CBSE Class 12 Accountancy Question Paper 2024 with Solution PDF-Set 67-1-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions

(i) This question paper contains **34** questions. **All questions are compulsory.**

(ii) This question paper is divided into **two** parts — **Part A** and **Part B**.

(iii) **Part A is compulsory** for all candidates.

(iv) **Part B** has two options. Candidates have to attempt only **one** of the given options.
Option I : Analysis of Financial Statements
Option II : Computerised Accounting

(v) Questions number **1 to 16** (Part A) and Questions number **27 to 30** (Part B) are multiple choice questions. Each question carries **1** mark.

(vi) Questions number **17 to 20** (Part A) and Questions number **31** and **32** (Part B) are short answer type questions. Each question carries **3** marks.

(vii) Questions number **21, 22** (Part A) and Question number **33** (Part B) are Long answer type-I questions. Each question carries **4** marks.

(viii) Questions number **23 to 26** (Part A) and Question number **34** (Part B) are Long answer type-II questions. Each question carries **6** marks.

(ix) There is no overall choice. However, an internal choice has been provided in few questions in each of the parts.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(a). Dan, Elf and Furhan were partners in a firm sharing profits in the ratio of 5:3:2. With effect from 1st April, 2023, they decided to change their profit sharing ratio to 2:3:5. There existed a General Reserve of Rs. 90,000 on the date of change in profit sharing ratio. The partners decided not to distribute General Reserve. The necessary adjustment entry to show the effect of the above will be: [1 mark]

(A) Dan's Capital A/c Dr. 27,000

To Furhan's Capital A/c 27,000

(B) Dan's Capital A/c Dr. 90,000

To Furhan's Capital A/c 90,000

(C) Furhan's Capital A/c Dr. 27,000

To Dan's Capital A/c 27,000

(D) Furhan's Capital A/c Dr. 90,000

To Dan's Capital A/c 90,000

Correct Answer: (C) Furhan's Capital A/c Dr. 27,000

To Dan's Capital A/c 27,000

Solution:

Concept:

- An accumulated reserve belongs to the old partners in their old profit-sharing ratio.
- When the reserve remains in the books, a gaining partner compensates a sacrificing partner: adjustment equals reserve multiplied by the change in share.

Step 1: Identify the sacrifice and gain Dan sacrifices $5/10 - 2/10 = 3/10$; Furhan gains $5/10 - 2/10 = 3/10$. Elf retains $3/10$, so no adjustment is needed for Elf. The compensation is Rs $90,000 \times 3/10 =$ Rs $27,000$.

Step 2: Record the adjustment without distributing the reserve Furhan's capital is debited because his entitlement to the retained reserve increases; Dan's capital is credited to preserve his old entitlement. General Reserve itself remains unchanged.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2023	Furhan's Capital A/c Dr. To Dan's Capital A/c (Being adjustment for General Reserve retained on change in profit-sharing ratio)		27,000	 27,000

Option (A) reverses the compensation; options (B) and (D) incorrectly transfer the entire reserve.

Step 3: Conclusion Furhan's Capital A/c is debited and Dan's Capital A/c is credited by Rs 27,000. Hence, the correct option is (C).

Quick Tip to Solve: For a reserve retained in the books, multiply the reserve by the change in share, then debit the gaining partner.

OR

1(b). Sia, Tom and Vidhi were partners in a firm sharing profits in the ratio of 3:2:1. With effect from 1st April, 2023, they decided to share profits and losses in the future in the ratio of 1:2:3. There existed a Debit Balance of Rs. 60,000 in Profit and Loss Account on that date. The necessary journal entry for distribution of the balance in the Profit and Loss Account will be: [1 mark]

(A) Sia's Capital A/c Dr. 30,000
Tom's Capital A/c Dr. 20,000
Vidhi's Capital A/c Dr. 10,000
To Profit and Loss A/c 60,000
(B) Sia's Capital A/c Dr. 10,000
Tom's Capital A/c Dr. 20,000
Vidhi's Capital A/c Dr. 30,000
To Profit and Loss A/c 60,000
(C) Sia's Capital A/c Dr. 20,000
To Vidhi's Capital A/c 20,000
(D) Vidhi's Capital A/c Dr. 20,000
To Sia's Capital A/c 20,000

Correct Answer: (A) Sia's Capital A/c Dr. 30,000
Tom's Capital A/c Dr. 20,000
Vidhi's Capital A/c Dr. 10,000
To Profit and Loss A/c 60,000

Solution:

Concept:

- A debit balance in Profit and Loss Account is an accumulated loss and is borne in the old profit-sharing ratio.
- To eliminate the debit balance, credit Profit and Loss Account and debit the partners' capital accounts.

Step 1: Allocate the old loss The old ratio is $3:2:1$, whose total is 6. Thus Sia bears $60,000 \times 3/6 =$ Rs $30,000$, Tom bears $60,000 \times 2/6 =$ Rs $20,000$, and Vidhi bears $60,000 \times 1/6 =$ Rs $10,000$. The future ratio does not apply to this existing loss.

Step 2: Close Profit and Loss Account Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2023	Sia's Capital A/c Dr.		30,000	
	Tom's Capital A/c Dr.		20,000	
	Vidhi's Capital A/c Dr.		10,000	
	To Profit and Loss A/c			60,000
	(Being accumulated loss distributed in the old ratio of 3:2:1)			

Total debits equal the Rs 60,000 credit. Option (B) uses the new ratio. Options (C) and (D) merely adjust capitals and do not distribute or close the loss balance.

Step 3: Conclusion Debit Sia, Tom and Vidhi by Rs 30,000, Rs 20,000 and Rs 10,000 respectively, and credit Profit and Loss Account by Rs 60,000. Hence, the correct option is (A).

Quick Tip to Solve: When an old loss is distributed, use the old ratio and credit the loss account to close its debit balance.

2(a). Money received in advance from shareholders before it is actually called up by the directors is: [1 mark]

(A) debited to calls in advance account

(B) credited to calls in advance account

(C) debited to share capital account

(D) credited to share capital account

Correct Answer: (B) credited to calls in advance account

Solution:

Concept:

- Calls in advance are amounts received from shareholders against instalments that the company has not yet called.
- Such receipts create a liability until the relevant call becomes due; they are not yet called-up share capital.

Step 1: Identify the nature of the receipt The directors have not yet called this amount. Receiving cash does not by itself make an uncalled instalment part of called-up capital. The company records the advance separately so that it can be adjusted when the call is subsequently made.

Step 2: Determine the side of the account The receipt increases the company's liability for calls in advance, so Calls in Advance Account is credited. A debit would reduce that liability, making option (A) incorrect. Neither a debit nor a credit to Share Capital Account is appropriate for the uncalled amount, ruling out (C) and (D).

Step 3: Conclusion The money is credited to Calls in Advance Account. Hence, the correct option is (B).

Quick Tip to Solve: Look for "before it is called": an advance received creates a credit balance in Calls in Advance, not called-up capital.

OR

2(b). An offer of securities or invitation to subscribe securities to a select group of persons is termed as: [1 mark]

(A) Buy back of shares

(B) Employee stock option plan

(C) Private placement of shares

(D) Sweat Equity

Correct Answer: (C) Private placement of shares

Solution:

Concept:

- Private placement is an offer of securities or an invitation to subscribe to securities made to a selected group of persons.
- The identity of the recipients and the purpose of an issue distinguish private placement from employee incentives and repurchase transactions.

Step 1: Match the defining words The question specifies an offer or invitation to a "select group of persons". These words describe private placement: the securities are offered to identified persons rather than through a general invitation to the public.

Step 2: Eliminate the other descriptions Buy-back means the company purchases its own existing shares, so it is not an invitation to subscribe. An employee stock option plan gives eligible employees a right to acquire shares under the plan. Sweat equity is issued to eligible employees or directors for specified contributions such as know-how or value addition. Neither of these employee-related arrangements is the general definition in the question.

Step 3: Conclusion The offer is termed private placement of shares. Hence, the correct option is (C).

Quick Tip to Solve: Underline "select group of persons": it identifies private placement; an employee-specific benefit requires additional wording.

3. Xeno Ltd. issued 25,000 equity shares of Rs. 10 each. The amount was payable as follows: On Application - Rs. 4 per share, On Allotment - Rs. 5 per share, On First and Final call - Balance. All the shares offered were applied for and allotted. All the money due on allotment was received except on 1,500 shares. These shares were forfeited immediately after allotment. First and final call was not yet made. At the time of forfeiture, Share Capital Account will be debited by: [1 mark]

(A) Rs. 15,000

(B) Rs. 24,000

(C) Rs. 13,500

(D) Rs. 18,000

Correct Answer: (C) Rs. 13,500

Solution:

Concept:

- On forfeiture, Share Capital Account is debited with the called-up capital on the forfeited shares.
- Called-up amount includes only instalments already called; an uncalled instalment is excluded even if it forms part of face value.

Step 1: Find capital called up per share Application money is Rs 4 and allotment money is Rs 5 per share. Therefore the called-up amount is $4 + 5 = \text{Rs } 9$ per share. The remaining $10 - 9 = \text{Rs } 1$ first and final call was not made when forfeiture occurred.

Step 2: Apply the called-up amount to the forfeited shares Only 1,500 shares were forfeited. The debit to Share Capital Account is therefore

$$1,500 \times \text{Rs } 9 = \text{Rs } 13,500.$$

As a check, application money received on these shares is Rs 6,000 and unpaid allotment is Rs 7,500; together these equal Rs 13,500. Option (A) incorrectly uses the full face value of Rs 10. Options (B) and (D) do not correspond to the called-up amount on 1,500 shares.

Step 3: Conclusion Share Capital Account will be debited by Rs 13,500. Hence, the correct option is (C).

Quick Tip to Solve: Before multiplying forfeited shares by face value, check whether every instalment was called; here only Rs 9 was called.

4(a). Atul, Beena and Sita were partners in a firm sharing profits and losses in the ratio of 8:7:5. Damini was admitted as a new partner for 1/5th share in the profits which she acquired entirely from Atul. The new profit sharing ratio after Damini's admission will be: [1 mark]

(A) 7:7:5:1

(B) 4:7:5:4

(C) 8:7:5:4

(D) 7:5:8:4

Correct Answer: (B) 4:7:5:4

Solution:

Concept:

- An existing partner's new share equals the old share minus the share sacrificed to the incoming partner.
- If the incoming partner acquires the entire share from one partner, all other existing partners retain their original shares.

Step 1: Express all shares with denominator 20 The old ratio totals $8 + 7 + 5 = 20$. Thus Atul, Beena and Sita hold $8/20$, $7/20$ and $5/20$. Damini's share is $1/5 = 4/20$, acquired wholly from Atul.

Step 2: Deduct only from Atul and check the total Atul's new share is $8/20 - 4/20 = 4/20$. Beena retains $7/20$, Sita retains $5/20$, and Damini gets $4/20$. Their numerators sum to $4 + 7 + 5 + 4 = 20$. Option (A) gives Damini only $1/20$. Options (C) and (D), when normalised, do not give her the required $1/5$ or preserve the stipulated old partners'shares.

Step 3: Conclusion The new ratio of Atul, Beena, Sita and Damini is $4 : 7 : 5 : 4$. Hence, the correct option is (B).

Quick Tip to Solve: Convert Damini's 1/5 to 4/20 and subtract it only from Atul's 8/20; leave the other two shares unchanged.

OR

4(b). Rushil and Abheer were partners in a firm sharing profits and losses in the ratio of 4 : 3. They admitted Sunil as a new partner for 3/7th share in the profits of firm, which he acquired 2/7th share from Rushil and 1/7th share from Abheer. The new profit sharing ratio of Rushil, Abheer and Sunil will be : [1 mark]

(A) 4:3:3

(B) 2:1:3

(C) 2:2:3

(D) 4:3:1

Correct Answer: (C) 2:2:3

Solution:

Concept:

- New share of an old partner equals old share minus that partner's stated sacrifice.
- The incoming partner's share must equal the sum of the sacrifices, and all new shares must total one.

Step 1: Deduct the specified sacrifices Rushil originally has $4/7$ and gives up $2/7$, leaving $2/7$. Abheer originally has $3/7$ and gives up $1/7$, also leaving $2/7$. The fractions surrendered are shares of the firm's total profit, not fractions of each partner's own share.

Step 2: Include Sunil and test the proposed ratios Sunil receives $2/7 + 1/7 = 3/7$, exactly his stipulated share. Thus the new shares are $2/7, 2/7, 3/7$, adding to one. Option (A) gives Sunil $3/10$, option (B) gives him $3/6$, and option (D) gives him $1/8$; none equals $3/7$.

Step 3: Conclusion The new ratio of Rushil, Abheer and Sunil is $2 : 2 : 3$. Hence, the correct option is (C).

Quick Tip to Solve: Subtract each stated sacrifice separately: Rushil 4/7 minus 2/7 and Abheer 3/7 minus 1/7 both leave 2/7.

5. Alfa Ltd. invited applications for 50,000 equity shares of Rs. 10 each at a premium of 30%. The whole amount was payable on application. Applications were received for 2,50,000 shares. The company decided to allot the shares on a pro-rata basis to all the applicants. The amount refunded by the company was: [1 mark]

(A) Rs. 32,50,000

(B) Rs. 15,60,000

(C) Rs. 39,00,000

(D) Rs. 26,00,000

Correct Answer: (D) Rs. 26,00,000

Solution:

Concept:

- Issue price equals face value plus securities premium.
- When the entire issue price is collected on application and shares are allotted pro rata, the excess over the price of allotted shares is refunded.

Step 1: Calculate application money per share The premium is $30\% \times \text{Rs } 10 = \text{Rs } 3$. Therefore the full application amount is $10 + 3 = \text{Rs } 13$ per share. Application money received is $2,50,000 \times 13 = \text{Rs } 32,50,000$.

Step 2: Deduct money retained for shares allotted The company allots 50,000 shares and retains $50,000 \times 13 = \text{Rs } 6,50,000$. Consequently,

$$\text{Refund} = 32,50,000 - 6,50,000 = \text{Rs } 26,00,000.$$

Equivalently, excess applications for $2,50,000 - 50,000 = 2,00,000$ shares are refunded at Rs 13 each. Option (A) is the whole receipt, not the excess. Options (B) and (C) do not reconcile receipts with money retained; (C) even exceeds the amount received.

Step 3: Conclusion The amount refunded is Rs 26,00,000. Hence, the correct option is (D).

Quick Tip to Solve: Because the whole price was payable on application, refund excess shares multiplied by Rs 13, including the premium.

6. Assertion (A) : Irredeemable debentures are also known as perpetual debentures.

Reason (R) : The company does not give any undertaking for the repayment of money borrowed by issuing such debentures. They are repayable on the winding up of the company or on the expiry of a long period.

Choose the correct option from the following : [1 mark]

(A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is incorrect, but Reason (R) is correct.

(D) Assertion (A) is correct, but Reason (R) is incorrect.

Correct Answer: (A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

Solution:

Concept:

- Irredeemable debentures are also called perpetual debentures in the textbook classification of debentures.
- The classification depends on the repayment undertaking: such debentures do not carry the ordinary commitment to repay at a specified redemption date.

