CBSE Class 12 Accountancy Question Paper 2024 with Solution PDF-Set 67-4-3

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 i.e. (I) Analysis of Financial Statements and (II) Computerised Accounting. Candidates must attempt only **one** of the given options as per the subject opted in Part – B.

(v) Question numbers **1** to **16** and **27** to **30** carry **1** mark each.

(vi) Question numbers **17** to **20**, **31** and **32** are short answer type questions. Each carries **3** marks.

(vii) Question numbers **21**, **22** and **33** are long answer type-I questions. Each carries **4** marks.

(viii) Question numbers **23** to **26** and **34** are long answer type-II questions. Each carries **6** marks.

(ix) There is no overall choice. However, an internal choice has been provided in **7** questions of **one** mark, **2** questions of **three** marks, **1** question of **four** marks and **2** questions of **six** marks.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(a). Arnav Ltd. purchased assets worth Rs. 24,00,000. It issued 9% debentures of Rs. 100 each at a discount of 4% for payment of the purchase consideration. The number of debentures issued to vendor were: [1 mark]

(A) 24,000

(B) 25,000

(C) 30,000

(D) 28,000

Correct Answer: (B) 25,000

Solution:

Concept:

- Debentures issued at a discount settle the purchase consideration at their issue price, not their face value.
- Number of debentures equals purchase consideration divided by issue price per debenture. The interest rate determines interest, not the issue price.

Step 1: Find the issue price The discount is 4% of the face value of Rs 100. Therefore each debenture is issued for

$$100 - \frac{4}{100} \times 100 = \text{Rs } 96.$$

Step 2: Calculate and check the number The purchase consideration is Rs 24,00,000. Thus the required number is

$$\frac{24,00,000}{96} = 25,000.$$

Issuing 24,000 debentures would ignore the discount and settle only Rs 23,04,000. The other proposed quantities, 30,000 and 28,000, would settle Rs 28,80,000 and Rs 26,88,000, respectively, exceeding the consideration.

Step 3: Conclusion Arnav Ltd. issues 25,000 debentures. Hence, the correct option is (B).

Quick Tip to Solve: For a vendor paid in debentures, divide the consideration by Rs 96 here; do not use the Rs 100 face value or the 9% coupon rate.

OR

1(b). On 1st May, 2023, Amrit Ltd. issued 10,000, 10% debentures of Rs. 100 each at a premium of 10% redeemable at a premium of 10%. Loss on issue of debentures will be: [1 mark]

(A) Rs. 2,00,000

(B) Rs. 1,30,000

(C) Rs. 1,00,000

(D) Rs. 80,000

Correct Answer: (C) Rs. 1,00,000

Solution:

Concept:

- Loss on issue of debentures consists of any discount on issue plus the premium payable on redemption.
- Premium received on issue is credited to Securities Premium. It does not itself create a loss on issue.

Step 1: Calculate redemption premium The face value of the debentures issued is

$$10,000 \times 100 = \text{Rs } 10,00,000.$$

Redemption at a premium of 10% creates an additional repayment obligation of

$$10,00,000 \times \frac{10}{100} = \text{Rs } 1,00,000.$$

Step 2: Identify the loss component There is no discount on issue because the debentures are issued at a premium. Hence loss on issue equals the redemption premium of Rs 1,00,000. The issue premium of Rs 1,00,000 is a separate credit to Securities Premium; adding it would incorrectly produce Rs 2,00,000. The 10% coupon and the date of issue affect interest, not this initial loss, so neither Rs 1,30,000 nor Rs 80,000 follows from the issue terms.

Step 3: Conclusion Loss on issue of debentures is Rs 1,00,000. Hence, the correct option is (C).

Quick Tip to Solve: Separate issue premium from redemption premium: only the latter enters loss on issue when there is no issue discount.

2. Gupta and Sharma are partners in a firm sharing profit in the ratio of 4:1. They admitted Preeti as a new partner for 1/4th share in the profits, which she acquired wholly from Gupta. New profit sharing ratio of Gupta, Sharma and Preeti will be: [1 mark]

(A) 2:1:1

(B) 11:4:5

(C) 3:3:2

(D) 7:5:4

Correct Answer: (B) 11:4:5

Solution:

Concept:

- A new partner who acquires her entire share from one old partner reduces only that partner's existing share.
- Convert the resulting individual shares to a common denominator to obtain the new profit-sharing ratio.

Step 1: Deduct Preeti's share from Gupta Gupta originally has $4/5$, while Sharma has $1/5$. Preeti receives $1/4$ entirely from Gupta. Therefore Gupta retains

$$\frac{4}{5} - \frac{1}{4} = \frac{16-5}{20} = \frac{11}{20}.$$

Step 2: Express all shares consistently Sharma does not sacrifice any share, so his share remains $1/5 = 4/20$. Preeti has $1/4 = 5/20$. Their shares sum to $(11+4+5)/20 = 1$. The proposed ratios 2:1:1, 3:3:2 and 7:5:4 each change Sharma's share from $1/5$, so none respects the stated acquisition wholly from Gupta.

Step 3: Conclusion The new ratio of Gupta, Sharma and Preeti is $11 : 4 : 5$. Hence, the correct option is (B).

Quick Tip to Solve: Keep Sharma's share unchanged at $1/5$; deduct the whole $1/4$ share from Gupta alone.

3. On the dissolution of a partnership firm there were debtors of Rs. 34,000. Debtors of Rs. 1,000 became bad and 60% was realized from the remaining debtors. Which account will be debited and by how much amount on the realisation from debtors? [1 mark]

(A) Realisation A/c by Rs. 33,000

(B) Profit & Loss A/c by Rs. 1,000

(C) Cash A/c by Rs. 19,800

(D) Debtors A/c by Rs. 14,200

Correct Answer: (C) Cash A/c by Rs. 19,800

Solution:

Concept:

- On dissolution, cash received from realising an asset increases Cash Account, so Cash Account is debited.
- Apply the stated recovery percentage only to the debtors remaining after removing the explicitly irrecoverable amount.

Step 1: Find the recoverable base Out of total debtors of Rs 34,000, Rs 1,000 is wholly bad. The remaining debtors are therefore

$$34,000 - 1,000 = \text{Rs } 33,000.$$

The 60% recovery applies to this balance, not to the original Rs 34,000.

Step 2: Compute the actual cash receipt The cash realised is

$$33,000 \times \frac{60}{100} = \text{Rs } 19,800.$$

Cash Account is debited and Realisation Account is credited by this receipt. Rs 33,000 is only the remaining book amount, not a realisation debit. Rs 14,200 is the total unrecovered amount, not cash received; Profit and Loss Account is not debited for the stated realisation transaction.

Step 3: Conclusion Cash Account is debited by Rs 19,800. Hence, the correct option is (C).

Quick Tip to Solve: First subtract the fully bad debt of Rs 1,000, then apply 60%; the account receiving cash is the debit.

4. If vendors are issued fully paid shares of Rs. 1,25,000 in purchase consideration of net assets of Rs. 1,50,000, the balance of Rs. 25,000 will be credited to: [1 mark]

(A) Statement of Profit and Loss

(B) Goodwill Account

(C) Capital Reserve Account

(D) Profit and Loss Adjustment Account

Correct Answer: (C) Capital Reserve Account

Solution:

Concept:

- When net assets acquired exceed the purchase consideration, the difference is a capital profit credited to Capital Reserve.
- Goodwill arises in the opposite situation, when purchase consideration exceeds the value of net assets acquired.

Step 1: Compare the two values The vendor receives fully paid shares worth Rs 1,25,000 as purchase consideration. The net assets acquired are worth Rs 1,50,000. Hence the company acquires assets in excess of the consideration by

$$1,50,000 - 1,25,000 = \text{Rs } 25,000.$$

Step 2: Classify the difference This surplus arises on acquisition of a business and is capital in nature. It is therefore credited to Capital Reserve Account. Statement of Profit and Loss is used for revenue results, while Profit and Loss Adjustment Account does not record this acquisition surplus. Goodwill is inappropriate because the purchase consideration is lower, not higher, than net assets.

Step 3: Conclusion Rs 25,000 is credited to Capital Reserve Account. Hence, the correct option is (C).

Quick Tip to Solve: Compare net assets with purchase price: excess net assets mean Capital Reserve; excess purchase price means Goodwill.

5(a). Riya, Rita and Renu were partners in a firm. On 31st March, 2023 Renu retired. The amount payable to Renu Rs. 2,17,000 was transferred to her loan account. Renu agreed to receive interest on this amount as per the provisions of Partnership Act, 1932. The rate at which interest would be paid to Renu is: [1 mark]

(A) 9% p.a.

(B) 6% p.a.

(C) 12% p.a.

(D) 10% p.a.

Correct Answer: (B) 6% p.a.

Solution:

Concept:

- When the retiring partner's amount remains outstanding as a loan, interest is payable on that outstanding amount.
- Under the applicable provisions of the Indian Partnership Act, 1932, the prescribed interest rate on the unpaid amount is 6% per annum.

Step 1: Identify the unpaid balance Renu has retired, and the firm has transferred the amount payable to her, Rs 2,17,000, to her loan account. The question expressly states that she accepts interest according to the Partnership Act rather than a separately agreed contractual rate.

Step 2: Apply the prescribed rate The applicable rate is 6% per annum. For a full year on an unchanged balance, this would give

$$2,17,000 \times \frac{6}{100} = \text{Rs } 13,020.$$

This illustration confirms the base for interest; the question asks only for the rate. The alternatives 9%, 12% and 10% have no support in the statutory rate specified by the question.

Step 3: Conclusion Renu is entitled to interest at 6% p.a. Hence, the correct option is (B).

Quick Tip to Solve: When a retiring partner agrees to the statutory interest rate on the unpaid loan, select 6% p.a., regardless of the loan amount.

OR

5(b). Ravi, Vani and Toni were equal partners in a firm. After the retirement of Vani, the capital balances of Ravi and Toni were Rs. 1,56,000 and Rs. 1,08,000 respectively. The new capital of the firm was determined at Rs. 2,80,000. It was decided that the capital will be in proportion of the profit sharing ratio of the remaining partners. Toni will bring _____ for deficiency of his new capital. [1 mark]

(A) Rs. 40,000

(B) Rs. 12,000

(C) Rs. 20,000

(D) Rs. 32,000

Correct Answer: (D) Rs. 32,000

Solution:

Concept:

- In the absence of a different new agreement, the continuing equal partners share profits equally after the third partner retires.
- Target capital equals total agreed capital multiplied by the partner's new profit share. A shortfall is brought in as cash.

Step 1: Determine Toni's target capital Ravi and Toni continue in the ratio $1 : 1$. The agreed total capital is Rs 2,80,000. Thus each partner's required capital is

$$2,80,000 \times \frac{1}{2} = \text{Rs } 1,40,000.$$

Step 2: Compare target with existing capital Toni already has Rs 1,08,000, so his deficiency is

$$1,40,000 - 1,08,000 = \text{Rs } 32,000.$$

Ravi has Rs 1,56,000 and would withdraw Rs 16,000. Together these adjustments increase total capital from Rs 2,64,000 to Rs 2,80,000. Contributions of Rs 40,000, Rs 12,000 or Rs 20,000 would not leave Toni with his required Rs 1,40,000.

Step 3: Conclusion Toni will bring Rs 32,000. Hence, the correct option is (D).

Quick Tip to Solve: Find Toni's half of the new total capital first, then subtract his existing Rs 1,08,000; do not split only the overall deficiency.

