

CUET UG (Accountancy)

17 May 2024

Question 1

Match List-I with List-II.

List - I (Name of account to be debited or credited, when shares are forfeited)		List - II (Amount to be debited or credited)	
(A)	Share Capital Account	(I)	Debited with amount not received
(B)	Share Forfeited Account	(II)	Credited with amount not received
(C)	Calls-in-arrears Account	(III)	Credited with amount received towards share capital
(D)	Securities Premium Account	(IV)	Debited with amount called up

Choose the correct answer from the options given below :

Options:

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

Key Points

- **Share Capital Account**
 - When shares are forfeited, the **Share Capital Account** is debited with the **amount called up** on the forfeited shares.
- **Share Forfeited Account**
 - The **Share Forfeited Account** is credited with the **amount received** towards share capital before the shares were forfeited.
- **Calls-in-arrears Account**
 - The **Calls-in-arrears Account** is credited with the **amount not received** from shareholders on the forfeited shares.
- **Securities Premium Account**
 - In some cases, the **Securities Premium Account** may be debited with the **amount not received** on forfeited shares if the premium on such shares was not paid.

Additional Information

- **Forfeiture of Shares**
 - Forfeiture of shares occurs when a shareholder fails to pay the call money on shares, leading to the company seizing back the shares.
 - The amount received from the shareholder before forfeiture is credited to the **Share Forfeited Account**.
- **Impact on Financial Statements**
 - Forfeited shares reduce the number of shares in circulation and thus, affect the equity section of the balance sheet.
 - Any amount received from reissuing forfeited shares is added back to the share capital.

Question 2

400 shares of Rs.50 each issued at par were forfeited for non-payment of final call of Rs.10 per share. These shares were reissued at Rs.45 per share as fully paid-up. The amount transferred to capital reserve is :

Options:

- A. Rs.15,000
- B. Rs.14,000
- C. Rs.16,000
- D. Rs.13,000

Answer: B

Solution:

The correct answer is - **Rs. 14,000**

Key Points

- **Calculation of Capital Reserve**
 - **Shares Forfeited:** 400 shares of Rs. 50 each.
 - **Forfeited Amount:** Rs. 40 per share (Total = 400 shares * Rs. 40 = Rs. 16,000).
 - Since the final call of Rs. 10 per share was not paid, the paid-up amount is Rs. 40 per share.
 - **Reissue Amount:** Rs. 45 per share (Total = 400 shares * Rs. 45 = Rs. 18,000).
 - **Loss on Reissue:** Rs. 5 per share (Total = 400 shares * Rs. 5 = Rs. 2,000).
 - **Capital Reserve:** Forfeited Amount - Loss on Reissue (Rs. 16,000 - Rs. 2,000 = Rs. 14,000).

Additional Information

- **Forfeiture of Shares:**
 - Occurs when a shareholder fails to pay calls on shares.
 - Forfeited shares can be reissued, and any surplus from reissue is transferred to the Capital Reserve account.
- **Capital Reserve:**
 - Represents profits not intended for distribution to shareholders as dividends.
 - Common sources include premiums on shares or debentures issued and profits on reissue of forfeited shares.
- **Reissue of Forfeited Shares:**
 - May be reissued at a discount, but the discount should not exceed the amount forfeited on those shares.
 - Ensures that the company does not incur a loss on the reissue of shares.

Question 3

When debentures are issued at premium and redeemed at premium, the journal entry will have the following combination :

(A) Discount on issue of debentures account is credited

(B) Loss on issue of debentures account is debited

(C) Security premium account is credited

(D) Premium on redemption of debentures account is credited

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

- **Loss on issue of debentures account is debited**
 - This account captures any losses incurred due to issuing debentures at a premium.
 - It is a non-operating expense and is shown on the debit side of the Profit and Loss account.
- **Security premium account is credited**
 - When debentures are issued at a premium, the premium amount is credited to the Securities Premium Account.
 - This account is part of the equity and reserves and is shown under the head "Reserves and Surplus" in the balance sheet.
- **Premium on redemption of debentures account is credited**
 - This account captures the premium payable on the redemption of debentures.
 - The amount credited here represents the premium amount to be paid at the time of redemption of debentures.



Additional Information

- **Debentures issued at premium**
 - When a company issues debentures at a price higher than their face value, it is termed as issuing debentures at a premium.
 - The excess amount received over the face value is credited to the Securities Premium Account.
- **Debentures redeemed at premium**
 - When debentures are redeemed at an amount higher than their face value, the excess amount paid over the face value is termed as premium on redemption.
 - This premium is a part of the financial expenses of the company.
- **Journal Entries**
 - For issue of debentures at premium:
 - Bank Account Dr.
 - To Debentures Account
 - To Securities Premium Account
 - For redemption of debentures at premium:
 - Debentures Account Dr.

- Premium on Redemption of Debentures Account Dr.
 - To Bank Account
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Question 4

Arrange the following in the correct sequence in the context of debenture.

(A) Payment to debenture-holders

(B) Creation of DRR

(C) Issue of debentures

(D) Redemption becomes due

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

- **Issue of debentures**
 - This is the initial step where the company raises funds by issuing debentures to the public.
 - The debenture certificate serves as proof of the loan taken by the company.
- **Creation of DRR**
 - Debenture Redemption Reserve (DRR) is created as a safeguard for debenture holders.

- It ensures that the company sets aside a portion of its profits to repay the debenture holders upon maturity.
- **Redemption becomes due**
 - This is the stage when the debentures reach their maturity date.
 - The company is obligated to repay the principal amount to the debenture holders.
- **Payment to debenture-holders**
 - Finally, the company makes the payment to the debenture holders, fulfilling its obligation.
 - This payment includes the principal amount and any remaining interest.

Additional Information

- **Types of Debentures**
 - **Convertible Debentures:** Can be converted into equity shares after a specified period.
 - **Non-Convertible Debentures:** Cannot be converted into equity shares.
 - **Secured Debentures:** Backed by the company's assets as collateral.
 - **Unsecured Debentures:** Not backed by any collateral, hence riskier.
 - **DRR Requirements**
 - Companies must create a DRR out of their profits before redeeming debentures.
 - The requirement for DRR varies based on regulatory guidelines and the type of debenture issued.
 - **Importance of DRR**
 - Ensures financial discipline and enhances the company's creditworthiness.
 - Provides security to debenture holders, increasing their confidence in the company.
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Question 5

If a delay occurs beyond 8 days in refunding the subscription amount, failing to gather the minimum subscription, from the date of closure of the subscription list, the company shall be liable for interest at the rate of :

Options:

- A. 15%
- B. 12%
- C. 6%
- D. Prevailing in State Bank of India

Answer: A

Solution:

The correct answer is - 0.15

Key Points

- **0.15**
 - The interest rate applicable for delayed refunds beyond 8 days is **0.15**.
 - This rate is enforced to ensure timely refund of subscription amounts and to compensate subscribers for the delay.
 - It is crucial to note the specific conditions and timelines mentioned in subscription agreements to avoid confusion regarding applicable interest rates.

Additional Information

- **Minimum Subscription**
 - Minimum subscription refers to the minimum amount of money that must be raised from the public to make the issue of shares valid.
 - If the company fails to raise this minimum amount, it must refund the subscription money received.
 - **Refund Timelines**
 - The company is required to refund the subscription amount within a specified period, usually within 8 days from the date of closure of the subscription list.
 - Failure to comply with this timeline results in the company being liable to pay interest to the subscribers.
 - **Legal Implications**
 - Non-compliance with refund timelines and interest payments can lead to legal actions against the company.
 - Subscribers have the right to seek legal recourse for any financial loss incurred due to delayed refunds.
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Question 6

A company can accept calls in advance, if authorised by :

Options:

- A. Shareholders
- B. Board of Directors
- C. Articles of Association
- D. Memorandum of Association

Answer: C

Solution:

The correct answer is - **Articles of Association**

Key Points

- **Articles of Association**
 - The **Articles of Association** (AoA) is a document that specifies the regulations for a company's operations and defines the company's purpose.
 - It contains the **rules and regulations** governing the internal management of the company.
 - The AoA can authorize the company to accept calls in advance from shareholders, ensuring **transparency** and **compliance** with regulatory standards.

Additional Information

- **Role of Articles of Association**
 - The AoA is critical for outlining the **rights, duties, and powers** of the company's members and directors.
 - It provides a framework for the **company's governance** and helps in resolving **disputes** that may arise within the company.
- **Other Governing Documents**
 - **Memorandum of Association (MoA)**: Defines the company's relationship with the outside world and includes the company's name, address, and objects.
 - **Shareholders**: While they play a crucial role in decision-making, they do not directly authorize the acceptance of calls in advance.
 - **Board of Directors**: They oversee the company's management but act within the guidelines provided by the AoA and MoA.
- **Importance of Compliance**
 - Ensuring compliance with the AoA helps in maintaining **corporate governance** standards and protecting the interests of shareholders.
 - Non-compliance can lead to **legal repercussions** and damage to the company's reputation.

Question 7

A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. C died on 1st July, 2023. On this date, final accounts were prepared to ascertain profits for the period. It resulted in a profit of ₹ 1,75,000 to the firm. To give effect to the above :

Options:

- A. Profit and Loss Account will be debited.
- B. Profit and Loss Appropriation Account will be debited.
- C. Profit and Loss Account will be credited.
- D. Profit and Loss Appropriation Account will be credited.

