KENDRIYA VIDYALAYA SANGATHAN

ERNAKULAM REGION

तत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन

STUDENT SUPPORT MATERIAL

Term-I

CLASS XII

ACCOUNTANCY(055)

Session-2021-22

Based on Latest CBSE Exam Pattern

STUDENT SUPPORT MATERIAL • ACCOUNTANCY • ERNAKULAM REGION

STUDENT SUPPORT MATERIAL

INSPIRATION

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F.31/Acad/KVS(EKM) **Dated: 01.11.2021**

Message

I feel immense pleasure to publish the study material for class XII Accountancy. This support material is prepared incorporating all the recent changes in curriculum and assessment process made by CBSE. I am sure it will definitely be of great help to class XII students of all Kendriya Vidyalayas.

Getting acquainted with the latest changes will help students to prepare well for the board examination and enable students to face case based and Multiple-Choice Questions with confidence.This support material has been prepared by a team of dedicated and veteran teachers with expertise in their respective subjects.

The Support material contains all the important aspects required by the students- the design of question paper, term wise split up syllabus, summary of all the chapters, MCQs from each units, CBSE Sample question paper and Case study questions.

I hope that this Support Material will be used by students and teachers as well and will prove to be a good tool for quick revision.

I would like to express my sincere gratitude to the In- charge principal and all the teachers who have relentlessly worked for the preparation of this study material. Their enormous contribution in making this project successful is praiseworthy.

Meticulous planning blended with hard work, effective time management and sincerity will help the students to reach the pinnacle of success.

Wish you all the best

(R Senthil Kumar)

Sh. Anil Mohan
Principal
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No 1 Kochi

KENDRIYA VIDYALAYA SANGATHAN

ERNAKULAM REGION

STUDENT SUPPORT MATERIAL

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KENDRIYA VIDYALAYA SANGATHAN

ERNAKULAM REGION

STUDENT SUPPORT MATERIAL

CONTENTS

Accountancy (Code No. 055)

(2021-22)

CLASS XII - CURRICULUM (TERM-WISE)

	TERM -1 (MCQ BASED QUESTION PAPER) Theory:40 Marks Duration: 90 minutes	MARKS
	Part A	18
	UNIT **ACCOUNTING FOR PARTNERSHIP FIRMS:**	
1	FUNDAMENTALS	
2	CHANGE IN PROFIT SHARING RATIO	
3	ADMISSION OF A PARTNER	
	COMPANY ACCOUNTS:	12
1	ACCOUNTING FOR SHARES	
	PART B	10
	ANALYSIS OF FINANCIAL STATEMENTS:	
1	FINANCIAL STATEMENTS OF A COMPANY *(i) Statement of Profit and Loss and Balance Sheet in prescribed form with major headings and sub headings (as per Schedule III to the Companies Act, 2013)* *(ii) Tools of Analysis - Ratio Analysis*	
2	ACCOUNTING RATIOS	
	OR	
	COMPUTERISED ACCOUNTING	10
1	OVERVIEW OF COMPUTERISED ACCOUNTING SYSTEM	
2	ACCOUNTING APPLICATION OF ELECTRONIC SPREADSHEET	
	Total	**40**
	Project Work (Part -1): 10 Marks	

Part - A:

Unit: Accounting for Partnership Firms

Units/Topics	Learning Outcomes
• Partnership: features, Partnership Deed. • Provisions of the Indian Partnership Act 1932in the absence of partnership deed. • Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. • Past adjustments (relating to interest on capital, interest on drawing, salary and profit-sharing ratio). • Goodwill: nature, factors affecting and methods of valuation - average profit, super profit and capitalization. ***Note:*** *Interest on partner's loan is to be treated as a charge against profits.* Goodwill to be adjusted through partners capital/current account. *Note: Raising and writing off goodwill is excluded.* **Accounting for Partnership firms - Reconstitution** • **Change in the Profit Sharing**	**After going through this Unit, the students will be able to:** • State the meaning of partnership, partnership firm and partnership deed. • Describe the characteristic features of partnership and the contents of partnership deed. • Discuss the significance of provision of Partnership Act in the absence of partnership deed. • Differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. • Develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits. • Develop the understanding and skill of making past adjustments. • state the meaning, nature and factors affecting goodwill • Develop the understanding and skill of valuation of goodwill using

Ratio among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves And accumulated profits. Preparation of revaluation account and balance sheet. • **Admission of a partner** - effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill, treatment for revaluation of assets and re-Assessment of liabilities, treatment of reserves and accumulated profits.	different methods. • State the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners. • develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of reserves and Accumulated profits by preparing revaluation account and balance sheet. • Explain the effect of change in profit sharing ratio on admission of a new partner. • Develop the understanding and skill of treatment of goodwill, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, and preparation of balance sheet of the new firm.
<u>**Unit - Accounting for Companies**</u> **Accounting for Share Capital** • Share and share capital: nature and types. • Accounting for share capital: issue and allotment of equity and preferences shares. Public subscription of shares - over subscription and under subscription of shares; issued at par and at premium, calls in advance and arrears (excluding interest), issue of shares for consideration other than cash.	**After going through this Unit, the students will be able to:** • State the meaning of share and share CapitaLand differentiate between equity shares and preference shares and different types of share capital. • Understand the meaning of private placement of shares and Employee Stock Option Plan. • Explain the accounting treatment of share capital transactions

• Concept of Private Placement and Employee Stock Option Plan (ESOP). • Accounting treatment of forfeiture and re-issue of shares. Disclosure of share capital in the Balance Sheet of a company.	regarding issue of shares. • Develop the understanding of accounting treatment of forfeiture and re-issue of forfeited shares. • Describe the presentation of share capital in the balance sheet of the company as per schedule III part I of the Companies Act 2013.

Part – B:

Unit: Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: Statement of Profit and Loss and Balance Sheet in prescribed form with major headings and sub headings(as per Schedule III to the Companies Act,2013) **Note:** *Exceptional items, extraordinary items andprofit (loss) from discontinued operations are excluded.* • **Financial Statement Analysis:** Objectives,importance and limitations. • **Accounting Ratios:** Meaning, Objectives,classification and computation. • **Liquidity Ratios:** Current ratio and Quickratio. • **Solvency Ratios:** Debt to Equity Ratio, TotalAsset to Debt Ratio, Proprietary	**After going through this Unit, the students will beable to:** • Develop the understanding of major headingsand sub-headings (as per Schedule III to theCompanies Act, 2013) of balance sheet as per the prescribed norms / formats. • State the meaning, objectives and limitationsof financial statement analysis. • Discuss the meaning of different tools of'financial statements analysis'. • State the meaning, objectives and significance of different types of ratios. • Develop the understanding of

Ratio and interest coverage ratio. • **Activity Ratios:** Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio and Working CapitalTurnover Ratio	computation ofcurrent ratio and quick ratio. • Develop the skill of computation of debt equity ratio, total asset to debt ratio, proprietary ratio and interest coverage ratio. • Develop the skill of computation of inventoryturnover ratio, trade receivables and trade payables ratio and working capital turnover ratio. • develop the skill of computation of gross
• **Profitability Ratios:** Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, NetProfit Ratio and Return on Investment.	Profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

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

ACCOUNTANCY(055)

DESIGN OF QUESTION PAPER

TERM 1

2021-22

Max.MARKS:40. **MAX. TIME:90 min**

PART/SECTION	TYPE OF QUESTIONS	TOTAL NO. OF QUESTIONS	NUMBER OF QUESTIONS TO BE ANSWERED
PART I-ACCOUNTING FOR PARTNERSHIP AND COMPANY ACCOUNTS			
SECTION A	FILL IN THE BANKS/IDENTIFICATION TYPE QUESTIONS	18	15
SECTION B	ASSERTION REASONING/APPLICATION BASED QUESTIONS	18	15
SECTION C	CASE STUDY QUESTIONS	5	4
PART II-ANALYSIS OF FINANCIAL STATEMENTS			
PART II SECTION A	IDENTIFICATION,ASSERTION REASONING,	7	5
SECTION B	ASSERTION REASONING,IDENTIFICATION TYPE QUESTIONS	7	6
TOTAL		55	45

- **WEIGHTAGE FOR EACH QUESTION -0.88 MARKS FOR EACH CORRECT ANSWERS**
- **NO NEGATIVE MARKING**

UNIT 1
ACCOUNTING FOR PARTNERSHIP FIRM
PARTNERSHIP -FUNDAMENTALS

POINTS TO BE FOCUSED

I. Profit and Loss Appropriation Account

It is a special account that a firm prepares to show the distribution of profits/losses among the partners or partner's capital.
It is as an extension of it as it is made after making the Profit and Loss Account.

Its Debit items include:
1. Net Loss transferred from P&L account,
2. Transfer of profit to Reserves,
3. Salary to Partners,
4. Interest on Capital,
5. Commission to Partners,
6. Payments designated for dividend payments.

Its Credit items include:
1. Net Profit Transferred to the account from the Profit and Loss Account,
2. Money was taken out from the general reserve,
3. Drawing by the partners and the interest thereupon.

Journal entries.

1. If profit and loss a/c shows credit balance or Net Profit.

   Profit and Loss A/c Dr
   To Profit and loss appropriation A/c

2. If profit and loss a/c shows debit balance or Net loss.

   Profit and loss appropriation A/c Dr
   To Profit and loss a/c

3. Interest on Capital

   (a). For allowing Interest on capital
   Interest on capital A/c Dr
   To Partners capital/ current a/c (individually)
   (b). for transferring int. on capital to profit and loss appropriation a/c
   Profit and loss appropriation a/c Dr
   To interest on capital

Interest on Drawings

(a) For charging interest on drawings to partners' capital accounts:
Partners' Capital/Current A/c's (individually) Dr.
To Interest on Drawings A/c

(b) For transferring interest on drawings to Profit and Loss Appropriation Account:
Interest on Drawings A/c Dr.
To Profit and Loss Appropriation A/c

4. Partner's Salary:

(a) For Allowing partner's salary to partner's capital account:
Salary to Partner A/c Dr.
To Partner's Capital/Current A/c's (individually)

(b) For transferring partner's salary to Profit and Loss Appropriation Account:
Profit and Loss Appropriation A/c Dr.
To Salary to Partner's A/c

5. Partner's Commission:

a) For crediting commission allowed to a partner, to partners capital account:
Commission to Partner A/c Dr.
To Partner's Capital/Current A/c's (individually)

(b) For transferring commission allowed to partners to Profit and Loss Appropriation
Account.
Profit and Loss Appropriation A/c Dr.
To Commission to Partners Capital/Current A/c

6. Share of Profit or Loss after appropriations:

(a) If Profit:
Profit and Loss Appropriation A/c Dr.
To Partner's Capital/Current A/c's (individually)

(b) If Loss:
Partner's Capital/Current A/c (individually)
To Profit and Loss Appropriation A/c
Note: In case firm suffers a loss, no interest on capital, salary, remuneration is to be allowed to partners.

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

Profit and Loss Appropriation Account

Dr. *Cr.*

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
Profit and Loss (if there is loss)	xxx	Profit and Loss (if there is profit)	xxx
Interest on Capital	xxx	Interest on Drawings	xxx
Salary to Partner	xxx	Partners' Capital/Current Accounts (distribution of Loss)	xxx
Commission to Partner	xxx		
Partners' Capital/Current Accounts (distribution of profit)	xxx		
	xxxx		**xxxx**

II. Interest on capital:

According to Business Entity Concept, the proprietor is having separate entity from his/her business, therefore business pays interest to the proprietor on his/her capital contribution. Interest on capital is a gain for the proprietor, whereas it is the loss for the business. As it is to be provided out of profit so, It reduces the profit of the firm.

In connection of the partnership firm:

• It is provided to the partners only if it is mentioned in the partnership deed.
• It is to be calculated on the Opening capital of the partners.
• It is an appropriation of profit, therefore to be allowed only when there is sufficient profit in the firm.
• It is justified when the partners contribute unequal amount of capital but share profits equally and when contributes equal amount of capital but profits sharing ratio is different.

Note: When Opening Capital is not given in the question.
It is to be calculated by using the following formula:
Capital at the end ***
 Add: Drawings (+)
 Less: Additional Capital (-)
 Less: Profit/Add: Loss (-)/ (+)
 Opening Capital ***

LEGAL PROVISIONS REGARDING INTEREST ON CAPITAL

Condition:1 When there is no Partnership Deed Treatment: No partner is allowed to get interest on capital.

Condition:2 When partnership Deed allows interest on capital and it is to be treated as an appropriation of profit

Treatment: 1. In case of Loss: No interest will be allowed to the partners.
2. In case, profit> Interest on capital: Full Interest on capital will be allowed
3. In case, profit< Interest on capital: Interest on capital will be allowed in proportion to profit in the ratio of the amount of interest on capital.

Condition:3 When Interest on Capital is treated as a charge Treatment: Full interest on capital will be allowed to the partners irrespective to the amount of profit.

Formula:

Interest on capital = **Amount of capital x Rate of interest per annum x Period of interest**. (Eg: 10,000 * 10/100 * 6/12)

III. Interest on Drawings.

The amount withdrawn by the partners for personal use is termed as drawings. It is the amount which withdrawn against profit. It is the temporary withdrawn made, which is to be returned by the partners with interest.

Interest on drawings is the amount of interest paid by the partners, calculated with reference to the time period for which the money was withdrawn.

* It is an income for the firm and hence is credited to the Profit and Loss Appropriation Account.
* It is an expense to the partners, hence is debited to the Partner's Capital Account.
* Interest on drawing is charged from the partners, if it mentioned in the Partnership Deed.

METHODS OF CALCULATING INTEREST ON DRAWINGS

1. **When unequal amounts are withdrawn at different dates, there are two methods for calculating interest on drawings:**

   a. Simple Method: Under this method, calculation of interest on drawings is done for the period, the amount has been utilized. **Interest on Drawings = Amount of drawings × Rate/100 × No. of Months/12**

   b. Product method: When unequal amounts are withdrawn at unequal interval of time, product method is also used for calculating interest on drawings. Under this method, first we calculate the period of each drawing. After that each drawing is multiplied with the period to get the product.

   Interest on drawings= Total of Products × Rate/100 × 1/12

2. **When equal amounts are withdrawn at regular/equal interval of time**, interest on drawing can be calculated on the total of the amount drawn, for the average of the period applicable to the first and last instalment.

   Interest on Drawings= Total amount of drawings × Rate/ 100 × Average Period/12

Average Period = (No. of months left after first drawings+ No. of months left after last drawings)/2

3. Monthly Drawings

a. When equal amounts are withdrawn in the **beginning of every month** throughout the year**:**
Average period = (12+1)/2 = 6.5 months
Interest on Drawings = Total of drawings × Rate/100 × 6.5/12

b. **w**hen equal amounts are withdrawn **at the end of every month** throughout the year:

Average period = (11+0)/2 = 5.5 months
Interest on Drawings = Total of drawings × Rate/100 × 5.5/12

c. When equal amounts are withdrawn **in the middle of every month** throughout the year:
Average period = (11.5+0.5)/2 = 6 months
Interest on Drawings = Total of drawings × Rate/100 × 6/12

4. Quarterly Drawings:

a. When equal amounts are withdrawn **in the beginning of each quarter** throughout the year: **Average period = (12+3)/2 = 7.5 months**
Interest on Drawings = Total of drawings × Rate/100 × 7.5/12

b. When equal amounts are withdrawn **in the middle of each quarter** throughout the year:
Average period = (10.5+1.5)/2 = 6 months
Interest on Drawings = Total of drawings × Rate/100 × 6/12

c. When equal amounts are withdrawn **at the end of each quarter** throughout the year:
Average period = (9+0)/2 = 4.5 months
Interest on Drawings = Total of drawings × Rate/100 × 4.5/12

5. When Date of withdrawal is not specified:

Sometimes when date of drawing is not mentioned in the question. In such a case it is assumed that the amount is withdrawn evenly throughout the year and interest on drawings will be charged for **the average period which is to be assumed as 6 months**.

Interest on drawings = Total of drawings × Rate/100 × 6/12

V. PAST ADJUSTMENTS

Sometimes after the final accounts have been prepared and the Partners Capital Accounts are closed, it is found that certain items have been omitted by mistake or have been wrongly treated. Such omissions/mistakes usually related to the:

* Interest on Capital
* Interest on drawings
* Salary/ Commission to partners
* Wrong profit distribution

Where errors have been discovered after closing the accounts, then instead of altering the closed accounts, an adjustment entry for such errors or omissions is made in the beginning of the next year. For this purpose**, Partner's Capital Account will be debited with the amount, if it has been over credited and other Partner's Capital Accounts will be credited with the amount, if it has been over-debited.**

Table Showing Adjustments

Particulars	A	B	Total
Amount which should have been recorded:			
Interest on capital	(+)	(+)	(+)
Interest on drawings	(-)	(-)	(-)
Salary/Commission	(+)	(+)	(+)
Share of Profit	(+)	(+)	(+)
Total (a)	***	***	***
Amount wrongly recorded (b)			
Net Effect (a) – (b)	***	***	

Adjustment Journal Entry:
Gaining Partner's Capital A/c Dr
To Sacrificing Partner's Capital A/c

VI. GUARANTEE OF PROFIT TO A PARTNER

Sometimes, a partner is given a guarantee of minimum amount of profit in respect of his share in profits of the business.
When the share of profit of the partner is less than that of guaranteed profit, then the partner would be paid the guaranteed share of profit.
The deficiency is borne by the partner or partners who have guaranteed the profit in an agreed ratio. The guarantee may be provided by one or some or all of the partners in an existing ratio or in some other agreed ratio.
A partner to whom guarantee of minimum profit is given is called guaranteed partner.
The partner, who has given the guarantee is called guaranteeing partner.

Different Conditions Regarding Guarantee of Profits:
Guarantee by the firm to a Partner
Guarantee by One Partner to another Partner
Guarantee given by the Partner to the Firm Simultaneous
Guarantee by the Firm to the Partner and by the Partner to the Firm.

Accounting Treatment of Guarantee of Profit to a Partner

1. In case the actual share is less than the guaranteed amount:
   Treatment:
   (a)On distribution of profits as if there is no guarantee arrangement
   Profit and Loss Appropriation A/c Dr.
   To All Partner's Capital A/c

(b) On charging deficiency to guaranteeing partners

Guaranteeing partner's Capital A/c Dr.
Guaranteed Partner's Capital A/c

2. In case the actual share is more than the guaranteed amount Treatment:

On distributing the profits as if there is no guarantee arrangement
Profit and Loss Appropriation A/c Dr.
To All Partner's Capital A/c

Profit and loss appropriation a/c

		By profit /Loss A/c	xxxx
To A's Capital xxxx			
-share in deficiency xx	xxxx		
To B's Capital xxxx			
-share in deficiency xx	xxxx		
To C's Capital xxxx			
+Deficiency received from A xx			
+Deficiency received from B xx	xxxx		
Total	xxxxx	Total	xxxxx

GOODWILL

Goodwill is the **value of the reputation of a firm** which enables it to earn higher profits in comparison to the normal profits earned by other firms in the same trade.

Characteristics or features of goodwill

It is an intangible asset.
It helps in earning higher profits.
Its value is liable to constant fluctuations:
It is valuable only when entire business is sold

Goodwill is divided into two categories.

1. **Purchased Goodwill:** Purchased goodwill means goodwill for which a consideration has been paid
2. **Self-generated Goodwill** also called as inherent goodwill. It is an internally generated goodwill which arises from a number of factors that a running business possesses due to which it is able to earn more profits in the future.

Factors Affecting the Value of Goodwill

1. **Efficient management:** If the business is run by experienced and efficient management, its profits will go on increasing, which results in increase in the value of goodwill.
2. **Quality of products:** If the firm is supplying good quality of products, then the customer will come again and again for the same and thus will create the goodwill and brand name for the same.
3. **Location of business:** If the business is located at a convenient or prominent place, it will attract more customers and therefore will have more goodwill.
4. **The Longevity of the business:** An older business is better known to its customers, therefore it is likely to have more goodwill. When a business enterprise has built up good reputation over a period of time, the number of customers will be more in comparison to the customers of new entrants. Number of customers is an indicator of profit earning capacity of a business.
5. **Monopolistic and other Rights:** If a business enjoys monopoly market, it will have assured profits. Similarly, if it holds some special rights such as patents, trademarks, copyrights or concessions, etc., it will have more goodwill.
6. **Other factors:**
   (i) Good industrial relations.
   (ii) Favourable Government regulations
   (iii) Stable political conditions
   (iv) Research and development efforts
   (v) Effective advertising to establish brand popularity
   (vi) Popularity of product in terms of quality.

Need for Valuing Goodwill: Whenever the mutual rights of the partner's changes the party which makes a sacrifice must be compensated. This basis of compensation is goodwill so we need to calculate goodwill.

Under following circumstances, Goodwill will be valued

1. When profit sharing ratio changes
2. On admission of a partner
3. On Retirement or death of a partner
4. When amalgamation of two firms taken place
5. When partnership firm is sold.

Method of valuation of goodwill:

Usually, there are three methods of valuing goodwill:

1. Average profit method
   (a) Simple average profit method

Formula for calculation of goodwill

Goodwill = Average Profits $\times$ Number of years of purchase

Number of years of purchase means for how many years the firm will earn the same amount of profits in future.

Average Profits = Total Profits/Number of years

NOTE

i. Abnormal income of a year should be deducted out of the net profit of that year.
ii. Abnormal loss of a year should be added back to the net profit of that year.
iii. Income from investments should be deducted out of the net profits of that year, because this income is received from outside the business.

(b) Weighted Average Profit Method:

Weighted Average Profit: = $\frac{Total\ product\ of\ profits}{Total\ of\ weights}$

Goodwill = Weighted Average Profit $\times$ No. of years of purchase.

2. Super profit method.
   Super Profit are the excess of actual profit over normal profits. Where Normal profits are profits earned by similar business.

Goodwill is calculated by the formula

Goodwill = Super Profit $\times$ Number of years of purchase

Super Profit = Average profit – Normal profits

Normal Profit = Investment (Capital Employed) $\times \frac{Normal\ Rate\ of\ Return}{100}$

Capital Employed = Capital + Free Reserves – fictitious Assets (if any), or

All Assets – (Goodwill, fictitious assets and non-trade Investment) – Outsider's Liabilities

3. Capitalization method:

Under this method, goodwill can be calculated in two ways:

(a) Capitalisation of Average Profit Method:

Capitalised value of the firm = $\frac{Average\, profits \times 100}{Normal rate\, of\, return}$

Goodwill is calculated by deducting the actual capital employed in business from the capitalised value of average profits. There will be no goodwill if the actual capital employed in the business exceeds or equals the capitalised value of the average profits.

Net Assets or Capital employed = Total assets – Outside liabilities

Goodwill = Capitalized value of average profits – Capital Employed

(b) Capitalisation of Super Profit Method: Under this method first of all we calculate the super profits and then we assess the capital needed for earning such super profits on the basis of normal rate of return. Such capital is actually the amount of goodwill. Super profits are calculated in the same manner as calculated in super profits method.

Goodwill of the firm = Super Profits * 100 / Normal rate of return.