6. As per the provisions of Companies Act, 2013 Securities Premium cannot be utilized for: [1 mark]

(A) buy back of shares

(B) issue of partly paid bonus shares

(C) writing off discount on issue of debentures

(D) writing off preliminary expenses

Correct Answer: (B) issue of partly paid bonus shares

Solution:

Concept:

- Securities Premium is restricted to specified purposes under the Companies Act, 2013.
- Its permitted uses include issuing fully paid bonus shares, buying back shares, writing off preliminary expenses and writing off discount on issue of debentures.

Step 1: Check the bonus-share condition The permission for a bonus issue refers to fully paid bonus shares. The stated option instead proposes partly paid bonus shares. That distinction is decisive: such an issue is not a permitted utilisation of Securities Premium.

Step 2: Eliminate the permitted uses Option (A), buy-back of shares, is a permitted use subject to the relevant legal conditions. Option (C), writing off discount on issue of debentures, and option (D), writing off preliminary expenses, are also permitted uses. Thus these three choices cannot answer a question asking where Securities Premium cannot be used.

Step 3: Conclusion Securities Premium cannot be utilised for issuing partly paid bonus shares. Hence, the correct option is (B).

Quick Tip to Solve: In a bonus-share option, check the words fully paid versus partly paid; the permitted use is a fully paid bonus issue.

7(a). Vishant Ltd. invited applications for issuing 6,000 equity shares of Rs. 10 each at 10% premium. The issue was fully subscribed. The amount per share was payable as follows:

On application - Rs. 3, on allotment - Rs. 3 (including premium), on first call - Rs. 3 and on final call - Rs. 2. Ashish the holder of 200 shares paid the entire money along with allotment. The total amount received on allotment was: [1 mark]

(A) Rs. 18,000

(B) Rs. 19,000

(C) Rs. 25,000

(D) Rs. 21,000

Correct Answer: (B) Rs. 19,000

Solution:

Concept:

- Total cash received at allotment includes the normal allotment amount and any later calls paid in advance.

- Calls in advance are identified separately from allotment due, but both increase cash received on the allotment date.

Step 1: Calculate normal allotment receipts All 6,000 shares are subscribed, and Rs 3 per share is due on allotment including premium. Normal allotment receipts are

$$6,000 \times 3 = \text{Rs } 18,000.$$

The premium is already included in Rs 3 and must not be added again.

Step 2: Add Ashish's advance calls Ashish pays the remaining first and final calls of Rs 3 and Rs 2 on his 200 shares along with allotment. His extra payment is

$$200 \times (3 + 2) = \text{Rs } 1,000.$$

Therefore total cash received is $18,000 + 1,000 = \text{Rs } 19,000$. Rs 18,000 omits the advance; Rs 25,000 and Rs 21,000 do not correspond to the stated instalments and holdings. Application money has already been paid and is not received again.

Step 3: Conclusion The total amount received on allotment is Rs 19,000. Hence, the correct option is (B).

Quick Tip to Solve: Add only Ashish's future calls, Rs 5 on each of 200 shares, to normal allotment; the premium is already included.

OR

7(b). M Ltd. forfeited 5,000 equity shares of Rs. 10 each issued at a premium of 10% for non-payment of final call of Rs. 2 per share. The minimum amount at which these shares can be reissued as fully paid up will be: [1 mark]

(A) Rs. 5,000

(B) Rs. 10,000

(C) Rs. 12,000

(D) Rs. 50,000

Correct Answer: (B) Rs. 10,000

Solution:

Concept:

- The discount allowed on reissue of forfeited shares cannot exceed the amount forfeited on those shares.
- Share Forfeiture includes only capital received. Securities premium already received does not increase the permissible reissue discount.

Step 1: Find the capital already received The face value is Rs 10 per share and the unpaid final call is Rs 2. Hence capital received per share is $10 - 2 = \text{Rs } 8$. The premium is $10\% \times 10 = \text{Rs } 1$ per share, but it is excluded from forfeited capital. Therefore, the maximum permissible discount on 5,000

shares is $5,000 \times 8 = \text{Rs } 40,000$.

Step 2: Determine the minimum reissue proceeds The shares are reissued as fully paid, so their total nominal value is $5,000 \times 10 = \text{Rs } 50,000$. Subtract the maximum discount:

$$\text{Minimum proceeds} = 50,000 - 40,000 = \text{Rs } 10,000.$$

Rs 5,000 would imply excessive discount. Rs 12,000 and Rs 50,000 are possible reissue proceeds, but neither is the minimum.

Step 3: Conclusion The minimum reissue amount is $\boxed{\text{Rs } 10,000}$, or Rs 2 per share. Hence, the correct option is (B).

Quick Tip to Solve: Subtract capital already received from face value; exclude premium when finding the maximum reissue discount.

8(a). Which one of the following items is not dealt through Profit and Loss Appropriation Account?

[1 mark]

(A) Interest on Capital

(B) Interest on Drawings

(C) Rent paid to partners

(D) Partner's salary

Correct Answer: (C) Rent paid to partners

Solution:

Concept:

- The Profit and Loss Account determines net profit after charging business expenses.
- The Profit and Loss Appropriation Account records the distribution and adjustment of net profit among partners under the partnership agreement.

Step 1: Identify the business expense Rent paid to a partner is consideration for the use of that partner's property by the firm. It is a charge against profit, just like rent paid to an outside landlord, and is debited to the Profit and Loss Account. The landlord being a partner does not convert rent into an appropriation.

Step 2: Classify the remaining items Interest on capital and partner's salary are appropriations of profit and are debited to the Profit and Loss Appropriation Account. Interest on drawings is credited to that account because it adjusts the distribution between partners. Thus options (A), (B) and (D) all pass through the appropriation account, while rent does not.

Step 3: Conclusion Rent paid to partners is dealt with through the Profit and Loss Account. Hence, the correct option is (C).

Quick Tip to Solve: Ask whether the payment is for a business resource or a partner's profit entitlement: rent for property is a business expense.

OR

8(b). At the time of admission of a partner, the Balance Sheet of the firm showed a workmen compensation reserve of Rs. 80,000. The claim for workmen compensation was estimated at Rs. 1,00,000. The shortfall of Rs. 20,000 will be: [1 mark]

(A) debited to Revaluation Account

(B) credited to Revaluation Account

(C) debited to Partners' Capital Accounts

(D) credited to Partners' Capital Accounts

Correct Answer: (A) debited to Revaluation Account

Solution:

Concept:

- A specific workmen compensation reserve is first used to meet the corresponding compensation claim.
- If the claim exceeds the reserve at reconstitution, the excess is a loss recorded on the debit side of the Revaluation Account.

Step 1: Compare the reserve with the claim The reserve available is Rs 80,000, whereas the estimated liability for workmen compensation is Rs 1,00,000. The uncovered portion is

$$\text{Shortfall} = 1,00,000 - 80,000 = \text{Rs } 20,000.$$

There is no surplus reserve to distribute among the old partners.

Step 2: Identify the debit for the shortfall The reserve absorbs Rs 80,000 of the claim. The additional Rs 20,000 is a revaluation loss, so it is debited to Revaluation Account. A credit to Revaluation Account would record a gain and is therefore incorrect. Although the eventual net revaluation loss is transferred to the old partners in their old ratio, the shortfall itself is first recorded in Revaluation Account, not directly as a capital-account adjustment.

Step 3: Conclusion The shortfall of Rs 20,000 is debited to Revaluation Account. Hence, the correct option is (A).

Quick Tip to Solve: Compare the specific reserve with its claim first: claim above reserve means a revaluation loss for the excess.

9. Vishnu and Mishu are partners in a firm. Mishu draws a fixed amount at the end of every quarter. Interest on drawings is charged @ 15% p.a. At the end of the year interest on Mishu's drawings amounted to Rs. 9,000. Interest on drawings was charged on drawings of Mishu for: [1 mark]

(A) 6 months

(B) 7 $\frac{1}{2}$ months

(C) 4 $\frac{1}{2}$ months

(D) 4 months

Correct Answer: (C) 4 $\frac{1}{2}$ months

Solution:

Concept:

- For equal drawings made at equal intervals, use the average time for which the instalments remain withdrawn.
- Interest on total drawings equals total drawings multiplied by the annual interest rate and the average period expressed in years.

Step 1: List the interest periods A drawing at the end of the first quarter remains outstanding for 9 months until year-end. The subsequent quarter-end drawings remain outstanding for 6 months, 3 months and 0 months respectively. The final drawing is on the closing date, so it earns no interest for the completed year.

Step 2: Calculate the average duration As all four drawings are equal, each period has equal weight:

$$\text{Average period} = \frac{9+6+3+0}{4} = 4.5 \text{ months.}$$

The rate of 15% and interest amount of Rs 9,000 would help calculate the drawings, but do not alter their average timing. Six months applies to middle-of-quarter drawings, and 7.5 months to beginning-of-quarter drawings. Four months is not the average of these intervals.

Step 3: Conclusion Interest is charged on total drawings for $4\frac{1}{2}$ months. Hence, the correct option is (C).

Quick Tip to Solve: For equal quarter-end drawings, average the first and last periods: $(9+0)/2 = 4.5$ months.

Read the following hypothetical situation and answer questions 10 and 11. Aditi and Saurabh were partners in a firm sharing profits and losses in the ratio of 2:1. On 1st April, 2022 their capitals were Rs. 5,00,000 and Rs. 4,00,000 respectively. Before any appropriation, the firm earned a Net profit of Rs. 81,000 for the year ended 31st March, 2023. According to the partnership deed, interest on capital was to be provided @ 10% p.a.

10. Interest on Aditi's capital will be: [1 mark]

(A) Rs. 50,000

(B) Rs. 45,000

(C) Rs. 40,500

(D) Rs. 54,000

Correct Answer: (B) Rs. 45,000

Solution:

Concept:

- Interest on capital is an appropriation of profit. Where available profit is insufficient to pay the full interest, distribute the available profit in the ratio of the partners' calculated interest entitlements.
- Annual interest equals capital multiplied by the annual rate. The profit-sharing ratio is used for residual profit, not to apportion insufficient profit towards interest on capital.

Step 1: Calculate the full interest entitlements Working Notes: Aditi's full-year interest is Rs $5,00,000 \times 10\% = 50,000$, and Saurabh's is Rs $4,00,000 \times 10\% = 40,000$. Their total claim is Rs 90,000, which exceeds the available profit of Rs 81,000. The interest entitlement ratio is $50,000 : 40,000 = 5 : 4$.

Step 2: Apportion the available profit and check the options Aditi's share of the available profit towards interest is

$$\text{Rs } 81,000 \times \frac{5}{9} = \text{Rs } 45,000.$$

Saurabh receives Rs 36,000, exhausting the Rs 81,000 profit. Option (A), Rs 50,000, ignores the profit shortfall; option (C), Rs 40,500, divides profit equally; and option (D), Rs 54,000, incorrectly uses the profit-sharing ratio of $2 : 1$. Only option (B) follows the interest entitlement ratio.

Step 3: Conclusion Aditi is allowed interest on capital of Rs 45,000. Hence, the correct option is (B).

Quick Tip to Solve: Compare total calculated interest of Rs 90,000 with profit first; then allocate Rs 81,000 in the interest ratio of 5:4.

11. Interest on capital will be provided to Aditi and Saurabh in which of the following ratio? [1 mark]

(A) 5:4

(B) 2:1

(C) 1:1

(D) 8:1

Correct Answer: (A) 5:4

Solution:

Concept:

- Where the profit available for appropriation is smaller than the total interest on capital, it is apportioned in the ratio of the partners' calculated interest entitlements.
- When the same interest rate and period apply to both partners, the interest entitlement ratio equals their capital ratio; it need not equal their profit-sharing ratio.

