UP Board Class 12 Accountancy 2026 (Set 349 MH) Question Paper with Solutions

General Instructions

(i) This booklet contains 30 questions, each provided with a complete, step-by-step solution.

(ii) It comprises 10 single-correct multiple-choice questions.

(iii) Attempt each question on your own before reviewing the given solution.

1. Preparation of partnership agreement in written form is

(A) Compulsory

(B) Voluntary

(C) Partly compulsory

(D) None of these

Correct Answer: (B) Voluntary

Solution:

Step 1: Recall the legal requirement:
The Indian Partnership Act, 1932 does not make a written partnership deed mandatory — an oral agreement is legally just as valid.

Step 2: Why a written deed is still used in practice:
Most firms still prepare a written deed to avoid future disputes over profit-sharing, capital, interest, and duties, but the Act itself never compels it.

Final Answer:
Preparing the agreement in writing is Voluntary.

Quick Tip: A written partnership deed is recommended, not required by law.

2. When time of withdrawals is not mentioned, interest on drawing is charged for

(A) 5½ months

(B) 6 months

(C) 6½ months

(D) 12 months

Correct Answer: (B) 6 months

Solution:

Step 1: Recall the rule for undated drawings:
When the time of withdrawals is not mentioned, the drawings are assumed to be spread evenly over the year, so interest is charged on the total drawings for an average period of 6 months.

Step 2: Check the other options:
5½ months applies when equal amounts are drawn at the end of every month, 6½ months applies when equal amounts are drawn at the beginning of every month, and 12 months would apply only if the whole amount were drawn on the first day of the year.

Final Answer:
Interest is charged for 6 months.

Quick Tip: No dates are given, so use the average period for evenly spread drawings.

3. Weighted average method of calculating goodwill is used when

(A) Profit is equal

(B) Profit has increasing trend

(C) Profit has decreasing trend

(D) Both (A) and (B)

Correct Answer: (B) Profit has increasing trend

Solution:

Step 1: Compare the two averaging methods:
Simple average method gives every year's profit the same weight and suits a firm whose profits stay roughly equal, showing no real trend.

Step 2: Reason about weighted averaging:
Weighted average deliberately gives more weight to the most recent year(s), which is meaningful only when profits are genuinely rising — the latest, higher figures then more fairly represent future earning capacity than older, lower figures.

Final Answer:
Weighted average method is used when profit has an increasing trend.

Quick Tip: Weighting favours the most recent, most representative years — relevant only when profits are trending up.

4. On retirement of a partner, goodwill will be credited to Capital Account of

(A) Retiring partner

(B) Remaining partners

(C) All partners

(D) None of them

Correct Answer: (A) Retiring partner

Solution:

Step 1: Recall why goodwill is raised on retirement:
A retiring partner is leaving behind the reputation and future earning capacity he helped build, so the firm compensates him for his share of goodwill before he exits.

Step 2: Identify who pays and who receives:
The remaining partners, who now gain the retiring partner's share of profit, bear this compensation in their gaining ratio — their capital accounts are debited, and the amount is credited to the retiring partner's capital account.

Final Answer: Goodwill is credited to the Retiring partner's Capital Account.

Quick Tip: The remaining partners' capitals are debited in gaining ratio; the retiring partner's capital is credited.

5. On dissolution of a partnership firm, profit or loss on realisation is distributed among the partners:

(A) In Capital ratio

(B) In profit sharing ratio

(C) In sacrificing ratio

(D) Equally

Correct Answer: (B) In profit sharing ratio

Solution:

Step 1: Recall the purpose of the Realisation Account:
On dissolution, all assets are sold and liabilities paid off through the Realisation Account, and whatever profit or loss emerges belongs to the partnership as a whole, just like any other business profit or loss.

Step 2: Apply the general accounting rule for business profits:
Any gain or loss the firm makes, in the ordinary course or on winding up, is shared exactly as trading profits always were — in the agreed profit-sharing ratio, not in capital ratio (which may differ) or in sacrificing ratio (which only applies at admission).

Final Answer:
Profit or loss on realisation is distributed in the profit-sharing ratio.

Quick Tip: Realisation profit/loss is just another business result — shared like any trading profit, in the profit-sharing ratio.

6. Share Application A/c is

(A) Personal A/c

(B) Real A/c

(C) Nominal A/c

(D) None of these

Correct Answer: (A) Personal A/c

Solution:

Step 1: Recall the three-fold classification of accounts:

Accounts are Personal (representing persons or groups), Real (representing assets), or Nominal (representing incomes/expenses).

Step 2: Identify what Share Application A/c represents:

It represents the collective claim of all applicants on the company for the money they paid until shares are allotted to them — it stands in for a group of persons (the applicants), which is the definition of a Personal Account (specifically, a representative personal account).

Final Answer:

Share Application A/c is a Personal Account.

Quick Tip: It stands for the group of applicants, so it is a representative personal account.