Answer: B

Solution:

The correct answer is - **Profit and Loss Appropriation Account will be debited**

Key Points

- **Profit and Loss Appropriation Account will be debited**
 - The **Profit and Loss Appropriation Account** is used to allocate the net profit or loss among the partners.
 - Since C's share of profit needs to be ascertained up to the date of death, the firm's profit for the period must be transferred to the **Profit and Loss Appropriation Account**.
 - In this scenario, the firm earned a profit of ₹ 1,75,000, which will be credited to the **Profit and Loss Account** and subsequently allocated to the partners' capital accounts.

Additional Information

- **Understanding Partnership Accounts**
 - Partnership accounts are maintained to track each partner's share of the business's profits and losses.
 - The **Profit and Loss Appropriation Account** is specifically designed for this purpose, ensuring fair distribution as per the agreed profit-sharing ratio.
- **Treatment of Death of a Partner**
 - Upon the death of a partner, the firm must determine the deceased partner's share of profits up to the date of death.
 - This involves preparing final accounts and then appropriating the profit to ensure the deceased partner's capital account is credited accordingly.
- **Journal Entries**
 - To record the profit allocation:
 - **Journal Entry: Profit and Loss Account Dr. ₹ 1,75,000 to Profit and Loss Appropriation Account ₹ 1,75,000**
 - This ensures the profits are appropriately allocated and recorded in the books of the firm.

Question 8

On the date of admission of a partner there was a balance of Rs. 45,000 in the account of machinery. It was found undervalued by 10%. The value of machinery will appear in the new Balance Sheet at :

Options:

- A. Rs.49,500
- B. Rs.50,000
- C. Rs.40,000
- D. Rs.40,500

Answer: B

Solution:

The correct answer is - **Rs. 50,000**

Key Points

- **Machinery Valuation**
 - The initial value of machinery in the balance sheet is **Rs. 45,000**.
 - The machinery is found to be undervalued by **10%**.
 - To find the correct value, we need to add the undervalued portion to the initial value.
 - Undervalued portion = **10% of Rs. 45,000** = Rs. 4,500.
 - Correct value of machinery = Rs. 45,000 + Rs. 4,500 = **Rs. 50,000**.

Additional Information

- **Revaluation Account**
 - When a new partner is admitted, assets and liabilities may be revalued to reflect their fair market value.
 - Revaluation is done to ensure that all partners share the correct values of assets and liabilities.
 - The revaluation profit or loss is shared among the old partners in their old profit-sharing ratio.
 - **Implications of Undervaluation**
 - If an asset is undervalued, it means that its book value is less than its actual market value.
 - This undervaluation needs to be corrected to present a true and fair view of the financial position of the firm.
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Question 9

Dividend received is

Options:

- A. Operating activity
- B. Financing activity
- C. Investing activity
- D. Cash and cash equivalents

Answer: C

Solution:

The correct answer is - **Investing activity**

Key Points

- **Dividend received**
 - Dividends received from investments in other companies are categorized as **investing activities** in the cash flow statement.
 - This classification is based on the fact that dividends are returns on investments made by the company in other entities.
- **Cash Flow Statements**
 - Cash flow statements categorize cash flows into three main activities: operating, investing, and financing.
 - **Operating activities** involve the primary revenue-generating activities of the business.
 - **Investing activities** involve the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
 - **Financing activities** involve changes in the size and composition of the equity capital and borrowings of the entity.

Additional Information

- **Understanding Cash Flow Classification**
 - Correct classification of cash flows is essential for accurate financial reporting and analysis.
 - Misclassification can lead to incorrect interpretations of a company's financial health.
 - **Examples of Investing Activities**
 - Purchase of property, plant, and equipment.
 - Proceeds from the sale of assets or investments.
 - Loans made to other entities.
 - Receipts of loan principal repayments.
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Question 10

A partnership can have maximum 50 partners. This limit has been set by the :

Options:

- A. Indian Partnership Act, 1932
- B. State Government
- C. Indian Contract Act, 1872
- D. Central Government

Answer: D

Solution:

The correct answer is - Central Government

Key Points

- **Central Government**
 - The limit of **maximum 50 partners** in a partnership firm is set by the **Central Government** of India.
 - This regulation is not specified under the Indian Partnership Act, 1932, nor the Indian Contract Act, 1872.
 - It ensures that the structure of a partnership remains manageable and does not evolve into a larger corporate entity.

Additional Information

- **Indian Partnership Act, 1932**
 - This Act governs the formation and functioning of partnership firms in India.
 - It defines the rights and duties of partners among themselves and in relation to the partnership firm.
 - The Act does not specify the maximum number of partners, leaving it to be governed by other regulations.
- **Indian Contract Act, 1872**
 - This Act governs contracts in India and is the basis for the formation of various types of contracts, including partnership agreements.
 - However, it does not specify the maximum number of partners in a partnership firm.
- **State Government**
 - State Governments do not have the authority to set the limit on the number of partners in a partnership firm.
 - Such regulations are under the purview of the Central Government.

Question 11

Which of the following is an example of sequential code ?

Options:

- A. Using Code “CL001” for “Accounts of XYZ Ltd”.
- B. Using Code “100-199” for “Dealers of Small Pumps”.
- C. Using Code “SJ” for “Sales Journals”.
- D. Using Code “HQ” for “Headquarters”.

Answer: A

Solution:

The correct answer is - Using Code “CL001” for “Accounts of XYZ Ltd”

Key Points

- Sequential code
 - Sequential codes are **numeric or alphanumeric codes** that follow a specific **order**.
 - The code **“CL001”** is an example of a sequential code as it follows a **numeric sequence** starting from 001.
 - Such codes are often used to indicate a **series or progression** in a list or database.

Additional Information

- Types of Coding Systems
 - Sequential Coding
 - Sequential codes are assigned in a **sequential order** and are useful for **tracking** and **identifying** items in a list.
 - Examples include **invoice numbers, order numbers**, etc.
 - Block Coding
 - Codes are assigned in **blocks or groups** to different categories.
 - Examples include using **100-199 for one category** and **200-299 for another**.
 - Mnemonic Coding
 - Codes are **alphabetic** and are chosen to be **easy to remember**.
 - Examples include codes like **SJ for Sales Journals** and **HQ for Headquarters**.

Question 12

If there is no claim against Workmen Compensation Reserve, it is _____ at the time of admission of a partner.

Fill in the blank with the correct answer from the options given below.

Options:

- A. debited to old partners' capital account.
- B. credited to all partners' capital accounts.
- C. credited to old partners' capital accounts.
- D. debited to all partners' capital accounts.

Answer: C

Solution:

The correct answer is - credited to old partners' capital accounts.

Key Points

- **Workmen Compensation Reserve**
 - This reserve is created to meet potential liabilities arising from compensation claims by workmen.
 - It is a provision made to safeguard against future liabilities.
- **No Claim Situation**
 - If there is no claim against the Workmen Compensation Reserve at the time of a partner's admission, the reserve is considered a surplus.
 - This surplus is then distributed among the old partners.
- **Credited to Old Partners' Capital Accounts**
 - The surplus amount from the reserve, if no claim exists, is credited to the capital accounts of the old partners.
 - This reflects the old partners' share of the reserve before the new partner's admission.

Additional Information

- **Partnership Accounting**
 - When a new partner is admitted, all accumulated reserves and undistributed profits are usually adjusted.
 - This ensures that the incoming partner is not entitled to any share of past reserves.
- **Journal Entries**
 - The accounting entry for the surplus of Workmen Compensation Reserve with no claim would be:
 - **Workmen Compensation Reserve Account Dr.**
 - **To Old Partners' Capital Accounts**
 - This entry debits the reserve account and credits the old partners' capital accounts.
- **Partnership Deed**
 - The partnership deed may specify the treatment of reserves and surpluses, which should be adhered to.
 - In the absence of specific instructions in the deed, standard accounting practices are followed.

Question 13

A, B and C are partners sharing profits in the ratio of 3 : 3 : 4. They decide to share the future profits equally. The sacrifice or gain of partners are :

Options:

A. A gains $1/30$; B gains $1/30$; C sacrifices $2/30$

B. A gains $2/30$; B gains $1/30$; C sacrifices $3/30$

C. A sacrifices $1/30$; B gains $3/30$; C sacrifices $2/30$

D. A gains $2/30$; B gains $3/30$; C sacrifices $5/30$

Answer: A

Solution:

The correct answer is -A gains $1/30$; B gains $1/30$; C sacrifices $2/30$

Key Points

- **Original Profit Sharing Ratio**
 - Partners A, B, and C share profits in the ratio of **3:3:4**.
- **New Profit Sharing Ratio**
 - The new profit-sharing arrangement is **equal**, so each partner gets **$1/3$** .
- **Calculation of Gain or Sacrifice**
 - **Partner A:**
 - Original Share: $3/10$
 - New Share: $1/3$
 - Gain: $(1/3 - 3/10) = 1/30$
 - **Partner B:**
 - Original Share: $3/10$
 - New Share: $1/3$
 - Gain: $(1/3 - 3/10) = 1/30$
 - **Partner C:**
 - Original Share: $4/10$
 - New Share: $1/3$
 - Sacrifice: $(4/10 - 1/3) = 2/30$

Additional Information

- **Profit Sharing in Partnerships**
 - Profit-sharing ratios are often determined by the investment or agreement between partners.
 - Changes in profit-sharing ratios can be due to new agreements, changes in partner contributions, or strategic decisions.
- **Calculating Gains and Sacrifices**
 - Gains and sacrifices are calculated by comparing the original profit share with the new profit share.
 - Gain occurs when the new share is larger than the original share, and sacrifice occurs when the new share is smaller.

