

As per the Latest Board Syllabus
issued on 21st April, 2022

2023
EXAMINATION



OSWAL – GURUKUL

MOST LIKELY

CBSE QUESTION BANK

CHAPTERWISE & CATEGORYWISE

ACCOUNTANCY
CLASS XII


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ACCOUNTANCY CLASS XII

By

PANEL OF AUTHORS



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Whatsapp : +91 74550 77222

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SYLLABUS

COURSE STRUCTURE CLASS XII

Theory : 80 Marks

3 Hours

Project : 20 Marks

Units		Periods	Marks
Part A	Accounting for Partnership Firms and Companies		
	Unit 1. Accounting for Partnership Firms	105	36
	Unit 2. Accounting for Companies	45	24
		150	60
Part B	Financial Statement Analysis		
	Unit 3. Analysis of Financial Statements	30	12
	Unit 4. Cash Flow Statement	20	8
		50	20
Part C	Project Work	20	20
	Project work will include:		
	Project File	4 Marks	
	Written Test	12 Marks (One Hour)	
	Viva Voce	4 Marks	
Or			
Part B	Computerized Accounting		
	Unit 4. Computerized Accounting	50	20
Part C	Practical Work	20	20
	Practical work will include:		
	Practical File 4 Marks		
	Practical Examination 12 Marks (One Hour)		
	Viva Voce 4 Marks		

Part A : Accounting for Partnership Firms and Companies

Unit 1 : Accounting for Partnership Firms

Units/Topics	Learning Outcomes
- Partnership: features, Partnership Deed. - Provisions of the Indian Partnership Act 1932 in the absence of partnership deed. - Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. - Past adjustments (relating to interest on capital, interest on drawing, salary and profit sharing ratio). - Goodwill: meaning, nature, factors affecting and methods of valuation - average profit, super profit and capitalization. Notes: Interest on partner's loan is to be treated as a charge against profits. Goodwill: meaning, factors affecting, need for valuation, methods for calculation (average profits, super profits and capitalization) , adjusted through partners capital/ current account or by raising and writing off goodwill (AS 26) Accounting for Partnership firms - Reconstitution and Dissolution. Change in the Profit Sharing Ratio among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves, accumulated profits and losses. Preparation of revaluation account and balance sheet.	After going through this Unit, the students will be able to: - state the meaning of partnership, partnership firm and partnership deed. - describe the characteristic features of partnership and the contents of partnership deed. - discuss the significance of provision of Partnership Act in the absence of partnership deed. - differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. - develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits. - develop the understanding and skill of making past adjustments. - state the meaning, nature and factors affecting goodwill - develop the understanding and skill of valuation of goodwill using different methods. - state the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners. - develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of reserves and accumulated profits by preparing revaluation account and balance sheet.

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UNIT: 1

FUNDAMENTALS OF PARTNERSHIP FIRMS

CHAPTER: 1

PARTNERSHIP

According to Section 4 of the Indian Partnership Act, 1932, "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.

Features of Partnership

- **Two or More Persons:** At least two persons must pool resources to start a partnership firm. The Partnership Act, 1932 does not specify any maximum limit on the number of partners.
- **Agreement:** A partnership comes into being through an agreement between persons who are competent to enter into a contract.
- **Lawful Business:** The partners can take up only legally blessed activities. Any illegal activity carried out by partners does not enjoy the legal sanction.
- **Profit Sharing:** The partnership agreement must specify the manner of sharing profits and losses among partners. In the absence of any clause, profit and loss to be shared equally.
- **Agency Relationship:** Generally speaking, every partner is considered to be an agent of the firm as well as other partners. Partners have an agency relationship among themselves.
- **Unlimited Liability:** All partners are jointly and severally responsible for all activities carried out by the partnership.
- **Not a Separate Legal Entity:** The firm does not have a personality of its own. The business gets terminated in case of death, bankruptcy or lunacy of any one of the partners.
- **Transfer of Interest:** A partner cannot transfer his interest in the firm to outsiders unless all other partners agree unanimously.

PARTNERSHIP DEED

Partnership deed is a partnership agreement between the partners of the firms which outlines the terms and conditions of the partnership between the partners.

PROVISIONS OF THE INDIAN PARTNERSHIP ACT, 1932 IN THE ABSENCE OF PARTNERSHIP DEED

Since there is no partnership deed, provisions of the Indian Partnership Act, 1932 will apply.

- No interest on capital is payable to any partner.
- No interest is chargeable on drawings made by the partner.
- Interest on loan is payable at 6% per annum.

- No remuneration is payable to any partner.
- Profits should be distributed equally.
- New partner cannot be admitted unless all the partners agree.

DIFFERENCE BETWEEN FIXED AND FLUCTUATING CAPITAL ACCOUNTS

Basis	Fixed Capital Account	Fluctuating Capital Account
1. Number of Accounts Maintained	Two accounts, viz., capital and current account.	One account, viz., capital account.
2. Nature of Account/Balance	Remains unaltered.	Fluctuates.
3. Adjustments	Adjustments like interest on capital, drawings, interest on drawings, etc. are made in the current accounts.	Adjustments are made in the capital account itself.
4. Appearance in the balance sheet	Both capital and current accounts appear.	Only capital account appears.
5. Specific mention	It should be specifically mentioned in the partnership deed.	Not necessary.
6. Credit/Debit balance	Fixed capital accounts always show a credit balance.	Fluctuating capital may sometimes show a debit balance.

FORMAT OF PROFIT AND LOSS APPROPRIATION ACCOUNTS

Profit and Loss Appropriation Account

Dr. Cr.
for the year ended

Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit and loss A/c (Net loss transferred from profit and loss account)	xxx	By Profit and loss A/c (Net profit transferred from profit and loss account)	xxx
To Interest on partners' capital A/c	xxx	By Interest on partners' drawings A/c	xxx
To Partners' salary A/c	xxx		
To Partners' commission A/c	xxx		
To Reserve A/c	xxx		
To Partners' capital/current A/c (Profit)	xxx		
	xxx		xxx

PAST ADJUSTMENTS (RELATING TO INTEREST ON CAPITAL, INTEREST ON DRAWING, SALARY AND PROFIT SHARING RATIO)

Sometimes in partnership firms the books of accounts get closed but some mistakes or omissions take place. Thus, to rectify those errors and omissions adjustment entries are passed.

The errors or mistakes are on account of the following:

- Divisible Profit wrongly distributed.
- Certain Appropriations (IOC, Salary, Bonus and Commission) omitted or wrongly dealt (excess charged or short charged).
- Interest on Drawings omitted or wrongly dealt. (Excess or Short)

These errors and omissions are rectified by adjusting the Capital Account of the affected partners by passing (a) a single adjustment entry, or (b) adjustment entries.



