PRACTICE SET-9

1. A, B and C are partners sharing profits in the ratio of 4:3:2. B retires. A and C decide to share profits in future in the ratio of 5:3. Gaining ratio between A and C will be _______
   (a) 13:11 (b) 12:10
   (c) 10:12 (d) None of the three
2. Virender Ltd. forfeited 20 shares of Rs. 100 each (Rs. 60 called up) issued at par to Ram on which he had paid Rs. 20 per share. All the forfeited shares were reissued to Syam as Rs. 60 paid up for Rs. 45 per share. Amount transferred to capital reserve will be.
   (a) Rs. 150 (b) Rs. 100
   (c) Rs. 75 (d) Rs. 60
3. A company issued Rs. 1,00,000 15% Debentures at a discount of 5% redeemable after 10 years at a premium of 10%. Loss on issue of debentures will be:
   (a) Rs. 15,000 (b) Rs. 12,000
   (c) Rs. 10,000 (d) None of the three
4. Alok Ltd. forfeited 300 shares of Rs. 10 each fully called up held by Ram for non payment of allotment money of Rs. 3 per share and final call money of Rs. 4 per share. Out of these 250 shares were reissued to Syam for a total payment of Rs. 2000. Amount transferred to capital Reserve will be
   (a) Rs. 200
   (b) Rs. 250
   (c) Rs. 300
   (d) None of the three
5. A company issued debentures of the face value of Rs. 100,000 at discount of 6% on Jan 2009. These debentures are redeemable by annual drawings of Rs. 20,000 made on 31st December each year. Directors decided to write off discount based on the debentures outstanding each year. Discount written off in the fifth year will be
   (a) Rs. 400 (b) Rs. 500
   (c) Rs. 600 (d) None of the three
6. A, B and C are partners sharing profits in the ratio of 4:3:2 D is admitted for 1/3rd share in future profits. Sacrificing ratio will be
   (a) 4:3:2 (b) 3:2:3
   (c) 2:3:2 (d) None of the three
7. What is the maximum allowable discount in case of re-issue of forfeited shares?
   (a) 5% (b) 10%
   (c) 15% (d) None of the above.
8. A and B are partners. A's capital is Rs. 10,000 and B's capital is Rs. 6,000 Interest is payable @ 6% p.a. B is entitled to a salary of Rs.300 per month. Profit for the current year before interest and salary to B is Rs. 8,000. Profit between A and B will be divided:
   (a) A Rs. 1,720, B Rs. 1720
   (b) A Rs. 2,000, B Rs. 1,440
   (c) A Rs. 1,440, B Rs. 2000
   (d) None of the three
9. A, B and C entered into partnership on 1st April, 2009 to share profits and losses in the ratio of 4:3:3. A, however, personally guaranteed that C's share of profit after charging interest on capital @ 5% p.a. would not be less than Rs. 40,000 in any year. Capitals were as follows.
   A Rs. 300,000 B Rs. 200,000 C Rs. 150,000
   Profit for the year ended on 31st March 2010 amounted to Rs. 160,000. Sacrifice made by A for C will be
   (a) Rs. 1,750 (b) Rs. 1,800
   (c) Rs. 2,000 (d) None of the above
10. A and B are partners sharing profits in the ratio of 6:4. C is admitted as a partner. The new profit sharing ratio among A, B and C is 5:3:2. Sacrificing ratio will be
    (a) 1:1 (b) 3:2
    (c) 2:3 (d) None of the above.
11. A company issues 50,000 equity shares of Rs. 100 each at par the net amount payable is as follows:
    (a) On application Rs. 20
    (b) On Allotment Rs. 20
    (c) On First Call Rs. 25
    (d) On Final Call Rs. 35
    Shveti holding 100 shares did not pay final call money. Her shares were forfeited. Amount credited to forfeited share a/c will be
    (a) Rs. 6,000 (b) Rs. 6,500
    (c) Rs. 5,000 (d) None of the above.

