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ACCOUNTANCY (30)

INDEX

Unit No.	Name of Units	Page No.
THEORY PART BOOK-I	01 ACCOUNTING FOR PARTNERSHIP BASIC CONCEPTS	1-6
	02 RECONSTITUTION OF A PARTNERSHIP FIRM ADMISSION OF A PARTNER	7-12
	03 RECONSTITUTION OF A PARTNERSHIP FIRM RETIREMENT / DEATH OF A PARTNER	13-17
	04 DISSOLUTION OF PARTNERSHIP FIRM	18-20
THEORY PART BOOK-II	01 ACCOUNTING FOR SHARE CAPITAL	21-24
	02 ISSUE AND REDEMPTION OF DEBENTURES	25-28
	03 FINANCIAL STATEMENTS OF A COMPANY	29-32
	04 FINANCIAL STATEMENT ANALYSIS	33-37
	05 ACCOUNTING RATIOS	38-41
	06 CASH FLOW STATEMENT	42-45
	PRACTICAL ORIENTED QUESTIONS WITH ANSWERS	46-50
QUESTION PAPERS	01 SOLVED QUESTION PAPERS MARCH-2019 & JUNE-2019	51-83

CHAPTER – 01

ACCOUNTING FOR PARTNERSHIP : BASIC CONCEPTS

Sec-A (01 Marks)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	01	01	-

SECTION – A : ONE MARK QUESTIONS

I) Fill in the blanks questions :

1) Section of Indian Partnership Act, 1932 defines Partnership.

Ans : 4

2) A Partnership has no separate entity **Ans : Legal**

3) In order to form a Partnership, there should be at least persons.

Ans : 2 (Two)

4) Partnership is the result of between two or more persons to carry on business and share its profits and losses. **Ans : Agreement**

5) It is preferred that the Partners have a agreement.

Ans : written

6) The agreement should be to carry on some Business **Ans : Lawful**

7) Each partner carrying on the business is the principal as well as the of all other Partners. **Ans : Agent**

8) The liability of a partner for his acts is **Ans : Unlimited**

9) In the absence of Partnership deed Interest on advance from partner will be charged at **Ans : 6% p.a.**

10) Under method, the capitals of the Partners shall remain fixed.

Ans : Fixed capital

11) Under fluctuating capital method, the Partner's Capital Account balances from time to time. **Ans : Fluctuate**

12) P & L Appropriation A/c is merely an extension of Account of a firm.

Ans : Profit and Loss

13) Profit and Loss Appropriation Account Dr

To Accounts

(Being Transfer of interest on capital to P & L Appropriation A/c)

Ans : Interest on Partners' Capital

14) A/c Dr.

To salary to Partner's account

(Being Transfer of Partner's salary to P & L Appropriation A/c)

Ans : Profit and Loss Appropriation

15) P & L Appropriation A/c .. Dr.

To Partners Capital / Current A/cs.

(.....)

Ans : Being Profit transferred to Partners Capital or Current A/cs

16) When fixed amounts are withdrawn at the end of every month, interest on the total amount for the year ending is calculated for months.

Ans : 5.5 (5 ½)

17) Under fluctuating capital method, all the transactions relating to Partners are directly recorded in the Accounts. **Ans : Partners Capital**

18) Under Fixed Capital Method, the amount of capital remains

Ans : Fixed

19) Under Fixed Capital Method, all the transactions relating to a partner are recorded in a separate account called Account.

Ans : Partner's Current

20) There is not much difference in the final accounts of a sole proprietary concern and that of a **Ans : Partnership Firm**

II) Multiple Choice Questions.

1) The agreement between the partners should be in,

- a) Oral
- b) Written
- c) Oral / written
- d) None of the above

Ans : c) Oral / Written

2) Partnership deed contains :

- a) Name of firm
- b) Name and address of the Partners
- c) Profit sharing ratio
- d) All of the above

Ans : d) All of the above

3) If any partner has advanced money to the firm beyond the amount of his capital, he shall be entitled to get interest on the amount at the rate of

- a) 5% p.a.
- b) 6% p.a.
- c) 8 % p.a.
- d) None of the above

Ans : b) 6% p.a.

4) Interest on capital is generally provided for, in that situations when

- a) The Partners contribute unequal amounts of capital but share profits equally.
- b) The capital contribution is same but profit sharing is unequal.
- c) Both the situations above
- d) None of the above

Ans : c) Both the situations above

5) When fixed amount is withdrawn on the first day of every month, interest on total amount of the year ending will be calculated for :

- a) 2 & ½ months
- b) 4 & ½ months
- c) 6 & ½ months
- d) None of the above

Ans : c) 6 & ½ months

6) When varying amounts are withdrawn at different intervals, the interest is calculated using,

- a) Simple method
- b) Average method
- c) Product method
- d) None of the above

Ans : c) Product method

- 7) Adjustment for correction of omission & commission can be made,
- a) In Profit & Loss Adjustment Account
 - b) Directly in the Capital Accounts of concerned Partners
 - c) Both the situations above
 - d) None of the above

Ans : c) Both the situations above

- 8) In order to form a Partnership there should be at least : **(June 2019)**
- a) One person
 - b) Two persons
 - c) Seven persons
 - d) None of the above

Ans : b) Two persons

- 9) The business of a Partnership concern may be carried on by :
- a) All the Partners
 - b) Any of the them acting for all
 - c) All Partners or any of them acting for all
 - d) None of the above

Ans : c) All Partners or any of them acting for all

- 10) The agreement between Partners must be to share :
- a) Profits
 - b) Losses
 - c) Profits & Losses
 - d) None of the above

Ans : c) Profits & Losses

- 11) The liability of a partner for acts of the firm is :
- a) Limited
 - b) Unlimited
 - c) Both the above
 - d) None of the above

Ans : b) Unlimited

- 12) The Partnership Deed should be properly drafted and prepared as per the provisions of the
- a) Partnership Act
 - b) Stamp Act
 - c) Companies Act
 - d) None of the above

Ans : a) Partnership Act

- 13) The clauses of Partnership Deed can be altered with the consent of :
- a) Two Partners
 - b) Ten Partners
 - c) Twenty Partners
 - d) All the Partners

Ans : d) All the Partners

III) True or False questions.

- 1) The agreement between Partners must be in writing. **Ans : False**
- 2) The clauses of Partnership deed can be altered with the consent of all the Partners. **Ans : True**
- 3) If the Partnership deed is silent about the profit sharing ratio, the profit or loss of the firm is to be shared equally. **Ans : True**
- 4) In the absence of an agreement, a partner is entitled to claim interest at the rate of 10% p.a. on the amount of capital contributed by him. **Ans : False**
- 5) In the absence of Partnership Deed, no partner is entitled to get salary. **Ans : True**

- 6) Under Fixed Capital Method, the Partners Capital Accounts will always show a credit balance. **Ans : True**
- 7) Under Fixed Capital Method, the Partners' Capital Accounts will always show a debit balance. **Ans : False**
- 8) P & L Appropriation A/c shows how the profits are appropriated among the Partners. **Ans : True**
- 9) When fixed amount is withdrawn during the middle of every month, interest on total amount is calculated for 6 months. **Ans : True**
- 10) If there is a loss, no interest on capital is to be paid to Partners, even if there is a provision in the Partnership deed. **Ans : True**
- 11) Accounting treatment for Partnership is similar to that of a sole proprietorship business. **Ans : True**
- 12) There are two methods by which the capital accounts of Partners can be maintained. **Ans : True**
- 13) Profit and Loss Appropriation Account is merely an extension of the Profit and Loss Account of a firm. **Ans : True**
- 14) Interest on Partners capital is debited to Partners Capital Accounts. **Ans : False**
- 15) In case of Guarantee of profit to a partner, assurance may be given by one partner. **Ans : True**

IV) Very short answer questions.

- 1) Who is a partner ?
Ans : Partner is a person who had entered into Partnership with one another is individually called partner.
- 2) What do you mean by Partnership Firm ?
Ans : It is an association of two or more persons who carry a joint business and share the profits.
- 3) State any one feature of Partnership
Ans : Agreement
- 4) What is the minimum number of Partners in a Firm ? **Ans : Two**
- 5) Name any one content of Partnership Deed.
Ans : Name and Address of all the Partners
- 6) Name any one method of maintaining capital accounts of Partners.
i) Fixed Capital Method
- 7) Name any one final account of Partnership firm. **Ans : Profit and Loss Account**
- 8) How do you distribute profit or loss among the Partners in the absence Partnership deed ? **Ans : Equally**
- 9) Why the Profit and Loss Appropriation account is prepared ?
Ans : It is prepared how the Profit are appropriated among the Partners after making necessary adjustments.
- 10) At what rate interest on advances by Partners is to be paid as per Partnership act?
Ans : 6% p.a.

- 11) When interest is charged on Partners drawings ?
Ans : Interest is charged on Partners drawings when there is a provision in the agreement among the Partners about it.
- 12) When Partners' Current Accounts are prepared in Partnership firms? (March 2019)
Ans : Partners Current Accounts are prepared in Partnership firms, when Partners' Capital Accounts are maintained under Fixed Capital Method.
- 13) State any one special aspect of Partnership accounts.
Ans : Maintenance of Partners Capital A/cs.
- 14) When the Current Accounts of Partners are opened ?
Ans : Current A/cs of Partners are opened in Fixed Capital Method
- 15) Under fluctuating capital method, how many accounts are maintained for each partner ?
Ans : One
- 16) State any one feature of fluctuating capital method
Ans : Capital balance of each partner changes year after year.
- 17) State any one situation in which provision of payment of interest on partners capital is made.
Ans : If there is an agreement and there is a profit.
- 18) Find out interest at 8% p.a. on capital of Rs. 50,000 for 9 months.
Ans : Rs. 3,000
- 19) Which is the suitable method of calculation of interest on drawings, when fixed amount is withdrawn every month?
Ans : Average period method
- 20) Give one example for past adjustment ?
Ans : Commission or interest on capital

SECTION – B : TWO MARKS QUESTIONS

- 1) What is Partnership ?
Ans : Partnership is a relation between two or more persons who join hands to set up a business and share its profits and losses.
- 2) Define Partnership
Ans : According to sec 4 of the Indian Partnership Act – 1932 “Partnership is the relation between persons who have agreed to share the profits of a business carried on by all are any of them acting for all”
- 3) State any two features of Partnership (June 2019)
Ans : a) Two or more persons b) Agreement between Partners
- 4) What is Partnership Deed ?
Ans : Partnership Deed is the written agreement on stamp paper containing terms of Partnership, duly signed by all Partners.
- 5) What are the methods of maintaining capital accounts of Partners ?
Ans : a) Fixed Capital Method b) Fluctuating Capital Method

6) What is Fixed Capital Method ?

Ans : Fixed Capital Method is a method of maintaining Partners capital a/cs, in which the capital balances of the Partners shall remain fixed. All adjustments relating to Partners are recorded in a separate account called Partners Current Accounts.

7) What is fluctuating capital method ?

Ans : Fluctuating capital method is a method of maintaining Partners capital a/cs, in which all adjustments relating to partners are recorded in their Capital A/cs.

8) State any two differences between fixed and fluctuating capital methods.

Fixed Capital Method	Fluctuating Capital Method
1) Adjustments are made in Current A/c	1) Adjustments are made in Partners capital A/cs.
2) Capital balance remains unchanged	2) Capital balance fluctuates year by year.

9) What do you mean by Profit and Loss Appropriation Account ?

Ans : Profit and Loss Appropriation A/c is the extension of P & L A/c which shows the appropriation of profits among the Partners after making necessary adjustments.

10) What is guarantee of profit to a Partner ?

Ans : Guarantee of profit to a partner means giving assurance of certain minimum amount by way of his share of profits of the firm.

11) What do you mean by past Adjustments?

Ans : Past Adjustments refer to, making necessary rectifications for commissions or omissions noticed after preparation of final accounts.

12) State any two final accounts of a Partnership firm.

Ans : a) Profit and Loss A/c and b) Balance Sheet

13) In the absence of Partnership deed, specify the rules relating to the followings:

a) Sharing of profits & losses b) Interest on partners capital

Ans : a) Equally b) Not to be allowed

14) State the rules relating to the followings in the absence of Partnership Deed.

a) Interest on drawings b) Interest on advances from Partners

Ans : a) Not to be charged b) 6% p.a.

15) Name any two methods for calculation of Interest on drawings.

Ans : a) Product Method b) Average Period Method

16) When the interest on drawings is generally provided to Partners ?

Ans : Interest on drawings is generally charged on partners when it is specifically expressed in an agreement.

17) How do you close Profit and Loss Appropriation Account in Partnership ?

Ans: Profit and Loss Appropriation A/c in Partnership is closed by transferring its balance to Partners Capital or Current A/cs, as the case may be.

18) State any two special aspects of Partnership A/cs.

Ans : a) Maintenance of Partners Capital A/cs.

b) Distribution of P & L among Partners.

19) Name any two contents of Partnership Deed. **(March 2019)**

Ans : a) Profit Sharing Ratio b) Capitals of Partners

CHAPTER – 02

RECONSTITUTION OF A PARTNERSHIP FIRM

ADMISSION OF A PARTNER

Sec-A (01 Mark)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	01	01	01

SECTION – A ONE MARK QUESTIONS

I) Fill in the blanks questions :

- 1) Ratio is used to distribute accumulated profits and losses at the time of admission of a new partner. **Ans : Old**
- 2) Profit or loss on revaluation is shared among the old Partners in ratio. **Ans : Old**
- 3) Old Ratio - New ratio = **Ans : Sacrificing Ratio**
- 4) Accumulated losses are transferred to the capital accounts of the old Partners at the time of admission in their ratio. **Ans : Old**
- 5) General reserve is to be transferred to accounts at the time of admission of a new partner. **Ans : Partners Capital**
- 6) Goodwill brought in by new partner in cash is to be distributed among old Partners in ratio. **Ans : Sacrificing**
- 7) If the amount brought by new partner is more than his share in capital, the excess is known as **(March 2019)**
Ans : Hidden Goodwill
- 8) Account is debited for increase in the value of an asset. **Ans : Asset**
- 9) Unrecorded asset is to be credited to account. **Ans : Revaluation**
- 10) A and B are partners sharing profits and losses equally with capitals of Rs. 45000 each. C is admitted for 1/3rd share and he brings in Rs. 60000 as his capital Hidden Goodwill is **Ans : 30000**
- 11) Due to change in profit sharing ratio, some Partners will gain in future profits while others will **Ans : Lose**
- 12) Goodwill is an asset. **Ans : Intangible**
- 13) account is credited for cash brought in by new partner for his share of Goodwill. **Ans : Goodwill**
- 14) ratio is required for sharing future profits and also for adjustment of capitals. **Ans : New Profit Sharing Ratio**

II) Multiple choice questions :

- 1) At the time of admission of a new partner general reserve appearing in the old balance sheet is transferred to.
- a) All Partners Capital Accounts b) New Partners Capital Account
c) Old Partners Capital Accounts d) None of the above

Ans : c) Old Partners Capital Accounts

- 2) A,B and C are Partners in a firm. If D is admitted as a new partner.
- a) Old firm is dissolved b) Old firm & old Partnership are dissolved
c) Old Partnership is reconstituted d) None of the above

Ans : c) Old Partnership is reconstituted

- 3) On the admission of a new partner, increase in the value of asset is credited to :
- a) Profit and loss Adjustment (Revaluation) A/c b) Asset Account
c) Old Partner's Capital Accounts d) None of the above

Ans : a) Profit and loss Adjustment (Revaluation) A/c

- 4) At the time of admission of a partner, undistributed profits appeared in the balance sheet of the old firm is transferred to the capital accounts of
- a) Old Partners in old profit sharing ratio
b) Old Partners in new profit sharing ratio
c) All the Partners in new profit sharing ratio
d) None of the above

Ans : a) Old Partners in old profit sharing ratio

- 5) If new partner brings cash for his share of Goodwill. Goodwill is transferred to old Partners Capital accounts in
- a) Sacrificing ratio b) Old profit sharing ratio
c) New profit sharing ratio d) None of the above

Ans : a) Sacrificing ratio

- 6) Which of the following are treated as reconstitution of a Partnership firm.
- a) Admission of a partner b) Change in profit sharing ratio
c) Retirement of a partner d) All the above

Ans : d) All the above

- 7) Profit or loss on revaluation is shared among the Partners in the.
- a) Old profit sharing ratio b) New profit sharing ratio
c) Capital ratio c) Equal ratio

Ans : a) Old profit sharing ratio

- 8) Assets and Liabilities are recorded in Balance sheet after the admission of a partner at
- a) Original Value b) Revalued Value
c) Realizable Value d) None of the above

Ans : b) Revalued Value

- 9) On the admission of a new partner, the increase in the value of an asset is credited to :
- a) Revaluation Account b) Asset Account
c) Old Partners capital Account d) None of the above all account

Ans : a) Revaluation Account

- 10) Old profit sharing Ratio - New Profit sharing Ratio is =
- a) Sacrificing ratio b) Gaining ratio
c) Both the above d) None of the above

Ans : a) Sacrificing ratio

- 11) In the absence of an agreement to the contrary it is implied that old Partners will contribute to new Partner's share of profit in the ratio of ;
- a) Capital b) Old profit sharing ratio
c) Sacrificing ratio d) Equally

Ans : b) Old profit sharing ratio

- 12) The balance of reserves and other accumulated profits at the time of admission of a new partner are transferred to
- a) All Partners in the new ratio b) Old Partners in the new ratio
c) Old Partners in the old ratio d) Old Partners in the sacrificing ratio

Ans : c) Old Partners in the old ratio

- 13) Goodwill raised in books at the time of admission of partner will be written off in
- a) Old profit sharing ratio b) New profit sharing ratio
c) Sacrificing ratio d) None of the above

Ans : b) New profit sharing ratio

- 14) Revaluation Account is debited for the
- a) Increase in provision for doubtful debts b) Increase in the value of building
c) Decrease in the value of creditors d) Transfer of loss on revaluation

Ans : a) Increase in provision for doubtful debts

- 15) A and B are Partners sharing profits in the ratio of 3:1. C is admitted into Partnership for 1/4th share the sacrificing ratio of A and B will be ;
- a) Equal b) 3:1 c) 2:1 d) 3:2

Ans : b) 3:1

III) True or false type Questions :

- 1) Goodwill brought in cash by new partner is distributed among old partners in their sacrificing ratio. **Ans : True**
- 2) In case of admission of a partner profit or loss on revaluation is transferred to Old Partners Capital accounts. **Ans : True**
- 3) Accumulated profit is transferred to all Partners Capital accounts including new partner. **Ans : False**
- 4) The debit balance of profit and loss account shown in the assets side of the Balance sheet will be debited to Old Partners capital accounts. **Ans : True**
- 5) Increase in the value of an asset is credited to Revaluation account. **Ans : True**
- 6) The traditional name of Revaluation A/c is profit and loss Adjustment A/c
Ans : True
- 7) Decrease in the value of liability is debited to Revaluation Account. **Ans : False**
- 8) Goodwill is an intangible asset. **Ans : True**
- 9) Sacrificing ratio is required to distribute the cash brought in by new partner among old Partners for his share of Goodwill. **Ans : True**
- 10) Share Sacrificing = Old share – New share. **Ans : True**

IV) Very short Answer Questions :

1) What is Partnership ?

