

NIOS Class 12 Accountancy Sample Paper-9

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.** Which of the following best describes the fundamental objective of accounting? **(1)**
- (A) To generate maximum profit for the business



- (B) To record, classify, and communicate financial information systematically
- (C) To prepare only balance sheets and income statements
- (D) To ensure compliance with government taxation rules

Q2. A cheque issued by a business entity but not yet presented for payment is called: **(1)**

- (A) Cheque-in-transit
- (B) Dishonoured cheque
- (C) Uncashed cheque
- (D) Stale cheque

Q3. Which principle of accounting ensures that business transactions of the proprietor are kept completely separate from personal transactions? **(1)**

- (A) Going Concern Principle
- (B) Entity Concept
- (C) Materiality Principle
- (D) Consistency Principle

Q4. In a Journal entry for a cash sale of goods worth Rs. 5,000, which account is debited? **(1)**

- (A) Goods Account
- (B) Sales Account
- (C) Cash Account
- (D) Debtors Account

Q5. Which of the following errors would cause the Trial Balance to fail to agree? **(1)**

- (A) Recording a transaction on the wrong side of a correct account
- (B) Recording a transaction in the wrong account (both sides correct)
- (C) Recording the same transaction twice



(D) Recording a transaction at an incorrect amount consistently in both accounts

Q6. A provision for doubtful debts account is classified as a(n): **(1)**

- (A) Liability account
- (B) Contra-asset account
- (C) Expense account
- (D) Capital reserve account

Q7. Which accounting concept suggests that the business will continue to operate for an indefinite period? **(1)**

- (A) Periodicity Concept
- (B) Going Concern Concept
- (C) Realization Concept
- (D) Accrual Concept

Q8. On admission of a new partner, if old partners sacrifice their share of profits equally, then: **(1)**

- (A) The new partner pays goodwill only to the retiring partner
- (B) The new partner's goodwill is divided equally among old partners
- (C) The new partner's goodwill is divided in the old profit-sharing ratio
- (D) The new partner pays goodwill directly to the firm

Q9. A partner who contributes only capital but does not participate in management is known as: **(1)**

- (A) Active Partner
- (B) Dormant Partner
- (C) Nominal Partner
- (D) Salaried Partner



- Q10.** When a company forfeits shares for non-payment of calls, the amount of calls received so far is credited to which account? (1)
- (A) Share Capital Account
 - (B) Forfeited Shares Account
 - (C) Calls-in-Arrears Account
 - (D) Reserve Capital Account
- Q11.** Under the accounting standard for depreciation, which method allocates equal depreciation amount each year? (1)
- (A) Diminishing Balance Method
 - (B) Straight-Line Method
 - (C) Written-Down Value Method
 - (D) Revaluation Method
- Q12.** In a Bank Reconciliation Statement, outstanding cheques are: (1)
- (A) Added to the bank balance
 - (B) Subtracted from the bank balance
 - (C) Ignored completely
 - (D) Recorded as bad debts
- Q13.** Which of the following transactions should be recorded in the Purchases Book? (1)
- (A) Purchase of office furniture
 - (B) Purchase of materials for resale on credit
 - (C) Salary paid to employees
 - (D) Rent paid for office premises
- Q14.** The fundamental accounting equation $\text{Assets} = \text{Liabilities} + \text{Capital}$ is maintained even after which type of transaction? (1)



- (A) Only when cash is received
- (B) After every business transaction
- (C) Only for opening transactions
- (D) Only for transactions involving creditors

Q15. Fill in the blanks: (2)

- (i) A document which serves as evidence of payment made by the business is called a _____.
- (ii) The process of allocating the cost of a fixed asset over its useful life is known as _____.

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

- (i) The book of original entry used to record purchase returns.
- (ii) The accounting principle that requires faithful representation of economic reality without bias.

Q17. Complete the following sentences: (2)

- (i) Interest on drawings is charged to the _____ of the partner.
- (ii) A _____ is an order directed to a bank to pay a specified sum on demand.

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

- (i) The surplus amount received on the reissue of forfeited shares beyond the amount credited to Forfeited Shares Account.
- (ii) The proportion in which existing partners accept to share profits after the retirement of a partner.

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

- (i) The offer made by a company to the public to subscribe for its securities.
- (ii) The process by which a partnership firm ceases to exist as a business unit.



- Q20.** Fill in the blanks: (2)
- (i) Preference shares are entitled to a fixed rate of _____ before distribution to equity shares.
 - (ii) The financial statement prepared at the end of an accounting period to show the financial position is the _____.
- Q21.** Identify the accounts to be debited and credited in the following transactions: (4)
- (i) Paid for the repair of factory machinery Rs. 8,500.
 - (ii) Received payment from a debtor in the form of a cheque which was later dishonoured.
 - (iii) Purchased computer and office equipment for Rs. 50,000 on credit from Tech Supplies Ltd.
 - (iv) Transferred goods costing Rs. 12,000 from the trading stock to the proprietor's personal use.
- Q22.** Identify the type of accounting error in each of the following scenarios: (4)
- (i) A payment of Rs. 3,000 to a supplier was debited to the supplier's account instead of being credited.
 - (ii) Purchase of stationery worth Rs. 1,200 was completely omitted from the books.
 - (iii) Rs. 500 discount allowed to a customer was credited to Discount Received Account instead of Discount Allowed Account.
 - (iv) An overcast of Rs. 2,000 on the debit side of Rent Account was exactly neutralised by an undercast on the credit side of Insurance Account.
- Q23.** Give one word / term for the following: (4)
- (i) An association of two or more persons to carry on business and share profits and losses.
 - (ii) The amount of goodwill to be credited to old partners when a new partner is admitted.



- (iii) An order to a bank to pay a definite sum of money to a specified person on demand.
- (iv) The type of partner who gives loan to the firm and is entitled to receive interest on such loan.

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

- (i) The document prepared by a company inviting the public to buy its shares or debentures.
- (ii) The amount left after deducting liabilities from the total value of assets.
- (iii) The account credited when preference shares are issued at a premium.
- (iv) The reserve set aside for specific purposes defined by statute or debenture conditions.

Q25. (a) Explain the concept of 'Impersonal Accounts' with suitable examples from accounting.

OR

(b) State the circumstances under which a bill of exchange can be dishonoured.

(2)

Q26. (a) Distinguish between Capital Expenditure and Revenue Expenditure with three relevant points.

OR

(b) What is meant by 'Weighted Average Life Method' of calculating depreciation? (2)

Q27. (a) X and Y are partners sharing profits in the ratio 2:3. They admit Z for 1/4th share which is acquired from Y alone. Calculate the new profit-sharing ratio.

OR

(b) Define 'Goodwill' and explain why it is necessary to value goodwill at the time of partnership changes. (2)

Q28. (a) At the time of retirement of a partner, the firm's general reserve is Rs. 80,000. Show how this reserve will be distributed among the remaining partners.



OR

(b) What is the purpose of preparing a Revaluation Account during admission or retirement of a partner? (2)

Q29. (a) Pass necessary journal entries for the following transactions:

(i) Goods returned by customers Rs. 4,500.

(ii) Purchased goods on credit from Sharma Bros. for Rs. 15,000.

(iii) Allowed discount to a customer for prompt payment Rs. 800.

OR

(b) Explain the steps involved in preparing a Bank Reconciliation Statement. (3)

Q30. From the following information, calculate the Gross Profit and Gross Profit Ratio:

Opening Stock: Rs. 45,000; **Purchases:** Rs. 1,80,000; **Direct Wages:** Rs. 20,000; **Closing Stock:** Rs. 55,000; **Sales:** Rs. 3,00,000. (3)

Q31. (a) A, B and C are partners with capital contributions of Rs. 2,00,000, Rs. 1,50,000 and Rs. 1,00,000 respectively. If they share profits equally and the net profit for the year is Rs. 90,000, distribute the profit among them.

OR

(b) Explain the concept of 'Drawings Account' and state how drawing affects the capital of a partner. (3)

Q32. A bill of exchange was drawn by Ramesh on Suresh on 1st June 2024 for Rs. 20,000 payable after 3 months. Suresh accepted the bill. After 2 months, Ramesh sold the bill to his bank at a discount of Rs. 500. On due date, the bill was honoured. Pass journal entries in the books of Ramesh. (3)

Q33. (a) Partner A retires from a firm. At the time of retirement, the firm has accumulated profits of Rs. 60,000 and unrecorded goodwill of Rs. 40,000. The firm's profit-sharing ratio before retirement was 5:3:2. Without opening a Goodwill Account, pass the necessary journal entry for goodwill and accumulated profits.

OR



(b) Explain the objectives of maintaining separate capital accounts for each partner in a partnership firm. (3)

Q34. From the following Trial Balance of Verma Trading Co. as on 31st March 2024 and the adjustments provided below, prepare the Trading Account and Profit and Loss Account: (5)

Particulars	Dr. (Rs.)	Cr. (Rs.)
Opening Stock	38,000	
Purchases	1,50,000	
Sales		2,80,000
Rent Paid	9,000	
Salaries	18,000	
Depreciation	3,000	
Debtors	40,000	
Creditors		28,000
Capital		85,000
Cash	17,000	
Total	2,75,000	2,75,000

Adjustments: (i) Closing Stock: Rs. 42,000. (ii) Outstanding Rent: Rs. 1,500. (iii) Depreciation on Fixed Assets: Rs. 2,000 (provide for this from existing depreciation). (iv) Bad Debts: Rs. 2,000.

Q35. P and Q are partners in a firm sharing profits in the ratio 3:2. Their Balance Sheet as on 30th April 2024 is as follows:



Liabilities	Rs.	Assets	Rs.
Sundry Creditors	35,000	Cash in Hand	15,000
Capital P	1,10,000	Debtors	55,000
Capital Q	70,000	Stock	50,000
		Plant	95,000
Total	2,15,000	Total	2,15,000

R is admitted on 1st May 2024 for 1/4th share of profits on the following conditions:

- (i) R brings Rs. 70,000 as capital and Rs. 15,000 as premium for goodwill.
- (ii) Stock is revalued at Rs. 48,000.
- (iii) Plant is appreciated by 10%.
- (iv) A provision of 5% is created on Debtors.

