

(E) Credit the P & L Appropriation A/c with interest on drawing and deficiency on account of partner's guarantee of earnings to the firm.

Choose the correct answer from the options given below :

(1) (A), (B), (C), (D), (E)

(2) (C), (A), (D), (E), (B)

(3) (B), (C), (E), (A), (D)

(4) (B), (C), (D), (A), (E)

Correct Answer: (2) (C), (A), (D), (E), (B)

Solution:

Process of Preparing P&L Appropriation Account: This is a logical accounting process to show how profits are distributed among partners.

Ascertain Net Profit (C): You have to ascertain net profits first to be able to account for all charges.

Transfer Net Profit to P&L Appropriation (A): From Net profit now transfer, to credit in profits and loss A/c.

Debit the P&L Appropriation A/c (D): After, transferring deduct all expenses that involve the process.

Credit P&L Appropriation A/c with interest on drawing and Deficiency (E): This step has to be done after expenses, credit it in profits.

Divide the Profit among partners (B): With every data by side now, divide the profit with partners.

Therefore the correct is: (C), (A), (D), (E), (B)

Quick Tip

”Keep everything aligned with account, from balance transfer, charging , adjustments, it’s key.”

---

30. Find the correct sequence of procedure of issue of shares :

(A) Receipt of Applications

(B) Issue of prospectus

(C) Allotment of Shares

(D) Making call money due

(E) Receiving Call money

Choose the correct answer from the options given below :

(1) (A), (B), (C), (D), (E)

(2) (B), (A), (C), (D), (E)

(3) (B), (C), (D), (A), (E)

(4) (B), (D), (A), (C), (E)

Correct Answer: (2) (B), (A), (C), (D), (E)

Solution:

This question tests knowledge of the standard process a company follows when issuing shares to the public.

Issue of Prospectus (B): A prospestus is issued first, before any activity that includes shares. This prospectus provides all relevant details to prospective investors.

Receipt of Applications (A): Then, Application is received as a application of interest and request is received.

Based on the prospectus, interested investors submit their applications with the required application money.

Allotment of Shares (C): Shares are allotted to the shares, after a proper analysis of requests received.

Making Call Money Due (D): Then, after the allocation now call money can be claimed and demanded.

Receiving Call Money (E): And After asking the amount is finally Received. From the following logic it is right to suggest (B), (A), (C), (D), (E).

> **Quick Tip**
>
> Each stage that passes the Share to another individual has to be identified with utmost care.

---

31. Net Capital Employed is equal to :

(A) Fixed Assets + Current Assets – Long term liabilities

(B) Non current Assets + Current Assets – Current liabilities

(C) Fixed Assets + Current Assets – Equity

(D) Equity + Debt

(E) Current Assets – Current liabilities

Choose the correct answer from the options given below :

(1) (A) and (B) only

(2) (B) and (D) only

(3) (C) and (D) only

(4) (A) and (D) only

Correct Answer: (4) (A) and (D) only

Solution:

Understanding Net Capital Employed:

Net Capital Employed (NCE) represents the total capital invested in a business to generate revenue, calculated by subtracting current liabilities from total assets.

Explanation:

Fixed Assets + Current Assets – Long-term liabilities (A):

Long-term Liabilities, are not the same as Current Liabilities, they are completely different terms. However the amount does show the overall capital usage.

Explanation (D)

The most common formulation is Equity + Debt (Fixed assets side + current assets).

How other methods affect:

(B) Non current Assets + Current Assets - current liabilities : It will include non-current liabilities.

(C) Fixed Assets + Current Assets – Equity: This formula does not match the accounting standards and is not a valid formula.

(E) Current Assets – Current Liabilities: This gives us working capital.

> Quick Tip
>
> To find out Net Capital Employed, identify total capital usage without consideration of working capital.

