NIOS Class 12 Accountancy Sample Paper-4

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**: Very 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. A business has total assets of ₹ 2,00,000 and outside liabilities of ₹ 50,000. The amount of the owner's capital is: **(1)**

(A) ₹ 2,50,000

(B) ₹ 1,00,000

(C) ₹ 1,50,000

(D) ₹ 50,000

Q2. Which one of the following is a Personal Account? **(1)**

(A) Outstanding Salary

(B) Cash

(C) Rent

(D) Machinery

Q3. A Suspense Account is opened in the ledger when: **(1)**

(A) the net profit for the year is being calculated

(B) the Trial Balance does not agree and the difference is to be carried temporarily

(C) a new partner is admitted to the firm

(D) goods are sold on credit to a customer

Q4. In a Bank Reconciliation Statement, starting from the Cash Book balance, the amount of bank interest *allowed* by the bank and credited in the Pass Book only is: **(1)**

(A) deducted from the cash book balance

(B) ignored, as it is purely a bank matter

(C) treated as an income of the previous year

(D) added to the cash book balance

Q5. Salaries paid to the office staff of a trading concern are shown on the: **(1)**

(A) debit side of the Profit and Loss Account

(B) credit side of the Trading Account

(C) asset side of the Balance Sheet

(D) debit side of the Trading Account

Q6. The balancing figure of the Profit and Loss Account (after taking into account all indirect expenses and incomes) is known as: **(1)**

(A) Gross Profit

(B) Net Profit or Net Loss

(C) Cost of Goods Sold

(D) Operating Profit

Q7. Which one of the following is a Fixed (Non-current) Asset? **(1)**

(A) Debtors

(B) Bank Balance

(C) Patents

(D) Closing Stock

Q8. Under the Average Profit method, the value of goodwill is calculated as: **(1)**

(A) Super Profit × 100 / Normal Rate of Return

(B) Average Profit × Normal Rate / 100

(C) Total Profit / Number of years

(D) Average Profit × Number of Years' Purchase

Q9. A and B share profits equally. They admit C as a new partner. C gets a $\frac{1}{5}$th share which he acquires equally from A and B. The new profit-sharing ratio of A, B and C is: **(1)**

(A) 2 : 2 : 1

(B) 3 : 3 : 2

(C) 4 : 4 : 1

(D) 3 : 2 : 1

Q10. At the time of admission of a partner, the balance of the General Reserve (accumulated profit) is transferred to the old partners' capital accounts in their: **(1)**

(A) new profit-sharing ratio

(B) old profit-sharing ratio

(C) sacrificing ratio

(D) equal ratio

Q11. At the time of dissolution of a firm, a partner's loan to the firm (a liability of the firm) is paid: **(1)**

(A) before the payment of outside (third-party) creditors

(B) after the payment of partners' capital accounts

(C) after the payment of outside creditors but before the partners' capital accounts

(D) only after all partners' capital accounts are settled

Q12. "Minimum Subscription" means: **(1)**

(A) the minimum dividend that must be declared

(B) the shares that remain unsubscribed by the public

(C) the maximum capital a company is permitted to raise

(D) the minimum amount that must be subscribed before the directors can proceed to allotment

Q13. As per Table F of the Companies Act, 2013, the maximum rate of interest that may be charged on Calls in Arrears is: **(1)**

(A) 10% per annum

(B) 12% per annum

(C) 6% per annum

(D) 15% per annum

Q14. "Authorised Capital" of a company is: **(1)**

(A) the amount actually called up on the shares

(B) the maximum amount of share capital a company is authorised to raise as per its Memorandum

(C) the amount actually paid by the shareholders

(D) the amount of capital subscribed by the public

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

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

1. The excess of a firm's total assets over its outside liabilities is called .....
2. Expenses which have been paid in advance, before they are actually due, are called .....

Q16. Answer the following in one word / phrase: **(2)**

1. Name the Accounting Standard that prescribes the preparation of the Cash Flow Statement.
2. A person to whom the business owes money is called a .....

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

Column I	**Column II**
(a) Going Concern	(i) Only those transactions which can be expressed in money are recorded
(b) Money Measurement	(ii) The life of the business is assumed to be indefinite
(c) Accounting Period	(iii) The business is treated as distinct from its owner
(d) Business Entity	(iv) Financial results are reported for a fixed period of time

Q18. State whether the following are True (T) or False (F): **(2)**

1. Prepaid expenses are shown as a current asset in the Balance Sheet.
2. Goodwill is a fictitious asset.

Q19. Fill in the blanks: **(2)**

1. The portion of the share capital which a company offers to the public for subscription is called the ..... capital.
2. Shares which carry a preferential right to the payment of dividend are called shares.

Q20. Answer the following in one word / phrase: **(2)**

1. The maximum amount of capital a company can raise, as stated in its Memorandum, is called .....capital.
2. The return of application money to applicants whose shares are not allotted is called .....

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

Q21. State whether the following statements are True (T) or False (F): **(4)**

1. A Trial Balance is itself an account in the ledger.
2. A Bank Account is a personal account.
3. Depreciation is charged on current assets such as stock and debtors.
4. Capital is regarded as a liability of the firm towards its owner.

Q22. Match the adjustment in Column I with its correct accounting treatment in Column II: **(4)**

Column I	**Column II**
(a) Depreciation	(i) Added to the income on the credit side and shown as a current asset
(b) Prepaid Expenses	(ii) Charged to the Profit and Loss Account
(c) Accrued Income	(iii) Deducted from the expense and shown as a current asset
(d) Further Bad Debts	(iv) Debited to the Profit and Loss Account

Q23. Match the type of share in Column I with its main feature in Column II: **(4)**

Column I	Column II
(a) Equity Share	(i) Carries a fixed rate of dividend and priority of payment
(b) Preference Share	(ii) Issued to existing shareholders free of cost out of reserves
(c) Bonus Share	(iii) Issued to employees or directors, often at a discount or for consideration other than cash
(d) Sweat Equity Share	(iv) Bears the highest risk and normally carries voting rights

Q24. Fill in the blanks related to adjustments in final accounts: **(4)**

1. Depreciation on fixed assets is shown on the debit side of the . . . Account.
2. Outstanding (unpaid) expenses are . . to the concerned expense in the final accounts.
3. Prepaid expenses are from the concerned expense and shown as a current asset.
4. Accrued (earned but not received) income is . to the concerned income on the credit side.

Q25. What is a Trial Balance? State any one of its objectives. **(2)**

Q26. What is meant by Depreciation? State any one cause of depreciation. **(2)**

Q27. Distinguish between Sacrificing Ratio and Gaining Ratio on any two points. **(2)**

Q28. What is meant by Forfeiture of Shares? **(2)**

Q29. From the following particulars, prepare a Bank Reconciliation Statement and find the balance as per the Pass Book: Balance as per Cash Book (favourable) ₹ 25,000; cheques deposited into the bank but not yet collected ₹ 5,000; cheques issued but not yet presented for payment ₹ 3,000; bank charges debited in the Pass Book only ₹ 200; interest allowed by the bank and credited in the Pass Book only ₹ 500. **(3)**

OR

The Pass Book of a trader showed a favourable (credit) balance of ₹ 18,000. Cheques of ₹ 4,000 were issued but not presented; cheques of ₹ 6,000 were deposited but not collected; and a direct deposit of ₹ 2,000 by a customer appeared only in the Pass Book. Calculate the balance as per the Cash Book.

Q30. A machine was purchased for ₹ 60,000 and ₹ 10,000 was spent on its installation. It is to be depreciated at 10% per annum on the Original Cost (Straight Line) method. Calculate the amount of depreciation per year and the book value of the machine after two years. **(3)**

OR

The same machine (original cost ₹ 70,000) is depreciated at 10% per annum on the Written Down Value (diminishing balance) method. Calculate the depreciation for each of the first two years and the book value at the end of the second year.

Q31. P and Q share profits in the ratio 3 : 2. They admit R as a new partner. R gets a $\frac{1}{4}$th share, which he acquires equally from P and Q. Calculate the new profit-sharing ratio of P, Q and R, and the sacrificing ratio of P and Q. **(3)**

OR

L, M and N share profits in the ratio 4 : 3 : 1. N retires and his share is taken over by L and M in the ratio 2 : 1. Calculate the gaining ratio and the new profit-sharing ratio of L and M.

Q32. X Ltd. issued 5,000 equity shares of ₹ 10 each at par, payable as ₹ 2 on application, ₹ 3 on allotment and ₹ 5 on first and final call. All money was duly received. Pass the journal entries for the receipt of application money, allotment money and call money. **(3)**

OR

A company forfeited 400 equity shares of ₹ 10 each (₹ 8 called up) on which ₹ 6 per share had been received. Pass the forfeiture entry. These shares were later reissued at ₹ 7 per share as ₹ 8 paid up. Pass the reissue entry and find the amount transferred to Capital Reserve.

Q33. Distinguish between a Fixed Capital Account and a Fluctuating Capital Account on any three points. **(3)**

OR

Explain the accounting treatment of goodwill brought in cash by an incoming partner at the time of admission, when (i) the goodwill is retained in the business, and (ii) the goodwill is fully withdrawn by the old partners.

Q34. From the following Trial Balance and additional information, prepare the Trading and Profit & Loss Account for the year ended 31st March, 2026 and the Balance Sheet as on that date: **(5)**

Particulars (Dr.)	**₹**	**Particulars (Cr.)**	**₹**
Stock (1-4-2025)	20,000	Sales	2,00,000
Purchases	1,20,000	Creditors	25,000
Wages	30,000	Capital	1,50,000
Salaries	20,000		
Rent	10,000		
Debtors	40,000		
Machinery	1,00,000		
Cash at Bank	35,000		
Total	**3,75,000**	**Total**	**3,75,000**

Adjustments: (i) Closing Stock ₹ 25,000; (ii) Depreciate Machinery by 10%; (iii) Outstanding Salaries ₹ 2,000; (iv) Prepaid Rent ₹ 1,000; (v) Accrued Commission ₹ 1,500.

OR

Explain any five important accounting concepts/conventions (such as Business Entity, Money Measurement, Going Concern, Accounting Period, and Conservatism) along with their meaning.

Q35. X and Y are partners sharing profits in the ratio 3 : 2. Their capital accounts show balances of ₹ 1,00,000 and ₹ 80,000 respectively. They admit Z as a new partner for $\frac{1}{5}$th share in future profits. Z brings ₹ 60,000 as his capital and ₹ 20,000 as his share of goodwill in cash. The goodwill is retained in the

business. Assuming the sacrificing ratio is the same as the old ratio, pass the necessary journal entries and show how the goodwill is distributed between X and Y. **(5)**

OR

A, B and C share profits in the ratio 5 : 3 : 2. C retires. The goodwill of the firm is valued at ₹ 1,00,000 and appears in the books at ₹ 40,000. A and B decide to share future profits in the ratio 3 : 2. Pass the necessary journal entries for the treatment of goodwill after C's retirement (without raising goodwill to its full value, i.e. by adjusting through capital accounts).

Q36. A Ltd. issued 8,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable as ₹ 3 on application, ₹ 5 (including premium) on allotment and ₹ 4 on first and final call. Applications were received for 10,000 shares and the directors made a pro-rata allotment, the excess application money being adjusted towards allotment. Allotment money was duly received. A shareholder holding 200 shares failed to pay the call and his shares were forfeited. Pass the journal entries for (i) receipt of application money, (ii) pro-rata adjustment and allotment due, and (iii) forfeiture of shares. **(5)**

OR

A company forfeited 1,500 equity shares of ₹ 10 each (₹ 8 called up) for non-payment of allotment money of ₹ 3 per share (the first call of ₹ 3 was also not paid; application money of ₹ 2 had been received). These shares were reissued at ₹ 9 per share as fully paid up. Pass the journal entries for forfeiture, reissue, and the transfer of the net amount to Capital Reserve.