Step 1: Find the interest entitlement ratio Working Notes: The annual rate is 10% for both partners. Aditi's calculated interest is Rs $5,00,000 \times 10\% = 50,000$, while Saurabh's is Rs $4,00,000 \times 10\% = 40,000$. Thus their interest entitlements are in the ratio

$$50,000 : 40,000 = 5 : 4.$$

Step 2: Apply the insufficient-profit rule and compare options The total interest entitlement is Rs 90,000 but profit is only Rs 81,000. Accordingly, Aditi and Saurabh receive Rs $81,000 \times 5/9 = 45,000$ and Rs $81,000 \times 4/9 = 36,000$, preserving the ratio $5 : 4$. Option (B), $2 : 1$, is the profit-sharing ratio and is not used for this interest allocation. Option (C), $1 : 1$, would ignore their unequal interest entitlements, while option (D), $8 : 1$, agrees with neither the capitals nor the calculated interest.

Step 3: Conclusion Interest on capital is provided to Aditi and Saurabh in the ratio $5 : 4$. Hence, the correct option is (A).

Quick Tip to Solve: For identical rates and periods, simplify the capitals Rs 5,00,000 : Rs 4,00,000 directly to obtain the interest ratio 5:4.

12(a). **Vanya and Aanya were partners in a firm sharing profit and losses in the ratio of 3:2. Their capital were Rs. 5,00,000 and Rs. 1,00,000 respectively. Vanya was entitled to interest on capital @ 8% p.a. and Aanya was entitled to salary @ Rs. 5,000 per month. The net profit before any appropriation was Rs. 1,75,000. Vanya's share in divisible profit will be:** [1 mark]

(A) Rs. 45,000

(B) Rs. 30,000

(C) Rs. 37,500

(D) Rs. 40,000

Correct Answer: (A) Rs. 45,000

Solution:

Concept:

- Divisible profit is the balance left after deducting the appropriations specified by the partnership deed.
- Partners share the divisible profit in their agreed profit-sharing ratio; salary and interest on capital are considered separately.

Step 1: Compute the prior appropriations Vanya alone is stated to receive interest on capital at 8% per annum:

$$\text{Vanya's interest} = 5,00,000 \times \frac{8}{100} = \text{Rs } 40,000.$$

Aanya's annual salary is $5,000 \times 12 = \text{Rs } 60,000$. No interest entitlement is given for Aanya, so none is deducted for her capital.

Step 2: Find and apportion the divisible profit After deducting these appropriations,

$$\text{Divisible profit} = 1,75,000 - 40,000 - 60,000 = \text{Rs } 75,000.$$

Vanya's share is $75,000 \times 3/5 = \text{Rs } 45,000$. Rs 30,000 is Aanya's share; Rs 37,500 incorrectly divides equally; Rs 40,000 is Vanya's interest, not her share of divisible profit.

Step 3: Conclusion Vanya's share in divisible profit is $\boxed{\text{Rs } 45,000}$. Hence, the correct option is (A).

Quick Tip to Solve: Deduct annual salary and the specified interest first; apply 3:2 only to the remaining Rs 75,000.

OR

12(b). Omkar and Shiva were partners in a firm. Omkar was entitled to a salary of Rs. 20,000 p.a. while Shiva was entitled to a salary of Rs. 50,000 p.a. Net profit for the year ended 31st March, 2023 after charging salary of Omkar and Shiva was Rs. 5,60,000. The total amount credited to Omkar's capital account will be: [1 mark]

(A) Rs. 2,45,000

(B) Rs. 2,65,000

(C) Rs. 3,15,000

(D) Rs. 3,00,000

Correct Answer: (D) Rs. 3,00,000

Solution:

Concept:

- When no profit-sharing ratio is given, partners share the residual profit equally.
- The total credit to a partner's capital account includes that partner's salary and share of the remaining divisible profit.

Step 1: Identify the profit available for sharing The stated profit of Rs 5,60,000 is already after charging both partners' salaries. It is therefore the residual amount to be shared, and the salaries must not be deducted again. Equivalently, profit before these appropriations is $5,60,000+20,000+50,000 =$ Rs $6,30,000$, which returns to Rs 5,60,000 after both salary allocations.

Step 2: Compute Omkar's total capital credit No profit-sharing ratio is specified, so Omkar's share is $5,60,000/2 =$ Rs $2,80,000$. Add his own salary:

$$\text{Total credit} = 2,80,000 + 20,000 = \text{Rs } 3,00,000.$$

Rs 2,45,000 wrongly deducts salaries again before halving; Rs 2,65,000 adds Omkar's salary to that erroneous share. Rs 3,15,000 is half the profit before salary, so it does not reflect the unequal salary entitlements.

Step 3: Conclusion Omkar's capital account is credited with $\boxed{\text{Rs } 3,00,000}$. Hence, the correct option is (D).

Quick Tip to Solve: Read "after charging salary" carefully: share that residual profit equally, then add only Omkar's Rs 20,000 salary.

13. Kanha, Resham and Nisha were partners in a firm. Nisha had given a loan of Rs. 1,00,000 to the firm @ 10% p.a. The accountant of the firm is emphasizing that interest on loan will be paid @ 6% p.a. At what rate the interest on loan will be paid to Nisha? [1 mark]

(A) 6% p.a.

(B) 10% p.a.

(C) 8% p.a.

(D) No interest on loan will be paid.

Correct Answer: (B) 10% p.a.

Solution:

Concept:

- Interest on a partner's loan is payable at the rate agreed between the firm and the lending partner.
- The usual 6% per annum rate applies only when no rate has been agreed; it does not override a stated agreement.

Step 1: Identify the applicable agreement Nisha advanced Rs 1,00,000 to the firm at an expressly stated rate of 10% per annum. The agreed loan term therefore supplies the applicable interest rate. The accountant cannot replace this term merely by citing the rate used when the partnership agreement is silent.

Step 2: Check the competing options At the agreed annual rate, interest for a full year would be $1,00,000 \times 10/100 = \text{Rs } 10,000$. The 6% option applies only in the absence of an agreed rate, while 8% has no basis in the facts. Paying no interest is also incorrect: the firm has an interest-bearing loan, and loan interest is a charge against profit rather than an appropriation dependent on distributable profit.

Step 3: Conclusion Interest on Nisha's loan is payable at $\boxed{10\% \text{ p.a.}}$. Hence, the correct option is (B).

Quick Tip to Solve: For a partner's loan, look for an agreed rate first; use 6% only when the terms give no rate.

14. Assertion (A): Interest on bearer debentures is paid to a person who produces the interest coupon attached to such debentures.

Reason (R): Bearer debentures are transferred by way of delivery and the company does not keep any record of these debenture holders.

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 correct, but Reason (R) is incorrect.

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

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

Solution:

Concept:

- Bearer debentures are transferable by delivery; the company does not maintain a register of their holders' names.
- Interest coupons attached to bearer debentures entitle their bearer to collect the interest due.

Step 1: Evaluate the assertion The person presenting the interest coupon receives the interest on the bearer debenture. Thus Assertion (A) correctly describes how this interest is paid.

Step 2: Evaluate the reason Ownership passes by delivery, and the company does not maintain a record of the successive holders. Reason (R) is therefore correct.

Step 3: Connect the two statements Since the company cannot identify the current owner from a register, it pays interest against the coupon presented by its bearer. This directly explains the assertion. Option (B) wrongly denies this connection, while (C) and (D) wrongly reject one of the true statements.

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

Quick Tip to Solve: Link bearer debentures with delivery and coupon presentation; registered debentures instead identify the holder in company records.

15. Aditya, Vishesh and Nimesh were partners in a firm sharing profits and losses equally. Aditya died on 1st July, 2023. Remaining partners decided to continue the business of the firm and decided to share future profits in the ratio of 4:3. The gaining ratio of Vishesh and Nimesh will be: [1 mark]

(A) 4:3

(B) 3:2

(C) 5:2

(D) 1:1

Correct Answer: (C) 5:2

Solution:

Concept:

- A continuing partner's gain is the new profit share minus the old profit share.
- The gaining ratio compares the gains of the continuing partners, not their new shares themselves.

Step 1: Calculate each partner's gain Originally, each of the three partners had a share of $1/3$. After Aditya's death, Vishesh and Nimesh have shares $4/7$ and $3/7$, respectively.

$$\text{Vishesh's gain} = \frac{4}{7} - \frac{1}{3} = \frac{5}{21},$$
$$\text{Nimesh's gain} = \frac{3}{7} - \frac{1}{3} = \frac{2}{21}.$$

Step 2: Compare the gains and check their total The gains are in the ratio $5 : 2$, and their sum $7/21 = 1/3$ equals Aditya's former share. Option (A) gives the new ratio, not the gaining ratio. Neither (B), $3 : 2$, nor (D), $1 : 1$, agrees with the calculated increases.

Step 3: Conclusion Vishesh and Nimesh gain in the ratio $5 : 2$. Hence, the correct option is (C).

Quick Tip to Solve: Convert both old and new shares to denominator 21 before subtracting; the total gain must equal the deceased partner's one-third share.

16. Assertion (A): Under the fixed capital method, partners' capital accounts always show a credit balance.

Reason (R): Under the fixed capital method, all items like share of profit or loss, interest on capital, drawings, interest on drawings are recorded in a separate account called partners' current account.

Choose the correct alternative 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 correct, but Reason (R) is incorrect.

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

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

Solution:

Concept:

- Under the fixed capital method, each partner has a capital account and a separate current account.
- The capital account records permanent capital introduced or withdrawn; routine appropriations and drawings are entered in the current account.

Step 1: Evaluate the assertion In the fixed capital method, the partners' capital accounts represent their capital contributions and show credit balances. Routine losses or drawings do not turn these capital accounts into debit balances. Assertion (A) is correct in the prescribed treatment.

Step 2: Evaluate the reason Profit or loss shares, interest on capital, drawings and interest on drawings are recorded in partners' current accounts. These current accounts can have credit or debit balances. Reason (R) is therefore correct.

Step 3: Check the explanatory link Recording these routine adjustments separately is precisely why the fixed capital accounts retain their credit balances. Hence (B) is incorrect because it denies the explanatory link, and (C) and (D) are incorrect because both statements are true.

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 fixed capitals, place drawings and profit or loss in the current account; do not confuse its possible debit balance with the capital account.

17. Nita, Mita and Karan were partners in a firm sharing profits and losses in the ratio of 4:3:3. With effect from 1st April, 2023, they agreed to share profits and losses in the ratio of 1:2:2. On that date, there was a General Reserve of Rs. 70,000 in the books of the firm. It was agreed that:

(i) Goodwill of the firm be valued at Rs. 1,00,000.

(ii) Loss on revaluation of assets and re-assessment of liabilities amounted to Rs. 40,000.

Pass necessary journal entries for the above transactions in the books of the firm. [3 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit or loss belong to the partners in their old profit-sharing ratio.
- A partner's sacrifice equals old share minus new share. Gaining partners compensate sacrificing partners for goodwill in proportion to the shares gained.

Step 1: Prepare the Working Notes Old shares of Nita, Mita and Karan are $4/10, 3/10, 3/10$; their new shares are $2/10, 4/10, 4/10$.

$$\text{Nita's sacrifice} = 4/10 - 2/10 = 2/10,$$
$$\text{Mita's gain} = 4/10 - 3/10 = 1/10,$$
$$\text{Karan's gain} = 4/10 - 3/10 = 1/10.$$

Therefore Mita and Karan each compensate Nita by Rs $1,00,000 \times 1/10 = 10,000$. General Reserve of Rs 70,000 is distributed as Rs 28,000, Rs 21,000 and Rs 21,000. Revaluation loss of Rs 40,000 is charged as Rs 16,000, Rs 12,000 and Rs 12,000, respectively. Both use the old ratio $4:3:3$, because they relate to the period before the change.