Step 1: Judge the Assertion The Assertion states that irredeemable debentures are known as perpetual debentures. This is the standard name for the category, so Assertion (A) is correct.

Step 2: Judge the Reason The Reason describes the absence of an ordinary undertaking for repayment and the textbook circumstances of repayment on winding up or after a long period. This is the stated characteristic of irredeemable debentures, so Reason (R) is correct. Perpetual does not mean that repayment can never occur under any circumstances.

Step 3: Test the explanatory link The lack of a normal specified redemption undertaking explains why these debentures are called perpetual. The Reason therefore explains the Assertion directly. Option (B) wrongly denies this link; options (C) and (D) incorrectly reject one of the two true statements.

Step 4: Conclusion Both Assertion (A) and Reason (R) are correct, and Reason (R) correctly explains Assertion (A). Hence, the correct option is (A).

Quick Tip to Solve: For this Assertion–Reason item, test the repayment undertaking first, then link its absence to the term perpetual.

7. Abha and Babita were partners in a clay toy making firm sharing profits in the ratio of 2 : 1. On 1st April, 2023, their capital accounts showed balances of Rs. 5,00,000 and Rs. 10,00,000 respectively. The partnership deed provides for interest on capital @ 10% p.a. The firm earned a profit of Rs. 90,000 during the year.

The amount of interest on capital allowed to Abha will be : [1 mark]

(A) Rs. 50,000

(B) Rs. 1,00,000

(C) Rs. 60,000

(D) Rs. 30,000

Correct Answer: (D) Rs. 30,000

Solution:

Concept:

- Interest on capital is an appropriation of profit unless the deed makes it a charge against profit.
- When available profit is insufficient, distribute it in the ratio of the interest amounts due, not the profit-sharing ratio.

Step 1: Calculate the interest due For the full year, Abha is entitled to $5,00,000 \times 10/100 = \text{Rs } 50,000$, and Babita to $10,00,000 \times 10/100 = \text{Rs } 1,00,000$. Total interest due is Rs 1,50,000, exceeding the available profit of Rs 90,000.

Step 2: Restrict the interest to available profit The interest entitlements are in the ratio $50,000 : 1,00,000 = 1 : 2$. Therefore, Abha receives

$$90,000 \times \frac{1}{3} = \text{Rs } 30,000.$$

Rs 50,000 is her unrestricted entitlement; Rs 1,00,000 is Babita's unrestricted entitlement. Rs 60,000 is Babita's allowed interest, not Abha's. The profit-sharing ratio $2 : 1$ is not used for this allocation.

Step 3: Conclusion Abha is allowed interest on capital of Rs 30,000. Hence, the correct option is (D).

Quick Tip to Solve: First compare total interest with profit; if profit is lower, scale both interest entitlements down in the same proportion.

8. Abha and Babita were partners in a clay toy making firm sharing profits in the ratio of 2 : 1. On 1st April, 2023, their capital accounts showed balances of Rs. 5,00,000 and Rs. 10,00,000 respectively. The partnership deed provides for interest on capital @ 10% p.a. The firm earned a profit of Rs. 90,000 during the year.

Babita's share in profit will be : [1 mark]

(A) Rs. 60,000

(B) Rs. 30,000

(C) Nil

(D) Rs. 1,00,000

Correct Answer: (C) Nil

Solution:

Concept:

- Interest on capital is appropriated out of the available profit before the residual profit is shared.
- If profit is less than total interest due, all available profit is allocated as interest in the entitlement ratio.

Step 1: Allocate the available profit as interest Interest due to Abha is Rs 50,000 and to Babita is Rs 1,00,000. Total interest due is Rs 1,50,000, whereas profit is only Rs 90,000. Interest is consequently allowed in the ratio $1:2$: Rs 30,000 to Abha and Rs 60,000 to Babita.

Step 2: Find the remaining divisible profit After allowing the restricted interest,

$$\text{Residual profit} = 90,000 - 30,000 - 60,000 = 0.$$

Babita receives no share of residual profit in the $2:1$ profit-sharing ratio. Option (A) is her interest, option (B) is Abha's interest, and option (D) is Babita's unrestricted interest entitlement; none is her share of residual profit.

Step 3: Conclusion Babita's share in profit is Nil. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish interest on capital from the share of residual profit: the former can exhaust the entire available profit.

9. Abhay, Boris and Chetan were partners in a firm sharing profits in the ratio of 5:3:2. Boris was guaranteed a profit of Rs. 95,000. Any deficiency on account of this was to be borne by Abhay and Chetan equally. The firm earned a profit of Rs. 2,00,000 for the year ended 31st March, 2023. The amount given by Abhay to Boris as guaranteed amount will be: [1 mark]

(A) Rs. 17,500

(B) Rs. 35,000

(C) Rs. 25,000

(D) Rs. 10,000

Correct Answer: (A) Rs. 17,500

Solution:

Concept:

- A guaranteed partner first receives the normal share of profit, computed using the agreed profit-sharing ratio.
- The deficiency is the guaranteed minimum less the normal share; the guaranteeing partners bear it in their agreed ratio.

Step 1: Calculate the deficiency of Boris Boris has $3/10$ of the profit under the ratio $5:3:2$. His normal share is

$$2,00,000 \times \frac{3}{10} = \text{Rs } 60,000.$$

The deficiency against his guarantee is $95,000 - 60,000 = \text{Rs } 35,000$.

Step 2: Allocate the deficiency equally Abhay and Chetan bear the Rs 35,000 deficiency equally, so Abhay contributes

$$35,000 \times \frac{1}{2} = \text{Rs } 17,500.$$

Rs 35,000 is the total deficiency, not Abhay's contribution. Rs 25,000 and Rs 10,000 do not follow the agreed equal allocation. Boris ultimately receives $60,000 + 17,500 + 17,500 = \text{Rs } 95,000$.

Step 3: Conclusion Abhay gives Rs 17,500 to Boris towards the guaranteed amount. Hence, the correct option is (A).

Quick Tip to Solve: Subtract the normal profit share from the guarantee first, then divide only the deficiency between the guarantors.

10. Piyush, Rajesh and Avinash were partners in a firm sharing profits and losses equally. Shiva was admitted as a new partner for an equal share. Shiva brought his share of capital and premium for goodwill in cash. The premium for goodwill amount will be divided among: [1 mark]

(A) Old partners in old ratio

(B) New partners in new ratio

(C) New partners in sacrificing ratio

(D) Old partners in sacrificing ratio

Correct Answer: (D) Old partners in sacrificing ratio

Solution:

Concept:

- Premium for goodwill compensates the old partners for the portion of their future profit share surrendered to an incoming partner.
- The premium is credited to sacrificing old partners in their sacrificing ratio: old share minus new share.

Step 1: Identify the partners who sacrifice Before admission, Piyush, Rajesh and Avinash each have $1/3$ of the profits. After Shiva is admitted for an equal share, each of the four partners has $1/4$. Each old partner sacrifices

$$\frac{1}{3} - \frac{1}{4} = \frac{1}{12}.$$

Thus their sacrificing ratio is $1 : 1 : 1$.

Step 2: Apply the goodwill distribution rule The premium belongs to the three old partners who surrender their shares; Shiva does not receive a share of the premium he brings. Options (B) and (C), which refer to new partners, are unsuitable. Here the old ratio happens to equal the sacrificing ratio, so (A) gives the same numerical distribution, but (D) states the governing accounting rule explicitly.

Step 3: Conclusion The premium is divided among the old partners in their sacrificing ratio. Hence, the correct option is (D).

Quick Tip to Solve: Always compute sacrifice as old share minus new share; an unchanged proportion may make it equal to the old ratio by coincidence.

11. Assertion (A) : Each partner is a principal as well as an agent for all the other partners.

Reason (R) : As per the definition of Partnership Act, partnership business may be carried on by all the partners or any of them acting for all.

Choose the correct option from the following : [1 mark]

(A) Both Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

(C) Assertion (A) is correct, but Reason (R) is incorrect.

(D) Assertion (A) is incorrect, but Reason (R) is correct.

Correct Answer: (B) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

Solution:

Concept:

- Mutual agency means that a partner can act on behalf of the firm and bind the other partners through business acts within authority.
- A partner acts as an agent when acting for the firm, and as a principal when bound by acts of other partners.

Step 1: Assess the assertion The assertion is correct. Each partner has the dual position of agent and principal: they act for the other partners and are also represented by them in the partnership business.

Step 2: Assess the reason The reason is correct. The definition permits the partnership business to be carried on by all the partners or by any of them acting for all. It is therefore not necessary for every partner to personally conduct every business transaction.

Step 3: Check the explanatory link The words "acting for all" establish mutual agency and directly explain the dual position in the assertion. Thus (A) incorrectly denies the explanation; (C) and (D) incorrectly reject one of the true statements.

Step 4: Conclusion Both the assertion and the reason are correct, and the reason correctly explains the assertion. Hence, the correct option is (B).

Quick Tip to Solve: For mutual-agency questions, connect "acting for all" with agent when acting and principal when represented by another partner.

12. Reserve capital is that part of _____ capital which cannot be called except at the time of winding up of the company. [1 mark]

(A) Issued

(B) Called up

(C) Uncalled

(D) Nominal

Correct Answer: (C) Uncalled

Solution:

Concept:

- Uncalled capital is the portion of subscribed share capital that the company has not yet demanded from shareholders.
- Reserve capital is the portion of uncalled capital reserved to be called only on winding up.

Step 1: Identify the relevant capital category The question asks about an amount which has not been demanded and cannot ordinarily be demanded during the life of the company. It must therefore come from uncalled capital. Restricting its call to winding up gives that portion the special name reserve capital.

Step 2: Eliminate the other categories Called-up capital has already been demanded, so (B) cannot fit. Issued capital in (A) is the capital offered for subscription, while nominal capital in (D) is the authorised limit. These are broader capital categories and do not identify the still-uncalled amount described. Reserve capital is also distinct from capital reserve, which arises from capital profits.

Step 3: Conclusion Reserve capital is that part of uncalled capital which can be called only on winding up. Hence, the correct option is (C).

Quick Tip to Solve: Use the wording "cannot be called except on winding up" to recognise reserve capital as a restricted part of uncalled capital.

13(a). A share of Rs. 100 on which Rs. 80 is received is forfeited for non-payment of final call of Rs. 20. The minimum price at which this share can be reissued is: [1 mark]

(A) Rs. 120

(B) Rs. 100

(C) Rs. 80

(D) Rs. 20

Correct Answer: (D) Rs. 20

Solution:

Concept:

- The discount on reissue of a forfeited share cannot exceed the amount forfeited on that share.
- Minimum reissue price equals the paid-up value on reissue less the available forfeited amount.

Step 1: Find the maximum permitted discount The Rs 100 share has Rs 80 already received and

forfeited. The unpaid final call is Rs 20. Thus Rs 80, not the unpaid call of Rs 20, is available to meet a discount on reissue of the share as fully paid.

Step 2: Calculate the minimum reissue price With a fully paid value of Rs 100, the lowest permissible price is

$$100 - 80 = \text{Rs } 20.$$

At this price, the Rs 80 discount exactly uses the amount forfeited. Reissue at Rs 80, Rs 100 or Rs 120 would be possible, but none of these is the minimum; this eliminates options (C), (B) and (A), respectively.

Step 3: Conclusion The minimum reissue price is Rs 20 per share. Hence, the correct option is (D).

Quick Tip to Solve: Subtract the amount already received on the forfeited share from its fully paid value to find the lowest reissue price.

OR

13(b). Shiv Ltd. forfeited 500 shares of Rs. 10 each on which Rs. 7 per share was paid. These shares were reissued for Rs. 9 per share fully paid. Amount transferred to Capital Reserve Account will be: [1 mark]

(A) Rs. 3,000

(B) Rs. 5,000

(C) Rs. 4,500

(D) Rs. 3,500

Correct Answer: (A) Rs. 3,000

Solution:

Concept:

- Amounts received on forfeited shares are credited to Share Forfeiture Account.
- On reissue, deduct the reissue discount from the forfeiture balance relating to those shares; the remaining capital profit goes to Capital Reserve.

Step 1: Calculate forfeiture and reissue discount The amount forfeited on all 500 shares is $500 \times 7 = \text{Rs } 3,500$. Each Rs 10 share is reissued for Rs 9 fully paid, so the discount is Rs 1 per share. Total discount is $500 \times 1 = \text{Rs } 500$.

Step 2: Find the capital profit available for transfer All the forfeited shares have been reissued, so the full related surplus can be transferred:

$$\text{Capital reserve} = 3,500 - 500 = \text{Rs } 3,000.$$

Rs 5,000 in (B) is the face value, Rs 4,500 in (C) is the cash received on reissue, and Rs 3,500 in (D) is the forfeited amount before deducting the reissue discount.

Step 3: Conclusion The amount transferred to Capital Reserve Account is Rs 3,000. Hence, the

correct option is (A).

Quick Tip to Solve: For each reissued share, subtract the reissue discount from the amount forfeited, then multiply by the number reissued.

14(a). Anju, Divya and Bobby were partners in a firm sharing profits and losses in the ratio of 3:2:1. Bobby retired. The new profit sharing ratio between Anju and Divya after Bobby's retirement was 5:3. The gaining ratio of remaining partners will be: [1 mark]

(A) 3:2

(B) 5:3

(C) 3:1

(D) 2:3

Correct Answer: (C) 3:1

Solution:

Concept:

- A continuing partner gains the increase in their profit share: gain equals new share minus old share.
- The gaining ratio compares the gains of the continuing partners, not their total new profit shares.

Step 1: Calculate the individual gains Anju's old share is $3/6 = 1/2$, and her new share is $5/8$; Divya's old share is $2/6 = 1/3$, and her new share is $3/8$. Thus

$$\text{Anju's gain} = \frac{5}{8} - \frac{1}{2} = \frac{1}{8} = \frac{3}{24},$$
$$\text{Divya's gain} = \frac{3}{8} - \frac{1}{3} = \frac{1}{24}.$$

Step 2: Compare the gains and check the total The gaining ratio is $(3/24) : (1/24) = 3 : 1$. Their total gain is $4/24 = 1/6$, exactly Bobby's old share. The ratio $3 : 2$ in (A) is the old ratio between the survivors, $5 : 3$ in (B) is their new ratio, and $2 : 3$ in (D) does not match their calculated gains.

Step 3: Conclusion The gaining ratio of Anju and Divya is $3 : 1$. Hence, the correct option is (C).

Quick Tip to Solve: Subtract each old share from the new share with a common denominator, and check that total gain equals the retiring share.

OR

14(b). Mita, Veena and Atul were partners in a firm sharing profits and losses in the ratio of 3:2:1. Atul retired and his share was taken over by Mita and Veena in the ratio of 1:4. The new profit sharing ratio between Mita and Veena after Atul's retirement will be: [1 mark]

(A) 3:2

(B) 8:7

(C) 7:3

(D) 2:3

Correct Answer: (B) 8:7

Solution:

Concept:

- A continuing partner's new profit share equals the old share plus the share acquired from the retiring partner.
- The gaining ratio divides only the retiring partner's share, not the entire future profit.

