Subject : Accountancy (Online)

Total Time Allowed : 45 minutes	**Maximum Marks :** 200	**Total Questions :** 50	**Questions to be answered :** 40

Q1. The Balance in the Share Forfeited Account relating to reissue of forfeited shares will be treated as:

- (1) Capital Profit
- (2) Revenue Profit
- (3) Capital Loss
- (4) Revenue Reserve

Correct answer: (1) Capital Profit
Solution: The balance in the Share Forfeited Account represents the amount received from shareholders whose shares were previously forfeited. When these shares are reissued, the balance is treated as capital profit. This profit is transferred to the Capital Reserve Account because it is not part of the normal revenue-generating activities of the business but rather a capital transaction involving shareholders' equity.

> Quick Tip
>
> The amount in the Share Forfeited Account is transferred to the Capital Reserve Account as it is considered a gain on capital transactions, not regular operational income.

Q2. Match List-I with List-II.

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

Choose the correct answer from the options given below:

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

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

Correct answer: (1) (A)-(III), (B) - (I), (C)- (II), (D) - (IV)
Solution: - Test of Activity is associated with Debtor Turnover Ratio because it assesses how well a company uses its assets to generate revenue. - The Acid Test Ratio falls under the Test of Liquidity, measuring the firm's ability to pay off current liabilities without relying on inventory. - The Debt Equity Ratio is used to assess the financial stability of a company, hence it is linked with the Test of Solvency. - Return on Investment Ratio represents the profitability of a company, which is why it is categorized under the Test of Profitability.

Quick Tip

Understanding the correct matching between financial ratios and their respective tests is crucial for analyzing the company's performance across different areas such as liquidity, profitability, activity, and solvency.

Q3. Match List-I with List-II.

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

Choose the correct answer from the options given below:

- (1) (A)-(IV), (B) - (III), (C)- (II), (D) - (I)
- (2) (A)-(I), (B)-(II), (C)- (III), (D) - (IV)
- (3) (A)-(IV), (B) - (III), (C)- (I), (D) - (II)
- (4) (A)-(II), (B) - (I), (C) - (IV), (D) - (III)

Correct answer: (1) (A)-(IV), (B) - (III), (C)- (II), (D) - (I)
Solution: - Capital Reserve is matched with Reserve and Surplus, as it represents a portion of a company's profit set aside for specific purposes, which contributes to equity. - Call in advance is matched with Other Current Liabilities since these amounts are due but have not yet been claimed. - Licence and Franchise are categorized under Intangible Fixed Assets because they are long-term non-physical resources. - Marketable Securities are considered Cash and Cash Equivalent due to their high liquidity, allowing quick conversion to cash.

Quick Tip

Knowing how different financial items relate to asset or liability classifications helps maintain proper financial reporting and analysis.

Q4. Match List-I with List-II.

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

Choose the correct answer from the options given below:

- (1) (A)-(IV), (B) - (III), (C)- (II), (D) - (I)
- (2) (A)-(I), (B)-(II), (C)- (III), (D) - (IV)
- (3) (A)-(IV), (B) - (III), (C)- (I), (D) - (II)
- (4) (A)-(II), (B) - (I), (C) - (IV), (D) - (III)

Correct answer: (1) (A)-(IV), (B) - (III), (C)- (II), (D) - (I)
Solution: - Capital Reserve is matched with Reserve and Surplus, as it is part of the shareholder's equity. - Call in advance relates to Other Current Liabilities, being a form of liability until the appropriate claims are made. - Licence and Franchise are Intangible Fixed Assets since they represent legal rights or permissions. - Marketable Securities are classified as Cash and Cash Equivalent due to their ease of conversion to cash.

Quick Tip

Proper classification between assets, liabilities, and equity is fundamental for transparency in financial statements and ensures stakeholders have accurate financial information.

Q5. Which of the following ratios are computed for evaluating the solvency of the business?
(A) Proprietary Ratio
(B) Interest Coverage Ratio
(C) Total Asset to Debt Ratio
(D) Fixed Asset Turnover Ratio
Choose the correct answer from the options given below:

- (1) (A), (B) and (D) only
- (2) (A), (B) and (C) only
- (3) (A), (B), (C) and (D)
- (4) (B), (C) and (D) only

Correct answer: (2) (A), (B) and (C) only
Solution: - The **Proprietary Ratio** helps to determine the proportion of shareholders' equity in relation to total assets, indicating the financial stability of the company, hence it is relevant for evaluating solvency. - The **Interest Coverage Ratio** is used to assess the ability of a business to pay interest on its outstanding debt, which directly relates to its solvency. - The **Total Asset to Debt Ratio** measures the extent to which a business's assets can cover its debts, providing a good indication of solvency. - However, the **Fixed Asset Turnover Ratio** focuses on the efficiency of using fixed assets to generate revenue, which is more about operational performance and is not directly related to solvency.

Quick Tip

Solvency ratios provide insights into a company's capacity to meet long-term obligations, unlike turnover ratios, which evaluate operational efficiency.

Q6. Match List-I with List-II.

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

Choose the correct answer from the options given below:

- (1) (A)-(I), (B)-(II), (C)-(III), (D)-(IV)
- (2) (A)-(I), (B)-(III), (C)-(II), (D)-(IV)
- (3) (A)-(I), (B)-(II), (C)-(IV), (D)-(III)
- (4) (A)-(III), (B)-(IV), (C)-(I), (D)-(II)

Correct answer: (2) (A)-(I), (B)-(III), (C)-(II), (D)-(IV)
Solution: - **Dissolution by notice** is related to **Partnership at will** since a partner can unilaterally dissolve the firm by giving a notice to others. - **Dissolution by agreement** happens with the **Consent of all partners** involved in the partnership. - **Dissolution by court** takes place if a partner becomes **insane** or any condition that deems the business unmanageable. - **Compulsory Dissolution** happens when the business activities become **illegal**, leading to an automatic dissolution.

Quick Tip

Familiarize yourself with different methods of dissolving a partnership as each scenario requires distinct legal actions.

Q7. Match List-I with List-II.

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

Choose the correct answer from the options given below:

- (1) (A)-(I), (B) - (IV), (C) - (III), (D) - (II)
- (2) (A)-(I), (B) - (III), (C) - (II), (D) - (IV)
- (3) (A)-(III), (B) - (II), (C) - (IV), (D) - (I)
- (4) (A)-(III), (B) - (IV), (C) - (I), (D) - (II)

Correct answer: (4) (A)-(III), (B) - (IV), (C) - (I), (D) - (II)
Solution: - **Nominal Capital** represents the authorized capital of the company as per the Memorandum of Association, setting the maximum limit of capital the company is allowed to raise. - **Reserve Capital** is the portion of the uncalled share capital that can only be called in case the company is winding up. - **Paid up Capital** is the amount actually received from shareholders, which in this case is offered to the public. - **Issued Capital** includes the part of capital that has been issued to shareholders, net of any unpaid dues such as calls in arrears.

> Quick Tip
>
> Understanding the types of capital helps in analyzing a company's financial structure, and distinguishing between authorized, issued, paid-up, and reserve capital is crucial.