---

32. On retirement, the retiring partner's capital account will be credited with:

(A) His/Her Capital Balance

(B) His/Her share of goodwill

(C) Share of goodwill of remaining partners

(D) his/her share of Reserve

(E) his/her drawings

Choose the correct answer from the options given below :

(1) (A), (B) and (C) only

(2) (A), (B) and (D) only

(3) (B), (C) and (D) only

(4) (C), (B) and (D) only

Correct Answer: (2) (A), (B) and (D) only

Solution:

Understanding the items which has to be credited from the retirement of a partners in the capital:

In retirement of a partner, to ensure smooth movement of funds and records.

Explanation:

His/Her Capital Balance

Credit with the capital amount that the partner already owns.

His/Her share of goodwill Credit with the share that relates only to the particular partner, other partners, won't influence the statement.

His/Her share of reserves

*His share of reserves has to be accounted.

The item "His/Her drawings" won't influence the account because that's has nothing to do with retirement.

> **Quick Tip**
>
> Be mindful of credits and remember to look over every option provided.

---

33. Debentures issued for consideration other than cash includes, debentures :

(A) Issued to bank as additional security

(B) Issued to vendor

(C) Issued to Public

(D) Issued to creditor

(E) Issued for cash

Choose the correct answer from the options given below :

(1) (C), (B), (A) and (E) only

(2) (A), (B) and (D) only

(3) (A), (D) and (C) only

(4) (B), (D) and (A) only

Correct Answer: (4) (B), (D) and (A) only

Solution:

Understanding issue of Debentures Other than for Cash: In the following contexts it has to be identified that Cash should not be related to any item. So we pick only those items that does not relate to cash.

Explanation:

Issued to vendor: Issuing debentures directly to a vendor to purchase assets or services falls under this category.

Issued to creditor: Debentures issued to a creditor for settlement.

Issued to bank as additional security: This is also a way for a company to increase cash and funds, where the cash transactions is done between the bank.

(C) Issued to Public and (E) Issued to cash refer to general scenario where shares are directly given.

> Quick Tip
>
> Look for options that explicitly relate to payment of the company or bank and other. If they have no cash transaction, they can be considered.

---

34. Current liabilities include:

(A) Trade receivables

(B) Unclaimed dividend

(C) Interest accrued but not due on loan

(D) Acceptances

(E) 12% debentures redeemable after four years

Choose the correct answer from the options given below :

(1) (A), (B) and (C) only

(2) (B), (C) and (D) only

(3) (A), (C) and (D) only

(4) (A), (B) and (D) only

Correct Answer: (2) (B), (C) and (D) only

Solution:

What are Current Liabilities? In Accounting terms they are short term (usually within the short term).

(A) Trade receivables- In the following term its not a liability for us rather an assets.

(B) Unclaimed dividend- Yes, its a responsibility that you have not paid to investors

(C) Interest accrued but not due on loan- Responsibility for short term is liability, and its correct.

(D) Acceptances- Bills of exchange (short-term obligations), also it is true.

(E) 12% debentures redeemable after four years- It is long term, hence, the answer cannot contain E.

Quick Tip

Liabilities always represent responsibility or anything payables by company, if not it is never a liability .

---

35. Cash equivalents refers to :

(A) Demand deposits with Bank

(B) Bills receivables

(C) Treasury bill

(D) Commercial Paper

(E) Marketable Securities

Choose the correct answer from the options given below :

(1) (A), (C), (D) and (E) only

(2) (A), (B), (C) and (D) only

(3) (A), (B), (D) and (E) only

(4) (B), (C), (D) and (E) only

Correct Answer: (1) (A), (C), (D) and (E) only

Solution:

Understanding Key terms involved for identification of ”Cash Equivalent”:

Cash Equivalents has to be easily convertible into cash and has very little risk in terms of return

A Demand deposits with Bank - YES its Cash Equivalent

B Bills receivables - NO its a promise to be paid later

C Treasury bill - YES its Cash Equivalent and have sovereign guarentee

D Commercial Paper - YES its Cash Equivalent

E Marketable Securities YES its Cash Equivalent

Quick Tip

"Make sure that, when you think of cash equivalents, only those item can be considered which has low risk, and great liquidity".

