लेखाशास्त्र
Accountancy

कक्षा / Class XII
2026-27

विद्यार्थी सहायक सामग्री
Student Support Material

केन्द्रीय विद्यालय संगठन~Kendriya Vidyalaya Sangathan

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संदेश

शिक्षा केवल पुस्तकों तक सीमित ज्ञान नहीं है; यह स्वयं को पहचानने, अपने विचारों को विस्तार देने और जीवन की चुनौतियों का आत्मविश्वास से सामना करने की सतत् यात्रा है। केन्द्रीय विद्यालय संगठन का सदैव यह प्रयास रहा है कि प्रत्येक विद्यार्थी के लिए ऐसा शिक्षण वातावरण हो, जहाँ जिज्ञासा को प्रोत्साहन मिले, सीखना आनंददायी बने और प्रत्येक बालक अपनी अंतर्निहित क्षमताओं को पहचानकर उन्हें विकसित कर सके।

राष्ट्रीय शिक्षा नीति 2020 ने शिक्षा को सिर्फ रटने से समझने, सूचना से ज्ञान और ज्ञान से जीवनोपयोगी दक्षताओं की ओर अग्रसर किया है। आज का समय कृत्रिम बुद्धिमत्ता (Artificial Intelligence – AI), डिजिटल नवाचार और निरंतर बदलती तकनीकों का है। ऐसे युग में केवल तथ्यों का ज्ञान पर्याप्त नहीं है; आवश्यक है कि विद्यार्थी मनन- चिंतन करना सीखें, प्रश्न पूछें, समस्याओं का समाधान खोजें और नए विचारों के साथ आगे बढ़ें। यही क्षमताएँ उन्हें भविष्य के लिए तैयार करेंगी।

इन्हीं उद्देश्यों को ध्यान में रखते हुए केन्द्रीय विद्यालय संगठन के पाँचों आंचलिक शिक्षा एवं प्रशिक्षण संस्थानों (ZIETs) के माध्यम से, समर्पित एवं अनुभवी शिक्षकों द्वारा कक्षा 9 से 12 के विद्यार्थियों के लिए यह विद्यार्थी सहायक सामग्री तैयार की गई है। यह केवल परीक्षा की तैयारी की संकलन सामग्री नहीं है, बल्कि विषयों को सरलता से समझने, अवधारणाओं को स्पष्ट करने, नियमित अभ्यास करने और आत्मविश्वास के साथ आगे बढ़ने का एक विश्वसनीय साथी है।

इस सामग्री में विषय-वस्तु को विद्यार्थियों की आवश्यकताओं के अनुरूप सरल, व्यवस्थित एवं दक्षता-आधारित दृष्टिकोण से प्रस्तुत किया गया है। मुझे प्रसन्नता है कि इसे हमारे शिक्षकों के अनुभव, नवाचार और विद्यार्थियों के प्रति उनकी प्रतिबद्धता ने समृद्ध बनाया है। मुझे विश्वास है कि यह सामग्री विद्यार्थियों की सीखने की यात्रा को अधिक सहज, रोचक और प्रभावी बनाएगी तथा उन्हें बोर्ड परीक्षाओं के साथ-साथ जीवन की व्यापक चुनौतियों के लिए भी तैयार करेगी।

मेरा विश्वास है कि जब एक जिज्ञासु विद्यार्थी, प्रेरित शिक्षक और सार्थक शिक्षण संसाधन एक साथ आते हैं, तब शिक्षा केवल उपलब्धि का माध्यम नहीं रहती, बल्कि व्यक्तित्व निर्माण की एक सशक्त प्रक्रिया बन जाती है। यही भावना इस विद्यार्थी सहायक सामग्री के केंद्र में है।

मेरी हार्दिक शुभकामनाएँ हैं कि आप सभी सीखने की इस यात्रा में निरंतर आगे बढ़ें, अपने सपनों को नए आयाम दें और ज्ञान, संवेदनशीलता तथा नवाचार के साथ राष्ट्र निर्माण में अपना महत्वपूर्ण योगदान दें।

शुभकामनाओं सहित।

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SYLLABUS

ACCOUNTANCY (Code No. - 055) Class-XII (2026-27)

Theory: 80 Marks ***3 Hours***

Project: 20 Marks

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	Practical File		12
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Units/Topics	Learning Outcomes
Partnership: features, Partnership Deed. Provisions of the Indian Partnership Act 1932 in the absence of partnership deed. Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. Past adjustments (relating to interest on capital, interest on drawing, salary and profit sharing ratio). Goodwill: meaning, nature, factors affecting and methods of valuation - average profit, super profit and capitalization. ***Note:*** *Interest on partner's loan is to be treated as a charge against profits.* Goodwill: meaning, factors affecting, need for valuation, methods for calculation (average profits, super profits and capitalization), adjusted through partners capital/ current account. **Accounting for Partnership firms - Reconstitution and Dissolution.** **Change in the Profit Sharing Ratio** among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves, accumulated profits and losses. Preparation of revaluation account and balance sheet. **Admission of a partner** - effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and re- assessment of liabilities,	**After going through this Unit, the students will be able to:** state the meaning of partnership, partnership firm and partnership deed. describe the characteristic features of partnership and the contents of partnership deed. discuss the significance of provision of Partnership Act in the absence of partnership deed. differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits. develop the understanding and skill of making past adjustments. state the meaning, nature and factors affecting goodwill develop the understanding and skill of valuation of goodwill using different methods. state the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners. develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of

treatment of reserves, accumulated profits and losses, adjustment of capital accounts and preparation of capital, current account and balance sheet. **Retirement and death of a partner:** effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits, losses and reserves, adjustment of capital accounts and preparation of capital, current account and balance sheet. Preparation of loan account of the retiring partner. Calculation of deceased partner's share of profit till the date of death. Preparation of deceased partner's capital account and his executor's account. **Dissolution of a partnership firm:** meaning of dissolution of partnership and partnership firm, types of dissolution of a firm. Settlement of accounts - preparation of realization account, and other related accounts: capital accounts of partners and cash/bank a/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)). **Note:** **(i)** If the realized value of tangible assets is not given it should be considered as realized at book value itself. **(ii)** If the realized value of intangible assets is not given it should be considered as nil (zero value). (ii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment thereof.	reserves and accumulated profits by preparing revaluation account and balance sheet. explain the effect of change in profit sharing ratio on admission of a new partner. develop the understanding and skill of treatment of goodwill as per AS-26, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm. explain the effect of retirement / death of a partner on change in profit sharing ratio. develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits, losses and reserves on retirement / death of a partner and capital adjustment. develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's and executor's account. discuss the preparation of the capital accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner. understand the situations under which a partnership firm can be dissolved. develop the understanding of preparation of realisation account and other related accounts.

Unit-3 Accounting for Companies

Units/Topics	Learning Outcomes
Accounting for Share Capital Features and types of companies. Share and share capital: nature and types. Accounting for share capital: issue and allotment of equity and preferences shares. Public subscription of shares - over subscription and under subscription of shares; issue at par and at premium, calls in advance and arrears (excluding interest), issue of shares for consideration other than cash. Concept of Private Placement and Employee Stock Option Plan (ESOP), Sweat Equity. Accounting treatment of forfeiture and re- issue of shares. Disclosure of share capital in the Balance Sheet of a company. **Accounting for Debentures** Debentures: Meaning, types, Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash;	**After going through this Unit, the students will be able to:** state the meaning of share and share capital and differentiate between equity shares and preference shares and different types of share capital. understand the meaning of private placement of shares and Employee Stock Option Plan. explain the accounting treatment of share capital transactions regarding issue of shares. develop the understanding of accounting treatment of forfeiture and re-issue of forfeited shares. describe the presentation of share capital in the balance sheet of the company as per schedule III part I of the Companies Act 2013. explain the accounting treatment of different categories of transactions related to issue of debentures. develop the understanding and skill of writing

Issue of debentures with terms of redemption; debentures as collateral security-concept, interest on debentures (concept of TDS is excluded). Writing off discount / loss on issue of debentures. Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost (AS-16)	of discount / loss on issue of debentures. understand the concept of collateral security and its presentation in balance sheet. develop the skill of calculating interest on debentures and its accounting treatment. state the meaning of redemption of debentures.

Part B: Financial Statement Analysis
Unit 4: Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: Meaning, Nature, Uses and importance of financial Statement. Statement of Profit and Loss and Balance Sheet in prescribed form with major headings and sub headings (as per Schedule III to the Companies Act, 2013) **Note:** *Exceptional items, extraordinary items and profit (loss) from discontinued operations are excluded.* **Financial Statement Analysis: Meaning, Significance** Objectives, importance and limitations. **Tools for Financial Statement Analysis:** Comparative statements, common size statements, Ratio analysis, Cash flow analysis. **Accounting Ratios:** Meaning, Objectives, Advantages, classification and computation. **Liquidity Ratios:** Current ratio and Quick ratio. **Solvency Ratios:** Debt to Equity Ratio, Total Asset to Debt Ratio, Proprietary Ratio and Interest Coverage Ratio. Debt to Capital Employed Ratio. **Activity Ratios:** Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio, Fixed Asset Turnover Ratio, Net Asset Turnover Ratio and Working Capital Turnover Ratio. **Profitability Ratios:** Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment.	**After going through this Unit, the students will be able to:** develop the understanding of major headings and sub-headings (as per Schedule III to the Companies Act, 2013) of balance sheet as per the prescribed norms / formats. state the meaning, objectives and limitations of financial statement analysis. discuss the meaning of different tools of 'financial statements analysis'. develop the skill of preparation of preparation of comparative and common size statement, understand their uses and difference between the two. state the meaning, objectives and significance of different types of ratios. develop the understanding of computation of current ratio and quick ratio. develop the skill of computation of debt equity ratio, total asset to debt ratio, proprietary ratio and interest coverage ratio. develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover ratio and others. develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

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

Unit 5: Cash Flow Statement

Units/Topics	Learning Outcomes
Meaning, objectives Benefits, Cash and Cash Equivalents, Classification of Activities and preparation (as per AS 3 (Revised) (Indirect Method only) ***Note:*** ***(i)*** *Adjustments relating to depreciation and amortization, profit or loss on sale of assets including investments, dividend (both final and interim) and tax.* ***(ii)*** *Bank overdraft and cash credit to be treated as short term borrowings.* ***(iii)*** *Current Investments to be taken as Marketable securities unless otherwise specified.*	**After going through this Unit, the students will be able to:** state the meaning and objectives of cash flow statement. develop the understanding of preparation of Cash Flow Statement using indirect method as per AS 3 with given adjustments.

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

Project Work

One specific project based on financial statement analysis of a company covering any two aspects from the following:

1. Comparative and common size financial statements
2. Accounting Ratios
3. Segment Reports
4. Cash Flow Statements

OR

Part B: Computerised Accounting Unit 4: Computerised Accounting

Overview of Computerised Accounting System

Introduction: Application in Accounting. Features of Computerised Accounting System.
Structure of CAS. Software Packages: Generic; Specific; Tailored.

Accounting Application of Electronic Spreadsheet.

- Concept of electronic spreadsheet.
  Features offered by electronic spreadsheet. Application in generating accounting information - bank reconciliation statement; asset accounting; loan repayment of loan schedule, ratio analysis
- Data representation- graphs, charts and diagrams.

Using Computerized Accounting System.

Steps in installation of CAS, codification and Hierarchy of account heads, creation of accounts.
Data: Entry, validation and verification.
Adjusting entries, preparation of balance sheet, profit and loss account with closing entries and opening entries. Need and security features of the system.

Part C: Practical Work Prescribed Books:

Financial Accounting -I Class XI NCERT Publication Accountancy -II Class XI NCERT Publication Accountancy -I Class XII NCERT Publication Accountancy -II Class XII NCERT Publication Accountancy – Computerised Accounting System Class XII

Suggested Question Paper Design
Accountancy (Subject Code 055)
Class XII (2025-26)

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

S N	Typology of Questions	Marks	Percentage
1	**Remembering and Understanding**: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	32	40%
3	**Applying**: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	24	30%
4	**Analysing, Evaluating and Creating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	24	30%
	TOTAL	**80**	**100%**

PART-I: ACCOUNTING FOR PARTNERSHIP FIRMS

CH-01: ACCOUNTING FOR PARTNERSHIP – BASIC CONCEPTS

Meaning: Partnership is an association between two or more persons who agree to do business and share its profits and losses.

Definition

According to **Section 4 of the Partnership Act 1932** "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Features of partnership Firm

1. Association of two or more persons **2. Partnership Agreement or Deed**
3. Legal Business **4. Sharing of Profits or Losses**
5. Mutual Agency **6. Unlimited Liability**

Partnership Deed: The document, which contains terms of the agreement, is called "Partnership Deed".

Provisions of Partnership Act, 1932 in the absence of Partnership Deed:

1) **Profit Sharing Ratio**: If the partnership deed is silent about the profit-sharing ratio, the profits and losses of the firm are to be shared equally by partners
2) **Interest on Capital**: No interest on capital is payable if the partnership deed is silent on the issue.
3) **Interest on Drawings**: No interest is to be charged on the drawings made by the partners, if there is no mention in the deed.
4) **Interest on Advances**: If any partner has advanced some money to the firm beyond the amount of his capital for the purpose of business, he shall be entitled to get an interest on the amount at the rate of 6% per annum.
5) **Remuneration for Firm's Work**: No partner is entitled to get salary or other remuneration for taking part in the conduct of the business of the firm

Fixed and Fluctuating Capital Accounts of Partners

There are two methods by which the capital accounts of partners can be maintained.

Fixed capital method **Fluctuating capital method.**

1) **Fixed Capital Method**: Under the fixed capital method, **the capitals of the partners shall remain fixed** unless additional capital is introduced or a part of the capital is withdrawn as per the agreement among the partners All items like share of profit or loss, interest on capital, drawing interest on drawings, etc. are recorded in separate accounts, called Partner's Current Account. The partners' capital accounts will always show a credit balance, which shall remain the same (fixed) year after year unless there is any addition or withdrawal of capital.

The Partners' current A/c on the other hand, may show a debit or a credit balance. Thus, under this method, two accounts are maintained for each partner viz., capital A/c & Current A/c, While the Partners' Capital A/c shall always appear on the liabilities side in the balance sheet, the Partners' Current Ac's balance shall be shown on the liabilities side, if they have credit balance and on the assets side, if they have debit balance.

The partner's capital account and the current account under the fixed capital method would appear as shown below:

Dr. **Partner's Capital A/c** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F	Amt (₹)
	To Bank A/c (Permanent withdrawal of capital) To Bal. c/d (Closing balance)		xxx xxx		By Bal. b/d (Opening balance) By Bank A/c (Fresh capital introduced)		xxx xxx
			xxx				xxx

Dr **Partner's Current A/c** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
	To Drawings		xxx		By Balance b/d		xxx
	To Interest on drawings		xxx		By Salaries /Commission		xxx
	To P&L Appro. A/c		xxx		By Interest on capital		xxx
	(for share of loss)				By P&L Appro. A/c		xxx
	To Balance c/d		xxx		(for share of profit)		xxx
			xxxx				xxxx

Fluctuating Capital Method: Under the fluctuating capital method, only one A/c, i.e. Capital A/c is maintained for each partner. All the adjustments such as share of profit & loss, interest on capital, drawings, interest on drawings, salary or commission to partners, etc. are recorded directly in the capital accounts of the partners. This makes the balance in the capital account fluctuate from time to time. That's the reason why this method is called **fluctuating capital method. In the absence of any instruction, the capital account should be prepared by this method.** The Proforma of capital accounts prepared under the fluctuating capital method is given below: -

Dr. **Partner's Capital Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
	To Drawings		xxx		By Balance b/d		xxx
	To Bank(Permanent withdrawal of capital)		xxx		By Bank (fresh capital introduced)		xxx
	To Interest on drawings		xxx		By Salaries/Commission		xxx
	To P&L Appro. A/c		xxx		By Interest on capital		xxx
	(for share of loss)				By P&L Appro. A/c		xxx
	To Balance c/d		xxx		(for share of profit)		
			xxxx				xxxx

MIND MAP

Distribution of Profit among Partners

The profits and losses of the firm are distributed among the partners in an agreed ratio. However, if the partnership deed is silent, the firm's profits and losses are to be shared equally by all the partners. In case of partnership, however, certain adjustments such as interest on drawings, interest on capital, salary to partners, and commission to partners are required to be made. For this purpose, it is customary to prepare a Profit and Loss Appropriation A/c of the firm and as certain the final figure of profit and loss to be distributed among the partners, in their profit-sharing ratio.

The Proforma of Profit and Loss Appropriation Account is given as follows:

Dr. Profit and Loss Appropriation A/c Cr.

Particulars	Amt(₹)	Particulars	Amt(₹)
To Profit and Loss A/c (If there is loss)	xxx	By Profit and Loss, A/c (If there is profit)	xxx
To Interest on Capital A/c	xxx	By Interest on Drawings	xxx
To Salary/Commission to Partner A/c	xxx	By Partners' Cap A/cs/ Current A/cs (Distribution of Loss)	xxx
To General Reserve A/c	xxx		
To Partners' Cap A/cs /Current A/cs (Distribution of Profit)			
	xxxx		xxxx

***Note: Interest on Partner's loan is to be treated as a charge against profits.**

Partner's Capital A/c

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
	To Drawings		xxx		By Balance b/d		xxx
	To Bank (Permanent Withdrawal of Capital)		xxx		By Bank (Fresh capital introduced)		xxx
	To Interest on drawings		xxx		By Salaries /Commission		xxx
	To P&L Appro. A/c (For Share of Loss)		xxx		By Interest on capital		xxx
	To Balance c/d		xxx		By P&L Appro. A/c (For share of profit)		xxx
			xxxx				xxxx

Calculation of interest of Drawings

Table showing the average period when withdrawals are made regularly

Period	Monthly			Quarterly			Half yearly			6-Month End		
Withdrawal condition	**BEG**	**MID**	**END**	**BEG**	**MID**	**END**	**BEG**	**MID**	**END**	**BEG**	**MID**	**END**
Period for calculation of IOD (in month)	**6.5**	**6**	**5.5**	**7.5**	**6**	**4.5**	**9**	**6**	**3**	**3.5**	**3**	**2.5**

Average Period is calculated using this formula:

***Average Period** = $\frac{\text{Months left after 1st instalment + Months left after 2nd instalment}}{2}$

Past Adjustments:

If after closing the accounts for the year it is discovered that some errors have been committed, then these errors must be rectified. Some adjustment entries must be passed to rectify the error. The entries are made through Profit & Adjustment A/c. These entries are to rectify the errors committed in past; therefore, they are known as 'Past Adjustments'.

Generally, the following types of errors are committed:

1) Interest on Capital and on Drawings have been omitted.
2) Interest on Capital and on Drawings have been provided at higher or lower rates than the rates agreed in the Deed.
3) Salary/commission to partners either not given or a higher or lower amount has been given.
4) Profits shared the wrong ratio.

Calculation of Opening Capital for the purpose of interest on capital

Capital at the end of the year	**…**
Add: Drawings Against Capital	**…**
Drawings Against Profit	**…**
Interest on Drawings	**…**
Share of Loss for the year*	**…**
Less: Additional Capital introduced during the year	**…**
Partner's Salary/Remuneration	**…**

Interest on Capital	…
Share of Profit for the year*	…
Capital in the beginning of the year	…

*Either loss or profit will appear at a time.

Guarantee of Profit to a Partner

Guarantee of profit means a minimum amount of profit to be paid to a partner. This amount shall be given to him if his share of profit is lower than the guaranteed amount. The deficit shall be borne either by one of the old partners or by all the old partners in a particular agreed ratio. If there is no agreement, then in their old profit-sharing ratio, if his actual share of profit is more than the guaranteed amount, then, he will be given his actual share of profit. He gets the guaranteed amount or the actual share of profit, **whichever is higher.**

1) Guarantee given by all Partners (Guarantee given by Firm.)

(i) Compare the amount of guarantee and his actual share of profit. If guaranteed amount is more than his actual share of profit, then the guaranteed amount will be debited to profit & loss Appropriation A/c & the Partner's A/c will be credited with the guaranteed amount.

(ii) The deficiency shall be shared by other partners in their profit-sharing ratio.

2) Guarantee given by One Partner only

First calculate his share of profit. Compare it with the guaranteed amount. The amount of deficiency is to be charged from the partner who gave guarantee.

3) Guarantee given to a partner by other partners in a ratio different from their profit-sharing ratio

Distribute profit among all the partners in the profit-sharing ratio. Work out the amount of deficiency by comparing it with the guaranteed amount and his actual share of profit. The other partners will bear the deficiency in an agreed new ratio.

Practice Questions [1- Mark Questions-MCQ]

1	Arman a partner was being guaranteed that his share of profits will not be less than ₹60,000 p.a. Deficiency, if any was to be borne by other partners Kailash & Diljeet equally. For the year ended 31/3/2024 the firm incurred loss of ₹1,80,000. What amount will be debited to Kailas's Capital A/c in total at the end of the year?	1

	a. ₹ 60,000 b. ₹ 1,20,000 c. ₹ 90,000 d. ₹ 80,000.	
2	**Assertion:** Partner's current accounts are open when their capital are fluctuating. **Reason**: In case of Fixed capitals all the transactions other than Capital are done through Current account of the partner. a. Both A and R are true and R is the correct explanation of A. b. Both A and R are true but R is not the correct explanation of A. c. A is true but R is false d. A is false but R is true	**1**
3	Trump, Ace & Queen were partners sharing profits & losses in the ratio of 2:2:1 Their fixed Capital balances were ₹5,00,000; ₹4,00,000 & ₹3,00,000 respectively For the year ended March 31, 2024, profits of ₹84,000 were distributed withou providing for Interest on Capital @ 10% p.a as per the partnership deed. While passing an adjustment entry, which of the following is correct? (a) Queen will be Dr. by ₹ 4,200 (b) Queen will be Cr. by ₹ 4,200 (c) Queen will be Cr. by ₹ 6,000 (d) Queen will be Dr. by ₹ 6,000	1
4	R, K and S were partners sharing profits and losses in the ratio of 5:4:3. S' fixed Capital balance as on March 31, 2024 was ₹ 2,00,000. Which of the following items would have affected this Capital balance? a. Profit/ Loss for the year b. Additional Capital introduced c. Reduction in Capital due to withdrawal of capital d. Both B and C Capital Adjustment	1
5	**Assertion:** Bradman, a partner in a firm with four other partners, has advanced a loan of ₹ 50,000 to the firm for last six months of the financial year without any agreement. He claims an interest on loan of ₹ 4,000 despite the firm being in loss for the year. **Reason**: In the absence of any agreement / provision in the partnership deed, provisions of Indian Partnership Act, 1932 would apply. a. Both A and R are correct, and R is the correct explanation of A. b. Both A and R are correct, but R is not the correct explanation of A. c. A is correct but R is incorrect. d. A is incorrect but R is correct.	**1**
6	A, B & C are in partnership business. A used ₹ 5,00,000 belonging to the firm without the information to other partners & made a profit of ₹ 65,000 by using this amount. Which decision should be taken by the firm to rectify this situation? a. A need to return only ₹ 5,00,000 to the firm. b. A is required to return ₹ 65,000 to the firm. c. A is required to pay back ₹ 65,000 only equally to B and C. d. A need to return ₹ 5,65,000 to the firm.	1
7	Interest on Partner's loan is credited to: a. Partner's Fixed Capital A/c. b. Partner's Current A/c. c. Partner's Loan A/c. d. Partner's Drawings A/c.	1
Read the following hypothetical situation, answer question no. 8 and 9		
	Ram & Mohan are partners sharing profits in the ratio of 3:2 with capitals of ₹2,50,000 & ₹1,50,000 respectively. Interest on capital is agreed @ 6% p.a. Mohan is to be allowed an annual salary of ₹12,500. During the year ended 31st March 2025, the profits of the year prior to calculation of interest on capital but after charging Mohan's salary amounted to ₹62,000. A provision of 5% of this	

	profit is to be made in respect of manager's commission. Following is their Profit & Loss Appropriation Account	

Particulars	(₹)	Particulars	(₹)
To Interest on Capital Ram Mohan	--------- ---------	By Profit & Loss Account (After Manager's Commission)	_____(2) _____
To Mohan's Salary A/c	12,500		
To Profit transferred to: Ram's Capital A/c (1) Mohan's Capital A/c	_____ --------		

8	The amount to be reflected in blank (1) will be: *a.* ₹ 37,200 b. ₹ 44,700 c. ₹ 22,800 d. ₹ 20,940	1
9	The amount to be reflected in blank (2) will be: *a.* ₹ 62,000. b. ₹ 74,500. c. ₹ 71,400. d. ₹ 70,775.	1
10	In the absence of an agreement, partners are entitled to: i) Profit share in capital ratio. (ii) Commission for making additional sale. ii) Interest on Loan & Advances by them to the firm. iii) Salary for working extra hours iv) Interest on Capital. **Choose the correct option:** (a) Only i), iv) & v); (b) Only ii) & iii); (c) Only iii); (d) Only i) & iii).	1

[3- Marks Question-Short Answer]

1	X, Y and Z were partners with fixed capital of ₹ 40,000, ₹32,000 and ₹ 24,000. After distributing the profit of ₹48,000 for the year ended 31st March 2022 in their agreed ratio of 3: 1: 1 .it was observed that: Interest on capital was provided at 10% p.a. instead of 8% p.a. Salary of ₹ 12,000 was credited to X instead of Y. **You are required to pass a single journal entry in the beginning of the next year to rectify the above omissions.**	3
2	C and D are equal partners Their capitals as on April 01, 2025 were ₹ 50,000 and ₹ 1,00,000 respectively. After the accounts for the financial year ending March 31, 2023 have been prepared, it is observed that interest on capital @ 6% per annum and salary to Cheese 5,000 per annum, as provided in the partnership deed has not been credited to the partners' capital accounts before distribution of profits. **You are required to give necessary rectifying entries using P&L adjustment A/c**	3
3	C & D were partners in a firm sharing profits and losses equally. C withdrew a fixed amount at the beginning of each quarter. Interest on drawings is charged @ 6% p.a. At the end of the year, interest on C drawings amounted to ₹ 900. **Pass necessary journal entry for charging interest on drawings.**	3
4	Amit, Sumit and Pulkit were partners sharing Profit & Loss in the ratio 5:3:2. Their Capitals were ₹ 8,00,000; ₹ 7,00,000 and ₹ 5,00,000 respectively. According to Partnership Deed: - Interest on Capital @ 10% p.a. Salary to Amit ₹ 10,000 p.m. and Pulkit ₹₹ 15,000per quarter. Commission to Sumit ₹ 70,000. Sumit was being guaranteed that his share of profits will not be less than ₹ 65,000. Deficiency if any will be borne by Amit and Pulkit equally. Ignoring the above terms the profits of ₹ 6,00,000, for the year ended March 31, 2025, were divided equally between partners	3

	You are required to pass necessary adjustment entry. Show your workings clearly.	
5	X, Y & Z share profit in the ratio of 2:3:5. They earned a profit of ₹ 1, 50,000 for the year ended 31/12/2025. The profit was by mistake distributed among A, B & C in the ratio of 3:2:1, respectively. This error was noted in the beginning of the new year. **Pass necessary adjustment entry**	3

[4- Marks Question-Short Answer]

1	A, B, & C are partners sharing profits in the ratio 2:2:1. Their capitals are ₹1,00,000, ₹80,000 & ₹60,000 respectively. Interest on capital is to be allowed @ 10% p.a. A is entitled to a salary of ₹10,000 p.a. & C to a commission of ₹5,000. Net profit for the year is ₹50,000. **Prepare Profit & Loss Appropriation A/c.**	4
2	Virat, Viraj & Vaibhav were partners with capitals of ₹2,30,000, ₹1,20,000 & ₹ 2,40,000. After distributing the profit of ₹ 5,20,000 for the year ended 31st March 2024 in their agreed ratio of 3:2:1 it was observed that: Interest on capital was provided at 14% p.a. instead of 10% p.a. **You are required to pass adjustment entry**	4
3	A, B and C are partners sharing profit and losses in the ratio of 3:2:1. However, A and B have guaranteed that C's share in no year shall be lesser than for the year amounted to ₹30.000. The net profit of the Mr. C is not lesser than ₹10,000. **Prepare Profit & Loss Appropriation A/c.**	4
4	A, B & C are partners in a firm sharing profits in the ratio of 2:2:1. C has to get a minimum of ₹6.000 irrespective of the profit of the firm. Any excess payable to C on account of such guarantee shall be borne by A. Profit earned during the year 2015 were ₹25,000. **Pass journal entries in the books of A, B & C.**	4
5	A, B and C are partners in a firm. They have omitted interest on capital (10% p.a. for three years ended 31st March 2022. Their fixed capitals on which interest was to be calculated were: A ₹ 1, 00,000; B ₹ 80,000 & C ₹ 70,000. **Give the necessary adjusting journal entry with working notes.**	4

[6- Marks Questions-Long answer]

1	Varun and Vivek were partners in a firm sharing profits in the ratio of 3:2. The balance in their capital and current accounts as on 1st April 2022 were as under: **Particulars** / **Varun (₹)** / **Vivek (₹)** Capital A/c / 3,00,000 (Cr.) / 2,00,000 (Cr.) Current A/c / 1,00,000 (Cr.) / 28,000 (Dr.) The partnership deed provided that Varun was to be paid a salary of ₹5,000 p.m. whereas Vivek was to get a commission of ₹30,000 for the year. Interest on capital was to be allowed @ 8% p.a. whereas interest on drawings was to be charged @ 6% p.a. The drawings of Varun were ₹3,000 at the beginning of each quarter while Vivek withdrew ₹30,000 on 1st Sep. 2022. The net profit of the firm for the year, 2022-23, before making the above adjustments was ₹1,20,000. **Prepare Profit & Loss Appropriation A/c, Partners' Capital & Current A/c.**	6
2	Uma & Suma were partners & Uma's capital is ₹2,00,000 & Suma's capital is ₹1,00,000. Interest on capital is payable @ 6% p.a. Suma is entitled to a salary of ₹5,000 pm. Profit for the current year before interest & salary to Suma is ₹1,00,000. **Prepare a Profit & Loss appropriation A/c.**	6
3	R & S are partners in a firm with capitals of ₹3,00,000 & ₹2,00,000 respectively. They share profits in the ratio 3:2. The firm earned a profit of ₹1,00,000 during the year. Interest on capital is to be provided @ 12% p.a. R is to be allowed a salary of ₹2,000 pm. S is entitled to a commission of 10% of net profit after charging all appropriations. **Show the Profit & Loss Appropriation A/c.**	6
4	A, B &C are partners in a firm sharing profits & losses in the ratio of 2:2:1. Their fixed capitals were ₹ 5,00,000 ₹ 4,00,000 & ₹ 3,00,000 respectively. For the year	6

	ending March 31st 2019 the profit of the firm was ₹ 6,00,000. It was subsequently discovered that following transactions were omitted: Interest on capital @ 10%p.a.; Salary to A ₹ 60,000; Commission to B ₹ 20,000. **Pass necessary Adjusting Journal entry (show your working clearly)**	

Answer key [1- Mark Questions-MCQ]

QNo	Suggested answer	QNo	Suggested answer
1	b) ₹ 1,20,000	6	d) A need to return ₹5,65,000 to the firm.
2	d) A is false but R is true	7	c) Partner's Loan Account
3	b) Queen will be credited by ₹ 4,200	8	d) ₹ 20,940.
4	d) Both B and C	9	c) ₹ 71,400
5	a) A is incorrect but R is correct	10	c) Only (iii)

[3- Marks Question-Short answer]

1

Date	Particulars	L.F	Dr (₹)	Cr (₹)
	X's Capital A/c Dr		11,648	
	Z's Capital A/c Dr		96	
	To Y's Capital A/c			11,744
	(Being entry passed for adjustment of int. on capital & salary)			

2

Date	Particulars	L.F	Dr (₹)	Cr (₹)
	P&L Adjustment A/c Dr.		9,000	
	To C's Capital A/c			3,000
	To D's Capital A/c			6,000
	(Being Interest on capital omitted earlier now provided)			
	P&L Adjustment A/c Dr.		5,000	
	To C's Capital A/c			5,000
	(Being salary omitted earlier now provided)			
	C's Capital A/c Dr.		7,000	
	D's Capital A/c Dr.		7,000	
	To P&L Adjustment A/c			14,000
	(Being Loss on Adjustment transferred to partners)			

3

Date	Particulars	L.F	Dr (₹)	Cr (₹)
	C's Capital A/c Dr		900	
	To Interest on Drawings A/c			
	(Being Interest on drawings debited to capital)			900
	Interest on Drawings A/c Dr			
	To C's Capital A/c		900	
	(Being Interest on drawings debited to capital)			900

4

Pulkit's Capital A/c Dr 70,000
To Amit's Capital A/c 65,000
To Sumit's Capital A/c 5,000

5

Particulars	A (₹)	B (₹)	C (₹)	Firm (₹)
1.Profit distributed in wrong ratio taken	(-)75,000	(-)50,00	(-)25,000	+1,50,000

back Dr.				
2.The same profit now correctly distributed incorrect ratio Cr.	+30,000	+45,000	+75,000	(-)1,50,000
Adjustment required Dr.	**- 45,000**	**- 5,000**	**+50,000**	NIL

Pass necessary adjustment entry:

X's Capital A/c … Dr. 45,000
Y's Capital A/c … Dr. 5,000
To Z's Capital A/c 50,000
(Being adjustment entry made)

4- Marks Questions-Short answer

1 Interest: A = ₹10,000; B = ₹8,000; C = ₹6,000
Salary to A = ₹10,000, Commission to C = ₹5,000; Total Appropriations = ₹39,000
Remaining Profit = ₹50,000 – ₹39,000 = ₹11,000
Profit Division:A=2/5×₹11,000=₹4,400; B=2/5×₹11,000=₹4,400; C=1/5×₹11,000=₹2,200

2 Vaibhav's Capital A/c Dr 5,667
To Virat's Capital A/c 2,600
To Viraj's Capital A/c 3,067

3 **Profit and Loss Appropriation A/c**

Date	Particulars	₹	Date	Particulars	₹
	To, A's Capital A/c 12,000 To, B's Capital A/c 8,000 To, C's Capital A/c 10,000	30,000		By P/L A/c (Net Profit)	30,000
		30,000			**30,000**

4 **Journal Entries**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	P/L Appropriation A/c Dr.		25,000	
	To A's Capital A/C			10,000
	To B's Capital A/C			10,000
	To C's Capital A/C			5,000
	(Being profit distributed among partners if there is not guarantee)			
	A's Capital A/C Dr.		1,000	
	To C's Capital A/C			1,000
	(Being deficit profit of C being paid from A 's capital)			

5 **Calculation of interest for three years:**

A = 1, 00,000 x 10% for three years = ₹ 30,000
B = 80,000 x 10% for three years = ₹ 24,000
C = 70,000 x 10% for three years = ₹ 21,000
Total = ₹ 75,000

Table showing adjustments:

Particulars	A	B	C	Total
Interest on Capital (Cr.) Division of 75,000 in 1:1:1 (Dr.)	30,000 25,000	24,000 25,000	21,000 25,000	75,000 75,000
	5,000 Cr.	1,000 Dr.	4,000 Dr.	……

Rectifying Journal entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31/03/22	B's Current A/c Dr		1,000	

	C's Current A/c Dr To A's Current A/c		4,000 	 5,000

6- Marks Questions-Long answer

1

Profit & Loss appropriation A/c of Varun and Vivek for the year ended on March 31, 2023

Particulars	Amt	Particulars	Amt
To Partners Current A/c		By Profit & Loss A/c-Net Profit	
Varun	78,508	By int on drawings	1,20,000
Vivek	42,992	Varun	450
		Vivek	1,050
	1,21,500		1,21,500

As divisible profits are insufficient, so available profits are distributed in ratio of appropriations i.e. 42:23

Partner's Current A/c

Particulars	Varun	Vivek	Particulars	Varun	Vivek
To Balance c/d	3,00,000	2,00,000	By Balance b/d	3,00,000	2,00,000
	3,00,000	2,00,000		3,00,000	2,00,000

Partner's Capital A/c

Particulars	Varun	Vivek	Particulars	Varun	Vivek
To Balance b/d	12,000	28000	By Balance b/d	1,00,000	42,992
To Drawings	450	30,000	By P/L Appro.. A/c	78,508	16,058
To Int on Drawings	1,66,058	1,050	By Balance c/d		
To Balance c/d	1,78,508	59,050		1,78,508	59,050

2

Profit and Loss Appropriation A/c

Particulars	₹	Particulars	₹
To Interest on capital:		By Profit and Loss (Net Profit)	1,00,000
Uma's capital = 2,00,000 X 6% = 12,000			
Suma's Capital = 1,00,000 X 6% = 6,000	18,000		
To Salary to Suma's account =5,000 X 12			
To Profit transferred to:	60,000		
Uma's Capital A/c - 11,000			
Suma's Capital A/c - 11,000	22,000		
	1,00,000		1,00,000

3

Interest: R = ₹36,000; S = ₹24,000; R's Salary = ₹24,000

Let S's Commission = x

Then: ₹1,00,000 – ₹36,000 – ₹24,000 – x = y

x = 10% of y

₹40,000 – x = y ⇒ x = ₹1,600

Remaining Profit = ₹14,400

R = 3/5 × ₹14,400 = ₹8,640 , S = 2/5 × ₹14,400 = ₹5,760

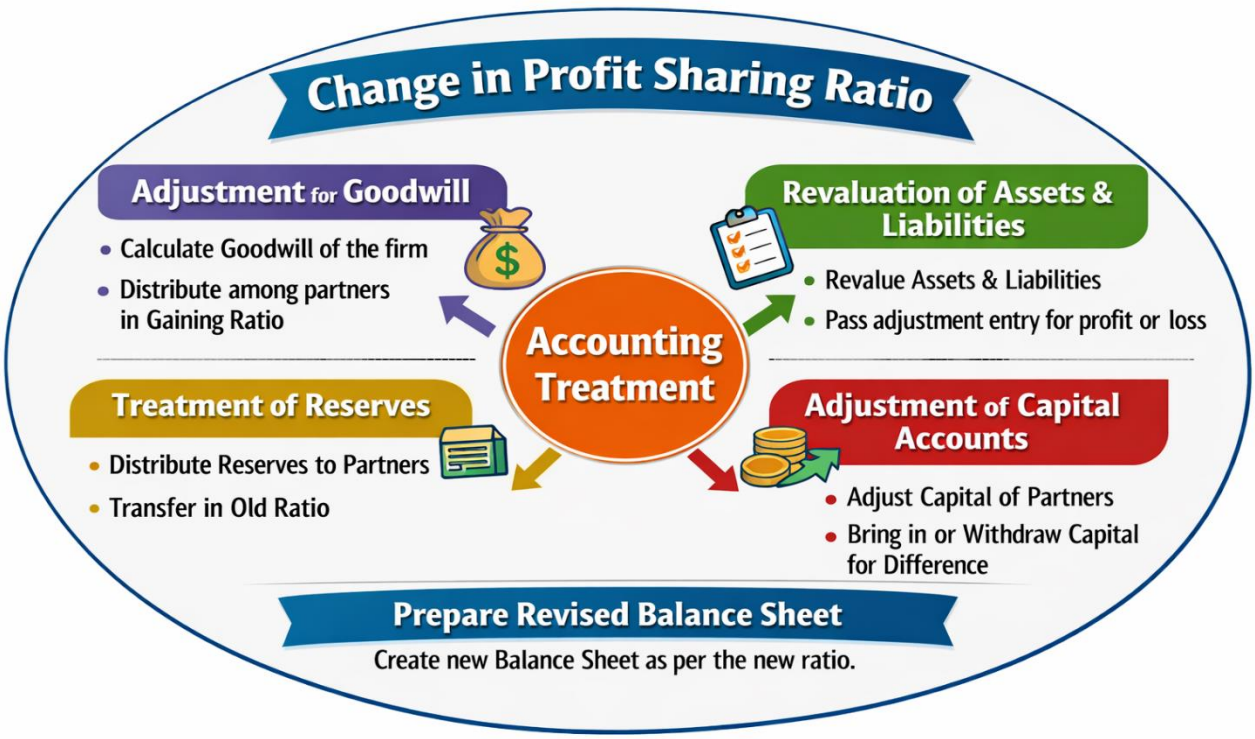
4

4 marks for table showing adjustment and 2 for journal entry

CH - 02: RECONSTITUTION OF A PARTNERSHIP FIRM
(CHANGE IN PROFIT SHARING RATIO & ADMISSION OF A PARTNER)

MIND MAP

CHANGE IN PROFIT SHARING RATIO



Reconstitution of firm: Any change in existing agreements among partners amounts to reconstitution of the firm, this results in the end of an existing agreement, and a new agreement comes into existence however the firm continues

a) Concept of Change in the Profit-Sharing Ratio among existing partners:
b) It means reconstitution of the firm whereby the profit-sharing ratio among all the partners changes.
c) It can be due to change in capital contribution or increased participation in management by one or more partners.
d) It can also be on account of one or more partner(s) acquiring share of profit in the business from another partner(s). Therefore, the aggregate amount of gain of one (or more) partner(s) is equal to the aggregate amount loss/sacrifice borne by other partner(s).
e) Therefore, if the share of one (or more) partner(s) increases then share of profit of one (or more) partner(s) decreases.
f) It leads to dissolution of partnerships but not the dissolution of the firm. This is because the existing partnership agreement is ending and the new agreement is coming into effect.

Adjustment for Change in Profit Sharing Ratio: Issues that need to be considered at the time of change in Profit Sharing Ratio:

a) Determining Sacrificing and Gaining ratio,
b) Treatment for Goodwill,
c) Accounting treatment for Reserves and Accumulated Profit or losses,
d) Revaluation of Assets and Reassessment of Liabilities, and
e) Adjusting the capital accounts of the partners for the same.

Computation of Sacrificing and Gaining Ratio: The main purpose of calculating the sacrificing and gaining ratio is to determine the amount of compensation (goodwill) that the gaining partner shall pay to the sacrificing part

a) **Sacrificing Ratio** (Sacrificed Share) = Old Share – New Share
b) **Gaining Ratio:** (Gaining Share) = New Share – Old Share

EFFECT ON ACCUMULATED RESERVES AND SURPLUS: -
In case of reconstitution of firm **old, accumulated reserves and surplus** are distributed among partners in **their old ratio**.

a) **In case of distribution of accumulated profits/reserves etc**.
Reserve A/c Dr.
To Partner's capital/current A/c (individually)
(In case of loss will be reserved entry)

b) **In case partners don't want share distribution**
Gaining partners' capital/current A/c Dr.
To Sacrificing partners' capital/current A/c

CONDITION	WORKMEN COMP. CLAIM	JOURNAL ENTRY
1. No claim	Distribute the Reserve among old partners.	Workmen compensation reserve A/c Dr To partner's capital A/c
2. Claim **less than** WCR	Transfer the amount of claim-to-claim A/c Distribute the balance partners in their old PSR	Workmen compensation reserve A/c Dr To provision for compensation claim A/c To partner's capital A/c
3. Claim is **equal to** WCR	Transfer the whole of WCR to claim A/c	Workmen compensation reserve A/c Dr. To provision for workmen compensation claim A/c
4. Claim is **more than** WCR to claim	Transfer the whole of WCR	i) Workmen compensation reserve A/c Dr.
	Difference will be Dr. to revaluation A/c Revaluation loss will be distributed to partners	Revaluation A/c Dr. To Prov. for workmen compensation claim A/c ii) Partners' capital A/c Dr. To Revaluation A/c

Treatment of revaluation of assets and liabilities: Journal entries

Increase in the value of an asset:

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
	Assets A/c Dr.		XXXX	
	To Revaluation A/c			XXXX
	(Being the value of an asset increased)			

Decrease in the value of an asset:

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
	Revaluation A/c Dr.		XXXX	
	To Asset A/c			XXXX
	(Being the value of the asset decreased)			

Increase in the value of liability:

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
	Revaluation A/c Dr.		XXXX	
	To Liability A/c			XXXX
	(Being the value of a liability increased)			

Decrease in the value of liability:

Date	Particulars		L.F.	Amount (Dr.)	Amount (Cr.)
	Liability A/c	Dr.		XXXX	
	To Revaluation A/c				XXXX
	(Being the value of a liability decreased)				

Recording Unrecorded assets:

Date	Particulars		L.F.	Amount (Dr.)	Amount (Cr.)
	Unrecorded Asset A/c	Dr.		XXXX	
	To Revaluation A/c				XXXX
	(Being unrecorded asset recorded)				

Recording Unrecorded Liability:

Date	Particulars		L.F.	Amount (Dr.)	Amount (Cr.)
	Revaluation A/c	Dr.		XXXX	
	To Unrecorded Liability A/c				XXXX
	(Being unrecorded liability recorded)				

Transferring the balance of the Revaluation Account:

(A) In case of Profit:

Date	Particulars		L.F.	Amount (Dr.)	Amount (Cr.)
	Revaluation A/c	Dr.		XXXX	
	To Partner's Capital/Current A/c				XXXX
	(Being profit distributed in old profit-sharing ratio)				

(B) In case of Loss:

Date	Particulars		L.F.	Amount (Dr.)	Amount (Cr.)
	Partner's Capital/Current A/c	Dr.		XXXX	
	To Revaluation A/c				XXXX
	(Being Loss Transferred in old profit-sharing ratio)				

Practice Questions [1 MARK QUESTION – MCQ]

1	Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of new· agreement is called: a. Revaluation of partnership b. Reconstitution of partnership c. Realisation of partnership d. None of the above	**1**
2	The ratio in which a partner surrenders his share in favour of a partner is known as: a. New profit-sharing ratio b. Sacrificing Ratio c. Gaining Ratio d. Capital Ratio	**1**
3	Reserves and accumulated profits are transferred to partners ' capital accounts at the time of reconstitution in: a. Old profit-sharing ratio b. Sacrificing Ratio c. Gaining ratio d. New profit-sharing ratio	**1**
4	In which of the following case, revaluation account is debited? a. Increase in value of asset b. Decrease in value of asset c. Decrease in value of liability d. No change in value of assets	**1**
5	**Assertion (A)**: When the profit-sharing ratio among existing partners changes,	**1**

	goodwill is adjusted through partners' capital accounts. **Reason (R):** The gaining partner compensates the sacrificing partner for goodwill. a) Both A and R are true, and R is the correct explanation of A b) Both A and R are true, but R is not the correct explanation of A c) A is true, but R is false d) A is false, but R is true	
6	R, S & T sharing profits and losses in the ratio of 1:2:3, decided to share future profit & losses equally. They also decided to adjust the following accumulated profits, losses & reserves without affecting their book figures, by passing a single adjustment entry: General Reserve ₹ 60,000; Profit and Loss A/c ₹80,000 Advertisement Suspense A/c ₹20,000 The necessary adjustment entry will be: a. Dr. R and Cr. T by ₹20,000 b. Dr. T and Cr. R by ₹20,000 c. Dr. S and Cr. R by ₹20,000 d. Dr. R and Cr. S by ₹20,000	**1**
7	Abhay & Beenu are partners in a firm sharing profits in the ratio of 3:2. They decided to share future profits equally. Calculate Abhay's gain or sacrifice a. 2/10 (sacrifice) b. 5/10 (gain) c. 1/10 (Gain) d. 1/10 (sacrifice)	**1**
8	In case of change in profit-sharing ratio, the gaining partner must compensate the sacrificing partner by paying the proportional amount of a. Capital b. Cash c. Goodwill d. None of the above	**1**
9	Partner's capital account is credited when there is a. Profit on revaluation b. Transfer of general reserve c. Transfer of accumulated profits d. All of the above	**1**
10	**Assertion (A)**: At the time of change in profit-sharing ratio, reserves and accumulated profits are distributed among partners in the old ratio. **Reason (R)**: This is done to ensure that only the new ratio is applied to future profits and losses, not to past accumulated amounts. (a) Both A and R are true, and R is the correct explanation of A (b) Both A and R are true, but R is not the correct explanation of A (c) A is true, but R is false (d) A is false, but R is true	

[3 MARKS -SHORT ANSWER QUESTION]

1	Amit & Sumit were partners in a firm sharing profits in the ratio of 3: 2. Ghosh was admitted as a new partner for 1/5th share in the profits. They decided to share future profits equally. On that date Balance Sheet of the firm showed a credit balance of ₹20,000 in its Profit & Loss A/c which was debited by the accountant of the firm in the accounts of Amit & Sumit. Did the accountant give correct treatment to the balance of Profit & Loss A/c? **If 'yes' give the reason and if 'not' give the correct treatment.**	**3**
2	Green, Red & Blue were partners sharing profits in the ratio of 5:3:2. From 1.4.2025, they decided to share the profits equally. For this purpose, the goodwill of the firm was valued at ₹2,40,000. Goodwill already appears in the books at ₹50,000. Pass necessary journal entry for the treatment of goodwill on change in the profit-sharing ratio of Green, Red & Blue.	**3**
3	Kumar, Gupta & Kavita were partners in a firm sharing profits & losses equally. The firm was engaged in the storage and distribution of canned juice, & its godowns were located at three different places in the city. Each godown was being managed individually by Kumar, Gupta & Kavita. Because of increase in business activities at the godown managed by Gupta, he had to devote more time. Gupta demanded that	**3**

his share in the profits of the firm be increased, to which Kumar & Kavita agreed. The new profit-sharing ratio was agreed to be 1:2:1. For this purpose the goodwill of the firm was valued at two years purchase of the average profits of last five years. The profits of the last five years were as follows:

Year	I	II	III	IV	V
Profit (₹)	**4,00,000**	**4,80,000**	**7,33,000**	**(33,000)**	**2,20,000**

You are required to:

I. Calculate the goodwill of the firm.

II. Pass necessary Journal Entry for the treatment of goodwill on change in profit sharing ratio of Kumar, Gupta and Kavita.

4 Samiksha, Ash & Divya were partners in a firm sharing profits & losses in the ratio of 5:3:2. With effect from 1st April,2025, they agreed to share future profits and losses in the ratio of 2:5:3. Their Balance Sheet showed a debit balance of ₹ 50,000 in the Profit & Loss Account and a balance of ₹ 50,000 in the Investment Fluctuation Fund. **3**

i. Goodwill of the firm be valued at ₹ 3,00,000.

ii. Investments of book value of ₹ 5,00,000 be valued at ₹ 4,70,000.

Pass the necessary JE to record the above transactions in the books of the firm.

5 P, Q & R are partners sharing profits in the ratio of 4:3:2. They decide to change the ratio to 3:3:3. Calculate the **sacrificing ratio** and **gaining ratio** of the partners **3**

4 MARKS -SHORT ANSWER QUESTION

1 Raka, Seema and Mahesh were partners sharing profit and losses in the ratio of 5:3:2. With effect from 1st April, 2025 they manually agreed to share profits and losses in the ratio of 2:2:1. On that date, there was a workmen's compensation fund of ₹ 90,000 in the books of the firm. It was agreed that goodwill of the firm be valued at ₹ 70,000. Claim for workmen's compensation amounted ₹ 40,000. Profit on revaluation of assets and re-assessment amounted to ₹ 40,000. **4**

Pass necessary journal entries for the above transaction in the book of the firm.

2 Jay, Vijay and Ajay are sharing profits and losses in the ratio of 5:3:2. They decided to share profits and losses in the ratio of 2:3:5 with effect from 1st April 2025. They also decide to record the effect of the following revaluations without affecting the book values of the assets and liabilities by passing and Adjustment Entry: **4**

Particulars	Book Values (₹)	Revised Values (₹)
Land and Building	10,00,000	11,00,000
Plant and Machinery	5,00,000	4,80,000
Sundry Creditors	1,20,000	1,10,000
Outstanding Expenses	1,20,000	1,50,000

Pass the necessary Adjustment Entry.

3 Santa, Banta and Manta share profits as 5:3:2. They decided to share their future profits as 4:3:3. On this date the following revaluations have taken place: **4**

Particulars	Book Value (₹)	Revised Value (₹)
Investments	44,000	50,000
Plant and Machinery	50,000	40,000
Land & Building	80,000	1,00,000
Outstanding Expenses	11,200	12,000
Sundry Debtors	1,20,000	1,00,000

Sundry Creditors	1,40,000	1,20,000	

Pass necessary journal entries under following cases:

i. If partners want to record the changed values in books.

ii. If partners do not want to record the changed values in books.

4	A, B and C were partners in the ratio of 5:4:1. On 31st Dec. 2024 their Balance sheet showed a Reserve Fund of ₹65,000, P&L A/c (Loss) of ₹45,000. On 1st January 2025, the partners decided to change their profit-sharing ratio to 9:6:5. For this purpose goodwill was valued at ₹1,50,000. The partners do not want to distribute reserves and losses and also do not want to record goodwill. You are required to pass single journal entry for the above.	**4**
5	(a) A, B & C are partners sharing profits in the ratio of 3:2:1. They decide to change the ratio to 2:2:2. Calculate the **sacrificing ratio** and **gaining ratio**. (b) X, Y & Z are partners sharing profits in the ratio of 5:3:2. They decide to change the ratio to 4:4:2. Goodwill of the firm is valued at ₹60,000. Pass the **adjustment entry for goodwill**.	**4**

ANSWER KEY (1 MARK QUESTION – MCQ)

1	(b) Reconstitution of partnership	**6**	a) Dr. R and Cr. T by Rs.10,000
2	(b) Sacrificing Ratio	**7**	(d) 1/10 (sacrifice)
3	(a) Old profit-sharing ratio	**8**	(c) Goodwill
4	(b) Decrease in value of asset	**9**	(d) All of the above
5	(a)Both Assertion & Reason are true, and Reason correctly explains why goodwill is adjusted during a change in ratio.	**10**	**(a)** Both Assertion & Reason are true, & Reason correctly explains the treatment of reserves during change in ratio.

ANSWER KEY (3 MARKS -SHORT ANSWER QUESTION)

1 No, the accountants didn't give correct treatment.

Reason: As credit balance in Profit and Loss Account indicates undistributed profits. It should have been credited to Amit and Sumit's Capital Account.

Date	Particulars		Dr. (₹)	Cr. (₹)
	Profit & Loss A/c	Dr.	20,000	
	To Amit's Capital A/c			12,000
	To Sumit's Capital A/c			8,000

2

Date	Particulars		Dr. (₹)	Cr. (₹)
	Red's Capital A/c	Dr.	8,000	
	Blue's Capital A/c	Dr.	32,000	
	To Green's Capital A/c			40,000
	Green's Capital A/c	Dr.	25,000	
	Red's Capital A/c	Dr.	15,000	
	Blue's Capital A/c	Dr.	10,000	
	To Goodwill A/c			50,000

3 Calculation of Goodwill of the firm

Avg. Profit = ₹(4,00,000 + 4,80,000 + 7,33,000 – 33,000 + 2,20,000) / 5 = ₹3,60,000

Goodwill of the firm = 2 x 3,60,000 = ₹7,20,000

Date	Particulars	Dr. (₹)	Cr. (₹)
	Gupta's Capital A/c Dr.	1,20,000	
	To Kumar's Capital A/c		60,000
	To Kavita's Capital A/c		60,000

4

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Samiksha's Capital A/c Dr.		25,000	
	Ash's Capital A/c Dr.		15,000	
	Divya's Capital A/c Dr.		10,000	
	To Profit and Loss A/c			50,000
	Investment Fluctuation Fund A/c Dr.		40,000	
	To Investment A/c			20,000
	To Samiksha's Capital A/c			10,000
	To Ash's Capital A/c			6,000
	To Divya's Capital A/c			4,000
	Ash's Capital A/c		60,000	
	Divya's Capital A/c		30,000	
	To Samiksha's Capital A/c			90,000

5 **Solution (Step by Step)**

1. **Old Ratio** = 4:3:2 → Total parts = 9 → P = 4/9, Q = 3/9, R = 2/9
2. **New Ratio** = 3:3:3 → Total parts = 9 → P = 3/9, Q = 3/9, R = 3/9
3. **Change in Share:**

P: Old = 4/9, New = 3/9 → **Loss = 1/9** Q: Old = 3/9, New = 3/9 → **No change**
R: Old = 2/9, New = 3/9 → **Gain = 1/9**
Sacrificing Ratio = P: (Loss) = 1/9 **Gaining Ratio** = R: (Gain) = 1/9

ANSWER KEY [4 MARKS -SHORT ANSWER QUESTION]

1

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Seema's Capital A/c Dr.		7,000	
	To Raka's Capital A/c			7,000
	WCF A/c Dr.		90,000	
	To WCF Claim A/c			40,000
	To Raka's Capital A/c			25,000
	To Seema's Capital A/c			15,000
	To Mahesh's Capital A/c			10,000
	Revaluation A/c Dr.		40,000	
	To Raka's Capital A/c			20,000
	To Seema's Capital A/c			12,000
	To Mahesh's Capital A/c			8,000

2 **Calculation of Net Effect of Revaluation:**

Increase in value of Land and Building	1,00,000
Decrease in number of sundry Creditors	10,000
Decrease in value of Plant and Machinery	(20,000)
Increase in the amount of outstanding Expenses	(30,000)
Gain in the amount of Outstanding Expenses	60,000

Calculation of Sacrificed (Gained) Profit Share:

	Jay	Vijay	Ajay
Old Profit Share	5/10	3/10	2/10
New Profit Share	2/10	3/10	5/10
Sacrificed (Gained) Profit Share	**3/10**	**…..**	**-3/10**

Calculation of Proportionate of share of Gain on Revaluation:
Jay's Sacrificed=3/10x60,000= ₹18,000, Ajay's Gain= 3/10x60,000= ₹18,000

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Ajay's Capital A/c Dr.		18,000	
	To Jay's Capital A/c			18,000

3

Calculation of Revaluation Profit:

1. Investments	6,000
2. Plant & Machinery	(10,000)
3. Land & Building	20,000
4. Outstanding Expenses	(800)
5. Sundry Debtors	(20,000)
6. Sundry Creditors	20,000
Revaluation Profit	**15,200**

Calculation of Sacrificed (Gained) Profit Share:

	Santa	Banta	Manta
Old Profit Share	5/10	3/10	2/10
New Profit Share	4/10	3/10	3/10
Sacrificed(Gained) Profit Share	**1/10**	**…..**	**(1/10)**

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Manta's Capital A/c Dr. To Santa's Capital A/c		1,520	 1,520

4

Calculation of Net Profit / Loss

Reserve Fund	65,000
Profit & Loss	(45,000)
Goodwill	1,50,000
Revaluation Profit	**1,70,000**

Calculation of Sacrificed (Gained) Profit Share:

	A	B	C
Old Profit Share	5/10	4/10	1/10
New Profit Share	9/20	6/20	5/20
Sacrificed (Gained) Profit Share	1/20	2/20	(3/20)

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c		25,500	 8,500 17,000

5

(a) A:Old share=3/6, New share= 2/6 → Loss= 1/6
B: Old share = 2/6, New share=2/6 → No change
C: Old share = 1/6, New share = 2/6 → Gain = 1/6
Sacrificing Partner = A (Sacrificing Ratio = 1/6
Gaining Partner = C (Gaining Ratio = 1/6)

(b) Change in share:
X: Old = 5/10, New = 4/10 → Loss = 1/10
Y: Old = 3/10, New = 4/10 → Gain = 1/10
Z: Old = 2/10, New = 2/10 → No change
So, X sacrifices & Y gains.
Goodwill = ₹60,000
Sacrificing Share=1/10 of ₹ 60,000= ₹6,000

Goodwill and Methods of Valuation of Goodwill

Meaning of Goodwill:
Over a period, a well-established business develops an advantage of good name, reputation and wide business connections. This helps the business to earn more profits as compared to a newly set up business. In accounting, the monetary value of such advantage is known as "goodwill".
Definition: Goodwill is an intangible asset that represents the value of a firm's reputation, brand, customer relations & other non-physical assets that contribute to earning potential. It is often considered when calculating the value of a business during acquisitions or mergers.

Factors Affecting the Value of Goodwill
The main factors affecting the value of goodwill are as follows:
1. Nature of business **2. Location** **3. Efficiency of management**
4. Market situation **5. Special advantages**

Need for Valuation of Goodwill
In a partnership firm, goodwill needs to be valued in the following circumstances:
1. Change in the profit-sharing ratio amongst the existing partner;
2. Admission of new partner;
3. Retirement of a partner;

4. Death of a partner; and
5. Dissolution of a firm involving sale of business as a going concern.
6. Amalgamation of partnership firm

Methods of Valuation of Goodwill
1. Average Profits Method

(a) Simple Average method
Stepwise procedure to calculate Goodwill under this method:
Step1: Work out profits or losses given for each of the past year after taking into account abnormalities, if any.
Step2: Calculate average by dividing the total profit of all the year by the No.of years.
Step3: Goodwill= Average Profit x No. of year's purchase.

(b) Weighted Average
Under this method, earlier year are less important than the recent years. Thus, each year's profit is multiplied by its respective number (weight) in chronological order. The latest year will be given the highest weight, and the earliest year will be given lowest weight. Each profit figure will be multiplied by its weight and then the total of these products will be calculated. This total will be divided by the total of weights.
Then Goodwill = Weighted Average x No. of years purchase

2. Super Profit Method
Stepwise procedure to calculate Goodwill under this method:
- ✓ Calculate the average profit,
- ✓ Calculate the normal profit on the capital employed on the basis of the normal rate of return,
- ✓ **Formula:** Normal Profit = Capital Employed x NRR /100
- ✓ Calculate the super profits by deducting normal profit from the average profits,
- ✓ **Formula:** Super Profit = Average Profit - Normal Profit
- ✓ Goodwill = Super profits x No. of years' purchases

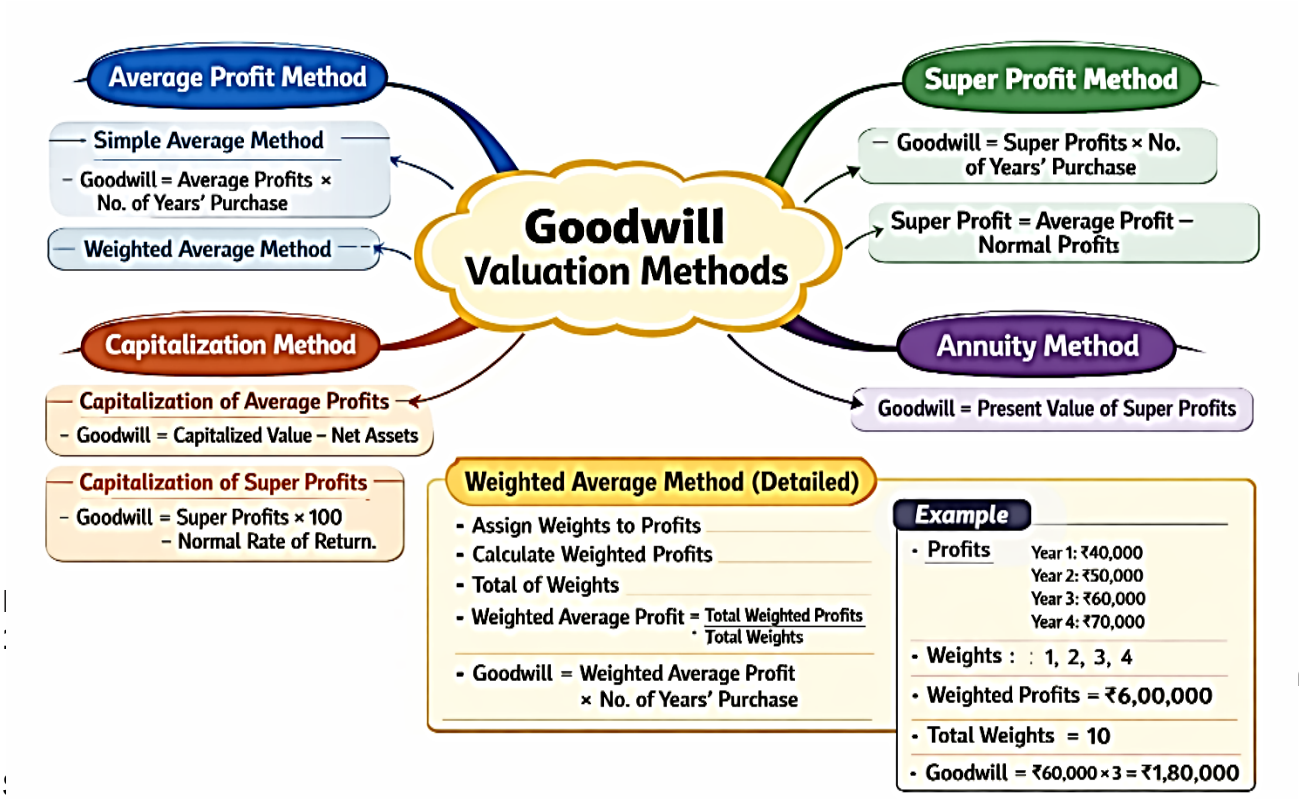
3.Capitalisation Method:
Under this method the goodwill can be calculated in two ways:
(a) by Capitalizing the Average Profits (b) by Capitalizing the Super Profits.