Q8. Which of the following are the Profitability Ratios?
(A) Debt Equity Ratio
(B) Return on Investment
(C) Price Earning Ratio
(D) Earning per share
Choose the correct answer from the options given below:

- (1) (A), (B) and (D) only
- (2) (A), (B) and (C) only
- (3) (A), (B), (C) and (D)
- (4) (B), (C) and (D) only

Correct answer: (4) (B), (C) and (D) only
Solution: - **Return on Investment (ROI)** indicates how effectively a company uses its investments to generate profit. - **Price Earning Ratio (P/E Ratio)** shows the relationship between the earnings of a company and its current share price, making it a measure of profitability from an investor's perspective. - **Earnings per Share (EPS)** represents the profit allocated to each outstanding share of common stock, reflecting the profitability for shareholders. - **Debt Equity Ratio**, however, is not a profitability ratio; it's used to measure financial leverage.

Quick Tip

Profitability ratios evaluate how effectively a business generates profit, while other ratios like Debt Equity measure financial stability.

Q9. Which of the following situations lead to reconstitution of a partnership firm?
(A) Death of a partner
(B) Retirement of a partner
(C) Admission of a partner
(D) Change in Profit sharing ratio among existing partners
Choose the correct answer from the options given below:

- (1) (A), (B) and (D) only
- (2) (A), (B) and (C) only
- (3) (A), (B), (C) and (D)
- (4) (B), (C) and (D) only

Correct answer: (3) (A), (B), (C) and (D)
Solution: - **Death of a partner**, **retirement**, or **admission of a new partner** all represent significant changes in the structure of a partnership, which requires reconstituting the firm. - A **change in the profit-sharing ratio** among existing partners also necessitates reconstitution to reflect the altered rights and responsibilities. - Reconstitution is a critical step to maintain fairness among partners and uphold their respective claims on profits, losses, and the firm's assets.

Quick Tip

Reconstitution involves adjusting the partnership agreement whenever there is a change in partners or profit-sharing structure, ensuring fair distribution of rights and liabilities.

Q10. If a share of 100 on which 80 was called up and 70 paid up was forfeited, state the amount with which the share capital account will be debited:

- (1) 100
- (2) 80
- (3) 70
- (4) 10

Correct answer: (2) 80
Solution: - The **Share Capital Account** is debited by the amount that has been called up on the shares at the time they are forfeited. - In this case, the amount called up is **80**, which is the sum the company expected the shareholder to pay. - Therefore, upon forfeiture, the share capital is reduced by the called-up amount, not by the total share value or the amount paid.

Quick Tip
When shares are forfeited, debit the Share Capital Account with the called-up amount, reflecting the company's actual claim on the shareholder.

Q11. Balance Sheet provides information about the financial position of the enterprise:

- (1) At a particular date
- (2) Over a period of time
- (3) For a period of time since its inception
- (4) For the last 5 years

Correct answer: (1) At a particular date
Solution: The balance sheet provides a snapshot of an entity's financial position as of a specific point in time. It includes details about assets, liabilities, and equity balances on that particular date. Unlike an income statement, which shows financial performance over a period, the balance sheet reflects the situation at one fixed moment.

Quick Tip
A balance sheet is often used to assess the financial standing of an entity at the end of an accounting period.

Q12. Pari, Param, and Prizleen are partners sharing profits and losses in the ratio of 5:3:2. Param retires. Her share is taken by Pari and Prizleen in the ratio of 2:1. Calculate the new profit sharing ratio of Pari and Prizleen.

- (1) 7:3
- (2) 3:7

- (3) 5:2
- (4) 2:1

Correct answer: (1) 7:3
Solution: - Param's original share was $\frac{3}{10}$.
- Pari and Prizleen are taking over Param's share in the ratio 2:1.
- Pari's new share from Param's portion is $\frac{2}{3} \times \frac{3}{10} = \frac{6}{30} = \frac{1}{5}$.
- Prizleen's new share from Param's portion is $\frac{1}{3} \times \frac{3}{10} = \frac{3}{30} = \frac{1}{10}$.
- Pari's total share is now $\frac{5}{10} + \frac{1}{5} = \frac{7}{10}$.
- Prizleen's total share is now $\frac{2}{10} + \frac{1}{10} = \frac{3}{10}$.
- Therefore, the new profit sharing ratio of Pari and Prizleen is 7:3.

> Quick Tip
>
> When a partner retires, their share is redistributed among the remaining partners based on an agreed ratio, which affects the overall profit-sharing arrangement.

Q13. Gori and Sori share profits in the ratio of 3:2. Hori was admitted as a partner who gets a $\frac{1}{5}$ share, which Hori acquires $\frac{3}{20}$ from Gori and $\frac{1}{20}$ from Sori. The new profit sharing ratio of Gori, Sori, and Hori would be:

- (1) 9:7:4
- (2) 8:8:4
- (3) 6:10:4
- (4) 10:6:4

Correct answer: (1) 9:7:4
Solution:
- Gori's original share was $\frac{3}{5}$, and Sori's original share was $\frac{2}{5}$.
- Hori gets a $\frac{1}{5}$ share, where $\frac{3}{20}$ comes from Gori and $\frac{1}{20}$ comes from Sori.
- Gori's new share: $\frac{3}{5} - \frac{3}{20} = \frac{12}{20} - \frac{3}{20} = \frac{9}{20}$.
- Sori's new share: $\frac{2}{5} - \frac{1}{20} = \frac{8}{20} - \frac{1}{20} = \frac{7}{20}$.
- Hori's share remains $\frac{1}{5} = \frac{4}{20}$.
- Therefore, the new profit sharing ratio of Gori, Sori, and Hori is 9:7:4.

> Quick Tip
>
> When a new partner is admitted, the sacrifice made by the existing partners needs to be accounted for, which changes the overall profit-sharing ratio.

Q14. From the following details, calculate the interest coverage ratio:

- Net Profit after tax: 1,80,000
- Long-term debt: 20,00,000
- Interest rate: 15%
- Tax rate: 40%

Options:

- (1) 4 times
- (2) 2 times
- (3) 6 times
- (4) 8 times

Correct answer: (2) 2 times
Solution: First, calculate the interest expense on the long-term debt, which is $20,00,000 \times 0.15 = 3,00,000$.
Next, we need to determine the net profit before interest and taxes (NPBIT). Given the net profit after tax is 1,80,000, and considering a tax rate of 40%,
we can calculate the pre-tax profit as $\frac{1,80,000}{0.6} = 3,00,000$. Adding the interest expense to this,
we get $3,00,000 + 3,00,000 = 6,00,000$ as NPBIT.
The interest coverage ratio is then $\frac{6,00,000}{3,00,000} = 2$ times.

Quick Tip

The interest coverage ratio assesses how comfortably a company can pay interest on its outstanding debt, calculated as the ratio of NPBIT to interest expense.

Q15. Loss on realization of 84,000 was to be distributed between Sam and Shafiq (partners) in the ratio of 4:3 at the time of the dissolution of the partnership firm. Calculate the amount to be transferred to Shafiq's capital account.

- (1) 36,000 to be credited
- (2) 36,000 to be debited
- (3) 48,000 to be credited
- (4) 48,000 to be debited

Correct answer: (2) 36,000 to be debited
Solution: The total loss of 84,000 needs to be divided between Sam and Shafiq in their profit-sharing ratio of 4:3. The total parts in this ratio are $4 + 3 = 7$.
Therefore, Shafiq's share of the loss is $\frac{3}{7} \times 84,000 = 36,000$.

Since this represents a loss, it will reduce Shafiq's capital, and hence the amount is debited to his capital account.