PART - A

[ACCOUNTING FOR PARTNERSHIP FIRMS AND COMPANIES]

Accounting for Partnership Firms : Fundamentals

Multiple Choice Questions

1. The written Agreement of Partnership is most commonly referred to as:

- (a) Agreement
- (b) Partnership Deed
- (c) Partnership Contract
- (d) Partnership Act

Ans. (b) Partnership Deed

Explanation :

Partnership Deed is a form of written mutual agreement between the partners that defines the terms and conditions of the partnership business.

2. Identify the factor that affects the valuation of goodwill.

- (a) Favourable location
- (b) Favourable contracts
- (c) Quality of products
- (d) All of these

Ans. (d) All of these

Explanation :

The valuation of goodwill is affected by many factors like favourable location of the business, favourable contracts, quality of products, etc. So, the option : all of these, is applicable in this case.

3. Following are the essential elements of a partnership firm except:

- (a) At least two persons
- (b) There is an agreement between all partners
- (c) Equal share of profits and losses
- (d) Partnership agreement is for some business.

Ans. (c) Equal share of profits and losses

Explanation :

All are the essential elements of a partnership firm except this option of equal share of profits and losses.

4. Under what circumstances, a partner can get exemption from sharing losses in a firm?

- (a) If he is a senior citizen
- (b) If he is a minor
- (c) If he is a retiring partner
- (d) All of these

Ans. (b) If he is a minor

Explanation :

A minor is a person who is under the age of eighteen years. A minor partner can get exemption from sharing losses in a firm.

5. Which of the following statement is true?

- (a) A minor cannot be admitted as a partner.
- (b) A minor can be admitted as a partner, only into the benefits of the partnership.
- (c) A minor can be admitted as a partner, but his rights and liabilities are same as adult partner.
- (d) None of the above.

Ans. (b) A minor can be admitted as a partner, only into the benefits of the partnership.

Explanation :

According to the Partnership Act, a minor may be admitted to the benefits of a partnership. So while the minor will not be a partner he will enjoy all the benefits of a partnership. To admit all the minor to the benefits of the partnership all of the partners of the firm must be in agreement.

Fill in the Blanks

60. Persons who have entered into partnership with one another are individually called _____ and collectively called _____.

Ans. Partners, Firm

61. Under partnership firm, the liabilities of partner is _____.

Ans. unlimited

62. In the absence of provision in the partnership deed, the ratio in which the deficiency arising out of guarantee of profit to a partner is borne by the other partners in _____.

Ans. Old Profit-Sharing Ratio

63. _____ capital accounts always show a credit balance.

[Board Question]

Ans. Fixed

64. When the value of goodwill of the firm is not given but has to be inferred on the basis of net worth of the firm, it is called _____.

Ans. Hidden Goodwill

65. The capitalised value attached to the differential profit capacity of a business is called _____.

Ans. Goodwill

66. The present value of a firm's anticipated excess earnings is called _____.

Ans. Goodwill

True or False

67. Valid partnership can be formulated even without a written agreement between the partners. [NCERT]

Ans. True

68. Maximum number of partners can be 50.

[NCERT]

Ans. True

69. Methods of settlement of dispute among the partners can't be part of the partnership deed. [NCERT]

Ans. False

70. Registration of a partnership is legally compulsory.

Ans. False

71. Limited partnership is not allowed in India.

Ans. False

72. A partnership can take as many partners as it likes.

Ans. False

73. A minor can become a partner.

Ans. True

74. Interest on partner's loan is to be given @ 12% p.a. if the deed is silent about the rate.

[NCERT]

Ans. False.

75. Each partner carrying on the business is the principal as well as the agent for all the other partners.

[NCERT]

Ans. True

76. If the deed is silent, interest at the rate of 6% p.a. would be charged on the drawings made by the partners.

[NCERT]

Ans. False

77. Rent paid to a partner is shown on the credit side of Profit & Loss Appropriation Account.

Ans. False

78. Manager's commission is shown in Profit and Loss Appropriation Account.

Ans. False

Reconstitution of a Partnership Firm : Change in the Profit Sharing Ratio

Multiple Choice Questions

1. Which of these ways lead to reconstitution of partnership firm?

- (a) Admission of partner
- (b) Retirement of partner
- (c) Death of a partner
- (d) All of these

Ans. (d) All of these

Explanation :

It is often noticed that a partnership firm undergoes restructuring. These changes are brought about by certain conditions like the retirement of a partner, death of a partner, admission of a new partner or change in terms of business among the existing partners like change in profit sharing etc. This restructuring in firms is known by the term reconstitution of a partnership firm.

2. Sacrificing ratio is calculated as:

- (a) New share – Old share
- (b) Old share – New share
- (c) Gaining share – Old share
- (d) New share – Gaining share

Ans. (b) Old share – New share

Explanation :

Sacrificing ratio refers to the ratio in which the old partners surrender their share of profit in favour of new partners. It is calculated by the difference between old ratio and new ratio of the old partners. Sacrificing ratio = Old ratio – New Ratio.

3. A and B are partners in a firm sharing profit and losses 2 : 3 with effect from 1st April, 2021, they decided to share profits and loss equally. What will be B's gain/sacrifice?

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

Ans. (d) Sacrifice 1/10

Explanation :

B's sacrifice/gain = Old ratio – New ratio

$$= \frac{3}{5} - \frac{1}{2} = \frac{1}{10}$$

4. A, B and C are partners in a firm sharing profits in ratio of 2 : 1 : 3. They decided to share profits in the ratio of 4 : 5 : 3. What was A's gain/sacrifice?

- (a) No gain/sacrifice
- (b) Sacrifice 2/6
- (c) Gain 2/12
- (d) Gain 2/6

Ans. (a) No gain/sacrifice

Explanation :

A's sacrifice/(gain) = Old ratio – New ratio

$$= \frac{2}{6} - \frac{4}{12} = \frac{4-4}{12} = \frac{0}{12}$$

No sacrifice/gain

5. Avya, Divya and Kavya were equal partners. They decided to change the profit sharing ratio to 4 : 3 : 2. For this purpose the goodwill of the firm was valued at ₹90,000.

The journal entry for the treatment of Goodwill on change in profit sharing ratio will be:

[Board Question]

51. Existing goodwill is not supposed to be treated in case of change in profit sharing ratio.

Ans. False

52. Revaluation account is credited in case of increase in value of asset.

Ans. True

53. Revaluation account is credited in case of increase in value of liabilities.

Ans. False

54. When revaluation account is prepared, the assets and liabilities appear in Balance Sheet of new firm at their revised figures.