<u>Capitalization of Average Profits</u>:
This involves the following steps:
- ✓ As certain the average profits are based on the past few years' performance.
- ✓ Capitalize the average profits based on the normal rate of return to ascertain the capitalized value of average profits as follows:

Average Profitsx100/ Normal rate of Return
As certain the actual capital employed (net assets) by deducting outside liabilities from the total assets (excluding goodwill).
Capital Employed/Net Assets=Total Assets (excluding goodwill)–Outside Liabilities
Compute the value of goodwill by deducting net assets from capitalized value of average profits, i.e. (ii)–(iii).

<u>Capitalization of Super Profits</u>: It involves the following steps.
Calculate capital employed of the firm, which is equal to total assets minus outside liabilities.
Calculate normal profit = Capital Employed X Normal Rate of Return/100
Calculate average profit for past year, as specified.
Super profits = Average profits/Actual profit - normal profits
Goodwill = Super Profits × 100/ Normal Rate of Return

Note: In other words, goodwill is the capitalized value of super profits. The amount of goodwill worked out by this method will be the same as calculated by capitalizing the average profits.



=₹60,000 × 3 **= ₹1,80,000**

2. Super Profit Method:

Q: Capital employed = ₹5,00,000, Normal rate of return = 10%, Average profit = ₹80,000 Calculate goodwill for 4 years' purchase.

Sol: Normal Profit=₹5,00,000×10% = ₹50,000; Super Profit=₹80,000−₹50,000=₹30,000

Goodwill = Super Profit × No of Years' Purchase = ₹30,000 × 4 **= ₹1,20,000**

3. Capitalisation Method

Q: Average profit = ₹1,00,000; Normal rate of return= 10% Capital employed= ₹8,00,000 Find goodwill.

Sol: Capitalized Value of Business = Avg. Profit×100/Normal Rate of Return

= ₹1,00,000×100/10=₹10,00,000

Goodwill=Capitalized Value−Capital Employed=₹10,00,000−₹8,00,000**= ₹2,00,000**

PRACTICE QUESTIONS [1 MARK QUESTION – MCQ]

1	**Assertion (A):** Goodwill is an intangible asset that represents the reputation of a firm. **Reason (R):** Goodwill can be seen physically in the form of buildings and machinery. a) Both A and R are true, and R is the correct explanation of A b) Both A and R are true, but R is not the correct explanation of A c) A is true, but R is false d) A is false, but R is true	1

2	**Assertion (A):** Goodwill is valued when there is a change in profit-sharing ratio among existing partners. **Reason (R):** The gaining partner compensates the sacrificing partner for goodwill. a) Both A and R are true, and R is the correct explanation of A b) Both A and R are true, but R is not the correct explanation of A c) A is true, but R is false d) A is false, but R is true	**1**
3	A and B are sharing profits and losses in the ratio 5:3. They admitted C as a partner & gave him 1/5th share of the profits. He acquired his share equally from A & B. New profit-sharing ratio will be: (a) 5 : 6 : 3 (b) 2 : 4 : 6 (c) 21 : 11 : 8 (d) 18 : 24 : 38	**1**
4	When there is no Goodwill Account in the books and goodwill is raised ,……. account will be debited: (a) Partner's Capital (b) Goodwill (c) Cash (d) Reserve	**1**
5	At the time of admission of a new partner's general reserve appearing in the old Balance Sheet is transferred to: (a) All Partner's Capital A/c (b) New Partner's Capital A/c (c) Old Partners' Capital A/c (d) None of these	**1**
6	Profit or Loss on Revaluation is borne by: (a) Old Partners (b) New Partners (c) All Partners (d) Only Two Partners	**1**
7	Share of goodwill brought by new partner in case is shared by old partners in: (a) Sacrificing Ratio (b) Old Ratio (c) New Ratio (d) Equal Ratio	**1**
8	**Assertion (A)**: A new partner should contribute towards goodwill on his admission. **Reason (R)** : It is because the new partner has to compensate the existing partners for the sacrifice they make in his favour. a) Both (A) and(R) are true, but (R) is not the correct explanation of (A) b) Both (A) and(R) are true, and (R) is the correct explanation of (A) c) Both (A) and (R) are false d) Both(A) and (R) are true.	**1**
9	Ganga & Jamuna partner sharing profit in the ratio of 2:1. They admitted Saraswati for 1/ 5th share in future profit. On the date of admission, Ganga's capital was ₹1,02,000 and Jumna's capital was ₹73,000. Saraswati brings ₹25,000 as a share of goodwill and she agrees to contribute proportionate capital of the new firm. How much capital will be brought by Saraswati? a) ₹43,75 b) ₹37,000 c) ₹ 50,000 d) ₹40,000	**1**
10	What will be the journal entry in respect of goodwill. a) Credit P's capital A/c by ₹ 40,000 & Q's capital A/c by ₹ 30,000. b) Credit P's capital A/c by ₹ 20,000 & Q's capital A/c by ₹ 15,000 c) Credit P's capital A/c by ₹ 10,000 & Q's capital A/c by ₹ 25,000 d) Credit P's capital A/c by ₹ 20,000 & Q's capital A/c by ₹ 50,000.	**1**

[3 MARKS -SHORT ANSWER QUESTION]

1	Asha & Babita were partners in a firm. Their capitals were ₹ 15,00,000 & ₹ 10,00,000 respectively. The normal rate of return was 15%. The profits for the last four years were: 2019 – 20…… ₹2,50,000; ……. 2020 – 21…… ₹ (50,000) 2021 – 22 ……₹ 8,00,000 2022 – 23…… ₹5,00,000 The closing stock for the year 2022 – 23 was undervalued by ₹1,00,000. Goodwill is to be valued at two years' purchase of the last four years' average super profits. Calculate the value of Goodwill.	**3**
2	Average profit earned by a firm is ₹75,000 which includes undervaluation of stock of ₹ 5000 on average basis. The capital invested in the business is ₹ 8,00,000 & the Normal rate of return is 8 %. Calculate goodwill of the firm on the basis of 5 times the Super Profit.	**3**

3	Profits of the firm for 4 years are ₹40,000, ₹50,000, ₹60,000, ₹70,000. Weights assigned are 1, 2, 3, 4. Calculate goodwill using **Weighted Average Profit Method** if Years' Purchase = 3.	**3**
4	On 1/4/2025, the capital of the firm of Ashu & Madhav is ₹1,50,000. The Normal rate of return on capital employed is 10%. Average profits of the firm are ₹23,500. **Calculate goodwill of the firm based on 03 years purchase of super profits.**	**3**
5	Atul & Neera were partners in a firm sharing profits in the ratio of 3:2. They admitted Mitali as a new partner. Goodwill of the firm was valued at ₹2,00,000. Mitali brings her share of goodwill premium of ₹20,000 in cash, which is entirely credited to Atul's Capital A/c. Calculate the new profit-sharing ratio.	**3**

[4 MARKS -SHORT ANSWER QUESTION]

1	Hari and Krishan were partners, sharing profits and losses in the ratio of 2: 1. They admitted Shyam as a partner for 1/5th share in the profits. For this purpose, the Goodwill of the firm was to be valued on the basis of three years' purchase of last five years' average profits. The profits for the last five years were: **Year 2020-21 2021-22 2023-24 2024-25 2025-26** **Profit (₹) 50,000 40,000 75,000 (25,000) 50,000** Calculate Goodwill of the firm after adjusting the following: The profit of 2025-26 was calculated after charging ₹ 10,000 for abnormal loss of goods by fire	**4**
2	Distinguish b/w **Average Profit Method** & **Super Profit Method** of goodwill valuation.	**4**
3	(a) Profits of a firm for the last 3 years are ₹40,000, ₹50,000 & ₹60,000. Calculate goodwill using **Average Profit Method** if Years' Purchase = 2. (b) Average Profit= ₹60,000. Capital Employed= ₹4,00,000. Normal Rate of Return = 10%. Calculate goodwill using **Capitalization of Super Profit Method**.	**4**
4	Arjun and Kabir are partners in the ratio of 1:2. They admitted Ranjan as a partner for 1/4th share in the profits. Ranjan brought ₹2,60,000 as his capital but he was unable to bring any amount as his share of goodwill as premium for goodwill. Goodwill of the firm was valued at ₹2,40,000. Pass necessary entries for the above.	**4**

ANSWER KEY [1 MARK QUESTION – MCQ]

1	**c)** Assertion is true (Goodwill is intangible and represents reputation), but Reason is false (Goodwill cannot be seen physically).
2	**a)** Both Assertion and Reason are true, and Reason correctly explains why goodwill is valued during a change in ratio.
3	c) 21: 11 : 8
4	b) Goodwill
5	c) Old Partners' Capital A/c
6	a) Old Partner
7	a) Sacrificing Ratio
8	b) Both (A) and (R) are true, and (R) is the correct explanation of (A)
9	c) ₹ 50,000
10	d) Credit P 'Capital A/c by ₹ 20,000 & Q's Capital A/c by ₹50,000

ANSWER KEY [3 MARKS -SHORT ANSWER QUESTION]

1	GOODWILL ₹ 50,000
2	Avg. Adjusted Profit=Avg. Profit+ Undervaluation of Stock= 75,000 + 5,000=₹ 80,000 Normal Profit=Capital Employed x NRR /100=(8,00,000 x 8/100) = ₹ 64,000 Super Profit = Adjusted Average Profit - Normal Profit =(80,000 – 64,000) = ₹16000 Value of Goodwill = ₹ 16,000 × 5 = ₹ 80,000
3	Weighted Profits = (40,000×1) + (50,000×2) + (60,000×3) + (70,000×4) = 40,000 + 1,00,000 + 1,80,000 + 2,80,000 = ₹6,00,000 Total Weights = 1+2+3+4 = 10

	Weighted Average Profit = 6,00,000 ÷ 10 = ₹ 60,000 Goodwill = 60,000 × 3 = ₹ **1,80,000**
4	Normal Profit = 10/100 x 150,000 = 15,000 ; Average Profit = ₹23,500 Super Profit = Average Profits – Normal Profit= 23,500 - 15,000 = ₹8,500 Goodwill = Super Profits x No. of years' purchase = 8500 x 3= ₹ 25,500
5	Firms' goodwill = ₹ 2,00,000 Premium for goodwill brought in by New partner Mitali = ₹ 20000 So, Mitali s share = 20,000/ 2,00,000 = 1/10 Premium for goodwill is entirely credited to Atul's Capital A/c means only Atul sacrifice. So, Atul's sacrificing ratio = 1/10 ∴ Atul's new share = 3/5−1/10=(6−1)/10=5/10; Neera's new share = 2/5×2/2=4/10; Mitali's new share = 1/10 = 1/10; **New Ratio = 5 : 4 : 1**

ANSWER KEY [4 MARKS -SHORT ANSWER QUESTION]

1 VALUE OF GOODWILL ₹1,20,000)

2

Basis	Average Profit Method	Super Profit Method
Concept	Goodwill based on average profits of past years	Goodwill based on excess profits over normal profits
Formula	Goodwill = Average Profit × No. Years' Purchase	Goodwill = Super Profit × Years' Purchase
Focus	Considers only past profits	Considers future earning capacity

3

(a) Average Profit = (40,000 + 50,000 + 60,000) ÷ 3 = ₹ 50,000
Goodwill = 50,000 × 2 = ₹1,00,000

(b) Average Profit = (30,000 + 40,000 + 50,000) ÷ 3 = ₹ 40,000
Super Profit = Average Profit – Normal Profit = 40,000 – 35,000 = ₹ 5,000
Goodwill = 5,000 × 3 = ₹ 15,000

4

DATE	PARTICULARS	LF	DR. AMT	CR. AMT
	Cash A/c Dr. To Ranjan's Capital A/c (Cash brought in for capital)		2,60,000	 2,60,000
	Ranjan's Capital A/c Dr. To Arjun's Capital A/c To Kabir's Capital A/c (Adjustment of Goodwill)		60,000	 20,000 40,000

ADMISSION OF A PARTNER:

Meaning-Admission of a partner means a new member is admitted to the along with capital, and the new partner will bring a premium for goodwill.

The new partner acquires the right:

Right to share the profits /losses (to get this right, the new partner brings a premium for goodwill)

Right to share the assets (to get this right, the new partner brings an amount of capital) The old partners sacrifice their share of profits in favour of a new partner & get the amount of the premium of goodwill.

Goodwill is an intangible asset, is recognized in books only if it is purchased goodwill. It is written off by debiting old partners' capital/current accounts in their old profit-sharing ratio. Self-generated goodwill is adjusted through partners' capital/current accounts.

The Following Adjustments are needed at the time of admission of a New Partner:

1. Calculation of New Profit-Sharing Ratio & Sacrificing Ratio
2. Accounting treatment of Goodwill
3. Accounting treatment for revaluation of assets and reassessment of liabilities.
4. Accounting treatment of reserves and accumulated profits
5. Accounting treatment of Deferred Revenue Expenditure (Advertisement expenses)
6. Adjustment of Partners' Capital on the basis of new profit-sharing ratio.

<u>Calculation of New Profit-Sharing Ratio</u>

When a new partner is admitted, he acquires his share of profits from the old partners. In other words, on the admission of a new partner, the Old Partners Sacrifice share of their profit in favour of the new partner.

However, if nothing is specified as to how the new partner acquires his share from the old partners, it may be assumed that he gets it from them in their old profit-sharing ratio.

<u>Sacrificing ratio</u>- The ratio in which the old partners agree to sacrifice their share of profit in favour of the incoming partner is called the sacrificing ratio.

Sacrifice by a Partner = Old Share of Profit - New Share of Profit

EXAMPLE:

Rohit and Mohit are partners in a firm sharing profits in the ratio of 5:3. They admit Bijoy a partner for a 1/7 share in the profit. The new profit-sharing ratio is 4:2:1.

Rohit's sacrifice = 5/8 - 4/7 = 3/56; Mohit's sacrifice = 3/8 - 2/7 = 5/56

Thus, the sacrificing ratio between Rohit and Mohit will be 3:5.

If nothing is specified as to how does the new partner acquires his share from the old partners, it may be assumed that he gets it from them in their old profit-sharing ratio (i.e., sacrificing ratio = old profit-sharing ratio)

<u>CASE I:</u>

The old profit-sharing ratio and proportionate share of the new partner are given. Nothing is specified as to the ratio in which the new partner acquires his share from the old partners.

EXAMPLE:

Anil and Vishal are partners, sharing profits in the ratio of 3:2. They admitted Sumit as a new partner for a 1/5 share in the future profits of the firm.
Sumit's share = 1/5. Therefore, the combined share of Anil and Vishal = 1 - 1/5 = 4/5.
Anil's new share = 3/5 x 4/5 = 12/25; Vishal's new share = 2/5 x 4/5 = 8/25
New profit-sharing ratio of Anil, Vishal and Sumit = 12/25: 8/25: 1/5 = 12:8:5

CASE II:

The old profit-sharing ratio, share of the new partner and the new ratio between old partners are given.

EXAMPLE:

Amar and Bahadur are partners in a firm sharing profits in the ratio of 3:2. They admitted Mary as a new partner for a 1/4 share.
The new profit-sharing ratio between Amar and Bahadur will be 2:1; Mary's share=1/4.
Therefore, the combined share of Amar and Bahadur = 1 - 1/4 = 3/4
which is to be shared by Amar and Bahadur in 2:1.
Thus, Amar's new share = 2/3 x 3 / 4 = 6/12; Bahadur's new share = 1/3 x 3 / 4 = 3/12
Therefore, the new profit-sharing ratio of Amar, Bahadur and Mary= 6/12: 3/12: 1/4 = 2:1:1.

Calculation of Sacrificing Ratio: Old ratio – New ratio

Amar's sacrifice = 3/5 - 2/4 = 2/20; Bahadur's sacrifice = 2/5 - 1/4 = 3/20.
Therefore, the sacrificing ratio between Amar and Bahadur = 2:3

CASE III:

Old partners, old profit-sharing ratio, new partner's share and sacrificing ratio are given

EXAMPLE:

Akshay and Bharti are partners sharing profits in the ratio of 3:2. They admit Dinesh as a new partner for a 1/5th share in the future profits of the firm, which he gets equally from Akshay and Bharti.
Sacrificing Ratio of Akshay and Bharti = 1:1
Therefore, Akshay's Sacrifice = Bharti's Sacrifice =1/2 x 1/5 =1/10

Calculation of new profit-sharing ratio:

New share of an existing partner = Old share - Sacrificing share
Akshay's new share = 3/5 - 1/10 = 5/10.; Bharti's new share = 2/5 - 1/10 = 3/10.
Therefore, the New Profit-Sharing Ratio between Akshay, Bharti & Dinesh
= 5/10: 3/10: 1/5 =5:3:2

CASE IV:

Old Partners' old profit-sharing ratio, New Partner's share and Old Partners absolute sacrificing share are given

EXAMPLE

Anshu and Nitu are partners sharing profits in the ratio of 3:2. They admitted Jyoti as a new partner for a 3/10 share, which she acquired 2/10 from Anshu and 1/10 from Nitu.
Sacrificing ratio of Anshu and Nitu = 2/10: 1/10 = 2:1

Calculation of new profit-sharing ratio:

New share of an existing partner = Old Share - Sacrificing Share
Anshu's New Share = 3/5 - 2/10 = 4/10.; Nitu's New Share = 2/5 - 1/10 = 3/10.
Therefore, the New Profit-Sharing Ratio b/w Anshu, Nitu & Jyoti= 4/10: 3/10: 3/10 =4:3:3

CASE V:

Old Partners, old profit-sharing ratio and their relative sacrificing share are given.

EXAMPLE

Ram and Shyam are partners in a firm sharing profits in the ratio of 3:2. They admit Ghanshyam as a new partner. Ram surrenders 1/4 of his share and Shyam 1/3 of his share in favour of Ghanshyam.
Share surrendered by Ram (Ram's sacrificing share) = 1/4 x 3 / 5 = 3/20
Shyam's sacrificing share = 1/3 x 2 / 5 = 2/15
Therefore, the Sacrificing Ratio of Ram and Shyam = 3/20: 2/15 = 9:8

Calculation of New Profit-Sharing Ratio:

New share of a partner = Old share - Sacrificing share

Ram's new share = 3/5 - 3/20 = 9/20; Shyam's new share = 2/5 - 2/15 = 4/15

Ghanshyam's share = Ram's sacrifice share + Shyam's sacrificing share

= 3/20 + 2/15 = 17/60

Therefore, New profit-sharing ratio among Ram, Shyam and Ghanshyam

= 9/20: 4/15:17/60 = 27:16:17

CASE VI:

Not all the old partners sacrifice their share of profit in favour of the new partner. In fact, some old partner(s) may gain on the admission of a new partner.

EXAMPLE

Ramesh and Suresh are partners in a firm sharing profits in the ratio of 4:3. They admitted Mohan as a new partner.

The profit-sharing ratio of Ramesh, Suresh and Mohan will be 2:3:1

Ramesh's Sacrifice = Old Share - New Share = 4/7-2/6 = 10/42

Suresh's Sacrifice = Old Share - New Share = 3/7-3/6= -3/42 (gain)

Thus, Suresh gains 3/42nd share of profit on Mohan's admission.

So, he will also compensate for an amount equal to "Goodwill of the firm x 3/42 to Ramesh.

(Ramesh's sacrifice = Suresh's gain + Mohan's share (gain) = 3/42 + 1/6 = 10/42.

In this case, the whole sacrifice is by Ramesh.)

Absolute and Relative sacrificing share

If A & B are partners, who share profits & losses in the ratio 3:2, admitted C is admitted as a partner.

- **A sacrifice 1/4 from his share,** which means that 1/4 is the absolute sacrificing share of A. Therefore, A's sacrifice=1/4
- **A sacrifice 1/4 of his share means** that ¼ is not the absolute sacrificing share of A, but the relative sacrificing share i.e,

A's sacrifice = ¼ x 3/5 = 3/20. Thus 3/20 is A's absolute sacrificing share

Accounting treatment of Goodwill

Case 1:	**When a premium for goodwill is paid privately by a new partner** ------No entry-------
Case 2:	**When a premium for goodwill is brought in by a new partner and retained in the business**, Cash/Bank A/c Dr. To Premium for Goodwill A/c Premium for Goodwill A/c Dr. To Sacrificing Partner's Capital/Current A/cs (Premium distributed among the sacrificing partners in their sacrificing ratio)
Case 3:	**When a premium for goodwill is brought in kind**, Assets A/c Dr. To Premium for Goodwill A/c To New Partner's Capital A/c Premium for Goodwill A/c Dr. To Sacrificing Partner's Capital/ Current A/c
Case 4:	**If the sacrificing partners withdraw their amounts of goodwill (in full or in part), the following additional entry will be passed in addition to** Partner's Capital/ Current A/c Dr. To Cash/ Bank A/c

Case 5:	**When the new partner is unable to bring his share of the premium for goodwill in cash,** New Partner's Current A/c Dr. To Sacrificing Partner's Capital/ Current A/c

SITUATION: When goodwill **<u>already exists</u> <u>in the books of the firm</u>,** it is written off at the time of admission of a partner by debiting the old partner's capital account in the old profit-sharing ratio.

Old Partner's Current/ Capital A/c Dr.
To Goodwill A/c
(Existing goodwill written off in old ratio)

When a new partner brings cash and assets for his capital, the entry will be

Cash/ Bank A/c Dr
Assets A/c Dr.
To New Partners' Capital A/c

<u>Accounting treatment for revaluation of assets and reassessment of liabilities</u>

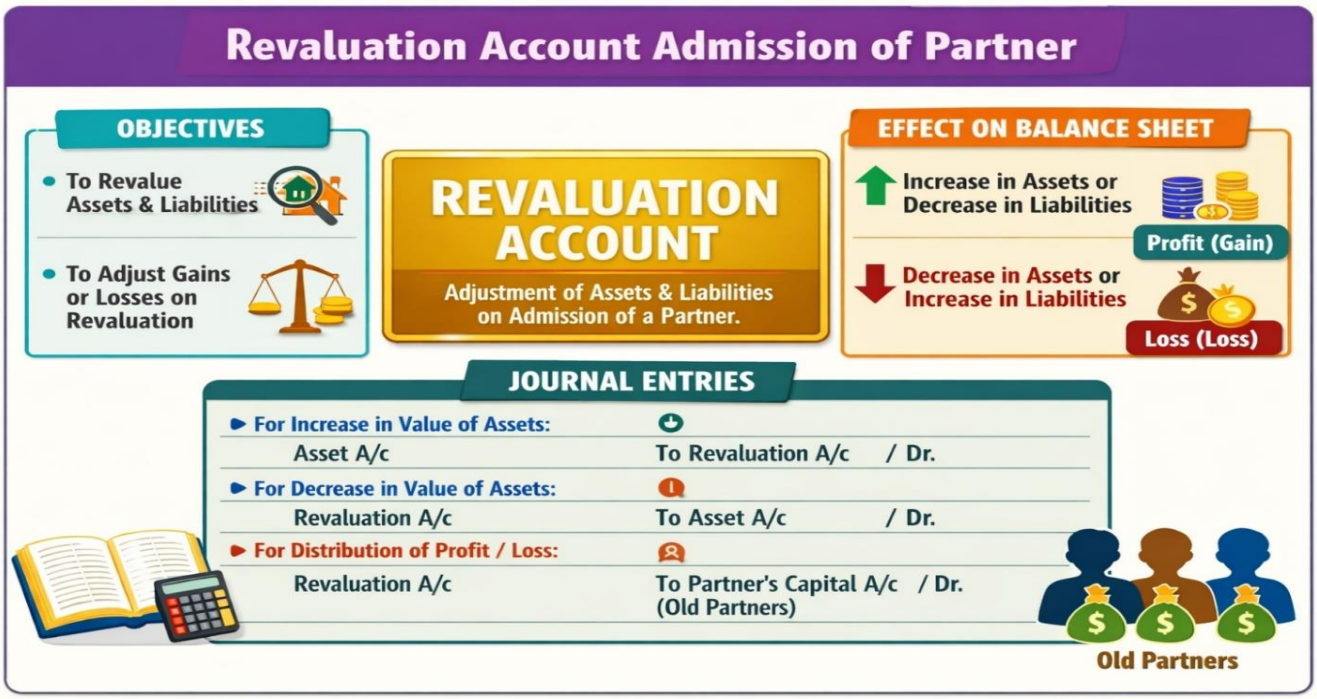
At the time of admission of a partner, assets are revalued & liabilities are re-assessed. The change in value of assets & liabilities is adjusted through an A/c titled **Revaluation A/c.** Profit/Loss of revaluation A/cs are transferred to old Partners Capital A/cs in their old profit-sharing ratio.

The journal entries passed on revaluation of assets and reassessment of liabilities are:

1.	**For an increase in the value of assets**	Assets A/c (Individually) ... Dr. To Revaluation A/c
2.	**For a decrease in the value of assets**	Revaluation A/c Dr. To Assets A/c (Individually)
3.	**For an increase in the amount of liabilities**	Revaluation A/c Dr. To Liabilities A/c (Individually)
4.	**For a decrease in the amount of liabilities**	Liabilities A/c (Individually) Dr. To Revaluation A/c
5.	**For accounting Unrecorded Assets**	Unrecorded Assets A/c (Individually) Dr. To Revaluation A/c
6.	**For accounting Unrecorded Liabilities**	Revaluation A/c Dr. To Unrecorded Liabilities A/c (Individually)
7.	**For trf profit on revaluation (if Cr. Bal.)**	Revaluation A/c Dr. To old Partners capital/current A/c (in old ratio)
8.	**For transfer loss on revaluation**	Old Partners' capital/current A/c Dr. To Revaluation A/c (in their old ratio)

Dr. Revaluation A/c Cr.

Particulars	Amt.	Particulars	Amt.
To decrease in value of Assets (Loss)	xxx	By Increase in value of Assets (Profit)	xxx
To increase in value of Liabilities (Loss)	xxx	By Decrease in value of Liabilities (Profit)	xxx
To Unrecorded Liabilities	xxx	By Unrecorded Assets (At an Agreed Value)	xxx
To Partners capital A/c (remuneration)	xxx	By Loss Transferred to old Partners Capital/Current A/c (In old ratio)	xxx
To Bank A/c (Expenses)	xxx		
To Profit Transferred to Old Partners Capital/Current A/c (In old ratio)	xxx		
	xxx		xxx



<u>Accounting treatment of Reserves and Accumulated Profits</u>

1. **For accumulated profit**:

Profit & Loss A/c Dr.
Reserve A/c Dr.
To old Partners' Capital/ Current A/c (In the old profit-sharing ratio)

2. **For Losses**:

Old Partners' capital A/c Dr.
To Profit & Loss A/c
To Deferred Revenue Expenses A/c (In the old profit-sharing ratio)

<u>Treatment of workmen's compensation fund</u>

<u>CASE 1</u> ***If there is a workmen's compensation claim, it will be set off from the Workmen's Compensation Fund/Reserve.***

The surplus of Workmen's Compensation Fund/Reserve (i.e. workmen's compensation fund/reserve - workmen's compensation claim) will be distributed among the existing partners in their old profit-sharing ratio, i.e. credited to their capital/current accounts.
The following Journal Entry will be passed:

Workmen's Compensation Fund A/c Dr.
To Workmen's Compensation Claim A/c
To Old Partners' Capital A/cs (Individually)

<u>CASE 2</u> In case there is no workmen's compensation claim, the total amount of the Workmen's Compensation Fund will be distributed among the existing partners in their old profit-sharing ratio.

The following Journal Entry will be passed:

Workmen's Compensation Fund A/c Dr
To Old Partners' Capital A/c (Individually)

CASE 3 In case, Workmen's Compensation Claim exceeds the Workmen's Compensation Fund, the excess amount of liability (i.e. Workmen's Compensation Claim - Workmen's Compensation Fund) will be debited to Revaluation A/c.

The following Journal Entry will be passed:

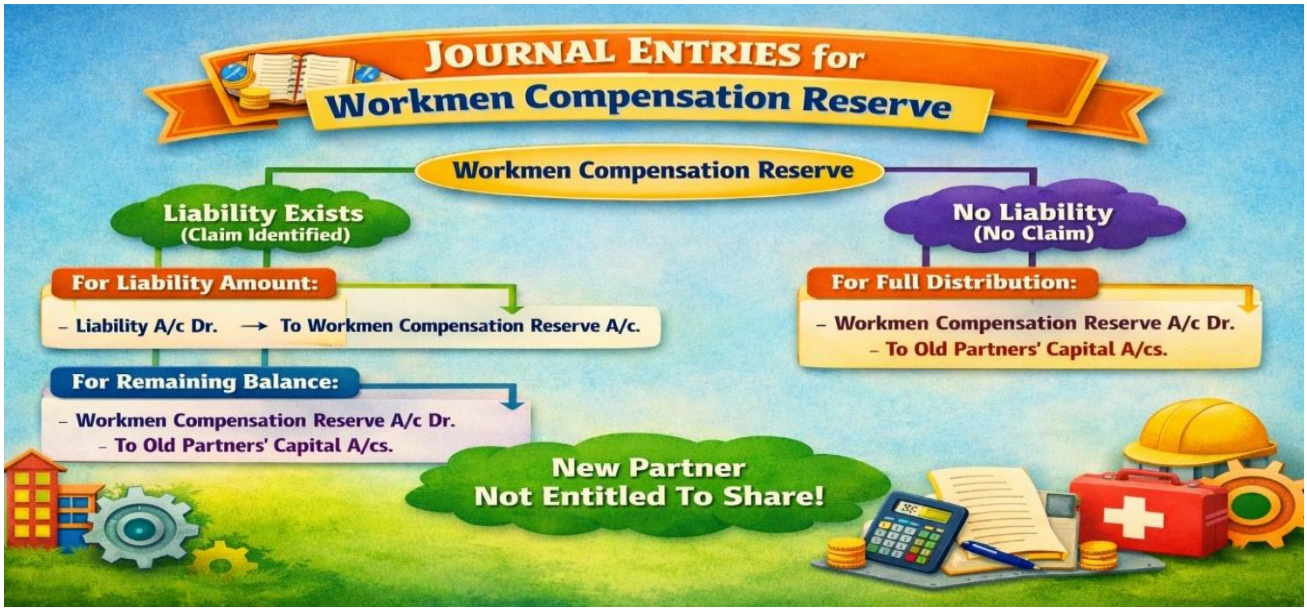
Workmen's Compensation Fund A/c Dr.
Revaluation A/c Dr.
To Workmen's Compensation Claim A/c

CASE 4 In case the workmen's compensation claim is equal to, the amount of the Workmen's Compensation Fund, then the total amount of the Workmen's

Compensation Fund will be transferred to the workmen's compensation claim A/c.
The following Journal Entry will be passed:

Workmen's Compensation Fund A/c Dr.
To *workmen's compensation claim* A/c

<u>Treatment of Investment Fluctuation Fund/ Reserve</u>



Investment Fluctuation Fund/Reserve is created to meet the loss on account of a decrease in the market value of investments made by the partnership firm, say in Shares in X Ltd., x% Govt. Bonds, etc.

CASE 1:

Loss due to a fall in the market value of investments will be set off from the Investment Fluctuation Fund/Reserve.

The Surplus of Investment Fluctuation Fund/Reserve (i.e. Investment Fluctuation Fund/Reserve - Decrease in market value investments) will be distributed among the old partners in their old profit-sharing ratio, i.e. credited to their Capital/Current Accounts. The following Journal Entry will be passed:

Investment Fluctuation Fund A/c Dr.
To Investments A/c (decrease in value of investment)
To Old Partners Capital A/cs (Individually, in their old ratio)

CASE 2:

***In case there is no decrease in the value of investments*:**

The total amount of Investment Fluctuation Fund will be distributed among the old partners in their old profit-sharing ratio.

The following Journal Entry will be passed:

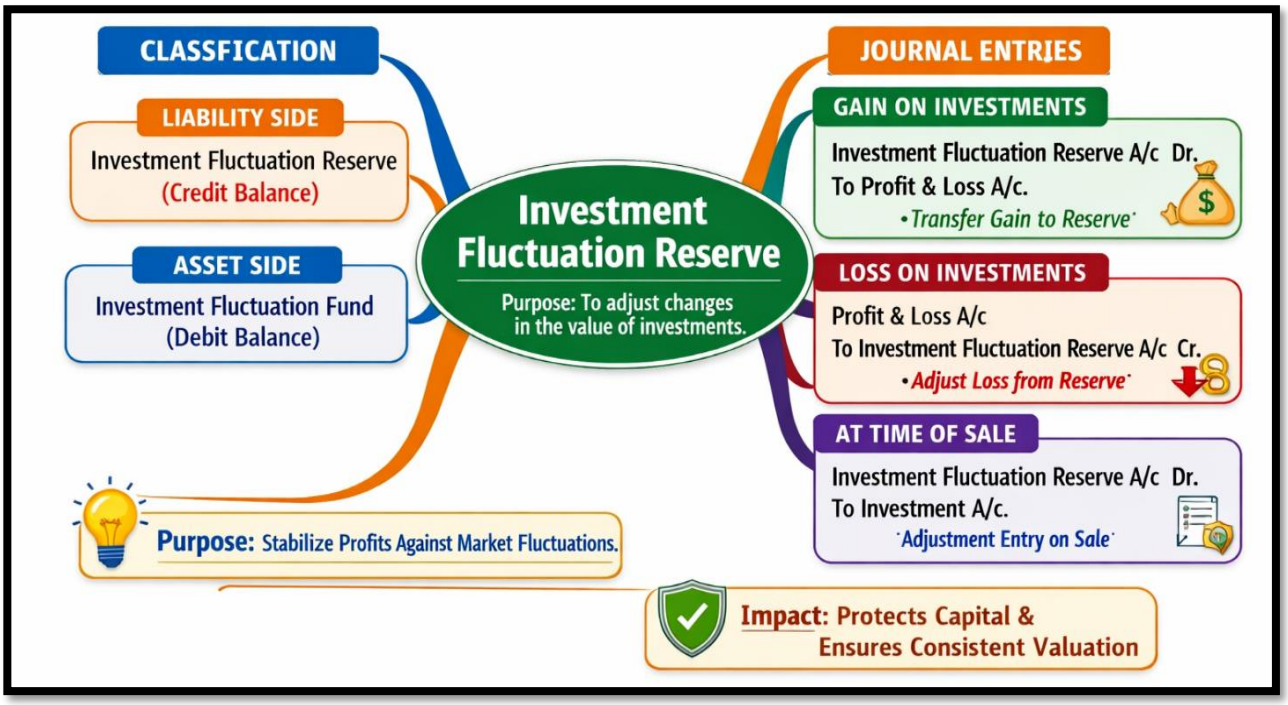
Investment Fluctuation Fund A/c Dr.
To Old Partners' Capital A/cs (Individually, in their old ratio)

CASE 3:

***In case, fall in value of investment exceeds the Investment Fluctuation Fund*:**

The excess amount of loss will be debited to Revaluation A/c. The following Journal Entry will be passed:

Investment Fluctuation Fund A/c Dr.
Revaluation A/c Dr.
To Investments A/c (decrease in value of investment)



<u>Adjustment of Partners Capital on the basis of new profit-sharing ratio</u>:

TYPE 1: ***Partners agree that their capital should be adjusted so as to be proportionate to their new profit-sharing ratio.***

In such a situation, if the capital of the new partner is given, the same can be used as a base for calculating the new capital of the old partners. The new capitals thus ascertained should be compared with their old capitals after all adjustments relating to goodwill, reserves and revaluation of assets and liabilities, etc. have been made, and then the partner whose capital falls short, will bring in the necessary amount to cover the shortage and the partner who has a surplus, will withdraw the excess amount of capital.

STEP 1: Calculation of total capital of the new firm on the basis of new partners' capital and their share in profits

Total capital of the new firm = New partner's capital ×Reciprocal of New Partner sh.

STEP 2: Divide the total capital of the new firm in the new profit-sharing ratio to calculate new capitals of old partners.

STEP 3: Compare adjusted capitals of old partners (i.e, old capitals after all adjustments relating to goodwill, reserves and revaluation of assets and liabilities, etc.) with new capitals to calculate excess/shortage of capital.

STEP 4: Adjustment of Excess/Shortage of capital through cash/bank or current accounts

TYPE 2: ***New partner must bring his proportionate capital when new partner's capital is not given in the question*.**

New partners = Sum of adjusted capitals x $\frac{1}{\text{(1-New Partner's Share)}}$ x New partner's share Capital of old partners

PRACTICE QUESTIONS [1-Mark Questions-MCQ]

1	Asha and Nisha are partner's sharing profit in the ratio of 2:1. Asha's son Ashish was admitted for 1/4 share of which 1/8 was gifted by Asha to her son. The remaining was contributed by Nisha. Goodwill of the firm in valued at ₹40,000. How much of the goodwill will be credited to the old partner's capital account. (a) ₹2,500 each. (b) ₹ 5,000 each (c) ₹20,000 each (d) None of the above	1
2	**Assertion (A)**: A new partner should contribute towards goodwill on his admission.	1

	Reason (R) : It is because the new partner has to compensate the existing partners for the sacrifice they make in his favour. a) Both (A) and(R) are true, but (R) is not the correct explanation of (A) b) Both (A) and(R) are true, and (R) is the correct explanation of (A) c)Both (A) and (R) are false d) Both(A) and (R) are true.	
3	**Assertion (A):** A new partner becomes entitled to share future profit of the firm, and also becomes liable for past losses of the firm. **Reason (R):** A new partner acquires right in the asset and also become liable to pay any liability incurred by the firm after his admission. In context of the above to statement, which of the following is correct? Quotes a) Both A and R are true, but R not is the correct explanation of A b) Both A and R are true, but R is the correct explanation of A c) A is false but R is true (d) A is true but R is false	**1**
4	A &B were partners in a firm sharing profits & losses in the ratio 3:2. On 1st April 2023, they admit C into the firm for 1/4 share in future profits. C brings sufficient amount of capital & premium in cash. The capital balance of A & B after all adjustments for General Reserve, Revaluation loss & goodwill were: A -₹1,24,000 and B- ₹86,000. The goodwill of the firm is valued at ₹40,000. Calculate the amount of capital, C has to bring.	1
5	Mahesh & Ramesh are sharing profits in the ratio of 2: 3. Their capitals are ₹ 50,000 & ₹ 40,000 respectively. They admit Naresh to a 1/3rd share in the profits of the firm on his bringing in ₹ 10,000 for goodwill & ₹ 45,000 as capital. Naresh brings the necessary amount of capital but only ₹ 6,000 towards goodwill. Give Journal entry to record the distribution of premium for goodwill.	1
6	Aman & Suman are partners in a firm sharing profit & losses in the ratio of 3:2. They admitted Chaman as a new partner & the new profit-sharing ratio will be 2:1:1. Chaman brought in ₹50,000 as his capital & ₹20,000 for his share of Goodwill. Goodwill already appeared in the books of Aman & Suman at ₹ 50,000. Pass the necessary journal entries in the books of the new firm for the above transactions.	1
7	A & B shared profits & losses in the ratio of 3:2. W.e.f from 1st April 2025, they agreed to share profits equally. The goodwill of the firm was valued at ₹ 30,000. Pass the necessary journal entry for the treatment of goodwill.	1
8	Self-generated goodwill is not recognized in the books of accounts. (a) AS- 3 (b) AS-6 (c) AS-26 (d) AS-23	1
9	P & Q are partners in a firm having capital balances of ₹1,20,000 & ₹ 80,000 respectively. R is admitted as a new partner in the firm for 1/5th share in future profits. R brought ₹ 1,00,000 as his capital. The goodwill of the firm on R's admission will be: (a) ₹ 5,00,000 (b) ₹ 2,00,000 (c) ₹ 3,00,000 (d) ₹ 1,00,000.	1
10	P & Q were partners in a firm sharing profit in the ratio of 4:3. On 1st April 2026. They admitted R as a new partner for 1/4th share in the profit of the firm. On the date of R's admission, the balance sheet of P & Q showed a general reserve of ₹2,80,000 & Advertisement Suspense A/c of ₹1,40,000. The following was agreed upon for admission. 1) R' share of goodwill is agreed at ₹70,000 of which he is to bring half in cash. 2) New profit-sharing ratio is agreed at 2:1:1. On the basis of the following information, you are required to answer the following questions: **In respect of goodwill.** a) Credit P' capital account by ₹ 40,000 and Q's capital account by ₹30,000. b) Credit P' capital account by ₹20,000 and Q's capital account by ₹15,000	1

	c) Credit P's capital account by ₹10,000 and Q's capital account by ₹ 25,000 d) Credit P' capital account by ₹20,000 and Q's capital account by ₹50,000.	

[3- Marks Questions-Short answer]

1	X & Y are partners in a firm sharing profits in the ratio of 4:3. On 1st April 2024, they admitted Z as a partner. Z brought ₹ 1,00,000 for his capital & ₹21,000 for 1/3rd share of goodwill premium. On Z's admission, goodwill existed in the books of the firm at ₹ 28,000. Pass necessary Journal entries on Z's admission.	**3**
2	A & B were partners in a firm sharing profits in the ratio of 3:2. Their capitals were ₹1,60,000 & ₹ 1,00,000 respectively. They admitted C on 1st April 2025 as a new partner for 1/5th share in the future profits. C brought 1,20,000 as his capital. Calculate the value of goodwill of the firm and record necessary Journal entries for the above transactions on C's admission.	**3**
3	X & Y are partners in a firm sharing profits in the ratio of 3: 2. On 1st April 2024, they admit Z as a partner for 3/13th share in the profits. New ratio will be 5:5:3. Z contributed the following assets to his capital & his share for premium for goodwill: Stock ₹80,000; Debtors ₹ 1,20,000; Land ₹2,00,000; Plant & Machinery ₹1,20,000. On the date of admission of Z, goodwill of the firm was valued at ₹10,40,000. X and Y withdrew their respective share of Premium for Goodwill. Pass necessary Journal entries in the books of the firm on Z's admission.	**3**
4	A, B and C are in partnership sharing profits and losses in the ratio of 5:4:1. Two new partners D & E are admitted. Profits are to be shared in the ratio of 3:4:2:2:1 respectively. D is to pay 30,000 for his share of goodwill but E is unable to pay for goodwill. Both the new partners introduced. 40,000 each as their capital. Pass necessary Journal entries.	**3**

[4- Marks Questions-Short answer]

1	A & B are partners in a firm sharing profits in the ratio of 2:1. C is admitted as a partner. A & B surrender 1/2 of their respective share in favour of C. Find the new profit-sharing ratio & also the sacrificing ratio. C is to bring his share of premium for goodwill in cash. Fill in the missing figures in the following entries: i) Bank A/c Dr. -----1------ To Premium for Goodwill A/c ----2----- (----------3----------) ii) Premium for Goodwill A/c Dr. ------4------- To A's Capital A/c 50,000 To B's Capital A/c ----5------- (----------6----------)	**4**
2	Anju & Manju are partners sharing profits in the ratio of 2:1 with capitals of ₹3,00,000 & ₹ 2,00,000 respectively. They admit Sanju into partnership who brings in ₹1,00,000 as capital and ₹24,000 for 1/4th share of goodwill. Pass necessary journal entries for treatment of goodwill on Sanju's admission by rising and writing off goodwill.	**4**
3	Sunil & Dalip are partners in a firm sharing profits & losses in the ratio of 5:3. Sachin is admitted in the firm for 1/5th share of profits. He brings in ₹ 20,000 as capital & ₹ 4,000 as his share of goodwill by cheque. Give the necessary journal entries, (a) When partners decided to retain goodwill in business. (b) When the amount of goodwill is fully withdrawn. (c) When 50% of the amount of goodwill is withdrawn	**4**
4	Harish & Manish are partners sharing profits in the ratio of 4:1. They decided to distributed profits equally starting 1st April 2026. Their balance sheet as on 31st March 2026 shows a balance of advertisement suspense of ₹ 40,000. Journal entry at the time of change in profit sharing ratio will be?	**4**

A	Harish Capital A/c Dr. Manish's Capital A/c Dr. To Advertisement Suspense A/c (Being the advertisement suspense account written off)	32,000 8,000	40,000
B	Harish's Capital A/c Dr. Manish's Capital A/c Dr. To Advertisement Suspense A/c (Being the advertisement suspense account written off)	16,000 24,000	40,000
C	Harish's Capital A/c Dr. To Manish's Capital A/c (being adjustment entry is made)	10,000	10,000
D	Manish's Current A/c Dr. Harish's Current A/c Dr. To Cheena's Capital A/c (being adjustment entry is made)	32,000 8,000	40,000

5 A & B shared profits & loss in the ratio of 2:3. On 1st April 2025, they agreed to distribute profits equally. The firm goodwill was valued at ₹30,000. The adjustment entry will be. **4**

A	A's Capital A/c Dr. To B's Capital A/c (being adjustment entry is made)	600	600
B	A's Capital A/c Dr. To B's Capital A/c (being adjustment entry is made)	6,000	6,000
C	B's Capital A/c To A's Capital A/c (being adjustment entry is made)	600	600
D	B's Current A/c Dr. To A's Capital A/c (being adjustment entry is made)	6,000	6,000

[6- Marks Questions-Long answer]

1 Following is the balance sheet of A and B sharing in 3:2:

LIABILITIES	(₹)	ASSETS	(₹)
Creditors	75,000	Plant & Machinery	1,00,000
Provident Fund	30,000	Furniture	60,000
General Reserve	40,000	Stock	1,10,000
Workmen Compen. Reserve	25,000	Debtors 2,10,000	
Capitals:		Less: Prov. 10,000	2,00,000
A : 2,50,000	3,50,000	Bank	50,000
B : 1,00,000			
	5,20,000		**5,20,000**

They admitted C as a partner for 1/5th share which he takes equally from A and B.

1) Goodwill of the firm was valued at ₹3,00,000. C brought his share of goodwill in cash.
2) C further brought ₹ 1,60,000 as his capital and it was also decided to re-adjust the capitals of A and B on the basis of C's capital in New ratio by bringing in or withdrawing cash as the case may be.

Following revaluation and re-assessment were also made:

i. Claim on account of workmen compensation was estimated as ₹. 10,000.

	ii. Write off ₹ 15,000 as bad debts & also create a provision of 10% on debtor for DD. iii. Depreciate plant and machinery by 25%. Stock revalued at ₹ 1,50,000. iv. Creditors include a sum of ₹. 5,000 which is not likely to arise. **Prepare Revaluation A/c and Partners Capital A/c.**	
2.	Kay Vee enterprises is a partnership business with Hindi, English & Sanskrit as partners engaged in production and sales of electrical items & equipment. Their capital contributions were ₹ 50,00,000, ₹ 50,00,000 & ₹ 80,00,000 respectively with the profit the sharing ratio of 5:5:8. As they are now looking forward to expanding their business, it was decided that they would bring in sufficient cash to double their respective capitals. This was duly followed by Hindi & English but due to unavoidable reasons Sanskrit could not do so & ultimately it was agreed that to bridge the shortfall in the required capital a new partner should be admitted who would bring in the amount that Sanskrit could not bring and that the new partner would get share of profits equal to half of Sanskrit's share which would be sacrificed by Sanskrit only. Consequent to this agreement Urdu was admitted & he brought in the required capital and ₹ 30,00,000 as premium for goodwill. **Based on the above information you are required to answer the following questions**. (i) What will be the new profit-sharing ratio of Hindi, English, Sanskrit & Urdu? (a) 1:1:1:1 (b) 5:5:8:8 (c) 5:5:4:4 (d) None of the above (ii) What is the amount of capital brought in by the new partner Urdu? (a) ₹ 50,00,000 (b) ₹ 80,00,000 (c) ₹ 40,00,000 (d) ₹ 30,00,000 (iii) What is the value of the goodwill of the firm? (a) ₹ 1,35,00,000 (b) ₹ 30,00,000 (c) ₹ 1,50,00,000 (d) Cannot be determined from the given data. (iv) What will be correct journal entry for distribution of Premium for Goodwill brought in by Urdu? (i) Urdu's Capital A/c ……...Dr. 30,00,000 To Sanskrit's Capital A/c 30,00,000 (Being……) (ii) Premium for Goodwill A/c……Dr. 30,00,000 To Sanskrit's Capital A/c 30,00,000 (Being……) (iii) Premium for Goodwill A/c……Dr 30,00,000 To Hindi's Capital A/c 8,33,333 To English's Capital A/c 8,33,333 To Urdu's Capital A/c 13,33,333 (Being……) (iv) Premium for Goodwill A/c……Dr 30,00,000 To Hindi's Capital A/c 10,00,000 To English's Capital A/c 10,00,000 To Urdu's Capital A/c 10,00,000 (Being……)	
3.	Following was the Balance Sheet of A and B who were sharing profits in the ratio of 2:1 as at 31st March 2026:	

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital A/cs:		Building	25,000
A - 15,000		Plant and Machinery	17,500
B - 10,000	25,000	Stock	10,000
Sundry Creditors	32,950	Sundry Debtors	4,850
		Cash in Hand	600
	57,950		**57,950**

They admit C into partnership on 1st April 2026, on the following terms:
(a) C was to bring ₹ 7,500 as his capital & ₹ 3,000 as goodwill for 1/4th share in the firm.
(b) Values of the Stock and Plant and Machinery were to be reduced by 5%.
(c) A Prov. for Doubtful Debts was to be created in respect of Sundry Debtor ₹ 375.
(d) Building was to be appreciated by 10%.
Prepare Revaluation A/c, Partners' Capital A/c of the new firm.

4 Charu & Harsha were Partners in a film sharing profits in the ratio of 3:2. On 1st April 2025, their balance sheet was as follows;

Balance sheet of Charu and Harsha

Liabilities	(₹)	Assets	(₹)
Creditors	17,000	Cash	6,000
General reserve	4,000	Debtors	15,000
Workman Comp. Reserve	9,000	Investment	20,000
Investment fluctuation res.	11,000	Plant	14,000
Prov. For bad debts.	2,000	Land and building	38,000
Capital:			
Charu - 30,000			
Harsha - 20,000	50,000		
	93,000		**93,000**

On the above date, Vaishali was admitted for 1/4th share in the profits of the firm on the following terms;
(a) Vaishali will bring ₹ 20,000 for her capital & ₹ 4,000 for her share of goodwill premium.
(b) All debtors were considered good.
(c) The market value of investment was ₹ 15,000.
(d) There was a liability of ₹ 6,000 for workmen compensation.
(e) Capital accounts of Charu & Harsha are to be adjusted on the basis of Vaishali's capital by Opening Current A/c.
You are required to Prepare Revaluation A/c and Partner's Capital A/c.

ANSWER KEY [1- MARK QUESTIONS-MCQ]

1	₹ 5,000 each	**1**
2	b) Both (A) and (R) are true, and (R) is the correct explanation of (A)	**1**
3	(c) A is false but R is true	**1**
4	Remaining share of A and B = 1 - 1/4 = 3/4 Total Capital of A and B = ₹ 1,24,000 + ₹ 86,000 = ₹ 2,10,000 Required Capital of C = (Total Capital of A and B / remaining share of A & B) X share of C = (₹ 2,10,000 / 3/4) X 1/4 = ₹ 2,10,000/3 X 1 = ₹ 70,000 C's sh. of Premium for Goodwill=Total GoodwillxC's Share =**₹40,000X1/4=₹10,000.**	**1**
5	Premium A/c …. Dr. 6,000 Naresh's Current A/c Dr. 4,000 To Mahesh's Capital A/c 4,000	**1**

	To Ramesh's Capital A/c 6,000	
6	Aman's Capital A/c Dr. 30,000 Suman's Capital A/c..Dr. 20,000 To Goodwill A/c 50,000	**1**
7	B's capital A/c Dr. 3,000 To A's Capital A/c 3,000	**1**
8	(c) AS-26	**1**
9	(b) ₹ 2,00,000.	**1**
10	Credit P' Capital A/c by ₹ 20,000 and Q's Capital A/c by ₹ 50,000.	**1**

[3-Marks Questions-Short Answer]

1	X's Capital A/c Dr 16,000 Y's Capital A/c Dr 12,000 To Goodwill A/c 28,000 (Existing goodwill written off prior to Z's admission) Bank A/c Dr 1,21,000 To Z's Capital A/c 1,00,000 To Premium for Goodwill A/c 21,000 (Z brought in amount for his capital and his share of goodwill) Premium for Goodwill A/c Dr. 21,000 To X's Capital A/c 12,000 To Y's Capital A/c 9,000 (Premium for goodwill, distributed in sacrificing ratio, 4:3)	3
2	Bank A/c Dr. 1,20,000 To C's Capital A/c 1,20,000 (Amount brought in by C as his capital) C's Capital/Current A/c Dr. 44,000 To A's Capital A/c 26,400 To B's Capital A/c 17,600 (Share of C in goodwill credited to A and B in their sacrificing ratio, i.e., 3:2)	3
3	Stock A/c Dr 80,000 Debtors A/c Dr 1,20,000 Land A/c Dr 2,00,000 Plant and Machinery A/c Dr 1,20,000 To Z's Capital A/c 2,80,000 To Premium for Goodwill A/c 2,40,000 (Assets contributed by Z on admission as his capital & his share of G/w premium) Premium for Goodwill A/c Dr 2,40,000 To X's Capital A/c (2,40,000 × 14/15) 2,24,000 To Y's Capital A/c (2,40,000 × 1/15) 16,000 (Goodwill premium trf to the Capital A/c of X & Y on Z's admission in their SR) X's Capital A/c Dr 2,24,000 Y's Capital A/c Dr 16,000 To Bank A/c 2,40,000 (Premium for Goodwill withdrawn)	**3**
4	Bank A/c Dr 1,10,000 To D's Capital A/c 40,000 To E's Capital A/c 40,000 To Premium for Goodwill A/c 30,000 (Capital brought in by D and E Rs.40,000 each and in addition D brought in premium for goodwill Rs.30,000 for 1/6th share) C's Capital A/c Dr 12,000	3

	E's Current A/c Dr 15,000 Premium for Goodwill A/c Dr 30,000 To A's Capital A/c (57,000 × 15/19) 45,000 To B's Capital A/c (57,000 × 4/19) 12,000 (Adjustment for goodwill)	

[4- Marks Questions-Short Answer]

1	New Profit-sharing ratio of A, B & C is 2:1:3, Sacrificing Ratio of A & B is 2:1. Total amount of Goodwill brought by C is ₹75,000. 1.— ₹ 75,000, 2. --- ₹ 75,000, 3. Premium for Goodwill brought by C in cash, 4.--- ₹ 75,000, 5. --- ₹ 25,000, 6. Premium for Goodwill, distributed between old partners in sacrificing ratio.	**4**
2	NPSR 2:1:1	**4**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Bank A/c Dr To Sanju's Capital A/c		1,24,000	 1,24,000
	Goodwill a/c Dr To Anju's Capital A/c To Manju's Capital A/c		96,000	 64,000 32,000
	Anju's Capital A/c Dr Manju's Capital A/c Dr Sanju's Capital A/c Dr To Goodwill A/c		48,000 24,000 24,000	 96,000

3

Books of Sunil and Dalip
Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(i)	Bank A/c Dr. To Sachin's Capital A/c To Premium for Goodwill A/c (The amount brought in by Sachin as Capital and Goodwill)		24,000	 20,000 4,000
(ii)	Premium for Goodwill A/c Dr. To Sunil's Capital A/c To Dalip's Capital A/c (Goodwill transferred to Sunil and Dalip in the ratio of 5:3)		4,000	 2,500 1,500

Alternatively,

(i)	Cash A/c Dr.	24,000	
	To Sachin's Capital A/c		24,000
(ii)	Sachin's Capital A/c Dr	4,000	
	To Sunil's Capital A/c		2,500
	To Dalip's Capital A/c		1,500

Note: It assumed that the sacrificing ratio is the same as old profit sharing ratio.

(b) When the amount of goodwill credited to existing partners is fully withdrawn.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Same as in (a) above			
2.	Same as in (a) above.			
3.	Sunil's Capital A/c Dr.		2,500	
	Dalip's Capital A/c Dr.		1,500	
	To Bank A/c			4,000
	(Cash withdrawn by Sunil and Dalip equal to their share of goodwill)			

3 (c) When 50% of the amount of goodwill credited to existing partners is withdrawn. **4**

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Same as in (a) above.			
2.	Same as in (a) above			
3.	Sunil's Capital A/c Dr.		1,250	
	Dalip's Capital A/c Dr.		750	
	To Cash A/c			2,000
	(Cash withdrawn for 50% of their share of goodwill)			

4 (a) Ashok's Capital A/c Dr. 3,000 **4**
Brijesh's Capital A/c Dr. 3,000
To Cheena's Capital A/c 6,000
(being adjustment entry is made)

5 (b) Radha's Capital A/c Dr. 1,200 4
Mary's Capital A/c Dr. 300
To Fatima's Capital A/c 1,500
(being adjustment entry is made)

[6- Marks Questions-Long answer]

1. 6

Revaluation A/c

Particulars	Amt (₹)	Particulars	Amt (₹)
Plant and Machinery	25,000	Stock	40,000
Bad Debts	5,000	Creditors	5,000
Reserve for Doubtful Debts	19,500	Loss transferred to A's Capital - 2700	
		B's Capital - 1800	4,500
	49,500		**49,500**

Partner's Capital A/c

Particulars	A	B	C	Particulars	A	B	C
Revaluation	2,700	1,800		Balance b/d	2,50,000	1,00,000	
Bal c/d	4,00,000	2,40,000	1,60,000	Cash			1,60,000
				Prem. for G/W	30,000	30,000	
				WCR	9,000	6,000	
				Gen Res	24,000	16,000	
				Cash (Bal Fig)	89,700	89,800	
	4,02,700	**2,41,800**	**1,60,000**		**4,02,700**	**2,41,800**	**1,60,000**

Working Notes:
Adjustment of Capital: Firm's Capital = ₹1,60,000 X 5/1 = ₹8,00,000 (to be in new profit-sharing ratio of 5:3:2) Capital of A & B = ₹8,00,000 – ₹1,60,000 = ₹6,40,000 (to be in ratio of 5:3) i.e. ₹4,00,000 and ₹2,40,000

2 (i) C 5:5:4:4 (ii) B ₹ 80,00,000 (iii) A ₹1,35,00,000 (iv) B 6

Premium for Goodwill A/c…Dr. 30,00,000
To Sanskrit's Capital A/c 30,00,000
(Being……..)

3. 6

Revaluation A/c

Particulars	Amt (₹)	Particulars	Amt (₹)
Stock	500	Building	2,500
Plant and Machinery	875		
Reserve for Doubtful Debts	375		
Profit transferred to			
A's Capital	500		
B's Capital	250		
	2,500		**2,500**

Partner's Capital A/c

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

Working Notes:
Sacrificing ratio of A & B=2 :1 Distribution of Premium for G/w (in sacrificing ratio)
A will get =₹3,000×2/3=₹ ₹2,000 B will get =₹3,000×1/3=₹1,000

4

Revaluation A/c

Particulars	₹	Particulars	₹
To Profits transfer to cap. A/c		By Prov. for Bad Debt	2,000
Charu - 1,200			
Harsha - 800	2,000		
	2,000		**2,000**

Partners' Capital A/c

Particular	Charu	Harsha	Vaishali	Particular	Charu	Harsha	Vaishali
To Curr A/c	5,400	3,600	--	By Bal b/d	30,000	20,000	--
To Bal A/c	36,000	24,000	20,000	By Gen. Res	2,400	1,600	--
				By Cash	-	-	20,000
				By Prem. for G/w	2,400	1,600	--
				By Rev. A/c	1,200	800	--
				By Workmen Compensation	1,800	1,200	--
				By Investment Fluctuating	3,600	2,400	--
	41,400	**27,600**	**20,000**		**41,400**	**27,600**	**20,000**

CHAPTER 3. RECONSTITUTION OF PARTNERSHIP FIRM (RETIREMENT/DEATH OF A PARTNER)

- On the retirement or death of a partner, the **existing** partnership deed comes to an **end,** and in its place, a **New Partnership deed** needs to be framed whereby, the remaining partners continue to do their business on changed terms and conditions.
- A partner has **right to retire** from the firm after giving due notice in advance.
- There is not much difference in the accounting treatment at the time of retirement or in the event of death.
- Partner can retire from the firm in the following circumstances.
- With the consent of all the partners.
- As per the terms of the partnership agreement
- By giving a notice in writing to all the partners, if the partnership is at will.

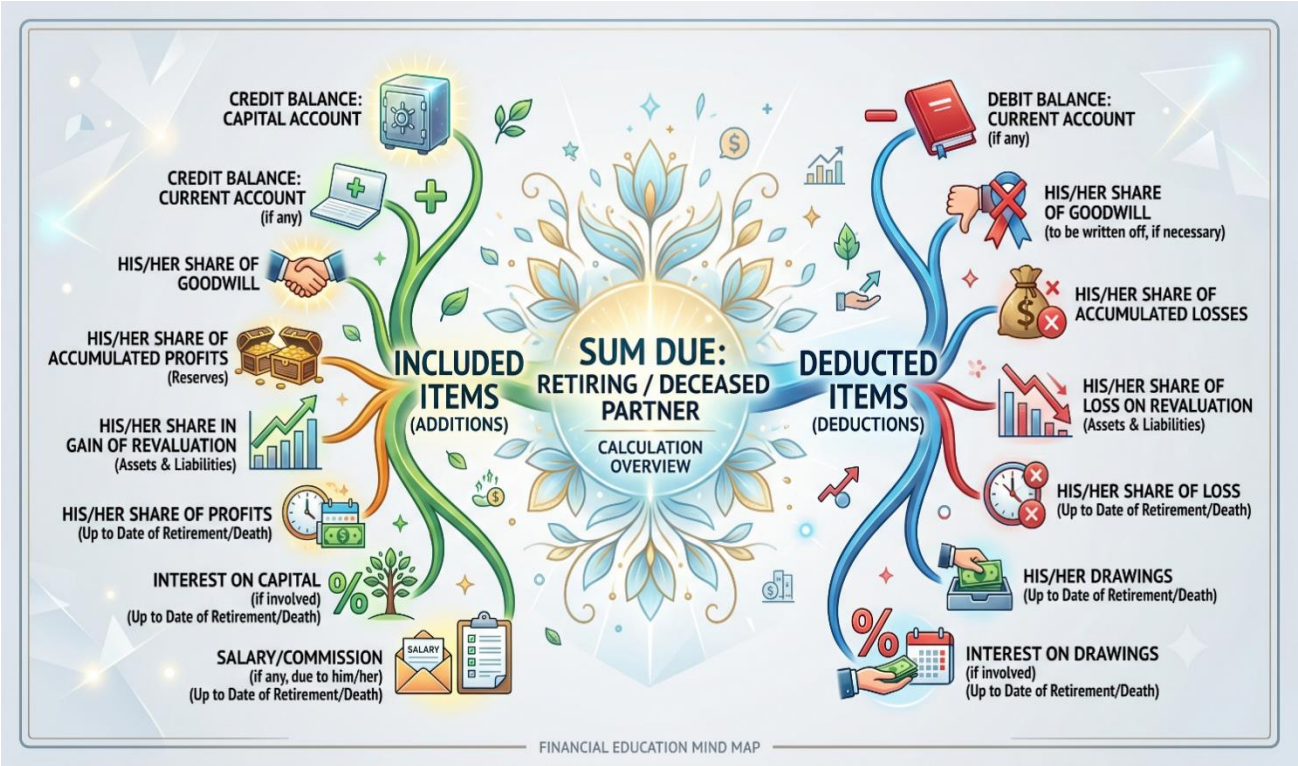
The retirement/death of a partner is called reconstitution of the partnership firm because the old agreement is terminated but the firm continues and the new agreement comes in to force.