Step 2: Record the reserve and goodwill adjustments **Journal of the firm (1st April, 2023)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1.4.2023	General Reserve A/c Dr.		70,000	
	To Nita's Capital A/c			28,000
	To Mita's Capital A/c			21,000
	To Karan's Capital A/c			21,000
	(Being General Reserve distributed in the old ratio of 4:3:3)			
1.4.2023	Mita's Capital A/c Dr.		10,000	
	Karan's Capital A/c Dr.		10,000	
	To Nita's Capital A/c			20,000
	(Being goodwill adjusted through capital accounts for the change in profit-sharing ratio)			

Step 3: Transfer the revaluation loss **Journal of the firm (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1.4.2023	Nita's Capital A/c Dr.		16,000	
	Mita's Capital A/c Dr.		12,000	
	Karan's Capital A/c Dr.		12,000	
	To Revaluation A/c			40,000
	(Being revaluation loss transferred to partners in the old ratio of 4:3:3)			

Step 4: Conclusion General Reserve is credited in the old ratio, revaluation loss is debited in the old ratio, and Mita and Karan each pay Rs 10,000 to Nita through capital accounts for goodwill. Each journal entry has equal debits and credits.

Quick Tip to Solve: Use 4:3:3 for existing reserve and loss; use the actual gain or sacrifice, not the new ratio 1:2:2, for goodwill compensation.

18(a). Aayush and Krish are partners sharing profits and losses equally. They decided to admit Vansh for an equal share in the profits. For this purpose, the goodwill of the firm was to be valued at four years purchase of super profits.

The balance sheet of the firm on 31.3.2023 before admission of Vansh was as follows:

Balance Sheet of Aayush and Krish as on 31.3.2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals: Aayush 90,000 / Krish 50,000	1,40,000	Machinery	75,000
General Reserve	20,000	Furniture	15,000
Loan	25,000	Stock	30,000
Creditors	5,000	Debtors	20,000
		Cash	50,000
	1,90,000		1,90,000

The normal rate of return is 12% per annum. Average profit of the firm for the last four years was Rs. 30,000. Calculate Vansh's share of Goodwill. [3 marks]

Solution:

Concept:

- Capital employed is total assets minus outside liabilities, or partners' capitals plus accumulated reserves.
- Normal profit is capital employed multiplied by the normal rate of return. Super profit is average profit minus normal profit.
- Goodwill equals super profit multiplied by years' purchase; an incoming partner's goodwill share equals total goodwill multiplied by that partner's new profit share.

Step 1: Calculate capital employed **Working Notes**

The loan and creditors are outside liabilities. Deduct them from the total assets, but retain General Reserve as part of the owners' funds:

$$\begin{aligned}\text{Capital employed} &= \text{Rs } (1,90,000 - 25,000 - 5,000) \\ &= \text{Rs } 1,60,000.\end{aligned}$$

This also equals Aayush's capital Rs 90,000 plus Krish's capital Rs 50,000 plus General Reserve Rs 20,000. The two methods agree.

Step 2: Find normal profit and super profit Apply the normal annual return of 12 percent to the capital employed. The stated Rs 30,000 is already the average annual profit, so it is not divided by

four again.

$$\text{Normal profit} = \text{Rs } 1,60,000 \times \frac{12}{100} = \text{Rs } 19,200,$$
$$\text{Super profit} = \text{Rs } (30,000 - 19,200) = \text{Rs } 10,800.$$

Step 3: Value goodwill and Vansh's share Four years' purchase means that the annual super profit is multiplied by four. Since all three partners will share profits equally after admission, Vansh receives one-third of the profits.

$$\text{Firm's goodwill} = \text{Rs } 10,800 \times 4 = \text{Rs } 43,200,$$
$$\text{Vansh's goodwill share} = \text{Rs } 43,200 \times \frac{1}{3} = \text{Rs } 14,400.$$

Step 4: Conclusion The goodwill of the firm is Rs 43,200, and Vansh's one-third share of goodwill is $\boxed{\text{Rs } 14,400}$.

Quick Tip to Solve: Add General Reserve to partners' capitals when finding capital employed; equal sharing after admission gives Vansh one-third, not one-half.

OR

18(b). Varun, Tarun, Arun and Barun were partners in a firm sharing profits in the ratio of 5:3:2:2. Arun retired on 31st March, 2023. Varun, Tarun and Barun decided to share future profits equally. On Arun's retirement, Goodwill of the firm was valued at Rs. 9,00,000. Showing your workings clearly, pass the necessary Journal entry for treatment of Goodwill on Arun's retirement without opening goodwill account. [3 marks]

Solution:

Concept:

- On retirement, gaining partners compensate both the retiring partner and any continuing partner who sacrifices a share of profit.
- Gain equals new share minus old share. With no Goodwill Account opened, goodwill compensation is adjusted directly through partners' capital accounts.

Step 1: Determine gains and sacrifices **Working Notes**

The old ratio is $5 : 3 : 2 : 2$, whose total is 12. Each of the three continuing partners now has $1/3 = 4/12$. Therefore:

$$\text{Varun's change} = 4/12 - 5/12 = -1/12 \quad \text{(sacrifice)},$$
$$\text{Tarun's change} = 4/12 - 3/12 = 1/12 \quad \text{(gain)},$$
$$\text{Barun's change} = 4/12 - 2/12 = 2/12 \quad \text{(gain)}.$$

Arun gives up his entire $2/12$ share. Tarun and Barun gain a total of $3/12$, made up of Arun's $2/12$ and Varun's $1/12$. Thus Varun must receive compensation although he continues in the firm.

Step 2: Calculate the goodwill adjustments Multiply every gain or sacrifice by the total goodwill of Rs 9,00,000:

$$\text{Tarun's debit} = \text{Rs } 9,00,000 \times 1/12 = \text{Rs } 75,000,$$
$$\text{Barun's debit} = \text{Rs } 9,00,000 \times 2/12 = \text{Rs } 1,50,000,$$
$$\text{Varun's credit} = \text{Rs } 9,00,000 \times 1/12 = \text{Rs } 75,000,$$
$$\text{Arun's credit} = \text{Rs } 9,00,000 \times 2/12 = \text{Rs } 1,50,000.$$

Step 3: Pass the adjustment entry **Journal of the firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2023	Tarun's Capital A/c Dr.		75,000	
	Barun's Capital A/c Dr.		1,50,000	
	To Varun's Capital A/c			75,000
	To Arun's Capital A/c			1,50,000
	(Being goodwill adjusted on Arun's retirement by debiting gaining partners and crediting sacrificing partners, without opening Goodwill Account)			

Step 4: Conclusion Debit Tarun Rs 75,000 and Barun Rs 1,50,000; credit Varun Rs 75,000 and Arun Rs 1,50,000. Total debits and credits are each Rs 2,25,000, with no Goodwill Account opened.

Quick Tip to Solve: Check every continuing partner's new share: Varun falls from 5/12 to 4/12 and must be credited along with the retiring partner.

19(a). Mahesh Ltd. purchased Plant and Machinery from Ish Ltd. for Rs. 4,50,000. Rs. 50,000 was paid by cheque to Ish Ltd. and the balance by issuing 6% debentures of Rs. 100 each at a discount of 20%.

Pass the necessary Journal Entries for the above transactions in the books of Mahesh Ltd. [3 marks]

Solution:

Concept:

- Plant and Machinery is debited at its agreed purchase price, and the vendor is credited with the amount payable. Payment by cheque reduces Bank and the vendor's balance.
- Debentures issued at a discount are credited at their face value. The difference between face value and issue value is debited to Discount on Issue of Debentures Account.

Step 1: Calculate the debentures to be issued **Working Notes:** The vendor's balance after the cheque payment is Rs $4,50,000$ − Rs $50,000$ = Rs $4,00,000$. A debenture of face value Rs 100 issued at a discount of 20% settles only Rs 80 of this balance.

$$\text{Number of debentures} = \frac{4,00,000}{80} = 5,000,$$
$$\text{Face value issued} = 5,000 \times 100 = \text{Rs } 5,00,000,$$
$$\text{Discount on issue} = 5,000 \times 20 = \text{Rs } 1,00,000.$$

The 6% is the interest rate on the debentures; it does not determine their issue price or the number issued. No interest entry is required for these purchase transactions.

Step 2: Record the purchase and settlement **Journal of Mahesh Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Plant and Machinery A/c Dr. To Ish Ltd. (Being plant and machinery purchased from Ish Ltd.)		4,50,000	4,50,000
	Ish Ltd. Dr. To Bank A/c (Being part payment made to the vendor by cheque)		50,000	50,000
	Ish Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 6% Debentures A/c (Being 5,000 debentures of Rs 100 each issued at 20% discount to settle the vendor's balance)		4,00,000 1,00,000	5,00,000

The vendor is credited with Rs 4,50,000 on purchase and debited with Rs 50,000 plus Rs 4,00,000 on settlement, so nothing remains payable to Ish Ltd.

Step 3: Conclusion Mahesh Ltd. issues **5,000 debentures** with total face value **Rs 5,00,000**. Discount on issue is **Rs 1,00,000**, and the vendor's account is fully settled.

Quick Tip to Solve: Deduct the cheque payment first, then divide the vendor's remaining balance by Rs 80, the issue price, rather than by the Rs 100 face value.

OR

19(b). Manika Ltd. forfeited 500 shares of Rs. 100 each for non-payment of first call of Rs. 20 per share and second and final call of Rs. 25 per share. 250 of these shares were reissued at Rs. 50 per share fully paid up. Pass the Journal Entries for forfeiture and reissue of shares. [3 marks]

Solution:

Concept:

- On forfeiture, Share Capital is debited with the called-up amount. Unpaid calls are credited to cancel them, and the amount already received on capital is credited to Share Forfeiture Account.
- Reissue discount is debited to Share Forfeiture Account, limited to the amount forfeited on the shares reissued. Only the surplus relating to reissued shares is transferred to Capital Reserve.

Step 1: Calculate forfeiture and reissue amounts **Working Notes:** Both calls have been made, including the final call, so the shares are fully called up at Rs 100 each. Unpaid calls per share are

$20 + 25 = \text{Rs } 45$; capital received per share is $100 - 45 = \text{Rs } 55$.

$$\text{Capital cancelled} = 500 \times 100 = \text{Rs } 50,000,$$
$$\text{First call unpaid} = 500 \times 20 = \text{Rs } 10,000,$$
$$\text{Final call unpaid} = 500 \times 25 = \text{Rs } 12,500,$$
$$\text{Amount forfeited} = 500 \times 55 = \text{Rs } 27,500.$$

For 250 shares reissued fully paid at Rs 50, Bank receives Rs 12,500, and Share Capital is credited with Rs 25,000. The Rs 12,500 difference is reissue discount. The forfeiture attributable to these shares is $250 \times 55 = \text{Rs } 13,750$, leaving $13,750 - 12,500 = \text{Rs } 1,250$ for Capital Reserve.

Step 2: Journalise forfeiture, reissue and capital profit **Journal of Manika Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		50,000	
	To Share First Call A/c			10,000
	To Share Second and Final Call A/c			12,500
	To Share Forfeiture A/c			27,500
	(Being 500 shares forfeited for non-payment of first and second and final calls)			
	Bank A/c Dr.		12,500	
	Share Forfeiture A/c Dr.		12,500	
	To Share Capital A/c			25,000
	(Being 250 forfeited shares reissued at Rs 50 each as fully paid shares of Rs 100 each)			
	Share Forfeiture A/c Dr.		1,250	
	To Capital Reserve A/c			1,250
	(Being surplus on the reissued shares transferred to Capital Reserve)			

The unreissued 250 shares retain their forfeited amount of $250 \times 55 = \text{Rs } 13,750$ in Share Forfeiture Account. This amount is not yet a realised capital profit.

