NIOS Class 12 Accountancy Sample Paper-10

Duration: 180 Minutes **Maximum Marks: 100**

Instructions

- This paper contains **47 Questions**. The paper is divided into two sections: **Section A – 80 Marks** and **Section B – 20 Marks**.
- **Section A** (Q.No. 1 to 36):
  - **Q.No. 1 to 14**: Multiple Choice Questions (MCQs) carrying **1 mark** each.
  - **Q.No. 15 to 20**: Objective type questions carrying **2 marks** each.
  - **Q.No. 21 to 24**: Objective type questions carrying **4 marks** each.
  - **Q.No. 25 to 28**: Short answer questions carrying **2 marks** each.
  - **Q.No. 29 to 33**: Questions carrying **3 marks** each.
  - **Q.No. 34 to 36**: Questions carrying **5 marks** each.
- **Section B**: Attempt **any one Optional Module**.
  - **Q.No. 37 to 42**: MCQs carrying **1 mark** each.
  - **Q.No. 43 to 45**: Questions carrying **2 marks** each.
  - **Q.No. 46**: Question carrying **3 marks**.
  - **Q.No. 47**: Question carrying **5 marks**.
- An **internal choice** has been provided in some questions.
- There is **No Negative marking**.
- Use of mobile phones, smartwatches, calculators, or any electronic gadgets is strictly prohibited.

Section: A

Q1. According to the 'Going Concern Concept', a business entity is assumed to have: **(1)**

(A) A very long life

(B) A limited life of 10 years

(C) An indefinite life

(D) A life depends on the proprietor's wish

Q2. A Bank Reconciliation Statement is prepared to: **(1)**

(A) Rectify errors in the Cash Book

(B) Reconcile the differences between Cash Book and Pass Book balances

(C) Find out the Profit or Loss of the bank

(D) Match the Cash Book with the Trial Balance

Q3. The heavy expenditure incurred on advertising a new product, the benefits of which will be received over a period of 3-5 years, is classified as: **(1)**

(A) Capital Expenditure

(B) Revenue Expenditure

(C) Deferred Revenue Expenditure

(D) Capital Loss

Q4. Upon the admission of a new partner, any increase in the value of an asset is credited to: **(1)**

(A) Asset Account

(B) Profit and Loss Account

(C) Revaluation Account

(D) Old Partner's Capital Account

Q5. The minimum subscription as per SEBI guidelines for the issue of shares is: **(1)**

(A) 80% of the issue

(B) 90% of the issue

(C) 100% of the issue

(D) 75% of the issue

Q6. Noting charges are paid by the ________ in case of dishonour of a bill, but are ultimately borne by the ________. **(1)**

(A) Drawer, Drawee

(B) Holder, Drawee

(C) Bank, Drawer

(D) Drawee, Holder

Q7. The Net Profit Ratio measures the relationship between Net Profit and: **(1)**

(A) Gross Sales

(B) Net Sales (Revenue from Operations)

(C) Cost of Goods Sold

(D) Total Assets

Q8. On dissolution of a firm, the amount realized from the sale of an unrecorded asset is credited to: **(1)**

(A) Cash Account

(B) Unrecorded Asset Account

(C) Realisation Account

(D) Partners' Capital Account

Q9. A company offers its employees the right to purchase shares at a price lower than the market price. This is known as: **(1)**

(A) Bonus Issue

(B) Rights Issue

(C) ESOP (Employee Stock Option Plan)

(D) Sweat Equity

Q10. Which accounting concept states that 'Anticipate no profit, but provide for all possible losses'? **(1)**

(A) Matching Concept

(B) Conservatism (Prudence)

(C) Consistency

(D) Money Measurement

Q11. If the total of the debit side of a Suspense Account is greater than the credit side, it indicates a: **(1)**

(A) Debit Balance

(B) Credit Balance

(C) No Balance

(D) Error of Omission

Q12. Cost of Goods Sold is equal to: **(1)**

(A) Opening Stock + Purchases + Direct Expenses - Closing Stock

(B) Sales - Operating Expenses

(C) Opening Stock + Purchases + Indirect Expenses

(D) Sales + Closing Stock - Opening Stock

Q13. A and B share profits in 2:1. C is admitted for 1/4 share. If C acquires his share from A and B in 3:2 ratio, the gaining ratio of C is: **(1)**

(A) 2:1

(B) 3:2

(C) 1:1

(D) 4:3

Q14. Premium on redemption of debentures is a: **(1)**

(A) Personal Account

(B) Real Account

(C) Nominal Account

(D) Representative Personal Account

Q15. Fill in the blanks: **(2)**

(i) The process of transferring entries from the Journal to the Ledger is called ____________.

(ii) A brief explanation of a transaction written below the journal entry is known as ____________.

Q16. Give one word / term for the following: **(2)**

(i) The accounting concept which requires that every business transaction should be recorded having two-fold effect.

(ii) The practice of using the same accounting policies from one period to another.

Q17. Complete the following sentences: **(2)**

(i) The systematic allocation of the cost of an intangible asset over its useful life is termed as ____________.

(ii) Depreciation is a process of ____________ of cost and not of valuation of asset.

Q18. Give one word / term for the following: **(2)**

(i) The person to whom the amount of a bill of exchange is payable.

(ii) A bill of exchange drawn and accepted for mutual financial help.

Q19. Give one word / term for the following: **(2)**

(i) The maximum amount of capital that a company is authorized to raise from the public.

(ii) That part of the subscribed capital which has not been called up yet and is reserved to be called only at the time of winding up.

Q20. Fill in the blanks: **(2)**

(i) Interest accrued but not received is shown on the ____________ side of the Balance Sheet.

(ii) 'Loose Tools' are shown under the major head ____________ in the Balance Sheet of a company.

Q21. Write the names of the accounts affected (Debit and Credit) in each of the following transactions: **(4)**

(i) Goods distributed as free samples Rs. 5,000.

(ii) Cash stolen from the office cash box Rs. 2,000.

(iii) Paid Rs. 10,000 for the installation of a new machine.

(iv) Bought furniture for the proprietor's residence for Rs. 15,000 using business cash.

Q22. Identify the exact type of accounting error in each of the following cases: **(4)**

(i) Wages paid for the construction of a building debited to Wages Account.

(ii) Purchase of goods from Sunil Rs. 4,000 recorded in the Purchases Book as Rs. 400.

(iii) Credit sales to Varun Rs. 5,000 not recorded at all.

(iv) Total of Sales Book overcast by Rs. 1,000.

Q23. Give one word / term for the following: **(4)**

(i) A partner whose liability is limited to the extent of his capital contribution.

(ii) The agreement between partners in writing which contains the terms and conditions of partnership.

(iii) The ratio in which continuing partners acquire the share of a retiring partner.

(iv) The account opened to find out the profit or loss on the closure of the firm's business.

Q24. Give one word / term for the following: **(4)**

(i) The amount received by a company over and above the face value of shares.

(ii) A person who agrees to take up the shares of a company if they are not subscribed by the public.

(iii) The part of share capital which is called up by the company but not yet paid by the shareholders.

(iv) The process of cancelling shares due to non-payment of call money.

Q25. Explain the concept of 'Operating Profit' with the help of a suitable formula and numeric example. **(2)**

Q26. (a) P and Q are partners sharing profits in the ratio of 3:1. They admit R as a new partner for 1/4th share. Calculate the new profit-sharing ratio.

OR

(b) State any two differences between a Capital Reserve and a Revenue Reserve. **(2)**

Q27. (a) Can a company issue shares at a discount? State the relevant section of the Companies Act, 2013.

OR

(b) Distinguish between 'Called-up Capital' and 'Paid-up Capital'. **(2)**

Q28. (a) Calculate the value of goodwill at 3 years' purchase of average profit of the last five years. The profits were: Rs. 40,000, Rs. 50,000, Rs. 60,000, Rs. 30,000, and Rs. 20,000.

OR

(b) What is 'Forfeiture of Shares'? **(2)**

Q29. (a) Journalize the following transactions:

(i) Started business with Cash Rs. 1,00,000 and Furniture Rs. 50,000.

(ii) Received a cheque from Rohan for Rs. 10,000 and allowed him a discount of Rs. 200.

(iii) Paid Salaries Rs. 8,000 and Rent Rs. 4,000.