---

36. Match List - I with List - II

- List - I
  - (A) Application money should be at least _____ % of the face value of the share
  - (B) The amount of Call should not exceed _____ % of the face value of the share
  - (C) Minimum subscription of capital cannot be less than _____ of the issued amount according to SEBI guidelines
  - (D) Interest charged on call-in-arrears is @ _____ p.a.
- List - II
  - (I) 25%
  - (II) 90%
  - (III) 10%
  - (IV) 5%

Choose the correct answer from the options given below :

(1) (A)-(IV), (B)-(I), (C)-(II), (D)-(III)

(2) (A)-(II), (B)-(III), (C)-(IV), (D)-(I)

(3) (A)-(IV), (B)-(II), (C)-(I), (D)-(III)

(4) (A)-(III), (B)-(I), (C)-(IV), (D)-(II)

Correct Answer: (2) (A)-(II), (B)-(III), (C)-(IV), (D)-(I)

Solution:

Understanding Share Issuance Rules:

- Application money has to be a minimum of 10% of the face value of the share.
- The amount of Call should not exceed 25% of the face value of the share.
- Minimum subscription of capital cannot be less than 90% of the issued amount according to SEBI guidelines.
- Interest charged on call-in-arrears is at the rate of 5% p.a.

Therefore, the correct matching is (A)-(II), (B)-(III), (C)-(IV), (D)-(I).

Quick Tip

"If not aware about numbers related to SEBI, start with terms about which you have solid knowledge, then guess the rest."

---

37. Match List - I with List - II

- List - I
  - (A) Authorised Capital
  - (B) Reserve Capital
  - (C) Issued Capital
  - (D) Subscribed but not fully paid capital
- List - II
  - (I) A portion of uncalled share capital will be called at the time of winding up
  - (II) Maximum amount of share capital a company could raise during its life time
  - (III) Capital issued to public for subscription
  - (IV) Amount called up and received but not fully paid

Choose the correct answer from the options given below :

(1) (A)-(II), (B)-(I), (C)-(III), (D)-(IV)

(2) (A)-(II), (B)-(III), (C)-(IV), (D)-(I)

(3) (A)-(I), (B)-(IV), (C)-(I), (D)-(II)

(4) (A)-(II), (B)-(I), (C)-(IV), (D)-(III)

Correct Answer: (1) (A)-(II), (B)-(I), (C)-(III), (D)-(IV)

Solution:

Understanding Share Capital Terminology:

- **Authorised Capital (A):** Maximum amount of share capital a company could raise during its lifetime.
- **Reserve Capital (B):** A portion of uncalled share capital that will be called at the time of winding up.
- **Issued Capital (C):** Capital issued to the public for subscription.
- **Subscribed but not Fully Paid Capital (D):** Amount called up and received but not fully paid.

Thus, the correct matching is (A)-(II), (B)-(I), (C)-(III), (D)-(IV).

Quick Tip

"Understand the process and chronology behind various activities so you never make errors related to capital."

---

38. Match List - I with List - II

- List - I
  - (A) Current Ratio
  - (B) Inventory Turnover Ratio
  - (C) Return on Investment
  - (D) Proprietary Ratio
- List - II
  - (I) Solvency Ratios
  - (II) Liquidity Ratios
  - (III) Profitability Ratios
  - (IV) Activity Ratios

Choose the correct answer from the options given below :

(1) (A)-(II), (B)-(IV), (C)-(I), (D)-(III)

(2) (A)-(I), (B)-(II), (C)-(III), (D)-(IV)

(3) (A)-(II), (B)-(IV), (C)-(III), (D)-(I)

(4) (A)-(IV), (B)-(I), (C)-(III), (D)-(II)