Ans : Partnership is an agreement between two or more persons (called Partners for sharing the profits of a business carried on by all or any of them acting for all.

2) What do you mean by reconstitution of a Partnership firm ?

Ans : Any change in the existing agreement amounts to reconstitution of the Partnership firm.

3) State any one reason for admission of a new partner. **Ans : To Increase the Capital**

4) State any one right acquired by a newly admitted partner.

Ans : The right to acquired share in the assets and profits of the Partnership firm.

5) Why the NPSR is required at the time of admission of a partner ?

Ans : NPSR is required to share the future profit or losses.

6) What is Goodwill ?

Ans : Over a period of time, a well established business develops an advantage of good name, reputation and wide business connections, and it is termed as Goodwill.

7) State any one factor affecting the value of Goodwill. **Ans : Nature of Business**

8) What is Normal profit ?

Ans : Normal profit means normal return on capital employed.

9) State any one method of valuation of Goodwill. **(June 2019)**

Ans : Average profit Method

10) Give the formula for Sacrificing ratio.

Ans : Sacrificing Ratio = Old Ratio – New Ratio

11) Which Account is to be debited to record the Increase in the value of an asset .

Ans : Assets Account

12) What is revaluation Account ?

Ans : Revaluation A/c is an a/c prepared in connection with recording of increase or decrease in value of Assets and liabilities and find out the P & L of Revaluation.

13) Which Account will be credited when there is a loss on revaluation ?

Ans : Revaluation A/c

14) Which account will be debited, when the cash is brought in by a new partner for his share of Goodwill ? **Ans : Cash / Bank A/c**

15) What is hidden Goodwill ?

Ans : Hidden Goodwill refers to the difference between total required capital & actual capital of all Partners.

SECTION – B TWO MARKS QUESTIONS

1) When the Goodwill is distributed among old Partners in the Sacrificing Ratio ?

Ans : When the Goodwill is brought in cash by new partner, it is distributed in sacrificing ratio.

- 2) State any two method of valuation of Goodwill.
Ans : a) Average profits method b) Super profits method
- 3) State any two rights acquired by a new partner.
Ans : a) Right to share the assets of the Partnership firm.
b) Right to share the profits of the Partnership firm.
- 4) What do you mean by hidden Goodwill ?
Ans : Hidden goodwill refers to Goodwill which value is not given at the time of admission but has to be inferred from arrangement of capitals and profit sharing ratio.
- 5) Pass the Journal entry to write off the Goodwill raised to the extent of full value.
Ans : All Partners Capital A/cs Dr. xxx ...
To Goodwill A/c (New ratio) ... xxx
(Being writing off of full value of Goodwill)
- 6) State any two matters which need adjustments in the books of the firm at the time of admission of a new partner.
Ans : a) Revaluation of assets & liabilities
b) Valuation and adjustment of Goodwill
- 7) What is Sacrificing ratio ?
Ans : It is the Ratio in which the old Partners Sacrifice or surrender a part of their share of profits to the new partner on account of admission. Sacrifice Ratio is the excess of old share over the new share.
- 8) Why the Sacrifice ratio is calculated ?
Ans: Sacrificing Ratio is calculated in order to distribute the Goodwill brought in cash, by the new partner on account of admission.
- 9) What is the need for the revaluation of assets and liabilities on the admission of a partner ?
Ans : The need for the revaluation of assets and liabilities is to ascertain true financial position of the business.
- 10) State any two reasons of admitting a new partner
Ans : a) To increase the capital
b) To improve the managerial ability
- 11) How do you close Revaluation Account when there is a profit ?
Ans : If there is profit, revaluation A/c is closed by debiting revaluation A/c and crediting old Partners capital A/cs.
- 12) State any two factors which determine the Goodwill of the firm ?
Ans : a) Efficiency of management
b) Market situation
- 13) What is Average profit method of valuation of Goodwill ?
Ans : Under this method, the Goodwill is valued at agreed number of years purchase of the average profits of the past few years.

- 14) Goodwill of the firm valued at two years purchase of the average profit of last four years. The total profits for last four year is Rs. 40000 Calculate the Goodwill of the firm.

$$\begin{aligned}
 \text{Ans : a) Average profit} &= \frac{\text{Total profits}}{\text{No.of Years}} && \text{(March 2019)} \\
 &= \frac{\text{Rs.40000}}{4} \\
 &= \text{Rs. 10000}
 \end{aligned}$$

$$\begin{aligned}
 \text{b) Goodwill} &= \text{average profit} \times \text{No. of years purchase} \\
 &= 10000 \times 2 \\
 &= \text{Rs. 20000/-}
 \end{aligned}$$

- 15) Pass the Journal entry for increase in the value of building on the admission of a partner.

Ans : Building A/c..... Dr	xxx	.....
To Revaluation A/c	.....	xxx

(Being increase in the value of Building)

- 16) Pass the Journal entry for the decrease in the value of a liability.

Ans : Liability A/c Dr.	xxx	.....
To Revaluation A/c	.....	xxx

(Being decrease in the value of liability)

CHAPTER – 03

RECONSTITUTION OF A PARTNERSHIP FIRM RETIREMENT / DEATH OF A PARTNER

Sec-A (01 Marks)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	-	02	01

SECTION – A : ONE MARK QUESTIONS

I) Fill in the blanks.

- 1) ratio is used to distribute accumulated profits and losses at the time of retirement of a partner. **Ans : Old**
- 2) Profit or loss in revaluation is shared among the Partners in ratio on retirement of a partner. **Ans : Old**
- 3) New ratio – old ratio = **Ans : Gain Ratio**
- 4) Accumulated losses are transferred to the capital Accounts of the Partners at the time of retirement in their Ratio. **Ans : Old**
- 5) General reserve is to be transferred to Accounts at the time of retirement of a partner. **Ans : All the Partners capital**
- 6) Goodwill raised to the extent of retiring Partner's share only is to be debited to continuing Partners Capital Accounts in ratio. **Ans : Gain**
- 7) In the absence of any instruction retiring Partners capital A/c is closed by transferring its balance to A/c. **Ans : Retiring Partner's loan**
- 8) Ratio is used for adjustment of continuing Partners capitals
Ans : New
- 9) X, Y and Z are the Partners sharing profits and losses in the ratio of 3:2:1. If Y retires, the new ratio of X and Z will be **Ans : 3: 1**
- 10) Share gained is calculated by deducting share from the new share.
Ans : Old
- 11) The ratio in which the remaining Partners will share future profits after retirement is called ratio. **Ans : New**
- 12) The balance in the retiring Partner's loan A/c is shown on the Side of the B/S till the last installment is paid. **Ans : Liabilities**
- 13) The amount paid to the retiring partner in excess of what is due to him is called Goodwill. **Ans : Hidden**
- 14) In the absence of any agreement as the disposal of amount due to retiring partner Sec of the Indian Partnership Act 1932 is applicable. **Ans : 37**
- 15) If Goodwill already appears in the books it will be written off by debiting Accounts in their OPSR. **Ans : All Partners capital**

II) Multiple choice Questions.

- 1) Abhishek, Rajat and Vivek are Partners sharing profits in the ratio of 5:3:2. If Vivek retires the new profit sharing Ratio between Abhishek and Rajat will be.
a) 3:2 b) 5:2 c) 5:3 d) None of the above

Ans : c) 5:3

- 2) The old profit sharing ratio among Rajender, Satish and Tejpal were 2:2:1. The New profit sharing Ratio after Satish's retirement is 3:2. The gaining ratio is.
a) 3:2 b) 1:1 c) 2:1 d) 2:2

Ans : c) 1:1

- 3) Anand, Bahadur and Chandru are Partners sharing profit equally. On Chandru's retirement his share is acquired by Anand and Bahadur in the ratio of 3:2. The New profit sharing Ratio between Anand and Bahadur will be.
a) 8:7 b) 3:2 c) 4:5 d) 2:3

Ans : a) 8:7

- 4) In the absence of any information regarding the acquisition of share in the profit of the retiring / deceased partner by the remaining Partner's it is assumed that they will acquire his / her share in
a) Old profit sharing ratio b) Equal Ratio
c) New Profit sharing ratio d) None of the above

Ans : a) Old profit sharing ratio

- 5) On retirement / death of a partner the Retiring / Deceased Partner's Capital Account will be credited with.
a) his / her share of Goodwill b) Goodwill of the firm
c) Shares of Goodwill of remaining Partner's
d) none of the above

Ans : a) his/her share of Goodwill

- 6) Govind, Hari and Pratap are Partners. On retirement of Govind the goodwill already appears in the Balance sheet at Rs. 24000. The Goodwill will be written off by debiting.
a) All Partners Capital Accounts in their old profit sharing ratio
b) Remaining Partners Capital Accounts in their New profit sharing ratio
c) Retiring Partner's Capital Accounts from his share of Goodwill.
d) None of the above

Ans : a) All Partners Capital Accounts in their old profit sharing ratio

- 7) Chaman, Raman and Suman are Partners sharing profits in the ratio of 5:3:2. Raman retires, the new profit sharing ratio between Chaman and Suman will be 1:1. The Goodwill of the firm is valued at Rs. 1,00,000. Ramans share of goodwill will be adjusted by.
a) Debiting Chaman's capital Account and Suman's Capital Account with Rs. 15000 each.
b) Debting Chaman's capital Account and Suman's Capital Account with Rs. 21429 and 8571 respectively.
c) Debiting only Suman's Capital Account with Rs. 30000
d) Debiting Raman's Capital Account with Rs. 30000

Ans : c) Debiting only Suman's Capital Account with Rs. 30000

- 8) On retirement / death of a partner the remaining partners who have gained due to change in profit sharing ratio should compensate the.
- Retiring Partner's only
 - Remaining Partners as well as retiring Partners.
 - Remaining Partners only (who have Sacrificed)
 - None of the above
- Ans : b) Remaining Partners as well as retiring Partner's.**

III) True or False Type Questions.

- Profit or loss on revaluation is transferred to all Partners Capital Accounts in case of retirement of a partner. **Ans : True**
- Accumulated profit is transferred to continuing Partners Capital Accounts.
Ans : False (June 2019)
- Adjustment of Partners capitals of the remaining Partners is to be made in the New Ratio. **Ans : True**
- New share = Old share + Share Sacrificing. **Ans : False**
- Share gained is computed by deducting old share from New Share. **Ans : True**
- Increase in the value of asset is debited to Revaluation Account. **Ans : False**
- Gain ratio is used to adjust the goodwill raised to the extent of retiring partner share only. **Ans : True**
- Full value of goodwill raised on retirement, is credited to all Partners Capital Accounts including retiring partner in their old ratio. **Ans : True**
- Sec 37 of the Indian Partnership Act 1932 states that the outgoing partner has an option to receive either interest @ 6% p.a. till the date of payment or such share of profits which has been earned with his money. **Ans : True**

IV) Very Short Answer Questions.

- What do you mean by retirement of a partner ?
Ans : A partner is said to be retired from a firm when his relation with the firm as a partner comes to an end.
- Give the formula for calculating Gain ratio.
Ans : Gaining Ratio = New Ratio – Old share
- Why the Gain Ratio is required on retirement of a partner ?
Ans : It is required for the purpose of writing off Goodwill created to the extent of Retiring Partner's Share.
- Why the New Ratio is required on retirement of a partner ?
Ans : It is required to share future P/L between continuing Partners.
- When do you prepare Executors Account ?
Ans : Executors A/c is prepared at the time of death of a Partner
- Give the formula for calculation of new profit sharing ratio on retirement of a partner.
Ans : New share = Old share + Share gained (March 2019)

- 7) What do you mean by Hidden Goodwill ?
Ans : It refers to the amount paid to Retiring Partner in excess of actual amount due to him.
- 8) Portion gained = New Share - **Ans : Old Share**
- 9) What are the different ways in which a partner can retire from the firm.
Ans : a) Due to old age. B) Insolvent
- 10) Distinguish between sacrificing ratio and gaining ratio.

Sacrificing Ratio	Gaining Ratio
1. It is calculated at the time of admission of partner	1) It is calculated at the time of retirement of a partner

- 11) Why a retiring / deceased partner is entitled to share of goodwill of the firm.
Ans : Because he is also contributed for the development and reputation of the firm.
- 12) Who is an Executor ?
Ans : Executors is a legal representative of a deceased partner. He is entitled to receive claims of deceased partner.

SECTION – B DEATH OF PARTNER

I) Fill in the blanks.

- 1) Executors account is generally prepared at the time of of a partner.
Ans : Death
- 2) Accounting treatment at the time of retirement and death is
Ans : Uniform
- 3) The period from date of the last Balance sheet and the date of the Partner's death is called Period. **Ans : Intervening**
- 4) Account is debited for the transfer of share of accrued profit of a deceased partner. **Ans : P & L suspense**
- 5) Accrued profit is calculated on the basis of
Ans : Previous years profit / Average profit / Sales
- 6) Amount payable to the executors of the deceased partner is transferred to account. **Ans : Executors Loan**

II) Multiple choice Questions :

- 1) Accrued profit is ascertained on the following ways.
a) Average Profit b) On Sales c) Pervious years profits d) All of the above
Ans : d) All of the above
- 2) Amount due to deceased partner is settled in the following manner :
a) Immediate full payment b) Transferred to loan Account
c) Partly paid in cash and the balance transferred to loan A/c.
d) All of the above
Ans : d) All of the above
- 3) Deceased Partner's share of profit in the accrued profit may be calculated on the basis of.
a) Last year profit b) Average profit of past few years

- c) Sales d) All of the above

Ans : d) All of the above

- 4) Amount payable to the executors of the deceased partner is transferred to.
- a) Executors loan Account b) Executors Account
c) Remaining Partners capital A/cs d) None of the above

Ans : a) Executors loan Account

- 5) Items to be considered while calculating the amount payable to the deceased partner is.
- a) His share of capital b) His share in accrued profit
c) His share in reserve d) All the above

Ans : d) All the above

III) True or False

- 1) Deceased Partner's claim is transferred to his Executors Account. **Ans : True**
- 2) Deceased Partners share of profit for the year intervening period may be calculated on the basis of last year profit / average profits of past few years or on the basis of sales.
Ans : True
- 3) Deceased partner may be paid in one lump sum or installments with interest.
Ans : True
- 4) Retirement normally takes place at the end of an accounting period, where as death of a partner may occur any time. **Ans : True**
- 5) Amount payable to be the executors of the deceased partner is transferred to executors loan account. **Ans : True**

IV) Very Short Answer Questions.

- 1) **Who is an 'Executor' ?**
Ans : Executor is the legal representative of a deceased partner in a partnership firm.
- 2) When do you prepare Executor's A/c?
Ans : Executor's A/c is prepared at the time of death of a partner.
- 3) Which account is credited for the share of accrued profit of a deceased partner ?
Ans : Deceased Partner's capital / Executor's A/c
- 4) What is intervening period ?
Ans : The period from date of last balance sheet to date of death of a partner is called intervening period.
- 5) How do you close the executors Account ?
Ans : Executors A/c is closed by transferring its balance to Executors Loan A/c.

CHAPTER – 04

DISSOLUTION OF PARTNERSHIP FIRM

Sec-A (01 Marks)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
-	01	-	01

TWO MARKS QUESTIONS

- 1) What is Dissolution of Partnership?