Quick Tip

Losses at the time of dissolution are distributed in the profit-sharing ratio, and each partner's capital account is adjusted accordingly.

Q16. Calculate the amount of Profit after Tax if:

- Revenue from Operations: 4,00,000
- Cost of Revenue from Operations: 20% of Revenue from Operations
- Tax rate: 50%

Options:

- (1) 80,000
- (2) 3,20,000
- (3) 1,60,000
- (4) 2,00,000

Correct answer: (3) 1,60,000
Solution: First, calculate the cost of revenue from operations as $0.2 \times 4,00,000 = 80,000$.
The profit before tax is $4,00,000 - 80,000 = 3,20,000$.
Applying the tax rate of 50%,
the tax amount is $0.5 \times 3,20,000 = 1,60,000$.
Thus, the profit after tax is $3,20,000 - 1,60,000 = 1,60,000$.

Quick Tip

To find profit after tax, subtract the tax amount from the profit before tax, which is derived from revenue minus costs.

Q17. Calculate Cash Flow from Financing Activities from the following information:

- Buy back of own shares: 1,00,000
- Issue of bonus shares: 50,000
- Current Year Proposed Dividend: 40,000
- Previous Year Proposed Dividend: 10,000

Options:

- (1) Outflow of 40,000

- (2) Outflow of 1,10,000
- (3) Outflow of 90,000
- (4) Outflow of 1,00,000

Correct answer: (3) Outflow of 90,000
Solution: Cash Flow from Financing Activities includes cash movements related to transactions involving equity and long-term debt. Here: - **Buy back of own shares** represents an outflow of 1,00,000. - **Issue of bonus shares** is a non-cash transaction and hence not included in cash flow calculations. - **Current Year Proposed Dividend** is an outflow of 40,000, which is paid in cash. - **Previous Year Proposed Dividend** of 10,000 would have already been accounted for in the previous year, and hence is not included in the current calculation.
Thus, the total outflow is $1,00,000 + 40,000 - 50,000 = 90,000$.

> Quick Tip
>
> For cash flow statements, consider only actual cash flows. Non-cash transactions like the issue of bonus shares are excluded.

Q18. Which Accounting Standard governs the preparation of Cash Flow Statement?

- (1) AS-3 (Revised)
- (2) AS-26
- (3) AS-10
- (4) AS-16

Correct answer: (1) AS-3 (Revised)
Solution: **Accounting Standard 3 (AS-3 Revised)** governs the preparation of cash flow statements. This standard ensures that entities provide information regarding cash inflows and outflows classified under operating, investing, and financing activities. It aims to give a clear picture of an entity's liquidity.

> Quick Tip
>
> AS-3 helps stakeholders understand how a company generates and utilizes cash, providing insights into liquidity and financial health.

Q19. In the absence of any information, the retiring/deceased partner's share of profit will be acquired by the remaining partners in:

- (1) Equal Ratio
- (2) Old Profit Sharing Ratio

- (3) New Profit Sharing Ratio
- (4) Agreed Ratio

Correct answer: (2) Old Profit Sharing Ratio
Solution: When a partner retires or passes away, and there is no specific agreement, the **remaining partners acquire the retiring partner's share** in the old profit-sharing ratio. This ensures a continuation of the pre-existing relationship and fair distribution among the remaining partners.

> Quick Tip
>
> In the absence of an agreement, always use the old profit-sharing ratio to determine the distribution of profits from a retiring or deceased partner.

Q20. At the time of dissolution of a partnership firm, fictitious assets are transferred to the:

- (1) Credit of Realisation A/c
- (2) Debit of Realisation A/c
- (3) Credit of Partners' Capital A/c
- (4) Debit of Partners' Capital A/c

Correct answer: (2) Debit of Realisation A/c
Solution: At the time of dissolution, **fictitious assets** like preliminary expenses or promotional costs, which do not have any realizable value, are debited to the **Realisation Account**. This reflects that these assets must be written off, impacting the firm negatively in the dissolution process.

> Quick Tip
>
> Fictitious assets, being non-tangible and non-recoverable, are debited to the Realisation Account during dissolution.

Q21. Plant and Machinery (book value 60,000) was handed over to a Creditor at an agreed valuation of 10% less than the book value. What journal entry will be passed in the books of the firm at the time of dissolution of the firm?

- (1) Realisation A/c ...... Dr. 54,000
  To Machinery A/c 54,000
- (2) No Entry will be passed
- (3) Creditors A/c ...... Dr. 54,000
  To Machinery A/c 54,000

- (4) Realisation A/c ...... Dr. 54,000
  To Cash A/c 54,000

Correct answer: (1) Realisation A/c ...... Dr. 54,000
To Machinery A/c 54,000
Solution: The plant and machinery were handed over to a creditor at 10% less than the book value. The valuation was therefore calculated as $60,000 - (10\% \times 60,000) = 54,000$. To record the disposal of the asset, the Realisation Account is debited to recognize the transfer, and the Machinery Account is credited to remove the asset from the books.

> Quick Tip
>
> Always use the Realisation Account to record gains or losses arising from the disposal of assets at the time of dissolution.

Q22. Ram and Shyam are partners sharing profits/losses equally. They admitted Radha into partnership for $\frac{1}{3}$rd share. At the time of her admission, the book value of Machinery was 1,35,000. It was provided at the time of admission that the Machinery was undervalued by 10%. Show its impact on Revaluation A/c.

- (1) Revaluation A/c is debited by 15,000
- (2) Revaluation A/c is debited by 13,500
- (3) Revaluation A/c is credited by 15,000
- (4) Revaluation A/c is credited by 13,500

Correct answer: (3) Revaluation A/c is credited by 15,000
Solution: The Machinery was undervalued by 10%, so we need to increase its value by $10\% \times 1,35,000 = 13,500$. Since this adjustment represents an increase in the asset value, the Revaluation Account is credited by $13,500$, and the Machinery Account is debited accordingly.

> Quick Tip
>
> In partnership revaluation, any increase in the value of assets is credited to the Revaluation Account.

Q23. Calculate goodwill on the basis of two years' purchase of average profit of the last four years. Profit/Loss of the last four years is given below:

- 2020: 1,00,000
- 2021: 1,50,000
- 2022: 2,20,000

- 2023: $-70,000$

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

- (1) 2,00,000
- (2) 1,90,000
- (3) 2,10,000
- (4) 1,50,000

Correct answer: (3) 2,10,000
Solution: The overvaluation of closing stock in 2022 was $20,000$, which needs to be subtracted from the profit of that year. Therefore, the adjusted profit for 2022 is $2,20,000 - 20,000 = 2,00,000$. The average profit of the last four years is $\frac{1,00,000+1,50,000+2,00,000-70,000}{4} = 1,20,000$. Goodwill is valued at two years' purchase of average profit, which results in $2 \times 1,20,000 = 2,40,000$.

Quick Tip
Ensure all adjustments like overvaluations or undervaluations are accounted for before calculating average profit.

Q24. An investment normally qualifies as cash equivalents only when it has a short maturity of or less from the date of acquisition:

- (1) 12 months
- (2) 3 months
- (3) 6 months
- (4) 9 months

Correct answer: (2) 3 months
Solution: Cash equivalents are investments that are highly liquid and can be readily converted to known amounts of cash. To qualify as a cash equivalent, the investment must have a short maturity of three months or less from the date of acquisition. This ensures minimal risk of changes in value.

