

1. **Answer:** b) It represents ownership in the company

Explanation: Share capital refers to the total value of shares issued by a company to its shareholders. It represents the ownership in the company, and shareholders are the partial owners, entitled to dividends and voting rights. Share capital can be of two types: equity share capital and preference share capital. Equity shareholders have voting rights and share the company's profits, while preference shareholders receive fixed dividends but do not have voting rights. Share capital is essential for raising funds and represents the company's ownership structure.

2. **Answer:** a) The company earns additional capital

Explanation: When a company issues shares at a premium, it is selling shares at a price higher than their nominal or face value. The premium amount becomes an additional source of capital for the company. This premium is credited to a separate account known as the Securities Premium Account, which can be used for various purposes such as issuing fully paid-up bonus shares, writing off preliminary expenses, or funding specific projects. Issuing shares at a premium allows the company to raise more funds from the same number of shares.

3.**Answer:** c) Preference shareholders receive a fixed dividend before equity shareholders

Explanation: Preference shares are a type of share that provides its holders with a fixed dividend, which must be paid before any dividend is distributed to equity shareholders. However, preference shareholders typically do not have voting rights in general meetings unless certain conditions arise, such as non-payment of dividends for a specific period. Some preference shares are convertible into equity shares, while others are not. The key feature is the priority in dividend payments and capital repayment during liquidation.

4. **Answer:** c) It is recorded as share capital and the corresponding asset is recognized

Explanation: When shares are issued for consideration other than cash, such as property or services, the value of the shares issued is recorded as share capital, and the corresponding asset or service is recognized at the fair value. This is typically done in the case of mergers, acquisitions, or when the company provides shares in exchange for tangible or intangible assets. The issuance of shares for non-cash consideration helps companies avoid taking on additional debt while obtaining valuable assets or services.

5. **Answer:** c) Calls in arrears are deducted from the total share capital in the balance sheet

Explanation: Calls in arrears represent the unpaid portion of the share capital from

shareholders. These amounts are deducted from the total share capital shown in the balance sheet, as they reflect the amount the company is yet to collect. The treatment of calls in arrears ensures that the company's actual capital is reflected accurately, as unpaid calls are not considered fully paid-up capital. Calls in arrears can be recovered from the shareholders or adjusted against dividends, depending on the company's policy.

6. **Answer:** a) The company refunds the excess amount to applicants

Explanation: Over-subscription occurs when the number of shares applied for by the public exceeds the number of shares offered. In such cases, the company can either issue shares on a pro-rata basis (i.e., issuing shares to applicants in proportion to their application), or it may refund the excess application money to the applicants who were not allotted shares. The company is not obligated to issue more shares than it initially intended, so the excess funds are typically returned.

7. **Answer:** b) The amount forfeited is transferred to the Capital Reserve Account

Explanation: When a shareholder fails to pay calls on shares, the company may forfeit the shares. The amount forfeited, which includes any unpaid calls, is transferred to the Capital Reserve Account. This is because the company has received the benefit of the unpaid calls as a result of the forfeiture. The shares are then canceled and can be reissued to other buyers. The Capital Reserve Account is part of the company's equity section, and forfeited share capital is treated as a non-distributable reserve.

8. **Answer:** a) Shares are issued for less than their face value

Explanation: When a company issues shares at a discount, it is offering them at a price lower than their nominal or face value. This may occur when the company needs to raise capital quickly but cannot sell shares at their full value due to market conditions or other factors. The discount on shares is usually restricted by law to a certain percentage, and the company needs to justify the discount. The discount amount is shown in the books as a deduction from share capital.

9. **Answer:** c) Both share capital and debenture capital are shown under liabilities

Explanation: Share capital and debenture capital are both classified under liabilities in the company's balance sheet. Share capital represents the funds raised through the issuance of shares, which forms part of the company's equity. Debentures, on the other hand, represent a loan raised by the company, which is a liability. Debenture capital appears under non-current liabilities in the balance sheet, while share capital appears under equity. Both are essential sources of capital for the company.

10. **Answer:** a) It reduces the liabilities of the company

Explanation: Debenture redemption refers to the process of repaying or buying back

debentures at their maturity or before maturity. When a company redeems its debentures, it reduces its liabilities as it settles the debt owed to debenture holders. This is an important financial activity for the company, as it helps in managing its overall debt levels. Redemption can be done through the use of profits, reserves, or by issuing new debentures or shares, depending on the company's financial strategy.