ACCOUNTING OF PARTNERSHIP FIRMS FUNDAMENTALS	
	MULTIPLE CHOICE QUESTIONS
1.	As per the Companies Act 2013, the Central Government is empowered to prescribe the maximum number of partners in a firm, but the number of partners cannot be more than ----- a.50 b.100 c.20 d.10
2	A partnership Deed provides for the payment of interest on capital, but there was a loss instead of profits during the year 2020-21. At what rate will the interest on capital be allowed? a. 6% p.a b. 12%p.a c. The rate specified in the partnership deed d. No interest on capital will be allowed
3.	In the absence of Partnership deed, the profits of a firm are divided among the partners a. In the ratio of capital b. Equally c. In the ratio of time devoted for the firm's business d. According to the managerial abilities of the partners
4.	P and Q are partners in a firm. They had advanced a loan of ₹.60, 000, contributed equally to the firm on 1st August 2020.The Partnership Deed is silent regarding the rate of interest on loan. What amount of interest on loan is payable to P, if the firm closes its books of account on 31st March every year. a. ₹.1200 b. ₹.3,600

	c. ₹.1,800 d. None of these
5.	Which of the following transactions is always recorded in the partner's Capital account irrespective of whether the partners' capitals are fixed or fluctuating? a. Additional capital introduced b. Withdrawal of Capital by a partner c. Interest on partner's loan d. Both (a) & (b)
6.	Nima & Hima are partners sharing profits and losses equally. On 1st April 2020, their capital accounts showed balance of Rs.4, 00,000 & 1, 00,000 respectively. Calculate the share of divisible profit of the partners if the partnership deed provided for interest on capital @ 10% p.a. and the firm earned a profit of Rs.50,000 for the year ended 31st March 2021 a.Nima ₹.40,000 & Hima ₹.10,000 b.Nima ₹,000 & Hima ₹.25,000 c.Nima Nil & Hima Nil d. None of these
7	Bobby and Sanjay were partners sharing profits & losses in the ratio of 5:3. On 1st April 2020, their capital accounts showed balances of ₹.3, 00,000 and ₹.2, 00,000 respectively. The Partnership Deed provided for interest on capital @10% p.a and the firm earned a profit of Rs.45, 000 for the year ended 31st March 2021. The interest on partners' capitals to Bobby & Sanjay will be: a. ₹.22,500 to both partners b. ₹.27,000 & ₹.18,000 respectively c ₹.28,125 & ₹.16,875 respectively d. None of the above
8.	X and Y are partners in a firm having Rs.4, 00,000 & Rs.8, 00,000 respectively. The partnership deed provides for charging interest on drawings @5% pa. X withdrew Rs.1, 00,000 for his personal use during the year 2020-21.Y withdrew Rs.1, 00,000 from his capital on 1.9,2020. The amount of interest that will be charged on partners' drawings are a. X-.₹.2,000 & Y-₹.4,000 b. ₹.5,000 from X &Y c. X-₹.5,000 &Y- Nil d. X-₹.2,500 & Y-Nil
9.	Goodwill of the firm on the basis of 2 years' purchase of average profit of the last 3 years is ₹.25, 000. Find Average profit a. ₹.50, 000, b. ₹.37, 500 c. ₹.12, 500 d. None of these
10.	Interest on Capital of Partners is a a. Charge on profit b. Loss to the firm c. Profit to the firm d .None of these

11.	Goodwill is valued at the time of a. Change in profit sharing Ratio b. Admission of a partner c .Retirement of a partner d. All of the above
12.	A, B & C are partners in a firm sharing profits & losses in the ratio of 5:3:2. A guaranteed profit of ₹.20, 000 to C.Net profit for the year ending 31st March 2021, was ₹.80, 000. A's share in the profit of the firm will be a. ₹.36,000 b. ₹.16,000 c. ₹.38,000 d. ₹.44,000
13.	Which of the following will be shown on the credit side of Profit & Loss Appropriation account a. Interest on Capital b .Interest on Loan c. Interest on drawings d. Salary to partners
14.	X & Y are partners sharing profits and losses in the ratio of 2:1 with capitals ₹.1,00,000 and ₹.80,000 respectively. The interest on capital has been provided to them @8% instead of 10%. In the rectifying entry a. Y will be debited by ₹.400 b. Y will be credited by ₹.400 c. Y will be debited by ₹.800 d. Y will be credited by ₹.800
15.	Capital employed of a firm is ₹.25, 00,000.Its average profit is ₹.3, 10,000. The normal rate of return in similar type of business is10%.What is the amount of super profit? a. ₹.2, 50,000 b. ₹.60, 000 c. ₹.50, 000 d. None of these

	ASSERTION –REASON BASED QUESTIONS
1	**Assertion (A):** Mohit, a partner in the firm gave loan of ₹.2,00,000 to the firm without an agreement as to rate of interest. At the year end, the remaining partners agreed to allow interest on loan @6% p.a
	Reason (R): In the absence of Partnership deed, provisions of Partnership Act 1932 is applicable and hence interest on loan @6% p.a can be provided
	In the context of above two statements, which of the following is correct?
	a. Both Assertion(A) and Reason (R) are true and Reason(R) is the correct explanation of Assertion(A)
	b. Both Assertion(A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
2.	**Assertion(A):**The value of Goodwill calculated on Average profit Method and Super profit Method is not the same
	Reason (R): The value of Goodwill calculated on Average profit Method and Super profit Method is not the same as the basis of valuation is different
	In the context of above two statements, which of the following is correct?
	a. Both Assertion(A) and Reason (R) are true and Reason(R) is the correct explanation of Assertion(A)
	b. Both Assertion(A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
3.	**Assertion(A):**Guarantee of minimum profit may be given to a partner
	Reason (R): Minimum profit must be guaranteed by the remaining partners in equal ratio
	In the context of above two statements, which of the following is correct?
	a. Both Assertion(A) and Reason (R) are true and Reason(R) is the correct explanation of Assertion(A)
	b. Both Assertion(A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
4.	**Assertion(A):**Rent to partner is shown in Profit& Loss Appropriation Account
	Reason (R): Rent to partner is a charge against profit
	In the context of above two statements, which of the following is correct?
	a. Both Assertion(A) and Reason (R) are true and Reason(R) is the correct explanation of Assertion(A)
	b. Both Assertion(A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true

5.	**Assertion(A):**A partnership firm can have a maximum of 50 partners
	Reason (R): Maximum limit of partners is prescribed in Indian Partnership Act,1932
	In the context of above two statements, which of the following is correct?
	a. Both Assertion(A) and Reason (R) are true and Reason(R) is the correct explanation of Assertion(A)
	b. Both Assertion(A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion(A)
	c. Assertion(R) is true but the Reason(R) is false
	d. Assertion(R) is false but the Reason(R) is true
	ANSWERS
	MULTIPLE CHOICE QUESTIONS
	1. b. 2.d 3.b 4.a 5.d 6.c 7.b 8.d 9.c 10.b 11.d 12.a 13.c. 14.b 15.b
	ASSERTION –REASON BASED QUESTIONS
	1.a 2.a 3.c 4.d 5.c
6	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. Assertion (A): In a specified situation, interest on the Partners' Capital is shown in the Profit and Loss Account. Reason(R): Interest on capital is transferred to the debit of the Profit and Loss Account if it is specified to be a charge. Alternatives: (a)Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). (b)Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation Assertion (A). (c)Assertion (A) is true but the Reason (R) is false (d)Assertion (A) is false but the Reason (R) is true
7	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. Assertion (A): If drawings by a partner are on the different dates and/or amounts of drawings is not the same interest on drawings is calculated using the product method. Reason (R) : Interest on drawings is charged for the period it is drawn by a partner, in case the amount of drawings and/or period for which is drawn is not uniform, average method cannot be applied to determine interest on capital. Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation Assertion (A). c) Assertion (A) is true but the Reason (R) is false d) Assertion (A) is false but the Reason (R) is true

8	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. Assertion (A): Adith, a partner in the firm gave loan of ₹. 50,000 to the firm without an agreement to rate of interest. Interest on Loan by Adith is to be allowed at @6% p.a. Reason (R): In the absence of the Partnership Deed, Provisions of the Partnership act 1932, apply. Thus interest on loan to Partner should be charged @6% p.a Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation Assertion (A). c) Assertion (A) is true but the Reason (R) is false d) Assertion (A) is false but the Reason (R) is true
9	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. Assertion (A): Ankur, Bhaskar and Rakesh are partners with capitals of ₹. 3, 00,000, 4, 00,000 and 5, 00,000 respectively. The partnership deed provided to allow remuneration to each partner of ₹, 50,000 p.a. and interest on capital @5% p.a. Profit for the year ended 31st March 2021 of ₹. 2, 10,000 was distributed without allowing remuneration and interest on capital. Rectifying entry for the above will be Dr. Ankur and Cr Rakesh by ₹. 5000. Reason (R): Remuneration and Interest to Ankur, Bhaskar and Rakesh are ₹. 65000, 70,000 and 75000 respectively. Each partner was credited by ₹. 70000. As a result Ankur was excess credited by 5000 and Rakesh was short credited by 5000. Thus Ankur will be debited and Rakesh will be credited by ₹. 5000. Alternatives: **a**) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation Assertion (A). c) Assertion (A) is true but the Reason (R) is false d) Assertion (A) is false but the Reason (R) is true
10	Read the following Assertion (A) and Reason(R). Choose one of the correct alternatives given below. Assertion (A) Sandhya, Sudheer and Namitha are partners sharing profits in the ratio of 3:2:1, Sandhya is guaranteed minimum profit share of ₹. 75000 p.a after appropriations. Profit for the year after all adjustments was ₹. 1, 80,000. Profit share of Sandhya and Namitha will be Rs.90000, 30000 respectively.

	Reason (R): Profit share of Sudheer is ₹. 75000 since her actual share is ₹. 60000(1, 80000*2/6).Balance profit ₹, 105000 will be distributed between Sandhya and Namitha in the ratio of 3:1. Thus Sandhya will get ₹. 78750, and Namitha ₹. 26,250. Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation Assertion (A). c) Assertion (A) is true but the Reason (R) is false d) Assertion (A) is false but the Reason (R) is true
	ANSWERS **ASSERTION –REASON BASED QUESTIONS**
	Q6. Option B Q7. Option B Q8. Option C Q9. Option A Q10. Option D
	Case studies – MCQs.
1	Read the hypothetical text and answer the following questions. Arun, Varun and Tarun were partners in a firm sharing profits equally. On 1st April, 2020, their capitals stood at ₹ 2, 00,000, ₹ 1, 50,000 and ₹ 1, 00,000 respectively. As per the provisions of Partnership Deed: 1) Arun was entitled to a salary of ₹ 2,500 p.m. 2) Partners were entitled to interest on capital @ 10% p.a. The net profit for the year ended 31st March, 2021, ₹ 1, 50,000 was distributed among the partners without providing for the above items. Q1.What is the amount of interest on capital of Varun? a) ₹ 20,000 b) ₹ 15,000 c) ₹ 10,000 d) ₹ 30,000 Q2. What is the amount of distributable profit for the partners after providing salary and interest on capitals to the partners? a) ₹ 50,000 each b) ₹ 25,000 each c) ₹ 10,000 each d) ₹ 15,000 each

	Q3. Arun's Capital A/c will be credited with Rs……………for giving the adjustment to above omissions. a) ₹ 20,000 b) ₹ 15,000 c) ₹ 25,000 d) ₹ 10,000
	Q4. Capital Account/Accounts of …………………… will be debited to give the effect of above adjustments. a) Varun b) Tarun and Arun c) Arun and Varun d) Varun and Tarun
3	Read the hypothetical text and answer the following questions. A,B and C are partners in a firm sharing profits and losses in the ratio of 2:2:1. Their capitals (Fixed) are ₹ 1, 00,000, ₹ 80,000 and ₹ 70,000 respectively. For the year 2018-19, interest on capital was to be credited to them @ 9% p.a. instead of 12% Q1. What was the net amount should be credited to partner B? a) ₹ 1,500 b) ₹ 2,400 c) ₹ 1,800 d) ₹1,200 Q2. What was the net amount should be credited to partner C? a)₹ 1,800 b) ₹ 2,000 d) ₹ 2,100 d) ₹ 1,700 Q3. What was the amount that debited to partner B? a) ₹ 1,500 b) ₹ 2,000 c) ₹ 3,000 d) ₹ 4,000 Q4. What was the amount of past adjustment entry? a)₹ 400 b) ₹ 300 c) ₹ 600 d) ₹ 500
4	Read the hypothetical text and answer the following questions. X and Y started business on 1St April, 2020 with capitals of ₹ 5,00,000 each. As per the partnership Deed, both X and Y are to get monthly salary of ₹ 10,000 each and interest on capital is ₹ 50,000 each. Interest on drawings are as follows X : ₹ 3,000 and Y: ₹ 5,000. During the year, the firm incurred a loss of ₹ 2,00,000. Q1. What is the amount to be transferred to Profit and Loss Appropriation Account? a) ₹ 5,00,000 b) ₹ 2,00,000 c) ₹ 3,00,000 d) ₹ 1,50,000 Q2. What is the total amount of salary to be credited to Partners' capital account? a) ₹ 1,20,000 b) ₹ 2,40,000 c) ₹ 1,80,000 d) No salary will be given Q3. What amount of loss is to be transferred to the capital account of the both partners? a) ₹ 1,92,000 b) ₹ 2,00,000 c) ₹ 1,96,000 d) ₹ 1,80,000 Q4. What is the share of loss of X? a)₹ 1,00,000 b) ₹ 96,000 c) ₹ 98,000 d) ₹ 90,000

5	Read the hypothetical text and answer the following questions. A, B and C started a firm on 1st October, 2020 sharing profits equally. A drew regularly ₹ 4,000 in the beginning of every month for the six months ended 31st March, 2021. B drew regularly ₹ 4,000 at the end of every month for the six months ended 31st March, 2021. C drew regularly ₹ 4,000 in the middle of every month for the six months ended 31st March, 2021. IOD is charged at 5% p.a Q1. What the total amount of drawings of the partners? a)₹ 1,44,000 b) ₹ 72,000 c) ₹ 24,000 d) 96,000 Q2. What is the interest on drawings of B? a)₹ 350 b) ₹ 300 c) ₹ 200 d) ₹ 250 Q3. What is the interest on drawings of A? a)₹ 300 b) ₹ 250 c) ₹ 350 d) ₹ 400 Q4. What is the total amount of interest on drawings of the partners? a)₹ 1,200 b) ₹1,500 c) ₹ 600 d) ₹ 900.
	ANSWERS Case 1 - 1 (a) 2(b) 3(c) 4(d) Case 2 - 1(a) 2(b 3(a) 4(b) Case 3 - 1(b) 2(c) 3(c) 4(c) Case 4 – 1(b) 2(d) 3(a) 4(b) Case 5 – 1(b) 2(d) 3(c) 4(d)
	MULTIPLE CHOICE QUESTIONS
1	Ram, Raghav and Raghu are partners in a firm sharing profits in the ratio of 5:3:2. As per Partnership Deed, Raghu is to get a minimum amount of ₹ 10,000 as profit. Net profit for the year is ₹ 40,000. Find the deficiency amount in the above case. a) ₹ 750 b) ₹ 1,000 c) ₹ 1,500 d) ₹ 2,000
2	A, B and C are partners sharing profits equally. A drew regularly ₹ 4,000 in the beginning of every month for six months ended 30th September, 2020. Calculate interest of A's drawing @ 5% p.a. a) ₹ 200 b) ₹ 1,200 c) ₹ 350 d) ₹ 700
3	On 1st April 2018, a partner introduced additional capital of ₹ 50,000 in the firm but Partnership Deed is silent. The partner demands interest on capital @ 5% p.a. How much interest on capital will be payable to the partner: a) ₹ 3,000 b) Interest on capital will not be allowed c) ₹ 2,500 d) ₹ 1,800

4	MATCH THE FOLLOWING Col. I | Col. II A Interest on Drawings | I Credit side of partners' capital a/c B Commission to a Part er | I Credit side of P&L Appropriation a/c C Interest on partners loan | Iii Debit side of P&L Appropriation a/c D Interest on partners' capital | Iv Debit side of P&L a/c A B C D a) (i) (ii) (iii) (iv) b) (i) (iv) (ii) (iii) c) (ii) (iii) (iv) (i) d) (iv) (iii) (ii) (i)
5	Steps involved in distribution of profit under minimum guarantee to partner will be………………….. i)Calculate the amount of deficiency ii)Calculate distributable profit between/among the partners iii)Distribute the amount of deficiency between/among the partners who have given the guarantee iv)Calculate the actual share of profit of each partner a) (ii) iv) i) iii) b) (i) ii) iii) iv) c) (iii) ii) iv) i) d) (iv) iii) ii) i)
6	If super profit is zero or negative, it means that the actual average profit is less than or equal to the normal profit (a) True (b) False (c) Partially true (d) Can't say
7	Capital employed by a partnership firm is ₹. 5, 00,000. Its average profit is ₹. 60,000. The normal rate of return for the similar type of business is 10%. The amount of super profit is. a) ₹ 50000 (b) ₹ 10000 (c) ₹ 6000 (d) ₹ 56000

8	Average profit of over the last five years were ₹. 60000. The normal yield on capital invested in such a business is estimated at 10% pa. Capital invested in the business is ₹. 500000. Amount of goodwill, it is based on 3 years purchase of last 5 years super profit will be a) 1, 00,000 (b) 1, 80,000 (c) 30000 (d) 1, 50,000.

9	As per AS-26 -------------------Goodwill is recorded in the books of accounts. (a) Purchased (b) Self-generated (c) Both a) and b) (d) None of these
10	A form earns a profit of ₹. 1.10,000. The Normal Rate of return is 10%. Assets of the firm are ₹. 11, 00,000 and liabilities ₹. 1, 00,000. Value of goodwill by the capitalisation of average profit will be (a) ₹ 2,00,000 (b) ₹ 10,000 (c) ₹ 5000 (d) ₹ 1, 00,000
	Answers 1. D 2. C 3. B 4. C 5. A 6. A 7. B 8. C 9. A 10. D

RECONSTITUTION OF PARTNERSHIP FIRM: CHANGE IN PROFIT - SHARING RATIO

TOPICS

Sacrificing Ratio
Gaining Ratio
Accounting for revaluation of assets and reassessment of liabilities
Treatment of reserves and accumulated profits
Preparation of revaluation account and Balance Sheet

Reconstitution of a partnership refers to the change in old agreement on the occasion of Admission of a partner,Retirement of partner or change in Profit and Loss sharing ratio

Steps to be followed in reconstitution of partnership

- **Step1** Distribute all the reserves,accumulated profits or losses or any other balance of surplus in the old profit sharing ratio.
- **Step 2** Now, find the sacrificing ratio and gaining ratio of the existing partners with the help of the following formulae:
  - Sacrificing ratio = Old ratio – New ratio
  - Gaining ratio = New ratio – Old ratio
- **Step 3** Find the goodwill of the firm by any of the methods
- **Step 4** Revaluate the assets and liabilities (if any) Distribute the profit or loss on revaluation of assets and liabilities (if any) among all existing partners in their old profit sharing ratio
- **Step 5** Debit the capital of gaining partners with the gaining proportion of the goodwill and credit the capital of sacrificing partner with the proportionate sacrifice amount of goodwill.

After this process, transfer the balance of revaluation account to the existing partner's capital accounts.

Preparation of Revaluation Account

Revaluation Account is opened to transfer the revalued amount of Assets and Liabilities

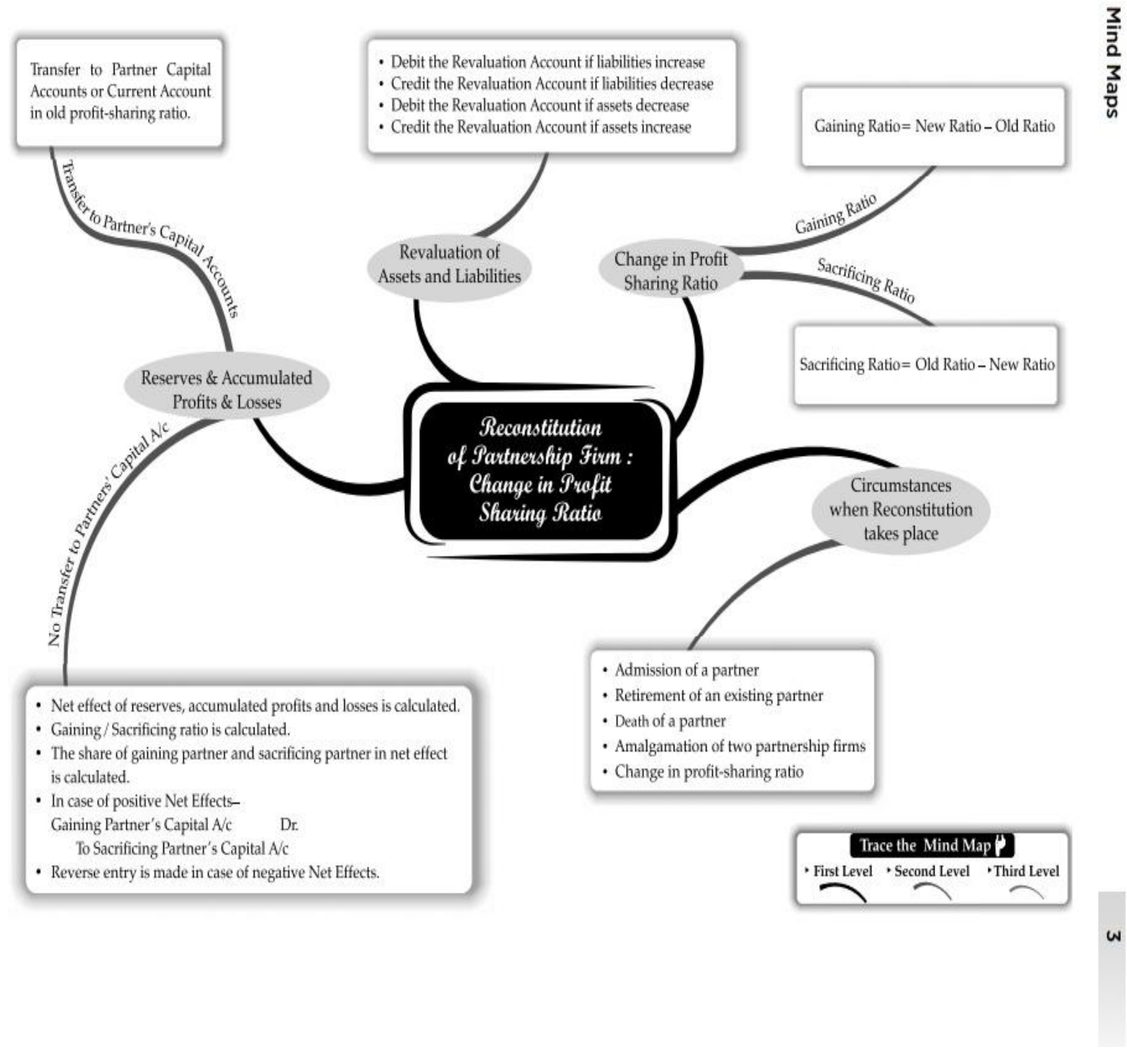
(i) Debit the revaluation a/c if assets decrease or liabilities increase

(ii) Credit the revaluation a/c if assets increase or liabilities decrease

After this process, transfer the balance of revaluation account to the existing partner's capital accounts.

Balance Sheet

Now the Balance Sheet is prepared with the help of adjusted capital accounts and revalued assets and liabilities.



QUESTIONS

1.	**MCQ** Change in profit sharing ratio results in (a) Sacrifice of share in profit by one or more partners (b) Gain of share in profit by one or more partners (c) Both (a) and (b) (d) None of the above
2.	Assets are revalued and liabilities are reassessed at the time of change in profit sharing ratio so that (a) assets and liabilities are shown at their present values (b) no partner is put to an advantage or disadvantage (c) sacrificing partner is partly compensated (d) assets and liabilities are shown at their market value.
3.	A,B and C are partners sharing profits in the ratio of 5:3:2. They decided to share future profits in the ratio of 2:3:5. Workmen compensation Reserve appearing in Balance Sheet on that date when no information as to workmen compensation claim is given will be (a) distributed among partners in their capital ratio (b) distributed among partners in their new profit sharing ratio (c) Distributed among partners in their old profit sharing ratio. (d) Carried forward to new Balance Sheet.
4	A and B are partners sharing profits in the ratio of 3:2. They changed their profit sharing ratio to 2:3 w.e.f 1st April, 2021. The Balance Sheet as on the date of change in profit sharing ratio showed credit balance in profit and loss a/c of Rs.1,00,000,which the partners decide to carry forward and not distribute. The balance of Rs.1,00,000 will be adjusted by (a) crediting A’s capital a/c and debiting B’s capital a/c by Rs.1,00,000 (b) crediting A’s capital a/c and debiting B’s capital a/c by Rs.20,000 (d) debiting A’s capital a/c and debiting B’s capital a/c by Rs.1,00,000 (b) debiting A’s capital a/c and debiting B’s capital a/c by Rs.20,000
5	Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of new· agreement is called: (a) Revaluation of partnership (b) Reconstitution of partnership (c) Realization of partnership (d) None of the above
7	In case of change in profit-sharing ratio, the gaining partner must compensate the sacrificing partners by paying the proportional amount of (a) capital (b) cash (c) goodwill (d) none of the above

8	In case of change in profit-sharing ratio, the accumulated profits are distributed to the partners in (a) new ratio (b) old ratio (c) sacrificing ratio (d) equal ratio
9	A partnership is reconstituted due to change in profit sharing ratio. State whether True or False
10	A, B and C are sharing profits in the ratio of 3:2:1.They decided to share equally in future .B's has neither sacrificed nor gained. State whether True or False
11	A,B and C were are partners in a firm sharing profits in the ratio of 3:4:1 .They decided to share profits equally w.e.f from 1 .4.2019. On that date the profit and loss account showed the credit balance of 96,000.instead of closing the profit and loss account ,it was decided to record an adjustment entry reflecting the change in profit sharing ratio .In the journal entry: a) Dr. A by 4,000; Dr. B by 16,000; Cr C by 20,000 b) Cr. A by 4,000; Cr. B by 16,000; Dr C by 20,000 c) Cr. A by 16,000; Cr. B by 4,000; Dr C by 20,000 d) Dr. A by 16,000; Dr. B by 4,000; Cr C by 20,000
12	Increase in the value of assets and decrease in the value of liabilities result in ……………for the existing partners and should be ……….to P/L Adjustment a/c
13	Out of the following which is not a part of change in profit sharing ratio (a) Determination of sacrificing and gaining ratio (b) Accounting of goodwill (c) Accounting of reserves, accumulated profits and losses (d) Dissolution of partnership firm
14	Ankita and Neha are sharing profits in the ratio of 2:1. Now they have decided thatnew profit sharing ratio will be equal. What will be the Gain/Sacrifice ratio? (A) Ankita gain 1/6 and Neha sacrifice 1/6 (B) Ankita sacrifice 1/6and Neha gain 1/6 (C)Ankita gain 4/5 and Neha sacrifice 4/5 (D)Ankita sacrifice 2/3 and Neha gain 1/6
15	In which of the following situation, partner's capital a/c is credited? (a) Transfer of accumulated profit or reserves (b) Transfer of revaluation loss (c) Writing off the existing book value of goodwill (d) All of the above

16	In case of change in profit sharing ratio, when revised values are not to be recorded in the books, then steps to be followed are (i) pass a single adjustment entry (ii) to find share of sacrifice/gain by partners (iii)calculation of net effect of revaluation (iv) calculation of proportional amount of net effect of revaluation (a) (ii) (iii) (iv) (i) (b) (iii) (ii) (iv) (i) (c) (iv) (iii) (ii) (i) (d) none of these
17	P,Q and R were partners in a firm for 2:2:1.respectively. P wants to value goodwill but Q is of the opinion that if they valued their goodwill then it will amount to reconstitution. You are required to solve the issue by selecting one option from the following: (a) They can value goodwill but after reconstitution (b) Q is correct, if goodwill is valued then reconstitution would take place (c) P is correct, they can value goodwill whether reconstitution takes place or not (d) None of the above
18	**ASSERTION-REASON BASED QUESTIONS** Assertion: Purchased goodwill appearing on the assets side of the balance sheet need to be written off in old ratio on change in profit sharing ratio. Reason: As per AS-26, existing goodwill must be written off by crediting it to capital account of partners. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
19	Assertion: At the time of change in profit sharing ratio, Workmen compensation Reserve appears on the liabilities side of the balance sheet at Rs.10,000 and a claim of Rs.6,000 on account of Workmen compensation arises, then the balance of reserve shall be distributed in old ratio. Reason: The balance of reserve becomes the part of free reserves, hence Transferred to capital account of partners in old ratio. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
20	Assertion: Revaluation of assets is necessary at the time of change in profit sharing ratio as their current value differs from their book value. Reason: The difference arising out of change in value should be recorded in the books of accounts (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
21	Assertion (A):Atul ,Baral and Chetak are partners sharing profits equally. They change their profit sharing ratio to 5:3:2. On the date there was a debit balance in profit and loss a/c. it will be carried forward and not debited to the partners' capital accounts but will be set off against profits in future.

