# NIOS Class 12 Accountancy Sample Paper-2

**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.** The accounting equation is represented below. A proprietor introduces cash ₹ 50,000 and later purchases furniture on credit for ₹ 8,000. Which equation is correct after both transactions? **(1)**

Assets —= Liabilities + Capital

(A) Assets ₹ 58,000 = Liabilities ₹ 8,000 + Capital ₹ 50,000

(B) Assets ₹ 50,000 = Liabilities ₹ 8,000 + Capital ₹ 42,000

(C) Assets ₹ 42,000 = Liabilities ₹ 8,000 + Capital ₹ 50,000

(D) Assets ₹ 58,000 = Liabilities ₹ 50,000 + Capital ₹ 8,000

**Q2.** Goods purchased for cash are recorded by debiting which account? **(1)**

(A) Purchases Account

(B) Cash Account

(C) Sales Account

(D) Capital Account

**Q3.** The diagram shows a simple ledger account. The process of transferring entries from journal to ledger is called: **(1)**

(A) Balancing

(B) Posting

(C) Casting

(D) Closing

**Q4.** A Trial Balance primarily checks: **(1)**

(A) Profitability of business

(B) Liquidity of business

(C) Arithmetical accuracy of ledger posting

(D) Market value of assets

**Q5.** In preparing a Bank Reconciliation Statement, a cheque issued but not yet presented for payment is: **(1)**

(A) Added to the cash book balance when starting with a favourable cash book balance

(B) Deducted from the cash book balance when starting with a favourable cash book balance

(C) Ignored because it is already recorded in both books

(D) Treated as a bad debt

**Q6.** Purchase of machinery wrongly debited to Purchases Account is an example of: **(1)**

(A) Error of omission

(B) Error of commission

(C) Compensating error

(D) Error of principle

**Q7.** Which of the following is normally shown as a current asset in a Balance Sheet? **(1)**

(A) Goodwill

(B) Trade receivables

(C) Building

(D) Long-term loan

**Q8.** Closing stock is shown on which side of a Trading Account? **(1)**

(A) Debit side only

(B) Liability side only

(C) Credit side

(D) It is never shown

**Q9.** At the time of admission of a partner, goodwill brought in by the new partner is credited to old partners in their: **(1)**

(A) New profit-sharing ratio

(B) Sacrificing ratio

(C) Gaining ratio

(D) Capital ratio

**Q10.** The following flow represents change in partnership. When a partner retires, the benefit gained by remaining partners is measured through: **(1)**

(A) Sacrificing ratio

(B) Capital ratio

(C) Gaining ratio

(D) Sales ratio

**Q11.** On dissolution of a partnership firm, assets transferred to Realisation Account are recorded on the: **(1)**

(A) Credit side of Realisation Account

(B) Debit side of Realisation Account

(C) Credit side of Partners' Capital Account

(D) Debit side of Bank Account only

**Q12.** If applications for shares are rejected, the application money received is: **(1)**

(A) Transferred to Securities Premium Account

(B) Forfeited immediately

(C) Retained as profit

(D) Refunded to applicants

**Q13.** In the forfeiture of shares, the amount already received from the shareholder is credited to: **(1)**

(A) Share Capital Account

(B) Calls in Arrears Account

(C) Share Forfeiture Account

(D) Discount on Issue Account

**Q14.** At the time of reissue of forfeited shares, the discount allowed on reissue cannot exceed: **(1)**

(A) Face value of the share

(B) Amount unpaid by the original shareholder

(C) Securities premium received

(D) Amount forfeited on those shares

**Note: Q. No. 15 to 20 are objective type questions of 2 marks each.**

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

1. Assets have a normal ..... balance.
2. Liabilities have a normal ..... balance.

**Q16.** Complete the journal entry for cash sales of goods worth ₹ 12,000. **(2)**

| | | |
|---|---|---|
| 1. | ..... Account Dr. | ₹ 12,000 |
| 2. | To .....Account | ₹ 12,000 |

**Q17.** Match Column I with Column II: **(2)**

| **Column I** | **Column II** |
|---|---|
| (a) Voucher | (i) Book of original entry |
| (b) Journal | (ii) Documentary evidence of a transaction |
| (c) Ledger | (iii) Principal book of accounts |
| (d) Trial Balance | (iv) Statement of debit and credit balances |

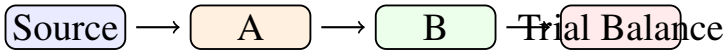
**Q18.** Fill in the blanks related to Bank Reconciliation Statement: **(2)**

1. Cheque deposited but not collected is .when starting with favourable cash book balance.
2. Direct deposit by a customer in bank is when starting with favourable cash book balance.

**Q19.** Write TRUE (T) or FALSE (F): **(2)**

1. Securities Premium Reserve can be used for issuing fully paid bonus shares.
2. Calls in arrears means money received in advance before a call is made.

**Q20.** Complete the accounting process shown in the diagram by writing the missing stages A and B. **(2)**




**Note: Q. No. 21 to 24 carry 4 marks each.**

**Q21.** Match the account type with the correct rule of debit and credit: **(4)**

| **Column I** | **Column II** |
|---|---|
| (a) Real account | (i) Debit the receiver, credit the giver |
| (b) Personal account | (ii) Debit what comes in, credit what goes out |
| (c) Nominal account | (iii) Debit expenses and losses, credit incomes and gains |
| (d) Goods withdrawn by proprietor | (iv) Drawings Account Dr. To Purchases Account |

**Q22.** Write TRUE (T) or FALSE (F): **(4)**

1. A Trial Balance can detect errors of complete omission.
2. A suspense account is opened when trial balance totals do not agree.
3. Compensating errors may not affect agreement of the trial balance.
4. Bank charges entered only in the pass book create a difference in BRS.

**Q23.** Match the items of financial statements: **(4)**

| **Column I** | **Column II** |
|---|---|
| (a) Gross Profit | (i) Balance Sheet |
| (b) Net Profit | (ii) Trading Account |
| (c) Current Assets | (iii) Profit and Loss Account |
| (d) Drawings | (iv) Deducted from capital |

**Q24.** Complete the accounting treatment for issue and forfeiture of shares: **(4)**

1. Share application money received is credited to ..... Account.
2. Share allotment due is recorded by debiting ..... Account.
3. On forfeiture, Share Capital Account is .....
4. Profit on reissue of forfeited shares is transferred to ..... Account.

**Q25.** State the accounting equation. Explain why every business transaction has at least two effects. **(2)**

**Q26.** What is ledger posting? Explain with the help of the following T-account format. **(2)**

**Q27.** Why is sacrificing ratio calculated at the time of admission of a new partner? **(2)**

**Q28.** Differentiate between calls in arrears and calls in advance on any two points. **(2)**

**Q29.** Journalise the following transactions: (a) Started business with cash ₹ 80,000; (b) Purchased goods for cash ₹ 15,000; (c) Paid rent ₹ 3,000. **(3)**

**Q30.** Prepare Rent Account from the following information: Rent paid in cash ₹ 3,000 on 5 April and ₹ 3,000 on 5 May. Close the account by transfer to Profit and Loss Account. **(3)**

**Q31.** A business has cash book balance ₹ 18,000. Cheques deposited but not collected are ₹ 4,000, cheques issued but not presented are ₹ 2,500, and bank charges not entered in cash book are ₹ 300. Find pass book balance. **(3)**

**Q32.** From the following data calculate Gross Profit and Net Profit: Sales ₹ 1,20,000, Purchases ₹ 70,000, Opening Stock ₹ 20,000, Closing Stock ₹ 25,000, Carriage inward ₹ 5,000, Salaries ₹ 12,000, Rent ₹ 6,000. **(3)**

**Q33.** A and B share profits in the ratio 3:2. C is admitted for 1/5 share. C brings ₹ 20,000 as goodwill. Calculate the amount of goodwill credited to A and B if they sacrifice in their old ratio. **(3)**

**Q34.** Prepare a Trading Account from the following: Opening Stock ₹ 30,000, Purchases ₹ 1,10,000, Purchase Returns ₹ 10,000, Wages ₹ 12,000, Sales ₹ 1,80,000, Sales Returns ₹ 5,000, Closing Stock ₹ 35,000. **(5)**

**Q35.** X, Y and Z share profits in the ratio 5:3:2. Y retires. X and Z agree to share future profits equally. Calculate the gaining ratio and show how Y's goodwill of ₹ 40,000 will be adjusted. **(5)**

**Q36.** A company forfeited 200 shares of ₹ 10 each, ₹ 8 called up, for non-payment of first call of ₹ 3 per share. These shares were reissued at ₹ 7 per share as fully paid-up to ₹ 8. Pass journal entries for forfeiture and reissue. **(5)**

## Section: B – Module I

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

**Q37.** Current Ratio is calculated as: **(1)**

(A) Liquid Assets / Current Liabilities

(B) Current Assets / Current Liabilities

(C) Current Liabilities / Current Assets

(D) Sales / Current Assets

**Q38.** Which item is excluded while calculating Liquid Assets? **(1)**

(A) Cash

(B) Bank balance

(C) Inventory

(D) Trade receivables

**Q39.** Cash received from debtors is generally classified as cash flow from: **(1)**

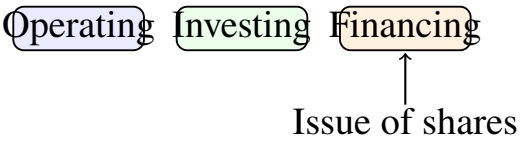
(A) Operating activities

(B) Investing activities

(C) Financing activities

(D) Non-cash activities

**Q40.** In the following cash flow classification chart, issue of shares belongs to which activity? **(1)**




(A) Operating activity

(B) Investing activity

(C) Extraordinary activity

(D) Financing activity

**Q41.** Trend analysis is mainly used to compare financial data: **(1)**

(A) Of one day only

(B) Over a number of years

(C) Of non-financial events only

(D) Without any base year

**Q42.** Debt-Equity Ratio is calculated as: **(1)**

(A) Current Assets / Current Liabilities

(B) Net Profit / Sales

(C) Long-term Debt / Shareholders' Funds

(D) Cash / Inventory

**Q43.** Fill in the blanks: (i) A ratio expresses a mathematical relationship between two figures. (ii) Cash Flow Statement classifies cash flows into operating, investing and ..... activities. **(2)**

**Q44.** What is meant by financial statement analysis? **(2)**

**Q45.** State any two limitations of ratio analysis. **(2)**

**Q46.** Calculate Current Ratio and Liquid Ratio from: Current Assets ₹ 1,20,000, Inventory ₹ 30,000, Prepaid expenses ₹ 5,000, Current Liabilities ₹ 60,000. **(3)**

**Q47.** From the following information calculate Cash Flow from Operating Activities: Net Profit before tax ₹ 70,000, Depreciation ₹ 12,000, Increase in Trade Receivables ₹ 8,000, Decrease in Inventory ₹ 5,000, Increase in Trade Payables ₹ 6,000. Ignore tax. **(5)**

## Section: B – Module II

### Application of Computers in Financial Accounting – Attempt any one of the Optional Module I or Module II

**Q37.** In a spreadsheet, the intersection of a row and a column is called a: **(1)**

(A) Cell

(B) Field

(C) Record

(D) Database

**Q38.** A spreadsheet formula normally begins with which symbol? **(1)**

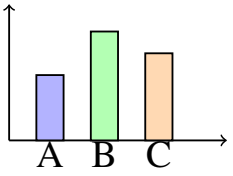
(A) +

(B) =

(C) #

(D) %

**Q39.** The chart below is best suited for comparing sales of different products. It is a: **(1)**



(A) Pie chart

(B) Line chart

(C) Column chart

(D) Scatter chart

**Q40.** A Database Management System is mainly used to: **(1)**

(A) Decorate printed reports only

(B) Replace all accounting principles

(C) Remove the need for source documents

(D) Store, retrieve and manage data systematically

**Q41.** In a database table, a primary key is a field that: **(1)**

(A) Allows duplicate values in all records

(B) Uniquely identifies each record

(C) Stores only pictures

(D) Deletes records automatically

**Q42.** Which function is used to add values in cells A1 to A10? **(1)**

(A) =SUM(A1:A10)

(B) =AVG(A1:A10)

(C) =MAX(A1:A10)

(D) =COUNTIF(A1:A10)

**Q43.** Fill in the blanks: (i) A collection of worksheets is called a . (ii) A column in a database table is also called a ..... **(2)**

**Q44.** State any two advantages of using spreadsheets in business accounting. **(2)**

**Q45.** Differentiate between a worksheet and a workbook. **(2)**

**Q46.** In a spreadsheet, Quantity is in cell B2 and Rate is in cell C2. Write the formula for Amount in D2. Also write the formula to total D2 to D10 in D11. **(3)**

**Q47.** Explain how a database table can be designed for maintaining customer accounts. Mention any five suitable fields and the use of primary key. **(5)**

## Detailed Solutions – Section A

**Q1.**

### Solution

**Concept:** The fundamental accounting equation is Assets = Liabilities + Capital (A = L + C). Every business transaction maintains this equality through dual aspect impact.