Prepare: (a) Revaluation Account, (b) Partners' Capital Accounts (in columnar form). (5)

Q36. (a) The Balance Sheet of X, Y and Z on the date of dissolution shows:

Liabilities	Rs.	Assets	Rs.
Bank Loan	30,000	Cash	10,000
Sundry Creditors	50,000	Debtors	40,000
Capital X	60,000	Stock	30,000
Capital Y	40,000	Furniture	20,000
Capital Z	50,000	Land	80,000
Total	2,30,000	Total	2,30,000

The partnership is dissolved. The assets realised are: Debtors Rs. 36,000; Stock Rs. 28,000; Furniture Rs. 18,000; Land Rs. 95,000. Bank Loan was paid off. Expenses of dissolution amounted to Rs. 3,500. The profit-sharing ratio was 4:2:2. Prepare the Realisation Account.

OR

(b) Omega Ltd. issued 25,000 Equity Shares of Rs. 10 each at a premium of Rs. 2 per share. Application money of Rs. 3 per share (including premium) was



payable on application. Allotment money of Rs. 5 per share and final call of Rs. 4 per share were due at specified dates. All amounts were received. Pass journal entries and show the Share Capital presentation in the Balance Sheet. (5)

Section: B – Module I

Analysis of Financial Statements – Attempt any one of the Optional Module I or Module II

- Q37.** The Current Ratio of an enterprise is best used to measure: (1)
- (A) Operational Efficiency
 - (B) Long-term Solvency
 - (C) Short-term Liquidity
 - (D) Profitability
- Q38.** Which of the following ratios evaluates how efficiently a firm utilizes its assets to generate sales revenue? (1)
- (A) Return on Investment
 - (B) Asset Turnover Ratio
 - (C) Debt-Equity Ratio
 - (D) Gross Profit Margin
- Q39.** In a Cash Flow Statement under the indirect method, a decrease in inventory during the period is treated as: (1)
- (A) An outflow of cash
 - (B) An inflow of cash from operations
 - (C) An investing activity
 - (D) A financing activity
- Q40.** Which of the following is excluded from Quick Assets? (1)
- (A) Trade Receivables



- (B) Cash and Cash Equivalents
- (C) Inventory and Prepaid Expenses
- (D) Marketable Securities

Q41. The Proprietary Ratio measures the proportion of assets funded by: (1)

- (A) Total External Liabilities
- (B) Shareholders' Equity
- (C) Current Assets
- (D) Fixed Assets

Q42. According to AS-3, which category of transactions is classified as a Financing Activity in the Cash Flow Statement? (1)

- (A) Purchase of machinery
- (B) Collection of cash from customers
- (C) Repayment of long-term borrowings
- (D) Payment of routine operating expenses

Q43. Answer the following: (2)

- (i) Calculate the Acid Test Ratio from the following: Current Assets Rs. 2,50,000; Inventory Rs. 80,000; Prepaid Expenses Rs. 15,000; Current Liabilities Rs. 1,00,000.
- (ii) Define 'Operating Cash Flow' in the context of financial analysis.

Q44. Answer the following: (2)

- (i) State the formula for calculating the Net Profit Margin ratio.
- (ii) Explain the purpose of trend analysis in financial statements.

Q45. Answer the following: (2)

- (i) Classify whether each transaction is an Operating, Investing, or Financing Activity: (a) Sale of Equipment for cash. (b) Payment of Employee Salaries.



(ii) State the treatment in Cash Flow Statement if a company receives cash from issuing new debentures.

Q46. Answer the following: **(3)**

(i) Calculate the Return on Investment (ROI) given: Profit Before Interest and Tax Rs. 5,00,000; Total Assets Rs. 20,00,000; Current Liabilities Rs. 5,00,000.

(ii) Explain any two advantages of ratio analysis in financial statement evaluation.

Q47. (i) From the following Balance Sheet data, calculate: (a) Debt-Equity Ratio, (b) Proprietary Ratio, (c) Interest Coverage Ratio.

Particulars	Rs.
Share Capital	5,00,000
Reserve and Surplus	1,50,000
12% Long-term Debentures	2,50,000
Current Liabilities	2,00,000
Fixed Assets	8,00,000
Current Assets	3,00,000
EBIT (from P&L)	6,00,000

(ii) Distinguish between Financial Analysis and Financial Forecasting. **(5)**



Section: B – Module II**Application of Computers in Financial Accounting – Attempt any one of the Optional Module I or Module II**

- Q37.** In MS Excel, a cell reference that does not change when copied to another location is called: **(1)**
- (A) Relative Reference
 - (B) Absolute Reference
 - (C) Mixed Reference
 - (D) Dynamic Reference
- Q38.** Which of the following spreadsheet functions is used to count cells containing numerical values? **(1)**
- (A) COUNT()
 - (B) COUNTA()
 - (C) SUM()
 - (D) COUNTIF()
- Q39.** A graphical representation in a spreadsheet showing comparative values across different categories using vertical rectangular bars is known as: **(1)**
- (A) Pie Chart
 - (B) Line Chart
 - (C) Column Chart
 - (D) Scatter Plot
- Q40.** In Database terminology, a unique identifier for each record in a table is called a: **(1)**
- (A) Primary Key
 - (B) Foreign Key



(C) Candidate Key

(D) Composite Key

Q41. Which of the following is an advantage of using Tally or similar computerized accounting software? (1)

(A) Requires extensive manual coding for each transaction

(B) Automatically generates ledgers, trial balance, and financial statements

(C) Increases the need for manual verification

(D) Eliminates the need for backup and data security

Q42. Which SQL command is used to modify existing records in a database table? (1)

(A) DELETE

(B) UPDATE

(C) ALTER

(D) MODIFY

Q43. Answer the following: (2)

(i) What is meant by 'Data Validation' in spreadsheet applications?

(ii) State two advantages of using spreadsheet software for financial analysis.

Q44. Answer the following: (2)

(i) Define the term 'Pivot Table' in spreadsheet terminology.

(ii) Name any two accounting-related functions available in MS Excel.

Q45. Answer the following: (2)

(i) Distinguish between DBMS and Spreadsheet in terms of data handling.

(ii) State whether sorting or filtering data in a spreadsheet changes the underlying data.

Q46. Answer the following: (3)



- (i) Explain the components of a well-designed chart in MS Excel (e.g., Title, Axes, Data Labels).
- (ii) State any three essential security measures for protecting accounting data in computerized systems.

- Q47.** (i) Describe the process of creating a linked table relationship between two tables in a relational database.
- (ii) Explain how formulas and functions in spreadsheet software enhance the efficiency of financial analysis and reporting. **(5)**



Detailed Solutions – Section A

Q1.

Solution

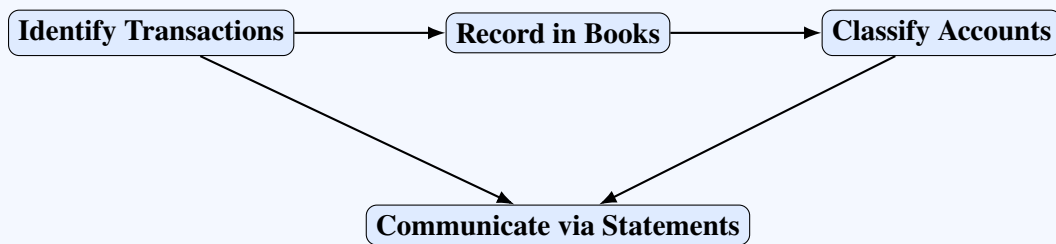
Concept: Accounting, as defined by the American Accounting Association, is the systematic process of identifying, measuring, recording, and communicating financial and economic information about an entity to enable users to make informed decisions. The fundamental objective is not profit maximization alone, but rather the comprehensive recording and communication of financial data that serves multiple stakeholders including investors, creditors, management, and regulatory authorities.

Solution:

Step 1: While profit maximization is a business goal, it is not the fundamental objective of accounting itself. Accounting serves a much broader informational purpose that extends beyond any single objective.

Step 2: The core function of accounting involves three critical stages: First, identifying all business transactions that have economic substance and measurable impact. Second, classifying these transactions into standardized accounts and recording them in books of original entry. Third, summarizing and communicating this information through financial statements to enable stakeholders to make informed business and investment decisions.

Step 3: Accounting as a discipline emerged to meet the information needs of multiple users. Investors require information to assess return potential; creditors need to evaluate repayment ability; management requires data for operational control; and government authorities mandate compliance and tax assessment.



Final Answer: To record, classify, and communicate financial information systematically

Answer: (B)

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Q2.

Solution

Concept: When a business issues a cheque, it immediately reduces the cash balance and creates an obligation with the bank. However, the bank does not actually debit this amount until the cheque is physically presented for payment at the bank counter. During the interim period between issuance and presentation, the cheque remains uncashed.

Solution:

Step 1: When a cheque is issued by a business entity, the Cash Book is immediately credited and the payee's account is debited, reflecting the economic obligation incurred.

Step 2: The bank, however, does not reduce the account holder's balance until the cheque is physically presented at the bank and verified for signature and sufficiency of funds. This time lag is normal banking practice.

Step 3: A cheque that remains in this intermediate state—issued but not yet presented to the bank—is termed an uncashed cheque or outstanding cheque. This terminology is standard in accounting practice and bank reconciliation statements.

Final Answer: Uncashed cheque

Answer: (C)

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Q3.

Solution

Concept: The Entity Concept, also known as the Business Entity Principle, is a foundational pillar of accounting that mandates strict separation between the personal affairs of business owners and the economic activities of the business itself. This distinction is absolute and forms the basis of all accounting record-keeping.

Solution:

- Step 1:** In accounting theory, the entity is viewed as a separate economic unit distinct from its owners. This fiction allows for independent financial tracking even when the owner is an individual proprietor.
- Step 2:** Any personal expenditure incurred by the proprietor—such as personal groceries, home rent, or private medical expenses—must not be recorded in the business books. These belong entirely to the proprietor’s personal accounting.
- Step 3:** Conversely, any business transaction is recorded purely from the business entity’s perspective. When the proprietor invests money in the business, this creates a Capital Account liability on the business books, not a personal payment record.
- Step 4:** This principle enables creditors and investors to evaluate the business’s financial health independently of the personal financial circumstances of the owner, providing transparent and comparable financial information.

Final Answer: Entity Concept

Answer: (B)

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Q4.

Solution

Concept: In a journal entry, the double-entry principle requires that for every transaction, at least one account must be debited and at least one account must be credited for equal amounts. For a cash sale, we must identify both accounts affected: the source of the inflow and the nature of that inflow.