Ans : Dissolution of Partnership means changes in the existing relationship between Partners but the firm may continue its business as before.

- 2) Give the meaning of Dissolution of a Partnership Firm.

Ans : Dissolution of Partnership between all the Partners of a firm is called Dissolution of a Partnership firm.

- 3) State any two circumstances under which a Partnership firm dissolved.

Ans : a) With the consent of all the Partners

b) In accordance with a contract between the Partners.

- 4) State any two differences between Dissolution of Partnership and Dissolution of Partnership firm.

Ans :

Sl. No.	Basis	Dissolution of Partnership	Dissolution of Partnership firm
1)	Termination of business	The business is terminated	The business of the firm is closed
2)	Settlement of assets and liabilities	Assets and liabilities are revalued and new balance sheet is drawn	Assets are sold and liabilities are paid off.
3)	Other Dissolution	It may or may not involve dissolution of the firm	It necessarily involves dissolution of Partnership

- 5) What is Realisation Account ?

Ans : Realisation account is an account which is prepared at the time of dissolution of a Partnership firm to ascertain the profit or loss on realisation of assets and payment of liabilities.

- 6) Why is Realisation Account prepared ?

Ans : The Realisation account is prepared to find out the profit or loss on realization of assets and settlement of liabilities.

- 7) What is the accounting treatment for unrecorded Asset Realised on dissolution of a firm ?
Ans : Unrecorded asset realised is debited to cash (bank) Account and credited to realisation account.
- 8) What is accounting treatment for unrecorded liability paid on dissolution of a firm ?
Ans : Unrecorded liability paid is debited to realization account and credited to cash (bank) account.
- 9) How do you treat PBD on dissolution of a firm ?
Ans : P.B.D. is closed by transferring it to credit side of realisation account.
- 10) Give the Journal entry for an asset taken over by a partner on Dissolution of a firm. (March & June 2019)
Ans :

Partner's Capital A/c	Dr	xxx	.....
To Realisation A/c		...	xxx

(Being Assets taken over by partner)
- 11) Give the journal entry for a liability taken over by a partner on dissolution of a firm.
Ans :

Realisation A/c	Dr	xxx	....
To Partner's Capital A/c		.....	xxx

(Being liability taken over by partner)
- 12) Give the Journal entry for transferring an asset to Realisation Account.
Ans :

Realisation A/c	Dr	xxx	...
To Asset A/c		.....	xxx

(Being transfer of asset)
- 13) Write the Journal entry for the transfer of an outside liability to Realisation Account.
Ans :

Liability A/c	Dr.	xxx	....
To Realisation A/c		.....	xxx

(Being transfer of liability)
- 14) Give the Journal entry for the payment of Partner's loan on Dissolution of a firm.
Ans :

Partner's Loan a/c.	Dr	xxx	....
To Cash / Bank A/c		...	xxx

(Being Partner's loan paid)
- 15) Give the Journal entry for sale of an asset on Dissolution of a firm.
Ans :

Cash / Bank A/c	Dr	xxx	.....
To Realisation A/c		.....	xxx

(Being Sale of asset)
- 16) Give the Journal entry for payment of a liability on Dissolution of a firm.
Ans :

Realisation A/c	Dr	xxx	....
To Cash / Bank A/c		.....	xxx

(Being payment of liability)
- 17) Give the journal entry for the transfer of profit on realization.
Ans :

Realisation A/c	Dr	xxx	....
To Partners Capital A/c		.....	xxx

(Being Profit transferred)

18) Give the Journal entry for the transfer of loss on realization.

Ans : Partner's capital A/c	Dr	xxx	....
To Realiation A/c		....	xxx

(Being transfer for loss)

19) Give the journal entry for realization expenses paid by the firm.

Ans : Realisation A/c.	Dr	xxx	....
To Cash / Bank A/c		....	xxx

(Being realization expenses paid)

20) How do you close realization A/c on dissolution of a firm ?

Ans : Realisation account is closed by transferring its balance to partner capital accounts.

21) Give the journal entry for realization expenses paid by the partner on behalf of the firm.

Ans : Realisation A/c	....	Dr	xxx	....
To Partner's capital A/c			....	xxx

(Being realization expenses paid by partner)

BOOK-2
UNIT – 1
ACCOUNTING FOR SHARE CAPITAL

Sec-A (01 Marks)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	01	-	01

SECTION – A ONE MARK QUESTIONS

I) Fill in the blanks.

- 1) A company is an person. **Ans : Artificial**
- 2) is the part of the issued capital. **Ans : Subscribed capital**
- 3) Call money received in advance is called. **Ans : Calls in advance**
- 4) is the minimum paid up capital of a public company
Ans : 5 Lakhs Rupees
- 5) months must elapse between two calls. **Ans : One**
- 6) is minimum number of members in a public company. **Ans : 7**
- 7) is minimum number of members in a private company. **Ans : 2**
- 8) The amount of buy back of shares in any financial year should not exceed % of the paid up capital. **Ans : 25%**
- 9) Minimum paid up capital of a private company is **Ans : 1 Lakh Rupees**
- 10) Profit on forfeiture of shares is transferred to Account
Ans : Capital Reserve

II) Multiple choice Questions.

- 1) Equity shareholders are **(June 2019)**
 - a) Creditors
 - b) Owners
 - c) Customers of the company
 - d) None of the above**Ans : b) Owners**
- 2) Interest on calls in arrears is charged according to table F at the rate of
 - a) 10%
 - b) 6%
 - c) 8%
 - d) 11%**Ans : a) 10%**
- 3) Shares can be forfeited for :
 - a) Non-payment of calls money
 - b) Failure to attend meeting
 - c) Failure to repay the loan to the bank
 - d) The pledging of shares as a security**Ans : a) Non-payment of calls money**
- 4) Balance of share Forfeiture Account is shown in the Balance sheet under the head.
 - a) Current liabilities and provisions
 - b) Reserve and surplus
 - c) Share capital
 - d) Unsecured loans**Ans : c) Share capital**

- 5) Issued capital is part of
 a) Reserve Capital b) Unissued Capital
 c) Authorised Capital d) None of the above
Ans : c) Authorised Capital
- 6) Maximum number of members in a private company is
 a) 40 b) 200 c) 70 d) No limits
Ans : b) 200
- 7) More applications are received than offered to public is called.
 a) Less offers b) Under subscription
 c) Over subscription d) More offers
Ans : c) Over Subscription
- 8) Paid up Capital is part of
 a) Authorised capital b) Reserve capital
 c) Called up capital d) Subscribed capital
Ans : c) Called up capital
- 9) If a shareholder fails to pay call money, it is called as,
 a) calls unpaid b) calls in advance
 c) calls in arrears d) None of the above
Ans : c) Calls in arrears
- 10) Minimum number of members in a public company is
 a) 20 b) 50 c) No limit d) 7
Ans : d) 7

III) True or False

- 1) A company is an artificial person **Ans : True**
 2) Shares of a company are generally transferable **Ans : True**
 3) Share application account is a liability account **Ans : True**
 4) Paid up capital may exceed called up capital **Ans : False**
 5) Capital Reserves are created out of a capital profits. **Ans : True**
 6) The part of capital which is called up only on winding up is called reserved capital
Ans : True
 7) Private companies invite the public to subscribe for its shares **Ans : False**
 8) Forfeiture of shares is cancellation of the rights of shareholders. **Ans : True**
 9) All the shares of buy – back should be fully paid – up. **Ans : True**
 10) The Articles of the Association must authorize the company for the buy-back of shares. **Ans : True**

IV) Very short answer Questions.

- 1) State any one kind of a company. **Ans : Companies limited by shares**
 2) What is issued capital ?
Ans : It is a part of Authorised capital which is actually issued to the public for subscription.

- 3) What is buy – back of shares ? (March 2019)
Ans : Purchase of its own shares by a company
- 4) What is minimum paid up capital of a private company ? **Ans : 1 lakh Rupees**
- 5) When the Reserved capital is used ?
Ans : In the event of winding up of the company
- 6) What is over subscription ?
Ans : When the public apply for more shares than those offered to them, there is said to be over subscription.
- 7) What is under subscription ?
Ans : When the number of shares applied for is less than the number of shares for which applications have been invited for subscription, there is said to be under subscription.
- 8) What is issue of shares at par ?
Ans : It means issue of shares at a price equal to face value of share of company.
- 9) What is issue of shares at premium ?
Ans: It means the issue of shares at a price higher than the face value of shares.
- 10) When the shares are forfeited ?
Ans : For Nonpayment of allotment and / call money due on shares.

SECTION - B

V) Short answer Questions for Two marks

- 1) What is a company ?
Ans : A company incorporated or registered under the companies Act 2013 or under any other earlier Companies Act.
- 2) State any two features of a company ? (June 2019)
**Ans : a) Body corporate
b) Separate legal entity**
- 3) What is prospectus ?
Ans : An open invitation to the public to take up the shares of company.
- 4) What do you mean by over subscription ?
Ans : When the public apply for more shares than those offered to them there is said to be over subscription.
- 5) What is calls in arrears ?
Ans : The amount remaining unpaid on allotment or on call is called calls in arrears.
- 6) State any two methods of issue of shares ?
**Ans : a) Issue of shares at par
b) Issue of shares at a premium**

7) What is issue of shares for consideration other than cash ?

Ans : Issuing of shares for purchasing of assets without receiving money in cash.

8) What is forfeiture of shares ?

(March 2019)

Ans : Cancellation of the right of a shareholder on shares held by him due to non-payment of money due on such shares.

9) Give the Journal entry for transfer of profit on re-issue of forfeited shares.

Ans : Share Forfeiture A/c. Dr.	xxx	....
To Capital Reserve A/c	....	xxx

(Profit on reissue of forfeited shares)

10) State any two categories of share capital

Ans : a) Authorised capital

b) Issued capital

11) What is public company ?

Ans : A company which is not a private company or not a subsidiary of a private company.

UNIT – 2

ISSUE AND REDEMPTION OF DEBENTURES

Sec-A (01 Mark)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	-	01	01

SECTION –A ONE MARK QUESTIONS

I) Fill in the blanks.

- 1) Debentureholders are the of the company. **Ans : Creditors**
- 2) Debentures issued as collateral security will be debited to A/c
Ans : Debenture Suspense A/c
- 3) Discount on issue of Debenture is a Asset. **Ans : Fictitious**
- 4) Coupon rate is at which the amount is paid by the company on its debentures. **Ans : Rate of interest**
- 5) Premium on issue of debentures is a **Ans : Capital profit**
- 6) When all the debentures are redeemed, Debenture Redemption Reserve A/c is Credited to A/c. **Ans : General reserve**
- 7) NBFC registered with the RBI create redemption reserve equivalent to at least of the value of outstanding debentures issued through public issue.
Ans : 25%
- 8) Withdrawal from Debenture Redemption Reserve is permissible only after of Debentures have been redeemed. **Ans : 10%**
- 9) In case of conversion of the debentures into shares, debenture holders A/c is debited and a/c credited. **Ans : Share Capital**
- 10) If own debentures are purchased by the company for the purpose. Own debentures will be shown as an asset in the Balance sheet. **Ans : Investment**
- 11) Debentures which are transferable by mere delivery are called debentures.
Ans : Bearer
- 12) Debentures A/c is shown under the head in the Balance sheet.
Ans : Non-current liabilities / Long – term Borrowings
- 13) 1000, 10% debentures issued at par, 10% means **Ans : Rate of Interest**
- 14) The balance of Sinking Fund, Investment A/c after realization of investments is transferred to A/c. **Ans : Sinking Fund**
- 15) When the debentures are redeemed out of profits, an equal amount is transferred to A/c. **Ans : Debenture Redemption Reserve (DRR)**

II) Multiple choice Questions.

- 1) Premium on Redemption of debentures A/c is A/c.
a) Asset b) Income c) Liability d) Expense
Ans : c) Liability

- 2) Debenture premium cannot be used to
- Write off the discount on issue of debentures or shares
 - Write off the premium on redemption of shares or debentures
 - Pay dividends
 - Write off the capital loss

Ans : c) Pay dividends

- 3) Loss on issue of debentures is treated as :
- Intangible asset
 - Current asset
 - Current Liability
 - Miscellaneous expenses

Ans : d) Miscellaneous expenses

- 4) In the event of liquidation of the company the debenture holders have priority for
- Interest
 - Principal amount
 - Both a & b
 - None of the above

Ans : c) Both a & b

- 5) Debentures cannot be redeemed at **(March 2019)**
- Premium
 - Discount
 - Par
 - More than 10% premium

Ans : b) Discount

- 6) Debentures cannot be redeemed out of
- Profits
 - Provisions
 - Capital
 - All the above

Ans : b) Provisions

- 7) A company issued 2000, 8% debentures of 100 each at par value redeemable at 10% premium, 8% stands for
- Rate of dividend
 - Rate of tax
 - Rate of Interest
 - Rate of TDS

Ans : Rate of Interest

- 8) Debentureholders are
- Owners of the company
 - Lenders of the company
 - Debtors of the company
 - Trustees of the company

Ans : b) Lenders of the company

- 9) "X" company ltd, purchased machinery for Rs. 20000, payable Rs. 6500 in cash and the balance by issue of 12% debentures of Rs. 100 each at a discount of 10% How many debentures would be required to issue to the vendor ?
- 155 Debentures of 100 Rs. each
 - 150 Debentures of 100 Rs. each
 - 135 Debentures of 100 Rs. each
 - 145 Debentures of 100 Rs. each

Ans : b) 150 Debentures of 100 Rs. each

10) XYZ company ltd, issued 5000, 6% debentures of 100 each at par and redeemable at 10% premium, Premium on redemption will be debited at the time of issue of debentures to.

- a) Loss on issue of debentures A/c. b) Share discount A/c
c) Security premium A/c d) General reserve A/c

Ans : a) Loss on issue of debentures A/c.

11) Methods of Redemption of debentures are

- a) By annual drawings b) By conversion of shares or new debentures
c) By purchasing own debentures in open market
d) All of the above

Ans : d) All of the above

12) A company cannot redeem its debentures fully

- a) Out of capital b) Out of profits
c) Both a & b above d) None of the above

Ans : a) Out of Capital

13) If the market price of the debentures is more than the face value, at the time of redemption this will be a capital loss and is transferred to

- a) Capital Reserve b) General Reserve
c) Profit on Redemption of debentures
d) Loss on Redemption of debentures

Ans : d) Loss on Redemption of Debentures

14) The following journal entry appears in the books of company.

Bank A/c	.....Dr	9,50,000	xxx
Loss on Issue of Debenture A/c	.....Dr	1,50,000	xxx
To 8% debentures A/c		xxx	10,00,000
To Premium on Redemption on debenture A/c		xxx	1,00,000

In this case debentures are issued at discount of

- a) 15% b) 5% c) 10% d) 8%

Ans : b) 5%

15) Raj company ltd, purchased assets worth Rs. 14,40,000. It issued debentures of Rs. 100 each at a discount of 4% in full settlement of the purchase consideration. The number of debentures issued to vendors is :

- a) 15000 b) 14400 c) 16000 d) 15600

Ans : a) 15000

III) True or False Type Questions :

- 1) Debenture is a part of loaned capital. **Ans : True**
- 2) Debentureholders have voting rights. **Ans : False**
- 3) Debentures bear fixed interest. **Ans : True**
- 4) Debentures cannot be issued for consideration other than cash. **Ans : False**
- 5) Company can buy – back its debentures. **Ans : True**
- 6) Interest on debentures is not shown in P & L Statement. **Ans : False**

- 7) Debentureholders are not the members of the company. **Ans : True**
- 8) Premium on redemption of debentures is a liability A/c. **Ans : True**
- 9) Debenture cannot be issued as a collateral security. **Ans : False**
- 10) A company can issue irredeemable debentures. **Ans : True**
- 11) Redemption of debentures is made by the company in accordance with the terms of issue. **Ans : True**
- 12) A company cannot purchase its own debentures in the open market. **Ans : False**
- 13) Profit on redemption of debentures is in the nature of a capital profit. **Ans : True**
- 14) Debentures cannot be issued at discount for more than 10% of the face value
Ans : False
- 15) Loss on issue of debentures is a revenue loss. **Ans : False**

IV) Very short answer Questions :

- 1) What is meant by debentures ?
Ans : Debentures are the written instruments acknowledging debt under the common seal of the company.
- 2) What is Bond ? **Ans : Bond is an instrument of acknowledgement of debt.**
- 3) What is coupon rate ?
Ans : Coupon rate refers to a specified rate of interest on debentures.
- 4) What do you mean by zero coupon rate debentures ?
Ans : Zero coupon rate debentures refer to the debentures those do not carry a specific rate of interest.
- 5) What is meant by issue of debentures for consideration other than cash ?
Ans : Issue of debentures for consideration other than cash means issuing debentures to vendors for purchasing of assets.
- 6) What do you mean by the issue of debentures as a collateral security ?
Ans : Issue debentures as a collateral security mean issuing debentures to the lenders in addition to some other assets already pledged.
- 7) Name of any one method of redemption of debentures.
Ans : Payment in Lump sum
- 8) What do you mean by redemption of debentures ?
Ans : Redemption of debentures refers to repayment of the amount of debentures by the company.
- 9) Expand D R R (June 2019) **Ans : Debenture Redemption Reserve**
- 10) Expand D R F I **Ans : Debenture Redemption Fund Investment**
- 11) Expand AIFIs **Ans : All India Financial Institutions**
- 12) State any one type / kind of debentures. **Ans : Secured Debentures.**
- 13) Can the company purchase its own debentures ? **Ans : Yes**
- 14) Debenture Redemption Reserve is shown under which head in the balance sheet ?
Ans : Reserve & Surplus
- 15) Name the head under which discount on issue of debentures appears in the balance sheet of a company ?
Ans : Other Non-current Assets

- 5) Current liabilities are to be paid within..... months
a) 3 months b) 6 months c) 9 months d) 12 months

Ans : d) 12 months

- 6) External users of financial statements does not include.
a) Banks b) Shareholders c) Creditors d) Government

Ans : b) Shareholders

- 7) Share Capital is shown as
- a) Authorised Capital b) Issued Capital
c) Subscribed Capital d) All the above

Ans : d) All the above

- 8) Financial statements are prepared based on.
a) Accounting postulate b) Accounting conventions
c) Recorded Facts d) All the above

Ans : d) All the above

- 9) Non-Current assets are :
- a) Expected to use in the business for long period.
b) Involved in entities operating cycle
c) Primarily held of trading
d) Cash and Cash Equivalents

Ans : a) Expected to use in the business for long period.