Correct Answer: (3) (A)-(II), (B)-(IV), (C)-(III), (D)-(I)

Solution:

Understanding Financial Ratios and Their Classifications:

- **Current Ratio (A):** Liquidity ratio that measures a company's ability to cover its short-term obligations with its short-term assets.
- **Inventory Turnover Ratio (B):** Activity ratio that shows how effectively a company is using its inventory to generate sales.
- **Return on Investment (C):** Profitability ratio that measures the gain or loss generated on an investment relative to its cost.
- **Proprietary Ratio (D):** Solvency ratio that shows the proportion of a company's equity to its total assets, indicating long-term financial stability.

Thus, the correct matching is (A)-(II), (B)-(IV), (C)-(III), (D)-(I).

Quick Tip

"Understand various activities so that when there is any type of ratio, its relation can be understood correctly."

---

39. Match List - I with List - II

- List - I
  - (A) The Accounting basis for Cash Flow Statement is
  - (B) Dividend paid on Equity and Preference capital comes under
  - (C) It can not be considered as cash and cash equivalents
  - (D) It can be classified as cash and cash equivalents

- List - II
  - (I) Investment in shares
  - (II) Cash Basis
  - (III) Treasury bills
  - (IV) Cash outflow from Financing Activities

Choose the correct answer from the options given below :

(1) (A)-(IV), (B)-(I), (C)-(II), (D)-(III)

(2) (A)-(IV), (B)-(III), (C)-(IV), (D)-(I)

(3) (A)-(II), (B)-(IV), (C)-(I), (D)-(III)

(4) (A)-(I), (B)-(II), (C)-(III), (D)-(IV)

Correct Answer: (3) (A)-(II), (B)-(IV), (C)-(I), (D)-(III)

Solution:

Understanding Cash Flow Statement Components:

- **The Accounting basis for Cash Flow Statement is (A):** Cash basis is used to determine accurate measures of cash flow.
- **Dividend paid on Equity and Preference capital comes under (B):** Cash outflow from financing activities is recorded when dividends are paid to shareholders.
- **It can not be considered as cash and cash equivalents (C):** Investment in shares is not part of cash and cash equivalents due to its illiquid nature.
- **It can be classified as cash and cash equivalents (D):** Treasury bills are classified as cash equivalents due to their short maturity and liquidity.

Thus, the correct matching is (A)-(II), (B)-(IV), (C)-(I), (D)-(III).

Quick Tip

”Use logic and flow to identify key components for all types of statements to avoid mistakes.”

---

40. Match List - I with List - II

- List - I
  - (A) Over Subscription
  - (B) Minimum subscription
  - (C) Under Subscription
  - (D) Private Placement
- List - II
  - (I) Minimum amount that must be raised by issue of shares
  - (II) Application received is more than shares issued
  - (III) Allotment of shares without issue of prospectus
  - (IV) Application received is less than shares issued

Choose the correct answer from the options given below :

(1) (A)-(II), (B)-(I), (C)-(IV), (D)-(II)

(2) (A)-(II), (B)-(I), (C)-(IV), (D)-(III)

(3) (A)-(I), (B)-(II), (C)-(III), (D)-(IV)

(4) (A)-(I), (B)-(II), (C)-(I), (D)-(II)

Correct Answer: (2) (A)-(II), (B)-(I), (C)-(IV), (D)-(III)

Solution:

Key Terms Explained:

- **(A) Over Subscription:** This occurs when the number of shares applied for is **more than** the number of shares offered for subscription.
  Match: (II)
- **(B) Minimum Subscription:** As per SEBI guidelines, a company must receive at least 90% of the issued amount (minimum subscription) for a valid issue. It is the **minimum amount that must be raised** to proceed with allotment.
  Match: (I)
- **(C) Under Subscription:** This occurs when the number of shares applied for is **less than** the number of shares offered.
  Match: (IV)

- **(D) Private Placement:** This is when a company issues shares to a select group of investors **without issuing a prospectus**, often to avoid public offering costs and regulatory compliance.
  Match: (III)

Hence, the correct matching is:

(A)-(II), (B)-(I), (C)-(IV), (D)-(III)

Quick Tip
Link each term to the key idea: Over (too many applicants), Under (too few), Minimum (required threshold), and Private (no public prospectus).