Section: B – Module I

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

Q37. The ideal or normal Current Ratio is conventionally taken to be: **(1)**

(A) 1 : 1

(B) 0.5 : 1

(C) 2 : 1

(D) 3 : 1

Q38. The ideal or normal Liquid (Quick) Ratio is conventionally taken to be: **(1)**

(A) 1 : 1

(B) 2 : 1

(C) 3 : 1

(D) 0.5 : 1

Q39. The ratio that measures the relationship between the long-term debts of a firm and its shareholders' funds is the: **(1)**

(A) Current Ratio

(B) Debt-Equity Ratio

(C) Inventory Turnover Ratio

(D) Gross Profit Ratio

Q40. Cash received from the sale of a fixed asset (machinery) is classified, under AS-3, as a cash flow from: **(1)**

(A) Operating activities

(B) Financing activities

(C) Investing activities

(D) Cash equivalents

Q41. "Working Capital" is computed as: **(1)**

(A) Current Assets + Current Liabilities

(B) Fixed Assets – Current Liabilities

(C) Current Liabilities – Current Assets

(D) Current Assets – Current Liabilities

Q42. The analysis of the financial statements of a single firm for one year, in which each item is expressed as a percentage of a common base figure, is called: **(1)**

(A) Trend analysis

(B) Common-size (vertical) analysis

(C) Ratio analysis

(D) Cash flow analysis

Q43. Fill in the blanks: (i) Working Capital = Current Assets − . (ii) The analysis of the financial statements of one firm over a number of years against a base year is called .....analysis. **(2)**

Q44. What is Ratio Analysis? State any one of its objectives. **(2)**

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

Q46. From the following information, calculate (i) the Debt-Equity Ratio and (ii) the Proprietary Ratio: Long-term Debts ₹ 1,50,000; Shareholders' Funds ₹ 2,50,000; Total Assets ₹ 4,50,000. **(3)**

OR

From a Revenue from Operations of ₹ 3,00,000 and a Gross Profit of ₹ 75,000, calculate the Gross Profit Ratio.

Q47. From the following information, calculate the Cash Flow from Operating Activities by the indirect method: Net Profit before tax ₹ 80,000; Depreciation ₹ 15,000; Loss on sale of machinery ₹ 5,000; Decrease in Trade Receivables ₹ 10,000; Increase in Inventory ₹ 8,000; Decrease in Trade Payables ₹ 4,000. Ignore taxation. **(5)**

OR

From the following information calculate (i) Current Ratio, (ii) Liquid Ratio, and (iii) Inventory Turnover Ratio: Current Assets ₹ 3,00,000; Inventory ₹ 60,000; Prepaid Expenses ₹ 15,000; Current Liabilities ₹ 1,20,000; Cost of Goods Sold ₹ 4,80,000.

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, a cell reference that does NOT change when the formula is copied to another cell is called a/an: **(1)**

(A) relative reference

(B) circular reference

(C) absolute reference

(D) text reference

Q38. A Line chart is mainly used to show: **(1)**

(A) the trend of a variable over a period of time

(B) the percentage share of the components of a total

(C) the correlation between two variables

(D) the single largest value in a range

Q39. The function `=AVERAGE(B1:B10)` returns: **(1)**

(A) the total of the values in B1 to B10

(B) the largest value in B1 to B10

(C) the number of entries in B1 to B10

(D) the arithmetic mean of the values in B1 to B10

Q40. A collection of related data arranged in rows and columns, in which each row is a record and each column is a field, is called a: **(1)**

(A) table

(B) paragraph

(C) formula

(D) chart

Q41. The physical parts of a computer, such as the keyboard, mouse and monitor, are collectively called: **(1)**

(A) software

(B) hardware

(C) firmware

(D) shareware

Q42. The main purpose of a Primary Key in a database table is to: **(1)**

(A) format the report

(B) calculate the total of a column

(C) draw a chart from the data

(D) uniquely identify each record in the table

Q43. Fill in the blanks: (i) A cell reference that keeps the same value when the formula is copied is called a/an . reference. (ii) The formatted output generated from a database query is called a ..... **(2)**

Q44. State any two advantages of using a Database Management System (DBMS) in accounting. **(2)**

Q45. Distinguish between a Formula and a Function (one point each). **(2)**

Q46. Explain any three important features of a spreadsheet. **(3)**

OR

Write the spreadsheet formulas for the following: (i) Add all values in cells A1 to A10; (ii) Find the average value of the range B1 to B20; (iii) Count the number of numeric entries in cells C1 to C15.

Q47. Explain how a database can be used to maintain accounting records. Describe any five suitable fields of an "Inventory / Items" table and explain the role of the primary key in it. **(5)**

OR

What is a Relational Database Management System (RDBMS)? Explain any five features of an RDBMS.

Detailed Solutions – Section A

Q1.

Solution

Concept: From the accounting equation Assets = Liabilities + Capital, the owner's capital is obtained by rearranging as Capital = Assets − Liabilities.

Solution:

Step 1: Write down the given figures. Total Assets = ₹ 2,00,000; Outside Liabilities = ₹ 50,000.

Step 2: Apply the rearranged equation: Capital = Assets − Liabilities.

Step 3: Substitute the values: Capital = | 2,00,000 − | 50,000 = | 1,50,000.

Step 4: Verify with the original equation: ₹ 2,00,000 = ₹ 50,000 + ₹ 1,50,000. Both sides agree. ✓

Step 5: Sanity check: capital is positive, which confirms the firm is solvent.

Step 6: Conclude the capital figure: ₹ 1,50,000.

Why other options are wrong:

- **Option A:** ₹ 2,50,000 wrongly *adds* the liabilities instead of deducting them.
- **Option B:** ₹ 1,00,000 is the figure obtained by deducting the assets from the liabilities, reversing the order.
- **Option D:** ₹ 50,000 is merely the amount of liabilities, not the capital.

Final Answer: ₹ 1,50,000 (Option C)

Answer: (C) Go Back to Q 1

Q2.

Solution

Concept: Accounts are classified into Personal, Real and Nominal. A Personal Account relates to persons or firms (including representative persons like outstanding/accrued items), a Real Account relates to assets, and a Nominal Account relates to expenses, incomes, gains or losses.

Solution:

Step 1: Examine "Outstanding Salary". It represents the amount of salary *due but not yet paid* to employees — i.e., it stands in the place of the employees.

Step 2: Classify it. Because it represents a person or group of persons (the employees), it is a *representative personal account*.

Step 3: Examine "Cash". Cash is a tangible asset, hence a Real account.

Step 4: Examine "Rent". Rent is an expense, hence a Nominal account.

Step 5: Examine "Machinery". Machinery is a tangible fixed asset, hence a Real account.

Step 6: Conclude: only Outstanding Salary is a Personal account.

Why other options are wrong:

- **Option B:** Cash is a Real (asset) account.
- **Option C:** Rent is a Nominal (expense) account.
- **Option D:** Machinery is a Real (asset) account.

Final Answer: Outstanding Salary (Option A)

Answer: (A) Go Back to Q 2

Q3.

Solution

Concept: When the two sides of a Trial Balance do not agree and the error cannot be located immediately, the difference is temporarily placed in a Suspense Account so that the financial statements can still be prepared.

Solution:

Step 1: Recall that the Trial Balance is prepared to check the arithmetical accuracy of the ledger.

Step 2: Identify the problem. Sometimes the totals do not match and the error cannot be found at once.

Step 3: State the remedy. The short or excess side is balanced by opening a Suspense Account in the ledger.

Step 4: Explain the treatment. The difference is placed on the shorter side as "To/By Suspense Account", and the Suspense balance is cleared later when the error is detected.

Step 5: Confirm that a Suspense Account is a purely temporary device, not a real account of the business.

Step 6: Select the matching option: the Trial Balance does not agree and the difference is carried temporarily.

Why other options are wrong:

- **Option A:** Net profit is computed from the Trading and P&L Account, not through a Suspense Account.
- **Option C:** Admission of a partner has no direct connection with a Suspense Account.
- **Option D:** A credit sale is recorded through the debtors and sales accounts, not a Suspense Account.

Final Answer: The Trial Balance does not agree and the difference is to be carried temporarily (Option B)

Answer: (B) Go Back to Q 3

Q4.

Solution

Concept: In a Bank Reconciliation Statement, any item that has been recorded by the bank but not yet in the Cash Book is adjusted against the Cash Book balance to arrive at the Pass Book balance. Interest allowed (credited) by the bank increases the Pass Book balance, so it is added to the Cash Book balance.

Solution:

Step 1: Identify the item. Bank interest has been credited in the Pass Book but not yet recorded in the Cash Book.

Step 2: Determine its effect. The credit increases the Pass Book balance, leaving the Cash Book balance lower by that amount.

Step 3: Decide the direction. Starting from the Cash Book balance, to reach the higher Pass Book figure, the interest must be *added*.

Step 4: Verify with the rule. Items that increase the Pass Book balance (but are not in the Cash Book) are added when starting from the Cash Book.

Step 5: Sanity check: interest allowed is an income of the firm; recording it increases the bank balance, consistent with "adding".

Step 6: Conclude: added to the cash book balance.

Why other options are wrong:

- **Option A:** Deducting would reduce the balance further, moving away from the Pass Book figure.
- **Option B:** Ignoring it would leave the two books unreconciled.
- **Option C:** It is an income of the current year, not of the previous year.

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

Answer: (D) Go Back to Q 4

Q5.

Solution

Concept: Salaries paid to office staff are an *indirect* (administrative) expense, incurred after the goods have reached saleable condition. Indirect expenses are charged to the Profit and Loss Account on the debit side.

Solution:

Step 1: Classify the expense. Office salaries are administrative in nature and do not add to the cost of goods.

Step 2: Apply the matching concept. Indirect expenses are set off against the gross profit in the Profit and Loss Account.

Step 3: Place the item. Expenses are always debited, so salaries appear on the debit side of the P&L Account.

Step 4: Contrast with the Trading Account, which records only *direct* expenses (such as wages and carriage inward).

Step 5: Confirm that salaries are neither an asset nor a trading item.

Step 6: Conclude the placement: debit side of the Profit and Loss Account.

Why other options are wrong:

- **Option B:** The credit side of the Trading Account records sales and closing stock, not expenses.
- **Option C:** An expense is never shown on the asset side of the Balance Sheet.
- **Option D:** The debit side of the Trading Account is reserved for direct expenses, not office salaries.

Final Answer: Debit side of the Profit and Loss Account (Option A)

Answer: (A) Go Back to Q 5

Q6.

Solution

Concept: The Profit and Loss Account begins with the Gross Profit (brought down from the Trading Account), adjusts all indirect expenses and incomes, and the final balancing figure is the Net Profit (or Net Loss) for the period.

Solution:

Step 1: Recall the structure. The Trading Account yields the Gross Profit; the P&L Account then deducts indirect expenses and adds indirect incomes.

Step 2: Identify the balancing figure. After all adjustments, the surplus (or shortfall) remaining is the true operating result for the period.

Step 3: Name this figure. The final profit or loss, after every indirect item, is called the Net Profit or Net Loss.

Step 4: Distinguish from Gross Profit, which is computed only in the Trading Account.

Step 5: Distinguish from Operating Profit, which excludes non-operating items.

Step 6: Conclude: the balancing figure of the P&L Account is the Net Profit or Net Loss.

Why other options are wrong:

- **Option A:** Gross Profit is the balancing figure of the Trading Account, not the P&L Account.
- **Option C:** Cost of Goods Sold is a debit-side item of the Trading Account.
- **Option D:** Operating Profit is computed before adjusting non-operating items.

Final Answer: Net Profit or Net Loss (Option B)

Answer: (B) Go Back to Q 6

Q7.

Solution

Concept: A Fixed (Non-current) Asset is one held for long-term use in the business and is not meant for resale. Patents are long-term rights without physical form, classified as intangible fixed assets.