12. A, B and C are equal partners with capitals of Rs. 1,00,000, Rs. 75,000 and Rs. 50,000 respectively. On C's retirement his share is acquired by A and B in the ratio of 6:4 respectively. Gaining ratio will be
    (a) 3:2 (b) 2:2
    (c) 2:3 (d) None of the above
13. On admission of a partner, unrecorded investments worth Rs. 5000 and unrecorded liability towards suppliers for Rs. 1500 will be recorded in
    (a) Revaluation A/c (b) Capital Accounts
    (c) Realisation A/c (d) None of the three
14. Goodwill is to be calculated at one and half years purchase of average profit of last 5 years. The firm earned profit during the first 3 years as Rs. 20,000, 18,000 and 9,000 and suffered losses of Rs. 2,000 and 5,000 in last 2 years. Goodwill amount will be
    (a) Rs. 12,000 (b) Rs. 10,000
    (c) Rs. 15,000 (d) None of the above.
15. Profit and loss on revaluation is shared among the partners in ratio.
    (a) Old profit sharing ratio
    (b) New profit sharing ratio
    (c) Capital ratio
    (d) Equal ratio
16. In case specific fund is maintained, the expenses exceeding the amount of the fluids, should be recorded on:
    (a) Liabilities side of the Balance Sheet
    (b) Debit side the Income and Expenditure Account
    (c) Credit side of the Income and Expenditure Account
    (c) Assets side of the Balance Sheet
17. Fixed capital A/c is credited with
    (a) Interest on capital
    (b) Profit of the year
    (c) Salary of the partner
    (d) None of the above.
18. Interest on drawing is ________ for the business
    (a) Capital (b) Expense
    (c) Gain (d) None of the three
19. On Jan 1, 2010 Ram Gopal invested Capital of Rs. 50,000. He withdrew Rs. 2,000 on the first day of each month interest on drawings is provided @ 10%. The amount of interest on drawings deducted from Capital will be
    (a) Rs. 1,300 (b) Rs. 1,400
    (c) Rs. 1,500 (d) Rs. 1,000
20. Deepak Ltd. forfeited 40 shares of 100 each (Rs. 60 called up) issued at par to Mukesh on which he had paid Rs. 20 per share. Out of these 30 shares were reissued to Sujoy as Rs. 60 paid up for Rs. 45 per share. Amount transferred to capital reserve will be
    (a) Rs. 150 (b) Rs. 100
    (c) Rs. 200 (d) Rs. 120
21. The following information pertains to Quick Ltd.

		Rs.
(i)	Equity share capital called up	10,00,000
(ii)	Calls in arrear	40,000
(iii)	Calls in advance	25,000
(iv)	Proposed dividend	5%

    The amount of dividend payable is
    (a) Rs. 48,000 (b) Rs. 50,000
    (c) Rs. 60,000 (d) Rs. 49,250
22. Ram Ltd. re-issued 200 equity shares of Rs.10 each @ Rs. 7 per share (Rs. 2 originally paid up). Amount of net loss on re-issue of shares will be
    (a) Rs. 300 (b) Rs. 200
    (c) Rs. 400 (d) Rs. 500
23. The profits for the last four years are given as follows:

Year	Rs.
2006	40,000
2007	50,000
2008	60,000
2009	50,000

    The value of goodwill on the basis of three years purchase of average profits based on last four years will be
    (a) Rs. 1,00,000 (b) Rs. 1,50,000
    (c) Rs. 2,00,000 (d) None of three
24. Interest on capital will be paid to partners if provided for in the agreement but only from
    (a) Current profit (b) Reserves
    (c) Accumulated profit (d) Goodwill
25. Revaluation account is prepared at the time of
    (a) Admission of a partner
    (b) Retirement of a partner
    (c) Both (a) and (b)
    (d) None of the three
26. As per Section 37 of the Indian Partnership Act, 1932 the executors would be entitled at their choice to the interest calculated from date of death till the date of payment on the final amount due to the dead partner at ________ percent per annum.

(a) 7 (b) 4
(c) 6 (d) 12

27. Fluctuating capital account is credited with
(a) Interest on capital
(b) Profit of the year
(c) Remuneration to the partners
(d) All of the above

28. If the incoming partner brings any additional amount in cash other than his capital contribution then it is termed as
(a) Capital (b) Reserves
(c) Profit (d) Premium for goodwill

29. According to Table F of the Companies Act, Interest on calls in arrears is charged at the rate of
(a) 4% (b) 10%
(c) 12% (d) None of these

30. A company can issue redeemable preference shares
(a) At par (b) At premium
(c) At discount (d) None of the three

31. How much amount will be shown in Income and Expenditure Account in the following case? :

	31-3-2009	31-3-2010
Outstanding Subscription	10,000	12,000
Stock of Medicines	8,000	13,000