**Solution: Step 1:** Analyze initial introduction of capital. When the proprietor introduces cash of ₹ 50,000 into the business, asset (Cash) increases by ₹ 50,000 and internal liability (Owner's Capital) increases simultaneously by ₹ 50,000.

**Step 2:** Formulate initial equation balance:

$$\text{Assets (₹ 50,000)} = \text{Liabilities (₹ 0)} + \text{Capital (₹ 50,000)}$$

**Step 3:** Analyze second transaction: purchasing furniture on credit for ₹ 8,000. Furniture (Fixed Asset) comes into business, increasing assets by ₹ 8,000. Since payment is deferred, external liabilities (Creditors for Furniture) increase by ₹ 8,000.

**Step 4:** Compute revised asset total:

$$\text{Total Assets} = \text{Cash (₹ 50,000)} + \text{Furniture (₹ 8,000)} = |\, 58,000$$

**Step 5:** Compute revised liabilities and capital totals:

$$\text{Total Liabilities} = |\, 8,000 \quad \text{and} \quad \text{Total Capital} = |\, 50,000$$

**Step 6:** Verify final equation balance:

$$|\, 58,000 = |\, 8,000 + |\, 50,000$$

This matches Option A exactly.

**Why other options are wrong:**

- **Option B:** Incorrectly deducts furniture cost from capital instead of adding to external liabilities.
- **Option C:** Understates assets by deducting credit purchase from cash.
- **Option D:** Interchanges capital and external liabilities values.

**Final Answer:** Assets ₹ 58,000 = Liabilities ₹ 8,000 + Capital ₹ 50,000 (Option A)

**Answer: (A)** Go Back to Q 1

## Q2.

### Solution

**Concept:** Under traditional accounting rules, Purchases Account represents regular acquisition of goods intended for resale and is classified as a nominal account (expense/cost of goods).

**Solution: Step 1:** Identify the items involved in cash purchase of merchandise: Goods (Merchandise) and Cash.

**Step 2:** Apply accounting terminology rule: Acquisition of stock-in-trade for resale is debited to Purchases Account, not to specific asset accounts.

**Step 3:** Apply debit-credit rules for nominal accounts: "Debit all expenses and losses, credit all incomes and gains." Purchases represent cost of acquiring goods, so Purchases Account is debited.

**Step 4:** Apply real account rules for cash flow: Cash is a real asset account. Rule: "Credit what goes out." Since cash outflows occurs upon purchase, Cash Account is credited.

**Step 5:** Formulate standard double-entry journal entry:

Purchases Account Dr. To Cash Account

**Step 6:** Conclude account to be debited: Purchases Account is debited.

**Why other options are wrong:**

- **Option B:** Cash Account is credited because cash flows out of the enterprise.
- **Option C:** Sales Account is credited only during outflow/sale of goods.
- **Option D:** Capital Account represents owner's equity and is unaffected by routine cash purchases.

**Final Answer:** Purchases Account (Option A)

**Answer: (A)** Go Back to Q 2

## Q3.

### Solution

**Concept:** Posting is the systematic bookkeeping process of transferring debit and credit entries recorded in the journal (book of original entry) into appropriate ledger accounts (book of secondary entry).

**Solution: Step 1:** Understand journal function: Journal records transactions chronologically but mixes all accounts together.

**Step 2:** Identify ledger objective: To group all transactions relating to an individual person, asset, liability, expense, or income into a designated T-format account.

**Step 3:** Define transfer mechanism: Taking the debit amount from journal and entering it on the debit (left) side of the respective ledger account with prefix 'To', and taking the credit amount and

entering it on the credit (right) side with prefix 'By'.

**Step 4:** Match terminology: This precise mechanical transfer of entries from journal to ledger is formally termed "Posting".

**Step 5:** Distinguish subsequent steps: After posting is completed, columns are totaled ("Casting") and difference between debit and credit sides is determined ("Balancing").

**Step 6:** Confirm final selection: Option B represents the exact operational term.

**Why other options are wrong:**

- **Option A:** Balancing refers to calculating net difference between two sides of a ledger account at period end.
- **Option C:** Casting means totaling mathematical columns of books of accounts.
- **Option D:** Closing refers to transferring revenue/nominal account balances to Trading/Profit & Loss Account.

**Final Answer:** Posting (Option B)

**Answer: (B)** Go Back to Q 3

## Q4.

## Solution

**Concept:** A Trial Balance is a periodic summary schedule listing all debit and credit ledger balances to verify fundamental double-entry arithmetic equality ($\sum$ Debits = $\sum$ Credits).

**Solution: Step 1:** Review double-entry foundation: Every transaction produces equal debit and credit impacts across accounts.

**Step 2:** Analyze compilation process: At period end, balances of all ledger accounts are extracted into two columns (Debit and Credit) of the Trial Balance.

**Step 3:** Determine test verification: If total debit column equals total credit column (₹ 1,25,000 = ₹ 1,25,000), it proves that numerical posting and column totaling in ledger are mathematically accurate.

**Step 4:** Identify inherent limitations: Trial balance agreement does not guarantee absence of errors of omission, errors of principle, or compensating errors.

**Step 5:** Evaluate scope: It does not measure profitability, net worth, solvency, or real market values of assets.

**Step 6:** Select correct option: It primarily checks arithmetical accuracy of ledger posting.

**Why other options are wrong:**

- **Option A:** Profitability is determined by compiling Trading and Profit & Loss Account.
- **Option B:** Liquidity is assessed via Balance Sheet ratios and Cash Flow Statement.
- **Option D:** Market values require external asset revaluation, whereas Trial Balance reflects historical book balances.

**Final Answer:** Arithmetical accuracy of ledger posting (Option C)

**Answer: (C)** Go Back to Q 4

## Q5.

### Solution

**Concept:** Bank Reconciliation Statement (BRS) reconciles timing differences between Cash Book bank balance and Pass Book bank balance caused by clearing delays or bank-originated charges.

**Solution: Step 1:** Identify starting point: Favourable balance as per Cash Book (Debit balance representing positive bank deposits).

**Step 2:** Analyze transaction impact on Cash Book: When a cheque is issued to a creditor, the accountant immediately credits Cash Book bank column, reducing recorded cash book balance.

**Step 3:** Analyze transaction impact on Pass Book: Until the supplier deposits the cheque and bank clears it, Pass Book balance remains unreduced (higher than Cash Book balance).

**Step 4:** Determine reconciliation adjustment direction: To move from lower Cash Book balance toward higher actual Pass Book balance, the amount of unpresented cheques must be added back.

**Step 5:** Verify logic: Cash Book Balance + Cheques Issued Not Presented = Pass Book Balance.

**Step 6:** Confirm correct treatment: It is added to Cash Book balance.

**Why other options are wrong:**

- **Option B:** Deduction is applied to cheques deposited into bank but not yet collected/cleared by bank.
- **Option C:** Ignoring prevents reconciliation because a real timing variance exists between records.
- **Option D:** Unpresented cheques represent valid outstanding liabilities, not bad debts.

**Final Answer:** Added to the cash book balance (Option A)

**Answer: (A)** Go Back to Q 5

## Q6.

### Solution

**Concept:** An Error of Principle occurs when transactions are recorded violating fundamental accounting theories, specifically misclassifying capital expenditure as revenue expenditure or vice versa.

**Solution: Step 1:** Classify asset purchase nature: Purchase of machinery is a capital expenditure intended to provide long-term productive benefits across multiple accounting periods.

**Step 2:** Identify correct accounting rule: Capital expenditures must be debited to real fixed asset accounts (Machinery Account).

**Step 3:** Analyze recorded error: Debiting Purchases Account treats machinery cost as revenue operating expenditure against current year trading revenue.

**Step 4:** Evaluate trial balance impact: Since debit amount equals credit amount, Trial Balance still agrees perfectly despite the severe classification distortion.

**Step 5:** Classify error type: Violating distinction between capital and revenue expenditure constitutes an exact Error of Principle.

**Step 6:** Conclude final categorization: Option D correctly defines this distortion.

**Why other options are wrong:**

- **Option A:** Error of omission occurs when a transaction is entirely left unrecorded in accounting books.
- **Option B:** Error of commission involves clerical posting mistakes (wrong amount or wrong personal account).
- **Option C:** Compensating errors involve two distinct numerical mistakes neutralizing each other's net effect.

**Final Answer:** Error of principle (Option D)

**Answer: (D)** Go Back to Q 6

## Q7.

### Solution

**Concept:** Current Assets are enterprise resources expected to be realized in cash, sold, or consumed within the normal operating cycle or within twelve months after reporting period.

**Solution: Step 1:** Define asset classification criteria: Current assets represent circulating working capital constantly changing form during operations.

**Step 2:** Analyze Trade Receivables (Debtors & Bills Receivable): They arise from routine credit sales and are contractually collected in cash within short credit periods (typically 30 to 90 days).

**Step 3:** Evaluate trade receivables liquidity: Due to immediate cash conversion cycle, trade receivables are prime current assets.

**Step 4:** Analyze Goodwill: Goodwill represents intangible long-term brand equity and earning power, classified under Non-Current Intangible Fixed Assets.

**Step 5:** Analyze Building: Building represents tangible structural property held for long-term operational use, classified under Non-Current Tangible Fixed Assets.

**Step 6:** Analyze Long-term Loan: It represents external financial obligation payable after more than one year, classified under Non-Current Liabilities.

**Why other options are wrong:**

- **Option A:** Goodwill is non-current intangible fixed asset.
- **Option C:** Building is non-current tangible fixed asset subject to annual depreciation.

- **Option D:** Long-term loan is non-current borrowing liability, not an asset.

**Final Answer:** Trade receivables (Option B)

**Answer: (B)** Go Back to Q 7

## Q8.

### Solution

**Concept:** Under matching principle, cost of unsold merchandise at period end (Closing Stock) must be excluded from current year cost of goods sold to match against actual revenue.

**Solution: Step 1:** Understand Trading Account structure: Debit side records total cost of goods available for sale (Opening Stock + Net Purchases + Direct Expenses).

**Step 2:** Identify closing stock nature: Unsold stock at year end represents goods purchased during the year whose revenue will be realized only in subsequent periods.

**Step 3:** Determine deduction mechanism: To subtract unsold stock cost from debit side total, accounting conventions place Closing Stock on the credit side of Trading Account.

**Step 4:** Formulate mathematical formula balance:

$$\text{Cost of Goods Sold} = \text{Opening Stock} + \text{Purchases} + \text{Direct Expenses} - \text{Closing Stock}$$

**Step 5:** Analyze dual financial statement presentation: Closing Stock appears on credit side of Trading Account and simultaneously on asset side of Balance Sheet as current asset.

**Step 6:** Conclude exact Trading Account placement: Credit side.

**Why other options are wrong:**

- **Option A:** Opening stock is debited, whereas closing stock must be credited to reduce cost of sales.
- **Option B:** Closing stock represents valuable realizable inventory owned by enterprise, not a liability.
- **Option D:** Omitting closing stock distorts gross profit and understates balance sheet assets.

**Final Answer:** Credit side (Option C)

**Answer: (C)** Go Back to Q 8

## Q9.

### Solution

**Concept:** Premium for goodwill brought by an incoming partner compensates existing partners for surrendering a fraction of their future profit share in favour of the new partner.

**Solution: Step 1:** Identify admission rationale: When a new partner is admitted, existing partners sacrifice a portion of their profit entitlement to create the incoming partner's share.

**Step 2:** Define goodwill premium purpose: The incoming partner pays goodwill premium as financial indemnity to sacrificing partners for acquiring established business reputation.

**Step 3:** Determine distribution basis: Equity requires that compensation be distributed strictly in proportion to profit share surrendered by each old partner.

**Step 4:** Calculate allocation ratio: The exact proportion of surrender is quantified by Sacrificing Ratio (Old Share – New Share).

**Step 5:** Formulate journal entry:

Premium for Goodwill A/c Dr. To Old Partners' Capital A/cs (in Sacrificing Ratio)

**Step 6:** Conclude allocation rule: Option B correctly specifies Sacrificing Ratio.

**Why other options are wrong:**

- **Option A:** New profit-sharing ratio governs future profit distribution, not past compensation.
- **Option C:** Gaining ratio applies during partner retirement or death when continuing partners acquire share.
- **Option D:** Capital ratio reflects investment contribution rather than actual profit share surrendered.

**Final Answer:** Sacrificing ratio (Option B)

**Answer: (B)** Go Back to Q 9

## Q10.

### Solution

**Concept:** When a partner retires or dies, continuing partners absorb the outgoing partner's profit share. This incremental benefit acquired is measured by Gaining Ratio.