	Reason (R) : Debit balance in profit and loss account is a fictitious asset and all fictitious assets are written off at the time of reconstitution of the firm in the old profit sharing ratio of the partners. In the context of above two statements, which of the following is correct? (A) Both Assertion and Reason are true and Reason is correct explanation of Assertion. (B) Assertion and Reason both are true but Reason is not the correct explanation of Assertion. (C) Assertion is true, Reason is false. (D) Assertion is false, Reason is true.
22	Assertion (A) Change in profit sharing ratio is not a reconstitution of partnership Reason(R): Winding up of the firm is reconstitution of business In the context of above two statements, which of the following is correct? (A) Both Assertion and Reason are true and Reason is not correct explanation of Assertion. (B) Assertion and Reason both are true but Reason is the correct explanation of Assertion. (C) Assertion is true, Reason is false.
23	Assertion(A): At the time of reconstitution of firm,assets are revalued and liabilities are reassessed. Reason (R): The change in the value of assets and liabilities belong to the period prior to reconstitution and any gain or loss on revaluation is shared in the old ratio by the partners. In the context of above two statements, which of the following is correct? (**A) Both Assertion** and Reason are true and Reason is correct explanation of Assertion. (B) Assertion and Reason both are true but Reason is not the correct explanation of Assertion. (C) Assertion is true, Reason is false. (D) Assertion is false, Reason is true.
24.	Assertion (A): When reserves and accumulated profits/losses are adjusted through capital accounts, they appear in the balance sheet of new firm at the old figures. Reason (R): If partner decide to record net effect of reserves, etc, a single adjusting entry involving the capital accounts of sacrificing and gaining partners is passed. In the context of above two statements, which of the following is correct? **(A) Both Asse**rtion and Reason are true and Reason is correct explanation of Assertion. (B) Assertion and Reason both are true but Reason is not the correct explanation of Assertion. (C) Assertion is true, Reason is false. (D) Assertion is false, Reason is true.
25.	Assertion: At the time of change in profit sharing ratio, goodwill of the firm is not valued because the partner is compensated Reason (R): Goodwill of the firm is valued at the time of change in profit sharing ratio because the sacrificing partners are compensated by the gaining partner In the context of above two statements, which of the following is correct? (A) Both Assertion and Reason are true and Reason is not correct explanation of Assertion. (B) Assertion and Reason both are true but Reason is the correct explanation of Assertion. (C) Assertion is true, Reason is false. (**D) Assertion** is false, Reason is true.

26	Assertion (A):A,B and C are partners. They change their profit sharing ratio from 2:3:5 to 5:3:2. The partner whose share is not affected is B Reason(R): profit share of B before and after the change in profit-sharing ratio is 3/10. Whereas profit share of A changed from 2/10 to 5/10 and that of C from 5/10 to 2/10 In the context of above two statements, which of the following is correct? (**A) Both Assertion and Reason are true and Reason is correct explanation of Assertion**. (B) Assertion and Reason both are true but Reason is not the correct explanation of Assertion. (C) Assertion is true, Reason is false. (D) Assertion is false, Reason is true.
27	Assertion (A) : A firm can change its existing agreement. Reason (R) : Any change in its partnership agreement, will be treated as punishable offence. a. Both A and R are true and R is the correct explanation of A b. Both A and R are true and R is not the correct explanation of A c. A is true , but R is false d. A is false , but R is true
28	Assertion: As a result in Change in Profit Sharing ratio it result in dissolution of partnership firm, Reason: As told agreement come to end as a result of any change in the Partnership Deed it ends up the old agreement and the new agreement is formed so it becomes the part of Reconstitution of the Partnership Firm i.e. Dissolution of Partnership. A. Both (A) and (R) are true and (R) is the correct explanation of (A) B. Both (A) and (R) are true and (R) is not correct explanation of (A C. (A) is true but (R) is false D. (A) is false but (R) is true
29	Assertion: The old balances of reserves need not be transferred to capital account of partners in case of change in profit ratio. Reason: If partners decide not to distribute the reserves, then adjusting entry can be passed in sacrificing/gaining ratio. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.

30	**CASE STUDY BASED QUESTIONS** Read the passage below and answer the questions given: Mohan and Sohan, two college friends started a restaurant business in partnership sharing profit and loss in the ratio of 3:2 in the year 2019. Mohan also had a family business of garments, which he took over after his father's death. As a result, he devoted less time to the restaurant. Sohan, being his best friend understood this and supported him fully. However, in the year 2020, due to Covid-19, the restaurant business slowed down Sohan approached Mohan and suggested that they share profits equally. Mohan readily agreed to it. The Goodwill of the firm was valued at ₹. 30,000. Also, there is a Workmen Compensation Reserve and General Reserve of ₹. 90,000 and ₹.12,000 respectively. 1. What single adjusting entry will be passed for goodwill adjustment? (a) Debit Sohan and Credit Mohan by ₹ 3.000 (b) Debit Mohan and Credit Sohan by ₹ 3.000 (c) Debit Mohan and Credit Sohan with ₹. 300 (d) Debit Sohan and Credit Mohan with ₹. 300 2. What journal entry will be passed in case there is a claim on Workmen Compensation Reserve of Rs. 45,000 ? (a) Workmen Compensation Reserve A/c Dr. 90,000 To Mohan's capital A/c 54,000 To Sohan's capital A/c 36,000 (b) Workmen Compensation Reserve A/c Dr. 45,000 To claim on Workmen Compensation Reserve 45,000 (c) Sohan's capital A/c Dr. 9000 To Mohan's capital A/c 9000 (d) Workmen Compensation Reserve A/c Dr. 90,000 To claim on Workmen Compensation Reserve A/c 45,000 To Mohan's capital A/c 27,000 To Sohan's capital A/c 18,000

	3. What journal entry will be used for General Reserve? (a) General reserve A/c Dr. 12,000 To Mohan's capital A/c 6,000 To Sohan's capital A/C 6,000 (b) General reserve A/c Dr. 12,000 To Mohan's capital A/C 7,200 To Sohan's capital A/C 4,800 (c) Mohan's capital A/C Dr. 7,200 Sohan's capital A/c Dr. 4,800
31	Bhavna and Rajiv were partners in a partnership firm carrying on a restaurant in Kolkata. Bhavna noticed that a lot of food is left at the end of the day. To avoid wastage, she suggested that it can be distributed to the needy. Rajiv wanted thatit should be mixed with the food being served in the next day. Rajiv then give a proposal that if his share in the profit increased, he will not mind free distribution of leftover food. Bhavna happily agreed. So, they decided to change their profit- sharing ratio 1:2 with immediate effect. On that day revaluation of assets and reassessment of liabilities was carried out that resulted into again of Ra. 18,000. On that date the goodwill of the firm was valued at Rs.1,20,000. Based on the above information, you are required to answer the following questions: 1.Sacrifice/Gain of Bhavna and Rajiv will beA.Bhavna sacrifice 1/6,Rajiv Gain 1/6 B. Bhavna Gain 1/6,RajivSacrifice 1/6 C.Only Bhavna gains 1/6 Only Rajiv Sacrifice 1/6 2. At the time of change in Profit Sharing ratio , gaining partner capital account is …………………… and sacrificing partner is .... for adjustment of Goodwill. A. Credited, Debited B. Debited, Credited C. Increase, Decrease D. Decreased , Credited

32	Joseph and Monu were partners in a firm carrying on a tiffin service in Mumbai. Joseph noticed that a lot of food is left at the end of the day. To avoid wastage, she suggested that it should be distributed to the needy. Monu wanted that it should be mixed with the food being served the next day. Monu then gave a proposal that if his share in the profit is increased, he will not mind free distribution of leftover food. Joseph happily agreed. So they decided to change their profit sharing ratio to 2:3 with immediate effect. On that date, revaluation ofassets and reassessment of liabilities was carried out that resulted into a profit of ₹8,000. On that date, the goodwill of the firm was valued as ₹30,000. 1.Profit on revaluation will be (A) Debited to capital account of partners in 2:3 (B) Debited to capital account of partners in 1:1 (C) Credited to capital account of partners in 2:3 (D) Credited to capital account of partners in 1:1 2 Sacrifice/ Gain of Joseph and Monu will be: (A) Joseph sacrifice 1/10, Monu gains 1/10 (B) Monu sacrifice 1/10, Joseph gains 1/10 (C) Only Joseph gain 1/10 (D) Only Monu sacrifice 1/10 3 At the time of change in profit sharing ratio, gaining partner capital is ________________ and Sacrificing partner is_______________ for adjustment of goodwill. (A) Credited, Debited (B) Debited, Credited (C) Increased, Decreased (D) Decreased, Credited

	4 The journal entry for adjustment of goodwill will be (A) Monu's capital A/c Dr. 30,000 To Joseph's capital A/c 30,000 (B) Joseph's capital A/c Dr. 15,000 To Monu's capital A/c 15,000 (C) Monu's capital A/c Dr. 3,000 To Joseph's capital A/c 3,000 (D) Joseph's capital A/c Dr. 27,000 To Monu's capital A/c 27,000
33	A and B are partners, who shared profits and losses in the ratio of 2:1 From 1st January 2021,the partners decided to change their profit sharing ratio to 3:2 and agreed upon the following: (i) Goodwill of the firm valued at Rs.45,000 (ii) Creditors of Rs.8000 is not likely to be claimed hence should be written off (iii) Land and Building is overvalued by 10% (iv) Provision for doubtful debts to be reduced to Rs.3000/- The partners neither want to record the goodwill nor to distribute the general reserve 1. A's gain or sacrifice in the profit sharing ratio is (a) gain 1/3 (b) sacrifice 1/3 (c) gain 1/13 (d) sacrifice 1/15 2. B's gain or sacrifice in the profit sharing ratio is (a) gain 1/3 (b) sacrifice 1/3 (c) gain 1/15 (d) sacrifice 1/15 3. Who will give the amount of goodwill to whom in what amount (a) A will give Rs.4,500 to B (b) B will give Rs.4,500 to A © A will give Rs.3,000 to B (d) B will give Rs.3,000 to A 4. Which account will be opened to transfer the amount of creditors to be written off? (a) Realisation account (b) Revaluation a/c (c) Both (a) and (b) (d) Neither (a) nor (b)

34	Karthik and Amit were partners in a firm carrying on a tiffin service in Delhi. Karthik noticed that a lot of food is left at the end of the day. To avoid wastage he suggested that it can be distributed to the needy, Amit wanted that it should be mixed with the food being served the next day. Amit then gave a proposal that if his share in the profit increased, he will not mind free distribution of left over food. Karthik happily agreed. So, they decided to change their profit sharing ratio 1:2 with immediate effect. On that date, revaluation of assets and reassessment of liabilities was carried out that resulted into a gain of Rs.36,000 On that date the goodwill of the firm was valued at Rs.2,40,000 1. Sacrifice/gain of Karthik and Amit will be (a) Karthik sacrifice 1/6, Amit gains 1/6 (b) Karthik gains 1/6,Amit sacrifice 1/6 (c) Only Karthik gains 1/6 (d) Only Amit sacrifice 1/6 2. At the time of change in profit sharing ratio, gaining partner's capital a/c is-------- and sacrificing partner's capital a/c is ----------------- for adjustment of goodwill (a) credited, debited (b) debited, credited (c) increased, decreased (d) decreased, increased 3. Pass the journal entry for adjustment of goodwill (a) Amit's capital A/c Dr 24,000 To Karthik's capital A/c 24,000 (b) Karthik's capital A/c Dr 12,000 To Amit's capital A/c 12,000 (c) Amit's capital A/c Dr 40,000 To Karthik's capital A/c 40,000 (b) Karthik's capital A/c Dr 2,00,000 To Amit's capital A/c 2,00,000

35

Read the given passage carefully and answer the questions

Sometimes existing partners of the firm may decide to change their profit sharing ratio. The change in the profit sharing ratio will either increase or decrease partner's share. In other words, certain partner may gain, whereas the other may lose. The loss of share of the partner must be compensated by the partner, who has gained the share. The change of ratio, actually means that the gaining partner is purchasing his additional share from the losing partner. As such the gaining partner must pay for the share of goodwill gained by him to the partner, who has lost share.

1. A,B and C are partners in a firm, sharing profits and losses in the ratio of 3:2:1.Calculate sacrificing and gaining ratios in the following case: A,B and C decide to share profits and losses in future in the ratio of 1:2:3.Choose the correct alternative.

a) A's sacrifice =2/6;B's sacrifice =No change; C's gain=2/6

b) A's sacrifice =2/6;B's sacrifice =2/6;C's gain=No change

c) A's sacrifice = No change; B's sacrifice =2/6;C's gain=2/6

d) None of these

2.The goodwill of the firm is not affected by

a)Location of the business

b)Reputation of firm

c)Better customer service

d)None of these

3. Fill in the blank with correct answer

The change in the profit sharing ratio of the existing partners results in……………………to some partners and sacrifice of others.

4.State whether the given statement is true or false

The change of ratio,actually means that the losing partner is purchasing his additional share from the gaining partner.

36	Any changes in the relations of partnership will result in the reconstitution of the partnership firm. All the reserves and surplus will be distributed among the partners into existing profit-sharing ratio. When it is decided by the partners to make changes in the existing ratio, a separate account is opened, which is known as revaluation account, to make the revaluation of assets and reassessment of liabilities. 1. The need of revaluation of assets and liabilities (a) Assets and liabilities should appear at revised values (b) Any profit and loss on account of change in values belong to old partners. (c) All unrecorded assets and liabilities are recorded (d) None of the above. 2. Revaluation account is (a) Real account (b) Nominal account (c) Personal account (d) None of the above 3. In case of change in profit sharing ratio the general reserve existing in the balance sheet is transferred to capital accounts of the partners in their (a) Sacrificing ratio (b) gaining ratio (c) Old-profit sharing ratio (d) New profit sharing ratio
37	Arman, Sharvan and Chintan are partners sharing profits and losses in the ratio of5:3:2. Arman is a marketing person and does not understand the accounting issues. Therefore, when they discussed to share future profits and losses equally, he wanted to understand in concrete terms the profit share he will have to foregoand whether he will be compensated for the loss in profit share or not. If he will be compensated, what will be the amount of compensation and how it will be calculated? He was clarified that for the loss of profit share, he will be paid compensation in the form of goodwill calculated on an accepted principle of goodwill valuation.

	Goodwill was to be valued at 3 years' purchase 5 years' average profit. Profits for the last 5 years were ₹1,20,000, ₹1,20,000 , ₹ 1,50,000 , ₹1,10,000 and ₹ 1,00,000. Based on the above information, choose the option to the questions Gain or sacrifice of Sharvan and Chintan due to change in the profit sharing will be a. Sharvan's gain = 1/30 ; Chitntan's sacrifice = 4/30 b. Sharvan's sacrifice = 1/30 ; Chitntan's gain = 5/30 c. Sharvan's gain = 1/30 ; Chitntan's gain = 4/30 d. Sharvan's gain = 5/30 ; Chitntan's sacrifice = 5/30 Value of Goodwill is a. ₹3,00,000 b. ₹3,60,000 c. ₹3,72,000 d. ₹3,50,000 Sharvan and Chintan will compensate Arman by paying goodwill as a. . ₹12,000 and ₹48,000 respectively b. ₹24,000 and ₹24,000 respectively c. ₹30,000 each d. ₹60,000 each
38	A, B and C are partners sharing profits and losses in the ratio of 5:3:2. A was unable to devote time to business due to her other commitments. Therefore adjustments were required in the agreed terms of partnership. They decided to share future profits and losses in the ratio of 2:3:5. With effect from 1st April,2021. The values of assets and liabilities did not require any adjustments. However, an unrecorded computer of value ₹.60,000 and a claim of a customer of Rs.30,000 was to be brought in the books. The balance sheet has goodwill of ₹.10,000 as an asset, other assets(excluding goodwill were Rs.6,00,000 whereas liabilities were ₹.50,000. Normal rate of return is 15% and average profit is ₹.90,000. 1. Goodwill under capitalisation of average profit will be (a) ₹.20,000 (b) ₹.40,000 (c) ₹.50,000 (d) ₹.60,000

	2. Sacrificing and gaining ratio of the partners will be (a) A 3/10 (sacrifice) B nil C 3/10 (gain) (b) A3/10 (sacrifice) B 3/10 (gain) C nil (c) A 3/10(sacrifice), B 1/10 (gain) C 2/10 (gain) (d) A nil, B 3/10 (sacrifice) C 3/10(gain) 3. Who is neither a gaining nor a sacrificing partner (a) A (b) B (c) C (d) A and C
39	Naman, Shravan and Kamal are partners sharing profits and losses in the ratio of 5:3:2.and whether Naman is a marketing person and does not understand the accounting issues. Therefore, when they discussed to share profits and losses equally, he wanted to understand the profit share he will have to forgo and whether he will be compensated. Goodwill was to be valued at , 3 years purchase of 5 years average profit. Profit for the last 5 years were Rs.1,20,000,Rs.1,20,000,Rs.1,50,000,Rs.1,10,000 and Rs.1,00,000. Based on the information choose the correct option to the questions. 1. Gain or sacrifice of Shravan and Kamal due to change in profit sharing ratio will be (a) shravan's gain – 1/30 Kamal's sacrifice – 4/30 (b) shravan's sacrifice – 1/30 Kamal's gain – 5/30 (c) shravan's gain – 1/30 Kamal's gain – 4/30 (d) shravan's gain – 5/30 Kamal's sacrifice – 5/30 2. Value of goodwill is (a) Rs.3,00,000 (b) Rs.3,60,000 (c) Rs.3,72,000 (d) Rs.3,50,000 3. Shravan and Kamal will compensate Naman by paying goodwill as (a) Rs.1,20,000 and Rs.48,000 (b) Rs.24,000 and Rs.24,000 (b) Rs.30,000 each (d) Rs.60,000 each
40	Analyze the case below and the answer the questions. Mishra, Tiwari and Singh are partners in a firm sharing profits and losses in the ratio 1:2:3. Their capitals on 31st March,2017 were Rs.4,00,000, ₹.3,00,000 and ₹.2,00,000 respectively. On the day of reconstitution of the firm, their balance sheet showed a debit balance of profit and loss a/c ₹.30,000 and general reserve of ₹.60,000. The value of the

	firm was decided at ₹.2,10,000.It was also decided that the value of an asset which was previously not recorded in the books will be recorded with ₹.21,000. 1. Sacrifice made by Tiwari on the reconstitution of the partnership will be a) ½ b) 1/3 c) ¼ d)nil 2. What will be the balance of Mishra's capital on the reconstitution of the partnership after taking into account the above adjustment a) Rs,3,48,500 b) Rs.3,38,500 c) Rs.4,08,500 d) Rs.4,88,500 3. The ratio in which the loss or gain on revaluation to be distributed among the partners will be (a) 1:3:2 (b) 2:3:1 (c) 3:2:1 (d) 1:2:3

Answers

1	**c**	**21**	**d**
2	**b**	**22**	**d**
3	**c**	**23**	**a**
4	**b**	**24**	**d**
5	**b**	**25**	**d**
6	**d**	**26**	**a**
7	**c**	**27**	**c**
8	**b**	**28**	**d**
9	true	**29**	**a**
10	true	**30**	(1) (a), 2 (d) 3 (b)
11	**b**	**31**	(1). (a) 2.(b)
12	**gain, credited**	**32**	1.(d) 2(a) 3(b) 4(c)
13	**d**	**33**	1.(c) 2(b) 3.(a)
14	**b**	**34**	1. (a), 2(b), 3.(c)
15	**a**	**35**	(1) a (2) d (3) gain (4) false
16	**b**	**36**	(1) b (2) b (3) c
17	**c**	**37**	(1) c, (2) b (3) a
18	**c**	**38**	(1) a, (2) (a) (3) b)
19	a	**39**	(1) C (2) b (3) a
20	a	**40**	(1) d (2) b (3) d

ADMISSION OF A PARTNER

Rights, Liabilities, Effects and Adjustments in the event of Admission of a Partner:

According to section 31 of the Indian Partnership Act, 1932, a person can be admitted as a new partner:

(i) If it is so agreed in the Partnership Deed, or

(ii) In the absence of the above, if all partners agree for the admission.

Rights and liabilities of the newly admitted partner:

(i) When a partner is newly admitted into the partnership, the new partner gets the following rights:

a) Right to share the future profits of the firm, and

b) Right to share in the assets of the firm.

(ii) At the same time, the newly admitted partner becomes liable for any liability of the business incurred after his admission and any loss incurred by the firm.

Effects of admission of a Partner:

i. The old partnership comes to an end and new partnership comes into existence
ii. New partner is entitled to share future profits and the combined share of the old partners gets reduced
iii. New partner contributed an agreed amount of capital.
iv. New partner acquires right in the assets of the firm and also liable for the liabilities of the firm
v. Adjustments made for reserves, accumulated profits and losses
vi. Assets are revaluated and liabilities are assessed and net change is adjusted to partner's capital/current account.
vii. Goodwill of the firm is valued and paid to sacrificing partners.

Adjustments required on the admission of a partner:

a. Determining the new profit sharing ratio and gaining/ sacrificing ratio.
b. Valuation of Goodwill and its adjustment.
c. Revaluation of Assets and reassessment of liabilities and adjustment of the net gain or loss on such revaluation.
d. (iv)Adjustment of reserves, accumulated profits and losses.

New profit sharing ratio and gaining / sacrificing ratio:

i. New profit sharing ratio is the ratio in which all partners, including new or incoming partners, will share future profits and losses of the firm.

ii. Sacrificing ratio is the ratio in which old partners agree to sacrifice their share of profits in favour of the incoming partner.

Sacrificing ratio = Old Share - New share

Calculation of new profit sharing ratio when profit share of new or incoming partner is given but sacrifice made by old partners is not given:

In this case, it is assumed that the new partner has acquired his share from old partners in their old profit-sharing ratio. New profit sharing ratio can be determined as follows:

- Deduct new or incoming partners 'share of profit from 1; and
- Divide the remaining share of profit among old partners in their old profit sharing ratio

Calculation of new profit sharing ratio when share of new or incoming partner is given and also new profit sharing of old partners is given:

In this case, the new partner's share of profit is deducted from 1 and the balance share of profit is divided among old partners in their new profit sharing ratio. This gives new profit sharing ratio of all the partners of the new firm

Calculation of new profit sharing ratio when new or incoming partner acquires his share from the old or existing partners equally:

In this case calculating the new profit sharing ratio among all the partners is determined by

- calculating the new share of each of the old partner
- Deduct the sacrifice made in favour of the new or incoming partner from the existing share of profit of each old partner.

Calculation of new profit sharing ratio when new or incoming partner acquires his share from the old or existing partners in a particular ratio:

In this case the share of existing or old partners will change to the extent of the share sacrificed in favour of the new or incoming partner.

The existing partner's new share of profit in the reconstituted firm is determined by deducting the sacrificed share from the existing share of profits

Calculation of new profit sharing ratio when new or incoming partner acquires his share in a particular fraction from old or existing partners:

In this situation, Shares surrendered by the old partners in favour of the new partner is added, it is the share of new partner

Such share surrendered by the old or existing partners is deducted from their respective shares to determine old partners ‘shares in the reconstituted firm.

Calculation of new profit sharing ratio when one of the existing partner retains his original share of profit on admission of a new partner:

In this case, the share of profit of the new partner and share of profit of the existing partner who retains his old share is deducted from 1.

After such deduction, remaining share of profit is divided among remaining old partners in their profit sharing ratio.

