CEP Phase -2 (2024-25)
Subject : ACCOUNTANCY
Class : 10+2

SECTION - A

UNIT - 1 : FUNDAMENTALS OF PARTNERSHIP FIRMS

MULTIPLE CHOICE QUESTIONS

1. In the absence of agreement, Partners are entitled to :
(a) Salary (b) Commission (c) Interest on Loans and Advances (d) Profit share in Capital ratio

2. Number of partners in a partnership firm may be :
(a) Maximum Two (b) Maximum Ten (c) Maximum One Hundred (d) Maximum Fifty

3. Partnership Deed is also called
(a) Prospectus (b) Principles of Partnership (c) Articles of Association (d) Articles of Partnership

4. Following are essential elements of a partnership firm except :
(a) Atleast two persons (b) There is an agreement between all partners
(c) Equal share of profits and losses (d) Partnership agreement is for some business

5. In case of partnership the act of any partner is :
(a) Binding on all partners (b) Binding on that partner only
(c) Binding on all partners except that particular partner (d) None of the above

ANSWERS - (1) c, (2) d, (3) d, (4) c, (5) a

Fill in the Blanks

1. Manager’s commission is a ....against profits. (Charge/Appropriation)

2. Interest on partner’s loan is not credited to the Partner’s .... A/c. (Capital/Drawings)

3. .... A/c is an extension of Profit & Loss A/c. (Profit & Loss Appropriation/Revaluation)

4. Commission to a partner is an .... out of profit. (Charge/Appropriation)

5. X drew ₹ 50,000 during the year. If the rate of interest on drawings is 10% then .... will be the amount of interest on drawings. (₹ 2,500/₹ 5,000)

One mark Questions

1. Define Partnership.
Ans. Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

2. Give two features/characteristics/elements of partnership.
Ans. (i) Partnership comes into existence with an agreement among partners. (ii) Partners must share the profits & losses of the business.

3. Does partnership firm has a separate legal entity? Give reason in support of your answer.
Ans. No, a partnership firm has no separate legal entity. Reason. Private assets of the partners can be used to meet the liabilities of the firm in case firm’s assets are not adequate to meet the liabilities.

4. Define partnership deed.
Ans. Partnership deed is a written agreement among partners for managing the affairs of a firm.

5. Why is it necessary to have a partnership deed?

Ans. Partnership deed is necessary because of the following reasons : (i) It makes the partners aware of their partnership terms. (ii) It enables the partners to avoid future disputes

Two Marks Questions

1. X, Y and Z started a business on 1st July, 2019 contributing ₹ 1,80,000 each as share of capital. Three months later on 1st October, 2019. X introduced ₹ 1,00,000 as additional capital and Y introduced ₹ 1,20,000 which will be treated as a loan to firm. The profit for the year ended March, 2020 amounted to ₹ 1,84,200 before charging any interest. Partners are allowed a salary of ₹ 4,500 per quarter. Partners withdraw each ₹ 5,000 per month. Prepare Profit and Loss Appropriation Account for the year ended 31st March 2020.

[Ans. Divisible Profit : ₹ 41,000 to each partner.]

2. X and Y are partners in a firm sharing profits in the ratio 2 : 1. For the year ended 31st March, 2020 their drawings were as — X ₹ 4,10,000 and Y ₹ 3,60,000. Calculate interest on drawings at the rate of 9% p.a.

[Ans. X — ₹ 18,450 and Y — ₹ 16,200]

3. If the Partners' Capital Accounts are fixed, where will you record the following items:
(a) Salary payable to a partner
(b) Drawings made by a partner
(c) Fresh capital introduced
(d) Shares of profit earned by a partner

Ans. (a) Credit side of partner's current account
(b) Debit side of partner's current account
(c) Credit side of partner's capital account
(d) Credit side of partner's current account

4. Give two provisions if partnership deed is absent/silent.
Ans. (i) No interest is allowed on partners' capitals.
(ii) No interest is charged on partners' drawings.
(iii) Salary is not paid to any partner.
(iv) Interest on partner's loan is given @ 6% per annum.
(v) Partners share profits and losses equally. (any two)

5. State two elements of the Partnership Deed.
Ans. Elements of a partnership deed are as follows :
(i) It contains all the terms and conditions agreed upon by all the partners and is a written document.
(ii) It acts as an evidence in court in case of any dispute among the partners

Four Marks Questions

1. Calculate interest on drawings in each of the following :

(i) X withdrew ₹ 36,000 in the beginning of each quarter for the year ended March 31, 2019. Calculate interest on drawings @ 10% p.a.
(ii) Y withdrew ₹ 60,000 during the year ended Dec. 31, 2018. Calculate interest on drawings @ 6% p.a.
(iii) Z withdrew ₹ 60,000 during the year ended March 31, 2019.

Calculate interest on drawings @ 6%.

SOLUTION.

(i) Average time period = 12 + 3 / 2 = 15 / 2 + months
Total drawings = ₹ 36,000 × 4 = ₹1,44,000
Interest on drawings = ₹ 1,44,000 × 10 /100 x 15 / 2 x 12
= ₹ 9,000
(ii) Total drawings = ₹ 60,000
Time = 6 months

(Since no dates are mentioned)
Interest on drawings = ₹ 60,000 × 6 / 12 x 6 / 100 = ₹ 1,800

(iii) Total drawings = ₹ 60,000
As time period for rate of interest is not given, so interest will be charged without considering any time period.
Interest on drawings = ₹ 60,000 × 6 / 100
= ₹ 3,600

2. A and B were partners sharing profits in the ratio 2 : 1. On April 1, 2019 they had capitals of ₹ 1,80,000 and ₹ 1,60,000 respectively. According to deed :

(a) Interest on capital will be allowed @ 6% p.a.
(b) A will be allowed a quarterly salary of ₹ 3,500 each.
(c) B will be allowed a monthly salary of ₹ 1,150.
(d) A will get a commission of 5% after charging all salary and interest on capital but before any commission.
(e) B will get a commission of 10% after charging all salary, interest and commission ended 31st March, 2020.
Profit for the year amounted to ₹ 1,62,000.

You are required to prepare Profit and Loss Appropriation A/c.

[Ans. A's Commission ₹ 5,690; B's Commission ₹ 9,828; Profit Divided — A—₹₹ 65,521; B — ₹ 32,761]

UNIT 2: ACCOUNTING FOR GOODWILL

MULTIPLE CHOICE QUESTIONS

1. Which one of the following does not affect goodwill?
(a) Nature of business (b) Location of customers (c) Efficiency of management (d) Technical know-how
2. Which one of the following markets will have maximum goodwill?
(a) Monopoly (b) Oligopoly (c) Duopoly (d) Perfect Competition
3. Goodwill is:
(a) A tangible asset (b) An intangible asset (c) A fictitious asset (d) None of the above
4. Goodwill can be:
(a) Purchased (b) Self-earned (c) Both (a) and (b) (d) None of these
5. The excess amount which the firm can get on selling its assets over and above the saleable value of its assets is called:
(a) Goodwill (b) Reserve (c) Super Profits (d) Surplus

FILL IN THE BLANKS

1. ………… is the excess of actual profits over the normal profits. **(Super Profit/Average Profit)**
2. A change in relationship among the partners amount to ………… of the partnership firm. **(Reconstitution/Goodwill)**
3. Goodwill = Super Profit × $\frac{100}{\ldots\ldots}$. **(Normal Rate of Return/Super Rate of Return)**
4. Goodwill is an intangible and ………… asset of a business. **(Tangible/Valuable)**
5. Goodwill is a ………… which arises due to connection and reputation of a business. **(Loss/Benefit)**

ONE MARK QUESTIONS

1. Define goodwill.
Ans. Goodwill is the value of reputation of a firm in respect of the profits expected in future over and above the normal profits.
2. When is the goodwill valued ?
Ans.1. Admission, 2. Retirement, 3. Dissolution, 4. Amalgamation, 5. Change in profit sharing ratio.
3. Name different methods of valuation of goodwill.

Ans. Average profit, Super Profit Method, Capitalisation Method.

4. **How is super profit calculated under super profit method ?**

Ans. Goodwill = Super Profits × No of Years' Purchase.

5. **How is goodwill valued under the super profit method ?**

Ans. Super Profit/Average Profits – Normal Profits.

Two Marks Questions

1. What are the features of goodwill?

Ans. Goodwill of a business has some special features, and is therefore distinct from other assets.

1. Goodwill of a business cannot be sold in a part or isolation.
2. There is no relation between the value of goodwill and the amount spent to build the same.
3. The valuation of goodwill is subjective and not objective, because its valuation will differ from estimator to estimator.
4. Value of goodwill changes from time to time with changes in factors of goodwill.
5. Goodwill is an intangible asset.

2. Distinguish between 'Average Profits' and 'Super Profit'.

Ans.

Basis	Average Profit	Super Profit
1. Capital Employed	For Calculation of average profit capital employed is not required.	Capital employed is required in this case.
2. Formula	$\frac{\text{Total Profit}}{\text{No. of years}}$	Actual Profit – Normal Profit
3. Profit for No. of year	Profit for more than one year is required to get average profit.	Only one year actual profit is required.