Step 1: Allocate Atul's share Atul's old share is $1/6$. Mita acquires $\frac{1}{6} \times \frac{1}{5} = \frac{1}{30}$, while Veena acquires $\frac{1}{6} \times \frac{4}{5} = \frac{4}{30}$. These gains together equal Atul's $1/6$ share.

Step 2: Add each gain to the old share

$$\text{Mita} = \frac{3}{6} + \frac{1}{30} = \frac{16}{30},$$
$$\text{Veena} = \frac{2}{6} + \frac{4}{30} = \frac{14}{30}.$$

The two new shares total one. Option (A) merely keeps the old relative ratio; (C) and (D) do not equal the calculated shares. The gaining ratio $1 : 4$ is not itself the new profit-sharing ratio.

Step 3: Conclusion The new profit-sharing ratio is $16 : 14 = \boxed{8 : 7}$. Hence, the correct option is (B).

Quick Tip to Solve: Allocate the retiring partner's $1/6$ in $1 : 4$, then add the gains to $3/6$ and $2/6$.

15. Aavya, Mitansh and Praveen were partners in a firm. On 31st March, 2023, the firm was dissolved. Creditors took over furniture of book value of Rs. 50,000 at Rs. 45,000 in part settlement of their amount of Rs. 60,000. The balance amount was paid to them through cheque. The amount paid through cheque will be: [1 mark]

(A) Rs. 10,000

(B) Rs. 50,000

(C) Rs. 45,000

(D) Rs. 15,000

Correct Answer: (D) Rs. 15,000

Solution:

Concept:

- The cash paid to a creditor equals the liability due less the agreed value of assets accepted in settlement.
- An asset's book value and its agreed settlement value serve different purposes; the creditor receives credit for the latter.

Step 1: Identify the settlement credit The total amount due to creditors is Rs 60,000. They accept furniture at Rs 45,000, so this amount reduces their claim. The furniture's book value of Rs 50,000 is not the amount accepted by them.

Step 2: Calculate the unpaid balance

$$\text{Cheque payment} = 60,000 - 45,000 = \text{Rs } 15,000.$$

Option (A), Rs 10,000, incorrectly deducts book value. Option (B), Rs 50,000, is the furniture's book value; option (C), Rs 45,000, is the non-cash settlement. Neither is the unpaid creditor balance.

Step 3: Conclusion The amount paid through cheque is $\boxed{\text{Rs } 15,000}$. Hence, the correct option is (D).

Quick Tip to Solve: Deduct the agreed takeover value of Rs 45,000 from creditors, not the furniture's book value.

16. Alex, Benn and Cole were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. They admitted Dona as a new partner for 1/5th share in the future profits. Dona agreed to contribute proportionate capital. On the date of admission, capitals of Alex, Benn and Cole after all adjustments were Rs. 1,20,000; Rs. 80,000 and Rs. 1,00,000 respectively. The amount of capital brought in by Dona will be : [1 mark]

(A) Rs. 75,000

(B) Rs. 60,000

(C) Rs. 65,000

(D) Rs. 70,000

Correct Answer: (A) Rs. 75,000

Solution:

Concept:

- For proportionate capital, the old partners' combined adjusted capital represents their combined share after admission.
- Total capital equals the old partners' adjusted capital divided by their remaining profit share; the incoming partner contributes her fraction of this total.

Step 1: Identify capital and remaining share Combined adjusted capital of Alex, Benn and Cole is $1,20,000 + 80,000 + 1,00,000 = \text{Rs } 3,00,000$. Dona receives $1/5$, leaving $4/5$ for the old partners.

Step 2: Find the proportionate contribution

$$\text{Total capital} = 3,00,000 \times \frac{5}{4} = \text{Rs } 3,75,000,$$
$$\text{Dona's capital} = 3,75,000 \times \frac{1}{5} = \text{Rs } 75,000.$$

Option (B), Rs 60,000, incorrectly takes one-fifth of the old partners' capital. Options (C) and (D) also fail the required new-to-old capital proportion of $1 : 4$.

Step 3: Conclusion Dona brings in $\boxed{\text{Rs } 75,000}$ as capital. Hence, the correct option is (A).

Quick Tip to Solve: Use incoming share divided by remaining share: Dona's capital is $3,00,000 \times (1/5)/(4/5)$.

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17. Anmol, Badal and Cheenu were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 3. Badal retired. Anmol and Cheenu decided to share profits and losses in future in the ratio of 1 : 2. On the day of Badal's retirement, goodwill of the firm was valued at Rs. 1,20,000. Calculate gaining ratio and pass necessary journal entry to record the treatment of goodwill (without opening goodwill account), on Badal's retirement. [3 marks]

Solution:

Concept:

- A continuing partner's gain is the new profit share minus the old share. A negative gain denotes a sacrifice, which also requires compensation.

- Without opening a Goodwill Account, debit the gaining partner's Capital Account and credit the retiring and sacrificing partners' Capital Accounts for their respective goodwill shares.

Step 1: Determine gains and sacrifices The old shares of Anmol, Badal and Cheenu are $5/12, 4/12, 3/12$, respectively. The new shares of Anmol and Cheenu are $1/3$ and $2/3$. Therefore,

$$\text{Anmol's gain} = \frac{1}{3} - \frac{5}{12} = -\frac{1}{12},$$
$$\text{Cheenu's gain} = \frac{2}{3} - \frac{3}{12} = \frac{5}{12}.$$

Thus the signed gaining ratio, Anmol : Cheenu, is $-1 : 5$. Anmol actually sacrifices $1/12$; Cheenu alone gains $5/12$, comprising Badal's $4/12$ and Anmol's $1/12$.

Step 2: Calculate goodwill compensation On goodwill of Rs 1,20,000, Anmol is entitled to $1,20,000 \times 1/12 =$ Rs $10,000$, and Badal to $1,20,000 \times 4/12 =$ Rs $40,000$. Cheenu bears $1,20,000 \times 5/12 =$ Rs $50,000$. The total credit of Rs 50,000 equals the debit.

Step 3: Record the adjustment through capital accounts Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cheenu's Capital A/c Dr.		50,000	
	To Anmol's Capital A/c			10,000
	To Badal's Capital A/c			40,000
	(Being goodwill adjusted on Badal's retirement by compensating Badal and Anmol for their shares sacrificed)			

No Goodwill Account is opened; the adjustment transfers compensation directly between partners' capital accounts.

Step 4: Conclusion Anmol : Cheenu have signed gains $\boxed{-1 : 5}$: Anmol sacrifices $1/12$, and Cheenu gains $5/12$. Debit Cheenu's Capital Rs 50,000; credit Anmol's Capital Rs 10,000 and Badal's Capital Rs 40,000.

Quick Tip to Solve: Calculate every continuing partner's new share minus old share: a continuing partner can sacrifice even on retirement.

18. Pran and Ron were partners in a firm with a combined capital of Rs. 3,00,000. The normal rate of return was 15%. The profits of the last four years were as follows :

2019-20: Rs. 50,000

2020-21: Rs. 90,000

2021-22: Rs. 80,000

2022-23: Rs. 70,000

The closing stock for the year 2022-23 was undervalued by Rs. 10,000.

Calculate goodwill of the firm based on capitalisation of super profit. [3 marks]

Solution:

Concept:

- Super profit is the excess of maintainable average profit over normal profit. Normal profit equals capital employed multiplied by the normal rate of return.
- Under capitalisation of super profit, Goodwill $=$ Super profit $\times\, 100/$Normal rate (percent). Correct abnormal errors in profits before averaging.

Step 1: Correct the profit affected by stock undervaluation Closing stock appears on the credit side of the Trading Account. Undervaluing it understates gross profit and hence net profit by the same amount. Therefore the corrected profit for 2022–23 is $70,000 + 10,000 =$ Rs $80,000$. The error relates to this closing stock, so only the final year's profit among the four supplied years is adjusted.

Step 2: Calculate average and normal profits

$$\begin{aligned}\text{Average profit} &= \frac{50,000 + 90,000 + 80,000 + 80,000}{4}\\ &= \frac{3,00,000}{4} = \text{Rs } 75,000,\\ \text{Normal profit} &= 3,00,000 \times \frac{15}{100} = \text{Rs } 45,000.\end{aligned}$$

The given combined capital of Rs 3,00,000 is used as the capital base. The normal return is the return expected from this capital at the given industry rate.

Step 3: Capitalise the super profit

$$\begin{aligned}\text{Super profit} &= 75,000 - 45,000 = \text{Rs } 30,000,\\ \text{Goodwill} &= 30,000 \times \frac{100}{15} = \text{Rs } 2,00,000.\end{aligned}$$

This amount is the capital equivalent of the annual excess profit at 15 percent. As a check, $2,00,000 \times 15/100 = 30,000$, which reproduces the super profit. Do not capitalise the unadjusted average profit or subtract capital a second time under this method.

Step 4: Conclusion Goodwill by capitalisation of super profit is $\boxed{\text{Rs } 2,00,000}$.

Quick Tip to Solve: Add the Rs 10,000 closing-stock undervaluation to 2022–23 profit before finding the four-year average.

19(a). Sunrise Ltd. acquired assets of Rs. 3,60,000 and took over creditors of Rs. 1,00,000 from Moonlight Ltd. for an agreed purchase consideration of Rs. 4,80,000. Sunrise Ltd. issued 9% Debentures of Rs. 100 each at a discount of 4% in satisfaction of the purchase consideration. Pass necessary journal entries in the books of Sunrise Ltd. Show your workings clearly. [3 marks]

Solution:

Concept:

- Purchased assets and liabilities are recorded at their agreed values. Purchase consideration exceeding net assets acquired is debited as goodwill.
- Debentures issued at a discount settle the vendor at their issue price, but the Debentures Account is credited with face value. The difference is debited as discount on issue.

Step 1: Determine goodwill on acquisition Net assets acquired are $3,60,000 - 1,00,000 = \text{Rs } 2,60,000$. Purchase consideration is Rs 4,80,000. Hence goodwill is $4,80,000 - 2,60,000 = \text{Rs } 2,20,000$. The creditors assumed are a separate liability and are not deducted from the agreed payment to Moonlight Ltd. again.

Step 2: Calculate the debentures issued

$$\text{Issue price per debenture} = 100 \times \frac{96}{100} = \text{Rs } 96,$$
$$\text{Number issued} = 4,80,000 \div 96 = 5,000,$$
$$\text{Face value issued} = 5,000 \times 100 = \text{Rs } 5,00,000,$$
$$\text{Discount on issue} = 5,000 \times 4 = \text{Rs } 20,000.$$

The 9 percent rate is the interest rate; it does not determine the issue proceeds or the number issued.

Step 3: Record acquisition and settlement Journal of Sunrise Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Creditors A/c To Moonlight Ltd. A/c (Being assets and creditors taken over for the agreed purchase consideration)		3,60,000 2,20,000	 1,00,000 4,80,000
	Moonlight Ltd. A/c Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being 5,000 debentures of Rs 100 each issued at a discount of 4% to settle purchase consideration)		4,80,000 20,000	 5,00,000

The first entry balances at Rs 5,80,000 and the second at Rs 5,00,000. The vendor's account is fully settled.

Step 4: Conclusion Sunrise Ltd. records goodwill of $\boxed{\text{Rs } 2,20,000}$ and issues $\boxed{5,000}$ 9% debentures, with face value Rs 5,00,000 and discount Rs 20,000.

Quick Tip to Solve: Divide the purchase consideration by Rs 96, the issue price; credit the debentures at Rs 100 each.

OR

19(b). Grapple Ltd. took over assets of Rs. 25,00,000 and liabilities of Rs. 5,00,000 from Allore Ltd. for an agreed purchase consideration of Rs. 18,00,000. Grapple Ltd. issued 11% Debentures of Rs. 100 each at 20% premium in satisfaction of the purchase consideration. Pass necessary journal entries in the books of Grapple Ltd. Show your workings clearly. [3 marks]

Solution:

Concept:

- Net assets acquired equal assets taken over less liabilities assumed. When net assets exceed the agreed purchase consideration, the difference is credited to Capital Reserve.
- Debentures issued at a premium discharge the vendor's claim at their issue price. Face value is credited to Debentures Account and the premium is credited to Securities Premium Account.

Step 1: Working Notes: Calculate capital reserve and debentures issued Grapple Ltd. acquires assets and assumes liabilities; the amount payable to Allore Ltd. remains the agreed purchase consideration.

$$\text{Net assets} = 25,00,000 - 5,00,000 = \text{Rs } 20,00,000,$$
$$\text{Capital reserve} = 20,00,000 - 18,00,000 = \text{Rs } 2,00,000.$$

Each debenture has face value Rs 100 and premium Rs 20, so its issue price is Rs 120. The 11% rate determines interest on the debentures and does not determine their issue price.

$$\text{Number issued} = \frac{18,00,000}{120} = 15,000,$$
$$\text{Face value issued} = 15,000 \times 100 = \text{Rs } 15,00,000,$$
$$\text{Premium} = 15,000 \times 20 = \text{Rs } 3,00,000.$$

Step 2: Record the acquisition and settlement **Journal of Grapple Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		25,00,000	
	To Sundry Liabilities A/c			5,00,000
	To Allore Ltd.			18,00,000
	To Capital Reserve A/c			2,00,000
	(Being assets and liabilities taken over for agreed purchase consideration, with the excess of net assets credited to capital reserve)			
	Allore Ltd. Dr.		18,00,000	
	To 11% Debentures A/c			15,00,000
	To Securities Premium A/c			3,00,000
	(Being 15,000 debentures of Rs 100 each issued at 20% premium to settle purchase consideration)			

The acquisition entry balances at Rs 25,00,000 on each side. The settlement credits total Rs 18,00,000, exactly clearing the vendor's balance; no cash payment is involved.

Step 3: Conclusion Capital Reserve is Rs 2,00,000. Grapple Ltd. issues 15,000 debentures, crediting 11% Debentures Account with Rs 15,00,000 and Securities Premium Account with Rs 3,00,000.

Quick Tip to Solve: Divide purchase consideration by Rs 120, the issue price, to find the debenture count; use Rs 100 only to calculate the credit to Debentures Account.

20(a). Mohan, Suhaan and Adit were partners in a firm sharing profits and losses in the ratio of 3:2:1. Their fixed capitals were: Rs. 2,00,000, Rs. 1,00,000 and Rs. 1,00,000 respectively. For the year ended 31st March, 2023, interest on capital was credited to their accounts @ 8% p.a. instead of 5% p.a. Pass necessary adjusting journal entry. Show your workings clearly. [3 marks]

Solution:

Concept:

- Excess interest on capital must be withdrawn from the partners and the resulting increase in divisible profit must be distributed in the profit-sharing ratio.
- Under the fixed-capital method, interest and profit adjustments are recorded in partners' Current Accounts. A single adjustment entry transfers the net excess credit from the over-credited partner to the under-credited partner.

Step 1: Working Notes: Find the excess interest credited The rate used was 8% instead of 5%, so excess interest is 3% of each fixed capital. All amounts in the following working table are in Rs.