Calculation of sacrificing ratio:

(A) When share of new or incoming partner is given without giving details of sacrifice made by old or existing partners:

(i) In such a case, it is assumed that old partners make sacrifice in their old profit sharing ratio.

(ii) In such situations, sacrificing ratio and old profit sharing ratio will always be same and therefore, there will be no change in profit sharing ratio of old partners.

(B) When old ratio of existing partners and new ratio of all partners is given:

(i) When old ratio and new ratio of the old and existing partners is available, sacrificing ratio is to be calculated by deducting the new share from the old share.

(ii) Formula used is as follows:

Sacrificing Share = Old Share – New Share

(A) **When new or incoming partner acquires the share by surrender of a particular fraction of shares by old partners:**

(i) In such a case, the share surrendered by the partner is deducted from his old share of profit to determine his share in the reconstituted firm.

(ii) Total of shares surrendered by all the partners in favour of new or incoming partner is considered as the share of new or incoming partner.

Gain in Profit Share of Existing or Old Partner or Partners:

(i) In the event of admission of a partner in a partnership firm, some partners sacrifice while some partners gain.

(ii) Sacrifice made by one or more old partner(s) is the total of share acquired by new or incoming partner and share gained by existing or old partner or partners.

(iii) Therefore, gain in profit share can be calculated from such shares sacrificed by the partners or where old and new share is given, by using the below mentioned formula: Gaining Share = New Share – Old Share

Valuation, Adjustment and Accounting Treatment of Goodwill:

Goodwill is the value of reputation of a firm in respect of the profits expected in future over and above the normal profits

Goodwill can be defined as "the present value of a firm's anticipated excess earnings" or "the capitalised value attached to the different profit capacity of the business"

Factors affecting value of goodwill:

a. **Nature of business**
b. **Location**
c. **Efficiency of management**
d. **Market situation**
e. **Special advantages**

As per AS-26 on Intangible Assets self-generated goodwill is not recognised as an asset in the books of account. It means that the goodwill which is internally generated by the company over the past few years, cannot be recognised as it is self-generated by the business.

Goodwill should be recorded in the books only when consideration in money or money‘s worth is paid for it, i.e., when goodwill is purchased.

In case of change in profit sharing ratio among the partners or admission or retirement/death of a partner, goodwill is not to be raised in the books of the firm as no consideration in money or money‘s worth is paid for it. If goodwill is raised, it should be immediately written off.

Accounting Treatment of Goodwill at the time of Admission of a Partner: At the time of admission of a partner, new partner who acquires the share in future profits from the existing partners should compensate sacrificing partners by paying them an amount. This amount paid by the incoming partner is termed as Goodwill or Premium for Goodwill.

Situations which may arise in the event of admission of a partner are as follows:

a. Goodwill (Premium on Goodwill) is paid privately;
b. Goodwill (Premium on Goodwill) is brought in cash or by cheque by the new or Incoming Partner and is retained in business;
c. Goodwill (Premium on Goodwill) is brought in cash or by cheque by the new or Incoming Partner and is withdrawn by Sacrificing Partners fully or partly;
d. Goodwill (Premium on Goodwill) is brought in kind;
e. Goodwill (Premium on Goodwill) is not brought in full or a part by the new or Incoming Partner.

Accounting Treatment of Goodwill;

Goodwill existing in the books of the firm is written off by debiting Old Partners ‘Capital Account/Current Account in their Old Profit Sharing Ratio and crediting Goodwill Account.

Old Partners‘Capital/Current A/c …Dr. [in Old Ratio]

To Goodwill A/c

Accounting Treatment when Goodwill (Premium) is paid privately: During this situation, Goodwill (Premium) is paid by the new or Incoming Privately, journal entry that is not passed in the books of account of the firm.

when Goodwill (Premium) is brought in cash or by cheque by the new or Incoming Partner and is retained in business:

A. **Premium brought in by the new Partner is transferred to Capital Accounts of the sacrificing partners in their sacrificing ratio. Following entries are to be passed:**

i. Premium for goodwill brought in cash by the new or incoming partner:

Cash/Bank A/c …Dr. [With share of Goodwill]

To Premium for Goodwill A/c

ii. Capital brought in cash by the new or Incoming Partner:

Cash/Bank A/c …Dr. [With Capital brought in Cash]

To New Partner's Capital A/c

Alternatively, instead of above 2 entries, a combined single entry can be passed as follows:

Cash/Bank A/c …Dr. [With Share of Capital and Goodwill]

To New Partner's Capital [With Capital]

To Premium for Goodwill A/c [With Share of Goodwill]

B. **Goodwill brought in by new partner distributed among the sacrificing partners:**

Premium for Goodwill A/c …Dr. [With Share of Goodwill]

To Sacrificing Partners 'Capital/Current A/c [In sacrificing Ratio]

Amount of Goodwill is credited to the New Partner's Capital Account and thereafter, adjusted in favor of old or existing partners in their sacrificing ratio for which following entries are passed:

i. **Cash**/Bank A/c …Dr. [With share of goodwill and capital]

To New Partner's Capital

(Being the amount brought by new partner for his share of goodwill and capital)

ii. New Partner's Capital A/c …Dr. [With share of goodwill]

To Sacrificing Partner's Capital/Current A/cs (Individually)

(Being the goodwill brought by new partner distributed among the sacrificing partners in their sacrificing ratio)

When Goodwill (Premium) is brought in cash or by cheque by the new Partner and is withdrawn by Sacrificing Partners fully or partly: Such amount of premium brought in by the new or incoming partner is shared by the sacrificing partners in the sacrificing ratio. These sacrificing partners may withdraw the premium amount fully or partly. Following entries are to be passed:

i.Premium for goodwill brought in cash by the new partner:

Cash/Bank A/c …Dr. [Amount of premium]

To Premium for Goodwill A/c

ii. Sharing of premium for goodwill:

Premium for Goodwill A/c …Dr. [Amount of premium]

To Sacrificing Partners 'Capital A/c [Sacrificing ratio]

iii. Withdrawal of premium money fully/partly:

Sacrificing Partners 'Capital A/c …Dr. [Amount withdrawn]

To Cash/Bank A/c

Accounting Treatment when Goodwill (Premium on Goodwill) is brought in kind: In such situation, the assets brought in are debited individually with their values and Premium for Goodwill Account is credited with his share of goodwill and also new Partner's Capital Account with his capital. Such Premium for Goodwill is transferred to the Capital Accounts of the sacrificing partners in their sacrificing ratio. Following are the accounting entries to be passed:

i. Assets brought in by New Partner:

Assets A/c …Dr. [Individually]

To New Partners 'Capital A/c [With amount of Capital]

To Premium for Goodwill A/c [With share of Goodwill brought in]

ii. Crediting sacrificing partners' capital accounts for Goodwill:

Premium for Goodwill A/c …Dr.

To Sacrificing Partners 'Capital A/c [In Sacrificing Ratio]

When Goodwill (Premium) is not brought in full or a part by the new or Incoming Partner: In this case, premium for goodwill account is credited with the amount of premium for goodwill brought by the new or incoming partner. Transfer entry is to be passed by debiting New or Incoming Partner's Capital/Current Account with the amount of premium on goodwill not brought by him besides debiting premium for Goodwill Account with the amount of premium paid by him. Where, Fixed Capital Accounts method is used for maintaining Capital Accounts, it is debited to his Current Account. Accounting entries are passed as follows:

i. Writing off Goodwill already appearing in the Balance Sheet:

Old Partners 'Capital/Current A/c …Dr. [In old ratio]
To Goodwill A/c

ii. Amount brought in by Incoming Partner:

Bank A/c …Dr.
To Incoming Partners 'Capital A/c [With Capital]
To Premium for Goodwill A/c [With Share of Goodwill brought in]

iii. Credit to Sacrificing Partners by Incoming Partner's full share of Goodwill

Premium for Goodwill A/c …Dr. [With Premium for Goodwill brought in]
Incoming Partner's Capital/Current A/c …Dr. [With unpaid Share of Goodwill]
To Sacrificing Partners 'Capital A/c [In sacrificing ratio]

Hidden Goodwill: It is possible that the value of Goodwill of the firm is not given and such value of goodwill is to be inferred based on the net worth (capital of the firm). Such inferred value of Goodwill is termed as Hidden or Inferred Goodwill. In order to identify the value of hidden goodwill, following steps are to be followed:

Step 1: Calculate the net worth (including goodwill) of the firm based on the capital brought in by incoming partner using following formula:

Net Worth = Incoming Partner's Capital X Reciprocal of his share)

Step 2: Calculate the actual total capital of all the partners (including the incoming partner) excluding the amount of goodwill.

Step 3: Excess of step 1 over step 2 is termed as Hidden Goodwill.

Revaluation of Assets and Liabilities

In the event of change in profit sharing ratio of the partners, assets are revalued and liabilities are to be reassessed. The gain or loss on revaluation is to be distributed to the partners in their old profit sharing ratio.

Revaluation Account: Revaluation account is an account which records change in value of assets and liabilities.

(i) Credited to Revaluation Account:

- Increase in assets,
- Unrecorded assets,
- Decrease in liabilities,
- Writing back excess provision.

(ii) Debited to Revaluation Account:

- Decrease in assets,
    - Increase in liabilities,
    - Unrecorded liabilities, Liabilities provided.

(iii) Any gain or loss from the revaluation of assets and liabilities is to be distributed among the partners in their old profit sharing ratio and is adjusted in their Capital or Current Accounts.

(iv) Assets and liabilities revalued are to be shown in the books of firm at the revalued figures only.

Accounting entries to record the Revaluation of Assets and Reassessment of Liabilities:

i. **Increase in the value of an asset:**
    a. Asset A/c (Individually) …Dr.
    b. To Revaluation A/c

ii. **Decrease in the value of an asset:**
    a. Revaluation A/c …Dr.
    b. To Asset A/c (Individually)

iii. **Increase in the amount of a liability:**
    a. Revaluation A/c ...Dr.
    b. To Liability A/c (Individually)

iv. **Decrease in the amount of a liability:**
    a. Liability A/c (Individually) …Dr.
    b. To Revaluation A/c

v. **Recording an unrecorded asset:**
    a. Unrecorded Asset A/c …Dr.
    b. To Revaluation A/c

vi. Recording an unrecorded liability:

a. Revaluation A/c …Dr.

b. To Unrecorded Liability A/c

vii. Revaluation Gain(profit):

a. Revaluation A/c …Dr.

b. To Old Partners 'Capital A/c [In old profit sharing ratio]

viii. Revaluation Loss:

Old Partners 'Capital A/c …Dr. [In old profit sharing ratio]

To Revaluation A/c

Specimen of a Revaluation Account

Dr REVALUATION ACCOUNT Cr

Particulars	**Amount**	**Particulars**	**Amount**
To Assets (individually) -Decrease in value on revaluation	…	By Assets (individually) -Increase in value on revaluation	…
To Liabilities (individually) -Increase in amount on reassessment	…	By Liabilities (individually) -Decrease in amount on reassessment	…
To Unrecorded Liabilities A/c	…		…
To Partners' Capital A/c (Remuneration)	…	By Unrecorded Assets A/c	…
To Cash/Bank A/c (Expenses)	…	By Loss on Revaluation transferred to Partners' Capital (or Current) A/c s*	…
To Gain (Profit) on Revaluation transferred to Partners' Capital (or Current) A/cs*	…		
	…		…

Treatment of Reserves and Accumulated Profits or Losses

<u>Workmen Compensation Reserve:</u>

Meaning:

(i) It is a reserve that is set aside or appropriated out of a firm's profits to meet any of the possible liabilities with respect to employees 'compensation, if it arises.

(ii) Claim with respect to such liabilities may or may not arise.

(iii)The amount of claim may or may not be equal to the amount of reserves.

Accounting Treatment of Workmen Compensation Reserve under different situations: Following are the journal entries for explaining accounting treatment of Workmen Compensation Reserve under different situation:

a. When claim against workmen compensation reserve does not exist: In this situation, amount of this reserve is transferred to Partners 'Capital Accounts in their old profit sharing ratio. Entry to be passed is:

Workmen Compensation Reserves A/c …Dr.

To Partners 'Capital (or Current) A/c

(Being workmen compensation reserves credited to partners 'capital or current accounts in their old profit sharing ratio)

b. When claim for workmen compensation reserve exists: In such situation, treatment shall depend on the amount of liabilities:

i. **Claim is equal to reserves:** Amount of reserves is transferred to Provision for Workmen Compensation Claim Account. Entry to be passed:

Workmen Compensation Reserves A/c …Dr.

To Provision for Workmen Compensation Claim A/c

(Being the provision made for estimated compensation claim)

ii. **Claim amount is lower than the reserve:** Excess of Workmen Compensation Reserve over the Workmen Compensation Claim is credited to all partners in their old profit sharing ratio. Entry is:

Workmen Compensation Reserve A/c …Dr.

To Provision for Workmen Compensation Claim A/c

To Old Partners 'Capital or Current A/c

(Being the surplus of Workmen Compensation Reserve transferred to Old Partners 'Capital or Current Account in their old profit sharing ratio)

iii. **Claim amount is higher than the reserve:** Amount in excess of reserve is debited to Revaluation Account as the loss is to be borne by the partners in old profit sharing ratio. Entry is:

a. Workmen Compensation Reserve A/c …Dr.

Revaluation A/c …Dr.

To Provision for Workmen Compensation Claim A/c

(Being amount of estimated claim debited to Workmen Compensation Reserve and

Revaluation Account)

b. Old Partners 'Capital or Current A/cs …Dr. (In Old Ratio)

To Revaluation A/c

(Being the loss on revaluation transferred to Capital or Current Account of partners in their old profit sharing ratio)

Investments Fluctuation Reserve:

Meaning:

(i) It is a reserve which is set aside out of the profits to meet the fall in the market value of investments.

(ii) In order to decide the treatment of this reserve, it is necessary to first determine whether the book value and the market value are same or different and if different, which value is higher and which is lower.

Accounting Treatment of Investment Fluctuation Reserve:

(i) **When Book Value and Market Value are same:** Entry has to be passed to transfer the amount of Investment Fluctuation Reserve to Partners 'Capital or Current Accounts in their old profit sharing ratio as below:

Investment Fluctuation Reserve A/c …Dr.

To Partners 'Capital (or Current) A/c [In Old Ratio]

(ii) **When Market Value if less than the Book Value:** In this case, treatment of Investments Fluctuation Reserve shall depend on the quantum of decrease, which has 3 possibilities as follows:

a. **Fall in Value is less than Investments Fluctuation Reserve:** The amount of Investment Fluctuation Reserve to the extent of fall in value, is transferred to Investment Account and balance is distributed among the partners in their old profit sharing ratio for which following entry is to be passed:

Investment Fluctuation Reserve A/c …Dr.

To Investment A/c [Book Value – Market Value]

To Old Partners 'Capital (or Current) A/c [In Old Ratio]

b. **Fall in Value is Equal to Investments Fluctuation Reserve:** In this case, the amount of the Investment Fluctuation Reserve is transferred to the Investment Account and no amount is distributed among the partners. Entry for the same is as follows:

Investment Fluctuation Reserve A/c …Dr.

To Investment A/c

c. **Fall in Value is More than Investments Fluctuation Reserve:** In this case, amount of Investments Fluctuation Reserve along with balance amount of fall in value is transferred to Investment Account and the amount in excess of reserve is debited to the Revaluation Account for which following entries are passed:

Investment Fluctuation Reserve A/c …Dr.

Revaluation A/c …Dr.

To Investment A/c

Partners ‘Capital (or Current) A/c …Dr. [In Old Ratio]

To Revaluation A/c

(iii) **When there is an Increase in Market Value of Investment**: In this case, total amount of Investment Fluctuation Reserve is distributed among partners and increase in value of investment is credited to Revaluation Account for which following entry is to be passed:

- Investment Fluctuation Reserve A/c …Dr.
  To Partners ‘Capital (or Current) A/c [In Old Ratio]

- Investment A/c …Dr.

  To Revaluation A/c [Investment Brought up to Market Value]

- Revaluation A/c …Dr.

  To Partners ‘Capital (or Current) A/c [In Old Ratio]

Treatment of reserves, accumulated profits and losses:

Journal Entries to be passed for the mentioned transactions are as follows:

a. For distributing reserves and accumulated profits:

General Reserves A/c …Dr.

Profit and Loss A/c …Dr.

Workmen Compensation Reserves A/c* …Dr.

Investment Fluctuation Reserve A/c** …Dr.

To All Partners ‘Capital A/c (In old profit sharing ratio)

*Amount of workmen compensation reserve distributed shall be excess of reserves over liability.

**Amount of investment fluctuation reserve distributed shall be excess of reserve over difference between Book Value and Market Value.

b. For writing off accumulated losses:

All Partners 'Capital A/c … Dr. (In old profit sharing ratio)

To Profit and Loss A/c

Multiple Choice Questions

1	When a new partner is admitted in the firm a. Old partners gain in profit sharing ratio b. Old partners loose in profit sharing ratio c. New partner loose d. No partners gain or loose
2	A and B are partners sharing profit in the ratio of 3: 2. C was admitted with 1/5 share in profits. The new ratio will be: (A) 3 : 2 : 2 (B) 3 : 2 : 5 (C) 10 : 5 : 2 (D) 12 : 8 : 5
3	Sanjay and Ranjay are partners sharing profits and losses in the ratio of 7: 5. They agree to admit Dhananjay into partnership who is to get 1/6th share in the profits. He acquires this share as 1/24th from A and 1/8th from B, The new profit sharing ratio will be: (a) 13 : 7 : 4 ` (b) 7 : 13 : 4 (c) 7 : 5 : 6 (d) 5 : 7 : 6
4	P and Q are partners sharing profits in the ratio of 2: 3. They admit R as a new partner for 1/4th share. The sacrificing ratio of P and Q will be : (A) 2 : 3 (B) 1: 1 (C) 12 : 8 (D) 2 : 1

5	A firm has an unrecorded computer of ₹. 20000. Journal entry to record this unrecorded computer will be: a. Revaluation A/c Dr 20000 To Unrecorded computer A/c 20000 b. Un recorded computer A/c Dr 20000 To Revaluation A/c 20000 c. Partners Capital A/c Dr 20000 To Unrecorded computer A/c 20000 d. None of the above
6	X and Y are partners in a firm having capitals of ₹ 15000 each. Z is admitted as a partner for 1/3rd shares for which he has to bring ₹ 20000 for his share of capital. The amount of goodwill will be; a. ₹ 8000 b. ₹ 10000 c. ₹ 9000 d. ₹ 11000
7	When a new partner brings cash for goodwill, the amount is credited to (a)Revaluation A/c (b) Cash account (c) Premium for goodwill A/c (d) Revaluation Account
8	When a new partner is admitted to the firm : (a) Old firm is dissolved (b) Old partnership is dissolved (c) Old partnership and firm are dissolved (d) Neither partnership nor firm is dissolved
9	If Rakhi pays ₹ 150000 as her share of goodwill to Saakshi (Privately).she was an existing partner, the treatment of goodwill will be (a) No entry will be passed (b) Goodwill account will be debited by ₹ 30000 (c) Goodwill account will be debited by ₹ 150000 (d) Goodwill account will be credited by ₹ 150000
10	X and Y share profits and losses in the ratio of 2:1. They take Z as a partner and the new profit sharing ratio becomes 3:2:1. Z brings a premium for goodwill ₹ 12000. The full value of goodwill will be________ (a) ₹ 60000 (b) ₹ 54000 (c) ₹ 27000 (d) ₹ 72000

11	Assertion (A): Kumar and Naveen are equal partners. They admitted Sanjitha as a partner and their new profit sharing ratio was 2:2:1.The sacrificing ratio of Kumar and Naveen is 1:1 Reasoning (R):Revaluation Account is debited /credited with change in value of assets and liabilities Based on the above statement, which of the following is correct? (a) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation of Assertion (A) (b) Both Assertion (A)and Reason(R) are correct and Reason (R) is the correct explanation of Assertion (A) (c) Assertion (A) is correct but Reason (R) is not correct (d) Both Assertion (A) and Reason (R) are incorrect.
12	Assertion (A): A newly admitted partner acquires the right to share in the assets and profits of the partnership firm. Reason(R):The newly admitted partner brings capital and an additional amount called Premium or goodwill (a) Assertion and Reason both are correct and reason is the correct explanation of assertion. (b) Assertion and Reason both are correct but reason is not the correct explanation of assertion. (c) Assertion is true but reason is false. (d) Assertion is false but Reason is true.
13	Assertion: Amok and Vineeth are partners of a firm. They decided to admit Siddarth, a minor in their partnership firm as a full-fledged partner. Reason: The Indian Partnership Act, 1932 provides that minor can be admitted for the benefits in the partnership firm. (a) Assertion and Reason both are correct and reason is the correct explanation of assertion. (b) Assertion and Reason both are correct but reason is not the correct explanation of assertion. (c) Assertion is true but reason is false. (d) Assertion is false but Reason is true.
14	Assertion: Sacrificing Ratio is ratio in which old partners sacrifice their share in favour of a new partner at the time of his/ her admission. Reason: The Sacrificing ratio is calculated by taking out the difference between new share and old share. (a) Assertion and Reason both are correct and reason is the correct explanation of assertion. (b) Assertion and Reason both are correct but reason is not the correct explanation of assertion. (c) Assertion is true but reason is false.

15	Assertion: When a partner is admitted into the firm, balances in reserves and accumulated profits and losses existed in the balance sheet are transferred to old Partners capital or current account. Reason: Reserves and accumulated profits are transferred to the old partners in old ratio as they had been set aside out of profits /losses incurred prior to the admission of new partner. (a) Assertion and Reason both are correct and reason is the correct explanation of assertion. (b) Assertion and Reason both are correct but reason is not the correct explanation of assertion. (c) Assertion is true but reason is false. (d) Assertion is false but Reason is true.
	CASE STUDY QUESTIONS
16	Lalitha and Monika are partners of Odisiya Footwear and they are sharing profits and Losses in the ratio of 5:4. Their products were of high demand in the market. Their sales were increasing year after year. In order to share the responsibility and to avail the expertise they admitted their friend Manish by giving 1/5th share in the profits. Lalitha and Monika decided to share future profit equally. Manish brought Rs. 200000 as his capital and ₹ 72000 as his share of goodwill. At the time of his admission goodwill already existed in the books at ₹ 45000. Based on the above information choose the correct option to the following questions Identify the correct Journal entry for capital and goodwill from the following journal entries. a. Cash A/c Dr 272000 To Manish capital A/c 200000 To Premium for Goodwill A/c 72000 b. Revaluation A/c Dr 272000 To Manish Capital A/c 200000 To premium for Goodwill A/c 72000 c. Bank A/c Dr 272000 To Manish current A/c 200000 To Premium for Goodwill A/c 72000 d. Revaluation A/c Dr 272000 To Manish Current A/c 200000 To Premium for Goodwill A/c 72000
17	New profit sharing ratio of Lalitha, Monika and Manish will be a. 1:1;1 a. 5:4:1 b. 2:2:1 c. 5:4:5
18	Sacrificing ratio of Lalitha and Monika is a. 1:1 b. 7:2 c. 5:4 d. None of these

19	Journal entry for accounting of goodwill existing in the books will be: a. Lalitha Capital A/c Dr 5000 To Monika Capital A/c 5000 b. Goodwill A/c Dr 45000 To Lalitha Capital A/c 25000 To Monika Capital A/c 20000 c. Lalitha Capital A/c Dr 3000 Monika Capital A/c Dr 2000 To Manish's Capital A/c 5000 d. Lalitha's Capital A/c Dr 25000 Monika's Capital Account Dr 20000 Goodwill A/c 45000
20	Premium for Goodwill brought by Manish will be credited to capital Accounts of Lalitha and Monika as follows: a. ₹ 56000 and ₹ 16000 b. ₹ 16000 and ₹ 56000 c. ₹ 36000 each d. ₹ 48000 and ₹ 24000
21	P and Q are partners sharing profits and losses equally. Their capitals were amounted to ₹20,000. They admit R as equal partner. On the date of admission goodwill was valued at ₹30,000. R is to bring in ₹30,000 as his capital and necessary cash towards his share of goodwill. Profit on revaluation amounted to ₹13,000. Calculate the closing balance of the capital accounts. (a) ₹ 31,500;₹ 31,500; ₹ 30,000 (b) ₹ 31,500; ₹ 31,500; ₹ 20,000 (c) ₹ 26,500; ₹ 26,500; ₹ 30,000 (d) ₹ 20,000;₹ 20,000; ₹ 30,000
22	What is the treatment of credit balance in the Revaluation account at the time of admission of a partner? (a) Credit all partners capital accounts in the new profit sharing ratio (b) Credit old partners capital accounts in the old profit sharing ratio. (c) Credit old partners capital accounts in the new profit sharing ratio. (d) Credit old partners capital accounts in the sacrificing ratio.
23	What is the treatment of unrecorded liability, when it decided to record during the time of admission of a partner? (a) Debit the revaluation account (b) Credit revaluation account (c) Debit partners capital account (d) Credit partners capital account.