UNIT 3: CHANGE IN THE PROFIT-SHARING RATIO

MULTIPLE CHOICE QUESTIONS

1. Sacrificing Ratio is:

(a) New Ratio–Old Ratio (b) Old Ratio–Gaining Ratio (c) Old Ratio–New Ratio (d) Gaining Ratio–Old Ratio

2. Profit or loss on revaluation is transferred to partners' capital accounts:

(a) Continuing partner (b) Old partners (c) New partner (d) All partners

3. Unrecorded liabilities are shown on which side of the revaluation account?

(a) Credit side (b) Debit side (c) Both (a) and (b) (d) None of these

4. Decrease in assets is recorded on which side of the revaluation account?

(a) Credit side (b) Debit side (c) Both (a) and (b) (d) None of these

5. **X and Y are partners in a firm sharing profits and losses 2:3 with effect from 1st April, 2024, they decided to share profits equally. What is X's gain/sacrifice?**

(a) Gain 1/5 (b) Sacrifice 1/5 (c) Gain 1/10 (d) Sacrifice 1/10

FILL IN THE BLANKS

1. An increase in the value of an asset is recorded on the ………. side of Revaluation Account. **(Debit/Credit)**
2. Old ratio is, itself ………. ratio unless, otherwise mentioned. **(Credit/Sacrificing)**
3. Decrease in liability is a ………. **(Gain/Loss)**
4. Revaluation Account is ………. Account. **(Real/Nominal)**
5. Revaluation Account is prepared at the time of ………. **(Dissolution/Reconstitution of Firm)**
6. In the case of downward revaluation of a liability, Revaluation Account is ………. **(Debited/Credited)**
7. In the case of depreciation of an asset, Revaluation Account is ………. **(Debited/Credited)**

ONE MARK QUESTIONS

1. What is meant by "Reconstitution of a Partnership Firm''?

Ans. Any change in the economic relationship among existing partners amounts to "Reconstitution of the Partnership Firm.

2. What is Sacrificing ratio?

Ans. The ratio in which the old partners agree to sacrifice their share of profit in favour of the new partners is called Sacrificing ratio

3. What is meant by change in profit sharing ratio.

Ans. A change in profit sharing ratio implies purchase of share of profit by one or more partners from other partners.

4. Change in profit-sharing ratio amounts to dissolution of partnership or partnership firm? Give reason in support of your answer.

Ans. Change in profit-sharing ratio amounts to dissolution of partnership and not dissolution of firm as the existing agreement comes to an end and the firm continues under new agreement.

Two Marks Questions

1. A, B and C are partners sharing profits in the ratio 5 : 3 : 2. In future they will share profits and losses equally. Calculate the gaining ratio as well as the sacrificing ratio.

[Ans. A Sacrifices 1/6 and B gains 1/30 and C gains 2/15]

2. Calculate goodwill by capitalisation of average profits method :
(i) Actual Average Profits ₹ 72,000 (ii) Normal Rate of Return 12% (iii) Assets ₹ 8,00,000 (iv) Liabilities ₹ 3,50,000

[Ans. ₹ 1,50,000}

3. Name any two factors affecting goodwill of a partnership firm

4. Calculate the value of Goodwill on the basis of three years' purchase of the average profit of the last five years. The Profit/Losses were
2020 — Profit ₹ 40,000
2017 — Profit ₹ 70,000
2019 — Loss ₹ 32,000
2016 — Profit ₹ 82,000
2018 — Profit ₹ 80,000

[Ans. ₹ 1,44,000]

5. The average net profits expected in the future by ABC firm are ₹ 45,000 per year. The average capital employed in the business by the firm is ₹ 2,20,000. The rate of return expected from capital invested in this class of business is 10%. The remuneration of partner is estimated to be ₹ 6,500 per annum. Calculate the value of goodwill on the basis of two years' purchase of super profits.

[Ans. Rs 33,000]

Four Marks Questions

Q 1. Mention occasions on which reconstitution of partnership firm can take place.

Ans.

1. **Change in profit sharing ratio of existing partners.** Sometimes, the partners of a firm may mutually decide to change their profit sharing ratio. For example, X, Y and Z are partners in 2 : 1 : 3 ratio. But they have decided to change the ratio to 3 : 2 : 1.
2. **Admission of a new partner.** In order to have more resources in term of capital and managerial skill sometimes, a partner is admitted in the firm. For example Sonu and Monu are partners in a firm in 2 : 1 ratio. Sahil is admitted for 1/6 ratio. This will lead to reconstitution of firm and ascertaining of new ratio among Sonu, Monu and Sahil.
3. **Retirement of a Partner.** A partner may retire from the firm due to his personal reasons or business reasons. On retirement the old constitution of the firm is changed.
4. **Death of a Partner.** On death of a partner, a partnership is reconstituted provided the remaining partners decide to continue with the firm. For example : A, B and C are partners in a firm in 5 : 3 : 2 ratio. C died on 31st March A and B decided to continue the business in future equally.

UNIT – 4 : ADMISSION OF A PARTNER

One Mark Questions

Q. 1.What is meant by admission of a new partner ?

Ans. When a new partner is admitted into an existing firm.

Q. 2.Why is it necessary to revalue the assets and liabilities in case of admission of a new partner ?

Ans. So that any 'gain' or 'loss' in assets and liabilities should not be shared/borne by new partner.

Q. 3.What is hidden goodwill ?

Ans. Excess of desired total capital over the actual combined capital of all partners.

Q. 4.Define new profit sharing ratio in case of admission of a new partner.

Ans. The profit sharing ratio of all the partners (including new) after the admission of a new partner.

Q. 5.What is the formula for calculating Sacrifice Ratio ?

Ans. Sacrifice Ratio = Old Ratio — New Ratio

Fill in the Blanks

1. Profit or loss arising from revaluation is shared by .... partners. **(Old/New)**
2. Share of goodwill brought in cash by new partner is called .... **(Goodwill/Assets)**
3. If new partner's capital is not given, it can be worked out with the help of .... **(Balance of old Partner's Capital Account/All Partner Capital Account)**
4. When premium is raised in the books for the purpose of admission of a partner, it is credited to the capitals of .... partners. **(Old/New)**
5. The amount paid by the new partner to the old partners as a compensation for their past effort is called .... **(Reserve/Goodwill)**

Ans.1. Old, 2. goodwill, 3. Balance of old partners capital accounts, 4. old, 5. Goodwill.

SHORT NUMERICALS (2 MARKS)

Q.1. Raman and Shaman are partners sharing profits in the ratio of 7 : 3. Mohan was admitted with $\frac{3}{7}$th share in the profits which he took $\frac{2}{7}$th from Ram and $\frac{1}{7}$th from Shyam. Calculate new ratio of partners.

Q. 2. Sita, Priya and Ragini were partners in a firm sharing profits in 3 : 3 : 2 ratio. They admitted Gita as a new partner for 4/7 profit. Gita acquired his share 2/7 from Sita, 1/7 from Priya and 1/7 from Ragini. Calculate new profit sharing ratio.

Q. 3. Puneet and Rahul are partners in a firm sharing profits in the ratio of 7 : 3. Vikas is admitted as a new partner. Puneet sacrifices $1/7^{th}$ of his share in profits in favour of Vikas and Rahul $2/7^{th}$ of his share in favour of Vikas. Calculate the new profit sharing ratio between Puneet, Rahul and Vikas.

NUMERICALS (4 MARKS)

Q.1. The following was the Balance Sheet of A and B who were sharing profits in the ratio of 2/3 and 1/3 as at 31st march, 2023 :

Liabilities	₹	Assets	₹
Creditors	65,900	Cash	1,200
Capitals :		Sundry Debtors	9,700
A	30,000	Stock	20,000
B	20,000	Plant & Machinery	35,000
		Building	50,000
	1,15,900		1,15,900

On 1st April, 2023 they agreed to admit C into partnership on the following terms :

(a) C was to be given 1/3 share in profits, and was to bring ₹ 15,000 as capital and ₹ 6,000 as share of goodwill.

(b) That the value of stock and plant & machinery were to be reduced by 10%.

(c) That a provision of 5% was to be created for doubtful debts.

(d) That the building account was to be appreciated by 20%.

(e) Investments worth ₹ 1,400 (not mentioned in the Balance Sheet) were to be taken into account.

(f) That the amount of goodwill was to be withdrawn by the old partners.

Prepare the Revaluation A/c, Capital Accounts of the new firm.

Q.2. The following is the Balance Sheet of A and B as at 31st March, 2023 who share profits in the ratio of 2 : 1.

Liabilities	₹	Assets		₹
Bank Overdraft	15,000	Sundry Debtors	40,000	
Reserve Fund	12,000	*Less* : Provision	3,600	36,400
Sundry Creditors	20,000	Stock		20,000
Capitals : A	40,000	Building		25,000
B	30,000	Patents		2,000
		Machinery		33,600
	1,17,000			1,17,000

They admitted C into partnership on 1st April, 2023. New profit sharing ratio is agreed as $\frac{3}{6}:\frac{2}{6}:\frac{1}{6}$. C brings in proportionate capital after the following adjustments :

(1) C brings in ₹ 10,000 in cash as his share of Goodwill.

(2) Provision for doubtful debts is to be reduced by ₹ 2,000.

(3) There is an old typewriter valued ₹ 2,600. It does not appear in the books of the firm. It is now to be recorded.

(4) Patents are valueless.

(5) 2% discount is to be received from creditors.

Prepare Revaluation Account, Capital Accounts.

UNIT – 5 : RETIREMENT OR DEATH OF A PARTNER

One Word to one Sentence Questions

Q. 1.What do you mean by Retirement of a partner ?

Ans. Retirement of a partner means that the partner ceases to be a partner of the firm. It results in reconstitution of the firm by which old partnership comes to an end and a new partnership among the continuing (remaining) partners comes into existence.

Q. 2.What is Gaining Ratio ?

Ans. Ratio acquired by continuing partners on the retirement of a partner.

Q. 3.What is the formula for calculating Gaining Ratio ?

Ans. New Ratio — Old Ratio = Gaining Ratio.