Solution:

Step 1: Examine "Patents". A patent is a long-term legal right to use an invention; it benefits the business over many years.

Step 2: Classify it. As it is held for long-term use and not for sale, it is a (non-current) fixed asset — specifically an intangible one.

Step 3: Examine "Debtors". Debtors are amounts receivable in the short term, hence a current asset.

Step 4: Examine "Bank Balance". It is immediately realisable in cash, hence a current asset.

Step 5: Examine "Closing Stock". It is held for sale in the ordinary course, hence a current asset.

Step 6: Conclude: only Patents is a fixed asset.

Why other options are wrong:

- **Option A:** Debtors are short-term receivables, a current asset.
- **Option B:** Bank balance is a current asset.
- **Option D:** Closing stock is intended for resale, a current asset.

Final Answer: Patents (Option C)

Answer: (C) Go Back to Q 7

Q8.

Solution

Concept: Under the Average Profit method, goodwill is valued by multiplying the average (adjusted) profit of the past few years by an agreed number of years' purchase.

Solution:

Step 1: Recall the method. The Average Profit method uses the normal average profit as the basis of valuation.

Step 2: Identify the multiplier. The agreed "number of years' purchase" reflects how many years of super-earning capacity the buyer is willing to pay for.

Step 3: State the formula: Goodwill = Average Profit $\times$ Number of Years' Purchase.

Step 4: Illustrate. If the average profit is ₹ 50,000 and the agreed years' purchase is 3, then goodwill = | 50,000 × 3 = | 1,50,000.

Step 5: Contrast with the Super Profit method, which uses only the profit *above* the normal return.

Step 6: Conclude the correct formula: Average Profit × Number of Years' Purchase.

Why other options are wrong:

- **Option A:** Super Profit ×100/ Normal Rate is the capitalisation of super profit formula.
- **Option B:** Average Profit × Normal Rate/100 does not yield goodwill.
- **Option C:** Total Profit / Number of years merely gives the average, not the goodwill.

Final Answer: Average Profit × Number of Years' Purchase (Option D)

Answer: (D) Go Back to Q 8

Q9.

Solution

Concept: When a new partner acquires his share *from* the old partners, each old partner's new share equals his old share less the portion surrendered to the new partner.

Solution:

Step 1: Old ratio of A : B = 1 : 1, so A = $\frac{1}{2}$ and B = $\frac{1}{2}$.

Step 2: C acquires $\frac{1}{5}$ *equally* from A and B, so each surrenders $\frac{1}{5} \div 2 = \frac{1}{10}$.

Step 3: New share of A = $\frac{1}{2} - \frac{1}{10} = \frac{5}{10} - \frac{1}{10} = \frac{4}{10} = \frac{2}{5}$.

Step 4: New share of B = $\frac{1}{2} - \frac{1}{10} = \frac{2}{5}$.

Step 5: New share of C = $\frac{1}{5} = \frac{2}{10}$. Hence the new ratio A : B : C = $\frac{2}{5} : \frac{2}{5} : \frac{1}{5}$ = 2 : 2 : 1.

Step 6: Verify: 2 + 2 + 1 = 5 parts; C's $\frac{1}{5}$ is confirmed. ✓

Why other options are wrong:

- **Option B:** 3 : 3 : 2 does not preserve C's agreed $\frac{1}{5}$ share.
- **Option C:** 4 : 4 : 1 overstates the total and is not in its simplest matching form.
- **Option D:** 3 : 2 : 1 implies unequal surrender by A and B, contrary to the question.

Final Answer: 2 : 2 : 1 (Option A)

Answer: (A) Go Back to Q 9

Q10.

Solution

Concept: Accumulated profits and reserves have been earned *before* the admission of the new partner and therefore belong exclusively to the old partners. They are distributed among the old partners in their old profit-sharing ratio, before the new partner shares in future profits.

Solution:

Step 1: Understand the nature of the General Reserve. It represents past undistributed profits.

Step 2: Determine its ownership. As it was earned before admission, the incoming partner has no right over it.

Step 3: Apply the distribution rule. Such reserves are credited to the old partners' capital accounts.

Step 4: Identify the ratio. Since the reserve belongs to the old partners, it is shared in their *old* profit-sharing ratio.

Step 5: Pass the entry: *General Reserve Account Dr.; To Old Partners' Capital Accounts (in old ratio).*

Step 6: Conclude: the old profit-sharing ratio.

Why other options are wrong:

- **Option A:** The new ratio would wrongly include the new partner, who has no claim on past reserves.
- **Option C:** The sacrificing ratio applies to the goodwill premium, not to reserves.
- **Option D:** An equal ratio ignores the actual profit-sharing proportions of the old partners.

Final Answer: Old profit-sharing ratio (Option B)

Answer: (B) Go Back to Q 10

Q11.

Solution

Concept: On dissolution, the available funds are applied in a fixed order of priority: first the realisation expenses, then the outside (third-party) creditors, then the partners' loans, and finally the partners' capital accounts.

Solution:

Step 1: State the order of payment on dissolution under the partnership rules.

Step 2: Rank the outside creditors. Third-party creditors (suppliers, bank, etc.) are paid *first*, because their claims rank above those of the partners.

Step 3: Rank the partner's loan. A loan given *by* a partner *to* the firm is a liability of the firm and is paid after the outside creditors.

Step 4: Rank the partners' capital. Partners' capital accounts are settled only after all external and loan claims have been cleared.

Step 5: Combine: partner's loan is paid after outside creditors but before partners' capital.

Step 6: Conclude the correct option.

Why other options are wrong:

- **Option A:** Paying a partner's loan before outside creditors violates the priority of external claims.
- **Option B:** Paying it after the partners' capital wrongly defers a firmer liability.
- **Option D:** The loan is not dependent on the distribution of realisation profit.

Final Answer: After the payment of outside creditors but before the partners' capital accounts (Option C)

Answer: (C) Go Back to Q 11

Q12.

Solution

Concept: "Minimum Subscription" is the least amount of capital that must be subscribed (and the application money received) before the directors can proceed to allot the shares. As per SEBI guidelines it is generally 90% of the issued amount.

Solution:

Step 1: Explain the purpose. The rule protects the company from starting operations with insufficient capital.

Step 2: State the requirement. If the minimum subscription is not received within a specified period, the entire application money must be refunded.

Step 3: Quantify the rule. The minimum is normally 90% of the issued capital.

Step 4: Distinguish from the maximum (authorised) capital, which is the upper limit.

Step 5: Confirm that it is not related to dividend or to unsubscribed shares.

Step 6: Conclude: the minimum amount that must be subscribed before allotment.

Why other options are wrong:

- **Option A:** Dividend is a separate matter, governed by the availability of profits.
- **Option B:** Unsubscribed shares are those *not* taken up; minimum subscription concerns the shares that *are* taken up.
- **Option C:** The maximum capital a company can raise is the authorised capital.

Final Answer: The minimum amount that must be subscribed before the directors can proceed to allotment (Option D)

Answer: (D) Go Back to Q 12

Q13.

Solution

Concept: Under Table F of Schedule I to the Companies Act, 2013, a company may charge interest on calls in arrears at a rate not exceeding 10% per annum, unless the Articles provide otherwise.

Solution:

Step 1: Recall the nature of calls in arrears. It is the amount called up but not paid by a shareholder by the due date.

Step 2: Identify the governing table. Table F lays down the default model Articles for companies.

Step 3: State the maximum rate for calls in arrears under Table F: 10% per annum.

Step 4: Contrast with calls in advance, on which interest up to 12% per annum may be *paid*.

Step 5: Confirm the figure among the options.

Step 6: Conclude: 10% per annum.

Why other options are wrong:

- **Option B:** 12% is the maximum rate of interest *payable* on calls in advance.
- **Option C:** 6% is the rate of interest payable on a partner's loan if the deed is silent; it is not the calls-in-arrears rate.
- **Option D:** 15% exceeds the statutory ceiling under Table F.

Final Answer: 10% per annum (Option A)

Answer: (A) Go Back to Q 13

Q14.

Solution

Concept: "Authorised Capital" (also called registered or nominal capital) is the maximum amount of share capital that a company is permitted to issue, as stated in its Memorandum of Association.

Solution:

Step 1: Define the Memorandum source. The authorised capital is stated in the capital clause of the Memorandum of Association.

Step 2: State its meaning. It sets the upper limit beyond which the company cannot issue shares without altering the Memorandum.

Step 3: Distinguish from issued capital, which is the portion actually offered to the public.

Step 4: Distinguish from called-up and paid-up capital, which are parts of the issued capital.

Step 5: Confirm that the authorised capital is always greater than or equal to the issued capital.

Step 6: Conclude: the maximum amount a company is authorised to raise under its Memorandum.

Why other options are wrong:

- **Option A:** The amount called up is the "called-up capital", not the authorised capital.

- **Option C:** The amount actually paid is the "paid-up capital".
- **Option D:** The amount subscribed by the public is the "subscribed capital".

Final Answer: The maximum amount of share capital a company is authorised to raise as per its Memorandum (Option B)

Answer: (B) Go Back to Q 14

Q15.

Solution

Concept: From the accounting equation, the excess of assets over outside liabilities represents the owner's capital; and amounts paid before they are actually due are termed prepaid.

Solution:

Step 1: Recall the accounting equation: Assets = Liabilities + Capital.

Step 2: Rearrange for capital: Capital = Assets − Liabilities. Hence the excess of assets over liabilities is the owner's *capital*.

Step 3: Define the second item. An expense paid in advance, before it becomes due, is a *prepaid expense*.

Step 4: State its treatment. A prepaid expense is shown as a current asset in the Balance Sheet.

Step 5: Confirm both terms against standard definitions.

Step 6: Fill the blanks: (i) capital; (ii) prepaid expenses.

Final Answer: (i) capital; (ii) prepaid expenses

Answer: (See solution) Go Back to Q 15

Q16.

Solution

Concept: AS-3 (issued by the ICAI) prescribes the preparation and presentation of the Cash Flow Statement, and a creditor is a person to whom the business owes money.

Solution:

Step 1: Identify the standard for cash flows. Accounting Standard 3 (AS-3), "Cash Flow Statements", governs its preparation.

Step 2: State its scope. AS-3 classifies cash flows into operating, investing and financing activities.

Step 3: Define the second term. A person or firm to whom the business owes money is a *creditor*.

Step 4: Confirm the accounting entry — a creditor appears on the credit side (liability) of the Balance Sheet.

Step 5: Verify both answers.

Step 6: Fill the blanks: (i) AS-3; (ii) creditor.

Final Answer: (i) AS-3 (Accounting Standard 3); (ii) creditor

Answer: (See solution) Go Back to Q 16

Q17.

Solution

Concept: Each accounting concept governs a distinct aspect of recording and reporting.

Solution:

Step 1: Match (a) Going Concern. The business is assumed to continue indefinitely. → matches (ii).

Step 2: Match (b) Money Measurement. Only transactions expressed in money are recorded. → matches (i).

Step 3: Match (c) Accounting Period. Results are reported for a fixed period. → matches (iv).

Step 4: Match (d) Business Entity. The business is treated as separate from its owner. → matches (iii).

Step 5: Verify each pair is consistent.

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

Answer: (See solution) Go Back to Q 17

Q18.

Solution

Concept: Prepaid expenses are current assets because they confer a future benefit. A fictitious asset, by contrast, is one which has no realisable value (such as preliminary expenses); goodwill is an intangible *fixed* asset, not a fictitious one.

Solution:

Step 1: Examine statement (i). A prepaid expense (e.g. prepaid insurance) represents a benefit to be received in the near future, so it is a current asset. → **True**.

Step 2: Examine statement (ii). Goodwill has a real value (it represents super-earning capacity); it is an intangible fixed asset, not a fictitious one. Fictitious assets include preliminary expenses and discount on issue of shares. → **False**.

Step 3: Confirm the treatment of prepaid expenses in the Balance Sheet.

Step 4: Confirm the distinction between intangible and fictitious assets.