24	Revaluation Account is a (a) Real Account (b) Personal Account (c) Nominal Account (d) Asset Account
25	At the time of admission of a partner, what will be the effect of the following information? Balance in Workmen compensation reserve ₹ 40,000. Claim for workmen compensation ₹ 45,000. (a) ₹ 45,000 Debited to the Partner's capital Accounts. (b) ₹ 40,000Debited to Revaluation Account. (c) ₹ 5,000Debited to Revaluation Account. (d) ₹ 5,000 Credited to Revaluation Account.
26	Ajay and Babu are partners sharing profit in the ratio of 3:2. They admit Charu for 1/5th share who contributed ₹ 50,000 for his share of goodwill. The total value of the goodwill of the firm will be: a. ₹ 1,50,000 b. ₹ 50,000 c. ₹ 1,00,000 d. ₹ 2,00,000
27	According to AS 26, which of the following goodwill is recorded in the books? a. Self-generated goodwill b. Purchased goodwill c. Both (a) and (b) d. None of the above
28	Which account will be credited when goodwill is paid privately by a new partner during the time of admission? (a). Sacrificing partners' capital account (b) Sacrificing partners' current account (c) Old partners' capital account (d) None of these
29	How are Accumulated losses treated at the time of Admission of a partner? (a)Debited to old partners' capital Account (b) Credited to old partners' capital Account (c) Credited to Revaluation Account (d)Debited to Revaluation Account
30	When the new partner brings cash for goodwill, the amount is credited to: (a) Revaluation A/c (b) Cash A/c (c) Premium for goodwill A/c (d) Realisation A/c
31	Assertion (A): At the time of admission of a new partner Balance of General Reserve is transferred to Old Partners Capital A/c in old ratio. Reason (R): General Reserve appearing in Balance Sheet is created out of past profits. (a) Both Assertion (A) and Reason(R) are true and Reason(R) is correct explanation of Assertion (A). (b) Both Assertion (A) and Reason(R) are true and Reason(R) is not correct explanation of Assertion (A). (c) Assertion (A) is true, but Reason (R) is false. (d) Assertion (A) is false, but Reason (R) is true.

32	Assertion (A): At the time of admission of a new partner surplus of Investment Fluctuation Reserve over loss in value of Investment is transferred to Old Partners Capital A/c in old ratio. Reason (R): Loss in value of Investment, if any, is adjusted first from Investment Fluctuation Reserve. (a) Both Assertion (A) and Reason(R) are true and Reason(R) is not correct explanation of Assertion (A). (b) Both Assertion (A) and Reason(R) are true and Reason(R) is correct explanation of Assertion (A). (c) Assertion (A) is true, but Reason (R) is false. (d) Assertion (A) is false, but Reason (R) is true
33	Assertion (A): At the time of admission of a partner, partnership is dissolved and not the firm Reason (R): In case of reconstitution, existing agreement comes to an end and a new one comes into existence. (a). Both Assertion and Reason are correct and Reason is the correct explanation for Assertion (b)Both Assertion and Reason are correct but Reason is not the correct explanation for Assertion (c). Assertion is correct but Reason is incorrect. (d). Both Assertion and Reason are incorrect.
3**4**	Assertion (A): New partner always bring his share of goodwill in cash. Reason (R): New partner brings goodwill against the sacrifice made by old partners for his share of Profit. (a) Both Assertion and Reason are true and R is the correct explanation of A (b) Both A and R are true and R is not the correct explanation of A (c) A is true but R is false (d)A is false but R is true
35	Assertion: An increase in the value of assets and decrease in the value of liabilities at the time of admission of a partner is debited to the revaluation account. Reason: Revaluation account is nominal in nature. (a) Both Assertion and reason are true and reason is correct explanation of assertion. (b) Assertion and reason both are true but reason is not the correct explanation of assertion. (c) Assertion is true, reason is false. (d) Assertion is false, reason is true.
	Attend question no 36 to 40 on the basis of the information provided in the following paragraph. Ashok, Balu and Chand are partners sharing profits and losses in the ratio of 2:2:1.They admitted Das as a new partner with 1/4th share in the future profits. He brings ₹ 100000 as his capital and ₹ 50000 as his Share of Goodwill. General reserve appeared at ₹ 30000 in the balance sheet on the date of D’s admission. The revaluation Loss amounted to ₹ 15000.

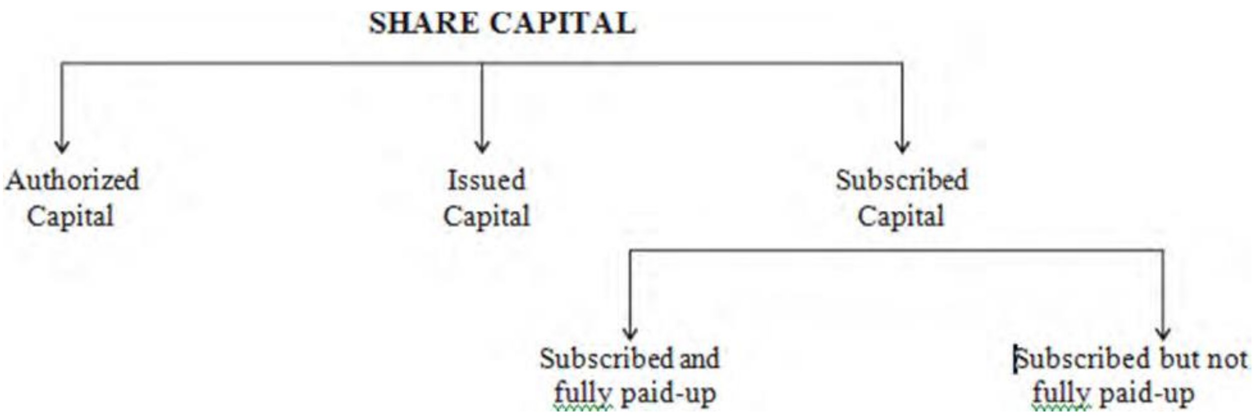
36	What is the sacrificing Ratio? (a)2:2:1 (b) 2:2:5 (c) 1:1:1 (d)1:2:2
37	The General Reserve will be distributed: (a)Among all partners in new Ratio (b) Among Old Partners in Sacrificing Ratio (c) Among Old Partners in Old Ratio (d)Will not be distributed
38	What is the amount of goodwill of the firm? (a) ₹ 2,50,000 (b) ₹ 1,50,000 (c) ₹ 1,00,000 (c) ₹ 2,00,000
39	Ashok's share in the loss will be (a) ₹ 10000 (b) ₹ 6000 (c) ₹ 5000 (d) ₹ 3000
40	What is the new profit sharing ratio? (a)3:3:1:5 (b) 2:2:1:4 (c) 1:1:1:1 (d)6:6:3:5

Answers

1	B	21	a
2	D	22	b
3	A	23	a
4	A	24	c
5	B	25	c
6	B	26	a
7	C	27	b
8	B	28	d
9	A	29	a
10	D	30	c
11	A	31	a
12	A	32	b
13	D	33	a
14	C	34	d
15	A	35	d
16	A	36	a
17	C	37	c
18	B	38	d
19	D	39	b
20	A	40	d

UNIT-II ACCOUNTING FOR COMPANIES

Company Accounts - Accounting for Share Capital



Meaning of company: A company is an organization formed by an association of persons through a process of law for undertaking (usually) a business venture.

Definition –"Company means a company incorporated under this Act or any previous company - Section 2(20) of the Companies Act, 2013

Share Capital - Schedule III of the Companies Act, 2013 classified Share Capital as:

i. Authorized Share Capital is the maximum amount up to which a company can issue shares.

ii. Issued share capital is a part of authorized share capital that is issued by a company for subscription.

iii. Subscribed share capital is a part of issued share capital that is subscribed.

   Subscribed share capital is shown as (i) Subscribed and fully paid – up (ii) Subscribed but not fully paid – up

iv. Called–up amount is the amount of nominal value of shares that has been called up for payment.

v. Paid–up amount is the amount that is received by the company.

vi. Reserve capital is a part of subscribed share capital that a company resolves, by a special resolution, not to call except in the event and for the purpose of company being wound up.

vii. **PREFERENCE SHARES -** These are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.

viii. EQUITY **SHARES** – These shares are the shares that are not preference shares. Shares can be issued (i) for cash and (ii) for consideration other than cash. Further, the shares can be issued (i) at par, or (ii) at premium.

ix. **OVER SUBSCRIPTION OF SHARES** – It means shares applied for are more than the shares offered for subscription.

x. **UNDER SUBSCRIPTION OF SHARES –**It means shares applied for are less than the shares offered for subscription.

PRO RATA ALLOTMENT – It means allotment of shares in a fixed proportion. Pro rata allotment takes place only when the shares are oversubscribed.

SECURITIES PREMIUM RESERVE – It can be utilized for the purpose prescribed in section 52(2) of the Companies Act, 2013, which are:

(i) writing off preliminary expenses;

(ii) Writing off expenses such as share such as share issue expenses, commission ,discount allowed on issue of securities;
(iii) Providing for the premium payable on redemption of debentures or Preference Shares;
(iv) in buying-back its own shares.
(v) Issuing fully paid bonus shares;

CALL – It is a demand by a company from the holders of partly paid shares to pay a further installment towards full nominal value.

CALLS-IN-ARREARS-It is the amount not yet received by the company against the call or calls demanded.

CALLS-IN –ADVANCE- It is the amount received by the company from its allotters against the calls not yet made. Calls- In- Advance is shown as 'Other Current Liability' under 'Current Liabilities'.

FORFEITURE OF SHARES- It means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

Securities premium-How dealt when shares are forfeited.

In case where Securities Premium Reserve Account has been credited and also it has been received- Securities Premium Reserve Account is not debited because of the restrictions imposed by Section52(2) of the Companies Act,2013 . In case Securities Premium Reserve Account has been credited but the amount has not been received –Securities Premium Reserve Account is debited because the amount has not been received and therefore Section 52(2) of the Companies Act, 2013 does not apply.

REISSUE OF FORFEITED SHARES-Forfeited Shares can be reissued and they might have been reissued at par at premium or at a discunt. But the discount on reissue of a share cannot be more than the forfeited amount of that share credited to Forfeited Share account at the time of forfeiture.

Regarding Reissue of Forfeited Shares, always keep in mind that:

1. Discount on reissue cannot exceed the forfeited amount.
2. If the discount on reissue is less than the amount forfeited, the surplus (i.e., gain on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited share is reissued then the gain on reissue of such share is transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the paid-up share capital.
5. When the shares are reissued at discount, such discount is debited to Forfeited Shares Account.
6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Reserve Account.
7. In case of the Forfeited Shares are reissued at a price higher than the paid- up value, the excess of issue price over paid up value is credited to 'Securities Premium Reserve Account'.

PRIVATE PLACEMENT OF SHARES- It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons, is called Private Placement Of Shares.

EMPLOYEES STOCK OPTION PLAN (ESOP) - It is the plan for granting options to subscribe shares by employees and employee directors. A company may issue stock (shares) options fulfilling the following conditions:

(a) These shares are of the same class of shares already issued;

(b) It is authorized by a special resolution passed by the company;

(c) The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(d) Not less than one year has, at the date of issue, elapsed since the date on which the company had commenced business and

(e) These shares are issued in accordance with SEBI regulations, if the shares are listed.

PRESENTATION OF SHARE CAPITAL IN THE BALANCE SHEET OF A COMPANY

As per Schedule III of Companies Act, 2013, share capital is to be disclosed in company's balance sheet in the following manner

Balance Sheet
as at.............

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. **EQUITY AND LIABILITIES**			
Shareholders' Funds			
(a) Share Capital*		....	

*As per Revised Schedule VI, disclosure requirements pertaining to share capital are to be provided in notes to accounts.

Notes to Accounts

Particulars		Amt (₹)
1. **Share Capital**		
Authorised Capital		
... Shares of ₹ ...each		
Issued Capital		
... Shares of ₹ ...each		...
Subscribed Capital		
Subscribed and Fully Paid-up		
... Shares of ₹ ...each		...
Subscribed but not Fully Paid-up		
... Shares of ₹ ... each ... Called-up	...	
(–) *Calls-in-arrears (if any)	(...)	...
(+) Shares Forfeited A/c		...
		...

Journal Entries Regarding Issue of Shares Capital

1. ISSUE OF SHARES FORCASH

1). Shares Payable in Lump Sum:

For Receiving Share Application Money:

Banka/c……..Dr.

To Share Application and Allotment a/c (Being the application money received)

For Allotment of Shares:

Share Application and Allotment a/c…….Dr

To Share Capital a/c [With Nominal (face) Value] To Securities Premium Reserves a/c [With Premium Amt]

(Being the shares against share application and allotment money received)

Shares Payable in Instalments:

Transaction	Journal Entry	Amount
On Receipt of Application Money	Banka/c ……Dr. To Share Application a/c	Amount received with application.
On Allotment of Shares Share Application Money i	Share Application a/c ….. Dr. To Share Capital a/c	Application money on shares allotted.
Amount Due on Allotment	Share Allotment a/c ……D r. To Share Capital a/c	Money due on shares allotted.
On Receipt of Allotment Money	Bank a/c ……D r. To Share Allotment a/c	Amount received on shares allotted.
On First and final Call Being Due	Share First & Final Call a/c ……Dr. To Share Capital a/c	Amount payable on first and final call.
On Receipt of First & Final Call	Bank a/c …….D r. To Share First & Final Call a/c	Amount received on first and final call.

Accounting Entries in Case of Over subscription

1. For Application Money Received

Bank A/c ……Dr

To Share Application A/c

Application Money For Allotted Shares Share Application A/c ……Dr To Share Capital A/c

2 Excess Application Money

a) Refund

Share Application A/c ……Dr To Bank A/C

b) Adjustment

Share Application A/c ……Dr To Share Allotment A/c

To Calls – in- Advances A/c

Combined Entry

Share Application A/c ……Dr To share Capital A/c

To Bank A/c

To Share Allotment A/c

To Calls-in–Advance A/c

SHARE ISSUED FOR CONSIDERATION OTHER THAN CASH

The journal entries passed are:

I. (a) On Purchased of Assets

Sundry Assets A/cs (Individually) …Dr [With the amount of purchase price] To Vendor's A/cs [With purchase consideration]

(b) On Purchase of Business

Sundry Assets A/cs ...Dr [Agreed value of assets] Goodwill A/c* ....Dr

To Sundry Liabilities A/c [Agreed value of liabilities]

To Vendor's A/c ** [With purchase consideration] To Capital Reserve A/c***

Note: Purchasing consideration is an amount paid by purchasing company in consideration for purchase of assets/business from other enterprise. It may be given in the question otherwise it will be equal to net assets, i.e, sundry assets minus sundry liabilities.

*If purchase consideration given is more than net assets, then the difference is debited in Goodwill Account.

****** Vendor is credited by purchase consideration payable to him.

*** If purchase consideration given is less than the net assets, then the difference is credited to Capital Reserve.

Either Goodwill or Capital Reserve will appear at a time.

II. On Issues of Shares

(a) If shares are issued to vendor at par:

Vendor'sA/c ....Dr [With the nominal value of share allotted]

To share Capital A/c

(b) If share are issued to vendor at a premium:

Vendor's A/c ....Dr [With the purchase price]

To share Capital A/c [With the nominal value of share allotted]

To Securities Premium Reserve A/c [With the amount of premium]

FORFEITURE OF SHARES -

Forfeiture of shares issued at par:

The entry for forfeiture of shares is:

Shares capital a/c (called up value) Dr.

To Share forfeited A/c

To share allotment a/c

To share call a/c

Forfeiture of shares which were originally issued at premium:

i. securities premium amount has been received; and
ii. Securities Premium amount has not been received.

Accounting Entries for Forfeiture of Shares Issued at a Premium:

i) If premium has been received:
Share Capital a/c Dr

To Share Allotment a/c
To Share Call/calls a/c

To Share forfeited A/c

ii) If premium has not been received:
Share Capital a/c Dr.

Securities Premium Reserve a/c Dr.

To Share Allotment a/c
To Share call / calls a/c
To Share forfeited A/c

REISSUE OF FORFEITED SHARES

In case, they are reissued at par, accounting entry is:
Bank a/c Dr.
To Share capital a/c

In case, they are reissued at discount, accounting entry

is: Banka/c Dr.

Share forfeited A/c Dr

To Share Capital a/c

If the forfeited shares are reissued at a price higher than that of paid-up value, the excess of reissues price over paid-up value is credited to Securities Premium Reserve a/c. Following entry is passed:

Banka/c Dr.

To Share capital a/c

To Securities Premium Reserve a/c

NOTE: **Maximum Permissible Discount on Reissue of Forfeited Shares**: Maximum Permissible Discount on Reissue of Forfeited Shares is the amount forfeited, i.e., the amount credited to the forfeited shares.

QUESTIONS

1	When the shares offered for public subscriptions are subscribed fully by the public, which of the following would be the same? A. Authorised capital and issued capital B. Issued capital and subscribed capital C. Subscribed capital and called up capital D. Called up capital and reserve capital
2.	A company issued 5,000 equity shares of rupees 10 each at par payable as under: On application ₹. 3, on allotment ₹. 2; on first call ₹. 4 and on final call Re.1 per share. Applicants were received for 15,000 share . Application for 5,000 shares were rejected and pro-rata allotment was made to the applicants for 10,000 shares . How much amount will be received in cash on first call, when excess application money is adjusted towards amount due on allotments and calls: (A.) ₹. 6.000 (B.) ₹. 20000 (C.) ₹. 15,000

	(D.) ₹. 10,000
3.	Heavy Machine Ltd. purchased assets worth ₹4,00,000 at ₹3,20,000 from Handa Traders Ltd. and took creditor's of ₹70,000 for a purchase consideration of ₹3,00,000. Payment was by NEFT for ₹50,000 and remaining amount by issue of equity shares of ₹100 each fully paid at an issue price of ₹125. How many equity shares will be issued to Handa Traders Ltd.? A. 3000 B. 2500 C. 2000 D. 3200
4.	A company forfeited 100 shares of ₹10 each issued at par for the non-payment of first and final call of ₹2.50. The share forfeiture account will be …………by……………….. a. Credited; ₹500 b. Debited; ₹500 c. Credited; ₹750 d. Debited; ₹750
5.	On a share of Rs.10 issued at a premium of Rs.2 on which whole amount is called-up and Rs.7 is received, is forfeited the share capital account is debited by : a) Rs.7 b) Rs.12 c) Rs.10 d) Rs.16
6.	Name the head of Capital Clause of Memorandum of Association of a company in which maximum amount of share capital mentioned is called . ______ a. Reserve Capital (b) Subscribed Capital (c) Authorised Capital (d) Issued Capital
7.	The part of un-called capital, to be called only in the liquidation of a company is called: (a) Un-reserved Capital (b) Reserve Capital (c) Capital Reserve (d) Calls-in Arrears
8.	A shareholder allotted to whom 9,000 shares of ₹ 10 per share failed to pay first & final of ₹ 2 per

	share. ₹ 18,000 to be recorded in the books of company with (a) Dr. to Calls-in Arrears A/c ______ (b) Dr. to Share Forfeiture (c) Cr. to Calls-in Arrears A/c (d) Cr. to Share Forfeiture A/c
9.	Arrange the following in proper sequence as types of "Share Capital" a) Paid up capital b)Issued capital c) Subscribed capital d)Authorised capital a) a) ,c) , d) , b) b) d), c) , b), a) c) d), b), c),a) d) a) b), d), b)
10.	Shobha Limited was formed with share capital of Rs. 50,00,000 divided into 50,000 shares of Rs.100 each. 8,000 shares were issued to the vendor as fully paid for purchase consideration of a Machinery acquired. 30,000 shares were allotted in payment of cash on which Rs.70 per share was called and paid. State the amount of subscribed capital: A) Rs. 50,00,000 B) Rs. 30,50,000 C) Rs. 29,00,000 D) Rs. 20,00,000
11.	Star Ltd forfeited 1,000 shares of Rs.10 each (which were issued at par)of Jeevan, a share holder of the company, for non payment of allotment money of Rs.4 per share. The called up value per share was Rs.7. On forfeiture, the amount debited to share capital: a) Rs.3,000 b) Rs.7,000 c)Rs.4,000 d)Rs.10,000
12.	Yes Ltd purchased the sundry assets of M/s Manohar Industries for Rs.6,00,000 payable in fully paid shares of Rs.10 each. State the number of shares issued to vendor when issued at premium

	of 20%. a)50000 b)60000 c)12000 d)none of these
13.	Ashok a shareholder of a company allotted shares to whom 12,000 of ₹ 100 each, failed to pay allotment ₹ 30 per share and first & final call ₹ 30 per share. Ashok had paid only application money. Pro-rata allotment proportion is 5:6. What will be the amount of calls-in arrears on allotment, from the following: (a) ₹ 3,60,000 (b) ₹ 2,64,000 (c) ₹ 96,000 (d) None of these
14.	The allowed amount of discount on re-issue of shares will be ____________ (a) @ 10% of issue price (b) Up to the amount of forfeited money (c) Could not issue at discount (d) None of these
15.	Once, forfeited shares reissued, balance of share forfeiture money will be transferred to _________ a. General Reserve (b) Capital Reserve (c) Reserve Capital (d) Securities Premium Reserve
16.	12,000 shares of ₹ 100 each forfeited due to non-payment of ₹ 40 per share. First & final call of ₹ 30 per share not yet made. These shares were reissued at ₹ 80 per share for ₹ 70 per share. Which of the following journal entry is correct for the re-issue of forfeiture of shares?

(a) Bank A/c	Dr.	9,60,000	
To Share Capital A/c			9,60,000
(b) Bank A/c	Dr.	8,40,000	
To Share Capital A/c			8,40,000
(c) Bank A/c	Dr.	9,60,000	
To Share Capital A/c			8,40,000
To Securities Premium Reserve A/c			1,20,000

	(d) Bank A/c Dr. 9,60,000 Share Forfeiture A/c Dr. 2,40,000 To Share Capital A/c 12,00,000
17.	Which one of the following is not a part of subscribed capital: A) Equity shares issued to vendor B) Preference shares of convertible type C) Forfeited shares D) Bonus shares
18.	12,000 shares of ₹ 100 each forfeited due to non-payment of allotment of ₹ 40 per share and first & final call of ₹ 30 per share. Out of the forfeited shares, 9,000 shares were reissued at ₹ 80 per share fully paid. Which of the following amount of share forfeiture account will be transferred to Capital Reserve Account? (a) 90,000 (b) 1,80,000 (c) 3,60,000 (d) 2,70,000
19.	If the premium on forfeited shares has already been received, then securities premium reserve account should be (a)Credited (b) Debited (c) No treatment (d) Transferred to Capital Reserve A/c
20.	A company issued 40,000 preference shares of ₹ 100 per share at par payable as under: On Application : 20% On Allotment : 40%

	On First & Final Call : balance Applications were received for 50,000 shares. Allotment was made on pro-rata basis. How much amount will be received in cash on allotment? (a) 14,00,000 (b) 16,00,000 (c) 18,00,000 (d) 20,00,000
21.	Which one of the following is a permanent representative personal account of share-holders? a. Share Application A/c (b) Share Allotment A/c (c) Share Application & Allotment A/c (d) Share Capital A/c
22.	Which of the following is a temporary representative personal account of shareholders? b. Share Application A/c (b) Share Allotment A/c (c) Share Application & Allotment A/c (d) All of these
23.	A shareholder failed to pay share allotment money on 12,000 shares @ ₹ 30 per share. Which one of the following account will be taken into account? a) Debited to Share Capital A/c (b) Debited to Calls-in Arrears A/c (c) Credited to Calls-in Arrears A/c (d) Credited to Share Capital A/c
24.	Received share application money towards application & allotment of shares will be credited to which of the following account? c. Share Application & Allotment A/c (b) Share Application A/c (c) Share Capital A/c (d) None of these
	CASE STUDY BASED QUESTIONS
	Read the following statement carefully and give the answer for the questions: Shine Firework Ltd is authorised to issue shares 5,00,000 of ₹ 100 each. Company raised the capital by issue of 2,00,000 shares through e-IPO. As per the decision of Managing Board of Directors of company, company issued 75,000 shares to their parent company and 40,000 shares issued to existing employees of company as per their choice and option at the below price than the market price.
25.	“Company issued 75,000 shares to their parent company” is an example of_____________.

	(a) Public Issue (b) Private Placement (c) ESOP (d) Issue other than cash
26.	"40,000 shares issued to existing employees of company as per their choice and option at the below price than the market price." Is an example of __________ (a) Public Issue (b) Private Placement (c) ESOP (d) Issue other than cash
	Read the following statement carefully and give the answer for the questions: X Ltd issued 2,00,000 shares of ₹ 100 each. Amount to be paid on Application ₹ 30 per share; on allotment ₹ 40 per share and on first & final call ₹ 30 per share. All money was duly subscribed and paid towards the nominal value of shares except on 9,000 shares who failed to pay allotment and calls money. These shares were forfeited. 5,000 shares were re-issued at ₹ 80 per share fully paid.
27.	Which amount of the following will be shown into the Balance Sheet of the company under the sub-head "Share Capital"? (a) ₹ 1,96,00,000 (b) ₹ 1,97,20,000 (c) ₹ 2,00,00,000 (d) ₹ 1,97,70,000
28.	Which of the following amount will be called paid up share capital? (a) ₹ 1,96,00,000 (b) ₹1,97,20,000 (c) ₹ 2,00,00,000 (d) ₹ 1,97,70,000
29.	Which of the following amount will be, balance in Share Forfeiture Account? (a) ₹ 4,00,000 (b) ₹ 1,50,000 (c) ₹ 1,20,000 (d) ₹ 50,000
30.	Which amount of the following will be transferred to Capital Reserve? (a) ₹ 4,00,000 (b) ₹ 1,50,000 (c) ₹ 1,20,000 (d) ₹ 50,000
	Read the information given below and give the answer for the questions 15 to 18: Exe Ltd issued 50,000 shares of ₹ 100 per share for public subscriptions at 20% premium.