Q. 4.Who are called Gaining Partners ?

Ans. The partners whose shares have increased as a result of change are known as Gaining Partners.

Q. 5. What is meant by reconstitution of partnership firm ?

Ans. Any change in existing agreement of partnership amounts to reconstitution of partnership firm.

Fill in the Blanks

1. Gaining Ratio = New Ratio - .... (Old Ratio/Sacrificing Ratio)
2. Sacrificing Ratio = old Ratio-.......... (New Ratio/Gaining Ratio)
3. Retiring partner share of goodwill is adjusted from remaining partner capital account in ……... (Gaining Ratio/Sacrificing Ratio)
4. Revaluation account is a ………account. (Nominal /Real)

5. A joint life policy became due when any of partner… .... or the policy mature whichever is earlier. (Dies/Live)

Answer:(1) Old Ratio (2) New Ratio (3) Gaining Ratio (4) Nominal (5) Dies

SHORT NUMERICALS (2 MARKS)

Q.1. (i) X, Y and Z are partners sharing profits in the ratio of 1/2 : 1/3 : 1/6. Find out the new ratio if Y retires.

(ii) A, B and C are partners sharing profits in the ratio of 1/2 : 2/5 : 1/10. Find out the new ratio if A retires.

Q.2. P, Q and R were partners sharing profits in the ratio of 5 : 4 : 3. R retired and his share was taken up by P and Q in the ratio of 3 : 2. Find out the new ratio.

Q.3. M, N, O and P are partners sharing profits and losses in the ratio of 1/3, 1/6, 1/3 and 1/6 respectively. O retires and M, N and P decide to share the profits and losses equally in future. Calculate the gaining ratio.

4 MARKS QUESTIONS

Q. 1. What adjustments are required to be made at the time of retirement of a partner?

Ans. The following adjustments are usually required to be made at the time of retirement of a partner :

(a) Adjustment in profit sharing ratio.
(b) Adjustment of goodwill.
(c) Adjustment of profit or loss arising on the revaluation of assets and liabilities.
(d) Adjustment of reserves, accumulated profits and losses.
(e) Adjustment of joint life policy,.
(f) Making payment to the retiring partner.
(g) Adjustment of partners' capitals.

Q. 2. Give any two differences between Sacrificing Ratio and Gaining Ratio.

Ans. Distinction between Sacrificing Ratio and Gaining Ratio :

Basis	Sacrificing Ratio	Gaining Ratio
Meaning	Sacrificing Ratio is the ratio in which old partners surrender a part of their share in favour of the new partner.	Gaining Ratio is the ratio in which the remaining partners acquire the share of the retiring or deceased partner.
Formula	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio
When to Calculate ?	This ratio is calculated at the time of admission of a partner.	This ratio is calculated at the time of retirement or death of a partner.
Use	This ratio is calculated to find out the amount of compensation to be paid by the new partner.	This ratio is calculated to find out the amount of compensation to be paid to the retiring partner.

Q. 3. What adjustments are required to be made at the time of death of a partner ?

Ans. The following adjustments are usually required to be made at the time of death of a partner:

(1) Calculation of new profit sharing ratio of the remaining partners.
(2) Adjustment of goodwill.
(3) Revaluation of assets and liabilities and distribution of the profit or loss arising on such revaluation.
(4) Adjustment of reserves, accumulated profits and losses.
(5) Adjustment of deceased partner's share of profit from the date of last balance sheet to the date of his death.
(6) Adjustment of joint life policy.

(7) Making payment to the executors of the deceased partner.

(8) Adjustment of partners' capitals.

UNIT – 6 : DISSOLUTION OF PARTNERSHIP FIRM

One Word to One Sentence Questions

Q. 1.What is meant by Dissolution of Partnership firm ?

Ans. According to Section 39 of the Partnership Act 1932 : "Dissolution of firm means dissolution of partnership between all the partners in the firm.''

Q. 2.When may the court order dissolution of a firm ?

Ans.(i) Partner becomes of unsound mind (ii) Permanent incapability of partner (iii) Misconduct of a partner transfers his share to third party without consent of other partners.

Q. 3.What are the important causes of dissolution of partnership firm ?

Ans.A firm may be dissolved by Agreement, by happening of an event voluntarily, Compulsory or by orders of the court.

Q. 4.What is meant by compulsory dissolution of a firm ?

Ans. That condition under which dissolution of firm has become compulsory, it is called compulsory dissolution of the firm.

Q. 5.Give two cases of compulsory dissolution of firm.

Ans.(a) On the Insolvency of any partner. (b) Business of firm developed illegal.

Fill in the Blanks

1. Amount received from realisation of an unrecorded asset is showed ------------------------------ side of Realisation Account. (Debit/credit)
2. When firm is dissolved goodwill account is closed by transfer to ------------------------- (Realisation account/Nominal)
3. Realisation account is a ------------account. (Nominal/Book)
4. On dissolution all assets and liabilities are transferred to the realization account at their respective ------------values. (Letter/(Book).
5. In the event of dissolution of a firm partners---------------- assets are first use are payment of personal liabilities. (Real/Personal)

Answer:

(1) credit (2) Realisation account (3) Nominal (4) Book (5) Personal

Multiple Choice Questions:

1. On the dissolution of a firm, an amount realized firm the underscored assets is credited to
   (a) cash account (b) realization account (c) revaluation account(d) None of these
2. Out of the proceeds received from the sale of Sunday asset-will be paid first and all.
   (a) Partner's capital (b) Creditors liability (c) Partner's loss (d) None of these
3. When a first dissolved goodwill account closed by transfer to
   (a) realization account (b) capital account and the partner (c) revaluation account (d) None of these
4. Unrecorded Liability when paid on dissolution of a firm is desisted to
   (a) Liability account (b) Realization account (c) partners capital account the partners personal Assets (d) None of above
5. At the time of dissolution on unrecorded assets taken away by Mr. X a partner should be debited to
   (a) assets account (b) Mr. X capital account (c) profit and loss (d) None of above

Answer: (1) Realization account (2) Creditors liability (3) Realization account (4) Realization account (5) Mr. X capital account

2 Marks Questions

Q. 1. What is meant by Dissolution of Partnership Firm ?

Ans. Dissolution of Partnership Firm means firm comes to an end and ceases to function as a firm. According to Section 39 of Indian Partnership Act, 1932, "Dissolution of a firm means dissolution of partnership between all the partners in the firm". If all the partners decide to dissolve the firm, as a result, all the business activities come to an end, accounting books of the firm are closed and accounts of all assets & liabilities are closed by transferring these to realisation account. The assets of the firm are sold, auctioned or disposed off and external liabilities are paid. After paying the external liabilities, the balance is paid to the partners in settlement of their accounts.

Q. 2. Write any two difference between Firm's debts and Private debts.

Ans.

DIFFERENCE BETWEEN FIRM'S DEBTS AND PRIVATE DEBTS

Basis	Firm's debts	Private debts
Meaning	Firm's debt means the debt owed by the firm to outsiders.	Private debt means debt owed by a partner in his personal capacity to any other person.
Liability	Partners are jointly & severally liable for the firm's debt.	The partners are personally liable for their private debts.

Q. 3. What is Compulsory Dissolution of Firm ?

Ans. According to Section 41 of Indian Partnership Act, 1932, there will be compulsory dissolution of partnership firm under following circumstances :

- On the insolvency of all partners or all except one.
- If the resident of an enemy country becomes a partner in the firm.
- If the business of the firm is declared illegal.

Q.4. Pass journal entries for the following transactions :

(i) Realisation expenses amounted to ₹ 10,000.

(ii) Realisation expenses amounted to ₹ 7,000 were paid by partner M.

(iii) Realisation expenses amounted to ₹ 20,000 were paid by the firm on behalf of a partner.

Q.5. Pass journal entries for the following transactions :

(i) Vijay, a partner, is allowed a remuneration of ₹ 20,000 for dissolution work and is to bear all expenses of realisation which amounted to ₹ 12,000 were paid by the firm.

(ii) Raman, a partner, is to be paid remuneration of ₹ 30,000 for dissolution work. Realisation expenses amounted to ₹ 7,000 were paid by the firm.

4 Marks Questions

Q. 1. Give any four difference between dissolution of partnership and dissolution of partnership firm.

Ans. Difference between Dissolution of Partnership and Dissolution of Partnership Firm :

Basis	Dissolution of Partnership	Dissolution of Partnership Firm
Meaning	Dissolution of partnership means the change in the existing relations of partners.	Dissolution of a firm means the complete closure of the business.
Business Activities	The firm may continue its business activities as usual.	All business activities of the firm come to an end.
Revaluation/ Realisation	It involves reconstitution of the firm and thus requires revaluation of the assets and liabilities of the firm.	It involves winding up of the firm and thus requires realization of assets and settlement of liabilities.
Closure of Books of Accounts	It does not require final closure of books of accounts of the firm.	It requires final closure of books of accounts of the firm.

Q. 2. What are the various steps to be taken to close the books of accounts at the time of dissolution ?

Ans. Dissolution of the firm involves closure of firm's books of accounts. Following are steps to be taken to close the books of accounts.

(1) Balance Sheet on the date of dissolution is to be prepared if it is not given.

(2) After preparation of Balance Sheet, Realisation Account should be prepared to know profit or loss on realisation.

(3) Partners' capital accounts are then prepared to find out final amount to be paid to partners or to be brought by them.

(4) Lastly, cash account is prepared. Balance of both Receipts & Payments side should be equal which also verify the arithmetical accuracy of accounting treatment.

