MOCK – 1

Time Allowed: 3 Hrs. **Maximum Marks: 80**

General Instructions:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. Part – A & Part – B is compulsory for all candidates.
4. Question 1 to 16 and 27 to 30 carries 1 mark each.
5. Questions 17 to 20, 31and 32 carries 3 marks each.
6. Questions from 21, 22 and 33 carries 4 marks each
7. Questions from 23 to 26 and 34 carries 6 marks each
8. There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.

PART – A
(Accounting for Partnership Firms and Companies)

Q.1 **A and B are partners sharing profits in the ratio of 7 : 3. C is admitted as a new partner. 'A' surrenders 1/7 of his share and 'B' surrenders 1/3rd of his share in favour of C. the new profit sharing ratio will be:**

(a) 6 : 2 : 2 **(b) 4 : 1 : 1** **(c) 3 : 2 : 2** **(d) None**

Ans. (a) 6 : 2 : 2

Q.2 **Given below are two statements one labelled as Assertion (A) and the other labelled as Reason (R)**

Assertion (A): Co-ownership of property amounts to partnership.

Reason (R): The element of business is present in co-ownership.

In the context of the above two statements which of the following is correct?

(a) Both (A) and (R) are correct and (R) is correct reason for (A)

(b) Both (A) and (R) are incorrect.

(c) (A) is correct but (R) is incorrect.

(d) Both (A) and (R) are correct but (R) is not the correct reason for (A).

Ans. (b) Both (A) and (R) are incorrect.

Q.3 **Minimum number of members in case of public company is ________.**

(a) 4 **(b) 5** **(c) 7** **(d) 6**

Ans. (c) 7

OR

A company issued 1,000 12% debentures of ₹100 each at 10% premium, 12% stand for:

(a) Rate of Dividend **(b) Rate of Tax**

(c) Rate of Interest **(d) None of these**

Ans. (c) Rate of Interest

Q.4 **A, B and C were partners sharing profits and losses in the ratio of 7:3:2. From 1st April, 2022 they decided to share profits and losses in the ratio of 8:4:3. General reserve appear in the books at ₹1,20,000 which they decided to continue in books as it is. The Adjustment entry for this will be:**

(a) Cr. A by ₹6,000, Dr. B by ₹2,000; Dr. C by ₹4,000

(b) Dr. A by ₹6,000; Cr. B by ₹2,000, Cr. C by ₹4000

(c) Cr. A by ₹6,000; Dr. B by ₹4,000; Dr. C by ₹2,000

(d) Dr. A by ₹6,000; Cr. B by ₹4,000; Cr. C by ₹2,000,

Ans. (a) **Cr. A by ₹6,000, Dr. B by ₹2,000; Dr. C by ₹4,000**

OR

A and B are partners sharing profits and losses in the ratio of 4: 1. C was a manager who received the salary of ₹2,000 p.m. in addition to a commission of 5% on net profits after charging such commission. Profits for the year is ₹3,39,000 before charging salary. Find total remuneration of C:

(a) ₹39,000 **(b) ₹44,000** **(c) ₹43,500** **(d) ₹38,000**

Ans. (a) ₹39,000

Q.5 **A and B are partners having capital of ₹50,000 and ₹60,000 respectively. Interest on capital is given @ 5% p.a. Profits for the year before appropriation is ₹4,600 provide interest on capital out of profits. Interest allocated to partners is.**

(a) ₹3,000 and ₹2,500 **(b) ₹2,090 and ₹2,509**

(c) ₹2,500 and ₹2,091 **(d) ₹600 and ₹300**

Ans. (b) ₹2,090 and ₹2,509

Q.6 **ABC Ltd. issues 10,000 9% debentures of ₹100 each at a premium of 5% payable at a premium of 10%, the loss on issue of debentures account will be debited by:**

(a) ₹10,00,000 **(b) ₹1,00,000** **(c) 10,50,000** **(d) ₹1,05,000**

Ans. (b) ₹1,00,000

OR

XYZ Ltd. issues 20,000 12% debentures of ₹100 each at a discount of 5% repayable at a premium of 10%, the loss on issue of debentures account will be debited by:

(a) ₹1,00,000 **(b) ₹3,00,000** **(c) 5,50,000** **(d) ₹1,05,000**

Ans. (b) ₹3,00,000

Q.7 **Ceilo Ltd, invited applications for 28,000 shares. Applications for 35,000 shares are received. The company rejected 5,000 shares and gave full allotment to applicants of 8,000 shares, and prorata allotment was given to rest of the applicants in the ratio:**

(a) 6 : 5 (b) 11 : 10 (c) 8 : 3 (d) 9 : 8

Ans. (b) 11 : 10

Q.8 A, B, C are partners sharing profits in the ratio of 2:2:1. A's capital is ₹50,000, B's Capital ₹70,000 and C ₹35000. B retires from the firm and balance in reserve on the date was ₹25,000. If goodwill of the firm was ₹30,000 and profit on revaluation was ₹7,500 then amount payable to B is

(a) ₹70,820 (b) ₹76,000 (c) ₹75,000 (d) ₹95,000

Ans. (d) ₹95,000

OR

In absence of any agreement, partners are liable to receive interest on loans at the rate of :

(a) 12% Simple Interest
(b) 6% Compounded Annually
(c) 6% Simple Interest
(d) 6% p.a. Simple Interest

Ans. (d) 6% p.a. Simple Interest

Read the following hypothetical situation, Answer Question No. 9 and 10

Raju and Shyam are partners in a clay toys making firm. Their capitals were ₹10,00,000 and ₹ 20,00,000 respectively. The firm allowed Raju to get a commission of 10% on the net profit before charging any commission and Shyam to get a commission of 10% on the net profit after charging all commission. Following is the Profit and Loss Appropriation Account for the year ended 31st March 2022.