Particulars	Mohan	Suhaan	Adit
Fixed capital	2,00,000	1,00,000	1,00,000
Interest credited at 8%	16,000	8,000	8,000
Correct interest at 5%	10,000	5,000	5,000
Excess interest: debit	6,000	3,000	3,000

The firm has allowed Rs 12,000 too much interest. Correcting this appropriation increases the profit available to the partners by Rs 12,000.

Step 2: Redistribute the released profit and find net adjustments Distribute Rs 12,000 in the agreed ratio $3 : 2 : 1$. Mohan receives $12,000 \times 3/6 = \text{Rs } 6,000$, Suhaan receives $12,000 \times 2/6 = \text{Rs } 4,000$, and Adit receives $12,000 \times 1/6 = \text{Rs } 2,000$.

Adjustment (Rs)	Mohan	Suhaan	Adit
Debit for excess interest	6,000	3,000	3,000
Credit for additional profit	6,000	4,000	2,000
Net effect	Nil	1,000 Cr.	1,000 Dr.

Mohan's two adjustments cancel. Suhaan was under-credited by Rs 1,000 and Adit was over-credited by Rs 1,000. The fixed capital balances remain unchanged.

Step 3: Pass the adjusting entry **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 March 2023	Adit's Current A/c Dr.		1,000	
	To Suhaan's Current A/c			1,000
	(Being excess interest on fixed capitals adjusted along with the corresponding profit redistribution)			

Step 4: Conclusion Debit Adit's Current Account and credit Suhaan's Current Account by Rs 1,000 each. No net entry is required in Mohan's Current Account.

Quick Tip to Solve: Reverse only the excess 3% interest, then return its total in the 3:2:1 profit ratio; fixed capitals require Current Accounts in the adjustment entry.

OR

20(b). Manoj and Nitin were partners in a firm sharing profits and losses in the ratio of 2:1. On 31st March, 2023, the balances in their capital accounts after making adjustments for profits and drawings were Rs. 90,000 and Rs. 80,000 respectively. The net profit for the year ended 31st March, 2023 amounted to Rs. 30,000. During the year Manoj withdrew Rs. 40,000 and Nitin withdrew Rs. 20,000. Subsequently, it was noticed that Interest on Capital @ 10% p.a. was not provided to the partners. Also Interest on Drawings to Manoj Rs. 3,000 and to Nitin Rs. 2,000 was not charged. Pass necessary adjusting journal entry. Show your workings clearly. [3 marks]

Solution:

Concept:

- Interest on capital is calculated on opening capital. Where closing capital already includes drawings and profit, opening capital equals closing capital plus drawings minus the profit already credited.
- Omitted interest on capital credits partners and reduces divisible profit; omitted interest on drawings debits partners and increases divisible profit. The combined effect is corrected through a single adjusting entry in their Capital Accounts.

Step 1: Working Notes: Reconstruct the opening capitals Profit of Rs 30,000 has already been credited in the ratio $2:1$: Manoj received Rs 20,000 and Nitin received Rs 10,000. Reverse that profit and add back the year's drawings to obtain the opening balances.

$$\begin{aligned} \text{Manoj's opening capital} &= 90,000 + 40,000 - 20,000 \\ &= \text{Rs } 1,10,000, \\ \text{Nitin's opening capital} &= 80,000 + 20,000 - 10,000 \\ &= \text{Rs } 90,000. \end{aligned}$$

Interest at 10% is therefore Rs 11,000 for Manoj and Rs 9,000 for Nitin. It must not be calculated on the closing balances of Rs 90,000 and Rs 80,000.

Step 2: Find the combined correction to each partner Total omitted interest on capital is Rs 20,000

and omitted interest on drawings is Rs 5,000. The correctly divisible profit is

$$30,000 + 5,000 - 20,000 = \text{Rs } 15,000.$$

Thus the profit already distributed must be reduced by Rs 15,000 in the ratio $2:1$: debit Manoj Rs 10,000 and Nitin Rs 5,000. Combine these debits with the omitted interest adjustments as follows.

Adjustment (Rs)	Manoj	Nitin
Credit: interest on opening capital	11,000	9,000
Debit: interest on drawings	3,000	2,000
Debit: reduction in profit share	10,000	5,000
Net adjustment	2,000 Dr.	2,000 Cr.

Manoj's net debit is $3,000 + 10,000 - 11,000 = \text{Rs } 2,000$; Nitin's net credit is $9,000 - 2,000 - 5,000 = \text{Rs } 2,000$. The adjustments sum to zero, since they redistribute the partners' existing total capital.

Step 3: Record the single adjusting entry **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 March 2023	Manoj's Capital A/c Dr.		2,000	
	To Nitin's Capital A/c			2,000
	(Being omitted interest on capital and drawings adjusted with the corresponding change in profit shares)			

As a check, corrected closing capitals are Rs 88,000 and Rs 82,000; their total remains Rs 1,70,000.

Step 4: Conclusion Debit Manoj's Capital Account by Rs 2,000 and credit Nitin's Capital Account by Rs 2,000 to rectify both omissions through one entry.

Quick Tip to Solve: First undo credited profit and add back drawings to recover opening capital; then combine both interest corrections with the change in divisible profit.

21. Shivalik Limited was registered with an authorized capital of Rs. 10,00,000 divided into equity shares of Rs. 10 each. It offered 50,000 equity shares to the public. The amount was payable as follows: On Application - Rs. 2 per share, On Allotment - Rs. 6 per share, On First and Final call - Balance. The issue was fully subscribed. All the amounts were duly received except the allotment and first and final call money on 4,000 equity shares. These equity shares were forfeited. Present the Share Capital in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013. Also prepare 'Notes to Accounts' for the same. [4 marks]

Solution:

Concept:

- Authorised capital is the maximum share capital permitted by the company's memorandum; issued capital is the nominal value of shares offered to the public.
- After forfeiture, the forfeited shares are excluded from subscribed capital. The amount already received on those shares is separately added as shares forfeited under Share Capital until reissue.

Step 1: Calculate the capital remaining after forfeiture **Working Notes**

The authorised number of equity shares is $10,00,000/10 = 1,00,000$. The company issued 50,000 shares of Rs 10 each, so issued capital is Rs 5,00,000. The first and final call is $10 - 2 - 6 =$ Rs 2 per share; consequently the entire face value has been called up. Of the 50,000 subscribed shares, 4,000 were forfeited. Thus, $50,000 - 4,000 = 46,000$ shares remain subscribed and fully paid, with capital of $46,000 \times 10 =$ Rs $4,60,000$. The holders of the forfeited shares paid only the application money. The amount retained on forfeiture is $4,000 \times 2 =$ Rs $8,000$. Their unpaid allotment and call total $4,000 \times (6 + 2) =$ Rs $32,000$; this ceases to be calls in arrears when those shares are forfeited.

Step 2: Present the Balance Sheet extract **Shivalik Limited**

Balance Sheet (extract)

Particulars	Note No.	Amount (Rs)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	4,68,000

Step 3: Prepare the share capital note **Notes to Accounts**

Note 1: Share Capital

Particulars	Amount (Rs)
Authorised Capital	
1,00,000 equity shares of Rs 10 each	10,00,000
Issued Capital	
50,000 equity shares of Rs 10 each	5,00,000
Subscribed and Fully Paid-up Capital	
46,000 equity shares of Rs 10 each fully paid	4,60,000
Add: Shares forfeited (amount originally paid on 4,000 shares)	8,000
Total Share Capital	**4,68,000**

The forfeited amount is not capital reserve because no reissue has occurred. There is no remaining subscribed but not fully paid-up capital: all shares still held by shareholders are fully paid.

Step 4: Conclusion Share Capital appears at **Rs 4,68,000**, comprising Rs 4,60,000 subscribed and fully paid-up capital and Rs 8,000 received on forfeited shares.

Quick Tip to Solve: Remove the forfeited shares from subscribed capital, then add back only their paid amount; do not deduct their unpaid calls again.

22. Archana, Vandana and Arti were partners in a firm sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet on 31st March, 2023 was as follows:

Balance Sheet of Archana, Vandana and Arti as at 31st March, 2023

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Investments	80,000
Archana 80,000		Plant	1,00,000
Vandana 70,000		Stock	40,000
Arti 60,000	2,10,000	Debtors	50,000
General Reserve	30,000	Cash at Bank	30,000
Creditors	60,000		
	3,00,000		3,00,000

The firm was dissolved on the above date.

(i) Assets were realised as follows: Debtors – Rs 40,000; Stock – Rs 50,000; Plant – Rs 60,000.

(ii) 25% of the Investments were taken over by Vandana at Rs 18,000. Remaining Investments were taken over by Archana at 10% less than its book value.

(iii) Expenses of realisation Rs 20,000 were paid by Arti.

Prepare Realisation Account. [4 marks]

Solution:

Concept:

- Realisation Account is debited with non-cash assets at book values and credited with outside liabilities. Asset proceeds and partners' takeovers are credited; liability payments and realisation expenses are debited.
- Expenses paid by a partner credit that partner's Capital Account. The final realisation profit or loss is transferred to partners in their profit-sharing ratio of 5:3:2.

Step 1: Calculate investment takeovers and expenses **Working Notes**

Vandana takes over $80,000 \times 25\% = \text{Rs } 20,000$ book value of investments for Rs 18,000. Archana takes over the remaining book value of $80,000 - 20,000 = \text{Rs } 60,000$ at 10% below book value, namely $60,000 \times 90\% = \text{Rs } 54,000$. These amounts credit Realisation and debit the respective partners' Capital Accounts. Debtors, stock and plant produce bank receipts of $40,000 + 50,000 + 60,000 = \text{Rs } 1,50,000$. Creditors are paid at their book amount of Rs 60,000 because no different settlement amount is stated. Expenses of Rs 20,000 paid by Arti debit Realisation and credit Arti's Capital Account, rather than Bank.

Step 2: Prepare the Realisation Account **Realisation Account**

Dr. Particulars	Amount (Rs)	**Particulars Cr.**	Amount (Rs)
To Investments	80,000	By Creditors	60,000
To Plant	1,00,000	By Bank (assets realised):	
To Stock	40,000	Debtors	40,000
To Debtors	50,000	Stock	50,000
To Bank (creditors paid)	60,000	Plant	60,000
To Arti's Capital (expenses)	20,000	By Vandana's Capital	18,000
		By Archana's Capital	54,000
		By Partners' Capitals (loss):	
		Archana	34,000
		Vandana	20,400
		Arti	13,600
Total	**3,50,000**	**Total**	**3,50,000**

Cash at Bank is not transferred to Realisation because it is already a cash asset. General Reserve is distributed directly to partners' Capital Accounts and is not a realisation gain. Realisation Account closes when the loss is transferred; there is no balance carried forward.

Step 3: Verify the loss allocation The total debit is Rs 3,50,000. Credits before transferring the loss are $60,000 + 1,50,000 + 18,000 + 54,000 = \text{Rs } 2,82,000$. Their difference is Rs 68,000. In the ratio 5:3:2, the loss debited to capitals is:

$$\begin{aligned} \text{Archana} &: 68,000 \times 5/10 = \text{Rs } 34,000, \\ \text{Vandana} &: 68,000 \times 3/10 = \text{Rs } 20,400, \\ \text{Arti} &: 68,000 \times 2/10 = \text{Rs } 13,600. \end{aligned}$$

Step 4: Conclusion The realisation loss is **Rs 68,000**, borne by Archana, Vandana and Arti as Rs 34,000, Rs 20,400 and Rs 13,600 respectively. Both sides of Realisation Account total Rs 3,50,000.

Quick Tip to Solve: Credit Realisation for partners' asset takeovers, but debit it for expenses paid by a partner; neither transaction passes through Bank.

23. Jatin, Kartik and Lakhan were partners in a firm sharing profits and losses in the ratio of 7 : 5 : 3. Their Balance Sheet as at 31st March, 2023, was as follows :

Balance Sheet of Jatin, Kartik and Lakhan as at 31st March, 2023

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	80,000	Bank	40,000
General Reserve	60,000	Stock	80,000
Capitals:		Debtors	1,00,000
Jatin: 1,00,000		Fixed Assets	1,20,000
Kartik: 60,000			
Lakhan: 40,000	2,00,000		
Total	3,40,000	Total	3,40,000

Kartik died on 30th September, 2023. According to the partnership deed, Kartik's legal representatives were entitled to the following :

(i) Balance in his Capital Account.

(ii) Interest on capital @ 10% p.a.

(iii) His share of goodwill. Goodwill of the firm was valued on the basis of twice the average of the preceding four years profits.

(iv) His share in profits up to the date of death on the basis of total profits for the preceding two years.

Profits for the previous four years were :

2019-20: Rs. 1,41,000

2020-21: Rs. (30,000)

2021-22: Rs. 60,000

2022-23: Rs. 69,000

Prepare Kartik's Capital Account to be rendered to his legal representatives. [6 marks]

Solution:

Concept:

- A deceased partner's capital is credited with the opening capital, his share of accumulated reserves, goodwill, interest on capital and profit earned up to death. The final amount is transferred to his executor's account.
- Kartik's old profit share is $5/(7+5+3) = 1/3$. General reserve belongs to all the old partners and is distributed in their old profit-sharing ratio.
- Interest on capital and estimated profit are allowed only for the period from the previous balance-sheet date to the date of death. A two-year profit total must be apportioned over its corresponding twenty-four months.

Step 1: Working Notes: calculate the reserve and interest Kartik's opening capital is Rs 60,000. His share of the existing general reserve is

$$60,000 \times \frac{5}{15} = \text{Rs } 20,000.$$

Death occurred on 30th September, 2023, six months after 31st March, 2023. As no drawings or

changes in capital are given, interest is calculated on Rs 60,000 for these six months:

$$60,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 3,000.$$

Both amounts increase the sum due to Kartik and are therefore credited to his Capital Account.

Step 2: Value goodwill and calculate Kartik's entitlement The loss of Rs 30,000 in 2020–21 is deducted when calculating the four-year average:

$$\begin{aligned} \text{Total profit} &= 1,41,000 - 30,000 + 60,000 + 69,000 \\ &= \text{Rs } 2,40,000, \\ \text{Average annual profit} &= 2,40,000/4 = \text{Rs } 60,000, \\ \text{Firm's goodwill} &= 60,000 \times 2 = \text{Rs } 1,20,000, \\ \text{Kartik's goodwill share} &= 1,20,000 \times \frac{5}{15} = \text{Rs } 40,000. \end{aligned}$$

No different future ratio is specified; Jatin and Lakhan continue in their relative old ratio, $7:3$, which is also their gaining ratio. Their capital accounts are debited by Rs 28,000 and Rs 12,000 respectively to compensate Kartik. Goodwill need not be raised in the books.

Step 3: Apportion the preceding two years' total profit The preceding two years are 2021–22 and 2022–23. Their combined profit is Rs $60,000 + 69,000 = 1,29,000$, earned over twenty-four months. The six-month estimate is therefore one-fourth of that total:

$$\begin{aligned} \text{Firm's profit for six months} &= 1,29,000 \times \frac{6}{24} = \text{Rs } 32,250, \\ \text{Kartik's profit share} &= 32,250 \times \frac{5}{15} = \text{Rs } 10,750. \end{aligned}$$

Equivalently, the average annual profit is Rs 64,500 and the six-month profit is Rs 32,250. Credit Kartik's Capital Account and debit Profit and Loss Suspense Account for Rs 10,750 because the current period's actual final profit has not yet been ascertained.

