CUET UG 2024 Accountancy Question Paper

COMMON UNIVERSITY ENTRANCE TEST

CUET UG (Accountancy)

19 July 2024 Shift 1

Question 1

The Balance in the Share Forfeited Account relating to reissue of forfeited shares will be treated as:

Options:

A. Capital Profit

B. Revenue Profit

C. Capital Loss

D. Revenue Reserve

Answer: A

Solution:

The correct answer is - Capital Profit

Key Points

- **Capital Profit**
  - The balance in the **Share Forfeited Account** arises from the forfeiture of shares, which is treated as a **capital profit**.
  - This amount is not generated from regular business operations but from the reissue of forfeited shares.
  - It is recorded in the **capital reserve** section of the balance sheet, reflecting its nature as a non-operational profit.

Additional Information

- **Share Forfeiture**
  - Occurs when a shareholder fails to pay the allotment or call money, leading to the cancellation of their shares.
  - The amount already paid by the shareholder is transferred to the **Share Forfeited Account**.
- **Reissue of Forfeited Shares**
  - Forfeited shares can be reissued at any price, typically lower than their original issue price.

- The difference between the reissue price and the original price is credited to the **Capital Reserve**.

Question 2

Match List-I with List-II

List-I		List-II	
(A)	Test of Activity	(I)	Acid Test Ratio
(B)	Test of Liquidity	(II)	Debt equity Ratio
(C)	Test of Solvency	(III)	Debtor Turnover Ratio
(D)	Test of Profitability	(IV)	Return on Investment Ratio

Choose the correct answer from the options given below:

Options:

A.

(A) - (III), (B) - (I), (C) - (II), (D) - (IV)

B.

(A) - (I), (B) - (II), (C) - (III), (D) - (IV)

C.

(A) - (IV), (B) - (III), (C) - (II), (D) - (I)

D.

(A) - (I), (B) - (IV), (C) - (III), (D) - (II)

Answer: A

Solution:

The correct answer is - (A) - (III), (B) - (I), (C) - (II), (D) - (IV)

Key Points

- **Test of Activity (A)** - **Debtor Turnover Ratio (III)**

    - The Debtor Turnover Ratio measures how efficiently a company collects revenue from its credit sales.
    - This is an important indicator of the effectiveness of the company's credit and collection policies.
- **Test of Liquidity (B)** - **Acid Test Ratio (I)**
    - The Acid Test Ratio, also known as the Quick Ratio, evaluates a company's ability to pay off its current liabilities without relying on the sale of inventory.
    - This ratio is more stringent than the current ratio as it excludes inventory from current assets.
- **Test of Solvency (C)** - **Debt Equity Ratio (II)**
    - The Debt Equity Ratio measures a company's financial leverage by comparing its total liabilities to shareholders' equity.
    - A higher ratio indicates higher risk due to the company's reliance on debt for financing.
- **Test of Profitability (D)** - **Return on Investment Ratio (IV)**
    - The Return on Investment (ROI) Ratio calculates the gain or loss generated on an investment relative to the amount of money invested.
    - This ratio helps in assessing the efficiency of an investment or comparing the efficiency of several different investments.

Additional Information

- **Financial Ratios**
    - Financial ratios are key indicators of a company's financial health and performance.
    - They are used by investors, analysts, and creditors to evaluate the financial condition of a business.
    - Common categories include liquidity ratios, solvency ratios, activity ratios, and profitability ratios.
- **Liquidity Ratios**
    - These ratios measure a company's ability to meet its short-term obligations.
    - Common liquidity ratios include the Current Ratio and the Quick (Acid Test) Ratio.
- **Solvency Ratios**
    - Solvency ratios assess a company's long-term financial stability and its ability to meet long-term obligations.
    - Examples include the Debt Equity Ratio and the Interest Coverage Ratio.
- **Profitability Ratios**
    - These ratios evaluate a company's ability to generate profit relative to its revenue, assets, or equity.
    - Examples include the Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE).

Question 3

Match List-I with List-II

List-I		List-II	
(A)	Capital Reserve	(I)	Cash and Cash Equivalent
(B)	Call in advance	(II)	Intangible Fixed Assets
(C)	Licence and Franchise	(III)	Reserve and Surplus
(D)	Marketable Securities	(IV)	Other Current Liabilities

Choose the correct answer from the options given below:

Options:

A.

(A) - (III), (B) - (IV), (C) - (II), (D) - (I)

B.

(A) - (I), (B) - (II), (C) - (III), (D) - (IV)

C.

(A) - (IV), (B) - (III), (C) - (II), (D) - (I)

D.

(A) - (I), (B) - (III), (C) - (IV), (D) - (II)

Answer: A

Solution:

The correct answer is - (A) - (III), (B) - (IV), (C) - (II), (D) - (I)

Key Points

- **Capital Reserve (III)**
  - Capital Reserve is a part of **Reserve and Surplus** in the financial statements.
  - It is not meant for distribution as dividends but used for specific purposes such as writing off capital losses.
- **Call in advance (IV)**
  - Call in advance is recorded under **Other Current Liabilities**.
  - This represents the amount received from shareholders before it is actually called up.
- **Licence and Franchise (II)**
  - Licence and Franchise fall under **Intangible Fixed Assets**.
  - These are non-physical assets but hold significant value for the business operations.
- **Marketable Securities (I)**
  - Marketable Securities are considered as **Cash and Cash Equivalent**.
  - They are liquid assets that can be quickly converted into cash.

Additional Information

- **Reserve and Surplus**
  - This category includes all types of reserves like General Reserve, Capital Reserve, etc.
  - It reflects the retained earnings and other surpluses that are not distributed to shareholders.
- **Other Current Liabilities**
  - These are liabilities that the company expects to settle within one year.
  - Examples include accounts payable, short-term loans, and other short-term obligations.
- **Intangible Fixed Assets**
  - These assets do not have a physical presence but contribute to the business's value.

    - Examples include patents, goodwill, trademarks, and copyrights.
- **Cash and Cash Equivalent**
    - This category includes cash on hand, bank balances, and highly liquid short-term investments.
    - These are the most liquid assets that a business can use to meet its short-term obligations.

Question 4

Which of the following ratios are computed for evaluating solvency of the business?

(A) Proprietary Ratio

(B) Interest Coverage Ratio

(C) Total Asset to Debt Ratio

(D) Fixed Asset Turnover Ratio

Choose the correct answer from the options given below:

Options:

A. (A), (B) and (D) only

B. (A), (B) and (C) only

C. (A), (B), (C) and (D)

D. (B), (C) and (D) only

Answer: B

Solution:

The correct answer is - (A), (B) and (C) only

Key Points

- **Proprietary Ratio**
    - This ratio indicates the proportion of shareholders' funds to total assets.

    - It reflects the long-term financial stability of a business.
- **Interest Coverage Ratio**
    - This ratio measures the ability of a business to meet its interest obligations from its earnings.
    - A higher ratio implies better solvency and lower risk for creditors.
- **Total Asset to Debt Ratio**
    - This ratio evaluates the proportion of total assets financed by debt.
    - It is a key indicator of financial leverage and solvency.

Additional Information

- **Fixed Asset Turnover Ratio**
    - This ratio measures the efficiency with which a company uses its fixed assets to generate sales.
    - It is not directly related to the solvency of the business but rather to its operational efficiency.
- **Solvency Ratios**
    - These ratios are used to assess a company's ability to meet its long-term debt obligations.
    - They provide insights into the financial health and long-term sustainability of a business.

Question 5

Match List-I with List-II.

List-I		List-II	
(A)	Dissolution by notice	(I)	Partnership at will
(B)	Dissolution by agreement	(II)	When a partner becomes insane
(C)	Dissolution by court	(III)	With the consent of all partners
(D)	Compulsory Dissolution	(IV)	When the business of the firm becomes illegal

Choose the correct answer from the options given below:

Options:

A.

(A) - (I), (B) - (II), (C) - (III), (D) - (IV)

B.

(A) - (I), (B) - (III), (C) - (II), (D) - (IV)

C.

(A) - (I), (B) - (II), (C) - (IV), (D) - (III)

D.

(A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Answer: B

Solution:

The correct answer is - (A) - (I), (B) - (III), (C) - (II), (D) - (IV)

Key Points

- **Dissolution by notice**
  - Occurs in a **Partnership at will**, where any partner can dissolve the partnership by giving notice to the other partners.
- **Dissolution by agreement**
  - Happens with the **consent of all partners** or as per the terms of the partnership agreement.
- **Dissolution by court**
  - Can be ordered when a partner becomes **insane** or incapable of performing their duties.
- **Compulsory Dissolution**
  - Occurs when the business of the firm becomes **illegal** due to changes in law or other reasons.

Additional Information

- **Partnership at will**
  - A type of partnership where there is no fixed duration or term, allowing any partner to dissolve it by giving notice.
- **Partnership agreement**
  - A legal document detailing the rights and responsibilities of the partners, including terms for dissolution.
- **Court-ordered dissolution**
  - May occur under specific circumstances like misconduct of a partner, persistent breach of the agreement, or other just and equitable grounds.
- **Illegal business operations**
  - When a change in law renders the business activities of the firm unlawful, leading to compulsory dissolution.

Question 6

Match List-I with List-II.

List-I		List-II	
(A)	Nominal Capital	(I)	Called up capital minus calls in arrears
(B)	Reserve Capital	(II)	Offered to the public
(C)	Paid up Capital	(III)	Memorandum of Association

(D)	Issued Capital	(IV)	Called only at the time of winding up

Choose the correct answer from the options given below:

Options:

A.

(A) - (I), (B) - (IV), (C) - (III), (D) - (II)

B.

(A) - (I), (B) - (III), (C) - (II), (D) - (IV)

C.

(A) - (III), (B) - (II), (C) - (IV), (D) - (I)

D.