Prepared by : State Commerce Team

Q.3. D and R were partners sharing profits and losses equally. On 31st March, 2023, the Balance Sheet of the firm was as follows :

BALANCE SHEET
AS AT 31ST MARCH, 2023

Liabilities	₹	Assets		₹
Sundry Creditors	60,000	Cash		25,000
R's Loan	15,000	Debtors	42,000	
General Reserve	15,000	*Less* : Provision for		
Investment Fluctuation Fund	2,000	Doubtful Debts	6,000	36,000
R's Capital	30,000	Stock		12,000
D's Capital	10,000	Investments		18,000
		Plant and Machinery		39,000
		D's Loan		2,000
	1,32,000			1,32,000

Their firm was dissolved on above date and the assets and liabilities were settled as follows :

(i) The creditors were paid off by giving them the plant and machinery at a discount of 10% and the balance in cash.

(ii) R's loan was paid with interest of ₹ 500.

(iii) Debtors realised 10% less of the amount due from them.

(iv) Stock was taken over by R at ₹ 7,000.

(v) Investments realised 80% of their book value.

(vi) Realisation expenses ₹ 600 were paid by D.

You are required to prepare Realisation Account.

SECTION - B

UNIT -7 : ACCOUNTING FOR SHARE CAPITAL

One Mark Questions:

1. What is Company?
Ans. Company is an artificial person created by law, having separate entity with perpetual succession and common seal.
2. What do you mean by shares?
Ans. The units into which the capital of a company is divided are called shares.
3. Name the types of shares issued as Per Companies Act 2013.
Ans. Equity shares and Preference shares.
4. State any one essential feature of a company.
Ans. It is an artificial person created by law.
5. What is preference share?
Ans. That part of share capital which enjoys preferential right to (a) payment of dividend (b)
Return of Capital.

Fill in the Blanks:

1. A new company cannot issue shares at a………... (Discount/Premium)
2. Shares which are not preference shares are called……… (Equity Share /debenture)
3. Premium received on issue of shares is shown on the side of balance sheet. (Assets/Liabilities)
4. Balance in share forfeited account is shown in balance sheet under the head .... (Shares Capital/Current Liabilities)
5. Share allotment account is a ……….. account.(Personal/Real)

Answer:(1) Discount (2) Equity shares (3) Liabilities (4) Share capital (5) Personal

Multiple Choice Questions:-

1. A company has …………

   (a) Limited Liability (b) Perpetual Existence

   (c) Separate Legal Entity (d) All of the above

2. Shareholders are :

   (a) Creditors of the company (b) Owners of the company (c) Customers of the company (d) None of these

3. The Liability of members in a company is …………

   (a) Fluctuating (b) Stable (c) Unlimited (d) Limited

4. Maximum number of members in a private company is :

   (a) No Limit (b) 20 (c) 200 (d) 7

5. Shareholders receive from the company :

   (a) Dividend (b) Profit (c) Commission (d) Interest

1. (d), 2. (b), 3. (d), 4. (c), 5. (a),

Two Marks Questions:

Q.1 What is meant by equity share ?

Ans. An equity share is that share which does not carry those preferential rights which are attached to every preference share. "An equity share is a share which is not a preferential share." Equity shares carry no special rights in respect of annual dividend and return of capital in case of winding up of company. Unless otherwise stated, the shares of a company are deemed to be equity or ordinary share. Equity shareholders are entitled to surplus profits after all preferential rights have been satisfied.

Q.2 What is Sweat Equity Shares ?

Ans. Sweat equity shares means the equity shares issued by the company to its employees or directors at a discount or for consideration other than cash for providing know how or making available intellectual property rights provided that not less than one year has elapsed since the date of commencement of business. Such shares cannot be resold by their holders within a period of one year called lock-in-period.

Q.3 Make a difference between Calls in Arrears & Calls in Advance.

Ans.

Calls in Advance	Calls in Arrears
1. Applicants send more money than called up is called Calls-in-Advance.	1. Shareholder makes a default in sending call money is called as calls in arrears.
2. Company allow interest on calls in arrears.	2. Company charge interest on calls in advance.
3. Rate of interest as per Table 'F' is 12% p.a.	3. Rate of interest as per Table 'F' is 10% p.a.

Q.4 Spencer took over assets of ₹ 25,00,000 and liabilities of ₹ 6,00,000 of Queen Ltd. Spencer Ltd. paid the purchase consideration by issuing 12,000 Equity Shares of ₹ 100 each at a premium of 10% and ₹ 10,00,000 by Bank Draft. Calculate purchase consideration and pass necessary Journal entries in the books of King Ltd.

Solution :

Calculation of Purchase Consideration : ₹

Nominal value of shares issued = 12,000 × ₹ 100 = 12,00,000

Securities Premium Reserve = 1,20,000

Bank Draft = 10,00,000

Purchase consideration = 23,20,000

JOURNAL OF SPENCER LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(i)	Sundry Assets A/c	Dr.		25,00,000	
	Goodwill A/c (Balancing Figure)	Dr.		4,20,000	
	To Sundry Liabilities A/c				6,00,000

	To Queen Ltd.			23,20,000
	(Purchase of assets and liabilities of Queen Ltd.)			
(ii)	Queen Ltd. Dr.		23,20,000	
	To Equity Share Capital A/c			12,00,000
	To Securities Premium Reserve A/c			1,20,000
	To Bank A/c			10,00,000
	(12,000 equity shares of ₹ 100 each issued at a premium of 10% and ₹ 10,00,000 paid by bank draft)			

Q. 5 Raghav Ltd. issued fully paid equity shares of ₹ 60 each at a premium of 25% for the purchase of a running business from Gupta Bros. for a sum of ₹ 15,00,000.

The assets and liabilities consisted of the following :

Plant ₹ 6,00,000; Trucks ₹ 8,00,000; Stock ₹ 3,00,000; Machinery ₹ 6,00,000 and Sundry Creditors ₹ 5,00,000.

You are required to pass necessary journal entries for the above transactions in the books of Raghav Ltd.

Solution :

JOURNAL OF RAGHAV LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Plant A/c Dr.		6,00,000	
	Trucks A/c Dr.		8,00,000	
	Stock A/c Dr.		3,00,000	
	Machinery A/c Dr.		6,00,000	
	To Sundry Creditors A/c			5,00,000
	To Gupta Bros.			15,00,000
	To Capital Reserve (Balancing Figure)			3,00,000
	(Purchase of Business from Gupta Bros.)			
	Gupta Bros. Dr.		15,00,000	
	To Equity Share Capital A/c			12,00,000
	To Securities Premium Reserve A/c			3,00,000
	(Issue of 20,000 Shares of ₹ 60 each at a premium of ₹ 15 per share)			

Note : No. of Shares to be issued $\frac{`15,00,000}{75} = 20,000$

Q. 6. On 1.1.2022 A Ltd. received in advance the first call of ₹ 3 per share on 10,000 equity shares. The first call was due on 15-2-2022.

Journalise the above transactions and transfer the advance to first call account by opening a Calls-in-Advance Account.

Solution :

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
Jan. 1	Bank A/c Dr.		30,000	
	To Calls-in-Advance A/c			30,000
	(First call money received in advance on 10,000 equity shares)			
Feb. 15	Calls-in-Advance A/c Dr.		30,000	
	To Equity Share First Call A/c			30,000
	(Amount transferred from Calls-in-advance account)			

DR. **CALLS-IN-ADVANCE ACCOUNT** **CR.**

Date	Particulars	₹	Date	Particulars	₹
2022			2022		

Feb. 15	To Equity Share First Call A/c	30,000	Jan. 1	By Bank A/c	30,000

Q. 7. A Limited company forfeited 100 equity shares of the face value of 10 each. Rs 6 per share called up, for non-payment of first call of Rs 2 per share, The forfeited share were subsequently re-issued as fully paid @Rs7 each. Give necessary entries in company's journal.

Q. 8. A Ltd. Purchased assets for Rs 4,50,000 from B & Co. A sum of Rs 1.75,000 was paid by means of bank draft and for the balance due A 1.td. issued equally share of Rs 10 each at a premium of 10% journalise the above transactions in the books of the company.

Four Marks questions:

Q. 1 Explain Types of Preference Shares.

Ans. (i) Cumulative Preference Shares. Cumulative Preference Shares are those shares on which arrears of dividend accumulate. It means that if dividend is not declared in any year due to non availability of profit then arrears of dividends are to be carried forward and paid out of profits of subsequent years before dividend is paid to equity shareholders. For example. A company has 10,000 9% preference shares of ₹ 100 each and dividend is not paid for 2012 and 2013. The directors must pay ₹ 2,70,000 to preference shareholders before they can pay the dividend to equity shareholders for 2014.

(ii) Non cumulative preference shares. In this case, if no dividend is declared in any particular year, the right to receive such dividend for that year expires or Arrears of dividend do not accumulate.

(iii) Participating Preference Shares. Shares providing a right to its holders to participate in the surplus profits left after paying dividend to equity shareholders at a stipulated rate are participating preference shares. These shares usually also provide a right to participate in the surplus assets left after the repayment of capital to equity shareholders on the winding up of the company.

(iv) Non-participating preference shares. The preference shares which do not carry the right to participate in the profits remaining after equity shareholders, have been paid dividend are 'Non-participating Preference Shares'. Unless otherwise stated, a preference share is always deemed to be a non-participating preference share.

(v) Convertible preference shares. Convertible preference shares are those shares which can be converted into equity shares with in a certain period.

(vi) Non-convertible preference shares. These are the shares which do not have the right of the conversion into equity shares. Unless otherwise stated, a preference share is always deemed to be a non-convertible one.