Profit and Loss Appropriation Account for the year ended 31st March 2022

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raju's Capital A/c (Commission) (________ × 10/100)	66,000	By Profit & Loss A/c	—
To Shyam's Capital A/c	—		
To Profit Share Transferred :			
Raju's Capital A/c	—		
Shyam's Capital A/c	—		

Q.9 **Shyam's Commission will be**

(a) ₹54,000 **(b) ₹60,000** **(c) ₹55,000** **(d) 50,000**

Ans. (a) ₹54,000

Q.10 **Raju's Share of Profit will be:**

(a) ₹2,00,000 **(b) ₹2,70,000** **(c) ₹2,50,000** **(d) ₹3,00,000**

Ans. (b) ₹2,70,000

Q.11 **Choose the correct sequence of the following transactions in context of Division of Profits.**

(i) Guarantee by Firm to Partners

(ii) Guarantee by Partners to Firm

(iii) Transfer of Profits to Profit and Loss Appropriation Account

(iv) Guarantee by Partner to Partner

(a) (i); (iii) ; (iv) ; (ii) **(b) (iii); (i) ; (ii) ; (iv)**

(c) (iii) ; (ii) ; (i); (iv) **(d) (ii); (iii); (iv); (i)**

Ans. (c) (iii) ; (ii) ; (i); (iv)

Q.12 **Vanya Ltd. forfeited 20,000 equity shares of ₹100 each for non-payment of first and final call of ₹40 per share. The maximum amount of discount at which these shares can be re-issued will be:**

(a) ₹8,00,000 **(b) ₹12,00,000** **(c) 20,00,000** **(d) ₹20,000**

Ans. (b) ₹12,00,000

Q.13 **The capital of a company is divided into units of small amount called:**

(a) Shares **(b) Debentures** **(c) Bonds** **(d) None of these**

Ans. (a) Shares

Q.14 **A, B and C are partners in a firm sharing profits in the ratio 2:2:1. C is guaranteed a minimum profit of ₹40,000 by A. Profit for the year amounted to ₹1,60,000. The profit credited to each partner will be**

(a) ₹40,000; ₹80,000; ₹40,000 **(b) ₹56,000; ₹64,000; ₹40,000**

(c) ₹64,000; ₹64,000; ₹32,000 **(d) ₹60,000; ₹60,000; ₹40,000**

Ans. (b) ₹56,000; ₹64,000; ₹40,000

Q.15 **Suraj, Gulab and Kamal are partners in a firm. They have no agreement in respect of profit sharing ratio and interest on capital. Suraj who has**

contributed maximum capital demands interest on capital @ 10% p.a. and the share of profit in the capital ratio. But Gulab and Kamal do not agree. In that case how shall you settle the case?

(a) Interest on capital will be payable @ 10% p.a. and share in profits distributed equally.

(b) Interest on capital will be payable @ 6% p.a. and share in profits distributed equally.

(c) Interest on capital will be payable @ 6% p.a. and share in profits distributed in capital ratio.

(d) No interest on capital will be payable and share in profits distributed equally.

Ans. (d) No interest on capital will be payable and share in profits distributed equally.

Hint:

No interest on capital will be payable in absence of partnership deed.

OR

When drawing are made at the end of every month of certain amount, the interest will be calculated on total drawings for:

(a) 6½ months **(b) 6 months** **(c) 1 months** **(d) 5½ months**

Ans. (d) 5½ months

Q.16 **The Balance Sheet of a firm under dissolution shows Debtors at ₹60,000 and Provision for doubtful debts at ₹2,500. If Debtors of ₹10,000 proved bad and remaining realised 90% of its value, the amount to be credited to Realisation will be:**

(a) ₹54,000 **(b) ₹42,750** **(c) ₹48,000** **(d) ₹45,000**

Ans. (d) ₹45,000

Q.17 **A, B and C are equal partners in a firm whose books are closed on March 31st each year. A died on 30th June 2022 and according to the agreement the share of profits of a deceased partner up to the date of the death is to be calculated on the basis of the average profits for the last five years. The net profits for the last 5 years have been: 2017-18 – ₹14,000; 2018-19 – ₹18,000: 2019-20 – ₹16,000, 2020-21 – ₹10,000 (loss) and 2021-22 – ₹16,000, Calculate A's share of the profits upto the date of death and pass necessary Journal entry if:**

Case 1: B and C decided not to change in their future profit sharing ratio.

Case 2: B and C decided to share future profit in the ratio of 3:2

Ans. Average profit of the last 5 years $= \frac{14{,}000 + 18{,}000 + 16{,}000 + 16{,}000 - 10{,}000}{5}$

$$= \frac{54{,}000}{5} = 10{,}800$$

A's share of profit $= 10{,}800 \times \frac{3}{12} \times \frac{1}{3} = 900$

Case – 1:

JOURNAL

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	Profit and Loss Suspense A/c Dr. To A's Capital A/c (For A's share of profits transferred to profit and loss suspense a/c)		900	 900

Case – 2:

JOURNAL

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	B's Capital A/c Dr. C's Capital A/c Dr. To A's Capital A/c (For A's share of profits adjusted through gaining partner's capital a/c)		720 180	 900

B's gain $= \frac{3}{5} - \frac{1}{3} = \frac{4}{15}$;

C's gain $= \frac{2}{5} - \frac{1}{3} = \frac{1}{15}$.

