ISC XII

SEMESTER 2

T.S. GREWAL'S

AN AID TO ACCOUNTANCY

Strictly in accordance with the Reduced/Bifurcated ISC Syllabus and latest Specimen Question Paper for ***Semester 2 Examination***

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PREFACE

We are pleased to present the latest edition of **An Aid to Accountancy** for ISC Class XII students appearing for the 2022 Semester 2 Examination. This book has been prepared keeping in view the needs of the students in the light of the changed Question Paper Design to enable them to score good marks.

The book is in line with the latest Specimen Question Paper for Semester 2 Examination and pattern of questions. A variety of questions in the book will enable students to thoroughly prepare for the examination. Three Solved Model Test Papers included in the book will further help students gear up for the examination.

The book contains—

- **Chapters at a Glance**
- **Typology of Questions including Multiple Choice Questions (MCQs), Short Answer Type Questions and Long Answer Type Questions**
- **Specimen Question Paper for Semester 2 Examination (Solved)**
- **Three Solved Model Test Papers (*Based on the latest ISC Specimen Question Paper*)**

The book has been moderately priced, which is in conformity with our commitment to provide education at reasonable cost. We are confident that the book will prove very useful for teachers and students alike.

We invite you to mail your queries and suggestions to the authors at *cagsgrewal@gmail.com* or to the publishers at *scs@sultanchandebooks.com*.

We express our gratitude and thanks to **CA. Harsimran Grewal**, **CA. Puneet Grewal** and **CA. Reema Grewal** for meticulously reading the proofs and giving valuable suggestions for the improvement of the book. Although efforts have been made to bring out an error-free book, some errors might have crept in. We request you to bring errors, if any, to our notice for rectification.

Last but not the least, we would like to express our deep gratitude to our publishers, **Sultan Chand & Sons (P) Ltd**, for their perennial encouragement and logistical support and, more importantly, for a moderate price tag for the book. The attractive format of this edition is the outcome of their untiring efforts.

AUTHORS

ACCOUNTS (858)
BIFURCATED SYLLABUS
(*As per the Reduced Syllabus for ISC—Class XII Year 2022 Examination*)

SEMESTER 2
(*Marks: 40*)

UNIT NO.	NAME OF THE UNIT	NAME OF THE SUB-UNIT
SECTION A		
1.	Partnership Accounts	C. Reconstitution of Partnership II. Retirement of a Partner III. Dissolution of a Partnership Firm
2.	Joint Stock Company Accounts	B. Issue of Debentures C. Redemption of Debentures
SECTION B		
3.	Financial Statement Analysis (*Complete Unit*)	
4.	Cash Flow Statement (*Complete Unit*)	

SYLLABUS (Semester-wise)
SECTION A

C. Reconstitution of Partnership

II. Retirement of a Partner

(*i*) Calculation of new profit sharing ratio, gaining ratio and sacrificing ratio.
Self Explanatory.

(*ii*) Adjustment with regard to goodwill including hidden goodwill.
Self Explanatory.

(*iii*) Adjustment with regard to undistributed profits and losses.
Self Explanatory.

(*iv*) Preparation of Revaluation Account on retirement of a partner.
Self Explanatory.

(*v*) Adjustment of capitals.

(*a*) *Readjusting the adjusted capital of the continuing partners in the new profit sharing ratio*.

(*b*) *Adjusting the capitals of the continuing partners on the basis of the total capital of the new firm*.

(*c*) *When the continuing partners bring in cash to pay off the retiring partners*.

(*vi*) Calculation and payment of amount due to retiring partner.

Self Explanatory.

Note:

— *Preparation of Balance Sheet in Partnership Accounts to be done in Horizontal format only*.

— *Memorandum Revaluation Account, Joint Life Policy, Individual life policy are excluded from the syllabus*.

— *Retirement of a partner during an accounting year is excluded for the Examination Year 2022*.

III. Dissolution of a Partnership firm

(*i*) Meaning of dissolution and settlement of accounts under Section 48 of The Indian Partnership Act, 1932

Self Explanatory

(*ii*) Preparation of Realisation Account, Partner's Loan Account, Partner's Capital Account and Cash/Bank Account.

Self-explanatory.

Note:

1. *Preparation of Memorandum Balance Sheet is excluded for the Examination Year 2022.*
2. *Important points:*

   When an asset or a liability is taken to the realisation account any corresponding/related fund or reserve is also transferred to realisation account and not to the partners' capital accounts.

   When accounts are prepared on a fixed basis, partners current account balances are to be transferred to capital account. No adjustments are required to be passed through current account.

   Bank overdraft is to be taken to the bank/cash A/c and not to be transferred to realisation account but bank loan must be transferred to realisation account.

- *If question is silent about the payment of a liability, then it has to be paid out in full.*
- *If the question is silent about the realisation of an asset, its value is assumed to be nil.*
- *Loan taken from a partner will be passed through cash or bank account even if the partner's capital account has a debit balance.*
- *Loan given to a partner will be transferred (debited) to his Capital account.*
- *Admission cum retirement, amalgamation of firms and conversion/sale to a company together with piecemeal distribution and insolvency of a partner / partners not required.*

2. Joint Stock Company Accounts

B. Issue of Debentures

Problems on issue of debentures (at par, at premium and at discount.)

Problems on issue of debentures to include:

(*a*) *Issue of debentures at par, at premium and at discount under Companies Act, 2013.*

(*b*) *Issue of debentures as collateral security for a loan.*

(*c*) *Issue of debentures for considerations other than cash.*

- To promoters.
- To underwriters.
- To vendors

(*d*) *Accounting entries at the time of issue when debentures are redeemable at par and premium.*

(*e*) *Calls in arrears, calls in advance and interest thereon.*

(*f*) *Interest on debentures (with TDS).*

(*g*) *Disclosure of Debentures in the company's Balance Sheet.*

(*h*) *Methods of writing off discount / loss on issue of debentures- when debentures are redeemable in a lump sum at the end of a specified period; when debentures are redeemable in instalments.*

(*i*) *Disclosure of discount on issue of debentures in the company's Balance Sheet when debentures are redeemed in instalments.*

C. Redemption of Debentures

- Creation of Debenture Redemption Reserve (wherever applicable)
- Redemption of debentures out of profits.
- Redemption of debentures out of capital.
- Redemption of debentures in a lump sum.
- Redemption of debentures in annual instalments by draw of lots.

Self Explanatory.

Note:

I. Calculation of ex-interest and cum-interest are not required.

II. In case of redemption of debentures in annual instalments by draw of lots:

(*i*) The entire DRI purchased for the redemption of the instalment of debentures is not sold at the end of the year but sold/further purchased to the extent to maintain 15% of the face value of the debentures to be redeemed in the next instalment. In case of redemption in equal instalments, DRI purchased for the first instalment remains invested till the last instalment.

(*ii*) Wherever applicable, DRR is transferred to General Reserve in proportion to the debentures redeemed.

III. Rules relating to creation of Debenture Redemption Reserve (DRR):

(*i*) Listed companies including NBFCs registered with RBI and HFCs registered with National Housing Bank (NHB) both for public issue as well as private placements do not require the creation of a DRR of 25 per cent of the value of outstanding non-convertible debentures.

(*ii*) Unlisted NBFCs registered with RBI and HFCs registered with National Housing Bank (NHB) both for public issue as well as private placements do not require the creation of a DRR of 25 per cent of the value of outstanding non-convertible debentures.

(*iii*) For unlisted companies (other than NBFCs and HFCs), DRR is reduced from the present level of 25 per cent to 10 per cent of the outstanding debentures.

Rules regarding Debenture Redemption Investment (DRI)

- Unlisted NBFCs and HFCs need not deposit any amount of its debentures maturing during the year with scheduled banks or invest it in specified government securities.
- The following companies will continue to invest or deposit, on or before 30th April in each year, a sum which shall not be less than 15 per cent, of the amount of its debentures maturing during the year, ending on 31st March of the next year, in deposits with any scheduled bank, free from any charge or lien / in unencumbered securities of the Central Government or any State Government / in unencumbered securities mentioned in Section 20 of the Indian Trusts Act, 1882 / in unencumbered bonds issued by any other company notified under Section 20 of the Indian Trusts Act, 1882:

(*i*) Listed companies including NBFCs registered with RBI, HFCs National Housing Bank (NHB) and unlisted companies (other than NBFCs and HFCs).

(*ii*) Unlisted companies (other than NBFCs and HFCs).

Basically, All India Financial Institutions regulated by RBI, Banking Companies for both public as well as privately placed debentures, other Financial Institutions within the meaning of Section 2(72) of the Companies Act, 2013 and unlisted NBFCs registered with RBI and HFCs registered with National Housing Bank (NHB) are exempted both, from creating DRR and from making a DRI.

SECTION B

MANAGEMENT ACCOUNTING

3. Financial Statement Analysis

Comparative Statements and Common Size Statements.

Meaning, significance and limitations of Comparative Statements and Common Size Statements.

Preparation of Comparative Balance Sheet and Statement of Profit and Loss (inter-firm and intra-firm) showing absolute change and percentage change.

Common size Balance Sheet to be prepared as a percentage of total assets and total liabilities.

Common size Statement of Profit and Loss to be prepared as a percentage of Revenue from operations.

Note: Preparation of comparative statements and common size statements to be made from the Balance Sheets and Statements of P/L without notes to accounts.

4. Cash Flow Statement (Only for Manufacturing Companies)

(*i*) Meaning, importance and preparation of a Cash Flow Statement.

Note: *Based on Accounting Standard – 3 (revised) issued by the Institute of Chartered Accountants of India.*

(*ii*) Calculation of net cash flows from operating activities based on Indirect Method only.

Preparation of a Cash Flow Statement from two consecutive years' Balance Sheet with or without adjustments.

Preparation of complete/partial cash flow statement from extracts of Balance Sheets and Statements of P/L with or without adjustments.

Note: *Any adjustment or an item in the Balance Sheet relating to issue of bonus shares, extraordinary items and refund of tax are not required.*

(*iii*) Preparation of Cash Flow Statement on basis of operating, investing and financing activities.

The following items are to be taken when calculating net cash flows from financing activities:

- *Issue or redemption of shares at par, issue of debentures at par and discount, redemption of debentures at par.*
- *Interest paid on Long Term and Short Term Borrowings and dividend – interim and proposed/paid on shares.*
- *Long term borrowings and Short term borrowings – bank overdraft, cash credit and short term loan. whether taken or repaid.*
- *Share issue expenses / underwriting commission paid.*

The following items are to be taken when calculating net cash flows from investing activities:

- *Cash purchase of fixed assets.*
- *Cash sale of fixed assets.*
- *Purchase of shares or debentures or long term investments of other companies.*
- *Interest and dividend received on shares or debentures or long term investments of other companies.*
- *Sale of shares or debentures or long term investments of other companies.*

The following items are to be taken for cash and cash equivalents:

- *Cash*
- *Bank*
- *Short term investments*
- *Marketable securities*

Note:

(*i*) *Adjustments relating to provision for taxation, proposed dividend, interim dividend, amortization of intangible assets, profit or loss on sale of fixed assets including provision for/accumulated depreciation on them, Profit or loss on sale of investment are also included.*

(*ii*) Treatment of proposed dividend:

(*a*) *Dividend proposed for the previous year will be an outflow for cash, unless otherwise stated, on the assumption that the proposed amount has been approved by the shareholders in the AGM.*

(*b*) *No effect is given to Proposed Dividend for the current year as it is not provided for and is a contingent liability.*

(*c*) *Any unpaid dividend is transferred to Dividend Payable Account / Unpaid Dividend Account which is shown in the. Balance Sheet of the current year as Other Current Liabilities under Current Liabilities.*

(*iii*) *Treatment of provision for doubtful debts- Provision for doubtful debts can be treated as a charge against profits or as part of the working capital changes. In case of good debtors, the provision will be treated as an appropriation of profit.*

(*iv*) *To calculate cash flow from operating activities the Adjusted Profit and Loss Account is not acceptable as per AS-3.*

(*v*) *Calculation of Net Profit before Tax has to be shown as a Working Note.*

(*vi*) *Excluded: Any transaction pertaining to Capital Reserve.*

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CHAPTERS AT A GLANCE

1. RETIREMENT OF A PARTNER

When a partner retires from a partnership firm, it is termed as **retirement of a partner**. It leads to *reconstitution of the partnership firm* under which old partnership comes to an end and a new partnership among the remaining or continuing partners comes into existence.

How can a Partner Retire?

A partner may retire from the firm:

(i) With the consent of all the remaining partners; or

(ii) In accordance with an agreement among the partners; or

(iii) By giving a written notice to the remaining partners of his intention to retire, in case of 'Partnership at will'.

Adjustments at the time of Retirement of a Partner

(i) Calculation of New Profit-sharing Ratio and Gaining Ratio.

(ii) Adjustment for Goodwill.

(iii) Revaluation of Assets and Reassessment of Liabilities.

(iv) Adjustment of Accumulated Profits/Losses and Reserves.

(v) Adjustment of Capitals (if agreed).

(vi) Determining amount due to the retiring partner.

(vii) Payment of amount due to the retiring partner.

New Profit-sharing Ratio

The ratio in which the remaining or continuing partners (*i.e.*, partners other than the retiring partner) agree to share the profits and losses in future, is known as **New Profit-sharing Ratio**.

$$\text{New Profit Share} = \text{Old Profit Share} + \text{Acquired Profit Share}$$

Note: Unless agreed otherwise, the New Profit-sharing Ratio of remaining partners is same as their Old Profit-sharing Ratio.

Gaining Ratio

The ratio in which the continuing partners take the outgoing (retiring) partner's profit share is known as **Gaining Ratio**. This ratio is calculated by taking the difference between new profit share and old profit share of each continuing partner.

$$\text{Gaining Profit Share} = \text{New Profit Share} - \text{Old Profit Share}$$

Note: Unless agreed otherwise, Gaining Ratio of remaining partners is same as their Old Profit-sharing Ratio.

Accounting of Goodwill

When a partner retires, his share of profit is taken by the remaining partners. *The gaining partners compensate the retiring partner by paying of goodwill in their gaining ratio.* The following entries are passed:

(i) *If goodwill exists in old Balance Sheet, it is written off by passing the following entry:*

All Partners' Capital (or Current) A/cs ...Dr. [In Old Profit-sharing Ratio]
(Including Retiring Partner)
  To Goodwill A/c

(ii) *Give credit to the retiring partner for his share of new value of goodwill:*

Gaining Partners' Capital (or Current) A/cs ...Dr. [In Gaining Ratio]
  To Retiring Partner's Capital (or Current) A/c [Retiring Partner's Share of Goodwill]

Note: If on the retirement of a partner, any existing partner (other than retiring partner) also sacrifices a part of his share, then following entry is passed to adjust goodwill:

Gaining Partners' Capital (or Current) A/cs ...Dr. [In Gaining Ratio]
  To Retiring Partner's Capital (or Current) A/c [With his share of Goodwill]
  To Sacrificing Partner's Capital (or Current) A/c [Firm's Goodwill × Share Sacrificed]

Revaluation of Assets and Reassessment of Liabilities

At the time of retirement of a partner, assets are revalued and liabilities are reassessed; the difference is recorded in the Revaluation Account. Balance of Revaluation Account (*i.e.*, gain (profit) or loss due to revaluation) is transferred to the Capital Accounts of all the partners (including retiring partner) in their old profit-sharing ratio.

Assets and Liabilities are normally shown in the Balance Sheet of new firm at their revised values.

In case, the partners decide to continue showing assets and liabilities at their old values, following Adjusting Journal entry is passed:

(A) *In Case of Net Gain (Profit):*

Gaining Partners' Capital/Current A/c ...Dr.
  To Retiring Partner's Capital A/c
  To Sacrificing Partners' Capital/Current A/cs

(B) *In Case of Net Loss:*

Retiring Partner's Capital A/c ...Dr.
Sacrificing Partners' Capital/Current A/cs ...Dr.
  To Gaining Partners' Capital/Current A/cs

Adjustment for Accumulated Profits/Losses and Reserves

The amounts of accumulated profits and reserves are credited to all the Partners' Capital Accounts (including retiring or deceased partner) in their old profit-sharing ratio. On the other hand, accumulated losses are debited to all the Partners' Capital Accounts.

For Distribution of Accumulated Profits and Reserves:

General Reserve A/c ...Dr.
Reserve/Reserve Fund A/c ...Dr.
Profit & Loss A/c (Cr. Balance) ...Dr.
  To All Partners' Capital A/cs [In Old Profit-sharing Ratio]

For Distribution of Accumulated Losses:

All Partners' Capital A/cs ...Dr. [In Old Profit-sharing Ratio]
  To Profit & Loss A/c (Dr. Balance)
  To Advertisement Suspense A/c

In case, partners decide to record the net effect of accumulated profits/losses and reserves without affecting their old values, following Adjusting Journal entry is passed through capital accounts of gaining and sacrificing partners:

(A) *In Case of Net Gain (Profit):*

Gaining Partners' Capital/Current A/c ...Dr.
  To Retiring Partner's Capital A/c
  To Sacrificing Partners' Capital/Current A/cs

(B) *In Case of Net Loss:*

Retiring Partner's Capital A/c ...Dr.
Sacrificing Partners' Capital/Current A/cs ...Dr.
  To Gaining Partners' Capital/Current A/cs

Amount Due to a Retiring Partner

The total amount due to a retiring partner includes:

(i) Balances of Capital and Current Accounts as on the date of the last Balance Sheet.
(ii) Interest on capital from the beginning of the year up to the date of retirement, if payable.
(iii) Salary up to the date of retirement, if payable.
(iv) Share of profit or loss till the date of retirement.
(v) Share in the profit or loss on revaluation of assets and reassessment of liabilities.
(vi) Share in the goodwill of the firm.
(vii) Share of Reserves and Accumulated Profits in the Balance Sheet.

Out of the total of (i) to (vii), the amount of drawings and interest on drawings till the date of retirement is deducted.

Settlement of Account of the Retiring Partner

The net amount payable is paid in cash/through bank or transferred to his Loan Account. It is paid if the question so specifies otherwise it is transferred to his Loan Account. Loan Account may be settled in lump sum or in instalments. Such a loan will carry interest at a rate agreed upon among partners.

Adjustment of Capital

In case capital of remaining or continuing partners are to be adjusted in their new profit-sharing ratio, deficiency or surplus in their Capital Accounts is brought or paid.

In the absence of any agreement, **Surplus or Shortage of Capital** is **adjusted in Cash** and not by transfer to Current Accounts.

2. DISSOLUTION OF A PARTNERSHIP FIRM

Dissolution of Partnership *vs.* Dissolution of Firm

Dissolution of Partnership: Dissolution of Partnership means change in relationship of partners of the firm but the firm continues its business. In other words, there is dissolution of partnership and new partnership comes into existence whenever a partnership is reconstituted, *viz.*, admission, retirement, or death of a partner.

Dissolution of Firm: Dissolution of firm means business of the firm comes to an end. Assets of the firm are sold and liabilities are paid. In effect, business relationship among all the partners comes to an end.

Dissolution of the firm results in Dissolution of the Partnership. But Reconstitution of Partnership does not result in Dissolution of the Firm.

Modes of Dissolution of a Firm

The modes of dissolution are:

I. Dissolution without Court Order

(i) *By Mutual Agreement:* When all the partners agree to dissolve the firm.

(ii) *Compulsory Dissolution:*

(a) On insolvency of all the partners or all the partners except one partner.

(b) On business becoming unlawful.

(iii) *On happening of certain contingencies:* In the absence of an agreement to the contrary, a firm is dissolved:

(a) On the expiry of the term for which the firm was established;

(b) On the completion of venture for which the firm was established;

(c) On the death of a partner;

(d) On the adjudication of a partner as insolvent.

II. Dissolution with Court Order

A court may dissolve the firm on any of the following grounds:

(i) Insanity of a partner,

(ii) Permanent incapacity of a partner,

(iii) Misconduct of/by a partner,

(iv) Persistent breach of agreement by a partner or partners,

(v) Transfer of interest by a partner,

(vi) Continued losses,

(vii) Any other ground on which court is of the opinion that it would be just and equitable to dissolve the firm.

Settlement of Accounts [Section 48]

Treatment of Losses: Losses including deficiencies of capital are to be paid in the following order:

(i) First out of profits of the firm;

(ii) Then out of capitals of the partners;

(iii) Lastly by partners individually in their profit-sharing ratio.

Application of Assets: Assets of the firm, including amount contributed by the partners to meet the deficiencies of capital are applied in the following order:

(i) In paying firm's debts to the third (*i.e.*, outside) parties;

(ii) In paying to each partner rateably what is due to him on account of loans and advances;

(iii) In paying to each partner rateably what is due to him towards capital; and

(iv) The surplus, if any, is distributed among the partners in their profit-sharing ratio

Treatment of Firm's Debts and Private Debts [Section 49]

(i) Firm's property is applied first towards the payment of firm's debts, then the surplus, if any, is applied towards repayment of loan by partner and capital of the partners.

(ii) Private property of each partner is applied first towards the payment of his private debts and the surplus, if any, is applied towards the payment of firm's debts.

Closing of Firm's Books

Firm's books are closed by preparing following accounts:

(a) Realisation Account;

(b) Partner's Loan Account;

(c) Partners' Capital Accounts; and

(d) Bank/Cash Account

(a) Realisation Account: It is prepared to sell the assets (except cash and bank balance) and to make payment to outside liabilities. It is a Nominal Account. Its object is to ascertain profit or loss on realisation of assets and payment of liabilities. Such profit/loss is transferred to all Partners' Capital Accounts in their profit-sharing ratio.

(b) Partner's Loan Account: Loan by Partner Account is not transferred to his Capital Account. It is paid before repayment of capital. Following entry will be passed for payment of loan by partner:

Partner's Loan A/c ...Dr.
To Bank A/c

Notes: 1. Loan taken from a partner is passed through Cash or Bank Account even if the Partner's Capital Account has a debit balance.

2. Loan given to a partner will be transferred (debited) to his Capital Account.

(c) Partners' Capital Accounts: Before settlement of Partners' Capital Accounts, Accumulated profits, losses and Reserves are transferred to all the partners in their profit-sharing ratio by passing the following accounting entries:

(i) *For Accumulated Profits and Reserves:*

Profit & Loss A/c ...Dr.
Reserve A/c ...Dr.
To Partners' Capital A/cs [Individually]

(ii) *For Accumulated Losses and Fictitious Asset like Advertisement Suspense Account:*

Partners' Capital A/cs (Individually) ...Dr.
To Profit & Loss A/c
To Advertisement Suspense A/c

Part of a reserve set aside for a liability, *e.g.*, Workmen Compensation Claim against Workmen Compensation Reserve, is transferred to Realisation Account and the balance (*i.e.*, excess of reserve over claim) is credited to Partners' Capital Accounts in their profit-sharing ratio.

(iii) *For Transfer of the Balance in Partners' Current Accounts to Capital Accounts:*

When capital accounts are maintained on Fixed Capital Accounts Method, Partners' Current Account balances are transferred to Partners' Capital Accounts. **Adjustments** are not passed through **Partners' Current Accounts**.

The balances of Partners' Current Accounts, if any, are transferred to their respective Capital Accounts. The entries passed are:

In case of Debit balance in a Partner's Current Account:

Partner's Capital A/c ...Dr.
To Partner's Current A/c

In case of Credit balance in a Partner's Current Account:

Partner's Current A/c ...Dr.
To Partner's Capital A/c

(d) Bank/Cash Account: This account is prepared for final settlement of outside parties and partners. At the end, *i.e.*, after repayment of capital, Bank/Cash Account should not have a balance.

For Settlement of Partners' Capital Accounts:

(i) *In case Partner's Capital Account shows Debit Balance, he brings in amount equal to the debit balance. The entry is:*

Cash/Bank A/c ...Dr.
To Partner's Capital A/c

(ii) *In case Partner's Capital Account shows Credit Balance, amount is paid to him. The entry is:*

Partner's Capital A/c ...Dr.
To Cash/Bank A/c

Notes: Bank overdraft is transferred to the Bank/Cash Account and not to Realisation Account but bank loan is transferred to Realisation Account.

3. JOINT STOCK COMPANY—ISSUE OF DEBENTURES

Meaning of Debenture

Debenture is a written document acknowledging a debt having provisions for repayment of principal and payment of interest at a fixed rate.

According to Section 2(30) of the Companies Act, 2013, *"Debenture includes debenture stock, bonds and any other instrument of a company, evidencing a debt, whether constituting a charge on the assets of the company or not."*

Issue of Debentures

Debentures may be issued

I. For cash;

II. For consideration other than cash; and

III. As collateral security.

I. Issue of Debentures

Debentures may be issued for cash or for consideration other than cash:

(i) At par; or (ii) At discount; or (iii) At premium.

(i) **Issue of Debentures at Par:** Debentures issued at par means debentures are issued at the nominal (face) value of debentures.

(ii) **Issue of Debentures at Discount:** Debentures issued at a discount means debentures are issued at a price that is less than the nominal (face) value of the debentures. Discount on Issue of Debentures is a loss for the company and is debited to Discount on Issue of Debentures Account.

(iii) **Issue of Debentures at Premium:** Debentures issued at premium means debentures are issued at a price that is more than its nominal (face) value. Premium so received is credited to Securities Premium Reserve.

Amount towards debentures may be received in instalments or in lump sum.

If the amount is received in instalments:

(i) Amount received on application is credited to Debentures Application Account;

(ii) Amount received on allotment is credited to Debentures Allotment Account; and

(iii) Amount received on calls is credited to Debentures Call Account.

If the amount is received in lump sum, amount received on application is credited to Debentures Application and Allotment Account.

Disclosure of Debentures in the Balance Sheet

Debentures are shown as Long-term Borrowings under Non-current Liabilities unless they are redeemable within 12 months within the period of Operating Cycle from the date of Balance Sheet.

Undersubscription and Oversubscription

When debentures are undersubscribed, debentures are allotted to all the applicants allotting the debentures applied for. In the case of oversubscription, the company may allot debentures by opting for any of the following alternatives:

(i) Excess applications are rejected and full allotment is made to the remaining applicants;

(ii) *Pro rata* allotment is made to all the applicants; and

(iii) Part of the excess applications are rejected; some applicants are allotted the debentures as applied and *pro rata* allotment is made to the remaining applicants.

Accounting Entries for Issue of Debentures from the Point of view of Redemption

S. No.	Particulars	Journal Entry for Allotment of Debentures	
1.	Debentures Issued at Par, Redeemable at Par	Debentures Application A/c*	...Dr.
		To ...% Debentures A/c	
2.	Debentures Issued at Par, Redeemable at Premium	Debentures Application A/c*	...Dr.
		Loss on Issue of Debentures A/c	...Dr.
		To ...% Debentures A/c	
		To Premium on Redemption of Debentures A/c	
3.	Debentures Issued at Discount, Redeemable at Par	Debentures Application A/c*	...Dr.
		Discount on Issue of Debentures A/c	...Dr.
		To ...% Debentures A/c	
4.	Debentures Issued at Discount, Redeemable at Premium	Debentures Application A/c*	...Dr.
		Loss on Issue of Debentures A/c	...Dr.
		To ...% Debentures A/c	
		To Premium on Redemption of Debentures A/c	
5.	Debentures Issued at Premium, Redeemable at Par	Debentures Application A/c*	...Dr.
		To ...% Debentures A/c	
		To Securities Premium Reserve A/c	
6.	Debentures Issued at Premium, Redeemable at Premium	Debentures Application A/c*	...Dr.
		Loss on Issue of Debentures A/c	...Dr.
		To ...% Debentures A/c	
		To Securities Premium Reserve A/c	
		To Premium on Redemption of Debentures A/c	

*If amount towards debentures is received in lump sum, 'Debentures Application and Allotment Account' is used instead of 'Debentures Application Account'.

Note: In all the above situations, entry for application money received will be as follows:

Bank A/c
    To Debentures Application A/c

Calls-in-Arrears

When a debentureholder defaults to pay any amount due on allotment or calls (When the issue price of debenture is payable in instalments), then the amount not received is termed as Calls-in-Arrears. The amount of allotment or calls not received is transferred to Calls-in-Arrears Account.

Interest

The company, if allowed by its Articles, may charge interest on calls-in-arrears from the due date of payment till the date of payment at the rate specified in the Articles of Association. In case, Articles of Association does not provide for rate of interest on Calls-in-Arrears, it is charged @ 10% p.a. as is provided in *Table F* of the Companies Act.

Interest on Calls-in-Arrears is shown in Statement of Profit & Loss.

Accounting Entries for Calls-in-Arrears and Interest on Calls-in-Arrears

(i)	On Non-receipt of Call as on the due date (Transfer of Arrears)	Calls-in-Arrears A/c To Relevant Call A/c	...Dr.	(Amount not received)
(ii)	On receipt of Calls-in-Arrears	Bank A/c To Calls-in-Arrears A/c	...Dr.	
(iii)	For interest on Calls-in-Arrears	Sundry Debentureholders' A/c To Interest on Calls-in-Arrears A/c	...Dr.	
(iv)	On Receipt of Interest on Calls-in-Arrears	Bank A/c To Sundry Debentureholders' A/c	...Dr.	
(v)	Transfer of Interest on Calls-in-Arrears to Statement of Profit & Loss	Interest on Calls-in-Arrears A/c To Statement of Profit & Loss	...Dr.	

How is Calls-in-Arrears Shown in the Balance Sheet

Calls-in-Arrears is shown as a deduction from the amount of *'Long-term Borrowings/Short-term Borrowings'* under *'Non-current/Current Liabilities'* in the Notes to Accounts on *'Long-term Borrowings/Short-term Borrowings'*.

Calls-in-Advance

Calls-in-Advance means uncalled-up amount received in advance from debentureholders.

Rate of Interest

Interest is payable on amount of Calls-in-Advance at the rate prescribed in the Articles of Association of the company. In case, Articles of Association does not provide for rate of interest on Calls-in-Advance, it is provided @ 12% p.a. as is provided in *Table F* of the Companies Act.

Accounting Entries for Calls-in-Advance and Interest on Calls-in-Advance

(i)	When Debentureholders pay the calls amount in advance	Bank A/c To Calls-in-Advance A/c	...Dr.
(ii)	It is adjusted when call becomes due	Calls-in-Advance A/c To Debentures First Call A/c (Say)	...Dr.
(iii)	Interest on Calls-in-Advance being due	Interest on Calls-in-Advance A/c To Sundry Debentureholders A/c	...Dr.
(iv)	Payment of Interest on Calls-in-Advance	Sundry Debentureholders A/c To Bank A/c	...Dr.
(v)	Transfer to Statement of Profit & Loss	Statement of Profit & Loss To Interest on Calls-in-Advance A/c	...Dr.

Disclosure in the Balance Sheet

Calls-in-Advance and outstanding Interest on Calls-in-Advance are shown under the head *'Current Liabilities'* and Sub-head *'Other Current Liabilities'*.

How is Premium on Redemption of Debentures shown in Balance Sheet/Note to Accounts?

Premium on Redemption of Debentures is shown in the Note to Accounts on Long-term Borrowings. Total amount of long-term Borrowings is shown in the Balance Sheet under the head 'Non-current Liabilities'.

II. Issue of Debentures for Consideration Other than Cash

Debentures may be issued for consideration other than cash in the following situations:

1. **Issue of Debentures to Promoters** for rendering services to the company, say for promoting the company. The Journal entries passed are:

(i) Incorporation Expenses A/c (or Goodwill A/c)	...Dr.
To Promoters' A/c	
(ii) Promoters' A/c	...Dr.
To ...% Debentures A/c	
To Securities Premium Reserve A/c	[With the premium amount, if issued at premium]

2. **Issue of Debentures to Underwriters** as commission for underwriting the issue of shares or debentures. The Journal entries passed are:

(i) Underwriting Commission A/c	...Dr.
To Underwriters' A/c	
(ii) Underwriters' A/c	...Dr.
To ...% Debentures A/c	
To Securities Premium Reserve A/c	[With the premium amount, if issued at premium]

Underwriters' commission is written off in the year it is incurred from Securities Premium Reserve (if it has a balance) or from Capital Reserve or from Statement of Profit & Loss in that order.

3. **Issue of Debentures to Vendors** as consideration for purchase of assets. The Journal entries passed are:

(i) *On Purchase of Assets:*

Sundry Assets A/c	...Dr.
To Vendor's A/c	

(ii) *On Issue of Debentures:*

Vendor's A/c	...Dr.
To ...% Debentures A/c	
To Securities Premium Reserve A/c	[With the premium amount, if issued at premium]

4. **Issue of Debentures for purchase of business** as consideration for purchase of business. There can be three situations as follows:

(a) When Purchase Consideration *is equal to the value of net assets* (*i.e.*, Sundry Assets *less* Sundry Liabilities), the Journal entries passed are:

(i) *On Purchase of Business:*

Sundry Assets A/c ...Dr.
  To Sundry Liabilities A/c
  To Vendor's A/c

(ii) *On Issue of Debentures:*

Vendor's A/c ...Dr.
Discount/Loss on Issue of Debentures A/c ...Dr. [With the amount of Discount and/or Premium on Redemption]
  To ...% Debentures A/c
  To Securities Premium Reserve A/c [With the premium amount, if issued at premium]
  To Premium on Redemption of Debentures A/c

(b) When the Purchase Consideration *is more than the value of net assets* (*i.e.*, Sundry Assets *less* Sundry Liabilities) the difference is debited to **Goodwill Account**. Goodwill is recorded in the books of account it being purchased Goodwill. The Journal entries passed are:

(i) *On Purchase of Business:*

Sundry Assets A/c ...Dr.
Goodwill A/c ...Dr.
  To Sundry Liabilities A/c
  To Vendor's A/c

(ii) *On Issue of Debentures:*

Vendor's A/c ...Dr.
Discount/Loss on Issue of Debentures A/c ...Dr. [With the amount of Discount and/or Premium on Redemption]
  To ...% Debentures A/c
  To Securities Premium Reserve A/c [With the premium amount, if issued at premium]
  To Premium on Redemption of Debentures A/c

(c) When the Purchase Consideration *is less than the value of net assets* (*i.e.*, Sundry Assets *less* Sundry Liabilities) the difference is credited to **Capital Reserve Account**. The Journal entries passed are:

(i) *On Purchase of Business:*

Sundry Assets A/c ...Dr.
  To Sundry Liabilities A/c
  To Vendor's A/c
  To Capital Reserve A/c

(ii) *On Issue of Debentures:*

Vendor's A/c ...Dr.
Discount/Loss on Issue of Debentures A/c ...Dr. [With the amount of Discount and/or Premium on Redemption]
  To ...% Debentures A/c
  To Securities Premium Reserve A/c [With the premium amount, if issued at premium]
  To Premium on Redemption of Debentures A/c

Notes:

1. *Purchase consideration is the amount paid by the purchasing company in consideration for purchase of assets/business from another enterprise unless otherwise stated, it is calculated as follows:*

   Purchase Consideration: Agreed value of all assets taken – Agreed amount of Liabilities taken.
2. Number and class of Debentures issued for consideration other than cash are **disclosed** separately in **Note to Accounts** on Long-term Borrowings in the Balance Sheet of a company.
3. **Number of Debentures to be Issued** = Purchase consideration/Issue price of debenture.

III. Issue of Debentures as Collateral Security

Collateral security means security given in addition to the prime or principal security for the loan taken. Debentures may be issued as collateral security to the lender.

Since the debentures are issued as a security, interest is not provided on such debentures.

An accounting entry may or may not be passed for issue of debentures as collateral security.

In case the issue of debentures is recorded in the books of account, the Journal entry passed is:

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

It is shown in the Note to Accounts on Long-term (or Short-term) Borrowings as follows:

Note to Accounts (*imaginary amounts*)

Particulars	₹	₹
Long-term (or Short-term) Borrowings		
Loan from State Bank of India		10,00,000
15,000; 9% Debentures of ₹ 100 each issued as Collateral Security	15,00,000	
Less: Debentures Suspense Account	15,00,000	...
		10,00,000

If an entry is not recorded in the books of account, it is disclosed in the Note to Accounts below the loan secured by the issue of debentures as follows:

Note to Accounts (*imaginary amounts*)

Particulars	₹
Long-term (or Short-term) Borrowings	
Loan from State Bank of India	10,00,000
(The above loan is secured by issue of 15,000, 9% Debentures of ₹ 100 each as Collateral Security)	

Note: Interest is not payable on debentures issued as Collateral Security.

Interest on Debentures

(i) It is the cost of servicing the borrowings by issue of debentures.

(ii) It is a **charge against the profit** of the company and is payable irrespective of the fact whether company earns profit or incurs loss.

(iii) It is calculated **on the nominal (face) value of debentures**.

(iv) Company deducts income tax (TDS) at the prescribed rate from the gross amount of interest in certain cases. TDS is deposited in the Government Account periodically.

Journal Entries for Interest on Debentures

(i) When Interest is Due	Interest on Debentures A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c
(ii) On Payment of Interest to Debentureholders	Debentureholders' A/c ...Dr. To Bank A/c
(iii) On Deposit of TDS in Government Account	TDS Payable A/c ...Dr. To Bank A/c
(iv) On transfer of Interest on Debentures to Statement of Profit & Loss	Statement of Profit & Loss (Finance Cost) ...Dr. To Interest on Debentures A/c

Loss on Issue of Debentures

Debentures issued at par, at discount or at premium may be redeemable at premium. Premium payable at the time of redemption is a loss and is debited to Loss on Issue of Debentures Account following the Prudence Concept of accounting.

Where debentures are issued at discount and are redeemable at premium, the total amount of loss (Discount *plus* Premium Payable) is debited to Loss on Issue of Debentures Account.

Writing off Discount or Loss on Issue of Debentures

Discount or Loss on Issue of Debentures is a loss of **capital nature**.

Discount or Loss on Issue of Debentures is written off *in the year it is incurred* from:

(i) Securities Premium Reserve (if it has a balance), or/and

(ii) Capital Reserve (if it has a balance), or/and

(iii) Statement of Profit & Loss.

The Journal entry for writing off Discount or Loss on Issue of Debentures will be:

Securities Premium Reserve A/c	...Dr.	[Amount of discount or Loss up to the balance in Securities Premium Reserve]
or/and		
Capital Reserve A/c	...Dr.	
or/and		
Statement of Profit & Loss	...Dr.	[Amount of balance left in Discount or Loss on Issue of Debentures A/c]
To Discount or Loss on Issue of Debentures A/c		

Discount/Loss (Unwritten off) on Issue of Debenture—How shown in the Balance Sheet

When the Discount or Loss on Issue of Debentures is written off in parts, balance in the account will reduce by the amount of discount or loss written off. The balance so left is shown in the *asset part* of the Balance Sheet as follows:

(a) The amount of Discount/Loss on Issue of Debentures to be written off within 12 Months of the Balance Sheet date or within the period of Operating Cycle as *Other Current Assets* under the main head *Current Assets*; and

(b) The balance amount of the account as *Other Non-current Assets* under the main head *Non-current Assets*.

4. REDEMPTION OF DEBENTURES

Meaning of Redemption of Debentures

Redemption of Debentures means discharging the liability towards debentures by repaying the amount to the debentureholders.

Debentures are redeemed either on the due date or earlier according to the terms of issue.

Methods of Redemption of Debentures

Debentures may be redeemed:

(i) in lump sum, *i.e.*, at the end of the maturity period; or

(ii) in instalments by draw of lots; or

(iii) by purchase from the open market; or

(iv) by conversion into shares or new debentures.

Note: Redemption of Debentures by purchase from the market and by conversion into shares or new debentures are not in syllabus.

(i) **Redemption in Lump sum:** The payment of total debenture debt when made on maturity is redemption in lump sum or before maturity (if terms of issue allow).

(ii) **Redemption in instalments by draw of lots:** The debentures when redeemed in instalments and debentures to be redeemed are selected by draw of lots is redemption in instalments by draw of lots.

Journal Entries: Following Journal entries are passed for Redemption of Debentures:

(a) *For making the amount due on redemption:*

Debentures A/c	...Dr.	[With the paid-up value of debentures]
Premium on Redemption of Debentures A/c	...Dr.	[With premium, if any, on redemption of Debentures]
To Debentureholders' A/c		[With the total amount payable]

(b) *For Payment:*

Debentureholders' A/c	...Dr.	[With the amount paid on redemption]
To Bank A/c		

Debentures Redemption Reserve (DRR)

Debentures Redemption Reserve (DRR) is a reserve *set aside out of profits available for payment as dividend for the purpose of redemption of debentures.*

The amount of DRR is to be used only for redemption of debentures.

Adequacy of Debentures Redemption Reserve (DRR)

Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 prescribes the manner of setting aside amount to DRR, adequacy of DRR for different companies and how the amount of DRR shall be used. The rule prescribes as follows:

(a) Amount shall be transferred to Debentures Redemption Reserve out of profits of the company that are available for payment of dividend; and

(b) Rule relating to creation of DRR or amount that shall be transferred to Debenture Redemption Reserve (DRR) shall be:

S. No.	*Debentures Issued by*	*Amount Adequate for DRR*
1.	**All India Financial Institutions (AIFIs)** regulated by Reserve Bank of India (RBI)	Nil
2.	**Banking Companies** (For both Public Issue and Private Placement of Debentures)	Nil
3.	**Other Financial Institutions** within the meaning of Section 2(72) of the Companies Act, 2013	Nil
4.	**Listed Companies:** Non–Banking Finance Companies (NBFCs), Housing Finance Companies (HFCs) registered with National Housing Bank (NHB) and other listed companies (For both publicly and privately placed debentures)	Nil
5.	**Unlisted Companies:** NBFCs registered with RBI, HFCs registered with National Housing Bank (NHB) (For private placement of debentures)	Nil
6.	**Other Unlisted Companies:** Other than NBFCs and HFCs	DRR shall be 10% of the value of the outstanding debentures.