Payment made for medicines during 2009-10 was ₹ 2,5 0,000.
(a) ₹ 2,53,000 (b) ₹ 2,47,000
(c) ₹ 2,57,000 (d) ₹ 2,43.000

32. If a General Donation of huge amount is received by a school, that donation is treated as :
(a) Revenue Receipt (Income)
(b) Capital Receipt (Liability)
(c) Assets
(d) Earned Income

33. If a general donation of smaller amount is received by a school, that donation will be shown in :
(a) Liability Side
(b) Asset Side
(c) Debit side of Receipt and Payment A/c
(d) Credit side of Receipt and Payment A/c

34. Out of the billowing items, which one is shown in the 'Receipts and Payments Account" of a not for profit organisation?
(a) Accrued subscription (b) Outstanding salary
(c) Depreciation (d) None of these

35. Out of the following items, which is not shown in the 'Receipts and Payments A/c' of a not for profit organisation? '
(a) Subscription received in advance
(b) Subscription due
(c) Last year subscription received
(d) All of the above

36. Out of the following items, which is shown in the 'Receipts and Payments A/c' of a not for profit organisation?
(a) Subscription received in advance
(b) Last year subscription received
(c) Current year subscription received
(d) All of the above

37. In the Income and Expenditure Account, all revenue receipts are entered on the ______.
(a) Left-hand side. (b) Right-hand side.
(c) Liability side. (d) Asset side.

38. In the Income and Expenditure Account, all revenues expenses are entered on the ______.
(a) Left-hand side. (b) Liability side.
(c) Right-hand side. (d) Asset side.

39. The task of preparing an Income and Expenditure Account and Balance Sheet begins after the preparation of _____.
(a) Profit and Loss Account.
(b) Trading Account.
(c) Cash Account.
(d) Trial balance.

40. In Receipts and Payments Account, cash in hand or at the bank is shown on the _____.
(a) Left-hand side.
(b) Right-hand side.
(c) Credit side.
(d) None of the options are correct.

41. Proprietary ratio is a
(a) Short-term solvency ratio.
(b) Long-term solvency ratio.
(c) Profitability ratio.
(d) Turnover ratio.

42. Fixed assets ratio is a
(a) Short-term solvency ratio.
(b) Long-term solvency ratio.
(c) Profitability ratio.
(d) Turnover ratio.

43. Fixed assets turnover ratio is a
    (a) Short-term solvency ratio.
    (b) Long-term solvency ratio.
    (c) Profitability ratio.
    (d) Turnover ratio.
44. The ratio which measures the profit in relation to capital employed is known as
    (a) Return on investment.
    (b) Gross profit ratio.
    (c) Operating ratio.
    (d) Operating profit ratio.
45. The ratio which determines the profitability from the shareholder's point of view is .
    (a) Return on investment.
    (b) Gross profit ratio.
    (c) Return on shareholders' funds.
    (d) Operating profit ratio.
46. Return on equity is also called
    (a) Return on investment.
    (b) Gross profit ratio.
    (c) Return on shareholders' funds.
    (d) Return on net worth.
47. Preliminary expenses is an example of .
    (a) Fixed assets.
    (b) Current assets.
    (c) Fictitious assets.
    (d) Current liabilities.
48. Prepaid expenses is an example of .
    (a) Fixed assets.
    (b) Current assets.
    (c) Fictitious assets.
    (d) Current liabilities.
49. The ratio which is calculated to measure the productivity of total assets is
    (a) Return on equity.
    (b) Return on shareholders' funds.
    (c) Return on total assets.
    (d) Return on equity share holders' funds.
50. The ratio which shows the proportion of profits retained in the business out of the current year's profits is
    (a) Retained earnings ratio.
    (b) payout ratio
    (c) Earnings per share.
    (d) price earnings ratio