**Solution: Step 1:** Analyze retirement effect: Total profit share remains 1 whole (100%), but number of sharing partners decreases upon retirement.

**Step 2:** Identify redistribution: The retiring partner's existing share is distributed among remaining continuing partners according to partnership agreement.

**Step 3:** Formulate calculation formula:

$$\text{Gaining Share} = \text{New Profit Share} - \text{Old Profit Share}$$

**Step 4:** Determine goodwill compensation liability: Continuing partners who gain profit share must compensate retiring partner's capital account for firm's goodwill in their Gaining Ratio.

**Step 5:** Formulate adjustment journal entry:

Gaining Partners' Capital A/cs Dr. (in Gaining Ratio) To Retiring Partner's Capital A/c

**Step 6:** Select accurate metric: Option C correctly defines this operational ratio.

**Why other options are wrong:**

- **Option A:** Sacrificing ratio measures profit share surrendered during new partner admission.
- **Option B:** Capital ratio compares partners' capital investments and is unrelated to share absorption.
- **Option D:** Sales ratio divides expenses between pre and post-incorporation periods in company accounts.

**Final Answer:** Gaining ratio (Option C)

**Answer: (C)** Go Back to Q 10

## Q11.

### Solution

**Concept:** On firm dissolution, all asset and liability accounts are closed and transferred to Realisation Account at book values to determine net gain or loss on liquidation.

**Solution: Step 1:** Understand dissolution objective: To close all existing ledger books and convert assets into cash to extinguish third-party liabilities.

**Step 2:** Analyze asset closing rule: Real assets carry normal debit balances. To close asset accounts, they must be credited with their full book values.

**Step 3:** Determine destination account: The corresponding debit is posted to Realisation Account.

**Step 4:** Formulate initial transfer entry:

Realisation Account Dr. To Various Assets Account (at Book Value)

**Step 5:** Analyze subsequent cash realization: When assets are subsequently sold, Bank Account is debited and Realisation Account is credited with actual realization proceeds.

**Step 6:** Conclude initial transfer placement: Assets are transferred to Debit side of Realisation Account.

**Why other options are wrong:**

- **Option A:** Credit side of Realisation Account records external liabilities closure and asset cash sale proceeds.

- **Option C:** Partners' Capital Accounts receive final accumulated net profit or loss on realization, not raw assets.
- **Option D:** Bank Account records actual cash inflows upon asset disposal, not initial book value transfers.

**Final Answer:** Debit side of Realisation Account (Option B)

**Answer: (B)** Go Back to Q 11

## Q12.

### Solution

**Concept:** Under corporate share allotment rules, application money received from applicants who are allotted zero shares cannot be retained by the company and must be refunded immediately.

**Solution: Step 1:** Analyze share subscription process: Investors deposit application money along with share application forms into company bank account.

**Step 2:** Identify initial accounting receipt entry:

Bank Account Dr. To Share Application Account

**Step 3:** Evaluate rejection scenario: When issue is oversubscribed, directors may reject excess applications outright without allotting any shares.

**Step 4:** Determine legal obligation: Without share allotment, no contractual capital relationship exists; company holds application money in trust and must return it.

**Step 5:** Formulate refund accounting entry:

Share Application Account Dr. To Bank Account

**Step 6:** Select correct disposal: Refunded to applicants.

**Why other options are wrong:**

- **Option A:** Securities Premium relates only to shares successfully allotted above nominal par value.
- **Option B:** Forfeiture applies only to defaulting shareholders who fail to pay allotment/call dues after valid share allotment.
- **Option C:** Retaining unallotted application money as company profit violates Companies Act regulations.

**Final Answer:** Refunded to applicants (Option D)

**Answer: (D)** Go Back to Q 12

## Q13.

### Solution

**Concept:** When shares are forfeited due to non-payment of call dues, called-up share capital is cancelled and money already received from defaulting shareholder is credited to Share Forfeiture Account.

**Solution: Step 1:** Identify forfeiture conditions: Board of directors cancels allotted shares after giving statutory notice for non-payment of allotment or call installments.

**Step 2:** Analyze capital reversal: Share Capital Account is debited with total amount called up on forfeited shares up to forfeiture date.

**Step 3:** Analyze unpaid dues adjustment: Calls in Arrears Account (or specific unpaid call accounts) is credited to eliminate outstanding receivable balance.

**Step 4:** Determine treatment of collected money: Amount already paid by defaulting shareholder is forfeited by company and credited to Share Forfeiture Account.

**Step 5:** Formulate complete forfeiture entry:

Share Capital Account Dr. (Called-up Value)

To Share Forfeiture Account (Amount Actually Paid)

To Share Allotment / Call Account (Amount Unpaid)

**Step 6:** Conclude destination account: Share Forfeiture Account.

**Why other options are wrong:**

- **Option A:** Share Capital Account is debited with called-up value to cancel issued capital.
- **Option B:** Calls in Arrears Account is credited with unpaid amount to clear receivable balance.
- **Option D:** Discount on Issue Account relates to share issuance below par value, banned under Section 53.

**Final Answer:** Share Forfeiture Account (Option C)

**Answer: (C)** Go Back to Q 13

## Q14.

### Solution

**Concept:** Under Section 53 read with forfeiture reissue rules, maximum discount allowed on reissue of forfeited shares cannot exceed total amount previously credited to Share Forfeiture Account on those shares.

**Solution: Step 1:** Understand reissue mechanism: Forfeited shares can be reissued by directors at par, premium, or discount.

**Step 2:** Identify discount funding source: Reissue discount is absorbed by debiting Share Forfeiture Account where original shareholder's paid amount is held.

**Step 3:** Formulate maximum discount constraint: Company must collect at least nominal face value across both original and new shareholder payments combined.

**Step 4:** Express mathematical inequality:

$$\text{Maximum Reissue Discount Per Share} \leq \text{Amount Forfeited Per Share}$$

**Step 5:** Analyze surplus transfer: If actual reissue discount is less than forfeited amount, net unabsorbed balance in Share Forfeiture Account is transferred to Capital Reserve.

**Step 6:** Confirm legal upper limit: Option D defines the exact ceiling.

**Why other options are wrong:**

- **Option A:** Reissuing at discount equal to face value means reissuing for zero cash, which is illegal.
- **Option B:** Unpaid amount represents default balance, not available funds to cover reissue discount.
- **Option C:** Securities Premium cannot be utilized to subsidize reissue discount of forfeited shares.

**Final Answer:** Amount forfeited on those shares (Option D)

**Answer: (D)** Go Back to Q 14

## Q15.

### Solution

**Concept:** Normal account balances correspond to the side (Debit or Credit) that records increases in account value under standard double-entry rules.

**Solution: Step 1:** Analyze asset accounts nature: Assets represent economic resources owned by the business (Cash, Machinery, Debtors). Under real account rules, inflows/increases are debited. Thus, assets maintain normal **debit** balance.

**Step 2:** Analyze liability accounts nature: Liabilities represent financial obligations payable to outsiders (Creditors, Bank Loan). Under personal account rules, increases are credited. Thus, liabilities maintain normal **credit** balance.

**Step 3:** Verify alignment with accounting equation: Assets (Debit Balance) = Liabilities (Credit Balance) + Capital (Credit Balance).

**Step 4:** Check ledger closing presentation: Asset accounts show "By Balance c/d" on credit side, reopening as debit balance b/d.

**Step 5:** Check Trial Balance column placement: Assets are listed in debit column; liabilities are listed in credit column.

**Step 6:** Finalize exact blank terms: 1. debit; 2. credit.
**Final Answer:** 1. debit; 2. credit

**Answer: (See solution)** Go Back to Q 15

## Q16.

### Solution

**Concept:** Cash sales generate an immediate inflow of cash asset and simultaneously recognize trading sales revenue under double-entry principles.

**Solution: Step 1:** Identify two accounts involved in transaction: Cash Account (Real Account) and Sales Account (Nominal Account).

**Step 2:** Apply real account rule to Cash: Rule states "Debit what comes in." Since cash of ₹ 12,000 flows into the business, Cash Account must be debited.

**Step 3:** Apply nominal account rule to Sales: Rule states "Credit all incomes and gains." Sale of goods generates trading income of ₹ 12,000, so Sales Account must be credited.

**Step 4:** Verify numerical equality: Debit amount (₹ 12,000) equals Credit amount (₹ 12,000).

**Step 5:** Formulate complete journal entry syntax:

$$\text{Cash Account Dr.} \quad | 12,000$$

$$\text{To Sales Account} \quad | 12,000$$

**Step 6:** Extract exact missing account titles for blanks: 1. Cash; 2. Sales.
**Final Answer:** 1. Cash; 2. Sales

**Answer: (See solution)** Go Back to Q 16

## Q17.

### Solution

**Concept:** Each accounting document and book serves a distinct sequential hierarchy from primary evidence to final financial summary.

**Solution: Step 1:** Analyze item (a) Voucher: A voucher is a written invoice, receipt, or cash memo providing authentic documentary evidence of a business transaction. Matches with (ii).

**Step 2:** Analyze item (b) Journal: Journal is the primary chronological book where transactions are first recorded from vouchers before ledger posting. Thus, it is the book of original entry. Matches with (i).

**Step 3:** Analyze item (c) Ledger: Ledger compiles all individual account heads and represents the ultimate destination of bookkeeping entries. It is formally called the principal book of accounts. Matches with (iii).

**Step 4:** Analyze item (d) Trial Balance: Trial Balance is a periodic mathematical summary statement listing debit and credit balances extracted from ledger accounts. Matches with (iv).

**Step 5:** Verify sequential logic: Voucher (ii) → Journal (i) → Ledger (iii) → Trial Balance (iv).

**Step 6:** Compile matching pairs: (a)-(ii), (b)-(i), (c)-(iii), (d)-(iv).
**Final Answer:** (a)-(ii), (b)-(i), (c)-(iii), (d)-(iv)

**Answer: (See solution)** Go Back to Q 17

## Q18.

### Solution

**Concept:** When reconciling from favourable Cash Book balance (debit balance), adjustments aim to make the cash book figure equal the actual Pass Book balance.

**Solution: Step 1:** Analyze starting point: Starting with favourable Cash Book balance representing positive cash funds available at bank.

**Step 2:** Analyze statement 1 (Cheque deposited but not collected): Accountant debited Cash Book upon deposit, increasing book balance. Bank has not collected funds, so Pass Book shows lower balance. To reach Pass Book figure, item must be **deducted**.

**Step 3:** Analyze statement 2 (Direct deposit by customer): Bank credited Pass Book directly, increasing bank balance. Cash Book remains unrecorded at lower balance. To reach Pass Book figure, item must be **added**.

**Step 4:** Formulate mathematical reconciliation check:

$$\text{Pass Book} = \text{Cash Book} - \text{Uncollected Cheques} + \text{Direct Bank Deposits}$$

**Step 5:** Check reverse starting point logic: If starting with Pass Book, opposite operations apply.

**Step 6:** Fill exact blank terminology: 1. deducted; 2. added.
**Final Answer:** 1. deducted; 2. added

**Answer: (See solution)** Go Back to Q 18

## Q19.

### Solution

**Concept:** Companies Act strictly regulates utilization of capital reserves and clearly distinguishes between overdue share installments and advance share payments.

**Solution: Step 1:** Analyze statement 1 (Securities Premium Reserve utilization): Under Section 52 of Companies Act, 2013, one explicitly permitted statutory use of Securities Premium is issuing fully paid bonus shares to existing shareholders. Thus, Statement 1 is **True**.

**Step 2:** Define Calls in Arrears: Calls in arrears represent share call installments legally demanded by company from shareholders that remain unpaid past the due date (Asset/Receivable).

**Step 3:** Define Calls in Advance: Calls in advance represent voluntary payments deposited by shareholders before the call is formally made by directors (Liability).

**Step 4:** Analyze statement 2 claim: Statement 2 asserts that calls in arrears means money received

in advance before a call is made. This reverses definitions.

**Step 5:** Evaluate statement 2 truth value: Since it conflates arrears with advances, Statement 2 is **False**.

**Step 6:** Compile final evaluations: 1. True; 2. False.
**Final Answer:** 1. True; 2. False

**Answer: (See solution)** Go Back to Q 19

## Q20.

### Solution

**Concept:** Accounting cycle follows an immutable sequential workflow starting from source documentation through bookkeeping books to financial statements.

**Solution: Step 1:** Identify Stage 1 (Source Document): Transaction originates via invoices, vouchers, and cash memos providing objective transaction data.

**Step 2:** Determine Stage A (Primary Recording): From source documents, transactions are recorded chronologically using debit-credit rules in the book of original entry, which is the **Journal**.