Step 3: Conclusion Amount forfeited is **Rs 27,500**; reissue discount is **Rs 12,500**. Transfer **Rs 1,250** to Capital Reserve, leaving **Rs 13,750** in Share Forfeiture Account for unreissued shares.

Quick Tip to Solve: For the reserve transfer, use the forfeiture on only the 250 reissued shares: $250 \times (55 - 50) = \text{Rs } 1,250$.

20. Rajesh and Anu were partners in a firm sharing profits and losses in the ratio of 1:2. Their fixed capitals were Rs. 6,00,000 and Rs. 3,00,000 respectively. After the accounts for the year were prepared, it was noticed that interest on capital @ 12% p.a., as provided in the partnership deed, was not credited to the capital accounts of partners before distribution of profits.

Pass the necessary adjusting journal entry. Show your workings clearly. [3 marks]

Solution:

Concept:

- Omitted interest on capital must be credited to partners, while the corresponding reduction in divisible profit is charged in the profit-sharing ratio. The net difference determines the adjustment.
- Under the fixed capital method, interest and profit adjustments pass through partners' Current Accounts; their fixed Capital Accounts remain unchanged.

Step 1: Calculate interest and excess profit distributed **Working Notes:** Rajesh and Anu are entitled to interest at 12% per annum on their respective fixed capitals. The annual interest omitted is:

$$\text{Rajesh} = 6,00,000 \times \frac{12}{100} = \text{Rs } 72,000,$$
$$\text{Anu} = 3,00,000 \times \frac{12}{100} = \text{Rs } 36,000,$$
$$\text{Total} = 72,000 + 36,000 = \text{Rs } 1,08,000.$$

Because this appropriation was omitted, Rs 1,08,000 too much profit was distributed in the ratio $1:2$. Rajesh has already received excess profit of $1,08,000 \times \frac{1}{3} = \text{Rs } 36,000$, while Anu has received $1,08,000 \times \frac{2}{3} = \text{Rs } 72,000$.

Step 2: Find each partner's net adjustment

Adjustment Table

Particulars	Rajesh (Rs)	Anu (Rs)
Interest to be credited	72,000	36,000
Excess profit to be debited	36,000	72,000
Net adjustment	36,000 Cr.	36,000 Dr.

Rajesh was under-credited by Rs 36,000, whereas Anu was over-credited by the same amount. A single transfer between their Current Accounts corrects both omissions without reopening the profit distribution accounts. The net credits and debits are equal, so the total partners' funds do not change.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Anu's Current A/c Dr. To Rajesh's Current A/c (Being omitted interest on fixed capitals adjusted after reversing excess profit distributed in the ratio 1:2)		36,000	36,000

Step 4: Conclusion Debit **Anu's Current Account by Rs 36,000** and credit **Rajesh's Current Account by Rs 36,000**. Fixed capitals remain Rs 3,00,000 and Rs 6,00,000 respectively.

Quick Tip to Solve: For each partner, subtract their share of the total omitted interest from their own interest entitlement; a positive difference is a credit to their Current Account.

21. Ram, Ravi and Rohan were partners sharing profits in the ratio of 2:3:1. On 31st March, 2023, their Balance Sheet was as follows:

Balance Sheet of Ram, Ravi and Rohan as on 31.3.2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	3,62,000	Cash	14,000
General Reserve	18,000	Bank	2,96,000
Capitals: Ram 1,00,000 Ravi 2,00,000 Rohan 3,00,000	6,00,000	Stock	80,000
		Debtors 3,00,000 Less: provision for doubtful debts 10,000	2,90,000
		Investments	50,000
		Land	2,50,000
	9,80,000		9,80,000

Rohan died on 30th September, 2023. On the death of a partner the partnership deed provided for the following:

(i) Goodwill was to be valued at two years purchase of average profit of last three years. The profits for the last three years were: 2020-21 Rs. 45,000, 2021-22 Rs. 90,000 and 2022-23 Rs. 1,35,000.

(ii) Deceased partner's share of profit till the date of his death will be calculated on the basis of average profit of last three years.

Prepare Rohan's Capital Account to be rendered to his executors. [4 marks]

Solution:

Concept:

- A deceased partner is entitled to the opening capital, the old share of accumulated reserves, goodwill and profit earned up to the date of death.
- Average annual profit equals total profits divided by the number of years. Goodwill equals average annual profit multiplied by the agreed years' purchase.
- Rohan's old profit share is $1/6$. In the absence of a new ratio, Ram and Ravi continue in their relative old ratio, $2:3$, which is also their gaining ratio.

Step 1: Determine Rohan's share of reserve and goodwill General Reserve belongs to the partners in their old profit-sharing ratio. Rohan's share is Rs $18,000 \times 1/6 = \text{Rs } 3,000$.

$$\text{Average annual profit} = \frac{45,000 + 90,000 + 1,35,000}{3} = \text{Rs } 90,000,$$

$$\text{Firm's goodwill} = 90,000 \times 2 = \text{Rs } 1,80,000,$$

$$\text{Rohan's goodwill share} = 1,80,000 \times \frac{1}{6} = \text{Rs } 30,000.$$

Adjust goodwill through the continuing partners' capital accounts in their gaining ratio: Ram bears $30,000 \times 2/5 = \text{Rs } 12,000$, and Ravi bears $30,000 \times 3/5 = \text{Rs } 18,000$. These amounts are credited to Rohan's Capital Account.

Step 2: Calculate profit up to the date of death From 1 April to 30 September 2023, six months have elapsed. Use average profit, as the deed specifically requires, rather than the latest year's profit.

$$\text{Rohan's profit share} = 90,000 \times \frac{6}{12} \times \frac{1}{6} = \text{Rs } 7,500.$$

Credit Rohan's capital and debit Profit and Loss Suspense Account for this estimated share. No drawings, interest or revaluation adjustments are specified, so no such amounts enter his capital account.

Step 3: Prepare the account for the executors **Rohan's Capital Account as at 30 September 2023**

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Rohan's Executors' A/c	3,40,500	By Balance b/d	3,00,000
		By General Reserve A/c	3,000
		By Ram's Capital A/c	12,000
		By Ravi's Capital A/c	18,000
		By Profit and Loss Suspense A/c	7,500
Total	3,40,500	Total	3,40,500

The credit balance is transferred to the executors' account to close Rohan's capital account. It is a liability to his estate; the question does not state that payment has been made.

Step 4: Conclusion The amount due to Rohan's executors is $\boxed{\text{Rs } 3,40,500}$, comprising capital of Rs 3,00,000, reserve of Rs 3,000, goodwill of Rs 30,000 and profit up to death of Rs 7,500.

Quick Tip to Solve: Apply the six-month fraction only to the estimated annual profit, not to Rohan's reserve or goodwill entitlement.

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22. Ronit Ltd. was registered with an authorised capital of Rs. 75,00,000 divided into 75,000 equity shares of Rs. 100 each. The company invited applications for issuing 45,000 shares.

The amount was payable as follows: Rs. 30 per share on application, Rs. 30 per share on allotment, Rs. 25 per share on first call and balance on final call.

Applications were received for 42,000 shares and allotment was made to all the applicants. Charvi, to whom 3,300 shares were allotted, failed to pay both the calls. Her 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. [4 marks]

Solution:

Concept:

- Authorised capital is the maximum capital registered; issued capital is the face value offered for subscription; subscribed capital reflects shares actually taken up.
- Forfeiture cancels the defaulting holder's subscribed shares. The amount already received on those shares is shown as an addition under Share Capital until reissue.
- Share Capital is presented under Shareholders' Funds within Equity and Liabilities, with authorised, issued and subscribed details in a supporting note.

Step 1: Calculate the effect of forfeiture The final call is $100 - 30 - 30 - 25 = \text{Rs } 15$ per share. Both calls have been made, so the full face value of Rs 100 has been called up. Charvi paid application and allotment, totalling $30 + 30 = \text{Rs } 60$ per share, but did not pay the two calls totalling $25 + 15 = \text{Rs } 40$ per share.

$$\text{Calls unpaid on forfeited shares} = 3,300 \times 40 = \text{Rs } 1,32,000,$$
$$\text{Amount forfeited} = 3,300 \times 60 = \text{Rs } 1,98,000,$$
$$\text{Shares remaining subscribed} = 42,000 - 3,300 = 38,700,$$
$$\text{Fully paid subscribed capital} = 38,700 \times 100 = \text{Rs } 38,70,000.$$

Forfeiture removes Rs 3,30,000 of called-up capital and cancels the related unpaid calls. Therefore, calls in arrears are not deducted again from the capital of the remaining fully paid shares.

Step 2: Present Share Capital under the prescribed head **Ronit Ltd. – Balance Sheet (Extract)**

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	40,68,000

Step 3: Prepare the supporting note to accounts **Note 1: Share Capital**

Particulars	Amount (Rs)
Authorised Capital	
75,000 equity shares of Rs 100 each	75,00,000
Issued Capital	
45,000 equity shares of Rs 100 each	45,00,000
Subscribed and Fully Paid-up Capital	
38,700 equity shares of Rs 100 each	38,70,000
Add: Forfeited shares – amount originally paid on 3,300 shares	1,98,000
Total Share Capital	**40,68,000**

Issued capital remains based on the 45,000 shares offered, even though only 42,000 shares were subscribed originally. The 3,000 unsubscribed shares produce no paid-up capital. As no reissue is stated, the forfeited amount stays under Share Capital and is not transferred to Capital Reserve. A receipt check gives $42,000 \times 60 + 38,700 \times 40 = \text{Rs } 40,68,000$.

Step 4: Conclusion Share Capital in Ronit Ltd.'s Balance Sheet is $\boxed{\text{Rs } 40,68,000}$: Rs 38,70,000 fully paid subscribed capital plus Rs 1,98,000 received on forfeited shares.

Quick Tip to Solve: After forfeiture, remove all 3,300 shares from subscribed capital, then add back only the Rs 60 per share already received.

23(a). **Anikesh and Bhavesh are partners in a firm sharing profits in the ratio of 7:3. Their Balance Sheet as on 31st March, 2023 was as follows:**

Balance Sheet of Anikesh and Bhavesh as on 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	60,000	Cash	36,000
Outstanding wages	9,000	Debtors 54,000 Less: Provision for doubtful debts 6,000	48,000
General Reserve	15,000	Stock	60,000
Capitals: Anikesh 1,20,000 Bhavesh 1,80,000	3,00,000	Furniture	1,20,000
		Machinery	1,20,000
	3,84,000		3,84,000

On 1st April, 2023 Chahat was admitted for 1/4th share in the profits on the following terms:

(i) Chahat will bring Rs. 90,000 as her capital and Rs. 30,000 as her share of Goodwill premium.

(ii) Outstanding wages will be paid.

(iii) Stock will be reduced by 10%.

(iv) A creditor of Rs. 6,300, not recorded in the books, was to be taken into account.

Pass necessary Journal Entries for the above transactions in the books of the firm. [6 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit or loss belong to the old partners and are transferred in their old profit-sharing ratio, here $7:3$.
- Premium for goodwill compensates sacrificing partners. Since no different sacrifice is specified, Anikesh and Bhavesh sacrifice in $7:3$, the ratio used to distribute Chahat's premium.
- Paying an already recorded liability reduces cash and that liability equally; it does not create a revaluation loss. A fall in stock and an unrecorded creditor are revaluation losses.