Question 14

Match List-I with List-II.

List - I	List - II

(Equal amount of drawings made)		(Number of month for which interest calculated)	
(A)	At the end of each half year	(I)	4.5 months
(B)	At the beginning of each quarter	(II)	6.5 months
(C)	At the beginning of each month	(III)	7.5 months
(D)	At the end of each quarter	(IV)	3 months

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

Answer: D

Solution:

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

Key Points

- **Drawings at Different Intervals**
 - **At the end of each half year:** Interest is calculated for 4.5 months.
 - **At the beginning of each quarter:** Interest is calculated for 7.5 months.
 - **At the beginning of each month:** Interest is calculated for 6.5 months.
 - **At the end of each quarter:** Interest is calculated for 3 months.

Additional Information

- **Interest Calculation for Drawings**
 - The interest on drawings is calculated based on the time of withdrawal and the amount withdrawn.
 - **Equal Amount Withdrawn:**
 - When equal amounts are withdrawn at regular intervals, the average time is used for interest calculation.
- **Formula for Interest**
 - Interest = Amount x Rate x Time

- Time is calculated based on the period of the drawings, either monthly, quarterly, or half-yearly.
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Question 15

Kavita and Lalita are partners, sharing profits in the ratio of 2 : 1. They decide to admit Mohan for $\frac{1}{4}$ th share in future profits with a guaranteed amount of Rs. 25,000. Both Kavita and Lalita undertake to meet the liability arising due to the guaranteed amount to Mohan in their respective profit sharing ratio. The firm earned profits of Rs.76,000 for the year 2022 - 23. The deficiency borne by Kavita is :

Options:

- A. Rs.4,000
- B. Rs.2,000
- C. Rs.6,000
- D. Rs.4,500

Answer: A

Solution:

The correct answer is - Rs. 4,000

Key Points

- **Deficiency Calculation**
 - The firm earned profits of Rs. 76,000.
 - Mohan's share of profits = $\frac{1}{4}$ th of Rs. 76,000 = Rs. 19,000.
 - Mohan is guaranteed Rs. 25,000, hence the deficiency = Rs. 25,000 - 19,000 = 6,000.
- **Deficiency Sharing Ratio**
 - Kavita and Lalita share profits in the ratio of 2:1.
 - Deficiency borne by Kavita = $\frac{2}{3}$ of Rs. 6,000 = Rs. 4,000.

Additional Information

- **Profit Sharing Ratio**
 - Partners share profits and losses in their agreed ratio.
 - Changes in profit sharing ratios must be agreed upon by all partners.
- **Guarantees to New Partners**
 - New partners may receive a guaranteed amount of profits as an incentive.

- Existing partners bear the deficiency if the firm's profits are insufficient to meet the guarantee.
 - **Partnership Agreements**
 - These agreements should clearly outline profit sharing ratios and any guarantees.
 - Clarity in agreements helps avoid disputes and ensures smooth operation of the partnership.
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Question 16

Anshu and Nitu are partners, sharing profits in the ratio of 3 : 2. They admitted Jyoti as a new partner for $\frac{3}{10}$ share which she acquired $\frac{2}{10}$ from Anshu and $\frac{1}{10}$ from Nitu. Calculate the new profit sharing ratio of Anshu, Nitu and Jyoti.

Options:

- A. 4 : 3 : 3
- B. 3 : 4 : 3
- C. 3 : 3 : 4
- D. 3 : 2 : 1

Answer: A

Solution:

The correct answer is - 4 : 3 : 3

Key Points

- **New Profit Sharing Ratio**
 - Anshu and Nitu initially share profits in the ratio of **3 : 2**.
 - Jyoti is admitted with a **$\frac{3}{10}$ share** of profits.
 - Jyoti acquires **$\frac{2}{10}$** from Anshu and **$\frac{1}{10}$** from Nitu.
 - New profit shares:
 - Anshu: $\frac{3}{5} - \frac{2}{10} = \frac{6}{10} - \frac{2}{10} = \frac{4}{10}$
 - Nitu: $\frac{2}{5} - \frac{1}{10} = \frac{4}{10} - \frac{1}{10} = \frac{3}{10}$
 - Jyoti: **$\frac{3}{10}$**

Additional Information

- **Calculation of New Ratios**
 - **Initial Ratio:** The partners Anshu and Nitu shared profits in the ratio of **3:2**.
 - **Share Acquisition:** Jyoti acquired **$\frac{2}{10}$** from Anshu and **$\frac{1}{10}$** from Nitu.
 - **New Shares Calculation:**

- Anshu's new share: $3/5 - 2/10 = 4/10$
 - Nitu's new share: $2/5 - 1/10 = 3/10$
 - Jyoti's new share: $3/10$
 - **Standard Form:** Expressing these in simplest form, the new profit sharing ratio is **4:3:3**.
 - **Importance of Profit Sharing Ratios**
 - Profit sharing ratios determine the distribution of profits and losses among partners.
 - Changes in profit sharing ratios occur with the admission of new partners or changes in the partnership agreement.
 - Understanding these ratios is crucial for transparent and fair financial management within a partnership.
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Question 17

The journal entry for treatment of goodwill, when a new partner brings his share of goodwill in cash and one of the old partners gains, involves the following :

- (A) Gaining Partner's Capital Account is debited**
- (B) Premium for Goodwill Account is debited**
- (C) Sacrificing Partner's Capital Account is credited**
- (D) Gaining Partner's Capital Account is credited**

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

Key Points

- New Partner's Goodwill
 - When a new partner brings in goodwill in cash, it is necessary to account for the **premium for goodwill**.
- Journal Entry for Goodwill
 - The **Premium for Goodwill Account** is debited because it represents an expense or a loss to the firm.
 - The **Gaining Partner's Capital Account** is debited to reflect the share of goodwill that the new partner brings in.
 - The **Sacrificing Partner's Capital Account** is credited as they are compensated for their sacrifice in favor of the new partner.

Additional Information

- Accounting Treatment
 - The entry for goodwill ensures that the **existing partners** are compensated for the new partner's share of future profits.
 - It is important to have a clear understanding of **accounting principles** related to partnership changes.
- Capital Adjustments
 - Adjustments to capital accounts are necessary to reflect the changes in the profit-sharing ratio among partners.
 - The sacrificing partner, who gives up part of their share, is credited to increase their capital account.
 - The gaining partner, who gains a share, is debited to decrease their capital account.

Question 18

While preparing Cash Flow Statement, purchase of goodwill is treated as :

Options:

- A. Operating activity
- B. Financing activity
- C. Investing activity
- D. Extraordinary item

Answer: C

Solution:

The correct answer is - Investing activity

Key Points

- Investing activity
 - The **purchase of goodwill** is classified under **investing activities** in the Cash Flow Statement.
 - This is because **goodwill** is an **intangible asset**, and its purchase is an **investment** in the business's long-term assets.
 - Investing activities generally include transactions related to the acquisition and disposal of long-term assets and other investments.
 - Examples of investing activities include the purchase of machinery, property, patents, and other intangible assets.

Additional Information

- Cash Flow Statement
 - A financial statement that shows the inflows and outflows of cash and cash equivalents over a specific period.
 - Divided into three sections: Operating Activities, Investing Activities, and Financing Activities.
 - Operating Activities
 - Include the primary revenue-generating activities of the business.
 - Examples: cash receipts from sales, payments to suppliers, and employee wages.
 - Financing Activities
 - Related to changes in the size and composition of the equity capital and borrowings of the entity.
 - Examples: issuing shares, borrowing loans, and repayment of borrowings.
-

Question 19

The components of Computerised Accounting System are :

Options:

- A. Data, Report, Ledger, Hardware, Software
- B. Data, People, Procedure, Hardware, Software
- C. People, Procedure, Ledger, Data, Chart of Accounts
- D. Data, Coding, Procedure, Rules, Output

Answer: B

Solution:

The correct answer is - Data, People, Procedure, Hardware, Software

Key Points

- **Data**
 - Data refers to the raw facts and figures that are processed into information.
 - In a computerized accounting system, data includes financial transactions, account details, and other relevant information.
- **People**
 - People are the users who interact with the accounting system. They can be accountants, data entry operators, and auditors.
 - The effectiveness of the system heavily relies on the competency of the people using it.
- **Procedure**
 - Procedures are the methods and processes followed to collect, store, and process data.
 - They include data entry, data verification, report generation, and data retrieval processes.
- **Hardware**
 - Hardware refers to the physical components of the accounting system such as computers, servers, and storage devices.
 - It is essential for the operation and functioning of the software applications used in accounting.
- **Software**
 - Software includes the accounting applications and programs that process the data.
 - Popular accounting software applications include Tally, QuickBooks, and SAP.

