

MP Board Class 12, 2026 Accountancy Question Paper with Solutions

Time Allowed :3 Hours	Maximum Marks :100	Total questions :34
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General Instructions

Read the following instructions very carefully and strictly follow them:

1. The paper is divided into two sections – Section A (Compulsory) and Section B (Elective).
2. Section A is compulsory for all candidates and generally includes objective-type questions, short answer questions, and long answer questions from the prescribed syllabus.
3. In Section A, candidates are required to answer all questions. The questions will cover topics from ancient, medieval, and modern history as prescribed by the syllabus.
4. Section B consists of elective questions. Candidates are required to attempt questions from the chosen topic according to the provided options.
5. The questions in Section A will be in the form of multiple-choice, short answer, and essay-type questions.
6. Answers to all questions must be written in neat and legible handwriting. Candidates must adhere strictly to the word limit mentioned in the questions.
7. Use of unfair means or electronic devices during the examination is strictly prohibited.
8. Candidates must ensure that they write their answers in the correct format, following the instructions given for each section.

1. Write any two characteristics of financial statements.

Solution:

Financial statements are formal records prepared at the end of an accounting period to present the financial performance and financial position of a business. They include the Trading Account, Profit and Loss Account, and Balance Sheet. The following are two important characteristics explained in detail:

1. Based on Recorded Facts:

Financial statements are prepared strictly on the basis of recorded accounting transactions. These transactions are first recorded in the journal, posted to the ledger, and then summarized to prepare the final accounts.

This means that financial statements are not based on assumptions or personal opinions. They reflect only those transactions which have documentary evidence such as bills, vouchers, invoices, etc.

Because they are prepared from properly maintained books of accounts, they provide reliable and authentic information about the business. However, they do not consider events or factors that are not recorded in the books.

2. Expressed in Monetary Terms:

Financial statements record only those transactions which can be measured in terms of money. All items are shown in currency (such as Rupees, Dollars, etc.).

For example, purchase of goods, payment of salary, and sales revenue can be recorded because they have a monetary value. However, factors like efficiency of employees, reputation of the business, honesty of management, or customer satisfaction are not shown in financial statements because they cannot be expressed in monetary terms.

Thus, financial statements present quantitative financial information but ignore qualitative aspects of the business.

Quick Tip

In long theory answers, always start with a brief introduction, then explain each point with proper headings and 2–3 supporting lines. This improves presentation and helps in scoring full marks.

2. Write any two limitations of financial statements.

Solution:

Financial statements provide useful information about the financial position and performance of a business. However, they also have certain limitations. Two important limitations are explained below:

1. Based on Historical Data:

Financial statements are prepared on the basis of past transactions recorded in the books of accounts. They show what has already happened in the business and do not provide direct information about future prospects.

Since they are historical in nature, they may not reflect the current market value of assets and liabilities. Changes in price levels, inflation, or market conditions are not properly shown in traditional financial statements.

2. Ignore Qualitative Aspects:

Financial statements include only those transactions which can be expressed in monetary terms. Qualitative factors such as efficiency of management, employee morale, brand reputation, customer satisfaction, and goodwill are either not recorded or not fully reflected.

These non-monetary factors play an important role in the success of a business, but they are not shown clearly in financial statements. Therefore, the complete picture of the business cannot be understood from financial statements alone.

Quick Tip

While writing limitations, explain why financial statements are not perfect. Common points include historical nature, monetary measurement limitation, window dressing, and ignoring price level changes.

3. Write any two objectives of accounting ratios.

Solution:

Accounting ratios are mathematical relationships between two accounting figures which help in analyzing and interpreting the financial statements of a business. The following are two important objectives of accounting ratios explained in detail:

1. To Analyze Financial Performance:

One of the main objectives of accounting ratios is to evaluate the financial performance of a business. Ratios such as Gross Profit Ratio, Net Profit Ratio, and Return on Capital Employed help in measuring the profitability and operational efficiency of the firm.

By comparing ratios of different years, management can identify trends in income, expenses, and profits. This helps in understanding whether the business is improving or declining over time.

2. To Assess Financial Position and Solvency:

Accounting ratios also help in determining the financial position of a business. Liquidity ra-

tios such as Current Ratio and Quick Ratio show the ability of the firm to meet its short-term obligations.

Similarly, solvency ratios like Debt-Equity Ratio indicate the long-term financial stability of the business. These ratios are useful for creditors, investors, and management to judge the risk involved in the business.

Quick Tip

While writing objectives of accounting ratios, focus on analysis, comparison, decision-making, performance evaluation, and financial position assessment. Always explain each point briefly for better marks.