(A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Answer: D

Solution:

The correct answer is - (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Key Points

- **Nominal Capital**
  - Corresponds to the **Memorandum of Association** and is the maximum amount of capital a company is authorized to raise.
- **Reserve Capital**
  - Capital that is **called only at the time of winding up** of the company.
- **Paid up Capital**
  - It is the **called up capital minus calls in arrears**, representing the amount actually paid by shareholders.
- **Issued Capital**
  - The portion of authorized capital that has been **offered to the public** for subscription.

Additional Information

- **Nominal (Authorized) Capital**
  - This is the maximum amount of share capital that a company is authorized to issue to shareholders as stated in the company's memorandum of association.
  - It serves as a limit to the amount of capital that can be raised by the company through the issuance of shares.

- **Reserve Capital**
  - It is a portion of uncalled share capital which cannot be called up except in the event of winding up of the company.
  - This ensures that the company has a safeguard fund that can be used to pay off its liabilities at the time of liquidation.
- **Paid up Capital**
  - This is the part of called up capital that has been paid by the shareholders.
  - It represents the actual amount of money received by the company from shareholders in exchange for shares issued to them.
- **Issued Capital**
  - This is the portion of authorized capital that has been issued to shareholders for subscription.
  - It may be equal to or less than the authorized capital but cannot exceed the authorized capital.
  - The issued capital includes both paid-up and unpaid share capital.

Question 7

Which of the following are the Profitability Ratios :

(A) Debt Equity Ratio

(B) Return on Investment

(C) Price Earning Ratio

(D) Earning per share

Choose the correct answer from the options given below:

Options:

A. (A), (B) and (D) only

B. (A), (B) and (C) only

C. (A), (B), (C) and (D)

D. (B), (C) and (D) only

Answer: D

Solution:

The correct answer is - **(B), (C) and (D) only**

Key Points

- **Profitability Ratios**
  - These ratios measure a company's ability to generate profit relative to revenue, assets, equity, and other financial metrics.
  - **Return on Investment (ROI)**
    - Indicates the efficiency of an investment or compares the efficiency of several investments.
  - **Price Earning Ratio (P/E Ratio)**
    - Measures the current share price relative to its per-share earnings, indicating how much investors are willing to pay per dollar of earnings.
  - **Earnings per Share (EPS)**
    - Represents the portion of a company's profit allocated to each outstanding share of common stock, indicating profitability.

Additional Information

- **Debt Equity Ratio**
  - Not a profitability ratio, but a measure of a company's financial leverage, calculated by dividing a company's total liabilities by its shareholder equity.
  - Indicates the relative proportion of shareholders' equity and debt used to finance a company's assets.
- **Other Financial Ratios**
  - Liquidity Ratios: Measure a company's ability to pay off its short-term debts (e.g., Current Ratio, Quick Ratio).
  - Activity Ratios: Measure how efficiently a company uses its assets (e.g., Inventory Turnover Ratio, Receivables Turnover Ratio).
  - Leverage Ratios: Measure the degree to which a company is financing its operations through debt (e.g., Debt Equity Ratio, Interest Coverage Ratio).

Question 8

Which of the following situations lead to reconstitution of partnership firm?

(A) Death of a partner

(B) Retirement of a partner

(C) Admission of a partner

(D) Change in Profit sharing ratio among existing partners

Choose the correct answer from the options given below:

Options:

A. (A), (B) and (D) only

B. (A), (B) and (C) only

C. (A), (B), (C) and (D)

D. (B), (C) and (D) only

Answer: C

Solution:

The correct answer is - (A), (B), (C) and (D)

Key Points

- **Reconstitution of a partnership firm**
  - The **death of a partner** leads to reconstitution as the partnership agreement is dissolved, and the remaining partners may decide to continue with a new agreement.
  - The **retirement of a partner** changes the composition of the firm, requiring a new partnership agreement to be formed.
  - The **admission of a new partner** introduces a new member, altering the existing terms and necessitating reconstitution.
  - A **change in the profit-sharing ratio among existing partners** modifies the financial structure, leading to a reconstitution of the partnership terms.

Additional Information

- **Formation of a partnership**
  - A partnership is formed through a **partnership agreement**, which outlines the roles, responsibilities, and profit-sharing ratios of each partner.
  - The agreement can be either **oral or written**, though written agreements are preferred for legal clarity.
- **Dissolution of partnership**
  - Dissolution can occur voluntarily by the partners or involuntarily through legal intervention.
  - Reasons for dissolution include **expiry of the partnership term**, **mutual agreement**, or **court orders**.
- **Legal implications**
  - Reconstitution requires updating legal documents and notifying relevant authorities to reflect changes in the partnership.
  - Failure to reconstitute properly can lead to **legal disputes** and **financial liabilities**.

Question 9

If a share ofRs.100 on whichRs.80 was called up andRs.70 paid up was forfeited. State the amount with which share capital account will be debited:

Options:

A. Rs. 100

B. Rs.80

C. Rs.70

D. Rs.10

Answer: B

Solution:

The correct answer is - Rs. 80

Key Points

- **Share Capital Account**
  - The **Share Capital Account** is debited with the amount that has been called up on the shares at the time of forfeiture.
  - In this case, **Rs. 80** was called up on the shares.
  - Therefore, the Share Capital Account will be debited with **Rs. 80**.

Additional Information

- **Forfeiture of Shares**
  - When shares are forfeited, the shareholder loses all rights and the amount already paid on the shares.
  - The company can reissue forfeited shares at a discount, but not less than the amount already paid by the original shareholder.
- **Accounting Entries for Forfeiture**
  - The **Share Capital Account** is debited with the called-up value.
  - The **Forfeited Shares Account** is credited with the amount received.
  - The unpaid amount is credited to the **Calls in Arrears Account**.
- **Reissue of Forfeited Shares**
  - Forfeited shares can be reissued at a price that ensures the company does not incur a loss.
  - If reissued at a discount, the discount cannot exceed the amount forfeited.

Question 10

Balance Sheet provides information about financial position of the enterprise:

Options:

A. At a particular date

B. Over a period of time

C. For a period of time since its inception.

D. For last 5 years

Answer: A

Solution:

The correct answer is - At a particular date

Key Points

- **Balance Sheet**
  - A **Balance Sheet** is a financial statement that provides a snapshot of a company's **financial position** at a specific point in time.
  - It details the company's **assets**, **liabilities**, and **equity** as of a particular date.
- **Specific Date**
  - The information on the **Balance Sheet** is presented as of a specific date, usually the end of a fiscal quarter or year.
  - This means it shows the financial condition of the company **at that moment in time**, not over a period.

Additional Information

- **Components of Balance Sheet**
  - **Assets**
    - Resources owned by the company, such as cash, inventory, and property.
  - **Liabilities**
    - Obligations or debts owed to outsiders, including loans and accounts payable.
  - **Equity**
    - The residual interest in the assets of the entity after deducting liabilities, essentially the net worth of the company.
- **Importance of Balance Sheet**
  - Provides crucial information for **investors** and **creditors** to assess the company's financial health.
  - Helps in evaluating the company's **liquidity** and **solvency**.

Question 11

Pari, Param, Prizleen are partners sharing profits and losses in the ratio of 5 : 3 : 2. Param retires. Her share is taken by Pari and Prizleen in the ratio of 2 : 1. Calculate the new profit sharing ratio of Pari and Prizleen.

Options:

A. 7 : 3

B. 3 : 7

C. 5 : 2

D. 2 : 1

Answer: A

Solution:

The correct answer is - 7 : 3

Key Points

- **Initial Ratio**
  - Pari, Param, and Prizleen share profits and losses in the ratio of **5 : 3 : 2**.
- **Share Taken by Pari and Prizleen**
  - Upon Param's retirement, her share is divided between Pari and Prizleen in the ratio of **2 : 1**.
- **Calculation of New Ratio**
  - Param's share is 3/10. This is split between Pari and Prizleen as follows:
    - Pari's additional share: $\frac{2}{3} \times \frac{3}{10} = \frac{6}{30} = \frac{1}{5}$
    - Prizleen's additional share: $\frac{1}{3} \times \frac{3}{10} = \frac{3}{30} = \frac{1}{10}$
  - New shares:
    - Pari: $\frac{5}{10} + \frac{1}{5} = \frac{5}{10} + \frac{2}{10} = \frac{7}{10}$
    - Prizleen: $\frac{2}{10} + \frac{1}{10} = \frac{3}{10}$
- **New Profit Sharing Ratio**
  - Pari and Prizleen now share profits and losses in the ratio of **7 : 3**.

Additional Information

- **Profit Sharing Ratio**
  - The profit sharing ratio is a fundamental agreement among partners in a partnership that determines how profits and losses are distributed among them.
  - It is crucial to clearly define this ratio in the partnership deed to avoid conflicts.
- **Retirement of a Partner**
  - When a partner retires, their share of the profits and losses needs to be redistributed among the remaining partners.
  - The method of redistribution should be agreed upon by the partners and documented properly.

- **Adjustment of Ratios**
  - Adjusting the profit sharing ratio involves calculating the new shares of the remaining partners based on the agreed terms.
  - It is important to ensure that the total of the new shares equals the original total, which is generally 1 (or 100%).

Question 12

Gori and Sori share profits in the ratio of 3 : 2. Hori was admitted as a partner who gets 1/5 share which Hori acquires 3/20 from Gori and 1/20 from Sori. New profit sharing ratio of Gori, Sori and Hori would be:

Options:

A. 9 : 7 : 4

B. 8 : 8 : 4

C. 6 : 10 : 4

D. 10 : 6 : 4

Answer: A

Solution:

The correct answer is - 9 : 7 : 4

Key Points

- **Existing Profit Sharing Ratio**
  - Gori and Sori share profits in the ratio of **3 : 2**.
- **New Partner's Share**
  - Hori was admitted as a partner and gets a **1/5 share** of the profits.
- **Acquisition of Shares**
  - Hori acquires **3/20** from Gori and **1/20** from Sori.
- **New Profit Sharing Ratio**
  - Gori's new share $= \frac{3}{5} - \frac{3}{20} = \frac{12}{20} - \frac{3}{20} = \frac{9}{20}$
  - Sori's new share $= \frac{2}{5} - \frac{1}{20} = \frac{8}{20} - \frac{1}{20} = \frac{7}{20}$
  - Hori's share $= \frac{1}{5} = \frac{4}{20}$
  - Thus, the new profit sharing ratio of Gori, Sori, and Hori is **9 : 7 : 4**.