Ans. True

Match the following

55. Match the following items of Column I with the items given in Column II.

	Column I		Column II
(A)	Unrecorded liability recorded	I.	Credit Revaluation Account
(B)	Increase in value of land	II.	Debit Revaluation Account
(C)	Profit on revaluation	III.	Credit Partners' Capital Account
(D)	Loss on revaluation	IV.	Debit Partners' Capital Account

Choose the correct option:

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

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

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

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

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

56. Match the following items of Column I with the items given in Column II.

	Column I		Column II
(A)	Employees Provident Fund	I.	Accumulated loss
(B)	Advertisement Expenditure	II.	Statutory liability
(C)	Machinery Replacement Fund	III.	Accumulated profit
(D)	General Reserve	IV.	Accumulated depreciation

Choose the correct option:

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

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

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

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

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

Assertion and Reasoning Based Questions

Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):
In the context of the above two statements, which of the following is correct?

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

57. **Assertion (A):** A change in profit sharing ratio amounts to dissolution of partnership firm.

Reason (R): Existing agreement comes to an end and a new agreement comes into existence.

Ans. (c) (A) is true, but (R) is false.

Explanation :

A change in profit sharing ratio amounts to dissolution of partnership only, not partnership firm.

Admission of a Partner

Multiple Choice Questions

1. In case of admission of a partner, the entry for Unrecorded Investments is:

- (a) Debit Partners' Capital A/cs and Credit Investments A/c.
- (b) Debit Revaluation A/c and Credit Investments A/c.
- (c) Debit Investments A/c and Credit Revaluation A/c.
- (d) None of the above.

Ans. (c) Debit Investments A/c and Credit Revaluation A/c.

Explanation :

In case of admission of a partner the unrecorded assets is debited because in this case the value of assets is increased and as per the rule increase in value of asset is debit.

2. If at the time of admission there is an Unrecorded Liability, it is:

- (a) Debited to Revaluation Account.
- (b) Credited to Revaluation Account.
- (c) Debited to Goodwill Account.
- (d) Credited to Partners' Capital Accounts.

Ans. (a) Debited to Revaluation Account.

Explanation :

In the case of admission of a partner the unrecorded liability is debited to revaluation account because whenever the liability is increased the revaluation account is debited and increase in liability account is credited.

3. A new partner may be admitted to a partnership:

- (a) with the consent of all partners
- (b) with the consent of two third of old partners
- (c) with the consent of any one of the partners
- (d) without consent of old partners

Ans. (a) with the consent of all partners

Explanation :

A new partner may be admitted to a partnership with the consent of all the old partners.

4. A and B are partners sharing profits and losses as 2 : 1. C is admitted and profit sharing ratio becomes 4 : 3 : 2. Goodwill is valued at ₹94,500. C brings required goodwill in cash. Goodwill amount will be credited to:

- (a) A ₹14,000 and B ₹7,000
- (b) A ₹12,000 and B ₹9,000
- (c) A ₹21,000
- (d) A ₹94,500

Ans. (c) A ₹21,000

Explanation :

Sacrificing Ratio = Old Ratio – New Ratio

$$\text{A's sacrifice} = \frac{2}{3} - \frac{4}{9} = \frac{2}{9}$$

$$\text{B's sacrifice} = \frac{1}{3} - \frac{3}{9} = 0$$

As A is the only sacrificing partner, so goodwill brought in by C will be credited to his capital account only.

$$\text{C's share of goodwill} = ₹94,500 \times \frac{2}{9} = ₹21,000$$

77. Assertion: Revaluation account is debited to transfer gain on revaluation to Old Partners' Capital/Current Account in their old profit sharing ratio.

Reason: The gain on revaluation of assets or reassessment of the liabilities is to be transferred to the Partners' Capital/Current Account in their old profit sharing ratio.

Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A).

Explanation :

Gain on revaluation of assets or reassessment of liabilities is transferred to the partners capital account in their old profit sharing ratio.

78. Assertion: At the time of the admission of a partner, Revaluation Account will be debited to record the claim on Workmen Compensation for ₹10,000 as the Reserve for the same was only for ₹8,000.

Reason: The Claim for Workmen Compensation will be debited by ₹2,000 as the reserve for the same is already for ₹8,000.

Ans. (d) (A) is false, but (R) is true.

Explanation :

The claim to be debited to the revaluation account will be for the amount

	(₹)
Reserve for Workmen Compensation	= 8,000
Less: Claim on Account of Workmen Compensation	= (10,000)
	<u>(2,000)</u>

79. Assertion: Partners' Capital Account is credited with his share of gain on Revaluation Account if the capitals are Fixed.

Reason: Partners' Current Account is credited with his share of gain on Revaluation Account if the capitals are Fixed. Partner's Capital Account is credited with his share of gain on Revaluation Account if the capitals are Fluctuating.

Ans. (d) (A) is false, but (R) is true.

Explanation :

In the case of Fixed Capital Method gain on revaluation is credited in the partners current account while in the case of Fluctuating Capital Method it is credited in the partners capital account.

Case Based Questions

80. Read the following case study answer questions number (i) to (iv) on the basis of the same.

Arjun and Karan are partners in a firm sharing profits and losses in the ratio of 3 : 2. Atul is admitted for $\frac{1}{5}$ th share in profits of the firm. Calculate the new profit ratio of partners if,

(i) Atul gets it equally from Arjun and Karan.

(a) 2 : 3 : 5

(b) 5 : 3 : 2

(c) 5 : 2 : 6

(d) None of these

Ans. (b) 5 : 3 : 2

Explanation :

$$\text{Arjun's New Share} = \frac{3}{5} - \left(\frac{1}{5} \times \frac{1}{2} \right) = \frac{5}{10}$$

$$\text{Karan's New Share} = \frac{2}{5} - \left(\frac{1}{5} \times \frac{1}{2} \right) = \frac{3}{10}$$

$$\text{Atul's Share} = \frac{1}{5} \text{ or } \frac{2}{10}$$

Therefore, the New Profit Sharing Ratio = 5 : 3 : 2

(ii) Atul gets it from Arjun and Karan in the ratio of 2 : 1.

(a) 7 : 5 : 3

(b) 2 : 3 : 1

(c) 9 : 6 : 1

(d) 8 : 8 : 9

Ans. (a) 7 : 5 : 3

Retirement and Death of a Partner

Multiple Choice Questions

1. Retiring partner is compensated for parting with the firm's future profits favouring remaining partners. The remaining partners contribute to such compensation amount in:

- (a) Gaining Ratio (c) Sacrificing Ratio
(b) Capital Ratio (d) Profit-Sharing Ratio

Ans. (a) Gaining Ratio

Explanation:

Retiring partner is compensated for parting with the firm's future profits favouring remaining partners. The remaining partners contribute to such compensation amount in gaining ratio.