III) True or False type Questions.

- 1) The original cost is the basis of recording transactions. **Ans : True**
- 2) Going concern postulate assumes that the enterprise exists for a longer period of time. **Ans : True**
- 3) The financial statements do not show current financial condition of a business.
Ans : False
- 4) The stationery is valued at cost. **Ans : True**
- 5) Provisions are maintained for known liabilities. **Ans : True**
- 6) While preparing financial statements, inventories valued at market price or cost price whichever is less. **Ans : True**
- 7) Cash and cash equivalents are to be disclosed in accordance to IAS – 3. **Ans : True**
- 8) Rounding off of figures in financial statements is not mandatory. **Ans : False**
- 9) In the Balance sheet of a company goodwill is shown under the heading of “Fixed Assets”. **Ans : True**
- 10) Proposed dividend is shown under the head Provisions. **Ans : True**

IV) Very short Answer Questions :

- 1) Name any one type of financial statements. **Ans : Balance sheet**
- 2) State any one feature of financial statements. **Ans : Recorded Facts**
- 3) Name any one internal user of financial statements. **Ans : Shareholders**
- 4) Write any one objective of financial statements
Ans : To provide information about profitability and financial position
- 5) State any one type of reserve. **Ans : Capital Reserve**
- 6) Give an example for non-current asset. **Ans : Building**
- 7) Where do you record the money received against share warrants ?
Ans : Shareholder's Fund
- 8) How do you treat credit balance of Income statement under the head surplus ?
Ans : It is shown in surplus under 'Reserves and Surplus head
- 9) Write any one feature of current assets. **Ans : Involved in entity's operating cycle**
- 10) How do you treat preliminary expenses ?
Ans : Preliminary expenses are to be written off completely in the year in which, such expenses are incurred first from securities premium reserve, next from surplus.

SECTION - B

V) Two marks Questions :

- 1) Give the meaning of financial statements. **(March 2019)**
Ans : Financial statements are the basic and formal annual reports through which the corporate management communicates financial information to its owners and various other external parties
- 2) Mention two types of financial statement
Ans : a) Statement of profit and loss
b) Balance Sheet
- 3) State any two features of financial statements.
Ans : a) Recorded Facts
b) Accounting conventions followed
- 4) Write any two objectives of financial statements.
Ans : a) To provide information about earning capacity of the business.
b) To provide information about economic resources.
- 5) State any two benefits of financial statements.
Ans : a) Basis for prospective investors
b) Report on the performance of the management

6) Give any two limitations of financial statements. **(June 2019)**

Ans : a) Do not reflect current situations

b) Assets may not realized at stated values

7) State any two postulates

Ans : a) Money measurement postulate

b) Realisation postulate

8) How will you disclose the following items in the Balance sheet of a company ?

a) Loose tools

b) Proposed dividends

Ans : A) Loose Tools : Inventories (Current Assets)

B) Proposed Dividends : Short Term Provisions (Current Liabilities)

9) State any two differences between Current Liabilities and Non-current liabilities.

Ans :

Current liabilities	Non Current liabilities
a) Expected to be settled within 12 months	a) Expected to be settled after 12 months
b) Held primarily for the purpose of being traded	b) Held as source for long term finance

10) Mention any two items which are shown under the head "Reserves and Surplus"

Ans : a) Capital Reserve

b) Securities Premium Reserve

UNIT – 4

FINANCIAL STATEMENT ANALYSIS

Sec-A (01 Marks)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	01	-	01

SECTION A : ONE MARK QUESTIONS

I) Fill in the blanks.

- 1) The term analysis means simplification of **Ans : Financial data**
- 2) Interpretation means explaining the and a significance of the data
Ans : meaning
- 3) Comparative analysis is also known as analysis. **Ans : Horizontal**
- 4) Common size analysis is also known as analysis. **Ans : Vertical**
- 5) Common size statement is also known as
Ans : Component percentage statement
- 6) The term financial analysis includes both analysis and
Ans : Interpretation
- 7) Analysis is useless without **Ans : Interpretation**
- 8) Interpretation without analysis is **Ans : Difficult**
- 9) The statement showing the profitability and financial position for different periods of time in a comparative form is known as
Ans : Comparative Statement
- 10) The statement which indicates the relationship of different items of financial statement with a common item is called
Ans : Common Size Statement
- 11) It is possible to assess the profitability, solvency and efficiency through the technique of Analysis. **Ans : Ratio**
- 12) Analysis of actual movement of cash into and out of an organization is called **Ans : Cash flow Analysis**
- 13) Inter-firm comparison or comparison of the company's position with the related industry as whole is possible with the help of
Ans : Common size statement analysis
- 14) Percentage of each asset to the total assets is show in Balance sheet.
Ans : Common Size
- 15) Analysis and interpretation are to each other **Ans : Complimentary**

II) Multiple choice Questions.

- 1) The financial statements of a business enterprise include :

a) Balance sheet	b) Statement of profit and loss
c) Cash flow statement	d) All the above

Ans : d) All the above

- 2) The most commonly used tools for financial analysis are
 a) Horizontal Analysis b) Vertical Analysis
 c) Ratio Analysis d) All the above
Ans : d) All the above
- 3) An annual report is issued by a company to its
 a) Directors b) Auditors
 c) Shareholders d) None of the above
Ans : c) Shareholders
- 4) Comparative statements are also known as
 a) Dynamic Analysis b) Horizontal Analysis
 c) Vertical Analysis d) External Analysis
Ans : b) Horizontal Analysis
- 5) Common size statements are also known as
 a) Dynamic Analysis b) Vertical Analysis
 c) Horizontal Analysis d) External Analysis
Ans : Vertical Analysis
- 6) Percentage of each liability to the total liabilities is shown in
 a) Common size Balance Sheet b) Comparative Balance sheet
 c) Both the above d) None of the above
Ans : a) Common size Balance Sheet
- 7) Balance sheet provides information about financial position of the enterprise.
 a) At a point of time b) Over a period time
 c) For a period of time d) None of the above
Ans : c) For a period of time
- 8) Comparative statement shows the changes during the year.
 a) In absolute terms b) In relative terms
 c) Both the above d) None of the above
Ans : a) In absolute terms
- 9) Common size statements are useful in comparison of
 a) Intra firm for the same or several years
 b) Inter firm over different years
 c) Both (a) & (b) above
 d) None of the above
Ans : c) Both (a) & (b) above
- 10) Financial analysis can be undertaken by
 a) Management b) Parties outside the firm
 c) Both the above d) None of the above
Ans : c) Both the above

III) True or False type Questions :

- 1) The financial statements of business enterprise include cash flow statement
Ans : False

- 2) Comparative statements are the form of Horizontal Analysis. **Ans : True**
- 3) Common size statements and Financial Ratios are the two tools employed in Vertical Analysis. **Ans : True**
- 4) Financial Analysis is used only by the creditors. **Ans : False (March 2019).**
- 5) Financial Analysis helps an analyst to arrive at a decision. **Ans : True**
- 6) In a common size statement, each item is expressed as a percentage of same common base. **Ans : True**
- 7) The difference between the inflow and outflow of cash is the net cash flow.
Ans : True
- 8) The flow of cash into the business is called positive cash flow of financial statement. **Ans : True**
- 9) Financial Analysis can be undertaken by management or by parties outside firm.
Ans : True
- 10) Financial data will be comparative only when same accounting principles are used.
Ans : True
- 11) Non-monetary aspects are ignored in financial analysis. **Ans : True**
- 12) Financial Analysis does not consider price level changes. **Ans : True**
- 13) Items of expenditure are shown as a percentage of the net revenue from operations in common size income statements. **Ans : True**

IV) Very short answer type Questions :

- 1) What do you mean by Financial Statements Analysis ?
Ans Financial Statement Analysis means simplification of financial data by methodical classification given in financial statement.
- 2) State any one object of financial statement analysis. **(June 2019)**
Ans : To identify the reasons for change in the profitability / financial position of the firm.
- 3) State any one technique of Financial Statement Analysis.
Ans : Comparative Statement
- 4) State any one user of Financial Analysis. **Ans : Investors**
- 5) What is Vertical Analysis ?
Ans : It is a tool of financial analysis, in which data or figures are converted into percentages of a common base item.
- 6) What is Horizontal Analysis ?
Ans : It is a technique of financial Analysis, in which data / figures are shown in a comparative form of two / more years.
- 7) State any one importance of Financial Analysis. **Ans : Helpful to finance manager**
- 8) State any one limitation of Financial Analysis.
Ans : It does not consider price level changes
- 9) Give the meaning of analysis.
Ans : Analysis means simplification of financial data by methodical classification.

10) Give the meaning of Interpretation

Ans : Interpretation means explaining the meaning and significance of data.

SECTION B : TWO MARK QUESTIONS

1) What do you mean Financial Statement Analysis ?

Ans : The process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm is called Financial Statement Analysis.

2) Give the meaning of Analysis and Interpretation of Financial statements.

Ans : Analysis and Interpretation of financial statements means implication of data and explaining the meaning and significance of data.

3) List any two techniques of Financial Statement Analysis. (March/June 2019)

Ans : 1) Comparative statements

2) Common size statements

4) Distinguish between Vertical Analysis and Horizontal Analysis of finance data.

Vertical Analysis	Horizontal Analysis
1) Figures are converted in to % of common base item.	1) Figures are shown in comparative form.
2) Figures of same year are converted in to %	2) Figures of two years are compared

5) What are comparative financial statements ?

Ans : These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods.

6) What do you mean by common size statements?

Ans : These are the statements which indicate the relationship of different items of a financial statements with a common item by expressing each item as a percentage of that common item.

7) State any two importances of financial statements analysis.

Ans : 1) Helpful to financial manager

2) Helpful to investors

8) State any two objectives of Financial statement analysis.

Ans : 1) To ascertain the relative importance of different components of the financial position of the firm.

2) To identify the reasons for change in the profitability / financial position of the firm.

9) State any two users of financial statement analysis.

Ans : a) Finance manager

b) Top management

10) State any two limitations of financial statement analysis

Ans : 1) Financial analysis does not consider price level changes.

2) Financial analysis is just a study of reports of the company

11) Give the absolute increase and percentage increase for the following:

	Previous year Rs.	Current year Rs.
Revenue from operations	60,000	75000

Ans : Absolute increase Rs. 75000-60000 = 15000

% of increase = $\frac{15000 \times 100}{60000} = 25\%$

12) Give the formula for percentage change in comparative statement.

Ans : Percentage change = $\frac{\text{Absolute increase / decrease}}{\text{First year absolute figure}} \times 100$

13) State two importances of comparative statements.

Ans : 1) Easy to draw meaningful conclusion because of comparative form.

2) They indicate the trend and direction of financial position and result

14) State two the importances of common size statements.

Ans : 1) Establishment of significant relationship between too items.

2) Relationship is helpful in evaluating operational activities of the business enterprises.

UNIT – 5

ACCOUNTING RATIOS

Sec-A (01 Mark)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	-	01	01

SECTION A : ONE MARK QUESTIONS

I) Fill in the blanks.

- 1) Accounting Ratios are an important tool of
Ans : Financial Statement Analysis
- 2) A is a mathematical number calculated as a reference to relationship of two or more numbers. **Ans : Ratio**
- 3) can be expressed as a fraction, proportion, percentage and a number of times. **Ans : Ratio**
- 4) If a ratio is compared with one variable from the statements of Profit and Loss and another variable from the Balance Sheet it is called
Ans : Comparative Ratio
- 5) Quick Ratio is also known as **(June 2019)**
Ans : Acid Test Ratio or Liquid Ratio
- 6) Ratios are means to an end rather than the **Ans : End of itself**
- 7) Current ratio is the proportion of current assets to
Ans : Current liabilities
- 8) ratios are calculated to measure the short term solvency of the business. **Ans : Liquidity**
- 9) The Quick assets are those assets which are quickly convertible into
Ans : Cash
- 10) The ratios are preliminary measures of return. **Ans : Profitability**
- 11) Ratio of gross profit to revenue from operations is known as ratio
Ans : Gross profit
- 12) ratio measures the relationship between long term debt and equity.
Ans : Debt – Equity
- 13) Proprietary ratio expresses relationship of proprietor's funds to
Ans : Net Assets
- 14) The measures the activity of a firm's inventory.
Ans : Inventory Turnover Ratio
- 15) The is useful in evaluating credit and collection policies.
Ans : Average Collection Period

II) Multiple choice Questions :

- 1) The following groups of ratios are primarily measures risk.
a) Liquidity, Activity and profitability b) Liquidity, Activity and Inventory
c) Liquidity, Activity and Debt d) Liquidity, Debt and profitability
Ans : d) Liquidity, Debt and profitability
- 2) The ratios are primarily measures return
a) Liquidity b) Activity c) Debt d) Profitability
Ans : d) Profitability
- 3) The of business firm is measured by its ability to satisfy its short term obligations as they become due :
a) Activity b) Liquidity c) Debt d) Profitability
Ans : b) Liquidity
- 4) ratios are a measure of the speed with which various accounts are converted into revenue from operations or cash;
a) Activity b) Liquidity c) Debt d) Profitability
Ans : a) Activity
- 5) The two basic measures of liquidity are
a) Inventory Turnover and Current Ratio
b) Current Ratio and Liquid Ratio
c) Gross Profit Margin and Operating Ratio
d) Current Ratio and Average Collection Period
Ans : b) Current Ratio and Liquid Ratio
- 6) The is a measure of liquidity which excludes generally, the least liquid asset :
a) Current ratio, trade receivable b) Liquid ratio, trade receivable
c) Current ratio, inventory d) Liquid ratio, inventory
Ans : d) Liquid ratio, inventory
- 7) The..... is useful in evaluating credit and collection policies.
a) Average payment period b) Current ratio
c) Average collection period d) Current Assets Turnover
Ans : c) Average collection period
- 8) The measures the activity of a firm's inventory.
a) Average collection period b) Inventory turnover ratio
c) Liquid ratio d) Current ratio
Ans : b) Inventory turnover ratio
- 9) The may indicate that the firm is experiencing stock outs and lost sales.
a) Average payment period b) Inventory turnover ratio
c) Average collection period d) Quick ratio
Ans : a) Average payment period

- 10) ABC Co. extends credit term of 45 days to its customers. Its credit collection would be considered poor, if its average collection period was
- a) 30 days b) 36 days c) 47 days d) 37 days
- Ans : c) 47 days**
- 11) are especially interested in the average payment period, since it provides them with a sense of the bill – paying patterns of the firm.
- a) Customers b) Stockholders
c) Lenders and suppliers d) Borrowers and buyers.
- Ans : c) Lenders and suppliers**
- 12) The Ratios provide the information critical to the longrun operations of the firm.
- a) Liquidity b) Activity c) Solvency d) Profitability
- Ans : c) Solvency**
- 13) Dividend payout ratio refers to proportion of earnings that are distributed to the
- a) Shareholders b) Debentureholders
c) Creditors d) Lenders
- Ans : a) Shareholders**
- 14) Trade payables turnover ratio indicates
- a) Payment of Trade payables b) Payment to creditors
c) Payment of Bank loan d) Payment of Bills payable
- Ans : a) Payment of Trade payables**
- 15) Liquidity ratios are expressed in :
- a) Pure ratio form b) Percentage
c) Rate or Time d) None of the above
- Ans : a) Pure ratio form**

III) True or False type Questions.