Step 1: Work out reserves, goodwill and revaluation adjustments General Reserve of Rs 15,000 is divided as Rs 10,500 to Anikesh and Rs 4,500 to Bhavesh. Chahat brings Rs $90,000 + 30,000 = 1,20,000$. Her goodwill premium is credited to Anikesh and Bhavesh as Rs $30,000 \times 7/10 = 21,000$ and Rs $30,000 \times 3/10 = 9,000$, respectively. No withdrawal of the premium is specified.

Reduction in stock $= 60,000 \times 10\% =$ Rs $6,000$. The unrecorded creditor adds a loss of Rs 6,300. Thus total revaluation loss is Rs $6,000 + 6,300 = 12,300$, shared as Rs 8,610 and Rs 3,690. Outstanding wages of Rs 9,000 are paid at their recorded amount and do not enter Revaluation Account.

Step 2: Record the reserve transfer and Chahat's admission Journal of Anikesh, Bhavesh and Chahat

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2023	General Reserve A/c Dr.		15,000	
	To Anikesh's Capital A/c			10,500
	To Bhavesh's Capital A/c			4,500
	(Being reserve distributed in the old ratio of 7:3)			
1 Apr. 2023	Cash A/c Dr.		1,20,000	
	To Chahat's Capital A/c			90,000
	To Premium for Goodwill A/c			30,000
	(Being capital and goodwill premium brought by Chahat)			
1 Apr. 2023	Premium for Goodwill A/c Dr.		30,000	
	To Anikesh's Capital A/c			21,000
	To Bhavesh's Capital A/c			9,000
	(Being premium distributed in the sacrificing ratio of 7:3)			

Step 3: Record payment and revaluation adjustments Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2023	Outstanding Wages A/c Dr.		9,000	
	To Cash A/c			9,000
	(Being outstanding wages paid)			
1 Apr. 2023	Revaluation A/c Dr.		6,000	
	To Stock A/c			6,000
	(Being stock reduced by 10%)			
1 Apr. 2023	Revaluation A/c Dr.		6,300	
	To Creditors A/c			6,300
	(Being an unrecorded creditor recognised)			
1 Apr. 2023	Anikesh's Capital A/c Dr.		8,610	
	Bhavesh's Capital A/c Dr.		3,690	
	To Revaluation A/c			12,300
	(Being revaluation loss transferred in the old ratio of 7:3)			

Step 4: Conclusion The required journal entries are shown above. Revaluation loss is Rs 12,300, debited to Anikesh and Bhavesh as Rs 8,610 and Rs 3,690; the Rs 30,000 goodwill premium is credited to them as Rs 21,000 and Rs 9,000.

Quick Tip to Solve: Keep payment of the recorded Rs 9,000 wages outside Revaluation Account; only the stock reduction and unrecorded creditor create the Rs 12,300 loss.

OR

23(b). **Prina, Qadir and Kian were partners in a firm sharing profits in the ratio of 7:2:1. On 31st March, 2023 their Balance Sheet was as follows:**

Balance Sheet of Prina, Qadir and Kian as on 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals: Prina 9,60,000 Qadir 8,40,000 Kian 9,00,000	27,00,000	Land	12,00,000
General Reserve	3,00,000	Building	9,00,000
Workmen's compensation Reserve	5,40,000	Furniture	3,60,000
Creditors	3,60,000	Stock	6,60,000
		Debtors 6,00,000 Less: Provision for doubtful debts 30,000	5,70,000
		Cash at Bank	2,10,000
	39,00,000		39,00,000

On the above date Qadir retired. Following was agreed:

(i) Goodwill of the firm was valued at Rs. 12,00,000.

(ii) Land was to be appreciated by 30% and building was to be depreciated by Rs. 3,54,000.

(iii) A provision of 6% is to be maintained on debtors.

(iv) Liability for workmen's compensation was determined at Rs. 1,40,000.

(v) Amount payable to Qadir was transferred to his loan account.

(vi) Total capital of the new firm was fixed at Rs. 16,00,000 which will be adjusted according to their new profit ratio by opening current accounts.

Prepare Revaluation Account and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- On retirement, reserves and revaluation profit or loss are distributed among all existing partners in their old ratio, here $7:2:1$. Only the excess of Workmen's Compensation Reserve over the determined claim is available for distribution.
- A retiring partner's goodwill entitlement is borne by continuing partners in their gaining ratio. With no different arrangement stated, Prina and Kian continue in $7:1$, also their gaining ratio.
- Capital is fixed in the new profit-sharing ratio. When adjustment is through current accounts, excess adjusted capital is credited to the partner's Current Account and a deficiency is debited to it; no cash is introduced or withdrawn.

Step 1: Calculate the revaluation adjustments Increase in land $=$ Rs $12,00,000 \times 30\% =$ Rs $3,60,000$. The reduction in building is Rs 3,54,000. Required provision for doubtful debts is Rs $6,00,000 \times 6\% =$

Rs $36,000$. As Rs 30,000 is already provided, only the additional Rs 6,000 is debited to Revaluation Account.

Workmen's Compensation Reserve is Rs 5,40,000, against a determined liability of Rs 1,40,000. The liability is met by retaining this amount from the reserve; the surplus Rs 4,00,000 is distributed in $7:2:1$. It creates no revaluation expense because the available reserve covers the claim.

Step 2: Prepare Revaluation Account Revaluation Account

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Building A/c	3,54,000	By Land A/c	3,60,000
To Provision for Doubtful Debts A/c	6,000		
Total	3,60,000	Total	3,60,000

Debits and credits are equal, so revaluation profit or loss is nil. No balance is transferred to the partners' capital accounts.

Step 3: Work out reserves, goodwill and Qadir's entitlement General Reserve of Rs 3,00,000 is credited to Prina, Qadir and Kian as Rs 2,10,000, Rs 60,000 and Rs 30,000. The surplus Workmen's Compensation Reserve of Rs 4,00,000 is credited as Rs 2,80,000, Rs 80,000 and Rs 40,000.

Qadir's goodwill entitlement is Rs $12,00,000 \times 2/10 =$ Rs $2,40,000$. Prina's gain is $7/8 - 7/10 = 7/40$ and Kian's gain is $1/8 - 1/10 = 1/40$. Therefore, debit their capital accounts by Rs $2,40,000 \times 7/8 = 2,10,000$ and Rs $2,40,000 \times 1/8 = 30,000$, and credit Qadir's Capital Account by Rs 2,40,000. Goodwill is adjusted through capitals without raising a goodwill asset.

The amount due to Qadir is Rs $8,40,000 + 60,000 + 80,000 + 2,40,000 = 12,20,000$; transfer it to Qadir's Loan Account.

Step 4: Determine fixed capitals and current-account adjustments Prina's adjusted capital is Rs $9,60,000 + 2,10,000 + 2,80,000 - 2,10,000 = 12,40,000$. Kian's adjusted capital is Rs $9,00,000 + 30,000 + 40,000 - 30,000 = 9,40,000$.

Required capitals out of Rs 16,00,000 are Prina: $16,00,000 \times 7/8 =$ Rs $14,00,000$, and Kian: $16,00,000 \times 1/8 =$ Rs $2,00,000$. Prina has a deficiency of Rs 1,60,000: debit her Current Account and credit her Capital Account. Kian has an excess of Rs 7,40,000: debit his Capital Account and credit his Current Account.

Step 5: Prepare Partners' Capital Accounts Partners' Capital Accounts

Dr. Cr.

Particulars	Prina Rs	Qadir Rs	Kian Rs	Particulars	Prina Rs	Qadir Rs	Kian Rs
To Qadir's Capital A/c	2,10,000	–	30,000	By Balance b/d	9,60,000	8,40,000	9,00,000
To Qadir's Loan A/c	–	12,20,000	–	By General Reserve A/c	2,10,000	60,000	30,000
To Current A/c	–	–	7,40,000	By Workmen's Compensation Reserve A/c	2,80,000	80,000	40,000
To Balance c/d	14,00,000	–	2,00,000	By Prina's Capital A/c	–	2,10,000	–
				By Kian's Capital A/c	–	30,000	–
				By Current A/c	1,60,000	–	–
Total	16,10,000	12,20,000	9,70,000	Total	16,10,000	12,20,000	9,70,000

Each partner's account balances separately. Qadir's Capital Account closes after the loan transfer. The continuing partners' closing fixed capitals total Rs 16,00,000.

Step 6: Conclusion Revaluation profit or loss is nil. Qadir's Loan Account is credited with Rs 12,20,000. Prina's and Kian's fixed capitals are Rs 14,00,000 and Rs 2,00,000; their Current Accounts have a debit of Rs 1,60,000 and a credit of Rs 7,40,000, respectively.

Quick Tip to Solve: Increase the debtors' provision by only Rs 6,000, and distribute only Rs 4,00,000 of the compensation reserve after retaining the Rs 1,40,000 claim.

24(a). Lazal Ltd. invited applications for issuing 2,00,000 equity shares of Rs. 10 each, at 20% premium. Amount per share was payable as follows: Rs. 5 on application; Rs. 4 (including premium) on allotment; and balance on first and final call. Public applied for 3,20,000 shares, out of which applications for 20,000 shares were rejected and shares were allotted on pro-rata basis to the remaining applications. Kavita, an applicant of 15,000 shares failed to pay allotment and call money. Her shares were forfeited.

Pass necessary Journal entries for the above transactions in the books of the company. [6 marks]

Solution:

Concept:

- For pro-rata allotment, shares allotted equal shares applied for multiplied by the ratio of shares issued to eligible applications. Rejected application money is refunded; excess money of accepted applicants is adjusted towards allotment.
- On forfeiture, debit Share Capital with the called-up nominal capital, debit Securities Premium Reserve only for premium not received, and credit Share Forfeiture with capital already received.

Step 1: Calculate the issue amounts and pro-rata ratio **Working Notes**

The issue price is Rs $10 + 20\% \times 10 = 12$. Allotment comprises Rs 2 capital and Rs 2 premium; the

first and final call is Rs $12 - 5 - 4 = 3$ per share.

$$\text{Allotment ratio} = \frac{2,00,000}{3,20,000 - 20,000} = \frac{2}{3}.$$

Application receipts are Rs $3,20,000 \times 5 = 16,00,000$. Refunds are Rs $20,000 \times 5 = 1,00,000$. Application capital is Rs $2,00,000 \times 5 = 10,00,000$, leaving Rs $5,00,000$ to adjust towards allotment. Allotment due is Rs $2,00,000 \times 4 = 8,00,000$, including premium of Rs $4,00,000$.

Step 2: Determine Kavita's arrears and capital received Kavita receives $15,000 \times 2/3 = 10,000$ shares. She paid Rs $15,000 \times 5 = 75,000$ on application, of which Rs $50,000$ is application capital and Rs $25,000$ is excess. The excess first covers allotment capital of Rs $10,000 \times 2 = 20,000$; the remaining Rs $5,000$ covers part of the premium. Thus unpaid premium is Rs $20,000 - 5,000 = 15,000$, which is also her net allotment arrear.

$$\begin{aligned}\text{Allotment cash received} &= 8,00,000 - 5,00,000 - 15,000\\ &= \text{Rs } 2,85,000,\\ \text{Kavita's call arrear} &= 10,000 \times 3 = \text{Rs } 30,000,\\ \text{Call cash received} &= 6,00,000 - 30,000 = \text{Rs } 5,70,000.\end{aligned}$$

Capital received on her shares is Rs $50,000 + 20,000 = 70,000$. The premium of Rs $5,000$ already received is retained in Securities Premium Reserve; only the unpaid Rs $15,000$ is reversed.