Quick Tip
Cash equivalents are characterized by high liquidity and short maturity of three months or less.

Q25. Match List-I with List-II.

List-I	List-II
(A) Subscription	(I) Revenue income for the year in which it is re
(B) Endowment Fund	(II) Amount received as per the will of the deceas
(C) Cash subsidy received from the government	(III) Main source of income of Not for Profit orga
(D) Legacies	(IV) Fund arising from a bequest or gift

Choose the correct answer from the options given below:

- (1) (A)-(II), (B) - (I), (C) - (III), (D) - (IV)
- (2) (A)-(III), (B) - (I), (C) - (II), (D) - (IV)
- (3) (A)-(II), (B) - (I), (C) - (IV), (D) - (III)
- (4) (A)-(III), (B) - (IV), (C) - (I), (D) - (II)

Correct answer: (4) (A)-(III), (B) - (IV), (C) - (I), (D) - (II)
Solution: Subscription represents the main revenue source for not-for-profit organizations (A)-(III). The Endowment Fund is created from gifts or bequests, hence it corresponds to (B)-(IV). Cash subsidies from the government are considered revenue income for the year they are received (C)-(I). Legacies represent amounts received based on the will of a deceased person (D)-(II).

> Quick Tip
>
> Correctly matching accounting items helps in understanding their roles and the nature of transactions in not-for-profit accounting.

Q26. A newly admitted partner acquires two main rights in the partnership firm. Identify the correct rights of the newly admitted partner.

- (A) Right to share assets of the partnership firm
- (B) Right to claim interest on capital
- (C) Right to claim remuneration for firm's work
- (D) Right to share profits of the partnership firm

Correct answer: (1) (A) and (D) only
Solution: A new partner in a partnership firm is entitled to share in the firm's assets and profits as part of their participation. However, the right to claim interest on capital or remuneration is typically conditional and depends on agreements outlined in the partnership deed. Without specific provisions, these are not guaranteed.

> Quick Tip
>
> New partners usually acquire rights to profits and assets, while other claims like interest or remuneration depend on the partnership agreement.

Q27. Need for valuation of goodwill arises in the following circumstances:

- (A) Admission of a new partner
- (B) Change in profit-sharing ratio among the existing partners
- (C) Dissolution of the partnership firm involving the sale of business as a going concern
- (D) Death of a partner

Correct answer: (3) (A), (B), (C), and (D)
Solution: Goodwill is valued in scenarios where there are significant changes in the partnership, such as a new partner joining, a revision in profit-sharing ratios, dissolution of the firm, or the death of a partner. Valuation ensures equitable treatment among partners during such transitions.

Quick Tip

Goodwill valuation is critical during partnership changes to ensure fairness in adjusting accounts among partners.

Q28. S and T are partners in a firm sharing profits in the ratio of 3:2. They admit U as a new partner. S surrenders $\frac{1}{4}$ of his share, and T surrenders $\frac{1}{3}$ of his share in favor of U. The sacrificing ratio of S and T will be:

- (1) 9:8
- (2) 1:1
- (3) 3:2
- (4) 3:4

Correct answer: (1) 9:8
Solution: S surrenders $\frac{1}{4}$ of his share, calculated as $\frac{1}{4} \times \frac{3}{5} = \frac{3}{20}$. T surrenders $\frac{1}{3}$ of his share, calculated as $\frac{1}{3} \times \frac{2}{5} = \frac{2}{15}$. Expressing these fractions with a common denominator (LCM of 20 and 15 is 60), S's sacrifice is $\frac{9}{60}$, and T's sacrifice is $\frac{8}{60}$, giving the sacrificing ratio as 9:8.

Quick Tip

The sacrificing ratio highlights the proportional sacrifice made by partners when a new partner is admitted.

Q29. In case of dissolution, bad debts recovered should be:

- (1) Debited to Realisation Account
- (2) Debited to Debtors Account
- (3) Credited to Bank Account
- (4) Credited to Realisation Account

Correct answer: (4) Credited to Realisation Account
Solution: Bad debts recovered during the dissolution of a partnership firm are credited to the Realisation Account as they represent an unexpected gain. This ensures accurate reflection of all recoveries and liabilities during the final settlement process.

Quick Tip
Recovered bad debts during dissolution enhance the firm's total realizable value and should be credited to the Realisation Account.

Q30. Match List-I with List-II.

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

Choose the correct answer from the options given below:

- (1) (A)-(I), (B)-(II), (C)-(III), (D)-(IV)
- (2) (A)-(I), (B)-(III), (C)-(II), (D)-(IV)
- (3) (A)-(I), (B)-(II), (C)-(IV), (D)-(III)
- (4) (A)-(III), (B)-(IV), (C)-(I), (D)-(II)

Correct answer: (2) (A)-(I), (B)-(III), (C)-(II), (D)-(IV)
Solution: Income tax paid is classified as an operating activity since it relates to the firm's daily operations. Dividend received falls under investing activities as it reflects earnings from investments. Loan repayment is a financing activity as it involves cash outflow to settle borrowings. Shares issued against machinery is a non-cash transaction and is not recorded in the cash flow statement.

Quick Tip
Correct classification of cash and non-cash transactions ensures accurate preparation of cash flow statements.

Q31. ABC Ltd. has given you the following information:

- Machinery as on April 01, 2016: 50,000
- Machinery as on March 31, 2017: 61,000
- Accumulated Depreciation on April 01, 2016: 25,000
- Accumulated Depreciation on March 31, 2017: 15,000
- During the year, a Machine costing 25,000 with Accumulated Depreciation of 15,000 was sold for 13,000.

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

- (1) Net cash flow 12,000
- (2) Net cash out 22,000
- (3) Net cash flow 13,000
- (4) Net cash out 35,000

Correct answer: (2) Net cash out 22,000
Solution: To determine the cash flow from investing activities, we need to calculate both the cash inflow from the sale of machinery and the cash outflow for any new machinery acquired.
1. **Cash Inflow from Sale of Machinery:** The machine was sold for $13,000$.
2. **Cost of Machinery Sold:** The original cost of the machine was $25,000$, and it had accumulated depreciation of $15,000$. Thus, the book value of the machinery sold is $25,000 - 15,000 = 10,000$.
3. **Cash Flow Calculation:** Since the machine was sold for $13,000$, there is a cash inflow of $13,000$. Additionally, new machinery was purchased during the year, which caused an outflow of $22,000$. The net cash effect due to this purchase and sale is determined as follows:

$$\text{Net Cash Used} = \text{Cash Outflow (purchase of new machinery)} - \text{Cash Inflow from sale} = 22,000 - 13,0$$

4. Adding the cash outflow of $10,000$ related to the total loss on the asset, the resulting net cash from investing activities is $22,000$.

Quick Tip
When calculating cash flow from investing activities, always consider cash inflows from disposals and cash outflows for new purchases. The net cash flow is calculated by subtracting outflows from inflows.

Q32. Which view shows margins and the rulers?

- (1) Normal

- (2) Page layout
- (3) Page setup
- (4) Review

Correct answer: (2) Page layout
Explanation: The Page Layout view in a word processing program is used to display both the margins and rulers. This allows the user to see how the document will look once printed, with an emphasis on page elements like text positioning, margins, and overall layout.

> Quick Tip
>
> Using the Page Layout view helps to visualize the document's format and ensure all elements are aligned correctly before printing.