**Step 3:** Determine Stage B (Secondary Classification): Entries recorded in Journal are periodically posted into analytical T-accounts inside the principal book of accounts, which is the **Ledger**.

**Step 4:** Identify Stage 4 (Trial Balance): Ledger accounts are balanced at period end, and net balances are tabulated in Trial Balance to verify arithmetic accuracy.

**Step 5:** Verify flow sequence: Source Document $\rightarrow$ Journal (A) $\rightarrow$ Ledger (B) $\rightarrow$ Trial Balance.

**Step 6:** Conclude exact stage labels: A = Journal; B = Ledger.
**Final Answer:** A = Journal; B = Ledger

**Answer: (See solution)** Go Back to Q 20

## Q21.

### Solution

**Concept:** Traditional golden rules of accounting categorize all ledger accounts into Real, Personal, and Nominal accounts, establishing universal recording logic.

**Solution: Step 1:** Match (a) Real account: Governs tangible and intangible assets (Machinery, Cash). Golden rule: "Debit what comes in, credit what goes out." Matches with (ii).

**Step 2:** Match (b) Personal account: Governs natural, artificial, and representative persons (Debtors, Bank, Outstanding Salaries). Golden rule: "Debit the receiver, credit the giver." Matches with (i).

**Step 3:** Match (c) Nominal account: Governs revenue incomes, expenses, losses, and gains (Rent, Sales). Golden rule: "Debit all expenses and losses, credit all incomes and gains." Matches with (iii).

**Step 4:** Analyze (d) Goods withdrawn by proprietor: Proprietor withdrawing trading stock for domestic consumption reduces net purchases cost and increases personal drawings. Entry: Drawings A/c Dr. → To Purchases A/c. Matches with (iv).

**Step 5:** Verify mutual exclusivity of all four matching pairs.

**Step 6:** Compile final mapping sequence: (a)-(ii), (b)-(i), (c)-(iii), (d)-(iv).
**Final Answer:** (a)-(ii), (b)-(i), (c)-(iii), (d)-(iv)

**Answer: (See solution)** Go Back to Q 21

## Q22.

### Solution

**Concept:** Trial balance agreement reflects mathematical equality but fails to reveal non-arithmetical recording omissions or compensating adjustments.

**Solution: Step 1:** Analyze statement 1 (Errors of complete omission): When a transaction is omitted entirely from Journal, neither debit nor credit is posted. Trial balance totals remain equal. Thus, Trial Balance cannot detect complete omission. Statement 1 is **False**.

**Step 2:** Analyze statement 2 (Suspense Account function): When Trial Balance totals disagree and errors cannot be traced immediately, net difference is temporarily transferred to Suspense Account to prepare financial statements. Statement 2 is **True**.

**Step 3:** Analyze statement 3 (Compensating errors impact): If an overcasting error of ₹ 500 on debit side is offset by an independent undercasting error of ₹ 500 on another debit account (or overcasting credit), Trial Balance agrees. Statement 3 is **True**.

**Step 4:** Analyze statement 4 (Bank charges in pass book): Bank deducting service charges directly reduces Pass Book balance. Until recorded in Cash Book, a timing mismatch occurs requiring BRS adjustment. Statement 4 is **True**.

**Step 5:** Review each evaluation against bookkeeping laws.

**Step 6:** Compile evaluations: 1. False; 2. True; 3. True; 4. True.
**Final Answer:** 1. False; 2. True; 3. True; 4. True

**Answer: (See solution)** Go Back to Q 22

## Q23.

### Solution

**Concept:** Final accounts consist of Trading Account (gross manufacturing/trading margin), Profit & Loss Account (net operating result), and Balance Sheet (financial position).

**Solution: Step 1:** Match (a) Gross Profit: Gross profit (Net Sales − Cost of Goods Sold) represents direct merchandising margin derived from compiling **Trading Account**. Matches with (ii).

**Step 2:** Match (b) Net Profit: Net profit represents surplus remaining after deducting indirect operating and administrative expenses from gross profit in **Profit and Loss Account**. Matches

with (iii).

**Step 3:** Match (c) Current Assets: Liquid working capital assets (Stock, Debtors, Bank) are tabulated under asset side of **Balance Sheet**. Matches with (i).

**Step 4:** Match (d) Drawings: Cash or inventory withdrawn by proprietor for personal use reduces owner's equity and is **Deducted from capital** on liability side of Balance Sheet. Matches with (iv).

**Step 5:** Verify structural coherence across final accounts presentation.

**Step 6:** Compile final matching: (a)-(ii), (b)-(iii), (c)-(i), (d)-(iv).
**Final Answer:** (a)-(ii), (b)-(iii), (c)-(i), (d)-(iv)

**Answer: (See solution)** Go Back to Q 23

## Q24.

### Solution

**Concept:** Issue, forfeiture, and reissue of company share capital follow rigid statutory journal workflows ensuring proper segregation of capital and reserve balances.

**Solution: Step 1:** Analyze item 1 (Application money receipt): Cash received from applicants is deposited in bank and credited temporarily to representative liability account: **Share Application** Account.

**Step 2:** Analyze item 2 (Allotment due entry): When allotment money is demanded, company debits **Share Allotment** Account as receivable and credits Share Capital Account.

**Step 3:** Analyze item 3 (Forfeiture capital adjustment): Upon forfeiture, issued shares are cancelled by **debiting** Share Capital Account with total called-up value per share.

**Step 4:** Analyze item 4 (Surplus on reissue transfer): Net surplus remaining in Share Forfeiture Account after absorbing reissue discount represents capital profit transferred to **Capital Reserve** Account.

**Step 5:** Review sequence against Companies Act share accounting rules.

**Step 6:** Fill exact blank terms: 1. Share Application; 2. Share Allotment; 3. debited; 4. Capital Reserve.
**Final Answer:** 1. Share Application; 2. Share Allotment; 3. debited; 4. Capital Reserve

**Answer: (See solution)** Go Back to Q 24

## Q25.

### Solution

**Concept:** The accounting equation mathematically embodies the Dual Aspect Concept, asserting that every economic resource possessed by an enterprise is supplied by claims of external creditors or internal owners.

**Solution: Step 1:** State the fundamental accounting equation syntax:

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

**Step 2:** Define components: Assets represent valuable resources owned (Cash, Land); Liabilities represent external debts owed (Bank Loan, Creditors); Capital represents owner's residual equity contribution.

**Step 3:** Explain Dual Aspect theory: Every economic transaction involves two reciprocal aspects—receiving a benefit (debit) and yielding a benefit (credit) of identical financial valuation.

**Step 4:** Provide illustrative example 1 (Asset acquisition via debt): Purchasing machinery on credit for ₹ 20,000 increases asset (Machinery) by ₹ 20,000 and simultaneously increases liability (Creditors) by ₹ 20,000, maintaining equation equality.

**Step 5:** Provide illustrative example 2 (Asset exchange): Purchasing stock for cash ₹ 5,000 increases asset (Stock) by ₹ 5,000 and decreases another asset (Cash) by ₹ 5,000, resulting in zero net change to total assets.

**Step 6:** Conclude structural necessity: Because every financial event impacts two accounts symmetrically, balance sheet equality is permanently preserved.
**Final Answer:** Equation: Assets = Liabilities + Capital. Every transaction produces equal debit and credit impacts under dual aspect concept, ensuring perpetual equation balance.

**Answer: (See solution)** Go Back to Q 25

## Q26.

### Solution

**Concept:** Ledger posting is the analytical classification mechanism that transfers entries recorded chronologically in the Journal into individualized account ledgers to determine net periodic balances.

**Solution: Step 1:** Define ledger posting: The bookkeeping procedure of transferring debit and credit amounts from journal entries to the debit and credit sides of appropriate ledger T-accounts.

**Step 2:** Examine T-Account format structure: Ledger account is divided into two symmetrical halves—Debit side (Dr.) on left and Credit side (Cr.) on right.

**Step 3:** Explain debit posting rule: If an account is debited in Journal, enter date, amount, and prefix 'To' followed by the name of the corresponding credited account on the debit side of this ledger.

**Step 4:** Explain credit posting rule: If an account is credited in Journal, enter date, amount, and prefix 'By' followed by the name of the corresponding debited account on the credit side of this ledger.

**Step 5:** Illustrate posting practical execution: For journal entry Cash A/c Dr. To Sales A/c, post on debit side of Cash A/c as "To Sales A/c" and on credit side of Sales A/c as "By Cash A/c".

**Step 6:** Conclude posting significance: Posting aggregates all transaction impacts on an account

head, enabling calculation of net closing balance required for Trial Balance compilation.
**Final Answer:** Ledger posting transfers journal debits and credits into respective ledger accounts. Debit items are posted on left side using prefix 'To' and credit items on right side using prefix 'By'.

**Answer: (See solution)** Go Back to Q 26

## Q27.

### Solution

**Concept:** Sacrificing ratio quantifies the exact proportion of profit share surrendered by existing partners to accommodate an incoming partner, serving as equitable basis for goodwill premium distribution.

**Solution: Step 1:** Analyze profit share dilution upon admission: Total business profit share is fixed at 1 (100%). Granting a share to a new partner necessarily dilutes future profit shares of existing partners.

**Step 2:** Define Sacrificing Ratio formula:

$$\text{Sacrificing Ratio} = \text{Old Profit Share} - \text{New Profit Share}$$

**Step 3:** Explain goodwill compensation rationale: Established business reputation (Goodwill) was generated entirely by old partners' past efforts. The incoming partner pays goodwill premium to acquire a share in future super profits.

**Step 4:** Determine equitable distribution rule: Goodwill premium must not be distributed in old or new ratios; it must compensate old partners strictly in proportion to profit share surrendered by each.

**Step 5:** Formulate accounting adjustment:

Goodwill Premium A/c Dr. To Sacrificing Partners' Capital A/cs (in Sacrificing Ratio)

**Step 6:** Conclude necessity: Without calculating sacrificing ratio, a partner who sacrifices a larger share would receive unfair or inadequate compensation.
**Final Answer:** Sacrificing ratio (Old Share – New Share) is calculated to equitably distribute goodwill premium brought by incoming partner among old partners in exact proportion of profit share sacrificed.

**Answer: (See solution)** Go Back to Q 27

## Q28.

### Solution

**Concept:** Calls in Arrears represents overdue share installments demanded by company but unpaid by shareholders, whereas Calls in Advance represents uncalled installments paid early by shareholders.

**Solution: Step 1:** Identify comparison parameter 1 (Meaning & Obligation): Calls in Arrears is the called-up share money that shareholders fail to pay on due date. Calls in Advance is money voluntarily paid by shareholders before call is formally made.

**Step 2:** Identify comparison parameter 2 (Balance Sheet Presentation): Calls in Arrears is deducted from called-up share capital under Share Capital note. Calls in Advance is shown separately under Current Liabilities as Other Current Liabilities.

**Step 3:** Identify comparison parameter 3 (Interest Entitlement under Table F): Company charges interest on Calls in Arrears up to maximum 10% p.a. Company pays interest on Calls in Advance up to maximum 12% p.a.

**Step 4:** Identify comparison parameter 4 (Dividend Entitlement): Shareholders do not receive dividends on arrears amount, nor do they receive dividends on advance amount until call becomes due.

**Step 5:** Tabulate clear two-point distinction:

| Basis of Distinction | Calls in Arrears | Calls in Advance |
|---|---|---|
| **1. Nature & Meaning** | Amount called up by company but unpaid by shareholder on due date. | Amount paid by shareholder before call is formally demanded by company. |
| **2. Balance Sheet Placement** | Deducted from Called-up Share Capital on liability side. | Shown under Current Liabilities (Other Current Liabilities). |

**Step 6:** Conclude structural contrast between default receivables and uncalled liabilities.
**Final Answer:** 1. Arrears represent called but unpaid share dues (deducted from Share Capital); Advance represents money received before call (shown under Current Liabilities). 2. Table F interest rate is max 10% p.a. on arrears vs max 12% p.a. on advance.

**Answer: (See solution)** Go Back to Q 28

## Q29.

### Solution

**Concept:** Journal entries apply double-entry debit and credit rules across Real, Personal, and Nominal accounts for each business transaction.

**Solution: Step 1:** Analyze transaction (a) "Started business with cash ₹ 80,000": Cash flows in (Real Account debited); proprietor gives capital (Personal Account credited).

$$\text{Cash Account Dr.} \quad | \; 80,000$$

To Capital Account | 80,000

*(Being business commenced with cash introduction)*

**Step 2:** Analyze transaction (b) "Purchased goods for cash ₹ 15,000": Purchases expense incurred (Nominal Account debited); cash flows out (Real Account credited).

Purchases Account Dr. | 15,000

To Cash Account | 15,000

*(Being goods purchased for cash)*

**Step 3:** Analyze transaction (c) "Paid rent ₹ 3,000": Rent expense incurred (Nominal Account debited); cash flows out (Real Account credited).