Note: *In case of Partly Convertible Debenture, DRR shall be created in respect of non-convertible part of debenture issue.*

Accounting Treatment

Amount may be transferred by the unlisted company (Other than NBFC or HFC) to DRR in lump sum or in parts. However, it should be ensured that minimum amount, *i.e.*, at least 10 per cent of *Outstanding Debentures* is the balance in DRR Account before the redemption of debentures. The Journal entry passed for transferring amount to DRR is:

General Reserve A/c	...Dr.	[If transferred out of General Reserve]
Dividend Equalisation Reserve A/c	...Dr.	[If transferred from Dividend Equalisation Reserve]
Surplus, *i.e.*, Balance in Statement of Profit & Loss A/c	...Dr.	[If transferred from Surplus, *i.e.*, Balance in Statement of Profit & Loss]
To Debentures Redemption Reserve A/c		

It should be noted that dividend can be paid by a company from General Reserve, Dividend Equalisation Reserve and Surplus, *i.e.*, Balance in Statement of Profit & Loss. Thus, amount can be set aside to Debentures Redemption Reserve (DRR) out of these Reserves and Surplus.

Disclosure of Debentures Redemption Reserve (DRR) in the Balance Sheet

Debentures Redemption Reserve is shown in the Notes to Accounts as part of the Balance Sheet under the head **'Reserves and Surplus'**.

Transfer of Debentures Redemption Reserve (DRR) to General Reserve

DRR is transferred to General Reserve in proportion to the debentures redeemed. Accounting entry will be:

Debenture Redemption Reserve A/c ...Dr.
  To General Reserve A/c

Debentures Redemption Investments (DRI)

Rules regarding DRI:

(i) Unlisted NBFCs and HFCs need not deposit any amount of its debentures maturing during the year with scheduled bank or invest it in specified securities.

(ii) Following companies are required to invest or deposit an amount not less than 15% of the amount of debentures to be redeemed during the year ended on 31st March of next year in specified securities on or before 30th April of the current year.

  (a) Listed companies including NBFCs registered with RBI, HFCs registered with National Housing Bank (NHB), and

  (b) Other Unlisted companies (other than NBFCs and HFCs).

The investment is realised at the time of redemption of debentures. However, if the question requires it not to be realised but carried forward, it is realised only as the question prescribes.

Journal Entry for Investing in DRI

Debentures Redemption Investment A/c ...Dr.
  To Bank A/c

DRI made by the company may earn interest on which Tax (TDS) may be deducted at source. TDS is debited to TDS Collected (Receivable) Account.

The Journal entry passed for realising DRI, interest income and Tax Deducted at Source (TDS) will be:

Bank A/c ...Dr.
TDS Collected (Receivable) A/c ...Dr.
  To Debentures Redemption Investment A/c
  To Interest Earned A/c

Important Note

Basically, All India Financial Institutions regulated by RBI, Banking Companies for both public as well as privately placed debentures, other Financial Institutions within the meaning of Section 2(72) of the Companies Act, 2013 and unlisted NBFCs registered with RBI and HFCs registered with National Housing Bank (NHB) are exempted both from creating DRR and from investing in DRI.

SECTION B
MANAGEMENT ACCOUNTING

5. FINANCIAL STATEMENT ANALYSIS

Analysis of Financial Statements is a systematic process of identifying the financial strengths and weaknesses of a firm by establishing relationships between the interdependent or related items of the Balance Sheet and Statement of Profit & Loss.

Tools or Techniques of Financial Statement Analysis

(i) Comparative Statements.
(ii) Common-size Statements.
(iii) Ratio Analysis.
(iv) Cash Flow Statement.

Types of Financial Statement Analysis

(i) External Analysis.
(ii) Internal Analysis.
(iii) Horizontal or Dynamic Analysis.
(iv) Vertical or Static Analysis.

Internal Analysis *is meant for management.*

External Analysis *is carried out by outsiders such as creditors, bankers, debentureholders and government agencies.*

Purposes (or Objectives) and Significance of Financial Analysis

(i) To assess an enterprise's operating efficiency and profitability.
(ii) To assess financial stability of an enterprise.
(iii) To assess an enterprise's short-term and long-term solvency.
(iv) To compare intra-firm position, inter-firm position and pattern position within the industry.
(v) To estimate the future performance of the enterprise.

Parties Interested in Financial Statement Analysis

(i) Management.
(ii) Employees and Trade Unions.
(iii) Shareholders or Owners or Investors.
(iv) Potential Investors.
(v) Suppliers or Creditors.
(vi) Bankers and Lenders.
(vii) Researchers.
(viii) Tax Authorities.
(ix) Customers.

Limitations of Financial Statement Analysis

(i) Historical Analysis.
(ii) Ignores the price-level changes.
(iii) Qualitative Aspect is ignored.
(iv) Not free from bias.
(v) Window Dressing.

6. COMPARATIVE STATEMENTS AND COMMON-SIZE STATEMENTS

Comparative Financial Statement is a tool of financial analysis that shows change in each item of the financial statement in both absolute amount and percentage terms, taking the amounts for the previous accounting period as base.

Objectives or Purposes of Comparative Financial Statements

(i) To know the nature of changes influencing financial position.

(ii) To know the weaknesses and soundness about liquidity, profitability and solvency of the enterprise.

(iii) To forecast and plan.

(iv) To know the movements of key financial statistics.

Tools or Techniques for Comparison of Financial Statements

(i) Comparative Balance Sheet.

(ii) Comparative Statement of Profit & Loss (Comparative Income Statement).

(iii) Common-size Statement of Profit & Loss (Common-size Income Statement).

(iv) Common-size Balance Sheet.

Comparative Balance Sheet

"*Comparative Balance Sheet analysis is the* horizontal analysis of Balance Sheet in which each item of Assets, Equity and Liabilities is analysed for two or more accounting periods.

Importance or Significance of Comparative Balance Sheet

(i) To analyse each item of assets, equity and liabilities in absolute amounts.

(ii) To analyse increase/decrease in absolute amounts as well as in percentage terms.

(iii) To measure the financial position of an enterprise.

(iv) To analyse the reasons for change in financial position.

Comparative Statement of Profit & Loss (Comparative Income Statement)

Comparative Statement of Profit & Loss shows the operating results for a number of accounting periods so that changes in data in terms of money term and percentage term from one period to another are known.

Importance or Objective of Comparative Statement for Profit & Loss (Comparative Income Statement)

(i) To analyse each item of Revenue and Expenses in absolute amounts.

(ii) To analyse increase or decrease in absolute amounts as well as in percentage terms.

(iii) To measure the financial performance.

(iv) To know the reasons for change in financial performance.

Common-size Statement of Profit & Loss (Common-size Income Statement)

Common-size Statement of Profit & Loss is a statement in which amounts of individual items of Statement of Profit & Loss for two or more years are written. These amounts are further converted into percentages to a common base which is Revenue from Operations.

Significance or Objectives of Common-size Statement of Profit & Loss (Common-size Income Statement)

(i) To analyse change in individual items of Income Statement.

(ii) To study the trend in different items of Incomes and Expenses.

(iii) To assess the efficiency.

Common-size Balance Sheet

Common-size Balance Sheet is a statement in which amounts of individual items of Balance Sheet for two or more years are written. These amounts are further converted into percentages to a common base, which is total of Assets or total of Equity and Liabilities of the Balance Sheet.

Significance or Objectives of Common-size Balance Sheet

(i) To analyse the change in individual items of Balance Sheet.

(ii) To see the trend in different items of Assets, Equity and Liabilities.

7. CASH FLOW STATEMENT—BASED ON AS-3 (REVISED)

Meaning of Cash Flow Statement

Cash Flow Statement is a statement which shows inflows and outflows of Cash and Cash Equivalents during the reporting period.

Classification of Activities

While preparing the Cash Flow Statement according to AS-3 (Revised), the inflow and outflow of cash are classified into three groups:

1. Operating Activities; 2. Investing Activities; 3. Financing Activities.

Objectives of Cash Flow Statement

The objectives of Cash Flow Statement are:

(i) *To ascertain Net Cash Flow from Operating, Investing and Financing Activities* of an enterprise separately.

(ii) *To ascertain the Net change in Cash and Cash Equivalents* between the dates of two Balance Sheets.

Importance or Uses or Advantages of Cash Flow Statement

(i) Facilitates to ascertain Net Cash Flow from the three activities (Operating, Investing and Financing) separately.

(ii) Facilitates Planning.

(iii) Helps in assessing Liquidity and Solvency.

(iv) Helps in Cash Management.

(v) Helps in Comparative Study.

(vi) Identifies Reasons for Cash Position.

(vii) Tests Management Decisions.

(viii) Helps in Preparation of Projected Cash Flow Statement.

Important Definitions As per Accounting Standard-3 (Revised)

(i) **Cash:** Cash comprises of Cash on Hand and Demand Deposits with banks.

(ii) **Cash Equivalents:** These are short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value.

(iii) **Cash Flows:** Cash Flows are Inflows and Outflows of Cash and Cash Equivalents.

Inflows of Cash: Transactions that lead to increase in Cash and Cash Equivalents are classified as inflows of cash.

Outflows of Cash: Transactions that lead to a decrease in Cash and Cash Equivalents are classified as outflows of cash.

(iv) **Operating Activities:** These are the principal revenue producing activities of the enterprise and other activities that are not Investing and Financing Activities.

(v) **Investing Activities:** These are the activities of acquisition and disposal of long-term assets and other investments not included in cash equivalents.

(vi) **Financing Activities:** These are the activities that result in change in the size and composition of the owner's capital (including Preference Share Capital in the case of a company) and borrowings of the enterprise.

Exclude Transactions Not Involving Cash Flow

Cash Flow Statement excludes movements between the items that constitute Cash or Cash Equivalents. For example, Cash deposited into bank, Cash withdrawn from bank, sale or purchase of Marketable Securities.

Preparation of Cash Flow Statement

Cash Flow Statement is prepared following the steps as:

Step 1: Compute Cash Flow from Operating Activities.

Step 2: Compute Cash Flow from Investing Activities.

Cash Flow from Investing Activities is computed by analysing the change in Non-current Assets (Fixed Assets: Tangible and Intangible) and Long-term Investments in the beginning and at the end of year.

Step 3: Compute Cash Flow from Financing Activities.

Cash Flow from Financing Activities is computed by analysing the change in Equity and Preference Share Capital and other borrowings.

Step 4: *Compute Net Increase/Decrease in Cash and Cash Equivalents:* It is computed as summation of amounts calculated in three steps given above, *i.e.*, under **Steps 1, 2 and 3**.

Step 5: Balance of Cash and Cash Equivalents in the beginning of the year is added to Net Increase or Decrease in Cash and Cash Equivalents as arrived under **Step 4**. The amount so determined is equal to Balance of Cash and Cash Equivalents at the end of the year.

Treatment of Some Important Items while Preparing Cash Flow Statement

(i) **Provision for Tax**

(a) *If only Provision for Tax is given in the two Balance Sheets and no other information about tax is given, the previous year's provision for tax is treated as tax paid during the Current Year and is shown as outflow of cash under the Cash Flow from Operating Activities.*

Current Year's provision for tax is the amount of tax provided for the current year. It is added back to the current year's profit to calculate the Net Profit before Tax.

(b) *When Additional Information is given in addition to the opening and closing balances of Provision for Tax, in such a case Provision for Tax Account is prepared as shown below:*

Dr. PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	...	By Balance *b/d* (Opening balance)	...
To Balance *c/d* (Closing balance)	...	By Statement of Profit & Loss (Tax provided)	...
	...		...

(ii) **Proposed Dividend**

(a) *Dividend proposed for the previous year will be an outflow for cash, unless otherwise stated, on the assumption that the proposed amount has been declared (approved) by the shareholders in the AGM.*

(b) *No effect is given to Proposed Dividend for the current year as it is not provided for and is a contingent liability.*

(c) *Any unpaid dividend is transferred to Dividend Payable Account/Unpaid Dividend Account which is shown in the Balance Sheet of the Current Year as Other Current Liabilities under Current Liabilities.*

Accounting Treatment of Proposed Dividend

- *Proposed Dividend of Previous Year:* Add back to the Current Year's profit to calculate Cash Flow from Operating Activities.
- *Proposed Dividend of Previous Year:* Show the Net Dividend Paid (*i.e.*, Previous Year's Proposed Dividend *minus* Unpaid Dividend) as Cash Used in Financing Activities.

(iii) **Interim Dividend**

(a) Interim Dividend is a dividend that is declared by the Board of Directors during the financial year.

(b) Declaration of Interim Dividend does not require the approval of AGM.

(c) Therefore, it becomes due and is also paid during the year itself.

Accounting Treatment of Interim Dividend

- *Current Year's Interim Dividend: Add back* to the current year's profit to find Cash Flow from Operating Activities.
- *Show Current Year's Interim Dividend as Cash Used in Financing Activities* in the Cash Flow Statement.

(iv) **Provision for Doubtful Debts:** Provision for Doubtful Debts can be treated as a charge against profit or as a part of working capital changes. In case debtors are good, the Provision for Doubtful Debts is treated as an appropriation of profit.

(v) **Share Issue Expenses/Underwriting Commission Paid:** Share Issue Expenses being expenses associated with share capital, are shown as outflow of Cash under Financing Activities. Such expenses are written-off *either* from Securities Premium Reserve or Statement of Profit & Loss in the year they are incurred.

(vi) **Issue of Debentures at Discount or Loss on Issue of Debentures:** Issue of Debentures at Discount means that the company has received less amount than its nominal (face) value. Therefore, proceeds of issue of debentures is shown at its nominal (face) value *less* discount. It is shown under Cash Flow from **Financing Activities**. Discount on Issue of Debentures if debited to Statement of Profit & Loss at the time of calculating the profit, is added back, to calculate Operating Profit.

Loss on Issue of Debentures is a wider term than Discount on Issue of Debentures. It includes Discount on Issue of Debentures and Premium Payable on Redemption of Debentures. Premium on redemption of debentures is shown as outflow of cash under **Financing Activity** at the time of payment.

Note: Loss on Issue of Debentures if written off from Securities Premium Reserve, is not added back to Net Profit before Tax to calculate Operating Profit.

(vii) **Gain (Profit) on Sale of Fixed Assets/Long-term Investment:** It is shown as an income in Statement of Profit & Loss under the head 'Other Income'. It is deducted from net profit for calculating Operating Profit. Net proceeds from sale of fixed assets is shown as *Inflow of Cash under Investing Activity*.

(viii) **Loss on Sale of Fixed Assets/Long-term Investments:** It is shown as an expense in the Statement of Profit & Loss under the head 'Other Expenses'. It is added back to net profit before tax for calculating Operating Profit. Net proceeds from sale of fixed assets is shown as *Inflow of Cash under Investing Activities*.

(ix) **Fixed Asset Account and Accumulated Depreciation Account**

Cash Flow from Investing Activities is computed by analysing the change in Fixed Assets (Tangible and Intangible) and long-term investments in the beginning and end of the year.

If No Additional Information is Given: An increase in the value of fixed asset as compared to previous year is taken as *purchase* of Non-current Asset and is recorded as an *Outflow of Cash under Investing Activities*.

A decrease in the value of Fixed *Asset is taken as **sale*** of Non-current Asset and is recorded as *Inflow of Cash under Investing Activities*.

If Additional Information is Given: Purchase or sale of Non-current Asset cannot be determined from the amounts given in the Balance Sheets then following accounts are prepared depending upon the information given in the question.

(a) **Fixed Asset Account**—When Fixed Assets are shown at the written down value in the Balance Sheet.

Dr. FIXED ASSET ACCOUNT (AT WRITTEN DOWN VALUE) *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	...	By Bank A/c (Sale) (Note 2)	...
To Bank A/c (Purchase) (Note 1)	...	By Loss on Sale of Fixed Asset A/c* (Statement of Profit & Loss) (Note 4)	...
To Gain(Profit) on Sale of Fixed Asset A/c* (Statement of Profit & Loss) (Note 4)	...	By Depreciation A/c (Note 3)	...
		By Balance *c/d*	...
	...		...

*Either of the two will appear.

Notes:

1. *Purchase of fixed Asset* is recorded as an Outflow of Cash under Investing Activities.
2. *Sale of Fixed Asset* is recorded as an Inflow of Cash under Investing Activities.
3. Depreciation is added back to Net Profit for calculating Operating Profit.
4. Loss on sale of fixed asset is added back to Net Profit and profit on sale of fixed asset is subtracted for calculating operating profit.

(b) **Fixed Asset Account and Accumulated Depreciation Account**—When Fixed Assets are shown at Original Cost in the Balance Sheet. Following two Accounts are prepared:

(i)

Dr. FIXED ASSET ACCOUNT (AT COST) *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	...	By Bank A/c (Sale)	...
To Bank A/c (Purchase)	...	By Loss on Sale of Fixed Asset A/c (Statement of Profit & Loss)	...
To Gain (Profit) on Sale of Fixed Asset A/c (Statement of Profit & Loss)	...	By Accumulated Depreciation A/c	...
		By Balance *c/d*	...
	...		...

(ii)

Dr. ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Fixed Asset A/c (Accumulated Dep. on Fixed Asset sold)	...	By Balance *b/d*	...
To Balance *c/d*	...	By Statement of Profit & Loss (Current Year Depreciation)	...
	...		...

TYPOLOGY OF QUESTIONS

1. RETIREMENT OF A PARTNER

Multiple Choice Questions (MCQs—Carrying 1 Mark each)

Read the following statements and select the correct alternative:

1. Which of the following statement is correct?

(a) Goodwill at the time of retirement of a partner is credited to remaining Partners' Capital Accounts in their sacrificing ratio.

(b) Goodwill at the time of retirement of a partner is credited to remaining Partners' Capital Accounts in their gaining ratio.

(c) Goodwill at the time of retirement of a partner is debited to remaining Partners' Capital Accounts in their sacrificing ratio.

(d) Goodwill at the time of retirement of a partner to the extent of retiring Partner's Share is debited to remaining Partners' Capital Accounts in their gaining ratio.

2. At the time of retirement of a partner, profit (gain) on revaluation will be credited to the Capital Accounts of

(a) retiring partner.

(b) all the partners, including retiring partner, in their old profit-sharing ratio.

(c) the remaining partners in their old profit-sharing ratio.

(d) the remaining partners in their new profit-sharing ratio.

3. Increase in liability at the time of retirement of a partner is

(a) credited to Revaluation Account. (b) debited to Revaluation Account.

(c) debited to Profit & Loss Account. (d) debited to Profit & Loss Appropriation Account.

4. Increase in the value of assets at the time of retirement of a partner is

(a) credited to Revaluation Account. (b) debited to Revaluation Account.

(c) debited to Profit & Loss Account. (d) debited to Profit & Loss Appropriation Account.

5. Decrease in liabilities at the time of retirement of a partner is

(a) credited to Revaluation Account. (b) debited to Revaluation Account.

(c) debited to Profit & Loss Account. (d) debited to Profit & Loss Appropriation Account.

6. Akul, Bikul and Chandan are partners, Chandan retires. Amount payable to him is ₹ 72,300. Required cash in hand is ₹ 20,000. Cash already in hand is ₹ 7,000. Akul and Bikul bring in the required amount in the ratio of 3 : 2. Akul brings in ₹ 51,180. How much Bikul will bring in?

(a) ₹ 34,120. (b) ₹ 34,210.

(c) ₹ 33,120. (d) ₹ 34,100.

7. Gaining ratio is

(a) Old Profit Share *less* New Profit Share. (b) Old Profit-sharing Ratio.

(c) New Profit-sharing Ratio. (d) New Profit Share *less* Old Profit Share.

8. On the retirement of Hari from the firm of Hari, Ram and Sharma, the Balance Sheet showed a debit balance of ₹ 12,000 in the Profit & Loss Account. For calculating the amount payable to Hari, this balance will be transferred

(a) to the credit of the Capital Accounts of Hari, Ram and Sharma equally.

(b) to the debit of the Capital Accounts of Hari, Ram and Sharma equally.

(c) to the debit of the Capital Accounts of Ram and Sharma equally.

(d) to the credit of the Capital Accounts of Ram and Sharma equally.

9. Amla, Bimla and Kavita were partners sharing profits and losses in the ratio of 4 : 3 : 1. Bimla retires and gives her share of profit to Amla for ₹ 3,600 and to Kavita for ₹ 3,000. The gaining ratio of Amla and Kavita will be:

(a) 4 : 5 (b) 2 : 1

(c) 6 : 5 (d) 4 : 1

10. Srishti, Nitya and Anand were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Srishti retired from the firm selling her share of profits to Nitya and Anand in the ratio of 2 : 1. The new profit-sharing ratio between Nitya and Anand will be

(a) 3 : 2. (b) 17 : 11.

(c) 2 : 1. (d) 19 : 11.

11. *A*, *B* and *C* are partners sharing profits in the ratio of 3 : 2 : 1, *C* retired. New profit-sharing ratio will be

(a) 1 : 3. (b) 3 : 2.

(c) 1 : 1. (d) None of these.

12. *A*, *B* and *C* are partners sharing profits in the ratio of 3 : 2 : 1, *C* retired, and new profit-sharing ratio is 3 : 2. Gaining ratio will be

(a) 3 : 2. (b) 1 : 2.

(c) 2 : 1. (d) None of these.

13. *A*, *B* and *C* are partners sharing profits in the ratio of 3 : 2 : 1, *C* retires. If *A* and *B* take the share of retiring partner equally, new profit-sharing ratio will be

(a) 7 : 5. (b) 3 : 2.

(c) 1 : 1. (d) None of these.

14. *A*, *B* and *C* are partners sharing profit and losses in the ratio of 2 : 2 : 1. *B* retired from the firm. At that time goodwill of the firm was valued at ₹ 30,000. What contribution has to be made by *A* and *C* to pay *B*?

(a) ₹ 20,000 and ₹ 10,000 (b) ₹ 15,000 and ₹ 15,000

(c) ₹ 8,000 and ₹ 4,000 (d) ₹ 6,000 and ₹ 6,000

15. *A*, *B* and *C* are partners in the firm, sharing profits in the ratio of 2 : 2 : 1. Their Capital Accounts stand as ₹ 50,000, ₹ 50,000 and ₹ 25,000, respectively. *B* retired from the firm and balance in the General Reserve on that date was ₹ 15,000. If goodwill of the firm is ₹ 30,000 and profit on revaluation is ₹ 7,050, what amount will be transferred to *B*'s Loan Account?

(a) ₹ 50,820 (b) ₹ 70,820

(c) ₹ 8,820 (d) None of these

16. Amount credited to a retiring partner in his Capital Account is ₹ 2,01,000. He took over investment at ₹ 58,000. He also took over 20% debtors. The amount transferred to his loan account is ₹ 1,23,000. What is the total value of the debtors?

(a) ₹ 1,00,000. (b) ₹ 90,000.

(c) ₹ 80,000. (d) ₹ 1,10,000.

17. Accumulated profits on the retirement of a partner are

(a) credited to all Partners' Capital Accounts, including Retiring Partner, in old profit-sharing ratio.

(b) debited to all Partners' Capital Accounts, including Retiring Partner, in old profit-sharing ratio.

(c) credited to remaining Partners' Capital Accounts in new profit-sharing ratio.

(d) credited to remaining Partners' Capital Accounts in gaining ratio

18. *A*, *B* and *C* were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. *C* retired and his capital balance after adjustments for reserves, accumulated profits/losses and his share of gain on revaluation was ₹ 2,50,000. *C* was paid ₹ 3,22,000 including his share of goodwill. The value of Goodwill on *C*'s retirement is

(a) ₹ 3,60,000. (b) ₹ 36,000.

(c) ₹ 72,000. (d) ₹ 7,20,000.

19. Deepak, Farukh and Lilly were partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 28th February, 2021, Farukh retired from the firm. On Farukh's retirement, there was a balance of ₹ 12,000 in Workmen's Compensation Reserve against which claim does not exist. On Farukh's retirement, this amount will be

(a) Debited to the Capital Accounts of all the partners, including Retiring Partner, in their profit-sharing ratio.

(b) Credited to the Capital Accounts of all the partners, including Retiring Partner, in their profit-sharing ratio.

(c) Credited to the Capital Accounts of Deepak and Lilly in their profit-sharing ratio.

(d) Credited to the Capital Account of Farukh.

20. At the time of retirement of a partner, amount remaining in Investment Fluctuation Reserve after meeting the fall in value of investment is

(a) Credited to all partners' (Including retiring partner) Capital Accounts in Gaining Ratio.

(b) Credited to Remaining Partners' Capital Accounts in Gaining Ratio.

(c) Credited to Remaining Partners' Capital Accounts in New Profit-sharing Ratio.

(d) Credited to all partners' (Including retiring partner) Capital Accounts in Old Profit-sharing Ratio.

21. Ahaan, Saksham and Abir are partners sharing profits in the ratio of 2 : 2 : 1. Ahaan retired on 31st March, 2021. On that date, Furniture and Stock were ₹ 1,00,000 and ₹ 60,000 respectively. On Ahaan's retirement, following adjustments were agreed: (i) Furniture to be reduced by 20%; (ii) Stock is undervalued by ₹ 2,000 and is to be valued at current value.

What amount will be credited/debited to Ahaan's Capital Account on account of profit or loss on revaluation?

(a) Credited by ₹ 7,200. (b) Debited by ₹ 7,200.

(c) Debited by ₹ 8,800. (d) Credited by ₹ 8,800.

22. Azad, Mukesh and Subash are partners sharing profits and losses in the ratio of 4 : 3 : 3. Subash retired and the firm's goodwill is valued at ₹ 3,00,000. Azad and Mukesh agree to share profits and losses in the ratio of 7 : 3. What is the required Journal entry?

			₹	₹
(a)	Azad's Capital A/c	...Dr.	1,20,000	
	To Subash's Capital A/c			1,20,000
(b)	Azad's Capital A/c	...Dr.	90,000	
	To Mukesh's Capital A/c			90,000
(c)	Subash's Capital A/c	...Dr.	90,000	
	To Azad's Capital A/c			90,000
(d)	Azad's Capital A/c	...Dr.	90,000	
	To Subash's Capital A/c			90,000

23. Shiv, Mohan and Gopal are partners sharing profits and losses in the ratio of 3 : 2 : 1. Gopal retired and the following Journal entry for goodwill is passed:

		₹	₹
Mohan's Capital A/c	...Dr.	10,000	
To Shiv's Capital A/c			5,000
To Gopal's Capital A/c			5,000

The value of goodwill is ₹ 30,000. What is the new profit-sharing ratio between Shiv and Mohan?

(a) 2 : 1. (b) 1 : 2.

(c) 3 : 1. (d) 1 : 3.

24. Pihu, Geeta and Nita were partners sharing profits and losses in the ratio of 4 : 3 : 2. Geeta retired on 31st March, 2021 on which date capitals of Pihu, Geeta and Nita after all adjustments were ₹ 39,300, ₹ 39,600 and ₹ 18,300 respectively. Total capital of the new firm is fixed at ₹ 56,000 between Pihu and Nita in the proportion of 5/8 and 3/8 after passing entries in their accounts for adjustment. Calculate the cash to be paid or to be brought by the continuing partners.

(a) Pihu and Nita will each withdraw ₹ 800.

(b) Pihu will withdraw ₹ 4,300, Nita will bring in ₹ 2,700.

(c) Pihu will bring in ₹ 4,300, Nita will withdraw ₹ 2,700.

(d) Pihu will withdraw ₹ 2,700, Nita will bring in ₹ 4,300.

25. Amit, Bimal and Chand were partners sharing profits and losses in the ratio of 4 : 3 : 2 respectively. Bimal retired on 31st March, 2021 on which date capitals of Amit, Bimal and Chand after all adjustments were ₹ 1,31,600, ₹ 1,14,450 and ₹ 67,600 respectively. Total capital of the reconstituted firm will be re-adjusted by bringing or paying cash so that the future capitals of Amit and Chand are in their future profit-sharing ratio. Calculate the amount of cash to be paid/brought by the partners.

(a) Amit and Chand each withdraw ₹ 1,200.

(b) Amit and Chand will each bring in ₹ 1,200.

(c) Amit will bring in ₹ 1,200, Chand will withdraw ₹ 1,200.

(d) Amit will withdraw ₹ 1,200, Chand will bring in ₹ 1,200.

[**Ans.: 1.** (d); **2.** (b); **3.** (b); **4.** (a); **5.** (a); **6.** (a); **7.** (d); **8.** (b); **9.** (c); **10.** (c); **11.** (b); **12.** (a); **13.** (a); **14.** (c); **15.** (b); **16.** (a); **17.** (a); **18.** (a); **19.** (b); **20.** (d); **21.** (b); **22.** (d); **23.** (b); **24.** (b); **25.** (c).]

Working Notes:

6. Total Amount required to pay to Chandan = ₹ 72,300 + ₹ 20,000 – ₹ 7,000 = ₹ 85,300

Akul will bring = ₹ 51,180 (Given)

Bikul will bring = ₹ 34,120 (2/5 of ₹ 85,300)

9. Gaining Ratio = 3,600 : 3,000 or 6 : 5.

10. Gaining Ratio of Nitya and Anand = 2 : 1

New Profit Share = Old Profit Share + Share acquired

$$\text{Nitya} = \frac{2}{6}+\left(\frac{2}{3}\times\frac{3}{6}\right)=\frac{2}{6}+\frac{1}{3}=\frac{2+2}{6}=\frac{4}{6}$$

$$\text{Anand} = \frac{1}{6}+\left(\frac{1}{3}\times\frac{3}{6}\right)=\frac{1}{6}+\frac{1}{6}=\frac{1+1}{6}=\frac{2}{6}$$

New Profit-sharing Ratio of Nitya and Anand = 4/6 : 2/6 = 2 : 1.

14. *B*'s Share of Goodwill = ₹ 30,000 × 2/5 = ₹ 12,000

A's contribution = ₹ 12,000 × 2/3 = ₹ 8,000

C's contribution = ₹ 12,000 × 1/3 = ₹ 4,000.

15. Amount transferred to *B*'s Loan A/c = ₹ 50,000 + ₹ 6,000 (General Reserve) + ₹ 12,000 (Goodwill) + ₹ 2,820 (Profit)

= ₹ 70,820.

16.

		₹
Balance of Capital Account		2,01,000
Less: Investment taken over	58,000	
Transferred to Loan	1,23,000	1,81,000
Debtors taken over		20,000

Total value of Debtors = ₹ 20,000 × 100/20 = ₹ 1,00,000.

18. *C*'s Share of Goodwill = ₹ 3,22,000 – ₹ 2,50,000 = ₹ 72,000. Therefore, value of Goodwill of the firm

$= ₹\ 72{,}000 \times \frac{10}{2} = ₹\ 3{,}60{,}000.$

23. New profit share of remaining partner = Old profit share + Profit share accrued or – Profit share sacrificed

Profit share sacrificed by Shiv = ₹ 5,000/₹ 30,000 = 1/6

Profit share acquired by Mohan = ₹ 10,000/₹ 30,000 = 1/3

Shiv's new profit share = 3/6 – 1/6 = 2/6

Mohan's new profit share = 2/6 + 1/3 = 4/6

New profit-sharing ratio between Shiv and Mohan is 2/6 : 4/6 or 1 : 2.

24. Total capital of new firm (Given) = ₹ 56,000

	Pihu (₹)	Nita (₹)
A. Divide total capital of ₹ 56,000 in 5/8 : 3/8	35,000	21,000
B. Adjusted capital of Pihu and Nita	39,300	18,300
Cash to be brought (paid) (A – B)	(4,300)	2,700

25. Calculation of total capital of new firm after Bimal's retirement:

Total capital of new firm = ₹ 1,31,600 (Amit) + ₹ 67,600 (Chand)

= ₹ 1,99,200

Calculation of actual cash to be paid or brought:

Particulars	Amit (₹)	Chand (₹)
(a) New capital (₹ 1,99,200 in the ratio of 2 : 1)	1,32,800	66,400
(b) Adjusted old capital	1,31,600	67,600
Cash to be brought in (paid-off) [a – b]	1,200	(1,200)

Short Answer Type Questions—Carrying 2 or 3 Marks each

Q. 1. Saman, Harish and Meeta are partners sharing profits and losses in the ratio of 1/5, 1/3 and 7/15. Meeta retires and her share is taken by Saman and Harish in the ratio of 3 : 2. Determine the new profit-sharing ratio and gaining ratio.

Ans. New Profit Share of Remaining Partners = Old profit share + Profit share acquired

Profit share acquired by Saman = 3/5 × 7/15 = 21/75

Profit share acquired by Harish = 2/5 × 7/15 = 14/75

$$\text{Saman's New Profit Share} = \frac{1}{5}+\frac{21}{75}=\frac{36}{75}$$

$$\text{Harish's New Profit Share} = \frac{1}{3}+\frac{14}{75}=\frac{39}{75}$$

New Profit-sharing Ratio of Saman and Harish = 36/75 : 39/75 = 12 : 13

Gaining Ratio of Saman and Harish = Profit share acquired by Saman : Profit share acquired by Harish

= 21/75 : 14/75 or 3 : 2.

Q. 2. Adil, Bhavya and Chris are partners sharing profits in the ratio of 1/2, 3/10 and 1/5. Bhavya retires from the firm and Adil and Chris decide to share future profits in the ratio of 3 : 2. Calculate the gaining ratio.

Ans. Gain of a partner = New Profit Share – Old Profit Share

Adil's Gain = 3/5 – 1/2 = 1/10

Chris's Gain = 2/5 – 1/5 = 2/10

Gaining Ratio of Adil and Chris = 1/10 : 2/10 = 1 : 2.

Q. 3. Aruna, Karuna and Varuna are partners sharing profits and losses in the ratio of 25 : 15 : 9. Karuna retires. It is decided that the profit-sharing ratio between Aruna and Varuna will be the same as existing between Karuna and Varuna. Calculate the new profit-sharing ratio and gaining ratio.

Ans. Ratio of Karuna and Varuna = 15 : 9 or 5 : 3

Therefore, New Profit-sharing Ratio of Aruna and Varuna should be 5 : 3

Gain of a partner = New Profit Share – Old Profit Share

$$\text{Aruna's Gain} = \frac{5}{8}-\frac{25}{49}=\frac{45}{392}$$

$$\text{Varuna's Gain} = \frac{3}{8}-\frac{9}{49}=\frac{75}{392}$$

Hence, Gaining Ratio of Aruna and Varuna = 45/392 : 75/392 = 3 : 5.

Q. 4. Gautam, Yashica and Asma are partners sharing profits and losses in the ratio of 4/9 : 1/3 : 2/9. Yashica retires and gives 1/9th of her share to Gautam and the remaining to Asma. Calculate the new profit-sharing ratio and the gaining ratio.

Ans.

	Gautam	Asma
A. Their existing profit share	4/9	2/9
B. Profit share given by Yashica	1/9 × 1/3 = 1/27	8/9 × 1/3 = 8/27
C. New profit share of Gautam and Asma (A + B)	4/9 + 1/27 = 13/27	2/9 + 8/27 = 14/27

New profit-sharing ratio of Gautam and Asma = 13/27 : 14/27 = 13 : 14

Profit share given to Gautam = 1/27; Profit share given to Asma = 8/27

Hence, Gaining Ratio of Gautam and Asma = 1/27 : 8/27 or 1 : 8.

Q. 5. Janak, Chaman and Amol are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Chaman retires and Janak and Amol decide to share future profits and losses in the ratio of 5 : 3. At the time of retirement of Chaman, Debtors and Provision for Doubtful Debts were ₹ 38,000 and ₹ 4,000 respectively. All debtors are good. Pass the necessary Journal entries.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Provision for Doubtful Debts A/c ...Dr.		4,000	
	To Revaluation A/c			4,000
	(Being the excess Provision for Doubtful Debts transferred to Revaluation Account)			
	Revaluation A/c ...Dr.		4,000	
	To Janak's Capital A/c			2,000
	To Chaman's Capital A/c			1,200
	To Amol's Capital A/c			800
	(Being the profit on revaluation transferred to partners in their old profit-sharing ratio)			

Q. 6. Deepak, Rajan and Nitesh share profits and losses in the ratio of 5 : 3 : 2. Rajan retires and Deepak and Nitesh decide to share future profits in the ratio of 3 : 5. At the time of retirement of Rajan, Stock (Book value ₹ 50,000) is to be reduced by 40% and Furniture (Book value ₹ 30,000) is to be reduced to 40%. Pass the necessary Journal entries.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c ...Dr.		38,000	
	To Stock A/c (₹ 50,000 × 40/100)			20,000
	To Furniture A/c (₹ 30,000 × 60/100)			18,000
	(Being the decrease in value of assets recorded)			
	Deepak's Capital A/c ...Dr.		19,000	
	Rajan's Capital A/c ...Dr.		11,400	
	Nitesh's Capital ...Dr.		7,600	
	To Revaluation A/c			38,000
	(Being the loss on revaluation transferred to partners in their old profit-sharing ratio)			

Q. 7. *X*, *Y* and *Z* share profits in the ratio of 5 : 3 : 2. *Y* retires and *X* and *Z* decide to share future profits in the ratio of 3 : 5. At the time of retirement of *Z*, investments were ₹ 80,000. Half of the investments have been taken by partners in their profit-sharing ratio at book value. Remaining investments were valued at ₹ 50,000. Pass the necessary Journal entries.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	X's Capital A/c ...Dr.		20,000	
	Y's Capital A/c ...Dr.		12,000	
	Z's Capital A/c ...Dr.		8,000	
	To Investments A/c			40,000
	(Being the investments taken by partners)			
	Investments A/c ...Dr.		10,000	
	To Revaluation A/c			10,000
	(Being the increase in value of assets recorded)			

	Revaluation A/c ...Dr.		10,000	
	To *X*'s Capital A/c			5,000
	To *Y*'s Capital A/c			3,000
	To *Z*'s Capital A/c			2,000
	(Being the profit on revaluation transferred to partners in their old profit-sharing ratio)			

Q. 8. Shivam, Kapil and Deepak are partners sharing profits and losses in the ratio of 4 : 3 : 3. Kapil retires and Shivam and Deepak decide to share future profits and losses in the ratio of 3 : 5. At the time of retirement of Kapil, Debtors and Provision for Doubtful Debts were ₹ 38,000 and ₹ 4,000 respectively. ₹ 3,000 of the debtors were bad. Provision for Doubtful Debts is to be 5% of Sundry Debtors. Pass the necessary Journal entries.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bad Debts A/c ...Dr.		3,000	
	To Debtors A/c			3,000
	(Being the bad debts written off)			
	Provision for Doubtful Debts A/c ...Dr.		3,000	
	To Bad Debts A/c			3,000
	(Being the bad debts transferred to Provision for Doubtful Debts A/c)			
	Revaluation A/c ...Dr.		750	
	To Provision for Doubtful Debts A/c			750
	[5% (₹ 38,000 – ₹ 3000)] – [(₹ 4,000 – ₹ 3,000)]			
	(Being the Short Provision for Doubtful Debts created)			
	Shivam's Capital A/c ...Dr.		300	
	Kapil's Capital A/c ...Dr.		225	
	Deepak's Capital A/c ...Dr.		225	
	To Revaluation A/c			750
	(Being the loss on revaluation transferred to partners in their old profit-sharing ratio)			

Q. 9. Shyam, Gagan and Raman are partners sharing profits and losses equally. Gagan retired on 1st April, 2021 and Shyam and Raman decided to share future profits and losses in the ratio of 3 : 5. At the time of retirement of Gagan, unaccounted accrued income of ₹ 1,000 is to be provided for. A debtor whose dues of ₹ 20,000 were written off as bad debts paid ₹ 15,000 in settlement. A liability of ₹ 5,000 included in Sundry Creditors is not to be paid. Pass the necessary Journal entries.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Accrued Income A/c ...Dr.		1,000	
	Bank A/c (Bad Debts Recovered) ...Dr.		15,000	
	Creditors A/c ...Dr.		5,000	
	To Revaluation A/c			21,000
	(Being the increase in value of assets and decrease in value of liabilities recorded)			
	Revaluation A/c ...Dr.		21,000	
	To Shyam's Capital A/c			7,000
	To Gagan's Capital A/c			7,000
	To Raman's Capital A/c			7,000
	(Being the Gain (Profit) on revaluation transferred to partners in their old profit-sharing ratio)			

Q. 10. Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 60,000 at the time of retirement of Sajjan, when there is no claim against it. The firm has three partners Rajat, Sajjan and Kavita.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Workmen Compensation Reserve A/c ...Dr.		60,000	
	To Rajat's Capital A/c			20,000
	To Sajjan's Capital A/c			20,000
	To Kavita's Capital A/c			20,000
	(Being the Workmen Compensation Reserve transferred to partners in their old profit-sharing ratio of 1 : 1 : 1)*			

*Since, profit-sharing ratio is not given, it means it is equal.