The following need to be dealt with while doing accounting treatment of Retirement/Death of a partner

Calculation New profit-sharing ratio and gaining/sacrificing ratio	Adjustment of revaluation of assets and reassessment of liabilities.
Treatment of goodwill	Adjustment of undistributed reserves and profits and losses A/c. Ascertaining the Amount Due to Retiring/ Deceased Partner

PARTNER'S CAPITAL / CURRENT A/c

Particulars	Amt(₹)	Particulars	Amt(₹)
To Current Account (Debit Balance, if any)		By Balance b/d (Opening Capital Credit Balance)	
To Goodwill Account (Share of goodwill written off)		By Current Account (Credit Balance, if any)	
To Accumulated Losses Account (Share of reserves/losses)		By Share of Goodwill Account (Valued goodwill)	
To Revaluation Account (Share of loss on revaluation)		By Accumulated Profits / General Reserve Account	
To Profit & Loss Suspense Account (Share of loss up to date)		By Revaluation Account (Share of gain on revaluation)	
To Drawings Account (Drawings up to date)		By Profit & Loss Suspense Account (Share of profit up to date)	
To Interest on Drawings Account (Up to date)		By Interest on Capital Account (Up to date)	
To Retiring Partner's Loan A/c OR			
To Executor's Account (Balancing Figure - Final Sum Due)		By Salary / Commission Account (Owed up to date)	
Total		**Total**	



CALCULATION OF NEW RATIO AND GAINING RATIO:

- New profit-sharing ratio (**NPSR**) is the ratio in which the **remaining** partners will share future profits after the retirement or death of any partner.
- The new share of each of the remaining partner will consist of his own share in the firm plus the share acquired from the retiring /deceased partner.

  New ratio = Old Ratio + Gaining Ratio

  Gaining Ratio: - The ratio in which the continuing partners have acquired the share from the retiring or deceased partner is called the gaining ratio.
- Normally, the continuing partners acquire the share of retiring/deceased partner in their old profit-sharing ratio, in that case, the gaining ratio of the remaining partners will be the same as their old profit-sharing ratio among them & there is no need to compute the gaining ratio.
- Gaining ratio is calculated to ascertain the amount of goodwill payable to retiring or deceased partner by the remaining partners

  Gaining ratio = New ratio – Old ratio

TREATMENT OF GOODWILL: -

The retiring partner share of goodwill is credited to capital A/c of respective partner & debited to Remaining Partners' Capital in gaining ratio.

JOURNAL ENTRY:

Gaining Partner Capital or Current A/c (in Gaining Ratio) Dr.

To Retiring/Deceased Partner's Capital/c (With the Share of Goodwill)

Retirement normally takes place at the end of an accounting period; the death of a partner may occur any time.

CALCULATION **WITH** TIME BASIS	CALCULATION **WITHOUT** TIME BASIS
Interest on capital	Share of goodwill of retiring/deceased partner
Interest on loan, if any	General reserve
Interest on drawings	Contingency reserve
P & L A/c (share in profits up to the date of retirement/ death)	Workmen compensation fund
Accumulated profits and losses	Investment fluctuation fund

Disposal of Amount Due to Retiring Partner

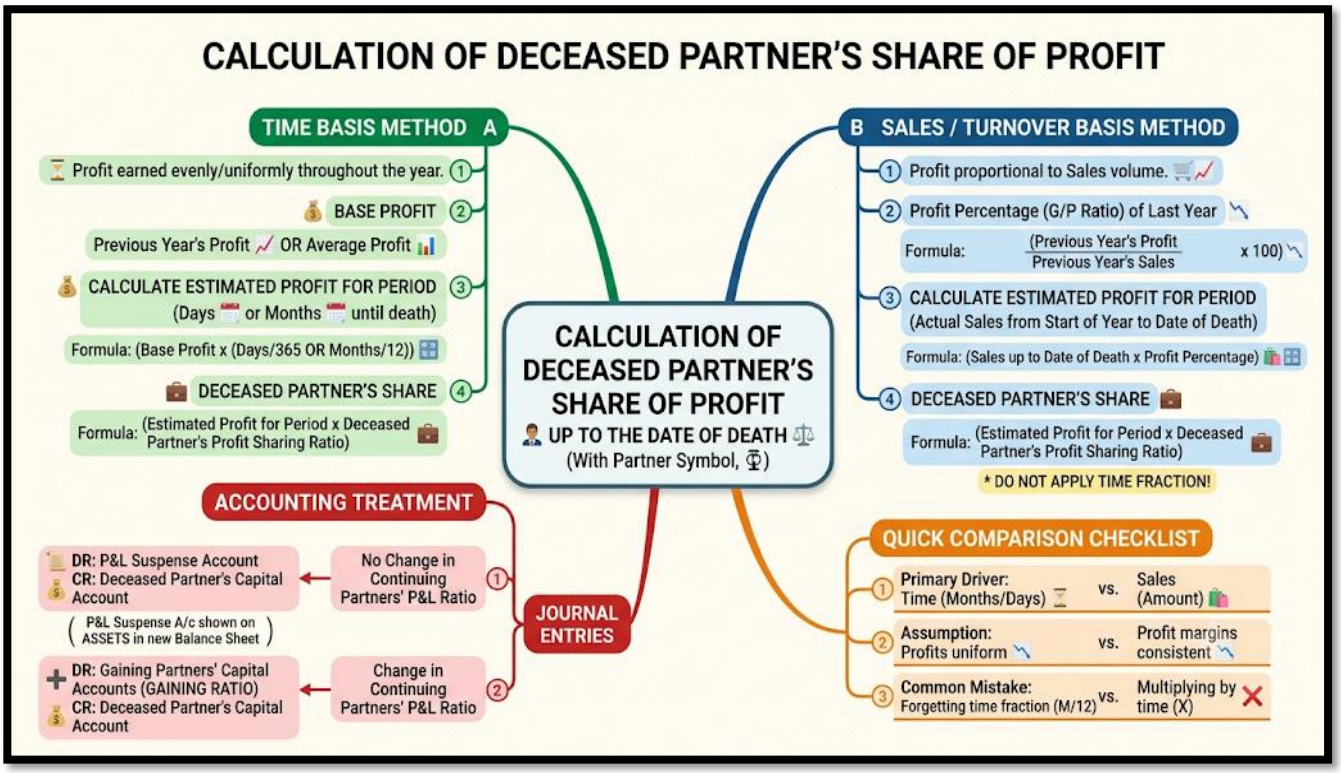
The outgoing partner's account is settled as per the terms of partnership deed i.e., in lumpsum immediately or in various instalments with or without interest as agreed or partly in cash immediately and partly in instalment at the agreed intervals. In the absence of any agreement**, Section 37 of the Indian Partnership Act, 1932 is applicable**, which 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/her money (i.e., based on capital ratio). Hence, the total amount due to the retiring partner which is ascertained after all adjustments have been made is to be paid immediately to the retiring partner. In case the firm is not in a position to make the payment immediately, the amount due is transferred to the retiring Partner's Loan Account, and as and when the amount is paid it is debited to his account.

DEATH OF A PARTNER

- When a partner in a partnership firm dies, the partnership, by default, is dissolved, unless the partnership agreement stipulates otherwise.
- The deceased partner's estate becomes responsible for their share of the firm's assets and liabilities& the remaining partners may choose to continue the business as a new partnership.
- The deceased partner's share is typically valued and paid to their legal representatives or executors.
- In the event of a death of a partner, we generally required to prepare the Deceased Partner Capital a/c and his balance will be transfer to his executor.

Deceased Partner Capital A/c

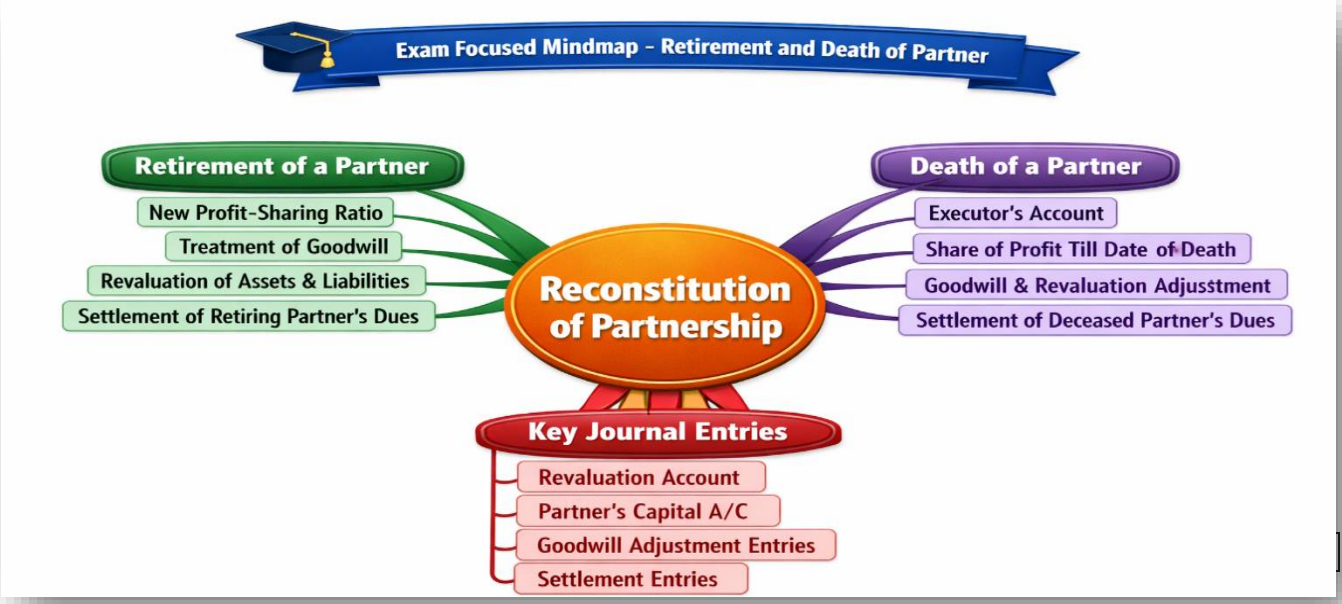
Particulars	(₹)	Particulars	(₹)
Drawing A/c	As per Deed	Balance b/d	His Share as per balance Sheet
Interest on Drawing	As per Deed	Interest on capital	Upto Death (TIME)
Goodwill a/c(Existing)	His Share as per balance Sheet	General Reserve	Share in GR
Profit and Loss A/c	Loss Share Upto Death	Profit and Loss A/c	Profit Share Upto Death
Adv. Suspense A/c	Loss Share	Workmen Comp Reserve	Share Upto Death
P & L Suspense A/c	Loss Share	Revaluation a/c	Profit Share Upto Death
Revaluation A/c	Loss Share	Salary to partner	Upto Death
Deceased Partner Executor	Net Balance	Commission to partner	Upto Death
		P & L Suspense A/c	Profit Share Upto Death
		Gaining Partner Capital A/c	Goodwill share Upto Death
		Int on Partner Loan	Upto Death



1. **Accounting Adjustments:**
   Revaluation of Assets & Liabilities: Assets & liabilities are revalued to reflect their current market values.
2. **Reserves and Profits Distribution**: Reserves and accumulated profits are distributed among all partners, including the deceased partner, in their old profit-sharing ratio.
3. **Goodwill Adjustment:** If the firm has goodwill, it's adjusted, and the deceased partner's share of goodwill may be credited to their capital account,
4. **Interest on Partners Loan**: If deceased partner given a loan to the business, then in the absence of any adjustment interest will be given to deceased partner @6% p.a.
5. **Profit Calculation**: The deceased partner's share of profits up to the date of death is calculated. This may be done on a time basis (using Previous Year's Profit)or a Sales basis or Avg. Profit basis.

On the basis of Last Year Profit	Last Year Profit x his Share x time period/12
On the basis of Average Profit	Average Profit x his Share x time period/12
On the Basis of Sales	Last Year Profit x Current Year Sales x his/her Share /Last year Sales

Settlement with Executor: The Deceased Partner's Capital A/c is closed by transferring the due amount to their Executor's A/c.



1 Rohan, Piyush and Suman were partners in a firm sharing profits and losses in the ratio of 3:2:2. Piyush retired. The new profit-sharing ratio between Rohan and Suman after Piyush's retirement was 4:3. The gaining ratio of remaining partners will be:
(A) 2:1 (B) 3:2 (C) 4:3 (D) 1:1

2 Samta, Mamta and Geeta were partners in a firm sharing profits and losses in the ratio of 11:5:4. On 31st March, 2025 Samta died.
On Samta's death, the goodwill of the firm was valued at ₹ 1,80,000.
The necessary journal entry for the treatment of goodwill on Samta's death will be

	Particulars	Dr. Amt (₹)	Cr. Amt (₹)
(A)	Samta's Capital A/c Dr. To Mamta's Capital A/c To Geeta's Capital A/c	99,000	 55,000 44,000
(B)	Mamta's Capital A/c Dr. Geeta's Capital A/c Dr. To Samta's Capital A/c	1,00,000 80,000	 1,80,000
(C)	Samta's Capital A/c Dr. To Mamta's Capital A/c To Geeta's Capital A/c	1,80,000	 1,00,000 80,000
(D)	Mamta's Capital A/c Dr. Geeta's Capital A/c Dr. To Samta's Capital A/c	55,000 44,000	 99,000

3 Shashi, Maya and Komal were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March, 2025 Komal retired. The new profit-sharing ratio between Shashi and Maya was decided retirement was:
(A) Shashi's sacrifice 1/8; Maya's gain 13/40
(B) Shashi's gain 1/8; Maya's sacrifice 13/40
(C) Shashi's sacrifice 1/8; Maya's sacrifice 13/40
(D) Shashi's gain 1/8; Maya's gain 13/40

4 John, Honey and Racob were partners in a firm sharing profits and losses equally. On 31st July, 2025 John died. His share in the profits of the firm from the date of last balance sheet till the date of his death will be:
(A) Debited to Profit & Loss A/c (B) Credited to Profit & Loss A/c
(C) Debited to Profit & Loss Suspense A/c (D) Credited to Profit &Loss Suspense A/c

5 Raha, Naveen & Vandana were partners in a firm sharing profits & losses equally. Naveen retired on 31st March, 2025. The balance in his capital account after making the necessary adjustments on account of reserves & revaluation of assets & reassessment of liabilities was ₹ 1,27,000. Naveen was paid 1,50,000 in full settlement of his claim. The value of goodwill of the firm on the date of Naveen's retirement was:
(A) ₹ 1,50,000 (B) ₹ 23,000 (C) ₹ 69,000 (D) ₹ 4,50,000

6 Given below are two statements (in each question), one labelled as Assertion (A) and other labelled as Reason (R):
Assertion (A): Death of partner means partnership comes to an end and new partnership comes into effect.
Reason (R): Death of a partner normally results in reconstitution of partnership and the firm continues. In the context of above two statements, which of the above options is correct?
(a) Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).
(b) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation of Assertion
(c) Assertion (A) is correct but Reason (R) is not correct.
(d) Assertion (A) is not correct but Reason (R) is correct.

7	In which ratio Retiring partner is compensated by the continuing partner for his share of goodwill? (a) Gaining ratio (b) Sacrificing ratio (c) Old ratio (d) New ratio
8	A, B, C were partners sharing Profit and Losses in the ratio of 3.2.1 Books are closed on 31stMarch every year. C dies on 30th, Nov 2018. Under the partnership deed, the executors of deceased partner are entitled to his share of profit up to the date of death, Profit as on ended 31st Mar 2018 was ₹2,40,000 C's share of profit will be (a) ₹ 26,667 (b) ₹ 40,000 (c) ₹ 30,000 (d) ₹ 53,333
9	A, B & C are partners in a firm sharing profit/loss in the ratio of 2:2:1. On March 31, 2022, C died. Accounts are closed on Dec.,31 every year. The sales for the year 2021 was ₹6,00,000 and profits were ₹60,000. The sales for period from Jan.1,2022 to March 31,2022 were ₹2,00,000. The share of deceased partner in the current year's profits on the basis of sales is: (a) ₹ 20,000 (b) ₹ 8,000. (c) ₹ 3,000. (d) ₹ 4,000
10	In the event of death of a partner of employees provided fund appears in the balance will be shown in (a) Capital A/c (Cr.) (b) Capital Account (Dr.) (c) Liability side [Balance Sheet] (d) Asset side [Balance Sheet

MARKING SCHEME

Q.No.	1	2	3	4	5	6	7	8	9	10
Ans	a	d	a	c	c	a	a	a	d	c

3 MARKS QUESTIONS

1	A, B & C were partners in a firm sharing profits & losses in the ratio of 2:3:1. Goodwill appeared in their books at ₹ 3,00,000. B retired from the firm on 1st April, 2024. On that date, the goodwill of the firm was valued at ₹ 5,40,000. Pass the necessary Journal entries in the books of the firm for the treatment of goodwill on B's retirement.
2	Lalit, Madhur and Neel were partners in a firm sharing profits and losses in the ratio of 2:2:1. Neel retired and his capital after making the necessary adjustments on account of reserves and revaluation of assets and liabilities was ₹ 10,00,000. Lalit and Madhur agreed to pay Neel ₹ 22,00,000 in full settlement of his claim. Pass necessary journal entries for the treatment of goodwill and making final payment to Neel.
3	Namita, Narendra and Kunwar were partners in a firm sharing profits and losses in the ratio of 3:1:1. The firm closes its books on 31st March every year. Kunwar died on 30th September, 2025. His share in the profits of the firm from 1st April, 2025 to 30th September, 2025 was calculated as per the provisions of the partnership deed which amounted to ₹ 15,600. On the date of Kunwar's death the Balance Sheet of the firm showed General Reserve of ₹40,000 and Profit and Loss Account (Dr.) ₹80,000. Pass necessary journal entries on Kunwar's death in the books of the firm.
4	Ramesh, Suresh and Dinesh were partners sharing profits and losses in the ratio of 3:2:1. Dinesh died on 1st May, 2025 on which date the capitals of Ramesh, Suresh and Dinesh after all necessary adjustments stood at ₹ 1,20,000, ₹80,000 and ₹ 50,000 respectively. Ramesh and Suresh decide to carry on the business for 8 months without settling the account of Dinesh. During the period of 8 months ended 31st December, 2025, profit of ₹ 40,000 is earned by the firm. State which of the two options available with Dinesh's Executor under Section 37 of the Indian Partnership Act, 1932 should be exercised. Also calculate the total amount payable to Dinesh's Executor if Ramesh and Suresh clear the dues of Dinesh on 31st December, 2025.
5	Suman, Vivek and Vinod were partners in a firm sharing profits and losses in the ratio of 5:3:2. Suman retired on 1st April, 2025. After making all adjustments relating to revaluation, goodwill and accumulated profits, etc., the capital accounts of Vivek and

Vinod showed credit balances of ₹3,60,000 and ₹1,40,000 respectively.
It was decided to adjust the capitals of Vivek and Vinod in their new profit-sharing ratio.
Pass necessary Journal entries for bringing in or withdrawal of the necessary amounts.
Show your working clearly.

MARKING SCHEME

1

i. A's Capital A/c Dr 1,00,000
B's Capital A/c Dr 1,50,000
C's Capital A/c Dr 50.000
To Goodwill A/c 3,00,000
(Being Existing goodwill written off)

ii. A's Capital A/c Dr 1,80,000
C's Capital A/c Dr 90,000
To B's Capital A/c 2,70,000
(Being B's share of goodwill given)

2

Journal

Date	Particulars	LF	Dr. Amt (₹)	Cr. Amt (₹)
	Lalit's Capital A/c Dr. Madhur's Capital A/c Dr. To Neel's Capital A/c (Neel's share of goodwill adjusted in the capital accounts of Lalit and Madhur in the gaining ratio)		6,00,000 6,00,000	 12,00,000
	Neel's Capital A/c Dr. To Bank A/c / Cash A/c (Neel paid in full settlement of his claim)		22,00,000	 22,00,000

Note- No Marks for working note
Working Note:
1. Hidden Goodwill= ₹22,00,000 - ₹10,00,000 = ₹12,00,000
2. Gaining Ratio of Lalit and Madhur= 1:1

3

Books of Namita, Narendra and Kunwar
Journal

Date	Particulars	L.F.	Dr. Amt (₹)	Cr. Amt (₹)
2025 Sept. 30	Profit and Loss Suspense A/c Dr. To Kunwar's Capital A/c (Kunwar's share in profits transferred to his capital A/c)		15,600	 15,600
"	General Reserve A/c Dr. To Namita's Capital A/c To Narendra's Capital A/c To Kunwar's Capital A/c (General reserve transferred to all partners' capital A/cs in old ratio)		40,000	 24,000 8,000 8,000
"	Namita's Capital A/c Dr. Narendra's Capital A/c Dr. Kunwar's Capital A/c Dr. To Profit and Loss A/c (Dr. balance of profit and loss A/c transferred to all partners in old ratio)		48,000 16,000 16,000	 80,000

4

Dinesh's Executor has the following options:
(i) Interest @ 6% p.a. on balance amount=₹50,000 × 6/ 100 × 8/12 = ₹ 2,000;
(ii) Share in profit earned proportionate to his amount outstanding to total capital
50,000/ 2,50,000 × ₹40,000 = ₹ 8,000
**2,50,000= ₹ 1,20,000 + ₹ 80,000 + ₹50,000
Dinesh's Executor should exercise option (ii),
Total amount payable to Dinesh's Executor = ₹ 50,000 + ₹8,000= ₹ 58,000

5 Bank A/c Dr 60,000
To Vinod's Capital A/c 60,000
(Being cash brought in by Vinod)
Vivek's Capital Dr 60,000
To Bank A/c 60,000
(Being cash Withdrawn by Vivek)

Working notes:

Total Capital of New Firm=Total adjusted old capital
= ₹ 3,60,000 + ₹ 1,40,000 = ₹ 5,00,000
Vivek's New Capital = ₹ 5,00,000 x 3/5 = ₹ 3,00,000
Vinod's New capital = ₹ 5,00,000 x 2/5 = ₹ 2,00,000

Particulars	Vivek (₹)	Vinod (₹)
New capital	3,00,000	2,00,000
Adjusted old Capital	3,60,000	1,40,000
Cash to be brought in (Paid off)	(60,000)	60,000

4 MARKS QUESTIONS

1 Adayant, Shifa and Rohan were partners in a firm sharing profits and losses in the ratio of 2:1:2. Their Balance Sheet as at 31st March, 2024 stood as follows:

Balance Sheet of Adayant, Shifa and Rohan as at 31st March, 2024

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals:			Building	4,10,000
Adayant	4,00,000		Investments	1,32,500
Shifa	1,20,000		Stock	17,500
Rohan	1,80,000	7,00,000	Debtors	63,000
General Reserve		1,20,000	Cash at Bank	1,37,000
Bills Payable		1,40,000	Cash at Hand	3,20,000
Creditors		1,20,000		
		10,80,000		**10,80,000**

Shifa died on 30th June, 2024. As per the partnership deed, the executors of Shifa were entitled to:
(i) Amount standing to the credit of her capital account.
(ii) Interest on capital which was ₹ 5,750.
(iii) Her share of goodwill which was ₹ 42,000.
(iv) Her share in the profits of the firm from the date of the last Balance Sheet up to the date of death which amounted to ₹ 76,250.
(v) Shifa's executors were paid half of the payable amount immediately and the balance amount was to be paid in two equal yearly instalments along with interest 8% p.a.
Pass necessary journal entries for the above transactions on Shifa's death.

2 A, B and C used to work in a Call Center in the night shift where they became friends. After completing their graduations through correspondence, they decided to quit their jobs and start their own business. They opened a Readers' Café in a famous mall. They were earning well. On 30th June, 2025, fire broke out in the kitchen of Café & B met with an accident and lost his life. Their previous year's Balance sheet of the firm as at 31st March, 2025 is as follows:

Liabilities	Amount	Assets	Amount
Capital A/cs		Cooking Utensils	1,20,000
A	2,00,000	Ovens	40,000
B	2,00,000	Books	1,60,000
C	2,00,000	Motor Bikes	2,10,000
Workmen's Comp. Reserve	1,20,000	Furniture and Fixtures	1,80,000
Sundry Creditors	1,02,500	Sundry Debtors	60,000
Bills Payables	30,000	Inventories	25,000
Outstanding Expenses	17,500	Bank	33,000

		Profit and Loss A/c (loss for the year ended 31st March 2025)	42,000
	8,70,000		**8,70,000**

According to the Partnership Deed, in addition to the Deceased Partner's Capital, the executors are entitled to the following:
Goodwill is to be valued at 3 years' purchase of the average profit of the last five years ended 31st March, which were:

Years	**2021**	**2022**	**2023**	**2024**
Profits (₹)	**50,000**	**40,000**	**80,000**	**90,000**

(ii) B's share of goodwill be adjusted against the Capital Accounts of continuing partners A and C who have decided to share future profits in the ratio of 5: 3.
(iii) Cooking Utensils were found undervalued by 20%; Ovens were revalued at 90% and Inventories at ₹35,000.
(iv) A liability on account of Workmen compensation is determined at ₹1,08,000.
(v) B's share of profit or loss up to the date of death on the basis of average profits of the last two years.
Based on the above information, answer the following questions:

A. Gaining Ratio of A and C would be
1. 1:1. 2. 5:3. 3. 7:1. 4. 3:2.

B. B's share in Gain (Profit)/Loss on Revaluation of Assets and Reassessment of Liabilities would be
1. ₹ 36,000 (Gain). 2. ₹ 30,000 (Gain). 3. ₹10,000 (Gain). 4. ₹ 12,000 (Gain).

C. B's share of Goodwill would be
1. ₹1,30,800. 2. ₹43,600. 3. ₹ 72,000. 4. ₹ 24,000.

D. Entry for adjusting B's share of profit or loss till the date of death would be:

1. A's Capital A/c Dr. 38,150 C's Capital A/ Dr. 5,450 To B's Capital A/c ₹43,600	2. A's Capital A/c Dr. ₹1,750 C's Capital A/c Dr. ₹250 To B's Capital A/c ₹2,000
3. A's Capital A/c Dr ₹21,000 C's Capital A/c Dr. ₹3,000 To B's Capital A/c ₹ 24,000	4. Profit & Loss Suspense A/c ₹ 2,000 To B's Capital A/c ₹ 2,000

3 Akul, Bakul and Chandan are partners sharing profits in the ratio of 4:3: 2. Bakul retires and his capital after adjustments for reserves and profit on revaluation was 92,800. Akul and Chandan paid him some amount in full settlement of his claim. The Journal entry for goodwill was passed as follows:

Date	**Particulars**	**Dr**	**Cr**
	Akul's Capital A/c Dr	3,900	
	Chandan's Capital A/c Dr	3,300	
	To Bakul's Capital A/c		7,200

Calculate the amount paid to Bakul.
Calculate new profit-sharing ratio of Akul and Chandan.

4 Amit, Sumit and Jatin were sharing profits and losses in the ratio of 5: 3: 2. Jatin retired and Amit and Sumit decided to continue the firm sharing profits and losses equally after Jatin's retirement. They decided to record the effect of the following revaluations without affecting the book values of the assets and liabilities by passing an Adjustment Entry:

Particulars	**Book values**	**Revised Values**
Land and Building	5,00,000	5,50,000
Plant and Machinery	2,50,000	2,40,000
Sundry Creditors	60,000	55,000
Outstanding Expenses	60,000	75,000

Pass necessary journal entries.

MARKING SCHEME

1

Books of Adayant, Shifa and Rohan
Journal

Date	Particulars	LF	Dr. Amt (₹)	Cr. Amt (₹)
2024 Jun 30	General Reserve A/c Dr. To Adayant's Capital A/c To Shifa's Capital A/c To Rohan's Capital A/c (General Res. credited to Partners' Cap. A/c)		1,20,000	 48,000 24,000 48,000
	Interest on Capital A/c Dr. To Shifa's Capital A/c (Int. on Capital credited to Shifa's Cap. A/c)		5,750	 5,750
	Adayant's Capital A/c Dr. Rohan's Capital A/c Dr. To Shifa's Capital A/c (Shifa's share of goodwill adjusted in the Cap. A/c of Adayant and Rohan in the gaining ratio)		21,000 21,000	 42,000
	Profit and Loss Suspense A/c Dr. To Shifa's Capital A/c (Share of profit till the date of death credited to Shifa's capital account)		76,250	 76,250
	Shifa's Capital A/c Dr. To Shifa's Executor's A/c (Shifa's Cap. A/c trf to her Executors A/c)		2,68,000	 2,68,000
	Shifa's Executors' A/c Dr. To Bank A/c / Cash A/c (Shifa's executors were paid half of the payable amount immediately)		1,34,000	 1,34,000
	Shifa's Executor's A/c Dr. To Bank A/c / Cash A/c To Shifa's Executor's Loan A/c (Shifa's executors were paid half of the payable amount immediately)		2,68,000	 1,34,000 1,34,000

2 a. 3; b. 4 ; c. 2; d. 2

3 (i) Amount paid to Bakul = ₹ 92,800 + ₹ 7,200 = ₹ 1,00,000.
(ii) Calculation of new profit-sharing ratio of Akul and Chandan:
New Profit Share =Old Profit Share + Profit Share Gained
Akul's New Profit Share = 4/9 + [(3,900/ 7,200) x 3/9] = 5/8
Chandan's New Profit Share = 2/9 + [(3,300/ 7,200) x 3/9] = 3/8
New Profit-sharing Ratio of Akul and Chandan = 5/8: 3/8 or 5: 3.

4 **Calculation of the Net Effect of Revaluation:**

(i) Increase in the value of Land and Building	50,000
(ii) Decrease in amount of Sundry Creditors	5,000
(iii) Decrease in value of Plant and Machinery	(10,000)
(iv) Increase in the amount of Outstanding Expenses	(15,000)
Gain (Profit) on Revaluation	**30,000**

Step 2: Calculation of Sacrificed/(Gained) Profit Share:

	Amit	Sumit	Jatin
(i) Old Profit Share	5/10	3/10	2/10
(ii) New Profit Share	1/2	1/2	Nil
	Nil	**2/10 (Gain)**	**-2/10**

Step 3: Calculation of Proportionate Amount of Share of Gain (Profit) on Revaluation:
Sumit's Gained Share = 2/10×₹ 30,000=₹ 6,000.
Jatin's Sacrificed Share = 2/10×₹30,000 =₹6,000.

Step 4: Sumit's Capital A/c Dr 6,000
To Jatin's Capital A/c 6,000
(Proportionate amount of gain (profit) on revaluation adjusted

6 MARKS QUESTIONS

1 Sia, Manav and Ajay were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31st March, 2024, their Balance Sheet was as follows:

Balance Sheet of Sia, Manav and Ajay as at 31st March, 2024

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	4,00,000	Land and Building	8,50,000
Bank Overdraft	3,00,000	Machinery	6,00,000
Capitals:		Investments	2,00,000
Sia - 9,00,000		Stock	6,00,000
Manav - 8,00,000		Debtors	3,00,000
Ajay - 2,00,000	19,00,000	Bank	1,00,000
Employee's Provident Fund	2,00,000	Profit and Loss Account	1,50,000
	28,00,000		**28,00,000**

On 31st March, 2024, Manav retired from the firm and the remaining partners decided to carry on the business. The assets and liabilities were revalued which resulted into a gain of ₹ 1,20,000 because of the increase in the value of Land and Building by the same amount.
(i) 40% of Land and Building were taken by retiring partner at revalued value.
(ii) Goodwill of the firm be valued at ₹ 4,00,000. Sia and Ajay decided to share future profits and losses in the ratio of 3:2.
(iii) The total capital of the new firm will be ₹ 20,00,000 which will be in proportion of the new profit-sharing ratio of Sia and Ajay. For this, necessary cash was brought in or was paid off to the partners, as the case may be.
Prepare Partners' Capital Accounts.

2 Alok, Deepak & Manish were partners sharing Profit &Loss in the ratio 5:3:2. Deepak retired on March 31, 2025. On this date his dues after all adjustments related to Revaluation Gain/Loss, Accumulated Profits/Losses & Goodwill treatment came out to be ₹ 6,40,000. He was paid ₹ 40,000 through Furniture on retirement & it was agreed to pay balance in three equal annual instalments together with interest as per the rate permissible by act, in the absence of any agreement. First instalment being paid on March 31, 2026. You are required to pass entry for immediate payment to Deepak on retirement & prepare Deepak's Loan A/c till it is finally closed.

3 **Balance Sheet as on March 31, 2025**

Aman, Barman and Raman were partners sharing Profits & Losses in the ratio 5:3:2.

Liabilities	Amt (₹)	Assets	Amt (₹)
Aman's Capital	80,000	Bank	30,000
Barman's Capital	70,000	Building	1,00,000
Raman's Capital	50,000	Furniture	60,000
Workmen Compensation Reserve	50,000	Debtors	50,000
Accumulated Dep. on Building	20,000	Stock	40,000
Profit and Loss	40,000	Prepaid Expenses	20,000
Creditors	25,000	Deferred Revenue Exp.	20,000
Outstanding Expenses	15,000	Goodwill	30,000
	3,50,000		**3,50,000**

On the above date Barman retired and his share was acquired by Aman and Raman equally. Following agreements were agreed upon:
a) Create Provision for doubtful debts @ 10%.
b) Market value of Building is ₹1,00,000 and Furniture was overvalued by 20%.
c) Stock was valued at ₹ 55,000. Creditors of ₹ 15,000 took over stock of ₹ 10,000 in settlement of their claims.

d) Goodwill of the firm was valued at ₹ 80,000.
e) Prepaid Expenses are worthless and Outstanding Expenses are now ₹20,000.
f) ₹ 20,000 was immediately paid to Barman on retirement brought in Aman & Raman in ratio 3:2. Prepare Revaluation A/c & Partner's Capital A/c at the time of retirement of partner.

4 Simar, Tanvi & Umara were partners in a firm sharing profits and losses in the ratio of 5:6:9. On 31st March 2024 their Balance Sheet was as follows:

Liabilities	Amt (₹)	Assets	Amt (₹)
Capitals:		Fixed Assets	25,00,000
Simar	13,00,000	Stock	10,00,000
Tanvi	12,00,000	Debtors	8,00,000
Umara	14,00,000	Cash	7,00,000
General Reserve	7,00,000	Profit and Loss A/c (2023-24)	2,00,000
Trade Payables	6,00,000		
	52,00,000		**52,00,000**

Umara died on 30th June, 2024. The partnership deed provided for the following on the death of a partner:
(i) Goodwill of the firm be valued at 3 years' purchase of average profit for the last 5 years. The profit/loss for the previous four years were:
2022-23: ₹3,10,000 (loss) 2021-22: ₹3,00,000 (profit)
2020-21:₹4,00,000 (profit) 2019-20: ₹ 2,50,000 (profit)
(ii) Umara's share of profit or loss till the date of her death was to be calculated on the basis of profit or loss for the year ended 31st March, 2024.
(a) Calculate Goodwill of the firm.
(b) Pass the necessary Journal entry for the treatment of goodwill on Umara's death.
(c) Calculate Umara's share in the profit or loss of the firm till the date of her death.
(d) Pass the necessary JE to record Umara's share of profit or loss till the date of her death.

MARKING SCHEME

1

Partners' Capital Accounts

Particulars	Sia (₹)	Manav (₹)	Ajay (₹)	Particulars	Sia (₹)	Manav (₹)	Ajay (₹)
To Profit and Loss A/c	60,000	60,000	30,000	By Balance b/d	9,00,000	8,00,000	2,00,000
To Land and Building A/c		3,88,000		By Reval. A/c	48,000	48,000	24,000
To Manav's Capital A/c	80,000		80,000	By Sia's Capital A/c		80,000	
To Manav's Loan A/c		5,60,000		By Ajay's Capital A/c		80,000	
To Balance c/d	12,00,000		8,00,000	By Bank A/c	3,92,000		6,86,000
	13,40,000	**10,08,000**	**9,10,000**		**13,40,000**	**10,08,000**	**9,10,000**

2

Journal

Date	Particulars	Debit	Credit
March 31, 2025	Deepak's Capital A/c Dr.	6,40,000	
	To Furniture A/c		40,000
	To Deepak's Loan A/c		6,00,000
	(Being Deepak's Capital A/c settled)		

Deepak's Loan A/c

Date	Particulars	Amount	Date	Particulars	Amount
Mar. 31 2026	Bank A/c	2,36,000	Apr.01, 2025	Deepak's Capital A/c	6,00,000
	Balance c/d	4,00,000	Mar. 31, 2026	Interest A/c	36,000
Mar. 31 2027	Bank A/c	2,24,000	Apr.01, 2026	Balance b/d	4,00,000
	Balance c/d	2,00,000	Mar. 31, 2027	Interest A/c	24,000
Mar. 31 2028	Bank A/c	2,12,000	Apr.01, 2027	Balance b/d	2,00,000

			Mar. 31, 2028	Interest A/c	12,000

3

Dr. Revaluation A/c Cr.

Particulars	Amount	Particulars	Amount
Furniture	10,000	Building	20,000
Prepaid Expenses	20,000	Stock	15,000
Prov. For doubtful debts	5,000	Creditors	5,000
Outstanding Expenses	5,000		
Total	**40,000**	**Total**	**40,000**

Dr. Partner's Capital A/c Cr.

Particulars	Aman	Barman	Raman	Particulars	Aman	Barman	Raman
Def. Rev.Exp.	10,000	6,000	4,000	Balance b/d	80,000	70,000	50,000
Goodwill	15,000	9,000	6,000	WCR	25,000	15,000	10,000
Barman's Cap.	12,000	--	12,000	Profit and Loss	20,000	12,000	8,000
Cash		20,000		Aman's Capital		12,000	
Barman's Loan		86,000		Raman's Capital		12,000	
Bal c/d	1,00,000		54,000	Cash	12,000		8,000
Total	**1,37,000**	**1,21,000**	**76,000**	**Total**	**1,37,000**	**1,21,000**	**76,000**

4

Firm's Goodwill = AP x No of years purchase; AP= ₹ 88,000; Goodwill= ₹ 2,64,000

Simar's Capital A/c Dr 54,000

Tanvi's Capital A/c Dr 64,800

To Umara's capital A/c 1,18,800

(Being Umara's share of goodwill is given)

Umara's share of loss till the date of death =₹ 2,00,000 x 3/12 x 9/20=₹ 22,500

Umara's Capital A/c Dr 22,500

To Profit and Loss Suspense A/c 22,500

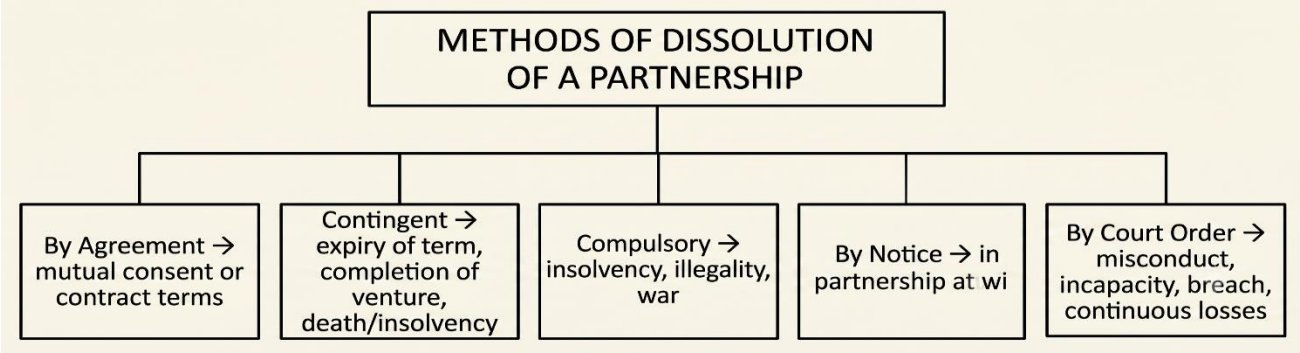
(Being Umara's profit share is given)

CH-4 DISSOLUTION OF PARTNERSHIP FIRM

Meaning

Dissolution of Partnership: Ends the relationship between partners; firm may continue.
Dissolution of Firm: Ends the existence of the firm; business stops and A/c's are settled.

Modes of Dissolution



Sequence of Settlement of Accounts (Sec. **48)**

1. Pay debts to outsiders
2. Repay partners' loans/advances
3. Repay partners' capital
4. Distribute surplus among partners

Losses borne in order: profits → capital → partners individually (profit-sharing ratio).

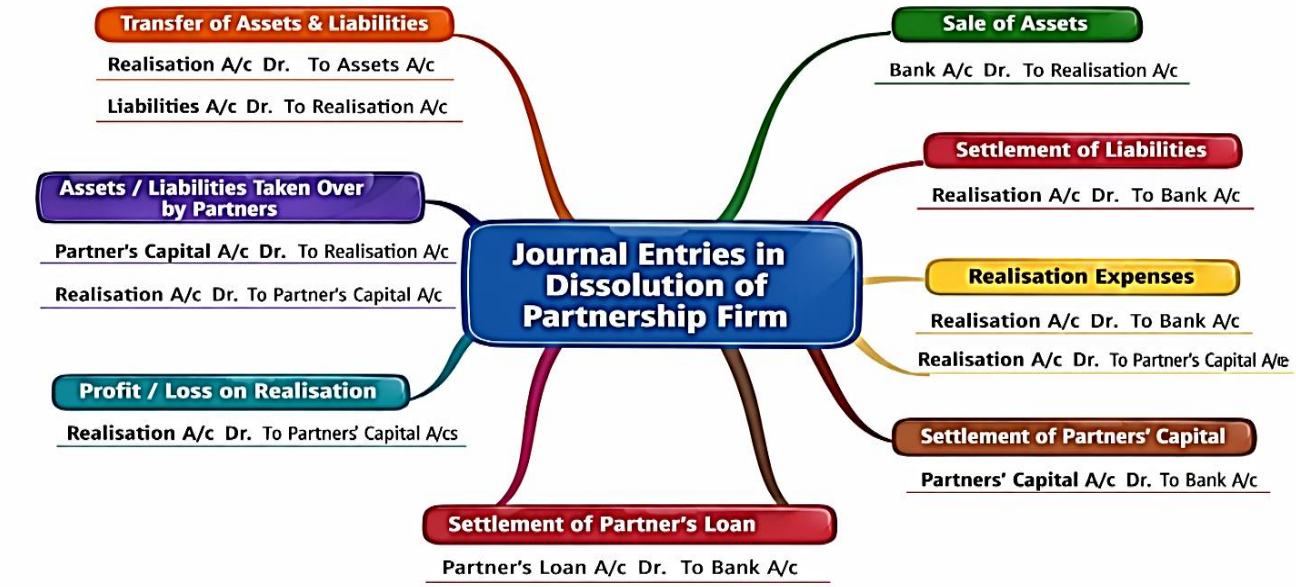
Private vs. Firm Debts (Sec. 49)

Firm property → firm debts first, surplus for partners.
Partner's private property → private debts first, surplus may cover firm debts.

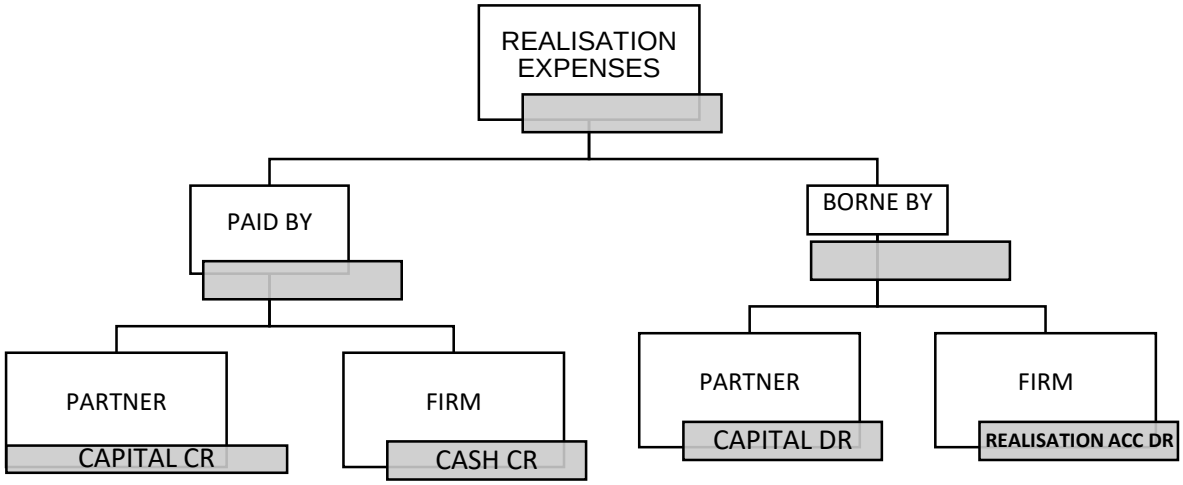
CHAPTER HIGHLIGHTS	
Dissolution of Partnership firm	Sec 39 of Indian Partnership Act 1932
A firm is compulsorily dissolved when all partners or when all except one partner become insolvent.	Yes
Settlement of Accounts	Sec 48 of Indian Partnership Act 1932
Private Debts and Firm's Debts	Sec 49 of Indian Partnership Act 1932
Private property	Private Property of the partner does not include the personal properties of his wife and children

Realisation Account-Journal Entries

- **(Compulsory Entries for a full-fledged Question of six marker)**



TREATMENT OF DISSOLUTION/REALISATION EXPENSES



MINDMAP

PRACTICE QUESTIONS

	01MARK QUESTIONS	
1	In case of dissolution of a partnership firm, the losses, including deficiencies of capital, shall be paid first: (A) by partners individually and equally (B) by partners individually in their profit-sharing ratio (C) out of capital of the partners out of profits (D) out of profits	1
2	In the Balance Sheet Total Debtors appear at ₹50,000 and Provision for Doubtful Debts appear at ₹1,500. How much amount will be realised from Debtors, if bad debts amount to ₹10,000 and remaining debtors are realised at a discount of 5%. (A) ₹38,000 (B) ₹36,500 (C) 36,575 (D) ₹39,500	1
3	On the dissolution of the partnership firm of Puneet and Binny, an unrecorded asset of Rs ₹ 56,000 was given to an unrecorded creditor of ₹ 70,000 in settlement of his claim of ₹ 50,000 and the balance was paid to	1

	him in cash. Realisation Account will be_____by_____. (A) Dr.,₹20,000; (B) Cr.,₹20,000 (C) Dr., ₹14,000; (D) Cr.,14,000	
4	Anuradha, Binay and Charanjeet are partners. The firm had given a loan of ₹20,000 to Binay. On the event of dissolution, the loan will be settled by: (A) Transferring it to debit side of Realization Account. (B) Transferring it to credit side of Realization Account. (C) Transferring it to debit side of Bank Account. (D) Binay paying Anuradha and Charanjeet privately.	1
5	In which condition a partnership is considered to be dissolved: (A) The lunacy of partner (B) The business of the firm becomes illegal (C) When there is a change in profit sharing ratio (D) When all the partners become insolvent	1
6	In the event of dissolution of firm, the partner's personal assets are first used for payment of the: (A)Firm's liabilities (B) The personal liabilities (C) None of the two (D) Any of the two	1
7	**Assertion (A):**Partner's private property can be used in paying off the firm's debts. **Reason (R):**In case of partnership firm, partner's liability is unlimited. In the context of the above two statements, which of the following is correct? (A) Both (A) and (R) are true, but (R) is not the correct explanation of (A). (B) Both (A) and (R) are true and (R) is the correct explanation of (A). (C) Both (A) and (R) are false. (D) Only (A) is true.	1
8	On the dissolution of the firm, Partner Rexona agreed to take over the responsibility of completing the dissolution work at an agreed remuneration of ₹1,000 and to bear all realisation expenses. The actual realisation expenses amounted to 1,300 which were paid by the firm on Rexona's behalf. What amount will be debited by the firm to the Realisation Account? (A) ₹1,000 (B) ₹2,300 (C) ₹1,300 (D) ₹ 300	1
9	On dissolution, goodwill account is transferred to: (A) In the Capital A/c of Partners (B) On the credit of Cash A/c (C) On the Debit of Realisation A/c (D) On the Credit of Realisation A/c	1
10	If creditors are ₹25,000, capital is ₹1,50,000 and cash balance is ₹10,000, what will be the amount of sundry assets? (A) ₹1,75,000 (B) ₹1,85,000 (C) ₹1,65,000 (D) ₹1,40,000	1
	MARKING SCHEME	
1	(D) out of profits	
2	(A) ₹38,000	
3	(A) debited, ₹ 20,000	
4	(C) Transferring it to debit side of Bank Account.	
5	(C) When there is a change in profit sharing ratio	
6	(B) The personal liabilities	
7	(B) Both (A) and (R) are true and (R) is the correct explanation of (A).	
8	(A) ₹1,000	
9	(C) On the Debit of Realisation Account	
10	(C) ₹1,65,000	
	03 MARKS QUESTIONS	
1	A. There was a Contingent liability in respect of bill discounted but not matured ₹ 20,000. B. Furniture of ₹20,000 & goodwill of ₹30,000 were appearing in the Balance Sheet but no other information was provided regarding these two items. C. There were 100 shares of ₹10 each in JCB Ltd. acquired at a cost of ₹1,200	3

	which had been written off completely from the books. These shares are valued at 9 each & divided among the partners Mahesh, Raghav & Shyam in their profit-sharing ratio. Pass necessary journal entries.	
2	Param & Qurashi were partners in a firm sharing profits & losses equally. On 15th March, 2025 the firm was dissolved. The dissolution resulted in a loss of ₹60,000. On that date the Capital A/c of Param & Qureshi showed Cr. balances of ₹70,000 & ₹50,000 respectively. There was a bank balance of ₹60,000. Pass the necessary Journal Entries for (i) the transfer of loss to the Capital accounts of the partners, and (ii) making final payments to the partners.	3
3	Gaurav, Saurabh &Vaibhav were partners in a firm sharing profits & losses in the ratio of 2:2:1. They decided to dissolve the firm on 31st March, 2025. After transferring Sundry assets (other than cash in hand & cash at Bank) and third-party liabilities to Realisation A/c, the assets were realized & liabilities were paid off as follows: (i) A machinery with a book value of ₹6,00,000 was taken over by Gaurav at 50% and stock worth ₹5,000 was taken over by a creditor of ₹9,000 in full settlement of his claim. (ii) Land and building (book value ₹3,00,000) was sold for ₹4,00,000 through a broker who charged 2% commission. Pass necessary journal entries for the above transactions.	3
4	a. A bills receivable of ₹3,000 under discount was dishonoured as the acceptor has become insolvent and hence the bill has to be met by the firm. b. There was a bill of exchange of ₹10,000 under discount. The bill was received from Derek who became insolvent. c. Bills Payable of ₹30,000 falling due on 30th April, 2025 was discharged at ₹ 29,550.	3
5	If total assets are ₹ 5,00,000; total liabilities are ₹ 1,00,000; amount realised on sale of assets is ₹ 4,20,000 and realisation expenses are ₹ 5,000, Show the profit or loss on realisation by preparing Realisation Account.?	3
	MARKING SCHEME	
1	a. No entry b. Bank A/c Dr ₹ 20,000 To Realisation A/c ₹ 20,000 (Being assets realised) **For goodwill no entry as no realised value is given** c. Mahesh's Capital A/c Dr ₹ 300 Raghav Capital A/c Dr ₹ 300 Shyam Capital A/c Dr ₹ 300 To Realisation A/c ₹ 900 (Being proceed from shares distributed to partner's capital A/C)	
2	Final payment Param ₹40,000 and Qureshi ₹ 20,000	
3	a. Gaurav's Capital A/c Dr ₹ 2,00,000 To Realisation A/c ₹ 2,00,000 (Being assets taken over by partner Gaurav) b. Bank A/c Dr ₹ 3,92,000 To Realisation A/c ₹ 3,92,000 (Being assets realised)	
4	a. Realisation A/c Dr ₹ 3,000 To Bank A/c ₹ 3,000 (Being assets realised)	

b. Realisation A/c Dr ₹ 1,000
To Bank A/c ₹ 1,000
(Being assets realised)
c. Realisation A/c Dr ₹ 29,550
To Bank A/c ₹ 29,550
(Being payment for liabilities done)

5

Realisation Account

Particulars	Amount	Particulars	Amount
To Assets	5,00,000	By Liabilities	1,00,000
To Bank (Liabilities paid)		By Bank (assets realised)	4,20,000
To Bank	1,00,000	By Partners Capital (loss	
(expenses of realisation)	5,000	on realisation)	85,000
	6,05,000		6,05,000

04 MARKS QUESTIONS

1 Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Arjun and Kunal after various assets (other than cash) and external liabilities have been transferred to Realisation Account: 4

a. Arjun was appointed to look after dissolution work for which he was allowed a remuneration of ₹ 10,000. He agreed to bear the dissolution expenses. Actual dissolution expenses paid by Arjun were ₹ 9,500.
b. A creditor to whom the firm owed ₹ 9,000, accepted stock of ₹ 3,000 at a discount of 10% and the balance was paid to him in cash.
c. Kunal had given a loan of ₹ 20,000 to the firm. He was paid ₹19,000 in full settlement of his loan.
d. A piece of furniture, which was not recorded in the books was taken over by Arjun at ₹ 27,000 whereas its expected value was ₹ 30,000.

2 Harish and Gopal were partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March 2025, their Balance Sheet was as follows: 4

Liabilities	Amount	Assets	Amount
Creditors	36,000	Cash	47,000
Outstanding Expenses	10,000	Bank	93,000
Gopal's Wife loan	50,000	Investment	76,000
Capitals:		Stock	2,00,000
Harish	2,80,000	Furniture	20,000
Gopal	1,60,000	Leasehold Premises	1,00,000
	5,36,000		5,36,000

One the above date the firm was dissolved. Various assets were realised and liabilities were settled as under:
a. Gopal agreed to pay his wife's loan.
b. Leasehold premises realised ₹ 1,38,000.
c. Half of the creditors agreed to accept furniture of the firm as full settlement of their claim and remaining half agreed to accept 10% less.
d. 50% stock was taken over by Harish on payment by cheque of ₹90,000 and remaining stock was sold for ₹94,000.
e. Realization expenses of ₹10,000 were paid by Gopal on behalf of the firm.
Prepare Realisation Account.

3 Ravi & Mukesh were partners in a firm sharing profit & losses equally. On 31st March, 2019 their firm was dissolved. On the date of dissolution their Balance Sheet showed stock of ₹60,000 & creditors of ₹70,000. After transferring stock and creditors to Realisation A/c the following transactions took place: 4

(i) Ravi took over 40% of total stock at 20% discount.
(ii) 30% of total stock was taken over by creditors of ₹20,000 in full settlement.
(iii) Remaining stock was sold for cash at a profit of 25%.

(iv) Remaining creditors were paid in cash at a discount of 10%.
Pass necessary JE for the above transactions in the books of the firm.

4 **Case:** Ravi, Meena, and Arjun are partners sharing profits in the ratio of 3:2:1. Their firm was dissolved. The following transactions took place: 4

- Creditors of ₹60,000 were settled at a discount of 10%.
- Stock worth ₹30,000 was taken over by Meena at ₹28,000.
- An unrecorded liability of ₹5,000 was paid by the firm.
- Realisation expenses of ₹2,000 were borne by Arjun personally.

MCQs (Choose the most appropriate option)

1. Creditors settled at a discount of 10% will be recorded as:
(a) ₹60,000 paid through Bank (b) ₹54,000 paid through Bank
(c) ₹6,000 paid through Bank (d) ₹60,000 transferred to Partner's Capital
Competency: Application of settlement rules under Section 48.
2. Stock taken over by Meena at ₹28,000 will be shown as:
a) Debit to Realisation A/c ₹30,000, Credit to Meena's Capital A/c ₹28,000
b) Debit to Meena's Capital A/c ₹28,000, Credit to Realisation A/c ₹28,000
c) Debit to Realisation A/c ₹28,000, Credit to Bank A/c ₹28,000
d) Debit to Meena's Capital A/c ₹30,000, Credit to Realisation A/c ₹30,000
Competency: Understanding treatment of assets taken over by partners.
3. Payment of unrecorded liability of ₹5,000 will be:
a) Debit Realisation A/c, Credit Bank A/c
b) Debit Bank A/c, Credit Realisation A/c
c) Debit Partner's Capital A/c, Credit Bank A/c
d) Debit Realisation A/c, Credit Partner's Capital A/c
Competency: Analytical reasoning on hidden liabilities.
4. Realisation expenses of ₹2,000 borne by Arjun personally will be:
a) Debit Realisation A/c, Credit Bank A/c
b) Debit Realisation A/c, Credit Arjun's Capital A/c
c) No entry in firm's books
d) Debit Arjun's Capital A/c, Credit Bank A/c
Competency: Application of accounting treatment for expenses borne by a partner.

MARKING SCHEME

1 **Journal Entries**

Date	Particulars	L.F.	Dr. Amt (₹)	Cr. Amt (₹)
(i)	Realisation A/c Dr. To Arjun's Capital A/c (Remuneration allowed to Arjun)		10,000	 10,000
(ii)	Realisation A/c Dr. To Cash/ Bank A/c (Payment made to the creditor in cash)		6,300	 6,300
(iii)	Kunal's Loan A/c Dr. To Cash/ Bank A/c To Realisation A/c (Kunal's Loan settled at ₹19,000)		20,000	 19,000 1,000
(iv)	Arjun's Capital A/c Dr. To Realisation A/c (Unrecorded furniture taken over by Arjun)		27,000	 27,000

2 Gain on realisation ₹ 11,800

3 (i) Ravi's Capital A/c ... Dr. 19,200
To Realisation A/c 19,200
(Being stock taken over by Ravi)
(ii) No Entry
(iii) Bank / Cash A/c ... Dr. 22,500

To Realisation A/c 22,500
(Being stock realised)
(iv) Realisation A/c ... Dr. 45,000
To Bank / Cash A/c 45,000
(Being creditors paid)

4

1. Creditors settled at a discount of 10%
   - Correct Answer: b) ₹54,000 paid through Bank
   - Explanation: Creditors = ₹60,000. Discount = 10% of ₹60,000 = ₹6,000.

Net payment = ₹60,000 – ₹6,000 = ₹54,000. Entry: Realisation A/c Dr. ₹60,000; To Bank A/c ₹54,000; To Realisation A/c (Discount) ₹6,000.

2. Stock taken over by Meena at ₹28,000
   - Correct Answer: b) Dr. to Meena's Cap. A/c ₹28,000, Cr. to Realisation A/c ₹28,000
   - Explanation: When a partner takes over an asset, Realisation A/c is credited with the agreed value, and partner's capital is debited. Entry: Meena's Capital A/c Dr. ₹28,000; To Realisation A/c ₹28,000.
3. Payment of unrecorded liability of ₹5,000
   - Correct Answer: a) Debit Realisation A/c, Credit Bank A/c
   - Explanation: Unrecorded liabilities are settled through Realisation A/c. Entry: Realisation A/c Dr. ₹5,000; To Bank A/c ₹5,000.
4. Realisation expenses of ₹2,000 borne by Arjun personally
   - Correct Answer: c) No entry in firm's books

Explanation: If a partner bears realisation expenses personally, no entry is passed in the firm's books. It is his personal responsibility.

06 MARKS QUESTIONS

1 (6)

Sun & Kiran are partners sharing profits & losses equally. They decided to dissolve their firm. Assets & Liabilities have been transferred to Realisation Account.
Pass necessary Journal entries for the following:

a. All partners are agreed that the process of realisation at the time dissolution will be accomplished by Sun for which he will be paid ₹10,000 along with the amount of expense which amounted to 2% of total value realised from the Assets on dissolution. Some assets were sold for Cash at a cumulative Value of ₹12,00,000 & the remaining were taken over by creditors at a valuation of ₹3,00,000.
b. Deferred Advertisement Expenditure A/c appeared in the books at ₹28,000.
c. Out of the Stock of ₹1,20,000; Kiran (a partner) took over 1/3 of the stock at a discount of 25% & 50% of remaining stock was tookover by a Creditor of ₹30,000 in full settlement of his claim. Balance amount of stock realized at ₹25,000.
d. An outstanding bill for repairs and renewal of ₹3,000 was settled through an unrecorded asset which was valued at ₹10,000. Balance being settled in Cash.

2 (6)

Hema and Garima were partners in a firm sharing profits in the ratio of 3:2. On March 31, 2015, their Balance Sheet was as follows:

Balance sheet of Hema and Garima

Liabilities	Amt	Assets	Amt
Creditors	36,000	Bank	40,000
Garima's Husband's Loan	60,000	Debtors	76,000
Hema's loan	40,000	Stock	2,00,000
Capital:		Furniture	20,000
Hema ₹ 2,00,000		Lease hold premises	1,00,000
Garima ₹ 1,00,000	3,00,000		
	4,36,000		4,36,000

On the above date the firm was dissolved. The various assets were

realized and liabilities were settled a sunder:
(i) Garima agreed to pay her husband's loan.
(ii) Lease hold premises realized ₹ 1,50,000 and Debtors ₹ 2,000 less.
(iii) Half the creditors agreed to accept furniture of the firm as full settlement of their claim and remaining half agreed to accept 5%less.
(iv) 50% Stock was taken over by Hema on cash payment of Rs.90,000 and remaining stock was sold for ₹ 94,000.
(v) Realization expenses of ₹ 10,000 were paid by Garima on behalf of Firm.
Prepare Realization A/c for the dissolution of the firm.

3 Arnav, Rahi & Dhruv are partners in a partnership firm sharing profits & losses in the ratio of 3:1:1. On 31st March 2026, they decided to dissolve their firm. On that date the Balance Sheet was as under: 6

Liabilities	Amount	Assets		Amount
Sundry Creditors	60,000	Bank		50,000
Arnav brother Loan	95,000	S. Debtors	1,70,000	
Dhruv's Loan	1,00,000	Less: PDD	20,000	1,50,000
Investment Fluct. Reserve	50,000	Stock		1,50,000
Capital A/c		Investment		2,50,000
Arnav	2,75,000	Building		3,00,000
Rahi	2,00,000	P/L Account		50,000
Dhruv	1,70,000			
	9,50,000			**9,50,000**

The assets were realised and the liabilities were paid as under:
a. Arnav agreed to pay his brother's loan
b. Investments realised 20% less.
c. Creditors were paid at 10% less.
d. Building was auctioned for 3,55,000. Commission on auction was ₹5,000.
e. 50% of the stock was taken over by Ragini at market price which was 20% less than the book value and the remaining was sold at market price.
f. Dissolution expenses were ₹ 8,000. ₹3,000 were to be borne by the firm and the balance by Dhrupad. The expenses were paid by him.
Prepare Realisation Account and Partners' Capital Accounts.

4 Pass necessary Journal entries for the following transactions on the dissolution of a firm after various assets (other than cash) and outside liabilities have been transferred to Realisation Account: 6
(i) Realisation expenses of the firm amounting to ₹2,600 were paid by partner, Aman.
(ii) A creditor of ₹4,500 took over stock valued at ₹5,200 in full settlement.
(iii) An unrecorded asset realised ₹3,500.
(iv) Remaining creditors amounting to ₹20,000 were paid at a discount of 5%.
(v) Remaining stock of ₹30,000 was taken over by Bimal, a partner, at a discount of 20%.
(vi) Investment whose face value was ₹10,000 was realised at 40%.