7. Debenture holders are the

(A) Customers of the company

(B) Owners of the company

(C) Creditors of the company

(D) All of them

Correct Answer: (C) Creditors of the company

Solution:

Step 1: Recall what a debenture represents:
A debenture is a certificate acknowledging a loan taken by the company from the debenture holder, carrying a fixed rate of interest.

Step 2: Distinguish lending from owning:
Lending money to the company does not grant ownership or voting rights — it only creates a debt the company must repay, exactly the position of any outside lender.

Final Answer:
Debenture holders are Creditors of the company.

Quick Tip: A debenture is a loan document, so its holder is a lender/creditor, not an owner.

8. Current liabilities include

(A) Sundry creditors

(B) Outstanding expenses

(C) Bills payable

(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Recall the definition of current liabilities:
Current liabilities are obligations expected to be settled within one year (or one operating cycle) of the balance sheet date.

Step 2: Check each listed item against this definition:
Sundry creditors (amounts owed to suppliers), outstanding expenses (expenses incurred but not yet paid), and bills payable (short-term promissory obligations) are all settled in the short term, so each independently qualifies.

Final Answer:
All three — sundry creditors, outstanding expenses, and bills payable — are current liabilities.

Quick Tip: Each item listed is a short-term obligation, so together they are all current liabilities.

9. "Higher the ratio, the more favourable it is." This does not apply to

(A) Operating ratio
(B) Net profit ratio
(C) Stock Turnover ratio
(D) All of these

Correct Answer: (A) Operating ratio

Solution:

Step 1: Recall what the Operating Ratio measures:
Operating Ratio = (Operating Cost / Net Sales) × 100, i.e. what fraction of sales revenue is eaten up by operating costs.

Step 2: Determine the direction of 'good' for this ratio:
A lower Operating Ratio means operating costs consume a smaller share of sales, leaving more margin — so for this one ratio, lower is better,

which is the opposite of the usual ‘higher is better’ rule that applies to profitability ratios like Net Profit Ratio and efficiency ratios like Stock Turnover Ratio.

Final Answer:
The ‘higher is better’ rule does not apply to the Operating ratio.

Quick Tip: Operating Ratio is a cost ratio — for cost ratios, lower is favourable, unlike profitability/turnover ratios.

10. ‘Payment of Dividend’ will come under what type of activity while preparing Cash Flow Statement?

(A) Operating activity

(B) Investing activity

(C) Financing activity

(D) None of these

Correct Answer: (C) Financing activity

Solution:

Step 1: Recall the three activity classifications:
AS-3 / Ind AS 7 classify cash flows into Operating (core business), Investing (buying/selling long-term assets), and Financing (transactions with owners/lenders that change capital structure).

Step 2: Place dividend payment in the right category:
Paying a dividend is a return to the company's owners (shareholders) on the capital they supplied — it changes the size/composition of owners' funds, which is exactly what a Financing activity covers.

Final Answer:
Payment of dividend is a Financing activity.

Quick Tip: Dividend is a payout to shareholders (financiers of the company), so it is a financing cash flow.

11. What is meant by 'Partnership'?

Correct Answer: —

Solution:

Step 1: State the statutory definition:
Section 4 of the Indian Partnership Act, 1932 defines partnership as "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."

Step 2: Draw out the key elements:
This requires an agreement between two or more persons, a lawful business, an intention to share profits, and mutual agency — each partner is both a principal and an agent of the others.

Final Answer:
Partnership is the relation between persons who agree to share the profits of a business carried on by all, or by any of them acting for all.

Quick Tip: Recall Section 4 of the Indian Partnership Act, 1932.

12. What is the need for valuation of Goodwill?

Correct Answer: —

Solution:

Step 1: List the events that trigger revaluation of the firm's reputation:
Goodwill must be valued whenever the profit-sharing arrangement among partners changes — admission of a new partner, retirement or death of an existing partner, a change in the existing profit-sharing ratio, or amalgamation/sale of the business.

Step 2: Explain why valuation matters at these points:
At each of these events, some partners gain a larger future share of profit while others sacrifice a share; goodwill valuation lets the firm fairly compensate the partner(s) losing out, using the business's accumulated reputation and earning capacity as the basis.

Final Answer:
Goodwill is valued on admission, retirement/death of a partner, change in profit-sharing ratio, or amalgamation — to fairly compensate the partner(s) sacrificing their share of future profits.

Quick Tip: Goodwill valuation protects the partner who is sacrificing a share of future profits.

13. State two circumstances of a firm reconstitution.

Correct Answer: —

Solution:

Step 1: Recall what 'reconstitution' means:
Reconstitution of a firm happens when the existing agreement among

partners ends and a new one takes its place, while the firm itself continues to exist.

Step 2: List two situations that cause this:
(i) Admission of a new partner into the firm, and (ii) Retirement or death of an existing partner — both events change who the partners are and require a fresh agreement.

Final Answer:
Two circumstances of reconstitution are: admission of a new partner, and retirement/death of an existing partner.

Quick Tip: Reconstitution = the old partnership agreement ends and a new one takes over, firm continues.