Q. 11. Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 70,000 at the time of retirement of Akhil, if there is claim of ₹ 25,000 against it. The firm has three partners Aman, Akhil and Karam.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Workmen Compensation Reserve A/c ...Dr.		70,000	
	To Aman's Capital A/c			15,000
	To Akhil's Capital A/c			15,000
	To Karam's Capital A/c			15,000
	To Workmen Compensation Claim A/c			25,000
	(Being the liability for Workmen Compensation Claim set aside and balance Workmen Compensation Reserve transferred to partners in their old profit-sharing ratio)			

Q. 12. Give the Journal entry to distribute 'Investment Fluctuation Reserve' of ₹ 4,000 at the time of retirement of *Z*, when investments (market value ₹ 19,000) appear at ₹ 20,000. The firm has three partners *X*, *Y* and *Z*.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Investment Fluctuation Reserve A/c ...Dr.		4,000	
	To *X*'s Capital A/c			1,000
	To *Y*'s Capital A/c			1,000
	To *Z*'s Capital A/c			1,000
	To Investments A/c			1,000
	(Being the value of investments brought to market value and balance Investment Fluctuation Reserve transferred to partners in their old profit-sharing ratio)			

Q. 13. Channi, Hari and Iban are equal partners in a firm. Hari retires and the remaining partners decide to share profits of the new firm in the ratio of 5 : 4. An extract of Balance Sheet of the firm before the retirement of Hari, on 31st March, 2021 is given below:

Liabilities	₹	Assets	₹
General Reserve	55,000	Investments (Market Value ₹ 1,90,000)	2,00,000
Profit & Loss A/c	30,000	Advertisement Suspense	10,000
Investment Fluctuation Reserve	15,000	(Deferred Revenue Expenditure)	
Workmen Compensation Reserve	12,000		

A claim on account of Workmen Compensation is estimated at ₹ 2,000 which is adjusted against Workmen Compensation Reserve. Investment Fluctuation Reserve will also be adjusted as required.

Continuing partners (Channi and Iban) decide to record the effect of the above accumulated profits, losses and reserves (after required adjustments from Workmen Compensation Reserve and Investment Fluctuation Reserve) without affecting their book values, by passing an adjustment entry.

Ans. Step 1: *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

	₹
General Reserve	55,000
Profit & Loss A/c	30,000
Investment Fluctuation Reserve (₹ 15,000 – ₹ 10,000)	5,000
Workmen Compensation Reserve (₹ 12,000 – ₹ 2,000)	10,000
	1,00,000
Less: Advertisement Suspense	10,000
Net Effect	90,000

Step 2: *Calculation of Gain/(Sacrifice) of Each Partner:*

	Channi	Hari	Iban
(i) New Profit Share	5/9	...	4/9
(ii) Old Profit Share	1/3	1/3	1/3
(iii) Gain/(Sacrifice) (i – ii)	2/9	(1/3)	1/9
	Gain	Sacrifice	Gain

Step 3: *Calculation of Share of Sacrificing and Gaining Partners in the Net Accumulated Profits, Losses and Reserves:*

For Gaining Partners: Channi = ₹ 90,000 × 2/9 = ₹ 20,000; Iban = ₹ 90,000 × 1/9 = ₹ 10,000;

For Sacrificing Partner: Hari = ₹ 90,000 × 1/3 = ₹ 30,000.

Step 4: ADJUSTMENT JOURNAL ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021					
March 31	Channi 's Capital A/c	...Dr.		20,000	
	Iban's Capital A/c	...Dr.		10,000	
	To Hari's Capital A/c				30,000
	(Being the adjustment made for net accumulated profits, losses and reserves)				

Q. 14. Raghu, Rishu and Rishabh are equal partners in a firm. Goodwill of the firm is valued at ₹ 36,000. On Rishabh's retirement from the firm, Raghu and Rishu agree to share profits in the ratio of 3 : 2. Pass the necessary Journal entry for treatment of Rishabh's share of goodwill.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Raghu's Capital A/c	...Dr.		9,600	
	Rishu's Capital A/c	...Dr.		2,400	
	To Rishabh's Capital A/c				12,000
	(Being the Rishabh's share of goodwill credited to his account on retirement)				

Working Notes:

1. Rishabh's share of goodwill = 1/3 × ₹ 36,000 = ₹ 12,000.
2. Gain of a partner = New Profit Share – Old Profit Share

   Raghu's gain = 3/5 – 1/3 = 4/15

   Rishu's gain = 2/5 – 1/3 = 1/15

   Gaining ratio = 4 : 1

Q. 15. Ram, Mohan and Sohan are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Goodwill of the firm is valued at ₹ 60,000. On Mohan's retirement, Ram and Sohan agree to share profits equally. Pass necessary Journal entry for treatment of Mohan's share of goodwill.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sohan's Capital A/c ...Dr.		20,000	
	To Mohan's Capital A/c			20,000
	(Being the adjustment of goodwill made)			

Working Notes:

1. Mohan's Share of Goodwill = ₹ 60,000 × 2/6 = ₹ 20,000.
2. Gaining Ratio = New Profit Share – Old Profit Share
   Ram = 1/2 – 3/6 = 0
   Sohan = 1/2 – 1/6 = 2/6
3. As Sohan is the only gaining partner, he will compensate the retiring partner Mohan.

Q. 16. Sandhya, Kavita and Mridula are partners in a firm sharing profits in the ratio of 4 : 3 : 1. Sandhya retires and her share is taken by Kavita and Mridula equally. Find the new profit-sharing ratio and the gaining ratio. Goodwill of the firm is valued at ₹ 16,000. Pass necessary Journal entry for recording goodwill in the above mentioned case.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Kavita's Capital A/c ...Dr.		4,000	
	Mridula's Capital A/c ...Dr.		4,000	
	To Sandhya's Capital A/c			8,000
	(Being Sandhya's share of goodwill adjusted in gaining ratio, *i.e.*, 1 : 1)			

Working Notes:

1. Gaining Ratio = Since gaining ratio between Kavita and Mridula is given in the question itself, hence the gaining ratio between Kavita and Mridula will be 1 : 1.
2. Sandhya's Share of Goodwill = ₹ 16,000 × 4/8 = ₹ 8,000.

Q. 17. Aman, Bimal and Deepak are partners sharing profits and losses in the ratio of 14 : 5 : 6 respectively. Bimal retires and gives 5/25th of his share to Aman. Goodwill of the firm is valued at 2 years' purchase of super profit based on average profit of last 3 years. Profits for the last 3 years are: ₹ 50,000, ₹ 55,000 and ₹ 60,000. Normal profits for similar firm are ₹ 30,000. Goodwill existed in the books of the firm at ₹ 75,000. Profit for the first year after Bimal's retirement was ₹ 1,00,000. Give the necessary Journal entries to adjust goodwill and to distribute profits.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Aman's Capital A/c (₹ 75,000 × 14/25) ...Dr.		42,000	
	Bimal's Capital A/c (₹ 75,000 × 5/25) ...Dr.		15,000	
	Deepak's Capital A/c (₹ 75,000 × 6/25) ...Dr.		18,000	
	To Goodwill A/c			75,000
	(Being the existing goodwill written off in old profit-sharing ratio)			

	Aman's Capital A/c (₹ 10,000 × 1/5) ...Dr.		2,000	
	Deepak's Capital A/c (₹ 10,000 × 4/5) ...Dr.		8,000	
	To Bimal's Capital A/c (₹ 50,000 × 1/5)			10,000
	(Being Bimal's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio of 1 : 4)			
	Profit & Loss Appropriation A/c ...Dr.		1,00,000	
	To Aman's Capital A/c (₹ 1,00,000 × 3/5)			60,000
	To Deepak's Capital A/c (₹ 1,00,000 × 2/5)			40,000
	(Being the profits distributed among Aman and Deepak in their new profit-sharing ratio)			

Working Notes:

1. *Calculation of New Profit-sharing Ratio:*

	Aman	Deepak
Their Old Profit Shares	14/25	6/25
Profit Share given by Bimal	1/5 × 1/5 = 1/25	4/5 × 1/5 = 4/25
Their New Profit Share	14/25 + 1/25 = 15/25	6/25 + 4/25 = 10/25

Their Gaining Ratio = 1/25 : 4/25 = 1 : 4

Their New Ratio = 15/25 : 10/25 = 15 : 10 or 3 : 2.

2. *Calculation of Goodwill:*
   (i) Average Profit = (₹ 50,000 + ₹ 55,000 + ₹ 60,000)/3 = ₹ 55,000
   (ii) Super Profit = ₹ 55,000 – ₹ 30,000 = ₹ 25,000
   (iii) Goodwill = ₹ 25,000 × 2 = ₹ 50,000.
   (iv) Bimal's Share of Goodwill = ₹ 50,000 × 1/5 = ₹ 10,000.

Q. 18. Puja, Priya and Pratistha are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Puja retires from the firm. Priya and Pratistha agreed that the capital of the new firm shall be ₹ 2,10,000 in their profit-sharing ratio. The capital accounts of Priya and Pratistha after all adjustments on the date of retirement showed balances of ₹ 1,45,000 and ₹ 63,000 respectively. Determine the amount to be brought or to be paid to the partners.

Ans. CALCULATION OF CASH TO BE PAID OR BROUGHT

	Priya (₹)	Pratistha (₹)
I. New Capital (₹ 2,10,000 in the ratio of 2 : 1)	1,40,000	70,000
II. Adjusted Old Capital	1,45,000	63,000
III. Amount to be brought (Paid) (I–II)	(5,000)	7,000

Q. 19. Anil, Vikas and Soman are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Anil retires from the firm. Vikas and Soman agree that the capital of the new firm shall be same as before retirement in their new profit-sharing ratio of 3 : 2. The capital accounts of Anil, Vikas and Soman after all adjustments on the date of retirement showed balances of ₹ 32,000, ₹ 1,45,000 and ₹ 63,000 respectively. The capital accounts of Anil, Vikas and Soman before any adjustment on the date of retirement showed balances of ₹ 2,000, ₹ 1,61,000 and ₹ 77,000 respectively. State the amount to be brought or to be paid to the partners.

Ans. Total Capital of New Firm = Total Capital of Old Firm = ₹ 2,000 + ₹ 1,61,000 + ₹ 77,000 = ₹ 2,40,000.

CALCULATION OF CASH TO BE PAID OR BROUGHT

	Vikas (₹)	Soman (₹)
I. New Capital (₹ 2,40,000 in the ratio of 3 : 2)	1,44,000	96,000
II. Adjusted Old Capital	1,45,000	63,000
III. Cash to be brought in (Paid off) (I–II)	(1,000)	33,000

Q. 20. Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 2 : 2 : 1. Naresh retires from the firm due to his illness. His claim including his capital and his share of goodwill is ₹ 1,00,000. He is paid in kind an unrecorded vehicle valued at ₹ 50,000 in the books of the firm till the date of retirement and the balance by current date cheque. Give the Journal entries for recording the payment to Naresh in the books of the firm.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Vehicle A/c ...Dr.		50,000	
	To Revaluation A/c			50,000
	(Being the unrecorded vehicle recorded)			
	Revaluation A/c ...Dr.		50,000	
	To Pankaj's Capital A/c			20,000
	To Naresh's Capital A/c			20,000
	To Saurabh's Capital A/c			10,000
	(Being the transfer of profit on revaluation)			
	Naresh's Capital A/c ...Dr.		1,00,000	
	To Vehicle A/c			50,000
	To Bank A/c			50,000
	(Being Naresh's claim discharged)			

Long Answer Type Questions—Carrying 5 Marks each

Q. 1. Simran, Pooja and Shweta were partners sharing profits and losses in the ratio of 4 : 3 : 2 respectively. Pooja retired when the capitals of Simran, Pooja and Shweta before the necessary adjustments stood at ₹43,900, ₹22,800 and ₹23,300 respectively. Firm's goodwill was valued as ₹43,200, Loss on Revaluation of Assets and Reassessment of Liabilities was ₹ 5,400. General Reserve was ₹ 12,600. Capital of the new firm is fixed at ₹ 56,000 to be in the ratio of 5/8 and 3/8 for Simran and Shweta after passing entries in their accounts for adjustments. Calculate the cash to be paid or to be brought by the continuing partners and pass the necessary Journal entries.

Ans. (i) *Calculation of Gaining Ratio:*

Gain of a Partner = New Profit Share – Old Profit Share

$$\text{Simran Gains} = \frac{5}{8} - \frac{4}{9} = \frac{13}{72}$$

$$\text{Shweta Gains} = \frac{3}{8} - \frac{2}{9} = \frac{11}{72}$$

Gaining Ratio = 13/72 : 11/72 or 13 : 11.

(ii) *Calculation of Adjusted Capitals:*

	Simran (₹)	Pooja (₹)	Shweta (₹)
Capital before adjustments	43,900	22,800	23,300
Share of Goodwill*	(7,800)	14,400	(6,600)
Share of Loss on Revaluation	(2,400)	(1,800)	(1,200)
Share of General Reserve	5,600	4,200	2,800
Adjusted Capital	39,300	39,600	18,300

*Pooja's Share of Goodwill = ₹ 43,200 × $\frac{3}{9}$ = ₹ 14,400 borne by Simran and Shweta in their gaining ratio, *i.e.*, 13 : 11.

Calculation of Shortage of Capital to be brought or Surplus to be paid:

	Simran (₹)	Shweta (₹)
A. New Capital (₹ 56,000 in the ratio of 5 : 3)	35,000	21,000
B. Adjusted Old Capital	39,300	18,300
C. Cash to be brought (Paid) (A – B)	(4,300)	2,700

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Simran's Capital A/c ...Dr.		4,300	
	To Cash A/c			4,300
	(Being the excess capital withdrawn by Simran)			
	Cash A/c ...Dr.		2,700	
	To Shweta's Capital A/c			2,700
	(Being the shortage brought by Shweta)			

Q. 2. Ram, Vijay and Shyam were partners in a firm sharing profits in 2 : 3 : 5. On 31st March, 2021 their Balance Sheet was as under:

Liabilities	₹	Assets		₹
Creditors	70,000	Bank		45,000
Ram's Capital	80,000	Debtors	40,000	
Vijay's Capital	70,000	*Less:* Provision for Doubtful Debts	5,000	35,000
Shyam's Capital	60,000	Stock		50,000
		Building		1,40,000
		Profit & Loss A/c		10,000
	2,80,000			2,80,000

On the above date, Shyam retired from the firm due to his illness on the following terms:

(i) Building was to be depreciated by ₹ 40,000.

(ii) Provision for Doubtful Debts was to be maintained at 20% on debtors.

(iii) Salary outstanding ₹ 5,000 was to be recorded and creditors ₹ 4,000 will not be claimed.

(iv) Goodwill of the firm was valued at ₹ 72,000.

(v) Shyam was to be paid ₹ 15,000 in cash, through bank and the balance was to be transferred to his loan account.

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

Ans.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Building A/c	40,000	By Creditors		4,000
To Provision for Doubtful Debts A/c	3,000	By Partners' Capital A/c (Loss):		
[(20% of ₹ 40,000) – ₹ 5,000]		Ram (2/10)	8,800	
To Outstanding Salary A/c	5,000	Vijay (3/10)	13,200	
		Shyam (5/10)	22,000	44,000
	48,000			48,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Ram ₹	Vijay ₹	Shyam ₹	Particulars	Ram ₹	Vijay ₹	Shyam ₹
To Profit & Loss A/c	2,000	3,000	5,000	By Balance *b/d*	80,000	70,000	60,000
To Revaluation A/c	8,800	13,200	22,000	By Ram's Capital A/c	...	...	14,400
To Shyam's Capital A/c	14,400	21,600	...	(Note)			
(Note)				By Vijay's Capital A/c	...	...	21,600
To Bank A/c	...	...	15,000	(Note)			
To Shyam's Loan A/c			54,000				
To Balance *c/d*	54,800	32,200	...				
	80,000	70,000	96,000		80,000	70,000	96,000

BALANCE SHEET *as at 31st March, 2021*

Liabilities		₹	Assets		₹
Creditors		66,000	Bank (₹ 45,000 – ₹ 15,000)		30,000
Outstanding Salary		5,000	Debtors	40,000	
Shyam's Loan		54,000	*Less:* Provision for Doubtful Debts	8,000	32,000
Capital A/cs:			Stock		50,000
Ram	54,800		Building		1,00,000
Vijay	32,200	87,000			
		2,12,000			2,12,000

Note: Shyam's Share of Goodwill ₹ 36,000 (*i.e.*, ₹ 72,000 × 5/10) will be adjusted to gaining Partners' Capital Accounts in the gaining ratio 2 : 3.

2. DISSOLUTION OF A PARTNERSHIP FIRM

Multiple Choice Questions (MCQs—Carrying 1 Mark each)

Read the following statements and select the correct alternative:

1. Which of the following is not the mode of dissolution of the firm?
(a) By Mutual Agreement (b) On happening of an event
(c) Dissolution by court (d) Retirement of a partner

2. At the time of dissolution of a firm, Loan given by a partner to the firm is paid out of the amount realised on sale of assets
(a) after payment of outside liabilities but before repayment of capital.
(b) after payment of capital of partners.
(c) after payment of outside liabilities or capital.
(d) before payment of outside liabilities.

3. At the time of dissolution of a firm, at what stage the balances of Partners' Capital Accounts are paid?
(a) After Payment of Outsiders' Liabilities
(b) Before payment of loan by partner
(c) After payment of Outsiders' Liabilities and Partner's Loan
(d) Before payment of Outside Liabilities.

4. On dissolution, if a partner pays firm's liability which of the following account is debited?

(a) Profit & Loss Account (b) Realisation Account.
(c) Partner's Capital Account (d) Cash Account

5. Amount received from sale of unrecorded asset at the time of dissolution of the firm is credited to

(a) Partners' Capital Accounts. (b) Profit & Loss Account.
(c) Realisation Account. (d) Cash Account.

6. On dissolution, Goodwill Account is transferred to

(a) the Capital Accounts of Partners. (b) the Credit of Cash Account.
(c) the Debit of Realisation Account. (d) the Credit of Realisation Account.

7. On firm's dissolution, which of the following account is closed in the end?

(a) Partners' Capital Accounts. (b) Partner's Loan Account.
(c) Realisation Account. (d) Cash Account.

8. On dissolution of a firm, in which ratio, profit or loss on realisation is distributed among the partners?

(a) In capital ratio. (b) In profit-sharing ratio.
(c) Equally. (d) In ratio of amount due to each partner.

9. Om and Shyam are partners. On the date of dissolution of firm, Om's loan was ₹ 25,000 and Mrs. Shyam's loan was ₹ 35,000. Payment will be made first of

(a) Om's loan. (b) Mrs. Shyam's loan.
(c) Both in the ratio of loan. (d) Both in profit ratio of Om and Shyam.

10. At the time of dissolution of partnership firm, Deferred Revenue Expenditure (Advertisement Suspense) is transferred to

(a) Capital Accounts of Partners. (b) Realisation Account.
(c) Cash Account. (d) Loan by Partner Account.

11. In the event of dissolution of a partnership firm, Provision for Doubtful Debts is transferred to

(a) Realisation Account. (b) Partners' Capital Accounts.
(c) Sundry Debtors Account. (d) Partners' Current Accounts.

12. Unrecorded liability when paid on dissolution of a firm is debited to

(a) Realisation Account. (b) Partners' Capital Accounts.
(c) Liability Account. (d) Current Liabilities Account.

13. General Reserve in the Balance Sheet is transferred to

(a) Realisation Account. (b) Partners' Capital Accounts in profit-sharing ratio.
(c) Partners' Capital Accounts in capital ratio. (d) Partners' Capital Accounts equally.

14. On dissolution, Realisation Account is debited with

(a) all recorded assets to be realised, except Loan to Partner
(b) all outside liabilities of the firm.
(c) cash realised on sale of asset.
(d) Payment of Loan by Partner.

15. On dissolution of a firm, a liability taken over by a partner is credited to

(a) Realisation Account. (b) Profit & Loss Account.
(c) Partner's Capital Account. (d) Liabilities Account.

16. At the time of firm's dissolution, if no liability is payable towards Workmen Compensation, then total amount of Workmen Compensation Reserve is transferred to

(a) Debit side of Realisation Account. (b) Debit side of Partners' Capital Accounts.
(c) Credit side of Realisation Account. (d) Credit side of Partners' Capital Accounts.

17. On the basis of the following data, how much final payment will be made to a partner on firm's dissolution? Credit balance of Capital Account of the partner was ₹ 50,000. Share of loss on realisation amounted to ₹ 10,000. Firm's liability taken over by him was for ₹ 8,000.

(a) ₹ 32,000.
(b) ₹ 48,000.
(c) ₹ 40,000.
(d) ₹ 52,000.

18. On dissolution of a firm, an unrecorded furniture of ₹ 5,000 was taken by a partner for ₹ 4,300 against payment. Which Account will be debited and by how much amount?

(a) Cash Account by ₹ 4,300.
(b) Realisation Account by ₹ 700.
(c) Partner's Capital Account by ₹ 4,300.
(d) Realisation Account by ₹ 4,300.

19. On the basis of following data, what will be the final payment to a partner on firm's dissolution: Debit balance of Capital Account ₹ 14,000. Share of his profit on realisation ₹ 43,000; Firm's asset taken by him for ₹ 17,000.

(a) ₹ 31,000
(b) ₹ 29,000
(c) ₹ 12,000
(d) ₹ 60,000

20. At the time of dissolution of a firm, Debtors were ₹ 17,000 out of which ₹ 500 became bad and the remaining debtors realised 60%. Which account will be debited and by how much amount?

(a) Realisation Account by ₹ 9,900.
(b) Profit & Loss Account by ₹ 500.
(c) Cash Account by ₹ 9,900.
(d) Debtors Account by ₹ 9,900.

21. In the Balance Sheet, Debtors exist at ₹ 50,000 and Provision for Doubtful Debts at ₹ 1,500. How much amount will be realised from Debtors, if bad debts are ₹ 10,000 and remaining debtors are realised at a discount of 5%?

(a) ₹ 38,000
(b) ₹ 36,500
(c) ₹ 36,575
(d) ₹ 39,500

22. Investments of ₹ 2,00,000 were not shown in the books. One of the creditors took these investments in settlement of his debt of ₹ 2,20,000. How much amount will be payable to that creditor?

(a) ₹ 20,000
(b) ₹ 2,20,000
(c) ₹ 4,20,000
(d) Nil

23. Anu, Bina and Charan are partners. The firm had given a loan of ₹ 20,000 to Bina. They decided to dissolve the firm. In the event of dissolution, the loan will be settled by

(a) transferring it to debit side of Realisation Account.
(b) transferring it to credit side of Realisation Account.
(c) transferring it to debit side of Bina's Capital Account.
(d) Bina paying Anu and Charan privately.

24. Rohit, a partner is to carry out dissolution and he gets ₹ 50,000 as remuneration. Realisation expenses were ₹ 25,000. Realisation Account will be debited with

(a) ₹ 50,000.
(b) ₹ 75,000.
(c) ₹ 25,000.
(d) ₹ 1,00,000.

25. The firm paid realisation expenses of ₹ 10,000 on behalf of Nihar, a partner with whom it was agreed at ₹ 25,000. Realisation expenses came to ₹ 35,000. Realisation Account will be debited by

(a) ₹ 10,000.
(b) ₹ 35,000.
(c) ₹ 25,000.
(d) ₹ 70,000.

26. A firm is dissolved, Pawan, a partner is to carry out dissolution. ₹ 50,000 is fixed as his remuneration. Realisation expenses were ₹ 25,000, which were paid by Pawan. Pawan's Capital Account will be credited by

(a) ₹ 50,000. (b) ₹ 75,000.

(c) ₹ 25,000. (d) ₹ 1,00,000.

27. A firm is dissolved, Param, a partner is to carry out dissolution for which he will get ₹ 5,000, including expenses. Realisation expenses were ₹ 2,500. Realisation Account will be debited by

(a) ₹ 5,000. (b) ₹ 2,500.

(c) ₹ 7,500. (d) None of these.

28. At the time of dissolution, total assets are of ₹ 12,00,000 and external liabilities are of ₹ 4,80,000. If assets realised 120% and realisation expenses paid were ₹ 16,000. Then gain or loss on realisation will be

(a) Gain ₹ 2,40,000. (b) Loss ₹ 2,40,000.

(c) Loss ₹ 2,24,000. (d) Gain ₹ 2,24,000.

29. On dissolution of a partnership firm, out of total debtors of ₹ 2,50,000, ₹ 10,000 become bad and the remaining debtors realised 70%. In the given case, _____________ will be debited by _____________.

(a) Realisation A/c, ₹ 1,75,000. (b) Realisation A/c, ₹ 1,68,000.

(c) Cash/Bank A/c, ₹ 1,82,000. (d) Cash/Bank A/c, ₹ 1,68,000.

30. On dissolution of the firm, 70% of stock was taken by Shiva, a partner, at a value of 70% and remaining stock was sold at 80% *less* 10% selling commission. If book value of stock given in Balance Sheet before dissolution was ₹ 2,25,000, net amount realised from sale of stock will be

(a) ₹ 48,600. (b) ₹ 1,62,000.

(c) ₹ 67,500. (d) ₹ 60,750.

31. Book value of creditors given in Balance Sheet before dissolution was ₹ 2,50,000. Half of the creditors accepted furniture of ₹ 1,50,000 at 10% less than the book value and cash of ₹ 10,000 in full settlement of their claims. Remaining creditors were paid availing discount of 5%.

What will be the amount with which bank will be credited in the Realisation Account for payment to creditors?

(a) ₹ 1,18,750. (b) ₹ 1,35,000.

(c) ₹ 1,28,750. (d) ₹ 1,25,000.

[**Ans.: 1.** (d); **2.** (a); **3.** (c); **4.** (b); **5.** (c); **6.** (c); **7.** (d); **8.** (b); **9.** (b); **10.** (a); **11.** (a); **12.** (a); **13.** (b); **14.** (a); **15.** (c); **16.** (d); **17.** (b); **18.** (a); **19.** (c); **20.** (c); **21.** (a); **22.** (d); **23.** (c); **24.** (b); **25.** (c); **26.** (b); **27.** (a); **28.** (d); **29.** (d); **30.** (a); **31.** (c).]

Working Notes:

17. Final payment to a partner = ₹ 50,000 – ₹ 10,000 + ₹ 8,000 = ₹ 48,000.

19. Final payment to a partner = – ₹ 14,000 + ₹ 43,000 – ₹ 17,000 = ₹ 12,000.

20. Debtors = ₹ 17,000 – Bad Debts ₹ 500 = ₹ 16,500.

Debtors realised = 60% of ₹ 16,500 = ₹ 9,900 Dr. to Cash Account.

21. Debtors: ₹ 50,000 – ₹ 10,000 (Bad Debts) = ₹ 40,000 (Net Debtors); Debtors realised = ₹ 40,000 – 5% of ₹ 40,000 = ₹ 38,000.

24. ₹ 50,000 + ₹ 25,000 = ₹ 75,000.

26. ₹ 50,000 + ₹ 25,000 = ₹ 75,000.

28.

Dr. REALISATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Sundry Assets A/c	12,00,000	By External Liabilities A/c	4,80,000
To Bank A/c (Payment of Liabilities)	4,80,000	By Bank A/c (Assets)	14,40,000
To Bank A/c (Expenses)	16,000	(₹ 12,00,000 × 120/100)	
To Gain (Balancing Figure)	**2,24,000**		
	19,20,000		19,20,000

30.

Book Value of Stock = ₹ 2,25,000

Less: Book Value of Stock taken by Shiva (70% of ₹ 2,25,000) = ₹ 1,57,500

Remaining Stock = ₹ 67,500

Selling price of remaining stock = ₹ 67,500 × 80/100 = ₹ 54,000

Less: Selling commission = 10/100 × ₹ 54,000 = ₹ 5,400

Cash realised from stock = ₹ 48,600

31.

Book Value of creditors = ₹ 2,50,000

Cash paid to half of creditors = ₹ 10,000

Cash paid to remaining creditors (₹ 1,25,000 – 5% of ₹ 1,25,000) = ₹ 1,18,750

Bank A/c will be credited in the Realisation Account = 1,28,750

Short Answer Type Questions—Carrying 2 or 3 Marks each

Q. 1. Shiv and Mohan were partners in a firm sharing profits and losses equally. Their firm was dissolved which resulted in a loss of ₹ 50,000. On that date the capital account of Shiv had credit balance of ₹ 40,000 and capital account of Mohan had credit balance of ₹ 50,000. The only asset in the firm was a cash balance of ₹ 40,000 on the date of dissolution. Pass the necessary Journal entries.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Shiv's Capital A/c	...Dr.		25,000	
	Mohan's Capital A/c	...Dr.		25,000	
	To Realisation A/c (₹ 90,000 – ₹ 40,000)				50,000
	(Being the transfer of loss on realisation to Partners' Capital Accounts)				
	Shiv's Capital A/c	...Dr.		15,000	
	Mohan's Capital A/c	...Dr.		25,000	
	To Bank A/c				40,000
	(Being the final payment made to partners)				

Q. 2. On dissolution of partnership firm, the book value of investments transferred to Realisation Account was ₹ 5,00,000. Out of the total investments, 60% of the investments were taken by Amit, a partner and remaining investments were sold through a broker at 120% *less* commission of 2%. Determine the amount realised from sale of investments and commission paid.

Ans. Book Value of Investment Sold = 40% of ₹ 5,00,000 = ₹ 2,00,000

Amount realised from sale = (₹ 2,00,000 × 120%) = ₹ 2,40,000

Commission = ₹ 4,800 (₹ 2,40,000 × 2%).

Q. 3. At the time of dissolution of partnership firm, stock was transferred to Realisation Account at ₹ 4,50,000. Mahesh, a partner is to take some of the stock at ₹ 3,60,000 (being 10% *less* than book value). Remaining stock was sold at 80% of the book value. Give Journal entry to record the realisation of stock.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Mahesh's Capital A/c (Note 1)	...Dr.		3,60,000	
	Bank A/c (Note 2)	...Dr.		40,000	
	To Realisation A/c				4,00,000
	(Being the stock of book value of ₹ 4,00,000 taken by Mahesh at 10% *less* and balance sold at 80% of book value)				

Notes:

1. Mahesh took some stock at ₹ 3,60,000, which is 10% *less* than its book value. Let the book value of stock = ₹ 100, Stock taken over by Mahesh = 100 – 10% of ₹ 100 = ₹ 90. It means books value of stock will be = ₹ 3,60,000 × 100/90 = ₹ 4,00,000.
2. Firm sold the remaining stock of ₹ 50,000 (₹ 4,50,000 – ₹ 4,00,000) at 80% of its book value, *i.e.*, 80% of ₹ 50,000 = ₹ 40,000.

Q. 4. On dissolution of a firm, pass the Journal entry for realisation of ₹ 1,00,000 from sale of goodwill which appeared in the Balance Sheet of the firm before dissolution.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,00,000	
	To Realisation A/c				1,00,000
	(Being the amount received from sale of goodwill)				

Q. 5. (i) Does the loan from an outsider has priority as to repayment over the repayment of loan from a partner?

(ii) Does the loan from a partner has priority as to repayment over the repayment of capital?

Ans. (i) Yes, as per Section 48 of the Indian Partnership Act, 1932.

(ii) Yes, as per Section 48 of the Indian Partnership Act, 1932.

Q. 6. On dissolution of partnership firm, Machinery was transferred to Realisation Account at ₹ 5,00,000 and Provision for Depreciation was credited to Realisation Account at ₹ 75,000. Out of the total machinery, 70% of the machinery was taken by Rahul, a partner, at a value of 80% and remaining machinery was sold at 90% *less* 5% selling commission. Record the necessary Journal entry to give effect to the realisation of machinery.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Rahul's Capital A/c (₹ 5,00,000 × 70/100 × 80/100)	...Dr.		2,80,000	
	Bank A/c (₹ 5,00,000 × 30/100 × 90/100)	...Dr.		1,35,000	
	To Realisation A/c				4,15,000
	(Being the machinery of book value of ₹ 3,50,000 taken over by Rahul at 80% and balance sold at 90% of book value)				
	Realisation A/c	...Dr.		6,750	
	To Bank A/c				6,750
	(Being the commission paid @ 5% on ₹ 1,35,000)				

Q. 7. Pranav, Karan and Rahim are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. They decide to dissolve the firm on 31st March, 2021 on which date following balances appeared:

	₹		₹
General Reserve	15,000	Profit & Loss A/c	6,900
Investment Fluctuation Reserve	3,000	Workmen Compensation Reserve	5,400
Advertisement Expenditure (Deferred Revenue)	12,000	Employees' Provident Fund	10,000

Pass the necessary Journal entries relating to the treatment of accumulated profits and losses.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	General Reserve A/c	...Dr.		15,000	
	Profit & Loss A/c	...Dr.		6,900	
	Investment Fluctuation Reserve A/c	...Dr.		3,000	
	Workmen Compensation Reserve A/c	...Dr.		5,400	
	To Pranav's Capital A/c				15,150
	To Karan's Capital A/c				9,090
	To Rahim's Capital A/c				6,060
	(Being the transfer of accumulated profits to all the partners in their profit-sharing ratio)				
	Pranav's Capital A/c	...Dr.		6,000	
	Karan's Capital A/c	...Dr.		3,600	
	Rahim's Capital A/c	...Dr.		2,400	
	To Advertisement Expenditure A/c				12,000
	(Being the transfer of accumulated losses to all the partners in their profit-sharing ratio)				

Note: Employees' Provident Fund is a liability towards employees. It is not an accumulated profit. Therefore, it is not distributed among the partners.

Q. 8. What is the accounting treatment of 'Partner's Loan' and 'Partner's Wife's Loan' at the time of dissolution of a firm?

Ans. Partner's wife's loan is an external liability. Thus, it is credited to Realisation Account and is paid before payment of partner's loan.

Partner's loan is not an external liability. It is retained in a separate Partner's Loan Account and it is paid only if surplus remains after payment of external liabilities.

Q. 9. Raj, a partner of dissolved firm was to get as his remuneration 2% of value of assets realised other than cash and 5% of the amount distributed to the partners. Sundry assets realised ₹ 4,00,000 and Cash in Hand was ₹ 12,000. External liabilities paid ₹ 1,94,000. Calculate Raj's remuneration.

Ans. Amount realised from assets = ₹ 4,00,000.

Commission payable to Raj on assets realised = ₹ 4,00,000 × 2% = ₹ 8,000.

Cash available to partners after payment to external liabilities and commission = ₹ 4,12,000 – ₹ 1,94,000 – ₹ 8,000 = ₹ 2,10,000.

Commission based on cash distribution = ₹ 2,10,000 × 5/105 = ₹ 10,000.

Hence, total remuneration = ₹ 8,000 + ₹ 10,000 = ₹ 18,000.

Q. 10. The firm of Manjeet, Sujeet and Jagjeet was dissolved on 31st March, 2021. It was agreed that Sujeet will supervise dissolution related activities and will get 10% of the value of assets realised as remuneration. Sujeet agreed to bear the realisation expenses. Assets realised ₹ 10,00,750 and realisation expenses were ₹ 90,000, which were paid from the firm's cash. ₹ 4,50,000 were paid to the creditors in full settlement of their claim.

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

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		10,00,750	
	To Realisation A/c			10,00,750
	(Being the assets realised)			
	Realisation A/c ...Dr.		1,00,075	
	To Sujeet's Capital A/c			1,00,075
	(Being 10% of assets realised paid as remuneration)			
	Sujeet's Capital A/c ...Dr.		90,000	
	To Bank A/c			90,000
	(Being the realisation expenses paid on behalf of Sujeet)			
	Realisation A/c ...Dr.		4,50,000	
	To Bank A/c			4,50,000
	(Being the creditors paid in full settlement)			

Q. 11. Pass necessary Journal entries under the following situations:

Case 1. *Z*, one of the partners, was to receive ₹ 5,000 as remuneration for supervising the dissolution work and was to bear Realisation Expenses. Realisation expenses ₹ 3,000 were paid by the firm.

Case 2. *Z*, one of the partners, was to receive 3% of the value of assets realised as remuneration for completing the dissolution work and was to bear Realisation Expenses. Realisation expenses were ₹ 5,000 and paid by *Z*. The assets realised ₹ 1,50,000.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Case 1	Realisation A/c ...Dr.		5,000	
	To *Z*'s Capital A/c			5,000
	(Being the remuneration due for dissolution work)			
	Z's Capital A/c ...Dr.		3,000	
	To Bank A/c			3,000
	(Being the realisation expenses paid by firm on *Z*'s behalf)			
Case 2	Realisation A/c ...Dr.		4,500	
	To *Z*'s Capital A/c			4,500
	(Being the remuneration for dissolution work due to *Z*, *i.e.*, 3% of ₹ 1,50,000)			

Q. 12. Balance Sheet of a firm disclosed as a footnote a contingent liability for ₹ 5,000 in respect of a bill discounted. The bill was received from *Z*. Later on, it was learnt that *Z* has become insolvent and a dividend of 60% was received from his estate. Give Journal entry to record the above event when the firm was dissolved.

Ans. Contingent liability is not part of the Balance Sheet and hence it is not to be transferred to Realisation Account. In this case, two Journal entries are passed:

(i) For payment of ₹ 5,000 to the bank from whom the bill was discounted because on the dishonour of the bill, bank will call on the firm for payment of dues:

Realisation A/c	...Dr.	₹ 5,000	
To Bank A/c			₹ 5,000

(ii) For recovery of 60% of the bill from the official receiver of *Z*:

Bank A/c	...Dr.	₹ 3,000	
To Realisation A/c			₹ 3,000

Q. 13. Susan, Geeta and Rashi were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. At the time of dissolution, firm's total assets were of ₹ 2,00,000, external liabilities were ₹ 60,000. Realisation expenses amounted to ₹ 8,000. The assets realised 20% more than the book value and external liabilities were paid 5% more. Determine the gain (profit) or loss on realisation and the amount by which Geeta's Capital Account will be debited or credited.

Ans.

	₹
Gain (Profit) on Realisation of Assets (₹ 2,00,000 × 20/100)	40,000
Loss on settlement of External Liabilities (₹ 60,000 × 5/100)	(3,000)
Realisation Expenses	(8,000)
Profit on Realisation	29,000

Geeta's Capital Account will be credited by ₹ 11,600 $\left(\frac{2}{5} \times ₹\ 29{,}000\right)$.

Q. 14. On the dissolution of a partnership firm, Aman a partner, gives his personal car valued at ₹ 5,00,000 to settle a creditor of the firm. Show accounting treatment of this transaction by passing a Journal entry.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Realisation A/c ...Dr.		5,00,000	
	To Aman's Capital A/c			5,00,000
	(Being Aman's Capital Account credited as firm's creditor settled through Aman's personal car)			

Q. 15. Give Journal entries in each of the following alternative cases:

(i) Expenses of realisation ₹ 7,400 were paid by Ravi, a partner.

(ii) Realisation expenses were to be borne by Deepak, a partner, for which he was allowed a commission of 2% of net cash realised from dissolution. The net cash realised from dissolution was ₹ 1,00,000 and actual realisation expenses were ₹ 7,400.

(iii) Expenses of realisation ₹ 7,400 were to be borne by Khan, a partner. Khan used firm's cash for paying these expenses.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr.		7,400	
	To Ravi's Capital A/c			7,400
	(Being the payment of realisation expenses by Ravi)			
(ii)	Realisation A/c (₹ 1,00,000 × 2/100) ...Dr.		2,000	
	To Deepak's Capital A/c			2,000
	(Being the remuneration for dissolution work due to Deepak)			
(iii)	Khan's Capital A/c ...Dr.		7,400	
	To Cash A/c			7,400
	(Being the expenses paid on Khan's behalf)			

Q. 16. Daman, Gagan and Aman were partners in a firm sharing profits in the ratio of 4 : 3 : 3. The firm was dissolved. After transfer of assets and external liabilities to Realisation Account, following transactions took place:

(i) Raj, a creditor, to whom ₹ 6,000 were due to be paid accepted office equipment at ₹ 4,000 and the balance was paid to him.

(ii) Shiv, a creditor to whom ₹ 16,000 was due, took over Machinery at ₹ 20,000. Balance was paid by him.

(iii) An unrecorded liability of the firm of ₹ 7,800 was paid by Aman.

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

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr.		2,000	
	To Cash A/c			2,000
	(Being the cash paid to a creditor, Raj)			
(ii)	Cash A/c ...Dr.		4,000	
	To Realisation A/c			4,000
	(Being the cash received from a creditor Shiv)			
(iii)	Realisation A/c ...Dr.		7,800	
	To Aman's Capital A/c			7,800
	(Being an unrecorded liability paid by Aman)			

Q. 17. Ram, Rahim and Rehman were partners in a firm sharing profits in the ratio of 4 : 1 : 5. On 28th February, 2021, the firm was dissolved, when their Balance Sheet showed following balances:

Particulars	₹
Ram's Capital	14,00,000
Rahim's Capital	6,00,000
Rehman's Capital	10,00,000
General Reserve	1,40,000

On the date of dissolution:

(i) Rehman took 50% of Machinery at 5% *less* than the book value (Book value = ₹ 4,00,000).

(ii) Furniture was taken by Ram at ₹ 79,000 (Book Value = ₹ 1,32,000).

(iii) Dissolution expenses of ₹ 7,000 were paid by Rehman.

(iv) Loss on realisation of assets and settlement of liabilities was ₹ 72,700.

You are required to prepare the Partners' Capital Accounts.

Ans.

