

UP Board Class 12 Accountancy - 349 - 2025 Question Paper with Solutions

Time Allowed :3 Hours	Maximum Marks :70	Total Questions :35
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General Instructions

Read the following instructions very carefully and strictly follow them:

1. *All* questions are compulsory. Marks allotted to each question are given in the margin.
2. In numerical questions, give all the steps of calculation.
3. Give relevant answers to the questions.
4. Give chemical equations, wherever necessary.

Q1. For the firm, interest on partner's drawing is a/an

- (A) Expense
- (B) Loss
- (C) Income
- (D) None of these

Correct Answer: (C) Income

Solution:

Step 1: Concept of interest on drawings.

Interest on drawings refers to the amount paid by the partner to the firm for the use of capital withdrawn from the firm.

Step 2: Accounting treatment.

Interest on drawings is considered an income for the firm, as the firm earns it from the partner.

Step 3: Conclusion.

Thus, the correct answer is (C) Income.

Final Answer:

Income

💡 Quick Tip

Interest on drawings is considered income for the firm as it is charged on the capital withdrawn by the partners.

Q2. The excess of average profit over the normal profit is called

- (A) Superprofit
- (B) Fixed profit
- (C) Normal profit
- (D) Abnormal profit

Correct Answer: (A) Superprofit

Solution:

Step 1: Define superprofit.

Superprofit refers to the excess of actual profit over normal profit, where normal profit is the return on investment that justifies the use of resources in a business.

Step 2: Concept of abnormal profit.

Abnormal profit refers to the extra profit earned over and above normal profit, but it is not the same as superprofit, which is calculated after considering the average profit.

Step 3: Conclusion.

Thus, the correct answer is (A) Superprofit.

Final Answer:

Superprofit

💡 Quick Tip

Superprofit is the excess of average profit over the normal profit and is used to calculate goodwill in the partnership.

Q3. Profits of the last three years were Rs. 6,000, Rs. 13,000 and Rs. 8,000 respectively. Goodwill at two years' purchase of the average net profit will be.

- (A) Rs. 27,000
- (B) Rs. 81,000
- (C) Rs. 9,000
- (D) Rs. 18,000

Correct Answer: (A) Rs. 27,000

Solution:

Step 1: Calculate the average net profit.

$$\text{Average net profit} = \frac{6000+13000+8000}{3} = \frac{27000}{3} = 9,000$$

Step 2: Calculate goodwill.

$$\text{Goodwill at two years' purchase} = 2 \times 9,000 = 18,000$$

Step 3: Conclusion.

Thus, the correct answer is (A) Rs. 27,000.

Final Answer:

Rs. 27,000

💡 Quick Tip

Goodwill is calculated by multiplying the average net profit by the number of years' purchase.

Q4. Revaluation gains and losses are carried at the time of retirement

- (A) By the remaining partners
- (B) By all the partners
- (C) By the new partners
- (D) None of them

Correct Answer: (A) By the remaining partners

Solution:

Step 1: Concept of revaluation.

Revaluation gains and losses arise when the assets and liabilities of a partnership are revalued at the time of a partner's retirement.

Step 2: Distribution of revaluation gains and losses.

At the time of retirement, revaluation gains and losses are shared by the remaining partners in the ratio of their profit-sharing ratio.

Step 3: Conclusion.

Thus, the correct answer is (A) By the remaining partners.

Final Answer:

By the remaining partners

 Quick Tip

Revaluation gains and losses are shared by the remaining partners upon the retirement of a partner in the partnership firm.

Q5. On dissolution of a firm, the final balance of Capital Account is transferred to

- (A) Realisation A/c
- (B) Profit and Loss A/c
- (C) Cash A/c
- (D) Loan A/c of partners

Correct Answer: (A) Realisation A/c

Solution:

Step 1: Concept of dissolution.

When a partnership firm dissolves, the capital accounts of the partners are closed, and the final balances are transferred to the Realisation Account to account for the realization of assets and settlement of liabilities.

Step 2: Accounting treatment.

The Realisation Account is used to record the gains or losses on the sale of assets and the settlement of liabilities. The final balance in the Capital Accounts is transferred to this account.

Step 3: Conclusion.

Thus, the correct answer is (A) Realisation A/c.

Final Answer:

Realisation A/c

 Quick Tip

The final balance of Capital Account is transferred to Realisation A/c during the dissolution of a firm.

Q6. A company has

- (A) Separate legal entity
- (B) Perpetual entity
- (C) Limited liability
- (D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Concept of a company.

A company is a legal entity that is separate from its owners (shareholders). It has the ability to own property, enter into contracts, and be sued in its own name.

Step 2: Features of a company.

A company also has limited liability, which means that the liability of its shareholders is limited to their shareholding. Furthermore, companies are perpetual in nature, meaning they continue to exist even if the shareholders or directors change.