---

14. What is 'Realisation Account'?

Correct Answer: —

Solution:

Step 1: State when this account is opened:
A Realisation Account is opened in the books of the firm at the time of dissolution, when the firm's business is being wound up completely.

Step 2: Explain what it records:
All assets (other than cash/bank) are transferred to its debit side and all outside liabilities to its credit side; as assets are actually sold and liabilities actually paid, those real figures are also recorded here so the account can reveal the net profit or loss on winding up the business.

Final Answer:

Realisation Account is the account opened on dissolution of a firm to record the sale of assets and settlement of liabilities, in order to find the profit or loss on realisation.

Quick Tip: Opened only at dissolution, to record sale of assets and payment of liabilities and find realisation profit/loss.

15. What is the difference between sacrifice ratio and profit gaining ratio?

Correct Answer: —

Solution:

Step 1: Define sacrificing ratio:

Sacrificing ratio is the ratio in which the old (existing) partners give up, or 'sacrifice', a part of their share of profit in favour of a newly admitted partner — it is calculated as Old Share – New Share, and used to distribute the goodwill premium the new partner brings in.

Step 2: Define gaining ratio and contrast it:

Gaining ratio is the ratio in which the remaining partners gain the share of profit that was previously held by a partner who has retired or died — it is calculated as New Share – Old Share, and used to charge the remaining partners for the goodwill payable to the outgoing partner.

Final Answer:

Sacrificing ratio applies at admission (old partners give up share to the new partner); gaining ratio applies at retirement/death (remaining partners gain the outgoing partner's share).

Quick Tip: Sacrifice = Old Share − New Share (at admission); Gain = New Share − Old Share (at retirement/death).

16. What do you mean by 'Preference Shares'?

Correct Answer: —

Solution:

Step 1: State the defining feature:
Preference shares are shares that carry two preferential rights over ordinary equity shares: a fixed rate of dividend paid before any equity dividend, and priority in the return of capital when the company winds up.

Step 2: Contrast with equity shares:
Unlike equity shares, whose dividend fluctuates with company profit and who get repaid only after everyone else, preference shareholders receive a stable, pre-fixed return but generally have no voting rights in normal company matters.

Final Answer:
Preference shares are shares carrying a preferential right to a fixed dividend and to repayment of capital before equity shareholders, on winding up.

Quick Tip: Two preferences: fixed dividend first, and capital repayment first — both ahead of equity shareholders.

17. Mention two characteristics of Debenture.

Correct Answer: —

Solution:

Step 1: State the first characteristic — nature of the instrument:
A debenture is a written acknowledgement of a debt/loan taken by the company, issued under its common seal, and it carries a fixed rate of interest payable regardless of whether the company earns a profit.

Step 2: State the second characteristic — status of the holder:
A debenture holder is a creditor of the company, not an owner — they have no voting rights, but they rank ahead of shareholders in getting paid when the company winds up.

Final Answer:
Two characteristics: (i) it acknowledges a debt and carries fixed interest, and (ii) the holder is a creditor with priority over shareholders on winding up.

Quick Tip: Debenture = acknowledged debt, fixed interest, holder is a creditor, usually redeemable on a fixed date.

18. What is the meaning of Financial Statement?

Correct Answer: —

Solution:

Step 1: State what financial statements are:
Financial statements are the formal, organised records prepared at the end of an accounting period that present the financial position and financial performance of a business.

Step 2: Name the two core statements:

They mainly comprise the Balance Sheet (showing assets, liabilities, and capital at a point in time) and the Statement of Profit and Loss (showing income and expenses over the period, and the resulting profit or loss).

Final Answer:

Financial statements are the summarised, formal records — chiefly the Balance Sheet and the Profit and Loss Statement — that show a business's financial position and performance for a period.

Quick Tip: Financial statements = Balance Sheet + Statement of Profit and Loss, summarising position and performance.

19. What is Current Ratio?

Correct Answer: —

Solution:

Step 1: Give the formula:

Current Ratio = Current Assets ÷ Current Liabilities.

Step 2: Explain what it measures:

It measures a firm's short-term liquidity — its ability to pay off liabilities due within a year using assets that will be converted to cash within a year; a ratio around 2:1 is generally considered a safe/ideal benchmark.

Final Answer:

Current Ratio = Current Assets / Current Liabilities; it shows a firm's ability to meet its short-term obligations.

Quick Tip: Current Ratio = Current Assets / Current Liabilities — a liquidity ratio, ideal around 2:1.

20. What is Cash Flow Statement?

Correct Answer: —

Solution:

Step 1: State what it reports:

A Cash Flow Statement is a statement that shows the inflows (receipts) and outflows (payments) of cash and cash equivalents of an enterprise during a particular accounting period.

Step 2: Explain its structure:

These flows are classified under three heads — Operating Activities, Investing Activities, and Financing Activities — and the statement reconciles the opening cash balance to the closing cash balance for the period.