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Ram ₹	Rahim ₹	Rehman ₹	Particulars	Ram ₹	Rahim ₹	Rehman ₹
To Realisation A/c (WN)	79,000	...	1,90,000	By Balance *b/d*	14,00,000	6,00,000	10,00,000
To Realisation A/c (Loss)	29,080	7,270	36,350	By Realisation A/c	...	...	7,000
To Bank A/c* (Bal. Fig.)	13,47,920	6,06,730	8,50,650	By Reserve	56,000	14,000	70,000
	14,56,000	6,14,000	10,77,000		14,56,000	6,14,000	10,77,000

Working Note:

Machinery taken over by Rehman = ₹ 2,00,000 – 5% of ₹ 2,00,000 = ₹ 1,90,000.

Long Answer Type Questions—Carrying 5 Marks each

Q. 1. Harish and Gopal were partners in a firm sharing profits in the ratio of 3 : 2. On 31st March, 2021 their Balance Sheet was as follows:

BALANCE SHEET OF HARISH AND GOPAL
as at 31st March, 2021

Liabilities		₹	Assets	₹
Creditors		36,000	Cash	47,000
Outstanding Expenses		10,000	Bank	93,000
Gopal's Wife's Loan		50,000	Debtors	76,000
Capitals:			Stock	2,00,000
Harish	2,80,000		Furniture	20,000
Gopal	1,60,000	4,40,000	Land and Building	1,00,000
		5,36,000		5,36,000

On the above date the firm was dissolved. Various assets were realised and liabilities were paid/settled as under:

(i) Gopal agreed to pay his wife's loan.

(ii) Land and Building was sold for ₹ 1,50,000 and Debtors realised ₹ 12,000 *less*.

(iii) Half of the creditors agreed to accept furniture of the firm as settlement of their claim and remaining half agreed to accept 10% *less*.

(iv) 50% stock was taken by Harish on payment by cheque of ₹ 90,000 and remaining stock was sold for ₹ 94,000.

(v) Realisation expenses of ₹ 10,000 were paid by Gopal on behalf of the firm.

Prepare Realisation Account.

Ans.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Debtors A/c		76,000	By Creditors A/c		36,000
To Stock A/c		2,00,000	By Outstanding Expenses A/c		10,000
To Furniture A/c		20,000	By Gopal's Wife Loan A/c		50,000
To Land and Building A/c		1,00,000	By Bank A/c:		
To Gopal's Capital A/c (Wife's Loan)		50,000	Land and Building	1,50,000	
To Bank A/c:			Debtors (₹ 76,000 – ₹ 12,000)	64,000	
Creditors (₹ 18,000 – ₹ 1,800)	16,200*		Stock (₹ 90,000 + ₹ 94,000)	1,84,000	3,98,000
Outstanding Expenses	10,000	26,200			
To Gopal's Capital A/c (Realisation Expenses)		10,000			
To Profit transferred to:					
Harish's Capital A/c	7,080				
Gopal's Capital A/c	4,720	11,800			
		4,94,000			4,94,000

*50% of creditors, *i.e.*, ₹ 18,000 accepted furniture. No entry is passed for transfer of furniture to the creditors.

Q. 2. Raina and Meena were partners in a firm sharing profits and losses equally. They dissolved their firm on 31st March, 2021:

On this date, the Balance Sheet of the firm, apart from realisable assets and outside liabilities showed following balances:

	₹	
Raina's Capital	40,000	(Cr.)
Meena's Capital	20,000	(Dr.)
Profit & Loss Account	10,000	(Dr.)
Raina's Loan to the Firm	15,000	
General Reserve	7,000	

On the date of dissolution of the firm:

(a) Raina's loan was repaid by the firm along with interest of ₹ 500.

(b) The dissolution expenses of ₹ 1,000 were paid by the firm on behalf of Raina who had to bear these expenses.

(c) An unrecorded asset of ₹ 2,000 was taken by Meena while Raina discharged an unrecorded liability of ₹ 3,000.

(d) The dissolution resulted in a loss of ₹ 60,000 from the realisation of assets and settlement of liabilities.

You are required to prepare:

(i) Partners' Capital Accounts.

(ii) Raina's Loan Account.

Ans.

(i)

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Raina (₹)	Meena (₹)	Particulars	Raina (₹)	Meena (₹)
To Balance *b/d*	...	20,000	By Balance *b/d*	40,000	...
To Profit & Loss A/c	5,000	5,000	By General Reserve A/c	3,500	3,500
To Realisation A/c (Dissolution Exp.)	1,000	...	By Realisation A/c (Unrecorded Liability)	3,000	...
To Realisation A/c (Unrecorded Asset)	...	2,000	By Bank A/c (Amount Brought—Bal. Fig.)	...	53,500
To Realisation A/c (Loss)	30,000	30,000			
To Bank A/c (Final Payment—Bal. Fig.)	10,500	...			
	46,500	57,000		46,500	57,000

(ii)

Dr. RAINA'S LOAN ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Payment)	15,500	By Balance *b/d*	15,000
		By Interest on Loan A/c	500
	15,500		15,500

Notes: Interest (₹ 500) paid on Raina's Loan is included in realisation loss of ₹ 60,000.

Q. 3. Ajay and Shyam share profits and losses in the ratio of 3 : 2. They decided to dissolve the firm. Assets and external liabilities were transferred to Realisation Account. Pass the Journal entries to effect the following:

(i) Bank loan of ₹ 12,000 is paid.

(ii) Ajay was to bear all expenses of realisation for which he is given a commission of ₹ 400.

(iii) Deferred Revenue Expenditure (Advertisement Suspense) Account appeared in the books at ₹ 28,000.

(iv) Stock of ₹ 1,600 was taken by Shyam at ₹ 1,200.

(v) An unrecorded computer realised ₹ 7,000.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr.		12,000	
	To Bank A/c			12,000
	(Being the bank loan paid)			
(ii)	Realisation A/c ...Dr.		400	
	To Ajay's Capital A/c			400
	(Being the remuneration for dissolution work due to Ajay)			
(iii)	Ajay's Capital A/c ...Dr.		16,800	
	Shyam's Capital A/c ...Dr.		11,200	
	To Deferred Revenue Expenditure A/c			28,000
	(Being the transfer of accumulated losses to all the partners in their profit-sharing ratio)			
(iv)	Shyam's Capital A/c ...Dr.		1,200	
	To Realisation A/c			1,200
	(Being the stock taken over by partner)			
(v)	Bank A/c ...Dr.		7,000	
	To Realisation A/c			7,000
	(Being the unrecorded asset realised)			

Q. 4. Pass the necessary Journal entries for the following transactions on dissolution of the firm of Vikas and Vivek after various assets (Other than cash) and outside liabilities were transferred to Realisation Account:

(i) Vikas paid creditors ₹ 17,000 in settlement of their claim of ₹ 20,000.

(ii) Vivek agreed to pay his wife's loan of ₹ 70,000.

(iii) Stock of ₹ 40,000 was taken by Vikas for ₹ 39,000.

(iv) Expenses of realisation of ₹ 4,900 were paid by the partner Vivek.

(v) Loss on Dissolution of ₹ 9,000 was divided between Vikas and Vivek in the ratio of 3 : 1.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr.		17,000	
	To Vikas's Capital A/c			17,000
	(Being the payment of creditors by Vikas)			
(ii)	Realisation A/c ...Dr.		70,000	
	To Vivek's Capital A/c			70,000
	(Being the wife's loan paid by Vivek)			

(iii)	Vikas's Capital A/c ...Dr.		39,000	
	To Realisation A/c			39,000
	(Being the stock taken by partner)			
(iv)	Realisation A/c ...Dr.		4,900	
	To Vivek's Capital A/c			4,900
	(Being the payment of realisation expenses by Vivek)			
(v)	Vikas's Capital A/c ...Dr.		6,750	
	Vivek's Capital A/c ...Dr.		2,250	
	To Realisation A/c			9,000
	(Being the transfer of loss on realisation)			

Q. 5. Pass the necessary Journal entries for the following transactions at the time of dissolution of the firm:

(i) Loan of ₹ 10,000 advanced by a partner to the firm was returned.

(ii) *X*, a partner, takes over an unrecorded asset (Scanner) at ₹ 300.

(iii) Profit & Loss Account (Debit) ₹ 30,000. The firm has three partners *X*, *Y* and *Z*.

(iv) The assets of the firm realised ₹ 1,25,000.

(v) *Y* who undertakes to carry out the dissolution work is paid ₹ 2,000 for it.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Partner's Loan A/c ...Dr.		10,000	
	To Bank A/c			10,000
	(Being the partner's loan discharged)			
(ii)	*X*'s Capital A/c ...Dr.		300	
	To Realisation A/c			300
	(Being the unrecorded scanner taken by *X*)			
(iii)	*X*'s Capital A/c ...Dr.		10,000	
	Y's Capital A/c ...Dr.		10,000	
	Z's Capital A/c ...Dr.		10,000	
	To Profit & Loss A/c			30,000
	(Being the debit balance of Profit & Loss Account transferred to Partners' Capital Accounts)			
(iv)	Bank A/c ...Dr.		1,25,000	
	To Realisation A/c			1,25,000
	(Being the assets of the firm realised)			
(v)	Realisation A/c ...Dr.		2,000	
	To *Y*'s Capital A/c			2,000
	(Being the remuneration due to *Y*)			

Q. 6. Pass the necessary Journal entries for the following transactions on dissolution of the firm of Sudha and Shiva after various assets (other than cash) and outside liabilities have been transferred to Realisation Account:

(i) Sudha agreed to pay her husband's loan of ₹ 19,000.

(ii) A debtor whose debt of ₹ 9,300 was written off as bad debt paid ₹ 7,500.

(iii) Shiva took over all investments at ₹ 13,300.

(iv) Realisation expenses ₹ 3,400 were paid by Sudha for which she was allowed ₹ 3,000.

(v) Profit on realisation ₹ 9,400 was divided between Sudha and Shiva in 3 : 2 ratio.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr.		19,000	
	To Sudha's Capital A/c			19,000
	(Being Sudha's husband's loan paid by Sudha)			
(ii)	Bank A/c ...Dr.		7,500	
	To Realisation A/c			7,500
	(Being the bad debts recovered)			
(iii)	Shiva's Capital A/c ...Dr.		13,300	
	To Realisation A/c			13,300
	(Being the investment taken by Shiva)			
(iv)	Realisation A/c ...Dr.		3,000	
	To Sudha's Capital A/c			3,000
	(Being the realisation expenses borne by Sudha)			
(v)	Realisation A/c ...Dr.		9,400	
	To Sudha's Capital A/c			5,640
	To Shiva's Capital A/c			3,760
	(Being the profit on realisation transferred to Partners' Capital Accounts)			

Q. 7. Manav, Nath and Narayan were partners sharing profits and losses equally. They dissolved their partnership on 31st March, 2022, when their Balance Sheet showed the following balances:

Particulars	₹
Manav's Capital	1,00,000
Nath's Capital (Dr.)	20,000
Narayan's Capital	1,50,000
General Reserve	21,000
Loan to Manav	20,000
Mrs. Narayan's Loan	15,000
Nath's Loan	28,000
Cash at Bank	57,000

On the date of dissolution:

(i) The firm, upon realisation of assets and settlement of liabilities, made a gain (profit) of ₹ 1,32,000.

(ii) Manav paid the realisation expenses of ₹ 5,000.

(iii) On dissolution, firm realised ₹ 4,20,000 from assets and paid ₹ 66,000 for settlement of outside liabilities.

(iv) Narayan agreed to pay his wife's loan.

You are required to prepare the Partners' Capital Accounts and Bank Account.

Ans.

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Manav ₹	Nath ₹	Narayan ₹	Particulars	Manav ₹	Nath ₹	Narayan ₹
To Balance *b/d*	...	20,000	...	By Balance *b/d*	1,00,000	...	1,50,000
To Loan to Manav	20,000	...	...	By Realisation A/c (Wife's loan)	...	...	15,000
To Bank A/c (Final payment)	1,36,000	31,000	2,16,000	By Realisation A/c (Exp.)	5,000	...	...
				By General Reserve	7,000	7,000	7,000
				By Realisation A/c (Profit)	44,000	44,000	44,000
	1,56,000	51,000	2,16,000		1,56,000	51,000	2,16,000

Dr. BANK ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance *b/d*	57,000	By Realisation A/c (Outside liabilities)	66,000
To Realisation A/c (Assets)	4,20,000	By Nath's Loan A/c	28,000
		By Manav's Capital A/c	1,36,000
		By Nath's Capital A/c	31,000
		By Narayan's Capital A/c	2,16,000
	4,77,000		4,77,000

Q. 8. Mehar and Mehtab were partners in a firm, sharing profits and losses in the ratio of 7 : 3.

They decided to dissolve the firm on 31st March, 2021. On that date, their books showed the following balances:

	₹
Sundry Creditors	27,000
Profit & Loss A/c (Dr.)	8,000
Cash in Hand	6,000
Bank Loan	20,000
Bills Payable	5,000
Sundry Assets	1,98,000
Capital A/cs:	
Mehar	1,12,000
Mehtab	48,000

Additional Information:

(a) Bills Payable falling due on 31st May, 2021 were retired on the date of dissolution of the firm, at a rebate of 6% per annum.

(b) The creditors of ₹ 20,000 accepted furniture (included in sundry assets) having a book value of ₹ 18,000 in settlement.

(c) Remaining assets were sold for ₹ 1,50,000.

(d) Outstanding salary not recorded in the books amounting to ₹ 15,000 was paid.

(e) Mehtab agreed to take the responsibility of completing the dissolution and to bear all expenses of realisation at an agreed remuneration of ₹ 2,000. The actual realisation expenses were ₹ 1,500 which were paid by the firm on behalf of Mehtab.

You are required to prepare:

(i) Realisation Account, and (ii) Partners' Capital Accounts.

Ans. (i)

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets A/c		1,98,000	By Sundry Creditors A/c		27,000
To Cash A/c:			By Bank Loan A/c		20,000
Bills Payable (₹ 5,000 – ₹ 50*)	4,950		By Bills Payable A/c		5,000
Outstanding Salary	15,000		By Cash A/c (Assets Realised)		1,50,000
Sundry Creditors	27,000	46,950	By Loss transferred to:		
To Mehtab's Capital A/c		2,000	Mehar's Capital A/c	31,465	
(Remuneration)			Mehtab's Capital A/c	13,485	44,950
		2,46,950			2,46,950

*Discount on Bills Payable = ₹ 5,000 $\times \frac{6}{100} \times \frac{2}{12}$ = ₹ 50.

(ii)

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Mehar ₹	Mehtab ₹	Particulars	Mehar ₹	Mehtab ₹
To Profit & Loss A/c	5,600	2,400	By Balance *b/d*	1,12,000	48,000
To Realisation A/c (Loss)	31,465	13,485	By Realisation A/c (Remuneration)	...	2,000
To Cash A/c (Realisation Expenses)	...	1,500			
To Cash A/c (Final Payment)	74,935	32,615			
	1,12,000	50,000		1,12,000	50,000

3. JOINT STOCK COMPANY—ISSUE OF DEBENTURES

Multiple Choice Questions (MCQs—Carrying 1 Mark each)

Read the following statements and select the correct alternative:

1. Debentures are shown in the Balance Sheet of a company under the head of
(a) Long-term Borrowings. (b) Other Long-term Liabilities.
(c) Long-term Provisions. (d) Share Capital.

2. Debentureholders are
(a) the owners of the company. (b) the lenders of the company.
(c) the vendors of the company. (d) the customers of the company.

3. When debentures are issued at a discount, the discount on issue is written off from
(a) Investments Fluctuation Reserve. (b) General Reserve.
(c) Securities Premium Reserve. (d) None of these.

4. When debentures are issued at par and redeemable at premium, the loss on issue is written off from
(a) Investments Fluctuation Reserve. (b) Workmen Compensation Reserve.
(c) Securities Premium Reserve. (d) None of these.

5. Debentures' interest or Interest on Debentures is paid
(a) at a predetermined rate.
(b) at variable rate.
(c) at a rate based on net profit of the company.
(d) at a rate as determined by the company from time to time.

6. From the Registration Point of View, the debentures are classified as
(a) Secured and Unsecured Debentures.
(b) Redeemable Debentures and Irredeemable Debentures.
(c) Convertible Debentures and Non-convertible Debentures.
(d) Registered Debentures and Bearer Debentures.

7. From the Security Point of View, the debentures are classified as
(a) Secured Debentures and Unsecured Debentures.
(b) Registered Debentures and Bearer Debentures.
(c) Convertible Debentures and Non-convertible Debentures.
(d) Redeemable Debentures and Irredeemable Debentures.

8. At the time of issue of debentures, Debentures Account is credited by
(a) the amount received.
(b) the issue price of the debentures.
(c) the nominal (face) value of the debentures.
(d) None of these.

9. Interest on debentures is paid on
(a) Nominal (face) value.
(b) Nominal (face) value *plus* premium received.
(c) Nominal (face) value *less* discount allowed
(d) None of these.

10. Which of the following statements is not true?
(a) Interest on Debenture is not shown in Statement of Profit & Loss.
(b) Interest on Debenture is to be paid whether the company earns profit or incurs loss.
(c) Securities Premium Reserve can be used for specified purposes.
(d) Company can buy back its own debentures.

11. Which of the following statements is false?
(a) Equity is owner's stake and debenture is a debt.
(b) Rate of Interest on Debenture is fixed.
(c) Debentureholders get preferential treatment over the equity holders at the time of liquidation.
(d) Interest on Debentures is an appropriation of profits.

12. Debentures can be issued
(a) for consideration other than cash.
(b) as collateral security for borrowing from financial institutions.
(c) to settle creditors liability.
(d) All the above.

13. When debentures are issued as collateral security to a bank, which account will be debited?
(a) Bank Account.
(b) Debenture Suspense Account.
(c) Debenture Redemption Account.
(d) Debentureholders' Account.

14. Following Journal entries are passed in the books of Raj Ltd.:

Bank A/c	..Dr.	96,000	
To Debentures Application and Allotment A/c			96,000
Debentures Application and Allotment A/c	...Dr.	96,000	
Loss on Issue of Debentures A/c	...Dr.	10,000	
To 8% Debentures A/c			1,00,000
To Premium on Redemption of Debentures A/c			6,000

Based on the above Journal entries, identify the rate of discount on Debentures.

(a) Discount of 4%. (b) Discount of 6%.

(c) Premium of 8%. (d) Discount of 10%.

15. Srijan Ltd. issued ₹ 1,00,000, 10% Debentures at 5% discount redeemable at 5% premium after 10 years. Loss on issue of debentures will be

(a) ₹ 15,000. (b) ₹ 10,000.

(c) ₹ 12,000. (d) ₹ 20,000.

16. Shiv Ltd. purchased Land and Building from Ram Ltd. for ₹ 2,00,000. The consideration was paid by issue of 10% Debentures of ₹ 100 each at a discount of 20%. The debentures account is credited with

(a) ₹ 2,60,000. (b) ₹ 2,50,000.

(c) ₹ 2,40,000. (d) ₹ 1,60,000.

17. How many debentures will a company issue against purchase consideration of ₹ 28,80,000, if debentures of ₹ 100 are issued at a premium of ₹ 20 per debenture?

(a) 24,000. (b) 28,800.

(c) 36,000. (d) 32,000.

18. Star Ltd. bought a machinery for ₹ 4,00,000 payable as ₹ 1,30,000 by cheque and the balance by issue of 10% Debentures of ₹ 100 each at 10% discount. Number of debentures issued is

(a) 4,000. (b) 3,000.

(c) 2,700. (d) 30,000.

19. Excess value of net assets over purchase consideration at the time of purchase is credited to

(a) General Reserve. (b) Capital Reserve.

(c) Vendor's Account. (d) Goodwill Account.

20. When debentures are issued as collateral security, interest is paid on

(a) Nominal Value of Debentures. (b) Face Value of Debentures.

(c) Discounted Value of Debentures. (d) Interest is not paid.

21. Premium on Issue of Debentures cannot be used to

(a) write off the discount on issue of debentures.

(b) write off the premium on redemption of shares or debentures.

(c) pay dividends.

(d) write off preliminary expenses.

22. Premium on redemption of debentures is provided at the time of

(a) Issue of Debentures. (b) Redemption of Debentures.

(c) Every year. (d) After 10 years.

23. Star Ltd. issued 5,000, 10% Debentures of ₹ 100 each at a premium of ₹ 10 each. These debenture were to be redeemed at a premium of ₹ 4 each after 5 years. The amount credited to Securities Premium Reserve Account will be

(a) ₹ 25,000. (b) ₹ 50,000.
(c) ₹ 40,000. (d) ₹ 60,000.

24. Eastern Ltd. issues ₹ 50,00,000, 10% Debentures of ₹ 100 each at par and redeemable at the end of 5 years at 105%. The 'Premium on Redemption of Debentures Account' will be

(a) Debited with ₹ 2,50,000. (b) Credited with ₹ 2,00,000.
(c) Credited with ₹ 2,50,000. (d) Debited with ₹ 20,000.

25. Interest on Debenture

(a) is payable only in case of profit. (b) is accumulated in case of inadequate profits.
(c) is payable irrespective of profit or loss. (d) None of these.

26. Discount or Loss on Issue of Debentures is a

(a) Capital loss for the company. (b) Normal loss for the company.
(c) Abnormal loss for the company. (d) Business loss for the company.

27. Discount or Loss on Issue of Debentures is written off from

(a) Securities Premium Reserve, if it exists. (b) Statement of Profit & Loss.
(c) Capital Reserve. (d) Any of the above.

28. Discount or Loss on Issue of Debentures is written off

(a) at the earliest but before the redemption of debentures.
(b) after the redemption of debentures.
(c) (a) or (b).
(d) None of the above.

29. Discount on Issue of Debentures is a

(a) Capital profit to be shown in the Balance Sheet as Capital Reserve.
(b) Capital loss to be written off after redemption of debentures.
(c) Capital loss which preferably should be written off in the year of Issue of Debentures.
(d) Revenue profit to be shown as income in Statement of Profit & Loss of the year of issue.

30. Jai Ltd. issued ₹ 1,00,000 debentures (Face value ₹ 100) at a discount of 6% on 1st April, 2016 repayable by 5 equal annual drawings commencing from 31st March, 2017. The accounting year of the company ends on 31st March. Discount on Issue of Debentures is written off in the 5 financial years as:

(a) ₹ 6,000 in the first year.
(b) ₹ 900, ₹ 1,200, ₹ 1,200, ₹ 1,200, ₹ 3,000 in 1st, 2nd, 3rd, 4th and 5th year respectively.
(c) ₹ 1,200 every year.
(d) ₹ 2,000, ₹ 1,600, ₹ 1,200, ₹ 800, ₹ 400 in 1st, 2nd, 3rd, 4th, 5th year respectively.

[**Ans.: 1.** (a); **2.** (b); **3.** (c); **4.** (c); **5.** (a); **6.** (d); **7.** (a); **8.** (c); **9.** (a); **10.** (a); **11.** (d); **12.** (d); **13.** (b); **14.** (a); **15.** (b); **16.** (b); **17.** (a); **18.** (b); **19.** (b); **20.** (d); **21.** (c); **22.** (a); **23.** (b); **24.** (c); **25.** (c); **26.** (a); **27.** (d); **28.** (a); **29.** (c); **30.** (d).]

Working Notes:

14. Discount on Issue of Debentures = ₹ 1,00,000 – ₹ 96,000 = ₹ 4,000
% of Discount = ₹ 4,000/₹ 1,00,000 × 100 = 4%.

15. Loss on Issue of Debentures = Discount on Issue + Premium on Redemption
= ₹ 5,000 + ₹ 5,000 = ₹ 10,000.

16. No. of Debenture to be issued = ₹ 2,00,000/₹ 80 (Issue price) = 2,500
Debentures A/c credited with = 2,500 × ₹ 100 = ₹ 2,50,000.

17. No. of Debentures to be issued = ₹ 28,80,000/₹ 120 = 24,000 Debentures.

Short Answer Type Questions—Carrying 2 or 3 Marks each

Q. 1. Sunrise Ltd. has equity share capital of ₹ 10,00,000. The company earns return on investment of 5% on its capital. The company needed funds for diversification. The finance manager had the following options: (i) Borrow ₹ 5,00,000 @ 15% p.a. from a bank payable in four equal quarterly instalments starting from the end of the fifth year; or (ii) Issue ₹ 5,00,000, 9% Debentures of ₹ 100 each redeemable at a premium of 10% after five years. The company opted for option (ii). Pass necessary Journal entries for issue of debentures.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		5,00,000	
	To Debentures Application and Allotment A/c				5,00,000
	(Being the debentures application money received)				
	Debentures Application and Allotment A/c	...Dr.		5,00,000	
	Loss on Issue of Debentures A/c	...Dr.		50,000	
	To 9% Debentures A/c				5,00,000
	To Premium on Redemption of Debentures A/c				50,000
	(Being the issue of 9% Debentures at par, redeemable at 10% premium)				

Q. 2. Moon Ltd. invited applications for 1,000, 9% Debentures of ₹ 100 each issued at a discount of 6%, amount being payable along with application. Applications for 1,200 debentures were received. *Pro rata* allotment was made to all the applicants.

Pass necessary Journal entries for the issue of debentures.

Ans. JOURNAL OF MOON LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,12,800	
	To Debentures Application and Allotment A/c				1,12,800
	(Being the application money received on 1,200 debentures) @ ₹ 94 each)				
	Debentures Application and Allotment A/c	...Dr.		1,12,800	
	Discount on Issue of Debentures A/c (1,000 × ₹ 6)	...Dr.		6,000	
	To 9% Debentures A/c (1,000 × ₹ 100)				1,00,000
	To Bank A/c (200 × ₹ 94)				18,800
	(Being 1,000; 9% Debentures of ₹ 100 each allotted on *pro rata* basis and application money for 200 debentures refunded)				

Note: Question requires entries for Issue of Debentures. Thus, entry for writing off Discount on Issue of Debentures is not passed.

Q. 3. Nav Lakshmi Ltd. invited applications for issuing 3,000, 10% Debentures of ₹ 100 each at a premium of ₹ 50 per debenture. The issue price was payable on application. Applications were received for 4,000 Debentures. Applications for 1,000 Debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants. Pass necessary Journal entries for the above transactions.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		6,00,000	
	To Debentures Application and Allotment A/c				6,00,000
	(Being the debenture application money received)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Debentures Application and Allotment A/c	...Dr.		6,00,000	
	To 10% Debentures A/c (3,000 × ₹ 100)				3,00,000
	To Securities Premium Reserve A/c (3,000 × ₹ 50)				1,50,000
	To Bank A/c (1,000 × ₹ 150)				1,50,000
	(Being the issue of 3,000; 10% Debentures of ₹ 100 each at a premium of 50% and the surplus refunded)				

Q. 4. Fast Computers Ltd. issued 2,00,000, 8% Debentures of ₹ 100 each at a discount of 4%, redeemable at a premium of 5% after three years. The amount was payable as follows:

On application ₹ 50 per debenture, Balance on allotment.

Pass the necessary Journal entries.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,00,00,000	
	To Debentures Application A/c				1,00,00,000
	(Being the debenture application money received)				
	Debentures Application A/c	...Dr.		1,00,00,000	
	To 8% Debentures A/c				1,00,00,000
	(Being the debenture application money adjusted)				
	Debentures Allotment A/c	...Dr.		92,00,000	
	Loss on Issue of Debentures A/c	...Dr.		18,00,000	
	To 8% Debentures A/c				1,00,00,000
	To Premium on Redemption of Debentures A/c				10,00,000
	(Being the debenture allotment money due and loss adjusted)				
	Bank A/c	...Dr.		92,00,000	
	To Debentures Allotment A/c				92,00,000
	(Being the debenture allotment money received)				

Q. 5. Akai Ltd. issued 1,000; 7% Debentures of ₹ 100 each at 5% premium, redeemable at 10% premium after 4 years.

Pass the Journal entries for issue of debentures and writing off Loss on Issue of Debentures, if the company decides to write it off in the year of issue.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,05,000	
	To Debentures Application and Allotment A/c				1,05,000
	(Being the debenture application money received)				
	Debentures Application and Allotment A/c	...Dr.		1,05,000	
	Loss on Issue of Debentures A/c	...Dr.		10,000	
	To 7% Debentures A/c				1,00,000
	To Securities Premium Reserve A/c				5,000
	To Premium on Redemption of Debentures A/c				10,000
	(Being the issue of 1,000; 7% Debentures of ₹ 100 each at a premium of 5% and redeemable at a premium of 10%)				
	Securities Premium Reserve A/c	...Dr.		5,000	
	Statement of Profit & Loss	...Dr.		5,000	
	To Loss on Issue of Debentures A/c				10,000
	(Being the loss on Issue of Debentures written-off)				

Q. 6. Birch Ltd. issued 1,000; 7% Debentures of ₹ 100 each at discount of 5% redeemable at par. Journalise.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		95,000	
	To Debentures Application and Allotment A/c				95,000
	(Being the application money received)				
	Debentures Application and Allotment A/c	...Dr.		95,000	
	Discount on Issue of Debentures A/c	...Dr.		5,000	
	To 7% Debentures A/c				1,00,000
	(Being the issue of 1,000; 7% Debentures of ₹ 100 each at a discount of 5%)				

Q. 7. Sudesh Ltd. issued 500, 7% Debentures of ₹ 150 each at 10% premium, redeemable at ₹ 200 each. Journalise.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		82,500	
	To Debentures Application and Allotment A/c				82,500
	(Being the Debenture Application Money received)				
	Debentures Application and Allotment A/c	...Dr.		82,500	
	Loss on Issue of Debentures A/c (500 × ₹ 50)	...Dr.		25,000	
	To 7% Debentures A/c				75,000
	To Securities Premium Reserve A/c				7,500
	To Premium on Redemption of Debentures A/c				25,000
	(Being the issue of 500, 7% Debentures of ₹ 150 each at a premium of 10% and redeemable at a premium of ₹ 50)				

Q. 8. Deepak Ltd. purchased a building of ₹ 1,10,00,000 from the Construction Co. Ltd. Deepak Ltd. issued 10% Debentures of ₹ 1,000 each in purchase consideration at a premium of 10%. Journalise in the books of Deepak Ltd.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Building A/c	...Dr.		1,10,00,000	
	To The Construction Co. Ltd.				1,10,00,000
	(Being the purchase of building)				
	The Construction Co. Ltd.	...Dr.		1,10,00,000	
	To 10% Debentures A/c				1,00,00,000
	To Securities Premium Reserve A/c				10,00,000
	(Being the issue of 10,000 debentures of ₹ 1,000 each at a premium of ₹ 100 per debenture)				

Q. 9. The Machinery Co. Ltd. purchased machinery for ₹ 72,000. This company issued 12% Debentures of ₹ 100 each at a discount of 4% in satisfaction of the purchase price. Pass the required Journal entries.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c	...Dr.		72,000	
	To Vendor's A/c				72,000
	(Being the purchase of machinery from vendor)				
	Vendor's A/c	...Dr.		72,000	
	Discount on Issue of Debentures A/c	...Dr.		3,000	
	To 12% Debentures A/c				75,000
	(Being the issue of 12% Debentures of ₹ 100 each at 4% discount)				

Note: No. of Debentures to be issued = ₹ 72,000/₹ 96 = 750.

Q. 10. Hina Ltd. purchased assets of Harish Ltd. for ₹ 8,40,000 and took over the liabilities (creditors) of ₹ 80,000 for a purchase consideration of ₹ 8,00,000. Hina Ltd. issued 12% Debentures of ₹ 100 each at 25% premium for purchase consideration. Pass necessary Journal entries in the books of Hina Ltd.

Ans. **In the Books of Hina Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	...Dr.		8,40,000	
	Goodwill A/c (Balancing Figure)	...Dr.		40,000	
	To Creditors A/c				80,000
	To Harish Ltd.				8,00,000
	(Being the purchase of business of Harish Ltd.)				
	Harish Ltd.	...Dr.		8,00,000	
	To 12% Debentures A/c				6,40,000
	To Securities Premium Reserve A/c				1,60,000
	(Being the issue of 6,400; 12% Debentures of ₹ 100 each at 25% premium)				

Note: No. of Debentures to be issued = $\frac{\text{Purchase Consideration}}{\text{Issue Price of Debenture}} = \frac{₹\ 8,00,000}{₹\ 125}$ = 6,400 Debentures.

Q. 11. Deepak Ltd. purchased furniture for ₹ 2,20,000 from M/s Furniture Mart. 50% of the amount was paid to Furniture Mart by accepting a Bill of Exchange and for the balance, the company issued 9% Debentures of ₹ 100 each at a premium of 10% in favour of M/s Furniture Mart. Pass necessary Journal entires in the books of Deepak Ltd.

Ans. **In the Books of Deepak Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Furniture A/c	...Dr.		2,20,000	
	To M/s Furniture Mart				2,20,000
	(Being the purchase of furniture)				
	M/s Furniture Mart	...Dr.		1,10,000	
	To Bills Payable A/c				1,10,000
	(Being the part payment made to vendor by a bills payable)				
	M/s Furniture Mart	...Dr.		1,10,000	
	To 9% Debentures A/c				1,00,000
	To Securities Premium Reserve A/c				10,000
	(Being the issue of 1,000 debentures)				

Note: No. of Debentures to be issued = ₹ 1,10,000/₹ 110 = 1,000.

Q. 12. Venus Ltd. a real estate company, took over assets of ₹ 10,00,000 and liabilities of ₹ 1,80,000 of Cayns Ltd. for ₹ 7,60,000. Venus Ltd., issued 9% Debentures of ₹ 100 each at a discount of 5% in full satisfaction of the purchase consideration in favour of Cayns Ltd.

Pass necessary Journal entries in the books of Venus Ltd. for the above transactions.

Ans. JOURNAL OF VENUS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c ...Dr.		10,00,000	
	To Sundry Liabilities A/c			1,80,000
	To Cayns Ltd.			7,60,000
	To Capital Reserve A/c (Balancing Figure)			60,000
	(Being the business purchased from Cayns Ltd.)			
	Cayns Ltd. ...Dr.		7,60,000	
	Discount on Issue of Debentures A/c ...Dr.		40,000	
	To 9% Debentures A/c			8,00,000
	(Being 8,000, 9% Debentures of ₹ 100 each issued at a discount of 5%)			

Note: No. of Debentures to be issued = ₹ 7,60,000/₹ 95 = 8,000 debentures.

Q. 13. Fill-in-the blanks in the following entries:

JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c ...Dr.		18,00,000	
	To Sundry Creditors A/c			2,00,000
	To ?			?
	To ?			?
	(Being the business of Rohan & Co. purchased for a consideration of ₹ 15,00,000)			
	? ...Dr.		?	
	? ...Dr.		?	
	To 9% Debentures A/c			?
	(Being the payment to Rohan & Co. by issue of ?; 9% Debentures of ₹ 150 each at a discount of ₹ 50 per debenture)			

Ans. JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c ...Dr.		18,00,000	
	To Sundry Creditors A/c			2,00,000
	To **Rohan & Co.**			**15,00,000**
	To **Capital Reserve A/c (Balancing Figure)**			**1,00,000**
	(Being the business of Rohan & Co. purchased for a consideration of ₹ 15,00,000)			
	Rohan & Co. ...Dr.		**15,00,000**	
	Discount on Issue of Debentures A/c ...Dr.		**7,50,000**	
	To 9% Debentures A/c			**22,50,000**
	(Being the payment to Rohan & Co. by issue of **15,000**; 9% Debentures of ₹ 150 each at a discount of ₹ 50 per debenture)			

Note: Number of Debentures to be issued $= \frac{\text{Purchase Price}}{\text{Issue Price}} = \frac{₹\,15{,}00{,}000}{₹\,100}$ = 15,000 Debentures.

Q. 14. Bright Ltd. issued 5,000; 10% Debentures of ₹ 100 each on 1st April, 2020. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March.

Pass necessary Journal entries for debenture interest for the year ending 31st March, 2021 and transfer of interest on debentures of the year to Statement of Profit & Loss.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021				
March 31	Interest on Debentures A/c (₹ 5,00,000 × 10/100 × 6/12) ...Dr.		25,000	
	To Debentureholders' A/c			25,000
	(Being the half-yearly interest due on debentures)			
March 31	Debentureholders' A/c ...Dr.		25,000	
	To Bank A/c			25,000
	(Being the payment of interest on debentures)			
March 31	Statement of Profit & Loss (Finance cost) ...Dr.		50,000	
	To Interest on Debentures A/c			50,000
	(Being the yearly interest on debentures transferred to Statement of Profit & Loss)			

Q. 15. *BG*. Ltd. issued 2,000, 12% Debentures of ₹ 100 each on 1st April, 2020. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-year on 30th September and 31st March and the tax deducted at source is 10%.

Pass necessary Journal entries related to the debenture interest for the half-year ending 31st March, 2021 and transfer of interest on debentures of the year to the Statement of Profit & Loss.

Ans. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021				
March 31	Interest on Debentures A/c (₹ 2,00,000 × 12/100 × 6/12) ...Dr.		12,000	
	To Debentureholders' A/c (₹ 12,000 × 90%)			10,800
	To TDS Payable A/c (₹ 12,000 × 10%)			1,200
	(Being the half-yearly interest due on debentures and tax deducted at source)			
March 31	Debentureholders' A/c ...Dr.		10,800	
	To Bank A/c			10,800
	(Being the payment of interest on debentures)			
March 31	TDS Payable A/c ...Dr.		1,200	
	To Bank A/c			1,200
	(Being the TDS deposited)			
March 31	Statement of Profit & Loss (Finance Cost) ...Dr.		24,000	
	To Interest on Debentures A/c			24,000
	(Being the yearly interest transferred to Statement of Profit & Loss)			

Long Answer Type Questions—Carrying 5 Marks each

Q. 1. Kamal Ltd. secured a loan of ₹ 8,00,000 from the Bank of Baroda by issuing 10,000; 9% Debentures of ₹ 100 each as a collateral security. How will be the issue of such debentures shown in the Balance Sheet?

Ans. First Method *(When Journal Entry is not passed):*

AN EXTRACT OF BALANCE SHEET OF KAMAL LTD.
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	8,00,000

Note to Accounts

	₹
1. Long-term Borrowings	
Loan from Bank of Baroda	8,00,000
(Secured by issue of 10,000; 9% Debentures of ₹ 100 each as Collateral Security)	

Second Method (*When Journal Entry is passed):*

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Debentures Suspense A/c ...Dr.		10,00,000	
	To 9% Debentures A/c			10,00,000
	(Being the issue of 10,000; 9% Debentures of ₹ 100 each as collateral security for a loan from a bank)			

AN EXTRACT OF BALANCE SHEET OF KAMAL LTD.
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	8,00,000

Note to Accounts

		₹
1. Long-term Borrowings		
Loan from Bank of Baroda		8,00,000
10,000; 9% Debentures of ₹ 100 each issued as Collateral Security	10,00,000	
Less: Debentures Suspense Account	10,00,000	...
		8,00,000

4. REDEMPTION OF DEBENTURES

Multiple Choice Questions (MCQs—Carrying 1 Mark each)

Read the following statements and select the correct alternative:

1. If debentures of ₹ 10,00,000 are issued at par and redeemable at a premium of 10%, premium payable on redemption is debited to

(a) Debentures Suspense Account.
(b) Premium on Redemption of Debentures Account.
(c) Loss on Issue of Debentures Account.
(d) Both (a) and (c).

2. Amount is set aside to Debentures Redemption Reserve (DRR) when

(a) Debentures are issued by a listed Company.
(b) Debentures are issued by an unlisted NBFC.
(c) Debentures are issued by an unlisted (Non-NBFC or HFC) company.
(d) Debentures are issued by a listed HFC company.

3. Which of the following can be used for transferring amount to Debentures Redemption Reserve (DRR)?

(a) Capital Reserve
(b) Securities Premium Reserve
(c) Surplus, *i.e.*, Balance in Statement of Profit & Loss
(d) Revaluation Reserve

4. Uniball Ltd., a listed company, issued 5,000, 10% Debentures of ₹ 100 each. It will transfer to DRR at least

(a) ₹ 2,50,000. (b) ₹ 5,00,000.
(c) ₹ 50,000. (d) Nil

5. Uniflow Pens Ltd., an unlisted (Non-NBFC or HFC) company, had issued 5,000, 10% Debentures of ₹ 100 each, 25% of the issued debentures redeemable every year starting from 31st March, 2021. It transferred the amount to DRR as required by law. The balance in DRR after redemption on 31st March, 2021 will be

(a) ₹ 50,000. (b) ₹ 40,000.
(c) ₹ 37,500. (d) Nil.

6. Top Ramen Ltd., a listed company, is to redeem 1,000; 10% Debentures of ₹ 100 each redeemable at 10% premium. The company will have to invest in specified securities at least

(a) ₹ 15,000. (b) ₹ 16,500.
(c) ₹ 25,000. (d) ₹ 27,500.

7. 3 Aces Ltd., an unlisted company, is to redeem 2,000; 9% Debentures of ₹ 100 each on 31st December, 2021. The company should invest in specified securities on or before

(a) 30th April, 2020. (b) 30th April, 2021.
(c) 31st December, 2021. (d) 31st December, 2020.

8. Power Ltd., an unlisted (Non-NBFC or HFC) company, is to redeem 2,000, 8% Debentures of ₹ 100 each out of outstanding debentures of 10,000, 8% Debentures. It should transfer amount to DRR before redemption

(a) ₹ 80,000. (b) ₹ 20,000.