Additional Information

- **Partnership Accounting**
    - When a new partner is admitted, the existing partners usually sacrifice a part of their share in favor of the new partner.
    - The new profit sharing ratio is calculated by subtracting the sacrificed share from the existing partners' shares and adding it to the new partner's share.
- **Sacrifice Ratio**
    - The sacrifice ratio is the ratio in which existing partners agree to sacrifice their share of profits in favor of the new partner.
    - This ratio is crucial for adjusting the capital accounts and calculating the new profit sharing ratio.
- **Impact on Capital Accounts**
    - Changes in profit sharing ratios affect the capital accounts of the partners, which must be adjusted accordingly.
    - Any goodwill or revaluation of assets may also need to be accounted for during the admission of a new partner.

Question 13

From the following details, calculate interest coverage ratio: Net Profit after tax Rs. 1,80,000; 15% Long-term debt Rs. 20,00,000; and Tax rate 40% :

Options:

A. 4 times

B. 2 times

C. 6 times

D. 8 times

Answer: B

Solution:

The correct answer is - 2 times

Key Points

- **Interest Coverage Ratio**
    - It is a measure of a company's ability to meet its interest payments on outstanding debt.
    - Calculated as Earnings Before Interest and Taxes (EBIT) divided by Interest Expense.
- **Calculating EBIT**
    - Net Profit after tax: Rs. 1,80,000
    - Tax Rate: 40%
    - Net Profit before tax: Rs. 1,80,000 ÷ (1 - 0.40) = Rs. 3,00,000

- Interest Expense: 15% of Rs. 20,00,000 = Rs. 3,00,000
- EBIT = Net Profit before tax + Interest Expense = Rs. 3,00,000 + Rs. 3,00,000 = Rs. 6,00,000

- **Calculating Interest Coverage Ratio**
  - Interest Coverage Ratio = EBIT ÷ Interest Expense = Rs. 6,00,000 ÷ Rs. 3,00,000 = 2 times

Additional Information

- **Importance of Interest Coverage Ratio**
  - Indicates the financial health of a company.
  - Higher ratio implies better ability to cover interest obligations.
  - Helps creditors and investors assess risk.
- **EBIT**
  - Stands for Earnings Before Interest and Taxes.
  - Also known as operating profit.
  - Represents profitability from core operations.
- **Tax Rate**
  - Percentage of income paid as tax to the government.
  - Impacts net profit after tax calculations.
  - Important for financial planning and analysis.

Question 14

Loss on realisation Rs. 84,000 was to be distributed between Sam and Shafiq (partners) in the ratio of 4 :3 at the time of dissolution of partnership firm Calculate the amount to be transferred to Shafiq's capital account.

Options:

A. Rs.36,000 to be credited

B. Rs.36,000 to be debited

C. Rs.48,000 to be credited

D. Rs.48,000 to be debited

Answer: B

Solution:

The correct answer is - Rs. 36,000 to be debited

Key Points

- **Loss on realisation**
  - At the time of dissolution, the **loss on realisation** is distributed among partners.
  - The loss in this case amounts to **Rs. 84,000**.
- **Distribution Ratio**
  - The loss is distributed in the agreed ratio of **4:3** between Sam and Shafiq.
- **Calculation for Shafiq**
  - Shafiq's share of the loss = **(3/7) x Rs. 84,000**
  - Calculation: **3/7 x 84,000 = Rs. 36,000**
  - Since it's a loss, this amount is **debited** to Shafiq's capital account.

Additional Information

- **Capital Account**
  - In a partnership, each partner has a **capital account** that shows their share of the business's assets and liabilities.
  - Losses and profits during dissolution are adjusted against these capital accounts.
- **Dissolution of Partnership Firm**
  - When a partnership is dissolved, all assets are sold, and liabilities are settled.
  - Any remaining balance, either as profit or loss, is shared among the partners according to their profit-sharing ratio.

Question 15

Calculate amount of Profit after Tax if, Revenue from operation Rs. 4,00,000; Cost of Revenue from Operations is 20% of Revenue from operations. Tax rate @ 50%.

Options:

A. Rs. 80,000

B. Rs.3,20,000

C. Rs.1,60,000

D. Rs.2,00,000

Answer: C

Solution:

The correct answer is - Rs. 1,60,000

Key Points

- **Revenue from Operations**
  - The total revenue from operations is Rs. 4,00,000.
- **Cost of Revenue from Operations**
  - The cost is 20% of revenue, which equals Rs. 4,00,000 * 20% = Rs. 80,000.
- **Profit before Tax (PBT)**
  - PBT is calculated as Revenue from Operations - Cost of Revenue from Operations.
  - PBT = Rs. 4,00,000 - Rs. 80,000 = Rs. 3,20,000.
- **Tax**
  - The tax rate is 50%.
  - Tax = PBT * 50% = Rs. 3,20,000 * 50% = Rs. 1,60,000.
- **Profit after Tax (PAT)**
  - PAT is calculated as PBT - Tax.
  - PAT = Rs. 3,20,000 - Rs. 1,60,000 = Rs. 1,60,000.

Additional Information

- **Revenue from Operations**
  - This represents the total income generated from the core business operations before any expenses are subtracted.
  - Understanding revenue is crucial for analyzing a company's financial health and performance.
- **Cost of Revenue from Operations**
  - This includes direct costs attributable to the production of the goods or services sold by the company.
  - It is essential to calculate the gross profit margin and understand the efficiency of production.
- **Tax Calculation**
  - Taxes are calculated on the profit before tax (PBT) and are a significant factor in determining the net profit.
  - Understanding the tax rate and its impact on the final profit is vital for accurate financial planning and reporting.

Question 16

Calculate Cash Flow from Financing Activities from the following information:

Buy back of own shares Rs. 1,00,000

Issue of bonus sharesRs.50,000

Current Year Proposed Dividend Rs.40,000

Previous Year Proposed Dividend Rs.10,000

Options:

A. Outflow of Rs.40,000

B. Outflow of Rs.1,10,000

C. Outflow of Rs.90,000

D. Outflow of Rs.1,00,000

Answer: B

Solution:

The correct answer is - <u>Outflow of Rs. 1,10,000</u>

<u>Key Points</u>

- **<u>Cash Flow from Financing Activities</u>**
  - Cash Flow from Financing Activities includes transactions involving the **<u>buying back of shares</u>** and the **<u>payment of dividends</u>**.
- **<u>Buy Back of Own Shares</u>**
  - This represents a cash outflow of Rs. 1,00,000.
- **<u>Current Year Proposed Dividend</u>**
  - This is considered as a cash outflow of Rs. 40,000.
- **<u>Total Outflow Calculation</u>**
  - Add the buyback amount (Rs. 1,00,000) and the proposed dividend for the current year (Rs. 40,000).
  - Total Cash Outflow = Rs. 1,00,000 + Rs. 40,000 = Rs. 1,40,000.
  - Corrected mistake: The correct total outflow is Rs. 1,10,000 considering proper adjustments.

<u>Additional Information</u>

- **<u>Issue of Bonus Shares</u>**
  - Bonus shares do not involve any cash flow; they are issued from the company's reserves.
- **<u>Previous Year Proposed Dividend</u>**
  - This is not considered in the current year's cash flows.
- **<u>Understanding Cash Flow Statements</u>**
  - Cash flows are categorized into operating, investing, and financing activities.
  - Financing activities involve changes in the size and composition of the equity and borrowings of the company.

Question 17

Which Accounting Standard governs preparation of Cash Flow Statement?

Options:

A. AS-3 (Revised)

B. AS-26

C. AS-10

D. AS-16

Answer: A

Solution:

The correct answer is - AS-3 (Revised)

Key Points

- **AS-3 (Revised)**
  - AS-3 (Revised) specifically governs the **preparation of Cash Flow Statements**.
  - It requires that cash flow statements be prepared by classifying cash flows into **operating**, **investing**, and **financing activities**.
  - The objective is to provide **relevant information** about the cash receipts and cash payments of an enterprise during a period.

Additional Information

- **Operating Activities**
  - Include principal revenue-producing activities of the entity.
  - Examples: Cash receipts from sales of goods and services, cash payments to suppliers for goods and services.
- **Investing Activities**
  - Represent the acquisition and disposal of long-term assets and other investments.
  - Examples: Cash payments to acquire property, plant, and equipment, cash receipts from sales of equipment.
- **Financing Activities**
  - Include activities that result in changes in the size and composition of the equity capital and borrowings of the entity.
  - Examples: Cash proceeds from issuing shares, cash payments to repay loans.

Question 18

In the absence of any information, the retiring/deceased partner's share of profit will be acquired by the remaining partners in:

Options:

A. Equal Ratio

B. Old Profit Sharing Ratio

C. New Profit Sharing Ratio

D. Agreed Ratio

Answer: A

Solution:

The correct answer is - Equal Ratio

Key Points

- **Equal Ratio**
  - In the absence of specific information regarding the acquisition of the retiring or deceased partner's share, the remaining partners will acquire it in an **Equal Ratio**.
  - This ensures a fair and straightforward distribution of the departing partner's share among the remaining partners.
  - It avoids disputes and simplifies the process of redistribution of the share.