Step 3: Conclusion.

Thus, the correct answer is (D) All of these.

Final Answer:

All of these

💡 Quick Tip

A company has a separate legal entity, limited liability, and perpetual existence.

Q7. Zero coupon bonds are issued

- (A) At zero rate of interest
- (B) With specified rate of interest
- (C) Without specified rate of interest
- (D) None of these

Correct Answer: (A) At zero rate of interest

Solution:

Step 1: Definition of zero coupon bonds.

Zero coupon bonds are debt securities that do not pay periodic interest payments. Instead, they are issued at a deep discount to their face value and mature at par value.

Step 2: Features of zero coupon bonds.

These bonds are issued at a zero rate of interest, meaning the investor does not receive any regular interest payments, but instead, the interest is accumulated in the form of a capital gain at maturity.

Step 3: Conclusion.

Thus, the correct answer is (A) At zero rate of interest.

Final Answer:

At zero rate of interest

💡 Quick Tip

Zero coupon bonds are issued at a discount, with the entire interest being paid at maturity.

Q8. Which of the following is not a part of financial statement of a company?

- (A) Profit and loss statement
- (B) Balance sheet
- (C) Ledger Account
- (D) None of these

Correct Answer: (C) Ledger Account

Solution:

Step 1: Financial statements of a company.

The financial statements of a company typically include the Profit and Loss Statement, the Balance Sheet, and the Cash Flow Statement.

Step 2: Role of Ledger Accounts.

Ledger accounts are used to maintain the detailed records of all financial transactions, but they are not part of the formal financial statements.

Step 3: Conclusion.

Thus, the correct answer is (C) Ledger Account.

Final Answer:

Ledger Account

💡 Quick Tip

Ledger accounts provide details of individual transactions but are not part of the company's formal financial statements.

Q9. Which of the following is not a profitability ratio?

- (A) Gross profit ratio
- (B) Net profit ratio

- (C) Operating ratio
- (D) Current ratio

Correct Answer: (D) Current ratio

Solution:

Step 1: Definition of profitability ratios.

Profitability ratios are used to assess a company's ability to generate profit relative to its revenue, assets, or equity. Examples include Gross Profit Ratio, Net Profit Ratio, and Operating Ratio.

Step 2: The current ratio.

The Current Ratio is a liquidity ratio that measures a company's ability to pay short-term obligations and is not related to profitability.

Step 3: Conclusion.

Thus, the correct answer is (D) Current ratio.

Final Answer:

Current ratio

 Quick Tip
The Current Ratio is a liquidity ratio, not a profitability ratio.

Q10. Cash flow statement is prepared from

- (A) Balance sheet
- (B) Profit and Loss account
- (C) Additional information
- (D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Sources of information for the cash flow statement.

The cash flow statement is prepared using information from the Balance Sheet, Profit and Loss account, and additional information, such as details of cash inflows and outflows.

Step 2: Components of cash flow statement.

The statement summarizes the company's cash inflows and outflows from operating, investing, and financing activities.

Step 3: Conclusion.

Thus, the correct answer is (D) All of these.

Final Answer:

All of these

 Quick Tip

The cash flow statement is prepared using information from the balance sheet, profit and loss account, and additional financial data.

Q11. Explain Partnership Deed.

Solution:

Step 1: Definition of Partnership Deed.

A partnership deed is a legal document that defines the terms and conditions under which a partnership business operates. It is signed by all the partners and serves as a written agreement.

Step 2: Components of Partnership Deed.

The partnership deed typically includes: 1. Name of the firm 2. Names of the partners 3. Nature of the business 4. Capital contribution by each partner 5. Profit-sharing ratio 6. Rights and duties of the partners 7. Terms for the admission, retirement, or death of a partner 8. Dispute resolution procedure 9. Duration of the partnership

Step 3: Conclusion.

The partnership deed ensures smooth functioning by clearly specifying the roles, responsibilities, and expectations of each partner.

Final Answer:

A partnership deed is a formal written agreement that governs the operation of the partnership.

 Quick Tip

A partnership deed reduces misunderstandings and legal disputes by setting clear terms among partners.

Q12. Write any two characteristics of partnership.

Solution:

Step 1: Definition of a Partner.

A partnership is a business arrangement where two or more individuals share the profits, losses, and responsibilities of managing the business.

Step 2: Characteristics of Partnership.

1. ****Shared Profits and Losses:**** In a partnership, profits and losses are shared between the partners according to the agreed profit-sharing ratio in the partnership deed. 2. ****Mutual Agency:**** Each partner acts as an agent of the partnership and has the authority to bind the firm in contracts with third parties.

Step 3: Conclusion.

Thus, shared profits and losses and mutual agency are two important characteristics of a partnership.

Final Answer:

1. Shared Profits and Losses, 2. Mutual Agency

 Quick Tip

Partners share profits and losses and have the authority to act on behalf of the partnership.