(c) ₹ 1,00,000. (d) Nil.

9. Best Barcode Ltd. is to redeem 10,000, 10% Debentures of ₹ 100 each in four equal annual instalments beginning from 30th June, 2020. It invested ₹ 37,500 in specified securities on 1st April, 2020. It

(a) will realise investment at the time of each redemption and reinvest.

(b) may or may not realise the investment at the time of each redemption.

(c) will realise the investment at the time of third redemption.

(d) will realise the investment at the time of last redemption.

10. Unomax Ltd. (an unlisted Non-NBFC) redeems its 20,000, 10% Debentures of ₹ 100 each in instalments as follows:

Date of Redemption	*Debentures to be Redeemed*
31st March, 2019	5,000
31st March, 2020	12,500
31st March, 2021	2,500

On the basis of the above details, what will be the amount of Debenture Redemption Reserve which the company will transfer to General Reserve on 31st March, 2021?

(a) ₹ 50,000. (b) ₹ 1,25,000.

(c) ₹ 25,000. (d) ₹ 2,00,000.

11. Bailley Ltd. is to redeem its outstanding 7,000, 10% Debentures of ₹ 100 each as follows:

(i) On 30th September, 2020 — 2,000 Debentures;

(ii) On 30th September, 2021 — 3,000 Debentures; and

(iii) On 30th September, 2022 — Balance Debentures.

Which of the following statement is correct with respect to investment in specified securities?

(a) It will invest ₹ 30,000 in specified securities on or before 30th April, 2020 and realise them on 30th September, 2020.

(b) It will invest ₹ 30,000 in specified securities on or before 30th April, 2021, and realise them on 30th September, 2021.

(c) It will invest ₹ 30,000 in specified securities on or before 30th April, 2020, realise them on or before 30th September, 2020 and again invest ₹ 45,000 in specified securities on or before 30th April, 2021 to be realised on 30th September, 2021. It will again invest ₹ 30,000 in specified securities on or before 30th April, 2022 to be realised on 30th September, 2022.

(d) It will invest ₹ 30,000 in specified securities on or before 30th April, 2020, further invest ₹ 15,000 in specified securities on or before 30th April, 2021 and realise ₹ 15,000 investment at the time of redemption on 30th September, 2021. Balance investment of ₹ 30,000 will be realised at the time of redemption on 30th September, 2022.

12. Premium on Redemption of Debentures is

(a) Normal Loss. (b) Abnormal Loss.

(c) Capital Loss. (d) Capital Gain.

[**Ans.: 1.** (c); **2.** (c); **3.** (c); **4.** (d); **5.** (c); **6.** (a); **7.** (b); **8.** (c); **9.** (d); **10.** (c); **11.** (d); **12.** (c).]

Short Answer Type Questions—Carrying 2 or 3 Marks each

Q. 1. *BC* Ltd. is an unlisted company. It is a manufacturer of chemical fertilisers. Its annual turnover is ₹ 600 crores. The company made a public issue of 1,00,000, 10% Debentures of ₹ 100 each at par. Calculate the amount of Debenture Redemption Reserve which it needs to set aside to meet the requirements of law.

Ans. Value of debentures issued is ₹ 1,00,00,000. 'Adequate' amount of profits to be transferred to DRR in case of manufacturing company who is unlisted company is 10% of the value of debentures, *i.e.*, ₹ 10,00,000.

Q. 2. Sunflower Ltd., a listed company, had outstanding 10,000, 9% Debentures of ₹ 100 each due for redemption on 30th September, 2021. How much amount it should transfer to Debentures Redemption Reserve (DRR) and when? Also pass necessary Journal entries for the Redemption of Debentures on 30th September, 2021.

Ans. Amount will not be transferred to DRR, it being a listed company.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	9% Debentures A/c	...Dr.		10,00,000	
	To Debentureholders' A/c				10,00,000
	(Being the amount due on redemption)				
	Debentureholders' A/c	...Dr.		10,00,000	
	To Bank A/c				10,00,000
	(Being the payment made to debentureholders)				

Q. 3. Rajiv Ltd., which is an unlisted company and not a NBFC or HFC, had issued following debentures:

(a) 2,00,000, 10% fully convertible debentures of ₹ 100 each on 1st April, 2018 redeemable by conversion into 11% Debentures of ₹ 100 each after 5 years.

(b) 40,000, 10% Debentures of ₹ 100 each redeemable after 4 years, 25% of the debentures are to be redeemed by payment and balance by conversion into new debentures.

How much amount it shall transfer to DRR as per the Companies Act, 2013?

Ans. (a) Amount will not be transferred to DRR, the debentures being fully convertible.

(b) DRR is to be created for non-convertible part of the debentures outstanding, *i.e.*, ₹ 1,00,000 (10% of ₹ 10,00,000).

Q. 4. Dow Housing Finance Ltd. issued 80,000, 9% Debentures of ₹ 10 each on 30th June, 2019 redeemable at a premium of 5% on 31st March, 2022. Pass the necessary Journal entries at the time of redemption of debentures.

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	9% Debentures A/c	...Dr.		8,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		40,000	
	To Debentureholders' A/c				8,40,000
	(Being the amount due on redemption)				
	Debentureholders' A/c	...Dr.		8,40,000	
	To Bank A/c				8,40,000
	(Being the payment made to debentureholders)				

Note: Debenture Redemption Reserve is not to be created, it being a Housing Finance Company.

Q. 5. Care Products Ltd., a listed company, has outstanding 15,000, 10% Debentures of ₹ 100 each redeemable at a premium of 15%. Pass the necessary Journal entries at the time of Redemption of Debentures (Ignore interest).

Ans. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Debentures Redemption Investment A/c	...Dr.		2,25,000	
	To Bank A/c				2,25,000
	(Being the investment made in specified securities)				
	Bank A/c	...Dr.		2,25,000	
	To Debentures Redemption Investment A/c				2,25,000
	(Being the investment realised)				
	10% Debentures A/c	...Dr.		15,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,25,000	
	To Debentureholders' A/c				17,25,000
	(Being the amount due on redemption)				
	Debentureholders' A/c	...Dr.		17,25,000	
	To Bank A/c				17,25,000
	(Being the payment made to debentureholders)				

Note: Debenture Redemption Reserve (DRR) is not required to be created by a listed company.

Q. 6. Jan Dhan Bank Ltd. had 10,000, 12% Debentures of ₹ 100 each, outstanding in the Balance Sheet as at 31st March, 2021. These debentures were due for redemption on 30th June, 2021. Pass necessary Journal entries for redemption of debentures. Also state the amount to be transferred to Debenture Redemption Reserve for the purpose of redemption.

Ans. According to Section 71(4) and Rule 18(7), a banking company is not required to transfer amount to Debenture Redemption Reserve (DRR). Thus, in the given question, neither DRR will be set aside nor Debenture Redemption Investment will be made.

JOURNAL OF JAN DHAN BANK LTD.

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021						
June	30	12% Debentures A/c	...Dr.		10,00,000	
		To Debentureholders' A/c				10,00,000
		(Being the amount due to debentureholders on redemption)				
June	30	Debentureholders' A/c	...Dr.		10,00,000	
		To Bank A/c				10,00,000
		(Being the amount due to debentureholders paid)				

Q. 7. Venus Ltd., an unlisted (Non-NBFC or HFC) company, has outstanding 10,000, 8% Debentures of ₹ 100 each redeemable as follows:

5,000 Debentures on 31st March, 2022;
2,500 Debentures on 31st March, 2023; and
Balance on 31st March, 2024.

Determine the amount that the company should have in DRR Account before each redemption and amount transferred from DRR to General Reserve after each redemption.

Ans.

Year	*Outstanding Debentures (₹)*	*Balance in DRR before Redemption (₹)*	*Amount transferred from DRR to General Reserve after redemption (₹)*	*Balance in DRR Account (₹)*
31st March, 2022	10,00,000	1,00,000	50,000	50,000
31st March, 2023	5,00,000	50,000	25,000	25,000
31st March, 2024	2,50,000	25,000	25,000	...

Q. 8. Moon Ltd. (an unlisted Non-NBFC/HFC) had 10,000, 8% Debentures of ₹ 100 each outstanding for redemption as on 1st April, 2020. These debentures are to be redeemed as follows.

On 31st March, 2022	15%
On 31st March, 2023	20%
On 31st March, 2024	25%
On 31st March, 2025	40%

Determine the amount that the company should invest or have balance in Debentures Redemption Investment for each redemption. Also state the date when the amount should be invested or it should have the balance for each redemption.

Ans.

Date of Redemption	*When Investment should be made or Balance in DRI*	*Nominal (Face) Value of Debentures to be redeemed*	*Minimum Investment in DRI*
31st March, 2022	On or before 30th April, 2021	₹ 1,50,000	₹ 22,500 (15% of ₹ 1,50,000)
31st March, 2023	On or before 30th April, 2022	₹ 2,00,000	₹ 30,000 (15% of ₹ 2,00,000) **Further Investment:** ₹ 7,500 (₹ 30,000 – ₹ 22,500, Existing Investment)
31st March, 2024	On or before 30th April, 2023	₹ 2,50,000	₹ 37,500 (15% of ₹ 2,50,000) **Further Investment:** ₹ 7,500 (₹ 37,500 – ₹ 30,000)
31st March, 2025	On or before 30th April, 2024	₹ 4,00,000	₹ 60,000 (15% of ₹ 4,00,000) **Further Investment:** ₹ 22,500 (₹ 60,000 – ₹ 37,500 Existing Investment) Total investment will be realised on 31st March, 2025

Q. 9. Eagle Ltd., an unlisted (Non-NBFC or HFC) company, has 3,000; 10% Debentures of ₹ 100 each outstanding as on 31st March, 2021. These debentures are due for redemption on 31st December, 2021. The Debentures Redemption Reserve has a balance of ₹ 10,000 on 31st March, 2021.

You are required to pass Journal entries to complete the redemption of debentures.

Ans. JOURNAL OF EAGLE LTD.

Date		Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021					
March	31	Surplus, *i.e.*, Balance in Statement of Profit & Loss A/c ...Dr.		20,000	
		To Debentures Redemption Reserve A/c			20,000
		(Being the balance amount transferred to DRR) (Note)			
April	1	Debentures Redemption Investment A/c ...Dr.		45,000	
		To Bank A/c			45,000
		(Being the investment made of a sum equal to 15% of the nominal (face) value of debentures to be redeemed, *i.e.*, ₹ 3,00,000)			
Dec.	31	Bank A/c ...Dr.		45,000	
		To Debentures Redemption Investment A/c			45,000
		(Being the Debentures Redemption Investment realised)			

Dec.	31	10% Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due to debentureholders on redemption)		3,00,000	 3,00,000
Dec.	31	Debentureholders' A/c ...Dr. To Bank A/c (Being the amount due to debentureholders paid)		3,00,000	 3,00,000
Dec.	31	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the DRR transferred to General Reserve)		30,000	 30,000

Notes: 1. Balance in DRR is ₹ 10,000 as on 31st March, 2021. ₹ 20,000 is further transferred from Surplus, *i.e.*, Balance in Statement of Profit & Loss to make DRR equal to ₹ 30,000, *i.e.*, 10% of ₹ 3,00,000.

2. The company being an unlisted (Non-NBFC/HFC) company is not required to invest in DRI.

Q. 10. Nurturing Green Ltd., a listed company, issued 50,000; 10% Debentures of ₹ 10 each on 1st April, 2021 redeemable at par on 30th June, 2022. The company received applications for 55,000 debentures and the allotment was made to all the applicants on *pro rata* basis. The debentures were redeemed on the due date. Investment was made on 1st April of the financial year in which redemption is due.

Pass necessary Journal entries regarding issue and redemption of debentures, ignoring interest on debentures.

Ans. JOURNAL OF NURTURING GREEN LTD.

Date		Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 April	 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the receipt of application money)		 5,50,000	 5,50,000
April	1	Debentures Application and Allotment A/c ...Dr. To 10% Debentures A/c To Bank A/c (Being 50,000; 10% Debentures allotted and excess debentures application money returned)		5,50,000	 5,00,000 50,000
2022 April	 1	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being investment of 15% of ₹ 5,00,000, nominal (face) value of debentures to be redeemed)		 75,000	 75,000
June	30	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the investment realised on redemption of debentures)		75,000	 75,000
June	30	10% Debentures A/c ...Dr. To Debentureholders' A/c (Being the payment on redemption of debentures due to debentureholders)		5,00,000	 5,00,000
June	30	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment due to debentureholders discharged including interest)		5,12,500	 5,12,500

Note: Listed companies are not required to transfer amount to DRR. However, they are required to invest in specified securities.

Long Answer Type Questions—Carrying 5 Marks each

Q. 1. King Finance Ltd., an unlisted NBFC, issued 10,000, 9% Debentures of ₹ 100 each at a premium of 10% on 1st April, 2019, redeemable at premium of 10% on 31st March, 2021.

Pass the necessary Journal entries for issue and redemption of debentures.

Ans. JOURNAL OF KING FINANCE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
April 1	Bank A/c ...Dr.		11,00,000	
	To Debentures Application and Allotment A/c			11,00,000
	(Being the Application money received for 10,000, 9% Debentures)			
	Debentures Application and Allotment A/c ...Dr.		11,00,000	
	Loss on Issue of Debentures A/c ...Dr.		1,00,000	
	To 9% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(Being the allotment of 9% Debentures to the applicants)			
2020				
March 31	Securities Premium Reserve A/c ...Dr.		1,00,000	
	To Loss on Issue of Debentures A/c			1,00,000
	(Being the Loss on Issue of Debentures written off from Securities Premium Reserve)			
2021				
March 31	10% Debentures A/c ...Dr.		10,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		1,00,000	
	To Debentureholders' A/c			11,00,000
	(Being the Debentures due for redemption)			
March 31	Debentureholders' A/c ...Dr.		11,00,000	
	To Bank A/c			11,00,000
	(Being the amount due to Debentureholders paid)			

Note: Unlisted NBFCs and HFCs do not have to transfer amount to DRR and also do not have to invest in specified securities (DRI).

Q. 2. On 1st April, 2018, Mayfair Ltd., an unlisted (Non-NBFC/HFC) company, issued 4,000; 9% Debentures of ₹ 100 each at a discount of 5% redeemable at a premium of 8%. The debentures were redeemable on 31st March, 2022.

The company transferred the necessary minimum amount of Debenture Redemption Reserve and purchased the required amount of debenture redemption investments as per the provisions of Companies Act, 2013.

Pass the necessary Journal entries for redemption of debentures.

Ans. JOURNAL

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021						
March	31	Surplus, *i.e.*, Balance in Statement of Profit & Loss A/c	...Dr.		40,000	
		To Debentures Redemption Reserve A/c				40,000
		(Being 10% of the nominal value of outstanding debentures transferred to Debentures Redemption Reserve)				
April	1	Debentures Redemption Investment A/c	...Dr.		60,000	
		To Bank A/c (₹ 4,00,000 × 15/100)				60,000
		(Debentures Redemption Investment made @ 15% of face value of debentures)				
2022						
March	31	Bank A/c	...Dr.		60,000	
		To Debentures Redemption Investment A/c				60,000
		(Debentures Redemption Investment realised)				
March	31	9% Debentures A/c	...Dr.		4,00,000	
		Premium on Redemption of Debentures A/c	...Dr.		32,000	
		To Debentureholders' A/c				4,32,000
		(Amount due to debentureholders)				
March	31	Debentureholders' A/c	...Dr.		4,32,000	
		To Bank A/c				4,32,000
		(Payment made to debentureholders)				
March	31	Debentures Redemption Reserve A/c	...Dr.		40,000	
		To General Reserve A/c				40,000
		(Debentures Redemption Reserve transferred to General Reserve after redemption of debenture)				

Q. 3. Raymond Ltd., a listed company (Non-NBFC or HFC), has 7,500, 8% Debentures of ₹ 100 each redeemable as 2,000 Debentures on 1st September, 2019, 2,500 on 1st June, 2020 and balance on 1st September, 2021. Pass the necessary Journal entries for redemption of debentures. (Ignore Interest)

Ans. JOURNAL OF RAYMOND LTD.

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019						
April	30	Debentures Redemption Investment A/c	...Dr.		30,000	
		To Bank A/c				30,000
		(Being the investment made in specified securities being 15% of ₹ 2,00,000)				
Sept.	1	8% Debentures A/c	...Dr.		2,00,000	
		To Debentureholders' A/c				2,00,000
		(Being 2,000; 8% Debentures due for redemption)				
Sept.	1	Debentureholders' A/c	...Dr.		2,00,000	
		To Bank A/c				2,00,000
		(Being the amount paid)				

2020					
April	30	Debentures Redemption Investment A/c ...Dr.		7,500	
		To Bank A/c			7,500
		(Being the further amount invested in Debentures Redemption Investment to equal 15% of ₹ 2,50,000)			
June	1	8% Debentures A/c ...Dr.		2,50,000	
		To Debentureholders' A/c			2,50,000
		(Being 2,500; 8% Debentures due for redemption)			
June	1	Debentureholders' A/c ...Dr.		2,50,000	
		To Bank A/c			2,50,000
		(Being the due amount paid)			
2021					
April	30	Debentures Redemption Investment A/c ...Dr.		7,500	
		To Bank A/c			7,500
		(Being the further investment in Debentures Redemption Investment to equal 15% of ₹ 3,00,000)			
Sept.	1	Bank A/c ...Dr.		45,000	
		To Debentures Redemption Investment A/c			45,000
		(Being the investment realised)			
Sept.	1	8% Debentures A/c ...Dr.		3,00,000	
		To Debentureholders' A/c			3,00,000
		(Being 3,000; 8% Debentures due for redemption)			
Sept.	1	Debentureholders' A/c ...Dr.		3,00,000	
		To Bank A/c			3,00,000
		(Being the due amount paid)			

Note: Amount is not required to be transferred to Debentures Redemption Reserve, it being a listed company.

SECTION B
MANAGEMENT ACCOUNTING

5. FINANCIAL STATEMENT ANALYSIS

Multiple Choice Questions (MCQs—Carrying 1 Mark each)

Read the following statements and select the correct alternative:

1. Which of the following is not an objective of Financial Statements Analysis?
(a) To determine liquidity (short-term solvency) of the enterprise.
(b) To determine long-term solvency of the enterprise.
(c) To determine profitability of the enterprise.
(d) To assess the variations in the accounting practices of the business followed by different enterprises.

2. Which of the following is not a limitation of Analysis of Financial Statements?
(a) Window Dressing. (b) Price Level changes ignored.
(c) Subjectivity. (d) Intra-firm Comparison possible.

3. Which of the following is a limitation of Financial Statements Analysis?
(a) It is only a study of reports of the company.
(b) It assesses the ability of the firm to repay its debts.
(c) It identifies the reasons for change in financial position.
(d) It ascertains the relative importance of different components of the financial position of the firm.

4. Analysis of Financial Statements of two or more enterprises is known as
(a) Cross-sectional Analysis. (b) Time Series Analysis.
(c) Horizontal Analysis (d) Internal Analysis.

5. Which Analysis is considered as dynamic?
(a) Horizontal Analysis (b) Vertical Analysis
(c) Internal Analysis (d) External Analysis

6. Which Analysis is considered as static?
(a) Horizontal Analysis (b) Vertical Analysis
(c) Internal Analysis (d) External Analysis

7. Analysis of Financial Statements is significant for
(a) Investors. (b) Management.
(c) Financial Institutions. (d) All of these.

8. Which of the following is not a tool of Financial Statements Analysis?
(a) Comparative Income Statement (b) Comparative Position Statement
(c) Statement of Profit & Loss (d) Cash Flow Statement

9. Comparison of values of one period with those of another period of same firm is
(a) Intra-firm Comparison. (b) Inter-firm Comparison.
(c) Pattern Comparison. (d) Trend Comparison.

10. Creditors or Suppliers are interested to know the
   (a) profitability of the firm in relation to turnover.
   (b) profitability of the firm in relation to investments.
   (c) short-term solvency/liquidity of the concern.
   (d) capital structure of the concern.

11. Which of the following is **not** a limitation of 'Financial Statements Analysis'?
   (a) It is affected by personal bias.
   (b) Inter-firm comparative study is possible.
   (c) Lack of qualitative analysis.
   (d) Ignores price level changes.

12. Analysis of Financial Statements is significant for
   (a) Creditors.
   (b) Management.
   (c) Employees.
   (d) All of the above.

[**Ans.: 1.** (d); **2.** (d); **3.** (a); **4.** (a); **5.** (a); **6.** (b); **7.** (d); **8.** (c); **9.** (a); **10.** (c); **11.** (b); **12.** (d).]

Short Answer Type Questions—Carrying 2 or 3 Marks each

Q. 1. What is Analysis of Financial Statements?

Ans. Analysis of Financial Statements is a systematic process of identifying the financial strengths and weaknesses of the firm by establishing the relationship between the items of the Balance Sheet and Statement of Profit & Loss.

Q. 2. State **any two** objectives of Analysis of Financial Statements.

Ans. Objectives of Financial Statement Analysis are:
(i) Measure the short-term solvency of the enterprise.
(ii) Measure the long-term solvency of the enterprise.
(iii) Measure the operating efficiency and profitability of the enterprise.
(iv) Compare intra-firm position, inter-firm position and pattern position within the industry.

Q. 3. State **any three** advantages of Analysis of Financial Statements.

Ans. Advantages of Analysis of Financial Statements are:
(i) *Assessing the Profitability:* Analysis of Financial Statements helps in assessing the present earning of the business. It is also helpful in forecasting its future earning.
(ii) *Assessing the Efficiency:* Analysis of Financial Statements helps in assessing the efficiency as well as the inefficiencies of the management.
(iii) *Assessing the Liquidity:* Liquidity means ability of the firm to meet its current liabilities. Creditors and suppliers are interested in liquidity (or short-term financial position). Liquidity can be assessed by comparing current assets with current liabilities.

Q. 4. State **any two** limitations of Analysis of Financial Statements.

Ans. (i) *Ignores Price Level Changes:* Financial analysis fails to show current worth of the enterprise since it is based on financial statements, which are historical in nature.
(ii) *Window Dressing:* The term window dressing means manipulation of accounts to show position better than what actually is. On account of such a situation, financial statements analysis cannot be a definite indicator of a good management.

Q. 5. State **any two** commonly used tools for comparison of financial statements?

Ans. 1. Comparative Statements. 2. Common-size Statements.

Q. 6. State how qualitative aspects are ignored in financial analysis.

Ans. Since the financial statements are confined to the monetary matters only, the quality elements like quality of management, quality of manpower, etc. are ignored while carrying out the analysis of financial statements.

Q. 7. What is Horizontal Analysis?

Ans. The analysis and review of financial statements for a number of years is termed as Horizontal Analysis.

Q. 8. Why Horizontal Analysis is considered dynamic in nature?

Ans. Horizontal Analysis is based on the data of two or more years rather than of only one year, thus it is considered as 'Dynamic Analysis'.

Q. 9. What is Vertical Analysis?

Ans. Vertical Analysis is made to review and analyse the Financial Statements of one particular year only. This type of analysis is also called *Static Analysis*.

Q. 10. Give an example of Horizontal and Vertical Analysis.

Ans. Comparative Financial Statement is an example of Horizontal Analysis. Ratio Analysis of the financial year relating to a particular accounting year is an example of Vertical Analysis.

Q. 11. Give **any two** differences between horizontal analysis and vertical analysis of financial statements.

Ans.

Basis	*Horizontal Analysis*	*Vertical Analysis*
1. **Period**	It requires financial statements of two or more accounting periods.	It requires a financial statement of one period.
2. **Usefulness**	It is generally used for *Time Series Analysis.*	It is generally used for *Cross-sectional Analysis.*

Q. 12. What is Intra-firm Analysis?

Ans. Intra-firm Analysis is a comparison of financial variables of a firm over a period of time. It is also known as *Time Series Analysis or Trend Analysis*.

Q. 13. What is Inter-firm Analysis?

Ans. Inter-firm Analysis is a comparison of two or more business firms. It analyses and compares financial variables of two or more firms to determine the competitive position of these firms.

Q. 14. Give **two** areas of interest for investors while analysing the Financial Statements.

Ans. **Two** areas of interest for Investors or Shareholders are:

- Knowledge of short-term and long-term solvency of the firm.
- Knowledge of return on investment, *i.e.*, profitability.

Q. 15. Give **two** areas of interest for management while analysing the Financial Statements.

Ans. **Two** areas of interest for Management are:

- Knowledge of performance of the enterprise as a whole, *i.e.*, profitability.
- Knowledge of short-term and long-term solvency position of the enterprise.

Q. 16. State the significance of Analysis of Financial Statements to the 'Creditors'.

Ans. Creditors are interested in analysing Financial Statements so that they can assess the financial position of the enterprise before granting or extending credit.

Q. 17. State the interest of tax authorities in the Analysis of Financial Statements.

Ans. Tax Authorities are interested to analyse the financial statements to know about the performance of the company and to collect correct taxes.

Q. 18. State the significance of Analysis of Financial Statements to management.

Ans. Financial analysis is used for taking financial decisions or preparing budgets.

Q. 19. How is the financial statements analysis useful to finance manager?

Ans. Financial Statement Analysis is useful to Finance Manager for taking financial decisions for the business. Financial Statement Analysis enables assessing the financial health and the performance (*i.e.*, financial position and financial performance) of the business.

Q. 22. One of the objectives of 'Financial Statement Analysis' is to identify the reason for change in the financial position of the enterprise. State two more objectives of this analysis.

Ans. (i) Assessing the profitability or earning capacity of the firm as a whole as well as its different departments for assessing the financial health of the firm.

(ii) Assessing the managerial efficiency by using accounting ratios.

Q. 21. How does 'subjectivity' become a limitation of Financial Statement Analysis?

Ans. 'Subjectivity' becomes a limitation of financial statement analysis because an analyst has to exercise his own judgment which may result in biased analysis in the process of drawing conclusions.

6. COMPARATIVE STATEMENTS AND COMMON-SIZE STATEMENTS

Multiple Choice Questions (MCQs—Carrying 1 Mark each)

Read the following statements and select the correct alternative:

1. Comparison of actual values of one firm with those of another firm belonging to the same industry is

(a) Inter-firm Comparison. (b) Intra-firm Comparison.

(c) Pattern Comparison. (d) Standard Comparison.

2. While preparing Common-size Income Statement, each item of Income Statement is expressed as % of

(a) Revenue from Operations. (b) Other Income.

(c) Total Income. (d) Profit before Tax.

3. Which of the following items is assumed to be 100 while preparing Common-size Statement of Profit & Loss?

(a) Cost of Material Consumed. (b) Income tax paid.

(c) Other incomes. (d) Revenue from Operations.

4. While preparing Common-size Balance Sheet, each item of Balance Sheet is expressed as % of

(a) Current Assets. (b) Non-current Assets.

(c) Non-current Liabilities. (d) Total Assets.

5. Under which tool of financial analysis, 100% is taken as base and all other related amounts are expressed as a percentage of base?

(a) Comparative Statement (b) Common-size Statement

(c) Ratio Analysis (d) Cash Flow Statement

6. Which technique of financial analysis shows a comparative study of items or components of financial statements for two or more years?

(a) Common-size Statement (b) Ratio Analysis

(c) Comparative Statement (d) Trend Analysis

7. Which of the following is tool of financial analysis?

(a) Comparative Statements (b) Common-size Statements

(c) Cash Flow Statement (d) All of these

8. _________ analysis deals with same items of different period.

(a) Static. (b) Horizontal.

(c) Vertical. (d) Internal.

9. Fixed Assets of a company increased from ₹ 8,00,000 to ₹ 10,00,000. The percentage change is

(a) 20%. (b) 33.3%.

(c) 25%. (d) 40%.

10. Revenue from Operations is ₹ 50,00,000, other income is 20% of Revenue from Operations and Expenses are 50% of Revenue from Operations. Amount of profit before tax will be

(a) ₹ 35,00,000. (b) ₹ 30,00,000.

(c) ₹ 25,00,000. (d) ₹ 45,00,000.

11. If Shareholders' Funds of Star Ltd. is ₹ 25,00,000, Long-term Borrowing is ₹ 3,50,000 and Trade Payable is ₹ 9,00,000, then what will be the percentage of Shareholders' Funds to the total of Equity and Liabilities?

(a) 70%. (b) 33.33%.

(c) 66.67%. (d) 80%.

12. If Shareholders' Funds of Grow Ltd. was ₹ 20,00,000 on 31st March, 2021 and ₹ 25,00,000 on 31st March, 2022, then what is the percentage change in Shareholders' Funds?

(a) 10%. (b) 20%.

(c) 25%. (d) None of these.

13. In Comparative Statements, percentage change can be calculated with the help of which of the following formula?

(a) $\frac{\text{Absolute Change}}{\text{Amount of Previous Year}} \times 100$ (b) $\frac{\text{Absolute Change}}{\text{Amount of Total Profit}} \times 100$

(c) $\frac{\text{Absolute Change}}{\text{Amount of Current Year}} \times 100$ (d) None of these.

14. Revenue from Operations is ₹ 60,00,000; other income is 15% of Revenue from Operations. Expenses are 60% of Revenue from Operations and tax rate is 40%. Amount of profit after tax will be

(a) ₹ 14,40,000. (b) ₹ 19,80,000.

(c) ₹ 13,80,000. (d) ₹ 16,56,000.

15. Total Assets of Star Ltd. are ₹ 10,00,000; Shareholders' Funds: ₹ 6,00,000. The percentage of Shareholders' Funds in Common-size Balance Sheet will be

(a) 40%. (b) 50%.

(c) 70%. (d) 60%.

16. ***Match*** *the following:*

Group A	*Group B*
1. Common-size Balance Sheet	A. Compares the assets and liabilities of current year with that of previous year.
2. Comparative Balance Sheet	B. Depicts the percentage relation of each asset/ liability to total assets/total of equity and liabilities.
3. Common-size Income Statement	C. Revenue from Operations is assumed to be equal to 100 and other values of revenue and expenses are expressed as percentage of Revenue from Operations.
4. Comparative Statement of Profit & Loss	D. Depicts the operating results of more than one accounting period so that changes in absolute amounts as well as in terms of percentage may be known

Select the correct answer using the codes given below:

	1	2	3	4		1	2	3	4
(a)	D	A	C	B	(b)	C	D	B	A
(c)	B	A	C	D	(d)	A	C	D	B

17. The statement in which individual items of financial statements of two or more years are placed side by side and converted into percentage of a common base is

(a) Comparative Statements.
(b) Common-size Statements.
(c) Financial Statements.
(d) None of these.

18. Comparative Income Statement shows

(a) Revenue and Expenses in absolute value.
(b) Increase/decrease in absolute value of Revenues and Expenses.
(c) Proportionate changes in Revenues and Expenses.
(d) All of the above.

[**Ans.: 1.** (a); **2.** (a); **3.** (d); **4.** (d); **5.** (b); **6.** (c); **7.** (d); **8.** (b); **9.** (c); **10.** (a); **11.** (c); **12.** (c); **13.** (a); **14.** (b); **15.** (d); **16.** (c); **17.** (b); **18.** (d).]

Short Answer Type Questions—Carrying 2 or 3 Marks each

Q. 1. What is meant by Comparative Financial Statements?

Ans. Comparative Financial Statement is a tool of financial analysis that shows change in each item of the Financial Statements in both absolute amount and percentage terms, taking the item in preceding accounting period as base.

Q. 2. Which item is assumed to be 100 while preparing Common-Size Statement of Profit & Loss?

Ans. Revenue from Operations is assumed to be 100 while preparing Common-size Statement of Profit & Loss.

Q. 3. What is meant by a Common-Size Statement?

Ans. Common-Size Financial Statement is a statement in which all amounts are converted into percentage to a common base, *i.e.*, Revenue from Operations for Common-size Statement of Profit & Loss and Total Assets or Total of Equity and Liabilities for Common-size Balance Sheet.

Q. 4. What is Comparative Balance Sheet?

Ans. Comparative Balance Sheet analysis is the study of the trend of same items, group of items and computed items in two or more Balance Sheets of the same business enterprise on different dates.

Q. 5. State the meaning of Comparative Statement of Profit & Loss.

Ans. Comparative Statement of Profit & Loss means an income statement which shows the operating results for a number of years together with changes in absolute values as well as percentages.

Q. 6. What is Common-size Statement of Profit & Loss?

Ans. Common-size Statement of Profit & Loss means an income statement in which figures reported in income statement are converted into percentage to Revenue from Operations.

Q. 7. What is meant by Common-size Balance Sheet?

Ans. Common-size Balance Sheet is a statement in which figures reported in Balance Sheet are converted into percentage to total assets or total of Equity and Liabilities.

Q. 8. Why is Common-size Statement also known as 100% statement?

Ans. As all the items are expressed as percentage of the base item in Common-size Statements, therefore, Common-size Statement is also called 100% statement. For example, Revenue from Operations is considered as base item in Common-size Income Statement.

Q. 9. From the following data, prepare Comparative Statement of Profit & Loss of Simon Ltd.:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Revenue from Operations	15,00,000	12,00,000
Other Income	30,000	20,000
Cost of Materials Consumed	7,00,000	5,50,000

(*ISC 2015, Modified*)

Ans. **Simon Ltd.**

COMPARATIVE STATEMENT OF PROFIT & LOSS *for the years ended 31st March, 2021 and 2020*

Particulars	Note No.	31st March, 2021 ₹	31st March, 2020 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
		(A)	(B)	(C = B – A)	(D = C/B × 100)
I. Revenue from Operations		15,00,000	12,00,000	3,00,000	25.00
II. Other Income		30,000	20,000	10,000	50.00
III. **Total Income (I + II)**		15,30,000	12,20,000	3,10,000	25.41
IV. **Expenses**					
Cost of Materials Consumed		7,00,000	5,50,000	1,50,000	27.27
Total Expenses		7,00,000	5,50,000	1,50,000	27.27
V. **Net Profit (III – IV)**		8,30,000	6,70,000	1,60,000	23.88

Q. 10. From the following information drawn from Statement of Profit & Loss of Logitech Ltd. for the years ended 31st March, 2021 and 2020, prepare Comparative Income Statement:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Revenue from Operations	40,00,000	32,00,000
Employees Benefit Expenses	20,00,000	16,00,000
Other Expenses	2,00,000	4,00,000
Tax Rate 40%		

Ans. **Logitech Ltd.**

COMPARATIVE INCOME STATEMENT

for the years ended 31st March, 2021 and 2020

Particulars	Note No.	31st March, 2021 ₹	31st March, 2020 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
		(A)	(B)	(C = B – A)	(D = C/B × 100)
I. **Revenue from Operations**		40,00,000	32,00,000	8,00,000	25
II. **Expenses**					
Employees Benefit Expenses		20,00,000	16,00,000	4,00,000	25
Other Expenses		2,00,000	4,00,000	(2,00,000)	(50)
Total Expenses		22,00,000	20,00,000	2,00,000	10
III. **Profit before Tax (I – II)**		18,00,000	12,00,000	6,00,000	50
Less: Tax @ 40%		7,20,000	4,80,000	2,40,000	50
IV. **Profit after Tax**		10,80,000	7,20,000	3,60,000	50

Q. 11. From the following information, prepare a Comparative Statement of Profit & Loss of Matrix Ltd.:

Particulars	31st March, 2021	31st March, 2020
Revenue from Operations	₹ 3,00,000	₹ 2,50,000
Cost of Material Consumed	₹ 1,70,000	₹ 1,50,000
Interest from Investments	₹ 20,000	₹ 20,000
Employee Benefit Expenses	₹ 10,000	₹ 10,000
Tax Rate	50%	50%

(*ISC 2017, Modified*)

Ans. **Matrix Ltd.**

COMPARATIVE STATEMENT OF PROFIT & LOSS

for the years ended 31st March, 2021 and 2020

Particulars	Note No.	31st March, 2021 ₹	31st March, 2020 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
		(A)	(B)	(C = B – A)	(D = C/B × 100)
I. Revenue from Operations		3,00,000	2,50,000	50,000	20.00
II. Other Income		20,000	20,000	...	...
III. **Total Revenue (I + II)**		3,20,000	2,70,000	50,000	18.52
IV. **Expenses**					
Cost of Material Consumed		1,70,000	1,50,000	20,000	13.33
Employee Benefit Expenses		10,000	10,000	...	...
Total		1,80,000	1,60,000	20,000	12.50
V. **Net Profit before Tax (III – IV)**		1,40,000	1,10,000	30,000	27.27
Less: Tax		70,000	55,000	15,000	27.27
VI. **Net Profit after Tax**		70,000	55,000	15,000	27.27

Q. 12. From the following information, prepare Comparative Balance Sheet of Zee Ltd.:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Shareholders' Funds	22,20,000	12,00,000
Non-current Liabilities	6,00,000	6,00,000
Current Liabilities	1,80,000	2,00,000
Non-current Assets	25,20,000	14,00,000
Current Assets	4,80,000	6,00,000

Ans. **Zee Ltd.**

COMPARATIVE BALANCE SHEET *as at 31st March, 2021*

Particulars	Note No.	31st March, 2021 ₹	31st March, 2020 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		22,20,000	12,00,000	10,20,000	85.00
2. Non-Current Liabilities		6,00,000	6,00,000	...	...
3. Current Liabilities		1,80,000	2,00,000	(20,000)	(10.00)
Total		30,00,000	20,00,000	10,00,000	50.00
II. ASSETS					
1. Non-Current Assets		25,20,000	14,00,000	11,20,000	80.00
2. Current Assets		4,80,000	6,00,000	(1,20,000)	(20.00)
Total		30,00,000	20,00,000	10,00,000	50.00

Q. 13. Prepare Common-size Balance Sheet from the following information:

Particulars	31st March, 2022 (₹)	31st March, 2021 (₹)
Shareholders' Funds	9,00,000	6,00,000
Non-current Liabilities	3,00,000	3,00,000
Current Liabilities	3,00,000	1,00,000
Non-current Assets	10,50,000	7,00,000
Current Assets	4,50,000	3,00,000

Ans. COMMON-SIZE BALANCE SHEET *as at 31st March, 2022 and 2021*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2022 (₹)	31st March, 2021 (₹)	31st March, 2022 (%)	31st March, 2021 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		9,00,000	6,00,000	60.00	60.00
2. Non-Current Liabilities		3,00,000	3,00,000	20.00	30.00
3. Current Liabilities		3,00,000	1,00,000	20.00	10.00
Total		15,00,000	10,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets		10,50,000	7,00,000	70.00	70.00
2. Current Assets		4,50,000	3,00,000	30.00	30.00
Total		15,00,000	10,00,000	100.00	100.00

Q. 14. Prepare Common-size Income Statement from the following:

Particulars	31st March, 2017	31st March, 2016
Revenue from Operations	₹ 4,00,000	₹ 3,00,000
Expenses	50% of Revenue from Operations	60% of Revenue from Operations

Interest on investments ₹ 10,000 and taxes payable @ 40% for both the years.

(*ISC Specimen Question Paper 2018*)

Ans. COMMON-SIZE INCOME STATEMENT *for the years ended 31st March, 2017 and 2016*

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		31st March, 2017 (₹)	31st March, 2016 (₹)	31st March, 2017 (%)	31st March, 2016 (%)
I. **Revenue from Operations**		4,00,000	3,00,000	100.00	100.00
II. Other Income		10,000	10,000	2.50	3.33
III. **Total Revenue**		4,10,000	3,10,000	102.50	103.33
IV. **Expenses**					
Cost of Revenue from Operations		2,00,000	1,80,000	50.00	60.00
V. **Profit before Tax (III – IV)**		2,10,000	1,30,000	52.50	43.33
VI. *Less:* Income Tax		84,000	52,000	21.00	17.33
VII. **Profit after Tax (V – VI)**		1,26,000	78,000	31.50	26.00

Q. 15. From the following data, prepare a Common-size Statement of Profit & Loss of Nicholson Ltd.:

Particulars	31st March, 2022	31st March, 2021
Revenue from Operations	₹ 6,00,000	₹ 4,00,000
Cost of Materials Consumed	60% of Revenue from Operations	50% of Revenue from Operations
Finance Cost	₹ 10,000	₹ 8,000
Tax Rate	40% of Profits before Tax	40% of Profit before Tax

(*ISC 2016, Modified*)

Ans. **Nicholson Ltd.**

COMMON-SIZE STATEMENT OF PROFIT & LOSS *for the years ended 31st March, 2022 and 2021*

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		31st March, 2022 (₹)	31st March, 2021 (₹)	31st March, 2022 (%)	31st March, 2021 (%)
I. Revenue from Operations		6,00,000	4,00,000	100.00	100.00
II. **Expenses**					
Cost of Materials Consumed		3,60,000	2,00,000	60.00	50.00
Finance Cost		10,000	8,000	1.67	2.00
Total Expenses		3,70,000	2,08,000	61.67	52.00
III. **Net Profit before Tax (I – II)**		2,30,000	1,92,000	38.33	48.00
IV. *Less:* Tax		92,000	76,800	15.33	19.20
V. **Net Profit after Tax**		1,38,000	1,15,200	23.00	28.80

Long Answer Type Questions—Carrying 5 Marks each

Q. 1. Prepare Comparative Balance Sheet of Zee Ltd.:

Particulars	Note No.	31st March, 2022 (₹)	31st March, 2021 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		7,20,000	6,00,000
(b) Reserves and Surplus		3,00,000	2,40,000
2. Non-Current Liabilities			
Long-term Borrowings		5,10,000	3,40,000
3. Current Liabilities			
Trade Payables		2,40,000	3,00,000
Total		17,70,000	14,80,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
(i) Property, Plant and Equipment		13,00,000	10,00,000
(ii) Intangible Assets		2,00,000	2,00,000
2. Current Assets			
(a) Trade Receivables		2,50,000	2,40,000
(b) Cash and Bank Balances		20,000	40,000
Total		17,70,000	14,80,000

Ans.