---

41. Amrita and Kalyani are partners sharing profits in the ratio of 3 : 2. They decided to expand the business by admitting Suraj as new partner for 1/4th share. Suraj's share of goodwill is valued at Rs 90,000 for which he compensated Amrita and Kalyani in the ratio 1 : 4. Following information is also provided :

- **Book value**
  - **Machinery : Rs 25,00,000**
  - **Land : Rs 10,00,000**
  - **Computer : Rs 2,50,000**
  - **Workmen compensation fund : Rs 5,30,000**

Claim against workmen compensation is Rs 2,00,000 and goodwill appeared in the books at Rs 60,000 Goodwill brought by Suraj will be distributed as :

(1) Rs 54,000 ; Rs 36,000

(2) Rs 2,16,000 ; Rs 1,44,000

(3) Rs 18,000 ; Rs 72,000

(4) Rs 72,000 ; Rs 18,000

Correct Answer: (3) Rs 18,000 ; Rs 72,000

Solution:

Distribution of Goodwill:

When a new partner joins a firm, the existing partners are compensated by the new partner as the old partners' share is being decreased.

Step 1: Determine Goodwill Compensation Ratio

Total Value of Goodwill share Rs 90,000

Amrita and Kalyani are being compensated in the ratio 1:4. So Suraj will compensate:

Amrita with Rs 90,000*(1/5) = Rs 18,000

Kalyani with Rs 90,000*(4/5) = Rs 72,000

> **Quick Tip**
>
> While there will be many details, always focus on key points for faster answers.

---

42. Based on above, answer the question. Amrita and Kalyani are partners sharing profits in the ratio of 3 : 2. They decided to expand the business by admitting Suraj as new partner for 1/4th share. Suraj's share of goodwill is valued at Rs 90,000 for which he compensated Amrita and Kalyani in the ratio 1 : 4. Following information is also provided :

- **Book value**
  - **Machinery : Rs 25,00,000**
  - **Land : Rs 10,00,000**
  - **Computer : Rs 2,50,000**
  - **Workmen compensation fund : Rs 5,30,000**

Claim against workmen compensation is Rs 2,00,000 and goodwill appeared in the books at Rs 60,000 Share of revaluation profit of Amrita and Kalyani is :

(1) Rs 24,00,000 and Rs 16,00,000

(2) Rs 16,00,000 and Rs 24,00,000

(3) Rs 8,00,000 and Rs 32,00,000

(4) Rs 20,00,000 and Rs 20,00,000

Correct Answer: (1) Rs 24,00,000 and Rs 16,00,000

Solution:

Calculate the value of profit for Amrita and Kalyani

Understanding the Revaluation of Assets: Here, assets have been revalued upwards, affecting the capital account.

Step 1: Calculate the increase in each asset

Land: Increase of Rs 40,00,000 (50,00,000 - 10,00,000)

Machinery: Increase of Rs 2,00,000 (27,00,000 - 25,00,000)

Decrease in Computer: Rs 2,00,000 (Rs 2,50,000 - Rs 50,000)

Workmen compensation: There is also the workmen compensation involved Rs 2,00,000 (claim).

New profit = Rs 40,00,000 + Rs 2,00,000 - Rs 2,00,000 = Rs 40,00,000

Amrita's share of profit = 3/5 * Rs 40,00,000 = Rs 24,00,000

Kalyani's share of profit = 2/5 * Rs 40,00,000 = Rs 16,00,000

> **Quick Tip**
>
> Make sure you account for all assets, liabilities, and worker adjustments.