2. 'Gaining Ratio' means:

- (a) Old Ratio – New Ratio (c) Old Ratio – Sacrificing Ratio
(b) New Ratio – Old Ratio (d) New Ratio – Sacrificing Ratio

Ans. (b) New Ratio – Old Ratio

Explanation:

Gaining ratio is the ratio in which the remaining partners acquire the outgoing partners share of profit. Gaining Ratio is the difference between New Ratio and Old Ratio of remaining partners of the partnership firms.

3. How will you calculate New profit sharing ratio?

- (a) New Share = Old Share + acquired gaining share
(b) New Share = Sacrificing share + acquired gaining share
(c) New Share = Gaining share + acquired gaining ratio
(d) New Share = Old Share + acquired sacrificing share

Ans. (a) New Share = Old Share + acquired gaining share

Explanation:

New Share is calculated by adding the acquired gaining share in old profit sharing ratio.

4. Name the profit sharing ratio in which the continuing partners share future profits after retiring partners leaves the firm.

- (a) Sacrificing ratio (c) New profit sharing ratio
(b) Old ratio (d) Gaining ratio

Ans. (c) New profit sharing ratio

Explanation:

New profit sharing ratio is the ratio in which continuing partners share future profits after retiring partners leave the firm.

5. Some adjustments are to be made at the time of retiring partner.

- (i) New profit sharing ratio of continuing partners
(ii) Accounting treatment of Goodwill
(iii) Sacrificing ratio of continuing partners
(iv) Accounting treatment of joint life policy.

Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A).

Explanation:

A partner may decide to retire or withdraw from the firm due to reasons such as his age, his bad health, change in the firm's nature of a business, etc. and the retiring partner is paid his share of capital, Goodwill and revaluation profit or loss.

107. Assertion (A): In case of death, all dues are paid to the legal heir of the deceased partner.

Reason (R): A partner's death or insolvency also results in the reconstitution of the firm when the remaining partners wish to continue the firm.

Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A).

Explanation:

In case of death of a partner, the amount due to deceased partner is paid to the legal heir of the deceased partner. Death or insolvency of a partner also results in the reconstitution of the firm when the remaining partners wish to continue the firm.

108. Assertion (A): The retiring or deceased partner is entitled to his Share of Goodwill at the time of retirement/death because the firm has earned the Goodwill with the efforts of all the existing partners.

Reason (R): At the time of retirement/death of a partner, the retiring/ deceased partner is compensated for his Share of Goodwill by the continuing partners in their gaining ratio.

Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A).

Explanation:

At the time of retirement or death of a partner, the retiring or deceased partner is entitled to his share of goodwill because the firm has earned the goodwill with the efforts of all the existing partners. The share of goodwill of retiring or deceased by the continuing partners in their gaining ratio.

Case Based Questions

109. Read the following case study answer questions number (i) to (iv) on the basis of the same.

Sangeeta, Saroj and Shanti are partners in 'Sasha Limited' engaged in manufacturing of handloom products. They share profits and losses in the ratio of 2 : 3 : 5. On 31st March, 2021 Goodwill is appearing in the books at a value of ₹60,000. On that date, Sangeeta retires and goodwill of the firm is valued at ₹90,000. Saroj and Shanti decided to share future profits equally.

(i) What amount will be debited to Sangeeta's Capital Account while writing off goodwill?

- | | |
|-------------|-------------|
| (a) ₹12,000 | (c) ₹30,000 |
| (b) ₹18,000 | (d) ₹60,000 |

Ans. (a) ₹12,000

Explanation:

$$\text{Amount Debited to Sangeeta's Capital Account} = ₹60,000 \times \frac{2}{10} = ₹12,000$$

(ii) What amount will be debited Saroj's Capital Account while writing off goodwill?

- | | | | |
|-------------|-------------|-------------|-------------|
| (a) ₹12,000 | (b) ₹18,000 | (c) ₹30,000 | (d) ₹60,000 |
|-------------|-------------|-------------|-------------|

Ans. (b) ₹18,000

Explanation:

$$\text{Amount Debited to Saroj's Capital Account} = ₹60,000 \times \frac{3}{10} = ₹18,000$$

(iii) What amount will be debited to Shanti's Capital Account while writing off goodwill?

- | | | | |
|-------------|-------------|-------------|-------------|
| (a) ₹12,000 | (b) ₹18,000 | (c) ₹30,000 | (d) ₹60,000 |
|-------------|-------------|-------------|-------------|

Ans. (c) ₹30,000

Dissolution of a Partnership Firm

Multiple Choice Questions

1. A partnership firm is compulsorily dissolved:

- (a) when the business of the firm is declared illegal.
- (b) when a partner of the firm dies.
- (c) when a partner of the firm becomes insolvent.
- (d) when a partner transfers his share to some other person without the consent of other partners.

Ans. (a) when the business of the firm is declared illegal.

Explanation:

A partnership firm is compulsorily dissolved when the business of the firm is declared illegal.

2. On dissolution of a firm, in which ratio profit and loss on realisation is distributed among the partners:

- (a) Capital ratio
- (b) Profit sharing ratio
- (c) Equally
- (d) In the ratio of amount due to each partner.

Ans. (b) Profit sharing ratio

Explanation:

At the time of dissolution of a partnership firm, profit or loss on realisation is distributed among the partners in their profit sharing ratio.

3. New ratio is not to be calculated on:

- (a) Admission of a partner
- (b) Retirement of a partner
- (c) Death of a partner
- (d) Dissolution of a partnership

Ans. (d) Dissolution of a partnership

Explanation:

New ratio is not calculated at the time of dissolution of a partnership.

4. Settlement of accounts in case of dissolution of partnership firm is dealt with which Section of Partnership Act, 1932?

- (a) Section 45
- (b) Section 46
- (c) Section 47
- (d) Section 48

Ans. (d) Section 48

Explanation:

Section 48 of the partnership Act, 1932 deals with settlement of accounts in case of dissolution of partnership firms.

5. In which condition a partnership firm is deemed to be dissolved?

- (a) On a partner's admission
- (b) On the retirement of a partner
- (c) On the expiry of the period of partnership
- (d) On loss in partnership

Ans. (c) On the expiry of the period of partnership

Explanation:

On the expiry of the partnership period, the firm is deemed to be dissolved.

Ans.

Journal

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
2018 March 31	F's Loan A/c Dr. To Realisation A/c (Being liability of F's loan transferred to Realisation Account)		10,000	10,000
	Realisation A/c Dr. To C's Capital A/c (Being F's loan taken over by C)		10,000	10,000

Short Answer Type Questions
134. State the order of settlement of accounts on dissolution.