Zee Ltd.

COMPARATIVE BALANCE SHEET

as at 31st March, 2022

Particulars	Note No.	31st March, 2022 ₹	31st March, 2021 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
		(A)	(B)	(C = B – A)	(D = C/B × 100)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		7,20,000	6,00,000	1,20,000	20.00
(b) Reserves and Surplus		3,00,000	2,40,000	60,000	25.00
2. Non-Current Liabilities					
Long-term Borrowings		5,10,000	3,40,000	1,70,000	50.00
3. Current Liabilities					
Trade Payables		2,40,000	3,00,000	(60,000)	(20.00)
Total		17,70,000	14,80,000	2,90,000	19.60

II. ASSETS					
1. Non-Current Assets					
Property, Plant and Equipment and Intangible Assets:					
(i) Property, Plant and Equipment		13,00,000	10,00,000	3,00,000	30.00
(ii) Intangible Assets		2,00,000	2,00,000	...	...
2. Current Assets					
(a) Trade Receivables		2,50,000	2,40,000	10,000	4.17
(b) Cash and Bank Balances		20,000	40,000	(20,000)	(50.00)
		17,70,000	14,80,000	2,90,000	19.60

Note: Decrease in current year's figure of absolute change and percentage change is shown in brackets.

Q. 2. Prepare Common-size Balance Sheet from the following information:

BALANCE SHEET *as at...*

Particulars	Note No.	31st March, 2022 (₹)	31st March, 2021 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		40,00,000	30,00,000
(b) Reserves and Surplus		6,00,000	4,00,000
2. Non-Current Liabilities			
Long-term Borrowings		12,00,000	10,00,000
3. Current Liabilities			
Short-term Borrowings		2,00,000	6,00,000
Total		60,00,000	50,00,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
(i) Property, Plant and Equipment		40,00,000	30,00,000
(ii) Intangible Assets		2,00,000	6,00,000
2. Current Assets			
(a) Inventories		5,40,000	4,50,000
(b) Cash and Bank Balances		12,60,000	9,50,000
Total		60,00,000	50,00,000

Ans. COMMON-SIZE BALANCE SHEET *as at 31st March, 2022 and 2021*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2022 (₹)	31st March, 2021 (₹)	31st March, 2022 (%)	31st March, 2021 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		40,00,000	30,00,000	66.67	60.00
(b) Reserves and Surplus		6,00,000	4,00,000	10.00	8.00
2. Non-Current Liabilities					
Long-term Borrowings		12,00,000	10,00,000	20.00	20.00
3. Current Liabilities					
Short-term Borrowings		2,00,000	6,00,000	3.33	12.00
Total		60,00,000	50,00,000	100.00	100.00

II. ASSETS					
1. Non-Current Assets					
Property, Plant and Equipment and Intangible Assets:					
(i) Property, Plant and Equipment		40,00,000	30,00,000	66.67	60.00
(ii) Intangible Assets		2,00,000	6,00,000	3.33	12.00
2. Current Assets					
(a) Inventories		5,40,000	4,50,000	9.00	9.00
(b) Cash and Bank Balances		12,60,000	9,50,000	21.00	19.00
Total		60,00,000	50,00,000	100.00	100.00

Q. 3. From the following data, prepare a Common-size Statement of Profit & Loss of Pitambar Ltd.:

Particulars	31st March, 2022	31st March, 2021
Revenue from Operations (% of Other Income)	200%	200%
Other Income	₹ 2,00,000	₹ 1,50,000
Cost of Materials Consumed (% of Operating Revenue)	60%	50%
Other Expenses (% of Material Cost)	10%	20%
Tax Rate	30%	30%

Ans. **Pitambar Ltd.**

COMMON-SIZE STATEMENT OF PROFIT & LOSS

for the years ended 31st March, 2022 and 2021

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		31st March, 2022 (₹)	31st March, 2021 (₹)	31st March, 2022 (%)	31st March, 2021 (%)
I. Revenue from Operations		4,00,000	3,00,000	100.00	100.00
II. Other Income		2,00,000	1,50,000	50.00	50.00
III. **Total Revenue (I + II)**		6,00,000	4,50,000	150.00	150.00
IV. Expenses					
Cost of Materials Consumed		2,40,000	1,50,000	60.00	50.00
Other Expenses		24,000	30,000	6.00	10.00
Total Expenses		2,64,000	1,80,000	66.00	60.00
V. **Net Profit before Tax (III – IV)**		3,36,000	2,70,000	84.00	90.00
VI. *Less:* Tax		1,00,800	81,000	25.20	27.00
VII. **Net Profit after Tax**		2,35,200	1,89,000	58.80	63.00

7. CASH FLOW STATEMENT—BASED ON AS-3 (REVISED)

Multiple Choice Questions (MCQs—Carrying 1 Mark each)

Read the following statements and Select the correct alternative:

1. Cash Flow Statement is based on
(a) Accrual basis of accounting. (b) Cash basis of accounting.
(c) Mixed basis of accounting. (d) None of these.

2. Interest received on investments (Other than Current Investments) is shown in Cash Flow Statement under
(a) Operating Activities. (b) Investing Activities.
(c) Financing Activities. (d) None of these.

3. Interest paid is shown in Cash Flow Statement under
(a) Operating Activities. (b) Investing Activities.
(c) Financing Activities. (d) None of these.

4. Dividend received is shown in Cash Flow Statement under
(a) Operating Activities. (b) Investing Activities.
(c) Financing Activities. (d) None of these.

5. Payment of Income Tax, not associated with other activities, is shown as
(a) Operating Activities. (b) Investing Activities.
(c) Financing Activities. (d) General Activities.

6. Dividend paid is shown as
(a) Operating Activity. (b) Investing Activity.
(c) Financing Activity. (d) Cash and Cash Equivalent.

7. Which of the following is shown under Financing Activity?
(a) Interest paid (b) Commission Received
(c) Cash received against sale of goods (d) Cash paid for purchase of goods.

8. Which of the following transactions will not result into flow of cash?
(a) Issue of equity shares of ₹ 1,00,000. (b) Purchase of machinery of ₹ 1,00,000.
(c) Redemption of 9% Debentures of ₹ 3,50,000. (d) Cash deposited into bank 50,000.

9. An example of Cash Flow from Investing Activity is
(a) Payment of Dividend. (b) Purchase of fixed assets.
(c) Cash received from customer. (d) Purchase of inventory for cash.

10. Term deposit in the bank with a maturity date after two months belongs to which of the following while preparing Cash Flow Statement?
(a) Investing Activities. (b) Financing Activities.
(c) Cash and Cash Equivalents. (d) Operating Activities.

11. Which of the following is not included in Cash and Cash Equivalents?
(a) Balances with Banks
(b) Debentures purchased maturing after 100 days of purchase.
(c) Marketable Securities
(d) Cash on hand

12. On the basis of the following information, Cash Flow from Financing Activities will be:

Particulars	31st March, 2021 (₹)	31st March, 2022 (₹)
Equity Share Capital	4,00,000	5,00,000
12% Debentures	1,50,000	1,00,000
Securities Premium	40,000	50,000

Additional Information:

Interest paid on debentures ₹ 18,000.

(a) ₹ 40,000
(b) ₹ 42,000
(c) ₹ 48,000
(d) ₹ 50,000

13. To calculate Cash Flow from Operating Activities, which of the following will be deducted?

(a) Decrease in Inventories.
(b) Increase in Trade Payables.
(c) Decrease in Trade Payables.
(d) Decrease in Trade Receivables.

Following information is related to Questions Nos. 14, 15 and 16:

ABC Ltd. has Machinery written down value of which on 1st April, 2020 was ₹ 8,60,000 and on 31st March, 2021 was ₹ 9,50,000. Depreciation for the year was ₹ 40,000. In the beginning of the year, a part of machinery was sold for ₹ 25,000, which had a written down value of ₹ 20,000.

14. Cash Flow from Investing Activities will be

(a) ₹ 1,25,000
(b) ₹ (1,25,000)
(c) ₹ 2,50,000
(d) ₹ (2,50,000)

15. Gain (profit) on sale of Machinery will be

(a) ₹ 6,000
(b) ₹ 5,000
(c) ₹ 10,000
(d) ₹ 12,000

16. Machinery purchased during the year is

(a) ₹ 1,50,000
(b) ₹ 3,00,000
(c) ₹ 4,50,000
(d) ₹ 50,000

17. Exe Ltd. has balance in Provision for Tax Account of ₹ 50,000 and ₹ 75,000 as on 31st March, 2020 and 2021 respectively. It made a provision for tax during the year of ₹ 65,000. The amount of tax paid during the year was

(a) ₹ 50,000.
(b) ₹ 60,000.
(c) ₹ 40,000.
(d) ₹ 75,000.

18. Interest paid on Debentures is

(a) Operating Activity.
(b) Financing Activity.
(c) Investing Activity.
(d) Both Operating and Financing Activity.

19. GSC Ltd. purchased machinery of ₹ 10,00,000 issuing a cheque of ₹ 2,50,000 and 10% Debentures of ₹ 7,50,000. In the Cash Flow Statement, the transaction will be shown as

(a) Outflow under Investing Activity ₹ 10,00,000, inflow under Financing Activity as Receipt for Debentures ₹ 7,50,000.
(b) Outflow under Investing Activity ₹ 2,50,000.
(c) Inflow of ₹ 7,50,000 as Financing Activity.
(d) None of the above.

20. Which of the following is not a Cash Flow from Investing Activities?

(a) Sale of land for ₹ 20,00,000.

(b) Sale of 2,500 shares held as investment for ₹ 50 each.

(c) Purchase of marketable securities for ₹ 2,50,000.

(d) Purchase of equipment for ₹ 3,00,000.

21. An investment normally qualifies as cash equivalent only when from the date of acquisition it has a short maturity period of

(a) three months. (b) three months or less.

(c) three months or more. (d) one year or less.

22. Which of the following transactions will result in inflow of cash?

(a) Cash withdrawn from bank ₹ 20,000.

(b) issued 20,000, 9% Debentures to the vendor of machinery.

(c) Received ₹ 19,000 from debtors.

(d) Deposited cheques of ₹ 10,000 into bank.

23. Which of the following transactions will not result in flow of cash?

(a) Issue of equity shares of ₹ 1,00,000 for cash.

(b) Purchase of machinery of ₹ 1,75,000 against cheque.

(c) Redemption of 9% Debentures of ₹ 3,50,000 by payment.

(d) Cash deposited into bank ₹ 15,000.

24. Paid ₹ 7,00,000 to purchase shares in K.L. Ltd. and received dividend of ₹ 20,000 after acquisition. These transactions will result in

(a) Cash used in Investing Activities ₹ 7,00,000.

(b) Cash generated from Financing Activities ₹ 7,20,000.

(c) Cash generated from Financing Activities ₹ 6,80,000.

(d) Cash used in Investing Activities ₹ 6,80,000.

25. BALANCE SHEET (EXTRACT)

Particulars	31st March, 2020 (₹)	31st March, 2021 (₹)
EQUITY AND LIABILITIES		
12% Debentures	2,00,000	1,60,000

Additional Information:

Interest on Debentures is paid on half yearly basis on 30th September and 31st March each year.

Debentures were redeemed on 30th September, 2020.

How much amount (related to above information) will be shown in Financing Activity for Cash Flow Statement prepared on 31st March, 2021?

(a) Outflow ₹ 40,000 (b) Inflow ₹ 42,600

(c) Outflow ₹ 61,600 (d) Outflow ₹ 64,000

26. Adjustment for Proposed Dividend is:
(a) Add previous year's proposed dividend to net profit before tax and deduct it under Financing Activity.
(b) Add current year's proposed dividend under net profit before tax and deduct previous year's proposed dividend under Financing Activity.
(c) Add current year's proposed dividend under net profit before tax and deduct current year's proposed dividend under Financing Activity.
(d) None of the above.

27. From the given particulars of Zee Ltd., Net Cash Flow from Financing Activities will be:

Particulars	31st March, 2020 (₹)	31st March, 2021 (₹)
Equity Share Capital	3,00,000	4,00,000
Preference Share Capital	1,50,000	1,00,000
Securities Premium Reserve	5,000	15,000
10% Debentures (New Debentures Issued on 31st March, 2021)	3,00,000	4,00,000
Proposed Dividend on Equity Shares	30,000	35,000
Proposed Dividend on Preference Shares	15,000	15,000

(a) ₹ 80,000. (b) ₹ 90,000.
(c) ₹ 85,000. (d) ₹ 1,00,000.

28. Cash deposited into Bank would result in
(a) Cash Inflow. (b) Cash Outflow.
(c) No Flow of Cash. (d) May be Inflow or Outflow.

29. Redemption of Debentures for cash would result in
(a) Cash Inflow. (b) Cash Outflow.
(c) No Flow of Cash. (d) May be Inflow or Outflow.

30. Interest received on Debentures would result in
(a) Cash Inflow. (b) Cash Outflow.
(c) No Flow of Cash. (d) May be Inflow or Outflow.

31. Old furniture written-off would result in
(a) Cash Inflow. (b) Cash Outflow.
(c) No Flow of Cash. (d) May be Inflow or Outflow.

32. Issue of Equity Shares against the purchase of machinery would result in
(a) Cash Inflow. (b) Cash Outflow.
(c) No Flow of Cash. (d) May be Inflow or Outflow.

33. Charging of depreciation on furniture would result in
(a) Cash Inflow. (b) Cash Outflow.
(c) No Flow of Cash. (d) May be Inflow or Outflow.

34. Dividend received by a manufacturing company is classified as
(a) Operating Activity. (b) Investing Activity.
(c) Financing Activity. (d) Both (b) and (c).

[**Ans.: 1.** (b); **2.** (b); **3.** (c); **4.** (b); **5.** (a); **6.** (c); **7.** (a); **8.** (d); **9.** (b); **10.** (c); **11.** (b); **12.** (b); **13.** (c); **14.** (b); **15.** (b); **16.** (a); **17.** (c); **18.** (b); **19.** (b); **20.** (c); **21.** (b); **22.** (c); **23.** (d); **24.** (d); **25.** (c); **26.** (a); **27.** (c); **28.** (c); **29.** (b); **30.** (a); **31.** (c); **32.** (c); **33.** (c); **34.** (b).]

Working Notes:

12. Equity Share Capital: ₹ 1,00,000 + Securities Premium: ₹ 10,000 —12% Debentures: ₹ 50,000 — Interest on Debentures: ₹ 18,000 = ₹ 42,000.

14, 15 and 16.

Dr. MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	8,60,000	By Bank A/c (Sale)	25,000
To Statement of Profit & Loss	5,000	By Depreciation A/c	40,000
(Gain on Sale of Machine)		By Balance *c/d*	9,50,000
To Bank A/c (Purchase) (Bal. Fig.)	1,50,000		
	10,15,000		10,15,000

Cash Flow from Investing Activities = ₹ 25,000 (Sale) – ₹ 1,50,000 (Purchases) = (₹ 1,25,000).

17.

Dr. PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid) (Bal. Fig.)	40,000	By Balance *b/d*	50,000
To Balance *c/d*	75,000	By Statement of Profit & Loss	65,000
		(Provision made)	
	1,15,000		1,15,000

27. Calculation of Net Cash Flow from Financing Activities:

Particulars	₹
Proceeds from Issue of Equity Shares [(₹ 4,00,000 – ₹ 3,00,000) + ₹ 10,000 (Premium)]	1,10,000
Proceeds from Issue of Debentures (₹ 4,00,000 – ₹ 3,00,000)	1,00,000
Redemption of Preference Shares (₹ 1,50,000 – ₹ 1,00,000)	(50,000)
Interest paid on Debentures (₹ 3,00,000 × 10/100)	(30,000)
Dividend paid on Equity Shares	(30,000)
Dividend paid on Preference Shares	(15,000)
Net Cash Flow from Financing Activities	85,000

Short Answer Type Questions—Carrying 2 Marks each

Q. 1. What is meant by a Cash Flow Statement? (*ISC 2009*)

Ans. Cash Flow Statement is a statement which shows inflows and outflows of Cash and Cash Equivalents of an enterprise during a specified period.

Q. 2. What are **two** major inflows and **two** major outflows of Cash from Investing Activities?

Or

List **four** examples of Investing Activities.

Ans. Two major inflows of Cash from Investing Activities are:

(i) Cash receipts from sale of fixed assets (including intangible assets).

(ii) Cash receipts from disposal of shares, warrants or debt instruments of other companies.

Two major outflow of Cash Flow from Investing Activities are:

(i) Cash payments to purchase fixed assets (including intangible assets).

(ii) Cash payments to purchase shares, warrants or debt instruments of other enterprises.

Q. 3. What is meant by Cash Flow?

Ans. Cash Flows are inflows (*i.e.*, receipts) and outflows (*i.e.*, payments) of Cash and Cash Equivalents.

Q. 4. Define cash as per Accounting Standard-3.

Ans. Cash comprises of cash on hand and demand deposits with banks.

Q. 5. What is meant by Operating Activities?

Ans. Operating Activities are the principal revenue producing activities of the enterprise and other activities that are not Investing or Financing Activities.

Q. 6. What is meant by 'Cash Flow from Operating Activities'?

Ans. Cash from Operating Activities means flow of Cash and Cash Equivalents from the principal revenue producing activities of the enterprise and other activities that are not Investing or Financing Activities.

Q. 7. List **any two** types of Operating Activities. (*ISC 2011*)

Ans. (i) Cash receipts from the sale of goods and/or rendering services.

(ii) Cash receipts from royalties, fees, commission and other revenue.

Q. 8. What is meant by Investing Activities?

Ans. Investing Activities include acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Q. 9. What is meant by Cash Flow from Financing Activities?

Ans. Financing Activities are activities that result in changes in the size and composition of the owner's capital (including Preference Share Capital in the case of a company) and borrowings of the enterprise.

Q. 10. Give **one** difference between an Operating Activity and a Financing Activity. (*ISC Specimen Paper 2017*)

Ans. Operating Activity is the principal revenue producing activity of the enterprise whereas Financing Activity is that activity which changes the size and composition of owner's capital and borrowings of the enterprise.

Q. 11. Give **one** difference between an Operating Activity and an Investing Activity.

Ans. Operating Activities are the principal revenue producing activities of the enterprise whereas Investing Activities include the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Q. 12. Give **one** difference between an Investing Activity and a Financing Activity.

Ans. Investing Activities include the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing Activities are activities that result in changes in the size and composition of the owner's capital (including Preference Share Capital in the case of a company) and borrowings of the enterprise.

Q. 13. State with reason whether cash deposited in bank will result in *inflow*, *outflow* or *no flow* of cash.

Ans. *No flow*. Cash deposited in bank is movement between items of Cash or Cash Equivalent. It is not Operating, Investing or Financing Activity.

Q. 14. While preparing a Cash Flow Statement identify following transactions as belonging to *Operating Activities, Investing Activities, Financing Activities:*

(i) Goodwill written off.

(ii) Interest received by a company on its investments. (*2016*) [2]

Ans. (i) Goodwill written-off—Operating Activities.

(ii) Interest received by a company on its investments—Investing Activities.

Q. 15. What is meant by the term *Cash Equivalents* as per Accounting Standard 3? (*2017*) [2]

Ans. Cash Equivalents are short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value. For example, Treasury Bills, Commercial Papers, etc.

Q. 16. When does an investment qualify as cash equivalents?

Ans. An investment normally qualifies as cash equivalent when it has a short maturity period of, say 90 days or less without any significant risk of change in its value from the date of acquisition.

Q. 17. State whether the following would result in *inflow, outflow* or *no flow* of cash:

(i) Bill Receivable endorsed to Creditors.

(ii) Old vehicle written off. (*2018*) [2]

Ans. (i) Bill Receivable endorsed to Creditors—*No Flow* of Cash.

(ii) Old Vehicle written off—*No Flow* of Cash.

Q. 18. While preparing Cash Flow Statement, identify the following transactions as belonging to *Operating Activities, Investing Activities, Financing Activities, Cash and Cash Equivalents*:

(i) Bank Overdraft Repaid.

(ii) Purchase of Marketable Securities to be sold within 90 days. (*2019*) [2]

Ans. (i) Bank Overdraft Repaid—*Financing Activities*.

(ii) Purchase of Marketable securities to be sold within 90 days—*Cash and Cash Equivalents*.

Q. 19. Mention whether the following would result in *inflow, outflow* or *no flow* of cash:

(i) Issue of fully paid Bonus Shares.

(ii) Cash withdrawn from Bank. (*2019*) [2]

Ans.

Effect	*Reason*
(i) No flow of Cash	Issue of fully paid Bonus Shares is Capitalisation of Profits.
(ii) No flow of Cash	Cash and Bank both are the part of Cash and Cash Equivalents. It is a movement between items of Cash and Cash Equivalents.

Q. 20. State with reason which of the following would result in *inflow*, *outflow* or *no flow* of cash:

(i) Cash deposited in the bank.

(ii) Proposed Dividend (*ISC Specimen Question Paper 2018*) [2]

Ans. (i) No flow. **Reason:** Cash deposited in bank is movement between items of Cash and Cash Equivalents.

(ii) No flow. **Reason:** Dividend proposed by the Board of Directors for a particular accounting year is not a liability unless it is declared (approved) by the shareholders.

Q. 21. Give **two** differences between Net Profit and Cash from Operations (*ISC 2013*)

Ans.

Net Profit	*Cash from Operations*
(i) It is calculated on Accrual Basis of Accounting.	It is calculated on Cash Basis of Accounting.
(ii) Net profit shows the net result of operating and non operating activities during an accounting year.	Cash from Operations shows inflow and outflow of Cash and Cash Equivalents from Operating Activities.

Q. 22. State with reason whether the following would result in *inflow*, *outflow* or *no flow* of cash:

(i) Charging depreciation on furniture.

(ii) Old furniture written-off.

Ans. (i) No flow. **Reason:** Charging of depreciation on furniture would result in no flow of cash because it does not involve cash as it is a non-cash expense.

(ii) No flow. **Reason:** Old furniture written off would result in no flow of cash because it does not involve cash as it is a non-cash transaction.

Q. 23. Classify the following into Cash Flow from Investing Activities, Financing Activities and Operating Activities while preparing Cash Flow Statement:

(i) Receipt of Dividend. (ii) Purchase of Goodwill.

(iii) Repayment of Public Deposits. (iv) Payment of Tax. (*ISC Specimen Paper 2015*)

Ans. (i) Investing Activity; (ii) Investing Activity; (iii) Financing Activity; (iv) Operating Activity.

Q. 24. Classify the following into cash flows from Investing Activities/Financing Activities while preparing a Cash Flow Statement: (i) Redemption of Debentures; (ii) Sale of Fixed Assets; (iii) Receipt of Dividend; (iv) Interest Received.

Ans. (i) Financing; (ii) Investing; (iii) Investing; (iv) Financing.

Q. 25. Categorise each of the following items into Operating/Investing/Financing Activities while preparing the Cash Flow Statement:

(i) Redemption of 2,00,000, 12% Preference Shares of ₹ 10 each at a premium of ₹ 4 per share.

(ii) Sale of Machinery for ₹ 40,000.

(iii) Declared and paid dividend ₹ 1,00,000.

(iv) Interest collected on investments ₹ 28,000.

Ans. (i) Financing; (ii) Investing; (iii) Financing; (iv) Investing.

Q. 26. Calculate net inflow or outflow from Investing Activities if machinery and goodwill shows an increase of ₹ 2,50,000 and ₹ 1,00,000 respectively from previous year and dividend received during the year was ₹ 60,000.

Ans. Outflow from Investing Activities = (₹ 2,50,000) + (₹ 1,00,000) – ₹ 60,000 = ₹ 2,90,000.

Short Answer Type Questions—Carrying 3 Marks each

Q. 1. Calculate Cash Flows from Operating Activities from the following details:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Surplus, *i.e.*, Balance in Statement of Profit & Loss	55,000	60,000
Trade Receivables	25,000	31,000
Outstanding Rent	12,000	21,000
Goodwill	40,000	38,000
Prepaid Expenses	4,000	2,000
Trade Payables	13,000	19,000

Ans. CALCULATION OF CASH FLOW FROM OPERATING ACTIVITIES

Particulars		Amount (₹)
Net Loss for the year ending 31st March, 2021 (Note)		(5,000)
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Trade Receivables	6,000	6000
		1,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Prepaid Expenses	(2,000)	
Trade Payables	(6,000)	
Outstanding Rent	(9,000)	(17,000)
Net Cash Used in Operating Activities		(16,000)

Note: *Calculation of Net Profit (Loss) for the year ended 31st March, 2021:*

	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit & Loss	55,000
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit & Loss	60,000
Net Loss for the year	(5,000)

Q. 2. Calculate Cash Flow from (or used) in Financing Activities from the following information:

		₹
(i)	Cash Flow from Operating Activities	10,50,000
(ii)	Cash Used in Investing Activities	3,50,000
(iii)	Opening Cash and Cash Equivalents	3,00,000
(iv)	Closing Cash and Cash Equivalents	3,75,000

Ans. Closing Cash and Cash Equivalents = Cash Flow from Operating Activities + Cash Flow from Investing Activities + Cash Flow from Financing Activities + Opening Cash and Cash Equivalents

₹ 3,75,000 = ₹ 10,50,000 + (₹ 3,50,000) + x + ₹ 3,00,000

₹ 3,75,000 = ₹ 10,50,000 – ₹ 3,50,000 + x + ₹ 3,00,000

₹ 3,75,000 = ₹ 10,00,000 + x

x = – ₹ 6,25,000.

Therefore, Cash Used in Financing Activities = ₹ 6,25,000.

Q. 3. From the following data, calculate Increase/Decrease in Cash and Cash Equivalents:

Particulars	1st April, 2021 (₹)	31st March, 2022 (₹)
Cash in Hand	1,00,000	1,25,000
Cash at Bank	1,37,500	1,62,500
Short-term Investments	75,000	1,00,000
Bank Overdraft	1,00,000	1,25,000
Marketable Securities	2,25,000	3,00,000

Ans.

Particulars	1st April, 2021 (₹)	31st March, 2022 (₹)
Cash in Hand	1,00,000	1,25,000
Cash at Bank	1,37,500	1,62,500
Short-term Investments	75,000	1,00,000
Marketable Securities	2,25,000	3,00,000
Total	5,37,500	6,87,500

Net Increase in Cash and Cash Equivalents = ₹ 6,87,500 – ₹ 5,37,500 = ₹ 1,50,000.

Q. 4. Srijan Ltd., a manufacturing company took loan of ₹ 6,00,000, paid advance of ₹ 1,00,000 for purchase of equipments and purchased machinery for ₹ 5,00,000.

Calculate the amount of Cash Flow from Financing and Investing Activities.

Ans.

	₹
Cash Flow from Financing Activities:	
Loan Taken	6,00,000
Cash Flow from Investing Activities:	
Advance paid for Purchase of Equipment	(1,00,000)
Purchase of Machinery	(5,00,000)
Net Cash Used in Investing Activities	(6,00,000)

Q. 5. Following balances appeared in Machinery Account and Accumulated Depreciation Account in the books of Bharat Ltd.:

Particulars	31st March, 2020 (₹)	31st March, 2021 (₹)
Machinery	7,50,000	9,70,000
Accumulated Depreciation	1,80,000	2,40,000

Additional Information:

Machinery costing ₹ 1,45,000; accumulated depreciation thereon ₹ 70,000, was sold for ₹ 35,000. You are required to:

(i) Compute amount of Machinery purchased, depreciation charged for the year and loss on sale of machinery.

(ii) Show how each of the items for Machinery will be shown in Cash Flow Statement.

Ans. (i)

Dr. MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d* (1st April, 2020)	7,50,000	By Bank A/c (Sales)	35,000
To Bank A/c (Balancing Figure) (Machinery Purchased)	3,65,000	By Accumulated Depreciation A/c	70,000
		By Loss on Sale of Machinery A/c (Statement of Profit & Loss)	40,000
		By Balance *c/d* (31st March, 2021)	9,70,000
	11,15,000		11,15,000

Dr. ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	70,000	By Balance *b/d* (1st April, 2020)	1,80,000
To Balance *c/d* (31st March, 2021)	2,40,000	By Depreciation A/c (Statement of Profit & Loss) (Balancing Figure)	1,30,000
	3,10,000		3,10,000

(ii) (a) Sale of Machinery of ₹ 35,000 is an inflow of cash from Investing Activities.

(b) Purchase of Machinery of ₹ 3,65,000 is an outflow of cash from Investing Activities.

(c) Loss on Sale of Machinery (₹ 1,45,000 – ₹ 70,000 – ₹ 35,000 = ₹ 40,000) and depreciation charged will be added in Net Profit while computing Cash Flow from Operating Activities.

Q. 6. Pollock Ltd. provided the following information, calculate Net Cash Flow from Financing Activities:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Equity Share Capital	12,00,000	10,00,000
10% Long-term Borrowing (Debentures)	2,00,000	1,00,000

Additional Information: Interest paid on Debentures ₹ 10,000, Dividend paid during the year ₹ 50,000.

Ans. CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Issue of Equity Share Capital	2,00,000
Issue of 10% Debentures	1,00,000
Payment of Interest on Debentures	(10,000)
Payment of Dividend	(50,000)
Net Cash Flow from Financing Activities	2,40,000

Q. 7. From the following information, calculate Cash Flow from Financing Activities:

Particulars	31st March, 2020 (₹)	31st March, 2021 (₹)
Equity Share Capital	5,00,000	4,00,000
10% Debentures	1,00,000	1,50,000
Securities Premium Reserve	50,000	40,000

Additional Information: Interest paid on Debentures ₹ 10,000.

Ans. CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Proceeds from Issue of Equity Shares	1,00,000
Securities Premium	10,000
Interest paid on debentures	(10,000)
Redemption of debentures	(50,000)
Net Cash Flow from Financing Activities	50,000

Long Answer Type Questions—Carrying 5 Marks each

Q. 1. From the following extract of Balance Sheet of Shiva Ltd. and the additional information, calculate Cash Flow from Operating Activities for the year ended 31st March, 2021:

Profit of ₹ 2,50,000 for the year ended 31st March, 2021 after accounting the following items:

Particulars	₹
(i) Depreciation on Fixed Tangible Assets (Machinery)	20,000
(ii) Loss on Sale of Fixed Tangible Assets (Furniture)	2,000
(iii) Goodwill written off	9,000
(iv) Provision for Tax	35,000
(v) Transfer to General Reserve	17,500
(vi) Gain on Sale of Fixed Tangible Assets (Machinery)	8,000

Additional Information:

Particulars	31st March, 2020 (₹)	31st March, 2021 (₹)
Trade Receivables (All Trade Receivables are good)	50,000	62,000
Trade Payables	45,000	55,000
Inventory	12,000	8,000
Income received in advance	8,000	...
Outstanding expenses	6,000	3,000
Prepaid expenses	...	5,000

You are required to calculate Cash Flow from Operating Activities.

Ans. CALCULATION OF CASH FLOW FROM OPERATING ACTIVITIES

Particulars		₹
Net Profit before Tax (Note)		3,02,500
Add: Depreciation on Fixed Tangible Assets		20,000
Loss on Sale of Fixed Tangible Assets		2,000
Goodwill written off		9,000
Less: Gain on Sale of Machinery		(8,000)
Operating Profit before Working Capital Changes		3,25,500
Adjustments for Changes in Current Assets and Current Liabilities:		
Decrease in Inventory	4,000	
Increase in Trade Payables	10,000	
Increase in Trade Receivables	(12,000)	
Increase in Prepaid Expenses	(5,000)	
Decrease in Outstanding Expenses	(3,000)	
Decrease in Income received in Advance	(8,000)	(14,000)
Cash Flow from Operating Activities before Tax		3,11,500
Less: Tax paid		(35,000)
Cash Flow from Operating Activities		2,76,500

Note: Net Profit before Tax = Net Profit + Provision for Tax + Transfer to General Reserve
= ₹ 2,50,000 + ₹ 35,000 + ₹ 17,500 = ₹ 3,02,500.

Q. 2. Zenith Ltd. had the following balances as on 1st April, 2020:

Particulars		₹
Fixed Assets	11,40,000	
Less: Depreciation	3,99,000	7,41,000
Trade Receivables		4,75,000
Cash and Bank Balance		66,500
Sundry Creditors		1,14,000
Bills Payable		76,000
Equity Share Capital (Shares of ₹ 100 each)		5,70,000

The company made following transactions for the financial year 2020–21:

(i) The company paid an income tax of ₹ 25,000 during the year.

(ii) An interim dividend was paid @ 10%.

(iii) The company purchased fixed asset costing ₹ 1,90,000 after selling one machine for ₹ 38,000 costing ₹ 95,000 and on which depreciation provided was ₹ 66,500.

(iv) Trade Receivables, Sundry Creditors and Bills Payable at the end of financial year were ₹ 5,60,500, ₹ 1,48,200 and ₹ 98,800 respectively.

(v) Profit before tax for the year is ₹ 1,04,500 after depreciation of ₹ 1,14,000.

Ascertain the Cash Flow from Operating and Investing Activities for the year 2020–21.

Ans. CASH FLOW FROM OPERATING ACTIVITIES

Particulars		₹
Net Profit before Tax	1,04,500	
Adjustment for Non-cash and Non-operating Items:		
Add: Depreciation	1,14,000	
Less: Gain on Sale of Machine [(₹ 38,000) – (₹ 95,000 – ₹ 66,500)]	(9,500)	2,09,000
Add: Increase in Current Liabilities:		
Increase in Sundry Creditors	34,200	
Increase in Bills Payable	22,800	57,000
		2,66,000
Less: Increase in Current Assets:		
Trade Receivables		(85,500)
Cash Generated from Operations		1,80,500
Less: Tax Paid		(25,000)
Net Cash From Operating Activities		1,55,500

CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Payment for Purchase of Fixed Assets	(1,90,000)
Proceeds from Sale of Machine	38,000
Net Cash Used in Investing Activities	(1,52,000)

Note: Interim Dividend will not affect Cash Flow from Operating Activities because net profit is given for the year. If net profit was ascertained from Surplus, *i.e.*, Balance in Statement of Profit & Loss, Interim Dividend would have been considered.

Q. 3. From the following extract of Acacia Ltd. Balance Sheet, calculate for the year ending 31st March, 2021:

(i) Cash Flow from Investing Activities. (ii) Cash Flow from Financing Activities.

Particulars	2020–21 (₹)	2019–20 (₹)
Equity Share Capital	13,00,000	12,00,000
Long-term Borrowing (10% Bank Loan)	60,000	1,00,000
Dividend Payable	3,000	...
Fixed Assets:		
Plant and Machinery	27,00,000	21,00,000
Less: Accumulated Depreciation	(8,00,000)	(6,00,000)
	19,00,000	15,00,000
Non-current Investments	1,00,000	20,000
Land (at cost)	5,00,000	7,00,000
Goodwill	30,000	40,000

Additional Information:

(i) Proposed equity dividends for the years ended 31st March 2020 and 2021 are ₹ 21,000 and ₹ 20,000 respectively.

(ii) Loan instalment and interest on loan was paid at the end of the financial year.

(iii) *During the year:*

(a) Piece of machinery costing ₹ 30,000 on which accumulated depreciation was ₹ 6,000, was sold for ₹ 20,000.

(b) The company sold 70% of its Non-current Investments which it held in the beginning of the year, at a profit of 20% on its book value.

Ans. (i) *Cash Flow from Investing Activities:*

	₹
Proceeds from Sale of Non-current Investments (WN 1)	16,800
Payment for Purchase of Non-current Investments (WN 1)	(94,000)
Proceeds from Sale of Land	2,00,000
Proceeds from Sale of Machinery	20,000
Purchase of Machinery (WN 2)	(6,30,000)
Cash Used in Investing Activities	(4,87,200)

(ii) *Cash Flow from Financing Activities:*

	₹
Proceeds from Issue of Equity Shares	1,00,000
Repayment of Bank Loan	(40,000)
Payment of Interest on Bank Loan	(10,000)
Payment of Dividend (WN 3)	(18,000)
Cash Flow from Financing Activities	32,000

Working Notes:

1. *Dr.* NON-CURRENT INVESTMENTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By Bank A/c (Sale)—(₹ 14,000 + 20% of ₹ 14,000)	16,800
To Gain on Sale of Non-current Investments A/c (Statement of Profit & Loss)	2,800	By Balance *c/d*	1,00,000
To Bank A/c (Purchase)—Balancing Figure	94,000		
	1,16,800		1,16,800

2. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	21,00,000	By Bank A/c (Sale)	20,000
To Bank A/c (Purchase)—(Balancing Figure)	6,30,000	By Accumulated Depreciation A/c	6,000
		By Statement of Profit & Loss (Loss on Sale)	4,000
		By Balance *c/d*	27,00,000
	27,30,000		27,30,000

3. Dividend declared during the year ₹ 21,000
Less: Dividend Payable (Given) ₹ 3,000
Dividend paid during the year ₹ 18,000

Q. 4. You are required to prepare a Cash Flow Statement (as per AS–3) for the year 2020–21 from the following Balance Sheet:

***ABC* Ltd.**

BALANCE SHEET *as at 31st March, 2021*

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital (Equity Share Capital)		6,00,000	4,00,000
(*b*) Reserves and Surplus (Statement of Profit & Loss)		2,00,000	1,00,000
2. Non-Current Liabilities			
Long-term Borrowings		1,00,000	2,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings (Bank Loan)		...	10,000
(*b*) Trade Payables		45,000	60,000
(*c*) Short-term Provisions	1	70,000	40,000
Total		10,15,000	8,10,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
(*i*) Property, Plant and Equipment (Building)		6,00,000	6,00,000
(*ii*) Intangible Assets (Patents)		45,000	50,000
(*b*) Non-current Investments		75,000	...
2. Current Assets			
(*a*) Inventories		15,000	10,000
(*b*) Trade Receivables		1,95,000	1,20,000
(*c*) Cash and Bank Balances		85,000	30,000
Total		10,15,000	8,10,000

Note to Accounts

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
1. Short-term Provisions		
Provision for Taxation	70,000	40,000

Note: Dividend proposed for the years 2019–20 and 2020–21 are ₹ 60,000 and ₹ 80,000 respectively.

Additional Information:

During the year 2020–21:

(i) Building costing ₹ 75,000 was purchased.

(ii) An old building, the book value of which was ₹ 63,000, was sold at a loss of ₹ 5,000.

(iii) Tax provided during the year was ₹ 80,000. (*ISC 2015, Modified, 10 Marks*)

Ans. ***ABC* Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2021*

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		2,40,000
Add: Non-cash and Non-operating Expenses:		
Depreciation (WN 3)	12,000	
Amortisation of Patents	5,000	
Loss on Sale of Building	5,000	22,000
Operating Profit before Working Capital Changes		2,62,000
Less: Increase in Current Assets and		
Decrease in Current Liabilities:		
Inventories	5,000	
Trade Receivables	75,000	
Trade Payables	15,000	95,000
Cash Generated from Operations		1,67,000
Less: Tax Paid (WN 2)		50,000
Cash Flow from Operating Activities		1,17,000
II. Cash Flow from Investing Activities		
Proceeds from Sale of Building		58,000
Payment for Purchase of Building		(75,000)
Payment for Purchase of Non-current Investments		(75,000)
Cash Used in Investing Activities		(92,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares		2,00,000
Repayment of Long-term Borrowings		(1,00,000)
Repayment of Short-term Borrowings		(10,000)
Payment of Dividend (Previous Year's Proposed Dividend)		(60,000)
Cash Flow from Financing Activities		30,000
IV. Net Increase in Cash and Bank Balances (I + II + III)		55,000
Add: Opening Cash and Bank Balances		30,000
V. Closing Cash and Bank Balances		85,000

Working Notes:

1. ***Calculation of Net Profit before Tax:***

		₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit & Loss		2,00,000
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit & Loss		1,00,000
Profit for the year		1,00,000
Add: Provision for Tax	80,000	
Dividend Paid	60,000	1,40,000
Net Profit before Tax		2,40,000

2. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid) (Balancing Figure)	**50,000**	By Balance *b/d*	40,000
To Balance *c/d*	70,000	By Statement of Profit & Loss	80,000
	1,20,000		1,20,000

3. *Dr.* BUILDING ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	6,00,000	By Bank A/c (Sale)	58,000
To Bank A/c (Purchase)	75,000	By Loss on Sale of Building A/c (Statement of Profit & Loss)	5,000
		By Depreciation A/c (Balancing Figure)	**12,000**
		By Balance *c/d*	6,00,000
	6,75,000		6,75,000

ISC SEMESTER 2 EXAMINATION
SPECIMEN QUESTION PAPER
ACCOUNTS

Time Allowed: 1½ Hours **Max. Marks: 40**

*(Candidates are allowed additional **10 minutes** for **only** reading the paper)*
Transactions should be recorded in the answer book.
All calculations should be shown clearly.
All working, including rough work, should be done on the same sheet as, and adjacent to, the rest of the answer.