11. **Answer:** b) Calls in advance represent amounts paid by shareholders before due

Explanation: Calls in advance occur when shareholders pay more than the amount due on shares before it is officially called by the company. These payments are not considered as part of the share capital until the official call is made. Calls in advance are shown as a liability in the company's balance sheet under current liabilities until the calls are officially made. These amounts can be refunded or adjusted against future calls. The company may pay interest on the calls in advance based on the terms.

12. **Answer:** b) It reduces the share capital

Explanation: When shares are forfeited, the company cancels the shares and removes the corresponding paid-up capital from the share capital account. The amount that was previously credited to share capital is reduced by the amount of forfeited shares. While this does not impact the total capital directly (since forfeited shares are not considered paid-up), it effectively reduces the amount of share capital that is considered fully paid-up and outstanding. The amount forfeited is credited to the capital reserve.

13. **Answer:** a) It is credited to a debenture redemption reserve

Explanation: When a company redeems its debentures at a premium (above their face value), the premium paid is transferred to a Debenture Redemption Reserve (DRR). This reserve is created to ensure that the company has sufficient funds to meet the redemption obligation and it is a legal requirement for many companies. The premium is not treated as an expense but is shown as part of the reserve in the balance sheet. It reflects the company's financial commitment to the redemption of debentures.

14. **Answer:** c) The company allocates shares proportionately to applicants

Explanation: When shares are over-subscribed, meaning the number of shares applied for exceeds the number of shares available, the company generally allocates shares on a pro-rata basis. This means that each applicant will receive a portion of the shares they applied for, based on the total number of shares offered and the number of shares applied for. Alternatively, the company may choose to refund the excess application money, depending on the terms of the issue. Over-subscription reflects high demand for the company's shares.

15. **Answer:** b) The amount paid for shares over their par value

Explanation: The securities premium account is a reserve account that records the amount received by a company from shareholders over and above the face value of shares issued. For example, if a share with a par value of ₹10 is issued at ₹15, the premium of ₹5 is credited to the securities premium account. This premium can be used for specific purposes like issuing bonus shares, writing off expenses related to the issue of shares, or funding the redemption of debentures, as per the guidelines laid out under corporate laws.

16. **Answer:** d) To pay dividends out of profits before equity shareholders

Explanation: Preference shares are issued to raise funds while offering a fixed dividend to shareholders. The key feature of preference shares is that they have priority over equity shares when it comes to receiving dividends and in the event of liquidation. The fixed dividend is paid to preference shareholders before any dividend is distributed to equity shareholders. Preference shares are attractive to investors who seek stability and fixed returns. However, they typically do not provide voting rights in the company.

17. **Answer:** a) Issuing shares at a discount

Explanation: When a company issues shares at a price lower than their nominal or face value, it is said to be issuing shares at a discount. This occurs in situations where the company may be struggling to sell its shares at market value and needs to attract buyers. However, the issue of shares at a discount is typically restricted by law in many jurisdictions to prevent a reduction in the company's capital. The discount amount is shown separately and is deducted from the share capital account.

18. **Answer:** a) Calls in arrears are amounts that shareholders owe to the company but have not yet paid

Explanation: Calls in arrears refer to amounts that shareholders have failed to pay on their shares despite being requested by the company. These amounts are considered overdue and are treated as liabilities on the company's books. If shareholders do not pay the required calls, the company may forfeit the shares and reduce its share capital accordingly. Calls in arrears affect the total paid-up capital of the company, and the amount of unpaid calls is shown as a deduction from the share capital account in the balance sheet.

19. **Answer:** c) The re-issue price can be at par, at a premium, or at a discount

Explanation: When forfeited shares are re-issued, the company has the option to set the price at par (the nominal value), at a premium (higher than the nominal value), or at a discount (lower than the nominal value). However, the discount cannot exceed the unpaid portion of the calls. The company may re-issue forfeited shares to raise funds

and reduce the impact of the forfeiture on its capital base. The re-issue of forfeited shares also impacts the capital reserve, and any difference between the re-issue price and the paid-up value is credited to that account.

20. **Answer:** c) Upon the redemption of debentures

Explanation: Debenture capital is repaid when the company redeems its debentures. Redemption can occur either at maturity or before the maturity date (early redemption). The company uses either its accumulated profits, proceeds from a fresh issue of shares, or other available funds to redeem the debentures and settle the debt with the debenture holders. Redemption is a way to reduce the company's liabilities, and the accounting treatment varies depending on whether the debenture is redeemed at par, at a premium, or at a discount.