	Amount payable as under: On Application : ₹ 40 per share (including 10% premium) On Allotment : ₹ 40 per share (excluding 10% premium) On First & Final Call : ₹ Balance Application received for 75,000 shares. Allotment was made to 60,000 share applicants. All due money was duly received except from a shareholder (Amal) allotted to whom 12,000 shares, failed to pay allotment and calls. These shares were forfeited.
31.	Which of the following , Excess application money adjusted on allotment? (a) 10,00,000 (b) 6,00,000 (c) 4,00,000 (d) None of these
32.	What the amount received on allotment? (a) ₹ 15,96,000 (b) ₹ 21,00,000 (c) ₹ 5,04,000 (d) ₹ 4,00,000
33.	Which of the following amount did not receive on allotment? (a) ₹ 15,96,000 (b) ₹ 21,00,000 (c) ₹ 5,04,000 (d) ₹ 4,00,000
34.	What the amount forfeited on 12,000 shares? (a) ₹ 5,76,000 (b) ₹ 4,56,000 (c) ₹ 5,04,000 (d) ₹ 4,00,000
	Read the following information carefully and give the answer for the questions from 27 to 31. AB Ltd issued 3,00,000 shares of ₹ 100 each at 20% premium through e-IPO, payable as under: On Application : ₹ 40 (including 10% premium) per share On Allotment : ₹ 40 (excluding 10% premium) per share On First & Final Call: Balance Share was subscribed for 5,00,000 shares. 50,000 share applications were rejected with letter of regret and pro-rata allotment was made to remaining share applicants. All money was duly received except from Raghav, allotted to whom 15,000 shares failed to pay allotment and calls. These shares were forfeited and out of which 9,000 shares reissued at ₹ 75 per share fully paid.
35.	What the amount was called in first & final call per share? (a) ₹ 20 per share (b) ₹ 40 per share (c) ₹ 30 per share (d) None of these
36.	Which of the following amount received on allotment of shares? (a) ₹ 1,50,00,000 (b) 90,00,000

	(c) ₹ 45,00,000 (d) ₹ 85,50,000
37.	Which of the following amount will be debited to calls-in arrears account on allotment? (a) ₹ 6,00,000 (b) ₹ 4,50,000 (c) ₹ 3,00,000 (d) ₹ 7,50,000
	ASSERTION REASON TYPE QUESTIONS
38.	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R) Assertion (A): On forfeiture, the shares are cancelled and to that extent share capital is reduced. Reason (R) : Share capital account is debited with the amount called up to the date of forfeiture on shares forfeited. In the context of the above statements, which one of the following is correct? Codes: (A) (A) is correct, but (R) is wrong. (B) Both (A) and (R) are correct. (C) (A) is wrong, but (R) is correct. (D) Both (A) and (R) are wrong.
39.	Given below are two statements, one labelled as Assertion the other labelled as Reason (R): Preferential allotment means allotment of shares at a pre determined price to the identified people who are interested in taking shares in the company. Reason(R): Assertion(A): Employee Stock Option Plan is a category of sweat Equity In the context of the above two statements, which of the following is correct? (A) Both (A) and (R) are correct and (R) is the correct reason of (A) (B) Both (A) and (R) are correct but (R) is not the correct reason of (A).

	(C) Only (R) is correct. (D) Both (A) and (R) are wrong.
40.	Given below are two statements, one labelled as Assertion the other labelled as Reason (R): Assertion(A): The forfeited shares may be reissued by the company at par, at premium or at discount. Reason(R): Reissue of forfeited shares is not an issue of shares but is selling the shares that were issued earlier and were cancelled by the company. In the context of the above two statements, which of the following is correct? (A) Both (A) and (R) are correct and (R) is the correct reason of (A). (B) Both (A) and (R) are correct but (R) is not the correct reason of (A). (C) Only (R) is correct. (D) Both (A) and (R) are wrong.
41.	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R) Assertion(A): Premium received being a capital receipt is credited to Securities Premium Reserve Account. Reason(R): Securities Premium Reserve is shown in the Equity and Liability part of Balance Sheet under the main head Share holder's Fund and the sub head share capital. In the context of the above statements, which one of the following is correct? Codes: (A) (A) is correct, but (R) is wrong. (B) Both (A) and (R) are correct. (C) (A) is wrong, but (R) is correct. (D) Both (A) and (R) are wrong
42.	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R) Assertion(A)The part of un-called capital, to be called only in the liquidation of a company is called Reserve Capital.

	Reason(R) :It can be used for writing off capital losses. In the context of the above two statements, which of the following is correct? (A) is correct, but (R) is wrong. (B) Both (A) and (R) are correct. (C) (A) is wrong, but (R) is correct. (D) Both (A) and (R) are wrong
43.	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R) Assertion (A): A company cannot issue shares at a discount. Reason(R): Shares can be issued at a discount in cash such as (i) issue of sweat equityshares and (ii) reissue of forfeited shares. Options: (a) (A) is correct, but (R) is wrong (b) Both (A) and (R) are correct. (c) (A) is wrong, but (R) is correct. (d) Both (A) and (R) are wrong.
44.	Assertion: Subscribed capital can be less than or equal to the issued capital. Reason: Subscribed capital is a part of issued capital. (A)Both Assertion and reason are true and reason is correct explanation of assertion. (A) Assertion and reason both are true but reason is not the correct explanation of assertion. (B) Assertion is true, reason is false. (D) Assertion is false, reason is true.
45.	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R): Assertion (A): When a part of the forfeited shares are reissued, the whole balance of share forfeited account will be transferred to capital reserve. Reason (R) It is only the proportionate amount of balance that relates to the forfeited shares reissued which should be transferred to capital reserve, ensuring that the remaining balance in share forfeiture account is proportionate to the amount forfeited on shares not yet reissued. Options: (a) Both (A) and (R) are true, but (R) is not the correct explanation of (A). (b) Both(A) and (R) are true and (R) is a correct explanation of (A). (c) Both (A and (R) are false. (d) (A) is false, but (R) is true.

ANSWERS

1.	Ans. B.Issued capital and subscribed capital
2	Ans. (C.) Rs. 15,000
3.	C. 2000
4.	Ans:- Credited; Rs 750
5.	a) Rs.10
6.	Ans, (c) Authorised Capital
7.	Ans. Reserve Capital
8.	Ans. Dr. to Calls-in Arrears A/c
9.	Ans. C) Authorissed, Issued, Subscribed, Paid-up.
10.	Ans. C) Rs. 29,00,000
11.	Ans. b) Rs.7,000
12.	Ans. a)50000
13.	Ans. (b) ₹ 2,64,000
14	Ans. (b) Up to the amount of forfeited money
14.	Ans. (b) Capital Reserve
15.	Ans.(c) Share Capital A/c Dr. 8,40,000 To Calls-in Arrears A/c 3,60,000 To Share Forfeiture A/c 4,80,000
16.	Ans.C) Forfeited shares
17.	Ans. (a) 90,000
18.	Ans. (c) No treatment
19.	Ans. (a) 14,00,000
20.	Ans. (d) Share Capital A/c
21.	Ans. (d) All of these
22.	Ans. (b) Debited to Calls-in Arrears A/c
23.	Ans. Share Application & Allotment A/c

25.	Ans.(b) Private Placement
26.	Ans. (c) ESOP
27.	Ans. (a) ₹ 1,96,00,000
28.	Ans. (a) ₹ 1,96,00,000
29.	Ans. (c) ₹ 1,20,000
30.	Ans. (d) ₹ 50,000
31.	Ans. (c) 4,00,000
32.	Ans. (a) ₹ 15,96,000
33.	Ans. (c) ₹ 5,04,000
34.	Ans. (b) ₹ 4,56,000
35.	Ans. (c) ₹ 30 per share
36.	Ans. (d) ₹ 85,50,000
37.	Ans. (b) ₹ 4,50,000
38.	(B) Both (A) and (R) are correct
39.	Ans.(B)
40.	Ans. (A)
41.	Ans. (A)
42.	Ans. (A) is correct, but (R) is wrong.
43.	Ans: (c) (A) is wrong, but (R) is correct.
44.	Both Assertion and reason are true and reason is correct explanation of assertion
45.	Ans: (d) (A) is false, but (R) is true.

Financial Statements of a Company

Financial Statements are the end products of accounting process and are prepared at end of the accounting period to reveal the financial position of the enterprise at a particular date and the result of its business operations during an accounting period.

As per Section 2(40) of the Companies Act, 2013 Financial Statements includes:

1. Balance Sheet or Position Statement
2. Statement of Profit and Loss or Income Statement
3. Notes to Accounts.
4. Cash Flow Statement.

Balance Sheet: It is a statement of assets, liabilities and Equities of a business and it is prepared to show the financial position of the company at a particular date.

A balance sheet of a company is prepared as per the format prescribed in Part I of Schedule III of the Companies Act, 2013.

The Schedule III prescribes only the vertical format for presentation of financial statements. Thus, a company will now not have an option to use horizontal format for the presentation of financial statements.

Form of Balance Sheet

Balance Sheet as at 31st March, 20.....

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

1) Non-Current Assets (a) Fixed assets (i) Tangible assets (ii) Intangible assets (iii) Capital work-in-progress (iv) Intangible assets under development (b) Non-current investments (c) Deferred tax assets (net) (d) Long-term loans and advances (e) Other non-current assets 2) Current Assets (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short term loans and advances (f) Other current assets **Total**			

Classification of items in balance sheet of a company under Major heads and Sub-heads

Items	Major Head	Sub-head (if any)
1. Prepaid Insurance	Current Assets	Other Current Assets
2. Investment in shares or debentures of another company	Non-Current Assets	Non-Current Investments
3. Calls-in-arrears	Shareholders' Funds	Share Capital/Subscribed Capital
4. Unpaid/unclaimed dividend	Current Liabilities	Other Current Liabilities
5. Capital Reserve	Shareholders' Funds	Reserves and Surplus
6. Loose Tools	Current Assets	Inventories
7. Capital work-in-progress	Non-Current Assets	Fixed Assets
8. Patents being developed by the company	Non-Current Assets	Fixed Assets- Intangible Assets under development
9. Interest accrued and due on debentures	Current liabilities	Other Current Liabilities
10. Accrued Interest on Calls in advance	Current Liabilities	Other Current Liabilities
11. Interest due on calls in arrears	Current Assets	Other Current Assets
12. Trademarks	Non-Current Assets	Fixed Assets–Intangible
13. Premium on redemption of debentures	Non-Current Liabilities	Other Long-term Liabilities

14. Plant and Machinery	Non-Current Assets	Fixed Assets–Tangible
15. Patents	Non-Current Assets	Fixed Assets –Intangible
16. Balance of statement of profit & loss	Shareholder’s Fund	Reserves and Surplus
17. Interest accrued on investment	Current Assets	Other Current Assets
18. Livestock	Non-Current Assets	Fixed Asset–Tangible
19. Licenses and franchise	Non-Current assets	Fixed Assets–Intangible
20. Securities Premium Reserve	Shareholders' Funds	Reserves and surplus
21. Work in progress	Current assets	Inventories
22. Debentures with maturity period in current year	Current liabilities	Other Current Liabilities
23. Cheque and Bank Drafts in Hand	Current Assets	Cash & Cash Equivalents
24. Long term Investments with maturity period less than six months	Current Assets	Current Investments

25.	Mining Rights	Non-Current Assets	Fixed Assets-Intangible
26.	Publishing Titles	Non-Current Assets	Fixed Assets-Intangible
27.	Debtors	Current Assets	Trade Receivables
28.	Bank Overdraft	Current Liabilities	Short term borrowings
29.	Subsidy Reserve	Shareholders' funds	Reserves and surplus – other reserves
30.	Capital redemption reserve	Shareholders' funds	Reserves and surplus
31.	Debit balance in Statement of P&L	Shareholders' Funds	Reserves and Surplus
32.	Debenture Redemption Reserve	Shareholders' Funds	Reserves and Surplus
33.	Provision for tax	Current Liabilities	Short term Provisions
34.	Retirement Benefits Payable to employees	Non-Current Liabilities	Long-term Provisions
35.	Calls in Advance	Current Liabilities	Other Current Liabilities
36.	Stores & Spares	Current Assets	Inventories
37.	Provision for employee benefits	Non-Current liabilities	Long-term Provisions
38.	Term loan from Bank	Non-Current Liabilities	Long-term Borrowings
39.	Computer Software	Non-Current Assets	Fixed Assets– Intangible
40.	Income received in advance	Current Liabilities	Other Current Liabilities
41.	Capital Advances	Non-Current Assets	Long term Loans and Advances
42.	Provision for warranties	Non-Current Liabilities	Long-term Provisions
43.	General Reserve	Shareholders' Funds	Reserves and Surplus
44.	Short term loans and advances	Current Assets	Short term loans and advances
45.	Design	Non-Current Assets	Fixed Assets– Intangible
46.	Loan payable on demand	Current Liabilities	Short-term Borrowings
47.	Computer and related equipment	Non-Current Assets	Fixed Assets–Tangible
48.	Goods acquired for trading	Current Assets	Inventories
49.	Long Term Provisions	Non-Current liabilities	Long-term Provisions
50.	Goodwill	Non-Current assets	Fixed Assets– Intangible
51.	Copyrights	Non-Current Assets	Fixed Assets– Intangible
52.	Stock of finished goods	Current Assets	Inventories
53.	9% Debentures repayable after three years	Non-Current liabilities	Long-term Borrowings
54.	Balances with banks	Current Assets	Cash and Cash Equivalents
55.	Goods-in-transit	Current Assets	Inventories

56. Vehicles	Non-Current assets	Fixed Assets–Tangible
57. Cash in hand	Current Assets	Cash and Cash Equivalents
58. Short term deposits payable on demand	Current Liabilities	Short-term Borrowings
59. Office Equipment	Non-Current Assets	Fixed Assets–Tangible
60. Net loss as shown by statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus (as a negative item)
61. Bonds	Non-Current Liabilities	Long-term Borrowings
62. Buildings	Non-Current assets	Fixed Assets– Tangible
63. Raw material	Current Assets	Inventories
64. Provision for bad debts	Current Liabilities	Short-term Provisions
65. Negative balance as per statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus (as a negative item)
66. Loan payable after 3 years	Non-Current Liabilities	Long-term Borrowings
67. Advance Tax	Current Assets	Other Current Assets
68. Land	Non-Current Assets	Fixed Assets–Tangible
69. Cash at bank	Current Assets	Cash and Cash Equivalents
70. Trade payables	Current Liabilities	Trade Payables
71. Cash and cash equivalents	Current Assets	Cash and Cash Equivalents
72. 5 years loan obtained from SBI	Non-Current Liabilities	Long-term Borrowings
73. Investments	Non-Current Assets	Non-Current Investments
74. Share Forfeited Account	Shareholders' Funds	Share Capital
75. Acceptances	Current Liabilities	Trade Payables
76. Preliminary expenses	Shareholders' Funds	Reserves and Surplus (as a negative item)
77. Interest accrued but not due on borrowings	Current Liabilities	Other Current Liabilities
78. Bills Receivables	Current Assets	Trade Receivables
79. Advances from customers	Current Liabilities	Other Current Liabilities
80. Discount/Loss on issue of debentures	Shareholders' Funds	Reserves and Surplus (as a negative item)
81. Security Deposits for telephone	Non-Current Assets	Long-term Loans and Advances
82. Proposed dividend	Contingent Liability to be disclosed in Notes to Accounts,Note on the Face of the Balance Sheet	

83. Furniture and Fittings	Non-Current Assets	Fixed Assets– Tangible
84. Patents to be written off within 12 months	Current Assets	Other Current Assets
85. Balances with Banks held as margin money	Current Assets	Cash and Cash Equivalents
86. Public Deposits	Non-Current Liabilities	Long-term Borrowings
87. Authorized Capital	Shareholders' Funds	Share Capital
88. Mastheads	Non-Current Assets	Fixed Assets – Intangible
89. 10% Debentures	Non-Current Liabilities	Long-term Borrowings
90. Trade Receivables to be realized beyond 12 months	Non-Current Assets	Other Non-Current Assets
91. Debenture Redemption Investment	Current Assets	Current Investments
93. Treasury Bills	Current Assets	Current Investments
94. Models	Non-Current Assets	Fixed Assets–Intangible
95. Investments in Mutual Funds for less than 12 months	Current Assets	Current Investments
96. Trade Investments	Non-Current Assets	Non-Current Investments
97. Brand	Non-Current Assets	Fixed Assets–Intangible
98. Recipes/ Formula	Non-Current Assets	Fixed Assets–Intangible

Analysis of Financial Statements

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

Objectives of Analysis of Financial Statements

- To assess the current profitability and operational efficiency of the firm as a whole as well as its different departments so as to judge the financial health of the firm.
- To ascertain the relative importance of different components of the financial position of the firm.
- To identify the reasons for change in the profitability/financial position of the firm.
- To judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm.

Tools of Analysis of Financial Statements

The most commonly used techniques of financial analysis are as follows:

1. *Comparative Statements:* These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. Comparative figures indicate the trend and direction of financial position and operating results. This analysis is also known as 'horizontal analysis'

2. *Common Size Statements:* These are the statements which indicate the relationship of different items of a financial statement with a common item by expressing each item as a percentage of that common item. Common size statements are useful, both, in intra-firm comparisons over different years and also in making inter-firm comparisons for the same year or for several years. This analysis is also known as 'Vertical analysis'
3. *Ratio Analysis:* It describes the significant relationship which exists between various items of a balance sheet and a statement of profit and loss of a firm.
4. *Cash Flow Analysis:* It refers to the analysis of actual movement of cash into and out of an organisation.

MCQs

1	Debenture redeemable after 12 years of the issue are shown as ------------ (a) Long term borrowings (b) Short term borrowings (c) Other short-term liabilities (d) Other long-term liabilities
2	As per companies act, the Balance sheet is required to be presented in ------------ a. Vertical Form b. Horizontal Form c. Either Vertical Form or Horizontal Form d. Any of the above
3	Provision for tax appears in a company's Balance sheet under the sub head ----------- a. Long term provision b. Short term provision c. Other current liability d. None of the above
4	Maximum amount of capital mentioned in the memorandum of association is known as ------ a. Subscribed capital b. Authorised capital c. Called up capital d. Paid up Capita
5	Which statement is not included in final accounts of a company? A. Balance sheet B. Statement of profit and loss C. Both (a) & (b) D. None of the above
6	Which of the following statement is/are true? i. Authorized Capital < Issued Capital ii. Authorized Capital ≥ Issued Capital iii. Subscribed Capital ≤ Issued Capital iv. Subscribed Capital > Issued Capital a. (i) only b. (i) and (iv) Both c. (ii) and (iii) Both **d.** (ii) only
7	Which of the following are the tools of Vertical Analysis? (i) Ratio Analysis (ii) Comparative Statements (iii) Common Size Statements. a. Only (iii) b. Both (i) and (iii) c. Both (i) and (ii) d. Only (i)

8	Match the items given in Column I with the headings/subheadings (Balance sheet) as defined in Schedule III of Companies Act 2013. Column I / Column II: (I) Loose Tools — (a) Intangible fixed assets (Ii) Patents — (b)Other current assets (III) Prepaid insurance — (c) Long term Borrowings (IV) Debentures — (d) Inventories (V) Machinery — (e) Tangible Fixed assets Choose the correct option: 1. (I)-(a), (II)-(b), (III)- (d), (IV)- (c), (V)-(e) 2. (I)-(d), (II)- (a), (III)-(b), (IV)- (c), (V)-(e) 3. (I)-(d), (II)- (a), (III)-(b), (IV)-(e), (V)-(c) 4. (I)- (e), (II)- (d), (III)- (a), (IV)-(b), (V)-(b)
9	Which of the following statements are false? a. When all the comparative figures in a balance sheet are stated as percentage of the total, it is termed as horizontal analysis. b. When financial statements of several years are analysed, it is termed as vertical analysis. c. Vertical Analysis is also termed as time series analysis. Choose from the following options: e. Both (a) and (b) f. Both (a) and (c) g. Both (b) and (c) h. All three (a), (b), (c)
10	Which of the following is not required to be prepared under the Companies Act? (a) Statement of Profit & Loss (b) Balance Sheet (c) Cash Flow Statement (d) Fund Flow Statement
11	The profit and loss disclosed by the accounts of a company is ----------------. (a) Transferred to share capital account (b) Shown under the head of 'Current liabilities' and provisions (c) Shown under the head 'Reserves and Surplus (d) None of these
12	Preliminary expenses are shown in the Balance Sheet under the head --------------------. (a) Non-current assets (b) Current assets (c) Non-current liabilities (d) Deducted from securities premium reserve

13	Debit Balance of Profit & Loss Statement will be shown on -----------------. (a) Assets Side of Balance Sheet (b) Liabilities Side of Balance Sheet (c) Under the head Reserve & Surplus (d) Under the head Reserves and Surplus as a negative item
14	Patents and copyrights fall under the category of ------------------. (a) Current Assets (b) Liquid Assets (c) Intangible Assets (d) None of these
15	Contingent Liabilities are shown in the Balance Sheet under the heading of ------------- (a) Fixed Liabilities (b) Current Liabilities (c) As a footnote (d) None of these
16	Provision for Provident Funds is shown in the Balance Sheet of a company under the head --- (a) Reserves and Surplus (b) Non-current Liabilities (c) Provision (d) Contingent Liabilities
17	Goodwill of a company is shown on the assets side of the Balance Sheet under the head ------ (a) Current Assets (b) Non-current Assets (c) Miscellaneous Expenditure (d) None of these
18	Securities Premium Account is shown on the liabilities side in the Balance Sheet Under --------------- heading. (a) Reserves and Surplus (b) Current Liabilities and Provisions (c) Share Capital (d) Contingent Liabilities
19	Dividend is usually paid on -----------------. (a) On Authorised Capital (b) On Issued Capital (c) On Paid-up Capital (d) On Called-up Capital

20	Share capital is shown in Balance Sheet under -------------- head. (a) Authorised Capital (b) Issued Capital (c) Paid-up Capital (d) Shareholders' Funds
21	Calls in advance appear in a Company's Balance Sheet under ……………….. (A) Share Capital (B) Current Liability (C) Long-term Borrowings (D) Reserve & Surplus

ASSERTION/REASONING TYPE QUESTIONS

22	Assertion-(A) A single statement of profit and loss does not convey anything about the progress or decrease/increase in the earnings of the business. Reason-(R) - Therefore, it has no significance for the purpose of analysis. 1. Both (A) and (R) are correct and (R) is the correct reason of (A) 2. Both (A) and (R) are correct but (R) is not the correct reason for (A) 3. Only (R) is correct. 4. Both (A) and (R) are wrong
23	Assertion (A): The balance sheet of a company needs of needs to show the complete detail of the share capital of the company. Reason (R): As per schedule III of company Act 2013, the balance sheet must disclose authorised capital, issued capital and subscribed capital for each class of share capital besides the called-up amount made by the company by the shareholders. A. Both assertion and reason are true and reason is correct explanation of assertion B. Both assertion and reason are true but reason is not the correct explanation of assertion C. Assertion is true, reason is false D. Assertions is false ,reason is true
24	Assertion: financial statements are the end products of the accounting process. Reason: They provide information about the profitability and the financial position of a business. A. Both assertion and reason are true and reason is correct explanation of assertion

	B. Both assertion and reason are true but reason is not the correct explanation of assertion C. Assertion is true, reason is false D. Assertions is false ,reason is true
25	Assertion: Issued capital is that part of the Authorized capital which is actually offered to the public for subscription. Reason: Unissued capital is known as Reserve capital A. Both assertion and reason are true and reason is correct explanation of assertion B. Both assertion and reason are true but reason is not the correct explanation of assertion C. Assertion is true, reason is false D. Assertions is false ,reason is true
26	Assertion: when entire nominal value of a share is called by the company and also paid up by the shareholders, it is said to be subscribed and fully paid up capital Reason: As per As-26 preliminary expenses are to be written off in the year in which they are not incurred. A. Both assertion and reason are true and reason is correct explanation of assertion B. Both assertion and reason are true but reason is not the correct explanation of assertion C. Assertion is true, reason is false D. Assertions is false ,reason is true
27	Assertion: Shareholders and investors are interested to know about the safety of their investment, return and solvency. Reason: Tax authorities are interested to analyse the financial statements to know about the performance of the company and to collect various types of taxes. A. Both assertion and reason are true and reason is correct explanation of assertion B. Assertion and reason both are true but reason is not the correct explanation of assertion C. Assertion is true, reason is false D. Assertion is false, reason is true
28	Assertion (A) - The bank charges charged by the bank are included in finance cost. Reason (R) Bank charges are an expense not incurred in connection with raising finance but for availing the services of the bank A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

	B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). C. Assertion (A) is false, but Reason (R) is true. D. Assertion (A) is true, but Reason (R) is false
29	Assertion (A) - Bills receivables are shown as trade receivables in the balance sheet of the company. Reason (R) - Debtors and bills receivables form the part of trade receivables. A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). C. Assertion (A) is false, but Reason (R) is true. D. Assertion (A) is true, but Reason (R) is false
30	Assertion (A) - Internal analysis carried out by management is more detailed, extensive and correct. Reason (R) - Management has access to all the information relating to the organization A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). C. Assertion (A) is false, but Reason (R) is true. D. Assertion (A) is true, but Reason (R) is false
31	Assertion (A) - Analysis of financial statements is done to assess the managerial efficiency. Reason (R) - Financial statement analysis helps to identify the areas where the managers have been efficient and the areas where they have been inefficient. A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). C. Assertion (A) is false, but Reason (R) is true. D. Assertion (A) is true, but Reason (R) is false
32	Assertion: Reserve Capital is part of Share Capital that a Company resolves not to call at any time it desires. Reason: The reserve created out of capital profits is called Capital Reserve.