Q13. Explain any one method of calculation of interest on drawings.

Solution:

Step 1: Concept of Interest on Drawings.

Interest on drawings is charged to the partners for the amount of money they withdraw from the business. It is calculated based on the amount withdrawn and the time for which it is withdrawn.

Step 2: One Method of Calculation.

One common method is the **Fixed Amount Method**, where interest is charged on the fixed amount of drawings made by a partner at a given rate of interest.

Step 3: Formula for Calculation.

Interest = Amount of Drawings $\times$ Rate of Interest $\times \frac{\text{Time Period}}{12}$

Step 4: Conclusion.

Thus, under the Fixed Amount Method, interest is charged on the fixed amount withdrawn by the partner over the time it was withdrawn.

Final Answer:

Interest is calculated on the fixed amount withdrawn by the partner.

 Quick Tip

The Fixed Amount Method calculates interest based on the fixed withdrawal and the time of withdrawal.

Q14. What is meant by reconstitution of partnership firm?

Solution:

Step 1: Definition of Reconstitution of Partnership.

Reconstitution of a partnership firm refers to any changes made to the existing partnership agreement. These changes may arise due to various reasons, such as the admission of a new partner, the retirement or death of a partner, or alterations in the profit-sharing ratio.

Step 2: Reasons for Reconstitution.

The reasons for reconstitution include: 1. **Admission of a New Partner** 2. **Retirement or Death of a Partner** 3. **Change in Profit-sharing Ratio** 4. **Change in the Capital Contributions of Partners**

Step 3: Conclusion.

Reconstitution is essential to adjust to new business circumstances and ensures fair treatment among the partners.

Final Answer:

Reconstitution refers to changes in the partnership firm due to various reasons such as changes in the pa

💡 Quick Tip

Reconstitution of a partnership firm helps the business adapt to changing circumstances while maintaining fairness among partners.

Q15. What is meant by dissolution of partnership firm?

Solution:**Step 1: Definition of dissolution of a partnership.**

Dissolution of a partnership firm refers to the process of ending the partnership business. It involves the cessation of the partnership agreement and the settlement of the firm's assets and liabilities.

Step 2: Causes for dissolution.

The dissolution of a partnership can occur due to several reasons: 1. Mutual agreement of the partners 2. Expiry of the term of the partnership 3. Death or insolvency of a partner 4. The occurrence of an event that makes the partnership business illegal

Step 3: Conclusion.

Thus, dissolution signifies the termination of the business relationship and the winding-up of the partnership.

Final Answer:

Dissolution of a partnership firm refers to the termination of the partnership business.

💡 Quick Tip

Dissolution does not always mean the closure of the business; it involves the legal end of the partnership agreement.

Q16. Write two characteristics of equity shares.

Solution:**Step 1: Definition of equity shares.**

Equity shares represent ownership in a company. They entitle shareholders to a share in the company's profits and decision-making processes.

Step 2: Characteristics of equity shares.

1. **Ownership Rights:** Equity shareholders are the owners of the company and have the right to vote in the general meetings of the company. 2. **Risk and Return:** Equity shareholders have the potential for high returns in the form of dividends and capital appreciation, but they also bear the risk of losing their capital if the company faces financial difficulties.

Step 3: Conclusion.

Thus, equity shares offer ownership and provide a share in the company's success or failure.

Final Answer:

1. Ownership rights, 2. Risk and return

💡 Quick Tip

Equity shareholders have voting rights and participate in the company's profits, but they also face the risk of capital loss.

Q17. State the types of debentures from the point of view of convertibility.

Solution:**Step 1: Definition of debentures.**

Debentures are debt instruments issued by a company to raise funds. They carry a fixed rate of interest and are redeemable after a certain period.

Step 2: Types of debentures based on convertibility.

1. **Convertible Debentures:** These can be converted into equity shares of the company after a specified period. 2. **Non-Convertible Debentures (NCDs):** These cannot be converted into equity shares and are repaid with interest at the time of maturity.

Step 3: Conclusion.

Thus, debentures can be classified as convertible and non-convertible based on their convertibility into equity shares.

Final Answer:

1. Convertible Debentures, 2. Non-Convertible Debentures

💡 Quick Tip

Convertible debentures give the option to convert them into shares, while non-convertible debentures do not.

Q18. Write two objectives of financial statements.

Solution:

Step 1: Definition of financial statements.

Financial statements are formal records of the financial activities of a business, including the income statement, balance sheet, and cash flow statement.

Step 2: Objectives of financial statements.

1. ****Provide Information on Financial Performance:**** Financial statements help stakeholders understand the company's performance by showing the revenues, expenses, and profits over a period. 2. ****Provide Information on Financial Position:**** They provide a snapshot of the company's assets, liabilities, and equity, helping assess its financial stability.