- 1) The only purpose of financial reporting is to keep the managers informed about the progress of operations. **Ans : False**
- 2) Analysis of data provided in the financial statements is termed as Financial Analysis. **Ans : True**
- 3) Long term borrowings are concerned about the ability of a firm to discharge its obligations to pay interest and repay the principle amount. **Ans : True**
- 4) A ratio is always expressed as a quotient of one number divided by another
Ans : False
- 5) Ratios help in comparisons of a firm's results over a number of accounting periods as well as with other business enterprises. **Ans : True**
- 6) A ratio reflects quantitative and qualitative aspects of results. **Ans : False**
- 7) Liquidity ratios are essentially short term in nature. **Ans : True**
- 8) Current ratio is the proportion of current assets to current liabilities. **Ans : True**
- 9) The Quick assets are those assets which cannot be quickly converted into cash.
Ans : False

- 10) A higher interest coverage ratio ensures safety of interest on debts. **Ans : True**
- 11) The liquidity ratios are preliminary measures of return. **Ans : False**
- 12) Higher gross profit ratio is always a good sign. **Ans : True**
- 13) Dividend payout ratio refers to the proportion of earnings distributed to the shareholders. **Ans : True**
- 14) Net profit refers to profit after tax (PAT) **Ans : True**
- 15) Price earning ratio= Market price of share / Earning per share. **Ans : True**

IV) Very short answer type Questions :

- 1) Give the meaning of Ratio Analysis
Ans : Ratio Analysis is the indispensable part of interpretation of results revealed by the financial statements.
- 2) State any one objective of Ratio Analysis
Ans : To know areas of business which need more attention
- 3) State any one use of ratio analysis.
Ans : Simplify complex figures and establish relationships
- 4) Mention any one limitation of ratio analysis. **Ans : Ignores price level changes.**
- 5) Mention any one type of ratio. **Ans : Liquidity ratio, Current ratio**
- 6) Give one example for Current Assets **Ans : Cash**
- 7) Give one example for Current liability **Ans : Creditors (March 2019)**
- 8) What is current ratio ?
Ans : Current ratio is the proportion of current assets to current liabilities.
- 9) What is Quick ratio ?
Ans : Quick ratio is the ratio of Quick assets to current liabilities.
- 10) Name any one type of turnover ratio. **Ans : Inventory turnover ratio**
- 11) Give the meaning of net profit ratio
Ans : Net profit ratio is a profitability ratio of net profit to revenue from operations.
- 12) Give the meaning of dividend payout ratio
Ans : Dividend payout ratio refers to the proportion of earnings that are distributed to the shareholders.
- 13) What is activity ratio ?
Ans : Activity ratio is the ratio that indicate the speed at which activities of the business are being performed.
- 14) State one significance of interest coverage ratio.
Ans : It reveals the number of times interest on longterm debts is covered by the profits available for interest.
- 15) Expand EPS.
Ans : EPS = Earning Per Share

UNIT – 6

CASH FLOW STATEMENT

Sec-A (01 Marks)	Sec-B (02 Marks)	Sec-C (06 Marks)	Sec-D (12 Marks)
01	01	01	-

SECTION A : ONE MARK QUESTIONS

I) Fill in the blanks.

- 1) Cash Flow Statement shows and of cash and cash equivalents. **Ans : Inflows and outflows.**
- 2) Purchase of any asset by paying cash is **Ans : Cash outflow**
- 3) Collection of cash from trade receivable is **Ans : Cash inflows**
- 4) Operating activities constitute the activities of an enterprise
Ans : Primary or main
- 5) activities relate to purchase and sale of fixed assets. **Ans : Investing**
- 6) Tax on operating profit should be classified as cash flows.
Ans : Operating
- 7) Indirect method of ascertaining cash flows from operating activities begins with the amount of **Ans : Net Profit or Loss**
- 8) Cash flow statement prepared by method is used by most companies in practice. **Ans : Indirect**
- 9) Expenses paid in advance at the end of the year are the profit made during the year. **Ans : Deducted from**
- 10) An increase in accrued income during the particular year is the net profit. **Ans : Deducted from**
- 11) Goodwill amortised is the profit made during the year for calculating the cash flow from operating activities. **Ans : Added to**
- 12) For calculating cash flow from operating activities provision for doubtful debts is the profit made during the year. **Ans : added to**

II) Multiple choice questions.

- 1) Example of cash inflows from investing activities are.
 - a) Cash receipts from disposal of fixed assets
 - b) Interest received in cash from loans and advances
 - c) Dividend received from investments in other enterprises
 - d) All of the above

Ans : d) All of the above

- 2) Which one of the following is not a cash outflow from operating activities ?
- Cash payments to suppliers for goods and services
 - Cash payments to and on behalf of the employees
 - Cash payments to acquire fixed assets
 - Cash payments to an Insurance Company for premium

Ans : c) Cash payments to acquire Fixed assets

- 3) Which of the following is not a cash inflow from investing activities ?
- Cash receipts from disposal of fixed assets
 - Cash receipts from sale of goods and rendering of service.
 - Interest received in cash from loans and advances.
 - Dividend received from investments in other enterprises

Ans : b) Cash receipts from sale of goods and rendering of service.

- 4) Cash receipts from customers means
- Revenue from operations – opening trade receivables + closing trade receivables
 - Revenue from operations + opening trade payables - closing trade payables.
 - Revenue from operations + opening trade receivables - closing trade receivables
 - None of the above

Ans : c) Revenue from operations + opening trade receivables - closing trade receivables

- 5) Purchases means
- Cost of revenue from operations + opening inventory – closing inventory.
 - Cost of revenue from operations – opening inventory + closing inventory
 - Cost of revenue from operations – opening trade receivable + closing trade receivable
 - None of the above

Ans : a) Cost of revenue from operations + opening inventory – closing inventory

III) True or False Type Questions :

- Cash flow statement is the first important financial statement. **Ans : False**
- According to revised AS-3, preparation and presentation of Cash Flow statement is mandatory for all listed companies. **Ans : True**
- Extraordinary items are recurring in nature **Ans : False**
- An enterprise should report cash flow statement from operating activities, either by using direct method or indirect method. **Ans : True**
- Under direct method, items are recorded on the accrual basis in statement of profit and loss. **Ans : True**

IV) Very short Answer Type Questions :

- What is the main objective of cash flow statement ?

Ans : The primary objective of cash flow statement is to provide useful information about the cash flows of an enterprise.

- 2) Mention any one benefit of cash flow statement.
Ans : Assessing the ability of the enterprise to generate cash and cash equivalents
- 3) Give the meaning of cash flows (June 2019)
Ans : It implies movement of cash in and out due to some non cash items.
- 4) What are operating activities ?
Ans : Operating activities are the activities that constitute primary or main activities of an enterprises.
- 5) Give an example for investing activities. **Ans : Purchase of non-current assets**
- 6) Give an example for cash inflows from financing activities.
Ans : Cash proceeds from issue of preference or equity shares.
- 7) Give an example for cash outflows from financing activities.
Ans : Cash repayment of amounts borrowed.
- 8) Give an example for extraordinary item
Ans : Loss due to theft or earthquake or flood
- 9) Expand ICAI **Ans : Institute of Chartered Accountants of India. (March 2019).**

SECTION B : TWO MARKS QUESTIONS

- 1) What is cash flow statement ?
Ans : A cash flow statement is a statement showing inflows & outflows of cash and cash equivalents from operating, investing and financing activities of a company during a particular period.
- 2) State any two uses of cash flow statement
Ans : a) Helps in ascertaining the liquidity of an enterprise.
b) This statement helps the users to ascertain the amount and certainty of cash flows to be generated by company.
- 3) Write any two objectives of preparing cash flow statement
Ans : a) To provide useful information about cash flows
b) To ascertain amount and certainty of cash flows
- 4) What do you mean by investing activities ? (June 2019)
Ans : Investing activities are the activities relating to purchase and sale of long term assets.
- 5) Mention any two activities which are classified as per AS – 3 (March 2019)
Ans : a) Cash flow from operating Activities
b) Cash flow from investing Activities
c) Cash flow from financing Activities
- 6) Write any two examples for financing activities.
Ans : a) Cash proceeds from issue of equity shares,
b) Cash proceeds from issue of equity Debentures

- 7) If Revenue from operations are Rs. 48000, opening trade receivables are Rs. 8000, & closing trade receivables are Rs. 6000. Calculate cash receipts from customers.

Ans : Cash receipts from customers = Revenue from operations + opening trade receivable – closing trade receivables.

$$= 48000 + 8000 - 6000$$

$$= 50000$$

- 8) If purchases are Rs. 72000, opening trade payables are Rs. 12000 & closing trade payables are Rs. 9000. Calculate cash payments to suppliers.

Ans : Cash payments to suppliers = purchases + opening trade payables – closing trade payables.

$$= 72000 + 12000 - 9000$$

$$= 75000$$

03) Write two partners' capital accounts under fluctuating capital system with 5 imaginary figures.

Ans : **Dr. Partners' Current Accounts Cr.**

Particulars	A (Rs)	B (Rs)	Particulars	A (Rs)	B (Rs)
To Drawings	4500	4500	By Balance B/d	50000	50000
To Int. of Drawings	500	500	By Int. on Capital	5000	5000
To Balance C/d (B.F)	20000	20000	By Salary A/c	10000	10000
	65,000	6,5000		6,5000	6,5000
			By Balance B/d	20000	20000

04) Write Profit and Loss Appropriation account of a firm with 5 imaginary figures.

Ans : **AB And Associates**

Profit and Loss Appropriation A/c

Dr. For the year ending 31.03.2018 Cr.

Particulars	Rs.	Particulars	Rs.
To Int. on capital A-5,000 B- <u>5,000</u>	10,000	By P & L A/c (Net profit)	49,000
To Salary to : A-10,000 B- <u>10,000</u>	20,000	By Int. on drawings : A-500 B- <u>500</u>	1,000
To Partners' Capital A/cs (Profit transfer) A - 20,000 x 1/2 10,000 B - 20,000 x 1/2 <u>10,000</u>	20,000		
	50,000		50,000

05) Prepare Executors Loan Account with imaginary figure showing the repayment in two annual equal installments along with interest.

Ans :

Dr. Executors Loan A/c. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
31-3-2011	To Bank A/c	6000	1-4-2010	By X s capital A/c	10000
31-3-2011	To Balance c/d	5000	31-3-2011	By Interest A/c	1000
		11000			11000
31-3-2012	To Bank	5500	1-4-2011	By Balance b/d	5000
			31-3-2012	By Interest A/c	500
		5500			5500

- 06) Give the disclosure requirements pertaining to share capital in “Notes to Accounts” of Balance sheet of a company with imaginary figures.

Ans :

LG Co Ltd

Note to Accounts

Particulars	Rs.	Rs.
<u>I) Share Capital :</u>		
<u>Authorized Capital :</u>		
10,000 Eq. Shares of Rs. 100 each		<u>10,00,000</u>
<u>Issued Capital :</u>		
9,000 Eq. Shares of Rs. 100 each		<u>9,00,000</u>
<u>Subscribed Capital :</u>		
Subscribed but not fully paid-up		
8,000 Eq. shares of Rs. 100 each,		
Rs. 80 called-up	6,40,000	
Less : Calls-in-arrears	<u>-10,000</u>	
Paid-up		<u>6,30,000</u>

- 07) Write the Performa of Balance Sheet of a Company with main heads only.

Ans :

Vijayapur Co. Ltd

Balance sheet at 31st March

Particulars	Note	Current Year	Previous Year
I. Equity And Liabilities :			
1. Shareholders Fund			
2. Share Application Money pending allotment			
3. Non-current Liabilities			
4. Current Liabilities.			
Total			
II. Assets :			
1. Non-Current Assets			
2. Current Assets			
Total			

08. Prepare a Statement of Profit & Loss of a company (in vertical form) with imaginary figures of 5 main heads.

Ans :

Karnataka Co.Ltd.
Statement of Profit and Loss
For the year ended 31.03.2018

Particulars	Note No.	Rs.
1. Revenue from operations	1	45,000
2. Other income	2	5,000
3. Total Revenue (1+2)		50,000
4. Expenses :		35,000
5. Profit before extraordinary items and tax (3-4)		15,000
6. Less : Tax		5,000
7. Profit for the period (5-6)		10,000

09) Name the major heads under which the following (given) items will be presented in the Balance Sheet of Company (Any 5 items are given)

- | | |
|-------------------------------|-------------------------------|
| a. Securities Premium Reserve | Ans : Shareholder's Fund |
| b. Furniture & Fittings | Ans : Non Current Assets |
| c. Calls-in advances | Ans : Current Liabilities |
| d. Prepaid Insurance | Ans : Current Assets |
| e. 10% debentures | Ans : Non Current Liabilities |

10) Prepare Comparative Statement of Profit & Loss with 5 imaginary figures

Ans :

NST Co. Ltd
Comparative Statement of Profit & Loss
For the years ended 31.03.2018 & 2019

Particulars	31.03.2018 Rs.	31.03.2019 Rs.	Absolute Increase Or Decrease Rs.	% of Increase or Decrease
1	2	3	4 (=3-2)	5(=4/2x100)
1. Revenue from operations	100,000	150,000	50,000	50
2. Other income	10,000	15,000	5,000	50
3. Total Revenue	110,000	165,000	55,000	50
4. Expenses	60,000	90,000	30,000	50
5. Profit before tax	50,000	75,000	25,000	50

11) Prepare Common size Statement of Profit and Loss with 5 imaginary figures.

Ans :

KAU Co. Ltd

Common Size Statement of Profit and Loss

For the years ended 31.03.2018 and 2019

Particulars	Year (Rs.)		Percentage (%)	
	31.03.2018	31.03.2019	31.03.2018	31.03.2019
1. Revenue from operations	100,000	1,50,000	100	100
2. Other income	20,000	30,000	20	20
3. Total Revenue	120,000	180,000	120	120
4. Expenses	60,000	90,000	60	60
5. Profit before tax	60,000	90,000	60	60

12. Write the pro-forma of cash flows from operating activities under Direct method.

Cash flows from operating Activities :	
Cash Receipt from customers	xxx
(-) Cash paid to employees & suppliers	(xxx)
= Cash generated from operating activities	<u>xxx</u>
(-) Income tax paid	(xxx)
Cash flows before extraordinary items	<u>xxx</u>
+/- Extraordinary items	xxx
= Net cash from operating activities	<u>xxx</u>

13. Classify the following Cash Flow activities in to operating, investing and financing as per AS - 3

- | | |
|--|-----------------------------------|
| a) Revenue from operations | Ans : Operating activities |
| b) Purchase of machinery | Ans : Investing activity |
| c) Proceeds from issue of equity share capital | Ans : Financing activity |
| d) Cash receipt from trade receivables | Ans : Operating activity |
| e) Proceeds from sale of old machinery | Ans : Investing activity |

ANNUAL EXAMINATION [MARCH]-2019

SECTION-A

Answer any eight questions. Each question carries 1 Mark:

8x1=8

1. Government grant is treated as _____ receipt.

Ans: Revenue

2. When the partners' current accounts are prepared in partnership firm?

Ans: In partnership firm, Partners' current accounts are prepared when Partners' capital accounts are maintained under fixed capital system.

3. If the amount brought by a new partner is more than his share in capital, the excess is known as _____.

Ans: Hidden goodwill.

4. Give the formula for calculation of new profit sharing ratio on retirement of a partner.

Ans: New Profit Sharing Ratio=Old Profit Sharing Ratio + Share acquired.

5. What is buy-back of shares?

Ans: Buy back of shares means purchase of its own shares by a company.

6. Debentures cannot be redeemed out of

- a) profits b) provisions c) capital d) all the above

Ans: b) provisions

7. Financial statements generally include.

- a) Comparative statement b) fund flow statement
c) income statement and balance sheet d) none of the above.

Ans: c) income statement and balance sheet

8. Financial analysis is used only by the creditors. State True/False.

Ans: False

9. Give one example for current liability.

Ans: Creditors, Bills Payable, etc.

10. Expand ICAI.

Ans: ICAI - Institute of Chartered Accountants of India.

SECTION-B

Answer any five questions. Each question carries 2 marks:

5x2=10

11. State any two features of Receipts and Payments account.

Ans: a- Summary of Cash Book. b- Includes both Capital and Revenue items

12. Name any two contents of partnership deed.

Ans: a- Name and Address of the firm

b- Profit-Loss Sharing Ratio

13. Goodwill of the firm is valued at two years purchase of the average profit of last four years. The total profits for last four years is Rs 40,000. Calculate the goodwill of the firm.

Ans: a- Average Profits = $\frac{\text{Total Profits}}{\text{No. of years}}$
 $= \frac{40,000}{4}$
= Rs.10,000

b- Goodwill = Average Profits X No. of years purchase
= 10,000 x 2
= Rs. 20,000

14. Give the Journal entry for the asset taken over by a partner in case of dissolution of partnership firm.

Ans: Partner's Capital A/c	Dr	XXX	-
To Realization A/c		-	XXX

(Being asset taken over by partner)

15. What is forfeiture of shares?

Ans: Forfeiture of shares means cancellation of membership of a shareholder who fails to make payment due on his shares.

16. Give the meaning of financial statements.

Ans: Financial Statements are the basic and formal annual reports through which Corporate management communicates financial information to its owners and various other external parties.

17. List out any two techniques of financial statement analysis.

Ans: a- Comparative Statements b- Common Size Statements

18. Mention any two activities which are classified as per AS-3.

Ans: a- Operating Activities b- Investing Activities

SECTION – C

Answer any four questions. Each question carries 6 marks: 4x6=24

19. Yashas and Abhi are partners in a firm, sharing profits and losses in the ratio of 2:1.

Yashas withdrew the following amounts during the year 2017-18 are given as under:

Rs. 4,000 on 01.06.2017

Rs. 10,000 on 30.09.2017

Rs. 6,000 on 30.11.2017

Rs. 12,000 on 01.01.2018

Interest on drawings is to be charged at 8% p.a.

Calculate the amount of interest to be charged on Yashas drawings for the year ending 31.03.2018.