Additional Information

- **Integration with other systems**
 - Computerized accounting systems often integrate with other systems such as inventory management, payroll, and customer relationship management (CRM).
 - This integration ensures seamless data flow and enhances overall operational efficiency.
- **Security Measures**
 - Security is a critical aspect of computerized accounting systems. It includes data encryption, user authentication, and access control.
 - These measures protect sensitive financial data from unauthorized access and breaches.
- **Real-time Processing**
 - Many modern accounting systems offer real-time processing capabilities, allowing immediate updates and access to financial information.
 - This feature is crucial for timely decision-making and financial management.

Question 20

The Sales and Accounts Receivable Subsystem deals with :

Options:

- A. the recording of Sales, maintaining of Sales Ledger and Receivables
- B. the preparation of Budget for the coming financial year
- C. the preparation of Profit and Loss Account, Balance Sheet and Cash Flow Statement

D. the purchase and payment to creditors

Answer: A

Solution:

The correct answer is - the recording of Sales, maintaining of Sales Ledger and Receivables

Key Points

- **Sales and Accounts Receivable Subsystem**
 - This subsystem is responsible for the **recording of sales**, ensuring that all sales transactions are accurately documented.
 - It involves maintaining the **Sales Ledger**, which is a detailed record of all sales transactions over a period.
 - Managing **Receivables** is a critical function, ensuring that payments due from customers are tracked and collected in a timely manner.
 - These activities ensure that the organization has an accurate and up-to-date record of its income from sales activities.

Additional Information

- **Financial Reporting and Analysis**
 - While the Sales and Accounts Receivable Subsystem focuses on recording sales and managing receivables, other financial tasks are handled by separate subsystems.
 - The preparation of the **Budget** for the coming financial year is typically handled by the financial planning or budgeting department.
 - The preparation of the **Profit and Loss Account**, **Balance Sheet**, and **Cash Flow Statement** are functions of the financial accounting subsystem.
 - Purchasing and payments to creditors are managed by the **Accounts Payable** subsystem, which handles all vendor-related transactions.
- **Integration with Other Subsystems**
 - Effective financial management requires integration between the Sales and Accounts Receivable Subsystem and other financial subsystems.
 - This ensures that data flows seamlessly across different areas, providing a comprehensive view of the organization's financial health.
 - For example, data from sales records are used in financial statements, budgeting, and cash flow management.

Question 21

The common fields used in a relationship between tables are called :

Options:

A. Joint fields

B. Main fields

C. Table fields

D. Key fields

Answer: D

Solution:

The correct answer is - Key fields

Key Points

- **Key fields**
 - In a relational database, **key fields** are used to establish and identify relationships between tables.
 - **Primary keys** uniquely identify each record within a table.
 - **Foreign keys** are fields that create a link between two tables, referencing the primary key of another table.

Additional Information

- **Primary Key**
 - A **primary key** is a unique identifier for a record in a table, ensuring that no two rows have the same key value.
 - Primary keys cannot contain **NULL** values.
 - They are critical in maintaining the integrity and uniqueness of the data.
- **Foreign Key**
 - A **foreign key** is a field (or collection of fields) in one table that uniquely identifies a row of another table.
 - Foreign keys create a linkage between the two tables, ensuring referential integrity.
 - They help maintain consistency across related tables by ensuring that values in one table correspond to values in another.
- **Composite Key**
 - A **composite key** consists of two or more columns that together uniquely identify a record in a table.
 - Used when a single column is not sufficient to uniquely identify records.

Question 22

On dissolution of a firm, bank overdraft is transferred to :

Options:

A. Bank Account

B. Realisation Account

C. Partners' Capital Account

D. Partners' Loan Account

Answer: B

Solution:

The correct answer is - Realisation Account

Key Points

- Realisation Account
 - On the dissolution of a firm, the primary objective is to settle all the assets and liabilities.
 - All liabilities, including the bank overdraft, are transferred to the Realisation Account.
 - This account is used to realize the assets and pay off the liabilities.
 - The purpose is to determine the profit or loss on the realization of the firm's assets and liabilities.

Additional Information

- Realisation Account in Detail
 - The Realisation Account helps in calculating the net result of the realization process.
 - All assets are transferred to the debit side of the Realisation Account.
 - All liabilities are transferred to the credit side of the Realisation Account.
 - The profit or loss on realization is transferred to the Partners' Capital Accounts in their profit-sharing ratio.
 - Bank Overdraft
 - A bank overdraft is a liability for the firm, representing the amount owed to the bank.
 - On dissolution, it needs to be settled, which is why it is transferred to the Realisation Account for appropriate settlement.
 - Partners' Capital Accounts
 - The balance remaining after settling all assets and liabilities, including the profit or loss from the Realisation Account, is transferred to the Partners' Capital Accounts.
-

Question 23

Arrange the following steps in the correct sequence of the life of a company :

(A) Commencement of Business

(B) Incorporation

(C) Promotion

(D) Floatation

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

- **Promotion** (C)
 - Initial stage where the idea of forming a company is conceived.
 - Promoters undertake preliminary steps to bring the company into existence.
- **Incorporation** (B)
 - Legal procedure for registering the company with the relevant authorities.
 - Company acquires a legal status and becomes a separate entity.
- **Floatation** (D)
 - Process of raising capital by issuing shares to the public.
 - Involves preparing a prospectus and complying with regulatory requirements.
- **Commencement of Business** (A)
 - Final step where the company starts its operations.
 - Requires obtaining necessary licenses and approvals.

Additional Information

- **Promotion**
 - Promoters are individuals or groups who undertake the promotion of the company.
 - They are responsible for preparing documents like the Memorandum and Articles of Association.
- **Incorporation**
 - Documents required include the Memorandum of Association, Articles of Association, and statutory declaration.
 - The company gets a Certificate of Incorporation upon successful registration.

- **Flootation**
 - Public companies must issue a prospectus to invite public to subscribe to their shares.
 - Requires compliance with securities regulations and market guidelines.
 - **Commencement of Business**
 - Private companies can start business immediately after incorporation.
 - Public companies need to obtain a Certificate of Commencement of Business.
-

Question 24

Arrange the following in the correct order :

(A) Subscribed Capital

(B) Issued Capital

(C) Authorised Capital

(D) Paid-up Capital

(E) Called-up Capital

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: C

Solution:

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

 **Key Points**

- **Authorised Capital**
 - This is the maximum amount of capital that a company is authorized to raise through the issuance of shares, as specified in its memorandum of association.
- **Issued Capital**
 - This is the portion of the authorized capital that the company has offered to investors through the issuance of shares.
- **Subscribed Capital**
 - This is the part of the issued capital that investors have agreed to purchase and have subscribed to.
- **Called-up Capital**
 - This is the portion of the subscribed capital that the company has called upon shareholders to pay.
- **Paid-up Capital**
 - This is the portion of the called-up capital that shareholders have actually paid to the company.

Additional Information

- **Authorized Capital**
 - It sets a ceiling for the amount of capital that a company can raise by issuing shares, providing flexibility for future expansion.
 - **Issued Capital**
 - Reflects the amount of shares that have been issued to shareholders and can be less than the authorized capital.
 - **Subscribed Capital**
 - The capital that investors have committed to invest in the company, indicating market interest and confidence in the company.
 - **Called-up Capital**
 - Represents the amount that the company has requested shareholders to pay from their subscribed capital, crucial for operational funding.
 - **Paid-up Capital**
 - Indicates the actual amount received by the company from shareholders, important for financial stability and creditworthiness.
-

Question 25

The Deceased Partner's Capital Account includes the following amount/balances :

- (A) Opening balance of his capital**
- (B) His share of profit/loss till the date of death**
- (C) His share of General Reserve**
- (D) His drawings till the date of death**
- (E) Amount paid to his executors**

Choose the correct answer from the options given below :

Options:

- A. (A), (B), (D) and (E) only
- B. (A), (B), (C) and (D) only
- C. (A), (B) and (C) only
- D. (A), (B), (C) and (E) only

Answer: B

Solution:

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



Key Points

- **Opening balance of capital**
 - Refers to the amount in the deceased partner's capital account at the beginning of the accounting period.
- **His share of profit/loss till the date of death**
 - Calculated based on the partnership agreement; it includes the partner's share of the profit or loss up to the date of death.
- **His share of General Reserve**
 - The deceased partner is entitled to his share of the general reserve accumulated in the partnership.
- **His drawings till the date of death**
 - Any amounts withdrawn by the deceased partner for personal use are recorded in his capital account.



Additional Information

- **Settlement of Deceased Partner's Account**
 - After including the relevant items (opening balance, profit/loss share, general reserve, and drawings), the balance payable to the deceased partner's executors is determined.
 - **Accounting Treatment**
 - The deceased partner's capital account is adjusted for the aforementioned items and any remaining balance is settled with the executors.
 - It is essential to follow the partnership agreement for accurate calculation and settlement of the deceased partner's capital account.
-

Question 26

Identify the correct sequence of the following steps involved in calculating cash flows from operating activities of a company :

(A) Operating profit before working capital changes

(B) Cash generated from operations

(C) Income tax paid

(D) Net cash flow from operating activities

(E) Goodwill amortised

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: C

Solution:

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

Key Points

- **Goodwill amortised (E)**
 - This is an adjustment for non-cash expenses.
 - It is added back to the operating profit.
- **Operating profit before working capital changes (A)**
 - This is the starting point for calculating cash flows from operating activities.
 - It includes adjustments for non-cash transactions like depreciation.
- **Cash generated from operations (B)**
 - This is calculated after adjusting for changes in working capital.
 - It represents the actual cash generated from core business operations.
- **Income tax paid (C)**
 - This is deducted from the cash generated from operations.