Q.18 **A, B and C were partners in a firm having capitals of ₹60,000, ₹60,000 and ₹80,000 respectively. Their current account balances were ₹10,000; ₹5,000 and ₹2,000 (Dr) respectively. According to the partnership deed, the partners were entitled to interest on capital @ 5% per annum. C being the working partner was also entitled to a salary of ₹6,000 per annum. The profits were to be divided, as follows**

(i) The first ₹20,000 in proportion to their capitals.

(ii) Next 30,000 in the ratio of 5:3:2.

(iii) Remaining profits to be shared equally.

The firm made a profit of ₹1,56,000 before charging any of the above items.

Prepare the profit and loss appropriation account and pass necessary journal entry for appropriation of profit.

Ans.

Profit and Loss Appropriation Account
for the year ended ....

Particulars		Amount (₹)	Particulars	Amount (₹)
To Interest on Capital			By Net Profit as per Profit and Loss A/c	1,56,000
A's Current A/c	3,000			
B's Current A/c	3,000			
C's Current A/c	4,000	10,000		
To Salary				
C's Current A/c		6,000		
To Profit Transferred to :				
A's Current A/c	51,000			
B's Current A/c	45,000			
C's Current A/c	44,000	1,40,000		
		1,56,000		1,56,000

JOURNAL

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	Profit and Loss Appropriation A/c	Dr.		1,40,000	
	To A's Current A/c				51,000
	To B's Current A/c				45,000
	To C's Current A/c				44,000
	(Being profit distributed among the partners)				

Working Note:

1. Capital Ratio of A, B and C = 60,000 : 60,000 : 80,000 i.e. 3 : 3 : 4

2.

Profit	Ratio	Amount in (₹)		
		A	B	C
20,000	3 : 3 : 4	6,000	6,000	8,000
30,000	5 : 3 : 2	15,000	9,000	6,000
90,000	1 : 1 : 1	30,000	30,000	30,000
1,40,000		51,000	45,000	44,000

OR

A, B and C were partners in a firm. On 1st April, 2020, their fixed capitals stood at ₹50,000; ₹25,000 and ₹25,000 respectively. As per the provisions of the partnership deed.

(i) A was entitled to a salary of ₹5,000 per annum.

(ii) All the partners were entitled to interest on capital at 5% per annum.

(iii) Profits were to be shared in the ratio of capitals.

The net profits for the year ending 31st March, 2021 of ₹33,000 and 31st March, 2022 of ₹45,000 were divided equally without providing for the above terms. Pass an adjustment journal entry to rectify the above error.

Ans.

Adjustment Table

Particulars	Amount in (₹)			Total
	A	B	C	
I. Amount Already Recorded				
Profit (1 : 1 : 1) 31st March, 2021	11,000	11,000	11,000	33,000
Profit (1 : 1 : 1) 31st March, 2022	15,000	15,000	15,000	45,000
	26,000	26,000	26,000	78,000
II. Amount which should have been Recorded				
Salary 31st March, 2021	5,000	—	—	5,000
Salary 31st March, 2022	5,000	—	—	5,000
Interest on capital 31st March, 2021	2,500	1,250	1,250	5,000
Interest on capital 31st March, 2022	2,500	1,250	1,250	5,000
Profits (Capital ratio i.e. 2 : 1 : 1) 31st March 2021	11,500	5,750	5,750	23,000
Profits (Capital ratio i.e. 2 : 1 : 1) 31st March 2022	17,500	8,750	8,750	35,000
	44,000	17,000	17,000	78,000
Net Effect (I – II)	18,000 (Cr)	9,000 (Dr)	9,000 (Dr)	NIL

JOURNAL

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	B's Current A/c Dr.		9,000	
	C's Current A/c Dr.		9,000	
	To A's Current A/c			18,000
	(Being interest on capital and salary not provided previously and profit distributed wrongly, now adjusted)			

Q.19 **Accounts Guru Ltd. purchased a machinery from Vikas Ltd. and the purchase consideration was paid as follows:**

(a) By issuing 2,000, 11% Debentures of ₹100 each at a discount of 10%

(b) Balance by giving a promissory note of ₹62,000 after 3 months.

Pass necessary journal entries for the purchase of machinery and payment to Vikas Ltd. in the books of Accounts Guru Ltd.

Ans.

JOURNAL

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	Machinery A/c Dr.		2,42,000	
	To Vikas Ltd.			2,42,000
	(Being machinery purchased from Vikas Ltd.)			
	Vikas Ltd. Dr.		1,80,000	
	Discount on Issue of Debentures A/c		20,000	
	To 8 % debentures of ₹100 each issued at			2,00,000
	(Being 1,000, 8% debentures of ₹100 each issued at 10% discount)			
	Vikas Ltd. Dr.		62,000	
	To Bills Payable A/c			62,000
	(Being balance payment made by giving three month's promissory note)			

Working Note:

The value of machinery purchased = ₹2,000 debentures @ ₹90 + ₹62,000 (B/P)

= ₹2,42,000

OR

(a) Jindal and Company purchased a machine from High Life Machine Limited for ₹3,80,000. As per purchase agreement, ₹20,000 were paid in cash and balance by issue of shares of ₹100 each. What will be the entries passed if the share are issued:

(i) At par (ii) At 20% premium

(b) 80,000 equity shares of ₹10 each issued to promoters for services rendered by them. Given journal entry.