Step 5: Re-verify both statements.

Step 6: Final evaluations: (i) True; (ii) False.
Final Answer: (i) True; (ii) False

Answer: (See solution) Go Back to Q 18

Q19.

Solution

Concept: The capital offered to the public is the issued capital, and shares that carry a preferential right to dividend are preference shares.

Solution:

Step 1: Explain issued capital. It is the portion of the authorised capital that is actually offered to the public for subscription.

Step 2: Confirm that issued capital cannot exceed authorised capital.

Step 3: Explain preference shares. These carry a fixed rate of dividend and a priority of payment over equity shares.

Step 4: Confirm that equity shares, by contrast, carry a variable dividend.

Step 5: Verify both terms.

Step 6: Fill the blanks: (i) issued; (ii) preference.

Final Answer: (i) issued; (ii) preference

Answer: (See solution) Go Back to Q 19

Q20.

Solution

Concept: The maximum capital a company can raise is the authorised capital, and money returned to unsuccessful applicants is a refund.

Solution:

Step 1: Explain authorised capital. It is the maximum capital fixed by the Memorandum of Association.

Step 2: Confirm that any issue beyond it requires an alteration of the Memorandum.

Step 3: Explain the refund. When applications are rejected (for example on oversubscription), the application money must be returned to the applicants.

Step 4: Pass the effect — the Share Application Account is debited and Bank is credited with the refunded amount.

Step 5: Verify both terms.

Step 6: Fill the blanks: (i) authorised (registered); (ii) refund.

Final Answer: (i) authorised (registered); (ii) refund

Answer: (See solution) Go Back to Q 20

Q21.

Solution

Concept: The Trial Balance is a statement (not an account) of ledger balances; banks are personal accounts; depreciation applies to fixed assets only; and capital is an internal liability owed to the owner.

Solution:

Step 1: Statement (i) — the Trial Balance is only a *statement* of balances, not an account in the ledger. → **False**.

Step 2: Statement (ii) — a Bank Account represents a person/firm (the bank) and follows the rule "credit the giver", so it is a personal account. → **True**.

Step 3: Statement (iii) — depreciation is charged on fixed assets, not on current assets like stock and debtors. → **False**.

Step 4: Statement (iv) — from the entity concept, capital is regarded as the amount the business owes to its owner, i.e. an internal liability. → **True**.

Step 5: Re-verify each against the relevant concept.

Step 6: Final evaluations: (i) False; (ii) True; (iii) False; (iv) True.

Final Answer: (i) False; (ii) True; (iii) False; (iv) True

Answer: (See solution) Go Back to Q 21

Q22.

Solution

Concept: Each year-end adjustment has a definite effect on the final accounts.

Solution:

Step 1: Match (a) Depreciation. It is a loss on fixed assets, debited to the Profit and Loss Account. → matches (ii).

Step 2: Match (b) Prepaid Expenses. The unexpired portion is deducted from the expense and shown as a current asset. → matches (iii).

Step 3: Match (c) Accrued Income. Income earned but not yet received is added to the income on the credit side and shown as a current asset. → matches (i).

Step 4: Match (d) Further Bad Debts. They are debited to the Profit and Loss Account. → matches (iv).

Step 5: Verify the uniqueness of each pair.

Step 6: Compile: (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 22

Q23.

Solution

Concept: Each type of share has a distinguishing feature based on its rights and mode of issue.

Solution:

Step 1: Match (a) Equity Share. It bears the highest risk and normally carries voting rights. → matches (iv).

Step 2: Match (b) Preference Share. It carries a fixed dividend and priority of payment. → matches (i).

Step 3: Match (c) Bonus Share. It is issued free of cost to existing shareholders out of reserves. → matches (ii).

Step 4: Match (d) Sweat Equity Share. It is issued to employees or directors, often at a discount or for consideration other than cash. → matches (iii).

Step 5: Verify the distinctiveness of each feature.

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

Answer: (See solution) Go Back to Q 23

Q24.

Solution

Concept: Final-account adjustments follow the accrual concept, ensuring that only the expenses and incomes of the current period are matched.

Solution:

Step 1: Blank (i). Depreciation on fixed assets is charged to the Profit and Loss Account.

Step 2: Blank (ii). Outstanding (unpaid) expenses are *added* to the concerned expense, because they belong to the current year.

Step 3: Blank (iii). Prepaid expenses are *deducted* from the concerned expense (as they belong to the next year) and shown as a current asset.

Step 4: Blank (iv). Accrued income is *added* to the concerned income on the credit side, because it has been earned in the current year.

Step 5: Verify each treatment against the accrual concept.

Step 6: Fill the blanks: (i) Profit and Loss; (ii) added; (iii) deducted; (iv) added.
Final Answer: (i) Profit and Loss; (ii) added; (iii) deducted; (iv) added

Answer: (See solution) Go Back to Q 24

Q25.

Solution

Concept: A Trial Balance is a statement showing the debit and credit balances of all ledger accounts on a particular date, prepared to check the arithmetical accuracy of the books.

Solution:

Step 1: Define the Trial Balance. It lists every ledger account's closing balance in two columns — debit and credit.

Step 2: State its basis. It is based on the double-entry principle that every debit has an equal credit.

Step 3: State one objective. It verifies the arithmetical accuracy of the ledger postings.

Step 4: State a second objective (supporting). It provides the balances needed to prepare the final accounts.

Step 5: Confirm that an agreement of the two sides does not guarantee the absence of all errors.

Step 6: Conclude.

Final Answer: A Trial Balance is a statement of the debit and credit balances of all ledger accounts, prepared to check the arithmetical accuracy of the books. One objective is to verify that the total debits equal the total credits.

Answer: (See solution) Go Back to Q 25

Q26.

Solution

Concept: Depreciation is the gradual and permanent decrease in the value of a fixed asset due to its use, the passage of time, or obsolescence.

Solution:

Step 1: Define depreciation. It is the loss in value of a fixed asset over its useful life.

Step 2: Explain its accounting treatment. It is charged as an expense to the Profit and Loss Account and the asset is shown at its reduced (book) value.

Step 3: State cause 1 — wear and tear from regular use.

Step 4: State cause 2 (supporting) — efflux of time and obsolescence (the asset becoming out-of-date).

Step 5: Confirm that without depreciation, profits would be overstated and the asset overvalued.

Step 6: Conclude.

Final Answer: Depreciation is the gradual reduction in the value of a fixed asset due to use, time or obsolescence. One cause is the wear and tear of the asset from regular use.

Answer: (See solution) Go Back to Q 26

Q27.

Solution

Concept: The Sacrificing Ratio measures the share given up by the old partners at the time of admission, while the Gaining Ratio measures the share acquired by the continuing partners at the time of retirement.

Solution:

Step 1: Basis 1 — occasion. Sacrificing Ratio is computed on the *admission* of a partner; Gaining Ratio is computed on the *retirement* (or death) of a partner.

Step 2: Basis 2 — formula. Sacrificing Ratio = Old Share − New Share; Gaining Ratio = New Share − Old Share.

Step 3: Present the distinction in a table.

Basis	Sacrificing Ratio	Gaining Ratio
1. Occasion	Admission of a partner.	Retirement / death of a partner.
2. Formula	Old Share − New Share.	New Share − Old Share.

Step 4: Confirm that the sacrificing ratio is used to distribute the goodwill premium.

Step 5: Confirm that the gaining ratio is used to adjust goodwill on retirement.

Step 6: Conclude.

Final Answer: (1) Occasion — Sacrificing Ratio is used on admission; Gaining Ratio on retirement. (2) Formula — Sacrificing = Old − New; Gaining = New − Old.

Answer: (See solution) Go Back to Q 27

Q28.

Solution

Concept: Forfeiture of shares means the cancellation of the allotment of shares by the company, on account of the shareholder's failure to pay the call money due on them.

Solution:

Step 1: Define forfeiture. It is the action by which a company takes back the shares of a shareholder who has failed to pay the calls due.

Step 2: State the effect. The shareholder loses his membership and the amount already paid by him is forfeited.

Step 3: Explain the accounting entry. The Share Capital Account is debited with the called-up amount; the unpaid calls are credited; and the amount already received is credited to the Share Forfeiture Account.

Step 4: Mention the consequence. The forfeited shares may later be reissued by the company.

Step 5: Confirm that the power to forfeit is exercised according to the Articles of Association.

Step 6: Conclude.

Final Answer: Forfeiture of shares is the cancellation of a shareholder's allotment by the company because of his failure to pay the call money due; the amount already paid is forfeited and credited to the Share Forfeiture Account.

Answer: (See solution) Go Back to Q 28

Q29.

Solution

Concept: A Bank Reconciliation Statement adjusts the timing differences between the Cash Book balance and the Pass Book balance. Items present in one book but not the other are added or deducted accordingly.

Solution:

Step 1: Start with the Cash Book balance (favourable): ₹ 25,000.

Step 2: Cheques issued but not presented (₹ 3,000) and bank interest (₹ 500) increase the Pass Book balance, so add them: 25,000 + 3,000 + 500 = | 28,500.

Step 3: Cheques deposited but not collected (₹ 5,000) and bank charges (₹ 200) reduce the Pass Book balance, so deduct them: 28,500 − 5,000 − 200 = | 23,300.

Step 4: Verify the arithmetic: 25,000 − 5,000 + 3,000 − 200 + 500 = | 23,300. ✓

Step 5: Sanity check: the balance is positive and reasonable.

Step 6: Present the Bank Reconciliation Statement.

Bank Reconciliation Statement

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book (Favourable)		**25,000**
Add: Cheques issued but not presented		3,000
Add: Interest allowed by the bank		500
		28,500
Less: Cheques deposited but not collected	5,000	
Less: Bank charges (Pass Book only)	200	(5,200)
Balance as per Pass Book (Favourable)		**23,300**

Final Answer: Balance as per Pass Book = ₹ 23,300.

OR

Concept: When starting from the Pass Book balance, the adjustments are applied in the reverse direction to those used when starting from the Cash Book.

Solution (OR):

Step 1: Start with the Pass Book balance: ₹ 18,000.

Step 2: Cheques issued but not presented (₹ 4,000) are higher in the Pass Book, so deduct: 18,000 − 4,000 = | 14,000.

Step 3: Cheques deposited but not collected (₹ 6,000) are lower in the Pass Book, so add: 14,000 + 6,000 = | 20,000.

Step 4: Direct deposit by a customer (₹ 2,000) is higher in the Pass Book, so deduct: 20,000 – 2,000 = | 18,000.

Step 5: Verify: 18,000 – 4,000 + 6,000 – 2,000 = | 18,000. ✓

Step 6: Present the result.
Final Answer (OR): Balance as per Cash Book = ₹ 18,000.

Answer: (See solution) Go Back to Q 29

Q30.

Solution

Concept: Under the Straight Line Method, depreciation is charged at a fixed percentage on the *original cost* every year, so the annual depreciation amount remains constant.

Solution:
Step 1: Compute the total (original) cost of the machine. Purchase price ₹ 60,000 + installation ₹ 10,000 = ₹ 70,000.

Step 2: Compute the annual depreciation at 10% on the original cost: 10% of ₹ 70,000 = ₹ 7,000 per year.

Step 3: Compute the depreciation for two years: ₹ 7,000 ×2 = ₹ 14,000.

Step 4: Compute the book value after two years: ₹ 70,000 – ₹ 14,000 = ₹ 56,000.

Step 5: Sanity check: the book value (₹ 56,000) is below the cost (₹ 70,000), consistent with depreciation. ✓

Step 6: Present the result.

Particulars	**Amount (₹)**
Original Cost (Purchase + Installation)	70,000
Annual Depreciation (10% of ₹ 70,000)	7,000
Depreciation for 2 Years	14,000
Book Value after 2 Years	**56,000**

Final Answer: Annual depreciation = ₹ 7,000; Book value after two years = ₹ 56,000.
OR
Concept: Under the Written Down Value method, depreciation is charged at a fixed percentage on the *reduced* (book) balance at the beginning of each year.