Solution:

Step 1: A cash sale involves two economic effects: the business receives cash (an inflow of liquid assets) and simultaneously relinquishes goods from inventory (an outflow of stock).

Step 2: Applying the fundamental double-entry rule: Real Account "Debit what comes in" means we debit Cash Account for the Rs. 5,000 received. The nominal account principle "Credit income" means we credit Sales Account for the revenue generated.

Step 3: The journal entry structure is: Cash Account Dr. Rs. 5,000; To Sales Account Rs. 5,000. Therefore, the Cash Account is debited.

Step 4: Note that Goods Account is not used in modern accounting; instead, the Cost of Goods Sold is calculated during year-end through opening and closing stock adjustments using the Trading Account format.

Final Answer: Cash Account

Answer: (C)

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Q5.

Solution

Concept: The Trial Balance is a preliminary statement prepared to verify the arithmetic accuracy of ledger posting. An error causing the Trial Balance to fail to agree is termed a one-sided error—where the debit and credit sides of posting are unequal.

Solution:

Step 1: Recording a transaction on the wrong side of a correct account creates an asymmetry in the ledger. For example, if a purchase of Rs. 100 is debited to both Purchases Account and Creditors Account, the total debits exceed credits by Rs. 200, causing Trial Balance disagreement.

Step 2: Recording the same transaction in two wrong accounts but on opposite sides can cause Trial Balance agreement even though records are incorrect. This is a compensating error.

Step 3: Recording at incorrect amounts consistently in both accounts maintains the Trial Balance equilibrium but creates internal accounting errors detectable only during reconciliation.

Final Answer: Recording a transaction on the wrong side of a correct account

Answer: (A)

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Q6.

Solution

Concept: A Provision for Doubtful Debts is an accounting reserve created to reflect the realistic expectation that not all credit customers will pay their complete dues. This contra-asset account directly offsets the value of Debtors.

Solution:

Step 1: In the Balance Sheet, Debtors are presented at their gross value, followed by a deduction for the Provision for Doubtful Debts to arrive at the net realizable value.

Step 2: Because this account offsets an asset, it is classified as a contra-asset account rather than an expense account or liability account.

Step 3: The journal entry upon creation is: Bad Debts Expense Account Dr.; To Provision for Doubtful Debts A/c (Cr.). Thus, the provision itself appears on the asset side of the Balance Sheet as a contra-account.

Final Answer: Contra-asset account

Answer: (B)

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Q7.

Solution

Concept: The Going Concern Concept represents a fundamental assumption underlying the preparation of financial statements. It posits that the business entity will continue operations indefinitely unless evidence to the contrary exists.

Solution:

Step 1: Under the Going Concern Concept, fixed assets are valued at cost minus accumulated depreciation rather than at fire-sale prices. Inventory is valued at cost or net realizable value, not at liquidation value.

Step 2: This concept allows management to capitalize long-term expenditures and depreciate them over useful lives rather than expensing them immediately. Without this assumption, all assets would be valued at hypothetical liquidation values, creating misleading financial statements.

Step 3: The concept remains valid unless the business faces insolvency, court proceedings, or explicit dissolution decisions.

Final Answer: Going Concern Concept

Answer: (B)

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Q8.

Solution

Concept: When a new partner is admitted and acquires his share by sacrificing equally from old partners, the premium paid for goodwill is shared proportionally among the sacrificing partners.

Solution:

Step 1: If old partners sacrifice their shares in equal proportions to contribute the new partner's share, they must also share the goodwill premium in the same proportions.

Step 2: Goodwill premium is credited to partners in their sacrificing ratio because they collectively gave up portion of future profits to accommodate the new member.

Step 3: The sacrificing ratio is calculated as: Old Share minus Proportionate New Share for each partner.

Final Answer: The new partner's goodwill is divided in the old profit-sharing ratio

Answer: (C)

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Q9.

Solution

Concept: In partnership firms, different categories of partners exist based on their contribution levels and participation in management. A dormant or sleeping partner is one who provides capital but does not engage in day-to-day operations.

Solution:

Step 1: A dormant partner contributes capital to the firm but remains uninvolved in active business management and decision-making.

Step 2: This type of partnership arrangement allows capital providers to invest in a business without operational responsibility, useful for investors who lack expertise or time for management.

Final Answer: Dormant Partner

Answer: (B)

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Q10.

Solution

Concept: When equity shares are forfeited for non-payment of allotment or call amounts, the company cancels the shares and seizes the amounts already paid by the shareholder.

Solution:

Step 1: Journal Entry: Share Capital A/c Dr. (called-up amount); To Forfeited Shares A/c (amount paid); To Calls-in-Arrears A/c (outstanding calls).

Step 2: The amount previously paid is transferred to the Forfeited Shares Account to maintain the distinction between paid and unpaid portions.

Step 3: This accounting treatment ensures that Share Capital Account always reflects only the called-up amount on forfeited shares.

Final Answer: Forfeited Shares Account

Answer: (B)

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Q11.

Solution

Concept: The Straight-Line Method or Fixed Installment Method allocates equal depreciation amounts across each accounting period. It is the simplest and most commonly used depreciation method under various accounting standards.

Solution:

Step 1: Formula: Annual Depreciation = (Cost of Asset - Salvage Value) / Useful Life in Years.

Step 2: Example: An asset costing Rs. 1,00,000 with salvage value Rs. 10,000 and useful life of 10 years would depreciate by Rs. 9,000 annually.

Step 3: This method produces a constant depreciation charge each year, making it ideal for financial planning and reporting comparability.

Final Answer: Straight-Line Method

Answer: (B)

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Q12.

Solution

Concept: Bank Reconciliation Statements bridge discrepancies between Cash Book balances and bank statement balances. Outstanding cheques are those issued but not yet cleared through the banking system.

Solution:

Step 1: Outstanding cheques were debited from the Cash Book when issued but have not yet been deducted from the Pass Book because they haven't been presented.

Step 2: The bank balance (Pass Book) is therefore higher than the Cash Book balance. To reconcile, we must subtract the outstanding cheques from the bank balance to arrive at Cash Book balance.

Final Answer: Subtracted from the bank balance

Answer: (B)

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Q13.

Solution

Concept: The Purchases Book is a subsidiary journal specifically designed to record credit purchases of goods meant for resale. Capital purchases and other expense purchases follow different recording procedures.

Solution:

Step 1: Office furniture is a fixed asset, not merchandise for resale. Its purchase on credit is recorded through a journal entry, not the Purchases Book.

Step 2: Salary and rent payments are operating expenses recorded in the Cash Book (if paid in cash) or through journal entries (if on credit).

Step 3: Only credit purchases of goods intended for resale appear in the Purchases Book.

Final Answer: Purchase of materials for resale on credit

Answer: (B)

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Q14.

Solution

Concept: The fundamental accounting equation is the backbone of double-entry bookkeeping. It reflects the basic accounting reality that every asset has a source of financing.

Solution:

Step 1: $\text{Assets} = \text{Liabilities} + \text{Capital}$ is maintained after every single business transaction because every transaction affects at least two accounts and the equation remains balanced.

Step 2: Example: If the proprietor withdraws cash for personal use, Assets (Cash) decrease and Capital decrease by equal amounts.

Step 3: Example: If goods are purchased on credit, Assets (Stock) increase and Liabilities (Creditors) increase by equal amounts.

Final Answer: After every business transaction

Answer: (B)

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Q15.

Solution

Concept: Document control forms the baseline of forensic accounting and auditing verification. Source documents serve as primary evidence to authenticate transactions, while cost-allocation concepts ensure financial statements comply with periodic accounting principles.

Solution:

Step 1: Analyze Part (i): Any internal or external document that provides concrete evidence of a cash layout or financial settlement is classified as a **Receipt** or a **Payment Voucher**. In commercial accounting systems, these instruments establish an undeniable audit trail. They capture critical metadata, including the payment date, the exact currency amount, the payee's identity, the authorizing manager's signature, and the specific ledger account code.

Step 2: Analyze Part (ii): The accounting process of systematically allocating the depreciable cost of a tangible fixed asset over its estimated useful economic life is called **Depreciation**. This framework satisfies the core matching principle by ensuring that the cost of an operational asset is recognized as an expense in the same periods it helps generate revenue. It prevents asset values from being overstated on the balance sheet while reflecting the ongoing wear, tear, and obsolescence of long-term property, plant, and equipment.

Final Answer: (i) Receipt / Payment Voucher (ii) Depreciation

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Q16.

Solution

Concept: Special journals streamline double-entry tracking by grouping repetitive transactions together. At the same time, qualitative accounting characteristics ensure that financial reports mirror actual business performance.

Solution:

Step 1: Analyze Part (i): The specialized subsidiary book used exclusively to record the return of physical merchandise by customers is the **Sales Returns Book** or the **Return Inward Book**. When a buyer returns goods due to defects, shipping errors, or missed specifications, the transaction is logged here based on a formal credit note. This specialized journal keeps high-volume returns out of the general journal, simplifying month-end ledger updates.

Step 2: Analyze Part (ii): The accounting principle that ensures financial statements reflect economic reality accurately and completely is known as **Faithful Representation** or a **True and Fair View**. To satisfy this requirement, financial reports must be neutral, free from material error, and complete. This ensures that stakeholders receive information that matches the true financial position of the company, rather than a distorted view designed to mislead investors.

Final Answer: (i) Sales Returns Book (ii) Faithful Representation / True and Fair View

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Q17.

Solution

Concept: Partnership accounting requires precise internal adjustments to track capital changes. Meanwhile, standard negotiable instruments regulate liquid asset transfers between companies and commercial banks.

Solution:

Step 1: Analyze Part (i): Interest charged on personal cash drawings is debited directly to the partner's individual **Capital Account** (or Current Account under a fixed capital structure). This charge discourages partners from withdrawing too much cash from core business operations. In the firm's books, this interest is credited to the Profit and Loss Appropriation Account, increasing the net divisible profits available for distribution among all partners based on their agreed profit-sharing ratios.

Step 2: Analyze Part (ii): A written, unconditional command addressed to a financial institution to pay a specific sum of money to a named person or bearer is a **Cheque**. Governed by negotiable instrument laws, a cheque acts as a safe, traceable payment tool. It requires a clear signature from the account holder and enables banks to move funds safely without handling physical cash.