Step 4: Prepare Kartik's Capital Account **Kartik's Capital Account as at 30th September, 2023**

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Kartik's Executor's A/c	1,33,750	By Balance b/d	60,000
		By General Reserve A/c	20,000
		By Interest on Capital A/c	3,000
		By Jatin's Capital A/c	28,000
		By Lakhan's Capital A/c	12,000
		By Profit and Loss Suspense A/c	10,750
Total	1,33,750	Total	1,33,750

The debit transfer closes Kartik's Capital Account and records the liability to his legal representatives. No cash payment or drawings are stated.

Step 5: Conclusion Kartik's legal representatives are entitled to $\boxed{\text{Rs } 1,33,750}$, transferred to his Executor's Account.

Quick Tip to Solve: Treat the loss as negative when averaging goodwill profits. For death profit, match the six-month numerator to the twenty-four-month period represented by the two-year total.

24. On 1st April, 2022, Zoltas Ltd. issued 20,000 7% Debentures of Rs. 100 each at a discount of 5%, redeemable at par after five years. The company had a balance of Rs. 70,000 in Securities Premium Account. [6 marks]

24(a). Pass necessary journal entries for issue of debentures and for writing off 'Discount on Issue of Debentures' utilising Securities Premium Account at the end of first year itself.

Solution:

Concept:

- Debentures are credited at their nominal value. When issued at a discount, Bank is debited with the proceeds and Discount on Issue of Debentures is debited with the difference.
- The discount is written off first against the available Securities Premium balance; the remaining amount is charged to Statement of Profit and Loss when the whole discount is to be written off in the first year.

Step 1: Calculate the face value, discount and cash received **Working Notes**

$$\begin{aligned} \text{Face value} &= 20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000, \\ \text{Discount} &= \text{Rs } 20,00,000 \times 5\% = \text{Rs } 1,00,000, \\ \text{Bank proceeds} &= \text{Rs } 20,00,000 - \text{Rs } 1,00,000 \\ &= \text{Rs } 19,00,000. \end{aligned}$$

Redemption is at par, so no premium on redemption is recorded. The 7% rate relates to interest, not the issue discount; interest entries are not part of the required entries.

Step 2: Record the issue and the complete write-off Securities Premium absorbs Rs 70,000 of the Rs 1,00,000 discount. The balance charged to Statement of Profit and Loss is Rs $1,00,000$ − Rs $70,000$ = Rs $30,000$. Since the question requires the write-off at the end of the first year itself, the discount is not spread over five years.

Journal of Zoltas Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2022	Bank A/c Dr.		19,00,000	
	Discount on Issue of Debentures A/c Dr.		1,00,000	
	To 7% Debentures A/c			20,00,000
	(Being 20,000 debentures of Rs 100 each issued at 5% discount, redeemable at par)			
31 Mar 2023	Securities Premium A/c Dr.		70,000	
	Statement of Profit and Loss Dr.		30,000	
	To Discount on Issue of Debentures A/c			1,00,000
	(Being the entire discount written off using Securities Premium and charging the balance to Statement of Profit and Loss)			

Step 3: Conclusion Debentures of Rs 20,00,000 are issued for Rs 19,00,000. The entire discount of Rs 1,00,000 is written off on 31st March, 2023: Rs 70,000 against Securities Premium and Rs 30,000 against Statement of Profit and Loss.

Quick Tip to Solve: Compute the discount on face value, then subtract the available Securities Premium; the five-year redemption term does not override the instruction to write off the full discount in the first year.

24(b). Prepare 'Discount on Issue of Debentures Account' for the year ended 31st March, 2023.

Solution:

Concept:

- Discount on Issue of Debentures is debited on issue. Credits to this account record the amounts written off against Securities Premium and Statement of Profit and Loss.
- A ledger account must show equal debit and credit totals. When the entire discount is written off during the year, there is no balance to carry forward.

Step 1: Determine the debit and the two write-off amounts **Working Notes** The face value of the issue is $20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000$. Therefore the discount debited on 1st April, 2022 is

$$\text{Rs } 20,00,000 \times \frac{5}{100} = \text{Rs } 1,00,000.$$

The company uses the entire available Securities Premium balance of Rs 70,000 to write off part of this discount. The remainder is

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

charged to Statement of Profit and Loss on 31st March, 2023. These are credits in the discount account because they eliminate its debit balance. The five-year redemption period is not used to divide the discount: the instruction in part (a) requires a complete write-off in the first year.

Step 2: Post and balance the discount account **Zoltas Ltd. — Discount on Issue of Debentures Account**

For the year ended 31st March, 2023

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
1 Apr 2022: To 7% Debentures A/c	1,00,000	31 Mar 2023: By Securities Premium A/c	70,000
		31 Mar 2023: By Statement of Profit and Loss	30,000
		31 Mar 2023: By Balance c/d	Nil
Total	1,00,000	Total	1,00,000

The discount account is fully closed: its Rs 1,00,000 debit is matched by write-off credits of Rs 70,000 and Rs 30,000. The nil balance is shown for clarity; no discount remains to be brought down in the next accounting year.

Step 3: Conclusion Discount on Issue of Debentures Account totals Rs 1,00,000 on each side and has a nil closing balance on 31st March, 2023 after the complete write-off.

Quick Tip to Solve: In the discount ledger, put the original issue discount on the debit side and both write-offs on the credit side; their sum must equal Rs 1,00,000 here.

25(a). **Qumtan Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 10 each at a premium of Rs. 6 per share. The amount was payable as follows: On Application and Allotment - Rs. 8 per share (including premium Rs. 3); On First and Final call - Balance (including premium). Applications for 1,60,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Excess money received on application and allotment was returned. Dheeraj, who was allotted 200 shares, failed to pay the first and final call money. His shares were forfeited. All the forfeited shares were reissued at Rs. 5 per share fully paid up. Pass necessary journal entries in the books of Qumtan Ltd.** [6 marks]

Solution:

Concept:

- Share capital records only the face value; premium is credited separately to Securities Premium. Application and allotment together contain Rs 5 capital and Rs 3 premium per share.
- On forfeiture, debit called-up share capital and any premium due but not received. Credit Share Forfeiture only with capital already received, excluding premium.
- Discount on reissue cannot exceed the forfeited capital on those shares. Only the unused forfeiture balance relating to reissued shares becomes Capital Reserve.

Step 1: Working Notes: split the receipts and call Total issue price per share is $10 + 6 = \text{Rs } 16$. After application and allotment of Rs 8, the first and final call is Rs 8, comprising Rs 5 capital and Rs 3 premium.

$$\begin{aligned}
\text{Applications received} &= 1,60,000 \times 8 = \text{Rs } 12,80,000,\\
\text{Rejected applications refund} &= 10,000 \times 8 = \text{Rs } 80,000,\\
\text{Pro-rata excess refund} &= (1,50,000 - 1,00,000) \times 8\\
&= \text{Rs } 4,00,000,\\
\text{Total refund} &= \text{Rs } 4,80,000.
\end{aligned}$$

The allotment ratio is $1,00,000 : 1,50,000 = 2 : 3$. Dheeraj therefore applied for $200 \times 3/2 = 300$ shares. His excess Rs 800 was returned, so it is not available against his call. The call due is Rs 8,00,000; Dheeraj's unpaid call is $200 \times 8 = \text{Rs } 1,600$, leaving bank receipts of Rs 7,98,400.

Step 2: Record application, allotment and the call **Journal of Qumtan Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application and allotment money received on 1,60,000 shares)		12,80,000	 12,80,000

	Share Application and Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	  To Bank A/c
	(Being 1,00,000 shares allotted and rejected and excess application money refunded)
			12,80,000	
				5,00,000
				3,00,000
				4,80,000

	Share First and Final Call A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being first and final call of Rs 8 per share made due)
			8,00,000	
				5,00,000
				3,00,000

	Bank A/c Dr. To Share First and Final Call A/c (Being call money received except on Dheeraj's 200 shares)		7,98,400	 7,98,400

Step 3: Work out forfeiture and reissue Dheeraj paid capital of $200 \times 5 = \text{Rs } 1,000$, which is credited to Share Forfeiture. The premium of Rs 600 already received is retained. However, the call premium of $200 \times 3 = \text{Rs } 600$ was credited when due but remains unpaid; it must be cancelled by debiting Securities Premium.

All 200 shares are reissued as fully paid at Rs 5 each. The cash received is Rs 1,000 and the reissue discount is $200 \times (10 - 5) = \text{Rs } 1,000$. This uses the entire forfeiture balance.

Step 4: Record forfeiture and reissue **Journal of Qumtan Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Share First and Final Call A/c
	  To Share Forfeiture A/c
	(Being 200 shares forfeited for non-payment of call, including unpaid premium)
			2,000
			600
				
				1,600
				1,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 200 forfeited shares reissued at Rs 5 each as fully paid)		1,000 1,000	 2,000

No Capital Reserve entry is required: $1,000 - 1,000 = 0$.

Step 5: Conclusion The entries record refund of Rs 4,80,000, call receipts of Rs 7,98,400, forfeiture of 200 shares and their fully paid reissue. Share Forfeiture is fully used by the reissue discount, so Capital Reserve is nil.

Quick Tip to Solve: Here the excess application money is returned: do not adjust it against Dheeraj's call. Split each Rs 8 instalment into Rs 5 capital and Rs 3 premium before recording forfeiture.

OR

25(b). Printkit Limited invited applications for issue of 80,000 equity shares of Rs. 10 each. The amount was payable as follows: On Application - Rs. 3 per share; On Allotment - Rs. 2 per share; On First and Final call - Balance. Applications for 1,50,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants on the following basis: Category A - Applicants for 80,000 shares were allotted 40,000 shares. Category B - Applicants for 60,000 shares were allotted 40,000 shares. Excess money received on application was adjusted towards amount due on allotment and first and final call. All the amounts due on allotment and first and final call were duly received. Pass necessary journal entries in the books of Printkit Limited. [6 marks]

Solution:

Concept:

- For pro-rata allotment, application money retained as capital equals shares allotted multiplied by the application rate. Excess application money is first applied against allotment due.
- Excess remaining after allotment is carried as Calls in Advance until the call becomes due. Adjust each category separately: one category's surplus cannot pay another category's allotment liability.

Step 1: Working Notes: allocate application money by category Application money received is $1,50,000 \times 3 = \text{Rs } 4,50,000$. Refund on rejected applications is $10,000 \times 3 = \text{Rs } 30,000$. The remaining Rs 4,20,000 belongs to categories A and B.

Particulars	Category A (Rs)	Category B (Rs)
Application money received	2,40,000	1,80,000
Application capital on 40,000 shares each	1,20,000	1,20,000
Excess application money	1,20,000	60,000
Allotment due: 40,000 shares at Rs 2	80,000	80,000
Excess adjusted against allotment	80,000	60,000
Cash still due on allotment	Nil	20,000
Calls in Advance remaining	40,000	Nil

Thus application capital is Rs 2,40,000, allotment adjustment is Rs 1,40,000, and Calls in Advance are Rs 40,000. The latter relates only to category A. Category B must still pay Rs 20,000 on allotment.

Step 2: Record application receipts and their allocation **Journal of Printkit Limited**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,50,000 shares at Rs 3 each)		4,50,000	 4,50,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Calls in Advance A/c To Bank A/c (Being application money allocated to capital, allotment and calls in advance, and rejected applications refunded)		4,50,000	 2,40,000 1,40,000 40,000 30,000

Step 3: Record allotment due and the balance received **Journal of Printkit Limited (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 80,000 shares at Rs 2 each)		1,60,000	1,60,000
	Bank A/c Dr. To Share Allotment A/c (Being balance allotment money received from category B after application adjustment)		20,000	20,000

Allotment is fully settled: Rs 1,40,000 adjusted plus Rs 20,000 received equals Rs 1,60,000 due.

Step 4: Record the first and final call The balance of face value is $10 - 3 - 2 =$ Rs 5 per share, so the call due is $80,000 \times 5 =$ Rs $4,00,000$. Category A pays Rs 1,60,000 after using its Rs 40,000 advance; category B pays Rs 2,00,000. Hence the fresh call receipt is Rs 3,60,000.

Journal of Printkit Limited (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call due on 80,000 shares at Rs 5 each)		4,00,000	4,00,000
	Calls in Advance A/c Dr. To Share First and Final Call A/c (Being category A's advance adjusted against the call now due)		40,000	40,000
	Bank A/c Dr. To Share First and Final Call A/c (Being balance first and final call money received in full)		3,60,000	3,60,000

Step 5: Conclusion All 80,000 shares are fully paid, giving Share Capital of Rs 8,00,000. Fresh allotment and call receipts are Rs 20,000 and Rs 3,60,000 respectively; net cash retained is Rs 4,50,000 - Rs 30,000 + Rs 20,000 + Rs 3,60,000 = Rs 8,00,000.

Quick Tip to Solve: Calculate the excess separately for A and B. A's Rs 40,000 advance cannot eliminate B's Rs 20,000 allotment payment; adjust the advance only when the call becomes due.

26(a). **Shubhi and Revanshi were partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet as at 31st March, 2023 was as follows:**

Liabilities	Amount	Assets	Amount
Capitals: Shubhi 60,000 / Revanshi 32,000	92,000	Fixed Assets	90,000
General Reserve	30,000	Stock	38,000
Bank Loan	18,000	Debtors	30,000
Creditors	70,000	Cash	52,000
	2,10,000		2,10,000

On 1st April, 2023 they admitted Pari into the partnership on the following terms: (i) Pari will bring Rs. 50,000 as her capital and Rs. 50,000 for her share of premium for goodwill for 1/4th share in the profits of the firm. (ii) Fixed assets were depreciated @ 30%. (iii) Stock was valued at Rs. 45,000. (iv) Bank loan was paid off. (v) After all adjustments capitals of Shubhi and Revanshi were to be adjusted taking Pari's capital as the base. Actual cash was to be paid off or brought in by the old partners as the case may be. Prepare Revaluation Account and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- Revaluation gain or loss and the existing general reserve belong to the old partners in their old profit-sharing ratio of $3:2$.
- The premium for goodwill compensates sacrificing partners. Since no different sacrifice is specified, Shubhi and Revanshi sacrifice in their old ratio.
- Total capital is the incoming partner's capital divided by her profit share; each partner's required capital equals total capital multiplied by the new profit share.

Step 1: Calculate ratios and revaluation adjustments **Working Notes.** Pari receives $1/4$, leaving $3/4$ for the old partners. Shubhi's new share is $(3/4)(3/5) = 9/20$, Revanshi's is $(3/4)(2/5) = 6/20$, and Pari's is $5/20$. Thus the new ratio is $9:6:5$, and the sacrificing ratio is $3:2$. Fixed assets fall by Rs $90,000 \times 30\% =$ Rs $27,000$. Stock increases by Rs $45,000 -$ Rs $38,000 =$ Rs $7,000$. The net revaluation loss is therefore Rs 20,000, charged to Shubhi Rs 12,000 and Revanshi Rs 8,000. Paying the bank loan at its book amount does not produce a revaluation gain or loss.