MARKING SCHEME

1

Date	Particulars	L.F.	Dr (₹)	Cr. (₹)

	a)	Realisation A/c Dr. To Sun's Capital Account (Remuneration and expenses payable to sun)		40,000	 40,000	
	b)	Sun's Capital A/c Dr Kiran"s Capital A/c Dr To Deferred Revenue Expenditure A/c (Adv.Suspense A/c debited to partners' capital A/c)		14,000 14,000	 28,000	
		Kiran's Capital A/c Dr. To realisation Account (⅓ Stock taken by Kiran)		30,000	 30,000	
	c)	-----No Entry----				
	d)	Bank A/c To realisation A/c (Stock realised)		25,000	 25,000	
		Cash A/c Dr. To realisation A/c (Amount realised from unrecorded asset after payment of outstanding bill)		7,000	 7,000	
2	Profit on Realisation ₹ 20,900					
3	Gain (Profit) on Realisation-43,000; Final Payments: Arnab- 3,65,800;					
4	(i) Realisation A/c Dr 2,600 To Aman's Capital A/c 2,600 (Being realisation Expenses paid by Aman) (ii) No Entry. (iii) Cash/Bank A/c Dr 3,500 To Realisation A/c 3,500 (Being unrecorded asset realised for cash) (iv) Realisation A/c Dr 19,000 To Cash/Bank A/c 19,000 (Being creditors paid at 5% discount) (v) Bimal's Capital A/c Dr 24,000 To Realisation A/c 24,000 (Being stock worth ₹30,000 taken over by Bimal at 20% discount) (vi) Cash/Bank A/c Dr 4,000 To Realisation A/c 4,000 (Being investment of face value ₹10,000 realised at 40% of its value)					

PART-II: ACCOUNTING FOR COMPANIES
CHAPTER-05: ACCOUNTING FOR SHARE CAPITAL

FEATURES OF COMPANY:

1. Separate Legal Entity	Distinct and completely separate from its members. Can buy property, enter contracts & sue/be sued in its own name.
2. Perpetual Succession	Continuous existence. Life is unaffected by death, retirement, insolvency, or insanity of shareholders. It goes on until legally dissolved.
3. Limited Liability	Liability of members is strictly capped at the unpaid face value of their shares. Personal assets of shareholders are fully protected.
4. Artificial Legal Person	Created via legal process. It lacks physical existence but operates with legal rights & carries out business through its Board of Directors.
5. Common Seal	Acts as the official signature of the company. Contracts bearing it become legally binding. (Now optional under latest law if signed by authorized personnel).
6. Transferability of Shares	Shares of a public company can be freely transferred or sold to others without needing permission from the company.
7. Separate Management	Ownership is distinct from control. Scattered shareholders are the owners, while an elected Board of Directors manages daily operations.

TYPES OF COMPANIES:

TYPES OF COMPANIES (Companies Act, 2013)		
1. One Person Company (OPC)	**2. Private Company**	**3. Public Company**
• Only 1 Member • Must be an Indian citizen & resident • Formed as a private entity • Paid-up capital limitations apply	• Min. Members: 2 • Max. Members: 200 (excl. employees) • Restricts right to transfer shares • Prohibits public capital issue • Suffix: 'Pvt. Ltd.'	• Min. Members: 7 • Max. Members: Unlimited • Shares are freely transferable • Can invite public subscriptions • Suffix: 'Ltd.'
Min. Directors: 1	Min. Directors: 2	Min. Directors: 3

SHARE AND SHARE CAPITAL: NATURE AND TYPES

According to the Section 2(84) of the Companies Act, 2013, a share is defined as “a share in the share capital of a company and includes stock”. Share is a unit in which capital of the company is divided. Each share has its nominal (face) value. Holders of these shares are called Shareholders or Members of the company.

In simple terms, the total capital of a company is divided into a large number of small, indivisible units of equal value. Each such individual unit is called a share. For example, if the total capital of a company is ₹10,000,000 and it is divided into 2.

As per Section 43 of the Companies Act, 2013, a company can issue only two **classes of shares:**

A. Preference Shares:

Preference shares are those shares which carry certain special or preferential rights over equity shares.

i) Preferential Right to Dividend: The right to receive a dividend calculated at a fixed rate or amount, before any dividend is paid to the equity shareholders.

ii) Preferential Right to Repayment of Capital: The right to the repayment of capital on the winding up or liquidation of the company before the capital of equity shareholders is returned.

B. Equity Shares:

According to the Companies Act, 2013, Equity Shares are those shares which are not preference shares. They do not carry any preferential rights regarding dividends or repayment of capital. They represent the true ownership of the company.

i) Dividend Fluctuations: The rate of dividend on equity shares is not fixed. It depends on the profits available after paying preference dividends and is recommended by the Board of Directors.

ii) Voting Rights: Equity shareholders have full voting rights and control over the management of the1, 000,000 units of ₹10 each, then each unit of ₹10 is a share of the company.

Comparison: Equity Shares vs. Preference Shares

Basis of Distinction	Preference Shares	Equity Shares
Dividend Rate	Paid at a predefined, fixed percentage rate.	Fluctuates dynamically based on annual profits.
Payment Order	Given preferential priority before equity.	Paid at the end, only after preference claims.
Arrears Tracking	Can accumulate across years if profits drop.	Never accumulate. Missed dividends are lost.
Winding Up	Capital is refunded before equity shares.	Refunded at the absolute end if assets remain.
Voting Rights	No general voting rights in board meetings.	Enjoys full voting rights on all core matters.
Redemption Status	Must be redeemed/repaid within 20 years.	Not redeemable during the lifetime of company.

FOUR STAGES OF INCORPORATION OF A COMPANY:

STAGE 1: PROMOTION STAGE
Conceiving the idea, conducting feasibility studies, and preparing core constitutional documents (MoA & AoA).

▼

STAGE 2: INCORPORATION STAGE
Filing documents with the Registrar of Companies (ROC). Culminates in receiving the Certificate of Incorporation.

▼

STAGE 3: CAPITAL SUBSCRIPTION STAGE
SEBI approval, issuing prospectus, securing 90% Minimum Subscription, and allotting shares.

▼

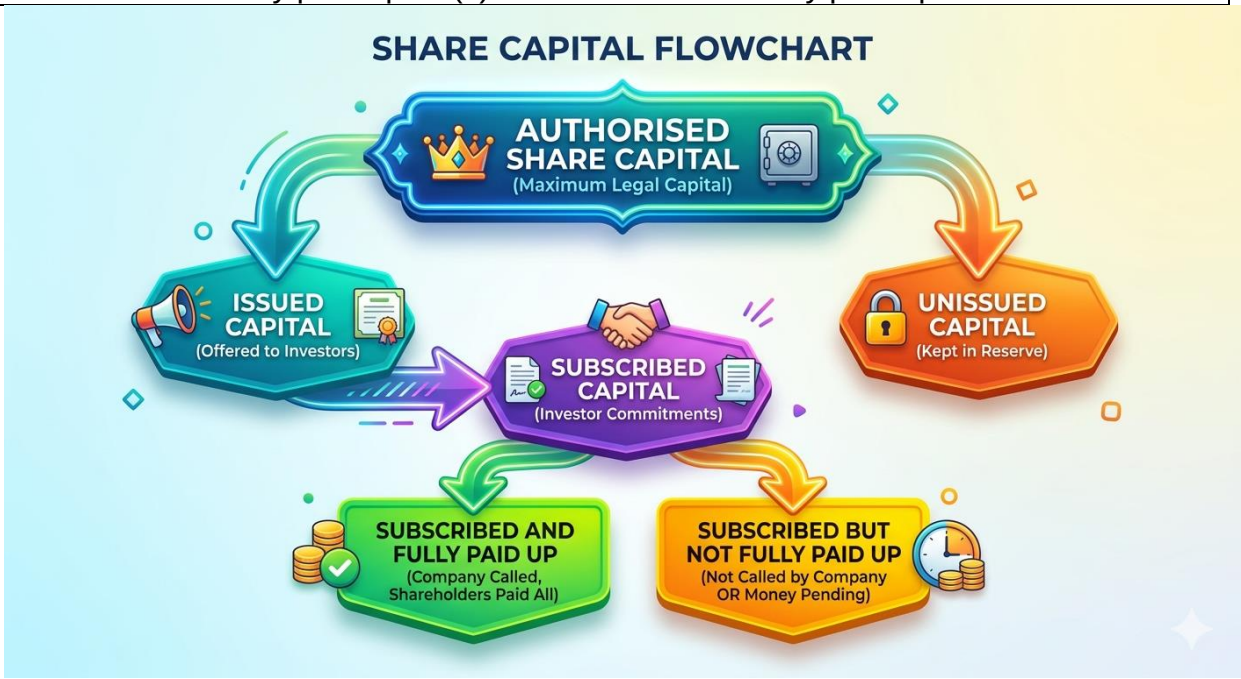
STAGE 4: COMMENCEMENT OF BUSINESS
Filing declarations with ROC to obtain the formal Certificate to Commence Business (Mandatory for Public Companies).

Share Capital and its Classification:

Share Capital is the amount received by a company towards share as both Equity and Preference Shares.

SUBSCRIBED SHARE CAPITAL

Subscribed share capital is a part of issued share capital that is subscribed. Subscribed share capital is shown as Subscribed and fully paid-up (b)Subscribed but not fully paid-up



ISSUE OF SHARES:

Shares can be issued by placing them privately or by issuing them to public known as: **Private placement of shares** means issue and allotment of shares to a selected group of investors privately to raise capital and not to public in general through public issue. **Public issue of shares** means issue of shares by a company to public for subscription.

ACCOUNTING OF SHARES: A company may issue shares either:

I. FOR CASH:	**II. FOR CONSIDERATION OTHER THAN CASH:**
Issue of shares for cash means the company receives the issue price of shares by cheque or by any other banking instrument such as Bank transfer or Bank Draft.	Shares issued for consideration other than cash means the company has not received amount against the shares issued instead has received assets or services.

I. ISSUE OF SHARES FOR CASH

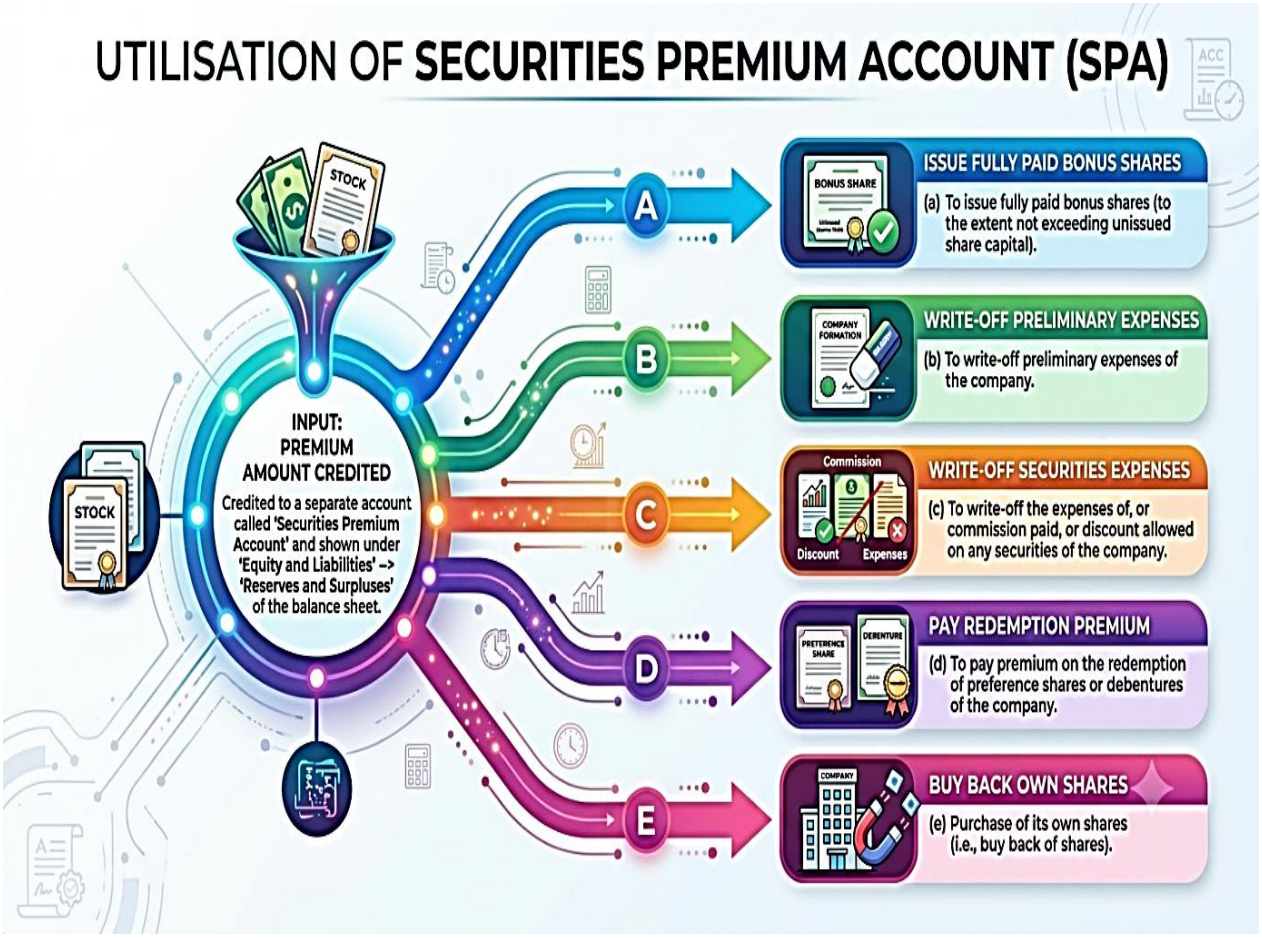
Shares may be issued:

AT PAR:	**AT PREMIUM:**
Issue of shares at par means issue price of share and its nominal (face) value are same. For example, issue price and nominal (face) value of the share is ₹10.	Issue of shares at premium means shares have been issued at a value that is higher than its nominal (face) value. For example, a share with nominal (face) value of ₹10 issued at ₹15, premium being ₹5.

NOTE: The Companies Act, 2013 does not allow issue of shares at a discount except when issued as Sweat Equity.

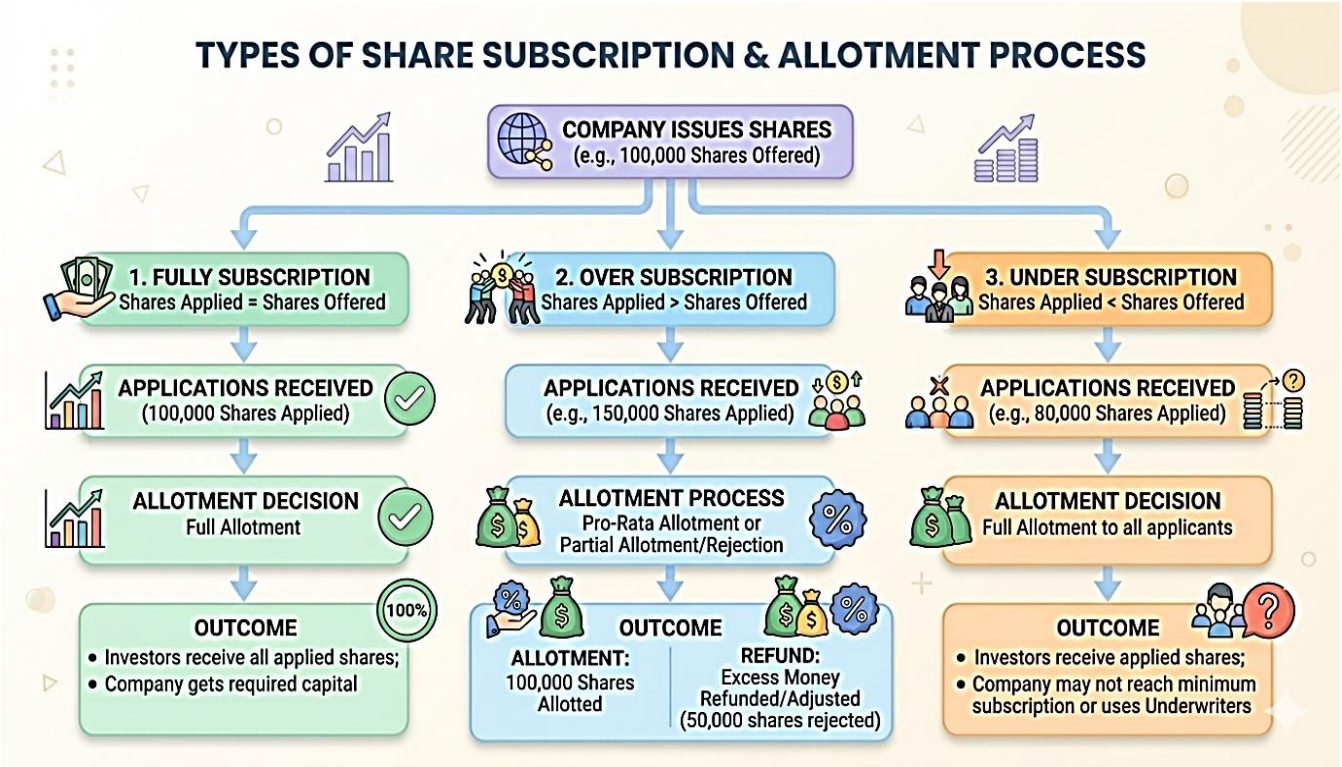
ISSUE PRICE MAY BE PAYABLE

IN LUMP SUM ALONG WITH THE APPLICATION	**IN INSTALMENTS AT DIFFERENT STAGES, i.e., partly on application, partly on allotment and balance in one or more calls.**



TYPES OF SHARE SUBSCRIPTION:

a. **Fully Subscription**: Occurs when the number of shares applied for by the public equals the number of shares offered by the company.
b. **Over Subscription**: Occurs when public demand exceeds the number of shares offered, requiring proportional allotment (Pro-Rata) or refunds.
c. **Under Subscription**: Occurs when the number of shares applied for is less than the offer, which may require the support of underwriters to meet the minimum subscription threshold.



ACCOUNTING ENTRIES IF ISSUE PRICE IS PAYABLE IN LUMP SUM

For Receiving Shares Application Money:
Bank A/c …Dr.
To Shares Application and Allotment A/c
(Being application and allotment money received)
For Allotment of Shares:
Shares Application and Allotment A/c …Dr.
To Share Capital A/c [nominal value]
To Securities Premium Reserve A/c [premium amount, when issued at premium]
(Being shares allotted against shares application money received)

ACCOUNTING ENTRIES IF ISSUE PRICE IS PAYABLE IN INSTALMENT

For receipt of Application money:
Bank A/c ... Dr. [amount received with application]
To Shares Application A/c
For Allotment of Shares:
Shares Application A/c …Dr. [application money on shares allotted]
To Share Capital A/c
For Amount due on Allotment:
Shares Allotment A/c …Dr. [Money due on shares allotted]
To Share Capital A/c
For receipt of Allotment money:
Bank A/c … Dr. [amount received on shares allotted]
To Shares Allotment A/c
For first call being due:
Shares First Call A/c …Dr. [amount payable on first call]
To Share Capital A/c
For receipt of first call:
Bank A/c … Dr. [amount received on first call]
To Shares First Call A/c

ACCOUNTING ENTRIES FOR ISSUE OF SHARES AT PREMIUM:

For receipt of Application money:
Bank A/c ... Dr. [amount received on application including premium]
To Shares Application A/c
For Allotment of Shares:
Shares Application A/c …Dr. [application money on shares allotted]
To Share Capital A/c [amount paid towards share capital]
To Securities Premium Reserve A/c [amount of premium received with application money]
For Amount due on Allotment:
Shares Allotment A/c …Dr. [amount due on shares allotted]
To Share Capital A/c [amount paid towards share capital]
To Securities Premium Reserve A/c [amount due towards premium]
For receipt of Allotment money:
Bank A/c …Dr. [amount received on shares allotted]
Calls-in-Arrears A/c ...Dr. [amount not received against allotment money]
To Shares Allotment A/c
For first call being due:
Shares First Call A/c …Dr. [amount payable on first call]
To Share Capital A/c [amount paid towards share capital]
To Securities Premium Reserve A/c [amount due to towards premium]
For receipt of first call:
Bank A/c …Dr. [amount received on first call]

Calls-in-Arrears A/c …Dr. [amount not received towards first call money due]
To Shares First Call A/c

Accounting Treatment of Oversubscription of Shares:

Meaning of Oversubscription: Oversubscription means, the number of applications received are more than the number of shares offered.

a. In such case, allotment can be done by any of the 3 alternatives available First Alternative: Under this alternative, some applications are accepted and excess applications are rejected.

b. Second Alternative: Under this alternative, all applicants are allotted shares in proportion which is known as Partial or Pro-rata Allotment.

c. Third Alternative: Under this alternative, a combination of the above two alternatives may be adopted.

If the shares are allotted against the application, then there is no adjustment required as share capital is credited against the application money received. However, if the applications are rejected, the application money with respect to the rejected applications can be refunded or adjusted (in case of pro-rata allotment) against the allotment or calls on shares.

Meaning of Pro-rata Allotment of Shares:

- This is one of the alternative available with the company for allotment of shares when the number of shares applied for are more than the number of shares offered for subscription.
- As per this alternative, all applicants are allotted shares in proportion which is called Partial or Pro rata Allotment.

Treatment of Surplus Application Money on Pro-rata Allotment:

- If the question is silent or states that 'excess application money received is to be adjusted against allotment', surplus application money is adjusted against allotment money due and excess application money, if any is refunded.
- If the question requires that surplus application money is to be refunded after adjustment of Allotment Money and Call Money, then the amount is transferred to Shares Allotment Account and Calls-in Advance Account. The balance, if still left, is refunded**.**

Computation of Amount not Received on Allotment in Case of Pro-rata: In case where the shares are allotted on pro-rata basis and one or some of the shareholders of pro-rata category fail to pay the allotment money, then it is necessary to compute the amount not received on allotment as per the following steps:

Step 1: Compute the number of shares applied or allotted using the following formulae:

a. When the shares allotted are given:

Number of Shares Applied are:
(Total Shares Applied / Total Shares Allotted) X Number of Shares Allotted

b. When the shares applied are given:

Number of Shares Allotted are:
(Total Shares Allotted / Total Shares Applied) X Number of Shares Applied

Step 2: Calculate the Allotment Amount not paid by defaulting shareholders:

Amount due on Allotment (Shares Allotted x Allotment Money per Share)	**Rs.**
Less: Excess Application Money Adjusted on Allotment	**…**
(Shares Applied – Shares Allotted) x Application Money per share	**…**
Allotment Amount due but not paid	**…**

PREPARATION OF CASH BOOK

Cash Book is a Special Journal which is used for recording cash transactions. When shares are issued for cash, cash book may have to be prepared. As a result,

a. Cash transactions are recorded in a Cash Book, and

b. Non-cash transactions are recorded in Journal

CALLS-IN-ARREARS	CALLS-IN-ADVANCE
Calls-in-arrears is the amount called by the company to be paid on shares but not paid by the shareholders. Interest on calls-in-arrears is chargeable if allowed by the Articles of Association. If it is not specified, it is charged @ 10% p.a. as it prescribed in table F of the Companies Act, 2013.	Calls-in-Advance means amount received by the company against shares that was not due. Interest on calls-in-advance is paid if the Articles of Association so provides. But if it is silent, provisions of Table F of the Companies Act, 2013 is apply and the company is liable to pay interest @ 12% p.a.

ACCOUNTING TREATMENT OF CALLS-IN-ARREARS:

This can be done in 2 ways as follows:

a. **Accounting treatment without opening Calls-in-Arrears Account:**

Call Money Due:	Call Money Received:
Share First Call A/c …Dr. To Share Capital A/c [with actual amount due on say, 1,000 shares @ 5 each]	Bank A/c …Dr. To Share First Call A/c [with actual amount received, say 900 shares @ 5 each]

b. **Accounting treatment by opening Calls-in-Arrears Account:**

Call Money Due:	Call Money Received:
Share First Call A/c …Dr. To Share Capital A/c [with actual amount due on say, 1000 shares @ 5 each]	Bank A/c …Dr. [with actual amount received, say 900 shares @ 5 each] Calls-in-Arrears A/c … Dr. [with amount not received, 100 shares @ 5 each] To Share First Call A/c

Disclosure in Balance Sheet: Calls-in-Arrears Account is shown in the Notes to Accounts on 'Share Capital'. This is shown as a deduction from the amount of 'Subscribed but not fully paid-up' under 'Subscribed Capital'.

ACCOUNTING TREATMENT OF CALLS-IN-ADVANCE:

JOURNAL ENTRY PASSED:

To record calls-in-advances:	To adjust when the respective call is made due:
Bank A/c …Dr. [amount of calls money received in advance] To Calls-in-Advance A/c	Calls-in-Advance A/c …Dr. To Respective Call A/c

SHARES ISSUED FOR CONSIDERATION OTHER THAN CASH

Entry is passed for:

a. PURCHASE OF AN ASSETS OR BUSINESS

Vendors against purchase of assets or business: Entry to be passed is as follows:

If shares are issued for purchase of assets:

Sundry Assets A/c (individually) …Dr. (with the amount of purchase price)
To Vendor's A/c (with purchase consideration)

If shares are issued for purchase of business: When a business is purchased, both assets and liabilities are taken over for a consideration which can be equal to, more than or less than the difference between values of assets and liabilities. Entry to be passed in each of these cases is as follows:

if consideration is equal to the difference between the value of assets and liabilities:

Sundry Assets A/c (individually) …Dr. (agreed value)
To Sundry Liabilities (individually) (agreed value)
To Vendor's A/c (purchase consideration)

if consideration is more than the difference between the value of assets and liabilities, such excess is debited to Goodwill Account:

Sundry Assets A/c (individually) Dr. (agreed value)

Goodwill A/c …Dr. (excess consideration over net assets)
To Sundry Liabilities (individually) (agreed value)
To Vendor's A/c (purchase consideration)
if consideration is less than the difference between the value of assets and liabilities, such shortfall is credited to Capital Reserve Account:
Sundry Assets A/c (individually) …Dr. (agreed value)
To Sundry Liabilities (individually) (agreed value)
To Vendor's A/c (purchase consideration)
To Capital Reserve A/c (excess of net assets over consideration)

Accounting Entries for issue of Shares to Vendors when Shares are:
Issued at par:
Vendor's A/c …Dr. (nominal value of shares allotted)
To Share Capital A/c
Issued at premium:
Vendor's A/c …Dr. (purchase consideration)
To Shares A/c (nominal value of shares allotted)
To Securities Premium Reserve A/c (premium amount)
Calculation of Number of Shares: When a business is purchased and consideration is paid in the form of issue of shares, number of shares is to be calculated as follows:
Number of Shares Issued = Purchase Consideration / Issue Price of Share

b. SERVICES TAKEN

Issue of Shares to Promoters: Such issue is made for services rendered by promoters for incorporating the company. Entry to be passed is as follows:
Amount due to Promoters
Incorporation Expenses or Preliminary Expenses A/c …Dr.
To Promoter's A/c
(Amount due to promoters)
Issue of shares to Promoters
Promoter's A/c …Dr.
To Share Capital A/c
(Issue of--- shares of Rs. --- each as fully paid to the promoters)
Issue of Shares to Underwriters: Such issue is made for services rendered by the underwriters where the underwriter agrees to take shares instead of charging commission in cash for his services rendered. Entry to be passed is as follows:
Amount due as Underwriting Commission
Underwriting Commission A/c Dr.
To Underwriters' A/c
Issue of shares to Underwriters
Underwriters' A/c Dr.
To Share Capital A/c
Disclosure in the Balance Sheet:
Shares issued for consideration other than cash are disclosed in the Balance Sheet under 'Subscribed Capital'. This may be further subscribed and fully paid or subscribed but not fully paid as the case may be and shown in Notes to Accounts under Share Capital.

FORFEITURE OF SHARES

Forfeitures of shares means cancelling the shares allotted to the shareholders. On cancellation, i.e., forfeiture of shares, amount received as share capital and securities premium is not refunded to the shareholders.

ACCOUNTING ENTRIES FOR FORFEITURE OF SHARES

Forfeiture of Shares issued at Par:
Following entry is passed for forfeiture of shares:
Share Capital A/c Dr. (No. Of Shares forfeited x Called up value per share)
To Forfeited Shares A/c (Amount received on forfeited shares)
To Share Allotment A/c (Amount due but not paid on allotment)
To Shares Call A/c (Amount due but not paid on call)
Where Calls in Arrears Account is maintained, Calls in Arrears Account will be credited instead of Shares Allotment A/c and Shares Calls Account.
Forfeiture of Shares issued at Premium: In this case, there are 2 possibilities:
Securities Premium Amount has been received:
Following entry is passed for forfeiture of shares:
Share Capital A/c Dr. (Called up value *less* Premium)
To Share Allotment A/c (Amount not received on allotment)
To Shares Call A/c (Amount not received on calls)
To Forfeited Shares A/c (Amount received *less* premium)
Securities Premium Amount has not been received:
Following entry is passed for forfeiture of shares:
Share Capital A/c Dr. (Called up value less premium)
Securities Premium Reserve A/c Dr. (Premium amount called-up but not received)
To Share Allotment A/c (Amount not received on allotment)
To Shares Call A/c (Amount not received on calls)
To Forfeited Shares A/c (Amount received *less* premium)
Where Calls in Arrears Account is maintained, Calls in Arrears Account will be credited instead of Shares Allotment A/c and Shares Calls Account.

REISSUE OF FORFEITED SHARES

Reissue of forfeited shares is not an issue of shares but is a sale of shares. Forfeited shares may be reissued (sold) on the terms as may decide by the company. Forfeited shares may be reissued by the company at par, at premium or at discount. For example, originally issued shares may have paid-up-value of ₹ 7,8,9 or even ₹ 10. However, discount allowed on reissued forfeited shares cannot be more than the amount forfeited on reissued shares.

ACCOUNTING ENTRIES FOR REISSUE OF FORFEITED SHARES

a. When reissue is at par, i.e., nominal value of share:
Bank A/c … Dr. (amount received on reissue)
To Share Capital A/c (amount credited as paid-up)
b. When reissue is at discount:
Bank A/c …Dr. (amount received on reissue)
Forfeited Shares A/c…Dr. (discount allowed on reissue i.e., paid up value *less* reissue price)
To Share Capital A/c (amount credited as paid-up)
c. When reissue is at premium:
Bank A/c … Dr. (amount received on reissue)
To Share Capital A/c (amount credited as paid up)
To Securities Premium Reserve A/c (excess amount received on reissue)

Maximum Permissible Discount: The maximum permissible discount that can be allowed on reissue of forfeited shares is the amount forfeited, i.e., the amount credited to the forfeited shares. In simple terms, the reissue price cannot be less than the amount unpaid on the forfeited shares.

Accounting treatment of Balance in Forfeited Shares Account:

a. **When all forfeited shares are reissued:** In this case, the balance left in Forfeited Shares Account is transferred to Capital Reserve as follows:
Forfeited Shares A/c …Dr.
To Capital Reserve A/c
(Being the gain on reissue transferred to Capital Reserve)

b. **When part of forfeited shares is reissued:** When part of the forfeited shares is reissued, gain on reissued shares is transferred to Capital Reserve Account.
<u>Total amount forfeited</u> x No. of shares reissued _ Reissue Discount
No. of shares forfeited

FORFEITURE OF SHARES UNDER PRO-RATA CATEGORY:

Following process is required to be followed when shares belonging to pro rata category are forfeited:
Calculate number of shares applied (if not given) by the shareholder whose shares are being forfeited:
(Shares Applied under Pro-rata Category) x Number of shares Allotted to shareholder/ Shares Allotted under Pro-rata Category
OR
Calculate total number of shares allotted (if not given):
(Shares Allotted under Pro-rata Category) x Number of shares Applied to shareholder/ Shares Applied under Pro-rata Category
Compute the total application money received on shares applied by defaulting shareholder as under:
No. of shares Applied by shareholder X Application money per share
Compute Application money due on shares allotted to defaulting shareholder as under:
No. of shares Allotted to shareholder X Application money per share
Determine the excess application money received:
Application Money received (Step2)- Application Money required (step 3)
Determine the amount due on allotment (by multiplying number of shares allotted by the amount of allotment money per share) and deduct from it the excess application money (Step 4)
The resultant amount is arrears on allotment.

DISCLOSURE OF SHARE CAPITAL IN THE BALANCE SHEET OF A COMPANY
Balance Sheet of … (Extract) as at …

Particulars	Note No.	
I. EQUITY AND LIABILITIES Shareholders' Funds Share Capital	**1**	**…**

Note to Accounts:

1. Share Capital	
Authorised Capital	
…Equity Shares of ₹ … each	…
…Preference Shares of ₹ … each	…
Issued Capital	…
…Equity Shares of ₹… each	…
…Preference Shares of ₹ … each	…
Subscribed Capital	
Subscribed and fully paid-up	

…Equity Shares of ₹… each	…
…Preference Shares of ₹ … each	…
Subscribed but not fully paid-up	
…Equity Shares of ₹ … each, ₹ … called-up …	
Less: Calls-in-Arrear …	…
…Preference Shares of ₹ … each, ₹… called-up …	
Less: Calls-in-Arrears …	…
Add: Forfeited Shares	…
Amount to be shown in the Balance Sheet against Share Capital	…

CONCEPT OF PRIVATE PLACEMENT OF SHARES

PRIVATE PLACEMENT OF SHARES: According to sec 42 of the Companies Act, 2013, Private placement means any offer of securities or invitation to subscribe securities to a select group of persons by a company (other than by way of public offer) through issue of private placement offer letter.
CONCEPT OF SWEAT EQUITY: -According to Sec 2(88) of the Companies Act,2013 "Sweat Equity Shares as are issued by a company to its directors or employees at a discount for consideration other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called."
CONCEPT OF EMPLOYEE STOCK OPTION PLAN (ESOP): -Employee Stock Option Plan means option granted by the company to its employees and employee directors to subscribe the shares at a price that is lower than the market price, i.e., fair value. It is an option or a right granted by the company but it is not an obligation on the employee to subscribe it.

PRACTICE QUESTIONS

	MCQ (1-Mark)
1	Ashoka Tree Ltd. had issued 10,000 Equity shares of ₹ 10 each at a premium of ₹10 each at a premium of ₹ 2. It had called the total issue price of the shares. Few shareholders had not paid the First and Final Call of ₹ 3 and their shares were forfeited. On forfeiture, Share Capital Account will be debited by: (a) ₹ 10 per share (b) ₹ 12 per share (c) ₹ 7 per share (d) ₹ 3 per share
2	A company Forfeited 1,000 shares of ₹ 10 each issued at a premium of ₹ 2, ₹ 7 called up. For the non-payment of ₹ 2 First call. All these shares were reissued at ₹ 5 per share. What will the amount have transferred to capital Reserve account? (a) ₹ 5,000 (b) ₹ 3,000 (c) ₹ 7,000 (d) ₹ 2,000
3	According to Sec 52(2) of the Companies Act 2013, the Securities Premium can be utilized for the following purposes. I. For buy back of shares. II. Issue of fully paid-up bonus shares. III. To pay off dividend in the years of inadequate profits IV. To write off preliminary expenses of the company. (a) Statement I and III are correct (b) Statement I, III and IV are correct (c) Statement I, II and IV are correct (d) All are correct
4	Ashutosh Ltd. issued 50,000 shares of ₹100 each payable ₹ 20 on application (on 1st May 2021); ₹ 30 on allotment (on 1st January 2022); ₹ 20 on first call (on 1st July 2022) and the balance on final call (30th November 2022), Narendra a shareholder holding 5,000 shares did not pay the first call on due date. The second call was made and Narendra paid the first amount along with the second and final call, whereas Govind failed to pay the final call on his holding of 5,000 shares. The amount received on Second and final call is: (a) ₹ 15,50,000 (b) ₹ 14,50,000 (c) ₹ 16,50,000 (d) ₹ 15,00,000
5	The Directors of Info edge Ltd. forfeited 70,000 Equity Shares of ₹ 10 each, ₹ 10

	Called up, for non-payment of final call of ₹ 1 per share. Half of the forfeited shares were reissued at ₹ 20 per share fully paid up. On reissue of forfeited shares, what amount will be transferred to the Capital Reserve Account? (a) ₹ 70,000 (b) ₹ 1,40,000 (c) ₹ 4,20,000 (d) ₹ 3,15,000
6	Match the following

1.	At the time of forfeiture of shares, share capital is debited with	A	Amount received
2.	At the time of forfeiture of shares, share Forfeiture is Credited with	B	Amount not received
		C	Amount demanded
		D	Calls in advance

(a) 1. D, 2. C (b) 1. C, 2. A (c) 1. A, 2. B (d) 1. B, 2. D

7	Angad Ltd, issued a prospectus inviting applications for 25,000 shares. Applications were received for 40,000 shares and pro- rata allotment was made to the applicants of 30,000 shares. If Dinesh has been allotted 75 shares, how many shares he must have applied for? (a) 120 (b) 90 (c) 75 (d) 105
8	Alpha Ltd Company issued 4,000 shares of ₹ 10 each at par payable as under: On application ₹ 3; On allotment ₹ 2; On first call ₹ 4 and on final call ₹ 1 per share. Applications were received for 10,000 shares and allotment was made pro-rata to all applicants. How much amount will be received in cash on allotment? (a) ₹ 8,000 (b) ₹ 12,000 (c) ₹10,000 (d) Nil
9	Shares cannot be issued at discount except: (a) When they are issued to vendors (b) Issued by private placement (c) When they are issued as bonus shares (d) When they are issued as sweat equity
10	Uncalled capital is that portion of the----------which has not yet been called up; and the portion of such uncalled capital to be called only in the event of winding up of the company is called---------- (a) Subscribed capital; Reserve capital (b) Issued capital; Reserve capital (c) Authorised capital; Capital Reserve (d) None of the above
ANSWERS OF MCQ	
1	(c) ₹ 7 per share
2	(b) ₹ 3,000
3	(c) Statement I, II and IV are correct
4	(b) ₹ 14,50,000
5	(d) ₹ 3,15,000
6	(b) 1. C, 2. A
7	(b) 90
8	(d) Nil
9	(d) When they are issued as sweat equity
10	(a) Subscribed capital; Reserve capital
Short Questions (3-Marks)	
1	Alok Ltd. forfeited 300 Equity Shares of ₹ 10 each, fully called-up, held by Ram for non-payment of allotment money of ₹ 3 per equity share and first and final call money of ₹ 4 per equity share. Out of these, 250 shares were reissued to Shyam for a total payment of ₹ 2,000. Pass Journal entries for forfeiture and reissue.
2	X Ltd forfeited 100 shares of ₹10 each. ₹7 called-up on which the shareholder had paid application & allotment money of ₹5 per share. Out of these, 80 shares were re-issued to Y for ₹8 per share as ₹8 paid-up per share. Pass necessary JE for forfeiture & re-issue of shares by opening Call-in-arrear A/c. Prepare Share forfeiture A/c.

3	Macil Ltd. forfeited 3,000 shares of ₹ 100 each issued at 20% premium for the non-payment of allotment money of ₹ 30 per share and first call of ₹ 40 per share (including premium ₹ 10). The second and final call of ₹ 30 per share (including premium ₹ 10) was not yet called. Out of these, 2,000 shares were reissued at ₹ 80 per share paid u for ₹ 90 per share.
4	King Ltd took over assets of ₹ 25,00,000 & liabilities of ₹ 6,00,000 of Queen Ltd. King Ltd paid the purchase consideration by issuing 10,000 Equity shares of ₹ 100 each at a premium of 10% & ₹ 11,00,000 by Bank draft. Calculate purchase consideration and pass necessary journal entries in the books of King Ltd.
5	X Ltd decided to issue 75,000 equity share of ₹ 10 each at a premium of 50%. The whole amount was payable on application. Application for 2, 00,000 share were received. Application for 5,000 shares were rejected and shares were allotted to the remaining applicants on pro-rata basis. Pass necessary journal entries.

ANSWERS OF 3 MARKS QUESTIONS

1

1. Share Capital A/c……. Dr. (300x₹10) 3,000
   To Forfeited Shares A/c (300x₹3) 900
   To Shares Allotment A/c (300x₹3) 900
   To Shares First and Final Call A/c (300x₹4) 1,200

[300 shares forfeited for non-payment of allotment and first and final call)

2. Bank A/c ……. Dr. (250x₹8) 2,000
   Forfeited Shares A/c……. Dr. (250x2) 500
   To Share Capital A/c (250x₹10) 2,500

(250 forfeited shares reissued for 8 per share)

3. Forfeited Shares A/c ……. Dr. (250x1) 250
   To Capital Reserve A/c (250x1) 250

(Transfer of gain on reissue)

2

1. E.S Capital A/c ……. Dr. 700
   To Calls in Arrears A/c 200
   To Share Forfeiture A/c 500
2. Bank A/c ……. Dr. 640
   To E.S. Capital A/c 640
3. Share Forfeiture A/c ……. Dr. 400
   To Capital Reserve A/c 400

Share Forfeiture A/c

Particulars	₹	Particulars	₹
To Capital A/c	400	By Capital A/c	500
To Balance c/d	100		
	500		500

3

Books of Macil Ltd.
Journal

Date	Particulars	L.F.	Dr. Amt (₹)	Cr. Amt (₹)
	Share Capital A/c ……. Dr.	.	2,40,000	
	Securities Premium A/c ……. Dr.		30,000	
	To Share Forfeiture A/c			60,000
	To Share Allotment A/c			90,000
	To Share First Call A/c			1,20,000
	(3,000 shares forfeited for non-payment of allotment and first call money)			
	Bank A/c ……. Dr.		1,80,000	
	To Share Capital A/c			1,60,000

	To Securities Premium A/c *(Reissue of 2,000 shares @₹90 per share ₹80 paid up)*			20,000
	Share Forfeiture A/c ……. Dr. To Capital Reserve A/c *(Balance in share forfeiture account transferred to capital reserve)*		40,000	 40,000

4 **Calculation of Purchase consideration:**

Shares	10,00,000
Security Premium	1,00,000
Bank Draft	11,00,000
Purchase consideration	**₹ 22,00,000**

Journal of Kind Ltd

5

1.	Sundry Assets A/c …. Dr. Goodwill A/c …… Dr. To Sundry Liabilities A/c To Queen Ltd. A/c	25,00,000 30,0000	 6,00,000 22,00,000
2	Queen Ltd A/c Dr To Equity Share Capital A/c To Security Premium A/c To Bank A/c	22,00,000	 10,00,000 1,00,000 11,00,000

1	Bank A/c ……Dr To Equity share Application and Allotment A/c	30,00,000	 30,00,000
2.	Equity share Application and Allotment A/c ……Dr To Equity Share Capital A/c To Security Premium A/c To Bank A/c	30,00,000	 7,50,000 3,75,000 18,75,000

Short Questions (4-Marks)

1 Diwan Ltd. with a nominal capital of ₹ 50,00,000 in Equity shares of ₹ 10 each, issued 2,00,000 equity shares at a premium of ₹ 5, payable as:

On application	₹ 2.50 per share
On allotment	₹ 2.50 per share
On First and final call	₹ 5.00 per share

All moneys payable on allotment were duly received but one shareholder failed to pay the amount due on allotment on his 2,500 shares, while another shareholder who held 2,000 shares paid for first and final call also.
Write-up Diwan Ltd's Balancesheet to present the share capital & give notes to A/c also.

2 Passion Ltd. was registered with an authorised capital of ₹ 2,00,00,000 divided in 12,50,000 Equity Shares of ₹ 10 each & 75,000, 10% Preference Shares of ₹ 100 each. The company issued 4,00,000 Equity Shares for public subscription at 10% premium payable ₹ 3 on application, ₹ 6 on allotment (including premium) &balance on call.Public applied for 5,00,000 shares. Excess applications were sent letters of regret.
All the dues on allotment received except on 7,500 shares held by Darshan. Another shareholder Jagdish paid his call dues along with allotment on his holding of 12,500 shares.
You are required to prepare Balance Sheet of the company as per schedule III of companies Act, 2013, showing Share Capital balance and also prepare Notes to A/cs.

3 Shri Ganga Ltd. was registered with an authorised capital of ₹ 7,00,000 divided into equity shares of ₹ 10 each. It offered to the public for subscription 50,000 equity shares. The amount was payable as follows:
On application: ₹ 4 per share

On allotment: ₹ 4 per share
On first and final call: Balance

The issue was fully subscribed. All the amounts were duly received except the first and final call money on 4,000 equity shares.

Show the Share Capital in the Balance Sheet of the company as per Schedule III, Part I of Companies Act, 2013. Also prepare "Notes to Accounts" for the same.

4 Xylo Ltd. was formed on 1st April, 2018, with an authorized capital of ₹ 12,00,000 divided into equity shares of ₹ 10 each. It invited applications for 30,000 shares to be issued at par, in the year of its formation, all of which were subscribed for and the amount due on them fully received.

On 1st April, 2020, the company issued another 60,000 shares at a premium of ₹2 per share to be received with allotment. It received applications for 55,000 shares which were duly allotted. All amounts due on the allotted shares was received except the final call of ₹2 per share on 1,000 shares. The company forfeited these shares and later reissued 800 of the forfeited shares @ ₹7 per share fully called up.

The Balance Sheet of the company was prepared as at 31st March, 2021, as per Schedule III of the Companies Act, 2013.

(a) The issued capital of the company to be shown in Notes to Accounts as at 31st March, 2021, under "Share Capital" will be:
(i) ₹12,00,000 (ii) ₹9,00,000 (iii) ₹8,50,000 (iv) ₹8,49,600

(b) The subscribed shares of the company at the end of the year 2020–21 will be:
(i) ₹1,20,000 (ii) ₹90,000 (iii) ₹85,000 (iv) ₹84,800

(c) The amount of Share Capital to be shown in the Balance Sheet of the company as at 31st March, 2021, will be:
(i) ₹12,00,000 (ii) ₹8,48,000 (iii) ₹8,50,000 (iv) ₹8,49,600

(d) The net gain made by the company on reissue of the 800 shares will be trf. to:
(i) Reserve Capital Account (ii) Capital Reserve Account
(iii) Securities Premium Account (iv) Statement of P/L

5 Z Ltd. invited applications for issuing 3,00,000 equity shares of ₹ 20 each at a premium of ₹ 30 per share. The amount was payable as follows:

On Application : ₹ 10 per share (including ₹ 6 premium)
On Allotment : ₹ 13 per share (including ₹ 7 premium)
On First Call : ₹13 per share (including ₹ 8 premium)
On Second and Final Call : Balance Amount

Vishakha, a shareholder holding 500 shares, did not pay the allotment and first call money and her shares were forfeited after first call.

(a) Calls in Arrears Account will be Credited by:
(i) ₹ 5,500 (ii) ₹ 20,000 (iii) ₹ 13,000 (iv) ₹ 8,000

(b) Securities Premium A/c will be debited by:
(i) ₹ 10,500 (ii) ₹ 7,500 (iii) ₹ 12,000 (iv) ₹ 15,000

(c) Share Forfeiture A/c will be credited by:
(i) ₹ 5,000 (ii) ₹ 3,000 (iii) ₹ 8,000 (iv) ₹ 2,000

(d) Share Capital Account will be debited by:
(i) ₹ 5,500 (ii) ₹ 10,000 (iii) ₹ 7,500 (iv) ₹ 13,000

ANSWERS OF 4 MARKS QUESTIONS

1 **BALANCE SHEET OF DIWAN LTD.**

PARTICULARS	NOTE No.	AMOUNT (₹)
Equity and Liability		
Shareholders Fund Share capital	1	9,93,750

Notes to Accounts:

Particulars		₹
1 Share Capital		
Authorised Capital (5,00,000 Equity Shares of ₹ 10 each)		50,00,000
Issued Capital (2,00,000 Equity Shares of ₹ 10 each)		20,00,000
Subscribed Capital Subscribed and fully paid 2,00,000 Equity Shares of ₹ 10 each, ₹ 5 Called up:	10,00,000	
Less- Calls in Arrears	6,250	9,93,750

2

Balance of Passion ltd.

Particulars	Note No	Current Year (₹)	Previous Year (₹)
EQUITY AND LIABILITIES Shareholders' Funds Share Capital	1	31,62,500	

Notes to Accounts:

Particulars		Amount (₹)
1. Share Capital		
Authorised Capital:		
12,50,000 Equity Shares @ 10 each	1,25,00,000	
75,000 10% Preference Shares @ 100 each	75,00,000	2,00,00,000
Issued Capital:		
4,00,000 Equity Shares @ 10 each		40,00,000
Subscribed Capital:		
Subscribed but not fully paid		
4,00,000 Equity shares @ 8 each	32,00,000	
Less: Call in Arrear (7,500×₹ 5)	37,500	31,62,500

3

Balance of Shri Ganga Ltd (An Extract)

Particulars	Note No	CY (₹)	PY (₹)
EQUITY AND LIABILITIES Shareholders' Funds (Share Capital)	1	4,92,000	

Notes to Accounts:

Particulars		Amount (₹)
1. Share Capital		
Authorised Capital:		
70,000 Equity Shares @ ₹ 10 each		7,00,000
Issued Capital:		
50,000 Equity Shares @ ₹ 10 each		5,00,000
Subscribed Capital:		
Subscribed and fully paid up 46,000 Equity shares of ₹ 10 each		4,60,000
Subscribed but not fully paid		
4,000 Equity shares @ ₹ 10 each	40,000	
Less: Call in Arrear (4000×₹ 2)	8,000	32,000
		4,92,000

4 (a) (ii) ₹9,00,000; b) (iv) ₹84,800; c) (ii) ₹8,48,000; d) (ii) Capital Reserve A/c

5 Ans- (a) (iii) ₹13,000; (b) (ii) ₹7,500; (c) (iv) ₹2,000; (d) (iii) ₹7,500

Long Questions (6-Marks)

1 M Ltd. issued 30,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share (to be

	adjust on allotment) payable as follows: ₹ 3 per share on application; ₹ 3 per share on allotment (including premium), Balance on call. The subscription list was closed on 25th May, 2015 by which date applications for 40,000 shares were received. Allotment was made as follows: List I. Applicants of 5,000 shares were in full. List II. Applicants of 15,000 shares were allotted 10,000 shares on pro-rata basis. List III. Applicants of 20,000 shares were allotted 15,000 shares on pro-rata basis. All the shareholders paid the amount due on allotment and call except X (who was allotted 1,000 shares under List II) and Y (who was allotted 1,500 shares under List III). They did not pay any money due on allotment and 1st call. Their shares were forfeited and reissued at ₹ 6 per share fully paid. Pass the necessary journal entries to record the above transactions.
2	A company issued 6,000 preference shares of ₹ 10 each as fully paid to the vendors for the purchase of building. 20,000 equity shares of ₹ 10 each were issued to the public of which, 18,000 were subscribed for. During the first year, ₹ 6 per share were called up, payable ₹ 3 on Application, ₹ 1 on Allotment, ₹ 1 on First call and ₹ 1 on Second call. The amounts received in respect of the Equity Shares were as follows: On 16,000 Equity Shares, the full amount called On 1,200 Equity Shares, ₹ 5 per share On 500 Equity Shares, ₹ 4 per share On 300 Equity Shares, ₹ 3 per share The directors forfeited 800 Equity Shares on which less than ₹ 5 per share had been paid and issued only those shares on which only ₹ 3 per share has been received as ₹ 6 called up for ₹ 8 per share. Show Journal Entries in the books of the company for the issue made to the public.
3	Geeta Ltd. invited applications for issuing 70,000 Equity Shares of ₹ 10 each at a premium of ₹ 35 per share. The amount was payable as follows: On Application ₹ 15 (including ₹ 12 premium) On Allotment ₹ 10 (including ₹ 8 premium) On First and Final Call- Balance Applications for 65,000 shares were received and allotment was made to all the applicants. A shareholder, Ram, who was allotted 2,000 shares, failed to pay the allotment money. His shares were forfeited immediately after allotment. Afterwards, the first and final call was made. Sohan, who had applied for 3,000 shares, failed to pay the first and final call. His shares were also forfeited. Pass necessary journal entries and prepare Cash Book for the above transactions in the books of Geeta ltd.
4	PL Ltd. was registered with an authorised capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The company offered to the public for subscription 90,000 equity shares. Applications were received for 82,000 equity shares and shares were allotted to all the applicants. All money due was received with the exception of first and final call money of ₹ 2 per share on 2,000 shares allotted to Atishay. His shares were forfeited. Answer the following questions: **(i) The amount of 'Calls in Arrears' disclosed in 'Notes to Accounts' will be:** (a) ₹ 4,000 (b) ₹ 16,000 (c) Nil (d) ₹ 20,000 **(ii) The number of shares of PL Ltd. after forfeiture will be:** (a) 98,000 (b) 88,000 (c) 82,000 (d) 80,000 **(iii) In the 'Notes to Accounts', the amount disclosed under 'Share Forfeiture A/c' will be:** (a) ₹ 16,000 (b) ₹ 4,000 (c) ₹ 20,000 (d) Nil **(iv) In the 'Notes to A/cs', the amount disclosed under 'Issued Capital' will be:** (a) ₹ 10,00,000 (b) ₹ 9,00,000 (c) ₹ 8,20,000 (d) ₹ 8,00,000

(v) Balance in 'Share Forfeiture A/c' will be shown in 'Notes to Accounts' in the balance sheet of PL Ltd. under:

(a) Authorised capital (b) Issued capital

(c) Subscribed capital (d) Will not be shown in 'Notes to Accounts'

(vi) The amount of 'Share Capital' disclosed in the balance sheet of PL Ltd. will be:

(a) ₹ 8,00,000 (b) ₹ 8,16,000 (c) ₹ 9,16,000 (d) ₹ 7,90,000

ANSWERS OF 6 MARKS QUESTIONS

1

Journal of M Ltd

PARTICULARS	DR (₹)	CR (₹)
Bank a/c Dr. To Equity Share Application A/c	1,20,000	 1,20,000
Equity Share Application a/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c	1,20,000	 90,000 30,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c	90,000	 30,000 60,000
Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c	55,500 4,500	 60,000
Equity Share first call A/c Dr. To Equity Share Capital A/c	1,80,000	 1,80,000
Bank A/c Dr. Calls is Arrears A/c Dr. To Equity Share first call A/c	1,65,000 15,000	 1,80,000
Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c	25,000 4,500	 19,500 10,000
Bank A/c Dr. Share Forfeiture A/c Dr. To Equity Share Capital A/c	15,000 10,000	 25,000
No Capital Reserve		

2

Journal Entries

Particulars	Dr. ₹	Cr. ₹
Bank A/c Dr. To Equity Share Application A/c	54,000	 54,000
Equity Share Application A/c Dr. To Equity Share Capital A/c	54,000	 54,000
Equity share allotment A/c Dr. To Equity Share Capital A/c	18,000	 18,000
Bank A/c Dr. Calls- in- Arrears A/c Dr. To Equity Share Allotment A/c	17,700 300	 18,000
Equity share first call A/c Dr. To Equity Share Capital A/c	18,000	 18,000
Bank A/c Dr. Calls- in- arrears A/c Dr. To Equity Share first call A/c	17,200 800	 18,000
Equity Share Second Call A/c Dr. To Equity Share Capital A/c	18,000	 18,000

	Bank A/c Dr. Calls-in- Arrears A/c Dr. To Equity Share second call A/c	16,000 2,000	 18,000
	Equity shares capital A/c Dr. To Calls- in- Arrears A/c To Share Forfeiture A/c	4,800	 1,900 2,900
	Bank a/c Dr. To Equity Share Capital A/c To Securities Premium A/c	2,400	 1,800 600
	Share forfeiture A/c Dr. To Capital Reserve A/c	900	 900

3

Particulars	Dr ₹	Cr ₹
Share application A/c Dr. To Share Capital A/c To Security Premium A/c	9,75,000	 1,95,000 7,80,000
Share Allotment A/c Dr. To Share Capital A/c To Security Premium A/c	6,50,000	 1,30,000 5,20,000
Calls-in-Arrear A/c Dr. To Share Allotment A/c	20,000	 20,000
Share Capital A/c Dr. Security Premium A/c Dr. To Share Forfeited A/c To Calls-in-Advance A/c	10,000 16,000	 6,000 20,000
Share First and Final Call A/c Dr. To Share Capital A/c To Security premium A/c	12,60,000	 3,15,000 9,45,000
Calls-in-Advance A/c Dr. To Share First and Final Call A/c	60,000	 60,000
Share Capital A/c Dr. Security premium A/c Dr. To Share Forfeited A/c To Calls-in-Advance A/c	30,000 45,000	 15,000 60,000

DR. Cash Book CR.

Share Application	9,75,000		
Share Allotment	6,30,000		
Share first and final call	12,00,000	Bal. c/f	28,05,000
	28,05,000		28,05,000

4 (i) (c) Nil (ii) (d) 80,000 (iii) (a) ₹16,000
(iv) (b) ₹9,00,000 (v) (c) Subscribed capital (vi) (b) ₹8,16,000

CHAPTER-06: ACCOUNTING FOR DEBENTURES

MEANING OF DEBENTURES:

As per Section 2(30) of the Companies Act, 2013 “Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on the assets of the company or not.”
It is a written acknowledgement of debt being a Debenture Certificate issued by a company. Thus, debenture is borrowing of the company and the persons to whom debentures are issued are called Debenture holders.

FEATURES OF DEBENTURE:

S. No.	Feature / Characteristic	Description
i.	**Debenture Certificate**	Issued as a formal document known as a Debenture Certificate.
ii.	**Acknowledgement of Debt**	Serves as a formal acknowledgement of debt by the company.
iii.	**Repayment Agreement**	Involves an agreement between the company and its debenture holders fixing the mode and period of repayment for both the principal and interest.
iv.	**Interest Rate Prefix**	Commonly prefixed with the specific rate of interest (e.g., if the interest rate is 10%, it is titled '10% Debentures').
v.	**Financial Classification**	Treated as an external equity or long-term borrowing by the company.
vi.	**Security of Funds**	Usually secured by way of a charge on the assets of the company.
vii.	**Accounting Treatment**	The interest charged on debentures is considered a charge against profit.

BOND:

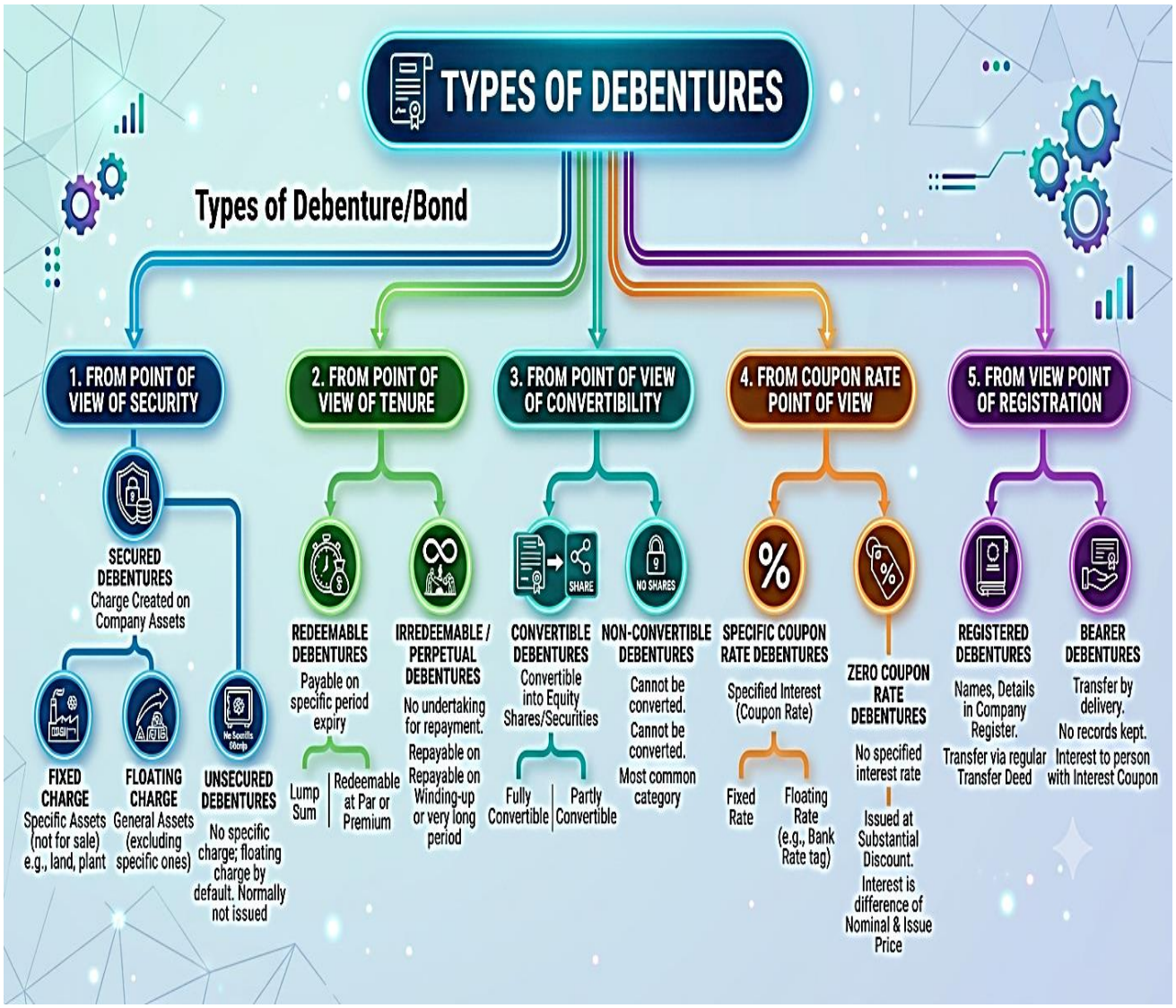
Bond is also an instrument of acknowledgement of debt. Traditionally, the Government issued bonds, but these days, bonds are also being issued by semi-government and non-governmental organisations. The terms ‘debentures’ and ‘Bonds’ are now being used inter-changeably.

DIFFERENCE BETWEEN SHARES AND DEBENTURES:

BASIS	SHARES	DEBENTURES
Ownership & Capital	Represents ownership in the company; forms a part of the owned capital.	Represents an acknowledgement of debt; forms a part of the borrowed capital.
Return on Investment	Earns a dividend, which varies year-to-year based on company profits.	Earns a fixed interest rate that is predetermined at the time of issue.
Nature of Payment	It is an appropriation of profits (only paid if the company makes a profit).	It is a charge on profits (must be paid even if the company incurs a loss).
Repayment	Generally, not repaid during the lifetime of the company (except in buybacks or liquidation).	Repaid after a specified period as per the terms of the issue.
Voting Rights	Shareholders enjoy voting rights and can participate in management decisions.	Debenture holders do not enjoy voting rights in normal circumstances.
Security	Shares are never secured by any charge on the company's assets.	Debentures are generally secured by a fixed or floating charge over

		company assets.
Convertibility	Shares cannot be converted into debentures.	Debentures can be converted into shares if specified by the terms of issue.

TYPES OF DEBENTURES



ISSUE OF DEBENTURE:

A Company may issue debentures by public subscription or by private placement. the company may call the amount for debentures in lump sum or in instalments.

DEBENTURES MAY BE ISSUED:

FOR CASH	FOR CONSIDERATION OTHER THAN CASH	AS COLLATERAL SECURITY
Debentures issued for cash means amount is received by the company in cash or by cheque or a banking instrument against the debentures.	Issue of debentures for consideration other than cash means debentures are allotted against which consideration is received in kind such as services, assets purchased or business being taken over.	Collateral Security is security given in addition to the primary or principal security. Debentures may be issued to lenders as collateral security.

DEBENTURES, WHETHER ISSUED FOR CASH OR FOR CONSIDERATION OTHER THAN CASH, MAY BE ISSUED:

AT PAR	AT PREMIUM	AT DISCOUNT
Debentures issued at par means issue price of the debentures and nominal (face) value is same. **For ex.** If a Debentures of ₹100 is issued for ₹100.	Debentures issued at premium means issue price of the debentures is higher than its nominal (face) value. Premium amount may be received in lump-sum or in instalments. Unless specified otherwise, it is assumed to have been received along with allotment money. For ex. A debenture of ₹100 is issued for ₹110, ₹10 is premium.	Debentures issued at discount means issue price of the debentures is less than its nominal (face) value. Unless specified otherwise, discount is assumed to have been allowed on allotment. For ex. If a debenture of nominal (face) value ₹100 is issued for ₹95, it means debentures are issued at discount of ₹5.