	A. Both Assertion and reason are true and reason is correct explanation of assertion. B. Assertion and reason both are true but reason is not the correct explanation of assertion. C. Assertion is true, reason is false. D. Assertion is false, reason is true.
33	Assertion: Financial statements ignore the price level changes or present value of assets. Reason: Assets in the financial statements are shown at historical cost. A. Both Assertion and reason are true and reason is correct explanation of assertion. B. Assertion and reason both are true but reason is not the correct explanation of assertion. C. Assertion is true, reason is false. D. Assertion is false, reason is true.
34	Assertion: Notes to Accounts is the statement attached to the financial statements. Reason: Notes to Accounts is the part of financial statements. A. Both Assertion and reason are true and reason is correct explanation of assertion. B Assertion and reason both are true but reason is not the correct explanation of assertion. C Assertion is true, reason is false. D Assertion is false, reason is true.
35	Assertion: Loan repayable on Demand are part of short-term borrowings. Reason: Short-term borrowings are repaid after 12 months. B. Both Assertion and reason are true and reason is correct explanation of assertion. C. Assertion and reason both are true but reason is not the correct explanation of assertion. D. Assertion is true, reason is false. E. Assertion is false, reason is true
36	Assertion (A):- In the balance Sheet, contingent liabilities are not included in the total of the liabilities side. Reason (R):- These are prescribed as per the scheduled III and Part I of the companies Act. 2013.

	A. Both Assertion (A) and Reason (R) are correct statements, and Reason (R) is the explanation of the Assertion (A). B. Both Assertion (A) and Reason (R) are correct statements, and Reason (R) is not the explanation of the Assertion (A). C. Assertion (A) is true, Reason (R) is false D. Assertion (A) is false, Reason (R) is true
37	Assertion (A):- Loan taken by a company from financial institution is shown under long term borrowing. Reason (R):- There is risk of insolvency, if the company does not repay the amount of loan. A. Both Assertion (A) an/’[]=d Reason (R) are correct statements, and Reason (R) is the explanation of the Assertion (A). B. Both Assertion (A) and Reason (R) are correct statements, and Reason (R) is not the explanation of the Assertion (A). C. Assertion (A) is true; Reason (R) is false. D. Assertion (A) is false, Reason (R) is true
38	Assertion (A): All contingent liabilities are shown in the non-current liabilities section of the balance sheet. Reason (R): A contingent liability refers to the claim which is uncertain to arise /which may or may not rise/which is dependent on a happening in future. A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). C. Assertion (A) is true Reason (R) is False D. Assertion (A) is False Reason (R) is True
39	Assertion (A): Accounts payables are recorded under the heading of current liabilities in the balance sheet of the company. Reason (R): Accounts payables are the money the company owes to its suppliers, partners, and employees. A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). C. Assertion (A) is true Reason (R) is False D. Assertion (A) is False Reason (R) is True

40	Assertion (A):- Assets = Liabilities + Owner's Equity, which totals are always same. Reason (R):- Owner's Equity = Shareholder's Fund + Non- Current Assets. A. Both Assertion (A) and Reason (R) are correct statements, and Reason (R) is the explanation of the Assertion (A). B. Both Assertion (A) and Reason (R) are correct statements, anD Reason (R) is not the explanation of the Assertion (A). C. Assertion (A) is true; Reason (R) is false. D. Assertion (A) is false, Reason (R) is true

Answers

1	A	16	B	31	A
2	A	17	B	32	D
3	B	18	A	33	A
4	B	19	C	34	B
5	D	20	D	35	C
6	C	21	B	36	A
7	B	22	A	37	B
8	B	23	A	38	D
9	D	24	A	39	B
10	D	25	B	40	C
11	C	26	C		
12	D	27	B		
13	D	28	C		
14	C	29	A		
15	C	30	A		

ACCOUNTING RATIOS

Meaning of Accounting Ratio:

Accounting Ratio is a mathematical expression of the relationship between two related or interdependent items or groups of items shown in the financial statements.

Objectives of Ratio Analysis:

1. To assess the earning capacity, financial soundness and operating efficiency of an enterprise.
2. To simplify the accounting information.
3. To help in comparative analysis.
4. To determine liquidity, i.e. Short-term solvency (Ability of the enterprise to meet its short term/current liabilities) and Long-term solvency (Ability of the enterprise to meet its long term/non-current liabilities).
5. To analyse the profitability of the business/enterprise.

Classification of Accounting Ratios:

1. Liquidity Ratios: (i) Current Ratio; and (ii) Quick Ratio.
2. Solvency Ratios: (i) Debt to Equity Ratio; (ii) Proprietary Ratio; (iii) Total Assets to Debt Ratio; and (iv) Interest Coverage Ratio.
3. Activity Ratios: (i) Inventory Turnover Ratio; (ii) Trade Receivables Turnover Ratio; *(iii) Trade Payables Turnover Ratio; and (iv) Working Capital Turnover Ratio.*
4. Profitability Ratios: (i) Gross Profit Ratio; (ii) Operating Ratio; (iii) Operating Profit Ratio; (iv) Net Profit Ratio; and (v) Return on Investment.

Computation of Accounting Ratios:

The following table shows the calculations of all the accounting ratios

Descriptio nof the Ratio	Formula	Significance	Remarks
		LIQUIDITY RATIOS	
1. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	This ratio shows short- term financial soundnessof the business. Higher ratio means better capacity to meet its current obligation. The ideal current ratio is 2:1.In case it is very high it shows the idleness of funds.	Current Assets = Current Investments + Inventories (Excluding Stores and Spares and Loose Tools) + Trade Receivables (Net of Pro- vision for Doubtful Debts)+Cash and Cash Equivalents + Short-term Loans and Advances + Other Current Assets Current Liabilities = Short-term Borrowings + Trade Payable+ Other Current Liabilities + Short-term Provisions.
2. Liquid Ratio /AcidTest Ratio /Quick Ratio	$\frac{\text{Liquid Assets or Quick Assets}}{\text{Current Liabilities}}$	Liquid Ratio is a fairly stringent measure of liquidity. It is based on those current assets which are highly liquid, i.e., can be converted intoCash and Cash Equivalents quickly. A Quick Ratio of 1:1 is considered ideal.	Quick Assets = Current Assets – Inventories – Prepaid Expenses Current Liabilitiesas per Current Ratio. Note: Inventories and prepaid expenses are not considered as Quick Assets.

1. Debt to Equity Ratio	Debt Equity (Shareholders' Funds)	SOLVENCY RATIOS This ratio assesses the long-term financial position and soundness ofenterprises. In general, lower the Debt to Equity Ratio higher the degree ofprotection enjoyed by thelenders.	Debt = Long-term Borrowings, (i.e., debentures, mortgage, public deposits) + Long-term Provisions Shareholders' Funds = Share Capital + Reserves and Surplus Or Noncurrent Assets(Tangible Assets + Intangible Assets + Non-current Investments + Long-term Loans and Advances) + Working Capital – Non-current Liabilities (Long-term Borrowings + Long-term Provisions). Working Capital = C.A – C.L
2. Total Assetto Debt Ratio	Total Assets Debt	This ratio measures the safety margin available to lenders of long-term debts. It measures the extent to which debt is being covered by assets.	Total Assets = Non-current Assets (Tangible Assets + Intangible Assets Non-current Investments + Long-term Loans and Advances) + Current Assets [Current Investments + Inventories (including Stores and Spares and Loose Tools) + Trade Receivables+ Cash and Cash Equivalents + Short-term Loans and Advances + Other Current Assets]Debt = Long- term Borrowings + Long-term Provisions
3.Proprietary Ratio	Shareholders' Funds or Equity Tot	This ratio shows the extent to which total assets have been financedby the proprietor. Higher the ratio, higher the safety margin for lenders and creditors.	Shareholders' Funds = Share Capital + Reserves and Surplus

4. Interest Coverage Ratio	Profit before Interest and Tax / Interest on Long-term Debt	This ratio shows how many times the interest charges are covered by the profits available to pay interest. Higher the ratio, the more secure thelender is in respect of payment of interest regularly.	Shareholders' Funds = Non-Current Assets + Working Capital
		TURNOVER RATIOS	
1. Inventory (Stock) Turnover Ratio	Cost of Revenue from Operations or Cost of Goods Sold / Average Inventory (Stock)	This ratio measures howfast Inventory is moving and generating sales. Higher the ratio, more efficient management of inventories and vice versa.	Average Inventory or Stock = (Opening Inventory or Stock + Closing Inventory or Stock) / 2
2. Trade Receivable sor Debtors' Turnover Ratio	Credit Revenue from Operations / Average Trade Receivables	This ratio showsefficiency in the collection of amount due from trade receivables. Higher the ratio, better it is since it indicates that debts are being collected more quickly.	Trade Receivables means debtors *plus* bills receivable. Provision for Doubtful Debts is not deducted. Average Trade Receivables = (Opening Trade Receivables + Closing Trade Receivables) / 2
3. Trade Payables or Creditors' Turnover Ratio	Net Credit Purchases / Average Trade Payables	*It shows the number of times the creditors are turned over in relation to purchases. A high turnover ratio or shorter payment period shows the availability of less credit or early payments.*	Trade Payables means creditors *plus* bills payable. Average Trade Payables = (Opening Trade Payables + Closing Trade Payables) / 2

4. Working Capital Turnover Ratio	Revenue from Operations / Working Capital	This ratio shows the number of times working capital has been employed in the process of carrying on business. Higher the ratio, better the efficiency in the utilisation of working capital.	Working Capital = Current Assets – Current Liabilities Current Assets = As per Current Ratio Current Liabilities = As per Current Ratio.
		PROFITABILITY RATIOS	
1. Gross Profit Ratio	Gross Profit / Revenue from Operations ×100	This ratio indicates the relationship between gross profit and net sales. Higher the Ratio, lower the cost of goods sold.	Gross Profit = Revenue from Operations – Cost of Revenue from Operations Cost of Revenue from Operations = Opening Inventory (excluding Stores and Spares and Loose Tools) + Net Purchases + Direct Expenses – Closing Inventory (excluding Stores and Spares and Loose Tools) *Or* Revenue from Operations – Gross Profits *Or* Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Inventories of Finished Goods, WIP and Stock-in-Trade + Direct Expenses. If direct expenses are not given, assume them to be nil.

2. Operating Ratio	Cost of Revenue from Operations + Operating Expenses ×100 Revenue from Operations	This ratio is calculated to assess the operational efficiency of the business. A decline in the operating ratio is better because it means higher margin, and thus, more profit.	Cost of Revenue from Operations = Opening Inventory (excluding Stores and Spares and Loose Tools) + Net Purchases + Direct Expenses –Closing Inventory (excluding Stores and Spares and Loose Tools)*Or* Revenue from Operations–Gross Profit *Or* Cost of Revenue from Operations = Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Inventories of Finished Goods, WIP and Stock-in-Trade + Direct Expenses. If Direct Expenses are not given, assume them to be nil. Operating Expenses = Employees Benefit Expenses + Other Expenses (Other than Non-operating Expenses) Revenue from Operations = Sales – S/R

3. Operating Profit Ratio	**Operating Profit ×100 Revenue from Operations**	The objective of computing this ratio is to determine the operational efficiency of management.	Operating Profit = Net Profit (Before Tax) + Non-operating Expenses – Non-operating Income Or = Gross Profit + Operating Income – Operating Expenses Non-operating Expenses = Interest on Long-term Borrowings + Loss on Sale of Fixed Assets or Non-current Assets Non-operating Income = Interest received on investments + Profit on Sale of Fixed Assets or Non-current Assets

4. Net Profit Ratio	**Profit after Tax×100 Revenue from Operations**	It indicates overall efficiency of the business. Higher the net profit ratio, better the business.	Profit after Tax = Gross Profit + Other Income – Indirect Expenses – Tax

5. Return on Investment or Return on Capital Employed	**(Profit before Interest, Tax and Dividend)×100 Capital Employed**	It assesses the overall performance of the enterprise. It measures how efficiently the resources entrusted to the business are used.	Capital Employed: Liabilities Approach: Share Capital + Reserves and Surplus + Long-term Borrowings + Long-term Provisions Assets Approach: Non-Current Assets (Tangible Assets + Intangible Assets) + Non-current Investments + Long-term Loans and Advances) + Working Capital. Working Capital = Current Assets – Current Liabilities (Assume that all Non-current Investments are Trade Investments) Note: 1. Non-operating Assets Assets do not form part of Capital Employed, e.g., Non- Trade Investments, Capital Work-in- progress, etc. 2. Interest on Non-trade Investments should be deducted from Profit before Interest, Tax and Dividend

MULTIPLE CHOICE QUESTIONS

Q1	Working Capital is the: (A) Cash and Bank Balance (B) Capital borrowed from the Banks **(C)** Difference between Current Assets and Current Liabilities **(D)** Difference between Current Assets and Fixed Assets
Q2	Current assets include only those assets which are expected to be realised within ……………………… (A) 3 months (B) 6 months (C) 1 year (D) 2 years
Q3	. On the basis of following data, the proprietary ratio of the company will be: Equity share capital Rs.10,00,000 ; Debentures Rs. 5,00,000; Statement of profit & loss DebitBalance Rs. 1,00,000; Current Liabilities Rs. 6,00,000, Current Assets 8,00,000. (A) 70% (B) 50% (C) 45% (D) 75%
Q4	. The two basic measures of liquidity are: **(a)** inventory turnover and current ratio **(b)** current ratio and liquid ratio **(c)** gross profit margin and operating ratio **(d)** current ratio and average collection period
Q5	A company’s liquid assets are 6,00,000, inventory is 1,50,000 and its current liabilities are 4,00,000. Subsequently, it purchased goods for Rs. 1,00,000 on credit. Quick ratio will be (a) 1.5:1 (b) 1.2:1 (c) 1.4:1 (d)1.7:1
Q6	Revenue from Operations Rs.2,00,000; Inventory Turnover ratio 5; Gross Profit 25%. Find out the value of Closing Inventory, if Closing Inventory is Rs.8,000 more than the Opening Inventory. (A) Rs.38,000 (B) Rs.22,000 (C) Rs.34,000 (D)Rs.26,000
Q7	Current Ratio is 1.5:1. Working Capital is 30,000. What will be the amount of currentliabilities? (a) 20,000 (b) 60.000 (c) 1,65,000 (d) 1,20,000
Q8	From the following information, the quick ratio will be: Bank Overdraft 40000, Trade Payable 10,000, Current Assets: 70,000, Inventories 10,000 Prepaid Expenses 5,000, Advance Tax 5,000. (a) 1:1.2 (b) 1:1 (c) 5:7 (d) 1.25:1

Q9	The Debt Equity ratio of a company is 1: 2. Purchase of a fixed asset for ₹. 5, 00,000 on long term deferred payment basis. Debt Equity Ratio will: (a) Increase (b) Decrease (c) Remain constant (d) Not change
Q10	Quick Assets =? **(a)** Current Assets – Prepaid Expenses **(b)** Current Assets – Inventory – Prepaid Expenses **(c)** Current Assets + Inventory – Prepaid Expenses **(d)** Current Assets – Inventory + Prepaid Expenses
Q11	Capital Employed can be calculated by: **(A)** Debt + Equity **(B)** Non -current assets + Working capital **(C)** Total Assets – Current Liabilities **(D)** Any of the above
Q12	Which of the following will reduce Debt-Equity ratio? **(A)** Payment of Bills payable on maturity **(B)** Conversion of debentures into equity shares **(C)** Declaration of final dividend **(D)** Issue of bonus shares
Q13	Net Profit can be greater than Operating Profit when: **(a)** Cost of Revenue from Operations is more than Operating Expenses **(b)** Operating Expenses are more than Non-operating Expenses **(c)** Non-operating Expenses are more than Non-operating Income (d)Non-operating Expenses are less than Non-operating Income
Q14	If Share Capital ₹.8,00,000, Reserves and Surplus ₹.3,00,000, Non-current Assets ₹.40,00,000, Current Assets ₹.4,00,000, then proprietary ratio will be: (a) 12% (b) 25% (c) 8.33% (d) None of the above
Q15	Higher the ratio, the more favorable it is, does not stand true for: **(a)** Gross profit ratio **(b)** Net profit ratio **(b)** Operating ratio **(d)** Operating profit ratio

Q16	A company's revenue from operations is Rs.10,00,000, cost of revenue from operations is ₹ 7,00,000, closing inventories ₹.50,000 and indirect expenses are ₹.1,00,000. Its gross profit ratio is: (a) 40% (B) 15% (C) 20% (D) 30%
Q17	From the following information, Calculate Return on Investment: Net Profit after Interest and Tax Rs. 4,50,000, 10% Debentures 15,00,000 ,Tax @ 10% Capital employed Rs.26,00,000 (A) 17.31% (B) 25% (C) 15.85% (D) 10.98%
Q18	Interest coverage ratio is given by: **(A)** Net Profit/Interest on long-term borrowing **(B)** Long-term borrowings/Interest on long term borrowings **(C)** Profit before interest and tax/Interest on long-term borrowings **(D)** Profit before Tax/Interest on long-term borrowings
Q19	Which ratios are complimentary to each other: **(A)** Gross profit ratio and Net profit ratio **(B)** Operating profit ratio and Net profit ratio **(C)** Operating ratio and Net profit ratio **(D)** Operating ratio and Operating profit ratio
Q20	If revenue from operation is ₹. 6,00,000 and Gross profit is 25% of cost of revenue from Operation. Gross profit will be: (A) ₹. 1,50,000 (B) ₹. 1,20,000 (C) ₹. 4,50,000 (D)None of the above
Q21	The ideal Current ratio is: (A) 1:2 (B) 2:1 (C) 1:1 (D) 40%
Q22	If the total assets are ₹. 13,20,000, Non- Current assets ₹. 6,00,000 and capital employed is ₹. 12,00,000, which of the following correctly represents the current ratio for the venture? (A) 2:1 (B) 4:1 (C) 6:1 (D) 7:1

Q23	Which of the following is not a type of Activity Ratio: **(A)** Inventory Turnover Ratio **(B)** Trade Receivable Turnover Ratio **(C)** Working Capital Turnover Ratio **(D)** Debt to Equity Ratio
Q24	……………… Ratios are a measure of the speed with which various accounts are converted into sales or cash. **(A)** Activity Ratio **(B)** Liquidity Ratio **(C)** Profitability Ratio **(D)** Solvency Ratio
Q25	Opening Inventory of a firm is Rs. 80,000. Cost of revenue from operation is ₹. 6,00,000. Inventory Turnover Ratio is 5 times. Its closing inventory will be: (A) ₹. 1,60,000 (B) ₹. 1,20,000 (C) ₹. 80,000 (D) ₹. 2,00,000
Q26	A transaction involving a decrease in both Current Ratio and Quick Ratio is: **(A)** Sale of Non-Current Assets for Cash **(B)** Sale of Stock-in-Trade at Loss **(C)** Cash payment of a current liability **(D)** Purchase of stock-in-trade on credit
Q27	Total purchase ₹. 1,70,000 , cash purchase ₹. 16,000, Purchase return ₹. 8,000, creditors at the end of the year ₹. 32,000, creditors in the beginning ₹. 24,000. What will be the creditor's turnover ratio? **(A)** 5.12 times **(B)** 5.16 times **(C)** 5.21 times **(D)** 5.25 times
Q28	Assuming that the current ratio is 2:1, purchase of goods on credit would: **(A)** Increase Current Ratio **(B)** Decrease Current Ratio **(C)** No effect on Current Ratio (D) Either increase or decrease Current Ratio

Q29	A company has Liquid Assets ₹. 75,000; Inventories ₹. 15,000; Prepaid Expenses ₹. 10,000 and Working Capital of ₹. 60,000. Its Liquid Ratio will be: (A) 2.5:1 (B) 1.87:1 (C)2:1 (D) 1:1
Q30	Liquid Ratio is also known as: **(A)** Quick Ratio **(B)** Acid Test Ratio **(C)** Working Capital Ratio **(D)** (D)Both (A) and (B)
Q31	100 - Operating Profit Ratio is equal to **(a)** Operating Ratio **(b)** Operating Net profit Ratio **(c)** Gross Profit Ratio (d) Current ratio
CBQ	Read the passage given below and answer the following 4 questions from question No. 32 to 35. Fatima Ltd provides the following information for the year 2020-2021. Purchases ₹ 18,30,000; Direct expenses ₹ 4,10,000; Opening inventory ₹ 3,60,000; Closing Inventory ₹ 4,40,000; operating Expenses 5% of Revenue from operations; Revenue from operation ₹ 30,00,000.
Q32	The Gross Profit Ratio will be a) 26% b) 27% c) 28% d) 30%
Q33	The operating Profit ratio will be– a) 20% b) 21% c) 22% d) 23%
Q34	Will it be possible to find out Working Capital from the above information a) Yes, Possible b) No, Not possible due to lack of information. c) Possible on a rational assumption d) Any of them depending upon the capacities of calculation

Q35	If the closing Inventory is increases, what will be effect on Gross Profit ratio & Operating profit Ratio? a) Increase b) Decrease c) No effect d) Any of them depending upon the situation
ARQ	Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below:
Q36	Assertion (A)–Ratio analysis is a process of determining and interpreting relationships between the items of financial statements to provide meaningful understanding of the performance and financial position of an enterprise. Reason (R)–It is a technique of analyzing the financial statements by computing the various ratios. (a) Both (A) and (R) are true and (R) is the correct explanation of (A). (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false (d) (A) is false, but (R) is true.
Q37	Assertion (A): Inventory Turnover Ratio tells how well a company is turning its inventory into sales. Reason (R) - Inventory Turnover shows the relationship between the cost of revenue from operations during the year and average inventory kept during the year. (a) Both (A) and(R) are true and (R) is the correct explanation of (A). (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false (d) (A) is false, but (R) is true
Q38	Assertion: Operating ratio of X Ltd is 85% and its Operating profit ratio is 15%. Reason: This is because of the fact that Operating ratio and Operating profit ratio are complimentary to each other. a) Both Assertion and reason are true and reason is correct explanation of assertion. b) Assertion and reason both are true but reason is not the correct explanation of assertion. c) Assertion is true, reason is false. d) Assertion is false, reason is true
Q39	Assertion: Working capital Turnover Ratio shows the relationship between working capital and Revenue from operation. Reason: A low working capital ratio shows efficient use of working capital, whereas, high ratio shows its inefficient use. a) Both Assertion and reason are true and reason is correct explanation of assertion. b) Assertion and reason both are true but reason is not the correct explanation of assertion. c) Assertion is true, reason is false. d) Assertion is false, reason is true

Q40	Assertion: Sale of Machinery costing ₹85,000 at ₹80,000 will not change Operating ratio (75%) Reason: Operating cost will not increase/decrease, but the revenue from operation will increase due to the sale value of the Machinery a) Both Assertion and reason are true and reason is correct explanation of assertion. b) Assertion and reason both are true but reason is not the correct explanation of assertion. c) Assertion is true, reason is false. d) Assertion is false, reason is true.

ANSWER KEY

Q.NO	ANSWER	Q.NO	ANSWER
1	C	21	B
2	C	22	C
3	C	23	C
4	B	24	A
5	B	25	A
6	C	26	D
7	B	27	C
8	B	28	A
9	A	29	B
10	B	30	D
12	B	31	A
13	D	33	C
14	B	34	D
15	C	35	B
16	D	36	A
17	B	37	A
18	C	38	A
19	D	39	C
20	B	40	A

SAMPLE QUESTION PAPER (TERM-1) 2021-22
ACCOUNTANCY
SUBJECT CODE: 055

Time Allowed: 90 Minutes **Maximum Marks: 40**

General Instructions:

Read the following instructions very carefully and strictly follow them:

1. This question paper comprises three **PARTS – I, II and III**. There are 69 questions in the question paper.
2. **Part - I -**is compulsory for all candidates.
3. **Part - II** Analysis of Financial Statement and **Part -III** Computerized Accounting. You have to attempt only one of the given OPTIONS.
4. There is an internal choice provided in each Sections.
   I. **Part-I**, contains three Sections -A, B and C. **Section A** has questions from 1 to 18 and **Section B** has questions from 19 to 36, you have to attempt any 15 questions each in both thesections.
   II. **Part I, Section C** has questions from 37 to 41. You have to attempt any four questions.
   III. **Part II**, contains two Sections – A and B. **Section A** has questions from 42 to 48, you have to attempt any five questions and **Section B** has questions from 49 to 55, you have to attempt any six questions.
   IV. **Part III**, contains two Sections – A and B. **Section A** has questions from 49 to 62, you have to attempt any five questions and **Section B** has questions from 63 to 69, you have to attempt any six questions.
5. All questions carry **equal marks**. There is **no negative marking**.
6. Specific Instructions related to each Part and subdivisions (Section)is mentioned clearly before the questions. Candidates should read them thoroughly and attempt accordingly.