***All** questions of **Section A** are **compulsory**.*
All** questions from **either Section B or Section C** are **compulsory
The intended marks for questions or parts of questions are given in the brackets [ ].

SECTION A—26 MARKS
(*Answer **all** questions*)

Question 1.

Select the correct option for each of the following questions.

(i) Relay Ltd. (an unlisted Non-NBFC) redeems its 8,000, 10% Debentures of ₹ 100 each in instalments as follows:

Date of Redemption	*Debentures to be redeemed*
31st March, 2019	2,000
31st March, 2020	5,000
31st March, 2021	1,000

On the basis of the above details, what will be the amount of Debenture Redemption Reserve which the company will transfer to General Reserve on 31st March, 2021?

(a) ₹ 20,000. (b) ₹ 50,000.
(c) ₹ 10,000. (d) ₹ 80,000. [1]

(ii) Which of the following transactions is debited to Revaluation Account?

(a) Increase in the value of furniture.
(b) Increase in Provision for Doubtful Debts.
(c) Creditors discharged at a discount.
(d) Loss on revaluation of all assets and reassessment of all liabilities. [1]

(iii) Orange Ltd. took over assets of ₹ 7,00,000 and liabilities of ₹ 60,000 of Purple Ltd. for a purchase consideration of ₹ 6,30,000 payable by the issue of 10% Debentures of ₹ 100 each at a premium of 10% and if need be, a part of the purchase consideration in cash.

How will the company meet the purchase consideration?

(a) By the issue of ₹ 5,72,727, 10% Debentures at a premium of ₹ 57,272 with no cash.

(b) By the issue of ₹ 5,72,000, 10% Debentures at a premium of ₹ 57,200 and cash of ₹ 800.

(c) By the issue of ₹ 5,72,720, 10% Debentures at a premium of ₹ 57,272 and cash of ₹ 8.

(d) By the issue of ₹ 5,72,700, 10% Debentures at a premium of ₹ 57,270 and cash of ₹ 30. [1]

(iv) Anita and Binita are partners in a firm. Anita had taken a loan of ₹ 15,000 from the firm. How will Anita's loan be closed in the event of dissolution of the firm?

(a) By crediting it to Anita's Capital Account.

(b) By debiting it to Anita's Capital Account.

(c) By crediting it to Realisation Account.

(d) By debiting it to Cash Account. [1]

Question 2

(i) What is the maximum amount of debentures which an unlisted company, other than a NBFC and HFC, can redeem out of its capital? [1]

(ii) At the time of dissolution of a partnership firm, its Balance Sheet showed stock of ₹ 30,000 comprising easily marketable items, obsolete items and a few miscellaneous other items. These items were realised as:

(a) *Easily Marketable Items:* 65% of the total inventory in full.

(b) *Obsolete items:* 20% of the total inventory had to be discarded.

(c) The miscellaneous other items in the stock at 40% of their book value.

You are required to pass the Journal entry for the realisation of stock. [1]

Question 3

On 1st April, 2012, Neptune Finance Company (a listed NBFC) issued 4,000, 9 % Debentures of ₹ 100 each to be redeemed at a premium of 5% on 31st March, 2021.

You are required to pass necessary Journal entries for the Issue and Redemption of Debentures. [5]

Question 4

(i) Suhas Ltd. issued 1,000, 7% Debentures of ₹ 100 each to be redeemed after three years at a premium of 5%. The face value of the debentures was payable as:

₹ 20 on Application

₹ 30 on Allotment (on 1st May, 2020)

₹ 30 on First call (on 1st October, 2020)

₹ 20 on Final call (on 1st January, 2021)

All the debentures were applied and allotted.

Ali, to whom 20 debentures were allotted, paid the allotment money and the two calls on 31st March, 2021. The Articles of Association of the company provided for interest on calls-in-arrear to be charged @ 10% per annum, which Ali paid on 31st March, 2021.

You are required to pass Journal entries in the books of Suhas Ltd. to record:

(a) The adjustment and receipt of interest on calls-in-arrears.

(b) The entry to close the interest on calls-in-arrears account. [2]

(ii) Naresh, Dhruv and Azeem are partners sharing profits in the ratio of 5 : 3 : 7.

Naresh retires from the firm. Dhruv and Azeem decided to share profits in the ratio of 2 : 3.

The adjusted capital accounts of Dhruv and Azeem at the time of Naresh's retirement showed the balances of ₹ 33,000 and ₹ 70,500 respectively.

The total amount to be paid to Naresh is ₹ 90,500 which is paid in cash immediately by the firm, the cash being contributed by Dhruv and Azeem in such a way that their capitals become proportionate to their new profit-sharing ratio and the firm maintains a minimum cash balance of ₹ 5,000 from its existing balance of ₹ 20,000.

You are required to pass Journal entries to record:

(a) Payment made to the retiring partner.

(b) Cash brought in by the remaining partners to pay off the retiring partner. [3]

Question 5

(i) Ravi, Vijay and Sujay were partners sharing profits in the ratio of 1/2 : 1/3 : 1/6.

Vijay decided to retire, his share being taken up by the remaining partners in the ratio 1 : 4.

On Vijay's retirement, a loss of ₹ 12,000 was determined upon revaluation of assets and liabilities.

You are required to:

(a) Calculate the new profit-sharing ratio of the remaining partners.

(b) Pass the Journal entry to write off the loss on revaluation of assets and liabilities. [2]

(ii) On 1st April, 2017, Prasad and Company Limited issued 1,000, 10% Debentures of ₹ 1,000 each at ₹ 980. Under the terms of issue, 1/5 of the debentures is annually redeemable by drawings, the first redemption occurring on 31st March, 2019.

On 31st March, 2018, the company had a balance of ₹ 4,000 in its Capital Reserve Account.

The company wrote off the discount on issue of debentures over the life-time of the debentures.

You are required to prepare the discount on issue of debentures account for the first three years. [3]

Question 6

Sita and Gita were partners sharing profits and losses in the ratio of 4 : 5. They dissolved their partnership on 31st March, 2021, when their Balance Sheet showed the following balances:

Particulars	₹
Sita's Capital	30,000
Gita's Capital	35,000
Gita's Current A/c (Dr)	2,000
Contingency Reserve	18,000
Profit & Loss A/c (Dr)	4,500

On the date of dissolution:

(i) The firm, upon realisation of assets and settlement of liabilities, made a profit of ₹ 9,000.

(ii) Gita paid the realisation expenses of ₹ 2,000.

(iii) Gita discharged the outstanding salary of the manager of the firm of ₹ 1,000 which was unrecorded in the books.

You are required to prepare the Partners' Capital Accounts. [5]

SECTION B—14 MARKS

(*Answer **all** questions*)

Question 7.

Select the correct option in the following question:

(i) Which one of the following analysis is considered as a dynamic analysis?

(a) Vertical analysis. (b) Horizontal analysis.

(c) Internal analysis. (d) External analysis. [1]

(ii) State with reason whether old furniture written off would lead to *inflow*, *outflow* or *no flow* of Cash and Cash Equivalents. [1]

Question 8.

From the following extracts of a company's Balance Sheets and the additional information, you are required to calculate Cash Flow from Financing Activities for the year ending 31st March, 2021:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Equity Share Capital	9,00,000	7,00,000
10% Preference Share Capital	3,00,000	5,00,000
Securities Premium Reserve	30,000	5,000
12% Debentures	4,00,000	3,00,000
Cash Credit	12,000	10,000

Additional Information:

1. During the year 2020–21:
   (i) Dividend proposed on equity shares in 2019–20 of ₹ 65,000 was declared and paid.
   (ii) Debentures were issued on 1st July, 2020, at a discount of 10%.
   (iii) Interest on cash credit of ₹ 500 was paid.
   (iv) Underwriting commission of ₹ 25,000 was paid to the underwriters.
   (v) The Equity shares were issued at a premium.
2. The 10% Preference Shares were redeemed on 31st March, 2021. [5]

Question 9.

You are required to prepare a Comparative Statement of Profit & Loss from the following particulars of Nishant Ltd.:

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
Revenue from Operations		4,00,000	3,00,000
Cost of raw materials consumed		2,00,000	1,50,000
Changes in inventories of raw materials		25,000	(12,500)

[2]

Question 10.

From the following extracts of a company's Balance Sheets, and the additional information, you are required to calculate Cash from Operating Activities for the year ending 31st March, 2021.

Anjan Ltd. reported a profit of ₹ 80,000 for the year ended 31st March, 2021, after considering the following:

(i)	Tax provided during the year	₹ 4,000
(ii)	Amortisation of patents	₹ 10,000
(iii)	Profit on sale of vehicle	₹ 3,000
(iv)	Writing off preliminary expenses	₹ 2,000

(v) During the year, machinery costing ₹ 40,000 (accumulated depreciation thereon being ₹ 18,000) was sold for ₹ 6,000.

Additional Information:

	31st March 2021 (₹)	*31st March 2020* (₹)
Trade Receivable	20,000	16,000
Inventory	12,000	15,000
Cash at Bank	8,000	10,000
Trade Payable	9,000	11,000
Marketable Securities	5,000	2,000
Plant and Machinery	88,000	1,30,000

[5]

ANSWERS

SECTION A

Question 1.

(i) (c) (ii) (b) (iii) (d) (iv) (d)

Question 2.

(i) *For an unlisted company, other than a NBFC and HFC:* Debenture Redemption Reserve shall be 10% of the value of outstanding debentures. It means, an unlisted company, other than a NBFC and HFC can redeem 90% of the value of the outstanding debentures out of its capital.

(ii) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		21,300	
	To Realisation A/c				21,300
	(Being the stock realised in cash)				

Working Note:

Stock as per Balance Sheet = ₹ 30,000.

₹ 30,000 (Book value)

65% (Easily Marketable Items)	20% (Obsolete Items)	15% (Other Items)
₹ 19,500	₹ 6,000	₹ 4,500
100%	Nil (Realised)	40%
₹ 19,500 (Realised)		₹ 1,800 (Realised)

Amount realised from stock = ₹ 19,500 + ₹ 1,800 = ₹ 21,300.

Question 3.

JOURNAL OF NEPTUNE FINANCE COMPANY (A LISTED NBFC)

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2012						
April	1	Bank A/c	...Dr.		4,00,000	
		To Debentures Application and Allotment A/c				4,00,000
		(Being the application money received for 4,000 debentures of ₹ 100 each)				
April	1	Debentures Application and Allotment A/c	...Dr.		4,00,000	
		Loss on Issue of Debentures A/c	...Dr.		20,000	
		To 9% Debentures A/c				4,00,000
		To Premium on Redemption of Debenture A/c				20,000
		(Being the issue of 4,000; 9% Debentures at par repayable at 5% premium)				

2020 April 1	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the investment of 15% of the value of redeemable debentures)		60,000	60,000
2021 March 31	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the realisation of Debentures Redemption Investment)		60,000	60,000
March 31	9% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due to debentureholders)		4,00,000 20,000	4,20,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment made to debentureholders)		4,20,000	4,20,000

Notes:
1. The company is not required to transfer amount to DRR being a listed NBFC. However it is required to invest in DRI.
2. In the absence of date of investment being given, investment is presumed to have been made on 1st April, 2020.
3. The question requires Journal entries to be passed for issue and redemption of debentures hence Journal entry for writing off Loss on Issue of Debentures is not passed.

Question 4.

(i) JOURNAL OF SUHAS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 March 31	Sundry Debentureholders' A/c ...Dr. To Interest on Calls-in-Arrears A/c (Being the interest on calls-in-arrears charged)		95	95
	Bank A/c ...Dr. To Sundry Debentureholders' A/c (Being the interest on calls-in-arrears received)		95	95
	Interest on Calls-in-Arrears A/c ...Dr. To Statement of Profit & Loss (Being the interest on calls-in-arrears transferred to Statement of Profit & Loss)		95	95

Working Note:

Calculation of Interest on Calls-in-Arrears:

Period of Calculation of Interest	Amount on which interest is to be calculated	Calculation	Interest ₹
1st May, 2020 to 31st March, 2021 = 11 Months	Allotment Money of ₹ 600 (*i.e.,* 20 × ₹ 30)	₹ 600 × 10/100 × 11/12	55
1st Oct, 2020 to 31st March, 2021 = 6 Months	First call money ₹ 600 (*i.e.,* 20 × ₹ 30)	₹ 600 × 10/100 × 6/12	30
1st Jan., 2021 to 31st March, 2021 = 3 Months	Final call money ₹ 400 (*i.e.,* 20 × ₹ 20)	₹ 400 × 10/100 × 3/12	10
			95

(ii) *Calculation of total capital of new firm after Naresh's retirement:*

	₹
Adjusted capital of Dhruv	33,000
Adjusted capital of Azeem	70,500
Cash balance required after Naresh's retirement	5,000
Existing cash balance	(20,000)
Shortage of cash to be brought to pay Naresh (Balancing Figure)	90,500
Total capital of new firm after Naresh's retirement	1,79,000

Dhruv's capital in new firm = ₹ 1,79,000 × 2/5 = ₹ 71,600

Azeem's capital in new firm = ₹ 1,79,000 × 3/5 = ₹ 1,07,400

Calculation of cash brought in by the remaining parters to pay off retiring partner:

	Dhruv (₹)	Azeem (₹)
A. New capital	71,600	1,07,400
B. Adjusted old capital	33,000	70,500
C. Cash to be brought (A – B)	38,600	36,900

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Cash A/c ...Dr.		75,500	
	To Dhruv's Capital A/c			38,600
	To Azeem's Capital A/c			36,900
	(Being the cash brought in by Dhruv and Azeem)			
	Naresh's Capital A/c ...Dr.		90,500	
	To Bank A/c			90,500
	(Being the amount due to Naresh paid)			

Question 5.

(i) (a) New profit share of remaining partner = Old Profit Share + Profit Share acquired

Profit Share acquired by Ravi = 1/3 × 1/5 = 1/15

Profit Share acquired by Sujay = 1/3 × 4/5 = 4/15

$$\text{Ravi's new profit share} = \frac{1}{2} + \frac{1}{15} = \frac{15+2}{30} = \frac{17}{30}$$

$$\text{Sujay's new profit share} = \frac{1}{6} + \frac{4}{15} = \frac{5+8}{30} = \frac{13}{30}$$

New profit-sharing ratio of Ravi and Sujay = 17/30 : 13/30 = 17 : 13.

(b) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Ravi's Capital A/c	...Dr.		6,000	
	Vijay's Capital A/c	...Dr.		4,000	
	Sujay's Capital A/c	...Dr.		2,000	
	To Revaluation A/c				12,000
	(Being the loss on revaluation debited to partners' capital accounts in their old profit-sharing ratio)				

(ii) Discount on Issue of Debentures = 1,000 × ₹ 20 = ₹ 20,000.

CALCULATION OF AMOUNT OF DISCOUNT TO BE WRITTEN OFF

At the end of	*Debentures Outstanding (₹)*	*Rate*	*Discount to be Written off (₹)*
1st Year: 31st March, 2018	10,00,000	5	20,000 × 5/20 = 5,000
2nd Year: 31st March, 2019	10,00,000	5	20,000 × 5/20 = 5,000
3rd Year: 31st March, 2020	8,00,000	4	20,000 × 4/20 = 4,000
4th Year: 31st March, 2021	6,00,000	3	20,000 × 3/20 = 3,000
5th Year: 31st March, 2022	4,00,000	2	20,000 × 2/20 = 2,000
6th Year: 31st March, 2023	2,00,000	1	20,000 × 1/20 = 1,000
		20	20,000

Dr. DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT *Cr.*

Date		Particulars	₹	Date		Particulars	₹
2017				2018			
April	1	To 10% Debentures A/c	20,000	March	31	By Capital Reserve A/c	4,000
						By Statement of Profit & Loss	1,000
						By Balance *c/d*	15,000
			20,000				20,000
2018				2019			
April	1	To Balance *b/d*	15,000	March	31	By Statement of Profit & Loss	5,000
						By Balance *c/d*	10,000
			15,000				15,000
2019				2020			
April	1	To Balance *b/d*	10,000	March	31	By Statement of Profit & Loss	4,000
						By Balance *c/d*	6,000
			10,000				10,000

Question 6.

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Sita (₹)	Gita (₹)	Particulars	Sita (₹)	Gita (₹)
To Gita's Current A/c	...	2,000	By Balance *b/d*	30,000	35,000
To Profit & Loss A/c	2,000	2,500	By Contingency Reserve A/c	8,000	10,000
To Bank A/c (Final payment)	40,000	48,500	By Realisation A/c:		
			Manager's Salary	...	1,000
			Realisation Expenses	...	2,000
			By Realisation A/c (Profit)	4,000	5,000
	42,000	53,000		42,000	53,000

SECTION B

Question 7.

(i) (b)

(ii) No Flow.

Reason: Old furniture written off would not result in flow of Cash because it does not involve cash being a non-cash transaction.

Question 8.

CASH FLOW FROM FINANCING ACTIVITIES
for the year ended 31st March, 2021

Particulars	₹
Proceeds from Issue of Equity Shares (₹ 9,00,000 – ₹ 7,00,000)	2,00,000
Securities Premium Reserve (₹ 30,000 – ₹ 5,000)	25,000
Redemption of Preference Shares (₹ 5,00,000 – ₹ 3,00,000)	(2,00,000)
Proceeds from Issue of Debentures [(₹ 4,00,000 – ₹ 3,00,000 – ₹ 10,000 (Discount)]	90,000
Cash Credit	2,000
Dividend on Equity Shares	(65,000)
Dividend on Preference Shares (Note)	(50,000)
Interest on 12% Debentures [(₹ 3,00,000 × 12/100) + (₹ 1,00,000 × 12/100 × 9/12)]	(45,000)
Interest on Cash Credit	(500)
Underwriting Commission paid	(25,000)
Cash Used in Financing Activities	(68,500)

Note: Preference shareholders have the right to receive dividend if dividend (Interim or Proposed) is paid to Equity Shareholders. In the given question, company proposed and paid dividend on equity shares. Therefore, it is implied that dividend was paid to the preference shareholders also.

Question 9.

COMPARATIVE STATEMENT OF PROFIT & LOSS
for the years ended 31st March, 2021 and 2020

Particulars	Note No.	31st March, 2021 ₹	31st March, 2020 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
		(A)	(B)	(C = B – A)	(D = C/B × 100)
I. Revenue from Operations		4,00,000	3,00,000	1,00,000	33.33
II. **Expenses**					
Cost of Material Consumed		2,00,000	1,50,000	50,000	33.33
Change in Inventories		25,000	(12,500)	37,500	300
Total		2,25,000	1,37,500	87,500	63.63
III. **Net Profit after Tax**		1,75,000	1,62,500	12,500	7.69

Question 10.

CASH FLOW FROM OPERATING ACTIVITIES

for the year ended 31st March, 2021

Particulars		₹
Net Profit before Tax (Note)		84,000
Add: Loss on Sale of Machinery (₹ 40,000 – ₹ 18,000 – ₹ 6,000)		16,000
Amortisation of Patents		10,000
Less: Profit on Sale of Vehicle		(3,000)
Operating Profit before Working Capital Changes		1,07,000
Change in Current Assets and Current Liabilities:		
Increase in Trade Receivables	(4,000)	
Decrease in Inventory	3,000	
Decrease in Trade Payable	(2,000)	(3,000)
Cash Flow from Operating Activities		1,04,000

Notes:

1. Net Profit before Tax = Net Profit after Tax + Tax provided

   = ₹ 80,000 + ₹ 4,000 = ₹ 84,000.

2. Preliminary Expenses are Operating Activities since they are neither Investing nor Financing Activities.
3. Previous year's amount of Provision for Tax is not given whereas amount for Current Year's Provision for Tax is given. Thus, the company has not paid tax during the year.

NOTES

Model Test Paper 1

Time Allowed: 1½ Hours | **Max. Marks: 40**

*(Candidates are allowed additional **10 minutes** for **only** reading the paper)*
Transactions should be recorded in the answer book.
All calculations should be shown clearly.
All working, including rough work, should be done on the same sheet as, and adjacent to, the rest of the answer.

***All** questions of **Section A** are **compulsory**.*
All** questions from **either Section B or Section C** are **compulsory
The intended marks for questions or parts of questions are given in the brackets [ ].

SECTION A – 26 MARKS

(*Answer **all** questions*)

Question 1.

Select the correct option for each of the following questions.

(i) Ayur Ltd. had issued on 1st April, 2017, 50,000, 9% Debentures of ₹ 100 each redeemable by draw of lots as under:

During the year ending on 31st March, 2019–20%
During the year ending on 31st March, 2020–25%
During the year ending on 31st March, 2021–15%
During the year ending on 31st March, 2022–40%

What should be the minimum investment or deposit by Ayur Ltd. for redemption on 31st March, 2021?

(a) ₹ 1,50,000 (b) ₹ 1,00,000
(c) ₹ 87,500 (d) ₹ 1,12,500 [1]

(ii) Xavier, Yusuf and Zaman were partners sharing profits in the ratio of 5 : 3 : 2. Xavier retired and Goodwill of the firm was valued at ₹ 1,50,000. Yusuf and Zaman decided to share future profits equally. Xavier's share of Goodwill be debited to Yusuf's and Zaman's Capital Account in the ratio of

(a) 1 : 1 (b) 2 : 3.
(c) 3 : 2. (d) None of these. [1]

(iii) Gama Ltd. issued 10,000, 10% Debentures of ₹ 100 each at a discount of 10% on 5th March, 2021. The entire amount is payable on application. Applications were received for 12,000 debentures. The allotment of debentures was made on 10th March, 2021. The amount which should be credited to 10% Debentures Account on 10th March, 2021 will be

(a) ₹ 12,00,000 (b) ₹ 10,80,000
(c) ₹ 9,00,000 (d) ₹ 10,00,000 [1]

(iv) Ramesh, Mahesh and Suresh are partners. The firm had given a loan of ₹ 50,000 to Mahesh. They decided to dissolve the firm. The loan will be settled by

(a) Transferring it to debit side of Realisation Account.

(b) Transferring it to credit side of Realisation Account.

(c) Transferring it to debit side of Mahesh's Capital Account.

(d) By debiting it to Cash Account. [1]

Question 2.

(i) What is meant by redemption of debentures in lump-sum? [1]

(ii) At the time of dissolution of firm, its Balance Sheet showed machinery of ₹ 51,000. Shivam, one of the partners agreed to take a part of machinery at ₹ 21,600 (being book value *less* 10%) and Kapil, another partner takes the remaining part at 90%. You are required to pass the Journal entry for the realisation of Machinery. [1]

Question 3.

Unix Ltd. a listed company (Non-NBFC or HFC), has 10,000, 8% Debentures of ₹ 100 each redeemable at a premium of 5%. In terms of issue of debentures, debentures were to be redeemed as under:

On 31st March, 2021	4,000 Debentures
On 31st March, 2022	6,000 Debentures

Pass the necessary Journal entries for redemption of debentures. [5]

Question 4.

(i) Mohit Ltd. took over assets of ₹ 8,40,000 and liabilities of ₹ 80,000 of Ram Ltd. at an agreed value of ₹ 7,20,000. Mohit Ltd. paid to Ram Ltd. by issue of 9% Debentures of ₹ 100 each at a premium of 20%. Pass the necessary Journal entries to record the above transactions in the books of Mohit Ltd. [2]

(ii) Aarti, Bharti, Kiran and Sahil are partners sharing profits and losses in the ratio of 3 : 3 : 2 : 2. Sahil retires and Aarti, Bharti and Kiran decide to share the future profits in the ratio of 3 : 2 : 1. Goodwill of the firm is valued at ₹ 3,00,000. Goodwill already exists in the books at ₹ 1,00,000. Profit for the first year after Sahil's retirement was ₹ 6,00,000.

Pass the necessary Journal entries to record Goodwill and to distribute the profits. [3]

Question 5.

(i) Arun, Karun and Varun are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Karun retires and Arun and Varun agree to share future profits and losses in the ratio of 3 : 5. At the time of retirement of Karun, Stock (Book Value ₹ 50,000) is to be reduced by 40% and furniture (Book Value ₹ 30,000) is to be reduced to 40%).

Pass the necessary Journal entries. [2]

(ii) Pass the necessary Journal entries for issue of 1,000, 7% Debentures of ₹ 100 each in the following cases:
   (a) Issued at 5% premium, redeemable at a premium of 10%:
   (b) Issued at a discount of 5%, redeemable at par.
   (c) Issued at par, redeemable at par. [3]

Question 6.

Anju, Manju and Sanju who were sharing profits in the ratio 2 : 2 : 1 decided to dissolve the firm on 31st March, 2021 when their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Creditors		1,60,000	Building	1,50,000
Bills Payable		55,000	Furniture	10,000
Bank Overdraft		15,000	Computer	25,000
Commission Received in Advance		8,000	Investment (Market Value ₹ 55,000)	60,000
Capital A/cs:			Debtors	75,000
Anju	80,000		Stock	50,000
Manju	80,000		Loan to Sanju	1,00,000
Sanju	80,000	2,40,000	Profit & Loss A/c	8,000
		4,78,000		4,78,000

The firm was dissolved on the above date on the following terms:

(i) Debtors realised ₹ 50,000; Stock ₹ 20,000; Building ₹ 99,700.
(ii) Firm had an unrecorded asset which realised ₹ 50,000 and also an unrecorded liability of ₹ 75,000.
(iii) Commission received in advance was returned to the customer after deducting ₹ 3,000.
(iv) Creditors of ₹ 60,000 accepted investment at book value. Remaining creditors were paid by cheque.
(v) Anju was to get ₹ 2,700 as remuneration for completing the dissolution work and was to bear the realisation expenses. The expenses of realisation ₹ 1,700 were paid by Anju.

You are required to prepare the Realisation Account. [5]

SECTION B – 14 MARKS

(*Answer **all** questions*)

Question 7.

Select the correct option in the following question.

(i) Main objective of analysis of financial statements is
   (a) to determine short-term and long-term solvency of the enterprise.
   (b) to determine profitability of the enterprise.
   (c) to determine operating efficiency with which resources are utilised in generating revenue.
   (d) All of the above. [1]

(ii) State with reason whether declaration of Final Dividend would result in *inflow*, *outflow* or *no flow* of Cash and Cash Equivalents. [1]

Question 8.

From the following extracts of a company's Balance Sheet and the additional information, you are required to calculate Cash Flow from Operating Activities and Investing Activities for the year ending 31st March, 2021:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Surplus, *i.e.*, Balance in Statement of Profit & Loss	4,00,000	1,00,000
Provision for Tax	30,000	30,000
Trade Payables	1,50,000	40,000
Current Assets (Inventories & Trade Receivables)	5,20,000	4,60,000
Fixed Assets	9,32,000	8,50,000
Accumulated Depreciation	4,40,000	4,25,000

Additional Information:

(i) Depreciation amounting to ₹ 1,45,000 was provided during the current year and a machine costing ₹ 2,10,000 was sold at a profit of ₹ 16,000.

(ii) Tax paid during the year was ₹ 30,000. [5]

Question 9.

From the following information, prepare Comparative Balance Sheet of HMSC Ltd.:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Shareholders' Funds	44,40,000	24,00,000
Non-Current Liabilities	12,00,000	12,00,000
Current Liabilities	3,60,000	4,00,000
Non-Current Assets	50,40,000	28,00,000
Current Assets	9,60,000	12,00,000

[2]

Question 10.

Cash Flow from Operating Activities of Starline Ltd. for the year ended 31st March, 2021 was ₹ 28,900. The Balance Sheet along with Notes to Accounts of Starline Ltd. as at 31st March, 2021 is given below:

Starline Ltd.

BALANCE SHEET *as at 31st March, 2021*

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		3,50,000	3,00,000
(b) Reserves and Surplus	1	2,20,000	1,60,000
2. Non-Current Liabilities			
Long-term Borrowings	2	2,50,000	1,50,000
3. Current Liabilities			
Trade Payables		1,25,000	85,000
Total		9,45,000	6,95,000

II. ASSETS			
1. Non-Current Assets			
(a) *Fixed Assets:*			
(i) Tangible Assets (Machinery)		4,10,000	3,20,000
(ii) Intangible Assets (Goodwill)		80,000	1,00,000
(b) Non-Current Investments	3	80,000	30,000
2. Current Assets			
(a) Inventories		55,000	40,000
(b) Trade Receivables		1,90,000	80,000
(c) Cash and Bank Balances		1,30,000	1,25,000
Total		9,45,000	6,95,000

Notes to Accounts

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
1. Reserves and Surplus		
General Reserve	1,45,000	1,00,000
Surplus, *i.e.*, Balance in Statement of Profit & Loss	75,000	60,000
	2,20,000	1,60,000
2. Long-term Borrowings		
11% Debentures	2,50,000	1,50,000
3. Non-Current Investments		
12% Investments	80,000	30,000

Additional Information:

(i) Investments costing ₹ 36,000 were sold for ₹ 30,000 during the year ended 31st March, 2021.

(ii) New debentures have been issued at the end of the current accounting year at a discount of 5%, which was written off from Statement of Profit & Loss.

(iii) New investment have been purchased at the end of Current Year.

(iv) Depreciation charged on machinery during the year was ₹ 10,000.

Prepare Cash Flow Statement. [5]

ANSWERS

SECTION A

Question 1.

(i) (d) (ii) (b) (iii) (d) (iv) (c)

Working Note:

(ii) Gain of a Partner = New Profit Share – Old Profit Share

$$\text{Yusuf's Gain} = \frac{1}{2} - \frac{3}{10} = \frac{5-3}{10} = \frac{2}{10}$$

$$\text{Zaman's Gain} = \frac{1}{2} - \frac{2}{10} = \frac{5-2}{10} = \frac{3}{10}$$

$$\text{Gaining Ratio of Yusuf and Zaman} = \frac{2}{10} : \frac{3}{10} \text{ or } 2 : 3.$$

Question 2.

(i) Redemption of debentures in lumpsum means payment of total debenture debt at one time on the due date (*i.e.*, at maturity) or even before the expiry of the specified period, if company is authorised by the terms of issue.

(ii) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Shivam's Capital A/c	...Dr.		21,600	
	Kapil's Capital A/c (WN)	...Dr.		24,300	
	To Realisation A/c				45,900
	(Being the machinery realised)				

Working Notes:

		₹
(a)	Book Value of Machinery taken by Shivam $\left(\frac{₹\,21{,}600 \times 100}{90}\right)$	24,000
(b)	Total Value of Machinery	51,000
	Less: Taken by Shivam	24,000
	Balance Machinery Taken by Kapil	27,000
	Value at which Machinery taken by Kapil (90% of ₹ 27,000)	24,300

Question 3.

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Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020						
April	1	Debentures Redemption Investment A/c (WN 1)	...Dr.		60,000	
		To Bank A/c				60,000
		(Being investment made in specified securities)				

2021 March 31	8% Debentures A/c ...Dr.		4,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		20,000	
	To Debentureholders' A/c			4,20,000
	(Being 4,000; 8% Debenture due for redemption)			
	Debentureholders' A/c ...Dr.		4,20,000	
	To Bank A/c			4,20,000
	(Being the amount paid)			
April 1	Debentures Redemption Investment A/c (WN 3) ...Dr.		30,000	
	To Bank A/c			30,000
	(Being further amount invested in Debentures Redemption Investment)			
2022 March 31	Bank A/c ...Dr.		90,000	
	To Debenture Redemption Investment A/c			90,000
	(Being the investment realised)			
	8% Debentures A/c ...Dr.		6,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		30,000	
	To Debentureholders' A/c			6,30,000
	(Being 6,000, 8% Debentures due for redemption)			
	Debentureholders' A/c ...Dr.		6,30,000	
	To Bank A/c			6,30,000
	(Being the amount due paid)			

Working Notes:

1. Debentures Redemption Reserve is not required to be created by a listed company.
2. ₹ 60,000 (*i.e.*, 15% of ₹ 4,00,000) was invested in Debentures Redemption Investment (DRI).
3. ₹ 30,000 is further invested in Debentures Redemption Investment (DRI) on 1st April, 2021 so that total DRI is ₹ 90,000 (*i.e.*, 15% of ₹ 6,00,000).

Question 4.

(i) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets ...Dr.		8,40,000	
	To Sundry Liabilities			80,000
	To Ram Ltd.			7,20,000
	To Capital Reserve A/c (Bal. Fig.)			**40,000**
	(Being the purchase of Business from Ram Ltd.)			
	Ram Ltd. ...Dr.		7,20,000	
	To 9% Debentures A/c			6,00,000
	To Securities Premium Reserve A/c			1,20,000
	(Being the issue of 6,000 Debentures at 20% premium)			

Note: No. of Debentures to be issued = $\frac{₹\,7,20,000}{₹\,120}$ = 6,000.

(ii) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Aarti's Capital A/c	...Dr.		30,000	
	Bharti's Capital A/c	...Dr.		30,000	
	Kiran's Capital A/c	...Dr.		20,000	
	Sahil's Capital A/c	...Dr.		20,000	
	To Goodwill A/c				1,00,000
	(Being the existing goodwill written-off in old profit-sharing ratio)				
	Aarti's Capital A/c (₹ 3,00,000 × 12/60)	...Dr.		60,000	
	Bharti's Capital A/c (₹ 3,00,000 × 2/60)	...Dr.		10,000	
	To Kiran's Capital A/c (₹ 3,00,000 × 2/60)				10,000
	To Sahil's Capital A/c (₹ 3,00,000 × 2/10)				60,000
	(Being the adjustment for goodwill in Gaining Ratio of continuing Partners; Kiran has sacrificed along with Sahil) (WN)				
	Profit & Loss Appropriation A/c	...Dr.		6,00,000	
	To Aarti's Capital A/c (₹ 6,00,000 × 3/6)				3,00,000
	To Bharti's Capital A/c (₹ 6,00,000 × 2/6)				2,00,000
	To Kiran's Capital A/c (₹ 6,00,000 × 1/6)				1,00,000
	(Being the profit distributed among partners in their new profit sharing ratio)				

Working Note: *Calculation of Gaining Ratio:*

Gain of a Partner = New Profit Share – Old Profit Share

$$\text{Aarti} = \frac{3}{6} - \frac{3}{10} = \frac{30-18}{60} = \frac{12}{60}\text{ (Gain)}$$

$$\text{Bharti} = \frac{2}{6} - \frac{3}{10} = \frac{20-18}{60} = \frac{2}{60}\text{ (Gain)}$$

$$\text{Kiran} = \frac{1}{6} - \frac{2}{10} = \frac{10-12}{60} = \left(\frac{2}{60}\right)\text{(sacrifice)}.$$

Question 5.

(i) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c	...Dr.		38,000	
	To Stock A/c				20,000
	To Furniture A/c				18,000
	(Being the decrease in value of assets recorded)				
	Arun's Capital A/c	...Dr.		19,000	
	Karun's Capital A/c	...Dr.		11,400	
	Varun's Capital A/c	...Dr.		7,600	
	To Revaluation A/c				38,000
	(Being the Loss on Revaluation transferred to partners' Capital Accounts in their old profit sharing ratio)				

(ii) (a) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,05,000	
	To Debentures Application and Allotment A/c				1,05,000
	(Being the Debenture Application Money received)				

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Debentures Application & Allotment A/c ...Dr.		1,05,000	
	Loss on Issue of Debentures A/c ...Dr.		10,000	
	To 7% Debentures A/c			1,00,000
	To Securities Premium Reserve A/c			5,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being the issue of 1,000, 7% Debentures of ₹ 100 each at a premium of 5% and redeemable at a premium of 10%)			

(b) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		95,000	
	To Debentures Application & Allotment A/c			95,000
	(Being the Application money received)			
	Debentures Application & Allotment A/c ...Dr.		95,000	
	Discount on Issue of Debentures A/c ...Dr.		5,000	
	To 7% Debentures A/c			1,00,000
	(Being the issue of 1,000, 7% Debentures of ₹ 100 each at a discount of 5%)			

(c) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		1,00,000	
	To Debentures Application & Allotment A/c			1,00,000
	(Being the application money received)			
	Debentures Application & Allotment A/c ...Dr.		1,00,000	
	To 7% Debentures A/c			1,00,000
	(Being the issue of 1,000, 7% Debentures of ₹ 100 each at par)			

Question 6.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Building A/c	1,50,000		Creditors A/c	1,60,000	
Furniture A/c	10,000		Bills Payable A/c	55,000	
Computer A/c	25,000		Commission Received in Advance	8,000	2,23,000
Investment	60,000		By Bank A/c (Assets Realised):		
Debtors A/c	75,000		Debtors	50,000	
Stock A/c	50,000	3,70,000	Stock	20,000	
To Bank A/c (Liabilities Paid):			Building	99,700	
Creditors	1,00,000		Unrecorded Asset	50,000	2,19,700
Bills Payable	55,000		By Loss on Realisation transferred to:		
Unrecorded Liability	75,000		Anju's Capital A/c	66,000	
Commission Received			Manju's Capital A/c	66,000	
in Advance	5,000	2,35,000	Sanju's Capital A/c	33,000	1,65,000
To Anju's Capital A/c		2,700			
(Remuneration)					
		6,07,700			6,07,700

Notes: 1. Furniture and Computer have not realised any amount.
2. Loan to Sanju is transferred (debited) to her Capital Account.
3. Bank Overdraft is to be taken to Bank/Cash Account and not to be transferred to Realisation Account.
4. Creditors of ₹ 60,000 accepted investment. No entry will be passed for transfer of asset. However, cheque given to remaining creditors of ₹ 1,00,000 (*i.e.*, ₹ 1,60,000 – ₹ 60,000) will be recorded as a payment.

SECTION B

Question 7.

(i) (d)

(ii) It will result in *Outflow* of Cash and Cash Equivalents because it has to be paid within 30 days of declaration.

Question 8.

CALCULATION OF CASH FLOW FROM OPERATING ACTIVITIES AND INVESTING ACTIVITIES
for the year ended 31st March, 2021

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		3,30,000
Add: Depreciation		1,45,000
Less: Profit on Sale of Machinery		(16,000)
Operating Profit before Working Capital Change		4,59,000
Change in Current Assets & Current Liabilities:		
Increase in Current Assets	(60,000)	
Increase in Trade Payables	1,10,000	50,000
Cash Flow from Operating Activities before Tax		5,09,000
Less: Tax paid		30,000
Cash Flow from Operating Activities		4,79,000
II. Cash Flow from Investing Activities		
Proceeds from Sale of Machinery		96,000
Purchase of Fixed Assets		(2,92,000)
Cash Used in Investing Activities		1,96,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

Closing Balance of Surplus, *i.e.*, Balance of Statement of Profit & Loss	4,00,000
Less: Opening Balance of Surplus, *i.e.*, Balance of Statement of Profit & Loss	1,00,000
	3,00,000
Add: Provision for Tax during the year	30,000
Net Profit before Tax	3,30,000

2. *Dr.* FIXED ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	8,50,000	By Accumulated Depreciation A/c	1,30,000
To Statement of Profit & Loss (Profit on Sale)	16,000	By Bank A/c (Sale)	96,000*
To Bank A/c (Purchase) (Bal. Fig.)	2,92,000	By Balance *c/d*	9,32,000
	11,58,000		11,58,000

Dr. ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Fixed Assets A/c (Bal. Fig.)	1,30,000	By Balance *b/d*	4,25,000
To Balance *c/d*	4,40,000	By Statement of Profit & Loss (Depreciation)	1,45,000
	5,70,000		5,70,000

****Sale of Machine** = ₹ 2,10,000 (Cost) – ₹ 1,30,000 (Accumulated Depreciation) + ₹ 16,000 (Profit on Sale)
= ₹ **96,000**.

Question 9.

HMSC Ltd.
COMPARATIVE BALANCE SHEET *as at 31st March, 2021*

Particulars	Note No.	31st March, 2021 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease (₹)	Percentage Change (Increase/ Decrease) (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		44,40,000	24,00,000	20,40,000	85
2. Non-current Liabilities		12,00,000	12,00,000	...	...
3. Current Liabilities		3,60,000	4,00,000	(40,000)	(10)
Total		60,00,000	40,00,000	20,00,000	50
II. ASSETS					
1. Non-Current Assets		50,40,000	28,00,000	22,40,000	80
2. Current Assets		9,60,000	12,00,000	(2,40,000)	(20)
Total		60,00,000	40,00,000	20,00,000	50

Question 10.

CASH FLOW STATEMENT
for the year ended 31st March, 2021

Particulars		₹
I. Cash Flow from Operating Activities (Given)		28,900
II. Cash Flow from Investing Activities		
Purchase of Machinery (WN 1)	(1,00,000)	
Purchase of Investments (WN 2)	(86,000)	
Proceeds from Sale of Investments	30,000	
Interest on Investments Received (₹ 30,000 × 12/100)	3,600	
Cash Used in Investing Activities		(1,52,400)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	50,000	
Proceeds from Issue of Debentures [₹ 1,00,000 – ₹ 5,000 (Discount)]	95,000	
Interest on Debentures	(16,500)	
Cash Flow from Financing Activities		1,28,500
IV. Net Increase in Cash and Bank Balances (I + II + III)		5,000
V. *Add:* Cash and Bank Balances in the beginning of the year		1,25,000
VI. Cash and Bank Balances at the end of the year (IV + V)		1,30,000

Working Notes:

1. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	3,20,000	By Depreciation A/c	10,000
To Bank A/c (Balancing Figure) (Purchase)	**1,00,000**	By Balance *c/d*	4,10,000
	4,20,000		4,20,000

2. *Dr.* 12% INVESTMENT ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	30,000	By Bank A/c (Sale)	30,000
To Bank A/c (Balancing Figure) (Purchase)	**86,000**	By Loss on Sale of Investment A/c (Statement of Profit & Loss)	6,000
		By Balance *c/d*	80,000
	1,16,000		1,16,000

Model Test Paper 2

Time Allowed: 1½ Hours **Max. Marks: 40**

General Instructions:

As per Model Test Paper 1

SECTION A—26 MARKS

(*Answer **all** questions*)

Question 1.