RESPONSE SHEET

1.	ⓐⓑⓒⓓ	2.	ⓐⓑⓒⓓ	3.	ⓐⓑⓒⓓ	4.	ⓐⓑⓒⓓ
5.	ⓐⓑⓒⓓ	6.	ⓐⓑⓒⓓ	7.	ⓐⓑⓒⓓ	8.	ⓐⓑⓒⓓ
9.	ⓐⓑⓒⓓ	10.	ⓐⓑⓒⓓ	11.	ⓐⓑⓒⓓ	12.	ⓐⓑⓒⓓ
13.	ⓐⓑⓒⓓ	14.	ⓐⓑⓒⓓ	15.	ⓐⓑⓒⓓ	16.	ⓐⓑⓒⓓ
17.	ⓐⓑⓒⓓ	18.	ⓐⓑⓒⓓ	19.	ⓐⓑⓒⓓ	20.	ⓐⓑⓒⓓ
21.	ⓐⓑⓒⓓ	22.	ⓐⓑⓒⓓ	23.	ⓐⓑⓒⓓ	24.	ⓐⓑⓒⓓ
25.	ⓐⓑⓒⓓ	26.	ⓐⓑⓒⓓ	27.	ⓐⓑⓒⓓ	28.	ⓐⓑⓒⓓ
29.	ⓐⓑⓒⓓ	30.	ⓐⓑⓒⓓ	31.	ⓐⓑⓒⓓ	32.	ⓐⓑⓒⓓ
33.	ⓐⓑⓒⓓ	34.	ⓐⓑⓒⓓ	35.	ⓐⓑⓒⓓ	36.	ⓐⓑⓒⓓ
37.	ⓐⓑⓒⓓ	38.	ⓐⓑⓒⓓ	39.	ⓐⓑⓒⓓ	40.	ⓐⓑⓒⓓ
41.	ⓐⓑⓒⓓ	42.	ⓐⓑⓒⓓ	43.	ⓐⓑⓒⓓ	44.	ⓐⓑⓒⓓ
45.	ⓐⓑⓒⓓ	46.	ⓐⓑⓒⓓ	47.	ⓐⓑⓒⓓ	48.	ⓐⓑⓒⓓ
49.	ⓐⓑⓒⓓ	50.	ⓐⓑⓒⓓ				

Hint & Solutions

1. (a) In case of retirement and death, goodwill is adjusted through the partners' account in Gaining Ratio .
New ratio = Old ratio + Gaining ratio

Calculation of gaining ratio			
Partners	**Old ratio**	**New ratio**	**Gaining ratio**
A	$\frac{4}{9}$	$\frac{5}{8}$	$\frac{5}{8}-\frac{4}{9}=\frac{13}{72}$
B	$\frac{3}{9}$		
C	$\frac{2}{9}$	$\frac{3}{8}$	$\frac{3}{8}-\frac{2}{9}=\frac{11}{72}$

Thus the gaining ratio between A and C is 13 : 11.

2. (b) When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.
Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.
In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 20 × 15 = Rs. 300
Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 20 × (20) = Rs. 400
The surplus amount to be transferred to capital reserve account = 400 – 300 = Rs. 100

3. (a) Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures)For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. If the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.
Here A company issued Rs. 1,00,000 15% Debentures at a discount of 5% redeemable after 10 years at a premium of 10%.
The discount on issue of debentures = 5% of 1,00,000 = Rs. 5,000
The premium on redemption of debentures = 10% of 1,00,000 = Rs. 10,000
Thus total loss on issue of debentures = 5,000 + 10,000 = Rs. 15,000

4. (b) When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.
Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance.
But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.
In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 2,500 – 2,000 = Rs. 500
Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 250 × (10 – 3-4) = Rs. 750
The surplus amount to be transferred to capital reserve account = 750 – 500 = Rs. 250

5. (a) The amount of debenture discount can be written off in two ways :
   1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount to be written off annually
= Total amount of Discount/Number of years

   2. Debentures are redeemed in instalments. Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

Here company issued debentures of the face value of Rs. 1,00,000 at a discount of 6% on Jan. 1, 2009. These debentures are redeemable by annual drawings of Rs. 20,000 made on 31st Dec. each year. The directors decided to write off discount based on the debentures outstanding each year.

Total discount = 6% of 1,00,000 = Rs. 6,000

Calculation of discount to be written off every year

Date	Debentures to be redeemed	Discount written off
31.12.2009	1,00,000	$6{,}000 \times \frac{5}{15} = 2{,}000$
31.12.2010	80,000	$6{,}000 \times \frac{4}{15} = 1{,}600$
31.12.2011	60,000	$6{,}000 \times \frac{3}{15} = 1{,}200$
31.12.2012	40,000	$6{,}000 \times \frac{2}{15} = 800$
31.12.2013	20,000	$6{,}000 \times \frac{1}{15} = 400$

6. (a) When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Gaining/sacrificing ratio