Rent Account Dr. | 3,000

To Cash Account | 3,000

*(Being office rent paid in cash)*

**Step 4:** Verify numerical equality of debits and credits across all three journal entries.

**Step 5:** Compile combined chronological journal schedule:

| Date | Particulars | L.F. | Debit (₹ ) | Credit (₹ ) |
|---|---|---|---|---|
| (a) | Cash Account Dr.<br>To Capital Account<br>*(Started business with cash)* | | 80,000 | <br>80,000 |
| (b) | Purchases Account Dr.<br>To Cash Account<br>*(Purchased goods for cash)* | | 15,000 | <br>15,000 |
| (c) | Rent Account Dr.<br>To Cash Account<br>*(Paid rent in cash)* | | 3,000 | <br>3,000 |

**Step 6:** Conclude accurate journalization.
**Final Answer:** Journalized above: Cash Dr. to Capital ₹ 80,000; Purchases Dr. to Cash ₹ 15,000; Rent Dr. to Cash ₹ 3,000.

**Answer: (See solution)** Go Back to Q 29

## Q30.

### Solution

**Concept:** Rent Account is a nominal expense ledger account. Periodic cash payments are debited, and total accumulated expense is closed at period end by transfer to Profit and Loss Account.

**Solution: Step 1:** Analyze first transaction (5 April): Rent paid in cash ₹ 3,000. Journal entry: Rent A/c Dr. To Cash A/c. Post on debit side of Rent A/c as "To Cash A/c ₹ 3,000".

**Step 2:** Analyze second transaction (5 May): Rent paid in cash ₹ 3,000. Journal entry: Rent A/c Dr. To Cash A/c. Post on debit side of Rent A/c as "To Cash A/c ₹ 3,000".

**Step 3:** Calculate total accumulated rent expense for period:

$$\text{Total Debit Expense} = |\,3,000 + |\,3,000 = |\,6,000$$

**Step 4:** Determine closing mechanism: Nominal accounts do not carry balance forward (c/d); they are closed by transferring total balance to Profit & Loss Account.

**Step 5:** Post closing entry on credit side of Rent Account as "By Profit & Loss Account ₹ 6,000".

**Step 6:** Compile formal T-Account format:

**Rent Account**

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|---|---|---|---|---|---|---|---|
| Apr 5 | To Cash A/c | | 3,000 | Year End | By Profit & Loss A/c | | 6,000 |
| May 5 | To Cash A/c | | 3,000 | | *(Transfer of expense)* | | |
| | **Total** | | **6,000** | | **Total** | | **6,000** |

**Final Answer:** Rent Account debited with two payments of ₹ 3,000 each and closed by crediting ₹ 6,000 transferred to Profit & Loss Account.

**Answer: (See solution)** Go Back to Q 30

## Q31.

### Solution

**Concept:** Bank Reconciliation Statement adjusts timing differences between Cash Book balance and Pass Book balance to determine true bank balance.

**Solution: Step 1:** State initial base figure: Favourable bank balance as per Cash Book = ₹ 18,000 (Debit balance).

**Step 2:** Analyze item 1 (Cheques deposited but not collected ₹ 4,000): Depositing cheques increased Cash Book balance. Bank has not collected funds, so Pass Book shows lower balance. **Deduct ₹ 4,000**.

**Step 3:** Analyze item 2 (Cheques issued but not presented ₹ 2,500): Issuing cheques reduced Cash Book balance. Suppliers have not encashed them, so Pass Book shows higher balance. **Add ₹ 2,500**.

**Step 4:** Analyze item 3 (Bank charges debited in pass book only ₹ 300): Bank deducted charges directly, reducing Pass Book balance. Cash Book remains unrecorded at higher balance. **Deduct ₹ 300**.

**Step 5:** Perform sequential net arithmetic computation:

$$\text{Balance as per Cash Book} = |\ 18,000$$

$$\text{Add: Cheques issued not presented} = +|\ 2,500 \rightarrow |\ 20,500$$

$$\text{Less: Cheques deposited not collected} = -|\ 4,000 \rightarrow |\ 16,500$$

$$\text{Less: Bank charges unrecorded in CB} = -|\ 300 \rightarrow |\ 16,200$$

**Step 6:** Compile formal Bank Reconciliation Statement schedule:

**Bank Reconciliation Statement**

| Particulars | Details (₹ ) | Amount (₹ ) |
|---|---|---|
| **Balance as per Cash Book (Favourable)** | | **18,000** |
| Add: Cheques issued but not yet presented for payment | | 2,500 |
| | | **20,500** |
| Less: Cheques deposited into bank but not yet collected | 4,000 | |
| Less: Bank charges debited in Pass Book only | 300 | (4,300) |
| **Balance as per Pass Book (Favourable Credit Balance)** | | **16,200** |

**Final Answer:** Pass Book Favourable Balance = ₹ 16,200.

**Answer: (See solution)** Go Back to Q 31

## Q32.

## Solution

**Concept:** Gross Profit is excess of Net Sales over Cost of Goods Sold (COGS). Net Profit is excess of Gross Profit over indirect operating expenses.

**Solution: Step 1:** Classify direct vs indirect expenses from given data: Carriage inward (₹ 5,000) is direct manufacturing/trading expense included in COGS. Salaries (₹ 12,000) and Rent (₹ 6,000) are indirect operating expenses debited to Profit & Loss Account.

**Step 2:** Calculate Cost of Goods Sold (COGS) formula:

$$\text{COGS} = \text{Opening Stock} + \text{Purchases} + \text{Carriage Inward} - \text{Closing Stock}$$

$$\text{COGS} = |\ 20,000 + |\ 70,000 + |\ 5,000 - |\ 25,000 = |\ 70,000$$

**Step 3:** Calculate Gross Profit formula:

$$\text{Gross Profit} = \text{Sales} - \text{COGS}$$

$$\text{Gross Profit} = ₹\ 1,20,000 - ₹\ 70,000 = ₹\ 50,000$$

**Step 4:** Calculate total indirect operating expenses:

$$\text{Indirect Expenses} = \text{Salaries (₹ 12,000)} + \text{Rent (₹ 6,000)} = ₹\ 18,000$$

**Step 5:** Calculate Net Profit formula:

$$\text{Net Profit} = \text{Gross Profit} - \text{Total Indirect Expenses}$$

$$\text{Net Profit} = ₹\ 50,000 - ₹\ 18,000 = ₹\ 32,000$$

**Step 6:** Verify through statement tabulation:

| **Particulars** | **Amount (₹ )** | **Particulars** | **Amount (₹ )** |
|---|---|---|---|
| To Opening Stock | 20,000 | By Sales | 1,20,000 |
| To Purchases | 70,000 | By Closing Stock | 25,000 |
| To Carriage Inward | 5,000 | | |
| **To Gross Profit c/d** | **50,000** | | |
| **Total Trading** | **1,45,000** | **Total Trading** | **1,45,000** |
| To Salaries | 12,000 | By Gross Profit b/d | 50,000 |
| To Rent | 6,000 | | |
| **To Net Profit transferred** | **32,000** | | |
| **Total P&L** | **50,000** | **Total P&L** | **50,000** |

**Final Answer:** Gross Profit = ₹ 50,000; Net Profit = ₹ 32,000.

**Answer: (See solution)** Go Back to Q 32

## Q33.

### Solution

**Concept:** Goodwill premium brought in cash by an incoming partner must be credited to existing partners' capital accounts strictly in their Sacrificing Ratio.

**Solution: Step 1:** Identify existing profit-sharing ratio: A : B = 3 : 2 (Total parts = 5).

**Step 2:** Analyze C's admission terms: C is admitted for $\frac{1}{5}$ share in profits and brings ₹ 20,000 cash as goodwill premium.

**Step 3:** Determine Sacrificing Ratio: When an incoming partner's share is given without specifying exact individual surrender ratios, old partners sacrifice profit share in their existing old profit-sharing ratio. Thus, Sacrificing Ratio of A : B = 3 : 2.

**Step 4:** Calculate goodwill credit allocation for Partner A:

$$\text{A's Share of Goodwill} = ₹\ 20,000 \times \frac{3}{5} = ₹\ 12,000$$

**Step 5:** Calculate goodwill credit allocation for Partner B:

$$\text{B's Share of Goodwill} = |\ 20,000 \times \frac{2}{5} = |\ 8,000$$

**Step 6:** Formulate journal entries verifying allocation:

Bank Account Dr. | 20,000

To Premium for Goodwill Account | 20,000

*(Being goodwill premium brought in cash by C)*

Premium for Goodwill Account Dr. | 20,000

To A's Capital Account | 12,000

To B's Capital Account | 8,000

*(Being premium credited to A and B in sacrificing ratio 3:2)*

**Final Answer:** Amount credited to A = ₹ 12,000; Amount credited to B = ₹ 8,000.

**Answer: (See solution)** Go Back to Q 33

## Q34.

### Solution

**Concept:** Trading Account is compiled to determine Gross Profit or Gross Loss resulting from direct buying, selling, and manufacturing activities during an accounting year under matching principles.

**Solution: Step 1:** Analyze Opening Stock and Purchases adjustments: Opening Stock of ₹ 30,000 is debited as initial cost. Gross purchases of ₹ 1,10,000 are adjusted by deducting Purchase Returns (₹ 10,000) to arrive at Net Purchases of ₹ 1,00,000.

**Step 2:** Analyze direct factory operating expenses: Wages of ₹ 12,000 represent productive direct labour expenditure incurred in bringing merchandise to saleable condition and must be debited to Trading Account.

**Step 3:** Calculate total debit side charges before gross profit: Total Direct Costs = Opening Stock (₹ 30,000) + Net Purchases (₹ 1,00,000) + Wages (₹ 12,000) = | 1, 42, 000

**Step 4:** Analyze Sales revenue and Closing Stock adjustments: Gross sales of ₹ 1,80,000 are adjusted by deducting Sales Returns (₹ 5,000) to arrive at Net Sales of ₹ 1,75,000 credited to Trading Account. Unsold Closing Stock of ₹ 35,000 is credited to offset cost of goods not consumed.

**Step 5:** Calculate total credit side revenue and stock valuations:

Total Credit Value = Net Sales (₹ 1,75,000) + Closing Stock (₹ 35,000) = | 2, 10, 000

**Step 6:** Derive Gross Profit by comparing total credits against total debit charges:

$$\text{Gross Profit} = \text{Total Credit (₹ 2,10,000)} - \text{Total Debit Charges (₹ 1,42,000)} = |\,68,000$$

This Gross Profit is carried down (c/d) and transferred to credit side of Profit and Loss Account.

**Working Notes & Verification:** 1. **Net Purchases Calculation:** Gross Purchases (₹ 1,10,000) – Returns Outward (₹ 10,000) = | 1,00,000. 2. **Net Sales Calculation:** Gross Sales (₹ 1,80,000) – Returns Inward (₹ 5,000) = | 1,75,000. 3. **Cost of Goods Sold (COGS):** Opening Stock (₹ 30,000) + Net Purchases (₹ 1,00,000) + Wages (₹ 12,000) – Closing Stock (₹ 35,000) = | 1,07,000. 4. **Gross Profit Verification:** Net Sales (₹ 1,75,000) – COGS (₹ 1,07,000) = | 68,000.
**Final Answer:** Gross Profit = ₹ 68,000 transferred to Profit & Loss Account.

**Answer: (See solution)** Go Back to Q 34

## Q35.

### Solution

**Concept:** Upon retirement of a partner, continuing partners absorb the retiring partner's share. Gaining Ratio (New Share – Old Share) determines proportion in which gaining partners compensate retiring partner for firm goodwill.

**Solution: Step 1:** Tabulate initial old profit-sharing ratio among X, Y, and Z:

$$\text{Old Ratio of X : Y : Z} = 5 : 3 : 2 \quad \text{(Total denominator parts = 10)}$$

Old shares: X = $\frac{5}{10}$, Y (Retiring Partner) = $\frac{3}{10}$, Z = $\frac{2}{10}$.

**Step 2:** Analyze new profit-sharing agreement between continuing partners X and Z:

$$\text{New Ratio of X : Z} = 1 : 1 \quad \text{(Equal shares, Total denominator parts = 2)}$$

New shares: X = $\frac{1}{2} = \frac{5}{10}$, Z = $\frac{1}{2} = \frac{5}{10}$.