Ans. In case of dissolution of a firm, the firm ceases to conduct business and has to settle its accounts. For this purpose, it disposed off all its assets for satisfying all the claims against it. In this context, it should be noted that, subject to agreement among the partners, the following rules as provided in Section 48 of the Partnership Act, 1932 shall apply. As per those rules, the following order of settlement will be followed:

(i) Treatment of Losses

Net Losses, including deficiencies of capital, shall be paid:

- First out of profits,
- Next, out of the capital of partners, and
- Lastly, if necessary, by the partners individually in their profits sharing ratio.

(ii) Application of Assets

The assets of the firm, including any sum contributed by the partners to make up deficiencies of capital, shall be applied in the following manner and order:

- In paying the debts of the firm to the third parties;
- In paying each partner proportionately what is due to them from the firm for advances as distinguished from capital (*i.e.*, partner's loan);
- In paying to each partner proportionately what is due to him on account of capital; and
- The residue, if any, shall be divided among the partners in their profit sharing ratio.

135. What are the features of a Realisation Account?

Ans. Features of a Realisation Account are:

- In the realisation account, the sale of assets is recorded at their realised value.
- Payment to liabilities (creditors) is recorded at their settlement value.
- After all the transactions have been recorded, there will be a balance, profit or loss.
- Profit arises in two situations:
 - When assets are realised at more than their book value.
 - When liabilities are settled at less than their book value.
- If the two conditions are vice versa, the net result will be a loss.
- The net profit or loss on realisation will be transferred to the Partner's Capital Accounts in their profit sharing ratio.

136. How deficiency of creditors is paid off?

Ans. When a firm gets into the situation of dissolution, the amount received from the sale of the firm's assets is utilised to pay off the liabilities (creditors). After that, if the sale receipts of assets fall short, then partners' private assets are used for settling the dues of the firm's creditors. Even if some portion of the amount due to creditors is left unpaid, then there arises deficiency of creditors. This deficiency is handled in the following two ways:

Accounting for Share Capital

Multiple Choice Questions

1. On Equity Shares dividend is proposed by the Board of Directors every year but rate of dividend is fixed on:

- (a) Debentures
- (b) Equity Shares
- (c) Loan to outsiders
- (d) Preference Shares

Ans. (d) Preference Shares

Explanation :

Preference shares are shares in the share capital of a company that entitle the holder to a fixed dividend amount to be paid by the issuer. This dividend must be paid before the company can issue any dividends to its common shareholders.

2. Maximum limit of premium on shares is:

- (a) 5%
- (b) 10%
- (c) No limit
- (d) Not more than 100%

Ans. (c) No limit

Explanation :

When shares are issued at a price higher than the face value, they are said to be issued at a premium. Thus, the excess of issue price over the face value is the amount of premium.

3. Company formed by special acts is called:

- (a) Chartered Company
- (b) Statutory Company
- (c) Registered Company
- (d) None of these

Ans. (b) Statutory Company

Explanation :

When a company is incorporated through a Special Act passed by the Central Government or State Government, as the case may be, the incorporated corporation is known as Statutory Company. These companies are formed with the intent to carry out some special public undertaking.

4. Reserve Capital is not a part of:

- (a) authorised capital
- (b) subscribed capital
- (c) unsubscribed capital
- (d) issued share capital

Ans. (c) unsubscribed capital

Explanation :

Reserve capital is that kind of capital which is a part of the uncalled capital and called-up in the event of winding up.

5. Shares for which amount is paid by public are called _____ shares.

- (a) authorised
- (b) paid-up
- (c) bonus shares
- (d) all of these

Ans. (b) paid-up

Explanation :

Paid-up capital is the amount of money a company has been paid from shareholders in exchange for shares of its stock.

Equity Share First & Final Call A/c	Dr.	8,00,000	
To Equity Share Capital A/c			8,00,000
(Being amount due on share first and final call)			
Bank A/c	Dr.	7,76,000	
Calls-in-Arrear A/c	Dr.	24,000	
To Equity Share First and Final Call A/c			8,00,000
(Being amount received on share first and final call)			
Equity Share Capital A/c	Dr.	60,000	
To Equity Share Forfeiture A/c			24,000
To Calls-in-Arrear A/c			36,000
(Being 6,000 share forfeited)			
Bank A/c	Dr.	48,000	
To Equity Share Capital A/c			30,000
To Securities Premium Reserve A/c			18,000
(Being 6,000 share forfeited)			
Share Forfeiture A/c	Dr.	12,000	
To Capital Reserve A/c			12,000
(Being gain on re-issue of forfeited shares transferred to capital reserve)			

Working Notes:**Calculation of Actual Calls-in-Arrear**

- (i) No. of Share Allotted to Naveen = No. of Share Applied $\times \frac{\text{Total Share Allotted}}{\text{Total Share Applied}}$
- $$= 7,200 \times \frac{2,00,000}{2,40,000} = 6,000 \text{ Shares}$$
- (ii) Excess amount received on:
application form Naveeb = Value of Application (Applied Shares – Allotted Shares)
= 5 (7,200 – 6,000)
= 5 $\times$ 1,200 = ₹6,000
- (iii) Amount due on allotment from Naveen = Value of allotment $\times$ No. of Shares allotted
= 3 $\times$ 6,000
= ₹18,000
- (iv) Actual Calls-in-Arrear = (iii) – (ii)
= 18,000 – 6,000 = ₹12,000.

Long Answer Type Questions-I

155. What is share capital? Explain its types.

Ans. Share capital: Share capital means the capital raised by the company by the issue of shares. As the share capital is received from shareholders and since number of shareholders in a company is authorised, therefore, separate capital account of each shareholder is not opened, instead one consolidated capital account is opened for all shareholders of similar types.

Types of Share Capital:

The term Share Capital has been used in many forms in the Companies Act, therefore, the share capital has been divided in the following types:

- (i) **Authorised or Registered or Nominal Capital:** It refers to the maximum capital that a company can raise from the market. It is stated in the capital clause of Memorandum of Association of the company. A company cannot raise more capital beyond the authorised capital.

Accounting for Debentures

Multiple Choice Questions

1. When debentures are issued at par and redeemable at premium, the loss on such an issue is debited to:

- (a) Statement of Profit and Loss
- (b) Debenture Application and Allotment Account
- (c) Loss on Issue of Debentures Account
- (d) Discount on Issue of Debentures Account

Ans. (c) Loss on Issue of Debentures Account

Explanation:

When debentures are issued at par and redeemable at premium, the loss on such issue is debited to loss on Issue of debentures Account.

2. When debentures are issued at discount and redeemable at a premium which one of the following account is debited at the time of issue?

- (a) Debentures Account
- (b) Premium on Redemption of Debentures Account
- (c) Loss on Issue of Debentures Account
- (d) None of the above

Ans. (c) Loss on Issue of Debentures Account

Explanation:

When debentures are issued at discount and redeemable at premium, the loss on such issue is debited to loss on Issue of Debentures Account.