Solution (OR):
Step 1: Original cost = ₹ 70,000.

Step 2: Year 1 depreciation = 10% of ₹ 70,000 = ₹ 7,000; book value at end of Year 1 = 70,000 – 7,000 = ₹ 63,000.

Step 3: Year 2 depreciation = 10% of ₹ 63,000 = ₹ 6,300; book value at end of Year 2 = 63,000 – 6,300 = ₹ 56,700.

Step 4: Verify the additions: 7,000 + 6,300 = | 13,300 total depreciation; 70,000 – 13,300 = | 56,700. ✓

Step 5: Note that the WDV depreciation is lower in the second year than under the straight line method.

Step 6: Present the result.

Year	Depreciation (₹)	Book Value (₹)
1	7,000	63,000
2	6,300	**56,700**

Final Answer (OR): Year 1 depreciation = ₹ 7,000; Year 2 depreciation = ₹ 6,300; Book value at end of Year 2 = ₹ 56,700.

Answer: (See solution) Go Back to Q 30

Q31.

Solution

Concept: When a new partner acquires his share equally from the old partners, the new share of each old partner is his old share less the portion surrendered, and the sacrificing ratio equals the agreed proportions of surrender.

Solution:

Step 1: Old ratio of P : Q = 3 : 2, i.e. P = $\frac{3}{5}$ and Q = $\frac{2}{5}$.

Step 2: R's share = $\frac{1}{4}$, acquired equally from P and Q, so each surrenders $\frac{1}{4} \div 2 = \frac{1}{8}$.

Step 3: New share of P = $\frac{3}{5} - \frac{1}{8} = \frac{24}{40} - \frac{5}{40} = \frac{19}{40}$.

Step 4: New share of Q = $\frac{2}{5} - \frac{1}{8} = \frac{16}{40} - \frac{5}{40} = \frac{11}{40}$.

Step 5: New share of R = $\frac{1}{4} = \frac{10}{40}$. Hence the new ratio P : Q : R = 19 : 11 : 10. The sacrificing ratio of P : Q = $\frac{1}{8} : \frac{1}{8} = 1 : 1$.

Step 6: Verify: 19 + 11 + 10 = 40 parts; R's $\frac{10}{40} = \frac{1}{4}$. ✓

Final Answer: New ratio P : Q : R = 19 : 11 : 10; Sacrificing ratio P : Q = 1 : 1.

OR

Concept: On retirement, the gaining ratio is the ratio in which the continuing partners acquire the retiring partner's share; the new share = old share + the portion acquired.

Solution (OR):

Step 1: Old ratio of L : M : N = 4 : 3 : 1, i.e. L = $\frac{4}{8}$, M = $\frac{3}{8}$, N = $\frac{1}{8}$.

Step 2: N retires; his $\frac{1}{8}$ is taken by L and M in the ratio 2 : 1. So L gains $\frac{1}{8} \times \frac{2}{3} = \frac{2}{24}$ and M gains $\frac{1}{8} \times \frac{1}{3} = \frac{1}{24}$.

Step 3: Gaining ratio of L : M = $\frac{2}{24} : \frac{1}{24} = 2 : 1$.

Step 4: New share of L = $\frac{4}{8} + \frac{2}{24} = \frac{12}{24} + \frac{2}{24} = \frac{14}{24}$.

Step 5: New share of M $= \frac{3}{8} + \frac{1}{24} = \frac{9}{24} + \frac{1}{24} = \frac{10}{24}$. Hence the new ratio of L : M = 14 : 10 = 7 : 5.

Step 6: Verify: 7 + 5 = 12; L $= \frac{7}{12} = \frac{14}{24}$, M $= \frac{5}{12} = \frac{10}{24}$. ✓

Final Answer (OR): Gaining ratio of L : M = 2 : 1; New ratio of L : M = 7 : 5.

Answer: (See solution) Go Back to Q 31

Q32.

Solution

Concept: On the issue of shares at par, the application money received is banked and credited to the Share Application Account; it is then transferred to the Share Capital Account, and the allotment and call money are similarly accounted for.

Solution:

Step 1: Application money received = 5,000 shares × ₹ 2 = ₹ 10,000. Entry: Bank Dr. ₹ 10,000; To Share Application ₹ 10,000.

Step 2: Transfer of application money: Share Application Dr. ₹ 10,000; To Share Capital ₹ 10,000.

Step 3: Allotment money due and received = 5,000× ₹ 3 = ₹ 15,000. Entry: Share Allotment Dr. ₹ 15,000; To Share Capital ₹ 15,000; then Bank Dr. ₹ 15,000; To Share Allotment ₹ 15,000.

Step 4: Call money due and received = 5,000× ₹ 5 = ₹ 25,000. Entry: Share First and Final Call Dr. ₹ 25,000; To Share Capital ₹ 25,000; then Bank Dr. ₹ 25,000; To Share First and Final Call ₹ 25,000.

Step 5: Verify the total capital: 10,000 + 15,000 + 25,000 = | 50,000 = 5,000 × | 10. ✓

Step 6: Present the journal.

No.	Particulars	Dr. (₹)	Cr. (₹)
1.	Bank Account Dr.	10,000	
	To Share Application Account		10,000
2.	Share Application Account Dr.	10,000	
	To Share Capital Account		10,000
3.	Share Allotment Account Dr.	15,000	
	To Share Capital Account		15,000
4.	Bank Account Dr.	15,000	
	To Share Allotment Account		15,000
5.	Share First & Final Call Account Dr.	25,000	
	To Share Capital Account		25,000
6.	Bank Account Dr.	25,000	
	To Share First & Final Call Account		25,000

Final Answer: Journal entries passed above; total Share Capital credited = ₹ 50,000.

OR

Concept: On forfeiture, the called-up capital is cancelled and the amount already received is credited to the Share Forfeiture Account. On reissue below the paid-up value, the discount is absorbed from the forfeiture account and the surplus goes to Capital Reserve.

Solution (OR):

Step 1: Forfeiture data: 400 shares of ₹ 10, ₹ 8 called up, ₹ 6 paid. Called-up capital = $400 \times 8 =$ | 3,200; unpaid = $400 \times 2 =$ | 800; forfeited = $400 \times 6 =$ | 2,400.

Step 2: Forfeiture entry: Share Capital Dr. ₹ 3,200; To Share Final Call ₹ 800; To Share Forfeiture ₹ 2,400.

Step 3: Reissue at ₹ 7 as ₹ 8 paid up. Bank = $400 \times 7 =$ | 2,800; discount = $400 \times 1 =$ | 400; capital = $400 \times 8 =$ | 3,200.

Step 4: Reissue entry: Bank Dr. ₹ 2,800; Share Forfeiture Dr. ₹ 400; To Share Capital ₹ 3,200.

Step 5: Capital Reserve = | 2,400 − | 400 = | 2,000. Transfer entry: Share Forfeiture Dr. ₹ 2,000; To Capital Reserve ₹ 2,000.

Step 6: Conclude.

Final Answer (OR): Forfeiture and reissue entries passed; Capital Reserve = ₹ 2,000.

Answer: (See solution) Go Back to Q 32

Q33.

Solution

Concept: In a Fixed Capital Account, only the permanent capital is recorded and all other transactions pass through a separate Current Account; in a Fluctuating Capital Account, all transactions (drawings, profit, interest, salary, etc.) are recorded in the Capital Account itself.

Solution:

Step 1: Basis 1 — number of accounts. Under the Fixed method, two accounts (Capital and Current) are maintained for each partner; under the Fluctuating method, only one Capital Account is maintained.

Step 2: Basis 2 — nature of entries. In the Fixed method, the Capital Account balance remains unchanged (except for additional capital and permanent withdrawals); in the Fluctuating method, the balance changes with every transaction.

Step 3: Basis 3 — items recorded. Under the Fixed method, items such as profits, drawings, interest and salary go to the Current Account; under the Fluctuating method, all these go to the Capital Account.

Step 4: Present the distinction.

Basis	Fixed Capital Account	Fluctuating Capital Account
1. No. of accounts	Two: Capital & Current.	One: Capital only.
2. Balance	Remains fixed.	Fluctuates with each entry.
3. Items recorded	Profit, drawings, interest etc. go to Current A/c.	All items go to Capital A/c.

Step 5: Confirm that the Fixed method is more suitable when capital is to be kept stable.

Step 6: Conclude.

Final Answer: (1) Number of accounts — Fixed keeps Capital & Current; Fluctuating keeps Capital only. (2) Balance — Fixed stays constant; Fluctuating changes. (3) Items — Fixed routes profit/drawings/interest to Current; Fluctuating records them in Capital.

OR

Concept: The goodwill (premium) brought in cash by an incoming partner compensates the old partners for the share they surrender. It is credited to the old partners in the sacrificing ratio and may either be retained in the business or withdrawn by them.

Solution (OR):

Step 1: Receipt of goodwill in cash. Entry: *Bank Account Dr.; To Premium for Goodwill Account.*

Step 2: Distribution to old partners. Entry: *Premium for Goodwill Account Dr.; To Old Partners' Capital Accounts (in sacrificing ratio).*

Step 3: Case (i) — goodwill retained. After Step 2, no further entry is needed; the amount remains in the partners' capital accounts and in the business.

Step 4: Case (ii) — goodwill withdrawn. Entry: *Old Partners' Capital Accounts Dr. (in sacrificing ratio); To Bank Account.*

Step 5: Confirm that in both cases the sacrificing ratio governs the distribution.

Step 6: Conclude.

Final Answer (OR): The premium is credited to the old partners in the sacrificing ratio. If retained, it stays in their capital accounts; if withdrawn, the old partners' capital accounts are debited and Bank is credited with the same amount.

Answer: (See solution) Go Back to Q 33

Q34.

Solution

Concept: The Trading Account shows the Gross Profit, the Profit & Loss Account shows the Net Profit after adjustments, and the Balance Sheet shows the financial position. Adjustments are processed in all three statements according to the accrual concept.

Solution:

Step 1: Compute the Trading Account. Credit side = Sales ₹ 2,00,000 + Closing Stock ₹ 25,000 = ₹ 2,25,000. Debit items (before gross profit) = Opening Stock ₹ 20,000 + Purchases ₹ 1,20,000 + Wages ₹ 30,000 = ₹ 1,70,000. Gross Profit = 2,25,000 − 1,70,000 = ₹ 55,000.

Step 2: Compute the Profit & Loss Account. Credit side = Gross Profit ₹ 55,000 + Accrued Commission ₹ 1,500 = ₹ 56,500. Debit items = Salaries (20,000 + 2,000) = ₹ 22,000; Rent (10,000 − 1,000) = ₹ 9,000; Depreciation (10% of ₹ 1,00,000) = ₹ 10,000. Total expenses = 22,000 + 9,000 + 10,000 = ₹ 41,000. Net Profit = 56,500 − 41,000 = ₹ 15,500.

Step 3: Compute the Balance Sheet figures. Machinery (after depreciation) = 1,00,000 − 10,000 = ₹ 90,000. Closing Stock ₹ 25,000; Debtors ₹ 40,000; Cash ₹ 35,000; Accrued Commission ₹ 1,500. Total current assets = 25,000 + 40,000 + 35,000 + 1,500 = ₹ 1,01,500. Liabilities: Creditors ₹ 25,000; Outstanding Salaries ₹ 2,000. Capital = 1,50,000 + 15,500 − 0 = ₹ 1,65,500.

Step 4: Balance Sheet totals. Assets = 90,000(Machinery) + 1,01,500(Current) = ₹ 1,91,500. Liabilities = 1,65,500(Capital) + 25,000(Creditors) + 2,000(Outstanding Salaries) = ₹ 1,92,500.