Step 2: Prepare the Revaluation Account **Revaluation Account**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Fixed Assets	27,000	By Stock	7,000
		By Shubhi's Capital	12,000
		By Revanshi's Capital	8,000
Total	**27,000**	**Total**	**27,000**

The loss is transferred to the old partners' capital accounts, so the Revaluation Account is closed.

Step 3: Determine the cash capital adjustments General reserve of Rs 30,000 is credited to Shubhi Rs 18,000 and Revanshi Rs 12,000. Pari's premium of Rs 50,000 is credited to them in the sacrificing ratio: Rs 30,000 and Rs 20,000 respectively.

$$\text{Shubhi's adjusted capital} = 60,000 + 18,000 + 30,000 - 12,000 = 96,000,$$
$$\text{Revanshi's adjusted capital} = 32,000 + 12,000 + 20,000 - 8,000 = 56,000.$$

All figures above are in Rs. Based on Pari's capital, total capital is Rs $50,000 \div (1/4) =$ Rs $2,00,000$. Required capitals are Shubhi Rs 90,000, Revanshi Rs 60,000 and Pari Rs 50,000. Consequently Shubhi withdraws Rs 6,000, while Revanshi brings Rs 4,000 in cash. Pari's capital contribution and her goodwill premium are separate receipts.

Step 4: Prepare the Partners' Capital Accounts **Partners' Capital Accounts (amounts in Rs)**

Dr. Particulars	S	R	P	Particulars Cr.	S	R	P
To Revaluation	12,000	8,000	–	By Balance b/d	60,000	32,000	–
To Cash	6,000	–	–	By General Reserve	18,000	12,000	–
To Balance c/d	90,000	60,000	50,000	By Premium for Goodwill	30,000	20,000	–
				By Cash	–	4,000	50,000
Total	**1,08,000**	**68,000**	**50,000**	**Total**	**1,08,000**	**68,000**	**50,000**

S = Shubhi, R = Revanshi, P = Pari. Each partner's debit and credit totals agree. The bank loan payment of Rs 18,000 is a cash payment against the liability and is not posted to any partner's capital account.

Step 5: Conclusion Revaluation loss is Rs 20,000. Closing capitals are Shubhi Rs 90,000, Revanshi Rs 60,000 and Pari Rs 50,000; Shubhi is paid Rs 6,000 and Revanshi contributes Rs 4,000.

Quick Tip to Solve: First distribute reserve, goodwill and revaluation loss; only then compare the adjusted old capitals with Rs 2,00,000 allocated in the new ratio 9:6:5.

OR

26(b). Rishi, Shashi and Trishi were partners in a firm sharing profits and losses in proportion of 1/2, 1/6 and 1/3 respectively. Their Balance Sheet as at 31st March, 2023 was as follows:

Liabilities	Amount	Assets	Amount
Capitals: Rishi 36,000 / Shashi 30,000 / Trishi 20,000	**86,000**	**Fixed Assets**	**80,000**
General Reserve	**30,000**	**Stock**	**20,000**
Creditors	**54,000**	**Debtors**	**30,000**
		Cash	**40,000**
	1,70,000		**1,70,000**

Shashi retired from the firm on 1st April, 2023 on the following terms: (i) Fixed Assets were valued at Rs. 56,000. (ii) Stock was taken over by Shashi at Rs. 26,000. (iii) Goodwill of the firm was valued at Rs. 18,000 on Shashi's retirement. (iv) Balance in Shashi's Capital Account was transferred to her loan account. Prepare Revaluation Account and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- Accumulated reserve and revaluation profit or loss are shared by all old partners in their old profit-sharing ratio.
- The retiring partner's goodwill entitlement is borne by the continuing partners in their gaining ratio; goodwill need not be raised in the books.

- An asset taken over by a partner is debited to that partner's capital at the agreed value. The final unpaid balance due to a retiring partner is transferred to the partner's loan account.

Step 1: Calculate revaluation and reserve allocations **Working Notes.** The old ratio is $1/2 : 1/6 : 1/3 = 3 : 1 : 2$. Fixed assets decrease by Rs $80,000$ − Rs $56,000$ = Rs $24,000$. Stock is taken over for Rs 26,000 against its book value of Rs 20,000, giving an increase of Rs 6,000. Revaluation therefore gives a net loss of Rs 18,000. Rishi, Shashi and Trishi bear this loss in the ratio $3 : 1 : 2$, namely Rs 9,000, Rs 3,000 and Rs 6,000. The general reserve of Rs 30,000 is credited to them in the same ratio: Rs 15,000, Rs 5,000 and Rs 10,000 respectively.

Step 2: Prepare the Revaluation Account **Revaluation Account**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Fixed Assets	24,000	By Stock	6,000
		By Rishi's Capital	9,000
		By Shashi's Capital	3,000
		By Trishi's Capital	6,000
Total	**24,000**	**Total**	**24,000**

The Rs 6,000 appreciation goes through Revaluation; the entire agreed stock value of Rs 26,000 is debited separately to Shashi's Capital Account.

Step 3: Adjust goodwill in the gaining ratio With no changed relative ratio specified, Rishi and Trishi continue in $3 : 2$, so their new shares are $3/5$ and $2/5$. Rishi's gain is $3/5 - 1/2 = 1/10$, and Trishi's gain is $2/5 - 1/3 = 1/15$. Hence their gaining ratio is $3 : 2$. Shashi's share of goodwill is Rs $18,000 \times 1/6$ = Rs $3,000$. Debit Rishi's capital Rs 1,800 and Trishi's capital Rs 1,200, and credit Shashi's capital Rs 3,000. Only the retiring partner's share is adjusted; the full firm goodwill is not credited to Shashi.

Step 4: Prepare the Partners' Capital Accounts **Partners' Capital Accounts (amounts in Rs)**

Dr. Particulars	R	S	T	Particulars Cr.	R	S	T
To Revaluation	9,000	3,000	6,000	By Balance b/d	36,000	30,000	20,000
To Shashi's Capital	1,800	–	1,200	By General Reserve	15,000	5,000	10,000
To Stock	–	26,000	–	By Rishi's Capital	–	1,800	–
To Shashi's Loan	–	9,000	–	By Trishi's Capital	–	1,200	–
To Balance c/d	40,200	–	22,800				
Total	**51,000**	**38,000**	**30,000**	**Total**	**51,000**	**38,000**	**30,000**

R = Rishi, S = Shashi, T = Trishi. Shashi's amount due is Rs $(30,000 + 5,000 + 3,000 - 3,000 - 26,000)$ = Rs $9,000$. The transfer to her loan account closes her capital account without a cash payment. Rishi's capital is Rs 40,200 and Trishi's is Rs 22,800 after the revaluation loss and goodwill adjustment.

Step 5: Conclusion Revaluation loss is Rs 18,000. Rishi's closing capital is Rs 40,200, Trishi's closing capital is Rs 22,800, and Rs 9,000 is transferred from Shashi's Capital Account to her Loan Account.

Quick Tip to Solve: Separate the Rs 6,000 stock appreciation from the Rs 26,000 stock takeover: the first affects revaluation, while the second reduces Shashi's settlement.

Part B (20 marks)

OPTION I (Analysis of Financial Statements)

27(a). Analysis of Financial Statements is useful and significant to different users. Which of the following users is particularly interested in the firm's ability to meet their claims over a very short period of time? [1 mark]

(A) Labour Unions

(B) Trade Payables

(C) Top Management

(D) Finance Manager

Correct Answer: (B) Trade Payables

Solution:

Concept:

- Financial-statement analysis serves different users according to their economic interests in the business.
- Short-term creditors focus on liquidity: the firm's ability to meet amounts payable in the near future from cash and other current assets.

Step 1: Identify the users with short-term claims Trade payables represent suppliers who have supplied goods or services on credit. These creditors expect payment after a short credit period. They therefore examine liquidity to judge whether the firm can meet their claims promptly, making option (B) the relevant user group.

Step 2: Distinguish the other users' main interests Labour unions, option (A), are mainly concerned with wages, employment security and the firm's capacity to improve employee benefits. Top management, option (C), uses analysis for overall planning, control and performance evaluation. The finance manager, option (D), uses it for financing and investment decisions as well as cash management. Although management also monitors liquidity, the question specifically describes outside suppliers seeking settlement of their own short-term claims.

Step 3: Conclusion Trade payables are particularly interested in the firm's ability to meet their claims over a very short period. Hence, the correct option is (B).

Quick Tip to Solve: Link claims due after a short credit period to trade creditors; link wages to labour unions and overall performance to management.

OR

27(b). _____ ratios are calculated to determine the ability of the business to service its debt in the long run. [1 mark]

(A) Liquidity

(B) Turnover

(C) Solvency

(D) Profitability

Correct Answer: (C) Solvency

Solution:

Concept:

- Solvency ratios assess whether a business can meet its long-term debt obligations, including servicing the associated interest.
- Liquidity concerns short-term obligations; turnover measures efficiency, while profitability measures earning capacity.

Step 1: Identify the time horizon The words "service its debt in the long run refer to long-term financial soundness. Solvency ratios, such as the debt-equity ratio and interest coverage ratio, help assess this ability.

Step 2: Test the alternatives Liquidity in (A) concerns near-term payments, so it does not match the stated time horizon. Turnover in (B) measures how efficiently resources are used. Profitability in (D) measures profit generation. Thus only (C), solvency, directly describes the requested class of ratios.

Step 3: Conclusion The blank is filled by **Solvency**. Hence, the correct option is (C).

Quick Tip to Solve: Link "long-run debt servicing to solvency; reserve liquidity for short-term payments.

28(a). The transaction 'Acquisition of machinery by issue of equity shares of Rs. 5,00,00,000' will result in: [1 mark]

(A) Cash inflow of Rs. 5,00,00,000 from financing activities

(B) Cash outflow of Rs. 5,00,00,000 from financing activities

(C) Cash outflow of Rs. 5,00,00,000 from investing activities

(D) No flow of cash

Correct Answer: (D) No flow of cash

Solution:

Concept:

- A cash flow requires a movement of cash or cash equivalents.
- An investing or financing transaction involving no cash is excluded from the cash flow statement and disclosed separately as a non-cash transaction.

Step 1: Trace the consideration Machinery worth Rs 5,00,00,000 is acquired by issuing equity shares

directly to its supplier. Machinery increases and share capital increases; neither a cash receipt nor a cash payment occurs.

Step 2: Evaluate each classification Option (A) would apply to an actual cash issue of shares, which is not the transaction given. Option (B) incorrectly proposes a financing cash payment. Option (C) would require a cash purchase of machinery. Since shares themselves provide the consideration, none of these cash movements occurs, supporting option (D).

Step 3: Conclusion There is **no flow of cash**. Hence, the correct option is (D).

Quick Tip to Solve: Check how the asset is paid for: direct issue of shares means no cash flow, even though machinery rises.

OR

28(b). The transaction 'Capital Gains Tax paid on sale of fixed assets' is classified under which of the following: [1 mark]

(A) Operating Activities

(B) Investing Activities

(C) Financing Activities

(D) Cash and Cash Equivalents

Correct Answer: (B) Investing Activities

Solution:

Concept:

- Taxes on income are normally operating cash flows unless specifically identifiable with investing or financing activities.
- Tax arising specifically from the sale of a fixed asset is identifiable with the related investing transaction.

Step 1: Identify the source of the tax The payment is capital gains tax specifically arising on the sale of fixed assets. Selling a fixed asset is an investing activity, and the directly attributable tax payment follows that classification as an investing cash outflow.

Step 2: Eliminate the alternatives Operating activities in (A) describe the usual treatment of income tax when no specific investing or financing link can be identified. Here the link is explicit. Financing activities in (C) concern changes in capital and borrowings. Cash and cash equivalents in (D) describe the funds reconciled, not the activity that causes this payment.

Step 3: Conclusion Capital gains tax paid on the sale of fixed assets is classified under **Investing Activities**. Hence, the correct option is (B).

Quick Tip to Solve: For a tax payment, first check whether the question ties it directly to a particular asset sale.

29. The Quick Ratio of a company is 1:2. Which of the following transactions will result in an increase in this ratio? [1 mark]

(A) Cash received from debtors

(B) Sold goods on credit

(C) Purchased goods on credit

(D) Purchased goods on cash

Correct Answer: (B) Sold goods on credit

Solution:

Concept:

- Quick ratio equals quick assets divided by current liabilities. Quick assets exclude inventories and prepaid expenses.
- A rise in quick assets with current liabilities unchanged increases the quick ratio.

Step 1: Trace the effect of a credit sale Let quick assets be x and current liabilities be $2x$, giving the stated ratio $1:2$. Selling goods on credit adds the sale amount $s > 0$ to trade receivables. The inventory reduction does not reduce quick assets because inventory was already excluded. The new ratio is $(x+s)/(2x) > 1/2$.

Step 2: Check the other transactions Cash collected from debtors in (A) merely exchanges one quick asset for another. Buying goods on credit in (C) increases current liabilities without adding a quick asset, so the ratio falls. Buying goods for cash in (D) reduces a quick asset and adds excluded inventory, so the ratio also falls.

Step 3: Conclusion Selling goods on credit increases the quick ratio. Hence, the correct option is (B).

Quick Tip to Solve: Track receivables and cash as quick assets, but exclude inventory when testing every transaction.

30. Identify which of the following transactions will result in 'Cash Inflow From Operating Activities': [1 mark]

(A) Payment to creditors

(B) Interest received by a non-finance company

(C) Dividend received by a non-finance company

(D) Amount received from debtors

Correct Answer: (D) Amount received from debtors

Solution:

Concept:

- Operating cash flows arise from the principal revenue-producing activities of a business.
- For a non-finance company, interest and dividends received are investing cash inflows.

Step 1: Identify the trading cash receipt An amount received from debtors represents collection from customers for credit sales in the ordinary course of business. It is therefore a cash inflow from

operating activities.

Step 2: Test the remaining choices Payment to creditors in (A) is connected with operations, but it is a cash outflow rather than an inflow. Interest received in (B) and dividend received in (C) are cash inflows, but for the stated non-finance company both are investing activities. Only (D) satisfies both requirements: operating classification and receipt of cash.

Step 3: Conclusion **Amount received from debtors** is a cash inflow from operating activities. Hence, the correct option is (D).

Quick Tip to Solve: Check both the direction of cash and the activity: a trading receipt from debtors meets both conditions.

31. Classify the following items under major heads and sub-heads (if any) in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013 :

(a) Cheques in hand

(b) Marketable Securities

(c) Trademarks [3 marks]

Solution:

Concept:

- Current assets comprise assets expected to be realised in the normal operating cycle or held for near-term conversion into cash.
- Non-current intangible assets are identifiable assets without physical substance, such as trademarks; classification follows the nature of the asset.

Step 1: Classify cheques and securities Cheques in hand are instruments held for collection and form part of cash and cash equivalents under current assets. Marketable securities are investments that can readily be sold; in the ordinary classification used here, they are placed under current investments within current assets. Ready marketability alone does not establish that an investment is a cash equivalent: that narrower category additionally requires the relevant short-maturity and insignificant-risk conditions.