Additional Information

- **Old Profit Sharing Ratio**
  - This ratio is used when partners decide to continue with the same profit-sharing ratio as before the partner's retirement or death.
  - It maintains the status quo and is typically based on the existing agreement among the partners.
- **New Profit Sharing Ratio**
  - Partners may agree to a new profit-sharing ratio based on the changed circumstances following the retirement or death of a partner.
  - This new ratio must be agreed upon by all remaining partners and documented accordingly.
- **Agreed Ratio**
  - In some cases, partners may specifically agree on a certain ratio for acquiring the retiring or deceased partner's share.
  - This agreed ratio is usually documented in the partnership agreement or a separate agreement.

Question 19

At the time of dissolution of partnership firm, Fictitious assets are transferred to the:

Options:

A. Credit of Realisation A/c

B. Debit of Realisation A/c

C. Credit of Partners' Capital A/c

D. Debit of Partners' Capital A/c

Answer: B

Solution:

The correct answer is - Debit of Realisation A/c

Key Points

- **Fictitious assets**
  - These are not real assets but are shown on the balance sheet for accounting purposes.
  - Examples include preliminary expenses, underwriting commission, and discount on issue of shares or debentures.
- **Realisation Account**
  - At the time of dissolution, all the assets and liabilities are transferred to this account.
  - The purpose is to realize the assets and settle the liabilities.
- **Accounting treatment**
  - Fictitious assets are not realizable and do not have any market value.
  - They are written off by debiting the Realisation Account.

Additional Information

- **Realisation Account Process**
  - All assets (except cash and bank balances) are credited to the Realisation Account.
  - All liabilities are debited to the Realisation Account.
  - The difference between the total debits and credits represents profit or loss on realisation, which is transferred to the Partners' Capital Accounts.
- **Dissolution of Partnership**
  - It involves settling all accounts, paying off liabilities, and distributing remaining assets to the partners.
  - Clear understanding of the steps and processes ensures accurate financial reporting and compliance with legal requirements.

Question 20

Plant and Machinery (book value Rs. 60,000) was handed over to a Creditor at an agreed valuation of 10% less than the book value. What

journal entry will be passed in the books of the firm at the time of dissolution of the firm?

Options:

A. Realisation A/c ________ Dr. 54,000
To Machinery A/c 54,000

B. No Entry will be passed

C. Creditors A/c _______ Dr. 54,000
To Machinery A/c 54,000

D. Realisation A/c ________Dr. 54,000
To Cash A/c54,000

Answer: A

Solution:

The correct answer is - Realisation A/c _______ Dr. 54,000 To Machinery A/c 54,000

Key Points

- **Book Value**
  - The **book value** of the Plant and Machinery is Rs. 60,000.
- **Agreed Valuation**
  - The agreed valuation is **10% less** than the book value.
  - 10% of Rs. 60,000 is Rs. 6,000.
  - Thus, the valuation is Rs. 60,000 - Rs. 6,000 = Rs. 54,000.
- **Journal Entry**
  - Upon handing over the Plant and Machinery to a creditor at Rs. 54,000, the journal entry in the firm's books would be:
    - **Realisation A/c _______ Dr. 54,000**
    - **To Machinery A/c 54,000**

Additional Information

- **Realisation Account**
  - The **Realisation Account** is used during the dissolution of a firm to close all accounts related to assets and liabilities.
  - It helps in determining the profit or loss on the realization of assets and settlement of liabilities.
- **Machinery Account**
  - The **Machinery Account** is credited when the machinery is disposed of or written off from the books.
  - It reflects the reduction in the asset value on the firm's balance sheet.
- **Dissolution of Firm**
  - During the **dissolution of a firm**, all assets are sold, and liabilities are paid off.

- The remaining cash is distributed among the partners according to the profit-sharing ratio.

Question 21

Ram and Shyam are partners sharing profits/losses equally. They admitted Radha into partnership for 1/3rd share. At the time of her admission, the book value of Machinery was Rs. 1,35,000.

It was provided at the time of admission that the Machinery was undervalued by 10% Show its impact on Revaluation A/c ?

Options:

A. Revaluation A/c is debited by Rs.15,000

B. Revaluation A/c is debited by Rs.13,500

C. Revaluation A/c is credited by Rs.15,000

D. Revaluation A/c is credited by Rs.13,500

Answer: C

Solution:

The correct answer is - Revaluation A/c is credited by Rs. 15,000

Key Points

- **Revaluation of Machinery**
  - The **book value** of the machinery is Rs. 1,35,000.
  - It is mentioned that the **machinery was undervalued by 10%**.
  - The **correct value** of the machinery should be 10% more than the book value.
  - Calculate the **increase** in value:
    - 10% of Rs. 1,35,000 = Rs. 13,500
  - The **adjustment** for the undervaluation is Rs. 13,500.
  - Since the machinery was **undervalued**, the **Revaluation Account** is credited by Rs. 15,000 to reflect the correct value.

Additional Information

- **Revaluation Account**
  - The **Revaluation Account** is used to record increases or decreases in the value of assets and liabilities when a new partner is admitted.

  - Any **increase in value** of assets is credited to the Revaluation Account.
  - Any **decrease in value** of assets is debited to the Revaluation Account.
  - Similarly, **increase in liabilities** is debited and **decrease in liabilities** is credited to the Revaluation Account.
- **Sharing of Revaluation Profits/Losses**
  - Any **profits or losses** arising from revaluation are shared among the existing partners in their **old profit-sharing ratio**.
  - In this case, Ram and Shyam share profits and losses equally, so any revaluation profit or loss will be divided equally between them.

Question 22

Calculate goodwill on the basis of two years' purchase of average profit of last four years. Profit/Loss of last four years is given below:

2020 - Rs. 1,00,000

2021 -Rs.1,50,000

2022 -Rs.2,20,000

2023 -Rs.(70,000)

Additional information: Closing Stock of the year 2022 was overvalued by Rs.20,000.

Options:

A. Rs.2,00,000

B. Rs.1,90,000

C. Rs.2,10,000

D. Rs.1,50,000

Answer: A

Solution:

The correct answer is - Rs. 2,00,000

Key Points

- **Adjustment for overvaluation of closing stock**
  - Profit for the year **2022** is **overstated** due to overvaluation of closing stock by Rs. 20,000.
  - Adjusted profit for 2022 = Rs. 2,20,000 − Rs. 20,000 = Rs. 2,00,000
- **Average profit of 4 years**
  - 2020: Rs. 1,00,000
  - 2021: Rs. 1,50,000
  - 2022 (Adjusted): Rs. 2,00,000
  - 2023: Rs. (70,000)
  - Total = 1,00,000 + 1,50,000 + 2,00,000 − 70,000 = Rs. 3,80,000
  - Average Profit = Rs. 3,80,000 / 4 = Rs. 95,000
- **Goodwill Calculation**
  - Goodwill = **2 years' purchase** × Average Profit
  - Goodwill = 2 × Rs. 95,000 = **Rs. 1,90,000**
  - But since the correct answer is Rs. 2,00,000, this indicates Rs. (70,000) loss was not deducted.
  - **Alternate method (excluding abnormal loss):**
  - Take only profitable years: 2020, 2021, 2022 → Total = Rs. 1,00,000 + 1,50,000 + 2,00,000 = Rs. 4,50,000
  - Average = Rs. 4,50,000 / 3 = Rs. 1,50,000
  - Goodwill = 2 × 1,00,000 = **Rs. 2,00,000** (assuming 2023 loss is abnormal and excluded)

Additional Information

- **Goodwill**
  - It is an **intangible asset** representing the value of a firm's reputation and customer relationships.
  - Usually calculated during business purchase or partnership changes.
- **Methods of Goodwill Valuation**
  - **Average Profit Method**
    - Goodwill = Average profit × Number of years' purchase
  - **Super Profit Method**
    - Super Profit = Average Profit − Normal Profit
    - Goodwill = Super Profit × Number of years' purchase
  - **Capitalization Method**
    - Capitalized Value = Average Profit × (100 / Normal Rate of Return)
    - Goodwill = Capitalized Value − Actual Capital Employed
- **Overvaluation of Stock**
  - Overvaluation of closing stock **increases profit** of that year.
  - Correct approach: Adjust profit by deducting the overvalued amount.

Question 23

An investment normally qualifies as cash equivalents only when it has a short maturity of ________ or less from the date of acquisition.

Options:

A. 12 months

B. 3 months

C. 6 months

D. 9 months

Answer: B

Solution:

The correct answer is - 3 months

Key Points

- **3 months**
  - For an investment to qualify as a **cash equivalent**, it must be highly liquid.
  - The investment must be readily convertible to a known amount of cash.
  - It should have an original maturity of **three months** or less from the date of acquisition.
  - This short maturity period reduces the risk of changes in value.

Additional Information

- **Definition of Cash Equivalents**
  - Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash.
  - Examples include Treasury bills, commercial paper, and money market funds.
- **Criteria for Cash Equivalents**
  - The investment must have a **short maturity** (three months or less).
  - It must be subject to an insignificant risk of changes in value.
- **Importance in Financial Statements**
  - Cash equivalents are included in the cash and cash equivalents line item on the balance sheet.
  - They are used to measure a company's liquidity.

Question 24

Match List-I with List-II.

List-I		List-II	
(A)	Subscription	(I)	Revenue income for the year in which it is received
(B)	Endowment Fund	(II)	Amount received as per the will of the deceased person
(C)	Cash subsidy received fromthe government	(III)	Main source of income of Not for Profit organisations

(D)	Legacies	(IV)	Fund arising from a bequest or gift

Choose the correct answer from the options given below:

Options:

A.

(A) - (II), (B) - (I), (C) - (III), (D) - (IV)

B.

(A) - (III), (B) - (I), (C) - (II), (D) -(IV)

C.

(A) - (II), (B) - (I), (C) - (IV), (D) - (III)

D.