21. **Answer:** c) Capital raised through the issue of common shares

Explanation: Equity share capital refers to the capital raised by a company through the issuance of common or ordinary shares to shareholders. These shares represent ownership in the company, and equity shareholders have voting rights in the company's affairs. They also have the right to receive dividends and share in the company's profits. However, they are last in priority for payment in case of liquidation, after debt holders and preference shareholders. Equity shares are issued at face value, at a premium, or at a discount.

22. **Answer:** b) Shares are issued at a price higher than their face value

Explanation: When shares are issued at a premium, they are sold for more than their nominal or par value. For example, if a share with a face value of ₹10 is issued at ₹15, the difference of ₹5 is considered the premium. This premium amount is credited to the securities premium account in the company's balance sheet. Premiums on share issues are typically used to bolster the company's reserves and can be used for specific purposes, such as issuing bonus shares or paying expenses related to the share issue.

23. **Answer:** c) A long-term debt instrument issued by the company

Explanation: A debenture is a debt instrument that a company issues to raise funds from the public or private investors. It represents a loan taken by the company and is usually for a long term. Debenture holders receive a fixed rate of interest (called coupon) over the life of the debenture and are paid back at maturity. Unlike shareholders, debenture holders do not have ownership in the company and do not participate in the management of the company. Debentures can be secured or unsecured, depending on whether they are backed by assets.

24. **Answer:** b) The company pays off the debenture holders at the redemption price

Explanation: When a company redeems its debentures before maturity, it repays the principal amount (face value) of the debentures to the debenture holders, along with any interest due. The redemption may occur at par (nominal value), at a premium (above nominal value), or at a discount (below nominal value), depending on the terms. If redeemed at a premium, the company will need to account for the extra amount in the financial statements. Redemption can be funded through the company's profits, fresh issue of shares, or other available resources.

25. **Answer:** b) The shares are valued based on the market value of the consideration received

Explanation: When shares are issued for consideration other than cash (such as for services rendered, property, or assets), the value of the non-cash consideration is used to determine the issue price of the shares. This value is based on the fair market value of the assets or services provided. The company records the value of the non-cash consideration as both the share capital and the corresponding asset (e.g., fixed assets or intangible assets) in its balance sheet. This ensures accurate representation of the transaction in the financial statements.

26. **Answer:** c) They have priority over equity shares for receiving dividends

Explanation: Preference shares are a type of share that provides shareholders with priority over equity shareholders when it comes to receiving dividends. These dividends are generally paid at a fixed rate before any dividends are paid to equity shareholders. However, preference shareholders typically do not have voting rights in the company. Preference shares can be issued with various rights, such as redeemable (can be repurchased by the company) or convertible (can be converted into equity shares), but they generally provide more security than equity shares.

27. **Answer:** a) The amount shareholders are required to pay for their shares

Explanation: Calls on shares refer to the amount that a company requests shareholders to pay towards their shares, in installments or on a specified date. The calls are made after the initial subscription of shares. Shareholders are expected to pay the calls when requested by the company, and if they fail to do so, the company has the right to forfeit their shares. Calls are typically made in multiple stages and are noted in the company's share capital account. The calls may be unpaid (calls in arrears) or paid in advance (calls in advance).

28. **Answer:** b) Debit Forfeited Shares Account, Credit Share Capital

Explanation: When shares are forfeited, the journal entry is made by debiting the

share capital account and crediting the forfeited shares account. This removes the paid-up capital from the share capital account and transfers it to the forfeited shares account. The forfeited shares account represents the amount forfeited due to non-payment of calls. If these forfeited shares are later re-issued, the company will record the proceeds as revenue and adjust the forfeited shares balance accordingly.

29. **Answer:** b) It decreases the liabilities and reduces cash or bank balance

Explanation: Redemption of debentures leads to a reduction in the company's liabilities, as it pays off the debenture holders. The payment is made from the company's cash or bank reserves, leading to a decrease in cash or bank balances. The debenture liability is removed from the balance sheet, and the company's overall financial position is adjusted. If the redemption is at a premium, the premium amount is also recorded as an expense, affecting the profit and loss statement. Redemption can be done through accumulated profits or fresh issues of shares.

30. **Answer:** b) To raise additional funds without increasing debt

Explanation: Issuing shares at a premium allows a company to raise additional funds from shareholders without incurring debt. The premium on shares represents the amount above the par value that investors are willing to pay due to the perceived value of the company. This extra amount is credited to the securities premium account and can be used for specific purposes, such as issuing bonus shares, paying the expenses of the share issue, or redeeming debentures. It helps the company raise funds without increasing liabilities or borrowing.