Ans. **(a)** Number of shares will be calculated as follows:

(i) When shares issued at par = $\frac{3,60,000}{100}$ = 3,600 shares

(ii) When share issued at premium = $\frac{3,60,000}{120}$ = 3,000 shares

Books of Jindal and Company

JOURNAL

Date	**Particulars**	**L. F.**	**Amount (₹) Dr.**	**Amount (₹) Cr.**
	Machinery A/c Dr.		3,80,000	
	To Bank A/c			20,000
	To High Life Machine Limited			3,60,000
	(Machine purchased and ₹20,000 paid in cash and the balance paid by issue of share)			

(i) When share are issued at par

JOURNAL

Date	**Particulars**	**L. F.**	**Amount (₹) Dr.**	**Amount (₹) Cr.**
	High Life Machine Limited Dr.		3,60,000	
	To Share Capital A/c			3,60,000
	(3,600 share issued at ₹100 each)			

(ii) When share are issued at premium

JOURNAL

Date	Particulars	L. F.	Amount (₹) Dr.	Amount (₹) Cr.
	High Life Machine Limited Dr.		3,60,000	
	To Share Capital A/c			3,00,000
	To Securities Premium Reserve A/c			60,000
	(3,600 share issued at ₹120 per each)			

(b)

JOURNAL

Date	Particulars	L. F.	Amount (₹) Dr.	Amount (₹) Cr.
	Incorporation Cost A/c Dr.		8,00,000	
	To Equity Share Capital A/c			8,00,000
	(for shares issued to promoter for their services			

Q.20 The following were the profits of a firm for the last three years.

Year Ending	Profit (₹)
31st March 2020	**4,00,000 (including an abnormal gain of ₹50,000)**
31st March 2021	**5,00,000 (after charging an abnormal loss of ₹1,00,000)**
31st March 2022	**4,50,000 (excluding ₹50,000 payable on the insurance of plant and machinery)**

Calculate the value of firm's goodwill on the basis of two year purchase of the average profits for the last 3 years.

Ans. Calculation of Actual average profits:

Details	Amount in (₹)	
Profit for 2019-20	4,00,000	
Less: Abnormal Gain	(50,000)	3,50,000
Profit for 2020-21	5,00,000	
Add: Abnormal Loss	1,00,000	6,00,000
Profit for 2021-22	4,50,000	
Less: Insurance Premium	(50,000)	4,00,000

Total Profits		**13,50,000**

(i) Actual Average Profit = $\frac{\text{Total Profit}}{\text{No. of Years}} = \frac{13,50,000}{3}$ = 4,50,000

(ii) Value of Goodwill = Actual Average Profit × No. of years' purchase

= ₹4,50,000 × 2 = ₹9,00,000

Q.21 **Tractors India Ltd. is registered with an authorized capital of ₹10,00,000 divided into 1,00,000 equity shares of 10 each. The company issued 50,000 equity share at a premium of ₹5 per share. ₹2 per share were payable with application, ₹8 per share including premium on allotment and the balance amount on first and final call. The issue was fully subscribed and all the amount due was received except the first and final call money on 500 shares allotted to Balaram.**

Present the 'Share Capital' in the balance sheet of Tractors India Ltd. as per Schedule III Part 1 of the Companies Act, 2013. Also prepare notes to accounts for the same.

Ans.

Balance Sheet of Tractor India Ltd. (an extract)

Particulars	Note No.	Amount in (₹)	
		Current Year	Previous Year
I. EQUITY AND LIABILITIES			
1. Shareholder's Funds:			
(a) Share Capital	**1**	**4,97,500**	—

Notes to Accounts:

Particulars	Amount (₹)	Amount (₹)
I. Share Capital:		
Authorized Capital:		
1,00,000 Equity Shares of ₹10 each		10,00,000
Issued Capital:		
50,000 Equality Shares of ₹10 each		50,00,000
Subscribed Capital		
Subscribed and fully paid:		
49,500 Shares of ₹10 each	4,95,000	

Subscribed but not fully paid:			
500 Shares of ₹10 each	5,000		
Less: Calls in arrear (500 × ₹5)	(2,500)	2,500	4,97,500

Q.22 **L and M were partners sharing profits in the ratio of 2: 3. On 28-2-2022 the firm was dissolved. After transferring assets (other than cash) and outsider's liabilities to realisation account, you are given the following information:**

(a) A creditor for ₹1,40,000 accepted machinery valued at ₹1,80,000 and paid to the firm ₹40,000.

(b) A second creditor for ₹30,000 accepted machinery valued at ₹28,000 in full settlement of his claim.

(c) A third creditor amounting to ₹70,000 accepted ₹30,000 in cash and investment of the book value of ₹45,000 in full settlement of his claim.

(d) Loss on dissolution was ₹4,000.

Pass necessary journal entries for the above transactions in the books of the firm assuming that all payments were made by cheque.

Ans.