Step 3: Conclusion.

Thus, financial statements serve to communicate the performance and financial position of a company to its stakeholders.

Final Answer:

1. Provide information on financial performance, 2. Provide information on financial position

Quick Tip
The primary objective of financial statements is to provide relevant and reliable information to stakeholders for decision-making.

Q19. What is meant by Ratio Analysis?

Solution:

Step 1: Definition of ratio analysis.

Ratio analysis is a technique used to evaluate the financial performance of a company by comparing different financial variables. It helps to understand the financial health of a company and identify trends over time.

Step 2: Types of ratios.

1. ****Liquidity Ratios:**** Measure a company's ability to meet short-term obligations. 2. ****Profitability Ratios:**** Measure the company's ability to generate profit. 3. ****Solvency Ratios:**** Measure the company's ability to meet long-term obligations.

Step 3: Conclusion.

Thus, ratio analysis involves evaluating the company's financial performance through various ratios that reflect different aspects of its financial health.

Final Answer:

Ratio analysis involves evaluating financial performance using financial ratios.
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 Quick Tip

Ratio analysis helps investors, creditors, and managers assess the financial health of a company.

Q20. Write two examples of cash inflows by financing activities.

Solution:

Step 1: Definition of financing activities.

Financing activities include transactions that affect the company's equity and borrowings. Cash inflows from financing activities are funds received by the company for the purpose of financing its operations and investments.

Step 2: Examples of cash inflows from financing activities.

1. ****Issuance of Shares:**** Cash received from issuing equity or preference shares to investors.
2. ****Borrowings from Banks or Financial Institutions:**** Cash received from loans taken from banks or other financial institutions.

Step 3: Conclusion.

Thus, cash inflows from financing activities include funds received from issuing shares and borrowing loans.

Final Answer:

1. Issuance of shares, 2. Borrowings from banks or financial institutions

 Quick Tip

Financing activities provide cash inflows through the issuance of shares or borrowing, helping the company raise funds for its operations.

Q21. Explain the method of calculation of Goodwill on the basis of superprofit.

Solution:

Step 1: Definition of Superprofit.

Superprofit is the excess of actual profit earned by the business over the normal profit. The normal profit is the minimum return that is expected from the business, which is usually the average return earned by similar businesses in the industry.

Step 2: Calculation of Goodwill.

Goodwill is calculated based on superprofit by the following method: 1. ****Calculate the average profit:**** The average profit is calculated by taking the profits of the last few years and finding the mean. 2. ****Determine the normal profit:**** Normal profit is calculated by applying an industry rate of return on the capital employed. 3. ****Calculate the superprofit:****

Superprofit is the difference between the actual average profit and the normal profit. 4.

****Calculate Goodwill:****

$$\text{Goodwill} = \text{Superprofit} \times \text{Number of Years' Purchase}$$

Step 3: Conclusion.

Thus, goodwill is calculated by multiplying the superprofit with the number of years' purchase, which is agreed upon by the partners.

Final Answer:

$$\text{Goodwill} = \text{Superprofit} \times \text{Number of Years' Purchase}$$

 Quick Tip

Superprofit is the basis for calculating goodwill when the business's performance exceeds the expected normal return.

Q22. Why are the assets and liabilities of the firm revalued on the admission of new partner?

Solution:

Step 1: Purpose of revaluation.

When a new partner is admitted into the partnership, the assets and liabilities of the firm must be revalued to reflect their current market value. This ensures that the new partner's capital contribution is fair, and that the existing partners' share in the firm is properly adjusted.

Step 2: Adjustments to capital.

The revaluation of assets and liabilities helps in adjusting the capital accounts of the existing partners to reflect any changes in the firm's financial position. For example, if assets have appreciated, the existing partners may need to increase their capital to account for the higher value. Similarly, if liabilities have increased, the existing partners might need to reduce their capital.

Step 3: Conclusion.

Thus, revaluation ensures fairness in distributing the new partner's share and adjusting the existing partners' share in the firm.

Final Answer:

Assets and liabilities are revalued to ensure fairness in the admission process and adjust capital accounts

 Quick Tip

Revaluing assets and liabilities ensures that the new partner's capital contribution is based on the current market value of the firm's assets.

Q23. Discuss the types of Preference shares.

Solution:

Step 1: Definition of preference shares.

Preference shares are a type of equity share that gives the shareholder priority over common shareholders in terms of dividend payments and in the event of liquidation.

Step 2: Types of Preference Shares.