Select the correct option for each of the following questions:

(i) Cypress Ltd. issued ₹ 1,00,000, 9% Debentures of ₹ 100 each @ 94% on 1st April, 2016 redeemable by 5 equal annual drawings of ₹ 20,000 each. Calculate the amount of discount to be written off each year if the redemption commences from 31st March, 2018:

(a) ₹ 2,000, ₹ 1,600, ₹ 1,200, ₹ 800, ₹ 400.

(b) ₹ 1,500, ₹ 1,500, ₹ 1,200, ₹ 900, ₹ 600, ₹ 300.

(c) ₹ 1,200, ₹ 1,200, ₹ 1,200, ₹ 960, ₹ 720, ₹ 480, ₹ 240.

(d) ₹ 1,600, ₹ 1,520, ₹ 1,200, ₹ 880, ₹ 560, ₹ 240. [1]

(ii) Bailley Ltd. is to redeem its outstanding 7,000, 10% Debentures of ₹ 100 each as follows:

On 30th September, 2020 — 2,000 Debentures;

On 30th September, 2021 — 3,000 Debentures; and

On 30th September, 2022 — Balance Debentures.

Which of the following statement is correct with respect to investment in specified securities?

(a) It will invest ₹ 30,000 in specified securities on or before 30th April, 2020 and realise them on 30th September, 2020.

(b) It will invest ₹ 30,000 in specified securities on or before 30th April, 2021, and realise them on 30th September, 2021.

(c) It will invest ₹ 30,000 in specified securities on or before 30th April, 2020, realise them on or before 30th September, 2020 and again invest ₹ 45,000 in specified securities on or before 30th April, 2021 to be realised on 30th September, 2021. It will again invest ₹ 30,000 in specified securities on or before 30th April, 2022 to be realised on 30th September, 2022.

(d) It will invest ₹ 30,000 in specified securities on or before 30th April, 2020, further invest ₹ 15,000 in specified securities on or before 30th April, 2021 and realise ₹ 15,000 investment at the time of redemption on 30th September, 2021. Balance investment of ₹ 30,000 will be realised at the time of redemption on 30th September, 2022. [1]

(iii) Riyansh, Garv and Kavleen are partners with capitals of ₹ 1,00,000, ₹ 75,000 and ₹ 50,000 respectively. On Kavleen's retirement, his share is acquired by Riyansh and Garv in the ratio of 6 : 4. Gaining Ratio will be

(a) 3 : 2. (b) 2 : 2.

(c) 2 : 3. (d) None of these. [1]

(iv) Ashok, Babu and Chetan are partners in a firm. Ashok had given a loan of ₹ 1,00,000 to the firm. How will Ashok's Loan Account be closed in the event of dissolution of firm?

(a) By crediting it to Ashok's Capital Account.

(b) By debiting it to Ashok's Capital Account.

(c) By crediting it to Cash or Bank Account.

(d) By crediting it to Realisation Account. [1]

Question 2.

(i) When is the balance of Debenture Redemption Reserve transferred to General Reserve? [1]

(ii) On dissolution of partnership firm, machinery was debited to Realisation Account at ₹ 5,00,000 and Provision for Depreciation was credited to Realisation Account at ₹ 75,000. Out of the total machinery, 70% of the machinery was taken by Rahul, a partner, at a value of 80% and remaining machinery was sold at 90% *less* 5% selling commission. Record the necessary Journal entries to give effect to the realisation of machinery. [1]

Question 3.

On 1st April, 2019, Shiva Private Ltd., an unlisted (Non-NBFC or HFC) company, issued 2,000, 9% Debentures of ₹ 100 each at a discount of 10%, redeemable at par on 31st March, 2022.

It is the policy of the company to write off capital losses in the year in which they occur.

You are required to pass necessary Journal entries for issue and redemption of debentures (ignore interest on debentures). [5]

Question 4.

(i) Tushar Ltd. offered 20,000, 8% Debentures of ₹ 100 each at a premium of 10% redeemable after three years at a premium of 20%. The issue price of the debentures was payable as follows:

On Application ₹ 20 (1st January, 2021)

On Allotment ₹ 40 (including premium) (1st April, 2021)

On First call ₹ 30 (1st June, 2021)

On Second and final call ₹ 20 (1st August, 2021)

Applications were received for 18,000 debentures and the directors made allotment.

One debentureholder to whom 400 debentures were allotted paid the total balance amount on his debentures along with allotment money. According to the Articles of Association of company, interest @ 10% p.a. is payable by the company on Call-in-Advance.

You are required to pass Journal entries in the books of Tushar Ltd. to record:

(a) The adjustment and payment of interest on Calls-in-Advance.

(b) The entry to close the interest on Call-in-Advance Account. [2]

(ii) Parth, Angad and Leesha are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1 respectively. Angad retires and his claim, including his Capital and entitlements from the firm including his share of Goodwill of the firm, is ₹ 50,000.

After this amount was determined, it was detected that there was an unrecorded furniture valued at ₹ 12,000 which had to be recorded.

Upon recording this furniture, the revised amount due to Angad was determined and settled by giving him this furniture and the balance by cheque.

You are required to give the Journal entries for recording the payment to Angad in the books of the firm. [3]

Question 5.

(i) Lisa, Monika and Nisha are equal partners. Nisha retired from the firm on 1st April, 2021 and remaining partners decided to share future profits in the ratio of 3 : 2. Remaining partners also decide to show the following accumulated profits, losses or reserves in the Balance Sheet of reconstituted firm at their original value:

	₹
General Reserve	2,60,000
Contingency Reserve	3,20,000
Profit & Loss A/c (Dr.)	1,10,000
Advertisement Suspense Account	20,000

You are required to pass an 'Adjustment entry' for the treatment of accumulated profits, losses and reserves. [2]

(ii) *BG* Ltd. issued 15,000, 10% Debentures of ₹ 100 each on 1st April, 2020. The issue was fully subscribed. According to the terms of issue, interest is payable on half-yearly basis.

You are required to pass Journal entries for interest on debentures for the year ended 31st March, 2021. [3]

Question 6.

Verma and Sharma were partners sharing profits in the ratio of 3 : 1. On 31st March, 2021 their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Verma's Capital	1,20,000	Building	70,000
Sharma's Capital	80,000	Machinery	60,000
Creditors	70,000	Debtors	80,000
		Bank	60,000
	2,70,000		2,70,000

The firm was dissolved and the assets and liabilities were settled as follows:

(i) Creditors of ₹ 50,000 took Land and Building in full settlement of their claim. Remaining creditors were paid in cash.

(ii) Machinery was sold at 30% *less*. Debtors were collected incurring an expense of ₹ 500.

(iii) Expenses of realisation were ₹ 1,700.

You are required to prepare Realisation Account, Partners' Capital Accounts and Bank Account. [5]

SECTION B—14 MARKS

(*Answer **all** questions*)

Question 7.

Select the correct option in the following question:

(i) While preparing Common-size Balance Sheet, each item of Balance Sheet is expressed as % of:

(a) Non-current Assets. (b) Current Assets.

(c) Non-current Liabilities. (d) Total Assets. [1]

(ii) State with reason whether Sale of Marketable Securities at par would result in *inflow*, *outflow* or *no flow* of Cash and Cash Equivalents. [1]

Question 8.

From the following extracts of a company's Balance Sheet and the additional information, you are required to calculate Cash from Financing Activities for the year ending 31st March, 2021:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Equity Share Capital	45,00,000	35,00,000
12% Preference Share Capital	15,00,000	25,00,000
Securities Premium Reserve	6,25,000	5,00,000
12% Debentures	20,00,000	15,00,000
Cash Credit	7,50,000	6,25,000
Interest on Cash Credit	1,00,000	50,000

Additional Information:

(i) Interim dividend on Equity Shares @ 15% was paid on 1st January, 2021.

(ii) Dividend on Preference Shares was paid.

(iii) Preference Shares were redeemed at par on the last date of current year.

(iv) New shares and debentures were issued on 31st March, 2021.

(v) Share Issue Expenses amounting to ₹ 75,000 were debited to, *i.e.*, written off from Securities Premium Reserve.

Calculate Cash Flow from Financing Activities. [5]

Question 9.

You are required to prepare Common-size Statement of Profit & Loss from the following particulars of Jupiter Ltd.

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Revenue from Operations	20,00,000	16,00,000
Employees Benefit Expenses	10,00,000	8,00,000
Other Expenses	1,00,000	2,00,000

[2]

Question 10.

From the following extracts of company's Balance Sheet, and additional information, you are required to calculate Cash Flow from Operating Activities for the year ending 31st March, 2021:

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Trade Receivables	20,000	17,000
Inventories	18,000	15,000
Trade Payables	43,000	35,000
Prepaid Expenses	3,000	2,000
Outstanding Expenses	4,000	3,000

Additional Information:

Company reported a profit of ₹ 50,000 for the year ended 31st March, 2021, after considering the following:

	₹
Transfer to General Reserve during the year	10,000
Depreciation provided during the year	20,000
Profit on Sale of Furniture	5,000
Loss on Sale of Machine	10,000
Preliminary expenses written off during the year	10,000
Tax provided during the year	20,000
Tax paid during the year	40,000

The company proposed dividend of ₹ 36,000 and ₹ 40,000 for the year ended 31st March, 2020 and 2021. [5]

ANSWERS

SECTION A

Question 1.

(i) (b) (ii) (d) (iii) (a) (iv) (c)

Working Note:

(i) Discount on Issue of Debentures = ₹ 1,00,000 × 6/100 = ₹ 6,000.

CALCULATION OF AMOUNT OF DISCOUNT TO BE WRITTEN OFF

Year ending on	*Debentures Outstanding (₹)*	*Rate*	*Discount to be Written off (₹)*		
31st March, 2017, 1st Year	1,00,000	5	6,000 × 5/20	=	1,500
31st March, 2018, 2nd Year	1,00,000	5	6,000 × 5/20	=	1,500
31st March, 2019, 3rd Year	80,000	4	6,000 × 4/20	=	1,200
31st March, 2020, 4th Year	60,000	3	6,000 × 3/20	=	900
31st March, 2021, 5th Year	40,000	2	6,000 × 2/20	=	600
31st March, 2022, 6th Year	20,000	1	6,000 × 1/20	=	300
		20			6,000

(ii) The entire Debenture Redemption Investment (DRI) purchased for the redemption of the instalment of debentures is not sold at the end of the year but sold/further purchased to the extent to maintain 15% of the face value of the debentures to be redeemed in the next instalment.

Question 2.

(i) Debenture Redemption Reserve (DRR) is transferred to General Reserve in proportion to the debentures redeemed.

(ii) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Rahul's Capital A/c [(₹ 5,00,000 × 70/100) × 80/100] ...Dr.		2,80,000	
	Bank A/c [(₹ 5,00,000 × 30/100) × 90/100 = ₹ 1,35,000 – 5% of ₹ 1,35,000] ...Dr.		1,35,000	
	To Realisation A/c			4,15,000
	(Being the machinery of book value of ₹ 3,50,000 taken by Rahul at 80% and balance sold at 90% of book value)			
	Realisation A/c ...Dr.		6,750	
	To Bank A/c			6,750
	(Being the commission paid @ 5% of ₹ 1,35,000)			

Question 3.

JOURNAL OF SHIVA PRIVATE LTD.

Date		Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019					
April	1	Bank A/c ...Dr.		1,80,000	
		To Debentures Application and Allotment A/c			1,80,000
		(Being the application money received)			
April	1	Debentures Application and Allotment A/c ...Dr.		1,80,000	
		Discount on Issue of Debentures A/c ...Dr.		20,000	
		To 9% Debentures A/c			2,00,000
		(Being the issue of 2,000; 9% Debentures of ₹ 100 each at 10% discount)			

2020 March 31	Statement of Profit & Loss ...Dr.		20,000	
	To Discount on Issue of Debentures A/c			20,000
	(Being the amount written off from Statement of Profit & Loss)			
2021 March 31	Surplus, *i.e.*, Balance in Statement of Profit & Loss A/c ...Dr.		20,000	
	To Debenture Redemption Reserve (DRR) A/c			20,000
	[Being the DRR created as per Rule 18(7)]			
April 1	Debentures Redemption Investment A/c ...Dr.		30,000	
	To Bank A/c			30,000
	(Being the amount invested in government securities being 15% of ₹ 2,00,000)			
2022 March 31	Bank A/c ...Dr.		30,000	
	To Debentures Redemption Investment A/c			30,000
	(Being the investment realised)			
March 31	9% Debentures A/c ...Dr.		2,00,000	
	To Debentureholders' A/c			2,00,000
	(Being the amount due to debentureholders)			
March 31	Debentureholders' A/c ...Dr.		2,00,000	
	To Bank A/c			2,00,000
	(Being the amount paid to debentureholders)			
March 31	Debenture Redemption Reserve A/c ...Dr.		20,000	
	To General Reserve A/c			20,000
	(Being the DRR amount transferred to General Reserve)			

Question 4.

(i) *Calculation of Interest on Calls-in-Advance:*

On ₹ 12,000 (*i.e.*, 400 × ₹ 30) for 2 months @ 10% p.a. (₹ 12,000 × 2/12 × 10/100) = ₹ 200

On ₹ 8,000 (*i.e.*, 400 × ₹ 20) for 4 months @ 10% p.a. (₹ 8,000 × 4/12 × 10/100) = ₹ 267

₹ 467

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 August 1	Interest on Calls-in-Advance A/c ...Dr.		467	
	To Sundry Debentureholders A/c			467
	(Being the interest due on Calls-in-Advance credited to Sundry debentureholders)			
	Sundry Debentureholders A/c ...Dr.		467	
	To Bank A/c			467
	(Being the interest on Call-in-Advance paid)			
2022 March 31	Statement of Profit & Loss ...Dr.		467	
	To Interest on Calls-in-Advance A/c			467
	(Being the interest on Calls-in-Advance transferred to Statement of Profit & Loss)			

(ii) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Furniture A/c	...Dr.		12,000	
	To Revaluation A/c				12,000
	(Being the unrecorded furniture recorded)				
	Revaluation A/c	...Dr.		12,000	
	To Parth's Capital A/c				6,000
	To Angad's Capital A/c				4,000
	To Leesha's Capital A/c				2,000
	(Being the gain on revaluation distributed among partners)				
	Angad's Capital A/c	...Dr.		54,000	
	To Bank A/c				42,000
	To Furniture A/c				12,000
	(Being Angad's account settled by giving cheque along with furniture)				

Question 5.

(i) CALCULATION OF NET EFFECT OF ACCUMULATED PROFITS, LOSSES AND RESERVES

Particulars	₹
General Reserve	2,60,000
Contingency Reserve	3,20,000
Less: Profit & Loss A/c	(1,10,000)
Less: Advertisement Suspense A/c	(20,000)
Net Effect	4,50,000

CALCULATION OF SACRIFICE AND GAIN

Particulars	Lisa	Monika	Nisha
New Profit Share	3/5	2/5	...
Old Profit Share	1/3	1/3	1/3
Difference (New Share – Old Share)	$\frac{3}{5}-\frac{1}{3}=\frac{4}{15}$ (Gain)	$\frac{2}{5}-\frac{1}{3}=\frac{1}{15}$ (Gain)	$0-\frac{1}{3}=\frac{-1}{3}$ or $\frac{-5}{15}$ (Sacrifice)

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Lisa's Capital A/c (₹ 4,50,000 × 4/15)	...Dr.		1,20,000	
	Monika's Capital A/c (₹ 4,50,000 × 1/15)	...Dr.		30,000	
	To Nisha's Capital A/c (₹ 4,50,000 × 5/15)				1,50,000
	(Being the adjustment made for accumulated profits, losses and reserve on Nisha's retirement)				

(ii) JOURNAL OF *BG* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
Sept. 30	Debenture's Interest A/c ...Dr.		75,000	
	To Debentureholders' A/c			75,000
	(Being the interest on debentures payable for the half-year ended 30th September, 2020)			
	Debentureholders' A/c ...Dr.		75,000	
	To Bank A/c			75,000
	(Being the interest paid to debentureholders)			
2021				
March 31	Debentures' Interest A/c ...Dr.		75,000	
	To Debentureholders' A/c			75,000
	(Being the interest on debentures payable for the half-year ended 31st March, 2021)			
March 31	Statement of Profit & Loss (Finance cost) ...Dr.		1,50,000	
	To Debentures' Interest A/c			1,50,000
	(Being the interest on debentures transferred to Statement of Profit & Loss)			

Note: Entry for payment is not passed assuming that it is not yet paid and will be paid in the next year.

Alternatively, if the interest is paid on 31st March, 2021, the entry will be:

March 31	Debentureholders' A/c ...Dr.	₹ 75,000	
	To Bank A/c		₹ 75,000
	(Being the interest paid to debentureholders)		

Question 6.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Creditors		70,000
Building	70,000		By Bank A/c (Assets):		
Machinery	60,000		Machinery (₹ 60,000 – ₹ 18,000)	42,000	
Debtors	80,000	2,10,000	Debtors (₹ 80,000 – ₹ 500)	79,500	1,21,500
To Bank A/c (Creditors)		20,000	By Loss transferred to:		
(₹ 70,000 – ₹ 50,000)			Verma's Capital A/c	30,150	
To Bank A/c (Expenses)		1,700	Sharma's Capital A/c	10,050	40,200
		2,31,700			2,31,700

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Verma ₹	Sharma ₹	Particulars	Verma ₹	Sharma ₹
To Realisation A/c (Loss)	30,150	10,050	By Balance *b/d*	1,20,000	80,000
To Bank A/c (Final payment)	89,850	69,950			
	1,20,000	80,000		1,20,000	80,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	60,000	By Realisation A/c (Creditors)	20,000
To Realisation A/c (Assets Realised)	1,21,500	By Realisation A/c (Expenses)	1,700
		By Verma's Capital A/c (Final Payment)	89,850
		By Sharma's Capital A/c (Final Payment)	69,950
	1,81,500		1,81,500

SECTION B

Question 7.

(i) (d)

(ii) No Flow.

Reason: Sale of Marketable Securities at par is movement between items of Cash and Cash Equivalents.

Question 8.

CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Proceeds from Issue of Equity Shares	10,00,000
Securities Premium (Note 1)	2,00,000
Share Issue Expenses	(75,000)
Redemption of 12% Preference Shares	(10,00,000)
Proceeds from Issue of 12% Debentures	5,00,000
Interest on 12% Debentures	(1,80,000)
Interest on Cash Credit (Note 2)	(1,00,000)
Increase in Cash Credit	1,25,000
Interim dividend on Equity Shares (15% on ₹ 35,00,000)	(5,25,000)
Dividend on Preference Shares (12% on ₹ 25,00,000)	(3,00,000)
Cash Used in Investing Activities	(3,55,000)

Notes:

1. Share Issue Expenses are written off from Securities Premium Reserve.

Dr. SECURITIES PREMIUM RESERVE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Share Issue Expenses A/c	75,000	By Balance *b/d*	5,00,000
To Balance *c/d*	6,25,000	By Equity Share Application and Allotment A/c (Balancing Figure)	2,00,000
	7,00,000		7,00,000

2. Interest on cash credit is debited by bank to the account on 31st March. It means interest for the year is paid in that year itself. Hence, interest on cash credit is outflow for that year itself.

Question 9.

Jupiter Ltd.

COMMON-SIZE STATEMENT OF PROFIT & LOSS *for the years ended 31st March, 2021 and 2020*

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		31st March, 2021 (₹)	31st March, 2020 (₹)	31st March, 2021 (%)	31st March, 2020 (%)
I. Revenue from Operations		20,00,000	16,00,000	100.00	100.00
II. **Expenses**					
Employees Benefit Expenses		10,00,000	8,00,000	50.00	50
Other Expenses		1,00,000	2,00,000	5.00	12.5
Total Expenses		11,00,000	10,00,000	55.00	62.5
III. **Profit before Tax (I – II)**		9,00,000	6,00,000	45.00	37.5

Question 10.

CASH FLOW FROM OPERATING ACTIVITIES

Particulars		₹
Net Profit before Tax (Note 1)		1,16,000
Adjustment for Non-cash and Non-operating Items:		
Depreciation		20,000
Loss on Sale of Machine		10,000
Profit on Sale of Furniture		(5,000)
Operating Profit before Working Capital Change		1,41,000
Change in Current Assets and Current Liabilities:		
Increase in Trade Receivables	(3,000)	
Increase in Inventories	(3,000)	
Increase in Trade Payables	8,000	
Increase in Prepaid Expenses	(1,000)	
Increase in Outstanding Expenses	1,000	2,000
Cash Generated from Operating Activities		1,43,000
Less: Tax paid		40,000
Cash Flow from Operating Activities		1,03,000

Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Net Profit after tax	50,000
Add: Provision for Tax	20,000
Transfer to General Reserve	10,000
Proposed Dividend (Previous year)	36,000
Net Profit before Tax	1,16,000

2. Preliminary Expenses are Operating Activities since they are neither Investing nor Financing Activity.

Model Test Paper 3

Time Allowed: 1½ Hours **Max. Marks: 40**

General Instructions:

As per Model Test Paper 1

SECTION A – 26 MARKS

(*Answer **all** questions*)

Question 1.

Select the correct option for each of the following questions.

(i) Which of the following is not exempted from setting aside amount to Debenture Redemption Reserve (DRR) and from making Debenture Redemption Investment (DRI) for Redemption of Debentures:

(a) All India Financial Institutions regulated by RBI for both public as well as privately placed debentures.

(b) Unlisted NBFCs registered with RBI.

(c) HFCs registered with National Housing Bank.

(d) Unlisted Companies (Other than NBFCs and HFCs). [1]

(ii) Ram, Shyam and Kapil are partners sharing profits and losses in the ratio of 4 : 3 : 2. Shyam retires and profit on Revaluation on that date was ₹ 54,000. New Ratio of Ram and Kapil is 5 : 4 and Gaining Ratio is 1 : 2. Revaluation profit will be distributed as:

	Ram	Shyam	Kapil
	₹	₹	₹
(a)	30,000	24,000	—
(b)	18,000	—	36,000
(c)	24,000	18,000	12,000
(d)	30,000	—	24,000

[1]

(iii) When debentures are issued at a discount and are redeemable at a premium, which of the following account is debited at the time of issue:

(a) Debentures Account.

(b) Premium on Redemption of Debentures Account.

(c) Loss on Issue of Debentures Account.

(d) None of these. [1]

(iv) On dissolution, assets are transferred to the debit side of Realisation Account

(a) at Gross Value.

(b) at Net Value after deducting provision.

(c) at their Realised Value.

(d) at Market Value. [1]

Question 2.

(i) When does a company set aside amount to Debentures Redemption Reserve? [1]

(ii) There was an unrecorded asset estimated to have realisable value of ₹ 6,000 and given to a creditor of ₹ 5,000 in settlement.

You are required to pass the Journal entry for the above transaction at the time of dissolution of a partnership firm. [1]

Question 3.

On 1st April, 2020, Samsung Finance Ltd. (an unlisted NBFC) issued 5,000, 9% Debentures of ₹ 100 each to be redeemed at a premium of 10% as follows:

On 31st March, 2021	2,000 Debentures
On 31st March, 2022	3,000 Debentures

You are required to pass necessary Journal entries for the issue and redemption of debentures. [5]

Question 4.

(i) Singh Ltd. took a loan of ₹ 5,00,000 from State Bank of India. The company issued 5,500, 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. [2]

(ii) Rajesh, Parmod and Nishant were partners sharing profits and losses in the ratio of their capitals. On 31st March, 2021, Parmod retired from the firm, when their Balance Sheet showed following balances:

Particulars	₹
Rajesh's Capital	76,000
Parmod's Capital	57,000
Nishant's Capital	38,000
General Reserve	4,500
Workmen Compensation Reserve	4,500
Employees Provident Fund	10,000

On the date of retirement:

(a) The firm upon revaluation of assets and reassessment of liabilities, had a profit of ₹ 18,000.

(b) Goodwill of the firm is valued at ₹ 72,000.

(c) Rajesh and Nishant also decided that the total capital of the firm after Parmod's retirement will be ₹ 1,80,000 in their profit-sharing ratio, *i.e.*, actual cash to be brought in or paid to partners as the case may be.

You are required to prepare Partners' Capital Accounts. [3]

Question 5.

(i) Vijay, Vivek and Vinay are partners sharing profits & losses in the ratio of 5 : 3 : 2. Vivek retires from the firm and Vijay and Vinay decided to share future profits & losses in the ratio of 3 : 5. At the time of retirement of Vivek, unaccounted Accrued Income of ₹ 3,000 was not accounted and is to be provided for. A debtor whose dues of ₹ 6,000 were written off as bad debts paid ₹ 4,000. There is a liability of ₹ 5,000 included in Sundry creditors that is not likely to arise.

You are required to pass the necessary Journal entries. [2]

(ii) Petromax Ltd. issued 20,000, 8% Debentures of ₹ 100 each on 1st April, 2021 redeemable at a premium of 20% on 31st March, 2022. It is decided to write off loss on issue of debentures in the year of issue of debentures. It had a balance of ₹ 3,00,000 in Securities Premium Reserves on 31st March, 2021.

You are required to pass the necessary Journal entries for issue of debentures and writing off Loss on Issue of Debentures and prepare Loss on Issue of Debentures Account. [3]

Question 6.

Prashant and Rajesh were sharing the profits and losses in the ratio of 3 : 2. The following is the Balance Sheet of the firm as at 31st March, 2021:

Liabilities	₹	Assets		₹
Sundry Creditors	42,600	Goodwill		4,000
Mrs. Prashant's Loan	40,000	Buildings		1,20,000
Rajesh's Loan	24,000	Investments		30,600
Investment Fluctuation Reserve	8,000	Debtors	34,000	
Prashant's Capital	42,000	*Less:* Provision	4,000	30,000
Rajesh's Capital	42,000	Cash		6,000
		Profit & Loss A/c (Dr. Balance)		8,000
	1,98,600			1,98,600

The firm was dissolved and the following arrangements were decided upon:

(i) Prashant agreed to pay off his wife's loan.

(ii) Debtors realised ₹ 24,000. Building realised ₹ 1,52,000.

(iii) Rajesh took over all investments at ₹ 27,000.

(iv) Sundry Creditors were settled at 10% discount.

(v) Realisation Expenses amounted to ₹ 3,900.

Prepare Realisation Account, Partners' Capital Accounts and Cash Account. [5]

SECTION B – 14 MARKS

(*Answer **all** questions*)

Question 7.

Select the correct option in the following question.

(i) Common-size Income Statement is the ______________ of Income Statement in which Revenue from Operations figure is taken as 100 and all other figures of Revenues and Expenses are expressed as percentage of Revenue from Operations figure:

(a) Vertical Analysis. (b) Horizontal Analysis.

(c) Internal Analysis. (d) External Analysis. [1]

(ii) List any two Financing Activities which result into outflow of cash. [1]

Question 8.

From the following information of Purity Ltd., calculate:

(i) Cash from Operating Activities.

(ii) Cash from Financing Activities.

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
Trade Receivables	17,000	20,000
Inventories	25,000	30,000
Provision for Tax	15,000	10,000
Furniture (at book value)	1,20,000	1,60,000
General Reserve	50,000	40,000
10% Debentures	40,000	30,000
Goodwill	60,000	70,000
Trade Payables	21,000	25,000
Balance of Statement of Profit & Loss (Cr.)	1,30,000	1,20,000
Equity Share Capital	5,00,000	3,00,000

Additional Information:

During the year 2020–21:

(i) A piece of furniture costing ₹ 30,000 (accumulated depreciation ₹ 3,000) was sold for ₹ 25,000.

(ii) Tax of ₹ 9,000 was paid.

(iii) Interim Dividend of ₹ 4,000 was paid.

(iv) The company paid ₹ 3,000 as interest on debentures. [5]

Question 9.

You are required to prepare Comparative Balance Sheet of HMSC Ltd.

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
Shareholders' Funds		22,20,000	12,00,000
Non-Current Liabilities		6,00,000	6,00,000
Current Liabilities		1,80,000	2,00,000
Non-Current Assets		25,20,000	14,00,000
Current Assets		4,80,000	6,00,000

[2]

Question 10.

From the following Information, prepare a Cash Flow Statement:

BALANCE SHEET *as at ...*

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		70,000	60,000
(b) Reserves and Surplus	1	44,000	8,000
2. Non-Current Liabilities			
Long-term Borrowings	2	50,000	50,000
3. Current Liabilities			
Trade Payables		25,000	9,000
Total		1,89,000	1,27,000

II. ASSETS			
1. Non-Current Assets			
Tangible Fixed Assets (Net)		98,000	84,000
Non-Current Investments		16,000	6,000
2. Current Assets			
(a) Current Investments		18,000	20,000
(b) Inventories		49,000	12,000
(c) Cash & Bank Balances		8,000	5,000
Total		1,89,000	1,27,000

Notes to Accounts

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
1. Reserves and Surplus		
General Reserve	30,000	20,000
Surplus, *i.e.*, Balance in Statement of Profit & Loss	14,000	(12,000)
	44,000	8,000
2. Long-term Borrowings		
10% Debentures	50,000	50,000

Additional Information:

(i) Depreciation charged during the year was ₹ 8,000.

(ii) Interest on debentures paid ₹ 5,000 during the year. [5]

ANSWERS

SECTION A

Question 1.

(i) (d) (ii) (c) (iii) (c) (iv) (a)

Question 2.

(i) Amount is set aside to Debentures Redemption Reserve (DRR) when debentures are redeemed out of profits. It is created before redemption of debentures. At present, Unlisted (Non-NBFC/HFC) companies are required to set aside amount to DRR.

(ii) No entry is to be passed as payment is not made or received.

Question 3.

JOURNAL OF SAMSUNG FINANCE LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020 April 1	Bank A/c	...Dr.		5,00,000	
	To Debentures Application & Allotment A/c				5,00,000
	(Being the receipt of application money)				
	Debentures Application & Allotment A/c	...Dr.		5,00,000	
	Loss on Issue of Debentures A/c	...Dr.		50,000	
	To 9% Debentures A/c				5,00,000
	To Premium on Redemption of Debentures A/c				50,000
	(Being the issue of Debentures)				
2021 March 31	9% Debentures A/c	...Dr.		2,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		20,000	
	To Debentureholders' A/c				2,20,000
	(Being the amount due on redemption)				
	Debentureholders' A/c	...Dr.		2,20,000	
	To Bank A/c				2,20,000
	(Being the payment made to Debentureholders)				
2022 March 31	9% Debentures A/c	...Dr.		3,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		30,000	
	To Debentureholders' A/c				3,30,000
	(Being the amount due on redemption)				
	Debentureholders' A/c	...Dr.		3,30,000	
	To Bank A/c				3,30,000
	(Being the payment made to Debentureholders)				

Notes:

1. An unlisted NBFC or HFC is neither required to transfer amount to Debentures Redemption Reserve (DRR) nor is required to invest in specified securities, *i.e.*, DRI.
2. Entry for writing off Loss on Issue of Debentures is not passed in view of question not having asked to pass the entry for write off.

Question 4.

(i) **First Method:** (*When Journal Entry is not passed*)

AN EXTRACT OF BALANCE SHEET OF SINGH LTD.

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Non-Current Liabilities		
Long-term Borrowings	1	5,00,000

Note to Accounts

Particulars		₹
1. Long-term Borrowings		
Loan from State Bank of India		5,00,000
(Secured by issue of 5,500; 9% Debentures as Collateral security)		

Second Method: (*When Journal Entry is passed*)

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Debentures Suspense ...Dr.		5,50,000	
	To 9% Debentures A/c			5,50,000
	(Being 5,500, 9% debentures of ₹ 100 each issued as collateral security for a loan from SBI)			

AN EXTRACT OF BALANCE SHEET OF SINGH LTD.

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Non-Current Liabilities		
Long-term Borrowings	1	5,00,000

Note to Accounts

Particulars		₹
1. Long-term Borrowings		
Loan from State Bank of India		5,00,000
5,500; 9% Debentures of ₹ 100 each issued as Collateral Security	5,50,000	
Less: Debenture Suspense	5,50,000	...

(ii)

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Rajesh ₹	Parmod ₹	Nishant ₹	Particulars	Rajesh ₹	Parmod ₹	Nishant ₹
To Parmod's Capital A/c (WN 1)	16,000	...	8,000	By Balance *b/d*	76,000	57,000	38,000
				By General Reserve A/c	2,000	1,500	1,000
To Bank A/c	...	90,000	...	By Workmen Compensation Reserve	2,000	1,500	1,000
To Balance *c/d* (WN 2)	1,20,000	...	60,000	By Revaluation A/c (Profit)	8,000	6,000	4,000
				By Rajesh's Capital A/c (WN 1)	...	16,000	...
				By Nishant's Capital A/c (WN 1)	...	8,000	...
				By Bank A/c (Bal. Fig.)	48,000	...	24,000
	1,36,000	90,000	68,000		1,36,000	90,000	68,000

Working Notes:

1. Parmod's Share of Goodwill = ₹ 72,000 × 3/9 = ₹ 24,000, which is contributed by Rajesh and Nishant in their gaining ratio, *i.e.,* 2 : 1.
2. Rajesh's capital in the new firm = ₹ 1,80,000 × 2/3 = ₹ 1,20,000. Nishant Capital in the New firm = ₹ 1,80,000 × 1/3 = ₹ 60,000.

Question 5.

(i) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Accrued Income A/c	...Dr.		3,000	
	Bank A/c (Bad Debts Recovered)	...Dr.		4,000	
	Creditors A/c	...Dr.		5,000	
	To Revaluation A/c				12,000
	(Being the increase in value of assets & decrease in value of liabilities recorded)				
	Revaluation A/c	...Dr.		12,000	
	To Vijay's Capital A/c				6,000
	To Vivek's Capital A/c				3,600
	To Vinay's Capital A/c				2,400
	(Being the profit on revaluation transferred to partners' capital accounts in their old profit-sharing ratio)				

(ii) JOURNAL OF PETROMAX LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021					
April 1	Bank A/c	...Dr.		20,00,000	
	To Debentures Application and Allotment A/c				20,00,000
	(Being the application money received)				
	Debentures Application and Allotment A/c	...Dr.		20,00,000	
	Loss on Issue of Debentures A/c	...Dr.		4,00,000	
	To 8% Debentures A/c				20,00,000
	To Premium on Redemption of Debentures A/c				4,00,000
	(Being 20,000; 8% Debentures of ₹ 100 each issued at par and redeemable at 20% premium)				
2022					
March 31	Securities Premium Reserve A/c	...Dr.		3,00,000	
	Statement of Profit & Loss (Finance Cost)	...Dr.		1,00,000	
	To Loss on Issue of Debentures A/c				4,00,000
	(Being the loss on issue of debentures written off)				

Dr. LOSS ON ISSUE OF DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2021			2022		
April 1	To Premium on Redemption of Debentures A/c	4,00,000	March 31	By Securities Premium Reserve A/c	3,00,000
				By Statement of Profit & Loss	1,00,000
		4,00,000			4,00,000

Question 6.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Goodwill A/c		4,000	By Investment Fluctuation Reserve A/c		8,000
To Building A/c		1,20,000	By Provision for Doubtful Debts A/c		4,000
To Investments A/c		30,600	By Sundry Creditors A/c		42,600
To Debtors A/c		34,000	By Mrs. Prashant's Loan A/c		40,000
To Prashant's Capital A/c (Wife's Loan)		40,000	By Cash A/c (Assets realised):		
To Cash A/c (Creditors)		38,340	Debtors	24,000	
To Cash A/c (Realisation Expenses)		3,900	Building	1,52,000	1,76,000
To Profit on Realisation transfd. to:			By Rajesh's Capital A/c (Investments)		27,000
Prashant's Capital A/c	16,056				
Rajesh's Capital A/c:	10,704	26,760			
		2,97,600			2,97,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Prashant ₹	Rajesh ₹	Particulars	Prashant ₹	Rajesh ₹
To Realisation A/c	...	27,000	By Balance *b/d*	42,000	42,000
To Profit & Loss A/c	4,800	3,200	By Realisation A/c (Wife Loan)	40,000	...
To Cash A/c	93,256	22,504	By Realisation A/c (Profit)	16,056	10,704
(Final Payment)					
	98,056	52,704		98,056	52,704

Dr. CASH ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	6,000	By Realisation A/c (Creditors)	38,340
To Realisation A/c (Assets)	1,76,000	By Realisation A/c (Expenses)	3,900
		By Rajesh's Loan A/c	24,000
		By Prashant's Capital A/c	93,256
		By Rajesh's Capital A/c	22,504
	1,82,000		1,82,000

SECTION B

Question 7.

(i) (a) Vertical Analysis.

(ii) 1. Redemption of Preference Shares/Debentures for Cash.

2. Payment of Dividend.

3. Payment of Interest on Debentures and Long-term Loans.

Question 8.

(i) CASH FLOW FROM OPERATING ACTIVITIES *for the year ended 31st March, 2021*

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		38,000
Add: Non-Cash/Non-Operating Expenses:		
Goodwill amortised	10,000	
Interest on Debentures	3,000	
Loss on Sale of Furniture (WN 2)	2,000	
Depreciation on Furniture (WN 2)	13,000	28,000
Operating Profit before Working Capital Change		66,000
Add: Decrease in Current Assets:		
Trade Receivables	3,000	
Inventories	5,000	8,000
Less: Increase in Current Liabilities:		74,000
Trade Payables		4,000
Cash Generated from Operating Activities		70,000
Less: Tax paid		9,000
Cash Flow from Operating Activities		61,000

(ii) CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Proceeds from Issue of 10% Debentures	10,000
Proceeds from Issue of Shares	2,00,000
Interim Dividend paid	(4,000)
Interest on Debentures paid	(3,000)
Cash Flow from Financing Activities	2,03,000

Working Notes:

1. *Calculation of Net Profit before tax:*

		₹
Profit as per Statement of Profit and Loss (₹ 1,30,000 – ₹ 1,20,000)		10,000
Add: Transfer to General Reserve	10,000	
Interim Dividend	4,000	
Provision for Tax (WN 3)	14,000	28,000
Net Profit before Tax		38,000

2. *Dr.* FURNITURE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,60,000	By Bank A/c	25,000
		By Loss on Sale (Statement of Profit & Loss)	2,000
		By Depreciation A/c (Balance Figure)	13,000
		By Balance *c/d*	1,20,000
	1,60,000		1,60,000

3. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid)	9,000	By Balance *b/d*	10,000
To Balance *c/d*	15,000	By Statement of Profit & Loss (Bal. Fig.)	14,000
	24,000		24,000

Question 9.

HMSC Ltd.

COMPARATIVE BALANCE SHEET *as at 31st March, 2021 and 2020*

Particulars	Note No.	31st March, 2021 ₹ (A)	31st March, 2020 ₹ (B)	Absolute Change (Increase/Decrease) ₹ (C = B – A)	Percentage Change (Increase/Decrease) % (D = C/B × 100)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		22,20,000	12,00,000	10,20,000	85
2. Non-current Liabilities		6,00,000	6,00,000	...	...
3. Current Liabilities		1,80,000	2,00,000	(20,000)	(10)
Total		30,00,000	20,00,000	10,00,000	50
II. ASSETS					
1. Non-Current Assets		25,20,000	14,00,000	11,20,000	80
2. Current Assets		4,80,000	6,00,000	(1,20,000)	(20)
Total		30,00,000	20,00,000	10,00,000	50

Question 10.

CASH FLOW STATEMENT

for the year ended 31st March, 2021

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		36,000
Adjustments for Non-Cash and Non-Operating Items:		
Depreciation on Fixed Assets	8,000	
Interest on Debentures	5,000	13,000
Operating Profit before Working Capital Changes		49,000
Changes in Current Assets & Current Liabilities:		
Increase in Inventories	(37,000)	
Increase in Trade Payables	16,000	
Decrease in Current Investments	2,000	(19,000)
Net Cash Flow from Operating Activities		30,000
Less: Tax paid		...
Cash Flow from Operating Activities		30,000
II. Cash Flow from Investing Activities		
Purchase of Fixed Assets (WN 2)		(22,000)
Purchase of Non-Current Investments		(10,000)
Cash Used in Investing Activities		(32,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares		10,000
Interest paid on Debentures		(5,000)
Cash Flow from Financing Activities		5,000
IV. Net Increase in Cash and Bank Balances (I + II + III)		3,000
V. *Add:* Opening Cash and Bank Balances		5,000
VI. Closing Cash and Bank Balances		8,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit & Loss (Profit)	14,000
Add: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit & Loss (Loss)	12,000
Transfer to General Reserve	10,000
Net Profit before Tax	36,000

2. *Dr.* FIXED ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	84,000	By Depreciation A/c	8,000
To Bank A/c (Balancing Figure) (Purchase)	**22,000**	By Balance *c/d*	98,000
	1,06,000		1,06,000

NOTES