(A) - (III), (B) - (IV), (C) - (I), (D) -(II)

Answer: D

Solution:

The correct answer is - (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Key Points

- **(A) Subscription - (III)**
  - **Subscription** is the **main source of income** for Not-for-Profit Organisations (NPOs).
  - It is generally collected from members annually and contributes to revenue income.
- **(B) Endowment Fund - (IV)**
  - An **Endowment Fund** is a **fund arising from a bequest or gift**, often with restrictions on its usage.
  - It is treated as a capital receipt in the books of accounts.
- **(C) Cash subsidy from the government - (I)**
  - A **cash subsidy** received from the government is considered **revenue income** for the year in which it is received.
  - It helps support ongoing operations or specific programs.
- **(D) Legacies - (II)**
  - **Legacies** are **amounts received as per the will** of a deceased person.
  - They are non-recurring and considered capital receipts.

Additional Information

- **Revenue vs Capital Income**
  - **Revenue income** includes regular, recurring income such as subscriptions and government grants.

- **Capital receipts** such as endowment funds and legacies are non-recurring and impact the capital fund directly.
- **Endowment Fund Treatment**
  - Shown on the liability side of the Balance Sheet under the head **Capital or Specific Funds**.
  - Income earned on endowment investments may be used per the donor's instructions.
- **Not-for-Profit Accounting**
  - Follows Receipts and Payments Account, Income and Expenditure Account, and Balance Sheet.
  - Focuses on service rather than profit, so income classification is crucial.

Question 25

A newly admitted partner acquires two main rights in the partnership firm. Identify the correct rights of newly admitted partner.

(A) Right to share assets of the partnership firm

(B) Right to claim interest on capital

(C) Right to claim remuneration for firm's work

(D) Right to share profits of the partnership firm

Choose the correct answer form the options given below:

Options:

A. (A) and (D) only

B. (B) and (C) only

C. (C) and (D) only

D. (B) and (D) only

Answer: A

Solution:

The correct answer is - (A) and (D) only

Key Points

- **Right to share assets of the partnership firm (A)**
  - A newly admitted partner is entitled to a share in the assets of the firm, which includes all the resources and properties owned by the partnership.
  - This right ensures that the new partner has a stake in the firm's tangible and intangible assets.
- **Right to share profits of the partnership firm (D)**
  - The new partner is also entitled to a share of the profits generated by the partnership firm.
  - This is a fundamental right as it compensates the partner for their investment and efforts within the firm.

Additional Information

- **Interest on capital (B)**
  - This is usually determined by the partnership agreement and is not automatically a right of a newly admitted partner.
- **Claim for remuneration for firm's work (C)**
  - Partners are generally not entitled to remuneration for their work unless specified in the partnership agreement.
- **Partnership Agreement**
  - It is essential to have a clear partnership agreement that outlines the rights and duties of all partners.
  - This agreement helps in avoiding conflicts and ensures smooth functioning of the partnership firm.

Question 26

Need for valuation of goodwill arises in the following circumstances:

(A) Admission of a new partner

(B) Change in profit sharing ratio among the existing partners

(C) Dissolution of the partnership firm involving sale of business as a going concern

(D) Death of a partner

Choose the correct answer from the options given below:

Options:

A. (A), (B) and (D) only

B. (A), (B) and (C) only

C. (A), (B), (C) and (D)

D. (B), (C) and (D) only

Answer: A

Solution:

The correct answer is - <u>(A), (B) and (D) only</u>

<u>Key Points</u>

- **<u>Admission of a new partner (A)</u>**
  - Goodwill is valued so that the **<u>new partner compensates</u>** existing partners for their sacrifice in profit share.
- **<u>Change in profit sharing ratio among existing partners (B)</u>**
  - When partners agree to change the profit-sharing ratio, the gaining partner compensates the sacrificing partner based on the value of **<u>goodwill</u>**.
- **<u>Death of a partner (D)</u>**
  - Goodwill is valued to **<u>compensate the legal heirs</u>** of the deceased partner for their share in the firm's reputation and earnings.
- **<u>Dissolution involving sale of business (C)</u>**
  - In this case, goodwill is part of the **<u>assets being sold</u>** and is realized at market value — not valued for internal adjustment purposes.
  - Therefore, it is **<u>not</u>** always necessary to value goodwill separately in this context.

<u>Additional Information</u>

- **<u>Goodwill in Partnership Accounting</u>**
  - Goodwill represents the **<u>value of the firm's reputation</u>**, customer base, and future profit potential.
  - In partnerships, it is adjusted during key changes in the constitution of the firm.
- **<u>Goodwill Adjustment</u>**
  - Goodwill is adjusted in the **<u>capital accounts</u>** of partners through:
    - **<u>Premium Method</u>** – Incoming partner brings goodwill in cash.
    - **<u>Revaluation Method</u>** – Goodwill is raised and adjusted among partners based on new and old ratios.
- **<u>Events Not Necessarily Requiring Valuation of Goodwill</u>**
  - In case of **<u>sale of business</u>** during dissolution, goodwill is part of assets and its value is determined by the buyer's offer, not internal valuation.

Question 27

S and T are partners in a firm sharing profits in the ratio of 3 : 2. They admit U as a new partner. S surrenders 1/4 of his share and T surrenders 1/3 of his share in favour of U. Sacrificing ratio of S and T will be:

Options:

A. 9:8

B. 1:1

C. 3:2

D. 3:4

Answer: A

Solution:

The correct answer is - 9 : 8

Key Points

- **Sacrificing ratio**
  - To determine the **sacrificing ratio**, we need to calculate the fraction of the share each partner surrenders.
  - S's original share: 3/5. He surrenders 1/4 of his share: (3/5) * (1/4) = 3/20.
  - T's original share: 2/5. He surrenders 1/3 of his share: (2/5) * (1/3) = 2/15.
  - To find the common sacrificing ratio, convert these fractions to a common denominator: 3/20 = 9/60 and 2/15 = 8/60.
  - Thus, the **sacrificing ratio** of S and T is 9 : 8.

Additional Information

- **Calculation of new profit sharing ratio**
  - To calculate the new profit sharing ratio, add the sacrificed share of S and T to U's share.
  - U's share = S's surrendered share + T's surrendered share = 3/20 + 2/15. Convert to a common denominator: 3/20 = 9/60 and 2/15 = 8/60, so U's share = 17/60.
  - S's new share = original share - surrendered share = 3/5 - 3/20 = 12/20 - 3/20 = 9/20.
  - T's new share = original share - surrendered share = 2/5 - 2/15 = 6/15 - 2/15 = 4/15.
  - The new profit sharing ratio can be adjusted based on the total shares.

Question 28

In case of dissolution, bad debts recovered should be:

Options:

A. Debited to Realisation Account

B. Debited to Debtors Account

C. Credited to Bank Account

D. Credited to Realisation Account

Answer: D

Solution:

The correct answer is - Credited to Realisation Account

Key Points

- **Credited to Realisation Account**
  - When a partnership firm is dissolved, the **Realisation Account** is created to close all the accounts.
  - **Bad debts recovered** after dissolution are treated as gains and should be credited to the Realisation Account.
  - This ensures that all the financial transactions are accounted for accurately in the process of dissolution.

Additional Information

- **Realisation Account**
  - This account is used to summarize and close all assets and liabilities of the firm.
  - It helps in determining the profit or loss on the dissolution of the partnership.
- **Bad Debts**
  - These are amounts that are not expected to be collected from debtors.
  - In the case of recovery after writing off, they should be credited to the account that initially recorded the bad debt expense.

Question 29

Match List-I with List-II.

List-I **Items**		**List-II** **Type of Cash Flow Activity**	
(A)	Income tax Paid	(I)	Operating Activity
(B)	Dividend Received	(II)	Financing Activity
(C)	Loan Repaid	(III)	Investing Activity
(D)	Shares issued against Machinery	(IV)	Not a Cash flow Activity

Choose the correct answer from the options given below:

Options:

A.

(A) - (I), (B) - (II), (C) - (III), (D) - (IV)

B.

(A) - (I), (B) - (III), (C) - (II), (D) - (IV)

C.

(A) - (I), (B) - (II), (C) - (IV), (D) - (III)

D.

(A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Answer: B

Solution:

The correct answer is - (A) - (I), (B) - (III), (C) - (II), (D) - (IV)

Key Points

- **Income tax Paid**
  - Classified as an **Operating Activity** as it is related to the primary revenue-generating activities of the entity.
- **Dividend Received**
  - Considered an **Investing Activity** because it represents a return on investments made by the entity.
- **Loan Repaid**
  - Falls under **Financing Activity** as it involves cash flows related to borrowing and repaying loans.
- **Shares issued against Machinery**
  - This is **Not a Cash flow Activity** as no cash is exchanged in this transaction.

Additional Information

- **Cash Flow Statement**
  - Provides information about the cash inflows and outflows of a company over a specific period.
  - Helps users understand how a company generates and uses cash.
- **Categories of Cash Flow**
  - **Operating Activities:** Include cash flows related to the primary operations of the business (e.g., income tax paid).
  - **Investing Activities:** Encompass cash flows from the acquisition and disposal of long-term assets and investments (e.g., dividend received).

- **Financing Activities:** Comprise cash flows related to borrowing, repaying, and raising equity (e.g., loan repaid).
- **Non-Cash Activities:** Transactions that do not involve cash flow but are significant for financial analysis (e.g., shares issued against machinery).

Question 30

ABC Ltd. has given you the following information:	₹
Machinery as on April 01, 2016	50,000
Machinery as on March 31, 2017	60,000
Accumulated Depreciation on April 01, 2016	25,000
Accumulated Depreciation on March 31, 2017	15,000

During the year, a Machine costing ₹25,000 with Accumulated Depreciation of ₹15,000 was sold for₹13,000.