31. **Answer:** b) It is deducted from the share capital account

Explanation: Calls in arrears refer to the unpaid portion of the calls made on shares by the company. In the balance sheet, calls in arrears are deducted from the share capital account under the head "Shareholders' Funds." This is because the company has not received the full amount for the shares issued. The deduction ensures that the reported share capital reflects only the paid-up portion of the share capital. Calls in arrears represent an amount due from shareholders, and until paid, the amount is considered an outstanding liability.

32. **Answer:** d) It is shown as part of equity

Explanation: Calls in advance represent amounts received by the company from shareholders before they are due. In the balance sheet, calls in advance are shown under "Shareholders' Funds" and are added to the share capital. These amounts are not considered income until the calls are officially made, but they represent funds that the company holds temporarily. Calls in advance are treated as part of the shareholders'

equity, as the company has the right to use the funds until they are required to be paid for the share issuance.

33. **Answer:** b) Share Forfeiture

Explanation: When shares are forfeited, the account credited is the "Share Forfeiture" account. This account represents the amount forfeited due to shareholders not paying calls as per the company's terms. The Share Forfeiture account is shown as a reserve in the balance sheet until the shares are reissued. The forfeiture entry typically involves debiting the share capital account for the nominal value of the shares and crediting the share forfeiture account with the amount forfeited (the unpaid calls). If the forfeited shares are later reissued, the balance in the Share Forfeiture account is adjusted.

34. **Answer:** b) The non-cash asset is valued and recorded at fair value

Explanation: When shares are issued for non-cash consideration, such as in exchange for property, goods, or services, the value of the non-cash asset is determined based on its fair market value. This amount is credited to the share capital account, while the corresponding asset (property or service) is recorded at its agreed-upon value in the books. The treatment ensures that the balance sheet reflects both the value of the new assets received and the corresponding increase in equity through the issue of shares.

35. **Answer:** c) To cover the costs of issuing shares

Explanation: Securities premium is the amount received by a company over and above the par value of shares issued. This amount is credited to a separate account called the "Securities Premium Account." The premium is typically used to cover the costs related to the issue of shares, such as underwriting fees, legal fees, and other expenses. It can also be used for specific purposes like issuing bonus shares, writing off the preliminary expenses, or buying back shares. It is not distributed as dividends.

36. **Answer:** c) The number of shares applied for exceeds the number of shares available for issue

Explanation: Over-subscription occurs when the demand for shares exceeds the number of shares a company is offering for sale. In such cases, the company may decide to issue shares on a pro-rata basis, meaning that each applicant may receive a reduced number of shares in proportion to the total number of shares applied for. This typically happens when a company's share issue is highly anticipated and investors show more interest than expected. The company may also decide to increase the number of shares issued to accommodate the demand.

37. **Answer:** a) Debentures are issued at less than their face value

Explanation: When debentures are issued at a discount, they are sold at a price lower than their face value. For example, if a debenture with a face value of ₹100 is issued at ₹90, the difference of ₹10 is the discount. This discount is recorded as a loss in the financial statements and is amortized over the life of the debenture. The company receives less than the nominal value of the debenture, which can affect the funds raised for its operations or project financing.

38. **Answer:** b) To pay off the company's debt by repurchasing debentures

Explanation: The primary objective of debenture redemption is for the company to pay off or buy back its outstanding debentures. Redemption of debentures typically occurs at the end of their term and can be done through various methods such as paying out of accumulated profits, fresh issue of shares, or setting aside funds into a sinking fund. The process reduces the company's liabilities and interest burden. By redeeming the debentures, the company ensures that it fulfills its financial obligations and reduces outstanding debt on its balance sheet.

39. **Answer:** b) A fund created to accumulate money for debenture repayment

Explanation: A sinking fund is a reserve created by a company to accumulate funds over time in order to redeem its debentures or other long-term debts at maturity. This fund is built through regular contributions made by the company. The money in the sinking fund is invested in safe, low-risk investments to ensure that the company can pay off the debenture holders at the time of redemption. This reduces the financial strain on the company and ensures that funds are available when needed for debenture repayment.

40. **Answer:** d) Debit Bank, Credit Debenture Account, Credit Premium on Debentures

Explanation: When debentures are issued at a premium, the journal entry involves debiting the bank account for the amount received, crediting the debenture account for the nominal value of the debentures, and crediting the premium on debentures account for the amount received in excess of the nominal value. The premium on debentures represents the extra amount the company receives from the debenture holders over and above the face value. This premium is recorded in a separate account, which can be used for specific purposes, such as redeeming debentures or writing off issue expenses.