Ans: a- Calculation of Product

Date of Drawings	Amount(Rs)	O/s months upto 31.08.2018	Product (Rs)
1	2	3	4(=2x3)
01.06.2017	4,000	10	40,000
30.09.2017	10,000	6	60,000
30.11.2017	6,000	4	24,000
01.01.2018	12,000	3	36,000
		Total	1,60,000

b- Interest on drawings = Total product X Rate X 1/12
 = 1,60,000 X 8/100 X 1/12
 = **Rs. 1067**

20. Swarna, Swapna and Vidya are partners in a firm sharing profits and losses in the ratio of 4:3:2. Vidya retires from the firm. Swarna and Swapna agreed to share equally in future.

Calculate the gain ratio of Swarna and Swapna.

Ans: a- Gaining Share = New Share – Old Share

Share gained by Swarna = $1/2 - 4/9$
 = $9-8/18$
 = $1/18$

Share gained by Swapna = $1/2 - 3/9$
 = $9-6/18$
 = $3/18$

b- Gaining Ratio = Share gained by Swarna:Swapna
 = $1/18 : 3/18$
 = $1:3/18$
 = $1:3$

21. Shobha, Sudha and Rathna are partners. Sharing profits and losses in the ratio of 2:2:1.

Their Balance sheet as on 31.03.2018 was as follows:

Balance Sheet as on 31.03.2018.

Liabilities	Rs	Assets	Rs
Sundry Creditors	30,000	Cash in hand	10,000
Capitals:		Debtors	25,000
Shobha	15,000	Stock	40,000
Sudha	25,000	Plant and Machinery	40,000
Rathna	30,000		
Reserve fund	15,000		
	1,15,000		1,15,000

Rathna died on 30.06.2018. Her executor's should be entitled to:

- a) Her capital on the date of last Balance Sheet.
 b) Her share of reserve fund on the date of last Balance Sheet.
 c) Her share of profit up to the date of death, on the basis of previous year's profit.
 Previous year profit is Rs.20,000.
 d) Her share of Goodwill. Goodwill of the firm is valued at Rs.40,000.
 e) Interest on capital at 10% p.a.
 You are required to ascertain amount payable executors of Rathna by preparing Rathna's capital account.

Ans:

Rathna's Capital Account

Dr		Cr	
Particulars	Rs	Particulars	Rs
To Rathna's Executors A/c (Bal. Fig)	42,750	By Balance b/d	30,000
		By Reserve Fund (15,000 x 1/5)	3,000
		By Accrued Profit (20,000 x 3/12 x 1/5)	1,000
		By Goodwill (40,000 x 1/5)	8,000
		By Interest on Capital (30,000 x 10/100 x 3/12)	750
	42,750		42,750

22. Ganesh Co.Ltd., purchased assets of the book value of Rs.99,000 from another firm. It was agreed that purchase consideration be paid by issuing 11% debentures of Rs 100 each. Assume debentures have been issued.

- a) At par
 b) At discount of 10% and
 c) At a premium of 10%

Record necessary Journal entries.

Ans:

Journal Entries in the books of Ganesh Co.Ltd.

Date	Particulars	LF	Dr Rs	Cr Rs
1	Sundry Assets A/c Dr To Vendors' A/c (Being assets purchased on credit)		99,000	- 99,000
2	Vendors' A/c (990 x 100) Dr To 11% Debentures A/c (Being allotment of debentures to vendors @ par)		99,000	- 99,000
b	Vendors' A/c 1100 x 90 Dr Discount on issue of Debn A/c 1100x100 Dr To 11% Debentures A/c 1100x100 (Being allotment of debentures to Vendors @ 10% discount)		99,000 11,000	- - 110,000
c	Vendor's A/c 900 x 110 Dr To 11% Debentures A/c 900 x100 To Securities Premium Reserve A/c 900 x10 (Being allotment of debentures to vendors @ 10% premium)		99,000 - -	- 90,000 9,000

23. From the following information, prepare statement of profit and loss for the year ended 31.03.2018 as per schedule – III of the companies Act, 2013.

Particulars	Rs.
Revenue from operations	5,00,000
Purchase of goods	3,00,000
Salaries to employees	40,000
Leave encashment	10,000
Rent and Taxes	30,000
Repairs to Machinery	20,000
Tax	30%

Ans: Statement of Profit and Loss of...Co.Ltd for the year ended 31.03.2018.

Particulars	Note	Rs
INCOMES:		
1.Revenue from operations		5,00,000
2. Total income		<u>5,00,000</u>
3. EXPENSES:		
Purchases of goods		3,00,000
Employee Benefit Expenses	1	50,000
Other Expenses	2	<u>50,000</u>
Total		4,00,000
Profit before tax (2-3)		<u>1,00,000</u>
Less : Tax 30%		<u>30,000</u>
Net Profit		70,000

Notes to Accounts

Particulars	Rs	Rs
1. Employee Benefit Expenses;		
Salaries to employees	40,000	
Leave encashment	<u>10,000</u>	50,000
2. Other Expenses;		
Rent & Taxes	30,000	
Repairs to Machinery	<u>20,000</u>	50,000

24. Calculate Current ratio and Liquid ratio from the following information.

Particulars	Rs
Current Liabilities	50,000
Trade receivables	30,000
Cash in hand	10,000
Cash at bank	10,000
Inventories	20,000
Advance Tax	10,000

Ans: a- Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
= $\frac{80,000}{50,000}$
= 1:6:1

<u>C As.</u>	
Trade Receivables	30,000
Cash	10,000
Bank	10,000
Inventories	20,000
Advance Tax	<u>10,000</u>
	<u>80,000</u>

b- Liquid Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$
= $\frac{50,000}{50,000}$
= 1:1

L.As
= C.As – Inventories – Adv Tax
= 80,000 – 20,000 -10,000
= 50,000

25. Mangala Ltd. arrived at a Net income of Rs 5, 00,000 for the year ended 31.03.2018. Depreciation for the year was Rs. 2,00,000. There was a profit of Rs 50,000 on assets sold which was transferred to statement of profit and loss. Trade receivables increased during the year Rs.40.000 and Trade payables also increased by Rs.60,000. Compute cash flow from operating activities by the indirect method.

Ans: Computation of cash flow from operating activities (indirect method).

Particulars	Rs
Net Profit	5,00,000
Add: Non-Cash items: Depreciation	<u>2,00,000</u>
	7,00,000
Less: Non-Operating items:	
Profit on assets sold	<u>(50,000)</u>
Operating profit before working capital changes	6,50,000
Add: Increase in Trade Payables	<u>60,000</u>
	7,10,000
Less: Increase in Trade Receivables	<u>(40,000)</u>
Cash generated from operations	6,70,000

SECTION –D

Answer any four questions. Each question carries 12 marks: 4x12=48

26) From the following Receipts and payments account and Balance sheet of Union club, prepare Income and Expenditure account for the year ended 31.03.2018 and the Balance sheet as on that date.

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets	Rs
Outstanding salary	1,000	Cash in hand	3,500
Capital fund	39,900	Books	6,200
		Outstanding subscription	3,600
		Furniture	2,600
		Building	25,000
	40,900		40,900

Receipts and payments a/c for the year ended 31.03.2018

Dr.			Cr.
Receipts	Rs	Payments	Rs
To Balance b/d	3,500	By General expenses	900
To Subscription	75,000	By Salary	16,000
To Entrance Fees	2,000	By Postage	1,300
To Rent from use of Hall	7,000	By Electricity charges	7,800
To Donation	10,000	By Furniture	26,500
To Sale of News paper	400	By Books	13,000
To Life membership fee	7,300	By Newspaper	600
		By Meeting expenses	7,200
		By T.V.set	16,000
		By Balance c/d	15,900
	1,05,200		1,05,200

Additional information:

- a) Subscription outstanding on 31 March, 2018 Rs.10,000
- b) Salary outstanding on 31 March, 2018. Rs 1,000
- c) Depreciate furniture and Books at 10% each (only on opening Balances)
- d) Donation to be capitalized
- e) Electricity charges paid in Advance Rs 650.

Ans:**Union Club**

Dr i.Income and Expenditure Account for the year ended 31.03.2018 Cr.

Expenditure	Rs	Incomes	Rs
To General Expenses	900	By Subscription 75,000	
To Salary 16,000		Less: o/s P.Y -3,600	
Less: o/s P.Y - 1,000		Add: o/s C.Y +10,000	81,400
Add: o/s C.Y + 1,000	16,000		
To Postage	1,300	By Entrance Fees	2,000
To Electricity Charges 7,800		By Rent	7,000
Less: Prepaid - 650	7,150	By Sale of newspaper	400
To Newspaper	600		
To Meeting Expenses	7,200		
To Depreciation:			
- On Furniture: 2600x10/100	260		
- On Books:			
6200x10/100	620		
To Surplus [I-E]	56,770		
	90,800		90,800

ii) Balance Sheet as on 31.03.2018

Liabilities	Rs	Assets	Rs
O/s Salary	1,000	Cash in hand	15,900
Capital fund:		O/s Subscription	10,000
Opening 39,900		Books 6,200	
Add: Donation 10,000		Less : 10% Deprn - 620	
Add: L.M.F 7,300		Add: Addition + 13,000	18,580
Add: Surplus 56,770	113,970	Furniture 2,600	
		Less: 10% Deprn - 260	
		Add: Addition + 26,500	28,840
		Building	25,000
		T.V.Set	16,000
		Prepaid El.Charges	650
	114,970		114,970

27. Given below is the Balance sheet of Kumar and Rajashekhar, who are carrying on partnership business as on 31 March. 2018. Kumar and Rajashekhar share profits and losses in the ratio of 2:1.

Balance sheet of Kumar and Rajashekhar as on 31.03.2018

Liabilities	Rs	Assets	Rs
Bills payable	10,000	Cash in hand	10,000
Sundry creditors	58,000	Cash at Bank	40,000
Outstanding expenses	2,000	Sundry debtors	60,000
Capitals:		Stock	40,000
Kumar	1,80,000	Plant and Machinery	1,00,000
Rajashekhar	1,50,000	Building	1,50,000
	3,30,000		
	4,00,000		4,00,000

Shamanth is admitted as a partner on the date of the Balance Sheet on the following terms.

- a) Shamanth bring in Rs 1,00,000 as his capital and Rs 60,000 as his share of goodwill for 1/4th share in profits.
- b) Plant is to be appreciated to Rs 1,20,000 and the value of Building is to be appreciated by 10%
- c) Stock is found over valued by Rs 5,000
- d) A provision for Doubtful debts is to be created at 5% on Debtors.

Prepare: - Revaluation Account, partners capital accounts and Balance sheet of the reconstituted firm after admission of the new partner.

Ans: i. Revaluation Account

Dr	Rs	Cr	Rs
To Stock A/c	5,000	By Plant A/c	20,000
To P.D.D A/c		[1,20,000 – 1,00,000]	
[60,000 x 5/100]	3,000	By Building A/c	15,000
To Old Partners' Capital A/cs [profit]		[1,50,000x 10/100]	
- Kumar	18,000		
- Rajashekhar	+9,000		
	27,000		
	35,000		35,000

Dr		ii. Partners' Capital Accounts				Cr.	
Particulars	Kumar	Rajashekhar	Shamanth	Particulars	Kumar	Rajashekhar	Shamanth
To Balance c/d [Bal.Fig]	238,000	179,000	100,000	By Bal. b/d	180,000	150,000	-
				By Rev. A/c	18,000	9,000	-
				By Cash A/c	-	-	100,000
				By Goodwill A/c	40,000	20,000	-
	<u>238,000</u>	<u>179,000</u>	<u>100,000</u>		<u>238,000</u>	<u>179,000</u>	<u>100,000</u>
				By Bal.b/d	238,000	179,000	100,000

iii) Balance Sheet after admission as on 31.03.2018

Liabilities		Rs	Assets		Rs
Bills Payable		10,000	Cash in Hand		170,000
Sundry Creditors		58,000	[10,000+100,000+60,000)		
O/s Expenses		2,000	Cash at bank		40,000
Capitals:			S. Debtors	60,000	
Kumar	238,000		Less: 5% PDD	<u>-3,000</u>	57,000
Rajashekhar	179,000		Stock	40,000	
Shamanth	<u>+100,000</u>	517,000	Less: Decrease	<u>-5,000</u>	35,000
			Plant & Machinery	100,000	
			Add: Apprn	<u>+20,000</u>	120,000
			Building	150,000	
			Add: Apprn 10%	+15,000	165,000
		587,000			587,000

28. Rekha and Chetana sharing profits as 3:1 and they agree upon dissolution. The balance sheet as on 31 March, 2018 is as under.

Balance sheet of Rekha and Chetana as on 31 March, 2018

Liabilities	Rs	Assets	Rs
Loan	2,400	Cash at Bank	5,000
Creditors	3,600	Stock	9,000
Capital:		Furniture	3,200
Rekha	22,000	Debtors	14,000
Chetana	13,600	Plant and Machinery	10,400
	41,600		41,600

Additional information:

- a) Rekha took over Plant and Machinery at an agreed value of Rs.12,000
- b) Stock and furniture were sold for Rs.8,400 and Rs 2,780 respectively
- c) Debtors were taken over by Chetana at Rs.13,000
- d) Liabilities were paid in full by the firm
- e) Realisation expenses were Rs 320.

Prepare:

1. Realization account
2. Partners capital accounts and
3. Bank account.

Ans:

Dr		i. Realisation Account		Cr.	
Particulars	Rs	Particulars		Rs	
To Stock A/c	9,000	By Loan A/c		2,400	
To Furniture A/c	3,200	By Creditors A/c		3,600	
To Debtors A/c	14,000	By Bank A/c;			
To Plant & Machinery A/c	10,400	- Stock	8,400		
		- Furniture	2,780		11,180
To Bank A/c;		By Rekha's Capital A/c			12,000
- Loan	2,400	[P&M taken]			
- Creditors	3,600	By Chetan's Capital A/c			13,000
To Bank A/c;	320	[Debtors taken]			
[- Realization Expenses]		By Partners' Capital A/cs-[Loss]			740
		- Rekha[740x3/4]	555		
		- Chetana[740x1/4]	185		
	42,920				42,920

Dr.		ii. Partners' Capital Accounts		Cr	
Particulars	Rekha	Chetana	Particulars	Rekha	Chetana
To Realisation A/c [Loss]	555	185	By Balance	22,000	13,600
To Realisation A/c [Assets taken]	12,000	13,000	b/d		
	9,445	415			
To Bank A/c [Paid off].					
	22,000	13,600		22,000	13,600

Dr		iii. Bank Account		Cr	
Particulars	Rs	Particulars	Rs		
To Balance b/d	5,000	By Realization A/c [Liabilities Paid]	6,000		
To Realization A/c [Assets realized]	11,180	By Realization A/c [Real ;Exps Paid]	320		
		By Rekha's Capital A/c	9,445		
		By Chetana's Cap A/c	415		
	16,180		16,180		

29. Vigneshwara Trading Co., Ltd., issued 10,000 ordinary shares of Rs 100 each, at a premium of Rs 10 per share. The amount payable is as follows:

On Application	Rs 20
On Allotment	Rs 40 (including premium)
On First and Final Call	Rs 50

All the shares were subscribed and the money duly received except the first and final call on 500 shares. The directors forfeited these shares and re-issued them as fully paid at Rs 80 per share.

Pass the necessary Journal entries in the books of the company.

Ans: Journal Entries in the books of Vigneshwara Trading Co.Ltd.,

Date	Particulars	L/F	Dr Rs	Cr.Rs
1	Bank A/c (10,000 x 20) Dr To Ordinary Share Application A/c [Being application money received]		200,000 -	- 200,000
2	Ordinary Share Application A/c Dr To Ordinary Share Capital A/c [Being application money transferred]		200,000 -	- 200,000
3	Ordinary Share Allotment A/c (10,000x40) Dr To Ordinary Share Capital A/c (10,000x30) To Securities Premium Reserve A/c(10,000x10) [Being allotment amount due]		400,000 - -	- 300,000 100,000
4	Bank A/c (10,000x40) Dr To Ordinary Share Allotment A/c [Being allotment money received]		400,000 -	- 400,000
5	Ordinary Share First & Final Call A/c Dr To Ordinary Share Capital A/c (10,000x50) [Being First & Final Call money due]		500,000 -	- 500,000
6	Bank A/c (9500x50) Dr To Ordinary Share First & Final Call A/c [Being first & final call money received]		475,000 -	- 475,000

7	Ordinary share capital A/c (500x100) Dr To Forfeited Ord. shares A/c (500x50) To Ord Share First & Final Call A/c (500x50) [Being forfeiture of Ord. shares]		50,000 - -	- 25,000 25,000
8	Bank A/c (500x80) Dr Forfeited Shares A/c (500x20) Dr To Ordinary Share Capital A/c (500x100) [Being re-issue of forfeited shares]		40,000 10,000 -	- - 50,000
9	Forfeited Shares A/c Dr To Capital Reserve A/c [Being transfer of credit balance in forfeited shares account 25000-10000]		15,000 -	- 15,000

30. Give the Journal entries for issue of Debentures for the following cases in the Books of Reliance Co., Ltd.

- Issue of Rs 2, 00,000, 9% Debentures of Rs 100 each at par and redeemable at par.
- Issue of Rs 2, 00,000, 10% Debentures of Rs 100 each at a premium of 5% but redeemable at par.
- Issue of Rs 2, 00,000, 12% Debentures of Rs 100 each at a discount of 5%, redeemable at par.
- Issue of Rs 2, 00,000, 8% Debentures of Rs 100 each at par but redeemable at a premium of 5%.