Final Answer: (i) Capital Account (ii) Cheque

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Q18.

Solution

Concept: Forfeiting shares requires specific accounting entries to manage corporate capital. Similarly, structural changes in a partnership require recalculating profit allocations among partners.

Solution:

Step 1: Analyze Part (i): When a company forfeits and subsequently reissues equity shares, any remaining surplus in the Forfeited Shares Account is transferred directly to the **Capital Reserve Account**. This surplus represents a capital gain rather than an operational profit. Because these funds do not come from day-to-day business revenue, corporate regulations prohibit using them to pay dividends to shareholders. Instead, they must be held as permanent capital backup.

Step 2: Analyze Part (ii): The metric used to calculate the share of profits a partner acquires from a retiring or deceased partner is the **Gaining Ratio**. When a partner leaves the firm, their profit share is absorbed by the remaining partners. Computing this ratio is essential because continuing partners must compensate the leaving partner by paying for goodwill. This payment is distributed based on the exact share of profits each remaining partner gains.

Final Answer: (i) Capital Reserve Account (ii) Gaining Ratio

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Q19.

Solution

Concept: Public corporations raise long-term capital by issuing regulated disclosure documents. In contrast, partnerships use dissolution procedures to wind down business operations.

Solution:

Step 1: Analyze Part (i): A formal, legal invitation issued by a corporation asking the public to purchase its shares or debentures is a **Prospectus**. This document must comply with strict corporate laws, providing detailed disclosures about the company’s financial history, current operations, business risks, and plans for the new capital. This transparency ensures that investors can make informed decisions before buying corporate securities.

Step 2: Analyze Part (ii): The formal process that brings a partnership firm’s legal existence and business operations to an end is called **Dissolution**. This occurs due to partner agreements, insolvency, judicial orders, or the completion of a specific business venture. During dissolution, all assets are sold, outstanding liabilities are settled, and any remaining cash is distributed to the partners to close out their capital balances.

Final Answer: (i) Prospectus (ii) Dissolution

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Q20.

Solution

Concept: Hybrid corporate securities give investors specific financial rights, while year-end financial summaries outline a company’s total assets and liabilities.

Solution:

Step 1: Analyze Part (i): Preference shareholders hold a prior right to receive a fixed **Dividend** payment before any distributions are made to ordinary equity shareholders. This payout rate is usually fixed as a percentage of the share’s face value or as a set amount per share. While these payouts depend on the company generating sufficient after-tax profits, preference dividends must be fully satisfied before equity investors receive any returns.

Step 2: Analyze Part (ii): The core financial statement that presents a company’s financial position at a specific point in time is the **Balance Sheet**. Organized around the fundamental accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

This ledger snapshot details what the business owns, what it owes to external creditors, and the remaining net worth belonging to the equity owners at the close of a financial period.

Final Answer: (i) Dividend (ii) Balance Sheet

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Q21.

Solution

Concept: Double-entry bookkeeping requires analyzing how transactions impact assets, liabilities, equity, expenses, and revenues to maintain balanced ledgers.

Solution:

Step 1: Transaction (i): Repairs to factory machinery cost Rs. 8,500. This is a routine maintenance expense, not a capital improvement.

Debit: Repairs and Maintenance Account **Credit:** Cash Account

Step 2: Transaction (ii): A customer's cheque is dishonored by the bank. This requires reversing the original payment entry to reinstate the customer's debt.

Debit: Debtors (Customer) Account **Credit:** Bank Account

Step 3: Transaction (iii): Purchasing computer equipment on credit for Rs. 50,000 creates a long-term asset and a modern vendor liability.

Debit: Office Equipment / Computer Account **Credit:** Tech Supplies Ltd. Account

Step 4: Transaction (iv): The business owner withdraws Rs. 12,000 worth of stock for personal use. This reduces available inventory at cost price.

Debit: Drawings Account **Credit:** Purchases Account

Evaluating these entries ensures the accounting equation remains perfectly balanced across all asset and expense accounts.

Final Answer: Four transaction pairs identified correctly.

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Q22.

Solution

Concept: Accounting errors must be classified by their mechanical nature to determine how they affect the trial balance and how they should be corrected.

Solution:

Step 1: Error (i): Reversing a supplier's payment by debiting instead of crediting their account is an **Error of Commission**. The transaction was recorded in the correct account but on the wrong side, unbalancing the trial balance by double the error amount.

Step 2: Error (ii): Forgetting to record a stationery purchase entirely is an **Error of Omission**. Because both the debit and credit entries are missing, the trial balance still balances, making this error harder to detect without an audit.

Step 3: Error (iii): Posting a discount allowed to the wrong account name is an **Error of Principle**. This violates core accounting definitions by misclassifying an expense item.

Step 4: Error (iv): An overcharge on the debit side that matches an undercharge on the credit side is a **Compensating Error**. These separate errors offset each other exactly, leaving the trial balance balanced.

Final Answer: Four error types correctly identified.

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Q23.

Solution

Concept: Partnership accounting relies on clearly defined legal terms, specialized equity accounts, and rules for handling partner-provided debt.

Solution:

Step 1: Term (i): A legal arrangement where individuals agree to run a business together and share its profits and losses is a **Partnership**. This relationship is governed by a partnership deed that sets operational guidelines.

Step 2: Term (ii): The premium paid by an incoming partner to compensate existing partners for their reduced share of future profits is the **Premium for Goodwill**. This payment is distributed to the old partners based on their sacrificing ratios.

Step 3: Term (iii): A written command instructing a bank to pay a specific amount from a deposit account is a **Cheque**.

Step 4: Term (iv): A partner who advances extra capital to the firm as a loan is a **Partner by Loan** (or Creditor Partner). Under partnership laws, this loan earns a fixed interest rate (defaulting to 6% if not specified) that must be paid out before profits are shared.

Final Answer: Four terms correctly identified.

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Q24.

Solution

Concept: Corporate accounting uses specialized statutory disclosures, equity calculations, and restricted reserve accounts mandated by corporate law.

Solution:

Step 1: Term (i): A legal document issued by a corporation to invite public investment in its shares or debentures is a **Prospectus**.

Step 2: Term (ii): The difference between a company's total assets and total liabilities represents its **Net Worth** or **Shareholders' Equity**. This figure shows the total book value belonging to the equity owners.

Step 3: Term (iii): The extra funds received from issuing preference shares above their face value are credited to the **Securities Premium Account**. Corporate laws limit the use of this account to specific purposes, such as writing off equity issuance costs or issuing bonus shares.

Step 4: Term (iv): A reserve set aside to meet specific legal requirements is a **Statutory Reserve**. These funds are locked away by law and cannot be used for regular dividend payouts.

Final Answer: Four terms correctly identified.

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Q25.

Solution

Solution (a): Concept: Impersonal accounts are general ledgers that record business transactions related to tangible assets, intangible values, structural liabilities, corporate operational expenses, and diverse revenue streams instead of dealings with individual persons.

Solution: Impersonal accounts are fundamentally divided into real accounts and nominal accounts to categorize all business items that are not personal. Real accounts track properties owned by an enterprise, which are further divided into tangible types like Cash, Plant, and Building, and intangible types like Patents or Trademark, persisting on the balance sheet across periods. Nominal accounts deal with revenue items like sales or interest received, alongside operational expenses such as salaries, insurance, printing, and rent. These nominal elements directly influence periodic profit computations and close into the income statement at the end of every fiscal year. For instance, purchasing office furniture modifies an asset account under the real classification category, following the rules of debiting incoming value. Conversely, disbursing monthly workplace rent impacts a nominal expense account, which requires a debit entry to document operational expenditures accurately, ensuring systemic synchronization within a standard double-entry configuration.

Final Answer: Impersonal accounts comprise real and nominal ledgers recording assets and operational expenses.

OR

Solution (b): Concept: Dishonour occurs when the legal obligations embedded in a negotiable financial bill of exchange are completely unfulfilled by the responsible party on maturity.

Solution: A bill of exchange can be dishonoured under two primary operational situations. First, it can be dishonoured by non-acceptance, which takes place when the drawer presents the instrument to the drawee for approval before maturity, but the drawee refuses to accept it or provides a qualified acceptance violating original terms. Second, it can be dishonoured by non-payment, which happens when the accepted bill is formally presented for settlement on its legal maturity date, but the acceptor fails to clear the stated amount after adding the standard three days of grace. This default can stem from financial insolvency, systemic payment disputes, or missing signatures. When dishonour occurs, the holder typically files an official protest with a public notary to secure judicial proof of default. This mechanism reinstates the primary liability of the drawer and previous endorsers, allowing the holder to initiate recovery actions to reclaim the principal value plus any accumulated noting charges.

Final Answer: A bill is dishonoured through non-acceptance by the drawee or non-payment at maturity.

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Q26.

Solution

Solution (a): Concept: Expenditures are categorized based on the duration, frequency, and nature of the economic benefits they provide to a business entity.

Solution: Capital expenditure differs from revenue expenditure across three distinct parameters:

1. **Earning Capacity:** Capital expenditure directly expands the long-term earning capacity of an enterprise by acquiring brand new production machinery or upgrading existing fixed properties. Revenue expenditure maintains day-to-day operational earning capability by covering routine repairs, asset servicing, and regular fuel costs.
2. **Temporal Benefit:** Capital expenditure provides structural economic advantages that span multiple consecutive financial years. Revenue expenditure provides temporary utility confined entirely within the current operational cycle.
3. **Financial Presentation:** Capital expenditure is capitalized on the balance sheet as a non-current asset. Revenue expenditure is charged as a period cost against current earnings in the trading or profit and loss account.

Properly separating these transactions prevents distortions in reporting annual net profits and ensures corporate balance sheets reflect authentic financial strength.

Final Answer: Capital expenditure builds long-term assets while revenue expenditure covers current operating costs.

OR

Solution (b): Concept: Group asset depreciation allocates composite costs based on the proportional useful life of multiple asset components combined together.

Solution: The Weighted Average Life Method is an advanced accounting technique used to calculate depreciation for a collection of mixed operational assets by determining a single composite rate based on total costs and combined useful lives. Instead of tracking separate depreciation timelines for every single tool, the accountant calculates the individual annual depreciation for each asset based on its specific lifelines. Next, these annual values are added together to find the total group depreciation. Finally, this total is divided by the combined original cost of all assets in the block to derive a weighted percentage rate. This composite rate is applied uniformly across the entire asset block, making bookkeeping more efficient for high-volume asset groups. This method simplifies corporate accounting processes while satisfying regulatory compliance and matching principles.