OR

(b) State any three reasons why the balance of the Cash Book may differ from the Pass Book balance. **(3)**

Q30. From the following details, calculate the Cost of Goods Sold and Gross Profit: Sales: Rs. 5,00,000; Opening Stock: Rs. 60,000; Closing Stock: Rs. 80,000; Purchases: Rs. 3,50,000; Wages: Rs. 20,000; Carriage Inwards: Rs. 5,000; Sales Returns: Rs. 10,000. **(3)**

Q31. (a) Prepare a Bank Reconciliation Statement as on 31st December 2024:
(i) Balance as per Cash Book (Cr.) Rs. 20,000.
(ii) Cheques deposited but not cleared Rs. 5,000.
(iii) Cheques issued but not presented Rs. 8,000.
(iv) Bank charges debited by bank Rs. 200.
OR
(b) B accepted a bill for Rs. 15,000 drawn by A for 3 months. A endorsed the bill to C. On maturity, the bill was dishonoured. Pass entries in the books of A.
(3)

Q32. X, Y, and Z are partners sharing profits in the ratio of 5:3:2. Y retires and his share is taken up by X and Z in the ratio of 2:1. Calculate the new profit-sharing ratio and pass the journal entry for goodwill treatment. Firm's goodwill is valued at Rs. 60,000. **(3)**

Q33. (a) A company forfeited 200 shares of Rs. 10 each on which Rs. 7 was called and Rs. 5 was paid. These shares were reissued at Rs. 8 per share as Rs. 7 paid up. Pass journal entries.
OR
(b) Distinguish between 'Equity Shares' and 'Debentures' (any three points).**(3)**

Q34. Prepare Trading and Profit & Loss Account for the year ended 31st March 2024 from the following Trial Balance: **(5)**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Stock (1.4.2023)	40,000	
Purchases & Sales	2,00,000	3,50,000
Wages	30,000	
Salaries	40,000	
Rent	15,000	
Bad Debts	2,000	
Debtors & Creditors	80,000	50,000
Machinery	1,20,000	
Capital		1,27,000
Total	**5,27,000**	**5,27,000**

Adjustments: (i) Closing Stock Rs. 50,000. (ii) Create 5% provision for doubtful debts. (iii) Depreciate Machinery by 10%. (iv) Outstanding Salaries Rs. 5,000.

Q35. A and B are partners sharing in 3:2. C is admitted for 1/5th share. C brings Rs. 50,000 as capital and Rs. 10,000 as premium for goodwill. At the time of admission, the Balance Sheet showed: Land Rs. 1,00,000, Stock Rs. 40,000, Creditors Rs. 30,000. Land is to be valued at Rs. 1,20,000 and Stock is to be reduced by 10%. Prepare Revaluation Account and Partners' Capital Accounts. **(5)**

Q36. (a) Pass the necessary journal entries for dissolution of a firm:

(i) Realisation expenses Rs. 2,000 paid by the firm.

(ii) An unrecorded asset realized Rs. 5,000.

(iii) Creditors of Rs.20,000 taken over by partner A.

(iv) Profit on realization Rs.9,000 distributed between A and B in 2:1 ratio.

OR

(b) X Ltd. issued 10,000 shares of Rs.10 each at a premium of Rs.2 per share payable as: Rs.3 on application, Rs.5 on allotment (including premium), and balance on call. All shares were subscribed and money received. Pass journal entries. **(5)**

Section: B – Module I

Analysis of Financial Statements

Q37. Ideal Current Ratio is considered as: **(1)**

(A) 1:1

(B) 2:1

(C) 3:1

(D) 0.5:1

Q38. Profit on sale of fixed assets is shown in Cash Flow Statement under: **(1)**

(A) Operating Activity (added)

(B) Operating Activity (deducted)

(C) Investing Activity

(D) Financing Activity

Q39. Which of the following is not a part of Cash and Cash Equivalents? **(1)**

(A) Cash in hand

(B) Cash at bank

(C) Short-term Marketable Securities

(D) Long-term Investments

Q40. Inventory Turnover Ratio is: **(1)**

(A) Profitability Ratio

(B) Solvency Ratio

(C) Activity Ratio

(D) Liquidity Ratio

Q41. Operating Ratio + Operating Profit Ratio = ? **(1)**

(A) 100%

(B) 50%

(C) Gross Profit Ratio

(D) Net Profit Ratio

Q42. Income Tax paid is generally treated as: **(1)**

(A) Investing Activity

(B) Financing Activity

(C) Operating Activity

(D) None of the above

Q43. Calculate Debt-Equity Ratio: Share Capital Rs. 2,00,000; General Reserve Rs. 50,000; 10% Debentures Rs. 1,50,000; Long-term Loans Rs. 1,00,000. **(2)**

Q44. State any two uses of a Cash Flow Statement. **(2)**

Q45. Classify the following into Operating, Investing, and Financing activities: (i) Purchase of Machinery. (ii) Proceeds from issue of Debentures. **(2)**

Q46. Explain the importance of Ratio Analysis (any three points). **(3)**

Q47. From the following information, prepare a Comparative Statement of Profit and Loss:
Revenue from Operations: 2023 - Rs. 10,00,000; 2024 - Rs. 12,00,000.
Expenses: 2023 - Rs. 6,00,000; 2024 - Rs. 7,00,000. Tax rate 30%. **(5)**

Section: B – Module II

Application of Computers in Financial Accounting

Q37. The intersection of a row and a column in a spreadsheet is called: **(1)**

(A) Grid

(B) Block

(C) Cell

(D) Range

Q38. Which function is used to add the values in a range of cells? **(1)**

(A) ADD()

(B) TOTAL()

(C) SUM()

(D) COUNT()

Q39. DBMS stands for: **(1)**

(A) Data Business Management System

(B) Database Management System

(C) Digital Base Management Software

(D) Database Maintenance System

Q40. In SQL, which command is used to delete all records from a table? **(1)**

(A) REMOVE

(B) DELETE

(C) DROP

(D) CLEAR

Q41. A Primary Key must be: **(1)**

(A) Unique

(B) Not Null

(C) Both A and B

(D) None of these

Q42. Which of the following is an accounting software? **(1)**

(A) Tally

(B) MS Word

(C) Photoshop

(D) Windows

Q43. Define 'Electronic Spreadsheet'. **(2)**

Q44. What is a 'Cell Address'? Give an example. **(2)**

Q45. State any two advantages of a computerized accounting system. **(2)**

Q46. Explain the components of a database table (Field, Record, File). **(3)**

Q47. Discuss the steps involved in creating a chart in MS Excel. **(5)**

Detailed Solutions – Section A

Q1.

Solution

Concept: The 'Going Concern Concept' serves as a bedrock accounting postulate. It establishes a structural assumption that a business entity will preserve its operational continuity indefinitely into the foreseeable future.

Solution: Under this framework, financial planners operate on the premise that the commercial entity has neither the operational urgency nor the legal necessity to undergo liquidation or materially downsize its functional capacity. This perspective profoundly changes asset valuation methods. Instead of valuing plant machinery or real estate at volatile current market liquidation values, accountants record long-term operational properties at their historical purchase cost. These costs are then systematically reduced over time through periodic depreciation entries that match their estimated useful life. This long-term viewpoint allows the enterprise to carry forward unexpired expenses as prepaid items, establish long-term liabilities, and secure capital credit from financial institutions. Without this assumption, standard financial reporting would break down, forcing businesses to value assets at immediate fire-sale liquidation prices on every periodic balance sheet.

Final Answer: An indefinite life

$\boxed{\textbf{Answer: (C)}}$

Go Back to Question 1

Q2.

Solution

Concept: A Bank Reconciliation Statement (BRS) is a specialized analytical schedule. It is prepared to identify and explain discrepancies between the cash balances in the firm's Cash Book and the corresponding records in the bank Pass Book.

Solution: A BRS is not a structural part of a company's formal ledger system; instead, it serves as an external verification tool. Discrepancies between the two records typically stem from transaction timing differences or clerical errors. For example, a business may issue checks to suppliers and immediately record them as outflows in its Cash Book, while the bank records the transaction days later when the checks are formally presented for payment. Similarly, bank charges, direct customer deposits, or interest earned might appear on the bank Pass Book before the company updates its own books. By systematically identifying these items, accountants ensure that ledger entries are accurate, uncover potential banking errors, and confirm that the final Cash Book balance matches actual liquid asset values.

Final Answer: Reconcile the differences between Cash Book and Pass Book balances

Answer: (B)

Go Back to Question 2

Q3.

Solution

Concept: Deferred Revenue Expenditure represents a unique category of operating costs. While these expenditures are revenue-focused in nature, they generate commercial benefits that extend across multiple future accounting periods.

Solution: Unlike capital expenditures, deferred revenue expenditures do not create tangible fixed assets or improve existing property. Instead, they represent large operating outlays that provide long-term value, making it unfair to charge the entire amount against a single year's income. For example, a company launching a major product line might run a massive advertising campaign that boosts sales for three to five years. Under standard matching principles, this cost is deferred on the balance sheet as an asset and written off gradually to the Profit and Loss Account over its useful life. This treatment prevents large upfront investments from distorting annual net profit trends.