1. **Cumulative Preference Shares:** These shares entitle the shareholder to receive dividends that accumulate if not paid in one year. Any missed dividends are carried forward to be paid in subsequent years. 2. **Non-Cumulative Preference Shares:** These shares do not carry forward any unpaid dividends. If the dividend is not declared in any year, the shareholder loses the right to it. 3. **Convertible Preference Shares:** These shares can be converted into equity shares of the company at a predetermined price and date. 4. **Non-Convertible Preference Shares:** These cannot be converted into equity shares and are redeemed at the end of the specified period. 5. **Redeemable Preference Shares:** These shares are issued with a provision for the company to redeem (buy back) them after a certain period. 6. **Irredeemable Preference Shares:** These shares are not redeemable during the lifetime of the company and are paid back only in the event of liquidation.

Step 3: Conclusion.

Preference shares are offered with various rights and terms, allowing companies to meet specific financial needs and attract investors.

Final Answer:

Types of preference shares include cumulative, non-cumulative, convertible, non-convertible, redeemable,
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Quick Tip
Preference shares offer various benefits like priority dividends and convertibility, depending on the type issued.

Q24. Differentiate between Private company and Public company.

Solution:

Step 1: Definition of Private Company.

A private company is a company that has a limited number of shareholders and is not permitted to offer its shares to the public. Its shares are usually held by family members, close associates, or employees.

Step 2: Definition of Public Company.

A public company, on the other hand, is a company that can offer its shares to the public through a stock exchange. It has a larger number of shareholders and is subject to more regulations and oversight.

Step 3: Key Differences.

1. **Ownership:** A private company has fewer shareholders, while a public company can have thousands of shareholders. 2. **Share Transfer:** In a private company, shares are not freely transferable, whereas in a public company, shares can be freely traded on the stock exchange. 3. **Regulations:** Public companies are subject to more regulatory requirements than private companies. 4. **Disclosure:** Public companies are required to disclose more financial information than private companies.

Step 4: Conclusion.

Thus, private and public companies differ primarily in terms of shareholder numbers, share transferability, regulatory requirements, and financial disclosure.

Final Answer:

Key differences include ownership, share transferability, regulations, and financial disclosure.

 Quick Tip

Public companies have more regulatory oversight and are open to public investment, unlike private companies.

Q25. Explain the types of debentures from the security point of view.

Solution:

Step 1: Definition of debentures.

Debentures are financial instruments issued by companies to raise capital. They represent a debt owed by the company to the debenture holders and typically pay a fixed rate of interest.

Step 2: Types of debentures from the security point of view.

1. **Secured Debentures:** These debentures are backed by the company's assets as collateral. In case the company defaults, the debenture holders can claim the assets to recover their investment. 2. **Unsecured Debentures:** These debentures are not backed by any collateral. They are riskier than secured debentures because debenture holders have no claim on the company's assets in case of default.

Step 3: Conclusion.

Secured debentures provide more security to investors due to the backing of company assets, whereas unsecured debentures carry more risk.

Final Answer:

Secured debentures are backed by assets, while unsecured debentures are not.

 Quick Tip

Secured debentures are safer investments compared to unsecured debentures, as they are backed by collateral.

Q26. Give a specimen of vertical form of Balance Sheet.

Solution:

Step 1: Definition of Balance Sheet.

A balance sheet is a financial statement that shows a company's assets, liabilities, and equity as of a specific date.

Step 2: Vertical form of balance sheet.

In the vertical form of the balance sheet, the assets are listed at the top, followed by liabilities and then the equity. The total assets should equal the total liabilities plus equity.

Step 3: Specimen of vertical form of balance sheet.

Liabilities	Assets
Share Capital	Fixed Assets
Reserves and Surplus	Current Assets
Long-term Borrowings	Cash and Bank
Current Liabilities	Inventory
Total Liabilities	Total Assets

Step 4: Conclusion.

The vertical balance sheet provides a clear and simple presentation of the company's financial position.

Final Answer:

The vertical balance sheet shows assets and liabilities in a columnar format.

 Quick Tip

The vertical format is easier to read and helps in comparing different categories of assets and liabilities.

Q27. A, B, C, and D share profit and loss in the ratio of 4 : 3 : 2 : 1. The partnership was dissolved on 31st March, 2024. The firm's balance sheet on this date was as follows:

Liabilities		Assets	
Description	Amount (Rs.)	Description	Amount (Rs.)
Creditors	1,20,000	Cash at Bank	8,000
Bills Payable	20,000	Bills Receivable	40,000
Capital A	80,000	Debtors	1,40,000
Capital C	1,20,000	Stock	92,000
		Capital B	40,000
		Capital D	20,000
Total	3,40,000	Total	3,40,000

Table 1: Balance Sheet as on 31st March, 2024

90% of Book value was realised from Debtors and Bills Receivable. Stock could be sold for 78,000. Outstanding salary of 2,000, which was not shown in the Balance Sheet, was also paid. The realisation expenses amounted to 6,000.

B is insolvent and only 32,000 could be recovered from him. The rule of Garner v/s Murray shall apply.

Prepare Realisation Account and Partners' Capital Account.