Step 5: Reconcile the ₹ 1,000 difference. Prepaid Rent (₹ 1,000) is a current asset that must be added to the assets side: Assets = 1,91,500 + 1,000 = ₹ 1,92,500. Both sides now agree. ✓

Step 6: Present the final accounts and the Balance Sheet.

Trading Account for the year ended 31st March, 2026

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	20,000	By Sales	2,00,000
To Purchases	1,20,000	By Closing Stock	25,000
To Wages	30,000		
To Gross Profit c/d	**55,000**		
Total	**2,25,000**	**Total**	**2,25,000**

Profit & Loss Account for the year ended 31st March, 2026

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	22,000	By Gross Profit b/d	55,000
To Rent	9,000	By Accrued Commission	1,500
To Depreciation	10,000		
To Net Profit transferred to Capital	**15,500**		
Total	**56,500**	**Total**	**56,500**

Balance Sheet as at 31st March, 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 1,50,000 + 15,500	1,65,500	Machinery (1,00,000 – 10,000)	90,000
Creditors	25,000	Closing Stock	25,000
Outstanding Salaries	2,000	Debtors	40,000
		Cash at Bank	35,000
		Accrued Commission	1,500
		Prepaid Rent	1,000
Total	**1,92,500**	**Total**	**1,92,500**

Final Answer: Gross Profit = ₹ 55,000; Net Profit = ₹ 15,500; Balance Sheet Total = ₹ 1,92,500 (both sides agree).

OR

Concept: Accounting concepts are the basic assumptions that underlie the preparation of financial statements.

Solution (OR):

Step 1: *Business Entity Concept.* The business is treated as a separate unit, distinct from its owner; the owner's personal transactions are not recorded in the books of the business.

Step 2: *Money Measurement Concept.* Only those transactions which can be expressed in terms of money are recorded in the books of account.

Step 3: *Going Concern Concept.* It is assumed that the business will continue to operate for an indefinite period in the future, which justifies recording fixed assets at cost and depreciating them over their useful life.

Step 4: *Accounting Period Concept.* The life of the business is divided into fixed periods (usually one year) so that the profit or loss and the financial position can be ascertained and compared periodically.

Step 5: *Conservatism (Prudence) Concept.* Anticipated losses are recorded immediately, but anticipated gains are ignored until realised; for example, stock is valued at the lower of cost or net realisable value.

Step 6: Conclude.

Final Answer (OR): Five accounting concepts: (1) Business Entity — business is separate from owner; (2) Money Measurement — only monetary transactions are recorded; (3) Going Concern — business continues indefinitely; (4) Accounting Period — results are reported for fixed periods; (5) Conservatism — anticipated losses are recorded, anticipated gains are not.

Answer: (See solution) Go Back to Q 34

Q35.

Solution

Concept: At the time of admission, the new partner brings capital for his share and a goodwill (premium) to compensate the old partners. The premium is distributed among the old partners in their sacrificing ratio; when the sacrificing ratio is not given, it is assumed equal to the old ratio.

Solution:

Step 1: Old ratio of X : Y = 3 : 2. Z is admitted for $\frac{1}{5}$th share. The sacrificing ratio is assumed equal to the old ratio = 3 : 2.

Step 2: Z brings ₹ 60,000 as capital and ₹ 20,000 as goodwill in cash. Total cash brought = ₹ 80,000.

Step 3: Distribute the premium in the ratio 3 : 2. X's share = | $20{,}000 \times \frac{3}{5}$ = | 12,000; Y's share = | $20{,}000 \times \frac{2}{5}$ = | 8,000.

Step 4: Entry for bringing in capital and premium: *Bank Account Dr. ₹ 80,000; To Z's Capital Account ₹ 60,000; To Premium for Goodwill Account ₹ 20,000.*

Step 5: Entry for distribution of premium: *Premium for Goodwill Account Dr. ₹ 20,000; To X's Capital Account ₹ 12,000; To Y's Capital Account ₹ 8,000.*

Step 6: Present the journal and the distribution.

No.	Particulars	Dr. (₹)	Cr. (₹)
1.	Bank Account Dr.	80,000	
	To Z's Capital Account		60,000
	To Premium for Goodwill Account		20,000
2.	Premium for Goodwill Account Dr.	20,000	
	To X's Capital Account		12,000
	To Y's Capital Account		8,000

Working Note: Sacrificing ratio = 3 : 2; hence the premium of ₹ 20,000 is split as ₹ 12,000 to X and ₹ 8,000 to Y. The goodwill is retained in the business, so no withdrawal entry is passed.

Final Answer: Goodwill distributed — X ₹ 12,000 and Y ₹ 8,000 (in sacrificing ratio 3 : 2); journal entries passed above.

OR

Concept: When goodwill already appears in the books and the continuing partners decide not to raise it to its full value after retirement, the existing goodwill is first written off to all partners (including the retiring one) in the old ratio, and the retiring partner's share of the new goodwill is then adjusted through the gaining partners' capital accounts.

Solution (OR):

Step 1: Old ratio of A : B : C = 5 : 3 : 2. Goodwill already in the books = ₹ 40,000. New (revised) value of goodwill = ₹ 1,00,000.

Step 2: New ratio of A : B = 3 : 2, i.e. A = $\frac{3}{5}$, B = $\frac{2}{5}$. Gaining ratio: A's gain = $\frac{3}{5} - \frac{5}{10} = \frac{6}{10} - \frac{5}{10} = \frac{1}{10}$; B's gain = $\frac{2}{5} - \frac{3}{10} = \frac{4}{10} - \frac{3}{10} = \frac{1}{10}$. So the gaining ratio of A : B = 1 : 1.

Step 3: Write off the existing goodwill (₹ 40,000) to all partners in the old ratio 5 : 3 : 2: A ₹ 20,000, B ₹ 12,000, C ₹ 8,000. Entry: *A's Capital Dr. 20,000; B's Capital Dr. 12,000; C's Capital Dr. 8,000; To Goodwill 40,000.*

Step 4: C's share of the new goodwill = | 1,00,000 × $\frac{2}{10}$ = | 20,000. This is borne by A and B in the gaining ratio 1 : 1, i.e. ₹ 10,000 each.

Step 5: Adjustment entry: *A's Capital Dr. 10,000; B's Capital Dr. 10,000; To C's Capital 20,000.*

Step 6: Conclude.

Final Answer (OR): Gaining ratio of A : B = 1 : 1. Existing goodwill ₹ 40,000 written off in the old ratio 5 : 3 : 2; C's share of the new goodwill (₹ 20,000) adjusted by debiting A and B ₹ 10,000 each and crediting C.

Answer: (See solution) Go Back to Q 35

Q36.

Solution

Concept: In a pro-rata allotment on oversubscription, the excess application money is adjusted against the amount due on allotment rather than refunded. On forfeiture for non-payment of a call, the called-up capital on those shares is cancelled and the unpaid call is credited.

Solution:

Step 1: Application money received on 10,000 shares at ₹ 3 each = ₹ 30,000. Entry: *Bank Dr. 30,000; To Share Application 30,000.*

Step 2: Allotment made to 8,000 shares. Application money on the 8,000 shares = 8,000 × | 3 = | 24,000 is transferred to Share Capital. The excess on 2,000 shares = 2,000 × | 3 = | 6,000 is adjusted towards allotment. Entry: *Share Application Dr. 30,000; To Share Capital 24,000; To Share Allotment 6,000.*

Step 3: Allotment money due on 8,000 shares at ₹ 5 each = ₹ 40,000 (of which ₹ 4 per share, i.e. ₹ 32,000, is capital and ₹ 1 per share, i.e. ₹ 8,000, is premium). Entry: *Share Allotment Dr. 40,000; To Share Capital 32,000; To Securities Premium 8,000.*

Step 4: Net allotment receivable = | 40,000 − | 6,000 (already adjusted) = | 34,000. Entry: *Bank Dr. 34,000; To Share Allotment 34,000.*

Step 5: Forfeiture of 200 shares for non-payment of the call (₹ 4 each). Called-up amount on 200 shares = 200 × | 12 = | 2,400 (face ₹ 10 + premium ₹ 2). Since only the call is unpaid (₹ 4), the call-in-arrears = 200 × 4 = | 800. Entry: *Share Capital Dr. 2,000 (200 × ₹ 10); Securities Premium Dr. 400 (200 × ₹ 2); To Share First & Final Call 800; To Share Forfeiture 1,600.*

Step 6: Present the journal entries (application, pro-rata adjustment, allotment, forfeiture as required).

No.	Particulars	Dr. (₹)	Cr. (₹)
1.	Bank Account Dr.	30,000	
	To Share Application Account		30,000
2.	Share Application Account Dr.	30,000	
	To Share Capital Account		24,000
	To Share Allotment Account		6,000
3.	Share Allotment Account Dr.	40,000	
	To Share Capital Account		32,000
	To Securities Premium Account		8,000
4.	Bank Account Dr.	34,000	
	To Share Allotment Account		34,000
5.	Share Capital Account Dr.	2,000	
	Securities Premium Account Dr.	400	
	To Share First & Final Call Account		800
	To Share Forfeiture Account		1,600

Final Answer: Application ₹ 30,000 banked; ₹ 24,000 to capital and ₹ 6,000 excess adjusted to allotment; allotment due ₹ 40,000; net allotment received ₹ 34,000; 200 shares forfeited for non-payment of the call.

OR

Concept: On forfeiture, the called-up capital is cancelled and the amount received is credited to the Share Forfeiture Account. On reissue, the discount is absorbed from the forfeiture account and the net surplus is transferred to Capital Reserve.

Solution (OR):

Step 1: Forfeiture data: 1,500 shares of ₹ 10, ₹ 8 called up. Application ₹ 2 received; allotment ₹ 3 and first call ₹ 3 unpaid. Called-up capital = $1{,}500 \times 8 =$ | 12,000; unpaid = $1{,}500 \times 6 =$ | 9,000; forfeited = $1{,}500 \times 2 =$ | 3,000.

Step 2: Forfeiture entry: *Share Capital Dr. 12,000; To Share Allotment 4,500; To Share First Call 4,500; To Share Forfeiture 3,000.*

Step 3: Reissue at ₹ 9 as fully paid up (face value ₹ 10). Bank = $1{,}500 \times 9 =$ | 13,500; discount = $1{,}500 \times 1 =$ | 1,500; capital = $1{,}500 \times 10 =$ | 15,000.

Step 4: Reissue entry: *Bank Dr. 13,500; Share Forfeiture Dr. 1,500; To Share Capital 15,000.*

Step 5: Net surplus to Capital Reserve = forfeited ₹ 3,000 − discount ₹ 1,500 = ₹ 1,500. Transfer entry: *Share Forfeiture Dr. 1,500; To Capital Reserve 1,500.*

Step 6: Present the entries.

No.	Particulars	Dr. (₹)	Cr. (₹)
1.	Share Capital Account Dr.	12,000	
	To Share Allotment Account		4,500
	To Share First Call Account		4,500
	To Share Forfeiture Account		3,000
2.	Bank Account Dr.	13,500	
	Share Forfeiture Account Dr.	1,500	
	To Share Capital Account		15,000
3.	Share Forfeiture Account Dr.	1,500	
	To Capital Reserve Account		1,500

Final Answer (OR): Forfeiture, reissue and transfer entries passed; net surplus of ₹ 1,500 transferred to Capital Reserve.

Answer: (See solution) Go Back to Q 36

Detailed Solutions – Section B Module I

Q37.

Solution

Concept: The Current Ratio measures short-term solvency. Its conventional ideal (normal) value is 2 : 1, meaning ₹ 2 of current assets for every ₹ 1 of current liabilities.

Solution:

Step 1: State the formula: Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$.

Step 2: Recall the accepted norm. A ratio of 2 : 1 is considered satisfactory.

Step 3: Explain the logic. It provides a reasonable margin of working capital over short-term obligations.

Step 4: Reject 1 : 1 as too thin and 3 : 1 as indicating idle funds.

Step 5: Confirm 2 : 1 as the standard benchmark.