Step 2: Classify trademarks and present the heads A trademark provides a legally identifiable commercial right and has no physical substance. It belongs to intangible assets under the non-current asset grouping. The required classifications are:

Balance Sheet classification under Schedule III

Item	Major head	Sub-head / further classification
Cheques in hand	Current assets	Cash and cash equivalents
Marketable securities	Current assets	Current investments
Trademarks	Non-current assets	Fixed assets / Property, Plant and Equipment and Intangible Assets: Intangible assets

No amount is supplied or required: this question asks for placement under the prescribed asset headings, rather than valuation.

Step 3: Conclusion Cheques in hand: Current assets–Cash and cash equivalents; Marketable securities: Current assets–Current investments; Trademarks: Non-current assets–Intangible assets.

Quick Tip to Solve: Distinguish marketability from cash equivalence, and classify a trademark by its intangible legal right.

32. From the given information, calculate :

(a) Trade Receivables Turnover Ratio

(b) Current Ratio

Particulars	Amount (Rs.)
Credit Revenue from Operations	80,00,000
Debtors	25,00,000
Bills Receivables	15,00,000
Total Assets	50,00,000
10% Debentures	12,00,000
Creditors	13,00,000
Bills Payable	7,00,000

[3 marks]

Solution:

Concept:

- Trade receivables turnover ratio equals net credit revenue from operations divided by average trade receivables. When separate opening and closing figures are absent, the given receivables figure is used.
- Current ratio equals current assets divided by current liabilities. Trade receivables comprise debtors plus bills receivable; trade payables comprise creditors plus bills payable.

Step 1: Calculate trade receivables turnover ratio The credit revenue from operations is Rs 80,00,000. The supplied receivables consist of debtors and bills receivable:

$$\begin{aligned} \text{Trade receivables} &= 25,00,000 + 15,00,000 \\ &= \text{Rs } 40,00,000, \\ \text{Receivables turnover ratio} &= \frac{80,00,000}{40,00,000} = 2 \text{ times.} \end{aligned}$$

Since no separate opening balance is provided, use the stated total of trade receivables as the denominator; do not divide it by two.

Step 2: Calculate current assets and current liabilities For the standard listed-items calculation, assume debtors and bills receivable are the only current assets. This means the remaining Rs 10,00,000 of total assets is non-current. On this assumption, current assets are Rs 40,00,000. The current liabilities

are creditors and bills payable:

$$\begin{aligned}\text{Current liabilities} &= 13,00,000 + 7,00,000\\ &= \text{Rs } 20,00,000,\\ \text{Current ratio} &= 40,00,000 : 20,00,000 = 2:1.\end{aligned}$$

The 10% debentures are long-term borrowings, so their Rs 12,00,000 balance is excluded from current liabilities. The paper gives total assets of Rs 50,00,000 but does not classify the remaining Rs 10,00,000. Total assets cannot simply replace current assets. If any of that balance comprises other current assets, the ratio changes; without the stated assumption the exact current ratio is not determined.

Step 3: Conclusion (a) Trade Receivables Turnover Ratio $= 2$ times. (b) Current Ratio $= 2:1$, assuming the listed debtors and bills receivable are the only current assets; otherwise the current ratio is not uniquely determined.

Quick Tip to Solve: Add bills receivable to debtors and bills payable to creditors; exclude long-term debentures from current liabilities.

33(a). From the given Balance Sheet of Geox Ltd., prepare Common Size Balance Sheet:

Balance Sheet of Geox Ltd. as at 31st March, 2023

Particulars	Note No.	31.3.2023 (Rs)	31.3.2022 (Rs)
I – Equity and Liabilities:			
1. Shareholders' Funds			
(a) Share Capital		**4,00,000**	**2,50,000**
2. Non-Current Liabilities			
(a) Long-term Borrowings		**2,00,000**	**1,50,000**
3. Current Liabilities			
(a) Trade Payables		**2,00,000**	**1,00,000**
Total		**8,00,000**	**5,00,000**
II – Assets:			
1. Non-Current Assets			
(a) Fixed Assets/Property, Plant and Equipment and Intangible Assets		**4,00,000**	**3,50,000**
2. Current Assets			
(a) Inventories		**2,00,000**	**70,000**
(b) Trade Receivables		**2,00,000**	**80,000**
Total		**8,00,000**	**5,00,000**

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses each balance sheet item as a percentage of the total of its own side. Total assets and total equity and liabilities are equal and are each taken as 100%.
- For each year, Common size percentage $= \dfrac{\text{Item amount}}{\text{Balance sheet total}} \times 100$. Use that year's total, not the

preceding year's total.

Step 1: Identify the bases for the two years The total for 31st March, 2023 is Rs 8,00,000 and the total for 31st March, 2022 is Rs 5,00,000. Hence, divide every 2023 item by Rs 8,00,000 and every 2022 item by Rs 5,00,000. For example, share capital represents $4,00,000/8,00,000 \times 100 = 50\%$ in 2023 and $2,50,000/5,00,000 \times 100 = 50\%$ in 2022.

Step 2: Calculate the remaining percentages Long-term borrowings and trade payables in 2023 each represent $2,00,000/8,00,000 \times 100 = 25\%$. In 2022 their percentages are $1,50,000/5,00,000 \times 100 = 30\%$ and $1,00,000/5,00,000 \times 100 = 20\%$, respectively. On the assets side, fixed assets represent 50% in 2023 and $3,50,000/5,00,000 \times 100 = 70\%$ in 2022. Inventories and trade receivables each represent 25% in 2023; their 2022 percentages are $70,000/5,00,000 \times 100 = 14\%$ and $80,000/5,00,000 \times 100 = 16\%$.

Step 3: Prepare the common size balance sheet **Common Size Balance Sheet of Geox Ltd.**
As at 31st March, 2023 and 31st March, 2022

Particulars	Note No.	Amount (Rs)		Percentage	
		2023	2022	2023	2022
I. Equity and Liabilities					
1. Shareholders' Funds					
Share Capital		4,00,000	2,50,000	50	50
2. Non-Current Liabilities					
Long-term Borrowings		2,00,000	1,50,000	25	30
3. Current Liabilities					
Trade Payables		2,00,000	1,00,000	25	20
Total		**8,00,000**	**5,00,000**	**100**	**100**
II. Assets					
1. Non-Current Assets					
Fixed Assets/Property, Plant and Equipment and Intangible Assets		4,00,000	3,50,000	50	70
2. Current Assets					
Inventories		2,00,000	70,000	25	14
Trade Receivables		2,00,000	80,000	25	16
Total		**8,00,000**	**5,00,000**	**100**	**100**

Step 4: Conclusion The common size balance sheet above totals 100% on each side in each year. Share capital remains 50%; the share of fixed assets falls from 70% to 50%, while current assets together rise from 30% to 50%.

Quick Tip to Solve: Use Rs 8,00,000 for every 2023 percentage and Rs 5,00,000 for every 2022 percentage; check that each side separately adds to 100 percent.

OR

33(b). From the following information, prepare a Comparative Statement of Profit and Loss for the year ended 31st March, 2022 and 2023:

Particulars	Note No.	2022–23 (Rs)	2021–22 (Rs)
Revenue from operations		**10,00,000**	**8,00,000**
Employee benefit expenses		**2,50,000**	**1,00,000**
Other expenses		**5,50,000**	**4,00,000**
Tax rate 50%			

[4 marks]

Solution:

Concept:

- A comparative statement shows the previous year's amount, the current year's amount, the absolute change and the percentage change for each item. The previous year, 2021–22, is the base year here.
- Absolute change $=$ Current year$-$Previous year, and Percentage change $=\dfrac{\text{Absolute change}}{\text{Previous year}}\times 100$. A negative change indicates a decrease.
- Profit before tax equals total revenue less total expenses. Tax is calculated at the stated rate of 50% of profit before tax in both years, and profit after tax is the balance after deducting tax.

Step 1: Calculate expenses, profit and tax for both years For 2021–22, employee benefit expenses and other expenses total Rs $1,00,000 + 4,00,000 = 5,00,000$. Therefore profit before tax is Rs $8,00,000 - 5,00,000 = 3,00,000$. Tax is Rs $3,00,000 \times 50\% = 1,50,000$, leaving profit after tax of Rs 1,50,000. For 2022–23, total expenses are Rs $2,50,000 + 5,50,000 = 8,00,000$. Profit before tax is Rs $10,00,000 - 8,00,000 = 2,00,000$. Tax is Rs $2,00,000 \times 50\% = 1,00,000$, leaving profit after tax of Rs 1,00,000.

Step 2: Compute changes using the previous year as the base Revenue increases by Rs 2,00,000, or $2,00,000/8,00,000 \times 100 = 25\%$. Employee benefit expenses increase by Rs 1,50,000, or 150%, and other expenses increase by Rs 1,50,000, or 37.50%. Total expenses increase by Rs 3,00,000, or 60%. Profit before tax decreases by Rs 1,00,000, so its percentage change is $-1,00,000/3,00,000 \times 100 = -33.33\%$, rounded to two decimal places. Tax and profit after tax each decrease by Rs 50,000, also 33.33%. Show these decreases with a minus sign in the comparative columns.

Step 3: Present the comparative statement **Comparative Statement of Profit and Loss**
For the years ended 31st March, 2022 and 2023

Particulars	Note No.	2021–22 (Rs)	2022–23 (Rs)	Change (Rs)	Change (%)
I. Revenue from operations		8,00,000	10,00,000	2,00,000	25.00
II. Other income		–	–	–	–
III. Total Revenue (I + II)		8,00,000	10,00,000	2,00,000	25.00
IV. Expenses:					
Employee benefit expenses		1,00,000	2,50,000	1,50,000	150.00
Other expenses		4,00,000	5,50,000	1,50,000	37.50
Total Expenses		5,00,000	8,00,000	3,00,000	60.00
V. Profit before Tax (III – IV)		3,00,000	2,00,000	-1,00,000	-33.33
VI. Tax Expense (50%)		1,50,000	1,00,000	-50,000	-33.33
VII. Profit after Tax (V – VI)		1,50,000	1,00,000	-50,000	-33.33

No other income is provided in the given information; total revenue therefore consists of revenue from operations. The percentage changes are rounded to two decimal places where necessary.

Step 4: Conclusion Profit after tax decreases from Rs 1,50,000 in 2021–22 to Rs 1,00,000 in 2022–23: a decrease of Rs 50,000 or 33.33%. Although revenue rises by 25%, total expenses rise faster, by 60%, reducing profit.

Quick Tip to Solve: Put 2021–22 first as the base year, even though the question lists 2022–23 first. Divide every change by its own 2021–22 amount.

34. From the following information, calculate 'Cash Flows From Operating Activities':

Particulars	Amount (Rs.)
Surplus i.e. Balance in Statement of Profit and Loss	**6,28,000**
Provision for Tax	**1,50,000**
Proposed Dividend for the previous year	**72,000**
Depreciation	**1,40,000**
Loss on Sale of Machinery	**30,000**
Gain on Sale of Investments	**20,000**
Dividend Received on Investments	**6,000**
Increase in Current Liabilities	**1,61,000**
Increase in Current Assets (other than cash and cash equivalents)	**6,00,000**
Decrease in Current Liabilities	**64,000**
Income Tax Paid	**1,18,000**

[6 marks]

Solution:

Concept:

- The indirect method starts with net profit before tax and extraordinary items, then removes non-cash expenses and non-operating incomes to obtain operating profit before working-capital changes.

- An increase in operating current liabilities releases cash; an increase in operating current assets or a decrease in operating current liabilities absorbs cash.
- Tax provision is added back to determine profit before tax, whereas actual income tax paid is deducted from cash generated from operations.

Step 1: Determine net profit before tax The given surplus is the balance in the Statement of Profit and Loss. Restore the provision for tax and the previous year's proposed dividend appropriated from this balance:

$$\begin{aligned}\text{Net profit before tax} &= 6,28,000 + 1,50,000 + 72,000\\ &= \text{Rs } 8,50,000.\end{aligned}$$

The dividend adjustment restores the profit used as the starting figure. Payment of dividend itself is a financing activity, so it is not deducted in the operating section.

Step 2: Adjust non-cash and non-operating items Depreciation of Rs 1,40,000 reduces accounting profit without a current cash outflow, so add it back. The loss on sale of machinery, Rs 30,000, is also added back because disposal proceeds belong to investing activities. Conversely, deduct the gain on sale of investments, Rs 20,000, and dividend received on investments, Rs 6,000, from profit to remove investing income.

$$\begin{aligned}\text{Operating profit before working-capital changes} &= 8,50,000 + 1,40,000 + 30,000\\ &\quad - 20,000 - 6,000\\ &= \text{Rs } 9,94,000.\end{aligned}$$

Step 3: Prepare the operating activities statement **Cash Flow Statement (Extract): Operating Activities**

Particulars	Amount (Rs)
Surplus: balance in Statement of Profit and Loss	6,28,000
Add: Provision for tax	1,50,000
Add: Previous year's proposed dividend	72,000
Net profit before tax	**8,50,000**
Add: Depreciation	1,40,000
Add: Loss on sale of machinery	30,000
Less: Gain on sale of investments	(20,000)
Less: Dividend received on investments	(6,000)
Operating profit before working-capital changes	**9,94,000**
Add: Increase in current liabilities	1,61,000
Less: Increase in current assets other than cash and cash equivalents	(6,00,000)
Less: Decrease in current liabilities	(64,000)
Cash generated from operations	**4,91,000**
Less: Income tax paid	(1,18,000)
Net cash from operating activities	**3,73,000**

The two current-liability movements are separately given changes: add the increase and deduct the decrease. Cash and cash equivalents are excluded from the current-asset adjustment to avoid counting the cash movement itself as a working-capital movement.

Step 4: Conclusion Cash flows from operating activities amount to $\boxed{\text{Rs } 3,73,000}$, a net cash inflow.

Quick Tip to Solve: First restore tax and dividend appropriations to surplus; then distinguish non-cash adjustments, working-capital changes and actual tax paid.

OPTION II (Computerised Accounting)

27. How many categories of data can be plotted on a pie chart in Excel software? [1 mark]

(A) 4

(B) 12

(C) 20

(D) 7

Correct Answer: (D) 7

Solution:

Concept:

- A pie chart displays one data series as slices of a whole; each slice represents one category and its proportion of the total.
- The textbook guideline is to use no more than seven categories in a pie chart so that the slices remain readily distinguishable.

Step 1: Apply the pie-chart guideline The question tests the recommended number of categories for a clear pie chart in Excel. Seven is the prescribed guideline: with many more categories, small slices and similar colours make the chart difficult to interpret. This is a presentation guideline, rather than a technical limit on the number of spreadsheet entries.

Step 2: Compare the alternatives Four categories can be shown, but four is not the stated upper guideline. Twelve and twenty exceed the recommended seven categories. Thus 7, the fourth option, matches the textbook rule.

Step 3: Conclusion The expected number is 7. Hence, the correct option is (D).

Quick Tip to Solve: For a pie-chart MCQ, remember one data series and the guideline of no more than seven categories.