Final Answer:

Cash Flow Statement is a statement summarising an enterprise's cash inflows and outflows, classified into operating, investing and financing activities, for a given period.

Quick Tip: Shows actual cash inflows/outflows under operating, investing, and financing activities.

21. Which Journal Entries are passed in the books of the firm at the time of admission of a new partner?

Correct Answer: —

Solution:

Step 1: Entry for capital brought in by the new partner:

Bank/Cash A/c Dr.

To New Partner's Capital A/c

(Being capital brought in cash by the new partner)

Step 2: Entry for premium (goodwill) brought in cash:

Bank/Cash A/c Dr.

To Premium for Goodwill A/c

(Being premium for goodwill brought in cash by the new partner)

Step 3: Entry distributing the premium to old partners:

Premium for Goodwill A/c Dr.

To Old Partners' Capital A/cs (in sacrificing ratio)

(Being premium for goodwill credited to old partners in their sacrificing ratio)

Step 4: Entry for revaluation of assets and liabilities:

Assets are revalued and liabilities reassessed through a Revaluation Account (increase in asset/decrease in liability credited to Revaluation A/c; decrease in asset/increase in liability debited); the resulting profit or loss on revaluation is transferred to the old partners' capital accounts in the old profit-sharing ratio.

Step 5: Entry for reserves and accumulated profits:

General Reserve/Profit & Loss A/c (Cr. balance) Dr.

To Old Partners' Capital A/cs (in old ratio)

(Being existing reserves and accumulated profits distributed to old partners before admission)

Final Answer:
The entries cover: capital brought in, goodwill premium brought in and distributed to old partners in sacrificing ratio, revaluation of assets/liabilities transferred to old partners in old ratio, and existing reserves/accumulated profits distributed to old partners in old ratio.

Quick Tip: Four groups: capital brought in, goodwill distributed in sacrificing ratio, revaluation adjusted in old ratio, reserves distributed in old ratio.

22. Under what circumstances partnership firm is dissolved?

Correct Answer: —

Solution:

Step 1: Dissolution by agreement (Section 40):
A firm is dissolved when all the partners agree to dissolve it, or as per a contract already made between them.

Step 2: Compulsory dissolution (Section 41):
The firm is compulsorily dissolved if all partners, or all but one, become insolvent, or if the business becomes unlawful (e.g. trading with an enemy country in wartime).

Step 3: Dissolution on the happening of certain contingencies (Section 42):
This covers expiry of the fixed term for which the firm was formed, completion of the specific venture the firm was formed for, death of a partner, or a partner being declared insolvent — unless the partnership deed says the firm continues in such cases.

Step 4: Dissolution by notice (Section 43):
In a partnership at will, any partner can dissolve the firm by giving written notice to all other partners of their intention to dissolve.

Step 5: Dissolution by the Court (Section 44):
A court may order dissolution on grounds such as a partner's unsound mind, permanent incapacity, misconduct affecting the business, persistent breach of the partnership agreement, or when the business can only be carried on at a loss.

Final Answer:
A partnership firm is dissolved by mutual agreement, compulsorily (insolvency of partners/illegal business), on certain contingencies (expiry of term, completion of venture, death, insolvency of a partner), by notice (partnership at will), or by order of the court.

Quick Tip: Sections 40-44 of the Indian Partnership Act, 1932 list agreement, compulsory, contingency, notice, and court grounds.

23. What do you mean by forfeiture of shares?

Correct Answer: —

Solution:

Step 1: State when forfeiture arises:
Forfeiture of shares occurs when a shareholder who has been allotted shares fails to pay the amount due on allotment or on any subsequent call, despite the company issuing the required notices demanding payment.

Step 2: Explain the company's action and its consequence:
As authorised by its Articles of Association, the Board of Directors may cancel (forfeit) those shares — the defaulting shareholder loses membership, loses all rights attached to those shares, and forfeits whatever amount he had already paid on them (this amount is not normally refunded).

Step 3: State what happens to the forfeited shares afterward:
Forfeited shares become the property of the company again and can subsequently be re-issued to another person, often at a discount, subject to conditions laid down in the Companies Act.

Final Answer:
Forfeiture of shares is the cancellation of a shareholder's shares by the company, for non-payment of call/allotment money, resulting in loss of membership and forfeiture of amounts already paid, after which the shares may be re-issued.

Quick Tip: Non-payment of call/allotment money → company cancels the shares → shareholder loses membership and money paid → shares can be reissued.

24. Distinguish between a Bond and a Debenture.

Correct Answer: —

Solution:

Step 1: State the difference in issuer:
Bonds are typically issued by governments, government bodies, or public financial institutions, while debentures are typically issued by private/public companies to raise medium- or long-term debt from the

public.

Step 2: State the difference in security and interest:
Bonds are generally considered safer and are often secured or government-backed, sometimes carrying a fixed or even zero-coupon (no periodic interest, issued at discount) structure; debentures may be secured or unsecured by a charge on company assets and almost always carry a fixed periodic interest rate.