(vii) Redeemable preference shares. These are the shares, the amount of which will be returned by the company to the holder of such shares after the specified time or at a time earlier to it.

(viii) Irredeemable Preference Shares. Irredeemable Preference Shares are those Preference Shares the amount of which can be returned by the company to the holders of such shares when the company is wound up.

The Companies Act, 2013 does not permit issue of Irredeemable Preference Shares.

Q. 2 What are the categories in which the share capital of a company is divided ?

Ans. The term share capital refers to the amount of money raised by the issue of shares. The share capital of a company is divided into following categories :

1. Authorised capital. It is the capital with which the Joint Stock Company is registered. It is the maximum amount of share capital which is stated in the memorandum of company which a company is authorised to issue. It is also called as registered or Nominal Capital.

2. Issued capital. It is that part of Authorised capital which is issued for cash or for consideration other than cash and includes shares issued to the signatories of the memorandum.

3. Subscribed Capital. It is that part of issued capital which is actually subscribed for by the public and includes shares subscribed by the signatories of memorandum.

4. Called up capital. It is that part of subscribed capital which is actually called up by the company.

5. Paid up capital. It is that part of called up capital which has actually been paid by the shareholders. It is equal to called up capital minus calls in arrears.,

6. Reserve Capital. A company may by special resolution determine that any portion of it's uncalled share capital shall not be called up except in the event and for the purpose of winding up of the company. Such capital is known as 'Reserve Capital'.

Q. 3 Distinguish between 'Reserve Capital' and 'Capital Reserve'.

Ans.

Reserve Capital	Capital Reserve
1. It refers to that portion of uncalled share capital which shall not be called up except in the event of winding up of the company.	Capital reserve is made out of capital profits. It refers to those amounts which are not regarded as free for distribution by way of dividend.
2. It is not mandatory to create reserve capital.	It is mandatory to create capital reserve in case of capital profits.

3. It is not shown in the company's balance sheet.	It is shown as a first item under the head 'Reserve and Surplus' on the liabilities side of company's balance sheet.
4. A special resolution is required to be passed for its creation.	No special resolution is required to create capital reserve.

Q.4 Alpha limited company invited applications for 30,000 equity shares of ₹ 10 each payable as follows :

On Application ……… ₹ 3
On Allotment ……… ₹ 4
On First Call ……… ₹ 2
On Final Call ……… The Balance

Applications were received for 33,000 shares. Allotments were made on following basis :

(i) To applicants for 21,000 shares – in full.
(ii) To applicants for 12,000 shares – 9,000 shares

Excess money paid on application was utilized towards allotment money.

Ram who was allotted 900 shares out of the group applying for 12,000 shares failed to pay allotment money and money due on calls. His shares were forfeited. 600 forfeited shares were re-issued as fully paid on receipt of ₹ 8 per share.

Pass journal entries in the books of the company.

Solution :

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (33,000 × 3)	Dr.		99,000	
	To Equity Share Application A/c				99,000
	(Application money received)				
	Equity Share Application A/c	Dr.		99,000	
	To Equity Share Capital A/c (30,000 × 3)				90,000
	To Equity Share Allotment A/c (3,000 × 3)				9,000
	(Transfer of application money)				
	Equity Share Allotment A/c (30,000 × 4)	Dr.		1,20,000	
	To Equity Share Capital A/c				1,20,000
	(Allotment money due)				
	Bank A/c	Dr.		1,08,300	
	To Equity Share Allotment A/c				1.08,300
	(Allotment money received)				
	Equity Share First Call A/c (30,000 × 2)	Dr.		60,000	
	To Equity Share Capital A/c				60,000
	(First call due)				
	Bank A/c (29,100 × 2)	Dr.		58,200	
	Call in Arrears A/c (900 × 2)	Dr.		1,800	
	To Equity Share First Call A/c				60,000
	(First call received)				
	Equity Share Second & Final Call A/c (30,000×1)	Dr..		30,000	
	To Equity Share Capital A/c				30,000
	(Second and final call due)				
	Bank A/c	Dr.		29,100	
	Call in Arrears A/c (900 × 1)	Dr.		900	
	To Equity Share Second & Final Call A/c				30,000
	(Second and final call received)				
	Equity Share Capital A/c (900 × 10)	Dr.		9,000	

	To Equity Share Allotment A/c To Equity Share First Call A/c To Equity Share Second & Final Call A/c To Share Forfeited A/c (1,200 × 3) (900 shares of Ravi forfeited)			2,700 1,800 900 3,600
	Bank A/c (600 × 8) Dr. Share Forfeited A/c (600 × 2) Dr. To Equity Share Capital A/c (600 × 10) (Reissue of 600 forfeited shares)		4,800 1,200	 6,000
	Share Forfeited A/c Dr. To Capital Reserve A/c (Profit on re-issue of 600 shares tfd. to Capital Reserve A/c)		1,200	 1,200

UNIT - 8 : ACCOUNTING FOR DEBENTURES

One Mark Questions:

Q. 1. What do you understand by the term 'Debentures'?
Ans. According to Section 2(30) of the Companies Act, 2013 "Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on the assets of the company or not."
Q. 2. Give any one characteristic of debentures.
Ans. It is a loan taken by company.
Q. 3. Name any three types of debentures.
Ans. 1. Secured Debentures. 2. Redeemable Debentures. 3. Registered Debentures.
Q. 4. What is meant by Bearer Debenture?
Ans. Those Debentures which are transferable by mere delivery.
Q. 5. What do you mean by Convertible Debentures ?
Ans. The holders of which are given option to convert the debenture into equity shares.
Q. 6. What are Redeemable Debentures ?
Ans. Which are repayable after a stipulated period.
Q. 7. What do you mean by Redemption of Debentures ?
Ans. Redemption of Debentures mean repayment of amount borrowed from debenture holders.
Q. 8. What is DRR ?
Ans. DRR stands for Debenture Redemption Reserve, which is created out of profits for the purpose of redemption of debentures.
Q. 9. Name two methods of Redemption of Debentures ?
Ans. (a) By lumpsum (b) draw of lots.
Q. 10. What do you mean by redemption of debenture in lumpsum on maturity ?
Ans. Total amount of debenture are paid in one instalment on due date of maturity.
Q. 11. What is meant by redemption of debentures out of capital?
Ans. When debentures are redeemed without issuing fresh debentures.
Q. 12. Name two sources of finance for redemption of debentures.
Ans. (i) Out of profit (ii) Out of fresh issue.

Multiple Choice Questions:

1. Discount on issue of debentures is an _______ asset :
   (a) Fictitious (b) Fixed (c) Current (d) None of these
2. Zero coupon bonds are issued :
   (a) Without specified Rate of Interest (b) With specified Rate of Interest
   (c) At Zero Interest rate (d) None of these
3. Interest payable on debentures is :
   (a) Transferred to general reserve (b) transferred to sinking fund investment account
   (c) a charge against profits of a company (d) an appropriation of profits of the company
4. A debenture holder is entitled to :
   (a) Interest at the fixed rate (b) Voting rights in the company

(c) Share in profits (d) Fixed dividend

5. On liquidation of a company, principal amount of debentures in returned :

(a) After Equity Capital (b) Before Equity Capital (c) Last of All (d) First of All

6. When debentures are issued at par and redeemable at a premium, credit given to premium on redemption of debentures account is in the nature of a:

(a) nominal account (b) real account (c) personal account (d) both (a) and (b)

1. (a), 2. (a), 3. (c), 4. (a), 5. (b), 6. (c),

2 Marks Questions:

Q. 1. What is a debenture?

Ans. According to **Section 2(30) of the Companies Act, 2013** *"Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on the assets of the company or not."*

Q. 2. Write difference between Debentures and Debenture Stock.

Ans. Difference between Debenture and debenture stock

1. Debenture stock is always fully paid up where as debentures need not to be fully paid up.
2. Debenture stock has no identity where as debentures have identity in terms of number assigned to them.
3. Debenture stock can be transferred to any fractions which the holder wishes, where as Debenture can only be transferred in full units.

Q. 3. Write Types of Debentures.

Ans. Following Chart Shows Various Types of Debentures

TYPES OF DEBENTURES

↓

↓	↓	↓	↓	↓
From security Point of view	**From redemption Point of view**	**From record Point of view**	**From priority Point of view**	**From convertibility Point of view**
↓	↓	↓	↓	↓
(i) Mortgage or Secured Debentures	(i) Redeemable Debentures	(i) Registered Debentures	(i) First Debentures	(i) Convertible Debentures
(ii) Unsecured or Naked Debentures (Can't be issued)	(ii) Irredeemable Debenture	(ii) Bearer Debentures	(ii) Second Debentures	(ii) Non-convertible Debentures

Q. 1. What is meant by Redemption of Debentures?

Ans. Redemption of debentures means repayment of the amount of debentures to debenture holders. In other words, redemption refers to discharge of liability on account of debentures by repaying the due amount of debentures. Debentures can be redeemed at par, at premium or at discount.

Q. 2. When can a Debenture be redeemed?

Ans. It can pay a lump sum on the date of maturity or may pay in annual installments. A company can also purchase it from the open market or convert to an equity share in case of convertible debentures.

Q. 3. Name the account which is opened only when redemption is out of profits.

Ans. Redemption out of profits means that an amount equal to debentures issued (i.e., 100% of the amount of debentures) is transferred from Surplus in Statement of Profit and Loss to a newly opened account named 'Debenture Redemption Reserve Account'.

Q. 1. X Ltd. issued 1,000, 4% Debentures of ₹ 100 each at a discount of 5% payable in one installment. Make journal entries.