Final Answer: Deferred Revenue Expenditure

Answer: (C)

Go Back to Question 3

Q4.

Solution

Concept: A Revaluation Account is a temporary nominal account. It is prepared during partnership restructurings, such as admissions or retirements, to track adjustments to asset values and outstanding liabilities.

Solution: The account follows standard nominal bookkeeping rules: debit all losses and expenses, and credit all gains and incomes. When a firm updates its books and finds that an asset's market value has increased, that appreciation represents a clear financial gain for the partnership. To record this, the accountant debits the specific asset ledger to increase its book value and credits the Revaluation Account. Conversely, if an asset depreciates or a liability provision increases, the Revaluation Account is debited to reflect the loss. At the end of the restructuring process, the account's net profit or loss is distributed among the original partners based on their historical profit-sharing ratios, adjusting their capital balances before the new partnership agreement begins.

Final Answer: Revaluation Account

$\boxed{\textbf{Answer: (C)}}$

Go Back to Question 4

Q5.

Solution

Concept: Minimum subscription is a key statutory threshold. It dictates the minimum capital a company must secure from the public before it can legally allot shares or advance its operational projects.

Solution: According to SEBI capital market regulations, a public company must receive subscriptions for at least 90% of its total stock issue before making any allotments. This rule protects investors by preventing companies from launching underfunded projects that lack the cash to succeed. If a company fails to hit this 90% threshold within the legal timeline, the entire capital raise is cancelled. The company must then refund all application money to investors within a strict schedule. Failing to return these funds on time carries severe interest penalties and legal liability for the company's directors, making this a critical milestone in corporate equity management.

Final Answer: 90% of the issue

Answer: (B)

Go Back to Question 5

Q6.

Solution

Concept: Noting charges are administrative fees. They arise when a bill of exchange is dishonored, requiring the holder to secure official certification of default from a legal notary public.

Solution: When an acceptor defaults on a bill at maturity, the current holder must physically bring the instrument to a licensed notary public. This official recreates the presentation process and notes the refusal, providing valid legal proof of default. The holder pays the notary's fee upfront. However, because the default was caused by the drawee's failure to honor their commitment, the drawee carries ultimate financial liability for these expenses. The drawer records this by debiting the drawee's personal account to reflect the expanded debt and crediting cash or bank for the amount paid. This ensures the defaulting party covers all legal costs during eventual recovery proceedings.

Final Answer: Holder, Drawee

$\boxed{\textbf{Answer: (B)}}$

Go Back to Question 6

Q7.

Solution

Concept: The Net Profit Ratio is a key profitability metric. It shows the percentage of net sales revenue that remains as profit after deducting all operating costs, interest charges, and tax expenses.

Solution: The metric is calculated using a standard formula:

$$\text{Net Profit Ratio} = \left(\frac{\text{Net Profit}}{\text{Net Sales}}\right) \times 100$$

This percentage tracks how efficiently management controls operating overheads, manufactures goods, and handles administrative expenses. In this calculation, Net Sales refers to Revenue from Operations, which is gross sales revenue minus any returns or volume discounts. Comparing net profit directly to net sales revenue provides an accurate view of a firm's pricing power, cost control efficiency, and bottom-line performance across operational cycles.

Final Answer: Net Sales (Revenue from Operations)

Answer: (B)

Go Back to Question 7

Q8.

Solution

Concept: During a firm's liquidation, the Realisation Account consolidates all asset disposals and liability settlements to calculate the final profit or loss before dissolution.

Solution: When a partnership dissolves, all recorded asset and liability balances are transferred into the temporary Realisation Account, closing out the standard ledger structure. If the firm discovers and sells an unrecorded asset during liquidation, the incoming cash represents a direct gain. Because this unrecorded asset has no existing balance sheet ledger, the transaction is processed through a direct journal entry: debiting the Cash Account and crediting the Realisation Account. This recording method ensures that the cash inflow is recognized while routing the gain through the liquidation account, where it is factored into the final distribution to the partners' capital accounts.

Final Answer: Realisation Account

Answer: (C)

Go Back to Question 8

Q9.

Solution

Concept: An Employee Stock Option Plan (ESOP) is a corporate compensation strategy. It grants workers options to buy company shares at a set price after a specific vesting period.

Solution: Companies use ESOPs to align employee incentives with shareholder value, reward top talent, and lower voluntary turnover. The pre-determined purchase price, or exercise price, is typically set below the current market value, providing an immediate benefit once the options vest. ESOPs differ from Rights Issues, which are offered exclusively to existing investors, and Sweat Equity Shares, which are issued for non-cash contributions like intellectual property. By giving employees a path to equity ownership, ESOPs encourage staff to focus on long-term corporate growth and stock performance.

Final Answer: ESOP (Employee Stock Option Plan)

Answer: (C)

Go Back to Question 9

Q10.

Solution

Concept: The Convention of Conservatism, or Prudence, is a core accounting principle. It advises accountants to play safe by recognizing all potential losses while delaying profit entries until they are fully realized.

Solution: This accounting policy states that an enterprise should never anticipate future revenues, but must actively set aside provisions for all foreseeable liabilities. A classic application of this rule is valuing closing inventory at cost or net realizable value, whichever is lower, ensuring asset values are not overstated. Similarly, creating provisions for doubtful debts ensures that receivables reflect realistic collection expectations. Following this conservative approach protects lenders and shareholders by preventing artificial dividend payouts and ensuring financial statements present a realistic view of corporate health.

Final Answer: Conservatism (Prudence)

Answer: (B)

Go Back to Question 10

Q11.

Solution

Concept: A Suspense Account is a temporary ledger tool created to resolve an unequal Trial Balance. It absorbs discrepancies between total debits and credits while errors are actively being tracked.

Solution: When accounting clerks face a situations where a Trial Balance does not agree after multiple review rounds, they open a temporary ledger to prevent structural workflow bottlenecks. If the total of the debit columns exceeds the credit column total, a balancing credit balance is placed inside the newly created account. Conversely, if the credit side exceeds the debit side, the ledger requires an balancing debit entry to harmonize the structural worksheet. This specific scenario yields a operational debit balance within the temporary account, showing that the credit column had a deficit during the initial matching pass. In corporate reporting practices, any remaining debit balance in a Suspense Account is carried over to the final balance sheet and displayed prominently under the miscellaneous assets section. The ultimate goal of an organization's accounting department is to completely eliminate this ledger line item by identifying accounting mistakes, passing adjustments, and correcting errors.

Final Answer: Debit Balance

$\boxed{\textbf{Answer: (A)}}$

Go Back to Question 11

Q12.

Solution

Concept: Cost of Goods Sold (COGS) is a fundamental accounting metric that represents the direct costs incurred by an enterprise to manufacture or procure inventory products.

Solution: Calculating this financial metric serves as an essential step toward identifying gross trading margins during a specific operational cycle. The value reflects matching principles by accumulating values through a standard accounting formula:

$$\text{COGS} = \text{Opening Stock} + \text{Purchases} + \text{Direct Expenses} - \text{Closing Stock}$$

Under this calculation rule, direct expenses encompass items like workplace production wages, carriage inwards, factory rent, and warehouse electricity. These elements add up to reflect procurement adjustments before subtracting remaining inventory. This step ensures that the costs of items that were not sold are carried forward to the next cycle. Knowing the cost of goods sold allows businesses to subtract manufacturing costs from sales revenue to calculate Gross Profit. Management relies on this core metric to monitor production margins, adjust factory resource strategies, and manage retail product pricing setups.

Final Answer: Opening Stock + Purchases + Direct Expenses - Closing Stock

Answer: (A)

Go Back to Question 12

Q13.

Solution

Concept: The sacrificing ratio reflects the proportion in which existing partners surrender a portion of their profit shares to accommodate an incoming partner.

Solution: When a partnership is restructured to admit an incoming partner, the new partner must acquire their profit share from the existing owners. In this case, partner C enters the firm and acquires his profit share from original partners A and B in an explicit 3:2 ratio. This acquisition pattern means that for every unit of profit share C gains, three-fifths is surrendered by partner A and two-fifths is given up by partner B. In academic and professional accounting frameworks, this acquisition ratio matches the sacrificing ratio of the existing partners. This ratio is used to allocate incoming goodwill premiums to partners A and B as compensation for giving up a portion of their future profit allocations.

Final Answer: 3:2

Answer: (B)

Go Back to Question 13

Q14.

Solution

Concept: Personal accounts track financial transactions with individuals, firms, or specific representative groups. A premium on debenture redemption represents a structured corporate liability.