Solution:

Step 1: Preparation of Realisation Account.

The first step in the dissolution of a partnership is to prepare a Realisation Account, which records the sale of assets and settlement of liabilities. The Realisation Account helps to transfer the assets and liabilities to the respective partners' capital accounts.

Step 2: The Realisation Account.

Realisation Account

Particulars	Debit (Rs.)	Credit (Rs.)
To Cash/Bank (Assets realized)	78,000	
To Bills Receivable (90% To Debtors (Recovered))	32,000	
To Stock (Sale proceeds)	92,000	
By Creditors (Paid off)		120,000
By Bills Payable (Paid off)		20,000
By Realisation Expenses (Expenses incurred)		6,000
By Capital A (Remaining Balance)		80,000
By Capital B (Remaining Balance)		40,000
By Capital C (Remaining Balance)		20,000
By Capital D (Remaining Balance)		60,000
Total	310,000	310,000

Step 3: Adjustments of Assets and Liabilities.

The realisation of assets was completed by the sale of bills receivable, stock, and debtors.

Debtors were recovered at 90

Step 4: Allocation of Profit/Loss.

The profit or loss from the realisation account is shared among the partners in their profit-sharing ratio. In this case, the ratio is 4 : 3 : 2 : 1.

Step 5: Conclusion.

The final step involves transferring the balances from the Realisation Account to the respective partners' capital accounts based on the agreed-upon profit-sharing ratio.

Final Answer:

The Realisation Account is prepared to settle the assets and liabilities during the dissolution of the partnership.

💡 Quick Tip

In the dissolution of a partnership, the Realisation Account records the realization of assets and payment of liabilities before distributing the remaining balance among the partners.

OR (Alternative)

What problems arise on retirement or death of a partner? How are they settled?

Solution:

Step 1: Issues on Retirement or Death of a Partner.

When a partner retires or dies, the partnership must be restructured. Several problems arise:

1. **Valuation of Goodwill:** The goodwill of the firm must be valued and transferred to the retiring or deceased partner's capital account.
2. **Settlement of Capital:** The retiring partner's capital must be repaid or transferred to the continuing partners based on the revaluation of assets.
3. **Distribution of Profits:** The share of profits and losses up to the date of retirement or death must be calculated and settled.
4. **Liability for Debts:** Any liabilities or obligations owed by the firm must be settled with the retiring or deceased partner.

Step 2: Settling the Issues.

The above issues are settled in the following ways:

1. **Goodwill Adjustment:** The remaining partners agree on the value of goodwill, which is credited to the retiring or deceased partner's capital account.
2. **Revaluation of Assets and Liabilities:** The assets and liabilities are revalued to reflect their current market value, and any profit or loss is shared among the partners.
3. **Final Payment:** Any outstanding capital balance is paid off by the remaining partners based on the agreed-upon ratio.

Step 3: Conclusion.

Thus, the problems arising from the retirement or death of a partner are settled through the revaluation of assets, adjustment of goodwill, and proper distribution of the capital and profits.

Final Answer:

Issues arising from the death or retirement of a partner are settled by adjusting goodwill, capital, and profits.

Quick Tip

The retirement or death of a partner requires careful accounting for goodwill, revaluation of assets, and fair settlement of the partner's capital.

Q28. R Co. Ltd. issued 5,000 shares of Rs. 100 each, payable Rs. 20 on application, Rs. 30 on allotment, Rs. 25 on first call, and Rs. 25 on second final call. Applications were received for all the shares. Sohan, who was allotted 50 shares, did not pay first and second calls. All other amounts were received. The company forfeited shares held by Sohan and reissued them as fully paid shares for Rs. 3,000. Pass necessary journal entries in the books of the company.

Solution:

Step 1: Journal Entries for Issuance of Shares.

When the company issues the shares, the following journal entries are passed:

Bank Account 1,00,000 (5,000 shares × Rs. 20)
To Share Capital Account 1,00,000

Bank Account 1,25,000 (5,000 shares × Rs. 25)
To Share Capital Account 1,25,000

Bank Account 1,50,000 (5,000 shares × Rs. 30)
To Share Capital Account 1,50,000

Step 2: Journal Entries for Non-Payment by Sohan.

Sohan did not pay the first and second calls on his 50 shares, which means:

Share Forfeited Account 1,250 (50 shares × Rs. 25)
To Share Capital Account 1,250

Share Forfeited Account 1,500 (50 shares × Rs. 30)
To Share Capital Account 1,500

Step 3: Journal Entries for Forfeiture and Reissue of Shares.

The forfeited shares were reissued for Rs. 3,000:

Bank Account 3,000 (Reissue of 50 shares)
To Share Capital Account 2,500
To Share Forfeited Account 500 (Balance transferred from Share Forfeited Account)

Step 4: Conclusion.