Solution :

JOURNAL

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		95,000	
	To Debenture Application & Allotment A/c			95,000
	(Being application & allotment money received)			
	Debenture Application & Allotment A/c (1,000 × 95) Dr.		95,000	
	Discount on Issue of Debentures A/c (1,000 × 5) Dr.		5,000	
	To 4% Debentures A/c (1,000 × 100)			1,00,000
	(Being 1,000 debentures of ₹ 100 each issued at a discount of 5%)			

Q. 4. Harry Ltd. purchased building for ₹ 6,60,000. Half of the payment was made in cash and the remaining half by the issue of 12% debentures at a premium of 10%. Pass necessary journal entries.

Solution :

IN THE BOOKS OF Z LTD.
JOURNAL

Date	Particulars		Dr. (₹)	Cr. (₹)
	Building A/c Dr.		6,60,000	
	To Vendor's A/c			6,60,000
	(Being building purchased)			
	Vendor's A/c Dr.		6,60,000	
	To Bank A/c			3,30,000
	To 12% Debentures A/c (3,30,000 × 100/110)			3,00,000
	To Securities Premium Reserve A/c			30,000
	(Being payment made to vendor)			

Q. 5. A Ltd. bought machinery from B & Co. for ₹ 5,80,000. It paid ₹ 1,05,000 by cheque and the balance by issuing 10% debentures of ₹ 10 each at 5% discount. Pass journal entries in the books of X Ltd.

Solution :

IN THE BOOKS OF X LTD.
JOURNAL

Date	Particulars		Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		5,80,000	
	To B & Co.'s A/c			5,80,000
	(Being machinery purchased)			
	B & Co.'s A/c Dr.		5,80,000	
	Discount on Issue of Debentures A/c		25,000	
	$(50{,}000 \times 10 \times \frac{5}{100})$ Dr.			
	To Bank A/c			1,05,000
	To 10% Debentures A/c *(50,000 × 10)			5,00,000
	(Being payment made to Y & Co.)			

Balance amount to be paid by issuing 10% debentures = 5,80,000 – 1,05,000 = 4,75,000

Issue price of debentures = 10 – (10× 5%) = 10 – 0.50 = ₹ 9.50

* No. of 10% debenture to be issued to B & Co. = $\frac{4,75,000}{9.50}$ = 50,000

Q. 4. Sindh Bank issued 10,000. 9% Debentures of ₹ 100 each at a premium of 10% on Sep. 30, 2018 redeemable on Sep. 30, 2023. The issue was fully subscribed. Record necessary entries for issue and redemption of debentures.

Solution :

BOOKS OF PUNJAB NATIONAL BANK
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
Sep. 30	Bank A/c Dr.		11,00,000	
	To 9% Debenture Application & Allotment A/c			11,00,000
	(Being Receipt of application money)			
Sep. 30	9% Debentures Application & Allotment A/c Dr.		11,00,000	
	To 9% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being Transfer of application money)			
2023				
Sep. 30	9% Debentures A/c Dr.		10,00,000	
	To Debenture holders A/c			10,00,000
	(Being Amount due on redemption)			
Sep. 30	Debenture holders A/c Dr.		10,00,000	
	To Bank A/c			10,00,000
	(Being Payment of amount due to debenture holders)			

UNIT – 9 : ANALYSIS OF FINANCIAL STATEMENT

Multiple Choice Questions

1. Balance Sheet of a company is required to be prepared in the format given in …………
   (a) Table A (b) Schedule III Part III
   (c) Schedule III Part I (d) Schedule III Part II
2. As per Companies Act, the Balance Sheet of a company is required to be presented in ……..
   (a) Vertical form (b) Horizontal form
   (c) Either Horizontal or Vertical Form (d) Neither of the above
3. In a company's Balance Sheet ……… appear under the head 'non-current assets'.
   (a) Vehicles (b) Patents
   (c) Goodwill (d) All of the above
4. Debentures are shown in the balance sheet of a company under the item
   (a) current liabilities (b) long term borrowing
   (c) unsecured loans (d) none of above
5. The balance sheet of a company
   (a) should be prepared in any form so as to give a true and fair picture of the state of affairs of the company
   (b) must be prepared in the form set out by law
   (c) may be prepared in any form
   (d) None of these

Answers: 1. (c), 2. (a), 3. (d), 4. (b), 5. (b)

Fill in the Blanks:

1. A new company cannot issue shares at a………... (Discount/Premium)
2. A public company cannot issue……..shares. (Deferred/Equity)
3. The balance in share forfeited account for the reissue of forfeited shares is shown on the..side of balance sheet. (Liabilities/Assets)
4. Shares which are not preference shares are called……… (Equity Share /debenture)
5. Premium receiver on issue of shares is shown on the side of balance sheet. (Assets/Liabilities)
6. Balance in share forfeited account is shown in balance sheet under the head… ....(Shares Capital/Current Liabilities)

Answer: (1) Discount (2) deferred (3) Liabilities (4) Equity shares (5) Liabilities (6) Share capital

2 Marks Questions:

Q.1. What is meant by Financial Statements ?

Ans. Financial Statements are the end products of the accounting process. Financial statements may be defined as the reports prepared for the purpose of presenting a periodical review of the performance and the financial position of a business enterprise. Financial statements are the indication of profitability and financial soundness of a business enterprise.

Q.2. What is meant by Contingent Liabilities ?

Ans. Contingent Liabilities are those liabilities which have not yet arisen, but may arise in future upon happening of a certain event. These are shown as a footnote to balance sheet. Their amount is not included in total of balance sheet. It includes claims against companies not acknowledged as debt, uncalled liability on partly paid shares, arrears of fixed accumulative dividends, liabilities for bill discounted etc.

Q.3. Discuss Nature of the Financial Statements.

Ans. Nature of the Financial Statements

1. Financial statements are prepared under set standard by Company Act, 2013.
2. These statements are in summarised form but details are shown in various notes etc. depend on the statements.
3. These are prepared at the end of accounting period i.e. 1 April to 31 March.
4. All the decision by management can be taken on these statements.
5. These statements are totally based on recorded data.
6. These statements are mostly affected by personal judgement of the accountant.

For example : Methods for Valuation of Stock, Depreciation method.

Q. 4. List out the important causes of change in cost of goods sold.

Ans. Factors which affect or change the cost of goods sold are as follows :

(1) Increase and decrease in opening and closing stock.
(2) Increase or decrease in purchase.
(3) Increase or decrease in direct expenses.

Q. 5. What Is Internal Analysis?

Ans. An analysis conducted by internal parties is known as internal analysis. Internal parties are those who have access to the detailed records of the enterprise.

Q. 6. What is External Analysis?

Ans. An analysis conducted by external parties is known as external analysis. External parties are those which do not have access to the detailed records of the enterprise.

Q. 7. What are the objectives of Financial Statement ?

Ans. Objectives

(1) To determine the financial stability of the business concern.
(2) To evaluate the earning capability of the firm.
(3) To determine future growth and perspective.
(4) To ensure the optimum utilization of resources.

4 Marks Questions:

COMPARATIVE BALANCE SHEET

Q. 1. From the following Balance Sheets, prepare Comparative Balance Sheet of Ltd. :

Particulars	2022 (₹)	2023 (₹)
I. Equity and Liabilities		
1. Shareholder's Funds		
Share Capital	3,00,000	3,50,000

2. Non-Current Liabilities		
Long-term Borrowings	2,00,000	1,00,000
3. Current Liabilities		
Trade Payables	1,00,000	1,50,000
Total	6,00,000	6,00,000
II. Assets		
1. Non-Current Assets		
Fixed Assets (Tangible)	3,00,000	4,00,000
2. Current Assets		
Trade Receivables	3,00,000	2,00,000
Total	6,00,000	6,00,000

Solution :

A LTD.
COMPARATIVE BALANCE SHEET
AS AT…., 2022 AND 2023

Particulars	**2022 (₹) (A)**	**2023 (₹) (B)**	**Absolute Change (Increase or Decrease) ₹ (B) – (A) (C)**	**Percentage Change (Increase or Decrease) %** $\frac{(C)}{(A)} \times 100$
I. Equity and Liabilities				
1. Shareholder's Funds				
Share Capital	3,00,000	3,50,000	50,000	16.67%
2. Non-Current Liabilities				
Long-term Borrowings	2,00,000	1,00,000	(1,00,000)	(50%)
3. Current Liabilities				
Trade Payables	1,00,000	1,50,000	50,000	50%
Total	6,00,000	6,00,000	–	–
II. Assets				
1. Non-Current Assets				
Fixed Assets (Tangible)	3,00,000	4,00,000	1,00,000	33.33%
2. Current Assets				
Trade Receivables	3,00,000	2,00,000	(1,00,000)	(33.33%)
Total	6,00,000	6,00,000	–	–

Q. 2. Prepare a Comparative Statement of Profit & Loss from the following :

Particulars	**31.3.2023**	**31.3.2022**
	₹	**₹**
Revenue from Operations	**60,00,000**	**30,00,000**
Finance Costs	**30,00,000**	**27,00,000**
Employee Benefit Expenses	**4,00,000**	**3,00,000**
Other Expenses	**40,000**	**50,000**
Income Tax 40% of Net Profit		

Solution :

COMPARATIVE STATEMENT OF PROFIT & LOSS
FOR THE YEAR ENDED 31ST MARCH, 2022 AND 2023

Particulars	Note No.	2021-22	2022-23	Absolube Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
		A	B	(B – A = C)	C/A × 100 = D
		₹	₹	₹	%
I. Revenue from Operations		30,00,000	60,00,000	30,00,000	100
II. Less : Expenses					
Employee Benefit Expenses		3,00,000	4,00,000	1,00,000	33.33
Finance Costs		27,00,000	30,00,000	3,00,000	11.11
Other Expenses		50,000	40,000	(10,000)	(20.00)
Total Expenses		30,50,000	34,40,000	3,90,000	12.78
III. Profit/Loss before Tax (I–II)		(50,000)	25,60,000	26,10,000	5220.00
IV. Less : Tax		–	10,24,000	10,24,000	100.00
V. Profit/Loss after tax (III – IV)		(50,000)	15,36,000	15,36,000	3172.00

Q. 3. Following particulars are obtained from the books of Tanushree Ltd. :

	Note No.	31.3.2023	31.3.2022
		₹	₹
Revenue from Operations		**40,00,000**	**25,00,000**
Purchase of Stock in Trade		**33,60,000**	**18,50,000**
Changes in Inventories		**(2,00,000)**	**1,50,000**
Other Expenses		**1,20,000**	**1,00,000**
Other Income		**1,60,000**	**50,000**

You are required to prepare a Common Size Statement of Profit & Loss.