Step 3: Record application and allotment due **Journal of Lazal Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		16,00,000	
	To Share Application A/c			16,00,000
	(Being application money received on 3,20,000 shares at Rs 5 each)			
	Share Application A/c Dr.		16,00,000	
	To Share Capital A/c			10,00,000
	To Share Allotment A/c			5,00,000
	To Bank A/c			1,00,000
	(Being application money transferred, excess adjusted towards allotment and rejected applications refunded)			
	Share Allotment A/c Dr.		8,00,000	
	To Share Capital A/c			4,00,000
	To Securities Premium Reserve A/c			4,00,000
	(Being allotment money due on 2,00,000 shares at Rs 4 each, including premium of Rs 2)			

Step 4: Record receipts, call and forfeiture **Journal of Lazal Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,85,000	
	To Share Allotment A/c			2,85,000
	(Being allotment money received after excess adjustment, except Rs 15,000 due from Kavita)			
	Share First and Final Call A/c Dr.		6,00,000	
	To Share Capital A/c			6,00,000
	(Being first and final call due on 2,00,000 shares at Rs 3 each)			
	Bank A/c Dr.		5,70,000	
	To Share First and Final Call A/c			5,70,000
	(Being call money received except Rs 30,000 due from Kavita)			
	Share Capital A/c Dr.		1,00,000	
	Securities Premium Reserve A/c Dr.		15,000	
	To Share Allotment A/c			15,000
	To Share First and Final Call A/c			30,000
	To Share Forfeiture A/c			70,000
	(Being Kavita's 10,000 fully called shares forfeited for non-payment of allotment and call money; unpaid premium reversed)			

Step 5: Conclusion Kavita's 10,000 shares are forfeited. Share Forfeiture is credited with Rs $70,000$, and unpaid securities premium of Rs $15,000$ is reversed. The forfeiture entry balances at Rs $1,15,000$ on each side.

Quick Tip to Solve: For Kavita, split the Rs 25,000 excess into Rs 20,000 allotment capital and Rs 5,000 premium before calculating forfeiture. Do not reverse premium already received.

OR

24(b). Chand Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The amount per share was payable as follows: Rs. 4 (including premium) on application, Rs. 5 on allotment and balance on first and final call. Applications were received for 1,80,000 shares of which applications for 30,000 shares were rejected and remaining applicants were allotted shares on pro-rata basis. Mansi holding 5,000 shares failed to pay first and final call money and her shares were forfeited.

Pass necessary Journal entries for the above transactions in the books of the company. [6 marks]

Solution:

Concept:

- Application money received on rejected shares is refunded. For accepted applications, transfer only the amount due on allotted shares to capital and premium; adjust the remaining application money towards allotment.
- On forfeiture, Share Capital is debited with nominal capital called up and Share Forfeiture is credited with capital received. Securities premium already received is not reversed.

Step 1: Compute the instalments and application adjustment **Working Notes**

Issue price per share is Rs $10 + 2 = 12$. Application of Rs 4 consists of Rs 2 capital and Rs 2 premium. Allotment is Rs 5 capital, so the final call is Rs $12 - 4 - 5 = 3$ per share.

$$\text{Allotment ratio} = \frac{1,00,000}{1,80,000 - 30,000} = \frac{2}{3}.$$

Application receipts are Rs $1,80,000 \times 4 = 7,20,000$. Refunds to rejected applicants are Rs $30,000 \times 4 = 1,20,000$. The accepted application money is Rs $6,00,000$. Of this, Rs $1,00,000 \times 2 = 2,00,000$ is capital and an equal amount is securities premium. The remaining Rs $2,00,000$ is adjusted towards allotment. Allotment due is Rs $1,00,000 \times 5 = 5,00,000$, and cash received is Rs $5,00,000 - 2,00,000 = 3,00,000$.

Step 2: Calculate Mansi's unpaid call and forfeiture amount Mansi holds 5,000 allotted shares; she therefore applied for $5,000 \times 3/2 = 7,500$ shares and paid Rs $7,500 \times 4 = 30,000$ on application. This covers application capital of Rs $10,000$, premium of Rs $10,000$, and excess of Rs $10,000$. The excess reduces her allotment payment from Rs $25,000$ to Rs $15,000$, which she paid.

$$\begin{aligned}
\text{Mansi's unpaid call} &= 5,000 \times 3 = \text{Rs } 15,000,\\
\text{Total call due} &= 1,00,000 \times 3 = \text{Rs } 3,00,000,\\
\text{Call receipts} &= 3,00,000 - 15,000 = \text{Rs } 2,85,000,\\
\text{Capital received on her shares} &= 5,000 \times (2+5)\\
&= \text{Rs } 35,000.
\end{aligned}$$

Her total receipts of Rs $30,000 + 15,000 = 45,000$ include Rs $10,000$ premium, so only Rs $35,000$ goes to Share Forfeiture. All securities premium was received on application and remains credited.

Step 3: Record application and allotment due **Journal of Chand Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		7,20,000	
	To Share Application A/c			7,20,000
	(Being application money received on 1,80,000 shares at Rs 4 each)			
	Share Application A/c Dr.		7,20,000	
	To Share Capital A/c			2,00,000
	To Securities Premium Reserve A/c			2,00,000
	To Share Allotment A/c			2,00,000
	To Bank A/c			1,20,000
	(Being application money transferred including premium, excess adjusted towards allotment and rejected applications refunded)			
	Share Allotment A/c Dr.		5,00,000	
	To Share Capital A/c			5,00,000
	(Being allotment money due on 1,00,000 shares at Rs 5 each)			

Step 4: Record receipts, call and forfeiture **Journal of Chand Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,00,000	
	To Share Allotment A/c			3,00,000
	(Being allotment money received after adjusting excess application money of Rs 2,00,000)			
	Share First and Final Call A/c Dr.		3,00,000	
	To Share Capital A/c			3,00,000
	(Being first and final call due on 1,00,000 shares at Rs 3 each)			
	Bank A/c Dr.		2,85,000	
	To Share First and Final Call A/c			2,85,000
	(Being call money received except Rs 15,000 due on Mansi's 5,000 shares)			
	Share Capital A/c Dr.		50,000	
	To Share First and Final Call A/c			15,000
	To Share Forfeiture A/c			35,000
	(Being Mansi's 5,000 fully called shares forfeited for non-payment of the first and final call)			

Step 5: Conclusion Mansi's 5,000 shares are forfeited by debiting Share Capital Rs $50,000$ and crediting Share First and Final Call Rs $15,000$ and Share Forfeiture Rs $35,000$. Securities Premium Reserve remains unchanged.

Quick Tip to Solve: Mansi holds 5,000 shares; do not apply the pro-rata ratio to this holding again. Exclude the Rs 2 premium received per allotted share from the forfeiture credit.

25. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Mohit and Rohit after the various assets (other than cash and bank) and the third party liabilities have been transferred to realisation account:

(i) A machine which was not recorded in the books was taken over by Mohit at Rs. 7,000; whereas its expected value was Rs. 10,000.

(ii) Rohit's loan of Rs. 15,000 was settled at Rs. 13,500.

(iii) The firm had investments of Rs. 1,00,000. Mohit took over 50% of the investments at a discount of 10%, while the remaining investments were sold off for Rs. 60,000.

(iv) Realisation expenses amounted to Rs. 23,000.

(v) Sundry creditors amounting to Rs. 45,000 were settled at a discount of Rs. 2,000.

(vi) Loss on realisation Rs. 12,000 was divided between the partners in their profit sharing ratio.

[6 marks]

Solution:

Concept:

- Once assets and outside liabilities have been transferred, their disposal or settlement is recorded through Realisation Account. A partner's loan remains in its own account until settled.
- An unrecorded asset taken by a partner is debited to that partner's capital at the agreed value and credited to Realisation Account. Realisation loss is debited to partners' capitals in their

profit-sharing ratio.

Step 1: Record the unrecorded machine and the loan settlement The machine is recorded at the agreed takeover value of Rs 7,000; its expected value of Rs 10,000 does not create a separate entry. Rohit's Loan Account is cleared by debiting its full balance of Rs 15,000. The concession of Rs 1,500 is credited to Realisation Account.

Journal of Mohit and Rohit

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Mohit's Capital A/c Dr. To Realisation A/c (Being unrecorded machine taken over by Mohit at the agreed value)		7,000	 7,000
	Rohit's Loan A/c Dr. To Bank A/c To Realisation A/c (Being partner's loan settled at a concession of Rs 1,500)		15,000	 13,500 1,500

Step 2: Record the investments disposed of in two ways **Working Notes:** Mohit's half of the investments has book value $1,00,000 \times 50\% =$ Rs $50,000$. His capital is debited with $50,000 \times 90\% =$ Rs $45,000$. The other half brings actual cash of Rs 60,000. Since Investments Account has already been transferred, both amounts are credited directly to Realisation Account.

Journal of Mohit and Rohit (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Mohit's Capital A/c Dr. Bank A/c Dr. To Realisation A/c (Being half the investments taken over by Mohit at 10% discount and the rest sold)		45,000 60,000	 1,05,000

Step 3: Record expenses and payment to creditors Realisation expenses are a cost of dissolution. Creditors receive $45,000 - 2,000 =$ Rs $43,000$. Their account has already been transferred, so debit Realisation Account only with the payment; the discount is reflected automatically in its balance.

Journal of Mohit and Rohit (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being realisation expenses paid)		23,000	 23,000
	Realisation A/c Dr. To Bank A/c (Being creditors of Rs 45,000 settled at a discount of Rs 2,000)		43,000	 43,000

Step 4: Transfer the given realisation loss No numerical profit-sharing ratio is stated. In the absence of an agreed ratio, profits and losses are shared equally, so each partner bears $12,000/2 =$ Rs $6,000$. If an agreed ratio is available, this same entry uses the two shares of Rs 12,000 in that ratio.

Journal of Mohit and Rohit (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Mohit's Capital A/c Dr.		6,000	
	Rohit's Capital A/c Dr.		6,000	
	To Realisation A/c			12,000
	(Being realisation loss transferred equally to partners' capital accounts)			

Step 5: Conclusion The entries record the machine at Rs 7,000, settle the loan for Rs 13,500, realise investments for Rs 1,05,000, pay expenses of Rs 23,000 and creditors Rs 43,000, and transfer the given Rs 12,000 loss to the partners.

Quick Tip to Solve: After the initial transfers, use Realisation Account for asset proceeds and outside-liability payments, but debit a partner's loan separately when settling it.

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26. Pass necessary journal entries relating to issue of debentures and to write off discount/loss on issue of debentures in the books of Srijan Ltd. in the following cases:

(i) 900, 6% debentures of Rs. 1,000 each are issued at 5% discount and redeemable at par. Balance in Securities Premium account is Rs. 50,000.

(ii) 700, 8% debentures of Rs. 1,000 each are issued at 10% discount and redeemable at a premium of 10%. Balance in Securities Premium account is Rs. 1,00,000. [6 marks]

Solution:

Concept:

- Debentures Account is credited with the total face value. Bank is debited with the issue proceeds. Discount on issue is a capital loss, and premium payable on redemption is credited to a separate liability account.
- Loss on issue equals discount on issue plus premium on redemption. Available Securities Premium is used to write off the loss; the uncovered balance is charged to Statement of Profit and Loss.

Step 1: Calculate the amounts for case (i) **Working Notes:** The interest rate of 6% identifies the debentures; it is not used to calculate the issue discount. Face value, proceeds and discount are:

$$\text{Face value} = 900 \times 1,000 = \text{Rs } 9,00,000,$$
$$\text{Discount} = 9,00,000 \times 5\% = \text{Rs } 45,000,$$
$$\text{Bank proceeds} = 9,00,000 - 45,000 = \text{Rs } 8,55,000.$$

Redemption is at par, so there is no premium on redemption. Securities Premium of Rs 50,000 is sufficient to write off the entire Rs 45,000 discount, leaving Rs 5,000 in that account.