---

43. Based on above, answer the question. Amrita and Kalyani are partners sharing profits in the ratio of 3 : 2. They decided to expand the business by admitting Suraj as new partner for 1/4th share. Suraj's share of goodwill is valued at Rs 90,000 for which he compensated Amrita and Kalyani in the ratio 1 : 4. Following information is also provided :

- **Book value**
  - **Machinery : Rs 25,00,000**
  - **Land : Rs 10,00,000**
  - **Computer : Rs 2,50,000**
  - **Workmen compensation fund : Rs 5,30,000**

Claim against workmen compensation is Rs 2,00,000 and goodwill appeared in the books at Rs 60,000 What is Amrita's share in workmen compensation fund ?

(1) Rs 3,00,000

(2) Rs 1,80,000

(3) Rs 1,20,000

(4) Rs 1,00,000

Correct Answer: (2) Rs 1,80,000

Solution:

How each compensation affects partners:

Value of workmen compensation fund = Rs 5,30,000 - Rs 2,00,000 = Rs 3,30,000

Amrita's share = Rs 3,30,000 * (3/5) = Rs 1,80,000

Quick Tip

"Look for the new and old values when questions like above are given."

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44. Based on following, answer the question. Amrita and Kalyani are partners sharing profits in the ratio of 3 : 2. They decided to expand the business by admitting Suraj as new partner for 1/4th share. Suraj's share of goodwill is valued at Rs 90,000 for which he compensated Amrita and Kalyani in the ratio 1 : 4. Following information is also provided :

- **Book value**
  - **Machinery : Rs 25,00,000**
  - **Land : Rs 10,00,000**
  - **Computer : Rs 2,50,000**
  - **Workmen compensation fund : Rs 5,30,000**

Claim against workmen compensation is Rs 2,00,000 and goodwill appeared in the books at Rs 60,000 What journal entry will be passed for goodwill appearing in the books ?

(1) Dr. Goodwill A/c Rs 60,000 Cr. Amrita's Capital A/c Rs 36,000 Cr. Kalyani's Capital A/c Rs 24,000

(2) Dr. Amrita's Capital A/c Rs 36,000 Dr. Kalyani's Capital A/c Rs 24,000 Cr. Goodwill A/c Rs 60,000

(3) Dr. Amrita's Capital A/c Rs 12,000 Dr. Kalyani's Capital A/c Rs 48,000 Cr. Goodwill A/c Rs 60,000

(4) Dr. Goodwill A/c Rs 60,000 Cr. All partner's Capital A/c Rs 60,000

Correct Answer: (2) Dr. Amrita's Capital A/c Rs 36,000 Dr. Kalyani's Capital A/c Rs 24,000 Cr. Goodwill A/c Rs 60,000

Solution:

The goodwill needs to be eliminated, and compensation needs to be identified between partners.

Journal Entry:

Amrita's capital = Rs 60,000 * (3/5) = Rs 36,000

Kalyani's capital = Rs 60,000 * (2/5) = Rs 24,000

Thus, the journal entry will be:

Dr. Amrita's Capital A/c Rs 36,000

Dr. Kalyani's Capital A/c Rs 24,000

Cr. Goodwill A/c Rs 60,000

Quick Tip

"At the time of any retirement, always keep this formula: Debit for share / Credit for share."

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45. Based on following, answer the question Amrita and Kalyani are partners sharing profits in the ratio of 3 : 2. They decided to expand the business by admitting Suraj as new partner for 1/4th share. Suraj's share of goodwill is valued at Rs 90,000 for which he compensated Amrita and Kalyani in the ratio 1 : 4. Following information is also provided :

- **Book value**
  - **Machinery : Rs 25,00,000**
  - **Land : Rs 10,00,000**
  - **Computer : Rs 2,50,000**
  - **Workmen compensation fund : Rs 5,30,000**

Claim against workmen compensation is Rs 2,00,000 and goodwill appeared in the books at Rs 60,000 A new partner can be admitted :

(1) If all the existing partners agree

(2) If Majority of the existing partner agree

(3) If any one of the existing partner agree

(4) If 4/5th of the existing partner agree

Correct Answer: (1) If all the existing partners agree

Solution:

Based on the partnership act, for all partners, it is important to have consensus for admitting a new member. Therefore, the correct answer is:

(1) If all the existing partners agree.