41. **Answer:** a) Debit Bank, Credit Debenture Account

Explanation: When debentures are issued at par, it means that the issue price is equal to the nominal value of the debenture. The journal entry for the issuance of debentures

at par involves debiting the bank account for the amount received (which equals the nominal value of the debentures) and crediting the debenture account for the same amount. There is no premium or discount involved in this transaction, so there is no need for a separate premium or discount account.

42. **Answer:** b) It calculates goodwill based on the capital employed and the normal rate of return

Explanation: The capitalization method of goodwill valuation is based on the principle of capital employed and the normal rate of return. It involves calculating the normal return expected on the capital invested in the business. Goodwill is then calculated by finding the difference between the expected return (based on the normal rate) and the actual return of the business. This method uses the formula:

Goodwill = (Capital Employed × Normal Rate of Return) - Actual Profit. This method is often used when reliable information about average profits or super profits is not available.

43. **Answer:** d) All of the above

Explanation: A partnership deed is essential for providing a legal framework for the business arrangement between the partners. It outlines the terms and conditions agreed upon by the partners regarding profit-sharing ratios, capital contributions, management responsibilities, and procedures for admission, retirement, or dissolution. While it is most commonly used when partners agree on profit-sharing ratios, it is also crucial when a new partner is admitted or when the partnership is dissolved. The deed serves as a reference for resolving disputes and ensuring smooth operations.

44. **Answer:** b) It leads to a change in the partners' capital accounts

Explanation: The revaluation of assets and liabilities during a partnership reconstitution is done to reflect their current market value. The changes in the values of assets and liabilities are adjusted in the partners' capital accounts based on their profit-sharing ratio. For example, if an asset increases in value, the gain is credited to the capital accounts of the partners, and if an asset decreases, the loss is debited to the capital accounts. This adjustment ensures that the books accurately represent the financial position of the partnership.

45. **Answer:** b) Old profit-sharing ratio - New profit-sharing ratio

Explanation: The sacrificing ratio is calculated by subtracting the new profit-sharing ratio from the old profit-sharing ratio. It reflects the percentage of the profit that the existing partners are willing to give up in favor of a new partner during the admission of the partner. The partners who reduce their share of profit contribute to the new partner's

share, and the sacrificing ratio helps determine how much each existing partner gives up to accommodate the new partner.

46. **Answer:** c) It is shared among the remaining partners

Explanation: When a partner retires, their share of goodwill is generally written off by transferring the amount to the capital accounts of the remaining partners. The retiring partner's share is calculated based on their percentage of profit-sharing and is divided among the continuing partners in the ratio of their new profit-sharing ratio. This treatment ensures that the financial position of the retiring partner is appropriately settled, while the continuing partners take responsibility for the business's goodwill moving forward.

47. **Answer:** a) The partner is required to pay the deficit amount

Explanation: If a partner's capital account shows a debit balance, it indicates that the partner owes the firm money, often due to withdrawals exceeding their share of profits or capital contributions. During the reconstitution of the partnership, the partner is required to bring the capital account to a positive balance, either by making a payment or adjusting through other partners' capital contributions. This ensures that the partnership's financial accounts are accurate and that no partner has a negative balance in their capital account.

48. **Answer:** c) Goodwill is valued using the capitalized method or average profit method

Explanation: During the admission of a new partner, the goodwill of the business is typically valued to compensate the existing partners for the incoming partner's share of the business's value. The valuation is usually done using methods such as the capitalized profit method, where the goodwill is calculated based on the future profits or the average profit method, where it is based on the average profits earned over a specific period. This valuation ensures that the incoming partner makes an appropriate contribution to the business's overall value.

49. **Answer:** a) Fixed capital remains constant, while fluctuating capital changes based on the business's financial performance

Explanation: Fixed capital refers to the capital that remains constant and does not change frequently. It is the initial amount invested by the partners, and any addition or withdrawal requires formal adjustments. On the other hand, fluctuating capital refers to the capital that varies based on the partner's drawings, share of profits, or additional contributions. The fluctuating capital account reflects the ongoing financial changes in

the partnership, while the fixed capital account remains unaffected unless a formal decision is made to change it.

50. **Answer:** c) It is credited to the revaluation account

Explanation: When liabilities are revalued, any increase in liabilities is credited to the revaluation account, and any decrease is debited to the revaluation account. This adjustment affects the capital accounts of the partners, as it impacts the overall financial position of the partnership. In the case of the admission of a new partner, the revaluation of liabilities ensures that the business's financials are accurately presented and that the new partner's share is correctly calculated based on the updated financial position.