- It reflects the actual cash outflow for tax payments.
- **Net cash flow from operating activities (D)**
 - This is the final figure after accounting for all adjustments and tax payments.
 - It indicates the net cash available from operating activities.

Additional Information

- **Operating Activities**
 - These include the principal revenue-generating activities of the company.
 - Examples include cash receipts from sales, cash payments for inventory, wages, and other operating expenses.
 - **Non-Cash Adjustments**
 - Depreciation, amortization, and provisions are common non-cash adjustments.
 - These are added back to the operating profit as they do not involve actual cash outflows.
 - **Working Capital Changes**
 - Changes in current assets and liabilities impact the cash flow from operations.
 - For example, an increase in accounts receivable reduces cash flow, while an increase in accounts payable increases it.
-

Question 27

Calculate Trade Receivables Turnover Ratio.

Calculate Trade Receivables Turnover Ratio.

Options:

- A. 8.18 times
- B. 8.23 : 1
- C. 8.18%
- D. 8.81 : 1

Answer: A

Solution:

The correct answer is - **8.18 times**

Key Points

- **Trade Receivables Turnover Ratio**

- It measures how efficiently a business collects revenue from its **credit sales**.
- The formula for **Trade Receivables Turnover Ratio** is:
Trade Receivables Turnover Ratio = Net Credit Sales / Average Trade Receivables
- Given:
 - Revenue from Operations = ₹8,75,000
 - Trade Debtors = ₹59,000
 - Bills Receivable = ₹48,000
 - Total Trade Receivables = ₹59,000 + ₹48,000 = ₹1,07,000
 - Assuming all sales are credit sales:
 Net Credit Sales = ₹8,75,000
- Applying the formula:
8,75,000 / 1,07,000 = 8.18 times

Additional Information

- **Interpretation of the Ratio**
 - A higher ratio indicates that the company is **efficient** in collecting payments from debtors.
 - A lower ratio may suggest potential issues with **delayed payments** or **bad debts**.
- **Other Related Ratios**
 - **Debtors Collection Period:** It determines the average time taken to collect receivables.
 Formula: **(365 / Trade Receivables Turnover Ratio)**
 - **Current Ratio:** Measures liquidity by comparing current assets to current liabilities.
 Formula: **Current Assets / Current Liabilities**

Question 28

Calculate Average Collection Period.

Calculate Average Collection Period.

Options:

- A. 30 days
- B. 60 days
- C. 45 days
- D. 15 days

Answer: C

Solution:

The correct answer is - 45 days

Key Points

- **Formula for Average Collection Period:**
 - Average Collection Period = $(\text{Average Accounts Receivable} / \text{Revenue from Operations}) \times 365$
- **Calculation of Average Accounts Receivable:**
 - Accounts Receivable = Trade Debtors + Bills Receivable
 - = 59,000 + 48,000 = **1,07,000**
- **Final Calculation:**
 - Average Collection Period = $(1,07,000 / 8,75,000) \times 365$
 - = **44.65 days** \approx **45 days**

Additional Information

- **Importance of Average Collection Period:**
 - Measures the **efficiency** of a company in collecting payments from customers.
 - A shorter period indicates a **stronger liquidity position** and better credit management.
 - A longer period may suggest **cash flow issues** due to delayed payments.
- **Ways to Improve Collection Period:**
 - Offering **discounts** for early payments.
 - Strict **credit policies** for customers.
 - Effective **follow-ups** and reminders.

Question 29

Calculate Trade Payables Turnover Ratio.

Calculate Trade Payables Turnover Ratio.

Options:

A. 29.6 times

B. 2.96 times

C. 29.6%

D. 2.69 : 1

Answer: B

Solution:

The correct answer is - 2.96 times

Key Points

- **Trade Payables Turnover Ratio** measures the number of times a business settles its trade payables during a specific period.
 - It indicates how frequently the company pays off its creditors or suppliers.
 - Formula: **Trade Payables Turnover Ratio = Purchases / Average Trade Payables**
 - It helps assess the company's efficiency in managing its **creditor payments**.
 - A lower ratio indicates a longer payment period, while a higher ratio suggests quicker payments to creditors.
- In this case, the formula can be applied as follows:
 - Purchases = **4,20,000**
 - Average Trade Payables = **(Opening + Closing Trade Payables) / 2 = 52,000** (only one value is given, so we assume it as average)
 - **Trade Payables Turnover Ratio = 4,20,000 / 52,000 = 2.96 times**

Additional Information

- **Calculation of Ratios**
 - Understanding financial ratios requires familiarity with the **financial statements** such as the balance sheet and income statement.
 - **Trade Payables Turnover Ratio** is often used in conjunction with other ratios like **Trade Receivables Turnover Ratio** to analyze a company's working capital efficiency.
- **Significance of the Ratio**
 - The ratio reflects the **liquidity** of the company in terms of how it handles its obligations to suppliers.
 - A low ratio indicates that the company might be **delaying payments** to creditors, which can affect supplier relationships and may cause supply chain disruptions.
 - In some cases, companies might delay payments to improve their **cash flow** but should balance this to avoid negative implications.
- **Other Turnover Ratios**
 - **Receivables Turnover Ratio** = Net Credit Sales / Average Receivables, which shows the effectiveness of the company in collecting payments from customers.
 - **Inventory Turnover Ratio** = Cost of Goods Sold / Average Inventory, which helps assess the efficiency of inventory management.

Question 30

Calculate Average Payment Period.

Calculate Average Payment Period.

Options:

A. 123 days

B. 121 days

C. 132 days

D. 133 days

Answer: A

Solution:

The correct answer is - 123 days

Key Points

- **Formula for Average Payment Period:**
 - Average Payment Period = $(\text{Average Accounts Payable} / \text{Credit Purchases}) \times 365$
- **Calculation of Average Accounts Payable:**
 - Accounts Payable = **Creditors** + **Bills Payable**
 - = 90,000 + 52,000 = **1,42,000**
- **Final Calculation:**
 - Assuming all purchases are on credit:
 - Average Payment Period = $(1,42,000 / 4,20,000) \times 365$
 - = **123.3 days ≈ 123 days**

Additional Information

- **Importance of Average Payment Period:**
 - Indicates how long a company takes to **pay its suppliers**.
 - A shorter period suggests a **stronger liquidity position** and timely payments.
 - A longer period may indicate **cash flow challenges** or favorable credit terms.
 - **Ways to Improve Payment Period:**
 - Negotiating **better credit terms** with suppliers.
 - Efficient **cash flow management** to ensure timely payments.
 - Optimizing **inventory management** to reduce unnecessary purchases.
-

Question 31

Trade Receivables Turnover Ratio and Trade Payables Turnover Ratio are categorised as :

Trade Receivables Turnover Ratio and Trade Payables Turnover Ratio are categorised as :

Options:

- A. Liquidity Ratio
- B. Solvency Ratio
- C. Activity Ratio
- D. Profitability Ratio

Answer: C

Solution:

The correct answer is - Activity Ratio

Key Points

- Activity Ratios
 - These ratios measure how efficiently a business utilizes its assets to generate **revenue or sales**.
 - **Trade Receivables Turnover Ratio** = Net Credit Sales / Average Trade Receivables.
 - **Trade Payables Turnover Ratio** = Net Credit Purchases / Average Trade Payables.
 - Both ratios assess the **efficiency of working capital management** by monitoring receivables and payables cycles.
 - They help determine how often receivables are collected and payables are settled during a period.

Additional Information

- Other Types of Ratios
 - Liquidity Ratios
 - Evaluate the firm's ability to meet short-term obligations.
 - Examples: **Current Ratio, Quick Ratio**.
 - Solvency Ratios
 - Measure the firm's long-term financial stability and debt-repayment capacity.
 - Examples: **Debt to Equity Ratio, Interest Coverage Ratio**.
 - Profitability Ratios
 - Assess the firm's ability to generate earnings relative to sales, assets, or equity.
 - Examples: **Net Profit Ratio, Return on Capital Employed**.
- Application of Activity Ratios
 - Higher **Trade Receivables Turnover** implies faster collection from debtors, indicating efficiency.
 - Lower **Trade Payables Turnover** implies slower payments to creditors, possibly improving cash flow but may strain supplier relationships.

Question 32

What is the mode of dissolution of the firm followed by G, K and B ?

What is the mode of dissolution of the firm followed by G, K and B ?

Options:

- A. Dissolution by Agreement
- B. On the happening of certain contingencies
- C. Dissolution by Notice
- D. Compulsory Dissolution

Answer: A

Solution:

The correct answer is **Dissolution by Agreement**



Key Points

- **Dissolution by Agreement:**
 - Dissolution of a partnership firm by agreement occurs when all partners mutually decide to close the business operations.
 - According to the Indian Partnership Act, 1932, a partnership firm can be dissolved by mutual consent of all partners, even if there is no legal or financial compulsion.
 - In this case, G, K, and B decided to dissolve the firm due to continuous losses, implying mutual agreement.
 - The decision to dissolve the firm was not forced by external factors like court orders or illegal activities but was a voluntary decision made by the partners.
 - This mode of dissolution allows partners to settle assets, liabilities, and other financial matters amicably.