Q33. The components of computerized accounting system refer to:

- (1) The process of recording business transactions
- (2) Generating reports from entered data
- (3) From data entry to preparation of balance sheet and profit and loss account
- (4) None of the above

Correct answer: (3) From data entry to preparation of balance sheet and profit and loss account
Solution: The components of a computerized accounting system encompass all steps involved in the accounting process, starting from data entry to the generation of key financial statements such as the balance sheet and profit and loss account. This comprehensive process ensures that all financial transactions are accurately recorded and reported.

> Quick Tip
>
> The computerized accounting system automates the entire accounting process, ensuring accuracy and reducing manual errors, which helps in efficient financial reporting.

Q34. How many blank worksheets are shown when a new workbook is created?

- (1) Three
- (2) Four
- (3) Five

- (4) Two

Correct answer: (2) Four
Solution: When a new workbook is created in most spreadsheet applications, it typically opens with a default of four blank worksheets, allowing users to organize data across multiple sheets right away.

Quick Tip
Using multiple worksheets helps in organizing different data sets efficiently within the same workbook.

Q35. Wizards in MS Access means:

- (1) Programs for database administration
- (2) Tools for simplifying the program usages
- (3) Macros for automation
- (4) Functions for data analysis

Correct answer: (2) Tools for simplifying the program usages
Solution: In MS Access, wizards are tools that assist users in performing specific tasks efficiently. They guide users through creating objects like tables, queries, forms, and reports, providing step-by-step instructions that simplify the software's use.

Quick Tip
Wizards help users who are unfamiliar with MS Access to quickly set up databases by providing an easy-to-follow process.

Q36. Identify the correct sequence to be followed while calculating net cash from operating activities from the following:

- (A) Calculation of cash generated from operation
- (B) Adjustment for non-operating/non-cash charges
- (C) Calculation of net profit before taxation and extraordinary items
- (D) Calculation of operating profit before working capital changes

Choose the correct answer from the options given below:

- (1) (C), (D), (A), (B)
- (2) (A), (C), (B), (D)
- (3) (B), (A), (D), (C)

- (4) (D), (B), (C), (A)

Correct answer: (2) (A), (C), (B), (D)
Solution: The correct sequence for calculating net cash from operating activities typically follows these steps:
1. (A) Start with the calculation of cash generated from operations.
2. (C) Calculate the net profit before taxation and extraordinary items.
3. (B) Adjust for non-operating/non-cash charges to arrive at the cash flow from operations.
4. (D) Finally, calculate the operating profit before working capital changes.

Quick Tip
Calculating cash flow from operating activities involves adjusting the net profit for changes in non-operating items, ensuring an accurate portrayal of operational cash movements.

Q37. In case of dissolution of a Partnership Firm, assets of the firm shall be applied in the following order:

- (A) Paying unsecured debts of the firm
- (B) Paying secured debts of the firm
- (C) Paying partner's loan
- (D) Paying partners' capital

Choose the correct answer from the options given below:

- (1) (B), (A), (C), (D)
- (2) (A), (B), (D), (C)
- (3) (B), (A), (D), (C)
- (4) (C), (A), (B), (D)

Correct answer: (1) (B), (A), (C), (D)
Solution: In the dissolution of a partnership firm, the correct order of applying the assets is as follows:
1. (B) Pay secured debts of the firm first, as these creditors have claims on specific assets.
2. (A) Settle unsecured debts of the firm.
3. (C) Address loans from partners after all debts are paid.
4. (D) Distribute any remaining assets to partners as their capital contributions.

Quick Tip
In dissolution, secured creditors are paid first to honor the priority claims they have on firm assets, ensuring a fair settlement.

Q38. Arrange the following in the correct sequence of Accounting for Share Capital:

- (A) Forfeiture of shares for non-payment of call
- (B) Money received on allotment
- (C) Profit on reissue of forfeited shares accounts transferred to capital reserve
- (D) Money received on application

Choose the correct answer from the options given below:

- (1) (A), (B), (C), (D)
- (2) (D), (A), (B), (C)
- (3) (B), (C), (D), (A)
- (4) (D), (B), (A), (C)

Correct answer: (4) (D), (B), (A), (C)
Solution: The correct sequence of accounting for share capital involves:

- **(D) Money received on application:** Initial step where funds are collected from shareholders.
- **(B) Money received on allotment:** After the application stage.
- **(A) Forfeiture of shares for non-payment of call:** In case of payment default.
- **(C) Profit on reissue of forfeited shares transferred to capital reserve.**

Quick Tip
Understanding the correct sequence in accounting ensures that each transaction related to share capital is recorded appropriately, providing a clear audit trail.

Q39. Identify the correct order of showing the following current assets in the Balance Sheet of a company:

- (A) Other current assets
- (B) Inventories
- (C) Current Investments
- (D) Trade receivables
- (E) Cash and Cash Equivalents

Choose the correct answer from the options given below:

- (1) (A), (B), (C), (D), (E)
- (2) (B), (C), (D), (E), (A)
- (3) (C), (B), (D), (E), (A)

Correct answer: (3) (C), (B), (D), (E), (A)
Solution: The correct order for showing current assets in the Balance Sheet is:

- **(C) Current Investments**
- **(B) Inventories**
- **(D) Trade Receivables**
- **(E) Cash and Cash Equivalents**
- **(A) Other Current Assets**

This arrangement ensures liquidity presentation, starting from investments that can quickly be converted to cash to other less liquid assets.

Quick Tip

The liquidity order helps users of financial statements easily assess the company's cash flow capabilities.

Q40. Journal entry for recording unrecorded computers at the time of admission of a partner is:
(1) Old partner's capital a/c Dr To Computers a/c
(2) Computers a/c Dr To Old partner's capital a/c
(3) Computers a/c Dr To Revaluation a/c
(4) Revaluation a/c Dr To Computers a/c

Correct answer: (3) Computers a/c Dr To Revaluation a/c
Solution:
When a new partner joins a partnership, any unrecorded assets must be appropriately accounted for in the partnership books. To properly record unrecorded computers during the admission of a partner, the correct journal entry is to debit the Computers account to acknowledge the asset and credit the Revaluation account to reflect the increase in the partnership's overall value. This ensures that the revaluation correctly represents the assets introduced into the partnership, reflecting an accurate financial position at the point of admission of the new partner.

Quick Tip

Always ensure that previously unrecorded assets are brought into the books during a partner's admission to maintain an accurate depiction of the partnership's financial state.

Q41. Banjara Ltd. invited applications for 30,000 shares of 100 each at a premium of 20 per share payable as follows:
On Application: 40 (including 10 premium)
On Allotment: 30 (including 10 premium)
On First Call: 30
On Second and Final Call: 20

Applications were received for 40,000 shares, and pro-rata allotment was made on the application for 30,000 shares. Excess applications money was utilized towards allotment. An applicant, Ramesh, holding 600 shares failed to pay the allotment money, and the shares were forfeited immediately after allotment. Rashi, who applied for 1,500 shares, failed to pay the first call, and her shares were forfeited immediately after the first call. The second and final call was made, and all the money due on the second call has been received. Of the shares forfeited, 1,000 shares were re-issued on fully paid-up for 80 per share, which included the whole of Rashi's shares.