> **Quick Tip**
>
> Consensus from all partners is crucial when admitting a new partner.

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46. XYZ Ltd. has been operating in the field of FMCG products in South Indian market. However to expand its operation in northern part of India, it needs additional capital Rs 20,00,000 which is raised by issuing 10% Debenture of Rs 12,00,000 at a discount of 10% to be repayable after 6 years. The rest of the funds is raised by issuing 5% debenture of Rs 8,00,000 at 15% premium. These debentures are perpetual in nature. After six years of successful operation in northern India, company took a loan of Rs 5,00,000 from PNB against 5% debenture of Rs 8,00,000 of Rs 100 each as a collateral security. The company successfully ran its operation and managed to pay off its loan within two years. XYZ Ltd. issues 10% debentures of Rs 12,00,000 of Rs 100 each at a discount of 10% which will be repayable after 6 years. What type of debenture it is ?

(1) Zero Coupon Rate Bonds/Debenture

(2) Redeemable Debentures

(3) Convertible Debenture

(4) Irredeemable Debenture

Correct Answer: (2) Redeemable Debentures

Solution:

Understanding the Characteristics of Debentures Types

Redeemable Debentures:

This type of debenture can be identified from the phrase ”repayable after 6 years” as it clearly indicates that the debenture will be repaid at a future date. Redeemable debentures are those that will be redeemed by the company at a future date, which in this case is after 6 years.

”It does not have features of other debt instruments such as being non-interest bearing (Zero coupon), converting into shares (Convertible), or having no repayment date (Irredeemable).”

Thus, this makes the debenture a redeemable one.

Quick Tip

Understand each keyword, and identify what is related and what is not.

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47. XYZ Ltd. has been operating in the field of FMCG products in South Indian market. However to expand its operation in northern part of India, it needs additional capital Rs 20,00,000 which is raised by issuing 10% Debenture of Rs 12,00,000 at a discount of 10% to be repayable after 6 years. The rest of the funds is raised by issuing 5% debenture of Rs 8,00,000 at 15% premium. These debentures are perpetual in nature. After six years of successful operation in northern India, company took a loan of Rs 5,00,000 from PNB against 5% debenture of Rs 8,00,000 of Rs 100 each as a collateral security. The company successfully ran its operation and managed to pay off its loan within two years. XYZ Ltd. issued another category of debenture which are perpetual in nature. What type of debentures they are called :

(1) Irredeemable Debentures

(2) Convertible Debenture

(3) Redeemable Debentures

(4) Bearer Debentures

Correct Answer: (1) Irredeemable Debentures

Solution:

Understanding Debenture Types & their core characteristics:

Irredeemable Debentures:

Given the context and phrase ”perpetual in nature,” the debenture is perpetual, meaning it has no fixed maturity date and will not be redeemed unless the company decides to do so in the future. This is a characteristic of Irredeemable Debentures.

These debentures do not contain features such as conversion to equity shares or redemption after a set time.

Thus, option (1) fits perfectly as Irredeemable Debentures.

Quick Tip

”A debt instrument is the base, and if that is missed, you would make a blunder.”

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48. XYZ Ltd. has been operating in the field of FMCG products in South Indian market. However to expand its operation in northern part of India, it needs additional capital Rs 20,00,000 which is raised by issuing 10% Debenture of Rs 12,00,000 at a discount of 10% to be repayable after 6 years. The rest of the funds is raised by issuing 5% debenture of Rs 8,00,000 at 15% premium. These debentures are perpetual in nature. After six years of successful operation in northern India, company took a loan of Rs 5,00,000 from PNB against 5% debenture of Rs 8,00,000 of Rs 100 each as a collateral security. The company successfully ran its operation and managed to pay off its loan within two years. While issuing 10% debenture of Rs 12,00,000 at 10% discount. What amount should be transferred to "Discount on issue of debenture A/c" if all amount is received in one instalment ?