**Step 3:** Compute individual gaining share for Partner X using Gaining formula:

$$\text{X's Gain} = \text{New Share} - \text{Old Share} = \frac{5}{10} - \frac{5}{10} = 0$$

*(Partner X neither gains nor sacrifices any share; his profit share remains unchanged at 50%).*

**Step 4:** Compute individual gaining share for Partner Z using Gaining formula:

$$\text{Z's Gain} = \text{New Share} - \text{Old Share} = \frac{5}{10} - \frac{2}{10} = \frac{3}{10}$$

*(Partner Z absorbs the entire retiring share $\frac{3}{10}$ previously held by Y).*

**Step 5:** Determine Gaining Ratio and goodwill compensation liability: Since Z alone gains $\frac{3}{10}$ profit share, Gaining Ratio between X and Z is 0 : 3 (Z is sole gainer). Retiring partner Y's share of firm goodwill is valued at ₹ 40,000. Under accounting rules, only gaining partners bear

goodwill compensation liability. Since Z acquired 100% of Y's surrendered share, Z alone must pay ₹ 40,000 compensation to Y. Partner X contributes zero.

**Step 6:** Formulate adjustment journal entries and partners' capital accounts impact:

**Comprehensive Accounting Impact Analysis:** When partner Y retires, his profit entitlement of $\frac{3}{10}$ is surrendered. If X and Z simply shared remaining profits without goodwill adjustment, Z would enjoy a permanent uncompensated boost in future annual dividends from 20% to 50%. To maintain equity, Z debits his capital account by ₹ 40,000 and transfers this capital value directly to retiring partner Y's capital account before final settlement.

**Final Answer:** Gaining Ratio X : Z = 0 : 3 (Z alone gains). Adjustment entry: Z's Capital A/c debited by ₹ 40,000 and Y's Capital A/c credited by ₹ 40,000.

**Answer: (See solution)** Go Back to Q 35

## Q36.

### Solution

**Concept:** Forfeiture cancels called-up share capital due to call default, crediting collected installments to Share Forfeiture Account. Upon reissue below called-up value, discount is absorbed from Share Forfeiture Account and remaining net surplus is transferred to Capital Reserve.

**Solution: Step 1:** Analyze share parameters and forfeiture monetary breakdown: * Number of shares forfeited = 200 shares. * Nominal face value per share = ₹ 10. * Called-up share capital per share up to forfeiture date = ₹ 8. Total called-up capital = 200 × | 8 = | 1,600. * Default unpaid First Call per share = ₹ 3. Total unpaid call arrears = 200 × | 3 = | 600. * Actually paid application and allotment money per share = | 8 − | 3 = | 5. Total amount collected and forfeited = 200 × | 5 = | 1,000.

**Step 2:** Formulate forfeiture journal entry: Debit Share Capital Account with total called-up value (₹ 1,600), credit Share First Call Account with unpaid default (₹ 600), and credit Share Forfeiture Account with paid amount (₹ 1,000).

**Step 3:** Analyze reissue parameters: All 200 forfeited shares are reissued at ₹ 7 per share credited as paid-up to ₹ 8 per share. * Bank receipt on reissue = 200 shares × | 7 = | 1,400. * Reissue discount allowed per share = | 8 (Paid-up value) − | 7 (Reissue price) = | 1. Total reissue discount absorbed = 200 × | 1 = | 200.

**Step 4:** Formulate reissue journal entry: Debit Bank Account (₹ 1,400), debit Share Forfeiture Account for discount absorbed (₹ 200), and credit Share Capital Account with reissued paid-up value (200 × | 8 = | 1,600).

**Step 5:** Calculate capital profit surplus transfer to Capital Reserve:

Original Amount Forfeited on 200 shares = | 1,000

Less: Reissue Discount Utilized on 200 shares = −| 200

Net Capital Surplus Transferred to Capital Reserve = | 800

**Step 6:** Compile complete sequential Journal Entries schedule:

**In the Books of Company – Journal Entries**

| Date | Particulars | L.F. | Debit (₹ ) | Credit (₹ ) |
|---|---|---|---|---|
| 1. Forfeiture | Share Capital Account Dr. (200 × \| 8) | | 1,600 | |
| | To Share First Call Account (200 × \| 3) | | | 600 |
| | To Share Forfeiture Account (200 × \| 5) | | | 1,000 |
| | *(Being 200 shares forfeited for non-payment of first call of ₹ 3 per share out of ₹ 8 called up)* | | | |
| 2. Reissue | Bank Account Dr. (200 × \| 7) | | 1,400 | |
| | Share Forfeiture Account Dr. (Discount: 200 × \| 1) | | 200 | |
| | To Share Capital Account (200 × \| 8) | | | 1,600 |
| | *(Being 200 forfeited shares reissued at ₹ 7 per share paid up to ₹ 8 per share)* | | | |
| 3. Transfer | Share Forfeiture Account Dr. | | 800 | |
| | To Capital Reserve Account | | | 800 |
| | *(Being net capital gain on reissued shares transferred to Capital Reserve: ₹ 1,000 - ₹ 200)* | | | |

**Verification of Ledger Balances:** After these entries, Share Forfeiture Account shows zero balance (| 1,000 Cr. – | 200 Dr. – | 800 Dr. = 0), and Capital Reserve permanently reflects ₹ 800 capital surplus.

**Final Answer:** Share Forfeiture credited by ₹ 1,000; Reissue discount debited to Share Forfeiture by ₹ 200; Net surplus transferred to Capital Reserve = ₹ 800.

**Answer: (See solution)** Go Back to Q 36

## Detailed Solutions – Section B Module I

### Q37.

**Solution**

**Concept:** Current Ratio evaluates short-term solvency by measuring the proportion of liquid circulating assets available to meet maturing short-term financial obligations.

**Solution: Step 1:** Define ratio classification: Current ratio is the primary benchmark liquidity ratio used by analysts and creditors.

**Step 2:** Identify numerator: Total Current Assets (Cash, Bank, Debtors, Bills Receivable, Inventory, Prepaid Expenses).

**Step 3:** Identify denominator: Total Current Liabilities (Creditors, Bills Payable, Short-term Bank Overdraft, Outstanding Expenses).

**Step 4:** Formulate mathematical formula:

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

**Step 5:** Evaluate standard benchmark: A ratio of 2 : 1 is conventionally considered satisfactory, indicating ₹ 2 of asset backing for every ₹ 1 of liability.

**Step 6:** Conclude exact formula selection: Option B represents the correct formula.

**Why other options are wrong:**

- **Option A:** Liquid Assets / Current Liabilities defines Liquid (Quick/Acid-Test) Ratio.
- **Option C:** Inverting ratio reverses solvency interpretation completely.
- **Option D:** Sales / Current Assets represents Current Asset Turnover Ratio measuring asset efficiency.

**Final Answer:** Current Assets / Current Liabilities (Option B)

**Answer: (B)** Go Back to Q 37

### Q38.

**Solution**

**Concept:** Liquid Assets (Quick Assets) represent current assets that can be converted into immediate cash within days without substantial price discount or sales delay.

**Solution: Step 1:** Analyze asset liquidity spectrum: Cash and bank balances represent immediate purchasing power. Trade receivables can be discounted or collected quickly.

**Step 2:** Analyze Inventory (Stock-in-trade): Inventory requires a two-step conversion cycle—first selling goods to customers (often on credit), and then collecting cash from debtors.

**Step 3:** Identify inventory illiquidity risk: During financial distress, stock cannot be liquidated

instantly without severe price slashing.

**Step 4:** Analyze Prepaid Expenses: Prepaid insurance or rent represents unexpired services; it cannot be encashed to pay external liabilities.

**Step 5:** Formulate Liquid Assets derivation formula:

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

**Step 6:** Conclude excluded item among options: Inventory must be excluded.

**Why other options are wrong:**

- **Option A:** Cash is the ultimate perfectly liquid asset.
- **Option B:** Bank balance can be withdrawn immediately via cheque or electronic transfer.
- **Option D:** Trade receivables represent short-term contractual cash collections.

**Final Answer:** Inventory (Option C)

**Answer: (C)** **Go Back to Q 38**

## Q39.

### Solution

**Concept:** Under AS-3 (Cash Flow Statements), cash flows are categorized by operational activity. Operating activities represent core revenue-generating business operations.

**Solution: Step 1:** Trace origin of Trade Debtors: Debtors arise exclusively from selling trading merchandise or services on credit during normal operations.

**Step 2:** Analyze cash collection event: When debtors settle outstanding accounts by paying cash, it represents realization of operational sales revenue.

**Step 3:** Apply AS-3 classification guidelines: Cash receipts from sale of goods and rendering of services (including collection from trade receivables) are primary operating cash inflows.

**Step 4:** Distinguish from investing activities: Investing activities involve acquisition or disposal of long-term fixed assets and investments.

**Step 5:** Distinguish from financing activities: Financing activities involve changes in capital structure or borrowing liabilities.

**Step 6:** Conclude accurate classification: Operating activities.

**Why other options are wrong:**

- **Option B:** Investing activities cover capital asset purchases/sales and interest/dividend receipts from investments.
- **Option C:** Financing activities cover share capital issue, debenture borrowing, and dividend payments.

- **Option D:** Debtors cash realization represents tangible cash inflow, not a non-cash adjustment.

**Final Answer:** Operating activities (Option A)

**Answer: (A)** Go Back to Q 39

## Q40.

### Solution

**Concept:** Financing activities encompass transactions that alter the size and composition of owners' equity capital and long-term borrowings of the business enterprise.

**Solution: Step 1:** Examine corporate share issuance: Issuing equity or preference shares raises long-term permanent capital from shareholders.

**Step 2:** Analyze cash flow impact: Company receives cash subscription proceeds, increasing balance sheet Share Capital and Securities Premium.

**Step 3:** Evaluate AS-3 activity definitions: Transactions altering owners' capital structure or borrowing obligations are defined strictly as Financing Activities.

**Step 4:** Verify chart depiction: The flow diagram shows issue of shares directly connected to the Financing activity block.

**Step 5:** Contrast with operating/investing: Share issuance does not generate trading revenue (operating) nor does it represent asset acquisition (investing).

**Step 6:** Select matching category: Financing activity.

**Why other options are wrong:**

- **Option A:** Operating activities relate to daily trading revenue and working capital management.
- **Option B:** Investing activities relate to deploying capital into productive fixed assets.
- **Option C:** Extraordinary activities represent unusual non-recurring events (fire insurance settlement, litigation awards).

**Final Answer:** Financing activity (Option D)

**Answer: (D)** Go Back to Q 40

## Q41.

### Solution

**Concept:** Trend Analysis (Horizontal Analysis) is a longitudinal financial analysis technique that compares accounting figures across multiple sequential historical periods against a base year.

**Solution: Step 1:** Define analytical methodology: A normal historical year is chosen as base year (100%), and financial statement items of subsequent years are expressed as trend percentages

relative to base.

**Step 2:** Identify time horizon requirement: To establish meaningful directional trajectory (growth, stagnation, or decline), data from at least 3 to 5 successive years is required.

**Step 3:** Evaluate analytical benefits: Reveals multi-year expansion patterns in sales, profit margins, asset accumulation, and debt burdens that single-period analysis obscures.

**Step 4:** Reject single-date evaluation: Comparing figures on a single day represents static vertical analysis, incapable of showing historical trends.

**Step 5:** Reject non-financial limitation: Trend analysis operates primarily on audited financial statement metrics (Revenue, Net Profit, Working Capital).

**Step 6:** Conclude exact operational scope: Over a number of years.

**Why other options are wrong:**

- **Option A:** Single day analysis provides static snapshot without directional historical movement.
- **Option C:** Trend analysis evaluates quantitative accounting statement figures.
- **Option D:** Base year normalization is mandatory to compute relative index percentages.

**Final Answer:** Over a number of years (Option B)

**Answer: (B)** Go Back to Q 41

## Q42.

### Solution

**Concept:** Debt-Equity Ratio is a core solvency leverage ratio that evaluates long-term financial stability by comparing total long-term external borrowings against internal owners' equity funds.

**Solution: Step 1:** Identify solvency objective: To measure the margin of financial safety provided by owners' capital to long-term external creditors.

**Step 2:** Determine numerator components: Total Long-Term Debt (Debentures, Long-term Bank Loans, Public Deposits, Mortgage Borrowings).

**Step 3:** Determine denominator components: Shareholders' Funds / Net Worth (Equity Share Capital + Preference Share Capital + Reserves & Surplus - Fictitious Assets).

**Step 4:** Formulate standard ratio formula:

$$\text{Debt-Equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$$

**Step 5:** Evaluate financial leverage benchmark: A ratio of $2:1$ is generally considered acceptable, indicating external debt is twice the owners' equity cushion.

**Step 6:** Conclude formula option: Option C accurately represents this relationship.

**Why other options are wrong:**

- **Option A:** Current Assets / Current Liabilities defines short-term Current Ratio.
- **Option B:** Net Profit / Sales defines Net Profit Margin profitability ratio.
- **Option D:** Cash / Inventory compares two distinct current asset components without solvency meaning.