Final Answer: The method uses a composite percentage derived from total cost and combined useful lives.

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Q27.

Solution

Solution (a): Concept: When an incoming partner acquires their entire profit share from a single existing partner, only that partner sacrifices profit share.

Solution: X and Y share profits in an old ratio of 2:3. This means X holds a $\frac{2}{5}$ share and Y holds a $\frac{3}{5}$ share. Z joins the firm for a $\frac{1}{4}$ share, which is acquired entirely from Y alone. X's share remains unchanged because X makes no sacrifice:

$$\text{X's New Share} = \frac{2}{5} = \frac{8}{20}$$

Y's profit share reduces by the exact amount given to Z:

$$\text{Y's New Share} = \frac{3}{5} - \frac{1}{4} = \frac{12 - 5}{20} = \frac{7}{20}$$

Z's incoming profit share is adjusted to the same common denominator:

$$\text{Z's New Share} = \frac{1}{4} = \frac{5}{20}$$

By aligning all three denominators, the new profit-sharing ratio among X, Y, and Z is calculated as 8:7:5. This structural recalculation ensures capital accounts can be adjusted correctly.

Final Answer: The new profit-sharing ratio among partners X, Y, and Z is 8:7:5.

OR

Solution (b): Concept: Goodwill represents the capitalized value of an enterprise's commercial reputation, enabling it to earn higher profits than standard industry competitors.

Solution: Goodwill is an intangible asset that reflects a firm's market reputation, customer loyalty, brand location, and operating efficiency. This asset allows a business to generate higher net profits than a new company starting in the same industry. Valuing goodwill during a partnership change is essential because any structural shift alters future profit allocations. If a new partner is admitted, or an old partner retires, the profit-sharing ratios change, meaning some partners sacrifice a portion of their future earnings while others gain. Valuing goodwill ensures that gaining partners compensate sacrificing partners fairly for their past efforts in building the business. This process maintains equity balances and prevents unfair wealth transfers during firm restructurings.

Final Answer: Goodwill is an intangible asset valued to compensate sacrificing partners during firm changes.

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Q28.

Solution

Solution (a): Concept: Accumulated reserves represent undistributed historical profits and must be distributed among all existing partners using their old profit-sharing ratio before a restructuring takes effect.

Solution: The general reserve of Rs. 80,000 listed on the balance sheet represents past profits set aside through the collective efforts of the partners before the retirement event. Therefore, this reserve must be shared among all partners using their old profit-sharing ratio during the retirement process. The term remaining partners in the question refers to the partners who continue after the retirement takes place, but they receive their shares alongside the retiring partner based on historical contributions. If the old ratio is not specified in the agreement, partnership regulations require the reserve to be split equally among the original partners. For example, if there were three original partners, the Rs. 80,000 reserve is divided equally, giving Rs. 26,667 to each partner. This is recorded by debiting the General Reserve Account and crediting each partner's Capital Account, closing out the reserve balance before the new partnership agreement begins.

Final Answer: The reserve is distributed among all partners in their old profit-sharing ratio.

OR

Solution (b): Concept: Revaluation adjusts asset and liability values to their current market figures to prevent historical gains or losses from affecting new partners.

Solution: The primary purpose of preparing a Revaluation Account during the admission or retirement of a partner is to update the values of all assets and liabilities to reflect current market conditions. Over time, the book value of assets like land or machinery can change significantly from their actual market value. Similarly, outstanding liabilities may require updated provisions. By recording these adjustments in a temporary Revaluation Account, the firm can calculate the net unrealized profit or loss that built up before the restructuring took place. This net balance is then distributed exclusively to the old partners' capital accounts based on their historical profit-sharing ratios. This setup ensures that an incoming partner does not profit from past asset appreciation, and a retiring partner is not unfairly penalized for past decreases in asset value, preserving capital equity.

Final Answer: The account updates asset values so historical gains or losses are shared fairly.

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Q29.

Solution

Solution (a): Concept: Double-entry bookkeeping rules use specific debit and credit pairings to record adjustments to sales, credit purchases, and cash discounts.

Solution: The transactions are recorded through standard journal entries that maintain ledger balance:

- (i) When customers return merchandise, sales revenue decreases and the corresponding customer debt is reduced:
 Sales Returns Account Dr. 4,500
 To Debtors Account 4,500
 (Being goods returned by customers recorded)

- (ii) When goods are purchased on credit from Sharma Bros, inventory expenses increase and a new vendor liability is created:
 Purchases Account Dr. 15,000
 To Sharma Bros. Account 15,000
 (Being goods purchased on credit from Sharma Bros)

- (iii) When a cash discount is allowed to a customer for prompt payment, it creates an operational expense while lowering the remaining receivable balance:
 Discount Allowed Account Dr. 800
 To Debtors Account 800
 (Being cash discount allowed to a customer for prompt payment)

Final Answer: Three separate journal entries were passed to record returns, purchases, and discounts.

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OR

Solution (b): Concept: Reconciling bank balances involves matching cash book records against bank pass book updates to identify and explain timing differences or ledger errors.

Solution: Preparing a Bank Reconciliation Statement involves five orderly steps. First, note the opening balance from either the Cash Book or the Bank Pass Book as your starting reference point. Second, systematically check the debit entries in the cash book against the credit entries in the bank statement to isolate items that appear in only one ledger. Third, add items that increase the target book’s balance but were omitted from the other, such as checks issued but not yet presented to the bank, or direct deposits from customers. Fourth, deduct items that lower the target balance, like checks deposited but not yet cleared by the bank, or direct bank charges and interest penalties. Fifth, calculate the adjusted totals to ensure the final reconciled balance matches the closing figure in the alternate book, confirming that all timing differences are accounted for.

Final Answer: Reconciling involves adjusting the starting balance for missing entries, deposits in transit, and unrepresented checks.

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Q30.

Solution

Concept: Gross Profit is determined by deducting the Cost of Goods Sold from total sales revenue. The Gross Profit Ratio reflects this profit margin as a percentage of operations.

Solution: To compute the metrics, the Cost of Goods Sold is calculated first by adding opening stock, purchases, and direct wages, then subtracting closing stock:

$$\text{Cost of Goods Sold} = 45,000 + 1,80,000 + 20,000 - 55,000 = \text{Rs. } 1,90,000$$

Next, Gross Profit is found by subtracting this cost from Sales:

$$\text{Gross Profit} = \text{Sales} - \text{Cost of Goods Sold} = 3,00,000 - 1,90,000 = \text{Rs. } 1,10,000$$

Finally, the Gross Profit Ratio is calculated using the standard formula:

$$\text{Gross Profit Ratio} = \left(\frac{\text{Gross Profit}}{\text{Sales}} \right) \times 100 = \left(\frac{1,10,000}{3,00,000} \right) \times 100 = 36.67\%$$

This means the firm retains 36.67% of its sales revenue after covering direct manufacturing and procurement expenses, demonstrating healthy operational trading profitability before factoring in indirect administrative, selling, or financial overheads.

Final Answer: Gross Profit = Rs. 1,10,000; Gross Profit Ratio = 36.67%

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Q31.

Solution

Solution (a): Concept: In partnership accounts, net divisible profits are allocated among partners based on the profit-sharing ratio specified in the deed, regardless of capital size.

Solution: Partners A, B, and C have contributed capital amounts of Rs. 2,00,000, Rs. 1,50,000, and Rs. 1,00,000 respectively. However, the partnership terms explicitly state that all profits and losses must be shared equally among them. The total net profit generated by the firm during the current financial year stands at Rs. 90,000.

Because capital sizes do not affect equal profit distribution arrangements, the individual share for each partner is calculated by dividing the total net profit by three:

$$\text{Individual Share} = \frac{90,000}{3} = \text{Rs. } 30,000$$

Consequently, the Profit and Loss Appropriation Account is debited for Rs. 90,000, and the individual Capital Accounts of A, B, and C are each credited with Rs. 30,000. This entry increases their respective equity balances within the firm.

Final Answer: Share of Profit: A = Rs. 30,000; B = Rs. 30,000; C = Rs. 30,000

OR

Solution (b): Concept: A drawings account tracks temporary capital withdrawals made by business owners, which reduces the firm’s total net equity.

Solution: A Drawings Account is a temporary equity ledger used to track cash, inventory, or other business assets withdrawn by a partner for personal use. It separates personal withdrawals from business expenses during the fiscal period. Under the dual-aspect principle, withdrawals reduce the firm’s internal capital obligations to that partner. At the end of the year, the accumulated balance in the drawings account is transferred to the debit side of the partner’s Capital Account (or Current Account), reducing their total equity. If the partnership deed includes an interest clause, interest is charged on these drawings, further reducing the partner’s capital balance while increasing the firm’s divisible income.

Final Answer: Drawings represent personal asset withdrawals that reduce a partner’s total capital balance at year-end.

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Q32.

Solution

Concept: Journal entries for bills of exchange must record the initial acceptance, subsequent bank discounting transactions, and the final payment at maturity.

Solution: The journal entries in the books of Ramesh are passed as follows:

1. On 1st June 2024, receiving the accepted bill from Suresh:
Bills Receivable A/c Dr. 20,000
To Suresh A/c 20,000
(Being acceptance received for three months)
2. After two months (1st August 2024), discounting the bill at the bank:
Bank A/c Dr. 19,500
Discounting Charges A/c Dr. 500
To Bills Receivable A/c 20,000
(Being bill discounted with bank at Rs. 500 discount)
3. On the due date (4th September 2024), no entry is passed in Ramesh's books because the bank collects the cash from Suresh directly. The bill is honored at maturity, satisfying all outstanding obligations.

Final Answer: Journal entries recorded for bill receipt and discounting; maturity requires no entry.

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Q33.

Solution

Solution (a): Concept: Retiring partners are entitled to their historical share of accumulated profits and unrecorded goodwill, which are adjusted through partner capital entries.