Solution: When a company issues debentures with a clause promising a premium upon future redemption, it creates a long-term liability. This premium is not a regular operating expense; instead, it is an extra amount the company must pay to its investors when the debt matures. In corporate accounting, accounts that represent specific people, businesses, or group obligations are classified as personal accounts. More specifically, this ledger line item functions as a representative personal account because it represents the group of debenture holders who are owed these premium payouts. The company credits this account when issuing the debt to show its future payment obligations, and then debits it during redemption to clear the liability, ensuring accurate financial records.

Final Answer: Representative Personal Account

Answer: (D)

Go Back to Question 14

Q15.

Solution

Concept: Double-entry bookkeeping relies on separate steps to record transactions, transfer them to ledger accounts, and provide clear explanations for every entry.

Solution: The systematic flow of accounting data begins by recording daily transactions in chronological order within journals, which serve as books of original entry. The first part of this query concerns posting, which is the process of transferring these recorded debits and credits from journals into individual ledger accounts. This structural step consolidates transactions into categorized ledgers, allowing firms to calculate specific account balances. The second part of this query relates to the narration. A narration is a concise, descriptive explanation written directly below a journal entry. It provides the background context and business reasons for the transaction, making it easier for auditors and internal managers to verify financial records during subsequent reviews.

Final Answer: (i) Posting (ii) Narration

Go Back to Question 15

Q16.

Solution

Concept: Accounting practices are guided by core concepts that ensure transaction accuracy and allow for reliable year-over-year performance comparisons.

Solution: The first part of this query relates to the Dual Aspect Concept, which states that every business transaction affects at least two different accounts. This concept is the foundation of double-entry bookkeeping, ensuring that total debits always equal total credits and keeping the accounting equation in balance. The second part relates to the Consistency Concept, which requires a business to use the same accounting policies and methods from one fiscal year to the next. For example, if a firm chooses a specific method for depreciating assets or valuing inventory, it must continue using that method in future periods. This consistency allows investors and analysts to make reliable year-over-year comparisons of corporate performance without distortions from changing accounting rules.

Final Answer: (i) Dual Aspect (ii) Consistency

Go Back to Question 16

Q17.

Solution

Concept: Asset cost allocation methods are tailored to match the specific properties and useful lifelines of different asset categories.

Solution: The first part of this query covers amortization, which is the process of gradually writing off the value of intangible assets like patents, copyrights, trademarks, or goodwill over their useful lives. This process reflects how these non-physical resources are consumed over time. The second part touches on cost allocation. Accounting principles treat depreciation not as a way to measure changing market values, but as a system for allocating an asset's historical cost. This approach distributes the purchase price of long-term tangible assets across the specific years that benefit from their use, helping firms comply with the matching principle.

Final Answer: (i) Amortization (ii) Allocation

Go Back to Question 17

Q18.

Solution

Concept: Negotiable instruments involve distinct roles for receiving funds and can be used as tools to provide mutual financial assistance.

Solution: The first part of this query identifies the payee, who is the specific individual or entity named on a bill of exchange or check to receive payment. The payee can be the original drawer of the bill or a third-party financier who holds the instrument at maturity. The second part covers accommodation bills, which are unique bills of exchange drawn and accepted without any underlying commercial transaction or trade sale. Instead, these instruments are created purely to help one or both parties raise short-term funds through bank discounting, with the parties agreeing to share the payment obligations before the bill matures.

Final Answer: (i) Payee (ii) Accommodation Bill

Go Back to Question 18

Q19.

Solution

Concept: Corporate stock structures include different categories of capital to define legal issuance limits and set aside funds for emergency scenarios.

Solution: The first part of this query covers authorized capital, which is the maximum amount of share capital a company is legally permitted to raise from investors. This limit is explicitly stated in the company's Memorandum of Association. The second part addresses reserve capital, which is a specific portion of a company's uncalled share capital that directors set aside through a special resolution. This capital cannot be called up during normal operations; instead, it is reserved strictly to protect creditors if the business winds up or undergoes liquidation.

Final Answer: (i) Authorized Capital (ii) Reserve Capital

Go Back to Question 19

Q20.

Solution

Concept: Balance sheet line items are categorized into specific asset groups based on their liquidity and operational role within the business.

Solution: The first part of this query covers general assets, which are economic resources owned by a business that are expected to provide future financial value. The second part addresses loose tools, which are specialized items like small machinery components, hand tools, or workshop gear. Although these tools are physical objects, accounting standards group them under current assets as part of inventory inventories. This classification means they are revalued at the end of each year, with any drop in value recorded as an operating expense to keep financial reports accurate.

Final Answer: (i) Assets (ii) Current Assets

Go Back to Question 20

Q21.

Solution

Concept: Analyzing accounts affected in corporate transactions involves applying standard dual-aspect accounting rules to classify debit and credit adjustments correctly.

Solution: Every business transaction impacts at least two corporate ledger accounts to preserve structural equilibrium within the basic accounting equation.

(i) When an enterprise distributes inventory goods as free marketing samples, it incurs an operational promotion cost. This requires debiting the Free Samples Account (or Advertisement Account) to reflect business expenses while crediting the Purchases Account to lower cost figures.

(ii) When a business suffers a cash theft, it must record a non-operating loss. The accountant debits the Loss by Theft Account to register the balance decrease and credits the Cash Account to reduce active cash balances.

(iii) When acquiring production assets, matching guidelines require capitalizing any setup charges. The machinery installation cost is debited directly to the Machinery Account as a capital expenditure and balanced by crediting the Cash Account.

(iv) When a corporate proprietor withdraws money for personal utility, it represents a capital reduction. This is handled by debiting the owner's personal Drawings Account and crediting the Cash Account.

Final Answer: (i) Advt Dr, Pur Cr (ii) Loss Dr, Cash Cr (iii) Machine Dr, Cash Cr (iv) Drawings Dr, Cash Cr

Go Back to Question 21

Q22.

Solution

Concept: Bookkeeping errors are classified based on the underlying accounting principles or clerical mistakes made when recording or summarizing entries.

Solution: Bookkeeping errors are systematically categorized to guide accounting adjustments and corrections.

(i) An Error of Principle occurs when an entry violates basic accounting rules. This happens when a firm records a long-term capital transaction as a routine revenue item, or vice versa, such as debiting regular repairs instead of capitalizing a structural machinery upgrade.

(ii) An Error of Commission involves a clerical slip-up during daily operations. This occurs when an accountant posts an incorrect numeric figure into a subsidiary book, miscalculates an entry, or posts a value to the wrong personal ledger account.

(iii) An Error of Omission takes place when a business transaction is completely or partially left out of the accounting records, meaning it is never entered into the journals or ledgers.

(iv) A separate type of Error of Commission includes casting mistakes, which occur when an accountant miscalculates the total of a ledger column or carries an incorrect balance forward to the next page.

Final Answer: (i) Principle (ii) Commission (iii) Omission (iv) Commission

Go Back to Question 22

Q23.

Solution

Concept: Partnership arrangements rely on specific legal terms to define partner liabilities, formal agreements, profit changes, and liquidation procedures.

Solution: Partnership accounting and law use distinct terms to handle various structural situations:

(i) A Limited Partner is an investor whose personal liability for the firm's debts is legally restricted to the exact amount of capital they contributed to the business. Unlike general partners, they cannot manage day-to-day operations.

(ii) A Partnership Deed is a formal legal document signed by all partners. It outlines the firm's operating terms, capital contributions, profit-sharing ratios, interest rules, and dispute resolution methods.

(iii) The Gaining Ratio measures how the remaining partners' profit shares increase when a partner retires or passes away, showing how the departing partner's share is divided.

(iv) A Realisation Account is a temporary ledger opened during a firm's dissolution. It tracks the sale of assets and the settlement of liabilities to calculate the final profit or loss before the business closes.

Final Answer: (i) Limited Partner (ii) Partnership Deed (iii) Gaining Ratio (iv) Realisation A/c

Go Back to Question 23

Q24.

Solution

Concept: Corporate equity accounting uses specialized terms to handle share premiums, underwriting services, unpaid calls, and share cancellations.

Solution: Corporate accounting uses precise terms to record equity transactions and maintain legal compliance:

(i) Securities Premium refers to the extra money a company receives when it issues shares above their face value. This capital premium is kept in a restricted account on the balance sheet.

(ii) An Underwriter is a financial institution or intermediary that agrees to buy any unsold shares in a public offering, ensuring the company hits its minimum subscription targets.

(iii) Calls in Arrears represents the total amount of issued capital that shareholders have failed to pay by the specified deadline after formal collection requests.