Partners	New ratio	Old ratio	Gain/(sacrifice)
A	$\frac{4}{9}$ of $\frac{2}{3} = \frac{8}{27}$	$\frac{4}{9}$	$\frac{8}{27} - \frac{4}{9} = -\frac{4}{27}$
B	$\frac{3}{9}$ of $\frac{2}{3} = \frac{6}{27}$	$\frac{3}{9}$	$\frac{6}{27} - \frac{3}{9} = -\frac{3}{27}$
C	$\frac{2}{9}$ of $\frac{2}{3} = \frac{4}{27}$	$\frac{2}{9}$	$\frac{4}{27} - \frac{2}{9} = -\frac{2}{27}$
D	$\frac{1}{3}$		

So the sacrificing ratio between A B and C is 4 : 3 : 2

7. (d) The maximum amount of discount allowed at the time of reissue implies the maximum amount of discount that a company can allow at the time of reissue of the forfeited shares. The maximum discount on the reissue of shares depends upon the following two circumstances.

Whether the forfeited shares were originally issued at par or at premium .

Whether the forfeited shares were originally issued at discount .

If the forfeited shares were originally issued at par or at premium , then these forfeited shares can be reissued with the maximum discount equal to the amount received (or paid by) the original shareholder. On the other hand, if the forfeited shares were originally issued at discount, then these forfeited shares can be reissued with the maximum discount equal to the amount received (or paid by) the original shareholder plus discount allowed at the time of original issue. Thus option (d) is the correct option.

8. (a) After making the Trading and Profit and Loss account of a Partnership firm the next step is to divide the profits or losses among the partners and to make other appropriations like interest on capital, salary, commission etc. For this purpose an another account is prepared i.e. profit and Loss appropriation account. This account is prepared to show the division of profit and other appropriations among partners like salary, commission, interest on capital, interest on drawings etc.

Profit and Loss Appropriation Account

Particulars	Rs.	Particulars	Rs.
To B's capital a/c- Salaries of Partner	3,600	By Profit and Loss account (Profit transferred from P & L account)	8,000
To Interest on Partners' Capitals (6% of 16000)	960		
To Profit transferred to partners capital or current account	3,440		
A : $\frac{1}{2}$ of 3,440 = 1,720			
B : $\frac{1}{2}$ of 3,440 = 1,720			
	8000		8000

9. (a)

Profit and Loss Appropriation Account (for the year ending on 31st March 2008)			
Particulars		Particulars	
To Interest on Capital: A 15,000 B 10,000 C 07,500 32,500	3,600	By Profit before adjustments	1,60,000
To net Profit transferred A. (51,000 – 1,750) = 49,250 B. (1,27,500 × $\frac{3}{10}$) = 38,250 C. (38,250 + 1,750) = 40,000	1, 27,500		
	1,60,000		1,60,000

C's share in the profit before adjustment comes to 38,250.

So the amount to be sacrificed by A to make C's profit as Rs. 40,000 will be = 40,000 – 38,250 = Rs. 1,750

10. (a) When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – New ratio

Gaining/sacrificing ratio

Oartners	New ratio	Old ratio	Gain/(sacrifice)
A	$\frac{5}{10}$	$\frac{6}{10}$	$\frac{5}{10}-\frac{6}{10}=\left(\frac{1}{10}\right)$
B	$\frac{3}{10}$	$\frac{4}{10}$	$\frac{3}{10}-\frac{4}{10}=\left(\frac{1}{10}\right)$
C	$\frac{2}{10}$		

So the sacrificing ratio between A and B is 1:1.

11. (b) When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here Shveta holding 100 shares did not pay final call money.

Thus amount received in respect of the shares forfeited will be = 100 × (20 + 20 + 25) = Rs. 6,500

12. (a) In case of retirement and death, goodwill is adjusted through the partners' account in Gaining Ratio.

New ratio = old ratio + gaining ratio

Calculation of gaining ratio

Partners	Old ratio	Gain/(sacrifice)	New ratio
A	$\frac{1}{2}$	$\frac{6}{10}$ of $\frac{1}{2}=\frac{3}{10}$	
B	$\frac{1}{2}$	$\frac{4}{10}$ of $\frac{1}{2}=\frac{2}{10}$	
C	$\frac{1}{2}$		

Thus the gaining ratio between A and B will be 3:2.