Solution: The historical profit-sharing ratio among partners A, B, and C is 5:3:2. Partner A is retiring from the firm. First, the accumulated profits of Rs. 60,000 must be distributed among all partners in their old ratio:

A's share = $60,000 \times \frac{5}{10} = \text{Rs. } 30,000$

B's share = $60,000 \times \frac{3}{10} = \text{Rs. } 18,000$

C's share = $60,000 \times \frac{2}{10} = \text{Rs. } 12,000$

Journal Entry:

Accumulated Profits A/c Dr. 60,000

To A's Capital A/c 30,000

To B's Capital A/c 18,000

To C's Capital A/c 12,000

Next, A's share of the unrecorded goodwill ($40,000 \times \frac{5}{10} = \text{Rs. } 20,000$) must be adjusted without opening a goodwill account. This is done by debiting the gaining partners (B and C) in their gaining ratio (3:2) and crediting A:

B's adjustment = $20,000 \times \frac{3}{5} = \text{Rs. } 12,000$

C's adjustment = $20,000 \times \frac{2}{5} = \text{Rs. } 8,000$

Journal Entry:

B's Capital A/c Dr. 12,000

C's Capital A/c Dr. 8,000

To A's Capital A/c 20,000

Final Answer: Capital entries passed for distributing accumulated profits and adjusting unrecorded goodwill shares.

OR

Solution (b): Concept: Maintaining separate capital accounts ensures transparent tracking of individual owner equity contributions, profit shares, and withdrawals.

Solution: Maintaining separate capital accounts for each partner is essential because a partnership consists of multiple owners with distinct financial interests. Separate ledgers prevent the commingling of personal and business funds. They provide clear records of each partner's initial capital inputs, periodic profit or loss allocations, interest claims, salaries, and personal drawings. This separation preserves accountability and referential transparency. It simplifies tracking internal obligations, ensures accurate calculations for partners who join or leave, and supports asset distribution if the firm dissolves.

Final Answer: Separate capital accounts track individual partner investments, profit distributions, and drawings to maintain accounting transparency.

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Q34.

Solution

Concept: Final accounts summarize operational performance by matching periodic revenues against corresponding manufacturing and administrative expenses.

Solution: The Trading Account is prepared first to calculate Gross Profit. It matches sales and closing stock against opening stock, purchases, and direct costs:

Trading Account entries:

Credit Side: Sales (Rs. 2,80,000) + Closing Stock (Rs. 42,000) = Rs. 3,22,000

Debit Side: Opening Stock (Rs. 38,000) + Purchases (Rs. 1,50,000) = Rs. 1,88,000

$$\text{Gross Profit} = 3,22,000 - 1,88,000 = \text{Rs. } 1,34,000$$

Next, the Profit and Loss Account is prepared by crediting Gross Profit and debiting indirect expenses, adjusting for outstanding or bad debt items:

Profit and Loss Account entries:

Credit Side: Gross Profit b/d = Rs. 1,34,000

Debit Side expenses:

- 1. Rent Paid (9,000) + Outstanding Rent (1,500) = Rs. 10,500
- 2. Salaries = Rs. 18,000
- 3. Total Depreciation (incorporating the asset adjustment) = Rs. 2,000
- 4. New Bad Debts = Rs. 2,000

$$\text{Net Profit} = 1,34,000 - (10,500 + 18,000 + 2,000 + 2,000) = \text{Rs. } 1,01,500$$

Final Answer: Gross Profit = Rs. 1,34,000; Net Profit = Rs. 1,01,500

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Q35.

Solution

Concept: Admitting a new partner requires valuing asset balances, adjusting for liabilities, and distributing premium goodwill among existing partners based on sacrificing ratios.

Solution: First, the Revaluation Account is prepared to adjust asset values. Stock decreases by Rs. 2,000 (revalued at 48,000), Plant increases by Rs. 9,500 (10% of 95,000), and a 5% provision on Debtors creates a Rs. 2,750 debit:

Revaluation Account:

Credit Side: Plant Appreciation = Rs. 9,500

Debit Side: Stock Reduction (2,000) + Provision for Doubtful Debts (2,750) = Rs. 4,750

$$\text{Net Revaluation Profit} = 9,500 - 4,750 = \text{Rs. } 4,750$$

This profit is split between P and Q in their 3:2 ratio: P receives Rs. 2,850 and Q receives Rs. 1,900.

Second, the Partners' Capital Accounts are prepared. R brings Rs. 70,000 as capital and Rs. 15,000 as premium for goodwill, which is distributed to P and Q in their 3:2 sacrificing ratio (P: Rs. 9,000; Q: Rs. 6,000):

Debits	P	Q	R	Credits	P	Q	R
Balance c/d	1,21,850	77,900	70,000	Balance b/f	1,10,000	70,000	0
				Revaluation Profit	2,850	1,900	0
				Bank (Capital)	0	0	70,000
				Premium for Goodwill	9,000	6,000	0
Total	1,21,850	77,900	70,000	Total	1,21,850	77,900	70,000

Final Answer: Revaluation Profit = Rs. 4,750; Closing Capital Balances: P = Rs. 1,21,850, Q = Rs. 77,900, R = Rs. 70,000

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Q36.

Solution

Solution (a): Concept: A Realisation Account summarizes asset liquidations and liability.

Solution:

Realisation Account Entry Structure:

Debit side entries:

Book Assets: Debtors (40,000) + Stock (30,000) + Furniture (20,000) + Land (80,000) = Rs. 1,70,000

Cash Paid: Bank Loan (30,000) + Sundry Creditors (50,000) + Dissolution Expenses (3,500) = Rs. 83,500

Credit side entries:

Cash Realized: Debtors (36,000) + Stock (28,000) + Furniture (18,000) + Land (95,000) = Rs. 1,77,000

Total Debits (1,70,000 + 83,500 = Rs. 2,53,500) are balanced against Total Credits (80,000 + 1,77,000 = Rs. 2,57,000):

$$\text{Realisation Profit} = 2,57,000 - 2,53,500 = \text{Rs. } 3,500$$

This net surplus is distributed to X, Y, and Z in their 4:2:2 profit-sharing ratio:

X's share = $3,500 \times \frac{4}{8} = \text{Rs. } 1,750$

Y's share = $3,500 \times \frac{2}{8} = \text{Rs. } 875$

Z's share = $3,500 \times \frac{2}{8} = \text{Rs. } 875$

Final Answer: Net Realisation Profit = Rs. 3,500 distributed to X, Y, and Z in a 4:2:2 ratio.

OR

Solution (b): Concept: Share issues require clear entries to track application receipts.

1. Application cash collected (Rs. 3 per share):

Bank A/c Dr. 75,000 To Share Application A/c 75,000

2. Transferring application funds and recording the premium:

Share Application A/c Dr. 75,000

To Share Capital A/c 25,000 To Securities Premium A/c 50,000

3. Allotment due (Rs. 5 per share):

Share Allotment A/c Dr. 1,25,000 To Share Capital A/c 1,25,000

4. Final Call due (Rs. 4 per share):

Share Final Call A/c Dr. 1,00,000 To Share Capital A/c 1,00,000

5. Final Call cash received:

Bank A/c Dr. 1,00,000 To Share Final Call A/c 1,00,000

Final Answer: All journal entries passed successfully; Paid-Up Share Capital balance totals Rs. 2,50,000.

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Detailed Solutions – Section B Module I

Q37.

Solution

Concept: Financial statement analysis relies on specific ratio categories to serve distinct analytical purposes. The Current Ratio falls under liquidity ratios, measuring whether short-term operational assets sufficiently cover immediate obligations.

Solution: The Current Ratio is mathematically expressed using the standard formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

This critical financial metric explicitly evaluates an enterprise’s capability to settle all its obligations due within the next 12 months or operational cycle using resources that are expected to naturally convert into cash within that same period. A standard ratio above 1.5:1 or 2:1 is widely considered financially healthy, signaling a robust buffer against unexpected working capital shortfalls.

To fully understand financial assessment, it is vital to contrast this with other fundamental categories:

- i. **Operational Efficiency Ratios:** Metrics like the Inventory Turnover Ratio assess the velocity of asset utilization and operational management.
- ii. **Long-Term Solvency Ratios:** Metrics such as the Debt-to-Equity Ratio assess structural financial stability and long-term debt-bearing capacity.
- iii. **Profitability Ratios:** Performance metrics like the Return on Investment (ROI) evaluate the absolute earnings-generation power relative to capital deployed.

Thus, each family of ratios maps to an entirely unique dimension of corporate financial health.

Final Answer: Short-term Liquidity

Answer: (C)

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Q38.

Solution

Concept: The Asset Turnover Ratio is a core activity metric that evaluates management efficiency. It evaluates how productively and intensively a company deploys its underlying asset base to drive top-line financial performance.

Solution: The mathematical expression used for calculating this performance indicator is given by:

$$\text{Asset Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Average Total Assets}}$$

A higher resulting quotient implies that the firm generates a higher volume of sales revenue per single rupee of capital assets invested, reflecting strong operational efficiency.

Consider a practical comparative analysis: if Company A generates Rs. 10 in sales per rupee of assets, whereas Company B generates only Rs. 5 per rupee of assets, Company A is twice as efficient at asset utilization. This performance indicates that Company A requires less capital investment to sustain its revenue streams.

To distinguish this from other standard analytical frameworks:

- **Return on Investment (ROI):** Measures profitability by evaluating earnings relative to total capital, rather than just sales volume.
- **Debt-Equity Ratio:** Measures financial leverage, assessing capital structure risk.
- **Gross Profit Margin:** Examines manufacturing and production efficiency by relating core trading profits directly to total revenue.

Final Answer: Asset Turnover Ratio

Answer: (B)

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Q39.

Solution

Concept: Under the indirect method of constructing a Cash Flow Statement, changes in working capital items are adjusted against net profit. Decreases in non-cash current assets signify resource liquidation and cash realization.

Solution: When accounting records show that inventory levels have decreased over a financial period, it indicates that historic stock was successfully sold off or cleared rather than replaced through fresh cash purchases. This operational pattern releases liquid cash that would otherwise remain tied up in physical inventory, optimizing operational liquidity. The fundamental adjustment matrix applied under the indirect operating cash flow methodology follows strict balance sheet principles:

- **Decrease in Current Assets:** Added back to the operating profit before working capital changes because it represents a liquidation of assets into cash.
- **Increase in Current Assets:** Deducted from operating profit as it shows cash outflow tied up in working capital.
- **Increase in Current Liabilities / Decrease in Current Liabilities:** Added or subtracted respectively, based on whether obligations are deferred or settled.