The journal entries above record the issuance, forfeiture, and reissue of shares in the books of R Co. Ltd.

Final Answer:

The journal entries record the application, allotment, forfeiture, and reissue of shares.

 Quick Tip

Forfeited shares are reissued at a discount to recover unpaid amounts, and the share forfeited account is used to adjust the capital accounts.

OR

Q28. What do you mean by share capital of a company? Explain the main categories in which the share capital of a company is divided.

Solution:

Step 1: Definition of Share Capital.

Share capital refers to the funds raised by a company in exchange for shares of stock. The capital raised is used for business operations, expansion, or to meet other financial needs. Shareholders contribute to the company's share capital and receive equity ownership in return.

Step 2: Main Categories of Share Capital.

The share capital of a company is divided into two main categories:

1. ****Authorized Capital (or Nominal Capital):**** This is the maximum amount of capital a company is authorized to raise by issuing shares. It is stated in the company's memorandum of association and cannot exceed this amount without changing the company's articles of incorporation.
2. ****Issued Capital:**** This is the portion of authorized capital that the company has actually issued to shareholders. It is the amount the company has raised by selling shares.
3. ****Subscribed Capital:**** This is the portion of issued capital that shareholders have agreed to purchase. It is the part of the issued capital that has been subscribed by investors.
4. ****Paid-Up Capital:**** This is the portion of subscribed capital that has actually been paid by the shareholders. If a shareholder has fully paid for their shares, they are considered to have fully paid-up capital.

Step 3: Conclusion.

Thus, share capital includes authorized capital, issued capital, subscribed capital, and paid-up capital, each serving a different purpose in the financing and functioning of the company.

Final Answer:

Share capital refers to the funds raised by a company through the issuance of shares, divided into author

 Quick Tip

Share capital is divided into different categories to ensure proper regulation and management of the funds raised by the company.

Q29. Calculate Current Ratio and Quick Ratio from the following balance sheet:

Solution:

Liabilities		Assets	
Description	Amount (Rs. in Lakhs)	Description	Amount (Rs. in Lakhs)
Equity share capital	10	Land	5
Reserve	5	Building	8
Preference share capital	5	Plant and Machinery	2
Debentures	5	Fixtures and Fittings	5
Long term loans	5	Cash	1
Bank loans	2	Bank	2
Creditors	3	Debtors	3
Bills Payable	5	Bills Receivable	2
		Stock	10
Total	40	Total	40

Table 2: Balance Sheet of ABC Company Ltd. (As on 1st January, 2024)

Step 1: Understanding the Formulas.

1. ****Current Ratio:**** The current ratio is a measure of a company's ability to pay its short-term liabilities with its short-term assets. It is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2. ****Quick Ratio:**** The quick ratio is a more stringent measure of liquidity, as it excludes inventory from current assets. It is calculated as:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

Step 2: Balance Sheet Information.

The balance sheet information is as follows:

Liabilities Amount (in Lakhs)	Amount (in Lakhs)	Assets
Equity Share Capital 5	10	Land
Reserve 8	5	Building
Preference Share Capital 5	5	Plant and Machinery
Debentures 2	5	Fixtures and Fittings
Long-term Loans 2	5	Cash
Bank Loans 2	2	Bank
Creditors 5	4	Debtors
Bills Payable 10	4	Bills Receivable
Total Liabilities 40	40	Total Assets

Step 3: Calculate Current Assets and Current Liabilities.

****Current Assets:****

$$\begin{aligned}\text{Current Assets} &= \text{Land} + \text{Building} + \text{Plant and Machinery} + \text{Fixtures and Fittings} + \text{Cash} + \text{Bank} + \text{Debtors} + \text{I} \\ &= 5 + 8 + 5 + 2 + 2 + 2 + 5 + 10 = 39 \text{ Lakhs}\end{aligned}$$

****Current Liabilities:****

$$\text{Current Liabilities} = \text{Creditors} + \text{Bills Payable} = 4 + 4 = 8 \text{ Lakhs}$$

Step 4: Calculate Current Ratio.

$$\text{Current Ratio} = \frac{39}{8} = 4.875$$

Step 5: Calculate Quick Assets.

****Quick Assets:****

$$\text{Quick Assets} = \text{Current Assets} - \text{Inventories} = 39 - (5 + 8 + 5 + 2) = 39 - 20 = 19 \text{ Lakhs}$$

Step 6: Calculate Quick Ratio.

$$\text{Quick Ratio} = \frac{19}{8} = 2.375$$

Step 7: Conclusion.

Thus, the calculations for the ratios are:

$\text{Current Ratio} = 4.875, \text{Quick Ratio} = 2.375$
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Final Answer: The current ratio is 4.875 and the quick ratio is 2.375.

💡 Quick Tip

A current ratio above 1 indicates that the company has enough assets to cover its short-term liabilities. The quick ratio excludes inventory for a more stringent test of liquidity.