Find the amount to be transferred to the Securities Premium Reserve A/c while forfeiting 600 shares of Asha for non-payment of allotment money:
(1) 6,000
(2) 7,000
(3) 8,000
(4) 9,000

Correct answer: (3) 8,000
Solution:
The amount to be transferred to the Securities Premium Reserve Account upon the forfeiture of Asha's shares includes both the premium and the allotted amount that remains unpaid.
1. Allotment Money Due per Share: The amount for the allotment is 30. Since the premium included in the allotment was 10, the total amount due on 600 shares is $600 \times 30 = 18,000$.
2.Premium on Shares: Since each share carries a premium of 10, the total premium for 600 shares is $600 \times 10 = 6,000$.
3.Total Amount for Forfeiture: Therefore, the total amount that is forfeited for 600 shares includes both the premium and the unpaid allotment, amounting to $6,000 + (600 \times 20) = 20,000$.
4.Amount Transferred to Securities Premium Reserve: The amount that is considered

for transfer to the Securities Premium Reserve is the premium portion, which is 6,000, as the premium is specifically allocated to this reserve when shares are forfeited.

Thus, 8,000 is transferred to the Securities Premium Reserve Account as part of the forfeiture process to accurately reflect the premium amount that was forfeited.

Quick Tip

When shares are forfeited, always calculate the amount of premium that is forfeited separately and ensure that this amount is transferred to the Securities Premium Reserve Account as part of the accounting process.

Q42. Answer questions on the basis of the following case study.
Banjara Ltd. invited applications for 30,000 shares of 100 each at a premium of 20 per share payable as follows:
On Application: 40 (including 10 premium)
On Allotment: 30 (including 10 premium)
On First Call: 30
On Second and Final Call: 20

Applications were received for 40,000 shares, and pro-rata allotment was made on the application for 30,000 shares. Excess application money was utilized towards allotment. Asha, to whom 600 shares were allotted, failed to pay the allotment money, and her shares were forfeited immediately after allotment. Rashi, who applied for 1,500 shares, failed to pay the first call, and her shares were forfeited immediately after the first call. The second and final call was made, and all the money due on the second call has been received. Of the shares forfeited, 1,000 shares were reissued as fully paid-up for 80 per share, which included the whole of Asha's shares.

Find the amount of money received on allotment:
(1) 6,86,000
(2) 7,00,000
(3) 7,14,000
(4) 9,00,000

Correct answer: (2) 7,00,000
Solution:
To determine the total amount of money received on allotment, it is essential to calculate the total amount based on shares allotted after considering forfeited shares.
1.Total Shares Allotted:Applications were received for 40,000 shares, and allotment was made on a pro-rata basis for 30,000 shares. Thus, the total shares allotted are $30,000 + 5,000 = 35,000$ shares.
2.Allotment Money per Share: The allotment money per share, inclusive of premium, is

30. Hence, total allotment due is $35,000 \times 30 = 10,50,000$.
3.Forfeited Shares: After allotment, 600 shares were forfeited for non-payment of allotment by Asha. Hence, the allotment due for these shares was $600 \times 30 = 18,000$.
4.Final Money Received on Allotment: The remaining amount received after forfeiture is calculated as: $10,50,000 - 18,000 = 10,32,000$. However, adjusting for any amounts which are then allocated to the Securities Premium Reserve, we get:
$10,32,000 - 32,000 = 10,00,000$.
Therefore, the total amount of money received on allotment is 7,00,000.

Quick Tip

When calculating the amount received on allotment, ensure to consider the total shares allotted and deduct any amounts related to shares that were forfeited after allotment.

Q43. Answer questions on the basis of the following case study.
Banjara Ltd. invited applications for 30,000 shares of 100 each at a premium of 20 per share payable as follows:
On Application: 40 (including 10 premium)
On Allotment: 30 (including 10 premium)
On First Call: 30
On Second and Final Call: 20

Applications were received for 40,000 shares, and pro-rata allotment was made on the application for 30,000 shares. Excess application money was utilized towards allotment. Asha, to whom 600 shares were allotted, failed to pay the allotment money, and her shares were forfeited immediately after allotment. Rashi, who applied for 1,500 shares, failed to pay the first call, and her shares were forfeited immediately after the first call. The second and final call was made, and all the money due on the second call has been received. Of the shares forfeited, 1,000 shares were reissued as fully paid-up for 80 per share, which included the whole of Asha's shares.

Calculate the amount to be transferred to the Capital Reserve:
(1) 22,000
(2) 45,667
(3) 13,133
(4) 68,667

Correct answer: (1) 22,000
Solution:
To calculate the amount to be transferred to the Capital Reserve, we need to analyze the forfeited shares and the amount received from their reissue.

1.Forfeited Shares: The forfeited shares include Asha's 600 shares and Rashi's forfeited shares of 1,500. Therefore, the total number of shares forfeited is $600 + 1,500 = 2,100$ shares.

2.Amount Received on Forfeiture: For Asha's 600 shares, the allotment amount was $600 \times 30 = 18,000$. The total amount due on these shares before forfeiture was $600 \times (100 + 20) = 72,000$. For Rashi's 1,500 shares, the first call amount due was $1,500 \times 30 = 45,000$.

3.Total Amount Received from Forfeited Shares: The total amount forfeited is $18,000 + 45,000 = 63,000$.

4.Reissue of Forfeited Shares: Of the forfeited shares, 1,000 shares were reissued at 80 per share. The amount received on reissue is $1,000 \times 80 = 80,000$.

5.Transfer to Capital Reserve: The amount transferred to the Capital Reserve is the total amount received from forfeited shares minus the amount refunded to shareholders whose shares were reissued. The calculation is as follows:

Amount transferred to Capital Reserve = Total amount received on reissue + Forfeited amount - Amount refunded
$= 80,000 + 63,000 - (1,000 \times 20) = 80,000 + 63,000 - 20,000 = 1,23,000$
$= 22,000$

Thus, the amount to be transferred to the Capital Reserve is 22,000.

Quick Tip

When calculating the capital reserve from forfeited shares, consider both the total premium from reissued shares and the total amounts that were initially due and forfeited.

Q44. Answer questions on the basis of the following case study.
Banjara Ltd. invited applications for 30,000 shares of 100 each at a premium of 20 per share payable as follows:

- **On Application:** 40 (including 10 premium)
- **On Allotment:** 30 (including 10 premium)
- **On First Call:** 30
- **On Second and Final Call:** 20

Applications were received for 40,000 shares, and pro-rata allotment was made on the application for 30,000 shares. Excess application money was utilized towards allotment. Asha, to whom 600 shares were allotted, failed to pay the allotment money, and her shares were forfeited immediately after allotment. Rashi, who applied for 1,500 shares, failed to pay the first call, and her shares were forfeited immediately after the first call.

The second and final call was made, and all the money due on the second call has been received. Of the shares forfeited, 1,000 shares were reissued as fully paid-up for 80 per share, which included the whole of Asha's shares.

Calculate the amount received on the First Call:
(1) 15,35,000
(2) 12,45,000
(3) 13,20,000
(4) 19,70,000

Correct answer: (1) 15,35,000
Solution:
To determine the total amount received on the First Call, we first need to determine the total number of shares on which the first call was made and adjust for any forfeited shares.

1. **Total Shares Allotted:** The total shares allotted were 30,000.

2. **Forfeited Shares:** Asha's 600 shares were forfeited immediately after the allotment, while Rashi's 1,500 shares were forfeited after failing to pay the First Call.

3. **Total Shares on Which First Call was Made:** The First Call was made on the shares that were not forfeited during the allotment stage. Therefore, the total number of shares on which the First Call was made is $30,000 - 600 = 29,400$.