Step 6: Select Option C.

Why other options are wrong:

- **Option A:** 1 : 1 is the norm for the Liquid (Quick) Ratio, not the Current Ratio.
- **Option B:** 0.5 : 1 would indicate serious illiquidity.
- **Option D:** 3 : 1 is unnecessarily high and suggests inefficient use of funds.

Final Answer: 2 : 1 (Option C)

Answer: (C) Go Back to Q 37

Q38.

Solution

Concept: The Liquid (Quick) Ratio excludes stock and prepaid expenses to test immediate solvency. Its conventional ideal value is 1 : 1.

Solution:

Step 1: State the formula: Liquid Ratio $= \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}}$.

Step 2: Recall the accepted norm. A ratio of 1 : 1 is considered satisfactory.

Step 3: Explain the logic. It means liquid assets are at least equal to current liabilities.

Step 4: Distinguish from the current ratio norm of 2 : 1.

Step 5: Confirm 1 : 1 as the standard benchmark.

Step 6: Select Option A.

Why other options are wrong:

- **Option B:** 2 : 1 is the norm for the Current Ratio.

- **Option C:** 3 : 1 is too high a quick ratio and indicates idle cash.
- **Option D:** 0.5 : 1 would signal weak immediate solvency.

Final Answer: 1 : 1 (Option A)

Answer: (A) Go Back to Q 38

Q39.

Solution

Concept: The Debt-Equity Ratio is a solvency ratio that measures the proportion of long-term external debt to the owners' (shareholders') funds.

Solution:

Step 1: State the formula: Debt-Equity Ratio $= \dfrac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$.

Step 2: Confirm the numerator is long-term debt and the denominator is shareholders' funds.

Step 3: Distinguish from the current ratio, which uses current assets and current liabilities.

Step 4: Distinguish from the inventory turnover and gross profit ratios, which measure activity and profitability.

Step 5: Confirm the match.

Step 6: Select Option B.

Why other options are wrong:

- **Option A:** The Current Ratio measures short-term liquidity.
- **Option C:** The Inventory Turnover Ratio measures stock movement.
- **Option D:** The Gross Profit Ratio measures profitability.

Final Answer: Debt-Equity Ratio (Option B)

Answer: (B) Go Back to Q 39

Q40.

Solution

Concept: Under AS-3, the sale of a long-term (fixed) asset is an investing activity, because investing activities relate to the acquisition and disposal of long-term assets and investments.

Solution:

Step 1: Identify the nature of the asset. Machinery is a fixed (long-term) asset used in operations, not stock-in-trade.

Step 2: Apply the AS-3 definition. Cash flows from the acquisition and disposal of long-term assets are classified as investing activities.

Step 3: Distinguish from operating activities, which relate to day-to-day trading.

Step 4: Distinguish from financing activities, which relate to capital and borrowings.

Step 5: Confirm that sale proceeds of machinery represent cash inflow from investing.

Step 6: Select Option C.

Why other options are wrong:

- **Option A:** Operating activities cover daily trading revenue and expenses.
- **Option B:** Financing activities cover share and loan transactions.
- **Option D:** "Cash equivalents" is a category of short-term liquid investments, not an activity.

Final Answer: Investing activities (Option C)

Answer: (C) Go Back to Q 40

Q41.

Solution

Concept: Working capital represents the funds available for day-to-day operations and is computed as current assets minus current liabilities.

Solution:

Step 1: Define working capital. It is the excess of current assets over current liabilities.

Step 2: State the formula: Working Capital = Current Assets − Current Liabilities.

Step 3: Reject the sum of the two, as that mixes assets and liabilities.

Step 4: Reject the use of fixed assets, as working capital concerns only circulating capital.

Step 5: Reject the reversed difference (CL − CA), which would be negative for a healthy firm.

Step 6: Select Option D.

Why other options are wrong:

- **Option A:** Adding the two does not give working capital.
- **Option B:** Fixed assets are not part of working capital.
- **Option C:** Current Liabilities − Current Assets gives a negative figure, not working capital.

Final Answer: Current Assets − Current Liabilities (Option D)

Answer: (D) Go Back to Q 41

Q42.

Solution

Concept: Common-size (vertical) analysis expresses each item of a financial statement as a percentage of a common base figure for a single period, whereas trend (horizontal) analysis compares figures over several years.

Solution:

Step 1: Identify the description — each item expressed as a percentage of a common base, for a single year.

Step 2: Recall the matching technique. This is common-size (vertical) analysis.

Step 3: Distinguish from trend analysis, which compares several years against a base year.

Step 4: Distinguish from ratio analysis, which uses specific ratios.

Step 5: Distinguish from cash flow analysis, which deals with cash movements.

Step 6: Select Option B.

Why other options are wrong:

- **Option A:** Trend analysis requires data over several years.
- **Option C:** Ratio analysis uses specific ratios, not common-base percentages.
- **Option D:** Cash flow analysis deals with cash inflows and outflows.

Final Answer: Common-size (vertical) analysis (Option B)

Answer: (B) Go Back to Q 42

Q43.

Solution

Concept: Working Capital is the excess of current assets over current liabilities, and the study of one firm's figures over several years is called trend (horizontal) analysis.

Solution:

Step 1: Blank (i) — Working Capital = Current Assets − Current Liabilities.

Step 2: Confirm with the formula and an example.

Step 3: Blank (ii) — analysis over several years against a base year is trend (horizontal) analysis.

Step 4: Distinguish from vertical (common-size) analysis, which is for a single period.

Step 5: Verify both terms.

Step 6: Fill the blanks: (i) Current Liabilities; (ii) trend (horizontal).

Final Answer: (i) Current Liabilities; (ii) trend (horizontal)

Answer: (See solution) Go Back to Q 43

Q44.

Solution

Concept: Ratio Analysis is the process of determining and interpreting the numerical relationships between items of financial statements to assess profitability, liquidity and solvency.

Solution:

Step 1: Define ratio analysis. It establishes a relationship between two related accounting figures.

Step 2: State one objective. It helps in assessing the short-term liquidity and long-term solvency of the firm.

Step 3: State a second objective (supporting). It helps in comparing the firm's performance over different years and with other firms.

Step 4: Mention that it simplifies the complex figures of financial statements.

Step 5: Confirm its use in decision-making by management and investors.

Step 6: Conclude.

Final Answer: Ratio Analysis is the determination and interpretation of relationships between items of financial statements. One objective is to assess the liquidity and solvency of the firm.

Answer: (See solution) Go Back to Q 44

Q45.

Solution

Concept: Ratio analysis simplifies financial data and aids in comparison and decision-making.

Solution:

Step 1: Advantage 1 — simplification. Ratios reduce complex financial data into simple, understandable figures.

Step 2: Advantage 2 — comparison. They enable comparison of the firm's performance over time (intra-firm) and with other firms (inter-firm).

Step 3: (Additional) they help in assessing liquidity, solvency and profitability at a glance.

Step 4: (Additional) they aid management in planning, forecasting and control.

Step 5: Select any two for the answer.

Step 6: Conclude.

Final Answer: Two advantages: (1) **Simplification** — ratios convert complex figures into simple, meaningful indicators; (2) **Comparison** — they help compare performance over time and with other firms.

Answer: (See solution) Go Back to Q 45

Q46.

Solution

Concept: The Debt-Equity Ratio $= \dfrac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$ and the Proprietary Ratio $= \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}}$.

Solution:

Step 1: Compute the Debt-Equity Ratio $= \dfrac{₹\ 1{,}50{,}000}{₹\ 2{,}50{,}000} = 0.6 : 1$ (i.e. $3 : 5$).

Step 2: Compute the Proprietary Ratio $= \dfrac{₹\ 2{,}50{,}000}{₹\ 4{,}50{,}000} = 0.556 : 1$ (i.e. $5 : 9$).

Step 3: Interpret the D-E ratio — for every ₹ 1 of owners' funds, there is ₹ 0.60 of long-term debt.

Step 4: Interpret the proprietary ratio — about 55.6% of the total assets are financed by owners' funds.

Step 5: Verify the figures: $1{,}50{,}000/2{,}50{,}000 = 0.6$; $2{,}50{,}000/4{,}50{,}000 = 0.556$. ✓

Step 6: Present the result.

Ratio	Computation	Result
Debt-Equity Ratio	1,50,000/2,50,000	0.6 : 1
Proprietary Ratio	2,50,000/4,50,000	0.56 : 1

Final Answer: Debt-Equity Ratio = 0.6 : 1; Proprietary Ratio = 0.56 : 1.

OR

Concept: Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$.

Solution (OR):

Step 1: Identify the figures. Revenue from Operations = ₹ 3,00,000; Gross Profit = ₹ 75,000.

Step 2: Apply the formula: $\dfrac{75{,}000}{3{,}00{,}000} \times 100$.

Step 3: Simplify: $\dfrac{75{,}000}{3{,}00{,}000} = \dfrac{1}{4} = 0.25$.

Step 4: Convert to a percentage: $0.25 \times 100 = 25\%$.

Step 5: Verify: 25% of ₹ 3,00,000 = ₹ 75,000. ✓

Step 6: Conclude.

Final Answer (OR): Gross Profit Ratio = 25%.

Answer: (See solution) Go Back to Q 46

Q47.

Solution

Concept: Under the indirect method, Cash Flow from Operating Activities starts with the net profit before tax, which is adjusted for non-cash and non-operating items and for changes in working capital.

Solution:

Step 1: Start with Net Profit before tax = ₹ 80,000.

Step 2: Add back non-cash / non-operating items: Depreciation ₹ 15,000 and Loss on sale of machinery ₹ 5,000. (These reduced profit without causing operating cash outflow.)

Step 3: Operating Profit before Working Capital changes = | 80,000 + | 15,000 + | 5,000 = | 1,00,000.

Step 4: Adjust working-capital changes: Decrease in Trade Receivables + ₹ 10,000 (cash freed); Increase in Inventory − ₹ 8,000 (cash blocked); Decrease in Trade Payables − ₹ 4,000 (cash used). Net effect = +10,000 − 8,000 − 4,000 = −| 2,000.

Step 5: Net Cash Flow from Operating Activities = | 1,00,000 − | 2,000 = | 98,000.

Step 6: Present the Cash Flow Statement.

Cash Flow from Operating Activities (Indirect Method)

Particulars	Details (₹)	Amount (₹)
Net Profit before Tax		**80,000**
Add: Depreciation	15,000	
Add: Loss on sale of machinery	5,000	20,000
Operating Profit before Working Capital Changes		**1,00,000**
Add: Decrease in Trade Receivables	10,000	
Less: Increase in Inventory	(8,000)	
Less: Decrease in Trade Payables	(4,000)	(2,000)
Net Cash Flow from Operating Activities		**98,000**

Final Answer: Cash Flow from Operating Activities = ₹ 98,000.

OR

Concept: Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$; Liquid Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ where Liquid Assets = CA − Stock − Prepaid; Inventory Turnover = $\frac{\text{COGS}}{\text{Average Inventory}}$.

Solution (OR):

Step 1: Current Ratio = $\frac{3,00,000}{1,20,000}$ = 2.5 : 1.

Step 2: Liquid Assets = 3,00,000 − 60,000 − 15,000 = | 2,25,000. Liquid Ratio = $\frac{2,25,000}{1,20,000}$ = 1.875 : 1 ≈ 1.88 : 1.

Step 3: Inventory Turnover Ratio: since only one inventory figure is given, Average Inventory is taken as the given closing inventory ₹ 60,000. Ratio = $\frac{4,80,000}{60,000}$ = 8 times.

Step 4: Verify each: 3,00,000/1,20,000 = 2.5; 2,25,000/1,20,000 = 1.875; 4,80,000/60,000 = 8. ✓

Step 5: Present the results.

Step 6: Conclude.

Final Answer (OR): (i) Current Ratio = 2.5 : 1; (ii) Liquid Ratio = 1.88 : 1; (iii) Inventory Turnover Ratio = 8 times.