Consequently, a net depletion in stock balances structurally reflects a positive adjustment, providing an explicit, measurable net inflow of liquid resources directly into the operating section.

Final Answer: An inflow of cash from operations

Answer: (B)

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Q40.**Solution**

Concept: Quick Assets represent the highly liquid components of current assets. This subset isolates resources that can be instantly converted into cash without incurring significant value degradation or delay.

Solution: The accounting formula to calculate these high-velocity assets is structured as follows:

$$\text{Quick Assets} = \text{Cash \& Equivalents} + \text{Marketable Securities} + \text{Trade Receivables}$$

Alternatively, this can be expressed by modifying the broader pool of short-term resources:

$$\text{Quick Assets} = \text{Current Assets} - \text{Inventory} - \text{Prepaid Expenses}$$

Inventory is intentionally excluded from this specific liquidity pool because it requires finding willing buyers, finalized sales agreements, and subsequent credit collection periods, preventing immediate monetization.

Similarly, prepaid expenses (such as advance insurance or rent payments) are excluded because they represent services to be consumed in the future. They cannot be legally or practically converted back into liquid cash to settle obligations. By omitting these two components, financial analysts ensure that only immediately accessible liquid resources are weighed against current obligations, providing a rigorous assessment of immediate solvency.

Final Answer: Inventory and Prepaid Expenses

Answer: (C)

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Q41.

Solution

Concept: The Proprietary Ratio belongs to the structural solvency ratio family. It evaluates the long-term capital framework of an enterprise by focusing on the relationship between equity funding and asset backing.

Solution: The exact formula used to determine this structural metric is expressed as:

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Equity (or Proprietary Funds)}}{\text{Total Assets}}$$

This ratio highlights the precise proportion of total corporate assets financed by the owners' capital versus external credit providers.

A high proprietary ratio indicates a large capital base funded directly through equity, reducing dependence on debt and strengthening structural stability. This structure provides a substantial safety buffer for long-term creditors, as it minimizes default risks during economic downturns.

Conversely, the remaining portion of the asset base is funded via external current and non-current liabilities. Monitoring this ratio allows stakeholders to gauge ownership control over the corporate asset base, assess financial leverage risk, and verify long-term solvency.

Final Answer: Shareholders' Equity

Answer: (B)

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Q42.

Solution

Concept: Accounting Standard-3 (AS-3) regulates the uniform classification of corporate cash flows. It requires categorization into three distinct operating, investing, and financing windows based on economic functions.

Solution: Financing activities encompass structural transaction patterns that alter the overall magnitude and composition of a company's contributed capital base and borrowing architecture. Typical financing flows include:

- Proceeds generated from issuing equity shares, preference shares, or debentures.
- Cash outflows arising from the direct redemption of preference shares or structural repayment of long-term commercial borrowings.
- Periodic servicing costs of capital, such as paying equity dividends or interest on borrowings.

These items explicitly reflect structural capital management.

To ensure complete clarity, they must be distinguished from the other two core cash flow classification pillars:

- i. **Operating Activities:** Encompass the principal revenue-producing activities of the enterprise, such as cash receipts from customer sales and cash payments to suppliers or employees.
- ii. **Investing Activities:** Consist of the acquisition and disposal of long-term capital assets, including property, plant, equipment, and non-operating investments.

Final Answer: Repayment of long-term borrowings

Answer: (C)

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Q43.

Solution

Concept: Short-term solvency and operational analysis require isolating highly liquid resources from broader operational working capital metrics to assess immediate debt-paying capabilities.

Solution:

Step 1: Isolate Quick Assets: Subtract less liquid working capital elements from total current assets:

$$\text{Quick Assets} = \text{Current Assets} - \text{Inventory} - \text{Prepaid Expenses}$$

$$\text{Quick Assets} = \text{Rs. } 2,50,000 - \text{Rs. } 80,000 - \text{Rs. } 15,000 = \text{Rs. } 1,55,000$$

Step 2: Compute the Acid Test Ratio: Apply the standard quick ratio formulation:

$$\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{1,55,000}{1,00,000} = 1.55 : 1$$

Step 3: Interpret the Metric: This indicates that the firm commands Rs. 1.55 of highly liquid resources for every rupee of current debt, exceeding the standard baseline benchmark of 1:1.

Step 4: Define Operating Cash Flow: Operating cash flow reflects the net liquid resources generated by core business operations. It serves as an independent performance gauge of a firm’s cash-generating capability, unlinked from financing structures or investing adjustments.

Final Answer: Acid Test Ratio = 1.55:1

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Q44.

Solution

Concept: Financial statement analysis utilizes specialized profitability tools and structural trend frameworks to evaluate operational performance, historical trajectories, and financial risk profiles.

Solution:

Step 1: Net Profit Margin Analysis: The Net Profit Margin serves as a vital indicator of bottom-line corporate profitability, calculated via the formula:

$$\text{Net Profit Margin} = \left(\frac{\text{Net Profit after Taxes}}{\text{Revenue from Operations}} \right) \times 100$$

This percentage reflects corporate pricing power, cost management, and the share of revenue retained as profit after all operating expenses, interest, and taxes are settled.

Step 2: Trend Analysis Framework: Trend analysis evaluates financial performance across consecutive periods by converting raw data into directional insights. This process uncovers operational growth patterns, cyclical changes, and emerging financial risks.

For instance, a steady decline in gross profit margins over three consecutive years flags production cost inflation or pricing pressures. Concurrently, a rising debt-to-equity trend signals growing financial leverage risk, alerting management to potential long-term solvency issues.

Final Answer: Formula and purpose stated.

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Q45.

Solution

Concept: A structured Cash Flow Statement requires sorting corporate transactions into distinct operational, investing, or financing activity pools based on how they impact cash generation and capital structure.

Solution:

Step 1: Analyze and Classify Part (i) Transactions:

- **(a) Sale of Equipment for Cash:** This transaction is classified as an **Investing Activity**. It represents the disposal of a long-term capital asset, resulting in a direct cash inflow that changes the firm's non-current asset structure.
- **(b) Payment of Employee Salaries:** This transaction is classified as an **Operating Activity**. It represents a routine, short-term cash outflow necessary to sustain core business operations.

Step 2: Analyze and Classify Part (ii) Transaction:

- **Receipt of Cash from Issuing Debentures:** This transaction is classified as a **Financing Activity**. By issuing long-term debt securities, the firm expands its non-current liability base, creating a structural cash inflow to support its long-term capital requirements.

Properly separating these transactions ensures accurate reporting of liquidity sources and uses under accounting regulations.

Final Answer: Classifications and treatment stated.

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Q46.

Solution

Concept: Return on Investment (ROI) evaluates capital efficiency, while financial ratio analysis serves as a standardized tool to interpret statements and assess corporate financial health.

Solution:

Step 1: Determine Capital Employed: Deduct current liabilities from total asset backing:

$$\text{Capital Employed} = \text{Total Assets} - \text{Current Liabilities}$$

$$\text{Capital Employed} = \text{Rs. } 20,00,000 - \text{Rs. } 5,00,000 = \text{Rs. } 15,00,000$$

Step 2: Compute Return on Investment (ROI):

$$\text{ROI} = \left(\frac{\text{Profit Before Interest and Taxes (PBIT)}}{\text{Capital Employed}} \right) \times 100$$

$$\text{ROI} = \left(\frac{5,00,000}{15,00,000} \right) \times 100 = 33.33\%$$

This indicates that the firm generates a strong 33.33% operational return on its long-term capital base.

Step 3: Identify Key Advantages of Ratio Analysis:

- **Inter-firm Comparison:** Standardizes raw financial data, enabling meaningful comparisons between companies of different sizes within the same industry.
- **Trend Identification:** Simplifies historical financial data across multiple periods to highlight growth patterns, performance shifts, or operational issues.
- **Analytical Efficiency:** Converts complex accounting statements into clear indicators, allowing stakeholders to quickly assess liquidity, solvency, and profitability.

Final Answer: ROI = 33.33%; Advantages stated.

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Q47.

Solution**Solution:**

Step 1: Shareholders' Funds = Share Capital (Rs. 5,00,000) + Reserve and Surplus (Rs. 1,50,000) = Rs. 6,50,000

Step 2: Total Liabilities = Long-term Debentures (Rs. 2,50,000) + Current Liabilities (Rs. 2,00,000) = Rs. 4,50,000

Step 3: (a) Debt-Equity Ratio = Long-term Debt \div Shareholders' Equity = $2,50,000 \div 6,50,000 = 0.385:1$

Step 4: (b) Proprietary Ratio = Shareholders' Funds \div Total Assets = $6,50,000 \div (6,50,000 + 4,50,000) = 6,50,000 \div 11,00,000 = 0.591:1$ (or 59.1)

Step 5: (c) Interest Coverage Ratio = EBIT \div Interest = $6,00,000 \div (2,50,000 \times 12$

(ii) **Distinction:** Financial Analysis examines historical financial statements to assess past performance and financial position. Financial Forecasting uses analytical insights and historical patterns to project future financial performance and liquidity. Analysis is retrospective; forecasting is prospective. Analysis provides the data foundation upon which forecasting projections rest.

Final Answer (i): Debt-Equity = 0.385:1; Proprietary = 0.591:1; Interest Coverage = 20 times.

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Detailed Solutions – Section B Module II**Q37.****Solution**

Concept: Cell references establish the coordinates of specific data locations within a spreadsheet model. References that adjust dynamically based on target destinations are relative; those locked permanently to a fixed grid position are absolute.

Solution: In spreadsheet applications like MS Excel, an absolute reference uses dollar signs as locking mechanisms to freeze specific coordinates, represented as \$A\$1. When a formula containing this syntax is copied or dragged across different rows or columns, the reference remains entirely unchanged, pointing strictly to that original source cell.

In contrast, a relative cell reference, written simply as A1, operates on structural offsets rather than fixed points. If a formula in cell C1 contains =A1 and is copied one column to the right into cell D1, the reference automatically shifts to B1.

Beyond these two extremes lies a mixed reference, which locks only one directional plane while leaving the other free to adapt. For example, \$A1 secures the column coordinate while letting the row change dynamically during vertical replication, whereas A\$1 holds the row fixed while allowing the column identifier to shift horizontally. This foundational distinction is critical for building scalable financial models and complex data analytical templates.