ACCOUNTING ENTRIES FOR ISSUE & ALLOTMENT OF DEBENTURES (AT PAR)

I) When Issue Price of Debentures is Received in Lump Sum:

i. For receipt of Application Money:
Bank A/c …Dr. (With application money received)
To Debentures Application and Allotment A/c

ii. For allotment of Debentures:
Debentures Application & Allotment A/c Dr. (With the amount of application money on the allotted debentures)
To ---- %Debentures A/c

iii. For Refund of Excess Application Money:
Debentures Application & Allotment A/c …Dr. (With the application money refunded)
To Bank A/c

II) When Issue Price of Debentures is Received in Instalments:

i. For receipt of Application Money:
Bank A/c …Dr. (With application money received)
To Debentures Application A/c

ii. For allotment of Debentures:
Debentures Application A/c …Dr. (With the amount of application money on the allotted debentures)
To %Debentures A/c

iii. For adjustment of Excess Debentures Application Money: Debentures Application A/c …Dr. (With surplus application money on partially accepted applications)
To Debentures Allotment A/c

iv. For Refund of Excess Debentures Application Money: Debentures Application A/c …Dr. (With the application money refunded on rejected applications)
To Bank A/c

v. For Allotment Money Being Called:
Debentures Allotment A/c …Dr. (With the amount due on Allotment)
To % Debentures A/c

vi. For receipt of Allotment Money:
Bank A/c …Dr. (With the amount actually received on allotment)
To Debentures Allotment A/c

vii. For calls money being called:
Debentures Call A/c …Dr. (With the money due on call)
To % Debentures A/c

viii. For receipt of call money:
Bank A/c …Dr. (With amount received on call)
To % Debentures Call A/c

NOTE: In case, issue price is received in more than one call, Call Accounts are accordingly titled as Debentures First Call A/c or Debentures Second Call A/c.

Oversubscription of Debentures:

i. It is a situation where applications received for debentures is more than the number of debentures issued.

ii. In such situation the company may make allotment by any of the 3 options available;

a. Rejecting excess applications;

b. Partial or Pro-rata allotment;

c. A combination of the above 2 alternatives.

iii. Such excess application money received on account of oversubscription may be retained for adjustment towards allotment and the respective calls, in case of pro-rata allotment, if so, provided in the terms of issue. However, in case of applicants to whom no debentures are allotted, such excess application money is refunded to the respective applicants.

- **Undersubscription of Debentures:**

i. It is a situation where the applications received are for lesser number of debentures than the number of debentures offered for subscription.

ii. In this situation, allotment is made to all the applicants.

iii. In such situation where the allotment is made to all the applicants, Journal entries are passed for the number of debentures subscribed.

II. ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH

- Issue of debentures for consideration other than cash means debentures are allotted against which consideration is received in kind such as services, assets purchased or business being taken over.
- Promoters for rendering their services: Such issue is made for services rendered by promoters for incorporating the company. Entry to be passed is as follows:

Incorporation Expenses or Preliminary Expenses A/c …Dr.
To Promoters A/c
(Incorporation Expenses Payable)
Promoters A/C …… Dr.
To…. % Debentures A/c
(…% Debentures allotted to promoters)

- **Issue of debentures to underwriters**

Underwriting Commission A/c …. Dr.
To Underwriters' A/c
(Underwriting commission Payable)
Underwriters' A/c ……. Dr.
To …% Debentures A/c
(Debentures issued to Underwriters)

- **Vendors against purchase of assets or business:** Entry to be passed is as follows:

✓ if debentures are issued for purchase of assets:

Sundry Assets A/c… Dr. (With agreed value of assets taken over)
To Vendor's A/c
(Purchase of Assets)

✓ if debentures are issued for purchase of business:

When a business is purchased, both assets and liabilities are taken over for a consideration which can be equal to, more than or less than the difference between values of assets and liabilities. Entry to be passed in each of these cases is as follows:

✓ if consideration is equal to the difference between the value of assets and liabilities:

Sundry Assets A/c (individually) …Dr.	(agreed value)
To Sundry Liabilities (individually)	(agreed value)
To Vendor's A/c (PC)	

- ✓ if consideration is more than the difference between the value of assets and liabilities, such excess is debited to Goodwill Account:

Sundry Assets A/c (individually) Dr.	(agreed value)
Goodwill A/c …Dr.	(excess consideration over net assets)
To Sundry Liabilities (individually)	(agreed value)
To Vendor's A/c	(purchase consideration)

- ✓ If consideration is less than the difference between the value of assets and liabilities, such shortfall is credited to Capital Reserve Account:

Sundry Assets A/c (individually) …Dr.	(agreed value)
To Sundry Liabilities (individually)	(agreed value)
To Vendor's A/c	(purchase consideration)
To Capital Reserve A/c	(excess of net assets over consideration)

VENDOR MAY BE ISSUED DEBENTURES AT (I) PAR, (II) PREMIUM OR (III) DISCOUNT

I. Issued at par:

Vendor's A/c …Dr.	(nominal value of debentures)
To …..% Debentures A/c	

II. Issued at premium:

Vendor's A/c …Dr.	(purchase consideration)
To % ……Debentures A/c	(nominal value of debentures)
To Securities Premium A/c	(premium amount)

III. Issued at discount:

Vendor's A/c …Dr.	(purchase consideration)
Discount on Issue of Debentures A/c …Dr.	(discount amount)
To % Debentures A/c	(nominal value of debentures)

- ✓ **Calculation of No. of Debentures:** When a business is purchased & consideration is paid in the form of issue of debentures, No. of debentures is to be calculated as follows:

$$\text{No. of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price of Debenture}}$$

Accounting of Debentures issued as collateral security:

When the debentures are issued as an additional security at the time taking loan from Bank, it is called Debenture issued as collateral security. It can be dealt with in following 2 ways:

First Method: WHEN JOURNAL ENTRY IS NOT PASSED.

It is disclosed under the head Secured Loans in the Equity and Liabilities part of the Balance Sheet.

Second Method: WHEN JOURNAL ENTRY IS PASSED. Entry in the books of account as follows:

Debentures Suspense A/c …Dr.	
To ….% Debentures A/c	

VARIOUS CASES OF ISSUE OF DEBENTURES FROM THE REDEMPTION POINT OF VIEW:

Debentures issued at par, at premium or at discount may be redeemed either at par or at premium:

- **Debentures redeemable at par:** It means debentures are redeemable at their nominal (face) value.
- **Debentures redeemable at premium:** It means debentures are redeemable at a value that is higher than their nominal (face) value.

Depending on the terms of issue and redemption of debentures, there may be six cases of redemption as follows:

Case	Conditions of Issue	Conditions of Redemption
1	Issued at par	Redeemable at par

2	Issued at discount	Redeemable at par
3	Issued at premium	Redeemable at par
4	Issued at par	Redeemable at premium
5	Issued at discount	Redeemable at premium
6	Issued at premium	Redeemable at premium

Journal Entries for each of the six cases of redemption:

VARIOUS CASES	JOURNAL ENTRIES
Case I: When debentures are issued at par & are redeemable at par	Bank A/c …Dr. To Debentures Application A/c (application money) Debentures Application A/c …Dr. (application money) To … % Debentures A/c (nominal value)
Case II: When debentures are issued at discount but are redeemable at par	Bank A/c …Dr. To Debentures Application A/c (application money) Debentures Application A/c…Dr. (application money) Discount on Issue of Debentures A/c Dr. (discount amount) To … % Debentures A/c (nominal value)
Case III: When debentures are issued at premium and are redeemable at par	Bank A/c …Dr. To Debentures Application A/c (application money) Debentures Application A/c…Dr. (application money) To % Debentures A/c (nominal value) To Securities Premium Reserve A/c (premium amount)
Case IV: When debentures are issued at par and are redeemable at premium	Bank A/c …Dr. To Debentures Application A/c (application money) Debentures Application A/c…Dr. (application money) Loss on Issue of Debentures A/c Dr. (premium payable on redemption) To …% Debentures A/c (nominal value) To Premium on Redemption of Debentures A/c (premium payable on redemption)
Case V: When debentures are issued at discount and are redeemable at premium	Bank A/c …Dr. To Debentures Application A/c (application money) Debentures Application A/c …Dr. (application money) Discount on Issue of Debentures …Dr. (discount amount) Loss on Issue of Debentures A/c Dr. (premium payable on redemption) To % Debentures A/c (nominal value) To Premium on Redemption of Debentures A/c (premium payable on redemption)
Case VI: When debentures are issued at premium and are redeemable at premium	Bank A/c …Dr. To Debentures Application A/c (application money) Debentures Application A/c…Dr. (application money) Loss on Issue of Debentures A/c …Dr. (premium payable on redemption) To % Debentures A/c (nominal value) To Securities Premium Reserve A/c (premium received on issue) To Premium on Redemption of Debentures A/c (premium payable on redemption)

INTEREST ON DEBENTURES:

Interest on Debenture is paid at the specified rate on the nominal (face) value of the

debentures, if they are fully paid. If they are not fully paid, interest is paid on the paid-up value of the debentures. Interest is paid on the debentures whether the company earns profit or incurs loss.

ENTRIES FOR INTEREST ON DEBENTURES:

a. When Interest on Debentures is due
Interest on Debentures A/c …Dr.
To Debenture holders' A/c

b. When Interest on Debentures is paid:
Debenture holders' A/c …Dr.
To Bank A/c

c. When Interest on Debentures is trf. to Statement of Profit &Loss at the end of the year:
Statement of Profit and Loss (Finance Cost) …Dr.
To Debentures' Interest A/c

WRITING OFF DISCOUNT OR LOSS ON ISSUE OF DEBENTURES:

Discount or loss on issue of debentures is written off in the year, it is incurred, i.e., in the year Debentures are allocated from
Securities Premium Account, and /or
Statement of Profit and Loss.

The journal entry passed is:

Securities Premium A/c ……Dr. **(Amount of discount or loss or up to the balance in Securities Premium)**
Statement of Profit and Loss …..Dr.**(Balance Amount of discount or loss)**
To Discount or loss on issue of Debentures A/c

QUESTIONS

	MCQ (1-Mark)
1	Discount or loss of issue of debenture to be written off after 12 months from the date of balance sheet or after the period of operating cycle in shown as: (a) Other Current Assets (b) Other Non-Current Assets (c) Other Long-Term Liability (d) Other Current Liabilities
2	Dinesh Ltd issued 25,000, 8% Debentures of ₹ 200 each at certain rate of premium and to be redeemed at 10% premium. At the time of writing off Loss on Issue of

	Debentures, Statement of Profit and Loss was debited with ₹ 2,00,000. At what rate of premium, these debentures were issued? (a) 4 % (b) 16 % (c) 6 % (d) 10 %
3	Durga Ltd. issued 16,000, 10% Debentures of ₹ 500 each at certain rate of discount and were to be redeemed at 20% premium. Existing balance of Securities Premium before issuing of these debentures was ₹ 25, 00,000 and after writing off Loss on Issue of Debentures, the balance in securities Premium was ₹ 5, 00,000. At what rate of discount, these debentures were issued? (a) 10 % (b) 5 % (c) 25 % (d) 15 %
4	While issuing type of Debentures, company doesn't give any undertaking for the payment of interest on borrowed fund by issuing such debentures. (a) Zero Coupon Rate Debentures (b) Non-Convertible Debentures (c) Secured Debentures (d) Non-Redeemable Debentures
5	Which of the following statement is Correct? (a) A debenture holder is an owner of the company. (b) A debenture holder can get his money back only on the liquidation of the company. (c) A debenture issued at a discount can be redeemed at a premium. (d) A debenture holder receives interest only in the event of profits.
6	While issuing _____, company doesn't give any undertaking for the repayment of money borrowed by issuing such debentures. (a) Zero Coupon rate Debentures (b) Non-convertible Debentures (c) Secured Debentures (d) Non-redeemable Debentures
7	Which of the following statements is incorrect about debentures? (a) Interest on debentures is an appropriation of profits. (b) Debenture holders are the creditors of a company. (c) Debentures can be issued to vendors at discount. (d) Interest is not paid on Debentures issued as Collateral Security.
8	Alligare Ltd. issued 5,000, 9% Debentures of ₹ 100 each at ₹ 97 per debenture. The 9% Debentures account will be credited by: (a) ₹ 4,85,000 (b) ₹ 5,00,000 (c) ₹ 4,50,000 (d) ₹ 50,000
9	On 1st April, 2025, Saya Ltd. issued 7,000, 9% Debentures of ₹ 100 each at a premium of 10%. The total amount of interest on debentures for the year ending 31st March, 2026 will be: (a) ₹ 70,000 (b) ₹ 63,000 (c) ₹ 90,000 (d) ₹ 35,000
10	Precious Ltd. issued 40,000 10% Debentures of ₹ 100 each at a premium of 5%, redeemable at a premium of 10%. 'Loss on Issue of Debenture A/c' will be debited in the books of Precious Ltd. by: (a) ₹ 5,60,000 (b) ₹ 2,40,000 (c) ₹ 6,00,000 (d) ₹ 4,00,000
ANSWERS OF MCQ	
1	(c) Other Long-Term Liability
2	(d) 10 %
3	(d) 15 %
4	(a) Zero Coupon Rate Debentures
5	(c) A debenture issued at a discount can be redeemed at a premium.
6	(d)
7	(a) Interest on debentures is an appropriation of profits.
8	(b) ₹ 5,00,000
9	(a) ₹ 63,000
10	(d) ₹ 4,00,000
Short Questions (3-Marks)	
1	Pass necessary journal entries for the issue and Redemption of Debentures 20,000,

12% Debentures of ₹ 50 each were issued at par and redeemed at a premium of 10%.

2 Neena Ltd. took over business of Ajay enterprises on 1-04-2026. The details of the agreement regarding the assets and liabilities to be taken over are:

Particulars	Book Value (₹)	Agreed Value (₹)
Building	20,00,000	35,00,000
Plant and Machinery	12,00,000	8,00,000
Stock	4,00,000	4,00.000
Trade receivables	5,00,000	4,00.000
Creditors	2,00,000	3,00,000
Outstanding Expenses	50,000	1,00,000

It was decided to pay for purchase consideration as ₹7, 00,000 through Cheque & balance by issue of 2, 00,000, 9% Debentures of ₹20 each at a premium of 25%. Journalize.

3 A Company had ₹10, 00,000, 9% Debentures outstanding as on 1st April, 2025. During the year company took a loan of ₹2, 00,000 from the State Bank of India for which the Company placed with the bank debentures for ₹2, 50,000 as Collateral Security. Pass journal entries, if any. Also show how the Debentures and Bank Loan will appear in the Company's Balance Sheet as at 31st March, 2026.

A. When Company decided not to record the issue of Debentures as Collateral Security

B. When Company decided to record the issue of Debentures as Collateral Security

4 X Ltd. purchased assets of Y Ltd. as under:
Plant and Machinery of ₹ 20,00,000 at ₹ 18,00,000; Land and Buildings of ₹ 30,00,000 at ₹42,00,000 for purchase consideration of ₹ 55,00,000 and paid ₹ 10,00,000 in cash and remaining by issue of 8% Debentures of ₹ 100 each at a premium of 20%. Record necessary entries in the books of X Ltd.

5 On 2-3-2025, L and B Ltd. issued 635, 9% debentures of ₹ 500 each.
Pass necessary Journal entries for the issue of debentures in the following situations:
(a) When Debentures were issued at 5% discount, redeemable at 10% premium.
(b) When Debentures were issued at 12% premium, redeemable at 6% premium.
Loss on Issue is to be written off in the first year.

ANSWERS OF SHORT QUESTIONS 3 MARKS

1 ANS- **JOURNAL**

Date	Particulars	L.F	Amt Dr. (₹)	Amt Cr. (₹)
1.	Bank Dr. To Debenture Application (Being Application money received)		10,00,000	 10,00,000
2.	Debenture Application Dr. Loss on Issue of Deb A/c Dr. To 12 % Debentures To Premium on Redemption of Deb. (Being application money transferred to 12 % debentures a/c)		10,00,000 1,00,000	 10,00,000 1,00,000

2 ANS- **Journal of Neena Ltd.**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Building A/c Dr. Plant & Machinery A/c Dr. Stock A/C Dr. Trade Receivables A/C Dr. Goodwill A/c Dr. To Creditors A/C		35,00,000 8,00,000 4,00,000 4,00,000 10,00,000	 3,00,000

	To Outstanding Expenses A/c To Ajay Enterprises A/c (Being assets and liabilities of business taken over, recorded at agreed value)			1,00,000 57,00,000
	Ajay Enterprises A/c Dr. To Bank A/c To 9% Deb A/c To Sec Prem. Res. A/c (Being purchase consideration paid by Ajay enterprises)		57,00,000	 7,00,000 40,00,000 10,00,000

3 Following entries are passed in this method:

Particulars	L.F.	Dr. (₹)	Cr. (₹)
A. Bank A/c Dr. To Bank Loan A/c (Loan taken from the Bank)		2,00,000	 2,00,000

Particulars	L.F.	Dr. (₹)	Cr. (₹)
B. Debentures Suspense A/c Dr. To 9% Debentures A/c (Issue of ₹2,50,000 debentures as collateral security to secure a loan of ₹2,00,000 from the Bank)		2,50,000	 2,50,000

EXTRACT OF BALANCE SHEET as at 31st March, 2026

I. EQUITY AND LIABILITIES

Particulars	Note No.	31st Mar, 2026(₹)	31st Mar, 2025 (₹)
Non-Current Liabilities			
Long-term Borrowings	1	12,00,000	10,00,000

Notes to Accounts:

(1) Long-term Borrowings

Particulars	(₹)
9% Debentures 12,50,000 Less: Debentures Suspense A/c (2,50,000) Bank Loan *(On collateral security of Debentures of ₹2,50,000)*	10,00,000 2,00,000
Total	**12,00,000**

4 ANS **BOOKS OF X Ltd.**

JOURNAL

Date	Particulars	L.F.	Amt Dr. (₹)	Amt Cr. (₹)
1.	Plant and Machinery A/c Dr. Land and Machinery A/c Dr. To Capital Reserve A/c To Y Ltd. (Purchase of assets of Y Ltd.)		18,00,000 42,00,000	 5,00,000 55,00,000
2.	Y Ltd. Dr.		10,00,000	

		To Bank Ltd. (Part payment made in cash)			10,00,000
	3.	Y Ltd. Dr. To 8% Debentures A/c To Securities Premium A/c (Issue of Debentures)		45,00,000	 37,50,000 7,50,000

5 ANS- **L and B Ltd.**

JOURNAL

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
26 March 02	Bank A/c (635x475) Dr. To 9% Debenture Application & Allot A/c (Application money received)		3,01,625	 3,01,625
02 March	9% Debenture Application & Allotment A/c Loss on issue of Debentures A/c To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Transfer of application money to debentures A/c)		3,01,625 47,625	 3,17,500 31,750
31 March	Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (Loss on issue of Debentures written off)		47,625	 47,625

Short Questions (4-Marks)

1 What journal entries should be made for the issue of debentures in the following cases:
a) X Limited issued 15,000 12% Debentures of ₹ 100 each at par, redeemable at a premium of 5%.
b) Y Limited issued 25,000 12% Debentures of ₹ 100 each at a premium of 5%, redeemable at par.

2 You are required to pass the journal entries relating to the issue of the debentures in the books of X Ltd., under the following cases:
(a) 120, 8% Debentures of Rs 1,000 each are issued at 5% discount & repayable at par.
(b) 150, 7% Debentures of Rs 1,000 each are issued at 5% discount and repayable at premium of 10%.

3 On 1st April, 2025, R.J. Ltd. issued ₹ 10, 00,000 9% Debentures of ₹100 each at a discount of 10%. These debentures were redeemable at a premium of 5% after four years.
Pass necessary Journal Entries for the year ending 31st March, 2026 and prepare 9% Debenture A/c and Loss on Issue of Debentures A/c. (Ignore interest on debentures).

4 On 1.4.2025, J.K. Ltd. issued 8,000, 9% Debentures of ₹1,000 each at a discount of 6%, redeemable at a premium of 5% after three years. The company closes its books on 31st March every year. Interest on 9% debentures is payable on 30th September and 31st March every year.
Pass necessary journal entries for the year ended 31.3.2026.

5 On April 1, 2026 Z Ltd. issued, 10,000, 8% Debentures of ₹100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures & the allotment was made proportionately to all the applicants.The securities premium amount has not been utilized for any other purpose during the year. Give journal entries for the issue of debentures & writing off loss on issue of debentures.

ANSWERS OF SHORT QUESTIONS 4 MARKS

1 ANS- **JOURNAL**

DATE	PARTICULARS	LF	Dr. (₹)	Cr. (₹)
	Case (i)			

	Bank A/c Dr. To Debenture Application and Allotment A/c (Being amount received on application)	15,00,000		15,00,000
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 12% Debentures A/c To Premium on Redemption of Debentures A/c (Being transfer of application money to debentures account redeemable at a premium)	15,00,000 75,000		 15,00,000 75,000
	Case (ii) Bank A/c Dr. To Debenture Application and Allotment A/c (Being amount received on application)	26,25,000		26,25,000
	Debenture Application and Allotment A/c Dr. To 12% Debentures A/c To Securities Premium A/c (Being transfer of application money to Debentures, issued at a premium, redeemable at par)	26,25,000		 25,00,000 1,25,000

2

Journal

Dt.	Particulars	Dr. (₹)	Cr. (₹)
(a)	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)	1,14,000	 1,14,000
	Debenture Application and Allotment A/ Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c (Debentures application money trf. to Debentures A/c)	1,14,000 6,000	 1,20,000
(b)	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)	1,42,500	 1,42,500
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Premium on Redemption of Deb A/c (Debentures application money trf. to Debentures A/c)	1,42,500 22,500	 1,50,000 15,000

3 ANS-

R.J. Ltd.

JOURNAL

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2025 1 Apr	Bank A/c Dr. To Deb. Application & Allotment A/c (Application received for ₹10,00,000, 9% debentures issued at 10% discount)		9,00,000	 9,00,000
1 Apr	Deb. Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c		9,00,000 1,50,000	 10,00,000
31 Mar 26	Statement of Profit & Loss Dr. To Loss on Issue of Debentures A/c		1,50,000	 1,50,000

Dr. 9% Debentures A/c Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2026 March 31	To balance C/d	10,00,000	2025 April1	By Debentures App and Allot A/c By Loss on Issue of Deb. A/c	9,00,000 1,00,000
		10,00,000			**10,00,000**

Dr. Loss on issue of Debentures A/c Cr.

Date	Particular	(₹)	Date	Particular	(₹)
2025 April1	To 9% Debentures A/c To Premium on Redemption A/c	1,00,000 50,000	2026 March 31	By State. of Profit and Loss	1,50,000
		1,50,000			**1,50,000**

4 ANS- **JOURNAL OF J.K. LTD.**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1 April 2025	Bank A/c Dr. To Debentures Application & Allotment A/c (Amount received on application)		75,20,000	 75,20,000
1 April	Debenture Application & Allotment A/c Dr. Loss on issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Deb. A/c (Issue of Debentures at 6% discount and redeemable at 5% premium)		75,20,000 8,80,000	 80,00,000 4,00,000
30 Sep	Interest on Debentures A/c Dr. To Debenture holder's A/c (Half Yearly interest due on debentures)		3,60,000	 3,60,000
30 Sep	Debenture holder's A/c Dr. To Bank A/c (Payment of Interest)		3,60,000	 3,60,000
31 March 2026	Interest on Debentures A/c Dr. To Debenture holder's A/c (Half- Yearly interest due on Debentures)		3,60,000	 3,60,000
31 March 2026	Debenture holder's A/c Dr. To Bank (Payment of Interest)		3,60,000	 3,60,000
31 March 2026	Statement of Profit & Loss Dr. To Loss on Issue of Debentures A/c To Interest on Debentures A/c (Loss on issue & interest trf. to statement of Profit & Loss)		16,00,000	 8,80,000 7,20,000

5 ANS- **Journal of Z Ltd.**

Date	Particulars	LF	Dr. (₹)	Dr. (₹)
2025 Apr 1	Bank A/c Dr. To Debenture Application & Allotment A/c (Application money received on 20,000 8% debentures @ Rs. 105 each)		21,00,000	 21,00,000
1 Apr	Debenture Application and Allotment A/c Dr. Loss on issue of Debentures A/c Dr. To 8% Debentures A/c		21,00,000 1,00,000	 10,00,000

		To Securities Premium A/c To Premium on Redemption of Deb. A/c To Bank A/c (Loss on issue of Debentures written off)			50,000 1,00,000 10,50,000
	31 Mar 2026	Securities Premium A/c Dr. Statement of Profit & Loss Dr. To loss on issue of Debentures A/c (Loss on issue of debentures written off)			50,000 50,000 1,00,000

Long Questions (6-Marks)

1	On April 1, 2025 Z Ltd. issued, 10,000, 8% Debentures of ₹100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year. Pass entries for issue of Debentures. Prepare Loss on Issue of Debentures Account. Pass entries for interest on debentures on March 31, 2022 assuming interest is payable on 30th September and 31 March every year.
2	Yana Ltd. is zero-debt company. To avail the benefits of financial leverage, the finance manager proposed to include debt in the capital structure. After deliberations, on April 1, 2025, the board of directors had decided to issue 6% Debentures of ₹ 100 each to the public at a premium of 5%, redeemable after 5 years at ₹ 110 per share. You are required to answer the following questions: Pass Journal entry for the allotment of debentures. Pass Journal entry to write off loss on issue of debentures. Prepare Loss on Issue of Debentures A/c.
3	On 1st April, 2026, Marvel Ltd. issued 2,000, 7% Debentures of ₹ 500 each at a premium of 10%, redeemable at a premium of 10% after five years. The company had a balance of ₹ 1, 75,000 in Securities Premium Account before the issue. (a) Pass journal entries for issue of debentures and for writing off Loss on utilising Securities Premium Account at the end of the first year itself. (b) Prepare Loss on Issue of Debentures Account for the year ended 31st March, 2025.
4	Pass necessary Journal entries for issue of 12% Debentures in the books of Ghanshyam Ltd. In the following cases: i) Issued 1,000, 10% Debentures of ₹100 each at a premium of 10%, redeemable at a premium of 5%. ii) Issued 5,000, 10% Debentures of ₹100 each at a premium of 10%, redeemable at par. iii) Issued 2,000, 10% Debentures of ₹100 each at a discount of 10%, redeemable at a premium of 5%.

ANSWERS OF LONG QUESTIONS 6 MARKS

1 ANS-

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
2025 Apr-	Bank A/c Dr. To Debenture Application & Allot. A/c		21,00,000	. 21,00,000

01 Apr-01	Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Deb. A/c To Bank A/c		21,00,000 1,00,000	 10,00,000 50,000 1,00,000 10,50,000

Loss on Issue of Debentures A/c

Date	Particulars	Dr. (₹)	Date	Particulars	Cr. (₹)
1.4.25	To Premium on Redemption of Debentures A/c	1,00,000	31.3.26	By Securities Premium Reserve A/c By Statement of Profit and Loss A/c	50,000 50,000

JOURNAL ENTRIES

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
2025 Sep-30	Debenture Interest A/c Dr. To Debenture Holders A/c		40,000	 40,000
Sep-30	Debenture Holders A/c Dr. To Bank		40,000	 40,000
2026 Mar-31	Debenture Interest A/c Dr. To Debenture Holders A/c		40,000	 40,000
Mar-31	Debenture Holders A/c Dr. To Bank		40,000	 40,000
Mar-31	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c		80,000	 80,000

2 ANS- **In the books of Yana ltd.**

Dr. Journal Cr.

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2022 April 1	Debenture Application & Allotment A/c Loss on Issue of Debentures A/c To 6% Debentures A/c To Securities Premium A/c To Premium on Redemption of Deb. A/c		52,50,000 5,00,000	 50,00,000 2,50,000 5,00,000

II. Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
2023 March 31	Securities Premium A/c Dr. Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c		2,50,000 2,50,000	 5,00,000

III.

Dr. Loss on Issue of Debentures A/c Cr.

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2022 April 1	To Premium on Redemption of Debentures A/c	5,00,000	2023 March 31	By Securities Premium A/c By SOPL	2,50,000 2,50,000
		5,00,000			5,00,000

3

JOURNAL

Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
a) Bank A/c Dr. To Debenture Application & Allotment A/c (Application amount received on 2,000, 7% Debentures.)		11,00,000	11,00,000
Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 7% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Application amount transferred to debentures a/c, securities premium a/c and provision for premium on redemption of debentures made.)		11,00,000 1,00,000	 10,00,000 1,00,000 1,00,000
Securities Premium A/c Dr. To Loss on Issue of Debentures A/c (Loss on issue of debentures written off.)		1,00,000	1,00,000

Dr. **Loss on issue of debentures account** Cr.

Particulars	Amt (₹)	Particulars	Amt (₹)
To Premium on Redemption of Debentures A/c	1,00,000	By Securities Premium A/c	1,00,000

BALANCE: NIL

So, the entire loss of ₹ 1,00,000 is written off in the first year itself by using Securities Premium Account.

4

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
Case1	Bank A/c Dr. To Debentures Application & Allotment A/c (Application money on 10% Deb. received)		1,10,000	 1,10,000
	Debentures Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 10% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Issue of Debentures at 10% premium, redeemable at 5% premium)		1,10,000 5,000	 1,00,000 10,000 5,000
Case2	Bank A/c Dr. To Debentures Application &Allotment A/c (Application money on 10% Deb. received)		5,50,000	 5,50,000
	Debentures Application & Allotment A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Issue of Debentures at 10% premium)		5,50,000	 5,00,000 50,000
Case3	Bank A/c Dr. To Debentures Application & Allotment (Debentures application and allotment A/c)		1,80,000	 1,80,000
	Debentures Application & Allotment A/c Dr. Loss on issue of Debentures A/c Dr. To 10% Debentures A/c To Premium on Redemption of Deb A/c (Issue of Debentures at 10% Discount, redeemable at 5% premium)		1,80,000 30,000	 2,00,000 10,000

CHAPTER-07: FINANCIAL STATEMENTS OF A COMPANY

Meaning

Financial statements are the formal annual reports through which the corporate management communicates financial information to its owners and various other external parties.

NATURE OF FINANCIAL STATEMENTS

Recorded Facts*:* Financial statements are prepared on the basis of facts in the form of cost data recorded in accounting books. The original cost or historical cost is the basis of recording transactions.

- Accounting Conventions*:* Certain accounting conventions are followed while preparing financial statements. For ex. The convention of valuing inventory at cost or market price, whichever is lower, is followed.
- Postulates: Financial statements are prepared on certain basic assumptions(pre-requisites) known as postulates such as going concern postulate, money measurement postulate, realization postulate etc.

Objectives of financial statement

1.To provide information about economic resources and obligations of a business.
2. To provide information about the earning capacity of the business.
3. To provide information about cash flows.
4. To judge effectiveness of management.
5. Information about activities of business affecting the society.
6. Disclosing accounting policies.

The financial statements generally include two statements:

(1) Balance Sheet (2) Statement of Profit and Loss

(1) FORMAT OF BALANCE SHEET

Every company registered under The Companies Act 2013 shall prepare its balance sheet, in accordance with the manner prescribed in the revised Schedule III to the Companies Act, 2013. The format of balance sheet is as follows:

BALANCE SHEET OF ……. LTD, AS AT……

(Part-I Schedule III to the Companies Act, 2013)

Particulars	**Note No..**	**Figures at the end of the current reporting period**	**Figures at the end of the previous reporting period**
1	2	3	4
I. EQUITY AND LIABILITIES: **1. Shareholders' funds** (a)Share capital (b)Reserves and surplus (c) Money received against share warrants **2. Share application money pending allotment** **3. Non-current liabilities** (a)Long-term borrowings (b)Deferred tax liabilities(net) (c)Other Long-term liabilities (d)Long-term provisions **4. Current liabilities** (a)Short-term borrowings (b)Trade payables (c)Other current liabilities (d)Short-term provisions			

TOTAL			
II. ASSETS: **1. Non-current assets** (a) Property, Plant and Equipment and Intangible Asset i) Property, Plant and Equipment ii) Intangible assets iii) Capital work-in-progress iv) Intangible assets under development (b) Non-current investments (c) Deferred tax assets(net) (d) Long-term loans and advances (e) Other non-current assets **2. Current assets** (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short-term loans and advances (f) Other current assets			
TOTAL			

QUICK MEMORY TRICK FOR CBSE EXAMS

EQUITY & LIABILITIES (S – S – N – C) **S**hareholders' Funds **S**hare Application Money Pending Allotment **N**on-Current Liabilities **C**urrent Liabilities	**ASSETS** (**N – C)** **N**on-Current Assets **C**urrent Assets
Non-Current Assets (Remember: P-N-D-L-O) **P**roperty, Plant & Equipment & Intangible Assets **N**on-Current Investments **D**eferred Tax Assets **L**ong-Term Loans & Advances **O**ther Non-Current Assets	**Current Assets (Remember: I-I-T-C-L-O)** Current **I**nvestments **I**nventories **T**rade Receivables **C**ash & Cash Equivalents **L**oans & Advances (Short-Term) Other Current Assets

FORMAT OF PROFIT & LOSS:

(Part-I Schedule III to the Companies Act, 2013)

	Particulars	Note No.	CY	PY
I.	**Revenue from Operations**			
II.	**Other Income**			
III.	**TOTAL INCOME (I+II)**			
IV.	**Expenses:** **(a)** Cost of materials consumed **(b)** Purchases of Stock-in-Trade **(c)** Changes in inventories of finished goods, work-in progress and Stock-in-Trade			

	(d) Employee benefits expenses (e) Finance costs (f) Depreciation and amortization expenses (g) Other expenses			
	TOTAL EXPENSES			
V.	**Profit before Tax (III–IV)**			
VI.	**Tax**			
VII.	**Profit after Tax (V–VI)**			

***Changes in inventories of finished goods, WIP and stock-in-trade**: It is the difference between opening inventory (stock) of finished goods, WIP and stock-in-trade and closing inventory**. It does not include the stock of raw material.**

Mnemonic for Expenses Order *"Cool Employees Do Funny Operations"* (C-E-D-F-O)

- **C**ost of materials consumed
- **E**mployee benefit expenses
- **D**epreciation & amortization
- **F**inance costs *__O__ther expenses

MCQ's (1 MARKS)

Q1	If the operating cycle of the company cannot be identified, it is assumed to be: (a) 18 months (b)12 months (c) 10 months (d) 15 months	**1**
Q2	Which of the following is not a part of Finance cost (in statement of profit& loss) (a) Bank charges (b) Interest paid on debentures (c) Interest paid on public deposits (d) loss on issue of debenture	**1**
Q3	A company has an operating cycle of eight months. It has accounts receivables amounting to ₹1,00,000 out of which ₹60,000 have a maturity period of 11 months. How would this information be presented in the balance sheet? (a) ₹40,000 as current assets and ₹60,000 as non-current assets. (b) ₹60,000 as current assets and ₹40,000 as non-current assets. (c) ₹1,00,000 as non-current assets. (d) ₹1,00,000 as current assets.	**1**
Q4	Debit Balance of Profit & Loss Statement will be shown on: (a) Assets Side of Balance Sheet (b) Liabilities Side of Balance Sheet (c) Under the head Reserve & Surplus (d) Under the head Reserves and Surplus as a negative item	**1**
Q5	According to which part of Schedule III of the Indian Companies Act, 2013, Indian companies have to prepare Balance Sheet: (a) Part 1 (b) Part 2 (c) Part 3 (d) Part 4	**1**
Q6	Securities Premium Account is shown on the liabilities side in the Balance Sheet Under heading (a) Reserves and Surplus (b) Current Liabilities and Provisions (c) Share Capital (d) Contingent Liabilities	**1**
Q7	Share capital is shown in Balance Sheet under the head? (a) Authorised Capital (b) Issued Capital (c) Paid-up Capital (d) Shareholders' Funds	**1**
Q8	Change in Inventories means: (a)Opening Inventories less Closing Inventories (b) Closing Inventories less Opening Inventories (c) Difference between Opening Inventories and Closing Inventories, if Opening Inventories are higher (d) Difference between Closing Inventories and Opening Inventories, if Closing Inventories are higher.	**1**
Q9	50,000,9%Debentures redeemable within 12 months of date of Balance sheet will be shown under: (a) Short term borrowings (b) Short term provisions (c) Other current liability (d) Trade payable	**1**
Q10	**Assertion (A):** Operating Cycle is the time between the acquisition of assets for processing and their realisation in Cash. **Reason (R):** In case operating cycle cannot be identified, it is assumed to have a duration of twelve months. In the context of the above two statements, which of the following is correct? (a) Both (A) and (R) are correct and (R) is the correct reason of (A). (b)Both (A) and (R) are correct but (R) is not the correct reason of (A). (c)Only (R) is correct. (d)Both (A) and (R) are wrong.	**1**

ANSWERS: (MCQ's)

Q1-b	Q2-d	Q3-d	Q4-d	Q5-a	Q6-a	Q7-d	Q8-b	Q9-c	Q10-a

Questions for 3 MARKS:

Q1	Classify the following items under Major heads and Sub heads (If any) in the balance sheet of a Company as per schedule III of the Companies Act 2013. (i) Provision for Warranties — (iv) Goodwill (ii) Provision for Tax — (v) Unclaimed dividend (iii) Bank Overdraft — (vi) Loose tools	3
Q2	Classify the following items under Major heads and Sub heads (If any) in the balance sheet of a Company as per schedule III of the Companies Act 2013. i) Long-term Loans iv) Bills Receivable ii) Short-term Loans v) Computer iii) Work in progress vi) Computer Software	3
Q3	How will you show the following items in the Balance Sheet of a Company as per schedule III of the Companies Act 2013. i) Balance of the Statement of Profit and Loss ii) Loan of 1,00,000 payable after three years iii) Short-term deposits payable on demand iv) Trademarks v) Land vi) Cash at Bank	3
Q4	Name the major heads and sub-heads under which the Following Items Will be presented in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013. i) Loan repayable on demand iv) Capital advances ii) Provision for Retirement benefit v) Shares in listed companies iii) Prepaid Insurance vi) Building	

ANSWERS: (3 MARKS QUESTIONS)

Q1

S.NO.	Items	Major Head	Sub Head
(i)	Provision for Warranties	Non-Current Liabilities	Long term Provisions
(ii)	Provision For Tax	Current Liabilities	Short-Term Provisions
(iii)	Bank overdraft	Current Liabilities	Short-Term Borrowings
(iv)	Goodwill	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(v)	Unclaimed Dividend	Current Liabilities	Other Current Liabilities
(vi)	Loose Tools	Current Assets	Inventories

Q2

S.NO	Item	Major Head	Sub Head
(i)	Long-term Loans	Non-Current Liabilities	Long term Borrowings
(ii)	Short-term Loans	Current Liabilities	Short term Borrowings
(iii)	Work in progress	Current Assets	Inventories
(iv)	Bills Receivable	Current Assets	Trade Receivable
(v)	Computer	Non-Current Assets	Property, Plant and Equipment and Intangible Assets- Property, Plant and Equipment
(vi)	Computer software	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets

Q3

S.NO	Item	Major Head	Sub Head
(i)	Balance of the	Shareholder's	Reserve and Surplus

		Statement of Profit and Loss	Funds	
	(ii)	Loan of 1,00,000 payable after three years	Non-Current Liabilities	Long term Borrowings
	(iii)	Short-term deposits payable on demand	Current Liabilities	Short term Borrowings
	(iv)	Trademarks	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
	(v)	Land	Non-Current Assets	Property, Plant and Equipment and Intangible Assets- Property, Plant and Equipment
	(vi)	Cash at Bank	Current Assets	Cash and cash equivalents

Q4

S.NO	**Item**	**Major Head**	**Sub Head**
(i)	Loan repayable on demand	Current Liabilities	Short Term Borrowings
(ii)	Provision for Retirement benefits	Non-Current Liabilities	Long Term Provisions
(iii)	Prepaid Insurance	Current Assets	Other Current Assets
(iv)	Capital advances	Non-Current Assets	Long Term Loans and Advances
(v)	Shares in Listed Companies	Non-Current Assets	Non-Current Investments
(vi)	Building	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Property, Plant and Equipment

CHAPTER-08: ANALYSIS OF FINANCIAL STATEMENTS

MEANING:

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. In financial analysis, the data given in financial statements is classified into simple groups and a comparison of various groups is made with one another to pin-point the strong points and weakness of a business.

OBJECTIVES OF FINANCIAL STATEMENTS ANALYSIS 1. Assess Profitability Measures earning capacity and efficiency of the business. Helps determine whether the business is making adequate profits. 2. Evaluate Financial Position Examines liquidity and solvency. Indicates the firm's ability to meet short-term and long-term obligations. 3. Compare Performance Compares financial results of different years. Facilitates comparison with other firms in the industry. 4. Identify Strengths and Weaknesses Highlights areas of good performance and areas needing improvement. 5. Forecast Future Prospects Helps predict future growth, profitability, and financial stability. 6. Assist in Decision-Making Provides useful information to investors, Management, Creditors, Financial Institutions. **Mnemonic**: **(P-F-C-S-F-D)** □ **P** – Profitability □ **F** – Financial Position □ **C** – Compare Performance □ **S** – Strengths & Weaknesses □ **F** – Future Prospects □ **D** – Decision Making **Mnemonic:** **"Profitable Firms Compare Strengths For Decisions."**	**IMPORTANCE OF FINANCIAL STATEMENT ANALYSIS** 1. Importance to Management Helps in planning, controlling, and decision-making. Assists in evaluating operational efficiency. Identifies strengths and weaknesses of the business. 2. Importance to Investors Helps assess profitability and growth potential. Assists in making investment decisions. Indicates the safety of invested funds. 3. Importance to Creditors and Lenders Evaluates liquidity and solvency position. Helps determine the firm's ability to repay debts. 4. Importance to Government Useful for taxation purposes. Assists regulatory authorities in monitoring business performance. 5. Importance for Comparison and Forecasting Facilitates comparison between firms and across years. Helps identify trends in performance. Assists in forecasting future growth and profitability. **Mnemonic**: (**M-I-C-G-C)** □ **M** – Management □ **I** – Investors □ **C** – Creditors & Lenders □ **G** – Government □ **C** – Comparison & Forecasting **Mnemonic: "Many Investors Carefully Gain Confidence."**
Limitations of Financial Statement Analysis 1. Based on Historical Data Analysis is based on past information. Past performance may not always predict future results. 2. Ignores Qualitative Factors Does not consider factors such as: Employee efficiency, Management quality, Customer	Tools of Financial Statement Analysis 1. Comparative Statements Compare financial statements of two or more years. Show absolute and percentage changes. Help identify trends and growth patterns. 2. Common Size Statements Each item is shown as a percentage of a

satisfaction, Business reputation. 3. Different Accounting Policies Different firms may use different accounting methods. This reduces comparability between companies. 4. Affected by Price Level Changes Financial statements are generally prepared at historical cost. Inflation and changes in purchasing power are not fully reflected. 5. Possibility of Window Dressing Financial statements may be manipulated to present a better financial position. This can lead to misleading conclusions. 6. Limited Reliability Results depend on the accuracy of accounting records. • Incorrect or incomplete data can affect analysis. Mnemonic: HIWPL **H** – Historical Data **I** – Ignores Qualitative Factors **W** – Window Dressing **P** – Price Level Changes **L** – Lack of Uniform Accounting Policies	common base. In Balance Sheet: percentage of total assets/liabilities. In Statement of Profit & Loss: percentage of net sales. Facilitates comparison among firms. 3. Ratio Analysis Studies relationships between different financial items. Measures: Liquidity Solvency Profitability Efficiency 4. Cash Flow Analysis Analyses inflow and outflow of cash. Assesses liquidity and cash management. Helps determine the firm's ability to meet cash obligations. Mnemonic: CCRC **C** – Comparative Statements **C** – Common Size Statements **R** – Ratio Analysis **C** – Cash Flow Analysis

Comparative Statement:

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. It usually applies to the two important financial statements, namely, balance sheet and statement of profit and loss prepared in a comparative form.

Comparative figures indicate the trend and direction of financial position and operating results. This analysis is also known as 'Horizontal or Dynamic Analysis'.

FORMAT OF COMPARATIVE STATEMENTS:

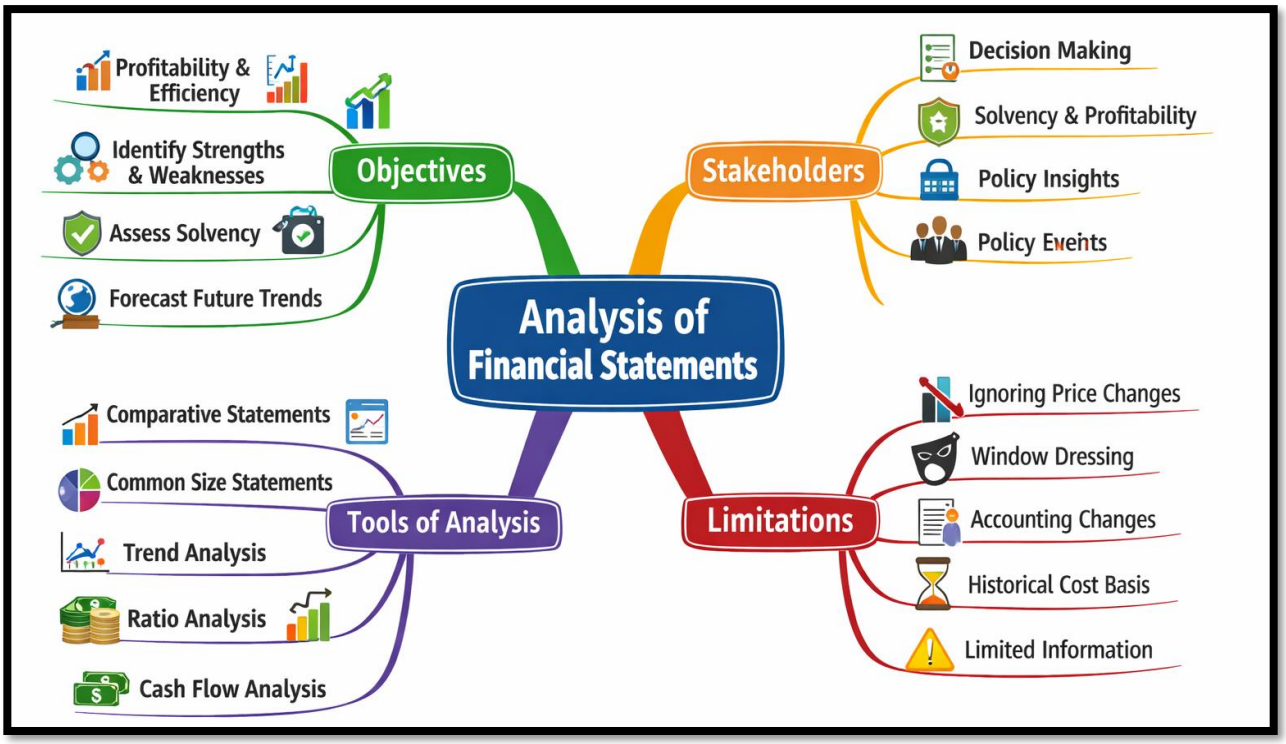
Particulars	Previous Year	Current Year	Absolute Change Increase (+) or Decrease (–)	Percentage Increase (+) or Decrease (–)
1	**2 (₹)**	**3 (₹)**	**4 (₹)**	**5 (%)**

Calculations:

Absolute Change = Current Year – Previous Year

Percentage Change = (Absolute Change ÷ Previous Year) × 100

Common Size Statements: These are the statements which indicate the relationship of different items of a financial statement with a common item by expressing each item as a percentage of that common item. **Common size statements are useful, both, in intra-firm comparisons over different years and also in making inter-firm comparisons for the same year or for several years. This analysis is also known as 'Vertical or Static analysis'**



FORMAT OF COMMON SIZE STATEMENT:

Particulars	Previous Year	Current Year	% Previous Year	% Current year
1	2 (₹)	3 (₹)	4 (%)	5 (%)

MCQ's (1 marks)

Q1	**Assertion-(A):** A single statement of profit and loss account does not convey anything about the progress or decrease/increase in the earnings of the business. **Reason-(R):** Therefore, it has no significance for the purpose of analysis. (a) Both (A) and (R) are correct and (R) is the correct reason of (A) (b) Both (A) and (R) are correct but (R) is not the correct reason of (A) (c) Only (R) is correct. (d) Both (A) and (R) are wrong
Q2	**Assertion-(A):** Common size statement of profit & loss facilitates the vertical analysis. **Reason-(R):** Since each accounting variable is expressed as percentage of Total of assets. (a) Both (A) and (R) are correct and (R) is the correct reason of (A) (b) Both (A) and (R) are correct but (R) is not the correct reason of (A) (c) Only (R) is correct. (d) Both (A) and (R) are wrong
Q3	**Assertion (A)**: All contingent liabilities are shown in the non-current liabilities section of the balance sheet. **Reason (R):** A contingent liability refers to the claim which is uncertain to arise /which may or may not rise/which is dependent on a happening in future. (a)Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). (b)Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). (c)Assertion (A) is true Reason (R) is False (d)Assertion (A) is False Reason (R) is True
Q4	When bad position of the business is tried to be depicted as good it is known as (a) Personal bias (b) Window dressing (c) Price level changes (d) None of these

Q5	Interest accrued on investments is shown in company's Balance Sheet under the main head. (a) Non-current investments (b) Current assets (c) Other current assets (d) Other Non-Current assets
Q6	Under the sub head of short – term provision which one is shown from the following: (a) Interest accrued and due on borrowing (b) Proposed dividend (c) Unpaid dividend (d) Calls in advance
Q7	Comparison of a firm's financial statements of two or more years is known as-------- (a) Inter-firm comparison (b) Intra-firm comparison (c) Standard comparison (d) Pattern comparison
Q8	Horizontal analysis stands for- (a) Comparative statements (b) Common size statement (c) Ratio analysis (d) Cash flow statement
Q9	Which of the following is shown as Current Liabilities? (a) Inventories (b) Trade receivable (c) Unclaimed Dividend (d) Prepaid Insurance
Q10	Which of these is not the limitation of financial statements of a company? (a) Ignore Qualitative aspects (b) Providing information about the profitability of the business (c) Personal bias (d) Ignores price level change

ANSWERS (MCQ's)

1-a	2-a	3-d	4-b	5-b	6-b	7-b	8-a	9-c	10-b

QUESTIONS FOR 3-4 MARKS

Q1 Following is the Statement of Profit & Loss of ABS Limited for the year ended 31 March, 2024 and 31 March, 2025. 3

Particulars	Notes to Accounts	2023-24 (₹)	2024-25 (₹)
Revenue from Operations		50,00,000	80,00,000
Expenses: (a) Employee Benefit Expenses		10 % of RFO	10 % of RFO
(b) Other Expenses		10,00,000	12,00,000
Tax Rate		40%	40%

Prepare Comparative Income Statement of ABS Limited.

Q2 From the following information, prepare a Comparative Statement of profit& loss for the year ended 31st March ,2025 and 2024: 3

Particulars	Note No.	2024-25	2023-24
Revenue from operations		10,00,000	8,00,000
Employee benefit expenses		2,50,000	1,00,000
Other expenses		5,50,000	4,00,000
Tax rate 50%			

Q3 Complete the following Comparative Balance Sheet as at March 31, 2024 and Match 31, 2025 3

PARTICULARS	31st Mar 2024	31st Mar, 2025	Absolute Change	Percentage Change
Share holder fund	6,00,000	??	3,00,000	??
Non-Current liabilities	3,00,000	??	NIL	??
Current liabilities	??	3,00,000	2,00,000	??
TOTAL	??	??	??	??
Non-Current Assets	7,00,000	??	??	50
Current Assets	??	??	??	??
TOTAL	??	??	??	??

Q4	From the given Balance sheet of G Ltd., Prepare Common size Balance sheet.	3

Balance Sheet of G Ltd. As on 31st March 2025

Particulars	Note No.	31.03.2025	31.03.2024
I-Equity and Liabilities:			
Shareholder's Funds Share Capital		4,00,000	2,50,000
Non-Current Liabilities Long term Borrowings		2,00,000	1,50,000
Current Liabilities (a) Trade Payables		2,00,000	1,00,000
Total		8,00,000	5,00,000
II- Assets			
Non-Current Assets Fixed Assets/Property, Plant and Equipment and Intangible Assets		4,00,000	3,50,000
Current Assets Inventories Trade Receivables		2,00,000 2,00,000	70,000 80,000
Total		**8,00,000**	**5,00,000**

Q5	From the information extracted from the statement of Profit & Loss of Zee Ltd for the year ended 31st March 2024 and 31st March 2025, prepare a common size statement of profit & loss.	3

Particulars	NOTENO.	31st March 2025	31st March 2024
Revenue From Operations		8,00,000	10,00,000
Gross profit		60%	70%
Other Expenses		2,20,000	2,60,000
Tax Rate		50%	50%

ANSWERS (3-4 MARKS)

Ans1

Comparative Statement of Profit and Loss

Particulars	31.03.2024(₹)	31.03.2025(₹)	Ab. Change	%Change
I. Revenue from Operations	50,00,000	80,00,000	30,00,000	60
II. Other income	Nil	Nil	Nil	Nil
III. Total Revenue	50,00,000	80,00,000	30,00,000	60
IV. EXPENSES				
Emp. benefit expense	5,00,000	8,00,000	3,00,000	60
Other Expenses	10,00,000	12,00,000	2,00,000	20
Total Expenses	15,00,000	20,00,000	5,00,000	33.3
V. Profit before Tax	35,00,000	60,00,000	25,00,000	71.4
VI. Tax (40%)	14,00,000	24,00,000	10,00,000	71.4
VII. Profit after tax	**21,00,000**	**36,00,000**	**15,00,000**	**71.4**

Ans2

Comparative Statement of Profit and Loss

Particulars	31.03.2024	31.03.2025	Abso.change	% Change
RFO	8,00,000	10,00,000	2,00,000	25
TOTAL	8,00,000	10,00,000	2,00,000	25
Employee benefit Exp.	1,00,000	2,50,000	1,50,000	150
Other Expenses	4,00,000	5,50,000	1,50,000	37.5
Total Expenses	5,00,000	8,00,000	3,00,000	60

Profit before Tax	3,00,000	2,00,000	(1,00,000)	(33.33)
Tax (50%)	1,50,000	1,00,000	(50,000)	(33.33)
Profit after tax	**1,50,000**	**1,00,000**	**(50,000)**	**(33.33)**

Ans3

Comparative Balance Sheet as at March 31, 2024 and Match 31, 2025

Particulars	31/3/2024	31/3/ 2025	Abso.Change	% Change
Share holder fund	6,00,000	9,00,000	3,00,000	50
Non-Current liabilities	3,00,000	3,00,000	NIL	…..
Current liabilities	1,00,000	3,00,000	2,00,000	200
TOTAL	**10,00,000**	**15,00,000**	**5,00,000**	**50**
Non-Current Assets	7,00,000	10,50,000	3,50,000	50
Current Assets	3,00,000	4,50,000	1,50,000	50
TOTAL	**10,00,000**	**15,00,000**	**5,00,000**	**50**

Ans4

Common Size Balance Sheet of G Ltd. As on 31st March 2025

Particulars	31.03.24	31.03.25	%2024	%2025
I-Equity and Liabilities:				
Shareholder's Funds Share Capital	2,50,000	4,00,000	50	50
Non-Current Liabilities Long term Borrowings	1,50,000	2,00,000	30	25
Current Liabilities Trade Payables	1,00,000	2,00,000	20	25
Total	5,00,000	8,00,000	100	100
II- Assets				
Non-Current Assets Property, Plant and Equipment and Intangible Assets	3,50,000	4,00,000	70	50
Current Assets Inventories	70,000	2,00,000	14	25
Trade Receivables	80,000	2,00,000	16	25
Total	5,00,000	8,00,000	100	100

Ans5

Common Size Statement of Profit & Loss

Particulars	31st Mar, 2024	31st Mar, 2025	%2024	% 2025
RFO	10,00,000	8,00,000	100	100
Expenses				
Cost Of Revenue	3,00,000	3,20,000	30	40
Other Expenses	2,60,000	2,20,000	26	27.5
Total Expenses	5,60,000	5,40,000	56	67.5
Profit before tax	4,40,000	2,60,000	44	32.5
Less: Tax	2,20,000	1,30,000	22	16.25
Profit after Tax	**2,20,000**	**1,30,000**	**22**	**16.25**

CHAPTER-09: RATIO ANALYSIS

Meaning of Accounting Ratios:

- A ratio is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage & a number of times.
- When the number is calculated by referring to two accounting numbers derived from the financial statements, it is termed as accounting ratio.
- Ratio analysis is a technique which involves regrouping of data by application of arithmetical relationships, though its interpretation is a complex matter.

Objectives of Ratio Analysis:

- To know the areas of the business which need more attention;
- To know about the potential areas which can be improved with the effort in the desired direction.
- To provide a deeper analysis of the profitability, liquidity, solvency and efficiency levels in the business;
- To provide information for making cross-sectional analysis by comparing the performance with the best industry standards;

Advantages of Ratio Analysis:

* Helps to understand efficacy of decisions.
* Helpful in comparative analysis.
* Identification of problem areas.
* Enables SWOT analysis.
*Simplify complex figures & establish relationships

Limitations of Ratio Analysis

Limitation	
Historical Data	Past results may not predict future performance
Ignores Qualitative Factors	Non-financial aspects are not considered
Different Accounting Policies	Difficult comparison between firms
Price Level Changes	Inflation effects are ignored
Window Dressing	Ratios may become misleading
Limited Reliability	Depends on accuracy of accounting records

Mnemonic: "History and Wisdom Prevent Questionable Results." (H-A-W-P-Q-R)

- **H** – Historical Data
- **A** – Accounting Policies Differ
- **W** – Window Dressing
- **P** – Price Level Changes
- **Q** – Qualitative Factors Ignored
- **R** – Reliability Limited

Classification of Ratios

Category	Purpose
Liquidity Ratios	Ability to meet short-term obligations
Solvency Ratios	Long-term financial stability
Activity (Turnover) Ratios	Efficiency in using assets
Profitability Ratios	Earning capacity of the business

A. <u>LIQUIDITY RATIO:</u>

1. <u>Current Ratio</u> Formula: Current Ratio = Current Assets / Current Liabilities Ideal ratio: 2: 1 **Interpretation: Higher ratio indicates better short-term solvency.**	2. <u>Quick Ratio / Acid-Test Ratio</u> Formula: Quick Ratio = Quick Assets / Current Liabilities Quick Assets = Current Assets – Inventory – Prepaid Expenses Ideal ratio: 1: 1 **Interpretation: Measures ability to pay immediate liabilities without selling inventory.**

***Loose tools and stores and spares are not included in inventories while calculating current ratio.**

B. SOLVENCY RATIOS:

(A) Debt-Equity Ratio Formula: Outsiders' Funds ÷ Shareholders' Funds Ideal ratio: 2 : 1 **Interpretation: Lower ratio generally means lower financial risk.** Debt=Long term borrowings+ long term provisions Shareholders' Funds = Equity Share Capital + Preference Share Capital + Reserves & Surplus	(B) Proprietary Ratio Formula: Shareholders' Funds ÷ Total Assets **Interpretation: Shows proportion of assets financed by owners**. Shareholders' Funds = Equity Share Capital + Preference Share Capital + Reserves & Surplus	(C) Interest Coverage Ratio Formula: EBIT ÷ Interest Where EBIT = Earnings Before Interest and Tax **Interpretation: Higher ratio indicates better ability to pay interest**
(D) Total Assets to Debt Ratio: Formula: Total Assets /Debt **Interpretation: Higher ratio shows larger safety margin for lenders.** **Total assets= Non-current Assets +Current assets**	(E) Debt to Capital Employed Ratio: Formula: Long-term Debt/Capital Employed (or Net Assets)	Points To Remember *Use long term debts in calculating these ratios not Total debt. Total Debt=Long Term Debt(Debt)+Current Liabilities (Short term Debt)

C. ACTIVITY/ TURNOVER RATIOS:

A. Inventory Turnover Ratio Formula Inventory Turnover Ratio = Cost of Revenue from Operations / Average Inventory Average Inventory = (Opening Inventory + Closing Inventory) / 2 **Interpretation:** **Higher ratio indicates efficient inventory management**	B. Trade Receivables Turnover Ratio Formula Trade Receivables Turnover Ratio = Net Credit Revenue from Operations / Average Trade Receivables **Interpretation:** **Higher ratio means faster collection from debtors**.	C. Trade Payables Turnover Ratio Formula Trade Payables Turnover Ratio = Net Credit Purchases / Average Trade Payables **Interpretation:** **Indicates speed of payment to creditors.**

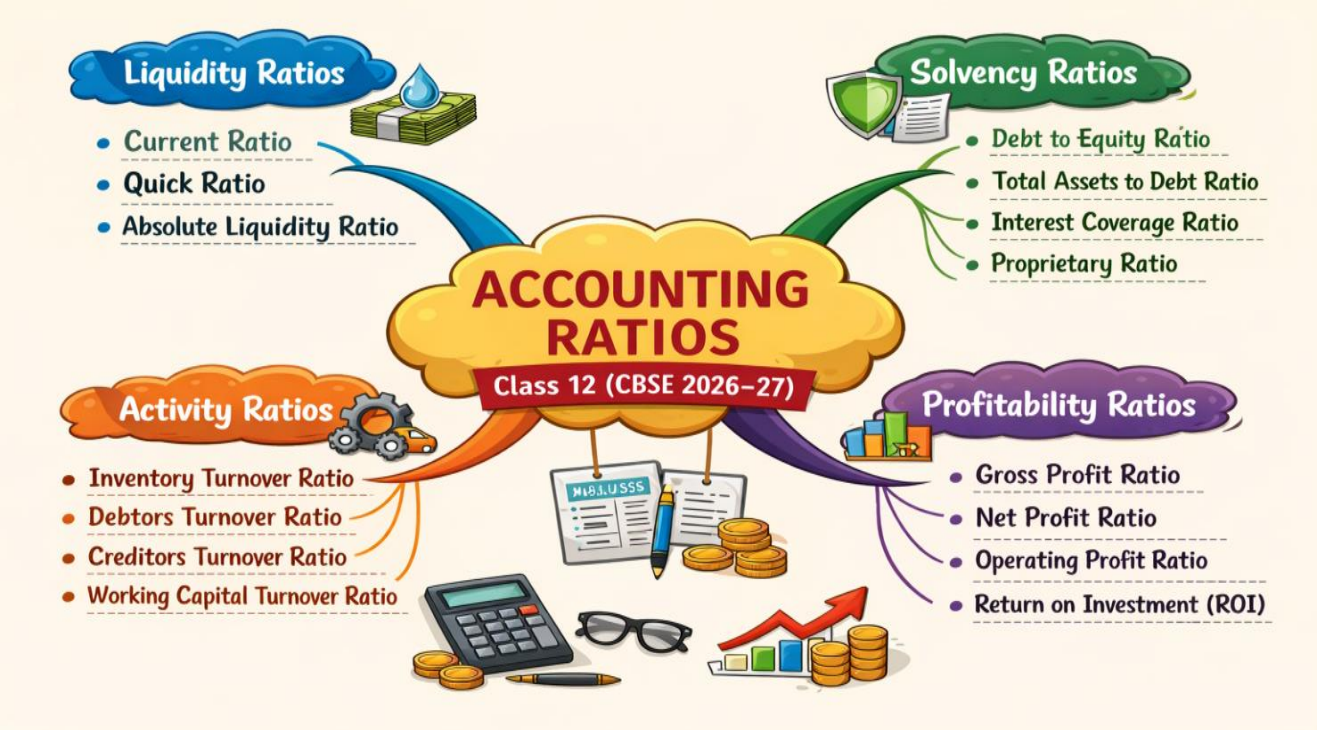
D. Working Capital Turnover Ratio Formula Working Capital Turnover Ratio = Revenue from Operations / Working Capital Working Capital = Current Assets – Current Liabilities **Interpretation:** **Measures efficiency of working capital usage**.	**E. Fixed assets Turnover ratio: Formula** Fixed assets Turnover ratio= Revenue from Operations / Net fixed assets Net fixed assets=Gross fixed Assets-Depreciation **Interpretation:** **Measures efficiency of Fixed assets in generating revenue.**	**F. Net Assets or Capital Employed Turnover Ratio:** **Formula:** Net Assets Turnover Ratio= Revenue from Operations / Capital employed.