(iv) Forfeiture of Shares is the compulsory cancellation of a investor's ownership rights and the seizure of their past payments due to a default on allotment or call money.

Final Answer: (i) Securities Premium (ii) Underwriter (iii) Calls in Arrears (iv) Forfeiture

Go Back to Question 24

Q25.

Solution

Concept: Operating Profit measures the net income generated exclusively from a firm's core operational activities, excluding non-operating revenues and expenses.

Solution: Operating Profit isolates regular trading results by stripping away non-operating items like interest expenses, asset sale gains, or fire losses. The standard formula is:

$$\text{Operating Profit} = \text{Gross Profit} - \text{Operating Expenses}$$

Operating expenses include office administrative costs, salaries, rent, selling overheads, and asset depreciation. In this example, the firm has a Gross Profit of Rs. 1,00,000, office salaries of Rs. 20,000, and rent of Rs. 10,000. It also has a loan interest expense of Rs. 5,000, which is classified as a non-operating financial cost and ignored here. Total operating expenses are calculated as:

$$\text{Operating Expenses} = 20,000 + 10,000 = \text{Rs. } 30,000$$

Subtracting these expenses from Gross Profit gives the final Operating Profit:

$$\text{Operating Profit} = 1,00,000 - 30,000 = \text{Rs. } 70,000$$

This metric helps managers assess core profitability before factoring in capital structure decisions or random non-operating events.

Final Answer: Rs. 70,000

Go Back to Question 25

Q26.

Solution

Solution (a): Concept: Admission share adjustments.

Solution: Old ratio of P and Q is 3:1. New partner R enters for a $\frac{1}{4}$ share.

$$\text{Remaining profit share} = 1 - \frac{1}{4} = \frac{3}{4}$$

Distributing the remaining profit share between the existing partners:

$$\text{P's New Share} = \frac{3}{4} \times \frac{3}{4} = \frac{9}{16}, \quad \text{Q's New Share} = \frac{3}{4} \times \frac{1}{4} = \frac{3}{16}$$

$$\text{R's Share equated} = \frac{1}{4} \times \frac{4}{4} = \frac{4}{16}$$

The revised profit-sharing ratio among P, Q, and R is established as 9:3:4.

Final Answer: 9:3:4

OR (b): Concept: Corporate reserve classifications.

Solution:

(i) Revenue reserves are accumulated from operational trading profits, whereas capital reserves originate from non-operating capital gains (e.g., asset sales, premiums).

(ii) Revenue reserves can be distributed as dividends; capital reserves cannot unless statutory rules permit.

Final Answer: Revenue reserves stem from operations for dividends; capital reserves stem from capital gains.

Go Back to Question 26

Q27.

Solution

Solution (a): Concept: Section 53 share restrictions.

Solution: Section 53 of the Companies Act, 2013, prohibits companies from issuing regular equity shares at a discount. Any regular shares issued below face value are void. The exception is sweat equity shares given to employees or directors for intellectual property.

Final Answer: Section 53

OR (b): Concept: Equity capital stages.

Solution:

1. Called-up capital represents the face value portion formally requested from shareholders by the board.
2. Paid-up capital is the cash actually received; defaults are recorded as calls in arrears.

Final Answer: Called-up capital is requested funds; paid-up capital is received cash.

Go Back to Question 27

Q28.

Solution

Solution (a): Concept: Average profit method.

Solution: Summing historical performance profits over five years gives:

$$\text{Total Profits} = 40,000+50,000+60,000+30,000+20,000 = \text{Rs. } 2,00,000$$

$$\text{Average Profit} = \frac{2,00,000}{5} = \text{Rs. } 40,000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{Years' Purchase} = 40,000 \times 3 = \text{Rs. } 1,20,000$$

Final Answer: Rs. 1,20,000

OR (b): Concept: Default share forfeiture.

Solution: Default on call installments prompts the board to initiate share forfeiture, cancelling investor membership. The company seizes past application payments, moving them to a Share Forfeiture Account to fund future reissue discounts.

Final Answer: Forfeiture cancels ownership and seizes past payments upon call defaults.

Go Back to Question 28

Q29.

Solution

Solution (a): Concept: Double-entry compound logging.

Solution:

(i) Capital Input: Cash A/c Dr. 1,00,000; Furniture A/c Dr. 50,000; To Capital A/c 1,50,000.

(ii) Debt Settlement: Bank A/c Dr. 10,000; Discount Allowed A/c Dr. 200; To Rohan A/c 10,200.

(iii) Operating Expenses: Salaries A/c Dr. 8,000; Rent A/c Dr. 4,000; To Cash A/c 12,000.

Final Answer: Three journal entries log capital inputs, debt settlements, and cash expenses.

OR (b): Concept: Ledger reconciliation discrepancies.

Solution:

1. Unpresented Checks: Issued checks reduce the Cash Book immediately but affect the bank statement later.
2. Uncleared Deposits: Deposited checks are logged immediately but require bank clearing time.
3. Direct Bank Entries: Interest, fees, or direct deposits show on bank statements prior to Cash Book entry.

Final Answer: Discrepancies arise from unpresented checks, uncleared deposits, and direct bank updates.

Go Back to Question 29

Q30.

Solution

Concept: Gross profit metrics.

Solution:

$$\text{Net Sales} = \text{Gross Sales} - \text{Sales Returns}$$

= 5,00,000 - 10,000 = Rs. 4,90,000

$\text{COGS} = \text{Opening Stock} + \text{Purchases} + \text{Direct Costs} - \text{Closing Stock}$

$$\text{COGS} = 60,000 + 3,50,000 + (20,000 + 5,000) - 80,000$$

= Rs. 3,55,000

$$\text{Gross Profit} = \text{Net Sales} - \text{COGS} = 4,90,000 - 3,55,000$$

= Rs. 1,35,000

Final Answer: COGS: Rs. 3,55,000; Gross Profit: Rs. 1,35,000

Go Back to Question 30

Q31.

Solution

Solution (a): Concept: Bank reconciliation statement adjustments.

Solution: Reconciling via internal Cash Book overdraft treats initial balances as negative values:

$$\text{Balance on PassBook} = \text{Overdraft} - \text{Uncleared} + \text{Unpresented} - \text{Charges}$$

$$\text{Balance as per Pass Book} = -20,000 - 5,000 + 8,000 - 200 = -17,200$$

This resulting negative balance represents a debit balance as per the bank Pass Book.

Final Answer: Debit Balance as per Pass Book = Rs. 17,200

OR (b): Concept: Endorsement and dishonor accounting.

Solution: Endorsement of an active bill worth Rs. 15,000 transfers assets to settle liabilities: C A/c Dr. 15,000; To Bills Receivable A/c 15,000. Subsequent maturity default requires reversing the settlement to restore obligations: B A/c Dr. 15,000; To C A/c 15,000.

Final Answer: Endorsement debits C and credits BR; dishonor debits B and credits C.

Go Back to Question 31

Q32.

Solution

Concept: When a partner retires, the firm adjusts its goodwill without opening a separate account by debiting the remaining partners based on their gaining ratios.

Solution: Partners X, Y, and Z share profits in an initial 5:3:2 ratio. Partner Y decides to retire, leaving his 3/10 profit share to be split between X and Z. The retirement agreement states that X will acquire two-thirds of Y's share, while Z takes the remaining one-third:

$$\text{X's Gain} = \frac{3}{10} \times \frac{2}{3} = \frac{2}{10}, \quad \text{Z's Gain} = \frac{3}{10} \times \frac{1}{3} = \frac{1}{10}$$

Adding these gains to their original portions gives their new profit-sharing ratio:

$$\text{X's New Share} = \frac{5}{10} + \frac{2}{10} = \frac{7}{10}, \quad \text{Z's New Share} = \frac{2}{10} + \frac{1}{10} = \frac{3}{10}$$

This results in a new profit-sharing ratio of 7:3 and a gaining ratio of 2:1 between X and Z. Next, calculate Y's share of the firm's Rs. 60,000 total goodwill:

$$\text{Y's Goodwill Share} = 60,000 \times \frac{3}{10} = \text{Rs. } 18,000$$

This Rs. 18,000 goodwill premium is credited to Y's Capital Account. The amount is funded by debiting the gaining partners' capital accounts based on their 2:1 gaining ratio, with X contributing Rs. 12,000 and Z contributing Rs. 6,000.

Final Answer: Journal Entry: Debit X's Capital for Rs. 12,000 and Z's Capital for Rs. 6,000; Credit Y's Capital for Rs. 18,000.

Go Back to Question 32

Q33.

Solution

Solution (a): Concept: Share forfeiture and reissue.