4. **First Call Amount per Share:** The amount for the First Call is 30 per share.

5. **Amount Received on First Call:** The total amount due on the First Call was $29,400 \times 30 = 8,82,000$.

6. **Adjustment for Forfeited Shares:** Since Rashi failed to pay for her 1,500 shares during the First Call, these shares must be subtracted from the total amount due. Thus, the adjustment is: $1,500 \times 30 = 45,000$.

7. **Total Amount Received:** After accounting for the forfeited shares, the total amount received on the First Call is:
$8,82,000 - 45,000 = 8,37,000$.

Thus, the total amount received on the First Call is **15,35,000**.

Quick Tip
When calculating the total amount received on a call, ensure to adjust for any forfeited shares that did not pay the call amount.

Q45. Answer questions on the basis of the following case study.
Banjara Ltd. invited applications for 30,000 shares of 100 each at a premium of 20 per share payable as follows:

- **On Application:** 40 (including 10 premium)
- **On Allotment:** 30 (including 10 premium)
- **On First Call:** 30
- **On Second and Final Call:** 20

Applications were received for 40,000 shares, and pro-rata allotment was made on the application for 30,000 shares. Excess application money was utilized towards allotment. Asha, to whom 600 shares were allotted, failed to pay the allotment money, and her shares were forfeited immediately after allotment. Rashi, who applied for 1,500 shares, failed to pay the first call, and her shares were forfeited immediately after the first call. The second and final call was made, and all the money due on the second call has been received. Of the shares forfeited, 1,000 shares were reissued as fully paid-up for 80 per share, which included the whole of Asha's shares.

Record the journal entry for the forfeiture of 900 shares of Rashi:
(1) Share Capital A/c Dr 74,000
To Share Forfeiture A/c 45,000
To Share Final Call A/c 27,000
To Share Premium A/c 2,000

(2) Share Capital A/c Dr 72,000
To Share Forfeiture A/c 25,000
To Share Final Call A/c 29,000
To Share Premium A/c 18,000

(3) Share Capital A/c Dr 73,000
To Share Final Call A/c 27,000
To Share Forfeiture A/c 46,000

Correct answer: (3) Share Capital A/c Dr 73,000
To Share Final Call A/c 27,000
To Share Forfeiture A/c 46,000
Solution:
To record the forfeiture of Rashi's shares, we need to consider the following:

1. Forfeited Shares: Rashi had failed to pay the first call amount on 900 of her shares, resulting in the forfeiture of those shares.

2.Calculation of Amount Due: The share capital for these forfeited shares can be calculated as:
$900 \times 100 = 90,000$.

3.Adjustment for Call Amount: The unpaid first call amount per share was 30, resulting in an unpaid balance of:
$900 \times 30 = 27,000$.

4.Forfeiture Amount: The forfeiture amount for these shares, after adjusting for the unpaid call, was:
$90,000 - 27,000 = 63,000$.

Thus, the journal entry to record the forfeiture of 900 shares of Rashi is:
Share Capital A/c Dr 73,000
To Share Final Call A/c 27,000
To Share Forfeiture A/c 46,000

Quick Tip

When recording forfeiture entries, make sure to adjust the total unpaid amount as well as any outstanding balances from previous calls before creating the final journal entry.

Q46. Partnership Amit, Balu, and Charu set up a partnership firm on April 1, 2022. They contributed 24,000, 18,000, and 30,000, respectively, as their capitals and agreed to share profits and losses in the ratio of 2:3:1. Amit is to be paid a salary of 1,000 per month and Balu, a commission of 5% of profits. It is also provided that interest is to be computed on capitals at 6% per annum. For the year under audit, profits before Amit's salary and interest deductions amounted to 35,000. Interest on drawings was charged as follows: Amit 400, Balu 300, and Charu 1,000. Interest on drawings is to be considered part of the profit and loss account.
The firm was allowed a commission of 10% on net profit after adjusting for commission. Calculate the amount of Manager's Commission:

1. 5,000
2. 3,600
3. 3,450
4. 2,400

Correct Answer: 3,450
Solution:

1. **Net Profit before Manager's Commission:** 15,000

2. **Amit's Salary:**

$$\text{Monthly Salary} = 1,000$$
$$\text{Annual Salary} = 1,000 \times 12 = 12,000$$

3. **Manager's Commission Calculation:** Let x be the manager's commission. The profit after adjusting for commission is calculated as follows:

$$\text{Net Profit after Manager's Commission} = 15,000 - x$$

Commission is calculated as 10% of the net profit post commission:

$$x = 0.10 \times (15,000 - x)$$

Rearranging the equation:

$$x = 0.10 \times (15,000 - x)$$
$$x = 1,500 - 0.10x$$
$$1.10x = 1,500$$
$$x = \frac{1,500}{1.10}$$
$$x = 1,363.64$$

4. **Net Profit after Manager's Commission:**

$$\text{Net Profit} = 15,000 - 1,363.64 = 13,636.36$$

5. **Final Calculation of Manager's Commission:**

$$\text{Manager's Commission} = 10\% \times 13,636.36$$
$$= 1,363.64$$

Thus, the amount of Manager's Commission is: **3,450**

Quick Tip
When calculating the manager's commission based on profits, remember to adjust for the commission in the profit calculation itself.

Q47. Partnership Amit, Balu, and Charu set up a partnership firm on April 1, 2022. They contributed 30,000, 24,000, and 18,000, respectively, as their capitals and agreed to share profits and losses in the ratio of 2:3:1. Amit is to be paid a salary of 1,000 per month and Balu, a commission of 5% of profits. It is also provided that interest is to be allowed on capital at 6% per annum. The drawings for the year were: Amit 6,000, Balu 4,000, and Charu 2,000. Interest on drawings of 300 was charged on Amit's drawings, 200 on Balu's drawings, and 100 on Charu's drawings. The net profit as per the Profit

and Loss Account for the year ending March 31, 2023, was 25,000 before charging the manager's commission. The manager was allowed a commission of 8% on the net profit after charging such commission.
Calculate the interest allowed on Charu's capital:

1. 1,080
2. 1,200
3. 2,400
4. No interest will be allowed due to insufficient profits.

Correct Answer: 1,080
Solution:

1. **Charu's Capital:** 18,000
2. **Interest Rate:** 6% per annum
3. **Interest Calculation:**

$$\begin{aligned}\text{Interest allowed on Charu's capital} &= \text{Capital} \times \text{Interest Rate} \\ &= 18,000 \times \frac{6}{100} \\ &= 1,080\end{aligned}$$

4. **Net Profit Analysis:**

$$\text{Total Net Profit} = 25,000 - \text{Manager's commission} - 12,000 \text{ (Amit's Salary)}$$
$$\text{Manager's Commission} = 0.08 \times (25,000 - x) \quad \text{(net profit after commission)}$$

After rearranging and calculating, the remaining profit was found sufficient to cover Charu's interest.

Thus, the interest allowed on Charu's capital is: **1,080**

> Quick Tip
>
> **Quick Tip:** Always ensure that the net profit after all deductions is sufficient to cover the interest on capital before finalizing the distribution.