**Final Answer:** Long-term Debt / Shareholders' Funds (Option C)

**Answer: (C)** Go Back to Q 42

## Q43.

### Solution

**Concept:** Ratio analysis extracts relationships from accounting statements, while AS-3 divides cash flows into three standardized operational categories.

**Solution: Step 1:** Analyze sentence (i): An accounting ratio expresses an objective arithmetic comparison between two numerical figures extracted from audited financial statements. Thus, blank 1 requires **accounting**.

**Step 2:** Analyze sentence (ii): Under Accounting Standard 3 (AS-3), total enterprise cash flows during a period are strictly divided into three distinct buckets: Operating activities (daily trading), Investing activities (fixed assets/investments), and **Financing** activities (share capital/borrowings).

**Step 3:** Verify completeness of AS-3 classification taxonomy.

**Step 4:** Confirm proper vocabulary insertion.

**Step 5:** Double check sequence against standard definitions.

**Step 6:** Finalize exact blank responses: 1. accounting; 2. financing.
**Final Answer:** 1. accounting; 2. financing

**Answer: (See solution)** Go Back to Q 43

## Q44.

### Solution

**Concept:** Financial statement analysis involves critical examination and simplification of historical financial data to evaluate past operational efficiency and forecast future viability.

**Solution: Step 1:** Define core concept: Financial statement analysis is the systematic process of identifying financial strengths and weaknesses of an enterprise by establishing strategic relationships between items of Balance Sheet and Profit & Loss Account.

**Step 2:** Explain analytical transformation: Raw published statements contain complex figures. Analysis rearranges, classifies, and compares these figures to make them comprehensible for stakeholders.

**Step 3:** Identify analytical tools used: Comparative Financial Statements, Common-Size State-

ments, Trend Percentages, Ratio Analysis, and Cash Flow Statements.

**Step 4:** Highlight objective 1 (Liquidity & Solvency): Evaluating ability to settle short-term obligations promptly and survive long-term debt burdens.

**Step 5:** Highlight objective 2 (Profitability & Efficiency): Measuring operating profit margins and management efficiency in utilizing capital assets.

**Step 6:** Conclude decision-making utility: Empowers internal executives, shareholders, bankers, and tax authorities to make sound economic decisions.
**Final Answer:** Financial statement analysis is the critical examination and interpretation of financial statements using tools like ratios and cash flows to evaluate enterprise profitability, liquidity, solvency, and operational efficiency.

**Answer: (See solution)** Go Back to Q 44

## Q45.

### Solution

**Concept:** While ratio analysis is a powerful diagnostic tool, its accuracy is fundamentally bounded by historical accounting assumptions and data quality limitations.

**Solution: Step 1:** Identify limitation 1 (Dependence on Historical Accounting Records): Ratios are computed from historical financial statements based on original cost concepts. They ignore current inflationary price level changes, rendering multi-year comparisons distorted during inflation.

**Step 2:** Identify limitation 2 (Ignorance of Qualitative Factors): Ratios operate purely on numerical data. They ignore crucial non-financial qualitative factors such as management competency, employee morale, customer loyalty, brand reputation, and technological innovation.

**Step 3:** Identify limitation 3 (Impact of Window Dressing): Unethical management can manipulate financial statement balances at year end (e.g., delaying supplier payments or accelerating sales) to project artificial liquidity ratios ("Window Dressing").

**Step 4:** Identify limitation 4 (Lack of Standardized Definitions): Different firms apply different accounting policies (e.g., FIFO vs Weighted Average inventory valuation, Straight Line vs Written Down Value depreciation), making inter-firm ratio comparisons misleading.

**Step 5:** Select two primary structural limitations for clear presentation.

**Step 6:** Formulate concise examination response.
**Final Answer:** Two limitations: 1. **Historical Data Bias:** Ratios rely on historical cost figures and ignore price level changes/inflation. 2. **Ignorance of Qualitative Factors:** Ratios ignore vital non-monetary aspects like management efficiency, labour relations, and customer loyalty.

**Answer: (See solution)** Go Back to Q 45

## Q46.

### Solution

**Concept:** Current Ratio evaluates short-term solvency using total current assets, whereas Liquid Ratio evaluates immediate cash-paying capacity by excluding inventory and prepaid expenses.

**Solution: Step 1:** Extract given data parameters: * Current Assets = ₹ 1,20,000 * Inventory (Closing Stock) = ₹ 30,000 * Prepaid Expenses = ₹ 5,000 * Current Liabilities = ₹ 60,000

**Step 2:** Calculate Current Ratio using standard formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{| 1,20,000}{| 60,000} = 2 : 1$$

**Step 3:** Calculate Liquid Assets (Quick Assets) value:

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

$$\text{Liquid Assets} = | 1,20,000 - | 30,000 - | 5,000 = | 85,000$$

**Step 4:** Calculate Liquid Ratio using exact quick asset balance:

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}} = \frac{| 85,000}{| 60,000} = 1.4167 : 1 \approx 1.42 : 1$$

**Step 5:** Compare results against benchmark solvency standards: Current ratio of 2 : 1 satisfies standard solvency norm (2 : 1), while Liquid ratio of 1.42 : 1 comfortably exceeds strict acid-test norm (1 : 1).

**Step 6:** Compile formal tabulated presentation:

| Liquidity Metric | Formula Applied | Computation (₹ ) | Final Ratio |
|---|---|---|---|
| **Current Ratio** | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | $\frac{1,20,000}{60,000}$ | **2 : 1** |
| **Liquid Ratio** | $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ | $\frac{85,000}{60,000}$ | **1.42 : 1** |

**Final Answer:** Current Ratio = 2 : 1; Liquid Ratio = 1.42 : 1.

**Answer: (See solution)** Go Back to Q 46

## Q47.

### Solution

**Concept:** Under AS-3 Indirect Method, Cash Flow from Operating Activities is derived by adjusting Net Profit for non-cash/non-operating items and net changes in working capital balances.

**Solution: Step 1:** Analyze starting figure and non-cash expense adjustments: Start with Net Profit before tax of ₹ 70,000. Depreciation of ₹ 12,000 represents a non-cash book expense debited to P&L account that reduced accounting profit without causing any cash outflow. To find true

operating cash generation, depreciation is added back:

$$\text{Operating Profit before Working Capital Changes} = |\,70,000 + |\,12,000 = |\,82,000$$

**Step 2:** Analyze current asset adjustments (Trade Receivables & Inventory): * Increase in Trade Receivables (₹ 8,000): Means credit sales exceeded cash collections; cash remains blocked with debtors. **Deduct ₹ 8,000**. * Decrease in Inventory (₹ 5,000): Means stock was liquidated into cash during the period, releasing working capital. **Add ₹ 5,000**.

**Step 3:** Analyze current liability adjustments (Trade Payables): * Increase in Trade Payables (₹ 6,000): Means enterprise deferred payments to suppliers, conserving liquid cash. **Add ₹ 6,000**.

**Step 4:** Perform sequential working capital cash flow computation:

$$\text{Operating Profit before Working Capital Changes} = |\,82,000$$

$$\text{Add: Decrease in Inventory} = +|\,5,000$$

$$\text{Add: Increase in Trade Payables} = +|\,6,000 \rightarrow |\,93,000$$

$$\text{Less: Increase in Trade Receivables} = -|\,8,000 \rightarrow |\,85,000$$

**Step 5:** Evaluate tax payment instruction: Since question states "Ignore tax", Cash Flow generated from Operating Activities equals final figure without income tax deduction.

**Step 6:** Compile formal AS-3 Cash Flow schedule:

**Cash Flow from Operating Activities (Indirect Method)**

| **Particulars** | **Details (₹ )** | **Amount (₹ )** |
|---|---|---|
| **Net Profit before Tax** | | **70,000** |
| Add: Non-cash adjustments: | | |
| Depreciation on Fixed Assets | 12,000 | 12,000 |
| **Operating Profit before Working Capital Changes** | | **82,000** |
| Add: Decrease in Current Assets (Inventory) | 5,000 | |
| Add: Increase in Current Liabilities (Trade Payables) | 6,000 | 11,000 |
| | | **93,000** |
| Less: Increase in Current Assets (Trade Receivables) | 8,000 | (8,000) |
| **Net Cash Flow from Operating Activities** | | **85,000** |

**Detailed Verification & Managerial Insight:** While accounting profit stands at ₹ 70,000, actual cash generated from daily operations reached ₹ 85,000. This ₹ 15,000 cash surplus reflects non-cash depreciation add-back (+12,000) combined with net favourable working capital management (+3,000 net change across stock, payables, and receivables).
**Final Answer:** Cash Flow from Operating Activities = ₹ 85,000.

**Answer: (See solution)** Go Back to Q 47

## Detailed Solutions – Section B Module II

### Q37.

**Solution**

**Concept:** A spreadsheet grid is structured into horizontal rows and vertical columns. The fundamental rectangular unit formed by their intersection is called a Cell.

**Solution: Step 1:** Analyze spreadsheet architecture: Spreadsheet software (Excel, Calc) organizes data across numbered horizontal rows (1, 2, 3) and lettered vertical columns (A, B, C).

**Step 2:** Identify intersection point: When Column B intersects Row 5, a rectangular input box is formed designated by unique cell address `B5`.

**Step 3:** Define Cell function: A cell is the basic data container where numbers, accounting text titles, dates, or calculations are entered.

**Step 4:** Distinguish database terminology: Field refers to a vertical column in a database table; Record refers to a horizontal row representing one entity in a database.

**Step 5:** Distinguish system hierarchy: Database refers to the comprehensive repository of integrated data tables.

**Step 6:** Conclude exact grid terminology: Cell.

**Why other options are wrong:**

- **Option B:** Field is a relational database term representing a column attribute.
- **Option C:** Record is a relational database term representing a complete row entity.
- **Option D:** Database represents the overall structured data management container.

**Final Answer:** Cell (Option A)

**Answer: (A)** Go Back to Q 37

### Q38.

**Solution**

**Concept:** In spreadsheet applications, syntax rules dictate that every mathematical formula or function must initiate with an equal sign (=) to trigger calculation mode.

**Solution: Step 1:** Understand spreadsheet input parsing: When a user enters characters into a cell, software must distinguish between literal string text and computational instructions.

**Step 2:** Identify formula trigger symbol: Typing the equal sign (=) instructs the spreadsheet engine to evaluate the subsequent expression dynamically.

**Step 3:** Analyze formula syntax illustration: Entering `=B2*C2` multiplies quantity in `B2` by rate in `C2`. If entered without equal sign as `B2*C2`, the cell displays raw text `B2*C2` without calculating.

**Step 4:** Evaluate alternative arithmetic operators: Plus (+) and minus (−) function as internal mathematical operators inside formulas.

**Step 5:** Evaluate formatting symbols: Hash (#) appears during column width overflow (###) or syntax errors (#VALUE!); Percent (%) formats values as percentages.

**Step 6:** Select universal initiation character: Equal sign (=).

**Why other options are wrong:**

- **Option A:** Plus sign (+) performs addition arithmetic inside the formula body.
- **Option C:** Hash sign (#) indicates calculation errors or column width display overflow.
- **Option D:** Percent sign (%) divides numeric cell value by 100 for percentage formatting.

**Final Answer:** = (Option B)

**Answer: (B)** Go Back to Q 38

## Q39.

### Solution

**Concept:** Column charts utilize distinct vertical rectangular bars to compare quantitative magnitudes across discrete categories effectively.

**Solution: Step 1:** Examine provided visual diagram: The chart displays separate vertical bars rising along the Y-axis representing discrete product entities A, B, and C along the X-axis.

**Step 2:** Analyze chart function: Vertical bar height directly corresponds to comparative numerical values (sales volume or revenue) of different products.

**Step 3:** Identify standard chart classification: In business presentation software, vertical bar graphs comparing discrete categories are formally named Column Charts.

**Step 4:** Contrast with Pie chart: Pie chart divides a circular area into slices to illustrate proportional percentage share of individual components within a single total.

**Step 5:** Contrast with Line chart: Line chart plots continuous data points connected by straight lines to demonstrate chronological movement across time periods.

**Step 6:** Select accurate chart identification: Column chart.

**Why other options are wrong:**

- **Option A:** Pie chart shows percentage distribution of parts making up one whole circle.
- **Option B:** Line chart illustrates historical time-series trends over sequential dates.
- **Option D:** Scatter chart plots X-Y coordinate points to discover statistical correlation between two variables.

**Final Answer:** Column chart (Option C)

**Answer: (C)** Go Back to Q 39

## Q40.

### Solution

**Concept:** A Database Management System (DBMS) is specialized software engineered to store, organize, retrieve, query, and secure large volumes of structured data systematically.

**Solution: Step 1:** Define DBMS operational objective: To provide robust, centralized electronic data infrastructure replacing fragmented manual ledgers and standalone files.