28(a).

Codes	Dealer Type
100-199	Cycle tyres
200-299	Cycle seats

From the following, identify the type of code used by a trading company : [1 mark]

(A) Block code

(B) Sequential code

(C) Mnemonic code

(D) Secret code

Correct Answer: (A) Block code

Solution:

Concept:

- A block code reserves a complete range of numbers for one class of accounts, products or dealers.
- Individual members receive numbers within their class range, so the range identifies the category.

Step 1: Read the allocated ranges The range 100–199 is reserved for cycle-tyre dealers, while 200–299 is reserved for cycle-seat dealers. Each dealer type therefore has its own distinct block of numbers.

Step 2: Distinguish other coding methods Sequential coding merely allocates consecutive numbers as records arise; it does not by itself reserve a separate range for each class. Mnemonic coding uses meaningful abbreviations to aid memory. Secret coding conceals information. The grouping by reserved numeric ranges shown here is the defining feature of block coding.

Step 3: Conclusion The company uses a block code. Hence, the correct option is (A).

Quick Tip to Solve: When a question reserves 100–199 for one class and 200–299 for another, identify the reserved ranges as blocks.

OR

28(b). Correct ##### appears: [1 mark]

(A) When column is not wide enough.

(B) When a number is divided by zero.

(C) When value is not available.

(D) When there are exceptions of summary of data.

Correct Answer: (A) When column is not wide enough.

Solution:

Concept:

- Excel displays hash symbols when a numeric or date value cannot fit within the available column width.
- A display-width problem does not necessarily mean that the underlying cell value or formula is incorrect.

Step 1: Identify the cause of the display A run of # symbols appears in the situation described because the column is too narrow to show the formatted value. Increasing the column width or using AutoFit normally reveals the number without changing the calculation.

Step 2: Eliminate other errors Division by zero normally displays #DIV/0!, while an unavailable lookup value may produce #N/A. Neither is represented by a row of hash symbols. Exceptions in a summary of data are also not the stated cause of this width display. Hence the first description fits.

Step 3: Conclusion The column is not wide enough. Hence, the correct option is (A).

Quick Tip to Solve: Before editing a formula that displays hash symbols, widen the column or apply AutoFit and check whether the value becomes visible.

29. Data, _____, _____, Hardware and Software are five pillars of Computerised Accounting System (CAS).

From the following, which two pillars of CAS are missing in the above statement : [1 mark]

(A) Printer and Mouse

(B) People and Procedures

(C) Mouse and CPU

(D) Information and Accounts

Correct Answer: (B) People and Procedures

Solution:

Concept:

- The five pillars of a Computerised Accounting System are data, people, procedures, hardware and software.
- People operate and oversee the system; procedures specify how transactions are recorded, processed

and reported.

Step 1: Complete the stated list Data, hardware and software are already present. The two missing components are therefore people and procedures. Together these supply the users and the operating rules needed to turn transaction data into accounting information.

Step 2: Check the remaining choices A printer, mouse and CPU are examples of hardware, so options (A) and (C) repeat a pillar already included rather than supply the missing pillars. Information and accounts are outputs or accounting content; they are not the two missing system components in this five-pillar classification.

Step 3: Conclusion The missing pillars are People and Procedures. Hence, the correct option is (B).

Quick Tip to Solve: Recall the complete five-part list: data, people, procedures, hardware and software; cross out the components already given.

30(a). Name the Accounting Information sub-system which deals with receipt and payment of cash and electronic funds transfer: [1 mark]

(A) Sales and Accounts Receivable sub-system

(B) Purchase and Accounts Payable sub-system

(C) Cash and Bank sub-system

(D) Costing sub-system

Correct Answer: (C) Cash and Bank sub-system

Solution:

Concept:

- The Cash and Bank sub-system records cash receipts, cash payments and movements through bank accounts.
- Electronic funds transfers are bank movements and therefore fall within the cash and bank function.

Step 1: Match the activities to the subsystem The common feature of all the activities named is a movement of cash or bank funds. Receipts increase the relevant cash or bank balance; payments reduce it; electronic transfers move funds through banking channels.

Step 2: Compare the other subsystems The Sales and Accounts Receivable sub-system principally tracks sales and amounts due from customers. Purchase and Accounts Payable tracks purchases and obligations to suppliers. The Costing sub-system measures and analyses costs. Although receipts and payments can settle customer or supplier balances, the subsystem specifically responsible for the stated cash and transfer activities is Cash and Bank.

Step 3: Conclusion The required system is the Cash and Bank sub-system. Hence, the correct option is (C).

Quick Tip to Solve: Identify the main transaction: cash receipts, cash payments and electronic transfers all point directly to Cash and Bank.

OR

30(b). When the accumulated data from various sources is processed in one shot it is called: [1 mark]

(A) Real time processing

(B) Data validation

(C) Batch processing

(D) Processing and revalidation

Correct Answer: (C) Batch processing

Solution:

Concept:

- Batch processing means collecting transactions or data over a period and processing the collected group together.
- Real-time processing handles each transaction as it occurs; validation checks whether data satisfies prescribed rules.

Step 1: Identify the processing pattern The question specifies that data is accumulated from various sources before it is processed in one shot. Thus, processing is deferred until a group, or batch, of inputs has been collected.

Step 2: Test the alternatives Option (C) names this group-processing method. Option (A) is unsuitable because real-time processing does not wait for an accumulated batch. Option (B) concerns checking input data, while option (D) refers to processing and checking again; neither describes the collection and processing of a whole group at one time.

Step 3: Conclusion The method is batch processing. Hence, the correct option is (C).

Quick Tip to Solve: Link the words "accumulated" and "one shot" to a batch; link "as each transaction occurs" to real-time processing.

31. How can text format of a chart be changed ? Explain. [3 marks]

Solution:

Concept:

- A chart contains text elements such as its title, axis titles, axis labels, legend and data labels. Their font formatting can be changed independently.
- Text formatting changes appearance, such as font, size, style and colour; it does not change the underlying numerical data represented by the chart.

Step 1: Select the chart text to be formatted Click the chart to activate it, and then click the text element whose format is to be changed, for example the chart title or legend. Selecting an entire text element applies formatting to that element; selecting particular characters within an editable title changes those characters only. Ensure that the intended text or element is selected before applying a command.

Step 2: Choose the required font settings Right-click the selected chart text and choose the Font

command to open the font-formatting controls. Choose the desired font family, font style (such as bold or italic), font size and font colour. The corresponding Font controls on the Home tab can also be used for these changes. For example, a chart title can be made bold and larger than the axis labels so that it stands out clearly.

Step 3: Apply and review the result Confirm the chosen settings by clicking OK when using the Font dialog box, or apply the choices directly through the toolbar controls. Check the chart to ensure that the text remains legible and fits its available space. Repeat the procedure for other text elements that require a different format, keeping labels consistent and avoiding an excessively large font that overlaps the plot.

Step 4: Conclusion Select the required chart text, change its font settings through the Font dialog box or Home-tab Font controls, and apply the settings to obtain the desired text format.

Quick Tip to Solve: Select the specific title, legend or label first; otherwise a font change may affect the wrong chart element.

32. State the parameters of Excel's 'PMT' function. What is the use of this function ? Explain. [3 marks]

Solution:

Concept:

- Excel's PMT function calculates a constant periodic payment for a loan or investment when the periodic interest rate and the number of payment periods are constant.
- The syntax is `PMT(rate, nper, pv, [fv], [type])`. Square brackets indicate optional parameters, not characters to type into the formula.

Step 1: State the compulsory parameters `rate` is the interest rate per payment period. `nper` is the total number of payment periods. `pv` is the present value, normally the principal amount of the loan. The time units must agree: for monthly instalments on a loan quoted at an annual rate, use the annual rate divided by 12 and the number of years multiplied by 12.

Step 2: State the optional parameters `fv` is the future value or balance desired after the final payment. If omitted, it is assumed to be zero, corresponding to a fully repaid loan. `type` specifies when payments fall due: 0 means the end of each period and 1 means the beginning. If omitted, `type` is taken as 0. Thus, these two arguments allow the user to specify a remaining balance and the payment timing.

Step 3: Explain the use and sign convention PMT helps calculate a fixed loan instalment, comprising principal and interest, for repayment planning and budgeting. For example, `=PMT(12%/12,24,-100000)` gives the monthly payment on a loan of Rs 1,00,000 repayable over 24 months at 12% annual interest, with payments at month-end and no final balance. Entering the principal as negative returns the payment as positive: money received and money paid have opposite signs. The payment calculation does not include separate taxes or service fees.

Step 4: Conclusion The parameters are `rate`, `nper`, `pv`, optional `fv` and optional `type`. PMT determines the fixed periodic payment under a constant interest rate and payment schedule.

Quick Tip to Solve: For monthly PMT calculations, divide the annual rate by 12 and multiply the loan term in years by 12 before entering the arguments.

33(a). State any four advantages of Computerised Accounting System. [4 marks]

Solution:

Concept:

- A Computerised Accounting System uses accounting software to record transactions, process data and generate accounting information according to established accounting rules.
- Its advantages arise from automated processing and organised electronic records. Correct inputs and appropriate software controls remain necessary for dependable outputs.

Step 1: Speed of processing A computer processes a large volume of transactions much faster than manual accounting. Once a transaction has been entered, the software can update related ledger balances and produce reports quickly. This reduces the time required for routine posting, totalling and preparation of accounting statements, making information available promptly to managers.

Step 2: Accuracy of calculations Arithmetic operations such as addition, subtraction and calculation of balances are performed automatically. With correct input data and properly configured software, this reduces errors associated with manual calculations and repeated posting. Accuracy here concerns processing; the system cannot guarantee that a wrongly entered amount or an incorrectly classified transaction becomes correct by itself.

Step 3: Reliability and consistency The system applies the same programmed procedures consistently to similar transactions and can perform repetitive work without fatigue. This makes routine processing dependable and produces uniform results for the same inputs. For example, a correctly configured calculation rule is applied in the same manner to every relevant transaction instead of depending on repeated manual calculation.

Step 4: Storage and retrieval of information A large quantity of accounting data can be stored electronically in a relatively small physical space. Records can be searched and retrieved quickly by account, date or transaction reference. This makes it easier to locate earlier transactions, prepare account statements and examine information for decision-making without manually searching through many books and files.

Step 5: Conclusion Four advantages of a Computerised Accounting System are high processing speed, accuracy of calculations, reliability and consistency, and efficient storage and retrieval of accounting information.

Quick Tip to Solve: State four separate advantages and explain one practical accounting benefit of each; distinguish processing accuracy from the correctness of input data.

OR

33(b). Explain 'Password security' and 'Data audit' as security features of Computerised Accounting System. [4 marks]

Solution:

Concept:

- A Computerised Accounting System must protect accounting data from unauthorised access and unauthorised changes.
- Password security controls entry to the system, while data audit makes changes to accounting records traceable and reviewable.

Step 1: Explain password security Password security restricts access to the accounting system to authorised users. Each user is assigned a user identity and a confidential password; the system checks these credentials before permitting access. Thus, an unauthorised person cannot ordinarily open or operate the accounting data merely by reaching the computer.

Access rights can also be assigned according to duties. For example, an operator may be allowed to enter vouchers, while only the administrator or an authorised senior employee may alter settings or approve changes. Passwords should be kept confidential and changed periodically. These controls help prevent unauthorised viewing, alteration and misuse of financial information.

Step 2: Explain data audit Data audit enables an authorised person to examine changes made to accounting data. The system maintains an audit trail of transactions and subsequent alterations, identifying the user responsible and the date and time of the action. Depending on the accounting software, additions, modifications and deletions can be tracked so that changes do not pass unnoticed.

The auditor or administrator reviews these records, checks changes against supporting documents and authorisations, and investigates irregular entries. For example, a change in a previously recorded voucher amount can be traced to the user who made it and checked for validity. This feature promotes accountability and helps detect errors or unauthorised manipulation; the existence of an audit trail does not by itself guarantee that every transaction is correct.

Step 3: Conclusion Password security limits access to authorised users, whereas data audit provides a record for checking who changed accounting data and whether those changes were proper. Together they strengthen the security and reliability of the accounting system.

Quick Tip to Solve: Link password security with "Who may enter?" and data audit with "Who changed what, and when?"; explain one practical control for each.

34. Explain the two syntax forms of 'Lookup' function. [6 marks]

Solution:

Concept:

- LOOKUP searches for a specified value and returns a corresponding value from a range. Its two syntax forms are the vector form and the array form.
- A vector is a range containing only one row or one column. An array is a range that can contain

several rows and columns.

- The searched values must be arranged in ascending order. LOOKUP uses an exact match when available; otherwise, it uses the largest searched value less than or equal to the lookup value.

Step 1: Explain the vector form and its arguments The vector form is:

```
LOOKUP(lookup_value, lookup_vector, [result_vector])
```

Here, `lookup_value` is the value to be searched for, such as a number, text or a cell reference. The `lookup_vector` is a single row or column containing the sorted search values. The optional `result_vector` is the single row or column containing the values to be returned and must have the same number of entries as the lookup vector. If it is omitted, the matching value is returned from the lookup vector itself.

The function locates the lookup value in the lookup vector and returns the value at the corresponding position in the result vector. The two vectors need not be adjacent; their matching positions establish the relationship.

Step 2: Illustrate the vector form Suppose cells A2:A4 contain product codes 100, 200 and 300, and cells B2:B4 contain their prices 50, 80 and 120 respectively. Then

```
=LOOKUP(200,A2:A4,B2:B4)
```

searches the first column and returns 80, the second entry in the price column, because code 200 is the second entry in the lookup vector. If the lookup value were 250, the same function would also return 80: code 200 is the largest code that does not exceed 250. This example shows why LOOKUP should not automatically be treated as an exact-match-only search.

Step 3: Explain the array form and the search direction The array form is:

```
LOOKUP(lookup_value, array)
```

The `lookup_value` is the value sought, and `array` is the entire range of cells used for the search and result. The shape of the array determines the search direction.

If the array has more columns than rows, LOOKUP searches its first row and returns the corresponding value from its last row. If the array is square or has more rows than columns, it searches its first column and returns the corresponding value from its last column. Thus the array form uses the outer rows or columns of the supplied range, without a separate result-vector argument.

Step 4: Illustrate the array form and state the matching rule With the same product codes and prices in A2:B4, the range has three rows and two columns. Therefore,

```
=LOOKUP(200,A2:B4)
```

searches the first column A2:A4 and returns 80 from the corresponding position in the last column B2:B4. A wider array would instead be searched horizontally, from its first row to its last row.

For both syntax forms, the searched row or column must be sorted in ascending order. If an exact match is absent, the largest value not exceeding the lookup value is used. If the lookup value is smaller than every value in the searched range, the function returns `#N/A`. An unsorted search range can produce an incorrect result.

Step 5: Conclusion LOOKUP has a vector form, which specifies a search vector and an optional corresponding result vector, and an array form, which specifies one array and determines the search direction from its shape. Both require an ascending search range for reliable results.

Quick Tip to Solve: In vector form, identify two corresponding ranges. In array form, compare rows and columns first: a wider range searches across; a square or taller range searches down.