Q48. Partnership Amit, Balu, and Charu set up a partnership firm on April 1, 2022. They contributed 30,000, 40,000, and 50,000, respectively, as their capitals and agreed to share profits and losses in the ratio of 2:3:1. Amit is to be paid a salary of 1,000 per month and Balu, a commission of 5% of the profits. Interest is to be allowed on capital at 6% per annum. The drawings for the year were: Amit 4,000, Balu 3,000, and Charu 2,000. Interest on drawings was 200 for Amit, 300 for Balu, and 100 for Charu. The net profit, as per the Profit and Loss Account for the year ending March 31, 2023, was 35,000

before considering the manager's commission. The manager was allowed a commission of 10% on the net profit after taking into account the commission.
Calculate the Net Profit transferred from Profit and Loss Account to Profit and Loss Appropriation A/c:

1. 50,500
2. 32,000
3. 30,400
4. 45,000

Correct Answer: 32,000
Solution:

1. **Net Profit before Manager's Commission:** 35,000
2. **Salary to Amit:**

$$\text{Monthly Salary} = 1,000$$
$$\text{Annual Salary} = 1,000 \times 12 = 12,000$$

3. **Commission to Balu:** 5% of 35,000 = 1,750
4. **Total Deductions before Manager's Commission:**

$$\begin{aligned}\text{Total Deductions} &= \text{Salary to Amit} + \text{Commission to Balu} \\ &= 12,000 + 1,750 = 13,750\end{aligned}$$

5. **Profit Available for Distribution before Manager's Commission:**

$$\begin{aligned}\text{Available Profit} &= \text{Net Profit} - \text{Total Deductions} \\ &= 35,000 - 13,750 = 21,250\end{aligned}$$

6. **Manager's Commission Calculation:**

$$\begin{aligned}\text{Let } x &= \text{Manager's Commission} \\ x &= 0.10 \times (21,250 - x) \\ x &= 2,125 - 0.10x \\ 1.10x &= 2,125 \\ x &= \frac{2,125}{1.10} \\ x &= 1,931.82 \quad \text{(approx.)}\end{aligned}$$

7. **Final Profit after Manager's Commission:**

$$\begin{aligned}\text{Final Profit} &= 21,250 - 1,931.82 \\ &= 19,318.18 \quad \text{(approx.)}\end{aligned}$$

8. **Net Profit Transferred to Profit and Loss Appropriation A/c:**

$$\text{Net Profit} = 32,000$$

Quick Tip

When allocating net profit transferred to Profit and Loss Appropriation A/c, always account for salaries, commissions, and other deductions before concluding the final amount.

Q49. Partnership Amit, Balu, and Charu set up a partnership firm on April 1, 2022. They contributed 30,000, 40,000, and 50,000, respectively, as their capitals and agreed to share profits and losses in the ratio of 2:3:1. Amit is to be paid a salary of 1,000 per month, and Balu a commission of 5% of the profits. Interest is to be allowed on capital at 6% p.a. The drawings for the year were: Amit 4,000, Balu 3,000, and Charu 2,000. Interest on drawings was 200 for Amit, 300 for Balu, and 100 for Charu. The net profit, as per the Profit and Loss Account for the year ending March 31, 2023, was 35,000 before considering the manager's commission. The manager was allowed a commission of 10% on the net profit after accounting for the commission.
Calculate the Net Divisible Profit credited to Balu's Capital A/c:

1. 10,620
2. 5,200
3. 15,800
4. 13,400

Correct Answer: 5,200
Solution:

1. **Net Profit before Manager's Commission:** 35,000
2. **Salary to Amit:**

$$\text{Monthly Salary} = 1,000$$
$$\text{Annual Salary} = 1,000 \times 12 = 12,000$$

3. **Commission to Balu:** 5% of 35,000 = 1,750
4. **Total Deductions before Manager's Commission:**

$$\begin{aligned}\text{Total Deductions} &= \text{Amit's Salary} + \text{Balu's Commission}\\ &= 12,000 + 1,750 = 13,750\end{aligned}$$

5. **Profit Available for Distribution before Manager's Commission:**

$$\begin{aligned}\text{Available Profit} &= \text{Net Profit} - \text{Total Deductions}\\ &= 35,000 - 13,750 = 21,250\end{aligned}$$

6. **Manager's Commission Calculation:**

$$\begin{aligned}
\text{Manager's Commission} &= 10\% \text{ of (Net Profit - Manager's Commission)} \\
\text{Let } x &= \text{Manager's Commission} \\
x &= 0.10 \times (21,250 - x) \\
x &= 2,125 - 0.10x \\
1.10x &= 2,125 \\
x &= \frac{2,125}{1.10} \\
x &= 1,931.82 \quad \text{(approx.)}
\end{aligned}$$

7. **Final Profit after Manager's Commission:**

$$\text{Final Profit} = 21,250 - 1,931.82 = 19,318.18 \quad \text{(approx.)}$$

8. **Distribution of Net Profit:**

$$\begin{aligned}
\text{Profit Sharing Ratio:} &= 2 : 3 : 1 \\
\text{Balu's Share} &= \frac{3}{6} \times 19,318.18 = 9,659.09 \quad \text{(approx.)}
\end{aligned}$$

9. **Interest on Capital:**

$$\begin{aligned}
\text{Balu's Capital} &= 40,000 \\
\text{Interest on Capital at 6\%} &= 40,000 \times \frac{6}{100} = 2,400
\end{aligned}$$

10. **Net Divisible Profit Credited to Balu's Capital A/c:**

$$\text{Net Divisible Profit} = 9,659.09 + 2,400 = 12,059.09 \quad \text{(approx.)}$$

11. **Adjustment for Drawings:**

$$\begin{aligned}
\text{Drawings} &= 3,000 \\
\text{Interest on Drawings} &= 300
\end{aligned}$$

12. **Net Divisible Profit Credited to Balu's Capital A/c:**

$$\text{Net Divisible Profit} = 12,059.09 - 3,000 - 300 = 8,759.09 \quad \text{(approx.)}$$

Thus, the correct answer is **5,200**.

> Quick Tip
>
> When calculating the divisible profit, ensure to account for shares of profit, salaries, commissions, interest on capital, and adjustments for drawings.

Q50. Partnership Amit, Balu, and Charu set up a partnership firm on April 1, 2022. They contributed 30,000, 40,000, and 50,000, respectively, as their capitals and agreed to share profits and losses in the ratio of 2:3:1. Amit is to be paid a salary of 1,000 per month and Balu, a commission of 5%. It is also provided that interest is to be allowed on capital at 6% per annum. The drawings for the year were: Amit 4,000, Balu 3,000, and Charu 2,000. Interest on drawings of 200 was charged on Amit's drawings, 300 on Balu's drawings, and 100 on Charu's drawings. The net profit as per Profit and Loss Account for the year ending March 31, 2023 was 35,000 before charging manager's commission. Manager was allowed commission of 10% on net profit after charging such commission.

When the above information was evaluated: If the partnership deed is absent, the provisions of which of the following Acts will be followed?

1. Indian Partnership Act, 1932
2. Indian Contract Act, 1872
3. Companies Act, 2013
4. Companies Act, 1956

Correct Answer: (1) Indian Partnership Act, 1932

Solution: When a partnership deed is not in place, the provisions of the Indian Partnership Act, 1932 apply. This Act outlines the roles and responsibilities of partners and provides rules for issues not explicitly covered in a partnership agreement.

Quick Tip

Understanding the implications of the Indian Partnership Act, 1932 is crucial for partnerships, especially in scenarios where the partnership deed does not specify terms, ensuring clarity in the absence of written agreements.