JOURNAL

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
(a)	Cash A/c	Dr.		40,000	
	To Realisation A/c				40,000
	(Being balance payment received from creditors)				
(b)	No Entry				
(c)	Realisation A/c	Dr.		30,000	
	To Cash A/c				30,000
	(Being amount paid to creditors)				
(d)	L's Capital A/c	Dr.		1,600	
	M's Capital A/c	Dr.		2,400	
	To Realisation A/c				4,000
	(Being loss distributed in partners)				

Q.23 **3000 equity shares of ₹10 each were forfeited for the non-payment of the allotment money of ₹4 per share. The first and final call of ₹2 per share were**

not made. The forfeited shares were issued for ₹8 per share fully paid. Pass the necessary journal entries in the books of the company.

Ans.

JOURNAL

Date	Particulars		L.F.	Amount (₹)	
				Dr.	Cr.
	Equity Share Capital A/c (3,000 × ₹8)	Dr.		24,000	
	To Equity Share Allotment A/c (3000 × ₹4)				12,000
	To Share Forfeited A/c (b/f)				12,000
	(For 3,000 share forfeited due to non-payment of allotment)				
	Bank A/c (3,000 × ₹8)	Dr.		24,000	
	Share Forfeited A/c (3,000 × ₹ 2)	Dr.		6,000	
	To Equity Share Capital A/c				30,000
	(for 3,000 forfeited share reissued at discount of ₹2 per share)				
	Share Forfeited A/c	Dr.		6,000	
	To Capital Reserve A/c				6,000
	(For profit on forfeited shares transferred to capital reserve)				

OR

The directors of a company forfeited 600 shares of ₹10 each issued at premium of ₹3 per share for the non-payment of the first call money of ₹3 per share and the final call of ₹2 per share has not been made. Half of the forfeited shares were reissued at ₹3,000 fully paid. Record the journal entries for the forfeiture and reissue of shares. The company maintains calls-in-arrears account.

Ans.

JOURNAL

Date	Particulars		L.F.	Amount (₹)	
				Dr.	Cr.
	Equity Share Capital A/c (600 × ₹8)	Dr.		4,800	
	To Calls-in-Arrears A/c (600 × ₹3)				1,800
	To Share Forfeited A/c (b/f)				3,000
	(For 600 share forfeited due to non-payment of first call)				

	Bank A/c Dr. To Equity Share Capital A/c (for 300 forfeited share reissued at par)		3,000	 3,000
	Share Forfeited A/c Dr. To Capital Reserve A/c (For profit on reissue of forfeited shares transferred to capital reserve i.e., 3,000 ÷ 600 × 300)		1,500	 1,500

Q.24 A and B were partners sharing profits and losses in the ratio of 3 : 2. Their balance Sheet as at 31st March, 2022, was as follows:

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

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital:			Cash		8,000
A	1,04,000		Sundry Debtors	37,600	
B	52,000	1,56,000	Less: P.B.D	1,600	36,000
Creditors		1,54,000	Stock		60,000
Employees' Provident Fund		16,000	Prepaid Insurance		6,000
Workmen			Plant and Machinery		76,000
Compensation Fund		10,000	Building		1,40,000
Contingency Reserve		10,000	furniture		20,000
		3,46,000			3,46,000

C was admitted as a new partner and brought ₹64,000 as capital and ₹15,000 for his share of goodwill premium. The new profit sharing ratio was 5:3:2 On C's admission the following was agreed upon:

(i) Stock was to be depreciated by 5%

(ii) Claim for Workmen Compensation is ₹10,000.

(iii) Provision for doubtful debts was to be made at ₹2,000.

(iv) Furniture was to be depreciated by 10%

(v) Building was valued at 1,60,000.

(vi) Capitals of A and B were to be adjusted on the basis of C's capital by bringing or paying of cash as the case may be.

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

Ans.

Revaluation Account

Particulars		Amount (₹)	Particulars	Amount (₹)
To Stock A/c		3,000	By Building A/c	20,000
To Provision for Bad & Doubtful Debts		400		
To Furniture A/c		2,000		
To Profit to :-				
A's Capital A/c	8,760			
B's Capital A/c	5,840	14,600		
		20,000		20,000

Partners' Capital Account

Particulars	Amount in (₹)			Particulars	Amount in (₹)		
	A	B	C		A	B	C
To A's Capital A/c	—	—	7,500	By Balance b/d	1,04,000	52,000	—
To B's Capital A/c	—	—	7,500	By Cash A/c	39,740	30,660	79,000
To Balance c/d	1,60,000	96,000	64,000	By C's Capital A/c	7,500	7,500	—
				By Revaluation A/c	8,760	5,840	—
	1,60,000	96,000	79,000		1,60,000	96,000	79,000

Balance Sheet

Particulars		Amount (₹)	Particulars		Amount (₹)
Capital A/c:			Cash		1,57,400
A's Capital A/c	1,60,000		Debtors	37,600	
B's Capital A/c	96,000		Less: P.F.B.D	2,000	35,600
C's Capital A/c	64,000	3,20,000	Stock	60,000	
Creditors		1,54,000	Less: Depreciation	3,000	57,000
Employees' Provident Fund		16,000	Prepaid Insurance		6,000
Workmen Compensation Fund		10,000	Plant & Machinery		76,000
Contingency Reserve		10,000	Building	1,40,000	
			Add: Appreciation	20,000	1,60,000
			Furniture	20,000	
			Less: Depreciation	2,000	18,000
		5,10,000			5,10,000

Cash Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	8,000	BY Balance c/d	1,57,400
To C's Capital A/c	79,000		
To A's Capital A/c	39,740		
To B's Capital A/c	30,660		
	1,57,400		1,57,400