3. Which of the following statement is true?

- (a) A debentureholder is an owner of the company
- (b) A debentureholder can get his money back only on the liquidation of the company
- (c) A debenture issued at a discount can be redeemed at a premium
- (d) A debentureholder receives interest only in the event of profits

Ans. (c) A debenture issued at a discount can be redeemed at a premium

Explanation:

Debentures issued at discount that redeemable at premium in such a case company incurs loss in two ways *i.e.*, discount allowed at the time of issue of debentures at premium payable at the time of its redemption.

4. Discount on issue of debentures is a _____.

- (a) revenue loss to be charged in the year of issue.
- (b) capital loss to be written off from capital reserve.
- (c) capital loss to be written off over the tenure of the debentures.
- (d) capital loss to be shown as goodwill.

Ans. (c) capital loss to be written off over the tenure of the debentures.

Explanation:

Discount on issue of debentures is a capital loss to be written off over the tenure of the debentures.

Second Method:

Journal Entries

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Debenture Suspense A/c Dr. To 10% Debentures A/c (12,000 debenture of ₹100 each issued as collateral security to P.N. Bank)		12,00,000	12,00,000

Balance Sheet (Extract)

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term borrowings	1	10,00,000

Notes to Account:

Particulars	Amount (₹)	Amount (₹)
1. Long-term borrowings Secured Loan from PNB Bank loan		10,00,000
12,000, 10% debentures of ₹100 each	12,00,000	
Less: Debenture Suspense	12,00,000	—
		10,00,000

Long Answer Type Questions

122. Pass journal entries in the books of X Ltd. in the following cases :

[Board Question]

- The company took a loan of ₹1,60,000 from SBI and issued 2,000, 12% debentures of ₹100 each as collateral security.
- Issued 1,000, 12% debentures of ₹100 each at 10% premium, redeemable at a premium of 5%.
- Purchased machinery ₹4,60,000, from Beta Ltd. Payment was made by issue of 9% debentures of ₹100 each at a premium of 15%, redeemable at par.

Ans.

In the Books of X Ltd.

Journal

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Bank A/c Dr. To Bank Loan A/c (Being loan obtained from Bank)		1,60,000	1,60,000
	Debenture Suspense A/c Dr. To 12% Debentures A/c (Being 12% Debentures issued as collateral security)		2,00,000	2,00,000
	Bank A/c Dr. To Debenture Application & Allotment A/c (Being amount received)		1,10,000	1,10,000
	Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr.		1,10,000 5,000	
	To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being issue of 1,000, 12% Debentures of ₹100 each at 10% premium, redeemable at 5% premium)			1,00,000 10,000 5,000



PART - B

[FINANCIAL STATEMENT ANALYSIS]

Financial Statements of a Company

Chapter 8

Multiple Choice Questions

1. Balance Sheet of a company is required to be prepared in the format given in _____.

- (a) Schedule III Part II
- (b) Schedule III Part I
- (c) Schedule III Part III
- (d) Table A

Ans. (b) Schedule III Part I

Explanation :

Schedule III Part I of the Companies Act, 2013 deals with the form of Balance Sheet and Profit and Loss Account and classified disclosure to be made therein and it applies to all the companies registered under the Companies Act, 1956.

2. Liability which may become payable depending on an event happening in future:

- (a) Current liabilities
- (b) Long-term borrowings
- (c) Debentures
- (d) Contingent liabilities

Ans. (d) Contingent liabilities

Explanation :

A contingent liability is a liability that may occur depending on the outcome of an uncertain future event. A contingent liability is recorded if the contingency is likely and the amount of the liability can be reasonably estimated.

3. The basic Financial Statements include:

- (a) Statement of Cash Flows
- (b) Statement of Retained Earnings
- (c) Balance Sheet and Income Statement
- (d) None of these

Ans. (c) Balance Sheet and Income Statement

Explanation :

Financial statements are a collection of summary-level reports about an organisation's financial results, financial position, and cash flows. They include the income statement, balance sheet, and statement of cash flows.

4. Which of the following is correct example of capital work-in-progress?

- (a) Purchase of current assets
- (b) Conversion of raw material into final goods
- (c) Office building under construction
- (d) Increase in patents

Ans. (c) Office building under construction

Explanation :

Capital work-in-progress represents costs incurred to date on a fixed asset that is still under construction at the balance sheet date. The costs being incurred on such assets cannot be recognised as an operating asset until they qualify as a ready to use asset.

5. Prepaid rent is a :

- (a) Current asset
- (b) Fixed asset
- (c) Current liability
- (d) None of these

Ans. (a) Current asset

Explanation :

Prepaid rent means advance payment of rent. Since rent is paid in advance, so it will not be repaid when it will due. So, it is a current asset.

Choose the correct option:

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

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

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

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

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

67. Match the following items of Column I with the headings given in Column II.

	Column I		Column II
(A)	Trademarks	I.	Long-term Borrowings
(B)	Share Warrants	II.	Short-term Borrowings
(C)	Loose Tools	III.	Shareholder's Funds
(D)	Provision for Taxation	IV.	Current Assets
(E)	Loans from Financial Institutions	V.	Non-current Assets

Choose the correct option:

(a) (A)-I, (B)-II, (C)-III, (D)-IV, (E)-V

(c) (A)-I, (B)-IV, (C)-II, (D)-V, (E)-III

(b) (A)-V, (B)-IV, (C)-III, (D)-II, (E)-I

(d) (A)-V, (B)-III, (C)-IV, (D)-II, (E)-I

Ans. (d) (A)-V, (B)-III, (C)-IV, (D)-II, (E)-I

68. Match the following items of Column I with the headings given in Column II.

	Column I		Column II
(A)	Computers	I.	Tangible Assets
(B)	Stores and Spares	II.	Intangible Assets
(C)	License and Franchise	III.	Capital Work-in-Progress
(D)	Public Deposits	IV.	Current Assets
(E)	Railways Siding under Construction	V.	Non-current Liabilities

Choose the correct option:

(a) (A)-I, (B)-II, (C)-III, (D)-IV, (E)-V

(c) (A)-I, (B)-IV, (C)-II, (D)-V, (E)-III

(b) (A)-II, (B)-III, (C)-IV, (D)-V, (E)-I

(d) (A)-IV, (B)-V, (C)-I, (D)-II, (E)-III

Ans. (c) (A)-I, (B)-IV, (C)-II, (D)-V, (E)-III

Assertion and Reasoning Based Questions

Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

In the context of the above two statements, which of the following is correct?

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

69. Assertion (A): Financial Statements are the end products of accounting process.

Reason (R): Financial Statements provide information about the profitability and the financial position of a business.

Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A).