Step 3: State the difference in risk and convertibility:
Bonds usually carry lower default risk given their government/institutional backing; debentures carry company-specific credit risk, but some debentures can be made convertible into equity shares, an option bonds rarely offer.

Final Answer:
Bonds are typically government/institution-issued, safer, often secured debt instruments; debentures are company-issued debt instruments, may be secured or unsecured, generally carry fixed interest, and may sometimes be convertible into shares.

Quick Tip: Bonds: usually govt/institution-issued, safer. Debentures: company-issued, may be secured/unsecured, sometimes convertible.

25. Describe the nature of Financial Statements.

Correct Answer: —

Solution:

Step 1: Based on recorded facts:
Financial statements are prepared from historical accounting records (original cost figures from the books of account), not from estimates of current market value.

Step 2: Prepared following accounting conventions:
They are shaped by accounting conventions and concepts such as conservatism, materiality, and full disclosure, which influence how items are recognised and presented.

Step 3: Involve personal judgements:
Certain figures, such as the depreciation method chosen, provision for doubtful debts, or valuation of inventory, depend on management's/accountant's judgement, so different judgement can produce somewhat different results even from the same facts.

Step 4: Relate to a specific period and are expressed in monetary terms:
Each set of statements covers a defined accounting period (usually one year) and reports only those facts that can be expressed in money — non-monetary factors like employee morale or brand reputation are excluded even though they affect the business.

Final Answer:
Financial statements are: based on recorded historical facts, prepared as per accounting conventions/concepts, influenced by personal judgements, pertain to a specific period, and expressed only in monetary terms.

Quick Tip: Five points: recorded facts, accounting conventions, personal judgements, specific period, monetary terms only.

26. Clarify any five advantages of ratio analysis.

Correct Answer: —

Solution:

Step 1: Simplifies accounting data:
Ratio analysis converts long, complex financial statements into a handful of simple, meaningful figures that are easy for even a non-accountant to understand.

Step 2: Helps in forecasting and planning:
Trends observed across several years' ratios help management forecast future performance and plan budgets, production, and financing more realistically.

Step 3: Facilitates comparative study:
Ratios allow inter-firm comparison (against competitors) and intra-firm comparison (the same firm's performance across years), which raw rupee figures alone cannot do because of size differences.

Step 4: Helps assess liquidity, solvency, profitability, and efficiency:
Different categories of ratios (current ratio, debt-equity ratio, net profit ratio, turnover ratios) let stakeholders evaluate distinct aspects of financial health from the same set of statements.

Step 5: Aids decision-making for multiple stakeholders:
Investors, creditors, and management all use ratios to make informed decisions — investors on whether to invest, creditors on whether to lend, and management on where to improve operations.

Final Answer:
Five advantages: simplification of accounting data, aid to

forecasting/planning, facilitation of comparative study, assessment of liquidity/solvency/profitability/efficiency, and support for decision-making by investors, creditors, and management.

Quick Tip: Simplification, comparison, forecasting, liquidity/solvency/profitability assessment, and better decision-making.

27. Ramesh and Sohan were partners in a firm. Their capitals were Rs. 40,000 and Rs. 60,000 respectively. They agreed to admit Aman as a partner for 1/4th share on the term that he brings Rs. 30,000 as capital and Rs. 40,000 as goodwill. Aman paid his capital money but in respect of goodwill he could bring only Rs. 24,000.

From the above information pass necessary journal entries and prepare Partners' Capital A/c and Aman's Current A/c.

Correct Answer: —

Solution:

Note: the question does not give the old profit-sharing ratio, so Ramesh and Sohan are taken to share profits equally.

Step 1: Work out the new and sacrificing ratio:

Old ratio (Ramesh : Sohan) = 1 : 1, i.e. 1/2 each. Aman's share = 1/4, so the remaining 3/4 is shared by Ramesh and Sohan in their old ratio 1:1, i.e. 3/8 each.

New ratio = Ramesh 3/8 : Sohan 3/8 : Aman 2/8 = 3 : 3 : 2.

Sacrifice of each old partner = Old share − New share = 1/2 − 3/8 = 1/8, so Sacrificing ratio (Ramesh : Sohan) = 1 : 1.

Step 2: Journal entry for capital and part of goodwill brought in cash:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Bank A/c Dr. (30,000 + 24,000)	54,000	
To Aman's Capital A/c		30,000
To Premium for Goodwill A/c		24,000

(Being capital and part of goodwill premium brought in cash by Aman)

Step 3: Journal entry for the goodwill shortfall:

Aman was to bring Rs. 40,000 as goodwill but paid only Rs. 24,000, leaving Rs. 16,000 unpaid, which is debited to his Current Account:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Aman's Current A/c Dr.	16,000	
To Premium for Goodwill A/c		16,000

(Being the goodwill amount not brought in cash, debited to Aman's Current A/c)

Step 4: Journal entry distributing goodwill premium to old partners:

Total premium now standing in Premium for Goodwill A/c = 24,000 + 16,000 = Rs. 40,000, distributed to Ramesh and Sohan in sacrificing ratio 1:1, i.e. Rs. 20,000 each:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Premium for Goodwill A/c Dr.	40,000	
To Ramesh's Capital A/c		20,000
To Sohan's Capital A/c		20,000

(Being premium for goodwill credited to old partners in their sacrificing ratio 1:1)

Step 5: Partners' Capital Accounts:

Particulars	Ramesh	Sohan	Aman	Particulars	Ramesh	Sohan	Aman
Balance c/d	60,000	80,000	30,000	Balance b/d	40,000	60,000	–
				Bank (capital)	–	–	30,000
				Premium for Goodwill	20,000	20,000	–
Total	60,000	80,000	30,000	**Total**	60,000	80,000	30,000

Final Answer:

Closing Capitals: Ramesh = Rs. 60,000, Sohan = Rs. 80,000, Aman = Rs. 30,000. Aman's Current A/c shows a debit balance of

$$\boxed{Rs.\ 16{,}000}$$

(the unpaid goodwill), to be recovered from him later.

Quick Tip: Sacrifice ratio = old share − new share; unpaid goodwill goes to the new partner's Current A/c, not Capital A/c.

OR

What do you mean by dissolution of a partnership firm? What are the provisions of the Indian Partnership Act regarding settlement of accounts at the dissolution of a partnership firm?

Correct Answer: —

Solution:

Step 1: Define dissolution of a firm:

Dissolution of a firm means the complete breakdown of the relationship between all the partners, so that the business of the firm is wound up entirely and the firm ceases to exist — this is different from mere 'dissolution of partnership', where the firm continues under a reconstituted agreement (e.g. after a partner's retirement).

Step 2: State the general right of settlement (Section 46):
On dissolution, every partner (or their representative) is entitled to have the firm's property applied first in paying the firm's debts and liabilities, with the surplus, if any, distributed among the partners according to their rights.

Step 3: State the order for treating losses (Section 48(a)):
Losses, including deficiencies of capital, are paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in their profit-sharing ratio.

Step 4: State the order for applying assets (Section 48(b)):
The assets of the firm, including any contribution by partners to make up capital deficiencies, are applied in this order:
(i) in paying the debts of the firm to third parties;
(ii) in paying each partner rateably for advances/loans made to the firm as distinct from capital;
(iii) in paying each partner rateably for their capital;
(iv) the residue, if any, is divided among the partners in their profit-sharing ratio.

Final Answer:
Dissolution of a firm means the complete winding up of the firm's business and relationship among all partners. Settlement of accounts under Sections 46 and 48 of the Partnership Act follows a fixed order: losses are met from profits, then capital, then partners individually; and assets are applied first to outside debts, then partners' loans, then partners' capital, with any residue shared in the profit-sharing ratio.

Quick Tip: Section 48: assets pay outside debts first, then partners' loans, then capital, residue in profit-sharing ratio.

28. Kalyan Company offered 10,000 shares of Rs. 10 each payable as Rs. 3 on application, Rs. 2.50 on allotment, Rs. 2.50 on first call and Rs. 2 on the final call. The public applied for 15,200 shares. The shares were allotted on a pro-rata basis to the applicants of 15,000 shares. All shareholders paid the allotment money excepting one shareholder who was allotted 20 shares. These shares were forfeited. The first call was made thereafter. The forfeited shares were re-issued at Rs. 9 per share, Rs. 8 paid up. The final call was not made.

Pass necessary journal entries in the books of Kalyan Company.

Correct Answer: —

Solution:

Note: allotment is made pro-rata only to the applicants of 15,000 shares, so applications for the remaining 200 shares are treated as rejected and their money refunded.

Step 1: Application money received:

15,200 shares × Rs. 3 = Rs. 45,600 received in total; of this, applications for 200 shares are rejected and refunded (200 × 3 = Rs. 600), and the pro-rata ratio applies to the remaining 15,000 applications for 10,000 shares issued (ratio = 10,000/15,000 = 2/3).

Particulars	Dr. (Rs.)	Cr. (Rs.)
Bank A/c Dr.	45,600	

Particulars	Dr. (Rs.)	Cr. (Rs.)
To Share Application A/c		45,600
(Application money received on 15,200 shares)		
Share Application A/c Dr.	45,600	
To Share Capital A/c (10,000 × 3)		30,000
To Share Allotment A/c (excess adjusted, 15,000×3 – 10,000×3)		15,000
To Bank A/c (refund on 200 rejected shares)		600

Step 2: Allotment money due and received:

Allotment due = 10,000 × 2.50 = Rs. 25,000; less excess application already adjusted Rs. 15,000 = Rs. 10,000 net due in cash. Of this, the defaulting shareholder's 20 shares carry a net allotment due of 20×2.50 – (his excess application 10 shares × 3 = 30) = 50−30 = Rs. 20, unpaid. So cash actually received = 10,000 – 20 = Rs. 9,980.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Share Allotment A/c Dr.	25,000	
To Share Capital A/c		25,000
(Allotment money due on 10,000 shares @ Rs. 2.50)		
Bank A/c Dr.	9,980	
To Share Allotment A/c		9,980