Solution: When a default occurs, called-up equity balances are cancelled, past payments are seized, and net gains move to capital reserves:

(i) Forfeiture entry: Share Capital A/c Dr. 1,400 (200 × Rs. 7); To Forfeited Shares A/c 1,000 (200 × Rs. 5); To Calls in Arrears A/c 400 (200 × Rs. 2).

(ii) Reissue entry: Bank A/c Dr. 1,600 (200 × Rs. 8); To Share Capital A/c 1,400 (200 × Rs. 7); To Securities Premium A/c 200 (200 × Rs. 1).

(iii) Capital Reserve transfer: Forfeited Shares A/c Dr. 1,000; To Capital Reserve A/c 1,000.

Final Answer: Capital Reserve Transfer = Rs. 1,000

OR (b): Concept: Capital structure metrics.

(i) Governance: Shareholders are company owners holding full voting rights; debenture holders are external creditors with zero voting rights.

(ii) Returns: Shares receive dividends from divisible net profits; debentures yield a fixed interest charge against profits.

(iii) Accounting: Equity sits under own capital within owner's equity; debentures register as long-term liabilities.

Final Answer: Shares represent own equity with voting rights; debentures are borrowed debt carrying fixed interest.

Go Back to Question 33

Q34.

Solution

Concept: Final accounts isolate direct manufacturing costs from general operating overheads to calculate both Gross Profit and Net Profit.

Solution: To prepare the company's financial statements, the accountant first calculates Gross Profit by matching operating revenues against direct production costs. Total manufacturing revenues are found by adding sales revenue of Rs. 3,50,000 and the remaining closing stock of Rs. 50,000, giving a total of Rs. 4,00,000. Next, calculate the direct cost of sales by adding opening stock (Rs. 40,000), purchases (Rs. 2,00,000), and factory manufacturing wages (Rs. 30,000), which totals Rs. 2,70,000. Subtracting this cost from total manufacturing revenues gives the Gross Profit:

$$\text{Gross Profit} = 4,00,000 - 2,70,000 = \text{Rs. } 1,30,000$$

Second, calculate Net Profit by subtracting all indirect operating expenses from Gross Profit. The firm's indirect operating overheads include office salaries of Rs. 45,000 and office rent of Rs. 15,000. It also includes bad debt provisions of Rs. 6,000 (combining a Rs. 2,000 actual loss with a new Rs. 4,000 provision) and machinery depreciation of Rs. 12,000. Summing these items gives the total indirect operating expenses: Total Operating Expenses

$$= 45,000 + 15,000 + 6,000 + 12,000 = \text{Rs. } 78,000$$

Subtracting these expenses from Gross Profit yields the final Net Profit for the year:

$$\text{Net Profit} = 1,30,000 - 78,000 = \text{Rs. } 52,000$$

Final Answer: Gross Profit = Rs. 1,30,000; Net Profit = Rs. 52,000

Go Back to Question 34

Q35.

Solution

Concept: Admitting a new partner requires valuing existing assets, calculating the resulting revaluation profit, and updating individual partner capital balances.

Solution: When restructuring a partnership, the firm opens a temporary Revaluation Account to record updates to asset values. In this case, the firm's land appreciates by Rs. 20,000, which is credited to the account as a financial gain. At the same time, the value of the firm's inventory stock drops by Rs. 4,000, which is debited as an operating loss. Subtracting the loss from the gain gives the net revaluation profit:

$$\text{Net Revaluation Profit} = 20,000 - 4,000 = \text{Rs. } 16,000$$

This Rs. 16,000 profit is split between the original partners, A and B, based on their old 3:2 profit-sharing ratio. Partner A receives a 3/5 share worth Rs. 9,600, and partner B receives a 2/5 share worth Rs. 6,400, with both amounts credited to their respective capital accounts. Additionally, the incoming partner brings in a goodwill premium of Rs. 10,000, which is distributed to the old partners based on their sacrificing ratios. This gives partner A an extra Rs. 6,000 and partner B an extra Rs. 4,000. The final capital balances are calculated by adding these revaluation profits and goodwill adjustments to each partner's opening capital balance, ensuring the firm's equity records are fully updated.

Final Answer: Net Revaluation Profit = Rs. 16,000; Capital adjustments: A = +Rs. 15,600, B = +Rs. 10,400

Go Back to Question 35

Q36.

Solution

Solution (a): Concept: Dissolution updates.

Solution: During liquidation, a temporary Realisation Account handles asset sales and liability payments:

(i) Dissolution expenses: Realisation A/c Dr. 2,000; To Bank A/c 2,000.

(ii) Sale of unrecorded asset: Bank A/c Dr. 5,000; To Realisation A/c 5,000.

(iii) Liability assumed by Partner A: Realisation A/c Dr. 20,000; To A's Capital A/c 20,000.

(iv) Inventory takeover reduces a partner's final payout capital balance. This transaction is logged by debiting their Capital Account and crediting the Realisation Account.

Final Answer: Realisation A/c records all dissolution transactions.

OR (b): Concept: Share issues at a premium.

Solution: A company records equity share issues using structured double-entry ledger bookkeeping entries:

(i) Application money received: Bank A/c Dr. 30,000; To Share Application A/c 30,000.

(ii) Allotment money due with premium: Share Allotment A/c Dr. 50,000; To Share Capital A/c 30,000; To Securities Premium A/c 20,000.

(iii) Allotment money received in full: Bank A/c Dr. 50,000; To Share Allotment A/c 50,000.

Final Answer: Share Capital is credited for Rs. 60,000; Securities Premium is credited for Rs. 20,000.

Go Back to Question 36

Detailed Solutions – Section B Module I

Q37.

Solution

Concept: The Current Ratio acts as a principal liquidity benchmark, calculating an enterprise's capability to cover its short-term financial obligations due within a standard twelve-month fiscal timeline.

Solution: This liquidity metric is determined by dividing total current assets by total current liabilities. The resulting figure reveals whether a business maintains enough liquid assets—such as cash, short-term investments, accounts receivable, and inventory—to pay off immediate debts like accounts payable and short-term loans. Financial analysts widely look at a current ratio of 2:1 as the normative industry ideal. This benchmark means that the commercial entity has exactly two units of liquid assets for every single unit of immediate liability. Maintaining this 2:1 ratio provides an essential safety margin that protects creditors against unexpected drop-offs in cash flow or inventory delays. If the ratio drops too low, it can indicate a looming cash squeeze or general trouble meeting immediate obligations. Conversely, a ratio that rises excessively high may mean management is hoarding idle funds or letting too much cash sit unproductively instead of investing it back into growth or production.

Final Answer: 2:1

Answer: (B)

Go Back to Question 37

Q38.

Solution

Concept: A gain on fixed asset sales is an investing activity transaction. Under the indirect method of cash flow statements, it must be stripped out of net profit to isolate actual operating cash flows.

Solution: The indirect cash flow preparation method starts with the company's net profit from the profit and loss account. This net profit figure naturally includes several non-operating and non-cash items. When an enterprise sells property, plant, or machinery above book value, the resulting profit boosts net profit. However, under accounting standards, selling long-term capital assets is classified as an investing activity, not an operating one. To avoid double-counting and keep operations separate, accountants make an adjustment entry to remove this non-operating gain from the operating section. Because the gain artificially raised the starting net profit figure without generating day-to-day operating cash, the exact amount must be deducted. This step ensures that the operating activities section reflects only cash generated from core business operations, while the cash from the asset sale is properly tracked under investing cash inflows.

Final Answer: Operating Activity (deducted)

Answer: (B)

Go Back to Question 38

Q39.

Solution

Concept: Cash equivalents include highly liquid, short-term corporate investments that are easily convertible into known amounts of cash with minimal risk of value fluctuation.

Solution: Under standard accounting rules, an asset must meet strict liquidity and maturity criteria to be classified as a cash equivalent. It must be readily convertible into a predictable cash amount and have a short maturity period—typically three months or less from the purchase date. This short window ensures the investment is safe from major price swings caused by interest rate changes. Common examples include treasury bills, commercial paper, and short-term money market funds. Long-term investments, such as corporate bonds or real estate held for years, fail to meet these criteria. Because these assets cannot be quickly converted to cash without risk of loss, they are excluded from cash equivalents. Instead, they are classified as non-current assets on the balance sheet, keeping cash flow reports accurate.

Final Answer: Long-term Investments

Answer: (D)

Go Back to Question 39

Q40.

Solution

Concept: Activity ratios, or turnover ratios, measure how effectively a business manages its operational assets to generate revenue.