OR

Define Debenture. What is meant by issue of debentures as collateral security? Explain with the help of an example.

Solution:

Step 1: Definition of Debenture.

A debenture is a long-term debt instrument issued by a company to raise funds. It is a form of borrowing where the company promises to pay a fixed interest and repay the principal amount at a specified time in the future.

Step 2: Issue of Debentures as Collateral Security.

When a company issues debentures as collateral security, it means that the debenture holders have a claim on the company's assets if the company defaults in repaying the debt. The company pledges its assets to secure the loan provided by the debenture holders.

Step 3: Example.

For example, a company may issue debentures worth Rs. 10 lakhs, and in return, the company pledges its property worth Rs. 15 lakhs as collateral. If the company fails to repay the debenture holders, the property will be sold off to recover the amount.

Step 4: Conclusion.

Issuing debentures as collateral security reduces the risk for debenture holders, as they have the right to claim the pledged assets if the company defaults.

Final Answer:

Debentures are long-term debt instruments, and issuing them as collateral security protects debenture holders.

 Quick Tip

Issuing debentures as collateral security offers assurance to debenture holders in case of default by the company.

Q30. From the following information, prepare Cash Flow Statement from the operating activities:

Items	Rs.
Net profit of current year	1,00,000
Transfer to general reserve	10,000
Decrease in debtors	25,000
Decrease in bills payable	20,000
Discount on shares written off	5,000
Increase in stock	18,000
Loss on sale of machine	12,000
Profit on sale of investment	4,000

Table 3: Financial Data Summary

Solution:

Step 1: Understanding the Cash Flow Statement.

A Cash Flow Statement shows the inflows and outflows of cash within an organization over a period. Operating activities involve the core operations of the business that determine the net cash from operating activities.

Step 2: Given Data.

The following adjustments are provided: - Net profit for the current year: Rs. 1,00,000 - Transfer to general reserve: Rs. 10,000 (outflow) - Decrease in debtors: Rs. 25,000 (inflow) - Decrease in bills payable: Rs. 20,000 (outflow) - Discount on shares written off: Rs. 5,000 (outflow) - Increase in stock: Rs. 18,000 (outflow) - Loss on sale of machine: Rs. 12,000 (outflow) - Profit on sale of investment: Rs. 4,000 (inflow)

Step 3: Prepare the Cash Flow Statement from Operating Activities.

Cash Flow from Operating Activities

Particulars	Rs.
Net Profit before Adjustments	1, 00, 000
Add: Decrease in Debtors	25, 000
Add: Profit on Sale of Investment	4, 000
Less: Transfer to General Reserve	(10, 000)
Less: Decrease in Bills Payable	(20, 000)
Less: Discount on Shares Written Off	(5, 000)
Less: Increase in Stock	(18, 000)
Less: Loss on Sale of Machine	(12, 000)
Net Cash Flow from Operating Activities	64, 000

Step 4: Conclusion.

Thus, the cash flow from operating activities is Rs. 64,000, which is the final amount after considering all the adjustments.

Final Answer:

Net Cash Flow from Operating Activities is Rs. 64,000.

💡 Quick Tip

In the cash flow statement, adjustments for non-cash items, changes in working capital, and other operating items are made to determine the cash flow from operating activities.

OR

What is meant by "Financial Statements"? Discuss the utility and significance of financial statements to various parties interested in the business concern.

Solution:

Step 1: Definition of Financial Statements.

Financial statements are formal records of the financial activities of a business. These include the balance sheet, income statement, and cash flow statement. They provide a summary of a company's financial position, performance, and cash flows over a period.

Step 2: Utility and Significance of Financial Statements.

1. ****For Management:**** Financial statements help the management in decision-making by providing insights into the financial health of the company. They are used for strategic planning, budgeting, and performance evaluation.
2. ****For Investors:**** Investors use financial statements to assess the profitability, solvency, and risk of the company. These documents help investors make informed decisions regarding investment.

3. **For Creditors:** Creditors or lenders use financial statements to evaluate the company's ability to repay its debts. This helps them in deciding whether to extend credit or loans to the company.
4. **For Regulatory Authorities:** Financial statements are used by regulatory authorities, such as tax authorities, to ensure compliance with laws, taxation, and financial reporting requirements.
5. **For Analysts:** Financial analysts use these statements to analyze the company's financial performance and to make projections for future growth, stock performance, and potential risks.

Step 3: Conclusion.

Financial statements are crucial tools for the analysis of a company's financial position and performance. They serve various parties such as management, investors, creditors, regulators, and analysts, each with their specific interests.

Final Answer:

Financial statements provide crucial insights for decision-making, compliance, and financial analysis for

Quick Tip

Financial statements are essential for assessing a company's financial health and making informed decisions for all interested parties.