Sacrifice Ratio = Old Ratio – New Ratio

$$A = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$B = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

$$C = \frac{2}{10} = \frac{1}{5} \text{ (Gain)}$$

Calculation of Capital

For $\frac{2}{10}$ share, C's Capital = ₹64,000

$$\text{Firm's Capital} = 64,000 \times \frac{10}{2} = 3,20,000$$

For $\frac{5}{10}$ share, A's Capital $= 3,20,000 \times \frac{5}{10} = 1,60,000$

For $\frac{3}{10}$ share, B's Capital $= \frac{3,20,000 \times 3}{10} =$ ₹96,000

OR

Amit, Balan and Chander were partners in a firm sharing profits in the proportion of $\frac{1}{2}, \frac{1}{3}$ and $\frac{1}{6}$ respectively. Chander retired on 1st April, 2014. The balance sheet of the firm on the date of Chander's retirement was a follows

Balance Sheet
as on 1st April, 2014

Liabilities	Amount	Assets	Amount

	(₹)		(₹)
Sundry Creditors	12,600	Bank	4,100
Provident Fund	3,000	Debtors 30,000	
General Reserve	9,000	Less: Pro. for Doubtful	
Capital A/cs		Debts (1,000)	29,000
Amit 40,000		Stock	25,000
Balan 36,500		Investments	10,000
Chander 20,000	96,500	Patents	5,000
		Machinery	48,000
	1,21,100		1,21,100

It was agreed that:

(i) Goodwill will be valued at ₹ 27,000.

(ii) Depreciation of 10% was to be provided on machinery.

(iii) Patents were to be reduced by 20%.

(iv) Liability on account of provident fund was estimated at ₹ 2,400.

(v) Chander took over investments for ₹ 15,800.

(vi) Amit and Balan decided to adjust their capitals in proportion of their profit sharing ratio by opening current accounts.

Prepare revaluation account and partners' capital accounts on Chander's retirement.

Ans.

Revaluation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	4,800	By Liability on Provident Fund	600
To Patent A/c	1,000	By Investment	5,800
To Profit Transferred to Capital A/c:			
Amit 300			
Balan 200			
Chander 100	600		
	6,400		6,400

Partner's Capital Account

Particulars	Amount in (₹)			Particulars	Amount in (₹)		
	Amit	Balan	Chander		Amit	Balan	Chander
To investment A/c	—	—	15,800	By Balance b/d	40,000	36,500	20,000
To Chander's Capital A/c	2,700	1,800	—	By Revaluation A/c (Profit)	300	200	100
To Chander's Loan A/c	—	—	10,300	By General Reserve	4,500	3,000	1,500
To Current A/c(B/f)	—	5,900	—	By Amit's Capital A/c	—	—	2,700
To Balance c/d	48,000	32,000	—	By Balan's Capital A/c	—	—	1,800
				By Current A/c (B/f)	5,900	—	—
	50,700	39,700	26,100		50,700	39,700	26,100

Working Notes:-

One major change in the constitution of a partnership firm may occur if a partner undergoes retirement from the firm or in the event of his death. In both cases, the partner's account will have to be settled, and new ratios will have to be calculated. There is also the issue of treatment of goodwill.

Adjustment for Goodwill

Chander's share in goodwill = $27{,}000 \times \frac{1}{6}$ = ₹ 4,500; to be contributed in gaining ratio i.e., 3 : 2

Amit will pay = $4{,}500 \times \frac{3}{5}$ = ₹ 2,700

Balan will pay = $4{,}500 \times \frac{2}{5}$ = ₹ 1,800

Adjustment for Capital

Combined Capital $\Longrightarrow$ Amit's adjusted capital = 42,100

Balan's adjusted Capital = 37,900

Total = 80,000

New profit sharing ratio = 3 : 2

Amit's new capital = $80{,}000 \times \frac{3}{5}$ = ₹ 48,000

Chander's new capital = $80{,}000 \times \frac{2}{5}$ = ₹ 32,000

Q.25 The following is the Balance Sheet of A, B and C as at 31st March, 2022

Balance Sheet

Liabilities		Amount (₹)	Assets	Amount (₹)
Sundry Creditors		4,500	Cash in Hand	300
Reserve Fund		4,800	Cash at Bank	7,500
Capital Accounts:			Stock	9,000
A	15,000		Debtors	9,000
B	7,500		Furniture	12,000
C	7,500	30,000	Tools	1,500
		39,300		39,300

'C died on 30th June 2022. Under the terms of Partnership Deed, the executors of the decreased partners were entitled to:

(i) Amount standing to the credit of partner's capital account.

(ii) Interest on Capital @6% per annum.

(iii) Share of Goodwill on the basis of twice the average of past three years profits.

(iv) Share of profit from the closing of last financial year to the date of death on the basis of last year's profit.

The profit of the last three years were as follows:

Year	Profit (₹)
2019 – 20	**9,000**
2020 – 21	**10,500**
2021 – 22	**12,000**

The firm closes its books on 31st March every year. The partners shared profits in the ratio of their capitals.

Prepare C's Capital Account to be presented to his executors.

Ans.