Final Answer: Absolute Reference

Answer: (B)

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Q38.

Solution

Concept: Modern spreadsheet programs provide dedicated statistical functions to evaluate, quantify, and count specific datasets based on their internal data types or parameters.

Solution: The COUNT() function is designed to count cells that contain strictly numerical values within a specified range, such as =COUNT(A1:A10). It evaluates the data array and completely ignores cells containing text strings, boolean arguments, error states, or empty values.

To handle diverse datasets, analysts rely on variations of this function:

- COUNTA(): Often called the "Count All" function, it counts any cell that is not blank, including text, spaces, or symbols, making it ideal for tracking total data entries.
- COUNTBLANK(): Focuses on identifying data omissions by isolating and counting only empty cells within a range.
- COUNTIF() / COUNTIFS(): Introduces conditional logic, counting cells that match a specific rule, such as =COUNTIF(B1:B20, ">50").

When preparing structured accounting summaries or financial audits, COUNT() remains the standard tool to verify the completeness of numeric transaction inputs without corrupting the final count with non-numeric descriptive text.

Final Answer: COUNT()

Answer: (A)

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Q39.

Solution

Concept: Data visualization tools convert raw tabular accounting figures into graphical formats. Choosing the right chart type is essential for clear data presentation and analysis.

Solution: A Column Chart uses vertical rectangular bars to compare values across different categories. The height of each bar corresponds directly to its data value along the vertical axis (*Y*-axis), while distinct categories are aligned along the horizontal baseline (*X*-axis). This structure makes it easy to compare quantities across departments, business regions, or fixed time intervals.

To build a good dashboard, analysts contrast this with other visual formats:

- **Pie Charts:** Best for showing proportions of a single whole, though they lose clarity when handling more than a few data slices.
- **Line Charts:** Connect consecutive data points with straight segments, making them ideal for tracking financial trends over time.
- **Scatter Plots:** Map data across two numerical axes to uncover correlations or clusters between variables.

Because column charts clearly show absolute differences between categories, they are the standard choice for presenting comparative performance metrics to corporate stakeholders.

Final Answer: Column Chart

Answer: (C)

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Q40.

Solution

Concept: Relational Database Management Systems (RDBMS) rely on structural constraints to organize tables. Keys enforce relational integrity and link tables together.

Solution: A Primary Key is a designated field or combination of fields that uniquely identifies each individual record or row within a database table. To maintain data integrity, a primary key must follow two strict rules: it cannot contain duplicate entries, and it can never contain a null value. Typical examples include an Employee ID in a payroll ledger, an Invoice Number in a billing database, or a Product Code in an inventory control table.

Beyond tracking individual rows, primary keys help establish links between tables. When a primary key from one table is inserted into another, it acts as a Foreign Key, creating a relational bridge that allows users to run complex queries across multiple datasets. This system prevents data anomalies, eliminates duplicate entries, and ensures that records remain connected across the entire database architecture.

Final Answer: Primary Key

Answer: (A)

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Q41.

Solution

Concept: Enterprise accounting has shifted from manual journals to Computerized Accounting Systems (CAS). These systems use automated background processes to record transactions and generate reports.

Solution: Modern accounting platforms like Tally, Busy, and QuickBooks automate the entire accounting cycle. When an accountant logs a basic voucher entry—such as a cash sale or a vendor invoice—the software immediately updates the relevant ledgers in the background. It updates account balances, tracks credits and debits, and updates the Trial Balance instantly.

This automation delivers significant advantages over manual bookkeeping:

- **Speed and Efficiency:** Speeds up the financial closing process, reducing the time needed to prepare final accounts from days to minutes.
- **Accuracy:** Eliminates errors like mismatching ledger balances or incorrect transposition of numbers.
- **Accessibility:** Business owners can generate balance sheets and cash flow statements through simple menus without needing to write code or manually adjust ledger accounts.

This real-time reporting helps management make timely, data-driven operational decisions.

Final Answer: Automatically generates ledgers, trial balance, and financial statements

Answer: (B)

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Q42.

Solution

Concept: Structured Query Language (SQL) uses specialized sub-languages to manage databases. Data Manipulation Language (DML) manages data within tables, while Data Definition Language (DDL) manages database structures.

Solution: The UPDATE statement is a core DML command used to modify existing records within a database table. It changes specific values without adding or removing entire rows. The standard syntax requires careful construction:

```
UPDATE table_name SET column1 = value1 WHERE condition;
```

The WHERE clause is crucial here; it applies changes only to records that meet specific criteria. Omitting it updates every single row in the table, which can corrupt the dataset.

To see where this fits within SQL, it helps to contrast it with other commands:

- INSERT and DELETE: Add new rows or permanently remove existing ones.
- ALTER and DROP: DDL commands used to modify or delete the table structure itself, rather than the data inside it.

This distinction ensures precise control over both database structure and data modification.

Final Answer: UPDATE

Answer: (B)

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Q43.

Solution

Concept: Spreadsheet tools feature built-in functions designed to control data entry quality, handle complex calculations, and support financial analysis.

Solution:

Step 1: Define Data Validation: Data Validation is a spreadsheet feature that restricts the type, format, or range of values entered into a cell. It acts as an input filter by applying specific rules. For example, a cell can be set to accept only whole numbers between 1 and 12 to represent months. If a user tries to enter a text string or a number out of range, the system rejects the entry and displays a customizable error message. This feature maintains data consistency and prevents downstream errors.

Step 2: Outline Financial Analysis Advantages: Spreadsheet applications offer several key benefits for financial analysis:

- **Automated Modeling:** Quickly processes long formulas across massive datasets, saving hours of manual calculation.
- **Scenario Analysis:** Lets users test different financial scenarios instantly by changing variable assumptions like interest rates.
- **Integrated Reporting:** Combines dynamic charts and pivot tables to help analysts spot trends and anomalies without digging through raw data.

Final Answer: Data Validation defined; Two advantages stated.

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Q44.

Solution

Concept: Advanced spreadsheet features allow users to summarize massive, unstructured datasets and perform complex time-value-of-money financial calculations.

Solution:

Step 1: Define Pivot Tables: A Pivot Table is an interactive data summarization tool that aggregates, sorts, and reorganizes large datasets based on user-defined categories. It turns cluttered rows of raw data into clean, structured summaries without requiring complex formulas. For example, a global sales log can be converted into a regional performance report in a few clicks, grouping revenue by sales manager, product type, and quarter.

Step 2: Review Financial Functions: Built-in accounting formulas simplify complex financial math:

- **PMT():** Calculates regular loan or mortgage payments based on constant installments and a fixed interest rate.
- **PV():** Determines the present value of an investment by discounting a stream of future cash flows.
- **FV():** Forecasts the future value of an asset or investment based on a specific growth rate over time.

Final Answer: Pivot Table defined; PMT() and PV() stated.

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Q45.

Solution

Concept: Evaluating data architecture requires understanding the core differences between flat-file spreadsheets and multi-table relational databases.

Solution:

Step 1: Contrast Spreadsheets and DBMS: Spreadsheets store information in flat grids of independent rows and columns. While easy to use, they lead to data redundancy and lack built-in tools to link separate files.

A Relational Database Management System (RDBMS) organizes information into structured tables linked by primary and foreign keys. This design ensures data normalization, preserves referential integrity, and handles large multi-user queries efficiently, making it the better choice for complex corporate applications.

Step 2: Analyze Sorting and Filtering Mechanics: Sorting and filtering tools change how data is displayed on screen without altering the underlying database records. Sorting reorders rows based on values in a chosen column, while filtering hides rows that do not match specific criteria. Since the original data remains intact in memory, clearing the sort or filter instantly restores the dataset to its original layout.

Final Answer: Distinction and sorting treatment stated.

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Q46.

Solution

Concept: Designing effective dashboards requires a clear understanding of chart elements, while protecting accounting systems requires robust, layered IT security protocols.

Solution:

Step 1: Break Down Chart Components: A professional chart relies on several key elements to display data clearly:

- **Chart Title:** Explains the main purpose and focus of the visualization.
- **Display Axes:** The horizontal (*X*) and vertical (*Y*) gridlines that establish measurement scales.
- **Legend:** A color-coded key that distinguishes different data series.
- **Data Labels:** Numbers added directly to bars or lines to show exact values.

Step 2: Outline Accounting System Security Measures: Protecting digital financial records from corruption or unauthorized access requires several core security controls:

- **User Authentication:** Multi-factor authentication and strong passwords ensure that only verified users can log in.
- **Role-Based Access Control:** Restricts software access so users can view or modify only the data needed for their job roles.
- **Data Encryption:** Scrambles files during transmission and storage, keeping them unreadable even if intercepted.
- **Audit Trails:** Keeps a permanent log of all system changes, tracking who modified records and when.

Final Answer: Chart components and security measures explained.

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Q47.

Solution

(i) Concept: Database relationship creation through key linking.

Step 1: (1) Identify the primary table structure with its unique primary key.

Step 2: (2) Create a second table with its own primary key.

Step 3: (3) Add a foreign key field in the second table that references the primary key of the first table.

Step 4: (4) Define the relationship: typically one-to-many (one record in primary table linked to multiple records in secondary table).

Step 5: (5) Enable referential integrity constraints ensuring foreign key values always exist in the primary table.

Step 6: Example: Customer table (primary key: CustomerID) linked to Orders table (foreign key: CustomerID) creates a one-to-many relationship where each customer can place multiple orders.

(ii) Concept: Spreadsheet formulas enhance analytical efficiency.

Step 1: (1) Formulas automate complex calculations instantly. Instead of manually summing 1,000 expense entries, =SUM(B2:B1001) calculates the total in milliseconds.

Step 2: (2) Functions like =IF(), =VLOOKUP(), and =INDEX() enable conditional analysis and data retrieval, allowing instant scenario comparisons. Changing an assumption recalculates all dependent values immediately.

Step 3: (3) Pivot tables transform raw transaction data into executive summaries by department, period, or category without manual extraction or recreation.

Step 4: (4) Charting capabilities visualize trends instantly, revealing patterns that raw numbers obscure. Financial analysts can identify seasonal patterns, anomalies, and growth opportunities at a glance.

Final Answer: Database linking and spreadsheet formula advantages explained.

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Answer Key

Section A: (Q1–Q14)

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

Section B Module I: Q37–Q42

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

Section B Module II: Q37–Q42

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