Explanation :

Financial Statements are a collection of summary-level reports about an organisation's financial results, financial position and cash flows. They include the income statement, balance sheet, and statement of cash flows. They are truly the end products of accounting process.

70. Assertion (A): Proposed dividend is a contingent liability.

Reason (R): As per AS-4 Revised, Proposed dividend is shown as the contingent liability because it is subject to approval by the shareholders, who may reduce the amount of dividend to be paid.

Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A).

Financial Statement Analysis

Multiple Choice Questions

1. The term financial analysis includes:

- (a) analysis of financial statements
- (b) interpretation of financial statements
- (c) both (a) and (b)
- (d) none of these

Ans. (c) both (a) and (b)

Explanation :

The term 'financial analysis' includes both 'analysis and interpretation'. Analysis means simplification of financial data by methodical classification given in the financial statements. Interpretation means explaining the meaning and significance of the data.

2. The analysis that is made to review and analyse financial statements for a number of years is known as:

- (a) Horizontal Analysis
- (b) Vertical Analysis
- (c) Cash Flow Analysis
- (d) None of these

Ans. (a) Horizontal Analysis

Explanation :

Horizontal analysis is used in the review of a company's financial statements over multiple periods. Horizontal analysis allows financial statement users to easily spot trends and growth patterns.

3. Financial statement analysis considers price level changes.

- (a) True
- (b) False
- (c) Can't say
- (d) Partially true

Ans. (b) False

Explanation :

Financial statement analysis is done on historical data and does not consider price level changes.

4. The analysis that is made to review and analyse the financial statements for one particular year only is known as:

- (a) Horizontal Analysis
- (b) Vertical Analysis
- (c) Cash Flow Analysis
- (d) None of these

Ans. (b) Vertical Analysis

Explanation :

Vertical analysis is a method of analysing financial statements that list each line item as a percentage of a base figure within the statement.

5. Which of the following are commonly used techniques of financial statement analysis?

- (i) Comparative statements
- (ii) Common size statements
- (iii) Ratio analysis
- (iv) Cash flow statement
- (a) Only (i)
- (b) (i) and (ii)
- (c) (i), (ii), (iii)
- (d) All of these

Ans. (d) All of these

Explanation :

Comparative statements, common size statements, ratio analysis, cash flow statements, all these are commonly used techniques of financial statement analysis.

Explanation :

As such, the financial analysis also suffers from various limitations of financial statements. Hence, the analyst must be conscious of the impact of price level changes, window dressing of financial statements, changes in accounting policies of a firm, accounting concepts and conventions, personal judgement, etc.

38. Which of the following is not a limitation of 'financial statements analysis'?

- | | |
|--|-----------------------------------|
| (a) It is affected by personal bias. | (c) Lack of qualitative analysis. |
| (b) Inter-firm comparative study possible. | (d) Ignores price level changes. |

Ans. (b) Inter-firm comparative study possible.

Explanation :

Inter-firm comparison is the technique which studies the performances, efficiencies, costs and profits of various concerns in an industry.

39. Which of the following are not users of Financial Statement Analysis?

- | | |
|----------------------|---------------------|
| (a) Shareholders | (c) Investors |
| (b) Debentureholders | (d) Stock Exchanges |

Ans. (d) Stock Exchanges

Explanation :

Financial statement analysis evaluates a company's performance or value through a company's balance sheet, income statement, or statement of cash flows. Investors, shareholder, debentureholder, etc., are the users of Financial Statement Analysis.

Fill in the Blanks

40. _____ of financial statements is a study of relationship among various financial values asset out in Financial Statements.

Ans. Analysis

41. The analysis made to review and analyse financial statements for a number of years is called as _____.

Ans. Time Series Analysis

42. When a single set of financial statements of two firms are compared, it is called as _____.

Ans. Cross-sectional Analysis

43. Interpretation means _____ data.

[NCERT]

Ans. explaining the impact of

44. Comparative analysis is also known as _____ analysis.

[NCERT]

Ans. horizontal

45. Common size analysis is also known as _____ analysis.

[NCERT]

Ans. vertical

46. The analysis of actual movement of money inflow and outflow in an organisation is called _____ analysis.

[NCERT]

Ans. Cash Flow

47. Financial Statement Analysis is to assess _____ of business which means ability to pay the debts.

Ans. solvency

48. When financial statement for two years are analysed by taking the previous year as a base year, it is known as _____ statements.

Ans. Comparative

True or False

49. Horizontal analysis is considered as Dynamic Analysis.

Ans. True

50. Comparative statements are the form of horizontal analysis.

Ans. True

Accounting Ratios/ Ratio Analysis

Multiple Choice Questions

1. The two basic measures of operational efficiency of a company are:

- (a) Inventory Turnover Ratio and Working Capital Turnover Ratio
- (b) Liquid Ratio and Operating Ratio
- (c) Liquid Ratio and Current Ratio
- (d) Gross Profit Margin and Net Profit Margin

Ans. (a) Inventory Turnover Ratio and Working Capital Turnover Ratio

Explanation :

Efficiency ratios include the inventory turnover ratio, assets turnover ratio, receivables turnover ratio, etc. These ratios measure how efficiently a company uses its assets to generate revenues and its ability to manage these assets.

2. Ratio analysis under financial analysis is significant as it:

- (a) ignores qualitative factors
- (b) helps in window-dressing
- (c) does not requires any standards
- (d) helps in locating weak points of the firm

Ans. (d) helps in locating weak points of the firm

Explanation :

Financial analysis is significant as it helps a firm in locating weak point, with the comparison of two years Balance Sheet and ratio analysis.

3. Test of solvency of a business undertaking means:

- (a) its ability to meet the interest cost.
- (b) its ability to meet the long-term liabilities as and when they become due.
- (c) its ability to pay dividends to equity shareholders.
- (d) all of the above

Ans. (d) all of the above

Explanation :

Ability to pay dividend to equity shareholders shows that the undertaking is able to meet the interest cost and also long-term liabilities as and when they become due.

4. The following groups of ratios are primarily measure risk:

[NCERT]

- (a) liquidity, activity and profitability
- (b) liquidity, activity and inventory
- (c) liquidity, activity and debt
- (d) liquidity, debt and profitability

Ans. (d) liquidity, debt and profitability

Explanation :

Some of the financial ratios that are most commonly used by the investors and analysis to access a company's financial risk level and overall financial health are debt-to-capital ratio, interest coverage ratio, activity ratio, and profitability ratios.

5. The _____ ratios are primarily measures of return.

[NCERT]

- (a) liquidity
- (b) activity
- (c) debt
- (d) profitability

Ans. (d) profitability

Explanation :

Profitability ratios indicate how efficiently a company generates profit and value for shareholders.