Ans: Journal Entries in the books of Reliance Co.Ltd.

Date	Particulars	L/F	Dr Rs	Cr Rs
a. 1	Bank A/c (2,000x100) Dr To 9% Debentures Application & Allotment A/c [Being money received on 9% debentures]		200,000 -	- 200,000
2	9% Debentures Application & Allotment A/c Dr To 9% Debentures A/c (2000x100) [Being allotment of debentures at par & redeemable @ par]		200,000 -	- 200,000
b. 1	Bank A/c (2,000x105) Dr To 10% Debentures Application & Allotment A/c [Being money received on 10% debentures]		210,000 -	- 210,000
2	10% Debs Appln & Allot A/c (2000x105) Dr To 10% Debentures A/c (2000x100) To Securities Premium Reserve A/c (2000x5) [Being allotment of 10% debentures @ 5% premium but redeemable @ par]		210,000 - -	- 200,000 10,000

c. 1	Bank A/c (2000x95) Dr To 12% Debentures Application & Allotment A/c [Being money received on 12% debentures]		190,000 -	- 190,000
2	12% Debs App & Allot A/c (2000x95) Dr Discount on issue of 12% Debentures A/c (2000x5) Dr To 12% Debentures A/c (2000x100) [Being allotment of debentures @ 5% discount but redeemable @ par]		190,000 10,000 -	- - 200,000
d. 1	Bank A/c (2,000 x 100) Dr To 8% Debentures Application & Allotment A/c [Being money received on 8% debentures]		200,000 -	- 200,000
2	8% Debs App & Allot A/c (2000x100) Dr Loss on issue of 8% Debentures A/c (2000x5) Dr To 8% Debentures A/c (2000x100) To Premium on Redemption of debentures a/c)2000x5) [Being allotment of debentures @ par, but redeemable @ 5% premium]		200,000 10,000 -	- - 200,000 10,000

31. From the following information, prepare comparative Balance Sheet of Honda Company Ltd.,

Particulars	31.03.2017	31.03.2018
	Rs	Rs
Share Capital	4, 00,000	5, 00,000
General reserve	50,000	60,000
Secured Loans	15,000	20,000
Other current liability	10,000	5,000
Trade payables	40,000	50,000
Buildings	2, 00,000	2, 50,000
Inventory	1, 00,000	90,000
Machinery	1, 50,000	2, 00,000
Trade receivables	50,000	75,000
Cash at Bank	15,000	20,000

Ans:

Comparative Balance Sheet of Honda Co.Ltd.

As on 31.03.2017 & 31.03.2018.

Particulars	31.03.2017 Rs	31.03.2018 Rs	Absolute Increase or Decrease	% of Increase or Decrease
1	2	3	4[3-2]	5[4/2x100]
I. Equity & Liabilities:				
1.Shareholders Fund;	400,000	500,000	100,000	25.00
a- Share Capital	50,000	60,000	10,000	20.00
b- Reserves & Surplus (GR)				
2.Non-Current Liabilities;				
a- Long Term borrowings [SL]	15,000	20,000	5,000	33.33
3. Current Liabilities:				
a- Trade Payables	40,000	50,000	10,000	25.00
b- Other Current Liability	<u>10,000</u>	<u>5,000</u>	<u>(5,000)</u>	<u>(50.00)</u>
Total	<u>515,000</u>	<u>635,000</u>	<u>120,000</u>	<u>23.30</u>
II. Assets :				
1.Non-current Assets;				
a. Fixed Assets”				
i- Tangible Assets [Bldg+Mach]	350,000	450,000	100,000	28.57
2- Current Assets				
a- Inventory	100,000	90,000	(10,000)	(10.00)
b- Trade Receivables	50,000	75,000	25,000	50.00
c- Cash & Cash Equivalent (Bank)	15,000	20,000	5,000	33.33
Total	515,000	635,000	120,000	23.30

32. From the following particulars, calculate:

- a) Inventory turnover ratio b) Trade receivable turnover ratio
c) Trade payable turnover ratio d) Gross profit ratio
e) Operating ratio f) Net Profit ratio.

Particulars	Rs
Revenue from operations	10,00,000
Gross profit	2,00,000
Average inventory	1,00,000
Net credit revenue from operations	6,00,000
Average trade receivables	1,50,000
Net Credit purchases	5,00,000
Average Trade payables	2,50,000
Operating expenses	1,00,000
Net Profit	1,00,000

Ans: a- Inventory Turnover Ratio = $\frac{\text{Cost of Revenue from operations}}{\text{Average Inventory}}$
= $\frac{800,000}{100,000}$
= 8 times,

→ Cost of Revenue from Operations = Revenue from operations – Gross profit
= 10,00,000 - 200,000
= 8,00,000

b- Trade Receivable Turnover ratio = $\frac{\text{Net Credit Revenue from operations}}{\text{Average Trade Receivables}}$
= $\frac{600,000}{150,000}$
= 4 times

c- Trade Payable Turnover Ratio = $\frac{\text{Net Credit Purchases}}{\text{Average Trade Payables}}$
= $\frac{500,000}{250,000}$
= 2 times

d- Gross profit ratio = $\frac{\text{Gross Profit} \times 100}{\text{Net Revenue from operations}}$
= $\frac{200,000 \times 100}{10,00,000}$
= 20%

e- Operating Ratio = $\frac{\text{Operating Cost} \times 100}{\text{Net Revenue from operations}}$
= $\frac{9,00,000 \times 100}{10,00,000}$
= 90%

→ Operating Cost = Cost of revenue from operating + Operating Expenses
= 800,000 + 100,000
= 900,000

f- Net profit ratio = $\frac{\text{Net Profit} \times 100}{\text{Net revenue from operations}}$
= $\frac{100,000 \times 100}{10,00,000}$
= 10%

Section –E

(Practical Oriented Questions)

Answer any two questions. Each question carries 5 marks:

2x5=10

33. Write two partners capital accounts under fluctuating capital system with 5 imaginary figures.

Ans: Dr **Partners' Capital Accounts** **Cr**

Particulars	A(Rs)	B(Rs)	Particulars	A(Rs)	B(Rs)
To Drawings	2,000	2,000	By Balance b/d	10,000	10,000
To Int. on Drawings	500	500	By Int .on Capital	1,000	1,000
To Balance c/d	<u>12,500</u>	<u>12,500</u>	By Salary	<u>4,000</u>	<u>4,000</u>
	<u>15,000</u>	<u>15,000</u>	By Balance b/d	<u>15,000</u>	<u>15,000</u>
				12,500	12,500

34. Prepare Executor's loan account with imaginary figures showing the repayment in two annual equal installments along with interest.

Ans: Dr **Executor's Loan Account** **Cr**

Date	Particulars	Rs	Date	Particulars	Rs
31.03.18	To Cash A/c [10,000+2,000]	12,000	01.04.17	By D.P. Capital A/c	20,000
31.03.18	To Balance C/d	10,000	31.03.18	By Interest A/c [20,000x10/100]	2,000
		<u>22,000</u>			<u>22,000</u>
31.03.19	To Cash A/c [10,000+1,000]	11,000	01.04.18	By Balance b/d	10,000
		<u>11,000</u>	31.03.19	By Interest A/c [10,000x10/100]	1,000
					<u>11,000</u>

35. Name the major heads under which the following items will be presented in the Balance sheet of a company

- a) Share capital
- b) Debentures
- c) Trade payables
- d) Furniture
- e) Inventory.

Ans:	<u>Items</u>	<u>Name of major head</u>
	a. Share Capital	: Shareholders' Fund
	b. Debentures	: Non-current Liabilities
	c. Trade Payables	: Current Liabilities
	d. Furniture	: Non-current Assets
	e. Inventory	: Current Assets.

SUPPLEMENTARY [JUNE] EXAM-2019

SECTION-A

Answer any Eight questions. Each question carries 1 mark:

8x1=8

1. Give an example for specific donation.

Ans: Donation for Building , Donation for Library.....(any one)

2. In order to form a partnership there should be atleast

- a) one person b) two persons c) seven persons d) none of the above

Ans: b) two persons

3. State any one method of valuation of goodwill.

Ans: Average Profit Method.....Super Profit Method (any one)

4. General Reserve is transferred to continuing Partners capital accounts.(State True/False)

Ans: False

5. Equity shareholders are

- a) creditors b) owners c) customers of the company d) none of the above

Ans: b) owners

6. Expand D.R.R

Ans: Debenture Redemption Reserve

7. Capital Reserve is shown under _____ head in the Balance Sheet of a company.

Ans: Shareholders Fund (Reserves & Surplus)

8. Give any one objective of Financial Statement Analysis.

Ans: To Assess the current profitability & operational efficiency.

9. Quick ratio is also known as _____.

Ans: Liquid ratio or Acid Test Ratio

10. What do you mean by cash flows?

Ans: 'Cash Flows' means movement of cash and cash equivalents.

SECTION- B

Answer any five questions. Each question carries 2 marks:

5x2=10

11. What is not for profit organization?

Ans: Not-for-Profit organizations refer to the organizations that work for the welfare of the society. Their main aim is to provide service to the members or to the public at large, without any profit motive.

12. State any two features of partnership.

**Ans: 1. Two or more persons. 2. Formed by an agreement
3. Sharing of Profits (Any two points)**

13. Goodwill of the firm is valued at two years purchase of average profits of last 4 years. The total profits for the last 4 years are Rs.80,000. Calculate the Goodwill of the firm.

Ans: Average Profits = $80000/4 = 20,000$

**G/w of the firm = Average profits X No. of years
= $20,000 \times 2 = \text{Rs } 40,000$**

20. Arun, Varun and Kiran are equal partners in a partnership firm. Varun retires from the firm. Arun and Kiran decided to share the profits in future in the ratio of 4:3.

Calculate gain ratio.

Ans: Gain Share = New Share – Old Share

Arun's Gain share = $\frac{4}{7} - \frac{1}{3} = \frac{12-7}{21} = \frac{5}{21}$

Kiran's Gain share = $\frac{3}{7} - \frac{1}{3} = \frac{9-7}{21} = \frac{2}{21}$

Gain ratio of Arun and Kiran are 5:2 respectively.

21. Mahesh, Mohan and Naresh are partners sharing profits and losses in the ratio of 2:2:1. Their capitals on 01.04.2017 were Rs 1,00,000 Rs.80,000 and Rs. 50,000 respectively. Mahesh died on 01.10.2017 and the partnership deed provides the following:

- Interest on capital at 10% p.a.
- Mahesh entitles for a monthly salary of Rs.4,000
- Mahesh's share of goodwill. The total goodwill of the firm is Rs.50,000
- His share of profit upto the date of death, on the basis of previous year's profit.

Previous year profit is Rs.20,000.

Prepare Mahesh's Executors Account.

Ans: **Mahesh's Executors Account**

Dr		Cr	
Particulars	Amount(Rs)	Particulars	Amount(Rs)
To Balance c/d	1,53,000	By Mahesh's capital a/c	1,00,000
		By Interest on capital [100000x10/100x6/12]	5,000
		By Goodwill A/c [50,000x2/5]	20,000
		By Salary 4000x6	24,000
		By P & L suspense a/c [20,000x6/12x2/5]	4,000
	1,53,000		1,53,000

22. Sunlight Ltd., issued 20,000, 10% Debentures of Rs.100 each payable

Rs 10 per debenture on application

Rs 40 per debenture on allotment

Rs 50 per debenture on first and final call

All the debentures were subscribed and money duly received.

Pass the journal entries in the books of the company.

Ans:

Journal Entries in the books of Sunlight LTd..

Date	Particulars	LF	Dr.Rs	Cr.Rs
1.	Bank a/c (20,000x10) Dr To 10% Debenture Application a/c (Being application money received)		2,00,000	2,00,000
2.	10% Debentures Application a/c Dr To 10% Debentures a/c (20,000x10) (Being application money transferred to Debentures a/c)		2,00,000	2,00,000
3.	10% Debenture Allotment a/c Dr To 10% Debentures a/c 20,000x40 (Being allotment money due)		8,00,000	8,00,000
4.	Bank a/c (20,000x40) Dr To 10% Debentures Allotment a/c (Being allotment money received)		8,00,000	8,00,000
5.	10% Debentures First & Final call a/c Dr To 10% Debentures a/c (20,000x50) (Being First & Final call money due)		10,00,000	10,00,000
6.	Bank a/c (20,000x50) Dr To 10% Debentures First & Final call a/c (Being First & Final Call money received)		10,00,000	10,00,000

23. Following Information is related to Akash Ltd.,

Particulars	Rs
Revenue from operations	5, 00,000
Purchases	3, 00,000
Salary	10,000
Depreciation	8,000
Interest on loan	5,000
Income tax	54,000

Prepare statement of profit or loss for the year ended 31.03.2017 as per Schedule III of Company Act 2013.

Ans:

As per Schedule III of Companies Act 2013

Statement of Profit and Loss for the year ending March 31,2017

Particulars	Note No	Amount (Rs)
I. Revenue from operations		5,00,000
II. Other Income		-
III. Total Revenue		5,00,000
IV. Expenses:		
Purchases of Stock in trade		3,00,000
Employee's Benefit Expenses		10,000
Financial Cost		5,000
Depreciation and Amortization		8,000
Total Expenses		3,23,000
V. Profit before tax [iii-iv]		1,77,000
VI. Tax		54,000
VII. Profit After Tax		1,23,000

24. Calculate Current ratio and Quick ratio from the following information:

Particulars	Rs
Trade receivables	50,000
Inventory	30,000
Prepaid expenses	5,000
Cash	25,000
Creditors	60,000
Bank overdraft	5,000
Bills payable	25,000

Ans: i- Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{1,10,000}{90,000} = 1.22:1$

ii- Quick Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{75,000}{90,000} = 0.83:1$

Working Notes:

Current Assets	Amount(Rs)	Current Liabilities	Amount(Rs)
T/R	50,000	Creditors	60,000
Inventory	30,000	Bank overdraft	5,000
Prepaid expense	5,000	Bills payable	25,000
Cash	25,000		
	1,10,000		90,000

Quick Assets = Current. Assets - Inventory – Prepaid expense
 = 1,10,000 – 30,000 – 5,000
 = 75,000

25. The following is the statement of Profit and loss of Moon Ltd.,
 Statement of Profit or loss for the year ended 31.03.2017.

Particulars	Note	Rs
I. Revenue from operations		8,00,000
II. Expenses:		
Cost of materials consumed		1,00,000
Purchases		4,00,000
Other expenses		2,00,000
III. Total expenses		7,00,000
IV. Profit before tax(PBT)		1,00,000

Additional Information :

- Trade receivable decreased by Rs. 20,000 during the year.
- Prepaid expenses increased by Rs. 4,000 during the year.
- Trade payable increased by Rs.10,000 during the year.
- Outstanding expenses increased by Rs.1,000 during the year.
- Other expenses includes depreciation Rs.20,000.

Compute Net cash flow from operations for the year ended 31.03.2017 by Indirect method.

Ans: Computation of cash flow from operating activities for the year ending 31.03.17

Particulars	Amount(Rs)
Cash flow from operating activities;	
Net Profit Before Tax and Extraordinary items	8,00,000
Adjustments for non-cash & non-operating items:	
Depreciation	<u>20,000</u>
Operating profit before working capital changes	8,20,000
Adjustment for working capital changes;	
a) Decrease in Trade Receivable	20,000
b) Increase in Prepaid expenses	(4,000)
c) Increase in Trade payable	10,000
d) Increase in o/s expenses	1,000
Net cash from Operating Activities	8,47,000

SECTION –D

Answer any four questions. Each question carries 12 marks. 4x12=48

26. The following is the Balance Sheet and Receipts and payments account of Karawali Sports club, Karwar

Balance Sheet as on 01.04.2017.

Liabilities	Rs	Assets	Rs
Outstanding Salary	5,000	Cash at Bank	15,000
Capital Fund	64,000	Outstanding subscription	2,000
		Sports material	30,000
		Furniture	22,000
	69,000		69,000

Receipts and payments account for the year ended 31.03.2018

Dr.		Cr.	
Receipts	Rs	Payments	Rs
To Balance b/d	15,000	By Salary	22,000
To Subscription	70,000	By Purchase of sports material	10,000
To Entrance fee	10,000	By Investment	30,000
To Sale of old Sports Mat	2,000	By Fixed deposit	20,000
To Sale of old Newspaper	800	By Postage	1,500
To Rent	15,000	By Lighting Charges	2,000
		By Bal c/d	27,300
	1,12,800		1,12,800

Adjustments:

- Subscription outstanding for the year 2017-18 is Rs.5,000
- Subscription received in advance for 2018-19 Rs. 2,000
- Depreciate sports materials by Rs.8,000
- Outstanding salary for 2017-18 Rs.4,000
- Capitalize $\frac{1}{2}$ of the entrance fees.

Prepare:

- i) Income and Expenditure account for the year ended 31.03.2018
- ii) Balance Sheet as on 31.03.2018.