D. PROFITABILITY RATIOS:

A. Gross Profit Ratio Formula Gross Profit Ratio = (Gross Profit / Revenue from Operations) × 100 **Interpretation: Shows gross earning capacity**.	B. Operating Ratio Formula: Operating Ratio = (Cost of Revenue from Operations + Operating Expenses) / Revenue from Operations × 100 **Interpretation: Lower ratio is generally better**	**C. Operating profit ratio** **Formula** **Operating profit ratio=** (Operating Profit / Revenue from Operations) × 100 **Operating Profit=Revenue from Operations–Operating Cost**

D.Net Profit Ratio Formula: Net Profit after Tax ÷ Revenue from Operations × 100 **Interpretation: Indicates overall profitability.**	E. Return on Investment (ROI) / Return on Capital Employed (ROCE) **Formula:** ROCE=EBIT/Capital Employed× 100 Capital Employed = Total Assets – Current Liabilities (or Shareholders' Funds + Long-term Debt) **Interpretation**: **Measures return generated on total long-term funds employed.**	**POINT TO BE REMEMBERED:** ***Operating ratio + Operating profit ratio=100** *** Exclude fictitious assets (preliminary expenses, debit balance of P&L, etc.) from total assets** ***Profit before Tax=Profit after tax x100/100-Rate of tax.**

POINTS TO REMEMBER: In board exams, formula, calculation & interpretation each carry marks. Always write the formula first, substitute values clearly & conclude with a one-line interpretation (If asked)



MCQ's (1 marks)

Q1	**Assertion(A)** – Ratio analysis is a process of determining and interpreting relationships between the items of financial statements to provide meaningful understanding of the performance and financial position of an enterprise. **Reason(R)** – It is a technique of analyzing the financial statements by computing the various ratios. (a) Both (A) and (R) are true and (R) is the correct explanation of (A). (d) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false (d) (A) is false, but (R) is true.	
Q2	**Assertion(A):** Issue of new Equity shares for cash will improve the Proprietary Ratio. **Reason(R)-** Issue of shares will increase the Shareholder's Fund but total assets remain unchanged. (a) Both (A) and (R) are true and (R) is the correct explanation of (A). (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false (d) (A) is false, but (R) is true.	
Q3	**Assertion(A):** Inventory Turnover Ratio tells how well a company is turning its inventory into sales. **Reason(R)-** Inventory Turnover shows the relationship between the cost of revenue from operations during the year and average inventory kept during the	

	year. (a) Both (A) and (R) are true and (R) is the correct explanation of (A). (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false (d) (A) is false, but (R) is true.	
Q4	**Assertion(A):** Purchase of Loose Tools against cash will reduce the current ratio. **Reason(R):** Loose Tools and Stores and spares are excluded from Current Assets because they are not held for sale or conversion into cash. (a) Both (A) and (R) are true and (R) is the correct explanation of (A). (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false (d) (A) is false, but (R) is true.	
Q5	Working Capital is the: (a) Cash and Bank Balance (b) Capital borrowed from the Banks (c) Difference between Current Assets and Current Liabilities (d) Difference between Current Assets and Fixed Assets	
Q6	The Debt Equity ratio of a company is 1: 2. Purchase of a fixed asset for ₹ 5,00,000 on long term deferred payment basis. Debt Equity Ratio will: (a) Increase (b) Decrease (c) Remain constant (d) Not change	
Q7	Which ratios are complimentary to each other: (a) Gross profit ratio and Net profit ratio (b) Operating profit ratio and Net profit ratio (c) Operating ratio and Net profit ratio (d) Operating ratio and Operating profit ratio	
Q8	Assuming that the current ratio is 2:1, purchase of goods on credit would: (a) Increase Current Ratio (b) Decrease Current Ratio (c) No effect on Current Ratio (d) Either increase or decrease Current Ratio	
Q9	Which of the following are limitations of ratio analysis? (a) Ratio Analysis is historical analysis (b) Ratio analysis ignores qualitative factors. (c) Ratio Analysis ignores quantitative analysis. (d) Ratio Analysis may result in false results if variations in price levels are not considered. (A) a, c & d (B) a, b & d (C) a, b & c (D) a, b, c & d	
Q10	Which of the following is correct about liquid assets? (a) Liquid assets include inventory and prepaid expenses (b) Liquid assets are those assets which can be converted into cash with significant change in value (c) Liquid assets are those assets which can be converted into cash with insignificant change in value (d) Liquid assets are those assets which can't be converted into other assets	

ANSWERS (MCQ's)

Q1-a	Q2-c	Q3-a	Q4-a	Q5-c	Q6-a	Q7-d	Q8-b	Q9-b	Q10-c

QUESTIONS FOR 3 MARKS

Q1	From the following details, calculate interest coverage ratio: Net Profit after tax ₹ 60,000; 15% Long-term debt ₹10,00,000; and Tax rate 40%.	3
Q2	From the following information, calculate inventory turnover ratio: Inventory in the beginning = 18,000; Inventory at the end = 22,000 Net purchases = 46,000; Wages = 14,000 Revenue from operations = 80,000; Carriage inwards = 4,000	3
Q3	The quick ratio of Z Ltd is 1:1. State with reason which of the following transactions would (a) increase, (b) decrease or (c) not change the ratio	3

	(i) Included in the trade payables was a bills payable of ₹ 3,000 which was met on maturity. (ii) Debentures of ₹ 50,000 were converted into equity shares. (iii) Cash of ₹ 10,000 paid to trade payables.	
Q4.	Y Ltd.'s profits after interest & tax was ₹1,00,000. Its current assets were ₹ 4,00,000 current liabilities ₹ 2,00,000; fixed assets ₹6,00,000 and 10% long-term debt ₹4,00,000. The rate of tax was 20%. Calculate 'Return on Investment of Y Ltd.	3
Q5	The debt equity ratio of a company is 1:1 state giving reasons, which of the following would improve, reduce or not change the ratio (i) Purchase of goods on credit (ii) Sale of goods at a profit (iii) Redemption of debentures at a premium	3

ANSWERS (3 MARKS QUESTIONS):

Ans1	Net Profit before tax = Net profit after tax × 100/ (100 − Tax rate) = ₹60,000 × 100/ (100 − 40) = ₹1,00,000 Interest on Long-term Debt = 15% of ₹10,00,000 = ₹1,50,000 Net profit before interest and tax = Net profit before tax + Interest = ₹1,00,000 + ₹1,50,000 = ₹2,50,000 Interest Coverage Ratio=Net Profit before Interest & Tax/Interest on long-term debt = 2,50,000/1,50,000= 1.67 times
Ans2	Inventory Turnover Ratio = Cost of Revenue from Operations / Average Inventory Cost of Revenue from Operations = Inventory in the beginning + Net Purchases + Wages + Carriage inwards − Inventory at the end = ₹18,000 + Rs. 46,000 + ₹14,000 + ₹4,000 − ₹22,000 =₹ 60,000 Average Inventory = Inventory in the beginning + Inventory at the end / 2 = ₹18,000 + ₹22,000/ 2 = ₹20,000 ∴ Inventory Turnover Ratio = 60,000/ 20,000 = 3 Times
Ans3	(i)Not change: Simultaneous decrease in both current assets and current liabilities will not affect the quick ratio. (ii) Not change: Debentures converted into shares do not affect either quick assets or current liabilities. Therefore, quick ratio will not be affected (iii) Decrease: Liquid assets remained unchanged but current liabilities are increased
Ans4	Return on Investment=Net profits before interest and tax/Capital employed*100 =1,65,000/8,00,000 x 100=20.625% Net profit before tax=100000x 100/100-20=₹1,25,000 Net profits before interest and tax=1,25,000+40000(10%@4,00,000) = ₹1,65,000 Capital Employed= Total asset - Current liabilities=10,00,000-2,00,000=₹ 8,00,000
Ans5	**(i) No change**: Neither the long-term debt nor the shareholders' funds are affected by purchase of goods on credit. (**ii) Reduce**: Shareholders' funds are increased by the amount of profit on sale of goods, but the long-term debts remain unchanged. **(iii) Reduce**: Redemption of debentures will reduce the long-term debts, but shareholders' funds remain unchanged.

QUESTIONS FOR 4 MARKS

Q1	From the following data, calculate Current ratio and Liquid Ratio	**4**

Liquid Assets	₹ 75,000
Inventories (Includes Loose Tools of ₹20,000)	₹ 35,000
Prepaid expenses	₹10,000
Working Capital	₹ 60,000

Q2	From the following information, calculate Trade Receivables Turnover Ratio: Cost of Revenue from Operations (Cost of Goods Sold): ₹6,00,000 Gross Profit on Cost: 25% Cash Sales: 20% of Total Sales; Opening Debtors: ₹1,00,000; Closing Debtors: ₹2,00,000. Provision for Doubtful Debts: Opening ₹10,000 & Closing ₹20,000.	**4**
Q3	The operating ratio of a company is 80%. State whether the following transactions will increase, decrease or not change the ratio (i) Purchased goods on credit ₹ 20,000 (ii) Paid wages ₹ 5,000 (iii) Redeemed ₹ 8,000, 9% debentures (iv) Sold goods ₹ 50,000 for cash	**4**
Q4	From the following information, calculate the following ratios (i) Gross profit ratio (ii) Debt equity ratio Information: Revenue from operations (Net sales) ₹ 4,00,000, opening inventory ₹ 10,000, closing inventory ₹ 3,000 less than the opening inventory, net purchase 80% of revenue from operations, direct expenses ₹ 20,000, current assets ₹ 1,00,000, prepaid expenses ₹ 3,000, current liabilities ₹ 60,000, 9% debentures ₹ 4,00,000, long-term loan from bank ₹ 1,50,000, Equity share capital ₹ 8,00,000 and 8% Preference share capital ₹ 3,00,000.	**4**
Q5	The proprietary ratio of M Ltd is 0.80 : 1. State with reasons whether the following transactions will increase, decrease or not change the proprietary ratio. (i) Obtained a loan from bank ₹ 2,00,000 payable after five years. (ii) Purchased machinery for cash ₹ 75,000 (iii) Redeemed 5% redeemable preference shares ₹ 1,00,000. (iv) Issued equity shares to the vendors of machinery purchased for ₹ 4,00,000.	**4**

ANSWERS (4 MARKS QUESTIONS)

Ans1	Current Assets = Liquid Assets + Inventories (excluding loose tools) +Prepaid Exp = ₹ 75,000+ ₹ 15,000 + ₹ 10,000 = ₹1,00,000 Working Capital = Current Assets – Current Liabilities Current Liabilities=Current Assets–Working Capital=₹1,00,000-₹60,000 **=₹40,000** Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$=₹ 1,00,000 / ₹ 40,000= 2.5:1 Liquid Ratio = Liquid Assets / Current Liabilities = ₹ 75,000 / ₹ 40,000 = 1.875 : 1
Ans2	**Trade Receivables Turnover Ratio = Credit Revenue from Operations / Average Trade Receivables = 6,00,000/1,50,000 = 4 times** Revenue From Operations =Cost of Revenue from Operations + Gross Profit = 6,00,000 + 1,50,000 = 7,50,000 Cash Revenue from Operations = 20% of Revenue From Operations = 20% of 7,50,000 = 1,50,000 Credit Revenue from Operations = Revenue from operations – Cash Revenue from operations = 7,50,000 – 1,50,000 = 6,00,000 Average Trade Receivables = (Opening Trade Rec. + Closing Trade Rec.) / 2 = (1,00,000 + 2,00,000)/2 = 1,50,000
Ans3	**(i) No change**: As both purchase and closing stock will increase, so there will be no effect on cost of goods sold. **(ii) Increase**: As wages paid will increase the operating cost. **(iii) No change**: As redemption of debentures is a non-operating activity. (**iv) Decrease**: As goods sold will increase the net sales
Ans4	**(i)Gross Profit Ratio= Gross Profit/Revenue from Operations*100** **=57000/4,00,000*100=14.25%** Net Purchases = 80% of Revenue from Operations=4,00,000×80/100=₹ 3,20,000 Cost of Revenue from Operations = Opening Inventory + Net Purchases + Direct

	Expenses – Closing Inventory = 10,000 + 3,20,000 + 20,000 – 7,000 = ₹ 3,43,000 'Gross Profit = Revenue from Operations – Cost of Revenue from Operations = 4,00,000 – 3,43,000 = ₹ 57,000 (ii) Debt equity ratio=Debt/ Equity = 5,50,000/ 11,00,000= 0.5:1 Long-term Debts = 9% Debentures + Long-term Loan from Bank = 4,00,000 + 1,50,000 = ₹ 5,50,000 Shareholders' Funds = Equity Share Capital + 8% Preference Share Capital = 8,00,000 + 3,00,000 = ₹ 11,00,000
Ans5	**(i) Decrease**: Loan obtained from bank will increase the total assets but the shareholders' funds will remain the same, so proprietary ratio will decrease. **(ii) No change**: Machinery purchased for cash will increase and simultaneously decrease the total assets therefore proprietary ratio will remain unchanged. **(iii) Decrease**: Redemption of preference shares will decrease total assets and shareholders' funds simultaneously, so proprietary ratio will decrease. **(iv) Increase**: Machinery purchased by issue of equity shares will increase total assets and shareholders' funds simultaneously, so proprietary ratio will increase

CHAPTER-10: CASH FLOW ANALYSIS

Cash flow statement shows inflows and outflows of cash and cash equivalents from operating, investing and financing activities of an enterprise during a particular period. Inflows are those transactions that increase the cash and cash equivalents and outflows are those transactions that decrease the cash and cash equivalents.

Objectives of Cash Flow Statements: -

- To ascertain the sources of cash and cash equivalents under operating, investing & financing activities by the enterprise.
- To ascertain the applications of cash and cash equivalents under operating, investing & financing activities by the enterprise.
- To ascertain net change in cash and cash equivalents being the difference between inflows & outflows under operating, investing and financing activities of the enterprise that take place between the dates of two balance sheets.

Importance/Benefits/Uses of Cash Flow Statements: -

a. Facilitates in Ascertaining Cash Flow from operating, investing &financing activities.
b. To assess Liquidity and Solvency.
c. To manage Cash Efficiently.
d. Facilitates Capital Budgeting Decisions.

Procedure of Preparing Cash Flow Statements: -

- The Institute of Chartered Accountants of India has issued Accounting Standard AS-3 Revised, for preparing a cash flow statement.
- According to AS-3 Revised, the cash flow statement summarizes the cash inflow & cash outflows and the net changes (increase or decrease) in cash and cash equivalents resulting from operating, investing and financing activities of a firm during a period

The following terms are used for preparing a cash flow statement:

Cash: It comprises cash in hand and demand deposits with banks i.e., deposits which are repayable by banks on demand.

Cash Equivalents: Cash Equivalents are short-term, highly liquid investments having an original maturity of three months or less and readily convertible into known amounts of cash. In simple words Cash and Cash Equivalents includes: -Cash in Hand, Cash at Bank, Cheque and Drafts on Hand, Current/Short-term Investments, Marketable Securities,

Classification of Cash Flows for Cash Flow Statement

As per **Accounting Standard (AS)-3 (Revised)**, a Cash Flow Statement requires all inflows and outflows of cash and cash equivalents during an accounting period to be classified according to the nature of activities.

The cash flows are classified into the following three categories:

1. Operating Activities 2. Investing Activities 3. Financing Activities

1. Operating Activities

Operating activities are the principal revenue-generating activities of an enterprise and other activities that are not investing or financing activities.

Cash Flows from Operating Activities

(A) In Case of Non-Finance Companies

Cash Inflows	Cash Outflows
Cash sales	Cash purchases
Cash received from Trade Receivables	Payment to Trade Payables
Royalty received	Payment of operating expenses
Fees received	Payment of wages and salaries
Commission received	Income Tax paid*
Income Tax Refund*	

(B) In Case of Finance Companies

Cash Inflows	Cash Outflows
Interest received	Payment of interest
Dividend received	Purchase of securities held for sale
Proceeds from sale of securities held for sale	
Brokerage received by a stock broker	

Income Tax paid is generally shown net of Income Tax Refund unless it can be specifically identified with investing or financing activities.

2. Investing Activities

Investing activities relate to the acquisition and disposal of long-term assets and investments. (For non-financial enterprises, Interest Received and Dividend Received are generally classified as Investing Activities as per CBSE syllabus.)

Cash Inflows	Cash Outflows
Proceeds from sale of Fixed Assets	Purchase of Fixed Assets
Proceeds from sale of Non-Current Investments	Purchase of Non-Current Investments
Interest received on Investments	Brokerage paid on purchase of Investments
Dividend received	
Rent received from property held as Investment	

3. Financing Activities

Financing activities are activities that result in changes in the size and composition of the owners' capital and borrowings of the enterprise.

Cash Inflows	Cash Outflows
Proceeds from issue of Equity Shares	Repayment of Long-term Loans
Proceeds from issue of Preference Shares	Redemption of Preference Shares
Proceeds from issue of Debentures	Buy-back of Equity Shares
Proceeds from Long-term Borrowings	Payment of Dividend
Increase in Bank Overdraft/Cash Credit	Payment of Interest
	Brokerage or Underwriting Commission paid on issue of Shares or Debentures
	Decrease in Bank Overdraft/Cash Credit

Transactions Not Regarded as Cash Flows: These transactions merely represent movements between items constituting Cash and Cash Equivalents and, therefore, are not considered cash flows

Examples
Cash deposited into Bank
Cash withdrawn from Bank
Purchase of Marketable Securities out of Cash Equivalents
Sale of Marketable Securities treated as Cash Equivalents

Non-Cash Transactions: - Non-cash transactions do not involve any inflow or outflow of Cash or Cash Equivalents and are therefore excluded from the Cash Flow Statement.

Examples of Non-Cash Transactions
Depreciation on Fixed Assets
Amortisation of Intangible Assets
Writing off Preliminary Expenses
Conversion of Debentures into Equity Shares
Acquisition of Assets by Issue of Shares

Acquisition of Assets by Issue of Debentures

Summary of Classification

Activity	Meaning	Examples
Operating Activities	Principal revenue-generating activities of the business	Cash sales, cash purchases, wages, operating expenses
Investing Activities	Acquisition and disposal of long-term assets and investments	Purchase/sale of fixed assets and investments
Financing Activities	Activities affecting capital and borrowings	Issue/redemption of shares and debentures, repayment of loans, dividend paid

CASH FLOW STATEMENT

(As per Accounting Standard (AS) – 3 (Revised))
Indirect Method
Name of the Company: _____
Cash Flow Statement for the Year Ended _____

Particulars	Note No.	Amount (₹)	Amount (₹)
A. CASH FLOW FROM OPERATING ACTIVITIES			
Net Profit before Tax and Extraordinary Items			XXXX
Adjustments for:			
Add: Depreciation and Amortisation		XXXX	
Add: Loss on Sale of Fixed Assets		XXXX	
Add: Interest on Debentures /Long-term Borrowings		XXXX	
Add: Preliminary Expenses Written Off		XXXX	
Less: Profit on Sale of Fixed Assets		(XXXX)	
Less: Interest Received		(XXXX)	
Less: Dividend Received		(XXXX)	
Operating Profit before Working Capital Changes			XXXX
Adjustments for Changes in Working Capital:			
Decrease in Current Assets (Other than Cash & Cash Equivalents)		XXXX	
Increase in Current Liabilities		XXXX	
Increase in Current Assets (Other than Cash & Cash Equivalents)		(XXXX)	
Decrease in Current Liabilities		(XXXX)	
Cash Generated from Operations			XXXX
Less: Income Tax Paid			(XXXX)
Net Cash Flow from Operating Activities (A)			**XXXX**
B. CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Fixed Assets		XXXX	
Proceeds from Sale of Non-Current Investments		XXXX	
Interest Received		XXXX	
Dividend Received		XXXX	
Rent Received		XXXX	
Purchase of Fixed Assets		(XXXX)	
Purchase of Non-Current Investments		(XXXX)	
Net Cash Flow from Investing Activities (B)			**XXXX**
C. CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from Issue of Equity Shares		XXXX	
Proceeds from Issue of Preference Shares		XXXX	
Proceeds from Issue of Debentures		XXXX	
Proceeds from Long-term Borrowings		XXXX	
Increase in Bank Overdraft/Cash Credit		XXXX	

Redemption of Preference Shares		(XXXX)	
Redemption of Debentures		(XXXX)	
Repayment of Long-term Borrowings		(XXXX)	
Interest Paid		(XXXX)	
Dividend Paid (Including Interim Dividend)		(XXXX)	
Buy-back of Equity Shares		(XXXX)	
Decrease in Bank Overdraft/Cash Credit		(XXXX)	
Net Cash Flow from Financing Activities (C)			**XXXX**
Net Increase/(Decrease) in Cash & Cash Equivalents (A+B+C)			XXXX
Add: Cash & Cash Equivalents at the Beginning of the Year			XXXX
Cash & Cash Equivalents at the End of the Year			**XXXX**

CASH FLOW FROM OPERATING ACTIVITIES (INDIRECT METHOD)

(As per AS-3 Revised)

Particulars	Amt (₹)	Amt (₹)
1. Net Profit Before Tax & Extraordinary Items		XXXX
Add: Non-Cash & Non-Operating Expenses		
Depreciation, Amortisation, Preliminary Expenses Written Off, Loss on Sale of Assets, Interest on Debentures/Loans, Increase in Provision for Doubtful Debts etc.	XXXX	
Less: Non-Operating Incomes		
Interest Received, Dividend Received, Rent Received, Profit on Sale of Assets/Investments, Decrease in Provision for Doubtful Debts etc.	(XXXX)	
2. Operating Profit Before Working Capital Changes		XXXX
Add: Decrease in Current Assets		
Stock, Debtors, Bills Receivable, Short-term Loans & Advances, Other Current Assets	XXXX	
Add: Increase in Current Liabilities		
Creditors, Bills Payable, Outstanding Expenses, Unearned Income etc.	XXXX	
Less: Increase in Current Assets		
Stock, Debtors, Bills Receivable, Short-term Loans & Advances, Other Current Assets	(XXXX)	
Less: Decrease in Current Liabilities		
Creditors, Bills Payable, Outstanding Expenses, Unearned Income etc.	(XXXX)	
3. Cash Generated from Operations		XXXX
Add/Less: Extraordinary Operating Items (if any)	XXXX/(XXXX)	
4. Cash Flow Before Tax		XXXX
Less: Income Tax Paid (Net of Tax Refund)		(XXXX)
5. NET CASH FLOW FROM OPERATING ACTIVITIES (A)		**XXXX**

Quick Formula Box

Step	Formula
Step 1	Net Profit Before Tax & Extraordinary Items
Step 2	+ Non-Cash Expenses − Non-Operating Incomes
Step 3	± Changes in Current Assets & Current Liabilities
Step 4	± Extraordinary Operating Items
Step 5	− Income Tax Paid
Result	**Net Cash Flow from Operating Activities**

Memory Trick for Class 12

NP + NCE − NOI ± WC Changes − Tax = CFO

Where:
NP = Net Profit before Tax
NCE = Non-Cash Expenses
NOI = Non-Operating Incomes
WC Changes = Working Capital Changes
Tax = Income Tax Paid
CFO = Cash Flow from Operating Activities

CASH FLOW FROM INVESTING ACTIVITIES

(Compact A4 Revision Format – AS-3 Revised)

Particulars	Amt (₹)	Amt (₹)
Cash Inflows		
Sale of Fixed Assets	XXXX	
Sale of Long-term Investments	XXXX	
Sale of Intangible Assets (Goodwill, Patents, etc.)	XXXX	
Interest Received*	XXXX	
Dividend Received*	XXXX	
Rent Received	XXXX	
Insurance Claim for Loss of Fixed Assets	XXXX	
Total Inflows		XXXX
Less: Cash Outflows		
Purchase of Fixed Assets	(XXXX)	
Purchase of Long-term Investments	(XXXX)	
Purchase of Intangible Assets	(XXXX)	
Brokerage/Commission on Purchase of Investments	(XXXX)	
Total Outflows		(XXXX)
NET CASH FLOW FROM INVESTING ACTIVITIES (B)		**XXXX**

CASH FLOW FROM FINANCING ACTIVITIES

(Compact A4 Revision Format – AS-3 Revised)

Particulars	Amt (₹)	Amt (₹)
Cash Inflows		
Issue of Equity Shares	XXXX	
Issue of Preference Shares	XXXX	
Issue of Debentures	XXXX	
Long-term Borrowings (Bank Loan, Term Loan, etc.)	XXXX	
Increase in Bank Overdraft/Cash Credit	XXXX	
Total Inflows		XXXX
Less: Cash Outflows		
Redemption of Preference Shares	(XXXX)	
Redemption of Debentures	(XXXX)	
Repayment of Long-term Loans	(XXXX)	
Buy-back of Equity Shares	(XXXX)	
Dividend Paid (Final & Interim)	(XXXX)	
Interest Paid on Debentures/Loans	(XXXX)	
Share Issue Expenses / Underwriting Commission	(XXXX)	
Decrease in Bank Overdraft/Cash Credit	(XXXX)	
Total Outflows		(XXXX)
NET CASH FLOW FROM FINANCING ACTIVITIES (C)		**XXXX**

COMPLETE CASH FLOW STATEMENT SUMMARY (ONE-LOOK REVISION TABLE)

Particulars	Amt (₹)
Net Cash Flow from Operating Activities (A)	XXXX
Net Cash Flow from Investing Activities (B)	XXXX
Net Cash Flow from Financing Activities (C)	XXXX
Net Increase / Decrease in Cash & Cash Equivalents (A+B+C)	**XXXX**

Add: Cash & Cash Equivalents at Beginning of Year	XXXX
Cash & Cash Equivalents at End of Year	**XXXX**

Super Shortcut

O + I + F = Change in Cash

O = Operating Activities I = Investing Activities F = Financing Activities

Opening Cash + (O + I + F) = Closing Cash

TREATMENT OF SPECIAL ADJUSTMENTS IN CASH FLOW STATEMENT (AS-3 REVISED) *(Compact A4 Revision Table for Class XII CBSE)*

Items	Treatment in Operating Activities	Treatment in Financing Activities	Important Note
Interim Dividend Paid	Add back to Net Profit before Tax & Extraordinary Items while calculating Operating Activities	Show as **Cash Outflow (-)**	Declared by Board of Directors and paid during the year
Proposed (Final) Dividend of Previous Year	Add back to Net Profit before Tax & Extraordinary Items	Show as **Cash Outflow (-)**	It is appropriation of profit and paid during current year
Proposed Dividend of Current Year	No adjustment	No adjustment	Shown only as a Note/Contingent Liability
Provision for Tax Made During the Year	Add back to Net Profit before Tax & Extraordinary Items	—	Non-cash charge against profit
Income Tax Paid	Deduct from Cash Generated from Operations	—	Always shown as Operating Cash Outflow
Tax Refund Received	Deduct from Tax Paid (Net Tax Paid)	—	Tax paid is shown net of refund
Provision for Tax (Opening Balance)	Treated as Tax Paid (when no other information is given)	—	Deduct under Operating Activities
Provision for Tax (Closing Balance)	Treated as Current Year's Tax Provision	—	Add back while computing Net Profit Before Tax

PROVISION FOR TAX – QUICK REVISION TABLE

Information Given	What to Prepare?	What to Find?
Opening & Closing Provision for Tax only	No Account Required	Opening Balance = Tax Paid; Closing Balance = Tax Provision Made
Opening Balance + Closing Balance + Tax Paid	Provision for Tax A/c	Find Provision Made During Year
Opening Balance + Closing Balance + Provision Made	Provision for Tax A/c	Find Tax Paid During Year

PROVISION FOR TAX ACCOUNT FORMAT

Provision for Tax A/c

Particulars	Amt (₹)	Particulars	Amt (₹)
To Bank A/c (Tax Paid)	XXXX	By Balance b/d (Opening Balance)	XXXX
To Balance c/d (Closing Balance)	XXXX	By Statement of Profit & Loss A/c (Provision Made)	XXXX
Total	XXXX	**Total**	XXXX

EXAMINATION SHORTCUTS

Adjustment	Add (+)	Less (-)

Interim Dividend Paid	✓	
Previous Year's Proposed Dividend	✓	
Provision for Tax Made	✓	
Income Tax Paid		✓
Interest Received		✓
Dividend Received		✓
Profit on Sale of Fixed Assets		✓
Loss on Sale of Fixed Assets	✓	

GOLDEN RULES FOR BOARD EXAM

✅Provision for Tax Made → Add Back to Profit

✅Income Tax Paid → Deduct from Operating Activities

✅Interim Dividend Paid → Add Back in Operating Activities & Show as Outflow in Financing Activities

✅Previous Year's Proposed Dividend → Add Back in Operating Activities & Show as Outflow in Financing Activities

✅Current Year's Proposed Dividend → No Cash Flow Effect

TREATMENT OF GOODWILL, INVESTMENTS & FIXED ASSETS

Item / Adjustment	Operating Activity	Investing Activity	Important Treatment / Shortcut
Goodwill Written Off / Amortised	Add Back (+) to Net Profit	—	Non-cash expense
Purchase of Goodwill	—	Cash Outflow (-)	Investing Activity
Increase in Goodwill Balance	—	Cash Outflow (-)	Purchase of Goodwill
Decrease in Goodwill Balance	Add Back (+)	—	Goodwill Written Off
Profit on Sale of Investment	Deduct (-) from Operating Profit	Sale proceeds shown as Inflow (+)	Non-operating income
Loss on Sale of Investment	Add Back (+) to Operating Profit	Sale proceeds shown as Inflow (+)	Non-operating loss
Purchase of Investment	—	Cash Outflow (-)	Investing Activity
Sale of Investment	—	Cash Inflow (+)	Investing Activity
Profit on Sale of Fixed Asset	Deduct (-) from Operating Profit	Sale proceeds shown as Inflow (+)	Non-operating income
Loss on Sale of Fixed Asset	Add Back (+) to Operating Profit	Sale proceeds shown as Inflow (+)	Non-operating loss
Purchase of Fixed Asset	—	Cash Outflow (-)	Investing Activity
Sale of Fixed Asset	—	Cash Inflow (+)	Investing Activity
Depreciation on Fixed Assets	Add Back (+)	—	Non-cash expense
Accumulated Depreciation on Asset Sold	Used in Asset Account only	—	Not shown separately in Cash Flow Statement

INVESTMENT ACCOUNT – QUICK REVISION FORMAT

Debit Side	Credit Side
Opening Balance	Sale of Investment
Purchase of Investment	Closing Balance
Profit on Sale of Investment*	Loss on Sale of Investment*

Shortcut

Missing Amount Required	Balancing Figure
Purchase of Investment	Debit Side
Sale of Investment	Credit Side
Profit/Loss on Sale	Difference between Book Value and Sale Proceeds

FIXED ASSET ACCOUNT (AT ORIGINAL COST)

Debit Side	Credit Side
Opening Balance	Sale of Fixed Asset
Purchase of Fixed Asset	Closing Balance
Profit on Sale of Asset*	Loss on Sale of Asset*
	Accumulated Depreciation on Asset Sold

Shortcut

Missing Amount Required	Balancing Figure
Purchase of Fixed Asset	Debit Side
Sale of Fixed Asset	Credit Side
Profit/Loss on Sale	Difference between Book Value and Sale Value

FIXED ASSET ACCOUNT (AT WRITTEN DOWN VALUE)

Debit Side	Credit Side
Opening WDV	Sale of Fixed Asset
Purchase of Fixed Asset	Depreciation for Current Year
Profit on Sale of Asset*	Closing WDV
	Loss on Sale of Asset*

Shortcut

Missing Amount Required	Balancing Figure
Purchase of Asset	Debit Side
Sale of Asset	Credit Side
Current Year's Depreciation	Credit Side

ACCUMULATED DEPRECIATION ACCOUNT

Debit Side	Credit Side
Accumulated Depreciation on Asset Sold	Opening Balance
Closing Balance	Depreciation Charged During Year

GOLDEN RULES FOR BOARD EXAM

Adjustment	Add (+)	Less (-)	Cash Flow Classification
Depreciation	✓		Operating
Goodwill Written Off	✓		Operating
Loss on Sale of Asset/Investment	✓		Operating
Profit on Sale of Asset/Investment		✓	Operating
Purchase of Asset/Investment/Goodwill			Investing Outflow
Sale of Asset/Investment			Investing Inflow

Practice Questions

Q.NO	01 MARK QUESTIONS	MM
1	From the following information find out the inflow of Cash by sale of Office equipment's **Particulars** | **31.3.2022(₹)** | **31.3.2021(₹)** Office Equipment | 2,00,000 | 3,00,000 **Additional Information:** Depreciation for the year 2021-22 was₹40,000. Purchase of Office	1

	Equipment purchased during the year ₹30,000. Part of Office Equipment sold at a profit of ₹ 12,000. (a) ₹ 1,00,000 (b) ₹ 1,02,000 (c) ₹ 90,000 (d) ₹ 1,12,000	
2	Which of the following statements is correct as per AS-3 (Revised)? **a.** Investments in shares are excluded from cash equivalents unless they are, in substance, cash equivalents. **b.** Short-term marketable securities which can be readily converted into cash are not treated as cash equivalents. **c.** In case of a financial enterprise, interest received and dividend received are classified as investing activities, while dividend paid and interest paid on debentures are operating activities. **d.** Provision for tax made during the year should be classified as an outflow from operating activities.	**1**
3	A company reported a net profit of ₹5,00,000. During the year, it wrote off goodwill amounting to ₹40,000 and earned profit on sale of machinery ₹25,000. Which of the following adjustments will be made while calculating Cash Flow from Operating Activities? (a) Add ₹40,000 & deduct ₹25,000 (b) Deduct ₹40,000 & add ₹25,000 (c) Add both ₹40,000 & ₹25,000 (d) Deduct both ₹40,000 & ₹25,000	**1**
4	Which of the following transactions will not affect the Cash Flow Statement? (a) Purchase of machinery by issue of equity shares (b) Sale of furniture for cash (c) Redemption of debentures in cash (d) Purchase of investments for cash	**1**
5	**Assertion (A):** Increase in trade receivables is deducted while calculating Cash Generated from Operations. **Reason (R):** Increase in trade receivables indicates that revenue recognized during the year has not yet been collected in cash. (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true but R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true.	**1**
6	**Assertion (A):** Purchase of goodwill is shown under Investing Activities. **Reason (R):** Goodwill is an intangible non-current asset acquired for long-term business benefits. (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true but R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true.	**1**
7	Consider the following statements: Cash deposited into bank is a cash inflow. Cash withdrawn from bank is a cash outflow. Transfer between cash and cash equivalents is not regarded as cash flow. Purchase of marketable securities treated as cash equivalents is not regarded as cash flow. Choose the correct option: (a) 1 & 2 only; (b) 3 & 4 only (c) 1, 2 & 3 only; (d) All of the above	**1**
8	**Assertion (A):** Purchase of goodwill is shown under Investing Activities. **Reason (R):** Goodwill is an intangible non-current asset acquired for long-term business benefits. (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true but R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true.	**1**
9	The Statement of Profit and Loss of XYZ Ltd. shows a net profit of ₹3,20,000	**1**

	after charging depreciation ₹50,000 and after crediting profit on sale of investments ₹20,000. What amount will be considered as Operating Profit before Working Capital Changes? (a) ₹2,90,000 (b) ₹3,50,000 (c) ₹3,90,000 (d) ₹3,20,000	
10	A company purchased machinery worth ₹2,00,000 by issuing equity shares to the vendor. How will this transaction be treated? (a) Investing Cash Outflow (b) Financing Cash Inflow (c) Both Investing and Financing Activity (d) Not shown in Cash Flow Statement but disclosed separately	**1**

ANSWERS FOR 01 MARK QUESTIONS

Q.NO	**1-b**	**2-a**	**3-a**	**4-a**	**5-a**	**6-a**	**7-b**	**8-a**	**9-b**	**10-d**	

Q.NO	**6 MARKS QUESTIONS**	**MM**
1	The following is the Balance Sheet of XYZ Ltd. as at 31st March, 2024 and 31st March, 2025 prepared in accordance with Schedule III, Part I of the Companies Act, 2013: **Balance Sheet of XYZ Ltd.** *(As at 31st March, 2025 and 31st March, 2024)*	**6**

Particulars	**Note No.**	**31.03.2025 (₹)**	**31.03.2024 (₹)**
I. Equity and Liabilities			
Shareholders' Funds			
Equity Share Capital	1	8,00,000	6,00,000
Reserves and Surplus	2	3,20,000	2,20,000
Non-Current Liabilities			
Long-term Borrowings	3	2,50,000	3,50,000
Current Liabilities			
Trade Payables		1,30,000	1,10,000
Provision for Taxation		80,000	60,000
Total		**15,80,000**	**13,40,000**
Particulars	**Note No.**	**31.03.2025 (₹)**	**31.03.2024 (₹)**
II. Assets			
Non-Current Assets			
Property, Plant and Equipment	4	8,50,000	7,20,000
Current Assets			
Inventories		2,00,000	1,80,000
Trade Receivables		1,70,000	1,40,000
Cash and Cash Equivalents		3,60,000	3,00,000
Total		**15,80,000**	**13,40,000**

Notes to Accounts

Note 1: Share Capital

Particulars	**31.03.2025 (₹)**	**31.03.2024 (₹)**
Equity Share Capital	8,00,000	6,00,000

Note 2: Reserves and Surplus

Particulars	**31.03.2025 (₹)**	**31.03.2024 (₹)**
Surplus in Statement of Profit and Loss	3,20,000	2,20,000

Note 3: Long-term Borrowings

Particulars	**31.03.2025 (₹)**	**31.03.2024 (₹)**
10% Debentures	2,50,000	3,50,000

Note 4: Property, Plant and Equipment

Particulars	31.03.2025 (₹)	31.03.2024 (₹)
Plant and Machinery	8,50,000	7,20,000

Additional Information:
During the year, Interim Dividend of ₹40,000 was declared and paid.
Income Tax paid during the year amounted to ₹50,000.
Depreciation on Property, Plant and Equipment amounted to ₹70,000.
Prepare a Cash Flow Statement for the year ended 31st March, 2025 as per AS-3 (Revised).

2 (6)

A) From the following information, calculate **Cash Flow from Investing Activities** for the year ended 31st March, 2025:

Particulars	31.03.2025 (₹)	31.03.2024 (₹)
Machinery (At Cost)	6,00,000	2,60,000
Less: Accumulated Depreciation	1,00,000	35,000

Additional Information: **During the year, a machine costing** ₹80,000 **on which accumulated depreciation amounted to** ₹20,000 **was sold at a** loss of 20% on its book value

B) From the following information, calculate **Cash Flow from Financing Activities** for the year ended 31st March, 2025:

Particulars	31.03.2025 (₹)	31.03.2024 (₹)
Equity Share Capital	15,00,000	10,00,000
10% Debentures	11,00,000	8,00,000
Bank Overdraft	3,00,000	2,00,000
Cash at Bank	78,000	54,000

Additional Information: - ₹ 3,00,000, 10% Debentures were issued on 1st October, 2024. Calculate Cash Flow from Financing Activities.

3 (6)

JC Ltd. earned a net profit of **₹50,000** after providing depreciation of **₹20,000** on fixed assets and after transferring **₹15,000** to General Reserve. The position of Current Assets and Current Liabilities was as follows:

Particulars	31.03.2025 (₹)	31.03.2024 (₹)
Trade Receivables	75,000	70,000
Trade Payables	75,000	65,000
Inventories	40,000	25,000
Expenses Payable	7,500	5,000
Prepaid Expenses	5,000	10,000
Accrued Incomes	20,000	15,000
Income Received in Advance	5,000	10,000

Calculate **Cash Flow from Operating Activities** as per AS-3

4 (6)

Extracts of the Balance Sheets of **M/s Agrawal Ltd.** as on **31st March, 2024** and **31st March, 2025** along with additional information are given below:

Balance Sheet Extracts:

Particulars	31.03.2025 (₹)	31.03.2024 (₹)
Equity Share Capital	12,00,000	9,00,000
10% Preference Share Capital	4,00,000	5,00,000
Cash Credit	2,50,000	1,00,000
Profit & Loss A/c (Cr.)	8,00,000	6,00,000
12% Debentures	4,00,000	3,00,000
Bank Overdraft	1,00,000	75,000
Outstanding Interest on Debentures	3,000	—

Additional Information:
1. New Equity Shares and Debentures were issued on the last day of the

accounting year ended 31st March, 2025.
2. Debentures were issued at a discount of 5%, which was written off at the end of the year.
3. Dividend on Preference Shares and Interim Dividend @ 15% were paid on Equity Shares on 31st March, 2025.
4. Preference Shares were redeemed on 1st April, 2024 at a premium of 5%. The premium was provided out of profits.
Calculate:
(i) Operating Profit before Changes in Working Capital
(ii) Cash Flow from Financing Activities

5 From the following information, calculate **Cash Flow from Investing Activities** for the year ended **31st March, 2024**: Balance Sheet Extracts **6**

Particulars	31.03.2024 (₹)	31.03.2023 (₹)
10% Long-Term Investments	2,50,000	4,50,000
Plant and Machinery	8,00,000	6,00,000
Goodwill	1,40,000	1,00,000
Other Investments	14,00,000	5,00,000
Patents	—	1,50,000

Additional Information:
1. A machine costing ₹60,000 on which depreciation of ₹18,000 had been provided was sold for ₹48,000.
2. Depreciation charged on Plant & Machinery during the year amounted to ₹60,000.
3. Dividend received from Pinnacle Ltd. amounted to ₹40,000.
4. Interest received on 10% Long-Term Investments amounted to ₹45,000.
5. Patents were sold at their book value.
Calculate Cash Flow from Investing Activities**.**

ANSWERS FOR 06 MARKS QUESTIONS

Q.NO 1 — **MM 6**

Cash Flow Statement of XYZ Ltd.
For the year ended 31st March, 2025

Particulars	Amt (₹)	Amt (₹)
A. Cash Flow from Operating Activities		
Net Profit before Tax		2,10,000
Add: Depreciation on Plant & Machinery	70,000	
Operating Profit before Working Capital Changes		2,80,000
Less: Increase in Inventories	(20,000)	
Less: Increase in Trade Receivables	(30,000)	
Add: Increase in Trade Payables	20,000	
Cash Generated from Operations		2,50,000
Less: Income Tax Paid		(50,000)
Net Cash from Operating Activities (A)		**2,00,000**
B. Cash Flow from Investing Activities		
Purchase of Plant & Machinery		(2,00,000)
Net Cash Used in Investing Activities (B)		**(2,00,000)**
C. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Share Capital	2,00,000	
Redemption of 10% Debentures	(1,00,000)	
Interim Dividend Paid	(40,000)	

Net Cash from Financing Activities (C)		**60,000**
Net Increase in Cash & Cash Equivalents (A+B+C)		**60,000**
Add: Opening Cash & Cash Equivalents		3,00,000
Closing Cash & Cash Equivalents		**3,60,000**

Working Note 1: Provision for Taxation A/c

Particulars	₹
Closing Provision for Taxation	80,000
Add: Tax Paid during the year	50,000
Less: Opening Provision for Taxation	(60,000)
Provision made during the year	**70,000**

Working Note 2: Net Profit before Tax

Particulars	₹
Increase in Reserves & Surplus (3,20,000 – 2,20,000)	1,00,000
Add: Interim Dividend Paid	40,000
Add: Provision for Taxation Made	70,000
Net Profit before Tax	**2,10,000**

Working Note 3: Purchase of Plant & Machinery

Particulars	₹
Closing Balance of Plant & Machinery	8,50,000
Add: Depreciation during the year	70,000
	9,20,000
Less: Opening Balance of Plant & Machinery	(7,20,000)
Purchase of Plant & Machinery	**2,00,000**

2 Working Note 1: Sale Proceeds of Machinery **6**

Particulars	Amt (₹)
Cost of Machine Sold	80,000
Less: Accumulated Depreciation	(20,000)
Book Value	60,000
Loss on Sale (20% of ₹60,000)	12,000
Sale Proceeds	**48,000**

Working Note 2: Machinery Account (At Cost)

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	2,60,000	By Machinery Sold	80,000
To Bank A/c (Purchase)	?	By Balance c/d	6,00,000
Total	**6,80,000**	**Total**	**6,80,000**

Purchase of Machinery = ₹6,80,000 − ₹2,60,000 = ₹4,20,000

Cash Flow from Investing Activities:

Particulars	Amt (₹)
Sale of Machinery	48,000
Less: Purchase of Machinery	(4,20,000)
Net Cash Used in Investing Activities	**(₹3,72,000)**

B) Cash Flow from Financing Activities:

Particulars	Amt (₹)
Cash Inflows	
Issue of Equity Share Capital	5,00,000

Issue of 10% Debentures	3,00,000
Increase in Bank Overdraft	1,00,000
Total Inflows	**9,00,000**
Less: Cash Outflows	
Interest Paid on Debentures	(95,000)
Net Cash Flow from Financing Activities	**₹8,05,000**

Working Note: Interest on Debentures Paid
Existing Debentures: - **₹ 8,00,000 × 10% = ₹80,000**
Debentures Issued on 1 October 2024=₹3,00,000 × 10% × 6/12 = ₹15,000
Total Interest Paid **= ₹80,000 + ₹15,000 = ₹95,000**

3 **Cash Flow from Operating Activities** **6**

Particulars	Amt (₹)	Amt (₹)
Net Profit after Tax		50,000
Add: Non-Cash & Non-Operating Items		
Depreciation on Fixed Assets	20,000	
Transfer to General Reserve	15,000	35,000
Operating Profit before Working Capital Changes		**85,000**
Add: Decrease in Current Assets		
Prepaid Expenses (10,000 – 5,000)	5,000	
Add: Increase in Current Liabilities		
Trade Payables (75,000 – 65,000)	10,000	
Expenses Payable (7,500 – 5,000)	2,500	
Total Additions		**17,500**
		1,02,500
Less: Increase in Current Assets		
Trade Receivables (75,000 – 70,000)	5,000	
Inventories (40,000 – 25,000)	15,000	
Accrued Incomes (20,000 – 15,000)	5,000	
Less: Decrease in Current Liabilities		
Income Received in Advance (10,000 – 5,000)	5,000	
Total Deductions		**30,000**
Cash Generated from Operating Activities		**₹72,500**

4 (i) Operating Profit Before Changes in Working Capital **6**
Calculation of Net Profit for the Year

Particulars	Amt (₹)
Closing P&L Balance	8,00,000
Less: Opening P&L Balance	(6,00,000)
Increase in P&L Balance	2,00,000
Add: Preference Dividend Paid (10% of ₹5,00,000)	50,000
Add: Interim Dividend on Equity Shares (15% of ₹9,00,000)	1,35,000
Add: Premium on Redemption of Preference Shares (5% of ₹1,00,000)	5,000
Net Profit for the Year	**3,90,000**

Add Non-Cash / Non-Operating Items

Operating Profit Before Working Capital Changes:

Net Profit for the Year	3,90,000
Add: Discount on Issue of Debentures Written Off	5,000

Operating Profit before WC Changes	**₹3,95,000**

(ii) Cash Flow from Financing Activities

Working Notes:

1. Issue of Equity Shares: - ₹12,00,000 − ₹9,00,000 = **₹3,00,000**
2. Issue of Debentures: - ₹4,00,000 − ₹3,00,000 = **₹1,00,000**

Issued at 5% discount: - Cash Received = ₹1,00,000 − ₹5,000 = **₹95,000**

3. Redemption of Preference Shares Redeemed = ₹5,00,000 − ₹4,00,000 = **₹1,00,000**

Premium on Redemption = 5% of ₹1,00,000 = **₹5,000,** Cash Paid =₹1,05,000

4. Preference Dividend Paid: - 10% × ₹5,00,000 = **₹50,000**
5. Interim Dividend Paid = 15% × ₹9,00,000 = **₹1,35,000**
6. Increase in Cash Credit = ₹2,50,000 − ₹1,00,000 = **₹1,50,000**
7. Increase in Bank Overdraft = ₹1,00,000 − ₹75,000 = **₹25,000**
8. Interest Paid on Debentures

Interest on old debentures: ₹3,00,000 × 12% = ₹36,000

New debentures issued on 31 March 2025, therefore no interest for the year.

Outstanding Interest at year end=₹3,000, Cash Paid=₹36,000−₹3,000 =**₹33,000**

Cash Flow from Financing Activities

Particulars	Amt (₹)
Cash Inflows	
Issue of Equity Shares	3,00,000
Issue of Debentures (Net of Discount)	95,000
Increase in Cash Credit	1,50,000
Increase in Bank Overdraft	25,000
Total Inflows	**5,70,000**
Less: Cash Outflows	
Redemption of Preference Shares	(1,05,000)
Preference Dividend Paid	(50,000)
Interim Dividend Paid	(1,35,000)
Interest Paid on Debentures	(33,000)
Total Outflows	**(3,23,000)**
Cash Flow from Financing Activities	**₹2,47,000 (Inflow)**

5 **Working Note 1: Purchase of Plant & Machinery** **6**

Plant and Machinery A/c

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	6,00,000	By Plant Sold (Cost)	60,000
To Bank (Purchase)	?	By Balance c/d	8,00,000
Total	**8,60,000**	**Total**	**8,60,000**

Purchase of Plant and Machinery = ₹8,60,000 − ₹6,00,000= **₹2,60,000**

Cash Flow from Investing Activities

Particulars	Amt (₹)
Cash Inflows	
Sale of Plant and Machinery	48,000
Sale of Patents	1,50,000
Dividend Received	40,000
Interest Received on Long-Term Investments	45,000
Total Cash Inflows	**2,83,000**
Less: Cash Outflows	
Purchase of Plant and Machinery	(2,60,000)
Purchase of Goodwill	(40,000)
Purchase of Investments	(9,00,000)
Total Cash Outflows	**(12,00,000)**
Net Cash Flow from Investing Activities	**(₹9,17,000)**

CBSE CLASS XII ACCOUNTANCY QUESTION PAPER 2026

General Instructions:

Read the following instructions carefully and follow them:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two Parts: Part - A and Part - B. Part-A is compulsory for all candidates.
3. Questions number 1 to 16 (Part-A) and Questions number 27 to 30 (Part-B) are multiple choice questions. Each question carries 1 mark.
4. Questions number 17 to 20 (Part-A) and Questions number 31 and 32 (Part-B) are short answer type questions. Each question carries 3 marks.
5. Questions number 21, 22 (Part-A) and Question number 33 (Part-B) are long answer type-I questions. Each question carries 4 marks.
6. Questions number 23 to 26 (Part-A) and Question number 34 (Part-B) are long answer type-II questions. Each question carries 6 marks.
7. There is no overall choice. However, an internal choice has been provided in few questions in each of the parts.

PART-A

(Accounting for Partnership Firms and Companies)

1. The books of Mehul and Barkha showed that their capital employed on 31st March, 2025 was ₹6,00,000. If the normal profits are ₹60,000 and super profits are ₹20,000, then the normal rate of return is:

(A) 6% (B) 15% (C) 30% (D) 10% [1Mark]

2. There are two statements Assertion (A) and Reason (R):

Assertion (A): Partnership Agreement becomes the basis of relationship among the partners.

Reason (R): Partnership is the result of an agreement between two or more persons to do business and share its profits and losses.

Choose the correct option from the following:

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

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

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

(D) Assertion (A) is incorrect, but Reason (R) is correct. [1 Mark]

3. (a) If 600 shares of ₹10 each, issued at a premium of ₹1 per share are forfeited on which ₹8 per share (including premium) have been called and ₹6 per share (including premium) have been paid, then 'Share Forfeiture Account' will be credited by:

(A) ₹3,000 (B) ₹3,600 (C) debited by ₹3,00,000 (D) credited by ₹3,600

OR

(b) T.D. Ltd. issued ₹10,00,000, 9% debentures at a discount of 10% redeemable at a certain rate of premium. On issue of these 9% debentures, the premium on redemption of Debentures A/c was Cr. by ₹1,00,000. The amount of 'loss on issue of debentures' was:

(A) ₹1,00,000 (B) ₹2,00,000 (C) ₹3,00,000 (D) Nil [1 Mark]

4. (a) Tarun & Tej were partners in a firm sharing profits & losses in the ratio of 3: 2. On 1st April 2024, Tej had given a loan of ₹50,000 to the firm. The net profit of the firm before charging int. on loan was ₹3,75,000. The firm closes its books on 31st March every year. The amount of profit trf. from Profit & Loss A/c to Profit & Loss Appropriation A/c will be :

(A) ₹3,75,000 (B) ₹3,72,000 (C) ₹4,25,000 (D) ₹3,78,000

OR

(b) Ashok and Vasu were partners in a firm sharing profits and losses in the ratio of 4:3.

Their capitals on 31st March, 2025 were ₹3,00,000 and ₹3,75,000 respectively. During the year ended 31st March, 2025 Vasu withdrew ₹40,000 for his personal use and introduced ₹1,50,000 as additional capital in the business. Profit of the firm for the year ended 31st March, 2025 was ₹1,40,000. Vasu's capital in the beginning of the year was:
(A) ₹2,75,000 (B) ₹4,25,000 (C) ₹2,05,000 (D) ₹3,45,000 [1 Mark]

5. Soni & Kush were partners in a firm sharing profits and losses in the ratio of 4: 5. Hitesh was admitted as a new partner for 1/5th share in the profits of the firm. After all adjustments regarding general reserve, goodwill& gain on revaluation of assets & reassessment of liabilities, the balances in capital accounts of Soni &Kush were ₹7,00,000 & ₹13,00,000 respectively. Hitesh brought in proportionate capital for his 1/5th share in the profits of the firm. The amount of proportionate capital brought in by Hitesh was:
(A) ₹25,00,000 (B) ₹20,00,000 (C) ₹5,00,000 (D) ₹10,00,000 [1 Mark]

6. (a) Which of the following is not correct about collateral security?
(A) It is a primary security. (B) It is an additional security.
(C) It is a subsidiary security. (D) It is a secondary security.

OR

(b) 'A company is formed according to the provisions of Company Law' indicates which of the following characteristics of a company?
(A) Common Seal (B) Perpetual Succession
(C) Body Corporate (D) Limited Liability [1 Mark]

7. (a) Chandan, Ravi and Mahesh were partners in a firm sharing profits and losses in the ratio of 5:4:1. From 1st April, 2025 they decided to share the future profits in the ratio of 3:2:1. On that date there existed a general reserve of ₹7,00,000 in the books of the firm which they decided to distribute among themselves. In which ratio will the general reserve be distributed among the partners?
(A) New profit sharing ratio (B) Old profit sharing ratio
(C) Sacrificing / Gaining ratio (D) Equally

OR

(b) Suman and Tanya were partners in a firm sharing profits and losses in the ratio of 2: 1. With effect from 1st April, 2025, they decided to share the profits equally. On that date furniture was appearing in the books of the firm at ₹4,50,000. At the time of change in the profit sharing ratio, it was found to be undervalued by 10%. In the new balance sheet, furniture will be shown at:
(A) ₹4,05,000 (B) ₹4,50,000 (C) ₹4,95,000 (D) ₹5,00,000 [1 Mark]

8. Tula, Ram and Madhvi were partners in a firm. The partnership deed provided for interest on partners drawings @ 12% p.a. The firm closes its books on 31st March every year. Starting from 31st December, 2025 Madhvi withdrew ₹40,000 at the end of every month for her personal use. Interest on Madhvi's drawings will be:
(A) ₹19,200 (B) ₹4,800 (C) ₹2,400 (D) ₹1,600 [1 Mark]

9. (a) Dharam, Karam and Raman were partners in a firm sharing profits and losses in the ratio of 7:8:5. On 31st March, 2025, Raman retired from the firm. Dharam and Karam decided to share profits in future in the ratio of 11: 9. Their gaining ratio will be :
(A) 1:1 (B) 1:2 (C) 4:1 (D) 2:1

OR

(b) Deen, Raju and Hari were partners in a firm sharing profit and losses in the ratio of 7: 6:7. On 31st March, 2025 Raju died. Deen and Hari decided to take over Raju's share equally. The new profit sharing ratio between Deen and Hari will be:
(A) 1:1 (B) 7:6 (C) 6:7 (D) 3:2 [1 Mark]

10. Nidhi & Kunal were partners in a firm sharing profits & losses in the ratio of 4:1. Their capitals were ₹3,00,000 & ₹2,00,000 respectively. They were entitled to int. on capital @6%

p.a. The firm earned a profit of ₹15,000 during the year. Int. on Partners' capitals will be: [1 Mark]

(A) Nidhi ₹18,000; Kunal ₹12,000 (B) Nidhi ₹7,500; Kunal ₹7,500
(C) Nidhi ₹9,000; Kunal ₹6,000 (D) Nidhi ₹12,000; Kunal ₹3,000

11. On 1st April, 2024, Dina Ltd. issued 8,000, 9% debentures of ₹100 each at a discount of 6%. The total amount of interest due on debentures for the year ended 31/3/2025 will be:
(A) ₹48,000 (B) ₹72,000 (C) ₹1,20,000 (D) ₹80,000 [1 Mark]

12. Sakshi Ltd. forfeited 500 equity shares of ₹10 each, issued at a premium of ₹2 per share for non-payment of second and final call of ₹4 per share (including premium). The maximum amount of discount at which these shares can be reissued is:
(A) ₹1 per share (B) ₹6 per share (C) ₹8 per share (D) ₹5 per share [1 Mark]

13. Surya Ltd. issued 50,000 equity shares of ₹10 each. The amount was payable as follows:
On Application - ₹3 per share; On Allotment - ₹2 per share; On First & Final Call - the bal. Usha, to whom 700 shares were allotted, paid her entire share money on allotment. Raj, to whom 300 shares were allotted did not pay the first and final call. The amount to be debited to Bank Account for first and final call after it becomes due will be:
(A) ₹2,50,000 (B) ₹2,48,500 (C) ₹2,45,000 (D) ₹2,52,000 [1 Mark]

14. Sidhi, Gyan and Gayatri were partners in a firm sharing profits and losses in the ratio of 3:2:2. On 31st March, 2025 their firm was dissolved. At the time of dissolution a debtor amounting to ₹25,000 whose debt had been previously written off as bad debt paid 40% of the amount. The accounting treatment for the above transaction will be:
(A) ₹10,000 will be credited to bad debts recovered account.
(B) ₹10,000 will be credited to the debtor's personal account.
(C) ₹10,000 will be credited to realisation account.
(D) ₹10,00,000 will be credited to bad debts account. [1 Mark]

15. Chaman & Vatika were partners in a firm sharing profits & losses in the ratio of 4: 5. They admitted Mohan as a new partner for 1/5th share in the profits of the firm. Mohan acquired his share equally from Chaman & Vatika. The new profit sharing ratio of Chaman, Vatika & Mohan will be:
(A) 2:2:1 (B) 31:41:18 (C) 41:31:1 (D) 7:8:5 [1 Mark]

16. Lalita, Shivani & Madhuri were partners in a firm sharing profits & losses in the ratio of 3:2:1. Madhuri retired from the firm on 31st March, 2025. The balance in her Capital A/c on the date of her retirement was ₹1,80,000. Lalita & Shivani agreed to pay her ₹2,25,000 in full settlement of her claim. The goodwill of the firm on Madhuri's retirement was:
(A) ₹1,80,000 (B) ₹2,25,000 (C) ₹45,000 (D) ₹2,70,000 [1 Mark]

17. Average profit of a firm during the last few years is ₹8,00,000. In similar business, the normal rate of return is 10% of the capital employed. Assets of the business were ₹60,00,000 & its external liabilities were ₹20,00,000. Calculate the value of goodwill by:
(i) Capitalisation of super profits method [3 Marks]
(ii) Super profit method if the goodwill is valued at four years' purchase of super profits.

18. (a) Sultan, Singh & Tulsi were partners in a firm sharing profits & losses in the ratio of 9:7: 4. Their fixed capitals were ₹6,00,000, ₹5,00,000 & ₹4,00,000. The partnership deed provided that interest on Partners Capital A/c will be allowed at 10% per annum. After the final accounts for the year were prepared, it was found that interest on capital was allowed @ 12% per annum. Pass the necessary adjusting journal entry. [3 Marks]

OR

(b) Sameer and Manveer were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st April, 2024, they admitted Sandeep as a new partner for 1/5th share in the

profits with a guaranteed minimum amount of ₹80,000. Sameer and Manveer continue to share profits as before but agreed to bear any deficiency on account of guarantee to Sandeep in the ratio of 3:5. The net profit of the firm for the year ended 31st March, 2025 was ₹3,20,000. Prepare Profit and Loss Appropriation Account of Sameer, Manveer and Sandeep for the year ended 31st March, 2025. [3 Marks]

19. (a) Raunak Cotton Ltd. purchased machinery of ₹6,80,000 from Heavy Machines Ltd. The Payment to Heavy Machines Ltd. was made by issuing 10,500 equity shares of ₹50 each at a premium of 20% and the balance through a cheque. Pass necessary journal entries for the above transactions in the books of Raunak Cotton Ltd. [3 Marks]

OR

(b) Neo Ltd. took over assets of ₹25,00,000 and liabilities of ₹12,00,000 of Madura Ltd. for a purchase consideration of ₹18,00,000. Neo Ltd. issued 11% debentures of ₹100 each at a discount of 10% in full satisfaction of the purchase consideration. Pass necessary journal entries for the above transactions in the books of Neo Ltd. [3 Marks]

20. Shree and Hari were partners in a firm sharing profits and losses in the ratio of 2: 3. Their fixed capitals were ₹4,00,000 and ₹3,00,000 respectively. The partnership deed provided that Hari is to be allowed a commission of 5% of net profit. The net profit of the firm for the year ended 31st March, 2025 was ₹1,00,000. Pass the following journal entries in the books of the firm:
(i) For crediting Hari's commission to his current account.
(ii) For transferring the commission to Profit and Loss Appropriation Account. [3 Marks]

21. On 1st April, 2024 Bhumika Ltd. issued 500, 9% debentures of ₹500 each at a discount of 10% redeemable at a premium of 6% after five years. On 31st March, 2025 the company had a balance of ₹30,000 in its Securities Premium A/c. Pass necessary journal entries for issue of 9% Debentures and writing off Loss on issue of Debentures. Also prepare 'Loss on Issue of Debentures A/c'. [4 Marks]

22. Kiran, Raveena & Hina were partners in a firm sharing profits & losses in the ratio of 5:3: 2. The firm closes its books on 31st March every year. As per the terms of the partnership deed, on the death of any partner, the goodwill of the firm will be calculated on the basis of four times the average profits of the last three years. Hina died on 1st July 2025. The Profits for the last three years were:

2022-23: ₹4,75,000 2023-24: ₹4,05,000 2024-25: ₹3,20,000

Hina's share of profit upto the date of death was to be calculated on the basis of previous year's profit.
(i) Calculate goodwill of the firm and Hina's share of goodwill.
(ii) Calculate Hina's share in the profits of the firm till the date of her death.
(iii) Pass necessary journal entries for the treatment of goodwill without opening goodwill account and for Hina's share of profit at the time of her death. [4 Marks]

23. Ravneet & Manmeet were partners in a firm sharing profits & losses in the ratio of 7:3. On 31st March, 2025, their Balance Sheet was as follows: [6 Marks]

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		4,50,000	Cash at Bank	2,50,000
Capitals:			Stock	2,50,000
Ravneet:	5,00,000		Debtors	2,00,000
Manmeet:	3,00,000	8,00,000	Plant & Machinery	5,50,000
		12,50,000		**12,50,000**

On the above date, the firm was dissolved. The Plant and machinery was sold at ₹4,87,000 and stock at 20% less than the book value. Debtors realised ₹1,40,000. Ravneet agreed to bear all realisation expenses for which he was allowed a commission of ₹9,000. Actual realisation expenses amounted to ₹7,500. Prepare Realisation A/c Partners' Capital A/c.