4. Write any two benefits of accounting ratios.

Solution:

Accounting ratios help in simplifying and analyzing the information given in financial statements. They convert complex financial data into meaningful relationships which assist various stakeholders in decision-making. Two important benefits are explained below:

1. Helps in Financial Analysis and Interpretation:

Accounting ratios make it easier to understand the financial statements by expressing the relationship between different items in numerical form.

Instead of studying large figures separately, ratios present the data in a simple and summarized manner. This helps management, investors, and creditors to interpret profitability, liquidity, and solvency position effectively.

Thus, ratios improve clarity and provide a better understanding of the financial condition of the business.

2. Facilitates Comparison:

Another important benefit of accounting ratios is that they enable comparison. Ratios can be compared:

- (a) Between different years of the same business (intra-firm comparison), and
- (b) Between different firms operating in the same industry (inter-firm comparison).

Such comparisons help in identifying strengths and weaknesses of the business and in taking corrective measures wherever necessary.

Quick Tip

When writing benefits of accounting ratios, focus on analysis, comparison, decision-making support, and performance evaluation. Use clear headings and brief explanations for better presentation.

5. Find out Gross Profit Ratio from the following:

Revenue from Operations = 1,00,000

Cost of Revenue from Operations = 65,000

Solution:

Step 1: Calculate Gross Profit

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

$$= 1,00,000 - 65,000$$

$$= 35,000$$

Step 2: Calculate Gross Profit Ratio

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{35,000}{1,00,000} \times 100$$

$$= 35\%$$

Gross Profit Ratio = 35%

Quick Tip

Gross Profit Ratio measures profitability from core operations. Always first calculate Gross Profit, then divide it by Revenue and multiply by 100.

6. Find out current ratio from the following:

Bank Overdraft 2,00,000, Cash 1,50,000, Outstanding expenses 1,00,000, Stock 1,50,000

Solution:

Step 1: Identify Current Assets and Current Liabilities

Current Assets include:

- Cash = 1,50,000
- Stock = 1,50,000

Current Liabilities include:

- Bank Overdraft = 2,00,000
- Outstanding expenses = 1,00,000

Step 2: Calculate Total Current Assets and Total Current Liabilities

$$\text{Total Current Assets} = 1,50,000 + 1,50,000 = 3,00,000$$

$$\text{Total Current Liabilities} = 2,00,000 + 1,00,000 = 3,00,000$$

Step 3: Apply Current Ratio Formula

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{3,00,000}{3,00,000} = 1$$

Thus, the Current Ratio is **1:1**.

Quick Tip

Current Ratio = Current Assets ÷ Current Liabilities. Remember: Current Assets include cash, stock, debtors, etc. Current liabilities include bank overdraft, outstanding expenses, creditors, etc.

7.

Pass journal entries for the revaluation of the following:

- Value of building increased by 40,000.
- Value of stock decreased by 10,000.

(iii) Creditors are reduced by 5,000.

Solution:

(i) Increase in value of Building

Increase in asset is credited to Revaluation Account.

Building A/c	Dr.	40,000	
	To Revaluation A/c		40,000

(Being increase in value of building on revaluation)

(ii) Decrease in value of Stock

Decrease in asset is debited to Revaluation Account.

Revaluation A/c	Dr.	10,000	
	To Stock A/c		10,000

(Being decrease in value of stock on revaluation)

(iii) Reduction in Creditors

Decrease in liability is credited to Revaluation Account.

Creditors A/c	Dr.	5,000	
	To Revaluation A/c		5,000

(Being reduction in creditors on revaluation)

Quick Tip

Increase in Assets → Credit Revaluation A/c

Decrease in Assets → Debit Revaluation A/c

Decrease in Liabilities → Credit Revaluation A/c

Increase in Liabilities → Debit Revaluation A/c

8. Write the main head and subhead of following items :

(i) Creditors (m)

(ii) Patent

(iii) Stock (d)

Solution:

According to Schedule III of the Companies Act, 2013, the balance sheet items are classified under main heads and subheads as follows:

(i) Creditors (m)

Item	Main Head	Subhead
Creditors	Current Liabilities	Trade Payables

(ii) Patent

Item	Main Head	Subhead
Patent	Non-Current Assets	Fixed Assets (Intangible Assets)

(iii) Stock (d)

Item	Main Head	Subhead
Stock	Current Assets	Inventories

Quick Tip

Remember the classification:

- **Creditors** → Current Liabilities → Trade Payables
- **Patent** → Non-Current Assets → Fixed Assets (Intangible Assets)
- **Stock** → Current Assets → Inventories

As per Schedule III, 'Stock' is now termed as 'Inventories' and 'Creditors' as 'Trade Payables'.