Additional Information

- **On the happening of certain contingencies:**
 - This occurs when a firm dissolves due to specific events such as the expiry of the partnership term, the completion of a project, the death or insolvency of a partner, etc.
 - In this case, the firm dissolved due to financial losses rather than any pre-defined contingency.
- **Dissolution by Notice:**
 - This applies only to firms operating under a partnership at will, where any partner can dissolve the firm by giving notice to other partners.
 - Since G, K, and B had a formal profit-sharing agreement, this method was not applicable.
- **Compulsory Dissolution:**

- Occurs when a firm is legally required to dissolve due to reasons such as unlawful business operations, bankruptcy, or government intervention.
 - In this case, there was no legal requirement to dissolve; the partners voluntarily chose to close the firm.
-

Question 33

Determine the amount of Profit and Loss Account.

Determine the amount of Profit and Loss Account.

Options:

- A. (Cr.) Rs. 90,000
- B. (Dr.) Rs. 90,000
- C. (Cr.) Rs.1,30,000
- D. (Dr.) Rs.1,30,000

Answer: B

Solution:

The correct answer is **(Dr.) Rs. 90,000**

Key Points

- **Calculation of Profit and Loss Account (Dr. Balance):**
 - The firm's capital balances were Rs. 4,00,000 (G), Rs. 3,00,000 (K), and Rs. 2,00,000 (B), making the total capital Rs. 9,00,000.
 - Liabilities amounted to Rs. 80,000, and the cash balance was Rs. 40,000.
 - Sundry assets were valued at Rs. 8,50,000 but realized only 80% of their value, i.e., Rs. 6,80,000.
 - The firm had an unrecorded liability of Rs. 50,000, which was settled at Rs. 40,000.
 - Realization expenses were Rs. 30,000, paid by G on behalf of the firm.
 - The total cash available after realization = Rs. 40,000 (initial cash) + Rs. 6,80,000 (asset realization) = Rs. 7,20,000.
 - After paying liabilities of Rs. 80,000 and the unrecorded liability of Rs. 40,000, the remaining cash balance = Rs. 7,20,000 - Rs. 80,000 - Rs. 40,000 = Rs. 6,00,000.
 - Since the total capital was Rs. 9,00,000 and the available cash after paying liabilities was only Rs. 6,00,000, there is a shortfall of Rs. 90,000.
 - This shortfall represents the loss in the Profit and Loss Account, which is a debit balance.

Additional Information

- **(Cr.) Rs. 90,000:**
 - This option is incorrect as a credit balance would indicate a profit, whereas the firm incurred losses.
 - Since assets were realized at only 80% of their value and liabilities were paid in full, the firm faced a financial shortfall.
 - **(Cr.) Rs. 1,30,000:**
 - This is incorrect because the firm did not have excess assets or profits to account for a credit balance.
 - The available cash post-realization was lower than the total capital balance, indicating a loss rather than a profit.
 - **(Dr.) Rs. 1,30,000:**
 - This is incorrect because the actual shortfall calculated was Rs. 90,000, not Rs. 1,30,000.
 - The loss was computed based on asset realization and liability payments, leading to a deficit of Rs. 90,000.
-

Question 34

Determine Gain/Loss on Realisation.

Determine Gain/Loss on Realisation.

Options:

- A. LossRs.2,40,000
- B. GainRs.24,000
- C. LossRs.1,70,000
- D. LossRs.2,10,000

Answer: A

Solution:

The correct answer is **Loss Rs. 2,40,000**

Key Points

- **Calculation of Gain/Loss on Realisation:**
 - Assets realized at 80% of their book value, which is Rs. 8,50,000 x 80% = Rs. 6,80,000.
 - Firm had liabilities of Rs. 80,000, which were paid in full, and an unrecorded liability of Rs. 50,000 settled at Rs. 40,000.

- The total cash generated from the realization is Rs. 6,80,000 (realized value of assets) + Rs. 40,000 (unrecorded liability settlement) + Rs. 40,000 (cash balance) = Rs. 7,60,000.
- The total liabilities paid are Rs. 80,000 + Rs. 40,000 = Rs. 1,20,000.
- The total amount available after liabilities settlement is Rs. 7,60,000 - Rs. 1,20,000 = Rs. 6,40,000.
- The capital balances of the partners were Rs. 9,00,000 (Rs. 4,00,000 for G, Rs. 3,00,000 for K, Rs. 2,00,000 for B).
- Since the available funds of Rs. 6,40,000 are less than the capital balances of Rs. 9,00,000, the difference, which is Rs. 2,40,000, represents a loss on realization.

Additional Information

- **Loss Rs. 2,10,000:**
 - This is incorrect because the actual loss on realization was calculated as Rs. 2,40,000, not Rs. 2,10,000.
 - It seems the miscalculation occurred in determining the shortfall in available funds after the settlement of liabilities.
- **Gain Rs. 24,000:**
 - This option is incorrect because the firm incurred a loss on realization, not a gain. The realized cash was insufficient to cover the capital balances.
- **Loss Rs. 1,70,000:**
 - This option is also incorrect. The loss is Rs. 2,40,000, not Rs. 1,70,000. The difference in calculations could arise from misinterpreting the total capital and cash balances.

Question 35

The entry for realisation expenses in above case study will be :

The entry for realisation expenses in above case study will be :

Options:

A.

Realisation A/c Dr.

To Cash A/c

B.

Realisation A/c Dr.

To G's Capital A/c

C.

G's Capital A/c Dr.

To Realisation A/c

D.

Cash A/c Dr.

To Realisation A/c

Answer: B

Solution:

The correct answer is **Realisation A/c Dr. To G's Capital A/c**

Key Points

- **Realisation expenses paid by G:**
 - In the case of dissolution, the realisation expenses are recorded in the Realisation Account. Since G paid the realisation expenses on behalf of the firm, this payment needs to be reflected as a liability for G.
 - The Realisation Account is debited with the expenses of Rs. 30,000, and G's Capital Account is credited with the same amount, reflecting that G is bearing the cost.
 - The entry correctly recognizes G's responsibility to pay the expenses on behalf of the firm during dissolution.

Additional Information

- **Realisation A/c Dr. To Cash A/c:**
 - This option is incorrect because cash is not directly involved in paying the realisation expenses. G's Capital Account is credited to reflect G's responsibility, not Cash A/c.
- **Realisation A/c Dr. To G's Capital A/c:**
 - This is the correct option, as explained above. The realisation expenses are paid by G, and G's capital is credited for this payment.
- **G's Capital A/c Dr. To Realisation A/c:**
 - This is incorrect because the Realisation Account should be debited for expenses, not G's Capital Account. The expense is borne by G, so the Realisation Account is debited, and G's Capital Account is credited.

Question 36

Existing Profit and Loss Account in the books of the firm will be shared/borne by partners in the ratio :

Existing Profit and Loss Account in the books of the firm will be shared/borne by partners in the ratio :

Options:

A. 5 : 3 : 2

B. Equal Ratio

C. 4 : 3 : 2

D. Ratio of closing capital claims

Answer: A

Solution:

The correct answer is 5 : 3 : 2



Key Points

- **Profit and Loss Account will be shared in the original profit-sharing ratio:**
 - The existing profit and loss account of the firm will be distributed among the partners in the same ratio they have been sharing the profits and losses during the course of the partnership. In this case, the ratio is 5:3:2 for G, K, and B respectively.
 - Since the dissolution of the partnership is not a new event that changes the agreed profit-sharing ratio, the existing ratio (5:3:2) will apply to the distribution of any remaining P&L balances.
 - This ensures that the partners receive their fair share of the residual profit or bear the loss based on their earlier agreed-upon terms.



Additional Information

- **Equal Ratio:**
 - This option is incorrect. The partners do not automatically share profits or losses equally unless the partnership agreement specifies so. In this case, the ratio of 5:3:2 has been followed, and it remains the same for dissolution purposes.
- **4 : 3 : 2:**
 - This option is also incorrect. The profit and loss ratio of 4:3:2 does not match the ratio agreed upon in the partnership deed, which is 5:3:2. The profit-sharing ratio remains unchanged during dissolution unless specified otherwise in a separate agreement, which is not the case here.
- **Ratio of closing capital claims:**
 - This is incorrect as well. The closing capital claims are not considered when distributing the existing profit and loss balance. The original profit-sharing ratio (5:3:2) will govern the distribution, not the closing capital claims, which are used for settling final accounts post-dissolution.

Question 37

Libraries run by charitable trusts are an example of :

Options:

- A. Partnership
- B. Not for profit organisation
- C. Companies
- D. Cooperatives

Answer: B

Solution:

The correct answer is - Not for profit organisation



Key Points

- **Not for profit organisation**
 - Libraries run by charitable trusts are often set up to serve the community without the primary aim of making a profit.
 - These organizations focus on providing public services or promoting social welfare.
 - Any surplus revenue generated is reinvested into the organization rather than distributed as profit.