Solution: Activity ratios analyze operational velocity by comparing a company's sales or cost of sales against specific asset balances. A prime example is the Inventory Turnover Ratio, which calculates how many times a business sells and replaces its inventory stock during an accounting year. This ratio helps managers spot operational issues like overstocking, slow-moving items, or stockouts. A high inventory turnover ratio shows efficient operations, fast sales cycles, and strong cash generation. A low ratio often signals weak demand, poor inventory control, or tied-up capital. By grouping these metrics into the activity category, financial analysts can judge management's skill in using capital assets, minimizing inventory costs, and streamlining supply chains.

Final Answer: Activity Ratio

$\boxed{\textbf{Answer: (C)}}$

Go Back to Question 40

Q41.

Solution

Concept: The Operating Ratio and the Operating Profit Ratio are complementary metrics that together account for the total sales revenue generated by a business.

Solution: These two financial metrics are closely linked, as they break down net sales revenue into operating costs and operating profits. The Operating Ratio measures the percentage of revenue consumed by operating expenses and the cost of goods sold. The Operating Profit Ratio tracks the remaining percentage that is kept as profit from core operations. Because these two ratios divide total net sales revenue between them, their sum must always equal 100%. For example, if a firm's operating ratio is 80%, it means the business spends 80 cents of every rupee earned on production and overheads. The remaining 20 cents represents the operating profit margin. This 20% margin matches the Operating Profit Ratio, demonstrating how the two metrics balance out to represent total net revenue.

Final Answer: 100%

Answer: (A)

Go Back to Question 41

Q42.

Solution

Concept: Income tax cash flows must be disclosed separately and are classified under operating activities unless they can be tied to specific financing or investing transactions.

Solution: Accounting standards require companies to break out income tax cash flows on financial statements. Taxes are closely tied to the firm's net income, which stems mainly from day-to-day operations. As a result, income tax payments and refunds are recorded in the operating activities section of the cash flow statement. This rule keeps reports consistent, since taxes are paid on profits generated by core business operations. The only exception occurs when a tax payment can be directly linked to an investing or financing transaction, such as capital gains taxes on a property sale. When that happens, the tax cash flow is moved to the relevant investing or financing section. If no clear link exists, the entire tax payment stays under operating activities, ensuring a realistic view of operational cash outlays.

Final Answer: Operating Activity

Answer: (C)

Go Back to Question 42

Q43.

Solution

Solution: Concept: The Debt-Equity Ratio measures a company's long-term solvency by comparing its total borrowed debt against total shareholders' equity capital.

Solution: To compute this financial ratio, first calculate total long-term debt by adding long-term debentures and bank loans:

$$\text{Total Debt} = 1,50,000 + 1,00,000 = \text{Rs. } 2,50,000$$

Next, calculate total shareholders' equity by combining the corporate share capital and general reserves:

$$\text{Total Equity} = 2,00,000 + 50,000 = \text{Rs. } 2,50,000$$

Finally, divide total debt by total equity to determine the ratio:

$$\text{Debt-Equity Ratio} = \frac{2,50,000}{2,50,000} = 1 : 1$$

This 1:1 ratio shows an even balance between borrowed debt and owner equity. This balance indicates a stable capital structure that provides a safe cushion for creditors and long-term lenders.

Final Answer: 1:1

Go Back to Question 43

Q44.

Solution

Solution: Concept: Cash flow statements provide vital financial data that helps management assess liquidity and plan short-term cash needs.

Solution: A cash flow statement serves as an essential tool for corporate financial reporting and analysis.

(i) Assessing Liquidity and Solvency: The statement tracks actual cash inflows and outflows across operating, investing, and financing activities. This data shows whether a business can generate enough cash to pay suppliers, meet debt obligations, and fund dividends, giving an accurate look at short-term liquidity and long-term solvency.

(ii) Improving Financial Planning: By tracking historical cash movements, the statement helps management build realistic cash budgets, plan short-term financing, and manage working capital efficiently. This ensures the business retains enough cash to cover upcoming expenses while avoiding costly cash shortages.

Final Answer: Cash flow statements are vital tools for tracking short-term liquidity, analyzing solvency trends, and improving cash budget planning.

Go Back to Question 44

Q45.

Solution

Solution: Concept: Corporate transactions are classified into distinct cash flow categories based on whether they involve long-term investments or capital financing.

Solution: Cash flow statements group corporate transactions into separate categories to show how cash is raised and spent:

(i) Purchase of Machinery: Buying factory machinery is classified as an investing activity because it involves purchasing a long-term asset to support future production. Since the transaction requires a cash payment to vendors, it is recorded as a cash outflow within the investing activities section.

(ii) Proceeds from Debenture Issues: Issuing debentures is classified as a financing activity because it involves raising long-term capital to fund the company's capital structure. Since the issue brings cash into the corporate bank accounts from investors, it is recorded as a cash inflow within the financing activities section.

Final Answer: Machinery purchases represent an investing cash outflow; issuing debentures represents a financing cash inflow.

Go Back to Question 45

Q46.

Solution

Solution: Concept: Ratio analysis simplifies complex financial statements, allowing for reliable performance comparisons and helping managers spot operational inefficiencies.

Solution: Ratio analysis helps investors, managers, and creditors evaluate corporate financial statements through three main benefits:

(i) Simplifying Data: The analysis condenses detailed accounting figures from balance sheets and income statements into simple ratios. This simplification makes it easier to evaluate complex operational data and judge overall financial health at a glance.

(ii) Facilitating Comparisons: Ratios allow for reliable comparisons across different periods (intra-firm trends) or against industry competitors (inter-firm benchmarks), regardless of differences in company size.

(iii) Spotting Inefficiencies: Tracking ratios helps managers find operational weak spots, such as slow inventory turnover or rising overheads, allowing the company to make timely adjustments and run more efficiently.

Final Answer: Ratio analysis simplifies accounting data, helps compare performance against competitors, and identifies operational inefficiencies.

Go Back to Question 46

Q47.

Solution

Solution: Concept: A comparative income statement tracks absolute changes and percentage shifts in corporate revenues, operating expenses, and net profits across fiscal years.

Solution: A comparative income statement helps management analyze financial changes between fiscal periods. In this case, comparing 2023 against 2024 reveals several distinct trends:

1. Revenue from Operations: Revenue grew from Rs. 10,000,000 to Rs. 12,000,000. This represents an absolute increase of Rs. 2,000,000, or a 20% growth rate.
2. Operating Expenses: Total expenses rose from Rs. 600,000 to Rs. 700,000, showing an absolute increase of Rs. 100,000, or a 16.67% rise.
3. Net Profit Before Tax: Driven by strong revenue growth, profit before tax increased from Rs. 400,000 to Rs. 500,000, yielding a 25% increase.
4. Income Tax Charges: The 30% tax rate required a payment of Rs. 120,000 in 2023, which rose to Rs. 150,000 in 2024.
5. Net Profit After Tax: Final net profit rose from Rs. 280,000 to Rs. 350,000, capping a 25% expansion in bottom-line profitability.

Final Answer: Net profit after tax expanded by 25%, rising from Rs. 280,000 in 2023 to Rs. 350,000 in 2024.

Go Back to Question 47

Detailed Solutions – Section B Module II

Q37.

Solution

Concept:

An electronic spreadsheet is organized into an extensive rectangular grid structured by horizontal rows and vertical columns.

Solution:

i. Rows run horizontally across the worksheet layout and are identified by sequential numbers starting from one. Columns run vertically from top to bottom and are labeled with alphabetical letters starting from A.

ii. This intersection point is known as a cell in spreadsheet terminology.

iii. Each cell serves as the basic building block for storing and manipulating data. It acts as an isolated workspace where users can enter numbers, text strings, or complex computational formulas.

iv. The term grid describes the overall collective network of rows and columns, while a range refers to a highlighted block of multiple cells.

v. Therefore, a single point of intersection is called a cell.

Final Answer: Cell

$\boxed{\textbf{Answer: (C)}}$

Go Back to Question 37

Q38.

Solution

Concept:

Spreadsheets use built-in functions to automate mathematical operations and process numeric data efficiently across a range of cells. This avoids the need to write repetitive manual addition strings, like adding each individual coordinate point step-by-step.

Solution:

i. To calculate the total value of multiple numeric entries, spreadsheet applications provide a specialized built-in function that aggregates values across a specified array of coordinates.

ii. The SUM() function adds all numbers within a selected range of cells. It takes cell references or continuous block ranges as arguments, parses the numeric values, and outputs the mathematical total.

iii. Manual operators like ADD can only handle simple, two-argument expressions, whereas functions like TOTAL() do not exist as valid native keywords within standard application libraries.

iv. The COUNT() function tracks the total number of cells that contain numeric entries rather than calculating the sum of the values within those fields.

v. Consequently, using the SUM() keyword provides an efficient way to calculate totals across a specified block of data, supporting advanced data analysis and automated workflows.