C's Capital A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To C's executors' A/c	14,812.50	By Balance b/d	7,500.00
		By Reserve fund	1,200.00
		By Interest on capital	112.50
		By Profit and Loss Suspense A/c	750.00
		By A's Capital A/c	3,500.00
		By B's Capital A/c	1750.00
	14,812.50		14,812.50

Working Notes:

1. Interest on Capital = ₹ $7,500 \times \frac{6}{100} \times \frac{3}{12}$ = ₹112.5

2. Average Profit = ₹ $\frac{9,000 + 10,500 + 12,000}{3} = \frac{31,500}{3}$ = ₹10,500

   Goodwill = 2 × ₹10,500 = ₹21,000

   C's share of goodwill = $\frac{21,000}{4}$ = ₹5,250

3. C's share of profit = ₹12,000 × $\frac{3}{12} \times \frac{1}{4}$ = ₹750

Q.26 Raghuveer Limited issued ₹10,00,000 8% debentures as follows:

(i) Sundry Subscriber for cash at 90% ₹5,50,000

(ii) Vendor of Machinery for ₹2,00,000 in satisfaction of his claim ₹2,00,000

(iii) Bankers as collateral security for a bank loan worth ₹20,00,000 (debentures issued ₹25,00,000)

The issue (i) and (ii) are redeemable after 5 years at 10% premium.

Pass necessary journal entries in the above cases

Ans.

JOURNAL

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.

	Bank A/c Dr. To 8% Debentures Application and Allotment A/c (Being money received on issue of debentures)		4,95,000	 4,95,000
(i)	8% Debentures Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being debentures allotted 10% discount, redeemable at 10% premium)		4,95,000 1,10,000	 5,50,000 55,000
(ii)	Machinery A/c Dr. To Vendor A/c (Being machinery purchased)		2,00,000	 2,00,000
	Vendor A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being 8% debentures issued at par for consideration other than cash, redeemable at a premium of 10%)		2,00,000 20,000	 2,00,000 20,000
(iii)	Bank A/c Dr. To Bank Loan A/c (Being loan taken from bank)		20,00,000	 20,00,000
	Debentures Suspense A/c Dr. To 8% Debentures A/c (Being 8% debenture issued as collateral security)		25,00,000	 25,00,000

PART – B
(Analysis of Financial Statements)

Q.27 Who among the following is not an external user of financial statement analysis?

(a) Shareholders (b) Debentureholders (c) Creditors (d) Management

Ans. (d) Management

OR

While computing Current Ratio, Current Assets does not include:

(a) Loose tools and Stores and Spares **(b) Provision for doubtful debts**

(c) Prepaid expenses **(d) Both (a) and (b)**

Ans. (d) Both (a) and (b)

Q.28 **Current ratio of a company is 3 : 1. The value of its current liabilities is ₹4,00,000. Its current assets will be**

(a) ₹3,00,000 **(b) ₹12,00,000** **(c) ₹2,00,000** **(d) ₹9,00,000**

Ans. (b) ₹12,00,000

Q.29 **Which of the following is not true about cash equivalent?**

(a) Liquid Short-term Investment

(b) Insignificant risk of change in value

(c) Maturity of 6 months or less than 6 months

(d) All the above

Ans. (b) Insignificant risk of change in value

OR

Cash flow statement is related to:

(a) AS-6 **(b) AS-3** **(c) AS-9** **(d) AS-12**

Ans. (b) AS-3

Q.30 **Salary paid ₹40,000, outstanding in the beginning of the year ₹5,000 and outstanding as the end of the year ₹10,000. Cash outflow on salary will be:**

(a) ₹45,000 **(b) ₹40,000** **(c) ₹55,000** **(d) ₹15,000**

Ans. (b) ₹40,000

Q.31 **State the major heading under which the following items will be put as per Schedule III, Part I of the companies Act, 2013:**

(a) Long term Investments **(b) Bills of Exchange;**

(c) Motor Car, **(d) Discount on Issue of shares;**

(e) Securities Premium Reserve and **(f) Unclaimed Dividend**

Ans.

S. No.	Items	Major Headings
(i)	Long term Investments	Non-current Assets
(ii)	Bills of Exchange	Current Assets
(iii)	Motor Car	Non-current Assets
(iv)	Discount on Issue of shares	Assets/Current Assets*
(v)	Securities Premium Reserve	Shareholders' Funds

(vi)	Unclaimed Dividend	Current Liabilities

Note: Discount on Issue of shares' be shown under the head 'Other Current Assets/Other Non-current Assets' depending on whether the amount will be amortised in next 12 months or thereafter.

Q.32 What are the Objectives of Ratio Analyses?

Ans. To find the areas which are weak an needs extra attention.

To analyse the profitability, solvency, liquidity of the business.

To ascertain the earning capacity of the firm.

To generate information for cross-section analysis i.e. comparison of firm's past and present position.

To generate information for making projections.

To ascertain the operation efficiency.

Q.33 From the following information, calculate any two of the following ratios:

(i) Current ratio (ii) Debt to equity ratio (iii) Inventory turnover ratio

Information:

Revenue from operations (Net sales) ₹5,00,000, opening inventory ₹7,000, closing inventory ₹4,000 more than the opening inventory, net purchase ₹1,00,000 less than net sales, operating expenses ₹30,000 liquid assets ₹75,000, prepaid expenses ₹2,000, current liabilities ₹60,000, 9% debentures 3,00,000, long-term loan from bank ₹1,00,000, equity share capital 10,00,000, 8% preference share capital ₹2,00,000.