Additional Information

- **Characteristics of Not for Profit Organisations**
 - They are usually established with the aim of achieving a specific social goal.
 - They can be registered as trusts, societies, or charitable companies.
 - Common examples include educational institutions, hospitals, and social service organizations.
- **Legal Structure**
 - Not for profit organisations must comply with specific legal requirements and are often subject to regulatory oversight.
 - They may have tax-exempt status, allowing them to avoid certain taxes.
- **Funding**
 - These organizations often rely on donations, grants, and fundraising activities to finance their operations.
 - They may also generate income through membership fees, service charges, or sales of goods and services.

Question 38

The main source of revenue for 'not for profit' organisation is :

Options:

- A. Sale of goods
- B. Sale of periodicals
- C. Subscription from members
- D. Sale of assets

Answer: C

Solution:

The correct answer is - Subscription from members

Key Points

- Subscription from members
 - The primary source of revenue for a **not-for-profit organisation** is through subscriptions paid by their members.
 - These organisations are typically formed to **serve a social cause** or provide benefits to their members, rather than making a profit.
 - Members pay a **regular fee** to remain part of the organisation, which helps in funding its activities and operations.

Additional Information

- Other Sources of Revenue
 - Donations and Grants
 - Many not-for-profit organisations rely on donations from individuals and grants from government or private entities to support their initiatives.
 - Fundraising Events
 - Organising fundraising events such as charity auctions, concerts, or marathons can provide additional revenue streams.
 - Sponsorships
 - Securing sponsorships from businesses and corporations can also help fund various projects and operational costs.
 - Financial Management
 - Not-for-profit organisations must practice sound financial management to ensure that funds are used effectively and transparently.
 - Regular financial audits and reports are essential for maintaining credibility and securing continued support from donors and sponsors.
-

Question 39

Match List-I with List-II.

List - I		List - II	
(A)	Share capital	(I)	Will be called at the time of winding up
(B)	Reserves and surplus	(II)	Calls in advance
(C)	Reserve capital	(III)	Subscribed but not fully paid
(D)	Current liabilities	(IV)	Sinking fund

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: D

Solution:

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



Key Points

- **Share capital**
 - **Subscribed but not fully paid** indicates that the company has issued shares, but the full payment for these shares has not yet been received from shareholders.
- **Reserves and surplus**
 - **Sinking fund** represents the accumulated reserves and surplus used for specific purposes, such as debt repayment or other financial strategies.
- **Reserve capital**
 - **Will be called at the time of winding up** refers to the portion of the uncalled share capital that the company can call upon only in the event of liquidation.
- **Current liabilities**
 - **Calls in advance** are amounts received in advance for shares which are not yet called up. This is classified as a current liability.



Additional Information

- **Share capital**
 - Represents the amount invested by shareholders in exchange for ownership in the company.
 - It is crucial for a company's equity structure and funding.
 - **Reserves and surplus**
 - These are earnings retained in the business for future needs or to strengthen the financial position of the company.
 - They can be used for purposes such as expansion, dividend distribution, or debt repayment.
 - **Reserve capital**
 - A portion of the subscribed capital that is not called up except in the event of the company's winding up.
 - It acts as a financial safeguard for the creditors of the company.
 - **Current liabilities**
 - These are the company's obligations that are due within one year.
 - They include short-term debt, accounts payable, and other similar obligations.
-

Question 40

Which of the following would affect the Revaluation Account at the time of reconstitution of a partnership firm ?

Options:

- A. Increase in assets
- B. Drawings against capital
- C. Interest on capital
- D. Partner's salary

Answer: A

Solution:

The correct answer is - **Increase in assets**

Key Points

- **Revaluation Account**
 - The **Revaluation Account** is prepared to ascertain the profit or loss on revaluation of assets and liabilities at the time of reconstitution of a partnership firm.
 - An **increase in assets** would be recorded on the credit side of the Revaluation Account, leading to a profit.
 - Conversely, a **decrease in assets** would be recorded on the debit side, leading to a loss.
 - Similarly, an increase in liabilities would be recorded on the debit side, and a decrease in liabilities would be recorded on the credit side.

Additional Information

- **Reconstitution of a Partnership Firm**

- Reconstitution of a partnership firm occurs due to admission of a new partner, retirement or death of an existing partner, or a change in the profit-sharing ratio among partners.
 - During reconstitution, the firm needs to revalue its assets and liabilities to reflect their current fair values.
 - Other adjustments include:
 - **Drawings against capital** - These are withdrawals made by partners from their capital accounts and do not affect the Revaluation Account.
 - **Interest on capital** - This is the interest credited to partners' capital accounts and does not impact the Revaluation Account.
 - **Partner's salary** - This is the salary credited to partners and does not influence the Revaluation Account.
-

Question 41

Identify the correct sequence to be followed while preparing of final account of a partnership firm :

(A) Profit and Loss Appropriation Account

(B) Profit and Loss Account

(C) Trading Account

(D) Balance Sheet

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: A

Solution:

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

Key Points

- **Trading Account**
 - The **Trading Account** is prepared first to ascertain the gross profit or loss of the firm.
- **Profit and Loss Account**
 - Next, the **Profit and Loss Account** is prepared to determine the net profit or loss.
- **Profit and Loss Appropriation Account**
 - The **Profit and Loss Appropriation Account** is then prepared to appropriate the net profit among the partners.
- **Balance Sheet**
 - Finally, the **Balance Sheet** is prepared to show the financial position of the firm at the end of the accounting period.

Additional Information

- **Trading Account**
 - Includes all direct expenses and revenues related to the core operations of the business.
 - Helps in calculating the **Gross Profit** or **Gross Loss**.
 - **Profit and Loss Account**
 - Considers all indirect expenses and revenues.
 - Helps in calculating the **Net Profit** or **Net Loss**.
 - **Profit and Loss Appropriation Account**
 - Used specifically in partnership firms to allocate the net profit among partners.
 - Includes items like interest on capital, salary to partners, and division of profit.
 - **Balance Sheet**
 - Shows the financial position by listing all assets and liabilities.
 - Provides a snapshot of the firm's financial health at a specific point in time.
-

Question 42

Window dressing is a practice

Options:

- A. to manipulate the accounts to show a better picture of the financial position than the actual one.
- B. to show excessive depreciaton.
- C. to avoid tax.
- D. to reduce tax.

Answer: A

Solution:

The correct answer is - to manipulate the accounts to show a better picture of the financial position than the actual one.

Key Points

- **Window dressing**
 - It involves strategic manipulation of financial statements.
 - Aims to present a more favorable financial position to stakeholders.
 - Techniques include inflating revenues, understating liabilities, and altering asset valuations.
- **Purpose**
 - To attract investors by showcasing higher profitability and financial stability.
 - To improve the appearance of liquidity and financial health during specific reporting periods.

Additional Information

- **Common Techniques**
 - **Revenue Recognition**
 - Recording revenue before it is actually earned.
 - **Expense Shifting**
 - Delaying the recognition of expenses to future periods.
 - **Asset Valuation**
 - Overstating the value of assets to enhance the balance sheet.
- **Legal and Ethical Considerations**
 - While window dressing is not always illegal, it may be considered unethical if it misleads stakeholders.
 - Regulatory bodies like the SEC monitor such practices to protect investor interests.

Question 43

Match List-I with List-II.

List - I		List - II	
(A)	Salary to partner	(I)	Credit side of Partner's Capital Account
(B)	Interest on partner's loan	(II)	Debit side of Partner's Current Account
(C)	Interest on partner's drawings	(III)	Debit side of Profit and Loss Account
(D)	Additional capital introduced	(IV)	Credit side of Partner's Current Account

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

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

Answer: C

Solution:

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



Key Points

- **Salary to partner**
 - It is recorded on the **Debit side of the Profit and Loss Account** as it is an expense for the firm.
- **Interest on partner's loan**
 - It is recorded on the **Debit side of the Profit and Loss Account** because it is an expense for the firm.
- **Interest on partner's drawings**
 - It is recorded on the **Credit side of Partner's Current Account** as it is an income for the firm.
- **Additional capital introduced**
 - It is recorded on the **Credit side of Partner's Capital Account** as it increases the partner's equity in the firm.



Additional Information

- **Partner's Capital Account**
 - This account records the initial and additional capital introduced by the partners.
 - It also reflects the share of profits or losses allocated to each partner.
- **Partner's Current Account**
 - This account is used in case of a fixed capital system.
 - It records the transactions related to drawings, interest on drawings, salary, commission, and interest on capital.
- **Profit and Loss Account**
 - This account is used to ascertain the net profit or loss of the firm for a particular period.
 - All expenses and losses are debited to this account, while all incomes and gains are credited.

Question 44

Which of the following would affect the Revaluation Account at the time of admission of a partner ?

- (A) Increase in assets
- (B) Drawings against capital
- (C) Recording of unrecorded assets
- (D) Decrease in liabilities

Choose the correct answer from the options given below :

Options:

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

Answer: C

Solution:

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

Key Points

- **Increase in assets**
 - When a new partner is admitted, any **increase in the value of assets** is recorded in the Revaluation Account to reflect the current market value.
- **Recording of unrecorded assets**
 - If there are any **unrecorded assets** that were not previously accounted for, they are recorded in the Revaluation Account at the time of admission of a new partner.
- **Decrease in liabilities**

- Any **decrease in liabilities** is also recorded in the Revaluation Account to ensure that the balance sheet reflects the true financial position of the firm.