Final Answer: SUM()

Answer: (C)

Go Back to Question 38

Q39.

Solution

Concept:

In computer science and data management, software applications are categorized by their technical roles. Systems designed to handle structured data repositories require specific tools to manage storage, access rights, and relationships between tables.

Solution:

i. The acronym DBMS stands for Database Management System. It refers to a specialized software suite that acts as an interface between end-users, applications, and the underlying database files.

ii. A database management system provides tools to create, read, update, and delete data. This allows organizations to maintain a centralized and secure information repository.

iii. It ensures data integrity by enforcing validation rules, managing concurrent user access, and protecting information from corruption through automated backup and recovery systems.

iv. Alternative interpretations, such as Data Business Management or Digital Base Management, are incorrect terms that do not reflect standard computer science definitions.

v. Modern enterprises rely heavily on these management systems to run enterprise resource planning tools, process financial transactions, and secure web applications.

Final Answer: Database Management System

Answer: (B)

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Q40.

Solution

Concept:

Structured Query Language utilizes specific commands to modify data tables. These commands are split into Data Definition Language for structural changes and Data Manipulation Language for managing records within those structures.

Solution:

i. When a user needs to empty a table by removing all its data rows while keeping the underlying column structures intact, they must use a Data Manipulation Language command.

ii. The DELETE command removes all records from an existing table when executed without a WHERE clause filter. This wipes the rows while leaving the structural columns, constraints, and indexes unchanged.

iii. The DROP command behaves differently by completely removing the entire table structure from the database catalog, which permanently deletes both the schema and its data.

iv. Commands like REMOVE and CLEAR are not valid SQL keywords for deleting table data rows within standard database systems.

v. As a result, the DELETE command provides a precise way to clear data rows while preserving the table framework for future data entry operations.

Final Answer: DELETE

$\boxed{\textbf{Answer: (B)}}$

Go Back to Question 40

Q41.

Solution

Concept:

Relational database design uses integrity constraints to keep data accurate and prevent duplicate records. A primary key acts as a unique identifier for individual rows within a database table.

Solution:

i. A primary key must follow strict operational constraints to uniquely identify each row in a database table and prevent duplicate entries.

ii. First, it must be unique. This means no two rows in the table can share the same primary key value, preventing identification conflicts.

iii. Second, it must be Not Null. This rule prevents any row from saving a blank or missing value in the primary key field, ensuring every record remains identifiable.

iv. Because a primary key must satisfy both conditions, it combines unique constraints with mandatory values to maintain data integrity across tables.

v. These properties prevent duplicate entries and missing identifiers, allowing databases to link tables reliably through foreign key relationships.

Final Answer: Both A and B

Answer: (C)

Go Back to Question 41

Q42.

Solution

Concept:

Enterprise software applications are designed for specific corporate tasks. While general office suites handle text formatting and design tools process images, specialized accounting software tracks financial ledgers and tax compliance.

Solution:

i. Accounting software records financial transactions, balances ledgers, automates tax calculations, and generates financial statements like balance sheets and profit and loss accounts.

ii. Tally is a widely used accounting software package designed to automate bookkeeping, track inventory, handle invoicing, and manage corporate tax compliance.

iii. Other options, like Microsoft Word, serve as general word processors for creating text documents, letters, and business reports.

iv. Adobe Photoshop is a specialized graphics editor for modifying digital images, while Microsoft Windows acts as an operating system that manages computer hardware resources.

v. Therefore, Tally stands out as the dedicated accounting tool, helping businesses streamline financial record-keeping and maintain accurate audit trails.

Final Answer: Tally

$\boxed{\textbf{Answer: (A)}}$

Go Back to Question 42

Q43.

Solution

Concept:

An electronic spreadsheet replaces manual paper ledger books with a digital interface. It provides an automated, computer-based tool for organizing information, performing calculations, and analyzing financial data.

Solution:

i. An electronic spreadsheet is a specialized software application organized into a grid of horizontal rows and vertical columns. This interface is designed to store, manage, and calculate data systematically.

ii. This digital tool replaces manual paper-based ledgers, allowing businesses to perform complex calculations automatically using built-in formulas and functions.

iii. One of its core features is automatic recalculation. When a user changes a number in a data cell, any linked formulas update instantly across the entire sheet.

iv. Spreadsheets also include data visualization tools that convert raw tables into charts, graphs, and pivot tables to help managers spot operational trends.

v. Popular examples include Microsoft Excel and Google Sheets. These programs are used in corporate financial planning, inventory tracking, and statistical data analysis.

Final Answer: An Electronic Spreadsheet is a software application containing a grid of rows and columns used to organize, calculate, and analyze data.

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Q44.

Solution

Concept:

A spreadsheet grid contains thousands of individual cells. To reference, navigate, and perform calculations on specific data points, the software assigns a unique alphanumeric coordinate to every cell.

Solution:

i. A cell address is the unique alphanumeric identifier assigned to an individual cell. It defines the exact coordinate where a specific row and column intersect.

ii. This coordinate system uses a standard notation: the column letter comes first, followed by the row number. This format creates a unique label for every position on the sheet.

iii. For example, the address B5 identifies the cell at the intersection of column B and row 5, pointing formulas directly to that data location.

iv. These addresses are essential for building formulas. Instead of hardcoding numbers, formulas use cell references to pull data dynamically from specific coordinates.

v. This address system allows users to link cells across worksheets, automate large-scale calculations, and trace data paths during auditing.

Final Answer: A Cell Address is an alphanumeric identifier formed by a column letter and row number, such as B5.

Go Back to Question 44

Q45.

Solution

Concept:

Moving from manual bookkeeping to computerized accounting systems transforms how businesses process financial data. Automation helps firms handle transaction data faster and generate financial reports more reliably.

Solution:

i. Computerized accounting systems provide major operational benefits over manual bookkeeping by automating data entries and ledger postings.

ii. The first benefit is speed and efficiency. Financial software processes large volumes of transactions instantly, posting entries to ledgers and generating final accounts automatically.

iii. The second benefit is accuracy. Automated systems eliminate human mathematical errors, ensuring that total debits always equal total credits and keeping the accounting equation in balance.

iv. Additionally, digital accounting tools secure financial records through user access controls, keeping confidential data safe while providing instant financial reports for management.

v. These systems allow enterprises to scale their financial operations smoothly, minimize manual paperwork, and provide reliable audit trails for regulatory compliance.

Final Answer: Computerized accounting increases data processing speed and eliminates mathematical errors to ensure accurate financial reporting.

Go Back to Question 45

Q46.

Solution

Concept:

Database software relies on a structured hierarchy to store and manage corporate information cleanly. Data is organized into files, which contain tables built from individual records and fields.

Solution:

i. A database table uses a clear hierarchy of fields, records, and files to organize and store corporate information systematically.

ii. A field represents an individual column in a table structure. It is the smallest data unit and holds a specific attribute, such as a customer name or phone number.

iii. A record represents a complete horizontal row in a table. It groups related fields together to show all the data for a single entity, like an employee profile.

iv. A file is the largest structural unit in this setup. It is a collection of related tables and indexes saved under a single name on a storage drive.

v. Together, these components ensure that data remains structured, easy to query, and organized for business reporting and analysis.

Final Answer: A Field is a data column, a Record is a row of related fields, and a File is the overall collection of tables.

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Q47.

Solution

Concept:

Microsoft Excel includes data visualization tools that convert raw tables into charts. Following a structured setup process ensures that charts display data trends clearly and use accurate axis labels.

Solution:

i. Creating a chart in Microsoft Excel involves a series of standard interface steps to transform raw table data into a visual graphic.

ii. The process begins by selecting the data range in the worksheet, making sure to include row and column headers for the chart labels.

iii. Next, navigate to the Insert tab on the Excel ribbon menu to open the visualization options and review the available chart types.

iv. Click the Charts group to select a style that fits your data, such as a bar chart, line chart, or pie chart.

v. Excel then generates the chart and places it on the worksheet, opening the Chart Design and Format tabs for further customization.

vi. Finally, use these formatting tools to add chart titles, clear axis labels, and data legends, ensuring the final graphic is easy to read.

Final Answer: Creating an Excel chart involves selecting data, navigating to the Insert tab, choosing a chart type, and adding descriptive formatting labels.

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Answer Key

Section A: (Q1–Q14)

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	C	2	B	3	C	4	C	5	B
6	B	7	B	8	C	9	C	10	B
11	A	12	A	13	B	14	D		

Section B Module I: Q37–Q42

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
37	B	38	B	39	D	40	C	41	A
42	C								

Section B Module II: Q37–Q42

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
37	C	38	C	39	B	40	B	41	C
42	A								