Step 3: Forfeiture of 20 shares:

Called-up on these shares = (3+2.50)×20 = Rs. 110; amount actually received from this holder = his original application money for 30 shares applied × 3 = Rs. 90 (this covers application on 20 allotted shares + excess adjusted towards allotment); unpaid = Rs. 20.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Share Capital A/c Dr. (20 × 5.50)	110	
To Share Forfeiture A/c		90
To Share Allotment A/c		20

Step 4: First call on the remaining shares:

(10,000 – 20) = 9,980 shares × Rs. 2.50 = Rs. 24,950, assumed fully received:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Share First Call A/c Dr.	24,950	
To Share Capital A/c		24,950
Bank A/c Dr.	24,950	
To Share First Call A/c		24,950

Step 5: Re-issue of forfeited shares (20 shares, Rs. 9 received, Rs. 8 paid-up):

Particulars	Dr. (Rs.)	Cr. (Rs.)
Bank A/c Dr. (20×9)	180	
To Share Capital A/c (20×8)		160
To Securities Premium A/c (20×1)		20
Share Forfeiture A/c Dr.	90	
To Capital Reserve A/c		90

Step 6: Final call — not made, so no entry is passed for it.

Final Answer:
The six journal entries above record application, allotment (with pro-rata adjustment and refund), forfeiture of 20 shares (Rs. 110 called up, Rs. 90 received, Rs. 20 unpaid), first call, and re-issue of the forfeited shares at a premium of Re. 1 each, with the entire forfeited amount of

$$\boxed{Rs.\,90}$$

transferred to Capital Reserve since the shares were reissued without any loss.

Quick Tip: Pro-rata ratio 10,000:15,000 = 2:3; excess application money adjusted against allotment; unpaid amount is forfeited.

OR

What do you mean by 'Private Company' and 'Public Company'? Distinguish between Private Company and Public Company.

Correct Answer: —

Solution:

Step 1: Define Private Company:
As per Section 2(68) of the Companies Act, 2013, a private company is one whose Articles restrict the right to transfer its shares, limits its members to 200 (excluding present/past employees), and prohibits any invitation to the public to subscribe for its securities.

Step 2: Define Public Company:

As per Section 2(71), a public company is one that is not a private company — it places no restriction on the transfer of its shares, has no upper limit on membership, and may invite the public to subscribe for its shares/debentures through a prospectus.

Step 3: Distinguish them on key points:

Basis	Private Company	Public Company
Minimum members	2	7
Maximum members	200	No limit
Transfer of shares	Restricted	Freely transferable
Invitation to public	Not allowed	Allowed, via prospectus
Minimum directors	2	3
Name suffix	'Private Limited'	'Limited'

Final Answer:
A private company restricts share transfer and caps membership at 200 with no public invitation, while a public company allows free share transfer, has no membership ceiling, and can invite the public to subscribe — differing on minimum members, maximum members, transferability, and ability to raise capital from the public.

Quick Tip: Private: max 200 members, restricted transfer, no public invitation. Public: no cap, free transfer, can invite public.

29. Following is the Trading and Profit & Loss Account of a company for the year ended 31st March, 2025:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Stock	63,000	By Sales	3,00,000
To Purchases	2,36,000	By Stock at end	1,50,000
To Wages	4,000		
To Gross Profit c/d	1,47,000		
Total	**4,50,000**	**Total**	**4,50,000**
To Administrative Exp.	4,000	By Gross Profit b/d	1,47,000
To Selling & Distribution Exp.	5,000		
To Loss on sale of plant	3,000		
To Net Profit	1,35,000		
Total	**1,47,000**	**Total**	**1,47,000**

Calculate Gross Profit Ratio and Net Profit Ratio.

Correct Answer: —

Solution:

Step 1: Identify the required figures from the statement:

Net Sales = Rs. 3,00,000; Gross Profit = Rs. 1,47,000; Net Profit = Rs. 1,35,000.

Step 2: Apply the Gross Profit Ratio formula:

Gross Profit Ratio = (Gross Profit ÷ Net Sales) × 100 = (1,47,000 ÷ 3,00,000) × 100 = 49%.

Step 3: Apply the Net Profit Ratio formula:
Net Profit Ratio = (Net Profit ÷ Net Sales) × 100 = (1,35,000 ÷ 3,00,000) × 100 = 45%.

Final Answer:
Gross Profit Ratio =

$$\boxed{49\%}$$

, Net Profit Ratio =

$$\boxed{45\%}$$

.

Quick Tip: Gross Profit Ratio = Gross Profit/Net Sales × 100; Net Profit Ratio = Net Profit/Net Sales × 100.

OR

What is meant by debenture? Distinguish between debenture and share.