Solution :

TANUSHREE LTD.
COMMON SIZE STATEMENT OF PROFIT & LOSS
FOR THE YEARS ENDED 31ST MARCH 2022 & 2023

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2021-22	2022-23	2021-22	2022-23
		₹	₹	%	%
I. Revenue from Operations		25,00,000	40,00,000	100	100
II. Add : Other Incomes		50,000	1,60,000	2	4
III. Total Revenue (I + II)		25,50,000	41,60,000	102	104
IV. Less : Expenses :					
Purchase of Stock in Trade		18,50,000	33,60,000	74	84
Change in Inventories		1,50,000	(2,00,000)	6	(5)
Other Expenses		1,00,000	1,20,000	4	3
Total Expenses		21,00,000	32,80,000	84	82
V. Profit before Tax (III – IV)		4,50,000	8,80,000	18	22

RATIO ANALYSIS

One Mark Questions:

1. What do you mean Ratio Analysis?
2. Give the names of liquidity Ratio.
3. What is another name of current Ratio?
4. Name different type of current Ratio?
5. What is liquidity Ratio?
6. What level of quick Ratio is considered satisfactory?
7. What level of current Ratio is considered satisfactory Ideal?

Answers:

1. Analysis of financial statements with the help of Ratio called Radio Analysis.
2. Current Ratio, Quick Ratio and absolute liquid Ratio.
3. Working capital turnover Ratio.
4. Liquidity Ratio, solvency Ratio, Activity Ratios, Profit Ratios.
5. Ratio used to measure short- turn solvency of the firm
6. 1:1
7. 2:1

Multiple Choice Questions

1. Opening Inventory ₹ 1,00,000 ; Closing Inventory ₹ 1,50,000 ; Purchases ₹ 5,75,000 ; Carriage ₹ 50,000 ; Wages ₹ 2,00,000. Inventory Turnover Ratio will be :
   (a) 6.2 Times (b) 7.4 Times
   (c) 7 Times (d) 6.6 Times
2. Cost of revenue from operations ₹ 6,00,000 ; Inventory Turnover Ratio 5 ; Find out the value of Opening Inventory, if Opening Inventory is ₹ 8,000 less than the Closing Inventory.
   (a) ₹ 1,16,000 (b) ₹ 1,24,000
   (c) ₹ 1,12,000 (d) ₹ 1,28,000
3. If Working Capital is Rs. 1,92,000, Long Term Debt is Rs. 80,000 and Total Debt is Rs. 2,00,000, Current Ratio will be :
   (a) 2.6 : 1 (b) 3.6 : 1
   (c) 2 : 1 (d) 1.6 : 1
4. Opening Inventory is Rs. 50,000, Closing Inventory is Rs. 40,000 and Cost of Revenue from operations is Rs. 7,20,000. What will be the Inventory Turnover Ratio ?
   (a) 18 times (b) 16 times
   (c) 14.4 times (d) 8 times
5. Revenue from operations is Rs. 1,80,000, Rate of Gross Profit is 25% on cost. What will be the Gross Profit ?
   (a) Rs. 45,000 (b) Rs. 36,000
   (c) Rs. 40,000 (d) Rs. 60,000

Answer: 1. (a), 2. (a), 3. (a), 4. (b), 5. (b)

Numerical Questions

Q. 1. Calculate the Current Ratio from the following information :

	₹
Total Assets	**9,00,000**
Fixed Assets	**5,40,000**
Non Current Investments	**1,10,000**
Shareholder's Funds	**6,00,000**
Non Current Liabilities	**80,000**

Solution :

Current Assets = Total Assets – Fixed Assets – Non Current Investments

= ₹ 9,00,000 – ₹ 5,40,000 – ₹ 1,10,000 = ₹ 2,50,000

Total of Assets side of Balance Sheet will be equal to total of Equity and Liabilities side.

Hence, Current Liabilities = Total Assets – Shareholder's Funds – Non Current Liabilities

= ₹ 9,00,000 – ₹ 6,00,000 – ₹ 80,000 = ₹ 2,20,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2{,}50{,}000}{2{,}20{,}000} = 1.136 : 1$$

Q. 2. Calculate Current Ratio from the following :

Working Capital ₹ 8,00,000; Trade Payables ₹ 1,80,000 and other Current Liabilities ₹ 20,000.

Solution :

Current Liabilities = Trade Payables + Other Current Liabilities

= ₹ 1,80,000 + ₹ 20,000 = ₹ 2,00,000

Current Assets = Working Capital + Current Liabilities

= ₹ 8,00,000 + ₹ 2,00,000 = ₹ 10,00,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\text{`}\ 10{,}00{,}000}{\text{`}\ 2{,}00{,}000} = 5:1$$

Q.3. X Ltd.'s inventory is ₹ 1,12,000; Liquid Assets are ₹ 1,20,000 and quick ratio is 1.6. Work out the current ratio.

Solution :

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

$$\text{1.6 (Given)} = \frac{\text{`}1{,}20{,}000\ \text{(Given)}}{\text{Current Liabilities}}$$

$$\text{Therefore: Current Liabilities} = \frac{\text{`}1{,}20{,}000}{1.6} = ₹\ 75{,}000$$

Current Assets = Liquid Assets + Inventory

= ₹ 1,20,000 + ₹ 1,12,000 = ₹ 2,32,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2{,}32{,}000}{75{,}000} = 3.09 :1$$

Q. 4. Calculate Debt Equity Ratio from the following particulars :

	₹
Share Capital	**2,00,000**
Reserve & Surplus	**1,10,000**
Long term Borrowings	**1,20,000**
Long term Provisions	**50,000**
Current Liabilities	**70,000**
Non Current Assets	**3,30,000**
Current Assets	**2,20,000**

What conclusions do you draw about the company on the basis of this ratio ?

Solution :

$$\text{Debt-Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \text{ or } \frac{\text{Long term Debts}}{\text{Shareholder's Funds}}$$

Long term Debts = Long term Borrowings + Long term Provisions

= ₹ 1,20,000 + ₹ 50,000 = ₹ 1,70,000

Calculation of Shareholder's Funds (Equity & Liabilities Side Approach) :

Shareholder's Funds = Share Capital + Reserve & Surplus

= ₹ 2,00,000 + ₹ 1,10,000 = ₹ 3,10,000

Alternatively, Shareholder's Funds may also be calculated as follows :

Calculation of Shareholder's Funds (Assets Side Approach) :

Shareholder's Funds = Non Current Assets + Working Capital – Non Current Liabilities

Or Non Current Assets + Current Assets – Current Liabilities – Non Current Liabilities
i.e., Long term Borrowings and Long term Provisions
= ₹ 3,30,000 + ₹ 2,20,000 – ₹ 70,000 – ₹ 1,20,000
– 50,000
= ₹ 3,10,000

Debt Equity Ratio $= \frac{1,70,000}{3,10,000} = 0.55 : 1$

Q. 5. Compute Debt Equity Ratio from the following information :

	₹		₹
Share Capital	**40,00,000**	**Long term Provisions**	**3,00,000**
Securities Premium Reserve	**2,00,000**	**Short term Provisions**	**1,00,000**
Reserves and Surplus	**10,00,000**	**Short term Borrowings**	**4,00,000**
Loan from Industrial		**Trade Payables**	**5,00,000**
Finance Corporation @ 8%	**20,00,000**		
9% Bonds	**25,00,000**		

Solution :

Debt Equity Ratio $= \frac{\text{Debt}}{\text{Equity}}$ or $\frac{\text{Long term Debts}}{\text{Shareholder's Funds}}$

Long term Debts = Loan from Industrial Finance Corporation + 9% Bonds + Long term Provisions
= ₹ 20,00,000 + ₹ 25,00,000 + ₹ 3,00,000 = ₹ 48,00,000

Shareholder's Funds = Share Capital + Reserve and Surplus
= ₹ 40,00,000 + ₹ 10,00,000 = ₹ 50,00,000

Debt Equity Ratio $= \frac{48,00,000}{50,00,000} = 0.96 : 1$

UNIT – 10 : CASH FLOW STATEMENT

Fill in the Blanks:

1. Cash from operations will increase due to…………..
(a) Increase in current liabilities (b) Taxes or dividend paid (c) neither of the two (d) neither of the two
2. Cash flow statement is based upon
(a) Hybrid System of Accounting (b) Accrual Basis of accounting (c) Cash basis of Accounting (d) None of these
3.Inflow of cash will take place due to …………..
(a) Increased in land (b) Issue of shares(c) Decreased in capital (d) payment of tax
4. Cash flow statement is required for the financial planning of
(a) medium range (b) long range(c) short range (d) very long range
5. Interest and dividend received in the case of manufacturing enterprise should be classified as cash flow from.
(a) Medium range(b) short range(c) Financing Activities(d) None of these

Answer Key:

1. (a) Increase in current liabilities 2. (c) Cash basis of accounting 3. (b) Issue of shares 4. (c) short range 5. (c) Financing Activities

Multiple Choice Questions

1.Cash from operations will increase due to...
(a) increase in current liabilities (b) decrease in current assets
(c) neither of the two (d) both the above
2. Increase in the amount of prepaid Expenses result in
(a) No change in cash (b) Increase in cash
(c) Decrease in cash (d) None of these
3. Cash flow statement is based upon
(a) Hybrid System of Accounting (b) Accrual Basis of Accounting
(c) Cash Basis of Accounting (d) None of these

4. Cash from operation is equal to :
   (a) Net profit plus bonus paid in the form of fully paid bonus shares
   (b) Net profit plus decrease in current assets
   (c) Net profit plus decrease in current liabilities
   (d) All the above
5. Taxes paid must usually be shown order :
   (a) Investing activities (b) Operating activities
   (c) Financing activities (d) None of these

Answer Key: 1. (d), 2. (c), 3. (c), 4. (b), 5. (b).