9. Describe the provisions applicable in the absence of partnership deed on the following basis:

(i) Profit - Loss distribution (ii) Remuneration (of partners) (iii) Interest on loan given by a partner (iv) Interest on drawings

Solution:

In the absence of a partnership deed (Partnership Agreement), the provisions of the Indian Partnership Act, 1932 are applicable. The following provisions apply:

(i) Profit - Loss distribution

As per the Indian Partnership Act, 1932, in the absence of any agreement:

- Profits and losses are to be shared **equally** among all partners, regardless of their capital contribution or involvement in the business.
- This applies even if partners have contributed different amounts of capital or have different roles in the firm.

(ii) Remuneration (of partners)

- No partner is entitled to any salary, commission, or other remuneration for taking part in the conduct of the business.
- Partners are only entitled to their share of profits as per the profit-sharing ratio.
- Even if a partner works extra hours or manages the entire business, they cannot claim any additional remuneration.

(iii) Interest on loan given by a partner

- If a partner advances any loan to the firm beyond their capital contribution, they are entitled to interest on such loan.
- The rate of interest is **6% per annum**.
- This interest is to be paid even if the firm incurs losses.
- Note: No interest is allowed on partners' capital in the absence of a partnership deed.

(iv) Interest on drawings

- In the absence of a partnership deed, **no interest is charged** on drawings made by partners.
- Partners can withdraw any amount from the firm without any interest liability.
- However, the partnership deed can specify a rate of interest on drawings if partners agree.

Quick Tip

Remember the key provisions in the absence of partnership deed:

- **Profit/Loss** → Equal sharing
- **Remuneration** → No salary/commission to partners
- **Interest on Loan** → 6% p.a. (payable even in losses)
- **Interest on Capital** → No interest
- **Interest on Drawings** → No interest charged

10. What is partnership deed? Explain.

Solution:

Partnership Deed (also known as Partnership Agreement) is a written document that contains the terms and conditions of partnership agreed upon by all partners.

Definition:

A partnership deed is a legal document that defines the rights, duties, obligations, and responsibilities of each partner in a partnership firm. It serves as the foundation for the functioning of the partnership business.

Contents of Partnership Deed:

1. **Name of the Firm:** The name under which the business will be carried on.
2. **Nature of Business:** The type of business activities to be undertaken.
3. **Names and Addresses of Partners:** Complete details of all partners.
4. **Capital Contribution:** Amount of capital to be contributed by each partner.
5. **Profit and Loss Sharing Ratio:** The ratio in which profits and losses will be shared among partners.

6. **Interest on Capital:** Rate of interest payable on partners' capital (if any).
7. **Interest on Drawings:** Rate of interest to be charged on drawings made by partners (if any).
8. **Salary or Commission to Partners:** Remuneration payable to partners for their services.
9. **Interest on Loan:** Rate of interest payable on loans advanced by partners to the firm.
10. **Duties and Powers of Partners:** Rights, duties, and powers of each partner.
11. **Admission and Retirement:** Rules for admission of new partners and retirement of existing partners.
12. **Accounting and Audit:** Provisions regarding maintenance of accounts and audit.
13. **Dissolution:** Terms and conditions for dissolution of the firm.

Importance of Partnership Deed:

- **Avoids Disputes:** Clearly defines rights and duties, preventing misunderstandings.
- **Legal Validity:** Serves as evidence in case of legal disputes.
- **Flexibility:** Partners can include terms as per their mutual agreement, unlike the rigid provisions of the Indian Partnership Act.
- **Smooth Functioning:** Ensures smooth operation of business with clearly defined roles.
- **Third Party Confidence:** Builds trust among banks, creditors, and other stakeholders.

Types of Partnership Deed:

- **Oral Partnership Deed:** Based on verbal agreement (not recommended as it may lead to disputes).
- **Written Partnership Deed:** Documented agreement signed by all partners (recommended).

- **Registered Partnership Deed:** Written deed registered with the Registrar of Firms (provides additional legal benefits).

Note: In the absence of a partnership deed, the provisions of the Indian Partnership Act, 1932 become applicable, which may not always be favorable to all partners.

Quick Tip

Partnership Deed = Constitution of Partnership Firm

Remember: A well-drafted partnership deed prevents future disputes and ensures smooth business operations. It is always advisable to have a written and registered partnership deed.