1	Gain / loss on revaluation at the time of change in profit sharingratio of existing partners is shared by___(i)_____ whereas in case of admission of a partner it is shared by_(ii)_. (A) (i) Remaining Partners, (ii) All Partners. (B) (i) All Partners, (ii) Old partners. (C) (i) New Partner, (ii) All partner. (D) (i) Sacrificing Partner, (ii) Incoming partner
2	Calculate the amount of second & final call when Abhijit Ltd, issues Equity shares of ₹10 each at a premium of 40% payable on Application ₹3, On Allotment ₹5, On First Call ₹2. (A) Second & final call ₹3. (B) Second & final call ₹4. (C) Second & final call ₹1. (D) Second & final call ₹14.
3	Anish Ltd, issued a prospectus inviting applications for 2,000 shares. Applications were received for 3,000 shares and pro- rata allotment was made to the applicants of 2,400 shares. If Dhruv has been allotted 40 shares, how many shares he must have applied for? (A) 40 (B) 44 (C) 48 (D) 52
4	Ambrish Ltd offered 2,00,000 Equity Shares of ₹10 each, of these 1,98,000 shares were subscribed. The amount was payable as ₹3 on application, ₹4 an allotment and balance on first call. If a shareholder holding 3,000 shares has defaulted on first call, what is the amount of money received on first call? (A) ₹9,000. (B) ₹5,85,000. (C) ₹5,91,000. (D) ₹6,09,000.

5 What will be the correct sequence of events?

i. Forfeiture of shares.
ii. Default on Calls.
iii. Re-issue of shares.
iv. (iv) Amount transferred to capital reserve.Options:

(A) (i), (iv), (ii), (iii)

(B) (ii), (iv), (i), (iii)

(C) (ii), (i), (iii), (iv)

(D) (iii), (iv), (i) (ii)

6 Arun and Vijay are partners in a firm sharing profits and losses in theratio of 5:1.

Balance Sheet (Extract)

Liabilities	₹	Assets	₹
		Machinery	40,000

If the value of machinery reflected in the balance sheet is overvalued by
33 %, find out the $\frac{1}{3}$value of Machinery to be shown in the new BalanceSheet:

(A) ₹ 44,000

(B)48,000

(C)₹32,000

(D)₹30,000

7 Which of the following is true regarding Salary to a partner whenthe firm maintains fluctuating capital accounts?

(A) Debit Partner’s Loan A/c and Credit P & L Appropriation A/c.

(B) Debit P & L A/c and Credit Partner’s Capital A/c.

(C) Debit P & L Appropriation A/c and Credit Partner’s Current A/c.

(D) Debit P & L Appropriation A/c and Credit Partner’s Capital A/c.

8	At the time of reconstitution of a partnership firm, recording of an unrecorded liability will lead to: (A) Gain to the existing partners (B) Loss to the existing partners (C) Neither gain nor loss to the existing partners (D) None of the above
9	E, F and G are partners sharing profits in the ratio of 3:3:2. According to the partnership agreement, G is to get a minimum amount of ₹80,000 as his share of profits every year and any deficiency on this account is to be personally borne by E. The net profit for the year ended 31st March 2021 amounted to ₹3,12 ,000. Calculate the amount of deficiency to be borne by E? (A) ₹1,000 (B) ₹4,000 (C) ₹8,000 (D) ₹2,000
10	At the time of admission of a partner, what will be the effect of the following information? Balance in Workmen compensation reserve ₹40,000. Claim forworkmen compensation ₹45,000. (A) ₹45,000 Debited to the Partner's capital Accounts. (B) ₹40,000 Debited to Revaluation Account. (C) ₹5,000 Debited to Revaluation Account. (D) ₹5,000 Credited to Revaluation Account.
11	In the absence of partnership deed, a partner is entitled to an interest on the amount of additional capital advanced by him to the firm at a rate of: (A) entitled for 6% p.a. on their additional capital, only when there are profits. (B) entitled for 10% p.a. on their additional capital (C) entitled for 12% p.a. on their additional capital (D) not entitled for any interest on their additional capitals.

12	Revaluation of assets at the time of reconstitution is necessary because their present value may be different from their: (A) Market Value. (B) Net Value. (C) Cost of Asset (D) Book Value
13	If average capital employed in a firm is ₹8,00,000, average of actual profits is ₹1,80,000 and normal rate of return is10%, then value of goodwill as per capitalization of average profits is: (A) ₹10,00,000 (B) ₹18,00,000 (C) ₹80,00,000 (D) ₹78,20,000
14	In which of the following situation Companies Act 2013 allows for issue of shares at discount? (A) Issued to vendors. (B) Issued to public. (C) Issued as sweat equity. (D) None of the above.
15	As per Section 52 of Companies Act 2013, Securities Premium Reserve cannot be utilised for: (A) Writing off capital losses. (B) Issue of fully paid bonus shares. (C) Writing off discount on issue of securities. (D) Writing off preliminary expenses.
16	Net Assets minus Capital Reserve is: (A) Purchase consideration (B) Goodwill (C) Total assets (D) Liquid assets

17	Kalki and Kumud were partners sharing profits and losses in the ratio of 5:3. On 1st April,2021 they admitted Kaushtubh as a new partner and new ratio was decided as 3:2:1. Goodwill of the firm was valued as ₹3,60,000. Kaushtubh couldn't bring any amount for goodwill. Amount of goodwill share to be credited to Kalki and Kumud Account's will be: - (A) ₹ 37,500 and ₹22,500 respectively (B) ₹ 30,000 and ₹30,000 respectively (C) ₹ 36,000 and ₹24,000 respectively (D) ₹ 45,000 and ₹15,000 respectively
18	Sarvesh, Sriniketan and Srinivas are partners in the ratio of 5:3: 2.If Sriniketan's share of profit at the end of the year amounted to₹1,50,000, what will be Sarvesh's share of profits? (A) ₹5,00,000. (B) ₹1,50,000. (C) ₹3,00,000. (D) ₹2,50,000.
	<u>Part – I</u> <u>Section – B</u> From question number 19 to 36, attempt any 15 questions.
19	Angle and Circle ware partners in a firm. Their Balance Sheet showed Furniture at ₹2,00,000; Stock at ₹1,40,000; Debtors at ₹1,62,000 and Creditors at ₹60,000. Square was admitted and new profit-sharing ratio was agreed at 2:3:5. Stock was revalued at ₹1,00,000, Creditors of ₹15,000 are not likely to be claimed, Debtors for ₹2,000 have become irrecoverable and Provision for doubtful debts to be provided @ 10%. Angle's share in loss on revaluation amounted to ₹30,000. Revalued value of Furniture will be: (A) ₹2,17,000 (B) ₹1,03,000 (C) ₹3,03,000 (D) ₹1,83,000
20	Asha and Nisha are partner's sharing profits in the ratio of 2:1. Kashish was admitted for 1/4 share of which 1/8 was gifted byAsha. The remaining was contributed by Nisha. Goodwill of the firm is valued at ₹ 40,000. How much amount for goodwill will be credited to Nisha's Capital account?

	(A) ₹2,500. (B) ₹5,000. (C) ₹20,000. (D) ₹ 40,000
21	At the time of admission of new partner Vasu, Old partners Pareshand Prabhav had debtors of ₹6,20,000 and a provision for doubtful debts of ₹20,000 in their books. As per terms of admission, assets were revalued, and it was found that debtors worth ₹15,000 had turned bad and hence should be written off. Which journal entry reflects the correct accounting treatment of the above situation.

(A)	Bad Debts A/c Dr. To Sundry Debtors Provision for Doubtful Debts A/c Dr. To Bad Debts A/c	15,000 15,000	 15,000 15,000
(B)	Bad Debt A/c Dr. To Sundry Debtors Revaluation A/c Dr. To Provision for Doubtful Debts A/c	15,000 15,000	 15,000 15,000
(C)	Revaluation A/c Dr. To Sundry Debtors A/c	15,000	 15,000
(D)	Bad Debt A/c Dr. To Revaluation A/c	15,000	 15,000

22 Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R)

Assertion (A): Transfer to reserves is shown in P & L Appropriation A/c.

Reason (R): Reserves are charge against the profits.

In the context of the above statements, which one of the followingis correct?

Codes:

(A) (A) is correct, but (R) is wrong.

(B) Both (A) and (R) are correct.

(C) (A) is wrong, but (R) is correct.

(D) Both (A) and (R) are wrong.

23	Anubhav, Shagun and Pulkit are partners in a firm sharing profits and losses in the ratio of 2:2:1. On 1st April 2021, they decided to change their profit-sharing ratio to 5:3:2. On that date, debit balance of Profit & Loss A/c ₹30,000 appeared in the balance sheet and partners decided to pass an adjusting entry for it. Which of the undermentioned options reflect correct treatment for the above treatment? (A) Shagun's capital account will be debited by ₹3,000 and Anubhav’s capital account credited by ₹3,000 (B) Pulkit's capital account will be credited by ₹3,000 and Shagun's capital account will be credited by ₹3,000 (C) Shagun's capital account will be debited by ₹30,000 and Anubhav’s capital account credited by ₹30,000 (D) Shagun's capital account will be debited by ₹3,000 and Anubhav’s and Pulkit’s capital account credited by ₹2,000 and ₹1,000respectively.
24	A, B and C are partners, their partnership deed provides for interest on drawings at 8% per annum. B withdrew a fixed amount in the middle of every month and his interest on drawings amounted to ₹4,800 at the end of the year. What was the amount of his monthly drawings? (A) ₹10,000. (B) ₹5,000. (C) ₹1,20,000. (D) ₹48,000.
25	Abhay and Baldwin are partners sharing profit in the ratio 3:1. On 31st March 2021, firm’s net profit is ₹1,25,000. The partnershipdeed provided interest on capital to Abhay and Baldwin ₹15,000 &₹10,000 respectively and Interest on drawings for the year amounted to ₹6000 from Abhay and ₹4000 from Baldwin. Abhay is also entitled to commission @10% on net divisible profits. Calculate profit to be transferred to Partners Capital A/c’s. (A) ₹1,00,000 (B) ₹1,10,000 © ₹1,07,000 (D)₹90,000

26	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R): **Assertion (A)**: Revaluation A/c is prepared at the time of Admission of a partner. **Reason (R):** It is required to adjust the values of assets and liabilities at the time of admission of a partner, so that the true financial position of the firm is reflected. In the context of the above two statements, which of the followingis correct? **Codes:** (A) Both (A) and (R) are correct and (R) is the correct reason of (A). (B) Both (A) and (R) are correct but (R) is not the correct reason of (A). (C) Only (R) is correct. (D) Both (A) and (R) are wrong.
27	Apaar Ltd forfeited 4,000 shares of ₹20 each, fully called up, on which only application money of ₹6 has been paid. Out of these 2,000 shares were reissued and ₹8,000 has been transferred to capital reserve. Calculate the rate at which these shares were reissued. (A) ₹20 Per share (B) ₹18 Per share (C) ₹22 Per share (D) ₹8 Per share
28	Which of the following statement is/are true? (i) Authorized Capital $<$ Issued Capital (ii) Authorized Capital $\geq$ Issued Capital (iii) Subscribed Capital $\leq$ Issued Capital (iv) Subscribed Capital $>$ Issued Capital (A) (i) only (B) (i) and (iv) Both (C) (ii) and (iii) Both (D) (ii) only

29	Mickey, Tom and Jerry were partners in the ratio of 5:3:2. On 31st March 2021, their books reflected a net profit of ₹2,10,000. As perthe terms of the partnership deed they were entitled for interest oncapital which amounted to ₹80,000, ₹60,000 and ₹40,000 respectively. Besides this a salary of ₹60,000 each was payable to Mickey and Tom. Calculate the ratio in which the profits would be appropriated. (A) 1:1:1 (B) 5:3:2 (C) 7:6:2 (D) 4:3:2
30	Mohit had been allotted for 600 shares by a Govinda Ltd on pro rata basis which had issued two shares for every three applied. He had paid application money of ₹3 per share and could not pay allotment money of ₹5 per share. First and final call of ₹2 per share was notyet made by the company. His shares were forfeited. the following entry will be passed: Equity Share Capital A/c Dr ₹X To share Forfeited A/c ₹Y To Equity Share Allotment A/c ₹Z Here X, Y and Z are: (A) ₹ 6,000; ₹2,700; ₹3,000 respectively. (B) ₹ 9,000; ₹2,700; ₹4,500 respectively. (C) ₹ 4,800; ₹2,700; ₹2,100 respectively. (D) ₹ 7,200; ₹2,700; ₹4,500 respectively.
31	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R): **Assertion (A):** In case of shares issued on Pro–rata basis, excess money received at the time of application can be utilised till allotment only. **Reason (R):** Company has to pay interest on calls in advance @12% p.a. for amount adjusted towards calls (if any). In the context of the above two statements, which of the following is correct? **Codes:**

	(A) Both (A) and (R) are true, but (R) is not the explanation of working capital management. (B) Both(A) and (R) are true and (R) is a correct explanation of (A). (C) Both (A) and (R) are false. (D) (A) is false, but (R) is true.
32	Ajay and Vinod are partners in the ratio of 3:2. Their fixed Capital were ₹3,00,000 and ₹4,00,000 respectively. After the close of accounts for the year it was observed that the Interest on Capital which was agreed to be provided at 5% pa was erroneously provided at 10%p.a. By what amount will Ajay's account be affected if partners decide to pass an adjustment entry for the same? (A) Ajay's Current A/c will be Debited by ₹15,000. (B) Ajay's Current A/c will be Credited by ₹6,000. (C) Ajay's Current A/c will be Credited by ₹35,000. (D) Ajay's Current A/c will be Debited by ₹20,000.
33	Vishnu Ltd. forfeited 20 shares of ₹10 each, ₹8 called up, on which John had paid application and allotment money of ₹5 per share, of these, 15 shares were reissued to Parker as fully paid up for ₹6 per share. What is the balance in the share Forfeiture Account after the relevant amount has been transferred to Capital Reserve Account? (A) ₹0 (B) ₹5 (C) ₹25 (D) ₹100
34	Newfound Ltd took over business of Old land ltd and paid for it by issue of 30,000, Equity Shares of ₹100 each at a par along with 6% Preference Shares of ₹1,00,00,000 at a premium of 5% and a cheque of ₹8,00,000. What was the total agreed purchase consideration payable to Old Land ltd. (A) ₹1,05,00,000. (B) ₹1,43,00,000. (C)₹1,40,00,000. (D) ₹1,35,00,000.

35	A and B are partners in the ratio of 3:2. C is admitted as a partner and he takes ¼th of his share from A. B gives 3/16 from his shareto C. What is the share of C? (A) 1/4 (B) 1/16 (C) 1/6 (D) 1/16
36	Krishan Ltd has Issued Capital of 20, 00,000 Equity shares of ₹10 each. Till Date ₹8 per share have been called up and the entire amount received except calls of ₹4 per share on 800 shares and ₹3 per share from another holder who held 500 shares. What will be amount appearing as 'Subscribed but not fully paid capital' in the balance sheet of the company? (A) ₹ 2,00,00,000 (B) ₹ 1,95,99,000 (C) ₹ 1,59,95,300 (D)₹ 1,99,95,300

Part – I Section – C

Instructions: **From question number 37 to 41, attempt any 4 questions.**

Question no.'s 37 and 38 are based on the hypotheticalsituation given below.

Bright Star Limited is engaged in manufacture of high-end medical equipment. Considering the prospects of high growth in this segment the company has decided to expand and for this purpose additional investment of ₹50, 00, 00,000 is required. Directors have decided that 20% of this requirement would be financed by raising long term debts and balance by issue of Equity shares.

As per memorandum of association of the company the face value of Equity shares is ₹100 each. Also, considering the market standing of the company these shares would be issued at a premium of 25%. Directors decided to issue sufficient shares to collect the desired amount (including premium).

The prospectus was issued to public, and the issue was oversubscribed by 2,00,000 shares which were issued letters of regret. Answer the below mentioned questions considering that the entire amount waspayable on application.

37 What is the total amount collected on application?

(A) ₹42,50,00,000

(B) ₹40,00,00,000

(C) ₹32,00,00,000

(D) None of the above

38 How many Equity shares were offered for issue by Bright Star Ltd?

(A) 40,00,000 shares.

(B) 50,00,000 shares.

(C) 35,00,000 shares.

(D) 32,00,000 shares.

Question no.'s 39, 40 and 41 are based on the hypotheticalsituation given below.

On 1st September 2020, twenty students of Modern College started their Partnership Firm in the name of "Be Safe" for selling sanitisers on digital mode. Since they were good friends of each other, they were not having any explicit agreement in place. All of them have agreed to invest ₹15,000/- each as capital. The books were closed on 31st March 2021, on which date the following information was provided by the firm:

PARTICULARS	AMOUNT (₹)
Sale of Sanitisers	1,20,000
Cost of goods sold	50,000
Total Remuneration to partners	2,000 per month
Rent to a partner	1,000 per month
Manager's Commission	5,000
Closing Stock as on March 31,2021	9,000
6% Fixed Deposit (made on 31.3.2021)	20,000

39 Calculate the amount of profits to be transferred to Profit and Loss Appropriation Account. -

(A) Profit ₹58,000

(B) Profit ₹44,000

(C) Profit ₹59,200

(D) Profit ₹58,700

40	On 31st March 2021, Remuneration to Partners will be provided to the partners of "Be Safe" but only out of: (A) Profits for the accounting year (B) Reserves (C) Accumulated Profits (D) Goodwill
41	On 01st December 2020 one of the partners of the firm introduced additional capital of ₹30,000 and also advanced a loan of ₹40,000to the firm. Calculate the amount of interest that Partner will receive for the current accounting period- (A) ₹4,200 (B) ₹1,400 (C) ₹ 1575 (D) ₹ 800

<u>Part – II</u> <u>Section – A</u>

Instructions:

- From question number 42 to 48, attempt any 5 questions.

42	Given below are two statements, one labelled as Assertion (A) andthe other labelled as Reason (R): **Assertion (A)**: The focus of calculation of working capital revolves around managing the operating cycle of the business. **Reason (R)**: It is because the concept of operating cycle is required to ascertain the liquidity of assets and urgency of payments to liabilities. In the context of the above two statements, which of the followingis correct? **<u>Codes:</u>** (A) Both (A) and (R) are true, but (R) is not the explanation of workingcapital management. (B) Both(A) and (R) are true and (R) is a correct explanation of (A). (C) Both (A) and (R) are false.

	(D) (A) is false, but (R) is true.
43	Which of the following are included in traditional classification ofratios? (v) Liquidity Ratios. (vi) Statement of Profit and loss Ratios. (vii) Balance Sheet Ratios. (viii) Profitability Ratios. (ix) Composite Ratios. (x) Solvency Ratios. (A) (ii), (iii) and (v) (B) (i), (iv) and (vi) (C) (i), (ii) and (vi) (D) All (i), (ii), (iii), (iv), (v), (vi)
44	The following groups of ratios primarily measure risk: (A) solvency, activity, and profitability (B) liquidity, efficiency, and solvency (C) liquidity, activity, and profitability (D) liquidity, solvency, and profitability
45	**2.** Which one of the following is correct? (i) A ratio is an arithmetical relationship of one number to anothernumber. (ii) Liquid ratio is also known as acid test ratio. (iii) Ideally accepted current ratio is 1: 1. (iv) Debt equity ratio is the relationship between outsider's funds andshareholders' funds.

	In the context of the above two statements, which of the followingoptions is correct? (A) All (i), (ii), (iii) and (iv) are correct. (B) Only (i), (ii) and (iv) are correct. (C) Only (ii), (iii) and (iv) are correct. (D) Only (ii) and (iv) are correct.
46	**3.** Which of the following are the tools of Vertical Analysis? (i) Ratio Analysis. (ii) Comparative Statements. (iii) Common Size Statements. (A) Only (iii) (B) Both (i) and (iii) (C) Both (i) and (ii) (D) Only (i)
47	Match the items given in Column I with the headings/subheadings(Balance sheet) as defined in Schedule III of Companies Act 2013. <table><tr><th>Column I</th><th>Column II</th></tr><tr><td>(I) Loose Tools</td><td>(a) Intangible fixed assets</td></tr><tr><td>(Ii) Patents</td><td>(b)Other current assets</td></tr><tr><td>(III) Prepaid insurance</td><td>(c) Long term Borrowings</td></tr><tr><td>(IV) Debentures</td><td>(d) Inventories</td></tr><tr><td>(V) Machinery</td><td>(e) Tangible Fixed assets</td></tr></table> *Choose the correct option:* *A. (I)-(a), (II)-(b), (III)- (d), (IV)- (c), (V)-(e)* *B. (I)-(d), (II)- (a), (III)-(b), (IV)- (c), (V)-(e)* *C. (I)-(d), (II)- (a), (III)-(b), (IV)-(e), (V)-(c)* *D. (I)- (e), (II)- (d), (III)- (a), (IV)-(b), (V)-(b)*

48	Which ratio indicates the proportion of assets financed out ofshareholders' funds? (A) Debt equity ratio. (B) Fixed assets turnover ratio. (C) Proprietary ratio. (D) Total assets to debt ratio

<u>Part – II</u> <u>Section – B</u>

Instructions:

- From question number 49 to 55, attempt any 6 questions.

49	If Total sales is ₹2,50,000 and credit sales is 25% of Cash sales.The amount of credit sales is: (A) ₹50,000 (B) ₹2,50,000 (C) ₹16,000 (D) ₹3,00,000
50	What will be the amount of gross profit of a firm if its average inventory is ₹80,000, Inventory turnover ratio is 6 times, and the Selling price is 25% above cost? *(A) ₹1,20,000.* *(B) ₹1,60,000.* *(C) ₹2,00,000.* (D). None of the above
51	Which of the following statements are false? a) When all the comparative figures in a balance sheet are stated as percentage of the total, it is termed as horizontal analysis. b) When financial statements of several years are analysed, it istermed as vertical analysis. c) Vertical Analysis is also termed as time series analysis.

	Choose from the following options: (A) Both (a) and (b) (B) Both (a) and (c) (C) Both (b) and (c) (D) All three (a), (b), (c)
52	Given below are two statements, one labelled as Assertion (A) andthe other labelled as Reason (R): ***Assertion (A)****: Increasing the value of closing inventory increasesprofit.* ***Reason (R)****: Increasing the value of closing inventory reduces costof goods sold.* *In the context of the above two statements, which of the followingis correct?* **<u>Codes:</u>** (A) Both (A) and (R) are correct and (R) is the correct reason of (A). (B) Both (A) and (R) are correct but (R) is not the correct reason of (A). (C) Only (R) is correct. (D) Both (A) and (R) are wrong.
53	Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R): ***<u>Assertion (A)</u>****: A high operating ratio indicates a favourableposition.* ***<u>Reasoning (R)</u>****: A high operating ratio leaves a high margin to meet non-operating expenses.* *In the context of the above two statements, which of the followingis correct?* **<u>Code:</u>** (A) (A) and (R) both are correct and (R) correctly explains (A). (B) Both (A) and (R) are correct but (R) does not explain (A). (C) Both (A) and (R) are incorrect. (D) (A) is correct but (R) is incorrect

54	Current ratio of Adaar Ltd. is 2.5:1. Accountant wants to maintain it at 2:1. Following options are available. (iv) He can repay Bills Payable (v) He can purchase goods on credit (vi) He can take short term loanChoose the correct option. (A) Only (i) is correct (B) Only (ii) is correct (C) Only (i) and (iii) are correct (D) Only (ii) and (iii) are correct
55	A company has an operating cycle of eight months. It has accounts receivables amounting to ₹1,00,000 out of which ₹60,000 have a maturity period of 11 months. How would this information be presented in the balance sheet? (A) ₹40000 as current assets and ₹60,000 as non-current assets. (B) ₹60,000 as current assets and ₹40,000 as non-current assets. (C) ₹1,00,000 as non-current assets. (D) ₹1,00,000 as Current assets.

Marking Scheme (TERM -1)

ACCOUNTANCY SUBJECT CODE: (055)

Part -1

Section – A

Question No.	Answer
1	(B)
2	(B)
3	(C)
4	(B)
5	(C)
6	(D)
7	(D)
8	(B)
9	(D)
10	(C)
11	(D)
12	(A)
13	(A)
14	(C)
15	(A)
16	(A)
17	(D)
18	(D)

Section – B

Question No.	Answer
19	(D)
20	(B)
21	(A)
22	(A)
23	(A)
24	(A)
25	(A)
26	(A)
27	(B)
28	(C)
29	(C)
30	(C)
31	(D)
32	(B)
33	(C)
34	(B)
35	(A)
36	(C)

Section – C

Question No.	Answer
37	(A)
38	(D)
39	(A)
40	(A)
41	(D)

Part – II

Section – A

Question No.	Answer
42	(B)
43	(A)
44	(D)
45	(B)
46	(B)
47	(B)
48	(C)

Section – B

Question No.	Answer
49	(A)
50	(A)
51	(D)
52	(A)
53	(C)
54	(D)
55	(D)

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Thank
you