2 Marks Questions

Q. 1. What do you mean by Cash Equivalent ?

Ans. Cash Equivalent are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore an investment normally qualifies as a cash equivalent only when it has a short maturity, of say, three months or less from the date of acquisition. Examples of cash Equivalents are Treasury Bills, Commercial Paper, Money Market Funds, Investment in preference shares redeemable within three months (provided there is only an insignificant risk of failure of the company to repay the amount at maturity).

Q. 2. What treatment is needed regarding Amortisation of goodwill, while computing operating net profit ?

Ans. Goodwill is an intangible asset and therefore it does not have any real value. It is always desirable to write off such items at the earliest. If it is written off, it will reduce the amount of net profit. Writing off of goodwill will not have any effect on the inflow or outflow of cash. To find out the value of operating net profit goodwill written off is added to the net profit. Amortisation of goodwill means reduction in the value by way of writing off. Amortised value of goodwill shall be added back to Net Profit, while computing the operating net profit.

Q. 3. What are the steps involved in preparation of cash flow statement.

Ans. (i) Step I. Preparation of Balance Sheet of two data for which cash flow statement is being prepared.

(ii) Step II. Analysing changes in non-current items with the help of other informations.

(iii) Step III. Computation of cash from operations.

(iv) Step IV. Preparation of cash flow statement highlighting the net cash flow provided by operating, investing and financing activities.

Q. 4. The following is the abstract of balance sheet of Rupa Ltd. for the year 2019 & 2020.

Balance Sheet

Liabilities	2019	2020	Assets	2019	2020
			Machinery	20,000	25,000

Additional Information

(i) Depreciation during the year ₹ 4,000.
(ii) Machine costing ₹ 3,000 on which depreciation has accumulated ₹ 800, was sold for ₹ 2,000.

Show the effect of above adjustments on the calculation of cash flow from operating activities.

Machinery Account

Particulars	Amount	Particulars	Amount
To Balance b/d	20,000	By Depreciation	4,000
To Bank–Purchaes	11,200	By Bank	2,000
(B.Fig.)		By P & L (Loss on Sale)	200
		By Balance b/d	25,000
	31,200		31,200

Effect on Cash Flow from Operating Activities

(i) Depreciation of ₹ 400 will be added to Net Profit during the year (Non Cash Expenses)
(ii) Loss on sale of machine ₹ 200 will be added to net profit during the year (Non-operating expense)

Q. 5. From the following information calculate the amount of Cash Flows from Investing Activities :

Particulars	31.03.2019 ₹	31.03.2020 ₹
Plant and Machinery	**8,00,000**	**10,00,000**
Non Current Investments	**40,000**	**1,00,000**
Land (At cost)	**2,00,000**	**1,00,000**

Additional Information :

(i) Depreciation charged on Plant and Machinery was ₹ 50,000.

(ii) Plant and Machinery with a book value of ₹ 60,000 was sold for ₹ 40,000.

(iii) Land was sold at a gain of ₹ 60,000.

Solution : Calculation of Cash from Investing Activities

Particulars	₹
Sale of Plant and Machinery	40,000
Sale of Land (See Note 1)	1,60,000
Purchase of Plant & Machinery (See Note 2)	(3,10,000)
Purchase of Non-Current Investments	(60,000)
Net Cash flows from Investing Activities	(1,70,000)

Working Note No. 1

LAND A/C

Particulars	₹	Particulars	₹
To Balance b/d	2,00,000	By Bank (Sale of Land)	
To Gain on Sale of Land	60,000	(Balancing Figure)	1,60,000
		By Balance c/d	1,00,000
	2,60,000		2,60,000

Working Note No. 2

PLANT & MACHINERY A/C

Particulars	₹	Particulars	₹
To Balance b/d	8,00,000	By Depreciation	50,000
To Bank		By Bank (Sale of Machinery)	40,000
(Purchase of Machinery)		By Loss on Sale of Machinery	20,000
(Balancing Figure)	3,10,000	By Balance c/d	10,00,000
	11,10,000		11,10,000

4 Marks Questions

Q. 1. What is Cash Flow Statement ?

Ans. Cash Flow Statement is a statement that shows the changes in cash position from one accounting period to another. It contains in flow of cash, outflow of cash and change in cash, including difference between inflow and out flows of cash. AS-3 (revised) issued by ICAI has defined Cash Flow Statement as a statement which shows in flows (receipts) and outflow (payments) of cash and its equivalents in an enterprise during a specific period of time. Where, in flows (sources) of cash result from cash profits earned by the organisation, issue of shares and debentures for cash, borrowings, sale of assets or investment etc. The outflows (uses) of cash result from purchase of assets or investments, redemption of debentures or preference shares, repayment of loans, payment of tax, dividend or interest etc.

According to the Institute of Cost and Works Accountants of India, "Cash Flow statement is a statement setting out the flow of cash under distinct heads of sources of funds and their utilization to determine the requirements of cash during the given period and to prepare for its adequate provision."

It can be prepared daily, weekly, monthly, quarterly, annually or for any fixed time gap.

Q. 2. What are the objectives of Cash Flow Statement.

Ans. According to AS-3 (revised) the objectives of cash flow statement is to provide information about the cash flow of an enterprise to users of financial statement to assess the ability of the enterprise to generate cash and cash equivalent and the needs of the enterprise to utilise these funds. The main objectives of cash flow statement are as under:

(1) To ascertain the specific sources (i.e. operating/Investing/financing activities) from which cash and cash equivalents were generated by an enterprise.

(2) To ascertain the specific uses (i.e. operating/investing/financing activities) for which cash and cash equivalent were used by an enterprise.

(3) To reveal good and bad points relating to the management of cash by ascertaining the net change in cash and cash equivalent (difference between total sources and total uses) between the dates of two balance sheet.

(4) To provide information for planning for short term cash needs of the enterprise.

(5) To assess whether enterprise would be able to meet its current obligations or not.

(6) To decide the speed at which cash is being generated from current assets such as debtors, bills receivables, stock etc.

(7) To disclose the speed as which current liabilities such as creditors, bills payable etc. are being paid.

(8) To assess the true position of cash in future.

(9) To help management to prepare cash budget.

(10) To facilitate formulation of financial policies such as dividend policy etc.

(11) To ascertain the liquidity of the enterprise.

Q. 3. Give three advantages of Cash Flow statement.

Ans. Preparation of Cash Flow statement has following advantages:

(1) Helps in Short term planning : Business enterprise will have to pay cash to its creditors, for expenses and purchase of fixed assets and payment of its loan. Thus, Cash Flow Statement with short term analysis helps the management in planning for cash by looking to past cost flow.

(2) Helpful to decide dividend Policies and repayment of loan : Cash flow from operating activities help the manager to know the cash generated from operating activities and thus helps in deciding payment of dividends and loans etc.

(3) Helpful in efficient Cash management : It helps the management to know how much cash it need and from what sources it will come. How much is generated internally and how much to take from outside.

Q. 4. Explain briefly the limitations of cash flow statement.

Ans. Cash flow statement is very useful tool of financial analysis but it also has certain limitations which are as follows :

(1) Cash flow statement can not replace income statement. Net increase or decrease in cash does not mean net income of the business.

(2) Cash flow statement does not take into consideration those transactions which do not affect cash for example : purchase of fixed assets by issue of shares or debentures to venders.

(3) Cash flow statement is based on secondary data. It only rearranges the primary data already appearing in other statement i.e. Income statement and Balance Sheet.

(4) Cash Flow statements are basically historical in nature, unless projected cash flow statement is prepared to plan for the future.

Q. 5. What do you mean by Cash Flow From Operating Activities ?

Ans. Cash Flow from the operating activities are the principal revenue producing activities of the enterprise. Therefore the cash flows resulting from sale and purchase of goods and payments for salaries, wages and expenses are shown under this head. Following are some examples of cash flow from operating activities :

– Cash receipts from sale of goods on rendering of services.

– Cash receipts from royalties, fees, commission and other revenues.

– Cash payment to suppliers for goods and services.

– Cash payment to and on behalf of employees.

– Cash receipts and cash payments of on insurance enterprise for provisions and claims, an unities and other policy benefits.

– Cash payment or refund of income tax unless they can be specifically identified with financing and investing activities.

– Cash receipts and payments relating to future contracts, forward contracts, option contracts and swap contracts when the contracts are held for dealing or trading purpose.