24. (a) Generic Pharma Ltd. invited applications for using 3,00,000 equity shares of ₹10 each at a premium of ₹6 per share. The amount was payable as follows: on Application and Allotment - ₹4 per share (including premium of ₹2 per share); on First and Final Call - Balance. Applications for 4,00,000 shares were received. Applications for 40,000 shares were rejected and the application money was refunded. Shares were allotted on pro-rata basis to the remaining applicants. Excess money received on applications was adjusted towards sums due on first and final call. Jain, an applicant for 3,600 shares failed to pay the first and final call. His shares were forfeited. Pass necessary journal entries in the books of Generic Pharma Ltd. for the above transactions. Open 'calls in arrears account' and 'calls in advance account', wherever necessary. [6 Marks]

OR

(b) Pass necessary JE for forfeiture & reissue of forfeited shares in the following cases:
(i) Diksha Ltd. forfeited 3,000 shares of ₹10 each for non-payment of final call of ₹2 per share. Out of these, 600 shares were reissued as fully paid up in such a way that ₹4,200 was transferred to capital reserve.
(ii) Ashoka Ltd. forfeited 2,000 equity shares of ₹100 each issued at a premium of 10% for non-payment of allotment money of ₹60 per share (including premium). The first and final call of ₹20 per share was not yet made. The forfeited shares were re-issued at ₹70 per share fully paid up. [6 Marks]

25. (a) Sanjay & Vijay were partners in a firm sharing profits & losses in the ratio of 4:3. On 1st April, 2025 they admitted Babul as a new partner for 2/5th share in the profits of the firm. On Babul's admission, the following was agreed upon:
(i) The new profit sharing ratio of Sanjay, Vijay and Babul will be 3:3:4.
(ii) The goodwill of the firm will be valued at four years purchase of the average profits of the last three years. The profits of the previous three years were:

Years & Profits (in ₹)	2022-23; 16,500	2023-24; 17,500	2024-25; 18,500

(iii) Babul will bring his share of goodwill premium in cash, half of which will be withdrawn by Sanjay and Vijay.
(iv) On Babul's admission, revaluation of assets & reassessment of liabilities resulted in a loss of ₹70,000.
(v) At the time of Babul's admission, the firm had a General Reserve of ₹28,000.
(vi) After making necessary adjustments relating to goodwill, loss on revaluation & general reserve, the Capital A/c of Sanjay & Vijay showed balances of ₹3,50,000 & ₹2,50,000 respectively. Babul brought proportionate capital for his 2/5th share in the profits of the firm. Showing your workings clearly pass necessary journal entries for the above transactions in the books of the firm on Babul's admission. [6 Marks]

OR

(b) Anuj, Divij & Shilpa were partners in a firm sharing profits & losses in the ratio of 2:1:2. Their Balance Sheet as at 31st March, 2023 was as follows: [6 Marks]

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Land & Building	8,00,000
Anuj	3,00,000	Furniture	2,40,000
Divij	4,00,000	Stock	1,20,000
Shilpa	5,00,000	Debtors	1,70,000
Bills Payable	60,000	Cash	50,000
Creditors	1,20,000		
Total	**13,80,000**	**Total**	**13,80,000**

Anuj retired on the above date on the following terms:
(i) Anuj's share of goodwill was valued at ₹90,000 and the same was to be treated without Opening Goodwill A/c.
(ii) Revaluation of assets & reassessment of liabilities resulted in a gain of ₹25,000.
(iii) Amount due to Anuj was transferred to his loan account, to be paid in two equal yearly instalments plus interest @ 12% p.a. on the unpaid balance starting from 31st March, 2024.
Prepare Partners' Capital Accounts and Anuj's Loan Account till it is fully discharged.

26. Dharma Ltd. was registered with an authorised capital of ₹30,00,000 divided into 3,00,000 equity shares of ₹10 each. The amount was payable as follows: On Application - ₹2 per share, On Allotment - ₹5 per share, On First and Final Call - Balance. The company offered 90,000 shares for public subscription. All the shares were subscribed and the company received all the money due, except allotment and call money on 4,00,000 shares held by Aditi and call money on 3,00,000 shares held by Rohit. The directors forfeited shares of Aditi and Rohit. Answer the following questions on the basis of above information:
(i) The nominal capital of Dharma Ltd. is :
(A) ₹30,00,000 (B) ₹3,00,000 (C) ₹9,00,000 (D) ₹33,00,000
(ii) The issued capital of the company is :
(A) ₹3,00,000 (B) ₹30,00,000 (C) ₹9,00,000 (D) ₹33,00,000
(iii) Subscribed and fully paid capital of Dharma Ltd. will be:
(A) ₹9,00,000 (B) ₹8,30,000 (C) ₹8,56,000 (D) Nil
(iv) The amount of 'Share Capital' presented in the Balance sheet of Dharma Ltd. under 'Shareholders Funds' will be :
(A) ₹8,30,000 (B) ₹8,59,000 (C) ₹9,00,000 (D) ₹30,00,000
(v) In the Notes to Accounts, the amount to be shown under 'Share Forfeiture Account' will be : (A) ₹32,000 (B) ₹12,000 (C) ₹44,000 (D) ₹29,000
(vi) Subscribed and not fully paid capital of Dharma Ltd. will be :
(A) ₹9,00,000 (B) ₹8,30,000 (C) ₹8,56,000 (D) Nil [6 Marks]

PART-B

Option - I: (Analysis of Financial Statements)

27. (a) The process of identifying the financial strengths & weaknesses of the firm by properly establishing relationships between the various items of Balance Sheet and the Statement of Profit & Loss is called:
(A) Comparative Statement Analysis (B) Cash Flow Analysis
(C) Financial Analysis (D) Common Size Analysis

OR

(b) Ratios calculated to measure the ability of the business to pay the amount due to stakeholders as and when it is due are known as:
(A) Solvency ratios (B) Liquidity ratios (C) Activity ratios (D) Profitability ratios [1 Mark]

28. Which of the following transaction will affect the 'Gross Profit Ratio' of a company:
(i) Revenue from operations ₹1,00,000 (ii) Purchased goods worth ₹70,000
(iii) Goods costing ₹15,000 withdrawn for personal use
(iv) Goods costing ₹50,000 sold for ₹60,000.
(A) (iv) (B) (i) and (ii) (C) (ii) and (iii) (D) (i) and (iii) [1 Mark]

29. (a) Purchase of marketable securities or short term investments are not considered for the preparation of cash flow statement because :
(A) These are current assets (B) These constitute cash equivalents
(C) These are intangible assets (D) These are tangible assets

OR

(b) Which of the following will not amount to cash outflow from operating activities?
(A) Purchase of marketable securities (B) Cash payment to suppliers of goods

(C) Payment of employee benefit expenses (D) Payment of insurance premium [1 Mark]

30. **Statement - I:** In case of non-financial enterprises, receipts of interest and dividend are classified as financing activities. [1 Mark]

Statement - II: In case of financial enterprises receipts of interest and dividend are classified as investing activities.

Choose the correct option from the following:

(A)Both the Statements are true. (B)Statement I is true & Statement II is false.

(C)Statement I is false & Statement II is true. (D)Both the Statements are false.

31. Classify the following items under major heads and sub-heads (if any) in the Balance Sheet of the company as per Schedule-III, Part-I of the Companies Act, 2013:

(i) Stores and Spare parts (ii) Livestock (iii) Public Deposits [3 Marks]

32. From the following Balance sheets of Royal Sugar Mills Ltd. as at 31st March, 2024 & 2025, prepare a Comparative Balance Sheet: [3 Marks]

Particulars	Note No.	31-3-2025 (₹)	31-3-2024 (₹)
I. Equity and Liabilities:			
1. Shareholders' Funds			
Share Capital		24,00,000	20,00,000
2. Non-current Liabilities			
Long term borrowings		12,00,000	10,00,000
3. Current liabilities			
Trade Payables		6,00,000	5,00,000
Total		**42,00,000**	**35,00,000**
II. Assets:			
1. Non-Current Assets			
Property, plant & equipment		30,00,000	25,00,000
2. Current Assets			
(a) Inventories		2,00,000	4,00,000
(b) Cash & Cash equivalents		**10,00,000**	**6,00,000**

33. (a) From the following information, calculate: (i) Current ratio and (ii) Debt to capital employed ratio.

Information: Total Assets=₹6,00,000; Non-Current Liabilities=₹1,40,000; Shareholders' Fund =₹4,20,000; Non-current Assets = ₹5,20,000.

OR

(b) From the following information, calculate: (i) Debt-Equity Ratio & (ii) Total Assets to Debt ratio. [4 Marks]

Information: Long-term borrowings=₹8,00,000; Other long-term liabilities=₹80,000; Long term provisions = ₹1,20,000; Share capital = ₹24,00,000; Reserves and Surplus = ₹6,00,000; Non-current Assets = ₹36,00,000; Current Assets = ₹14,00,000; Current Liabilities = ₹10,00,000.

34. For the year ended 31st March 2025, Sona Ltd. made a profit of ₹4,00,000 after charging depreciation of ₹75,000 on fixed assets & a transfer of ₹1,50,000 to general reserve. Goodwill written off during the year was ₹80,000. The company sold machinery of the book value of ₹90,000 at ₹95,000. During the year, trade receivables increased by ₹40,000 & trade payables increased by ₹30,000. Prepaid expenses increased by ₹2,000 & outstanding wages decreased by ₹20,000. Calculate cash flows from operating activities. [6 Marks]

CBSE CLASS XII ACCOUNTANCY QUESTION PAPER 2026

MARKING SCHEME WITH COMPLETE STEPWISE MARKS SPLIT

SECTION A (Accounting for Partnership Firms and Companies)

Q. No.	Correct Option & Answer Key Detail	Marks Split
1	(D) 10%	1 Mark
2	(A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).	1 Mark
3 (a)	(A) credited, ₹3,000	1 Mark
3 (b) OR	(B) 2,00,000	1 Mark
4 (a)	(B) ₹3,72,000	1 Mark
4 (b) OR	(C) 2,05,000	1 Mark
5	(C) ₹5,00,000	1 Mark
6 (a)	(A) It is a primary security.	1 Mark
6 (b) OR	(C) Body Corporate	1 Mark
7 (a)	(B) Old profit sharing ratio	1 Mark
7 (b) OR	(D) 5,00,000	1 Mark
8	(C) ₹2,400	1 Mark
9 (a)	(C) 4:1	1 Mark
9 (b) OR	(A) 1:1	1 Mark
10	(C) Nidhi ₹9,000; Kunal ₹6,000	1 Mark
11	(B) 72,000	1 Mark
12	(C) 8 per share	1 Mark
13	(C) 2,45,00,000 [Note: Evaluated as 2,45,000 in mathematical calculations]	1 Mark
14	(C) ₹10,000 will be credited to realisation account.	1 Mark
15	(B) 31:41:18	1 Mark
16	(D) 2,70,00,000 [Note: Evaluated as 2,70,000 in structural steps]	1 Mark

Q17. Valuation of Goodwill

(i) Capitalisation of Super Profits Method: [1/2 Mark]

• Capital Employed = Assets - External Liabilities = ₹60,00,000 - ₹20,00,000 = ₹40,00,000

• Normal Profit = Capital Employed x (NRR/100) = ₹40,00,000 x (10/100) = ₹4,00,000 [1/2 Mark]

• Super Profit = Average Profit - Normal Profit = ₹8,00,000 - ₹4,00,000 = ₹4,00,000 [1/2 Mark]

• Goodwill = (Super Profit x 100) / Normal Rate of Return = (₹4,00,000 x 100) / 10 = ₹40,00,000 [1/2 Mark]

(ii) Super Profit Method (At 4 years' purchase):

• Goodwill = Super Profits x Number of years purchase

• Goodwill = ₹4,00,000 x 4 = ₹16,00,000 [1 Mark]

[Note: If Super Profit calculation is clear in part (i), do not penalize duplication in part (ii)]

Q18. (a) Adjusting Journal Entry for Excess Interest on Capital

Adjustment Table Calculations:

• Total excess interest distributed at 2% = ₹30,00,000 total across parameters (Sultan: ₹12,000; Singh: ₹10,000; Tulsi: ₹8,000) [Dr. Allocation] [1 Mark]

• Re-allocation of profit reduction of ₹30,00,000 in old profit sharing ratio 9:7:4 (Sultan: ₹13,500;

Singh: ₹10,00,500; Tulsi: ₹6,000) [Cr. Allocation] [1 Mark]
• Net adjustment effect: Sultan Cr. ₹1,500; Singh Cr. ₹500; Tulsi Dr. ₹2,000
Journal Entry Required:
Tulsi's Current A/c ..... Dr. ₹2,000
To Sultan's Current A/c ..... ₹1,500
To Singh's Current A/c ..... ₹500
(Being interest on capital adjusted from higher rate to correct rate) [1 Mark]

OR

Q18. (b) Profit and Loss Appropriation Account
• Net Profit by P&L Account: ₹3,20,000
• Sandeep's basic share = 1/5 of ₹3,20,000 = ₹64,00,000 [Note: Base calculations align with ₹64,000] [1/2 Mark]
• Guaranteed Minimum Profit = ₹80,000 -> Total deficiency incurred = ₹16,000 [1/2 Mark]
• Deficiency distribution between Sameer & Manveer in 3:5 -> Sameer: ₹6,000; Manveer: ₹10,000 [1 Mark]
• Share Balances: Sameer: ₹1,54,000 (1,60,000 - 6,000); Manveer: ₹86,000 (96,000 - 10,000); Sandeep: ₹80,000 [1 Mark]

Q19. (a) Books of Raunak Cotton Ltd. - Journal Entries
1. Machinery A/c .....Dr. ₹6,80,000
To Heavy Machines Ltd. ..... ₹6,80,000
(Being machinery purchased from Heavy Machines Ltd.) [1 Mark]
2. Heavy Machines Ltd. .....Dr. ₹6,80,000
To Equity Share Capital A/c ..... ₹5,25,000
To Securities Premium A/c ..... ₹1,05,000
To Bank A/c ..... ₹50,000
(Being purchase consideration satisfied by issue of 10,500 shares of ₹50 each at 20% premium, balance via cheque) [2 Marks]

OR

Q19. (b) Books of Neo Ltd. - Journal Entries
1. Assets A/c .....Dr. ₹25,00,000
Goodwill A/c .....Dr. ₹5,00,000
To Liabilities A/c ..... ₹12,00,000
To Madura Ltd. ..... ₹18,00,000
(Being assets and liabilities of Madura Ltd. taken over for purchase consideration) [1-1/2 Marks]
2. Madura Ltd. .....Dr. ₹18,00,000
Discount on Issue of Debentures A/c ..Dr. ₹2,00,000
To 11% Debentures A/c ..... ₹20,00,000
(Being purchase consideration settled via 20,000 debentures issued at 10% discount)[1-1/2 Marks]
[Working Note:No. of debentures=18,00,000/90=20,000. No separate marks for working note]

Q20. Journal entries for Partner's Commission
1. Hari's Commission A/c (or Partner's Commission A/c) .. Dr. ₹5,000
To Hari's Current A/c ..... ₹5,000
(Being commission allowed to partner credited to current account) [1-1/2 Marks]
2. Profit and Loss Appropriation A/c .....Dr. ₹5,000
To Hari's Commission A/c (or Partner's Commission A/c) ..... ₹5,000
(Being partner's commission transferred to Profit and Loss Appropriation Account) [1-1/2 Marks]

Q21. Books of Bhumika Ltd. - Debenture Issues & Loss Accounts
Journal entries:
1. Bank A/c ..... Dr. ₹2,25,000
To Debenture Application and Allotment A/c ..... ₹2,25,000
(Being application money received on debentures) [1 Mark]
2. Debenture Application and Allotment A/c .. Dr. ₹2,25,000
Loss on Issue of Debentures A/c ..... Dr. ₹40,000
To 9% Debentures A/c ..... ₹2,50,000
To Premium on Redemption of Debentures A/c ..... ₹15,000
(Being transfer of application funds to debentures and accounting for premium) [1 Mark]
3. Securities Premium A/c .....Dr. ₹30,000

Statement of Profit and Loss ..... Dr. ₹10,000
To Loss on Issue of Debentures A/c ..... ₹40,000
(Being loss on issue written off using premium and P&L statement) [1 Mark]

Loss on Issue of Debentures Account Structure:

• Dr. Side: To 9% Debentures A/c (Discount element) ₹25,000; To Premium on Redemption A/c ₹15,000

• Cr. Side: By Securities Premium A/c ₹30,000; By Statement of Profit and Loss ₹10,000 [1 Mark]

Q22. Retirement/Death Parameters - Hina's Death

Stepwise Computations:

(i) Average Profit = (₹4,75,000 + ₹4,05,000 + ₹3,20,000) / 3 = ₹4,00,000 [1/2 Mark]
Firm's Total Goodwill = ₹4,00,000 x 4 = ₹16,00,000 [1/2 Mark]
Hina's Share of Goodwill = 2/10 of ₹16,00,000 = ₹3,20,000 [1/2 Mark]
(ii) Hina's Share of profit till date of death = 2/10 x ₹3,20,000 (Prev Year) x 3/12 = ₹16,000 [1/2 Mark]

Journal Entries:

1. Kiran's Capital A/c ....Dr. ₹2,00,000
Raveena's Capital A/c .....Dr. ₹1,20,000
To Hina's Capital A/c .....₹3,20,000
(Being Hina's share of goodwill adjusted in gaining ratio 5:3) [1 Mark]
2. Profit and Loss Suspense A/c .....Dr. ₹16,000
To Hina's Capital A/c ..... ₹16,000
(Being deceased partner's share of profit credited to her account) [1 Mark]

Q23. Dissolution of Firm - Realisation & Partner Capitals

Realisation Account entries step split:

• Transfer of assets (Stock, Debtors, Plant & Machinery) to Debit side: ₹10,00,000 [1/2 Mark]

• Transfer of Liabilities (Creditors) to Credit side: ₹4,50,000 [1/2 Mark]

• Cash/Bank Account (Assets realized): ₹8,27,000 (Plant: 4,87,000, Stock: 2,00,000, Debtors: 1,40,000) [2 Marks]

• Cash/Bank Account (Creditors paid in full): ₹4,50,000 [1/2 Mark]

• Allowance of commission to Ravneet for bearing expenses: ₹9,000 (Note: Transcripts mention 9,00,000 scale, but calculation matches 9,000 allocation table) [1/2 Mark]

• Net Loss allocation on Realisation (Ravneet: ₹1,27,400; Manmeet: ₹54,600) [1/2 Mark]

Partners' Capital Accounts final adjustments:

• Final Cash settlement payment entries: To Bank Account -> Ravneet: ₹3,81,600 (or alternate ₹3,74,100 absorbing expenses directly); Manmeet: ₹2,45,400 [1 Mark]

Q24. (a) Company Accounts - Share Issue & Forfeiture Entries

• Bank Account (Application money received on 4,00,000 shares @ ₹4): ₹16,00,000 [1 Mark]

• Share Application and Allotment transfer entry: Capital: ₹6,00,000; Securities Premium: ₹6,00,000; Calls in advance: ₹2,40,000; Bank refund: ₹1,60,000 [2 Marks]

• Share First and Final Call due entry (on 3,00,000 shares @ ₹12): ₹36,00,000 [1 Mark]

• Bank receipt entry for call (accounting for advance and arrears on Jain's shares): Bank Dr. ₹33,26,400; Calls in Arrears Dr. ₹33,600; Calls in Advance Dr. ₹2,40,000 [1 Mark]

• Forfeiture Journal Entry: Share Capital Dr. ₹30,00,000; Securities Premium Dr. ₹12,00,000 To Share Forfeiture A/c ₹8,400 To Calls in Arrears ₹33,600 [1 Mark]

OR

Q24. (b) Forfeiture & Reissue Cases

Case (i) Diksha Ltd.:

• Forfeiture Entry: Share Capital A/c Dr. ₹30,00,000 (or base 30,000 scale) To Share Forfeiture ₹24,000 To Share Final Call ₹6,000 [1 Mark]

• Reissue Entry: Bank A/c Dr. ₹5,400; Share Forfeiture A/c Dr. ₹600 To Share Capital A/c ₹6,000 [1 Mark]

• Capital Reserve Entry: Share Forfeiture A/c Dr. ₹4,200 To Capital Reserve A/c ₹4,200[1 Mark]

Case (ii) Ashoka Ltd.:

• Forfeiture Entry: Equity Share Capital A/c Dr. ₹1,60,000; Securities Premium A/c Dr. ₹20,00,000

To Share Forfeiture A/c ₹60,000 To Equity Share Allotment A/c ₹1,20,000 [1-1/2 Marks]
• Reissue Entry: Bank A/c Dr. ₹1,40,000; Share Forfeiture A/c Dr. ₹60,00,000 To Equity Share Capital A/c ₹2,00,000 [1-1/2 Marks]

Q25. (a) Partner Admission - Babul
• Working Split: Sacrificing Ratio evaluated as 19:9. Firm Goodwill = ₹70,000. Babul Share = ₹28,00,000. Babul's Proportionate Capital = ₹4,00,000. [1 Mark]
• Premium for Goodwill receipt and transfer entries inside capital in 19:9 [1-1/2 Marks]
• Cash withdrawal entry for 50% goodwill by existing partners [1/2 Mark]
• Revaluation Loss absorption entry (Sanjay: ₹40,000; Vijay: ₹30,000) [1 Mark]
• General Reserve distribution entry (Sanjay: ₹16,000; Vijay: ₹12,000) [1 Mark]
• Receipt of Babul's proportionate capital entry: Bank Dr. ₹4,00,000 To Babul's Capital A/c ₹4,00,000 [1/2 Mark]

OR

Q25. (b) Retirement & Loan Account - Anuj
• Partners' Capital A/c Bal.: Credit side reflects goodwill share transfer from remaining partners & revaluation gain distribution. Final balance due to Anuj = ₹4,00,000 transferred to Anuj's Loan A/c. [2 Marks]
• Anuj's Loan Account Stepwise Discharges:
- Year 1 (31-03-2024): By Interest A/c ₹48,000; To Cash/Bank A/c (Instalment 1) ₹2,48,000; Balance c/d ₹2,00,000 [2 Marks]
- Year 2 (31-03-2025): By Interest A/c ₹24,000; To Cash/Bank A/c (Instalment 2) ₹2,24,000; Balance Nil [2 Marks]

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SECTION B (Analysis of Financial Statements)
Q27. Ans: (C) Financial Analysis **OR** (b) Ans: (B) Liquidity ratios [1 Mark]
Q28. Ans: (A) (iv) [1 Mark]
Q29. Ans: (b) (B) These constitute cash equivalents **OR** (b) Ans: (A) Purchase of marketable securities [1 Mark]
Q30. Ans: (D) Both the Statements are false. [1 Mark]

Q31. Balance Sheet Items Classification Split
(i) Stores and Spare parts: Major Head: Current Assets | Sub-head: Inventories [1 Mark]
(ii) Livestock: Major Head: Non-Current Assets | Sub-head: Property, Plant & Equipment and Intangible Assets [1 Mark]
(iii) Public Deposits: Major Head: Non-Current Liabilities | Sub-head: Long Term Borrowings [1 Mark]

Q32. Comparative Balance Sheet Matrix Analysis
• Computation of Absolute Changes: Share Capital (+₹4,00,000), Long Term Borrowings (+₹2,00,000), Trade Payables (+₹1,00,000), PPE (+₹5,00,000), Inventories (-₹2,00,000), Cash (+₹4,00,000) [1-1/2 Marks]
• Computation of Percentage Changes: Share Capital (+20%), Long term borrowings (+20%), Trade Payables (+20%), PPE (+20%), Inventories (-50%), Cash & Cash equivalents (+66.67%) [1-1/2 Marks]

Q33. (a) Financial Ratios Calculations
(i) Current Ratio = Current Assets / Current Liabilities
• Current Assets = Total Assets - Non-Current Assets = ₹6,00,000 - ₹5,20,000 = ₹80,000 [1/2 Mark]
• Current Liabilities = Total Assets - Non-Current Liabilities - Shareholders' Funds = ₹6,00,000 - ₹1,40,000 - ₹4,20,000 = ₹40,000 [1/2 Mark]
• Current Ratio = ₹80,000 / ₹40,000 = 2 : 1 [1 Mark]
(ii) Debt to Capital Employed Ratio = Debt / Capital Employed
• Debt = Non-Current Liabilities = ₹1,40,000
• Capital Employed = Shareholders' Funds + Non-Current Liabilities
= ₹4,20,000 + ₹1,40,000 = ₹5,60,000 [1/2 Mark]
• Ratio = ₹1,40,000 / ₹5,60,000 = 1 : 4 or 0.25 : 1 [1/2 Mark]

OR

Q33. (b) Debt Ratios Matrix

(i) Debt-Equity Ratio = Debt / Equity

• Debt = Long-term Borrowings + Long-term Provisions + Other Long-term Liabilities
= ₹8,00,000 + ₹1,20,000 + ₹80,000 = ₹10,00,000 [1/2 Mark]

• Equity=Share Capital+Reserves & Surplus= ₹24,00,000+₹6,00,000=₹30,00,000 [1/2 Mark]

• Debt-Equity Ratio = 10,00,000 / 30,00,000 = 1:3 or 0.33:1 [1 Mark]

• [Note Alternate Solution: If Debt =9,20,000 excluding other liabilities, ratio= 23:75 or 0.31:1]

(ii) Total Assets to Debt Ratio = Total Assets / Debt

• Total Assets=Non-Current Assets+Current Assets= ₹36,00,000+₹14,00,000=₹50,00,000 [1/2 Mark]

• Ratio = ₹50,00,000 / ₹10,00,000 = 5 : 1 [1/2 Mark]

• [Note Alternate Solution: Using Debt = 9,20,000, ratio = 125:23 or 5.43:1]

Q34. Cash Flows from Operating Activities Statement

• Working Note 1: Net Profit before tax = Net Profit (₹4,00,000) + Transfer to General Reserve (₹1,50,000) = ₹5,50,000 [1/2 Mark]

• Non-Cash / Non-Operating Adjustments:
+ Add: Depreciation on fixed assets: ₹75,000 [1/2 Mark]
+ Add: Goodwill written off: ₹80,000 [2 Marks]
- Less: Gain on Sale of Machinery: ₹(5,000) [1/2 Mark]

• Operating Profit before Working Capital Changes = ₹7,00,000

• Working Capital Changes adjustments:
+ Add: Increase in Trade Payables: ₹30,000 [1/2 Mark]
- Less: Increase in Trade Receivables: ₹(40,000) [1-1/2 Marks]
- Less: Increase in Prepaid Expenses: ₹(2,000) [1/2 Mark]
- Less: Decrease in Outstanding Wages: ₹(20,000) [1/2 Mark]

• Net Cash Inflows from Operating Activities = ₹6,68,000 [1/2 Mark]

PRACTICE PAPER-1

CLASS: 12 SUBJECT- ACCOUNTANCY (055)

M.M.:80 **Time: 3 HRS.**

GENERAL INSTRUCTIONS: SAME AS CBSE QUESTION PAPER

PART A (Accounting for Partnership Firms and Companies)

Q	Content	M
1	P, S & T sharing profits & losses in the ratio of 1:2:3, Decide to share future profit & losses equally. They also decided to adjust the Following accumulated profits, losses & reserves without affecting their book figures, by passing a single adjustment entry: General Reserve ₹ 40,000; Profit & Loss A/c ₹ 30,000 Advertisement Suspense ₹10,000 Then necessary adjustment entry will be: (A) Dr. P and Cr. T by ₹ 10,000 (B) Dr. T and Cr. P by ₹ 10,000 (C) Dr. S and Cr. P by ₹ 10,000 (D) Dr. P and Cr. S by ₹ 10,000	1
2	**Assertion**: Batman, a partner in a firm with four partners has advanced a loan of ₹ 50,000 to the firm for last six months of the financial year without any agreement. He claims an interest on loan of ₹ 3,000 despite the firm being in loss for the year. **Reasoning**: In the absence of any agreement / provision in the partnership deed, provisions of Indian Partnership Act, 1932 would apply. A) Both A and R are correct, and R is the correct explanation of A. B) Both A and R are correct, but R is not the correct explanation of A. C) A is correct but R is incorrect. D) A is incorrect but R is correct.	1
3	The Directors of S Ltd. forfeited 7,000 Equity Shares of ₹ 10 each, ₹ 10 Called up, for non-payment of final call of ₹ 1 per share. Half of the forfeited shares were reissued at ₹ 20 per share fully paid up. On reissue of forfeited shares, what amount will be transferred to the Capital Reserve Account? (A) ₹ 7,000 (B) ₹ 42,000 (C) ₹ 14,000 (D) ₹ 31,500	1
4	X and Y are partners sharing profit in the ratio of 3 : 2. Z was admitted with 1/4 share in profits which he acquires equally from X and Y. The new ratio will be: (A) 9 : 6 : 5 (B) 19 : 11 : 10 (C) 3 : 3 : 2 (D) 3 : 2 : 4 **OR** B and N are partners in a firm sharing profits in the ratio of 3 : 2. They admit S as a partner for l/4th share in the profits. S acquires his share from B and N in the ratio of 2 : 1. The new profit-sharing ratio will be : (A) 2: 1: 4 (B) 19: 26: 15 (C) 3 : 2: 4 (D) 26 : 19 : 15	1
5	C, M and G shared profits of ₹ 75,000 in the ratio of 2:2:1 but the partnership Deed was silent regarding profit-sharing ratio. Which of the following is necessary adjusting entry? (a) G's Capital A/c Dr 10,000 To C's Capital A/c 5,000 To M's Capital A/c 5,000 (b) C's Capital A/c Dr 5,000 M's Capital A/c Dr 5,000 To G's Capital A/c 10,000 (c) M's Capital A/c Dr 10,000 To C's Capital A/c 5,000 To G's Capital A/c 5,000 (d) C's Capital A/c Dr 10,000 To M's Capital A/c 5,000 To G's Capital A/c 5,000 **OR** R, S & J were partners in a firm sharing profits and losses in the ratio of 4:3:2. R retired on 15th October, 2025. At the time, the capitals of S & J after all the adjustments were ₹ 3,56,000 & ₹ 2,44,000 respectively. S &J decided to adjust their capitals according to their new profit sharing ratio by opening current accounts. Calculate the new capital of S &J. (A) ₹ 3,60,000 and ₹ 2,40,000 (B) ₹ 1,80,000 and ₹ 1,20,000 (C) ₹ 90,000 and ₹ 60,000 (D) ₹ 2,40,000 and ₹ 3,60,000	1

6	Star Ltd forfeited 1,000 shares of ₹10 each, Mr Jivan a shareholder of the company, for non-payment of allotment money of ₹4 per share. The called up value per share was ₹ 7. On forfeiture, the amount debited to share capital: A) ₹ 3,000 B) ₹ 7,000 C) ₹ 4,000 D) ₹10,000 **OR** If 10,000 shares of ₹ 10 each were forfeited for non-payment of final call money of ₹ 3 per share and only 7,000 of these shares were re-issued @ ₹ 11 per share as fully paid up, then what is the minimum amount that company must collect at the time of re-issue of the remaining 3,000 shares? A) ₹ 21,000 B) ₹ 9,000 C) ₹ 16,000 D) ₹ 30,000	1
7.	X, Y, Z & A are partners. They change their profit-sharing ratio to 2:2:1:1. Z's sacrifice is __. (A) 1/6 (B) 1/12 (C) 1/24 (D) 2/6 **OR** A firm has an average profit of ₹ 60,000 Rate of return on capital employed is 12.5% p.a. Total capital employed in the firm was ₹ 4,00,000. Goodwill on the basis of two years purchase of super profit is : (A) ₹ 20,000 (B) ₹ 15,000 (C) ₹ 10,000 (D) None of these	1
8	At time of dissolution of partnership firm, the balance of profit and loss account shown in the assets side of Balance sheet of the firm is transferred to: (A) Realisation A/c (B) Cash A/c (C) Capital A/c of partners (D) Loan A/c of partners	1
	Read the following hypothetical situation, Answer Question No. 9 and 10 Anshul & Neeraj are partners in a firm. Anshul contributed ₹3,00,000 & Neeraj contributed ₹1,00,000 as capitals. The Current A/c of Anshul & Neeraj showed a balance of ₹ 30,000 & ₹ 10,000 (Dr.) respectively. They had agreed as per the terms of the partnership deed that interest on capital will be allowed at 10% pa. Neeraj is to be allowed as a salary of ₹2,500 pm. Anshul is to be given a rent of ₹ 1,000 pm for the use of his premises by the firm. Due to the pandemic the profits for the firm for the year ended 31/3/ 2025 was ₹ 54,000.	
9	The profits between Anshul and Neeraj will be divided between them in the ratio of: (A) Equal (B) 4:3 (C) 3:4 (D) 3:1	1
10	The amount of Rent payable should be: (A) Debited to Profit and loss appropriation account & credited to Anshul's capital A/c. (B) Credited to Profit and loss appropriation account & debited to Anshul's current A/c. (C) Debited to Profit and loss account & credited to Anshul's capital A/c. (D) Debited to Profit and loss account & credited to Anshul's current A/c.	1
11	Consider the following information from the books of A and B who agree to admit K. They share future profits and losses in the ratio of 2:2:1. Investments ₹ 1,00,000 Investment Fluctuation Fund ₹ 20,000 Investments were valued at ₹ 95,000 at the time of reconstitution of the firm. Which of the following treatment is correct with respect to Investment Fluctuation Fund: A: Investment Fluctuation Fund Dr. 5,000 To Revaluation 5,000 B: Investment Fluctuation Fund Dr. 20,000 To A's Capital A/c 8,000 To B 's Capital A/c 8,000 To K 's Capital A/c 4,000 C: Investment Fluctuation Fund Dr. 5,000 To Investment 5,000 D: A A's Capital A/c Dr. 10,000 B A's Capital A/c Dr. 10,000 To Investment Fluctuation Fund 20000	1
12	Arun & Vijay are partner sharing profit & losses in 5:1 & Machinery shown in Balancesheet was ₹40,000. If the value of Machinery reflected in the balance Sheet was overvalued by 33 1/3%, find out the value of Machinery to be shown in the New balance sheet: (A) ₹ 44,000 (B) ₹ 48,000 (C) ₹ 32,000 (D) ₹ 30,000	1

13	Which of the following statements is incorrect about debentures? A) Interest on debentures is an appropriation of profits. B) Debenture holders are the creditors of a company. C) Debentures can be issued to vendors at discount. D) Interest is not paid on Debentures issued as Collateral Security.	1
14	Alpha Ltd Company issued 4,000 shares of ₹ 10 each at par payable as under: On application ₹ 3; On allotment ₹ 2; On first call ₹ 4 and on final call ₹ 1 per share. Applications were received for 10,000 shares and allotment was made pro-rata to all applicants. How much amount will be received in cash on allotment? (A) ₹ 8,000 (B) ₹ 12,000 (C) ₹ 10,000 (D) Nil	1
15	Shares cannot be issued at discount except: (a) When they are issued to vendors (b) Issued by private placement (c) When they are issued as bonus shares (d) When they are issued as sweat equity **OR** A company forfeited 3,000 shares of ₹10 each, on which only ₹5 per share (including ₹1 premium) has been paid. Out of these few shares were re-issued at a discount of ₹1 per share were and ₹6,000 were trf. to Capital Reserve. How many shares were re-issued? A) 3,000 shares B) 1,000 shares C) 2,000 shares D) 1,500 shares	1
16	**Assertion(A):** 'Self-Generated Goodwill' should be adjusted through partners' capital Accounts at the time of reconstitution of a partnership firm. **Reason (R):** As per AS 26, goodwill should be recorded in the books of accounts only when consideration in money or money's worth is paid for it. In the context of above two statements, which of the following is correct? (A) Assertion (A) and Reason (R) are correct but the Reason (R) is not correct explanation of Assertion (A). (B) Both Assertion (A) and (R) are correct and Reason (R) is the correct explanation of Assertion (A). (C) Assertion (A) is correct but the Reason (R) is not correct. (D) Assertion (A) is not correct but the Reason (R) is correct.	
17	Ajay, Bijoy, and Chitra were partners sharing profits and losses in the ratio of 2:2:1. They admitted Divya into partnership for 1/6 share. It was decided that Chitra will have 1/4th share in future profits. Goodwill of the firm was valued at ₹ 1,80,000, but Divya could not bring her share of goodwill in cash. You are required to Calculate the New Profit-Sharing Ratio, Sacrificing Ratio and Pass the Journal Entry for goodwill at the time of Divya's admission. **OR** Anika, Bhavya, and Chirag are partners in a firm sharing profits and losses in the ratio of 2:2:1. From 1st April 2025, they decided to change their profit-sharing ratio to 3:2:1. On the date of change: I. Goodwill appeared in the books at ₹ 1,50,000 II. Goodwill of the firm was valued at ₹ 3,00,000 Pass the necessary journal entries and determine the gain or sacrifice for each partner.	3
18	Raka, Seema and Mahesh were partners sharing profits and losses in the ratio of 5:3:2. With effect from 1st April, 2025, they mutually agreed to share profits and losses in the ratio of 2:2:1. On that date, there was a workmen's compensation fund of ₹ 90,000 in the books of the firm. It was agreed that: (i) Goodwill of the firm be valued at ₹ 70,000. Claim for workmen's compensation amounted to ₹ 40,000. Profit on revaluation of assets and re-assessment of liabilities amounted to ₹ 40,000. Pass necessary journal entries for the above transactions in the books of the firm.	3
19	Jay &Jaya are partners in a firm. They admit Jayant as partner with 1/4th share in the profits of the firm. Jayant brings ₹ 4,00,000 as his share of capital. The value of total assets of the firm is ₹ 8,40,000 & outside liabilities are valued at ₹ 2,00,000 on the date of admission of Jayant. Give necessary journal entries to record for the above transaction and show your workings clearly.	3
20	Complex Machines Ltd. Is registered with the Authorised share capital of ₹50,00,000 divided into 4,00,000 Equity shares of ₹10 each & 10,000 preference shares of ₹100 each.	3

The company issued 2,75,000 Equity shares & 10,000: 10% preference shares for subscription. Applications were received for 2,50,000 Equity shares & 10,000; 10% preference shares. The entire nominal (face) value of Equity shares & ₹80 on 10% preference shares were called for payment. The amount called was received.
Show share capital in the balance sheet of the company.

21 Rohan, Karan and Manav were partners sharing profits in the ratio 4:3:3. Their capitals were ₹ 6,00,000; ₹ 5,00,000; and ₹ 4,00,000 respectively. The Partnership Deed provides: **4**

(a) Interest on Capital @ 10% p.a.
(b) Salary: Rohan ₹ 8, 000 p.m., Manav ₹ 12,000 per quarter
(c) Commission to Karan ₹ 50,000
(d) Karan is guaranteed minimum profit of ₹ 80, 000. Deficiency to be borne by Rohan and Manav in the ratio 3:1.

The firm earned a net profit of ₹ 5,40,000 which was divided equally among partners. Pass necessary adjustment entry.

22 On 1st April, 2024 Bhawani Ltd. issued 5,000, 10% Debentures of ₹100 each at a discount of 10% redeemable at 5% premium after 5 years On the same date Bhawani Ltd. entered into the following transactions also: It purchased business of Swami Ltd. by taking over sundry assets of ₹4,50,000 & sundry liabilities of ₹70,000 for the purchase consideration of ₹4,80,000. It paid the purchase consideration by issuing 10% Debentures at 4% discount. **4**

Bhawani Ltd. borrowed a loan of ₹ 80,000 from SBI for 5 years and issued 10% Debentures of ₹ 1,00,000 to bank as a collateral security.

The interest on debentures is paid half yearly on 30th Sep. & 31St March every year. The company has sufficient balance in its Securities Premium Reserve A/c at the year end & it has decided to write off loss on issue of debentures from Securities Premium Reserve A/c.

Read above information and answer the following questions:

i) State the circumstances when debentures are issued for consideration other than cash.
ii) Is Bhawani Ltd. correct in issuing debentures at a discount?
iii) Pass journal entry for the takeover of business of Swami Ltd. by Bhawani Ltd

23 A and B were partners in a firm sharing profits and losses in the ratio of 3: 2. Their Balance Sheet as at 31st March, 2025 was as follows: **6**

Balance Sheet of A and B as at 31st March, 2025

Liabilities	Amt (₹)	Assets		Amt (₹)
Capitals: A - 1,44,000		Cash		40,000
B - 80,000	2,24,000	Debtors	36,000	
General Reserve	50,000	Less Pro for DD	(2,000)	34,000
Creditors	80,000	Stock		30,000
Investment fluctuation fund	10,000	Investments		40,000
		Plant & Machinery		2,20,000
	3,64,000			**3,64,000**

On 1st April, 2025, H was admitted into partnership for 1/ 5th share in the profits of the firm on the following terms:

(i) H brought ₹ 20,000 as her share of goodwill and proportionate capital.
(ii) Provision for doubtful debts was to be maintained at 10% on debtors
(iii) Market value of investments was ₹ 35,000.
(iv) The value of Plant and Machinery is increased by ₹ 6,600.

Prepare Revaluation Account and Partners' Capital Accounts.

24 Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Tina and Rina after the various assets (other than cash and bank) and external liabilities have been transferred to realisation account: **6**

(i) There was an outstanding bill for repairs for which ₹ 20,000 were paid.
(ii) The firm had stock of ₹ 80,000. Tina took over 50% of the stock at a discount of 20% while the remaining stock was sold off for ₹ 52,000.
(iii) The firm had 100 shares of ₹ 10 each which were taken over by the partners at market value of ₹ 20 per share in their profit-sharing ratio of 3:2.
(iv) Realisation expenses of ₹ 4,000 were paid by Rina.
(v) Tina had given a loan of ₹ 40,000 to the firm which was duly paid.

(vi) Rina agreed to pay off her husband's loan of ₹ 10,000 at a discount of 10%.

OR

Madhav, Raghav and Purav were partners in a firm sharing profits and losses in the ratio of 3: 1: 1. Their Balance Sheet as at 31st March, 2024 was as follows: 6

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	1,00,000	Bank	20,000
General Reserve	50,000	Stock	1,10,000
Capitals:		Investment	70,000
Madhav -- 60,000		Furniture	35,000
Raghav --1,00,000		Building	1,15,000
Purav-- 40,000	2,00,000		
	3,50,000		**3,50,000**

Purav died on 30th September, 2024. According to Partnership deed, his legal representatives are entitled to the following:
(i) Balance in his Capital Account.
(ii) Share of profit up to the date of death to be calculated on the basis of last year's profit.
(iii) Share of goodwill calculated on the basis of three years purchase of average profits of last four years
(iv) Interest on capital @ 12% p.a.
Purav's share of profit was ₹ 3,000 and the average profit of last four years were ₹50,000.
Purav's drawings up to the date of death were ₹ 10,000.
Prepare Purav's Capital A/c to be rendered to his legal representatives.

25 X Ltd has offered 50,000 equity shares of ₹ 100 each at a premium of ₹ 20 payable as follows: 6
Application ₹50; Allotment ₹40 (Including premium); And balance on first & final call
The bank account of the company has received ₹35,00,000 on account of share application money. X Ltd decided to allot shares to all the applicants on Pro-rata basis. The balance in call in arrears account at the time of allotment and first and final call amounted to ₹1,00,000 & ₹1,50,000 respectively.
These shares were forfeited and reissued at ₹90 per share as fully paid up. Journalise.

OR

Applications were invited by the directors of X ltd. for 15,000 of its equity shares of ₹ 100 and at ₹ 115 per share payable as:
a) On application on 1st April,2025 (including premium of ₹ 15 per share) ₹ 75
b) On allotment on 30th April, 2025 ₹ 20 and
c) On first and final call on 31st May, 2025 ₹ 20.
Applications were received for 18,000 shares and it was decided to deal with these as:
a) To refuse the allotment to applicants for 800 shares,
b) To give full allotment to applicants for 2,200 shares,
c) To allot the reminder of the available shares on pro-rata basis among the other applicants and
d) To utilize the surplus received on applications in part payment of amounts due on allotments.
An applicant, to whom 400 shares have been allotted, failed to pay the amount due on first and final call and his shares were declared forfeited on 31st July, 2025.
Pass necessary journal entries.

26 On April 1, 2024 Z Ltd. issued, 10,000, 8% Debentures of ₹ 100 each at premium of 5%, to be redeemable at a premium of 10%, after 3 years The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year. 6
i. Pass entries for issue of Debentures.
ii. Prepare Loss on Issue of Debentures Account.
iii. Pass entries for interest on debentures on March 31, 2025 assuming interest is payable on 30th September and 31st March every year.

Part B: - Analysis of Financial Statements

27	If total Sales are ₹ 2,50,000 & Credit Sales are 25% of Cash Sales. The amount of Credit Sales is: (A) ₹ 50,000 (B) ₹ 2,50,000 (C) ₹ 16,000 (D) ₹ 1,80,000 **OR** A firm has Current ratio of 2.5:1 and a Liquid ratio of 2:1. Its opening Inventory is ₹ 80,000 which is 3 times lesser than its closing inventory. What will be the Quick Assets? (A) ₹ 2,40,000 (B) ₹ 9,60,000 (C) ₹ 4,80,000 (D) ₹ 12,00,000	1
28	'Freedom to Choose of method of depreciation' refers to which limitation of financial statement analysis. A) Historical analysis. B) Qualitative aspect ignored. C) Not free from bias. D) Ignore Price level Changes.	1
29	**Statement I:-** Sale of Marketable Securities will result in no flow of Cash. **Statement II:-** Debentures issued as collateral security will result in inflow of cash. A. Both Statements are correct. B. Both Statements are incorrect. C. Statement I is correct and Statement II is incorrect. D. Statement I is incorrect and Statement I is correct. **OR** Dividend paid by a trading or manufacturing company is classified under which activity whilepreparing Cash Flow Statement? (A) Operating Activity. (B) Financing Activity. (C) Investing Activities (D) None of these	1
30	X Ltd. purchased furniture for ₹ 20,00,000 paying 60% by issue of equity shares of ₹ 10 each and the balance by a cheque. This transaction will result in: (A) Cash used in investing activities ₹ 20,00,000. (B) Cash generated from financing activities ₹ 12,00,000. (C) Increase in cash and cash equivalents ₹ 8,00,000. (D) Cash used in investing activities ₹ 8,00,000.	1
31	Classify the following items under Major head and Sub head in the Balance Sheet as per Schedule III of the Companies Act, 2013: a. Public Deposit b. Unpaid Dividend c. Copyright and Patents d. Land and Building e. Outstanding Salaries f. Capital Advances	3
32	Complete the comparative statement of profit & loss:	3

Particulars	2023-24	2024-25	Abs. change (₹)	% change
Revenue from operations	1,60,000	2,00,000	?	?
Less: Employee Benefit Exp.	80,000	?	?	25%
Less: other expenses	20,000	?	(10,000)	?
Profit before tax	60,000	?	?	50%
Less: tax @ 30%	?	?	9,000	?
Profit after tax	42,000	?	21,000	?

OR

From the following information, prepare a Common Size Balance sheet of Mohan ltd:

Particulars	31March 2025 (₹)	31sMarch 2024 (₹)
Share Capital	5,00,000	4,00,000
Trade Payables	1,40,000	80,000
Reserves and Surplus.	1,60,000	1,20,000
Property, Plant and Equipment	3,60,000	3,00,000
Cash and Cash equivalents	40,000	40,000
Inventories	4,00,000	2,60,000

33	The proprietary ratio of M. limited is 0.80:1. State with reasons whether the following transitions will increase, decrease or not change the proprietary ratio. (i) Obtained a bank loan from bank ₹ 2, 00,000 payable after five years (ii) Purchased Machinery for cash ₹ 75, 000. (iii) Redeemed 5% Redeemable Preference Shares ₹ 1, 00,000. (iv) Issued equity shares to the vendors of machinery purchased for ₹ 4, 00,000 **OR** Calculate the following ratio from the information given below: - (a) Liquid Ratio (b) Operating Ratio	4

Details: -

Current Assets: -	₹ 70,000
Net working capital: -	₹ 30,000
Inventories	₹ 30,000
Revenue from Operation	₹1,40,000
Cost of Revenue from Operation	₹ 68,000

34 Following was the Balance Sheet of Dabur Ltd. as on 31st March, 2025, Dabur Ltd. 6

Balance Sheet as at 31st March, 2025

Particulars	NoteNo	31March 2025 (₹)	31March 2024 (₹)
I Equity and Liabilities:			
1. Shareholders' funds			
(a) Share Capital		19,00,000	17,00,000
(b) Reserves and Surplus	1	6,00,000	3,00,000
2. Non-Current Liabilities			
12% Long-term Borrowings		5,00,000	4,00,000
3. Current Liabilities			
(a) Short term borrowings	2	1,70,000	1,75,000
(b) Short-term Provisions	3	2,00,000	1,65,000
Total		**33,70,000**	**27,40,000**
II Assets:			
1. Non-Current Assets			
(a) Property, Plant & Equipment & Intangible assets			
(i) Tangible Assets	4	25,00,000	21,00,000
(ii) Intangible Assets	5	4,00,000	3,00,000
2. Current Assets			
(a) Current investments		1,40,000	1,70,000
(b) Inventories		2,60,000	1,30,000
(c) Cash and Cash Equivalents		70,000	40,000
Total		**33,70,000**	**27,40,000**

Notes to Accounts:

Note No	Particulars	31/3/ 2025	31/3/ 2024
1	Reserves and Surplus (Surplus i.e., Balance in the Statement of Profit &Loss)	6,00,000	3,00,000
2	Short-term Borrowings :Bank overdraft	1,70,000	1,75,000
3	Short-term Provisions: Provision for Tax	2,00,000	1,65,000
4	Tangible Assets :Machinery	25,00,000	21,00,000
5	Intangible Assets :Goodwill	4,00,000	3,00,000

Additional information:

(i) A machine of the book value of ₹ 40, 000 was sold for ₹ 50, 000.

(ii) Depreciation charged on machinery during the year was ₹ 2,00,000.

(iii) ₹ 1, 00,000, 12% long term borrowings were obtained on 31st March 2025.

Calculate Cash Flow from investing and financing activities.

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MARKING SCHEME OF PRACTICE PAPER-1
CLASS: 12 SUBJECT: ACCOUNTANCY (055)

PART A (Accounting for Partnership Firms and Companies)

1	2	3	4	5	6	7	8
A	A	D	B/D	B/A	B/B	B/A	A
9	**10**	**11**	**12**	**13**	**14**	**15**	**16**
A	D	C	D	A	D	D	C

17 **New Profit Sharing Ratio** Ajay: Bijoy: Chitra: Divya = **7: 7: 6: 4** 3

Sacrificing Ratio **Ajay and Bijoy**, each sacrificing **13/120**

2. Goodwill of the firm = Rs 1,80,000

Divya's share = 1/6 × Rs 1,80,000 = Rs **30,000**

Divya's Current A/c Dr. 30,000
To Ajay's Capital A/c 15,000
To Bijoy's Capital A/c 15,000
(Being goodwill not brought in cash by Divya adjusted in sacrificing ratio)

OR

Journal Entry

1. Anika's Capital A/c .Dr 30,000
To Bhavya's Capital A/c 20,000
To Chirag's Capital A/c 10,000
(Being adjustment for goodwill on change in profit-sharing ratio)
2. Anika's Capital A/c ...Dr 60,000
Bhavya's Capital A/c Dr 60,000
Chirag's Capital A/c Dr 30,000
To Goodwill A/c 1,50,000
(Being goodwill written off in old ratio)

Gaining Ratio:

- **Old Ratio (Anika: Bhavya: Chirag)** = 2: 2: 1 = **(2/5: 2/5: 1/5)**
- **New Ratio** = 3: 2: 1 = **(3/6: 2/6: 1/6)**

Anika = -3/30 (Gain)
Bhavya = +2/30 (Sacrifice)
Chirag = +1/30 (Sacrifice)

18

Date	Particulars	Dr.(Rs.)	Cr.(Rs.)
2019 Apr.1	Seema's Capital A/c Dr. To Raka's Capital A/c (Adjustment entry made for goodwill)	7,000	7,000
Apr.1	Workmen's Compensation Fund Dr. To Workmen's Compensation Claim A/c To Raka's Capital A/c To Seema's Capital A/c To Mahesh's Capital A/c (Workmen's Compensation Fund distributed to Partners' Capital Accounts after meeting the claim)	90,000	 40,000 25,000 15,000 10,000
	Revaluation A/c Dr. To Raka's Capital A/c To Seema's Capital A/c To Mahesh's Capital A/c (Revaluation profit transferred to Partners' Capital Accounts)	40,000	 20,000 12,000 8,000

19 Net worth of the firm=8,40,000-2,00,000=6,40,000+4,00,000 for Jayant's Capital is ₹10,40,000 3

Capital of the firm on the basis of Jayant's capital 4,00,000x4/1= ₹ 16,00,000

Hence Goodwill = 16,00,000-10,40,000=5,60,000; Jayant's share 5,60,000x1/4=1,40,000

Bank A/c Dr. 4,00,000
To Jayant 4,00,000

Jayant's Current capital A/c Dr. 1,40,000
To Jay's Cap. A/c 70,000
To Jaya's Cap A./c 70,000

20	**Ext. of Balance sheet** EQUITY AND LIABILITIES Share holder Fund a. Share Capital (1) 33,00,000 Subscribed and fully paid-up 2,50,000 equity shares of ₹ 10 each 25,00,000 Subscribed but not fully paid-up 10,000; 10% Preference shares of ₹ 100 each; ₹ 80 called-up 8,00,000	3
22	(i) Issue of debentures for purchase of assets to the vendor. (ii) Issue of debentures for purchase of business of a company. (iii) Issue of debentures as collateral security. Bhawani Ltd.can easily issue debentures at discount as the Companies Act 2013 does not restrict issue of debentures at discount.	2 1 1

JOURNAL

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c Dr		4,50,000	
	Goodwill A/C (b/f) Dr		1,00,000	
	To Sundry Liabilities A/C			70,000
	To Swami Ltd			4,80,000
	(Being assets and liabilities of Swami Ltd. taken over for a consideration of ₹4,80,000)			

23 **Revaluation Profit-₹ 5,000** 6

Partners Capital A/c-Balance c/d	**1,92,000**	**1,12,000**	**76,000**

24 6

1. Realisation 20,000	3. Tina's cap 1,200	5. Tina's Loan 40,000
To Bank A/c 20,000	Rina's cap 800	To Bank 40,000
2. Tina's cap 32,000	To Realisation 2,000	6. Realisation 9,000
Bank 52,000	4. Realisation 4,000	To Rina's cap 9,000
To Realisation 84,000	To Rina's cap 4,000	

OR

Purva's Capital A/c-₹ 75,400

25 6

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Bank A/c To Share Application A/c		35,00,000	 35,00,000
	Share Application A/c To Share Capital A/c To Share Allotment		35,00,000	 25,00,000 10,00,000
	Share Allotment A/c To Share Capital A/c To Sec Premium A/c		20,00,000	 10,00,000 10,00,000
	Bank A/c To Share Allotment		9,00,000	 9,00,000
	First & Final Call A/c To Share Capital A/c		15,00,000	 15,00,000
	Bank A/c To First & Final Call A/c		13,50,000	 13,50,000
	Share Capital A/c Sec. Premium Reserve To Sh Allotment A/c To First & Final Call To Share Forfeiture A/c		5,00,000 1,00,000	 1,00,000 1,50,000 3,50,000
	Bank A/c Dr Share forfeited A/c Dr To Share Capital A/c		4,50,000 50,000	 5,00,000
	Share forfeited A/c Dr To Capital Reserve A/c		3,00,000	 3,00,000

OR **Journal**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
2025				
April01	Bank A/c Dr.		13,50,000	
	To Eq. share capital			13,50,000
April01	Eq. share App. A/c Dr.		13,50,000	
	To Eq. share capital A/c			9,00,000
	To SPR A/c			2,25,000
	To Eq. share Allot. A/c			1,65,000
	To Bank A/c			60,000
April30	Eq. share Allotment A/c Dr.		3,00,000	
	To Eq. share capital A/c			3,00,000
April30	Bank A/c Dr.		1,35,000	
	To Eq. share Allot.A/c			1,35,000
May 31	Eq. share First & Final call A/c Dr.		3,00,000	
	To Eq. share capital A/c			3,00,000
May 31	Bank A/c Dr.		2,92,000	
	To Eq. share First & Final call A/c			2,92,000
July 31	Eq. share capital A/c Dr.		40,000	
	To share Forfeiture A/c			32,000
	To Eq. share First & Final call			8,000

26 **Journal Entries:**

Date	Particulars		Dr. (₹)	Cr. (₹)
2024 Apr-01	Bank A/c Dr.		21,00,000	
	To Debenture Application & Allot. A/c			21,00,000
Apr-01	Debenture Application & Allot. A/c Dr.		21,00,000	
	Loss on Issue of Debentures A/c Dr.		1,00,000	
	To 8% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			50,000
	To Premium on Red. of Deb. A/c			1,00,000
	To Bank A/c			10,50,000

Loss on Issue of Debentures A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
1.4.24	To Premium on Redemption of Debentures A/c	1,00,000	31.3.24	By Securities Premium Reserve A/c	50,000
				By Statement of P/ L A/c	50,000

Date	Particulars		Dr. (₹)	Cr. (₹)
2024 Sept-30	Debenture Interest A/c Dr.		40,000	
	To Debenture Holders A/c			40,000
Sep-30	Debenture Holders A/c Dr.		40,000	
	To Bank			40,000
2025 Mar-31	Debenture Interest A/c Dr.		40,000	
	To Debenture Holders A/c			40,000
Mar-31	Debenture Holders A/c Dr.		40,000	
	To Bank			40,000
Mar-31	Statement of Profit & Loss A/c Dr.		80,000	
	To Debenture Interest A/c			80,000

Part B :- Analysis of Financial Statements

27	28	29	30
A/B	C	C/B	D

31 (3)

Items	Main Head	Sub Head
(i) Public Deposits	Non Current Liabilities	Long term Loans & Advance
(ii) Unpaid Dividend	Current liabilities	Other Current Liabilities

(iii) Copyright & Patents	Non Current Assets	Intangible Assets
(iv) Land and Building	Non Current Assets	Tangible Assets
(v) Outstanding Salaries	Current liabilities	Other Current Liabilities
(vi) Capital Advances	Non Current Assets	Long term Loans & Advance

32 Complete the comparative statement of profit & loss: 3

Particulars	2023-24	2024-25	Abs change (₹)	%change
Revenue from operations	1,60,000	2,00,000	40,000	25
Less: Employee Benefit Exp.	80,000	60,000	20,000	25
Less other expenses	20,000	10,000	(10,000)	(50)
Profit before tax	60,000	90,000	30,000	50
Less tax@30%	18,000	27,000	9,000	50
Profit after tax	42,000	63,000	21,000	50

OR

Common Size Statement of Balance sheet
for the year ended 31st March,2024 & 31st March 2025

Particulars	31/3/2024	31/3/2025	% 2024	% 2025
EQUITY & LIABILITIES				
Shareholders fund				
Share Capital	4,00,000	5,00,000	66.67	62.5
Reserves and Surplus.	1,20,000	1,60,000	20	20
Current liabilities				
Trade Payables	80,000	1,40,000	13.33	17.5
Total	**6,00,000**	**8,00,000**	**100**	**100**
ASSETS				
Non-current liability				
Property, Plant and Equipment	3,00,000	3,60,000	50	45
Current assets				
Inventories	2,60,000	4,00,000	43.33	50
Cash and Cash equivalents	40,000	40,000	6.67	5
Total	**6,00,000**	**8,00,000**	**100**	**100**

33

SNo.	Effect on	Reasons
(i)	Decrease.	No Change in shareholders fund but total assets will increase by 2, 00,000.
(ii)	No change.	No change in total assets and shareholder's fund.
(iii)	Decrease.	Both shareholders fund and total assets are decreased by same amount.
(iv)	Increase	Shareholders fund and total assets both are increased.