13. (a) On admission of a partner, unrecorded investments worth Rs. 5,000 and unrecorded liability towards suppliers for Rs. 1,500 will be recorded in Revaluation A/c because old partner will only get profit or loss through all business activities were done before coming of new partner. If there is any increase or decrease in these unrecorded assets and liabilities through revaluation account, it will be distributed between old partners.

14. (a) **Average Profits Method:** Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits × Number of years of Purchase

Before calculating the average profits the following adjustments should be made in the profits of the firm:

(a) Any abnormal profits should be deducted from the net profits of that year.

(b) Any abnormal loss should be added back to the net profits of that year.

(c) Non operating incomes e.g. Income from investments etc should be deducted from the net profits of that year.

Profit of the year 1 : 20,000

Profit for the year 2 : 18,000

Profit for year 3 : 9,000

Loss for the year 4 : 2,000

Loss for the year 5 : 5,000

Average profit of last 5 years

$$= \frac{(20,000+18,000+9,000-2,000-5,000)}{5}$$

= Rs. 8,000

Goodwill = 8,000 × 1.5 = Rs. 12,000.

15. (a) Profit/loss on revaluation is shared among partners in old profit sharing ratio.
16. (b)
17. (d) Fixed capital account is not credited with interest, profit or salary of partner. Fluctuating capital account is credited with all these items.
18. (c) Interest on capital is an expense but interest on drawings is an income/gain for the firm.
19. (a) Where interest on drawings is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. The amount of interest is debited to proprietor's drawings accounts and is credited to the interest on drawings amount. At the close of the accounting period the interest on drawings accounts is closed by transfer to the profit and loss account.
It may, however, be noted that if the withdrawals are of uniform amount and are made at regular intervals, then interest on drawings can be calculated on the total of the amount drawn, for the average of the periods applicable to first and last installment. Therefore, if drawings are made at the beginning of each month, interest should be calculated on the whole amount for 6 and half months.
Here Ram Gopal withdrew Rs. 2,000 on the first day of each month interest on drawings is provided @ 10%.
So interest on drawings will be = 10% of (2000 × 12) $\times \frac{6.5}{12}$ = Rs. 1,300
20. (a) When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.
Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.
In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 30 × 15 = Rs. 450.
Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 30 × (20) = Rs. 600
The surplus amount to be transferred to capital reserve account = 600 – 450 = Rs. 150
21. (a) Dividends payable are dividends that a company's board of directors has declared to be payable to its shareholders. Until such time as the company actually pays the shareholders, the cash amount of the dividend is recorded within a dividends payable account as a current liability.
Here dividend payable will be 5% of (Equity share capital called up - Calls in arrear) = 5% of (10,00,000 – 40,000) = Rs. 48,000.
22. (b) Loss on reissue will be Re. 1 per share. The total amount of Rs. 200 will be loss.
23. (b) Under average profit method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.
Goodwill = Average Profits X Number of years of Purchase
Before calculating the average profits the following adjustments should be made in the profits of the firm:
(a) Any abnormal profits should be deducted from the net profits of that year.
(b) Any abnormal loss should be added back to the net profits of that year.
(c) Non operating incomes e.g. Income from investments etc should be deducted from the net profits of that year.
Profit of the year 1 : 40000
Profit for the year 2 : 50000
Profit for year 3 : 60000
Profit for year 4 : 50000
Average profit of last 4 years = (40,000 + 50,000 + 60,000 + 50,000)/4 = Rs. 50,000
Goodwill = 50,000 × 3 = Rs. 1,50,000
24. (a) Interest on capital will be paid to partners only from current profits.
25. (c) Revaluation A/c is opened at admission and retirement of a partner.
26. (c) The rate is 6% p.a. as per Partnership Act.
27. (d) Fluctuating capital account is credited with interest on capital, profit of year and remuneration to partners.
28. (d) Additional amount is called premium for goodwill.
29. (b) Interest on calls in arrear is charged at 10% as per Table F under Companies Act, 2013.
30. (d) A company cannot issue irredeemable preference shares.

31. (b) 32. (b) 33. (c) 34. (d) 35. (b) 36. (d)

37. (b) Right-hand side.
38. (a) Left-hand side.
39. (c) Cash Account.
40. (a) Left-hand side.

41. (b) 42. (b) 43. (d) 44. (a) 45. (c) 46. (d)

47. (c) 48. (b) 49. (c) 50. (a)