**Step 2:** Analyze core functional capabilities: DBMS stores interconnected accounting tables (Customers, Invoices, Payments), executes rapid queries, enforces data integrity rules, and prevents data duplication.

**Step 3:** Evaluate compliance with accounting laws: DBMS operates as processing tool; it strictly adheres to double-entry accounting rules and GAAP principles rather than replacing them.

**Step 4:** Evaluate evidentiary requirements: Legal auditing mandates retention of physical or verified electronic source documents (invoices, receipts); DBMS manages data but cannot eliminate source verification.

**Step 5:** Evaluate reporting scope: While DBMS generates reports, its core value lies in relational data architecture rather than mere document decoration.

**Step 6:** Conclude primary functional utility: Option D accurately captures systematic data management.

**Why other options are wrong:**

- **Option A:** Report aesthetic formatting is handled by desktop publishing or presentation tools.
- **Option B:** DBMS processes data precisely governed by GAAP and statutory accounting principles.
- **Option C:** Source documents remain legally indispensable as primary transaction evidence.

**Final Answer:** Store, retrieve and manage data systematically (Option D)

**Answer: (D)** Go Back to Q 40

## Q41.

### Solution

**Concept:** A Primary Key is a designated column (or field combination) in a relational database table whose values uniquely identify every individual record entity without duplication.

**Solution: Step 1:** Understand relational database integrity: To update or retrieve a specific customer or invoice accurately, software requires an unambiguous identifier.

**Step 2:** Define Primary Key constraint: A primary key field must contain a unique value for each row and can never contain `NULL` (empty) values.

**Step 3:** Illustrate accounting applications: Assigning unique `CustomerID` (`CUST-101`),

`VoucherNo` (`VCH-2026-05`), or `InvoiceNo` ensures zero confusion even if two customers share identical personal names.

**Step 4:** Evaluate duplicate value prohibition: Allowing duplicates in a primary key would destroy relational linkage between primary tables and foreign key tables.

**Step 5:** Dismiss unrelated technical claims: Primary keys manage indexing; they do not restrict storage to binary images nor trigger automatic data deletion.

**Step 6:** Select definitive characteristic: Uniquely identifies each record.

**Why other options are wrong:**

- **Option A:** Duplicate values are strictly prohibited in primary key fields under relational database rules.
- **Option C:** Binary Large Object (BLOB) data types store images, whereas keys typically store numeric IDs or codes.
- **Option D:** Record deletion requires explicit `DELETE` SQL queries or cascade triggers, not key definition.

**Final Answer:** Uniquely identifies each record (Option B)

**Answer: (B)** Go Back to Q 41

## Q42.

## Solution

**Concept:** The `SUM` spreadsheet function aggregates and calculates the total mathematical addition of all numeric values contained within a specified continuous cell range.

**Solution: Step 1:** Identify task requirement: Adding numeric values contained in 10 sequential cells from `A1` down to `A10`.

**Step 2:** Analyze syntax for cell range notation: In spreadsheets, colon symbol (`:`) separates start cell and end cell of a continuous range (`A1:A10`).

**Step 3:** Evaluate `=SUM(A1:A10)`: Preceding range with `=SUM()` instructs software to add values of all cells $A1 + A2 + A3 + \cdots + A10$. This is the correct function.

**Step 4:** Evaluate `=AVG(A1:A10)` / `=AVERAGE(A1:A10)`: Computes arithmetic mean by dividing total sum by number of entries (10).

**Step 5:** Evaluate `=MAX(A1:A10)`: Scans range and extracts the highest single numerical figure.

**Step 6:** Evaluate `=COUNTIF(A1:A10)`: Counts number of cells meeting a specific condition; fails without logical criteria parameter.

**Why other options are wrong:**

- **Option B:** `AVG/AVERAGE` calculates statistical arithmetic mean rather than total addition.
- **Option C:** `MAX` identifies the single maximum numerical value within the range.

- **Option D:** `COUNTIF` tallies cell frequencies matching specified logical criteria.

**Final Answer:** =SUM(A1:A10) (Option A)

**Answer: (A)** Go Back to Q 42

## Q43.

### Solution

**Concept:** Spreadsheet software and relational database systems maintain strict structural hierarchy definitions for files, grids, rows, and columns.

**Solution: Step 1:** Analyze sentence (i): In spreadsheet software (Excel), an individual calculation grid is a worksheet. The overall file container storing multiple related worksheets (e.g., Sales sheet, Purchases sheet, Balance Sheet) is formally called a **workbook**.

**Step 2:** Analyze sentence (ii): In relational database tables, data is organized in grids. A horizontal row representing one complete transaction entity is a record. A vertical column storing a specific category of data (e.g., Customer Name, Amount) is formally called a **field**.

**Step 3:** Verify terminology precision across software domains.

**Step 4:** Confirm mutual distinction between workbook and worksheet.

**Step 5:** Double check sequence against standard definitions.

**Step 6:** Finalize exact blank terms: 1. workbook; 2. field.
**Final Answer:** 1. workbook; 2. field

**Answer: (See solution)** Go Back to Q 43

## Q44.

### Solution

**Concept:** Spreadsheets transform manual accounting schedules into dynamic, automated electronic worksheets that eliminate computational errors and accelerate reporting.

**Solution: Step 1:** Identify advantage 1 (Automated Recalculation & Error Reduction): Formulae (`SUM`, `PRODUCT`) execute instant mathematical computations. If an underlying entry changes (e.g., invoice rate revision), all dependent ledger totals and tax schedules recalculate automatically with zero arithmetic error.

**Step 2:** Identify advantage 2 (Data Organization & Analytical Sorting): Spreadsheets organize extensive accounting data into structured tabular rows and columns. Accountants can instantly sort thousands of vouchers chronologically or filter debtors by overdue credit aging schedules.

**Step 3:** Identify advantage 3 (Graphical Reporting & Financial Modeling): Spreadsheets convert accounting schedules into professional visualizations (bar charts, pie diagrams) and support "What-If" financial forecasting models for budget planning.

**Step 4:** Identify advantage 4 (Template Reusability): Built templates for payroll, BRS, or depreciation schedules can be reused every month without redesigning accounting layouts.

**Step 5:** Select two primary operational benefits for formal presentation.

**Step 6:** Formulate concise examination response.
**Final Answer:** Two major advantages: 1. **Automated Mathematical Recalculation:** Built-in formulae execute instant calculations and automatically update all totals when source data changes, eliminating manual arithmetic errors. 2. **Analytical Sorting and Filtering:** Large accounting schedules can be filtered instantaneously by date, account head, or overdue balances for rapid decision-making.

**Answer: (See solution)** Go Back to Q 44

## Q45.

### Solution

**Concept:** A Workbook represents the physical electronic spreadsheet file on disk, whereas a Worksheet represents an individual grid page contained inside that workbook.

**Solution: Step 1:** Identify comparison parameter 1 (Definition & Structural Hierarchy): A workbook is the parent electronic file (`.xlsx` or `.ods`) created in spreadsheet application. A worksheet is a single child spreadsheet page organized into rows, columns, and cells inside the workbook.

**Step 2:** Identify comparison parameter 2 (Composition & Capacity): A workbook can contain multiple worksheets (e.g., Sheet1, Sheet2, Sheet3 up to system memory limits). A worksheet contains a grid of over 1 million rows and 16,384 columns (`A` to `XFD`).

**Step 3:** Identify comparison parameter 3 (Accounting Analogy): A workbook is analogous to an entire physical ledger book or filing cabinet. A worksheet is analogous to a single physical account page or ledger sheet bound inside that book.

**Step 4:** Identify comparison parameter 4 (Scope of Operations): Saving, opening, or closing operates on the entire workbook file. Sorting, data entry, and cell formatting operate on individual active worksheets.

**Step 5:** Tabulate clear structural contrast:

| Basis of Distinction | Worksheet | Workbook |
|---|---|---|
| **1. Meaning & Level** | A single electronic calculation grid page consisting of rows and columns. | The complete parent spreadsheet file that stores one or multiple worksheets. |
| **2. Physical Analogy** | Equivalent to a single page or accounting schedule inside a ledger book. | Equivalent to the entire physical ledger book file saved on computer disk. |

**Step 6:** Conclude hierarchical relationship between file and sheet.
**Final Answer:** 1. A worksheet is a single calculation grid of rows and columns (like one ledger page). A workbook is the parent spreadsheet file containing one or more worksheets (like the full ledger book). 2. File operations (save/close) apply to workbooks; cell editing applies to worksheets.

**Answer: (See solution)** Go Back to Q 45

## Q46.

### Solution

**Concept:** Spreadsheet calculation automation utilizes relative cell references inside formulas (`*` for multiplication, `SUM` for vertical range aggregation).

**Solution: Step 1:** Analyze input parameter cell locations: * Quantity value is stored in cell `B2`. * Rate per unit value is stored in cell `C2`.

**Step 2:** Formulate line item Amount formula for cell `D2`: Amount equals Quantity multiplied by Rate. In spreadsheet syntax, multiplication operator is asterisk (`*`). Prepending equal sign (`=`), formula in `D2` becomes: `=B2*C2`

**Step 3:** Explain relative referencing advantage: Using cell addresses (`B2*C2`) rather than static numbers ensures that if quantity or rate is updated later, cell `D2` recalculates automatically.

**Step 4:** Analyze aggregation range requirement: Totaling all individual item amounts appearing vertically from cell `D2` down through cell `D10`.

**Step 5:** Formulate total summation formula for cell `D11`: Applying `SUM` function over range `D2:D10` with equal sign (`=`), formula in `D11` becomes: `=SUM(D2:D10)`

**Step 6:** Tabulate exact spreadsheet formulas:
**Final Answer:** Formula in D2: `=B2*C2` ; Formula in D11: `=SUM(D2:D10)`.

**Answer: (See solution)** Go Back to Q 46

## Q47.

### Solution

**Concept:** Designing a relational database table for customer accounting requires defining structured fields with appropriate data types and designating a Primary Key to maintain record uniqueness and support computerized ledger processing.

**Solution: Step 1:** Understand customer database design objective: In computerized accounting systems (DBMS), customer accounts are maintained in a relational table named `tbl_Customers`. The objective is to store comprehensive identification, credit control, and transactional balance data for every customer in standardized fields (columns) so that statements of account, aging schedules, and collection reminders can be generated automatically.

**Step 2:** Designate Primary Key and explain its crucial role: A Primary Key is a mandatory field that uniquely identifies each record in the database table without allowing duplicate or null values. In customer accounting, personal names cannot serve as primary keys because multiple customers may share identical names (e.g., "Rajesh Kumar"). To eliminate ambiguity, the system assigns a unique alphanumeric code field named `CustomerID` (e.g., `CUST-1001`). By designating `CustomerID` as the Primary Key, the database ensures that: 1. No two customer records can ever be confused or duplicated. 2. Sales invoices, credit notes, and cash receipts stored in separate

relational transaction tables can link perfectly to the correct customer account via this unique identifier.

**Step 3:** Select and define five suitable accounting database fields: A well-structured customer accounting table must incorporate structural attributes covering identification, contact details, and financial balances:

**Step 4:** Explain data integration with transaction ledger processing: When a credit sale invoice is processed in the sales software, the system searches `tbl_Customers` using `CustomerID`. It verifies whether current `ClosingBalance` plus new invoice amount exceeds approved `CreditLimit`. If within limit, the invoice is posted, automatically updating `TotalSales` and debiting `ClosingBalance`.

**Step 5:** Explain reporting and audit utility: Using SQL database queries on these five fields, accounting managers instantly generate critical operational reports: * **List of Outstanding Debtors:** Extracting all records where `ClosingBalance > 0`. * **Credit Limit Breach Alert:** Identifying customers where `ClosingBalance > CreditLimit`. * **Top Revenue Customers:** Sorting records in descending order of `TotalSales`.

**Step 6:** Conclude overall architectural value: Structuring customer accounting through a primary-keyed database table eliminates manual ledger posting errors, enhances real-time credit control, and provides instantaneous financial visibility required for modern Accountancy practice.
**Final Answer:** Table `tbl_Customers` utilizes `CustomerID` as Primary Key to uniquely identify accounts. Five essential fields: `CustomerID` (Primary Key), `CustomerName` (Text), `CreditLimit` (Currency), `TotalSales` (Currency), and `ClosingBalance` (Currency) enabling automated credit control and ledger reporting.

**Answer: (See solution)** Go Back to Q 47

# Answer Key

### Section A: Q1–Q14

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

### Section B Module I: Q37–Q42

| 37 | B | 38 | C | 39 | A | 40 | D | 41 | B | 42 | C |
|---|---|---|---|---|---|---|---|---|---|---|---|

### Section B Module II: Q37–Q42

| 37 | A | 38 | B | 39 | C | 40 | D | 41 | B | 42 | A |
|---|---|---|---|---|---|---|---|---|---|---|---|