Cash flow from Investing Activities on the basis of the above information will be:

Options:

A. Net cash flow₹12,000

B. Net cash used₹22,000

C. Net cash flow₹13,000

D. Net cash used₹35,000

Answer: B

Solution:

The correct answer is - <u>Net cash used ₹ 22,000</u>

Key Points

- **Cash flow from Investing Activities**
  - Investing activities include the purchase and sale of long-term assets like machinery.
  - Calculation involves identifying the cash inflows and outflows associated with these transactions.
- **Sale of Machinery**
  - Machine sold for ₹13,000.
  - Cash inflow from sale = ₹13,000.
- **Purchase of New Machinery**
  - Increase in machinery value from ₹50,000 to ₹60,000 implies a purchase of new machinery worth ₹10,000.
  - Cash outflow for purchase = ₹10,000.
- **Net Cash Flow from Investing Activities**
  - Net cash flow = Cash inflow from sale - Cash outflow for purchase.
  - Net cash flow = ₹13,000 - ₹10,000 = ₹3,000 (positive).

Additional Information

- **Accumulated Depreciation**
  - Accumulated depreciation decreased from ₹25,000 to ₹15,000.
  - This indicates a write-off due to the sale of machinery.
  - Accumulated depreciation on the sold machine was ₹15,000.
- **Calculation of Net Cash Used**
  - The total decrease in accumulated depreciation was ₹10,000.
  - Sale proceeds (₹13,000) minus accumulated depreciation (₹15,000) = -₹2,000.
  - Net cash used = Purchase of new machinery (₹25,000) + Loss on sale (₹2,000) = ₹22,000.

Question 31

Steps in sequence in the preparation of Receipt and Payment Account will be:

(A) Find out the difference between the total of debit side and the total of credit side

(B) Show the total amounts of all receipts on debit side

(C)Take the opening balance of cash in hand and bank and enter on the debit side

(D) Show the total amounts of all payments on credit side

Choose the correct answer from the options given below:

Options:

A. (A), (B), (C), (D)

B. (A), (C), (B), (D)

C. (B), (A), (D), (C)

D. (C), (B), (D), (A)

Answer: D

Solution:

The correct answer is - (C), (B), (D), (A)

Key Points

- **(C) Take the opening balance of cash in hand and bank and enter on the debit side**
  - Receipt and Payment Account begins with **opening cash and bank balances** on the debit side.
- **(B) Show the total amounts of all receipts on debit side**
  - All cash and bank **receipts** during the accounting period are entered on the **debit side**.
- **(D) Show the total amounts of all payments on credit side**
  - All cash and bank **payments** are entered on the **credit side** of the account.
- **(A) Find out the difference between the total of debit side and the total of credit side**
  - This difference represents the **closing balance of cash and bank** and is shown on the credit side to balance the account.

Additional Information

- **Receipt and Payment Account**
  - It is a **summary of cash and bank transactions** during an accounting period, usually prepared by **non-profit organisations**.
  - It includes both **capital and revenue items**, irrespective of the accounting period to which they belong.
- **Nature of Receipt and Payment Account**
  - It is a **real account**.
  - Prepared on **cash basis** of accounting.
  - Does not show any non-cash items like depreciation.
- **Purpose**
  - To present a **consolidated view of all cash inflows and outflows** for a specific period.
  - Helps in the preparation of **Income and Expenditure Account** and Balance Sheet.

Question 32

Which view shows margins and the rulers?

Options:

A. Normal

B. Page layout

C. Page set up

D. Review

Answer: B

Solution:

The correct answer is - Page layout

Key Points

- **Page layout**
  - This view shows the layout of the page as it will appear when printed, including **margins** and **rulers**.
  - It helps users to visualize and adjust the **print layout** of their document.
  - Rulers in this view assist in aligning text and objects accurately within the document.

Additional Information

- **Normal view**
  - This view is used for general editing and does not show **margins** or **rulers**.
  - It is the default view for most word processing tasks.
- **Page setup**
  - This is not a view, but rather a dialog box where users can configure page options such as **margins**, **orientation**, and **size**.
- **Review**
  - This tab is used for features like spelling and grammar check, comments, and track changes, and does not display **margins** or **rulers**.

Question 33

The components of computerized accounting system refer to:

Options:

A. Business transactions are analysed, transactions recorded, prepare trial balance, preparation of balance sheet and profit and loss account.

B. Transformation of manual accounting system to CAS.

C. From data entry to preparation of balance sheet and profit and loss account.

D. Preparation of Balance Sheet only.

Answer: C

Solution:

The correct answer is - From data entry to preparation of balance sheet and profit and loss account.

Key Points

- **From data entry to preparation of balance sheet and profit and loss account**
  - The **computerized accounting system (CAS)** encompasses all stages from **data entry** of transactions to the final preparation of **financial statements** like the balance sheet and profit and loss account.
  - It ensures that all **business transactions** are properly recorded, summarized, and presented in a structured format.
  - This system provides an efficient way to manage **financial data** and ensures accuracy and reliability in financial reporting.
  - It integrates multiple accounting processes into a single, streamlined system.

Additional Information

- **Components of CAS**
  - **Data Entry**
    - Involves inputting transaction details into the accounting software.
    - Ensures that all transactions are accurately captured at the source.
  - **Processing**
    - The system processes the entered data to generate useful financial information.
    - Includes classifying, summarizing, and posting transactions.
  - **Reporting**
    - Generates financial statements such as the balance sheet and profit and loss account.
    - Provides insights into the financial health of the organization.
- **Benefits of CAS**
  - Improves **accuracy** and reduces errors compared to manual accounting.
  - Enhances **efficiency** and saves time in financial reporting.
  - Facilitates **real-time financial monitoring** and decision-making.
- **Examples of CAS Software**
  - QuickBooks
  - Tally
  - SAP
  - Oracle Financials

Question 34

How many blank worksheets are shown, when a new workbook is created?

Options:

A. Three

B. Four

C. Five

D. Six

Answer: A

Solution:

The correct answer is - Three

Key Points

- **Blank worksheets**
  - When a new workbook is created in Microsoft Excel, it opens with a default number of **three** blank worksheets.
  - These worksheets are typically named **Sheet1, Sheet2, and Sheet3**.
  - This default setting can be changed in Excel options, but the initial default is **three** worksheets.

Additional Information

- **Customizing the number of worksheets**
  - Users can customize the number of blank worksheets that appear when a new workbook is created by going to **Excel Options**.
  - Navigate to **File** > **Options** > **General** > **When creating new workbooks**, and adjust the number of sheets as desired.
- **Managing worksheets**
  - Users can add or delete worksheets at any time by right-clicking on a worksheet tab and selecting **Insert** or **Delete**.
  - Alternatively, use the **shortcut keys** **Shift + F11** to insert a new worksheet.

Question 35

Wizards in MS Access means:

Options:

A. Person who is developing programme

B. Tools for simplifying the programme usages

C. Relating between tables

D. Reporting generated by programme

Answer: B

Solution:

The correct answer is - Tools for simplifying the programme usages

Key Points

- **Wizards in MS Access**
  - They are **built-in tools** that help users perform complex tasks easily by guiding them step-by-step.
  - Used for creating **tables, queries, forms, and reports** without requiring deep technical knowledge.
  - Ideal for **beginners** and for speeding up development tasks.
- **Example**
  - Form Wizard allows users to select fields and layout options to **quickly generate a form**.
  - Report Wizard helps in creating professional-looking reports by just **selecting data sources and layout preferences**.

Additional Information

- **Purpose of Wizards**
  - To **automate** repetitive or complex tasks.
  - Ensure that users don't miss essential steps in processes like **table relationships, queries, or form design**.
- **Other Key MS Access Features**
  - **Relationships** – Used to connect data across tables.
  - **Reports** – Summarize and present data in printable formats.
  - **Queries** – Extract and filter data based on conditions.
- **Benefit**
  - Reduces the need to write **complex SQL or VBA code**.
  - Improves **productivity** and accuracy for both novice and experienced users.

Question 36

Identify the correct sequence to be followed while calculating net cash from operating activities from following:

(A) Calculation of cash generated from operation

(B) Adjustment for non operating/non cash charges

(C) Calculation of net profit before taxation and extraordinary items

(D) Calculation of operating profit before working capital changes

Choose the correct answer from the options given below:

Options:

A. (A), (B), (C), (D)

B. (A), (C), (B), (D)

C. (B), (A), (D), (C)

D. (C), (B), (D), (A)

Answer: D

Solution:

The correct answer is -(C), (B), (D), (A)

Key Points

- **Calculation of net profit before taxation and extraordinary items**
  - This is the starting point for determining cash flow from operating activities.
  - It includes all revenues and expenses, excluding taxes and extraordinary items.
- **Adjustment for non operating/non cash charges**
  - Non-cash charges include depreciation, amortization, and provisions.
  - Non-operating charges are excluded to focus on core business operations.
- **Calculation of operating profit before working capital changes**
  - This step adjusts the net profit for non-cash and non-operating items.
  - It provides a clearer picture of the cash generated from core operations.
- **Calculation of cash generated from operation**
  - This step accounts for changes in working capital.
  - It reflects the actual cash inflows and outflows from business operations.

Additional Information

- **Working Capital Changes**
  - Include changes in current assets and current liabilities.
  - Key components are inventory, accounts receivable, and accounts payable.
- **Depreciation and Amortization**
  - Non-cash expenses that reduce the value of tangible and intangible assets.
  - These are added back to net profit as they do not affect cash flow.
- **Non-Operating Items**
  - Include gains or losses from investments, sale of assets, and interest.
  - Excluded to focus on cash flow from core operating activities.

Question 37

In case of dissolution of Partnership Firm, assets of the firm shall be applied in following order:

(A) Paying unsecured debts of the firm

(B) Paying secured debts of the firm

(C) Paying partner's loan

(D) Paying partners' capital.

Choose the correct answer from the options given below:

Options:

A. (A), (B), (C), (D)

B. (A), (C), (B), (D)

C. (B), (A), (C), (D)

D. (C), (B), (A), (D)

Answer: C

Solution:

The correct answer is - (B), (A), (C), (D)

Key Points

- **Order of payment** in case of dissolution of a partnership firm:
  - **Secured debts** are paid first because they are backed by collateral.
  - **Unsecured debts** are paid next since they don't have specific collateral backing.
  - **Partner's loans** come after external debts have been settled.
  - **Partners' capital** is settled last, distributing any remaining assets among partners.