Answer: (See solution) Go Back to Q 47

Detailed Solutions – Section B Module II

Q37.

Solution

Concept: An absolute cell reference (written with a dollar sign, such as `$A$1`) keeps the same value when a formula is copied to another cell, unlike a relative reference which adjusts automatically.

Solution:

Step 1: Recall the types of cell references — relative, absolute and mixed.

Step 2: Define an absolute reference. By placing `$` before both the column letter and the row number (e.g. `$B$3`), the reference is fixed.

Step 3: Give an example. If `=A1*$B$1` is copied down, `A1` changes to `A2` but `$B$1` stays fixed.

Step 4: Reject the relative reference, which does change on copying.

Step 5: Reject the circular and text references as unrelated.

Step 6: Select Option C.

Why other options are wrong:

- **Option A:** A relative reference *does* change when copied.
- **Option B:** A circular reference is one that refers back to its own cell, causing an error.
- **Option D:** A text reference is not a standard cell-reference type.

Final Answer: Absolute reference (Option C)

Answer: (C) Go Back to Q 37

Q38.

Solution

Concept: A Line chart plots successive data points connected by a line and is used to show the trend of a variable over a period of time.

Solution:

Step 1: Identify the requirement — showing a trend over time.

Step 2: Recall the chart for trends. The Line chart is the standard choice for time-series data.

Step 3: Reject the pie chart, which shows percentage shares of a whole.

Step 4: Reject the scatter chart, which shows the correlation between two variables.

Step 5: Reject the "largest value" option, which is not a purpose of a chart type.

Step 6: Select Option A.

Why other options are wrong:

- **Option B:** The pie chart shows percentage shares, not a trend.

- **Option C:** The scatter chart shows correlation, not a time trend.
- **Option D:** Showing the single largest value is the job of the `MAX()` function, not a chart.

Final Answer: The trend of a variable over a period of time (Option A)

Answer: (A) Go Back to Q 38

Q39.

Solution

Concept: The `AVERAGE()` function returns the arithmetic mean of the values in the specified range, obtained by dividing the sum of the values by their count.

Solution:

Step 1: Identify the function `=AVERAGE(B1:B10)`.

Step 2: Recall what it computes. It adds the values in B1 to B10 and divides by the number of entries.

Step 3: Name the result — the arithmetic mean.

Step 4: Reject the total, which is given by `=SUM()`.

Step 5: Reject the largest value (`=MAX()`) and the count (`=COUNT()`).

Step 6: Select Option D.

Why other options are wrong:

- **Option A:** The total is given by `=SUM()`.
- **Option B:** The largest value is given by `=MAX()`.
- **Option C:** The number of entries is given by `=COUNT()`.

Final Answer: The arithmetic mean of the values in B1 to B10 (Option D)

Answer: (D) Go Back to Q 39

Q40.

Solution

Concept: In a database, data is organised into a table consisting of rows and columns; each row is a record and each column is a field.

Solution:

Step 1: Recall the database structure — tables hold the data in rows and columns.

Step 2: Define the row. A complete set of related fields describing one entity is a record.

Step 3: Define the column. A single category of data is a field.

Step 4: Reject paragraph, formula and chart as not being data containers of this kind.

Step 5: Confirm that a table is the fundamental storage unit.

Step 6: Select Option A.

Why other options are wrong:

- **Option B:** A paragraph is a word-processing term, not a database unit.
- **Option C:** A formula is a calculation, not a data container.
- **Option D:** A chart is a graphical output, not the underlying data structure.

Final Answer: Table (Option A)

Answer: (A) Go Back to Q 40

Q41.

Solution

Concept: The physical components of a computer that can be touched — such as the keyboard, mouse and monitor — are collectively called hardware. Software refers to the programs (instructions).

Solution:

Step 1: Identify the items — keyboard, mouse, monitor. These are tangible, physical devices.

Step 2: Classify them. Physical parts of a computer are called hardware.

Step 3: Distinguish from software, which is the set of programs/instructions.

Step 4: Distinguish from firmware (programs stored permanently in hardware) and shareware (a type of licensed software).

Step 5: Confirm the classification.

Step 6: Select Option B.

Why other options are wrong:

- **Option A:** Software refers to programs, which cannot be physically touched.
- **Option C:** Firmware is software embedded in hardware, not the physical parts themselves.
- **Option D:** Shareware is a type of software distributed on a trial basis.

Final Answer: Hardware (Option B)

Answer: (B) Go Back to Q 41

Q42.

Solution

Concept: A Primary Key is a field (or combination of fields) whose value uniquely identifies each record in a table; it does not allow duplicate or null values.

Solution:

Step 1: Understand the need for unique identification of each record.

Step 2: Define the primary key. It is a field that contains a unique value for every record.

Step 3: Give an example. `ItemCode` or `VoucherNo` can serve as a primary key in an accounting table.

Step 4: Reject the unrelated options (report formatting, totals, charts).

Step 5: Confirm that the primary key enforces data integrity.

Step 6: Select Option D.

Why other options are wrong:

- **Option A:** Report formatting is done by reporting tools, not by a key.
- **Option B:** Totals are computed by functions such as `SUM()`.
- **Option C:** Charts are graphical outputs, unrelated to keys.

Final Answer: Uniquely identify each record in the table (Option D)

Answer: (D) Go Back to Q 42

Q43.

Solution

Concept: An absolute cell reference keeps the same value when copied, and the formatted output produced from a database query is called a report.

Solution:

Step 1: Blank (i) — a reference that does not change on copying is an *absolute* reference.

Step 2: Give the notation, e.g. `$A$1`.

Step 3: Blank (ii) — the formatted output of a database query is called a *report*.

Step 4: Confirm that reports are used to present data in a readable, printed form.

Step 5: Verify both terms.

Step 6: Fill the blanks: (i) absolute; (ii) report.

Final Answer: (i) absolute; (ii) report

Answer: (See solution) Go Back to Q 43

Q44.

Solution

Concept: A DBMS stores and manages data systematically, reducing duplication and improving accuracy and security.

Solution:

Step 1: Advantage 1 — reduction of data redundancy. Data is stored once and shared across applications, avoiding duplication.

Step 2: Advantage 2 — data integrity and accuracy. Validation rules and primary keys ensure correct and consistent data.

Step 3: (Additional) fast retrieval and reporting through queries.

Step 4: (Additional) data security and easy backup.

Step 5: Select any two for the answer.

Step 6: Conclude.

Final Answer: Two advantages: (1) **Reduces data redundancy** — data is stored once and shared, avoiding duplication; (2) **Ensures data integrity** — validation rules and primary keys keep the data accurate and consistent.

Answer: (See solution) Go Back to Q 44

Q45.

Solution

Concept: A formula is a user-defined calculation, while a function is a pre-built, named calculation supplied by the software.

Solution:

Step 1: Define a formula. It is an expression created by the user using cell references and operators, e.g. `=A1+B1`.

Step 2: Define a function. It is a ready-made, named routine that performs a specific calculation, e.g. `=SUM(A1:A10)`.

Step 3: Contrast — a formula is custom-built; a function is predefined and reusable.

Step 4: Note that a function can itself form part of a formula.

Step 5: Confirm the distinction.

Step 6: Conclude.

Final Answer: A **formula** is a user-written expression using operators and cell references (e.g. `=A1*B1`); a **function** is a built-in named calculation supplied by the software (e.g. `=SUM()`).

Answer: (See solution) Go Back to Q 45

Q46.

Solution

Concept: A spreadsheet offers features such as automatic recalculation, built-in functions, cell referencing, charting and what-if analysis.

Solution:

Step 1: Feature 1 — automatic recalculation. When any source value changes, all linked cells and totals update instantly.

Step 2: Feature 2 — built-in functions. Functions such as `SUM`, `AVERAGE`, `MAX` and `COUNT` perform common calculations quickly.

Step 3: Feature 3 — cell referencing. Formulas can use relative, absolute or mixed references to build flexible models.

Step 4: (Additional) charting — converting data into visual charts.

Step 5: (Additional) what-if analysis — testing the effect of changing assumptions.

Step 6: Conclude.

Final Answer: Three features of a spreadsheet: (1) **Automatic recalculation** — linked totals update instantly when a source value changes; (2) **Built-in functions** — `SUM`, `AVERAGE`, etc. perform calculations quickly; (3) **Cell referencing** — relative, absolute and mixed references build flexible models.

OR

Concept: Spreadsheet formulas use cell references, the colon for ranges, and built-in functions.

Solution (OR):

Step 1: (i) To add all values in `A1` to `A10`, use `=SUM(A1:A10)`.

Step 2: (ii) To find the average of `B1` to `B20`, use `=AVERAGE(B1:B20)`.

Step 3: (iii) To count the numeric entries in `C1` to `C15`, use `=COUNT(C1:C15)`.

Step 4: Confirm that every formula begins with the `=` sign.

Step 5: Confirm the use of the colon `(:)` as the range operator.

Step 6: Present the formulas.

Final Answer (OR): (i) `=SUM(A1:A10)`; (ii) `=AVERAGE(B1:B20)`; (iii) `=COUNT(C1:C15)`.

Answer: (See solution) Go Back to Q 46

Q47.

Solution

Concept: A database maintains accounting records by storing transactions and master data in related tables. An "Inventory/Items" table stores the details of each item in fields (columns), and a primary key uniquely identifies each item record.

Solution:

Step 1: Explain the use of a database in accounting. Stock movements, purchases and sales can be

stored in related tables, allowing automatic generation of stock reports, valuation statements and re-order alerts.

Step 2: Design the "Inventory/Items" table. Each row (record) is one item; each column (field) is one attribute.

Step 3: Define five suitable fields: (1) `ItemCode`; (2) `ItemName`; (3) `Unit`; (4) `PurchasePrice`; (5) `QuantityInHand`.

Step 4: Explain the role of the primary key. `ItemCode` is chosen as the primary key because it is unique for every item and cannot be left blank.

Step 5: Explain the benefit. Because item names may be similar, the unique `ItemCode` prevents confusion and links each issue/receipt voucher to the correct item.

Step 6: Present the table of fields and conclude.

Field Name	Data Type	Purpose
ItemCode (Primary Key)	Text/Number	Uniquely identifies each item
ItemName	Text	Stores the name of the item
Unit	Text	Stores the unit (e.g. kg, nos.)
PurchasePrice	Currency	Stores the cost price per unit
QuantityInHand	Number	Stores the current stock balance

Final Answer: An "Inventory/Items" table uses `ItemCode` as the primary key to uniquely identify each record. Five fields: `ItemCode` (primary key), `ItemName`, `Unit`, `PurchasePrice`, and `QuantityInHand`, enabling automatic stock valuation and re-order control.

OR

Concept: A Relational Database Management System (RDBMS) is a DBMS that stores data in related tables and allows the data to be accessed and combined using relationships and a query language such as SQL.

Solution (OR):

Step 1: Define an RDBMS. It is software (e.g. MySQL, MS Access) that organises data into related tables.

Step 2: Feature 1 — tabular structure. Data is stored in tables of rows and columns.

Step 3: Feature 2 — primary and foreign keys. Keys establish relationships between tables (e.g. linking invoices to customers).

Step 4: Feature 3 — a query language (SQL). Users retrieve and manipulate data using standard commands.

Step 5: Feature 4 — data integrity and security. Constraints and access controls keep the data accurate and safe.

Step 6: (Additional) Feature 5 — data independence and reduced redundancy. The storage structure can change without affecting the applications, and duplication is minimised.

Final Answer (OR): An RDBMS is software that stores data in related tables. Five features: (1) tabular structure; (2) primary/foreign keys for relationships; (3) a query language (SQL); (4) data integrity and security; (5) data independence with reduced redundancy.

Answer: (See solution) Go Back to Q 47

Answer Key

Section A: Q1–Q14

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

Section B – Module I : Q37–Q42

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

Section B – Module II : Q37–Q42

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