Additional Information

- **Revaluation Account**
 - The Revaluation Account is used to adjust the book values of assets and liabilities to reflect their current market values at the time of admission of a new partner.
 - It ensures that the incoming partner is not unfairly advantaged or disadvantaged by the previous book values.
- **Capital Account**
 - Drawings against capital, while affecting the partner's capital account, do not directly affect the Revaluation Account.
 - These are personal transactions and are dealt with separately from the revaluation process.
- **Admission of a Partner**
 - When a new partner is admitted, the existing partners may revalue the firm's assets and liabilities to determine the true value of the firm.
 - This ensures that the new partner's capital contribution is based on the firm's actual worth.

Question 45

Match List-I with List-II.

List - I		List - II	
(Items of cash flow)		(Type of activity)	
(A)	Purchase of tangible assets	(I)	Operating activity
(B)	Issue of shares	(II)	Cash and cash equivalents
(C)	Increase in current assets	(III)	Investing activity
(D)	Marketable securities	(IV)	Financing 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: D

Solution:

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

Key Points

- **Items of cash flow** and their **type of activity**
 - **(A) Purchase of tangible assets** is classified as an **Investing activity** because it involves acquiring long-term assets used in the business operations.
 - **(B) Issue of shares** is classified as a **Financing activity** because it involves raising capital from investors by issuing equity shares.
 - **(C) Increase in current assets** is classified as an **Operating activity** because it directly affects the working capital and day-to-day operations of the business.
 - **(D) Marketable securities** are classified as **Cash and cash equivalents** because they are short-term, highly liquid investments that can be readily converted into cash.

Additional Information

- **Investing activities**
 - Include transactions for the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
 - Examples: Purchase of machinery, sale of equipment, and purchase of marketable securities.
 - **Financing activities**
 - Include transactions that result in changes in the size and composition of the equity capital and borrowings of the entity.
 - Examples: Issuance of shares, repayment of loans, and payment of dividends.
 - **Operating activities**
 - Include the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
 - Examples: Sales revenue, purchase of inventory, and payment of wages.
 - **Cash and cash equivalents**
 - Include cash in hand and demand deposits, along with short-term, highly liquid investments that are readily convertible to known amounts of cash.
 - Examples: Treasury bills, commercial paper, and money market funds.
-

Question 46

Which one of the following are correct in connection with the Common Size Statement ?

(A) Expressed as a percentage on revenue from operation

(B) Horizontal analysis

(C) Vertical analysis

(D) Expressed as a percentage on total assets

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: C

Solution:

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

Key Points

- **Common Size Statement**
 - Common Size Statements are financial statements that display all items as percentages of a common base figure.
 - In the income statement, items are expressed as a percentage of **revenue from operations** (option A).
 - In the balance sheet, items are presented as a percentage of **total assets** (option D).
 - It involves **vertical analysis**, comparing items within a single period (option C).

Additional Information

- **Vertical Analysis**
 - It is a method of financial statement analysis in which each entry for each of the three major categories of accounts (assets, liabilities, and equity) in a balance sheet is represented as a proportion of the total account.
 - This type of analysis allows for easy comparison between companies or between periods of a single company.
- **Horizontal Analysis**
 - This is a different method where financial information is compared over a series of reporting periods.
 - It involves comparing historical data, such as ratios or line items, over a number of accounting periods.

- **Expressing as Percentages**
 - Expressing financial items as percentages of a base figure helps to identify trends and make comparisons more meaningful.
 - It is particularly useful in detecting changes in a company's financial condition and operations.
-

Question 47

Calculate the resulting cash flow and state the nature of cash flow from the following information :

Acquired machinery for Rs. 3,50,000 by issuing cheque.

Options:

- A. Investing activity and outflow Rs. 3,50,000
- B. Investing activity and inflow Rs. 3,50,000
- C. Investing activity and no flow
- D. Operating activity and outflow Rs. 3,50,000

Answer: A

Solution:

The correct answer is - **Investing activity and outflow Rs. 3,50,000**

Key Points

- **Investing activity and outflow Rs. 3,50,000**
 - The acquisition of machinery is considered an **investing activity** as it involves the purchase of long-term assets.
 - Since the machinery was acquired by issuing a cheque, it results in an **outflow** of cash.
 - The amount involved in this transaction is Rs. 3,50,000, representing the cash outflow for the investing activity.

Additional Information

- **Investing Activities**
 - Investing activities include the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
 - Examples include the purchase of machinery, buildings, and equipment, as well as the purchase or sale of marketable securities.

- These activities are crucial for a company's long-term growth and are reflected in the cash flow statement.
 - **Cash Flow Statement**
 - The cash flow statement is divided into three sections: operating activities, investing activities, and financing activities.
 - Operating activities include cash flows from the core business operations.
 - Financing activities involve cash flows from transactions related to equity, debt, and dividends.
 - Investing activities focus on cash flows from the acquisition and sale of long-term assets and investments.
-

Question 48

Arrange the following in proper sequence while preparing Cash Flow Statement :

(A) Net cash flow from operating activities

(B) Cash flow from financing activities

(C) Cash flow from investing activities

(D) Calculate net profit before tax and extraordinary items in working note

Choose the correct answer from the options given below :

Options:

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

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

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

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

Answer: B

Solution:

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

Key Points

- **Sequence of Cash Flow Statement**
 - The sequence **(D), (A), (C), (B)** is the correct order for preparing a Cash Flow Statement.
 - First, you need to **calculate net profit before tax and extraordinary items** (D).
 - Next, determine the **net cash flow from operating activities** (A).
 - Then, identify the **cash flow from investing activities** (C).
 - Finally, ascertain the **cash flow from financing activities** (B).

Additional Information

- **Net Profit Before Tax and Extraordinary Items**
 - This step involves adjusting the net profit for non-cash items, changes in working capital, and other adjustments.
 - Items such as depreciation, amortization, and changes in inventories are considered.
 - **Cash Flow from Operating Activities**
 - This section includes cash inflows and outflows from primary business activities.
 - Examples include cash received from customers and cash paid to suppliers.
 - **Cash Flow from Investing Activities**
 - This section records cash flows related to the acquisition and disposal of long-term assets and investments.
 - Examples include the purchase and sale of property, plant, and equipment.
 - **Cash Flow from Financing Activities**
 - This section includes cash flows related to borrowing, repaying debt, issuing equity, and paying dividends.
 - Examples include proceeds from issuing shares and repayment of loans.
-

Question 49

The adjustment required for overvaluation of closing stock, while calculating adjusted profit for calculating goodwill is

- (A) reduction from concerned year's profit.**
- (B) reduction from next year's profit.**
- (C) addition to next year's profit.**
- (D) addition to previous year's profit.**

Choose the correct answer from the options given below :

Options:

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

B. (A) and (C) only

C. (A) and (D) only

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

Answer: B

Solution:

The correct answer is - (A) and (C) only.



Key Points

- **Overvaluation of closing stock**
 - When the closing stock is overvalued, it means the profit for the concerned year is overstated.
 - To correct this, the overstatement should be **reduced from the concerned year's profit** (Option A).
- **Adjustment for next year's profit**
 - Overvaluation of closing stock in the current year will result in the opening stock of the next year being overvalued.
 - Consequently, this will understate the next year's profit, necessitating an **addition to next year's profit** (Option C).



Additional Information

- **Impact on profit calculation**
 - Overvaluation of closing stock inflates the profit of the current year.
 - It also impacts the opening stock value of the subsequent year, which in turn affects the profit of that year.
 - **Goodwill calculation**
 - Goodwill is often calculated based on the average profits of past years.
 - Accurate profit figures are essential for a fair valuation of goodwill.
-

Question 50

Oversubscription is a situation where the

Options:

A. number of shares applied for is equal to the number of shares issued.

B. number of shares applied for is more than the number of shares issued.

C. number of shares applied for is less than the number of shares issued.

D. face value of the share is less than the issue price of the share.

Answer: B

Solution:

The correct answer is - **number of shares applied for is more than the number of shares issued.**

Key Points

- **Oversubscription**
 - An **oversubscription** occurs when the **number of shares applied for** by investors is **greater** than the **number of shares issued** by a company.
 - This indicates a **high demand** for the shares being offered.
 - Companies often use an **allotment process** to determine how shares are distributed among the applicants.
 - The oversubscription can be a positive indicator of the company's **market perception** and the attractiveness of its investment opportunity.

Additional Information

- **Share Issuance**
 - When a company issues shares, it is essentially **selling ownership** stakes to raise capital.
 - These shares can be issued via **Initial Public Offering (IPO)** or **Follow-on Public Offering (FPO)**.
 - **Allotment Process**
 - In case of oversubscription, companies may use methods like **proportionate allotment** or **lottery** to distribute shares.
 - Proportionate allotment ensures that all applicants receive shares in proportion to their application size.
 - Lottery is used when demand is extremely high, making proportionate allotment impractical.
 - **Market Perception**
 - An oversubscribed issue is often seen as a sign of **strong market confidence** in the issuing company.
 - It can also lead to a **premium listing** when the shares start trading on the stock market.
-