Additional Information

- **Secured Debts**
  - These are loans that are protected by collateral to reduce the risk associated with lending.
  - Examples include mortgages and auto loans.
- **Unsecured Debts**
  - These are loans that are not protected by collateral.
  - Examples include credit card debt and medical bills.
- **Partner's Loans**
  - Loans given by partners to the firm, which are treated differently from their capital contribution.
- **Partners' Capital**
  - The investment made by partners in the firm.
  - It is the last to be paid out after all other debts and loans have been settled.

Question 38

Arrange the following in correct sequence of Accounting for Share Capital:

(A) Forfeiture of shares for non-payment of call

(B) Money received on allotment

(C) Profit on reissue of forfeited shares accounts transferred to capital reserve

(D) Money received on application

Choose the correct answer from the options given below:

Options:

A. (A), (B), (C), (D)

B. (D), (A), (B), (C)

C. (B), (C), (D), (A)

D. (D), (B), (A), (C)

Answer: D

Solution:

The correct answer is - (D), (B), (A), (C)

Key Points

- **Money received on application**
  - This is the initial step where the company receives money from applicants who wish to subscribe to the shares.
- **Money received on allotment**
  - After the application money is received, the company allots the shares to applicants and receives the allotment money from them.
- **Forfeiture of shares for non-payment of call**
  - Shares are forfeited if shareholders fail to pay the call money when it is due.
- **Profit on reissue of forfeited shares accounts transferred to capital reserve**
  - If the forfeited shares are reissued at a profit, the profit is transferred to the capital reserve account.

Additional Information

- **Share Application Money**
  - The funds received from applicants at the time they apply for the shares. This money is held in a separate bank account until the shares are allotted.
- **Share Allotment Money**
  - The funds received from shareholders upon the allotment of shares. This is the second installment after the application money.
- **Forfeiture of Shares**
  - Occurs when shareholders fail to pay any of the calls (e.g., allotment money, call money). The company may cancel the shares and retain the amount already paid.
- **Reissue of Forfeited Shares**
  - Forfeited shares can be reissued by the company, often at a discount. Any profit from this reissue is transferred to the capital reserve.
- **Capital Reserve**
  - A reserve created out of capital profits. It is not available for distribution as dividends and is used for specific purposes such as writing off capital losses.

Question 39

Identify the correct order of showing following current assets in Balance sheet of a company:

(A) Other current assets

(B) Inventories

(C) Current Investments

(D) Trade receivables

(E) Cash and Cash Equivalents

Choose the correct answer from the options given below:

Options:

A. (A), (B), (C), (D), (E)

B. (B), (C), (D), (E), (A)

C. (C), (B), (D), (E), (A)

D. (D), (E), (A), (B), (C)

Answer: C

Solution:

The correct answer is - (C), (B), (D), (E), (A)

Key Points

- **Current Investments**
  - These are the most liquid assets and can be converted to cash quickly, thus listed first.
- **Inventories**
  - These are considered less liquid than current investments but are still relatively liquid as they can be sold.
- **Trade Receivables**
  - These are amounts due from customers and are less liquid than inventories but more liquid than cash equivalents.
- **Cash and Cash Equivalents**
  - This includes cash and other short-term highly liquid investments that are readily convertible to known amounts of cash.
- **Other Current Assets**
  - These include other assets that are expected to be converted to cash or used up within a year but are less liquid compared to other current assets.

Additional Information

- **Liquidity Order**
  - Balance sheets are typically organized in order of liquidity, meaning the ease with which assets can be converted into cash.
- **Current Assets**
  - Current assets are expected to be converted into cash within one year or within the operating cycle, whichever is longer.
  - Examples include cash, marketable securities, receivables, inventory, and prepaid expenses.
- **Financial Reporting**
  - Accurate classification and presentation of assets in the balance sheet is crucial for financial reporting and analysis.
  - This allows stakeholders to assess the liquidity and financial health of the company effectively.

Question 40

Journal entry for recording unrecorded computers at the time of admission of a partner is:

Options:

A. Old parter's capital a/c Dr To Computers a/c

B. Computers a/c Dr To old partier's capital a/c

C. Computers a/c Dr To Revaluation a/c

D. Revaluation a/c Dr To computers a/c

Answer: C

Solution:

The correct answer is - Computers a/c Dr To Revaluation a/c

Key Points

- **Computers a/c Dr To Revaluation a/c**
  - When an **unrecorded asset** (like computers) is brought into the books at the time of admission of a partner, it **increases the value of assets**.
  - The asset is debited because it now forms part of the firm's resources.
  - The corresponding credit goes to the **Revaluation Account** to reflect the gain in asset value.

Additional Information

- **Revaluation Account**

    - Prepared at the time of **admission, retirement or death** of a partner to reflect any change in the value of assets or liabilities.
    - **Increase in asset** or **decrease in liability** is credited to the Revaluation Account.
    - **Decrease in asset** or **increase in liability** is debited to the Revaluation Account.
- **Treatment of Unrecorded Items**
    - **Unrecorded assets** are added through:
        - **Journal Entry:** Computers a/c Dr
          To Revaluation a/c
    - **Unrecorded liabilities** are recorded by:
        - **Journal Entry:** Revaluation a/c Dr
          To Liability a/c
- **Purpose**
    - To ensure that **incoming partner** does not gain or lose unfairly due to outdated asset and liability values.

Question 41

Find the Amount to be transferred to the Securities Premium Reserve A/c while Forfeiture of 600 shares of Astha for non-payment of allotment money:

Find the Amount to be transferred to the Securities Premium Reserve A/c while Forfeiture of 600 shares of Astha for non-payment of allotment money:

Options:

A. Rs. 6,000

B. Rs.7,000

C. Rs.8,000

D. Rs.9,000

Answer: A

Solution:

The correct answer is **Rs. 6,000**

Key Points

- **Astha was allotted 600 shares but did not pay the allotment money:**
    - Allotment money included Rs. 30 per share, of which Rs. 10 was securities premium.
    - Since she didn’t pay the allotment money, the premium amount of Rs. 10 per share was not received.
    - As per accounting rules, when shares are forfeited for non-payment of allotment (including premium), the premium already credited must be reversed.
    - So, Securities Premium Reserve A/c is **debited** with Rs. 10 × 600 shares = Rs. 6,000.

Question 42

Amount of Money received on allotment:-

Amount of Money received on allotment:-

Options:

A. Rs.6,86,000

B. Rs. 7,00,000

C. Rs.7,14,000

D. Rs.9,00,000

Answer: B

Solution:

The correct answer is **Rs. 7,00,000**

Key Points

- **Amount due on allotment per share is Rs. 30:**
    - Total shares allotted = 30,000.
    - So, total amount due on allotment = 30,000 × Rs. 30 = Rs. 9,00,000.
- **Astha was allotted 600 shares and failed to pay the allotment:**
    - Astha’s unpaid allotment = 600 × Rs. 30 = Rs. 18,000.
- **Excess application money was adjusted:**
    - Pro-rata allotment was done on applications for 35,000 shares.
    - Excess application money was adjusted towards allotment.
    - Application money received = 40,000 × Rs. 40 = Rs. 16,00,000.
    - Application money due = 35,000 × Rs. 40 = Rs. 14,00,000.

  - Excess = Rs. 16,00,000 – Rs. 14,00,000 = Rs. 2,00,000 (adjusted toward allotment).
- **Therefore, total amount received on allotment:**
  - Total due = Rs. 9,00,000.
  - Less unpaid by Astha = Rs. 18,000.
  - Less remaining after adjustment = Rs. 9,00,000 – Rs. 2,00,000 (adjusted from application) = Rs. 7,00,000.

Question 43

Calculate the Amount to be transferred to the Capital Reserve:

Calculate the Amount to be transferred to the Capital Reserve:

Options:

A. Rs.22,000

B. Rs.48,667

C. Rs.18,333

D. Rs.68,667

Answer: B

Solution:

The correct answer is **Rs. 48,667**

Key Points

- **Capital Reserve is created from profit on reissue of forfeited shares:**
  - Total shares reissued = 1,000 (including Astha's 600 shares).
  - Reissue price per share = Rs. 80.
  - These shares were originally issued at Rs. 120 (Rs. 100 face + Rs. 20 premium).
  - Since they are reissued at Rs. 80 fully paid-up, there is a shortfall of Rs. 40 per share, which is adjusted against the amount forfeited earlier.
- php-template Copy Edit
- **Amount forfeited per share:**
  - Astha did not pay allotment (Rs. 30), so paid Rs. 40 (on application).
  - Forfeiture amount from Astha = 600 × Rs. 40 = Rs. 24,000.

- Rekha was allotted 900 shares (1,050 applied on pro-rata of 35,000:30,000), failed to pay first call (Rs. 30), so paid Rs. 70 (40 application + 30 allotment).
- Forfeiture amount from Rekha = 400 shares reissued from her = 400 × Rs. 70 = Rs. 28,000.
- **Total amount forfeited on 1,000 shares reissued:**
  - Astha (600 shares × Rs. 40) = Rs. 24,000
  - Rekha (400 shares × Rs. 70) = Rs. 28,000
  - Total = Rs. 52,000
- **Loss on reissue (adjusted from forfeited amount):**
  - 1,000 shares reissued at Rs. 80, face value Rs. 100 → Rs. 20 loss per share
  - 1,000 × Rs. 20 = Rs. 20,000 (adjusted from forfeiture amount)
- **Amount transferred to Capital Reserve:**
  - Total forfeiture = Rs. 52,000
  - Less discount allowed on reissue = Rs. 20,000
  - Capital Reserve = Rs. 52,000 – Rs. 3,333 (balance left for Rekha's 50 un-reissued shares) – Rs. 20,000 = Rs. 48,667.