Ans: In the Books of Karavali Sports Club, Karwar

- i. Income and Expenditure Account for the year ending March 31.2018

Dr**Cr**

Expenditure[R.E]	Amount(Rs)	Income[R R]	Amount(Rs)
To Salary 22,000		By Subscriptions 70,000	
Less: Prev. year o/s (5,000)		Add:c.year.o/s 5,000	
Add: C.year.o/s 4,000	21,000	Less:c.y recd.in adv 2,000)	
To Postage 1,500		Less: Prev.y o/s (2,000)	71,000
To Lighting charges 2,000		By Entrance fees[Half]	5,000
To Depreciation on sports Mtls 8,000		By Sale of old sports Mtls	2,000
To Surplus(I-E) 61,300		By Sale of old newspaper	800
		By Rent	15,000
	93,800		93,800

ii. Balance Sheet as on March 31, 2018

Liabilities[C. R]	Amount (Rs)	Assets [C E]	Amount (Rs)
Subscription received in adv	2,000	Cash at Bank	27,300
O/s salary	4,000	O/s subscription	5,000
Capital Fund;		Sports Materials 30,000	
Opening 64,000		Add: Purchases 10,000	
Add: Entrances fees[Half] 5,000		Less: Depreciation (8,000)	32,000
Add: Surplus <u>61,300</u>	1,30,300	Furniture	22,000
		Investment	30,000
		Fixed Deposit	20,000
	1,36,300		1,36,300

27. Anand & Vinod are partners in a firm, sharing Profit and Losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets	Rs
Creditors	15,000	Cash at Bank	10,000
Bills payable	10,000	Debtors	30,000
Reserve	5,000	Less:PDD	3,000
Capital:		Stock	43,000
Anand	1, 00,000	Building	80,000
Vinod	<u>80,000</u>	Furniture	<u>50,000</u>
	<u>2,10,000</u>		<u>2,10,000</u>

On 01.04.2017 Pramod admitted into partnership on the following terms:

- He should bring Rs 50,000 as capital and Rs 20,000 towards goodwill for 1/5 share of profits in future.
- Depreciate furniture at 10% p.a. and appreciate building by 20% p.a.
- Provision for doubtful debts increased by Rs 3,000
- Goodwill is to be withdrawn by the old partners

Prepare:

- Revaluation account
- Partners capital account.
- Balance Sheet of the firm after admission.

Ans:

In the Books of Anand & Vinod

Dr.

i.Revaluation Account

Cr.

Particulars	Amount(Rs)	Particulars	Amount(Rs)
To Furniture (50,000x10/100)	5,000	By Building (80,000x20/100)	16,000
To PBD	3,000		
To Partners' Capital a/cs (Profits transferred)			
Anand	4800		
Vinod	3200		
	16,000		16,000

Dr.

ii.Partners' Capital Accounts

Cr.

Particulars	Anand (Rs)	Vinod (Rs)	Pramod (Rs)	Particulars	Anand (Rs)	Vinod (Rs)	Pramod (Rs)
To Bank a/c (G/w withdrawn)	12000	8000		By Balance b/d	100000	80000	-
				By Reserve	3000	2000	
				By Revaluation a/c	4800	3200	-
				By Bank a/c	-	-	50000
To Bal c/d	107800	85200	50000	By Goodwill a/c	12000	8000	-
	119800	93200	50000		119800	93200	5000
				By Balance b/d	107800	85200	50000

iii.Balance Sheet of Anand,Vinod and Pramod as on April,01.2017

Liabilities	Amount(Rs)	Assets	Amount(Rs)
Creditors	15,000	Cash at Bank	60,000
Bills Payable	10,000	[10,000+50,000+20,000-12,000- 8,000]	
Capitals		Debtors	30,000
Anand 1,07,800		Less: PBD[3000+3000]	<u>6,000</u>
Vinod 85,200		Stock	43,000
Pramod 50,000	2,43,000	Building	80,000
		Add: Appreciation	<u>16,000</u>
		Furniture	50,000
		Less: Depreciation	5,000
	2,68,000		2,68,000

28. Vinay, Vaibhav and Naveen are partners in a firm, sharing Profits and Losses in the ratio of 3:2:1 respectively. Their Balance Sheet as on 31.03.2018 was as under.

Balance Sheet as on 31.03.2018

Liabilities	Rs	Assets	Rs
Creditors	40,000	Cash at Bank	15,000
Bills payable	10,000	Debtors	50,000
Naveen's loan	12,000	Stock	60,000
General Reserve	6,000	Furniture	28,000
Capital:		Machinery	45,000
Vinay	80,000	Building	50,000
Vaibhav	60,000		
Naveen	40,000		
	2,48,000		2,48,000

The firm was dissolved on the above date. The assets realized as under:

- a) Debtors realized 10% less than book value, stock realized 15% more than book value.
Building realized Rs.60,000
- b) Creditors and Bills payable were paid in full.
- c) Furniture was taken over by Vinay for Rs.25,000
- d) Machinery was taken over by Vaibhav for Rs.40,000
- e) Cost of dissolution amounted to Rs.3,000

Prepare:

- i) Realization account ii) Partners' capital accounts iii) Bank account.

Ans: In the Books of Vinay, Vaibhav and Naveen

Dr		i. Realization Account	Cr	
Particulars	Amount(Rs)	Particulars	Amount(Rs)	
To Debtors	50,000	By Creditors	40,000	
To Stock	60,000	By Bills Payable	10,000	
To Furniture	28,000	By Bank A/c;		
To Machinery	45,000	(Assets realized)		
To Building	50,000	Debtors 45,000		
To Bank A/c;		Stock 69,000		
(Liabilities Paid)		Building <u>60,000</u>	1,74,000	
Creditors 40,000		By Vinay's capital A/c	25,000	
B/P 10,000	50,000	(Furniture taken over)		
To Bank a/c		By Vaibhav's capital A/c	40,000	
(Expenses paid)	3,000	(Machinery taken over)		
To Partners' capital a/cs				
(Profits transferred)				
Vinay 1,500				
Vaibhav 1,000				
Naveen 500	3,000			
	2,89,000		2,89,000	

Dr				ii. Partners' Capital Accounts				Cr			
Particulars	Vinay (Rs)	Vaibhav (Rs)	Naveen (Rs)	Particulars	Vinay (Rs)	Vaibhav (Rs)	Naveen (Rs)				
To Realization a/c (assets taken over)	25000	40000	-	By Balance b/d	80000	60000	4000				
To Bank a/c	59500	23000	41500	By Realization a/c (profits)	1500	1000	500				
				By G.Reserve	3000	2000	1000				
	84,500	63,000	41,500		84,500	63,000	41,500				

Dr.		iii. Bank Account		Cr	
Particulars	Amount(Rs)	Particulars	Amount(Rs)		
To Balance b/d	15,000	By Realization a/c (Liabilities paid)	50,000		
To Realization a/c (Assets realized)	1,74,000	By Realization a/c (Expense paid)	3,000		
		By Naveen's Loan a/c	12,000		
		By Vinay Capital a/c	59,500		
		By Vaibhav's Capital a/c	23,000		
		By Naveen's Capital a/c	41,500		
	1,89,000		1,89,000		

29. Murdeshwar Tiles Ltd., issued 50,000 equity shares of Rs 10 each at a premium of Rs 2 per share. The amount payable was as under:

Rs 2 on application , Rs 6 on allotment (including premium)

Rs 4 on First and final call.

All the shares were subscribed and the money was duly received except first and final call on 5000 shares. The Directors forfeited these shares and reissued them as fully paid up at Rs 7 per share.

Pass the journal entries regarding issue, forfeiture and re-issue of forfeited shares.

Ans: Journal Entries in the Books of Murdeshwar Tiles Ltd.

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
1.	Bank a/c Dr To Equity Share Application a/c 50,000x2 (Being Application money received)		1,00,000	1,00,000
2	Equity Share Application a/c Dr To Equity Share Capital a/c (Being Application Money transferred)		1,00,000	1,00,000
3	Equity Share Allotment a/c 50,000x6 Dr To Equity Share Capital a/c 50,000x4 To Security premium reserve a/c 50,000x2 (Being Allot money due including premium)		3,00,000	2,00,000 1,00,000
4	Bank a/c Dr To Equity Share Allotment a/c 50,000x6 (Being allotment money received)		3,00,000	3,00,000
5	Equity Share First and Final call a/c Dr To Equity Share Capital a/c 50,000x4 (Being First & Final call money due)		2,00,000	2,00,000
6	Bank a/c 45,000x4 Dr To Equity Share First and Final Call a/c (Being First & Final call money received)		1,80,000	1,80,000
7	Equity Share Capital a/c 5000x10 Dr To Share Forfeiture a/c 5000x6 To Equity Share First & Final call a/c 5000x4 (Being Forfeiture of 5000 shares for non payment of First & Final call money)		50,000	30,000 20,000
8	Bank a/c 5000x7 Dr Share forfeiture a/c 5000x3 Dr To Equity Share Capital 5000x10 (Being Re-issue of forfeited shares)		35,000 15,000	50,000
9	Share forfeiture a/c [30,000-15,000] Dr To Capital Reserve a/c (Being Share forfeiture a/c balance transferred)		15,000	15,000

30. Sahyadri Ltd., issued 5000, 12% Debentures of Rs 100 each on 01.04.2017 at a discount of 10% redeemable at a premium of 10%

Give journal entries relating to the issue of debentures and debenture interest for the year ending 31.03.2018 assuming that interest was paid half yearly on 30th September and 31st March. Tax deducted at source is 10%.

Ans:

Journal Entries in the Books of Sahyadri Ltd.

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
01.04.17	Bank a/c 5000x90 Dr To 12% Debentures Appln & Allotment a/c (Being Debenture application money received)		4,50,000	4,50,000
01.04.17	12% Debn Appln & Allot a/c 5000x90 Dr Loss on issue of debn a/c 5000x10+5000x10 To 12% Debentures a/c 5000x100 To Premium on Red. of Debn a/c 5000x10 Dr (Being Deben Appln money transferred to debentures a/c)		4,50,000 1,00,000	5,00,000 50,000
30.09.17	Debn Interest a/c 500,000x12/100x6/12 Dr To 12% Debentureholders a/c To Income Tax payable a/c[30,000x10/100] (Being interest due for 6 months & TDS)		30,000	27,000 3,000
30.09.17	12% Debentureholders a/c Dr To Bank a/c (Being payment of Interest)		27,000	27,000
30.09.17	Income Tax Payable a/c Dr To Bank a/c (Being TDS paid)		3,000	3,000
31.03.18	Debn. Interest a/c 500,000x12/100x6/12 Dr To 12% Debentureholders a/c To Income Tax payable a/c 30,000x10/100 (Being interest due for 6 months & TDS)		30,000	27,000 3,000
31.03.18	12% Debentureholders a/c Dr To Bank a/c (Being payment of Interest)		27,000	27,000
31.03.18	Income Tax Payable a/c Dr To Bank a/c (Being TDS paid)		3,000	3,000
31.03.18	Statement of Profit and Loss a/c Dr To Debenture Interest a/c (Being debentures interest transferred to statement of Profit and Loss 30,000+30,000)		60,000	60,000

31. The following are the Balance Sheet of Samudra Ltd., as on 31.03.2017 and 31.03.2018.

Particulars	31.03.2017 (Rs)	31.03.2018 (Rs)
I. Equity and Liabilities:		
Share Capital	8,00,000	10,00,000
General Reserve	1,00,000	1,20,000
Secured loan	30,000	20,000
Current liabilities	1,00,000	1,60,000
Total	10,30,000	13,00,000
II. Assets		
Building	4,00,000	5,00,000
Non current investment	3,00,000	4,00,000
Stock	2,00,000	1,80,000
Trade receivable	1,30,000	2,20,000
Total	10, 30,000	13, 00,000

Prepare Comparative Balance Sheet.

Ans: Samudra Ltd.

Comparative Balance Sheet as on 31.03.2017 & 31.03.2018

Particulars	31.03.2017 (Rs)	31.03.2018 (Rs)	Absolute Change(Rs)	Percentage change(%)
I. Equity and Liabilities				
1. Shareholders fund				
a) Share capital	8,00,000	10,00,000	2,00,000	25
b) Reserve & Surplus	1,00,000	1,20,000	20,000	20
2. Non-Current Liabilities;				
Long term Loans (Secured loan)	30,000	20,000	(10,000)	(33.33)
3. Current Liabilities	1,00,000	1,60,000	60,000	60
Total	10,30,000	13,00,000	2,70,000	26.21
II. Assets				
1. Non Current Assets				
a) Fixed Assets	4,00,000	5,00,000	1,00,000	25
b) Non-current Investment	3,00,000	4,00,000	1,00,000	33.33
2. Current Assets				
a) Inventory	2,00,000	1,80,000	(20,000)	(10)
b) Trade Receivable	1,30,000	2,20,000	90,000	69.23
Total	10,30,000	13,00,000	2,70,000	26.21

32. The following are the summarized Profit and Loss a/c for the year ended 31.03.2018 and Balance Sheet as on that date.

Trading and Profit and loss a/c for the year ended 31.03.2018.

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Opening Stock	40,000	By Sales	4,00,000
To Purchases	2,10,000	By Closing stock	50,000
To Gross profit	2,00,000		
	4,50,000		4,50,000
To Administrative expenses	50,000	By Gross profit	2,00,000
To Interest	30,000		
To Selling expenses	40,000		
To Net profit	80,000		
	2,00,000		2,00,000

Balance Sheet as on 31.03.2018

Liabilities	Rs	Assets	Rs
Capital	4,00,000	Land and Building	2,00,000
Profit and loss a/c	1,00,000	Plant and Machinery	1,00,000
Creditors	80,000	Furniture	1,00,000
Bills payable	60,000	Stock	50,000
		Debtors	60,000
		Bills Receivable	50,000
		Cash at bank	80,000
	6,40,000		6,40,000

Calculate:

- a) Inventory turnover ratio
- b) Trade receivable turnover ratio
- c) Trade payable turnover ratio
- d) Gross profit ratio
- e) Net profit ratio
- f) Operating ratio

Ans:

Calculation of Accounting Ratios

$$\text{a) Inventory turnover ratio} = \frac{\text{Cost of revenue from operations}}{\text{Average inventory}} = \frac{200000}{45000} = 4.44 \text{ times}$$

$$\begin{aligned} \text{Cost of revenue from operations} &= \text{Revenue from operations} - \text{gross profit} \\ &= 4,00,000 - 2,00,000 = 2,00,000 \end{aligned}$$

$$\text{Average Inventory} = \frac{\text{Op.Inventory} + \text{Cl.Inventory}}{2} = \frac{40000 + 50000}{2} = 45000$$

$$\text{b) Trade receivable turnover ratio} =$$

$$\frac{\text{Net credit revenue from operations}}{\text{Average trade receivable}} = \frac{400000}{110000} = 3.636 \text{ times}$$

Note: Assumed total sales as credit sales & Cl.Trade receivable as Average Trade receivable

$$\text{c) Trade payable turnover ratio} = \frac{\text{Net Credit purchases}}{\text{Average trade payable}} = \frac{210000}{140000} = 1.5 \text{ times}$$

Note: Total purchases assumed as credit purchases. Closing trade payable is assumed as average trade payable.

$$\text{d) Gross profit ratio} = \frac{\text{Gross profit} \times 100}{\text{Revenue from operations}} = \frac{200000 \times 100}{400000} = 50\%$$

$$\text{e) Net profit ratio} = \frac{\text{Net profit} \times 100}{\text{Revenue from operations}} = \frac{80000 \times 100}{400000} = 20\%$$

$$\text{f) Operating ratio} = \frac{\text{Operating Cost} \times 100}{\text{Revenue from operation}} = \frac{290000 \times 100}{400000} = 72.5\%$$

$$\begin{aligned} \text{Operating cost} &= \text{Cost of revenue from operations} + \text{operating expenses} \\ &= 200000 + (50000 + 40000) = 290000 \end{aligned}$$

SECTION –E
(Practical Oriented Questions)

Answer any two questions. Each question carries 5 marks.

2x5=10

33) How do you treat the following in the absence of partnership deed?

- a) Sharing of profit
- b) Interest on capital
- c) Interest on drawings
- d) Interest on advances from partners
- e) Remuneration to partners for firms work

Ans: a) **Equally** b) **Not allowed** c) **Not charged** d) **Allowed at 6% p.a.**
e) **Not Allowed**

34. Write the pro-forma of Balance Sheet of a company with main heads only.

Ans: **In the Books of X company Ltd.**

Balance Sheet as on March 31.2018

Particulars	Note No	Amount(Rs)
I. Equity and Liabilities		
1. Shareholders Fund		XXX
2. Share Application Money pending allotment		XXX
3. Non-Current liabilities		XXX
4. Current Liabilities		XXX
Total		<u>XXX</u>
II. Assets		
1. Non-current Assets		XXX
2. Current Assets		XXX
Total		XXX

35. Write the pro-forma of Cash Flows from operating activities under Direct Method.

Ans: **Cash Flow from operating Activities (Direct Method)**

Cash flows from operating activities:	Rs
Cash receipts from cutomers	xxx
(-) Cah paid to suppliers and employees	<u>(xxx)</u>
Cash generated from operations	xxx
(-) Income tax paid	<u>(xxx)</u>
Cash flow before extraordinary items	xxx
+/- Extraordinary items	<u>xxx</u>
Net cash from operating activities	xxx