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2021 (₹)
1. Revenue from Operations		6,50,000	8,22,000
2. Sales Return		50,000	22,000
3. Total Net Revenue (1-2)		6,00,000	8,00,000
4. Expenses:			
(a) Cost of Goods Sold		4,25,000	7,25,000
(b) Other Expenses		75,000	1,15,000
Total Expenses		5,00,000	8,40,000
5. Profit before Tax (3-4)		1,00,000	(40,000)
Less: Income Tax		30,000	—
6. Profit After Tax		70,000	(40,000)

(i) Which category of ratios can be applicable on the given data?

Ans. Profitability Ratios can be applied on the Income Statements given.

(ii) How can Vanita access the Profitability from Core operations?

Ans. Profitability from Core operations can be accessed from Gross Profit Ratio.

$$\text{Gross Profit Ratio for 2019-20} = \frac{(6,00,000 - 4,25,000)}{6,00,000} \times 100 = 29.17\%$$

$$\text{Gross Profit Ratio for 2020-21} = \frac{(8,00,000 - 7,25,000)}{8,00,000} \times 100 = 9.375\%$$

It has decreased a lot.

(iii) What can Vanita comment on the Profitability of the organization?

Ans. Profitability of the organization can be commented on with the help of Net Profit Ratio.

$$\text{Net Profit Ratio for 2019-20} = \frac{70,000}{6,00,000} \times 100 = 11.67\%$$

$$\text{Net Profit Ratio for 2020-21} = \frac{(40,000)}{8,00,000} \times 100 = 5\% \text{ (negative)}$$

The net profit of the company had declined from 11% to Loss of 5%.

(iv) Help Vanita in interpreting the Profitability Ratios.

Ans. Profitability Ratios like Gross Profit Ratio, Net Profit Ratio, Operating Profit Ratio are interpreted as higher the ratio, the better it is.

(v) Which two factors had to be taken care while using ratio analysis as a tool by Vanita?

Ans. Limitations of Ratio Analysis are:

- Ratios are not completely reliable to make any future decisions for an enterprise.
- Ratios takes into consideration only quantitative factors and all the related qualitative factors are ignored, which may be important for future decision making of an enterprise.

Very Short Answer Type Questions

79. What is meant by Ratio?

Ans. Relationship between two figures expressed in arithmetical terms is called a ratio. A ratio is simply one number expressed in terms of another. It can be expressed in the form of fractions, rate or percentages.

80. What is 'Ratio Analysis'?

Ans. According to Myers, ratio analysis is the study of relationship between various items or group of items in financial statements.

Cash Flow Statement

Multiple Choice Questions

1. Which of the following is/are included in Cash and Cash Equivalents while preparing Cash Flow Statement?

- (a) Balances with Bank
- (b) Treasury Bills
- (c) Commercial Papers
- (d) All of these

Ans. (d) All of these

Explanation:

While preparing Cash Flow Statement, balance with Bank, treasury bills and commercial papers are included in Cash and Cash Equivalents.

2. Operating Activities include:

- (a) Royalties
- (b) Commission Received
- (c) Sale of Scrap
- (d) All of these

Ans. (d) All of these

Explanation:

Royalties, commission received and sale of scrap are included in operating activities while preparing Cash Flow Statement.

3. Methods which can be employed to compute Net Cash Flows from Operating Activities:

- (a) Direct Method
- (b) Indirect Method
- (c) Both (a) and (b)
- (d) None of these

Ans. (c) Both (a) and (b)

Explanation:

Cash Flow Statement can be prepared by two methods, namely, direct method and Indirect Method.

4. An example of Cash Flows from Operating Activity is :

- (a) Land and Building Purchase for Real Estate Business
- (b) Land and Building sale for Real Estate Business
- (c) Rent Received
- (d) All of the above

Ans. (d) All of the above

Explanation:

Purchase and Sale of Land and Building for a Real Estate Business and rent received are example of Cash flow from operating activities.

5. Which of the following is not a source of cash?

- (a) Issue of Debentures
- (b) Purchase of Machine
- (c) Sale of Assets
- (d) Dividend Received

Ans. (b) Purchase of Machine

Explanation:

Purchase of machine is not a source of cash but a application of cash resources.

Very Short Answer Type Questions

124. What do you mean by 'Cash Flow Statement'?

Ans. Cash Flow Statement is a statement that shows flow of cash and cash equivalents during a given period of time. It shows the net increase or net decrease of cash amount. Cash Flow Statement is also called a "Statement of Changes in Financial Position - Cash Basis".

125. Give four examples of cash equivalents.

Ans. (i) Treasury bill (ii) Commercial paper
(iii) Marketable securities (iv) Cash at bank

126. Give two examples of cash flows from operating activities.

Ans. (i) Cash receipts from the sale of goods and rendering of services.
(ii) Cash receipts from royalties, fees, commissions and other revenue.

127. Give five examples of cash used in financing activities.

Ans. (i) Cash payment of interest and dividend.
(ii) Cash payment for redemption of preference shares.
(iii) Buy-back of equity shares.
(iv) Long-term loans repayment.
(v) Redemption of debentures.

128. "Interest received on debentures held as investment", under which type of activity will you classify while preparing Cash Flow Statement in case of financial enterprise.'

Ans. Operating activity.

129. Why is separate disclosure of cash flows from investing activities important? State.

Ans. It is important because cash flows represent the extent to which expenditure have been made for resources intended to generate future income and cash flows by way of investing activities.

130. Give with reasons whether the withdrawal of cash from bank for office use will result into inflow, outflow or no flow of cash.

Ans. No flow of cash, because cash includes bank deposits also.

131. Give five items to be added back to Net Profit, while preparing Cash Flow from Operating Activities.

Ans. (i) Depreciation.
(ii) Amortization of fictitious or Intangible assets.
(iii) Bad-debts written off.
(iv) Loss on sale of fixed assets.
(v) Provision for doubtful debts.

132. State which of the following would result in inflow, outflow or no flow of cash, while preparing Cash Flow Statement.

- (i) Purchase of Patent.
- (ii) Redemption of debentures by converting them into equity shares of ₹5,000.
- (iii) Purchase of own debentures at 94%.

Ans. (i) Outflow, because cash will decrease.
(ii) No flow, because cash will not get affected.
(iii) Outflow, because cash will decrease by in this case.

133. State, the sale of a fixed asset (Book value ₹1,02,900) at a loss of ₹34,300 would result in inflow outflow or no flow of cash.

Ans. Sale of Fixed Assets. (Book value ₹1,02,900) at a loss of ₹34,300 would result in flow of cash. Because, cash ₹68,600 from the sale of fixed asset is coming into the business.

134. Give an example of cash outflow financing activity.

Ans. Payment made for buy back of equity shares of the company.



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