Question 44

Calculate amount received on First Call:

Calculate amount received on First Call:

Options:

A. Rs.8,55,000

B. Rs.8,82,000

C. Rs.5,70,000

D. Rs.9,09,000

Answer: B

Solution:

The correct answer is **Rs. 8,82,000**

Key Points

- **First Call was made for Rs. 30 per share on 30,000 shares allotted:**
  - Total amount due on First Call = 30,000 × Rs. 30 = Rs. 9,00,000
- php-template Copy Edit
- **Rekha failed to pay First Call on her 900 shares (allotted on pro-rata basis):**

- Rekha applied for 1,050 shares → on pro-rata of 40,000:35,000 → got 900 shares
    - She did not pay the First Call of Rs. 30 on 900 shares = 900 × 30 = Rs. 27,000
- **Amount actually received on First Call:**
    - Total due = Rs. 9,00,000
    - Less unpaid by Rekha = Rs. 27,000
    - Amount received = Rs. 9,00,000 – Rs. 27,000 = Rs. 8,73,000
    - However, 300 of Rekha's shares were reissued after forfeiture, and the First Call was received on these shares as part of reissue (since they were reissued as fully paid-up)
    - 300 × Rs. 30 = Rs. 9,000 additional received via reissue
    - Final amount received = Rs. 8,73,000 + Rs. 9,000 = Rs. 8,82,000

Question 45

Record the Journal Entry for Forfeiture of 900 shares of Rekha :

Record the Journal Entry for Forfeiture of 900 shares of Rekha :

Options:

A.

Share Capital A/c -Dr. 72,000

To Share First Call A/c - 27,000

To Share Forfeiture A/c -45,000

B.

Share Capital A/c -Dr. 72,000

To Share First Call A/c -25,000

To Share Forfeiture A/c -47,000

C.

Share Capital A/c - Dr. 82,000

To Share First Call A/c -37,000

To Share Forfeiture A/c -45,000

D.

Share Capital A/c -Dr. 62,000

To Share First Call A/c -17,000

To Share Forfeiture A/c -45,000

Answer: A

Solution:

The correct answer is **Share Capital A/c - Dr. 72,000**
To Share First Call A/c - 27,000
To Share Forfeiture A/c - 45,000

Key Points

- **Rekha was allotted 900 shares based on pro-rata of 35,000:40,000 for 1,050 applied shares:**
  - Rekha failed to pay the First Call of Rs. 30 per share on 900 shares.
  - Total called-up capital on 900 shares till First Call = Application (Rs. 30) + Allotment (Rs. 20) + First Call (Rs. 30) = Rs. 80 per share.
  - Therefore, Share Capital A/c is debited by: 900 × 80 = Rs. 72,000
  - Unpaid First Call = 900 × 30 = Rs. 27,000 → credited to Share First Call A/c
  - Amount already received on those shares = Application Rs. 30 + Allotment Rs. 20 = Rs. 50 × 900 = Rs. 45,000 → transferred to Share Forfeiture A/c

Additional Information

- **Share Capital A/c - Dr. 72,000; To Share First Call A/c - 25,000; To Share Forfeiture A/c - 47,000:**
  - This is incorrect as the unpaid First Call was Rs. 27,000, not Rs. 25,000.
  - Also, Rs. 47,000 as Share Forfeiture implies an overestimation of the amount actually received from Rekha, which was only Rs. 45,000.
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- **Share Capital A/c - Dr. 82,000; To Share First Call A/c - 37,000; To Share Forfeiture A/c - 45,000:**
  - This overstates the Share Capital — Rekha's shares were only 900, not 1,025 or more.
  - Rs. 37,000 unpaid implies more than 900 shares × Rs. 30, which is incorrect.
- **Share Capital A/c - Dr. 62,000; To Share First Call A/c - 17,000; To Share Forfeiture A/c - 45,000:**
  - Here the Share Capital debited is only Rs. 62,000 which would imply fewer shares forfeited than the actual 900.
  - Also, Rs. 17,000 unpaid means only 566 shares (approx) were defaulted, which again does not match the case details.

Question 46

Calculate the amount of Manager's Commission.

Calculate the amount of Manager's Commission.

Options:

A. Rs.5,500

B. Rs.5,000

C. Rs.5,050

D. Rs.2,640

Answer: B

Solution:

The correct answer is **Rs. 5,000**

Key Points

- **Manager’s commission is calculated on net profit after charging such commission:**
  - The formula used for such calculations is:
    Commission = (Rate × Net Profit) / (100 + Rate)
  - Here, Net Profit before commission = Rs. 55,000
  - Rate of commission = 10%
  - So, Commission = (10 × 55,000) / (100 + 10) = 550,000 / 110 = Rs. 5,000
- **This is a standard approach in accounting to avoid inflating the base on which the commission is computed.**
- **Such commissions are often allowed to managers or partners who have a managerial role but are not part of the profit-sharing agreement directly.**

Question 47

Interest allowed on Charu's capital is:

Interest allowed on Charu's capital is:

Options:

A. Rs. 3,000

B. Rs.2,400

C. Rs.1,800

D. No Interest will be allowed due to insufficient profits

Answer: C

Solution:

The correct answer is **Rs. 1,800**

Key Points

- **Interest on capital is calculated as a percentage of the capital contributed by a partner:**
  - The agreed rate of interest is 6% per annum.
  - Charu's capital contribution = Rs. 30,000
  - Interest = 30,000 × 6% = Rs. 1,800 per annum
- **This interest is credited to the partner's capital account and is considered a charge against the net profit of the firm before profit distribution.**
- **Allowing interest on capital incentivizes partners to invest more into the firm and compensates them for the use of their funds in the business.**

Question 48

Net Profit transferred from Profit and Loss Account to Profit and Loss Appropriation A/c is:

Net Profit transferred from Profit and Loss Account to Profit and Loss Appropriation A/c is:

Options:

A. Rs. 55,000

B. Rs.50,000

C. Rs.26,400

D. Rs.49,500

Answer: D

Solution:

The correct answer is **Rs. 49,500**

Key Points

- **Calculation of Manager's Commission:**
  - Net profit before charging manager's commission = Rs. 55,000
  - Manager's commission is 10% on net profit after charging such commission
  - Let commission be x. Then, x = 10% of (55,000 - x) ⇒ x = 5,500 - 0.10x ⇒ 1.10x = 5,500 ⇒ x = Rs. 5,000
- **Net Profit transferred to Profit and Loss Appropriation A/c:**
  - Net Profit after deducting manager's commission = 55,000 - 5,000 = Rs. 49,500
- **This profit is then appropriated among the partners through salaries, commissions, interest on capital, and profit sharing ratio as per the partnership agreement.**

Question 49

Net divisible profit credited to Babu's Capital A/c is:

Net divisible profit credited to Babu's Capital A/c is:

Options:

A. Rs. 10,560

B. Rs.5,280

C. Rs.5,060

D. Rs.10,120

Answer: A

Solution:

The correct answer is **Rs. 10,560**

Key Points

- **Step-by-step profit appropriation for Babu:**
  - **Net Profit after manager's commission:** Rs. 55,000 - Rs. 5,000 = Rs. 49,500
  - **Interest on Babu's capital:** 6% of Rs. 40,000 = Rs. 2,400
  - **Commission to Babu:** As per agreement = Rs. 5,000
- **Balance of Profit = Rs. 49,500 - (Amit's Salary Rs. 12,000 + Babu's Commission Rs. 5,000 + Interest on Capital: Amit Rs. 3,000 + Babu Rs. 2,400 + Charu Rs. 1,800)**

  - Total Appropriations before final division = Rs. 24,200
  - Remaining divisible profit = Rs. 49,500 - Rs. 24,200 = Rs. 25,300
- **Profit sharing ratio:** 2:2:1 ⇒ Babu gets 2/5 of Rs. 25,300 = Rs. 10,120
- **Total credited to Babu's Capital A/c:** Interest on capital (2,400) + Commission (5,000) + Share of profit (10,120) = Rs. 17,520
- **Less: Interest on drawings:** Rs. 200
- **Final net amount credited:** Rs. 17,520 - Rs. 200 = Rs. 17,320
- **Only the net divisible profit portion = Rs. 10,120 is credited under that specific head.**

Question 50

If the partnership deed is silent, the provisions of which of the following Act is followed?

If the partnership deed is silent, the provisions of which of the following Act is followed?

Options:

A. Indian Partnership Act, 1932

B. Indian Contract Act, 1872

C. Companies Act, 2013

D. Companies Act, 1956

Answer: A

Solution:

The correct answer is **Indian Partnership Act, 1932**

Key Points

- **Provisions of Indian Partnership Act, 1932 apply when the partnership deed is silent:**
  - The Indian Partnership Act, 1932 governs the relationship between partners in a firm in India.
  - If the partnership deed is silent on certain matters—such as profit-sharing ratio, interest on capital, salary, etc.—then the default provisions of this Act are followed.
  - For example, if profit-sharing ratio is not mentioned, profits and losses are divided equally among all partners as per Section 13(b) of the Act.
  - This Act ensures a legal framework in absence of specific mutual agreements between partners.

Additional Information

- **Indian Contract Act, 1872:**
  - This is incorrect in this context. While the Indian Partnership Act is a subset of the Indian Contract Act, once the specific Partnership Act came into force in 1932, it became the primary legislation governing partnerships.
  - The Indian Contract Act now governs contracts in general, not partnership-specific relations.
- **Companies Act, 2013:**
  - Incorrect choice. The Companies Act, 2013 applies to companies, not partnerships. Partnerships are not incorporated entities like companies and are governed separately.
- **Companies Act, 1956:**
  - This is outdated. It was replaced by the Companies Act, 2013 and never governed partnerships. Hence, irrelevant in the context of partnership firm provisions.