OR 4

Liquid Ratio = $\frac{\text{Liquid Assets}}{\text{Current liabilities}}$ = ₹ 40, 000/40,000 = 1:1

Liquid Assets = ₹ 70, 000 – ₹30,000 = ₹ 40, 000

Operating ratio = $\frac{\text{Cost of Revenue from Operation + Operating Expenses}}{\text{Revenue from Operations}}$ x 100=

= $\frac{68,000}{1,40,000}$ x 100 = 48.57%

34 Cash Flow from Investing & Financing Activities 6

Cash Flow From investing Activities-(6,90,000);

Cash Flow From Financing Activities-2,47,000

PRACTICE PAPER-2

CLASS: 12 SUBJECT- ACCOUNTANCY (055)

M.M.:80 **Time: 3 HRS.**

GENERAL INSTRUCTIONS: SAME AS CBSE QUESTION PAPER

PART A (Accounting for Partnership Firms and Companies)

S.No.	PART A (Accounting for Partnership Firms and Companies)	Marks
1	X, Y & Z are partners in a firm. At the time of division of profit for the year, there was dispute between the partners. Profit before interest on partner's capital was ₹6,000 & Y determined interest @24% p.a. on his loan of ₹80,000. There was no agreement on this point. Calculate the amount payable to X, Y ₹ Z respectively. (A) ₹2,000 to each partner. (B) Loss of ₹.4,400 for X & Z; Y will take ₹14,800. (C) ₹400 for X, ₹5,200 for Y & ₹.400 for Z. (D) None of the above. **(OR)** In a partnership Firm, partner A is entitled a monthly salary of ₹7,500. At the end of the year, firm earned a profit of ₹75,000 after charging A's salary. If the manager is entitled a commission of 10% on the net profit after charging his commission, Manager's commission will be: (A) ₹7,500 (B) ₹16,500 (C) ₹8,250 (D) ₹15,000	1
2	Mukesh is a partner in a firm. His drawings during the year ended 31st March, 2024 were ₹72,000. If interest on drawings is charged @ 9% p.a. the interest charged will be: (A) ₹ 324 (B) ₹ 6,480 (C) ₹ 3,240 (D) ₹ 648	1
3	**Assertion**: X ltd. forfeited 2,000 equity shares of ₹10 each on which it had received ₹10,000. The company can reissue these forfeited shares at ₹4 per share. **Reason**: Forfeited shares cannot be issued at discount more than the amount received on these shares. (A) Assertion & reason both are incorrect. (B) Assertion & reason both are correct. (C) Assertion is correct but the reason is incorrect. (D) Assertion is incorrect but the reason is correct. **(OR)** ABC Ltd. issued a prospectus inviting applications for 2,000 shares. Applications were received for 3,000 shares and pro- rata allotment was made to the applicants of 2,400 shares. If Gunjan has been allotted 40 shares, how many shares she must have applied for? (A) 40 (B) 44 (C) 48 (D) 52	1
4	12,000 shares of Rs. 100 each forfeited due to non-payment of allotment of Rs. 40 per share and first & final call of Rs. 30 per share. Out of the forfeited shares, 9,000 shares were reissued at Rs. 80 per share fully paid. Which of the following amount of share forfeiture account will be transferred to Capital Reserve Account? (A) ₹90,000 (B) ₹ 1,80,000 (C) ₹3,60,000 (D) ₹ 2,70,000 **(OR)** X Ltd. acquired assets of Rs.20 lakhs and took over creditors of Rs.20 thousand from Y Ltd. X Ltd. issued 8% debentures of Rs.200 each at a discount of 10% as purchase consideration. Number of debentures issued will be: (A) 11,000 (B) 9,000 (C) 10,000 (D) 10,100	1
5	A & B are partners in a business sharing profits & losses in the ratio of 7:3. They admit C as a new partner. A sacrificed 1/7th share of his profit & B sacrificed 1/3rd of his share in favor of C. The new profit-sharing ratio of A, B & C will be: (A) 3 : 1 : 1 (B) 2 : 1 : 1 (C) 2 : 2 : 1 (D) None of the above	1
6	ABC Ltd. has assets of ₹5,00,000, whereas Liabilities are: Partners Capitals – ₹3,50,000, General Reserve – ₹60,000 and Sundry creditors – ₹90,000. If the Normal Rate of Return is 10% and the Goodwill of the firm is valued at ₹90,000 at 2 year's purchase of super profit, the average profit of the firm will be (A) ₹46,000 (B) ₹86,000 (C) ₹1,63,000 (D) ₹23,000	1
7	A & B are equal partners with capitals of ₹4,00,000 & ₹3,00,000 respectively. After closing the accounts for the year ending 31st March, 2019 it was discovered that	1

	interest on capitals was provided @ 8% instead of 10% p.a. In the adjusting entry : (A) A will be credited by ₹8,000 and B will be credited by ₹6,000. (B) A will be debited by ₹8,000 and B will be debited by ₹6,000. (C) A will be debited by ₹1,000 and B will be credited by ₹1,000. (D) A will be credited by ₹1,000 and B will be debited by ₹1,000.	
8	P, Q & R are sharing profits & losses equally. R retires & the goodwill is appearing in the books at ₹30,000. Goodwill of the firm is valued at ₹1,50,000. Calculate the net amount to be credited to R's Capital A/c. (A) ₹60,000 (B) ₹50,000 (C) ₹40,000 (D) ₹10,000 **(OR)** A, B & C were partners sharing profits & losses in the ratio of 2:2:1. Books are closed on 31st March every year. C dies on 5th November, 2018. Under the partnership deed, the executors of the deceased partner are entitled to his share of profit to the date of death, calculated on the basis of last year's profit. Profit for the year ended 31st March, 2018 was ₹2,40,000. C's share of profit will be: (A) ₹28,000 (B) ₹32,000 (C) ₹28,800 (D) ₹48,000	**1**
9	On taking responsibility of payment of a liability of ₹80,000 by a partner, the account credited will be: (A) Realisation A/c (B) Cash A/c (C) Capital A/c of the Partner (D) Liability A/c	**1**
10	Partners A, B & C share the profits of a business in the ratio of 3:2:1. They admit D who brings in Rs.60,000 for his share of goodwill. A, B, C and D decide to share the profits respectively in the ratio of 5:3:2:2. Credit will be given to : (A) A ₹6,000; B ₹6,000 (B) A ₹30,000; B ₹18,000; C ₹12,000 (C) A ₹30,000; B ₹20,000; C ₹10,000 (D) A ₹30,000; B ₹30,000 **(OR)** If the incoming partner brings the amount of goodwill in Cash & also a balance exists in Goodwill A/c, then this Goodwill A/c is written off among the old partners in (A) The new profit-sharing ratio (B) The old profit-sharing ratio (C) The sacrificing ratio (D) The gaining ratio	**1**
11	X, Y & Z are partners sharing profits & losses in the ratio of 5:3:2. They decides to share the future profits in the ratio of 3:2:1. Workmen compensation reserve appearing in the balance sheet on the date if no information is available for the same will be: (A) Distributed among the partners in old profit-sharing ratio (B) Distributed among the partners in new profit-sharing ratio (C) Distributed among the partners in capital ratio (D)Carried forward to new balance sheet without any adjustment	**1**
12	When debentures are issued at discount & redeemable at a premium which one of the following accounts is debited at the time of issue? (A) Debentures A/c (B) Premium on redemption of debentures A/c (C) Loss on issue of debentures A/c (D) None of these.	**1**
13	If vendors are issued of Rs. 75,000 in consideration of net assets of Rs. 90,000 the balance of Rs.15,000 will be credited to: (A) Statement of Profit & loss (B) Goodwill A/c (C) General Reserve A/c (D) Capital Reserve A/c	**1**
14	XYZ Ltd. took over assets of ₹3,00,000 and liabilities of ₹10,000 of ABC Ltd. for ₹2,70,000 payable by issue of 9% Debentures of ₹100 each at 20% premium. Which of the following statements is correct: (A)Capital Reserve is to be Dr.with ₹20,000 (B)Capital Reserve is to be Cr.with ₹20,000 (C) Goodwill A/c is to be Dr.with ₹20,000 (D) Goodwill A/c is to be Cr.with ₹20,000	**1**
15	How much amount will be paid to Creditors for ₹25,000 if ₹5,000 of the creditors are not to be paid and the remaining creditors agreed to accept 5% less amount? (A) ₹18,750 (B) ₹19,000 (C) ₹19,750 (D) ₹20,000	**1**
16	**Assertion (A):** Employees provident fund is not distributed to Partners' Capital A/c. **Reason (R):** Employees provident fund is a liability towards the employees, thus, partners have no claim over it. (A) Both Assertion and Reason are correct and Reason is the correct explanation	**1**

	for Assertion (B) Both Assertion and Reason are correct but Reason is not the correct explanation for Assertion (C) Assertion is correct but Reason is incorrect (D) Both Assertion and Reason are incorrect	
17	Atul and Neera were partners in a firm sharing profits in the ratio of 3 :2. They admitted Mitali as a new partner. Goodwill of the firm was valued at ₹2,00,000. Mitali brings her share of goodwill premium of ₹20,000 in cash, which is entirely credited to Atul's capital account. Calculate the new profit-sharing ratio. **(OR)** Satish & Taruna were partners in a firm sharing profits & losses in the ratio of 3:2. From 1st April, 2018 they decided to share profits equally. On that date, their Balance Sheet showed a credit balance of ₹35,000 in workmen compensation fund. The goodwill of the firm on that date was valued at ₹50,000. The firm accepted a claim of ₹. 40,000 for workmen compensation. Pass necessary JE for the above transactions on the reconstitution of the firm.	**3**
18	Record necessary journal entries in the following cases: (a) Creditors worth ₹85,000 accepted ₹40,000 as cash and Investment worth ₹43,000, in full settlement of their claim. (b) Creditors were ₹16,000. They accepted Machinery valued at ₹18,000 in settlement of their claim. (c) Creditors were ₹90,000. They accepted Buildings valued ₹1, 20,000 and paid cash to the firm ₹ 30,000.	**3**
19	Fill in the blanks in the following case.	**3**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1	Sundry Assets A/c……..Dr. To Sundry Creditors A/c To…… To …….. (Business of ABC & Co. purchased for consideration of ₹15,00,000)		18,00,000	 2,00,000 …….. …….
2	……. Dr. ……. Dr. To 8% Debentures A/c (Paid to ABC & Co.by issue of …….8%debentures of ₹150 each at a discount of ₹50 per debenture.)		…… ……	 ……..

20	X and Y are partners in a firm sharing profits and losses in the ratio of 2:1. On 31st March, 2024, their Balance Sheet showed General Reserve of ₹60,000. It was decided that in future they will share profits and losses in the ratio of 3:2. Pass necessary journal entries in each of the following alternative cases: (i) If General Reserve is not to be shown in the new Balance Sheet. (ii) If General Reserve is to be shown in the new Balance Sheet.	**3**
21	XYZ Ltd. issued 50,000 shares of ₹100 each at premium of 5%. The shares were payable ₹25 on application, ₹50 on allotment and ₹30 on first and final call. The issue was fully subscribed and money was duly received except the final call on 400 shares. The premium was adjusted on allotment. Prepare balance sheet with notes to account.	**4**
22	a. A and B are partners sharing profits equally. A drew regularly ₹4,000 at the end of every month for six months ended 30th September, 2019. Calculate interest on drawings @ 5% p.a. for a period of six months. b. Calculate interest on drawings of Vishesh @ 10% p.a. for the year ended 31st March, 2019, if he withdrew ₹7,500 at the beginning of each quarter.	**2+2=4**
23	(a)The directors of a company forfeited 200 equity shares of ₹10 each on which ₹800 had been paid. The Shares were re-issued upon payment of ₹1,500 as fully paid up. Pass necessary journal entries for the above transactions. (b)Gaurav Ltd. purchased Machinery costing ₹4,00,000 from Vaibhav Ltd. Payment	**2x3=6**

for the same was made as under:
(i) ₹1,00,000 in cash.
(ii) Balance was payable by issuing shares of ₹10 each at a Premium of 25%.
Pass the necessary Journal Entries.

24 Himanshu, Gagan & Naman are partners sharing profits& losses in the ratio of 3:2:1. On March 31, 2017, Naman retires. **6**

The various assets and liabilities of the firm on the date were as follows:
Cash ₹10,000, Building ₹1,00,000, Plant and Machinery ₹40,000, Stock ₹20,000, Debtors ₹20,000 and Investments ₹30,000.
The following was agreed upon between the partners on Naman's retirement:

i. Building to be appreciated by 20%.
ii. Plant and Machinery to be depreciated by 10%.
iii. A provision of 5% on debtors to be created for bad and doubtful debts.
iv. Stock was to be valued at ₹18,000 and Investment at ₹ 35,000.

Record necessary journal entries to the above effect & prepare the revaluation A/c.

25 Given below is the Balance Sheet of A & B, who are carrying on partnership business on 31.12.2016. A and B share profits & losses in the ratio of 2:1. **6**

Balance Sheet of A and B as at March 31, 2016.

Liabilities	Amt (₹)	Assets	Amt (₹)
Bills Payable	10,000	Cash in Hand	10,000
Creditors	58,000	Cash at Bank	40,000
Outstanding Expenses	2,000	Sundry Debtors	60,000
Capitals:		Stock	40,000
A: 1,80,000		Plant	1,00,000
B: 1,50,000	3,30,000	Buildings	1,50,000
	4,00,000		**4,00,000**

C is admitted as a partner on the date of the balance sheet on the following terms:
(i)C will bring in ₹1,00,000 as his capital & ₹60,000 as his share of goodwill for 1/4 share in the profits.
(ii)Plant is to be appreciated to ₹1,20,000 & the value of buildings is to be appreciated by 10%.
(iii)Stock is found over valued by ₹4,000.
(iv) A provision for bad and doubtful debts is to be created at 5% of debtors.
(v) Creditors were unrecorded to the extent of ₹1,000.
Prepare Revaluation account and Partners' Capital Accounts.

(OR)

R, S & M were carrying on business in partnership sharing profits in the ratio of 3:2:1 respectively. On March 31, 2011, Balance Sheet of the firm stood as follows:

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry creditors	16,000	Building	23,000
Capitals:		Debtors 7,000	
R - 20,000		(-) Pro for B D (350)	6,650
S - 7,500		Stock	12,350
M - 12,500	40,000	Patents	8,000
		Bank	6,000
	56,000		**56,000**

S retired on the above-mentioned date on the following terms:
(a) Buildings to be appreciated by ₹8,800.
(b) Provision for bad debts to be made @ 10% on debtors.
(c) Goodwill of the firm to be valued at ₹9,000.
(d) ₹5,000 to be paid to S immediately and the balance due to him to be treated as a loan carrying interest @ 6% per annum.
Prepare Revaluation Account and Partners' Capital Account.

26 Jaya Ltd issued 60,000 shares of ₹ 10 each at a premium of ₹ 2 per share payable as ₹ 3 on application, ₹ 5 (including premium) on allotment and balance on the first and final call. Applications were received for 82,000 shares. The directors resolved to allot as follows **6**

(i)Applicants of 30,000 shares — allotted 20,000 shares
(ii)Applicants of 50,000 shares — allotted 40,000 shares
(iii)Applicants of 2,000 shares — Nil
Ramesh who had applied for 900 shares in category (i) and Suresh who was allotted 600 shares in category (ii) failed to pay the allotment money.
Pass necessary journal entries in the books of Jaya Ltd.

(OR)

X Ltd. issued a prospectus offering 2,00,000 shares of ₹10 each at ₹14 per share payable as follows:
On application- ₹4 On allotment- ₹6 (including premium ₹4)
On first call- ₹3 On final call- balance
Dinesh the holder of 1,000 shares did not pay the amount due on allotment and first call. His shares were forfeited and 400 of these shares were immediately reissued credited ₹9 paid for ₹8.40 per share.
Final call was not made till date.
Pass necessary journal entries in the books of company.

Part B: - Analysis of Financial Statements

27 Dynamic (time-based) analysis is: **1**
(A) Horizontal Analysis (B) Vertical Analysis
(C) Internal Analysis (D) External Analysis

28 If Opening Inventory is ₹1,20,000, Cost of Revenue from Operations is ₹10,00,000 and Inventory Turnover Ratio is 5 times, then Closing Inventory will be: **1**
(A) ₹3,20,000 (B) ₹2,80,000 (C) ₹1,60,000 (D) ₹4,00,000

(OR)

A Company's Liquid Assets are ₹2, 00,000, Inventory is ₹1, 00,000, Prepaid Expenses are ₹20,000 and Working Capital is ₹2, 40,000. Its Current Ratio will be:
(A) 1.33 :1 (B) 4 : 1 (C) 2.5 : 1 (D) 3 : 1

29 Interest received by a finance company is classified under which kind of activity while preparing a Cash Flow Statement? **1**
(A) Operating Activities (B) Investing Activities
(C) Financing Activities (D) Cash Equivalent

(OR)

Which of the following come under investing activities in the cash flow?
(A) Sale of fixed assets (B) The interest that is received
(C) Dividend received (D) All of the above

30 A company purchased a machine for ₹1,00,000 by paying ₹30,000 in cash and issuing debentures for the remaining ₹70,000. In the cash flow statement, the transaction will be shown as: **1**
(A) Outflow under Investing Activity ₹1,00,000
(B) Outflow under Investing Activity ₹30,000 & Inflow under Financing Activity ₹70,000.
(C) Outflow under Investing Activity ₹30,000 only.
(D) Inflow under Financing Activity ₹70,000 only.

31 From the information extracted from the Statement of Profit & Loss for the years ended 31st March, 2017 & 31st March, 2018, prepare a Comparative Statement of Profit & Loss: **3**

Particulars	2017-18	2016-17
Revenue from operations	300% of cost of material consumed	200% of cost of material consumed
Cost of materials consumed	2,40,000	2,00,000
Other expenses	20% of cost of material consumed	10% of cost of material consumed
Tax rate	50%	50%

(OR)
Complete the following Common Size Balance Sheet:

Common Size Balance Sheet

Particulars	A Ltd.	B Ltd.	A Ltd. (% of Total)	B Ltd. (% of Total)
I. Equity and Liabilities				
1. Shareholder's Fund				
a. Equity Share Capital	----------	8,00,000	60	66.67
b. Reserves and Surplus	3,00,000	2,50,000	--------	20.83
2. Current Liabilities	1,00,000	----------	10	12.5
Total	10,00,000	12,00,000	100	100
II. Assets				
1. Non-Current Assets				
a. Fixed Assets	4,00,000	7,00,000	---------	58.33
2. Current Assets	----------	5,00,000	60	--------
Total	10,00,000	12,00,000	100	100

32 Write the main head and sub head of the following items as per the financial statements of a company: **3**

a. Advance tax b. Bank Overdraft c. Trademarks
d. Capital Reserve e. Finished Goods f. Loose Tools

33 The quick ratio of a company is 2: 1. State giving reasons, which of the following would improve, reduce or no change the ratio **4**

(i) Purchase of machinery for cash (ii) Purchase of goods on credit
(iii) Sale of furniture at cost (iv) Cash received from debtors.

(OR)

Y Ltd's profits after interest & tax were ₹1,00,000. Its current assets were ₹4,00,000 current liabilities ₹2,00,000; fixed assets ₹6,00,000 & 10% long-term debt ₹4,00,000. The rate of tax was 20%. Calculate Return on Investment of Y Ltd.

34 Calculate Cash Flow from operating activities from the following information: **6**

Particulars	31st March, 2015	31st March, 2014
Surplus (i.e. Balance in the Statement of Profit and Loss)	71,000	89,000
Inventory	12,000	4,000
Trade Receivables	58,000	45,000
Outstanding Expenses	14,600	10,000
Goodwill	57,000	27,000
Cash in Hand	9,000	12,000
Machinery	82,000	56,000

Additional Information:

A piece of machinery costing ₹50,000 on which depreciation of ₹20,000 had been charged was sold for ₹10,000. Depreciation charged during the year was ₹18,000.
Income Tax ₹23,000 was paid during the year.
Dividend paid during the year was ₹36,000.

MARKING SCHEME OF PRACTICE PAPER-2

CLASS: 12 SUBJECT : ACCOUNTANCY (055)

SN	PART A (Accounting for Partnership Firms and Companies)	Marks
1	(C) ₹400 for X, ₹5,200 for Y and ₹400 for Z. **(OR)** (D) ₹15,000	1
2	(C) ₹3,240	1
3	(D) Assertion is incorrect, but the reason is correct. **(OR)** (C) 48	1
4	(A) 90,000 **(OR)** (A) 11,000	1
5	(A) 3 : 1 : 1	1
6	(B) ₹86,000	1
7	(D) A will be credited by ₹1,000 and B will be debited by ₹1,000.	1
8	(C) ₹40,000 **(OR)** (C) ₹28,800	1
9	(C) Capital Account of the Partner	1
10	(D) A ₹30,000; B ₹30,000 **(OR)** (B) The old profit sharing ratio	1
11	(A) Distributed among the partners in old profit sharing ratio	1
12	(C) Loss on issue of debentures account	1
13	(D) Capital Reserve A/c	1
14	(B) Capital Reserve is to be credited with ₹20,000	1
15	(B) ₹19,000	1
16	(A) Both Assertion and Reason are correct and Reason is the correct explanation for Assertion	1

17 (3)

Firms goodwill = ₹2,00,000
Premium for goodwill brought in by new partner Mitali = ₹20000
So, Mitali s share = 20,000/ 2,00,000 = 1/10
Premium for goodwill is entirely Cr. to Atul's Capital A/c means only Atul sacrifice.
So, Atul's sacrificing ratio = 1/10
∴ Atul's new share = 3/5−1/10=(6−1)/10=5/10
Neera's new share = 2/5×2/2=4/10; Mitali's new share = 1/10 = 1/10
New Ratio = 5 : 4 : 1

(OR)

Calculation of Sacrificing or Gaining Ratio
Sacrificing Ratio = Old Share – New Share
Satish=3/5−1/2=(6−5)/10=1/10(sacrifice); Taruna =2/5−1/2=(4−5)/10=(1/10) (gain)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	WCR A/c……Dr. Revaluation A/c……..Dr. To W Compen A/c		35,000 5,000	 40,000
2	Satish's A/c……Dr. Taruna's A/c……..Dr. To Revaluation A/c		3,000 2,000	 5,000
3	Taruna's capital A/c……..Dr. To Satish's capital A/c		5,000	 5,000

18 (3 (one mark for each entry))

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Realisation A/c……..Dr. To Cash A/c (Creditors ₹85,000 accepted 40,000 as cash and investment ₹43,000 in their full settlement)		40,000	 40,000
(b)	-- No entry-- (Creditors ₹16,000 accepted Machinery ₹18,000 in the full settlement. No entry is required since both asset and liability are already transferred to the Realisation A/c		------	------
(c)	Cash A/c……Dr. To Realisation A/c (Creditors worth ₹90,000 accepted buildings worth ₹1,20,000 and returned ₹30,000 as cash		30,000	 30,000

		after settlement of claim to the firm)				

19 — **6x1/2=3**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Sundry Assets A/c……..Dr. To Sundry Creditors A/c To **ABC & Co. A/c** To **Capital Reserve A/c** (Business of ABC & Co. purchased for consideration of ₹15,00,000)		18,00,000	 2,00,000 **15,00,000** **1,00,000**
2	**ABC & Co. A/c** Dr. **Discount on issue of Deb. A/c** Dr. To 8% Debentures A/c (Paid to ABC & Co.by issue of **15,000**, 8% debentures of ₹150 each at a discount of ₹50 per debenture.)		**15,00,000** **7,50,000**	 **22,50,000**

20 — **3=** (01 mark for each entry and 01 mark for Working Notes)

(i)If General Reserve is not to be shown in the New Balance Sheet.

(i)	General Reserve A/c……..Dr. To X's Capital A/c To Y's Capital A/c (General reserve transferred to partners' capital a/c in old ratio.)		60,000	 40,000 20,000

(ii) If General Reserve is to be shown in the New Balance Sheet.

(i)	Y's Capital A/c……..Dr. To X's Capital A/c (Adjustment entry passed for the treatment of General reserve.		4,000	 4,000

<u>Working Notes-</u>

Old Ratio of X and Y= 2:1; New Ratio of X and Y = 3:2

X's Sacrifice/ Gain= 2/3-3/5 = (10-9)/15 = 1/15 Sacrifice

Y"s Sacrifice/ Gain= 1/3-2/5 = (5-6)/15 = (1/15) Gain

21 — **2+2=4**

Name of Company- XYZ Ltd.

Balance Sheet

Particulars	Note No.	Amt (₹)
I.EQUITY AND LIABILITIES 1.Shareholders' Fund (a) Share Capital (b) Reserve and Surplus 2.Non-Current Liabilities 3.Current Liabilities	 1 2	 49,88,000 2,50,000
Total		**52,38,000**
II.ASSETS 1.Non-Current Assets 2.Current Assets (a) Cash and Cash Equivalents	 3	 52,38,000
Total		**52,38,000**

NOTES TO ACCOUNT

Note No.	Particulars	Amt(₹)
1	(a) Share Capital Authorized capital (50,000 shares of ₹100 each)	 50,00,000
	Issued Capital (50,000 shares of ₹100 each)	 50,00,000

	Subscribed and fully Paid up Capital 49,600 shares of ₹100 each Subscribed but not fully paid up Capital 400 shares of ₹ 100 each 40,000 Less- Call-in-Arrears (12,000)	49,60,000 28,000 49,88,000	
2	Reserve and Surplus: Security Premium Reserve	2,50,000	
3	Cash and Cash Equivalents: Cash at Bank	52,38,000	

22 (a) Drawing amount= 4,000x6 =₹ 24,000 **2+2=4**

Time= (Time let after first drawing+ Time let after last drawing)/ 2 = (5+0)/ 2
= 2.5 months

Interest on drawing= 24,000 X (5/100) X (2.5/12) = ₹250

(b) Drawing amount= 7,500 x4 = ₹30,000; Interest rate= 10% p.a.

Time= (Time let after first drawing + Time let after last drawing)/ 2= (12+3)/ 2
=7.5 months

Interest on drawing = ₹30,000 X (10/ 100) X (7.5/12) = ₹1,875

23 **(a)Journal entries** **3+3=6**

Date	Particulars	L.F.	Amt (Dr)	Amt (Cr)
1	Share Capital A/c Dr. To Calls-in-Arrears A/c To Share Forfeiture A/c (200 shares forfeited.)		2,000	 1,200 800
2	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (200 shares reissued)		1,500 500	 2,000
3	Share forfeiture A/c Dr. To Capital Reserve A/c (Balance of forfeiture A/c trf to capitalRes.)		300	 300

(b) Journal entries in the books of Gaurav Ltd.

Date	Particulars	L.F.	Amt (Dr)	Amt. (Cr)
1	Machinery A/c Dr. To Vaibhav Ltd. A/c (Machinery Purchased on credit from vaibhav Ltd.)		4,00,000	 4,00,000
2	Vaibhav Ltd. A/c Dr. To Cash A/c To Share Capital A/c To Security Premium Reserve A/c (Cash paid & shares issued at premium for balance)		4,00,000	 1,00,000 2,40,000 60,000

Working Note:

No. of Shares of Vendors:

Net amount payable = Total amount payable - Paid in Cash

Net amount payable = ₹4,00,000 - ₹1,00,000 = ₹3,00,000

Therefore, No. of shares issued at Premium = 3,00,000/12.5 = 24,000 shares

24 **Journal entries** **3+3=6**

Date	Particulars	L.F	Amt(Dr)	Amt(Cr)
1	Building A/c Dr. Investment A/c Dr. To Revaluation A/c (increase in the assets recorded)		20,000 5,000	 25,000
2	Revaluation A/c Dr. To Plant & Machinery A/c To Provision for Doubtful debts A/c To Stock A/c (Decrease in the value recorded.)		7,000	 4,000 1,000 2,000

3	Revaluation A/c Dr.		18,000	
	To Himanshu's Capital A/c			9,000
	To Gagan's Capital A/c			6,000
	To Naman's Capital A/c			3,000
	(Profit on Rev. trf. to Partners' Capital A/c)			

Revaluation A/c

Particulars	(₹)	Particulars	(₹)
To Plant & Machinery A/c	4,000	By Building	20,000
To Provision for Doubtful debts A/c	1,000	By Investment	5,000
To Stock A/c			
To Partners' Capital A/c	2,000		
Himanshu - 9,000			
Gagan - 6,000			
Naman - 3,000	18,000		
	25,000		**25,000**

25 **Revaluation A/c** **2+4=6**

Particulars	(₹)	Particulars	(₹)
To Stock	4,000	By Plant	20,000
To Creditors (unrecorded)	1,000	By Building	15,000
To Provision for Doubtful Debts	3,000		
To Partners' Capital A/c			
A - 18,000			
B - 9,000	27,000		
	35,000		**35,000**

Partners' Capital Account

Part	A	B	C	Part	A	B	C
To bal c/d	2,38,000	1,79,000	1,00,000	By Bal b/d	1,80,000	1,50,000	
				By Bank A/c			1,00,000
				By Prem for G/w A/c	40,000	20,000	
				By Reval A/c	18,000	9,000	
	2,38,000	**1,79,000**	**1,00,00**		**2,38,000**	**1,79,000**	**1,00,000**

(OR)

Revaluation A/c

Particulars	(₹)	Particulars	(₹)
To provision for Bad debts	350	By Building	8,800
To Partners' Capital A/c:			
R - 4,225			
S - 2,817			
M - 1,406	8,450		
	8,800		**8,800**

Partners' Capital A/c

Particulars	R	S	M	Particulars	R	S	M
To S's Capital A/c	2,250		750	By Balance b/d	20,000	7,500	12,500
				By Revaluation A/c	4,225	2,817	1,408
To Cash A/c		5,000					
To S's LoanA/c		8,317		By R's Capital		2,250	
To Balance c/d	21,975		13,158	By M's capital		750	
	24,225	13,317	13,908		24,225	13,317	13,908

26 **1x6=6**

Date	Particulars	L F	Dr. (₹)	Cr. (₹)
1	Bank A/c……Dr.		2,46,000	
	To Share Appl. A/c			2,46,000
	(app. Money received)			
2	Share App. A/c……Dr.		2,46,000	
	To Share Capital A/c			1,80,000
	To Share Allot A/c			60,000
	To Bank A/c			6,000
	(app. Money transferred)			

3	Share Allotment ……Dr.		3,00,000	
	To Share Capital A/c			1,80,000
	To SPR A/c			1,20,000
	(Allot. Money due.)			
4	Bank A/c……Dr.		2,35,350	
	Call in Arrears A/c……..…Dr.		4,650	
	To Share Allot. A/c			2,40,000
	(Money received on allot & call in arrear)			
5	Share First & Final Call A/c…..Dr.		2,40,000	
	To Share Capital A/c			2,40,000
	(First & Final call money due.)			
	Bank A/c……..Dr.		2,35,200	
6	Call in Arrears A/c……..……Dr.		4,800	
	To Share First & Final Call A/c			2,40,000
	(Money received on First & Final call in arrears.)			

(OR)

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1	Bank A/c……Dr.		8,00,000	
	To Share App. A/c			8,00,000
2	Share App. A/c……..Dr.		8,00,000	
	To Share Capital A/c			8,00,000
3	Share Allot A/c……..……Dr.		12,00,000	
	To Share Capital A/c			4,00,000
	To SPR A/c			8,00,000
4	Bank A/c……Dr.		11,94,000	
	Call in Arrear A/c……..Dr.		6,000	
	To Share Allot A/c			12,00,000
5	Share I call A/c……Dr.		6,00,000	
	To Share Capital A/c			6,00,000
6	Bank A/c……..Dr.		5,97,000	
	Call in Arrears A/c……Dr.		3,000	
	To Share I Call A/c			6,00,000
	Share Capital A/c……..Dr.		9,000	
7	SPR A/c……Dr.		4,000	
	To Share Forfeiture A/c			4,000
	To Call in Arrear A/c			9,000
	(shares forfeited.)			
8	Bank A/c……..Dr.		3,360	
	Share Forfeiture A/c……Dr.		240	
	To Share Capital A/c			3,600
	(shares reissued @ 8.40.)			
	Share Forfeiture A/c……Dr.		1,360	
9	To Capital Reserve A/c			1,360
	(Balance of forfeiture A/c transferred to Capital Reserve.)			

(OR)

Entries sr. no. 1 to 6 carry ½ mark each and entries sr. no. 7 to 9 carry 1 mark each.

Part B :- Analysis of Financial Statements

27	(A) Horizontal Analysis	**1**
28	(B) ₹ 2,80,000 **(OR)** (B) 4 : 1	**1**
29	(A)Operating Activities **(OR)** (D) All of the above	**1**
30	(B)Outflow under Investing Activity ₹30,000&Inflow under Financing Activity ₹ 70,000.	**1**
31	**Comparative Statement of Profit and Loss**	**3**

For the year ended 31st march, 2017 and 31st March, 2018

Particulars	2016-17	2017-18	Abs.Change	%Change
Revenue from Operations	4,00,00	7,20,000	3,20,000	80
Expenses-				

Cost of Material Consumed	2,00,000	2,40,000	40,000	20
Other expenses	20,000	48,000	28,000	140
Total expenses	2,20,000	2,88,000	68,000	30.91
Profit before tax	1,80,000	4,32,000	2,52,000	140
Less- Tax @ 50%	(90,000)	(2,16,000)	(1,26,000)	140
Profit after tax	**90,000**	**2,16,000**	**1,26,000**	**140**

(OR)

Common Size Balance Sheet				
Particulars	**A Ltd.**	**B Ltd.**	**A Ltd.(% of Total)**	**B Ltd.(% of Total)**
I.Equity and Liabilities **1. Shareholder's Fund**				
a. Equity Share Capital	**6,00,000**	8,00,000	60	66.67
b. Reserves and Surplus	3,00,000	2,50,000	**30**	20.83
2. Current Liabilities	1,00,000	**1,50,000**	10	12.5
Total	10,00,000	12,00,000	100	100
II. Assets **1. Non-Current Assets**				
a. Fixed Assets	4,00,000	7,00,000	**40**	58.33
2. Current Assets	**6,00,000**	5,00,000	60	**41.67**
Total	10,00,000	12,00,000	100	100

32 **6x1/2=3**

Items	**Main Head**	**Sub Heads**
(a)Advance Tax	Current Assets	Other Current Assets
(b)Bank Overdraft	Current Liability	Short Term Borrowings
(c)Trademarks	Non-current assets	Property, Plant & Equipment and Intangible Assets — Intangible Assets
(d)Capital reserve	Shareholders' Fund	Reserve and Surplus
(e)Finished Goods	Current Assets	Inventories
(f)Loose Tools	Current Assets	Inventories

33 **1x4=4**

(i) Purchase of Machinery for Cash: Effect -**Reduce**
Reason Purchase of machinery for cash will decrease the quick assets, but the current liabilities will remain unchanged.
(ii) Purchase of Goods on Credit: Effect- **Reduce**
Reason Purchase of goods on credit will increase the current liabilities, but the quick assets will remain unchanged. **OR**
(iii) Sale of Furniture at Cost: Effect -**Improve**
Reason Sale of furniture at cost will increase the quick assets, but the current liabilities will remain unchanged.
(iv) Cash Received from Debtors: Effect -**No change**
Reason Cash received from debtors will not change the quick assets because the quick assets are increased & decreased with the same amount & the current liabilities remain unchanged.

(OR)

Net Profit after interest and tax = ₹ 1,00,000
+ Tax 1,00,000 x (20/80) = 25,000
+ Interest 4,00,000 x (10/100) = 40,000 **1**
Net profit before interest and tax = 1,65,000
Working Capital=Current Assets-Current Liabilities=4,00,000-2,00,000=₹2,00,000 **1**
Capital Employed =Fixed Assets+ Working Capital=6,00,000+2,00,000=₹8,00,000 **1**
Return on Investment = (Net profit before interest and tax/ Capital Employed) x 100
= (1,65,000/ 8,00,000) x 100 = 20.62% **1**

34 **4+2=6**

Cash Flow from Operating ActivitiesFor the year ended 31st March 2015

Particulars	**Amt (₹)**

Cash Flow from Operating Activities		
Net Profit before tax and extraordinary items		41,000
Adjustment for non-operating/ non-cash items		
+Depreciation	18,000	
+Loss on sale of machinery	20,000	38,000
Operating profit before working capital changes		79,000
Add: Decrease in outstanding expenses	4,600	
Less: Increase in inventory	(8,000)	
Less: Increase in Trade Receivables	(13,000)	(16,400)
Cash generated from operations		62,600
Less: Tax Paid		(23,000)
Net cash flow from operating activities		**39,600**

Working Notes:

(i)Calculation of Net Profit before tax and extraordinary items ₹

Net profit before tax (₹ 71,000- ₹ 89,000) (18,000)

+ Dividend paid 36,000

+ Tax paid 23,000

Net profit before tax and extraordinary items = **41,000**

(ii) Calculation of Loss on Sale of Machinery

Cost of machine	50,000
Less: Depreciation	(20,000)
Book value of machine	= 30,000
(-) Sale value	(10,000)
Loss on sale of machinery	**=20,000**

PRACTICE PAPER-3

CLASS : 12 SUBJECT : ACCOUNTANCY (055)

M.M.:80 **Time: 3 HRS.**

GENERAL INSTRUCTIONS: SAME AS CBSE QUESTION PAPER

Part A :- Accounting for Partnership Firms and Companies

1	(a) Assertion: Partner's current accounts are opened when their capital are fluctuating. Reasoning: In case of Fixed capitals all the transactions other than Capital are done through Current account of the partner. A) Both A and R are true and R is the correct explanation of A. B) Both A and R are true but R is not the correct explanation of A. C)A is true but R is false D) A is false but R is true **OR** (b) In the absence of an agreement, partners are entitled to: i) Profit share in capital ratio. ii) Commission for making additional sale. iii) Interest on Loan & Advances by them to the firm. iv) Salary for working extra hours. v) Interest on Capital. Choose the correct option: A) Only i), iv)& v); (B) Only ii) & iii); (C) Only iii); (D) Only i) & iii).	1
2	A, B and C were partners sharing profits and losses in the ratio of 2:2:1. Their fixed Capital balances were ₹ 5,00,000; ₹ 4,00,000 and ₹ 3,00,000 respectively. For the year ended March 31, 2024 profits of ₹ 84,000 were distributed without providing for Interest on Capital @ 10% p.a as per the partnership deed. While passing an adjustment entry, which of the following is correct? A) C will be debited by ₹ 4,200 B)C will be credited by ₹ 4,200 C) C will be credited by ₹ 6,000 D)C will be debited by ₹ 6,000	1
3	(a) If 10,000 shares of ₹10 each were forfeited for non-payment of final call money of ₹3 per share and only 7,000 of these shares were re-issued @₹ 11 per share as fully paid up, then what is the minimum amount that company must collect at the time of re-issue of the remaining 3,000 shares? A) ₹ 21,000 B) ₹ 9,000 C) ₹ 16,000 D) ₹ 30,000 **OR** (b) Forfeiture of shares leads to reduction of _____Capital. A) Authorised B) Issued C) Subscribed D) Called up	1
4	(a) On 1st April 2022, Galaxy ltd. had a balance of ₹4,00,000 in Securities Premium A/c. During the year company issued 10,000 Equity shares of ₹10 each as bonus shares & used the balance amount to write off Loss on issue of Debenture on A/c of issue of 1,00,000, 9% Debentures of ₹100 each at a discount of 10% redeemable @ 5% Premium. The amount to be charged to Statement of P&L for the year for Loss on issue of Debentures would be: A) ₹15,00,000. B) ₹11,00,000. C) ₹12,00,000. D) ₹10,00,000. **OR** (b) Alexa Ltd. purchased building from Siri Ltd for ₹16,00,000. The consideration was paid by issue of 6%debentures of ₹100 each at a discount of 20%. The 6% Debentures account is credited with: A) ₹20,80,000 B) ₹20,00,000 C) ₹19,20,000 D) ₹12,80,000	1
5	Rohit and Ram were partners sharing profits and losses in the ratio 5:3. They admitted Sumit as a new partner. Rohit sacrificed $\frac{1}{4}$from his share and Ram sacrificed $\frac{1}{6}$of his share. What will be the new ratio? A) 6:5:5 B) 9:5:10 C) 15:10:7 D) 35:21:40	1
6	The profits earned by a business over the last 5 years are as follows: ₹12,000; ₹13,000; ₹14,000; ₹18,000 and ₹2,000 (loss). Based on 2 years purchase of the last 5 years profits, value of Goodwill will be: A) ₹23,600 B) ₹22,000 C) ₹1,10,000 D) ₹1,18,000	1
7	Vikas is a partner in a firm. His drawings during the year ended 31st March, 2025 were ₹72,000. If interest on drawings is charged @ 9% p.a. the interest charged will be: A) ₹324 B) ₹6,480 C) ₹3,240 D) ₹648	1
8	(a) P, Q and R are partners sharing profits in the ratio of 5: 4: 3. Q retires and P and R decide to share future profits equally. Gaining Ratio will be: A) 5:3 B) 1:1 C) 1:3 D) 3:1	1

	OR (b) A, B &C are partners in a firm sharing profit/loss in the ratio of 2: 2: 1. On March 31, 2025, C died. Accounts are closed on Dec., 31 every year. The sales for the year 2024 was ₹6,00,000 & the profits were ₹60,000. The sales for the period from Jan. 1, 2025 to March 31, 2025 were ₹2,00,000. The share of deceased partner in the current year's profits on the basis of sales is: A) ₹20,000 B) ₹8,000 C) ₹3,000 D) ₹4,000	
9	Rama, a partner took over Machinery of ₹ 50,000 in full settlement of her Loan of ₹ 60,000. Machinery was already transferred to Realisation Account. How it will effect the Realisation Account? (A) Realisation A/c will be Cr. by ₹ 60,000 (B) Realisation A/c will be Cr. by ₹ 10,000 (C) Realisation A/c will be Cr. by ₹ 50,000 (D) No effect on Realisation A/c	1
10	(a) A and B are partners sharing profits and losses as 2 : 1. C is admitted and profit sharing ratio becomes 4 : 3 : 2. Goodwill is valued at ₹94,500. C brings required goodwill in cash. Goodwill amount will be Credited to : (A) A ₹14,000 & B ₹7,000 (B) A ₹12,000 & B ₹9,000 (C) A ₹21,000 (D) A ₹94,500 **OR** (b) Ram and Shyam were partners sharing profits and losses in the ratio of 3:2. Their balance sheet shows building at ₹ 1,60,000. They admitted Mohan as a new partner for $\frac{1}{4}$th share. In additional information it is given that building is undervalued by 20%. The share of loss/gain of revaluation of Shyam is _____ & current value of building shown in new balance sheet is _____. A) Gain ₹ 12,800, Value₹ 1,92,000 B) Loss ₹ 12,800, Value₹ 1,28,000 C) Gain ₹ 16,000, Value₹ 2,00,000 D) Gain ₹ 40,000, Value₹ 2,00,000	1
11	Sara and Tara were partners in a firm. Their capitals as on 1st April, 2024 were ₹ 6,00,000 and ₹ 4,00,000 respectively. On 1st October, 2024, Tara withdrew ₹ 1,00,000 for personal use. According to the partnership deed, interest on capital was allowed @ 8% p.a. The amount of interest allowed on Tara's capital for the year ended 31st March, 2025 was : (A) ₹ 28,000 (B) ₹ 30,000 (C) ₹ 48,000 (D) ₹ 32,000	1
	From the given hypothetical situation, answer Q 12 – 14. X Ltd. issued 8,000, 9% Debentures of ₹100 each at a discount of 10%, redeemable at a premium of 5% on 1st April 2024. The full amount was payable on application. Applications were received for 9,000 debentures and allotment was made on pro rata basis. Balance of Securities Premium Reserve was ₹50,000.	
12	The amount of interest payable on 31st March 2025 will be A) ₹81,000 B) ₹72,000 C) ₹64,800 D) ₹72,800	1
13	Net cash received on issue of debentures (after refund to unsuccessful applicants) was: A) ₹8,00,000 B) ₹7,20,000 C) ₹8,10,000 D) ₹7,10,000	1
14	Loss on Issue of Debentures is to be written off as _____ out of Securities Premium and _____ out of Statement of Profit and Loss. A) ₹30,000; ₹90,000 (B) ₹50,000; ₹70,000 (C) ₹40,000; ₹80,000 (D) ₹70,000; ₹50,000	1
15	At the time of dissolution Machinery appears at ₹ 10,00,000 and accumulated depreciation for the machinery appears at ₹ 6,00,000 in the balance sheet of a firm. This machine is taken over by a creditor of ₹ 5,40,000 at 5% below the net value. The balance amount of the creditor was paid through bank. By what amount should the bank account be credited for this transaction? A) ₹ 60,000. B) ₹ 1,60,000. C) ₹ 5,40,000. D) ₹ 4,00,000.	1
16	A, B and C who were sharing profits and losses in the ratio of 4:3:2 decided to share the future profits and losses in the ratio to 2:3:4 with effect from 1st April 2025. An extract of their Balance Sheet as at 31st March 2025 is: **Liabilities** | **Amt (₹)** | **Assets** | **Amt (₹)** Workmen Compensation Reserve | 65,000 | | At the time of reconstitution, a certain amount of Claim on workmen compensation was determined for which B's share of loss amounted to₹5,000. The Claim for workmen compensation would be: A) ₹15,000 B) ₹70,000 C) ₹50,000 D) ₹80,000	1

17	Aamir, Bashir & Chirag were partners in a firm sharing profits &losses in the ratio of 3:3:2. Chirag retired. Aamir & Bashir decided to share profits& losses in future in the ratio of 1:2. On the day of Chirag's retirement, goodwill of the firm was valued at ₹ 5,40,000. Calculate gaining ratio and pass necessary journal entry to record the treatment of goodwill on Chirag's retirement. **OR** (b) Anu, Manu, Sonu & Rohan were partners in a firm sharing profits & losses in the ratio of 1:2:1:2. With effect from 1st April, 2025, they decided to share profits & losses in the ratio of 2:4:1:3. Their Balance Sheet showed General Reserve of ₹ 90,000. The goodwill of the firm was valued at ₹ 4,50,000. Pass necessary journal entries for the above on account of change in the profit sharing ratio. Show your working clearly.	3
18	Vidhi, Manas and Ansh were partners sharing profits and losses in the ratio of 2:3:5. Ansh was given a guarantee that his share of profits in any given year would not be less than ₹ 1,20,000. Deficiency, if any, would be borne by Vidhi and Manas equally. Profits for the year ended 31st March, 2025 amounted to ₹ 2,00,000. Pass necessary journal entries in the books of the firm for division of profits.	3
19	Exe Ltd. took over the running business of Ananya Ltd. having assets of ₹20,00,000 and liabilities of ₹ 3,400,000 by: (a) Issuing 16,000 8% Debentures of ₹ 100 each at 5% premium redeemable after 6 years @ ₹ 110; and (b) Cheque for ₹ 1,00,000. Pass the Journal entries in the books of Exe Ltd.	3
20	On 1st April, 2025, the capital of the firm of Ashu and Madhav is ₹1,50,000. The normal rate of return on capital employed is 10%.Average profits of the firm are ₹23,500. Calculate goodwill of the firm based on three years purchase of super profits.	3
21	RR Ltd. was registered with an authorised capital of ₹ 8,00,000 divided into 80,000 equity shares of ₹ 10 each. The company offered to the public for subscription 40,000 equity shares. The amount per share was payable as follows: On Application — ₹ 5 On Allotment — ₹ 3 On first and final call — Balance The issue was fully subscribed and all amounts due were received except the allotment and call money on 2,000 shares allotted to Seema. Present the Share Capital in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013. Also prepare 'Notes to Accounts' for the same	4
22	Aditi, Renu and Varsha were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 5. On 31st March, 2025 their Balance Sheet was as under Balance Sheet of Aditi, Renu and Varsha as at 31st March, 2025	4

Liabilities	Amt (₹)	Assets	Amt (₹)
Capitals:		Buildings	6,00,000
Aditi - 5,00,000		Machinery	3,00,000
Renu - 4,00,000		Stock	1,00,000
Varsha- 3,00,000	12,00,000	Patents	1,50,000
General Reserve	1,00,000	Debtors	2,50,000
Creditors	2,00,000	Cash	1,00,000
	15,00,000		**15,00,000**

Varsha died on 31st July, 2025. The partnership deed provided for the following, on the death of a partner:
Interest on capital was to be provided @ 6% p.a.
Goodwill of the firm was to be valued at 3 years purchase of average profits of the previous five years which were ₹ 90,000.
Varsha's share of profit or loss till the date of death was to be calculated on the basis of last year's profit. Profit for the year ending 31st March 2025 was ₹ 9,00,000
Prepare Varsha's Capital Account to be rendered to her executors.

23	a) Pass the necessary journal entries for 'Issue of Debenture' for the following: Arman Ltd. issued 750, 12% Debentures of ₹100 each at a discount of 10% redeemable at a premium of 5%.	6

Sohan Ltd. issued 800, 9% Debentures of ₹100 each at a premium of 20 per debenture redeemable at a premium of ₹10 per Debenture.
b) X Ltd. obtained a loan of ₹4,00,000 from IDBI Bank. The company issued 5,000 9%. Debentures of ₹100 each as a collateral security for the same.
Show how these items will be presented in the Balance Sheet of the company.

24 Abhay, Bikram & Chris were partners in a firm sharing profits & losses equally. They decided to dissolve their partnership firm on 31/3/2025. The firm's Balance Sheet on the date of dissolution was as follows: Balance Sheet of Abhay, Bikram & Chris as at 31st March, 2025 **6**

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital:		Plant and Machinery	80,000
Abhay - 68,000		Furniture	45,000
Bikram - 1,00,000		Motor Car	1,25,000
Chris - 77,000	2,45,000	Stock	30,000
Creditors	1,20,000	Debtors	70,000
		Cash at Bank	15,000
	3,65,000		**3,65,000**

The following information is available:

a) Plant & Machinery was taken over by Abhay at an agreed valuation of ₹ 75,000.
b) Furniture realised ₹ 40,000.
c) Motor car was taken over by Bikram for ₹ 1,30,000.
d) Debtors realised 10% less.
e) 10% of the stock was taken over by Chris for ₹ 4,500. The remaining stock was sold for ₹ 30,000.
f) Realisation expenses amounted to ₹ 5,000.

Prepare Realisation Account.

25 Anikesh and Bhavesh are partners in a firm sharing profits in the ratio of 7:3. Their Balance Sheet as on 31st March, 2025 was as follows: **6**

Balance Sheet of Anikesh and Bhavesh as on 31st March, 2025

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	60,000	Cash	36,000
Outstanding Wages	9,000	Debtors 54,000	
General Reserve	15,000	Less: Provision for doubtful debts 6,000	48,000
Capitals:		Stock	60,000
Anikesh – 1,20,000		Furniture	1,20,000
Bhavesh – 1,80,000	3,00,000	Machinery	1,20,000
	3,84,000		**3,84,000**

On 1st April, 2025 Chahat was admitted for 1/4th share in the profits on the following terms:
Chahat will bring ₹90,000 as her capital and ₹30,000 as her share of Goodwill premium.
Outstanding wages will be paid.
Stock will be reduced by 10%.
A creditor of ₹6,300, not recorded in the books, was to be taken into account.
Pass necessary Journal Entries for the above transactions in the books of the firm.

OR

(b) Rishi, Shashi & Trishi were partners in a firm sharing profits & losses in proportion of 1/2, 1/6 & 1/3..

Their Balance Sheet as at 31st March, 2025 was as follows:

Liabilities	Amt (₹)	Assets	Amt (₹)
Capitals:		Fixed Assets	80,000
Rishi- 36,000		Stock	20,000
Shashi- 30,000		Debtors	30,000
Trishi- 20,000	86,000	Cash	40,000
General Reserve	30,000		
Creditors	54,000		
	1,70,000		**1,70,000**

Shashi retired from the firm on 1st April, 2025 on the following terms:
Fixed Assets were valued at ₹56,000.

	Stock was taken over by Shashi at ₹26,000. Goodwill of the firm was valued at ₹18,000 on Shashi's retirement. Balance in Shashi's Capital Account was transferred to her Loan Account. Prepare the Revaluation Account and Partners' Capital Accounts.	
26	(a) Vani Limited invited applications for issuing 1,00,000 equity shares of ₹10 each at a premium of 10%. The amounts were payable as under: On Application and Allotment – ₹4 per share (including premium ₹1) On First Call – ₹4 per share On Second and Final Call – ₹3 per share Applications for 1,50,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money was adjusted towards sums due on calls. Parth a shareholder who had applied for 600 shares, did not pay the first call. His shares were forfeited. The second and final call was not yet made. Half of the forfeited shares were reissued at ₹8 per share fully paid up. Journalise the above transactions in the books of Vani Limited by opening calls in arrears and calls in advance account wherever necessary. **OR** (b) Record the journal entries for forfeiture and re-issue of shares in the following cases (i) X Ltd forfeited 60 shares of ₹ 10 each, ₹ 7 called-up on which the shareholder had paid application and allotment money of ₹ 5 per share. Out of these, 45 shares were re-issued to Naresh as ₹ 7 per share paid-up for ₹ 8 per share. (ii) Y Ltd forfeited 180 shares of ₹ 10 each, ₹ 8 called up issued at a premium of ₹ 2 per share to 'R' for non-payment of allotment money of ₹ 5 per share (including premium). Out of these, 160 shares were re-issued to Sanjay as ₹ 8 called-up for ₹ 10 per share.	6
	Part B :- Analysis of Financial Statements	
27	(a) The Quick Ratio of a company is 1 : 2. Which of the following transactions will result in an increase in this ratio ? (A) Cash received from debtors (B) Sold goods on credit (C) Purchased goods on credit (D) Purchased goods on cash **OR** (b) _____ ratios are calculated to determine the ability of the business to service its debt in the long run. (A) Liquidity (B) Turnover (C) Solvency (D) Profitability	1
28	From the following calculate Interest coverage ratio Net profit after tax ₹ 12,00,000; 10% debentures Rs 1,00,00,000; Tax Rate 40% A) 1.2 times B) 3 times C) 2 times D) 5 times	1
29	(a) **Statement I:-** Sale of Marketable Securities will result in no flow of Cash. **Statement II:-** Debentures issued as collateral security will result in inflow of cash. A) Both Statements are correct. B) Both Statements are incorrect. C) Statement I is correct and Statement II is incorrect. D) Statement I is incorrect and Statement I is correct. **OR** (b) What will be the effect of issue of Bonus shares on Cash Flow Statement? A) No effect B) Inflow in Financing Activity C) Inflow in Operating activity D) Inflow in Investing Activity	1
30	While computing cash from operating activities, which of the following item(s) will be added to the net profit? (i) Decrease in value of inventory (ii) Increase in share capital (iii) Increase in the value of trade receivables (iv) Increase in the amount of outstanding expenses A) Only (i) B) Only (i) and (ii) C) Only (i) and (iii) D) Only (i) and (iv)	1
31	Classify the following items under Major heads and Sub heads (If any) in the balance sheet of a Company as per schedule III of the Companies Act 2013. A. Loose Tools B. Loan repayable on demand C. Provision for Retirement benefits	3
32	(a) Determine Return on Investment and Net Assets Turnover ratio from the following information: -	3

Profits after Tax were ₹ 6,00,000; Tax rate was 40%; 15% Debentures were of ₹20,00,000; 10% Bank Loan was ₹ 20,00,000; 12% Preference Share Capital ₹30,00,000; Equity Share Capital ₹ 40,00,000 ; Reserves and Surplus were ₹10,00,000; Sales ₹ 3,75,00,000 and Sales Return ₹ 15,00,000.

OR

(b) Calculate proprietary ratio, if Total assets to Debt ratio is 2:1. Debt is ₹5,00,000. Equity shares capital is 0.5 times of debt. Preference Shares capital is 25% of equity share capital. Net profit before tax is ₹10,00,000 and rate of tax is 40%.

33 (a) From the following information, prepare Comparative Statement of Profit and Loss for the year ended 31st March, 2025: 4

Particulars	2024-25 (₹)	2023-24 (₹)
Revenue from operations	8,00,000	4,00,000
Other income	1,60,000	80,000
Employee benefit expenses (50% of Revenue from operations)		
Tax rate 50%		

OR

(b) From the following information, prepare Common size Statement of Profit and Loss for the year ended 31st March, 202 :

Particular	2024-25 (₹)	2023-24(₹)
Revenue from operations	20,00,000	10,00,000
Purchase of stock in trade	2,00,000	1,00,000
Other expenses	20,000	10,000
Tax rate 50%		

34 Compute Cash flow from operating activities on the basis of information given in the Balance Sheets of Relga Ltd. as at 31st March, 2024 and 31st March, 2025: 6

Particular	Note No	2024-25	2023-24
I. Equity and Liabilities			
1. Shareholder's Funds			
(a) Share Capital		2,50,000	2,00,000
(b) Reserves and Surplus		70,000	50,000
2. Non-current Liabilities			
Long-term Borrowings		80,000	1,00,000
3. Current Liabilities			
(a) Trade Payables		1,60,000	60,000
(b) Other Current Liabilities		20,000	25,000
Total		5,80,000	4,35,000
II. Assets			
1. Non-current Assets			
(a) PPE and Intangible Assets			
(i) Property, plant &Equipments		2,00,000	1,50,000
(ii) Intangible Assets		2,000	10,000
(b) Long-term Loans and Advances		1,30,000	1,00,000
2. Current Assets			
(a) Inventories		90,000	70,000
(b) Trade Receivables		60,000	40,000
(c) Cash and Cash Equivalents		98,000	65,000
Total		**5,80,000**	**4,35,000**

Additional Information:

1. During the year a piece of machinery with a book value of ₹30,000; provision for depreciation on it ₹10,000 was sold at a loss of 50% on book value.
2. Debentures were redeemed on 31st March 2025.

Note to Accounts

Particular	2023-24	2024-25
1. Reserves and Surplus		
General Reserve	50,000	70,000

		2. Long-term Borrowings				
		12% Debentures	1,00,000	80,000		
		3. Trade Payables				
		Creditors	40,000	1,00,000		
		Bills Payable	20,000	60,000		
			---	---		
			60,000	1,60,000		
		4. Other Current Liabilities				
		Outstanding Expenses	25,000	20,000		
		5. Property, plant & Equipments				
		Machinery	2,00,000	2,60,000		
		Less: Provision for Depreciation	(50,000)	(60,000)		
			---	---		
			1,50,000	2,00,000		
		6. Intangible Assets				
		Goodwill	10,000	2,000		

S.No	MARKING SCHEME OF PRACTICE PAPER-3 CLASS: 12 SUBJECT : ACCOUNTANCY (055)	Marks
1	D - A is false but R is true **OR** C) Only iii).	1
2	C) - C will be credited by ₹ 6,000	1
3	B) ₹ 9,000 **OR** C - Subscribed	1
4	C) ₹12,00,000. **OR** B) ₹20,00,000	1
5	C)15:10:7	1
6	B) ₹22,000	1
7	C) ₹3,240	1
8	C) 1:3 **OR** D) ₹4,000	1
9	A) Realisation Account will be credited by ₹ 60,000	1
10	C) A ₹21,000 **OR** D) Gain ₹ 40,000, Value₹ 2,00,000	1
11	(D) ₹ 32,000	1
12	B) ₹72,000	1
13	B) ₹7,20,000	1
14	B) ₹50,000; ₹70,000	1
15	B) ₹ 1,60,000	1
16	D) ₹80,000	1
17	Aamir **sacrifices** 1/24; Basir gains 7/24 **Journal Entry** Bashir's Capital A/c Dr. ₹1,57,500 To Chirag's Capital A/c ₹1,35,000 To Aamir's Capital A/c ₹ 22,500 **OR** 1. General Reserve A/c Dr. ₹90,000 To Anu's Capital A/c ₹15,000 To Manu's Capital A/c ₹30,000 To Sonu's Capital A/c ₹15,000 To Rohan's Capital A/c ₹30,000 2. Anu's Capital A/c Dr. ₹15,000 Manu's Capital A/c Dr. ₹30,000 To Sonu's Capital A/c ₹30,000 To Rohan's Capital A/c ₹15,000 **Working notes:** Calculation of gain/ sacrifice Gaining Share= New share- Old share Anu = 2/10- 1/6 = 1/30 (Gain); Manu = 4/10- 2/6 = 2/30 (Gain) Sonu = 1/10- 1/6 = -2/30 (Sacrifice); Rohan = 3/10- 2/6 = -1/30 (Sacrifice)	1 +2 1x3
18	Profit & Loss Appropriation A/c Dr. 2,00,000 To Vidhi's Capital A/c 30,000 To Manas's Capital A/c 50,000 To Ansh's Capital A/c 1,20,000 (Profit distributed among the partners in their profit sharing ratio with guaranteed amount to Ansh)	3
19	Assets A/c Dr. 20,00,000 Goodwill A/c Dr. 1,20,000 To Liabilities A/c 3,40,000 To Ananya ltd. 17,80,000 (Being assets and liability takenover) Ananya Ltd Dr. 17,80,000 Loss on issue of Debentures A/c Dr. 1,60,000 To 8% Debentures A/c 16,00,000 To Securities Premium A/c 80,000 To Premium on redemption A/c 1,60,000 To Bank A/c 1,00,000 (Being Purchase consideration discharged by issue of Debentures and in Cash)	3

20	Normal Profit =10/100x150,000=15,000 Average Profit = ₹23,500 Super Profit= Avg. Profits – Normal Profit	= 23,500 - 15,000= ₹8,500 G/w = SP x No. of years' purchase = 8500 x 3= ₹25,500	3

21 (4)

Balance Sheet as at _____ (An Extract)

Notes to Accounts:

Particulars	Amt (₹)
1. Share Capital:	
Authorised Capital:	
80,000 Equity shares of ₹10 each	8,00,000(1)
Issued Capital:	
40,000 Equity shares of ₹10 each	4,00,000(1)
Subscribed Capital:	
• Subscribed and fully paid up:	
38,000 Equity shares of ₹10 each	3,80,000(½)
• Subscribed but not fully paid up:	
2,000 Equity shares of ₹10 each, 20,000	
Less: Calls in arrears (2,000 × ₹5) (10,000)	10,000(½)
Total Share Capital	**3,90,000**

22

Varsha's Capital a/c

Particulars	Amt (₹)	Particulars	Amt (₹)
To Varsha's Executor A/c (½)	6,41,000	By Balance b/d(½)	3,00,000
		By General Reserve A/c(½)	50,000
		By Aditi's Capital A/c(½)	81,000
		By Renu's Capital A/c(½)	54.000
		By Interest on Capital A/c(½)	6,000
		By P & L Suspense A/c(1)	1,50,000
	6,41,000		**6,41,000**

23 (4+2)

i. a. Bank A/c Dr 67,500
To Debenture Application and allotment A/c 67,500
(Being applications received)

b. Debenture Application and allotment A/c Dr 67,500
Loss on issue of Debentures A/c Dr 11,250
To 12% Debentures A/c 75,000
To Premium redemption of debentures A/c 3,750
(Being Debentures issued at discount redeemable at premium)

ii. a. Bank A/c Dr 96,000
To Debenture Application and allotment A/c 96,000
(Being applications received)

b. Debenture Application and allotment A/c Dr 96,000
Loss on issue of Debentures A/c Dr 8,000
To 12% Debentures A/c 80,000
To, Security Premium Reserve A/c 16,000
To Premium redemption of debentures A/c 8,000
(Being Debentures issued at discount redeemable at premium)

B. Balance sheet Extract of X Ltd

Particular	Note No.	Amt (₹)
1. Equity &Liabilities Non-current liabilities Long term borrowings	1	 4,00,000

Note to Account:

Particulars	Amt (₹)
1. Long term borrowings Loan from IDBI	 4,00,000

	(Secured by issue of 5000, 9% debentures of 4,00,000 Rs.100 each as collateral security	
24	**Realisation A/c**	2+4

To Sundry Assets	(½)		By Creditors	(½)	1,20,000
Plant and Machinery	80,000		By Abhay's Capital A/c (P&M)	(½)	75,000
Furniture	45,000		By Bikram;s Capital A/c (Car)	(½)	1,30,000
Motor Car	1,25,000		By Chris's Cap A/c (Stock)	(½)	4,500
Stock	30,000		By Bank A/c	(1½)	
Debtors	70,000	3,50,000	Debtors	63,000	
To bank A/c	(1)		Stock	30,000	
Expenses	5,000		Furniture	40,000	1,33,000
Creditors	1,20,000	1,25,000	By Partners' Cap A/c	(1)	
			Abhay	4,167	
			Bikram	4,167	
			Chris	4,166	12,500

25	i. Cash A/c Dr. 1,20,000 To Chahat's Capital A/c 90,000 To Premium for Goodwill A/c 30,000 ii. Premium for Goodwill A/c Dr.30,000 To Anikesh's Capital A/c 21,000 To Bhavesh's Capital A/c 9,000 (sacrificing ratio 7:3) iii. General Reserve A/c Dr 15,000 To Anikesh's Capital A/c 10,500 To Bhavesh's Capital A/c 4,500 iv. Outstanding Wages A/c Dr 9,000 To Cash/ Bank A/c 9,000 v. Revaluation A/c Dr. 12,300 To Stock A/c 6,000 To Creditors A/c 6,300 vi. Anikesh's Capital A/c Dr. 8,610 Bhavesh's Capital A/c Dr. 3,690 To Revaluation A/c 12,300	1X6 1 ½ +4 ½
	OR **Revaluation A/c**- Rishi ₹9,000; Shashi ₹3,000; Trishi ₹6,000 **Partners Cap. A/c**-To Shashi's Loan 9,000; Rishi ₹40,200; Shahsi ₹22,800	1X6 1 ½ +4 ½
26	Share Forfeiture A/c Dr. 600 To Capital Reserve A/c 600 **OR** Share Forfeiture A/c Dr. ₹480 To Capital Reserve A/c ₹480	6 3+3
27	(B) Sold goods on credit **OR** C) Solvency	1
28	b) 3 times	1
29	c) Statement I is correct, and Statement II is incorrect **OR** A. No effect	1
30	D - Only (i) and (iv)	1

31 (3)

S.No	Item	Heading	Sub-heading
i.	Loose Tools	Current Assets	Inventories
ii	Loan repayable on demand	Current Liabilities	Short Term Borrowings
iii	Provision for Retirement benefits	Non-Current Liabilities	Long Term Provisions

32 (3)

Return on Investment = EBIT / Capital Employed x 100

= 15,00,000/1,20,00,000 x 100 = 12.5%

Capital Employed =

= 12% Preference Share Capital + Equity Share Capital + Reserves and Surplus + 15% Debentures + 10% Bank Loan

= 30,00,000 + 40,00,000 + 10,00,000 + 20,00,000 + 20,00,000 = ₹ 1,20,00,000

EBIT = Profits after Tax + Tax+Interest=6,00,000+4,00,000+5,00,000= ₹ 15,00,000

Net Assets Turnover ratio = Revenue from Operations/Capital Employed

= 3,60,00,000/1,20,00,000 = **3 times**

OR

Proprietary Ratio=Proprietor's Fund /Total Assets = 9,12,500/ 10,00,000=**0.912:1**

33 Comparative Statement of Profit and Loss (For the year ended 31st March 2025) 4

Particulars	Note No.	2023-24	2024-25	Absolute Increase/ Decrease	Percentage Increase/ Decrease%
I. Revenue from Operations		4,00,000	8,00,000	4,00,000	100
II. Other Income		80,000	1,60,000	80,000	100
III. Total Revenue		4,80,000	9,60,000	4,80,000	100
IV. Expenses: Empl. Benefit Expenses		2,00,000	4,00,000	2,00,000	100
V. Profit before tax (III-IV)		2,80,000	5,60,000	2,80,000	100
VI. Less: Tax @ 50%		1,40,000	2,80,000	1,40,000	100
VII. Profit after tax (V- VI)		1,40,000	2,80,000	1,40,000	100

OR

Common Size Statement of Profit and Loss (For the year ended 31st March 2025)

Particulars	Note No.	2023-24	2024-25	% of RFO 2023-24	% of RFO 2024-25
I. Revenue from Operations		10,00,000	20,00,000	100	100
II. Other Income					
III. Total Revenue		1,00,000	2,00,000	10	10
IV. Expenses:					
Purchase of stock in trade		10,000	20,000	1	1
Other expenses					
V. Profit before tax (III- IV)		8,90,000	17,80,000	89	89
VI. Less: Tax @ 50%		4,45,000	8,90,000	44.5	44.5
VII. Profit after tax (V- VI)		4,45,000	8,90,000	44.5	44.5

34 **Cash flow Statement of Relga Ltd.** 6

Cash inflow from operating activities - 1,30,000

Dr. Provision for Depreciation A/c Cr.

Particulars	Amt (₹)	Particulars	Amt (₹)
To Machinery A/c	10,000	By Balance b/d	50,000
To balance c/d	60,000	By Depreciation A/c (bal.figure)	20,000
	70,000		**70,000**

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