Correct Answer: —

Solution:

Step 1: Define debenture:
A debenture is a certificate issued by a company, under its seal, acknowledging a debt owed by the company to the holder, and carrying a fixed rate of interest, repayable at a specified date or on demand.

Step 2: Distinguish debenture from share on key points:

Basis	Debenture	Share
Status of holder	Creditor of the company	Owner of the company
Return	Fixed rate of interest, paid regardless of profit	Dividend, which varies with profit and board decision
Voting right	No voting right	Equity shareholders have voting rights
Repayment	Repaid/redeemed at a fixed maturity	Generally not repaid during the company's life (permanent capital)
Priority on winding up	Paid before shareholders	Paid after all creditors, including debenture holders
Security	May be secured by a charge on assets	Not secured

Final Answer:

A debenture is an acknowledged, interest-bearing loan to the company; unlike a share, its holder is a creditor (not an owner), earns a fixed interest rather than a variable dividend, has no voting rights, and is repaid ahead of shareholders on winding up.

Quick Tip: Debenture holder = creditor, fixed interest, no vote, paid first. Shareholder = owner, variable dividend, has vote, paid last.

30. From the following summary of Cash Account of Kedia Ltd. prepare Cash Flow Statement for the year ended 31st March, 2025 using the direct method:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Balance on 31st March, 2024	5,000	Payments to suppliers	50,000
Issue of equity shares	10,000	Purchase of fixed assets	60,000
Receipts from customers	1,50,000	Overhead expenses	3,000
Sale of fixed assets	33,000	Wages and salaries	15,000
		Taxation	10,000
		Dividend	5,000
		Payment of bank loan	35,000
		Balance on 31st March, 2025	20,000
Total	**1,98,000**	**Total**	**1,98,000**

Correct Answer: —

Solution:

Step 1: Classify each receipt/payment under Operating, Investing, or Financing:

Operating: receipts from customers, payments to suppliers, overhead expenses, wages & salaries, taxation.

Investing: sale of fixed assets, purchase of fixed assets.

Financing: issue of equity shares, payment of bank loan, dividend paid.

Step 2: Compute Cash Flow from Operating Activities:

Cash receipts from customers	1,50,000
Less: Cash paid to suppliers	(50,000)
Less: Overhead expenses	(3,000)
Less: Wages and salaries	(15,000)
Cash generated from operations	**82,000**
Less: Tax paid	(10,000)
Net Cash from Operating Activities	**72,000**

Step 3: Compute Cash Flow from Investing Activities:

Sale of fixed assets	33,000
Purchase of fixed assets	(60,000)
Net Cash used in Investing Activities	**(27,000)**

Step 4: Compute Cash Flow from Financing Activities:

Issue of equity shares	10,000
Payment of bank loan	(35,000)
Dividend paid	(5,000)
Net Cash used in Financing Activities	**(30,000)**

Step 5: Reconcile opening and closing balance:

Net increase in cash = 72,000 – 27,000 – 30,000 = Rs. 15,000.

Add: Opening cash balance (31 March 2024) = Rs. 5,000.
Closing cash balance = 15,000 + 5,000 = Rs. 20,000, which exactly matches the given closing balance — confirming the statement is correct.

Final Answer:
Net Cash from Operating Activities = Rs. 72,000; Net Cash used in Investing Activities = Rs. (27,000); Net Cash used in Financing Activities = Rs. (30,000); Net increase in cash =

$$\boxed{Rs.\ 15{,}000}$$

, taking the balance from Rs. 5,000 to Rs. 20,000.

Quick Tip: Classify items into Operating/Investing/Financing; the three net totals must reconcile opening to closing cash balance.

OR

What do you understand by Financial Statements? What are the objects of preparing them? Explain.

Correct Answer: —

Solution:

Step 1: Define Financial Statements:
Financial Statements are the formal, organised summary of a business's accounting records, mainly comprising the Balance Sheet (financial position) and the Statement of Profit and Loss (financial performance), prepared at the end of an accounting period following generally accepted accounting principles.

Step 2: Object — present a true and fair view:
The primary object is to present a true and fair view of the financial

position and performance of the business to all interested parties.

Step 3: Object — aid decision-making:
They help investors, creditors, management, employees, and government make informed economic decisions — whether to invest, lend, continue operations, or levy taxes.

Step 4: Object — statutory compliance:
They fulfil legal requirements under the Companies Act, Income Tax Act, and other regulations, which mandate periodic disclosure of financial results.

Step 5: Object — comparison, planning, and assessment of solvency/profitability:
They enable comparison across periods and with other firms, serve as a basis for future budgeting and planning, and let users assess the firm's profitability, liquidity, and solvency.

Final Answer:
Financial Statements are the Balance Sheet and Profit & Loss Account summarising a business's position and performance; their objects are to show a true and fair view, aid stakeholder decision-making, meet legal requirements, and enable comparison, planning, and assessment of financial health.

Quick Tip: Objects: true and fair view, aid decisions of investors/creditors/management, statutory compliance, comparison and planning.