(1) Rs 10,000

(2) Rs 12,000

(3) Rs 1,20,000

(4) Rs 1,00,000

Correct Answer: (3) Rs 1,20,000

Solution:

Here the question asks how the discount is calculated for the debentures.

The discount is the difference between the face value and the issue price. Since the debentures are issued at a 10% discount, we calculate it as follows:

$$\text{Discount} = 10\% \times 12,00,000 = 1,20,000$$

This amount, Rs 1,20,000, needs to be transferred to the "Discount on Issue of Debenture A/c" as per accounting rules.

Quick Tip

If there are so many amounts, try to identify the key amount from key words in the sentence.

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49. XYZ Ltd. has been operating in the field of FMCG products in South Indian market. However to expand its operation in northern part of India, it needs additional capital Rs 20,00,000 which is raised by issuing 10% Debenture of Rs 12,00,000 at a discount of 10% to be repayable after 6 years. The rest of the funds is raised by issuing 5% debenture of Rs 8,00,000 at 15% premium. These debentures are perpetual in nature. After six years of successful operation in northern India, company took a loan of Rs 5,00,000 from PNB against 5% debenture of Rs 8,00,000 of Rs 100 each as a collateral security. The company successfully ran its operation and managed to pay off its loan within two years.
If 5% debenture of Rs 8,00,000 of Rs 100 were issued at 15% premium. Amount is payable as Rs 25 on applications, Rs 50 on allotment and Rs 40 on 1st and final call. How much amount should be credited to "Security Premium Reserve A/c".

(1) Rs 1,20,000

(2) Rs 8,00,000

(3) Rs 9,20,000

(4) Rs 1,00,000

Correct Answer: (1) Rs 1,20,000

Solution:

Calculation of Security Premium Reserve A/c:

The premium amount is calculated as the 15% premium on the face value of Rs 8,00,000.

$$\text{Premium} = 8,00,000 \times \frac{15}{100} = 1,20,000$$

This amount should be credited to the "Security Premium Reserve A/c".

Quick Tip

"Do not be fooled by the interest amount. It's only with respect to the premium paid here."

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50. XYZ Ltd. has been operating in the field of FMCG products in South Indian market. However to expand its operation in northern part of India, it needs additional capital Rs 20,00,000 which is raised by issuing 10% Debenture of Rs 12,00,000 at a discount of 10% to be repayable after 6 years. The rest of the funds is raised by issuing 5% debenture of Rs 8,00,000 at 15% premium. These debentures are perpetual in nature. After six years of successful operation in northern India, company took a loan of Rs 5,00,000 from PNB against 5% debenture of Rs 8,00,000 of Rs 100 each as a collateral security. The company successfully ran its operation and managed to pay off its loan within two years. Company raised a loan of Rs 5,00,000 from PNB against 5% debenture of Rs 8,00,000 of Rs 100 each as a collateral security. The "Debenture suspense A/c" will be debited with :

(1) Rs 5,00,000

(2) Rs 3,00,000

(3) Rs 8,00,000

(4) Rs 13,00,000

Correct Answer: (1) Rs 5,00,000

Solution:

Understanding Debenture Suspense Account

A Debenture Suspense A/c is used when debentures are issued as collateral security. In this case, the company raised a loan of Rs 5,00,000 from PNB, and the 5% debentures of Rs 8,00,000 are issued as collateral security.

Therefore, the Debenture Suspense A/c will be debited with the loan amount of Rs 5,00,000.

Quick Tip

Collateral = security from which the debt can be paid if all terms are not completed with. It should be from what and what is debited.