Ans. (i)

$$\textbf{Current Ratio} = \frac{\textbf{Current Assets}}{\textbf{Current Liabilities}}$$

$$= \frac{88,000}{60,000} = 1.47 : 1$$

Current Assets = Liquid assets + Inventory + Prepaid expenses

= 75,000 + 11,000 + 2,000

= ₹88,000

Closing inventory is 4,000 more than the opening inventory.

∴ Closing inventory = 7,000 + 4,000 = ₹11,000

(ii) Debt to Equity Ratio = $\frac{\text{Debt}}{\text{Equity}} = \frac{\text{Long-term debts or loans}}{\text{Shareholder's fund}} = \frac{4,00,000}{12,00,000} = 0.33:1$

$$\text{Long-term debts} = \text{9\% denemtires + Long-term loan from bank}$$

$$= 3,00,000 + 1,00,000 = 4,00,000$$

$$\text{Shareholders' fund} = \text{Equity share capital + Preference share capital}$$

$$= 10,00,000 + 2,00,000 = 12,00,000$$

(iii) **Inventory Turnover Ratio** = $\frac{\textbf{Cost of Revenue from Operations}}{\textbf{Average Inventory}}$

$$= \frac{3,96,000}{9,000} = 44 \text{ times}$$

Cost of revenue from operations = Operating inventory + Net Purchases – Closing inventory

= 7,000 + (5,00,000 – 1,00,000) – 11,000

= 3,96,000

Average Inventory = $\frac{\textbf{Opening Inventory + Closing Inventory}}{\textbf{2}}$

$$= \frac{7,000 + 11,000}{2} = 9,000$$

OR

The Quick Ratio of a Company is 0.8:1. State with reason whether the following transaction will increase, decrease or not change the quick ratio:

(a) Purchase of loose tools ₹2,000

(b) Insurance premium paid in advance ₹ 500.

(c) Sale of goods on credit ₹3,000

(d) Honoured a bills payable ₹5,000 on maturity.

Ans.

Transaction	Effect on Quick Ratio	Reason
(i)	Decrease	Quick assets have decreased but current liabilities have not changed
(ii)	Decrease	Quick assets have decreased but current liabilities have not changed
(iii)	Decrease	Quick assets have increased but current liabilities

		have not changed
(iv)	Decrease	Both quick assets and current liabilities have decreased by the same amount

Q.34 **From the following Balance Sheet of Dreams coverage Ltd. as at 31.03.2022 and 31.03.2020; calculate Cash from Operating activities, showing your working clearly:**

Particulars	Note No.	Amount in (₹)	
		31.03.2022	31.03.2021
I. EQUITY AND LIABILITIES			
1. Shareholders' Fund:			
(a) Share Capital		7,00,000	5,00,000
(b) Reserve and Surplus		3,50,000	2,00,000
2. Non-Current Liabilities:			
Long-term Borrowings:		50,000	1,00,000
3. Current Liabilities:			
(a) Trade Payables		1,22,000	1,05,000
(b) Short term Provision (Provision for tax)		50,000	30,000
Total		**12,72,000**	**9,35,000**
II. ASSETS:			
1. Non-Current Assets:			
(a) Fixed Assets			
(i) Tangible Assets	1	5,00,000	5,00,000
(ii) Intangible Assets	2	95,000	1,00,000
(b) Non-current Investments		1,00,000	Nil
2. Current Assets:			
(a) Inventory		1,30,000	55,000
(b) Trade Receivable		1,47,000	80,000
(c) Cash and Cash Equivalents		3,00,000	2,00,000
Total		**12,72,000**	**9,35,000**

Notes to Accounts

Notes Number	Particulars	Amount in (₹)	
		31.03.2022	31.03.2021
1	**Tangible Assets:**		
	Machinery	2,80,000	2,00,000

	Accumulated Depreciation	**(1,00,000)**	**(80,000)**
		1,80,000	**1,20,000**
	Equipment	**3,20,000**	**3,80,000**
		5,00,000	**5,00,000**
2	**Intangible Assets**		
	Goodwill	**95,000**	**1,00,000**

Additional information:

Machinery of the books value of ₹80,000 (accumulated depreciation ₹20,000) was sold at a loss of ₹18,000.

Ans.

Dreams Converge Ltd.
Cash flow Statement as Per AS 3 (Revised)
for the year ending 31st March, 2022

Particulars	**Amount in (₹)**	
I. **Cash from Operating activities**		
Net Profit Before Tax		
Profit During the year	1,50,000	
Add: Transfer to Reserve	50,000	
		2,00,000
Add: Non Cash Non-Operating Expenses		
Depreciation provided	40,000	
Loss on Sale of Assets	18,000	
Goodwill Amortised	5,000	63,000
Less: Non-Operating Income	—	—
Operating Profit before working Capital		2,63,000
Add: Increase in Trade Payable	17,000	17,000
		2,80,000
Less: Increase in Inventory	(75,000)	
Increase in Trade Receivable	(67,000)	(1,42,000)
Cash from Operating Activities before Tax		1,38,000
Less : Tax Paid		(30,000)
Cash From Operating Activities After Tax		1,08,000

Machinery Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,00,000	By Accumulated Deprecation	20,000
To Bank A/c (Purchases)	1,60,000	By Loss on Sale of Fixed Asset	18,000
		By bank A/c	42,000
		By Balance c/d	2,80,000
	3,60,000		3,60,000

Accumulated Depreciation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	20,000	By Balance b/d	80,000
To Balance c/d	1,00,000	By Statement of Profit and Loss	40,000
	1,20,000		1,20,000

❍❍❍