Step 2: Journalise the issue and write-off in case (i) **Journal of Srijan Ltd. – Case (i)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		8,55,000	
	Discount on Issue of Debentures A/c Dr.		45,000	
	To 6% Debentures A/c			9,00,000
	(Being 900 debentures of Rs 1,000 issued at 5% discount, redeemable at par)			
	Securities Premium A/c Dr.		45,000	
	To Discount on Issue of Debentures A/c			45,000
	(Being discount on issue written off against Securities Premium)			

The first entry balances because Rs 8,55,000 plus Rs 45,000 equals the debentures' face value of Rs 9,00,000.

Step 3: Calculate the amounts for case (ii) Treat the cases independently, using the stated Securities Premium balance for each. In case (ii), both the discount and the redemption premium are calculated on face value:

$$\begin{aligned}\text{Face value} &= 700 \times 1,000 = \text{Rs } 7,00,000,\\ \text{Discount} &= 7,00,000 \times 10\% = \text{Rs } 70,000,\\ \text{Bank proceeds} &= 7,00,000 - 70,000 = \text{Rs } 6,30,000,\\ \text{Redemption premium} &= 7,00,000 \times 10\% = \text{Rs } 70,000,\\ \text{Loss on issue} &= 70,000 + 70,000 = \text{Rs } 1,40,000.\end{aligned}$$

Securities Premium absorbs Rs 1,00,000. The remaining $1,40,000 - 1,00,000 = \text{Rs } 40,000$ is written off through Statement of Profit and Loss.

Step 4: Journalise the issue and write-off in case (ii) **Journal of Srijan Ltd. – Case (ii)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		6,30,000	
	Loss on Issue of Debentures A/c Dr.		1,40,000	
	To 8% Debentures A/c			7,00,000
	To Premium on Redemption of Debentures A/c			70,000
	(Being 700 debentures of Rs 1,000 issued at 10% discount, redeemable at 10% premium)			
	Securities Premium A/c Dr.		1,00,000	
	Statement of Profit and Loss Dr.		40,000	
	To Loss on Issue of Debentures A/c			1,40,000
	(Being loss on issue written off against Securities Premium and Statement of Profit and Loss)			

The issue entry totals Rs 7,70,000 on each side. Writing off the loss does not extinguish the redemption-premium liability, which remains payable when debentures are redeemed.

Step 5: Conclusion In case (i), discount of Rs 45,000 is fully written off against Securities Premium. In case (ii), loss of Rs 1,40,000 is written off using Securities Premium of Rs 1,00,000 and Statement of Profit and Loss of Rs 40,000.

Quick Tip to Solve: Calculate both discount and redemption premium on face value, add them to find the loss, then compare that loss with the available Securities Premium.

Part B (20 marks)

OPTION – I

(Analysis of Financial Statements)

27(a). Statement I: Financing activities relate to long term funds or capital of an enterprise.

Statement II: Separate disclosure of cash flows arising from financing activities is important because they represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.

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

(A) Both Statement I and Statement II are correct.

(B) Both Statement I and Statement II are incorrect.

(C) Statement I is incorrect and Statement II is correct.

(D) Statement I is correct and Statement II is incorrect.

Correct Answer: (D) Statement I is correct and Statement II is incorrect.

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings; their cash flows help predict claims on future cash flows by providers of funds.
- Investing activities concern acquisition and disposal of long-term assets and investments other than cash equivalents. Their disclosure shows expenditure on resources expected to generate future income and cash flows.

Step 1: Evaluate Statement I Statement I is correct: financing activities relate to the enterprise's long-term funds or capital. For example, proceeds from issuing shares or debentures and repayments of long-term borrowings are financing cash flows.

Step 2: Evaluate Statement II and compare the options Statement II is incorrect because its stated purpose describes investing cash flows. Buying plant creates a resource intended to produce future income; raising a loan instead changes the financing of the enterprise. Thus (A) incorrectly accepts Statement II, (B) incorrectly rejects Statement I, and (C) reverses the two truth values. Only (D) gives correct I and incorrect II.

Step 3: Conclusion Statement I is correct and Statement II is incorrect. Hence, the correct option is (D).

Quick Tip to Solve: Link raising or repaying capital to financing, and spending on future income-producing assets to investing.

OR

27(b). What will be the effect of transaction 'Payment of employee benefit expenses' on the cash flow statement? [1 mark]

(A) Outflow from operating activities.

(B) Outflow from investing activities.

(C) Outflow from financing activities.

(D) No effect on cash flow.

Correct Answer: (A) Outflow from operating activities.

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise and other activities that are neither investing nor financing.
- Cash paid to employees for their services is an operating payment; a payment reduces cash and is therefore an outflow.

Step 1: Identify the nature of the expense Employee benefit expenses, such as salaries and wages, arise from employing staff in the normal operations of the business. Their payment belongs to operating activities.

Step 2: Check the alternatives The transaction does not acquire or dispose of a long-term asset, so it is not investing. It does not change share capital or borrowings, so it is not financing. Because cash is actually paid, the no-effect alternative is also incorrect.

Step 3: Conclusion Payment of employee benefit expenses causes an outflow from operating activities. Hence, the correct option is (A).

Quick Tip to Solve: For salaries or employee benefits actually paid, identify the cash movement as an operating outflow.

28.

	Purchased (Rs.)	Sold (Rs.)
Investments	**2,00,000**	**1,80,000**
Goodwill	**3,00,000**	**—**

From the above information, 'Cash flows from investing activities' will be: [1 mark]

(A) Inflow Rs. 3,20,000

(B) Outflow Rs. 3,20,000

(C) Outflow Rs. 20,000

(D) Inflow Rs. 20,000

Correct Answer: (B) Outflow Rs. 3,20,000

Solution:

Concept:

- Cash purchases and sales of investments are investing cash flows, unless the investments are cash equivalents or held for dealing.
- Purchase of goodwill is acquisition of an intangible non-current asset and is an investing outflow; net cash flow equals receipts less payments.

Step 1: Classify the three cash movements Investment purchases cause an outflow of Rs 2,00,000, investment sales cause an inflow of Rs 1,80,000, and goodwill purchases cause an outflow of Rs 3,00,000. There is no sale receipt for goodwill.

Step 2: Calculate the net investing cash flow

$$\begin{aligned}\text{Net investing cash flow} &= 1,80,000 - 2,00,000 - 3,00,000 \\ &= -3,20,000.\end{aligned}$$

The negative sign denotes an outflow. Rs 20,000 would count only investments and omit the purchase of goodwill; a positive Rs 3,20,000 would reverse the direction of the net payment.

Step 3: Conclusion Net cash used in investing activities is Rs 3,20,000. Hence, the correct option is (B).

Quick Tip to Solve: Include goodwill purchases with investing payments; do not stop after netting the investment purchases and sales.

29(a). The tool of 'Analysis of Financial Statements' which helps to assess the profitability, solvency and efficiency of an enterprise is known as: [1 mark]

(A) Cash flow statement

(B) Comparative statement

(C) Common size statement

(D) Ratio analysis

Correct Answer: (D) Ratio analysis

Solution:

Concept:

- Ratio analysis studies meaningful relationships between financial statement figures to assess business performance and financial position.
- Profitability ratios assess earnings, solvency ratios assess long-term financial stability, and activity ratios assess efficiency in using resources.

Step 1: Identify the tool covering all three objectives Profitability, solvency and efficiency correspond to recognised classes of accounting ratios. Their joint assessment is therefore associated with ratio analysis.

Step 2: Distinguish the other tools A cash flow statement explains cash receipts and payments. Comparative statements show changes in figures between periods, while common size statements express figures as percentages of a common base. Although these tools aid analysis, the named classification of profitability, solvency and efficiency directly identifies ratio analysis.

Step 3: Conclusion The tool is Ratio analysis. Hence, the correct option is (D).

Quick Tip to Solve: When a question groups profitability, solvency and efficiency together, connect them with the corresponding classes of ratios.

OR

29(b). _____ is also known as the Acid Test Ratio. [1 mark]

(A) Current ratio

(B) Quick ratio

(C) Gross profit ratio

(D) Return on investment ratio

Correct Answer: (B) Quick ratio

Solution:

Concept:

- The acid test ratio measures the ability to meet current liabilities using assets readily convertible into cash.
- Quick ratio $= \dfrac{\text{Quick assets}}{\text{Current liabilities}}$, where quick assets are current assets excluding inventory and

prepaid expenses.

Step 1: Recognise the liquidity test Inventory may need time to sell and prepaid expenses cannot be used to pay liabilities. Excluding these items gives a stricter short-term liquidity test, called the quick ratio or acid test ratio.

Step 2: Eliminate the other names The current ratio includes all current assets and is a broader liquidity measure. Gross profit ratio measures gross profit relative to revenue, and return on investment measures profitability relative to capital employed. Neither profitability ratio is the acid test.

Step 3: Conclusion Quick ratio is also known as the Acid Test Ratio. Hence, the correct option is (B).

Quick Tip to Solve: Remember that the acid test excludes inventory and prepaid expenses: this identifies the quick ratio.

30. Quick ratio of Megamart Ltd. is 1.5:1. Which of the following transactions will result in decrease in this ratio? [1 mark]

(A) Sale of goods costing Rs. 10,000 for Rs. 12,000.

(B) Cash collected from trade receivables Rs. 41,000.

(C) Purchase of goods for cash Rs. 38,000.

(D) Creditors were paid Rs. 11,000.

Correct Answer: (C) Purchase of goods for cash Rs. 38,000.

Solution:

Concept:

- Quick ratio $=$ Quick assets/Current liabilities. Inventory is excluded from quick assets, whereas cash and trade receivables are included.
- Initially, if current liabilities are L, quick assets are $1.5L$; assess each transaction by its effect on both quantities.

Step 1: Test the sale and collection alternatives (A) A sale of inventory for Rs 12,000 increases cash or trade receivables, both quick assets. The inventory cost does not enter quick assets, so this increases the ratio. (B) Collecting Rs 41,000 from receivables merely exchanges one quick asset for another and leaves the ratio unchanged.

Step 2: Test cash purchases and payment of creditors (C) A cash purchase of inventory reduces quick assets by Rs 38,000 and leaves current liabilities unchanged; the purchased inventory is excluded. (D) Paying creditors reduces both quick assets and current liabilities by Rs 11,000. As the original ratio exceeds one, this increases it:

$$\frac{1.5L - 11,000}{L - 11,000} = 1.5 + \frac{5,500}{L - 11,000} > 1.5$$

for a positive remaining liability balance.

Step 3: Conclusion Purchase of goods for cash of Rs 38,000 decreases the quick ratio. Hence, the correct option is (C).

Quick Tip to Solve: For a quick ratio above one, paying a current liability raises the ratio; buying inventory for cash lowers it.

31. Under which Major Heads and Sub-Heads (if any) will the following items be presented in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013?

(i) Capital Advances

(ii) Income received in Advance

(iii) Stores and Spare Parts [3 marks]

Solution:

Concept:

- Schedule III groups assets into non-current and current assets, and liabilities into non-current and current liabilities.
- Classification follows the nature of the item: capital advances relate to fixed assets, income received in advance is an obligation, and stores and spares are inventories.

Step 1: Classify capital advances Capital advances are amounts paid towards the acquisition of non-current assets before the assets are received. They are presented under the major head Non-current Assets and the sub-head Long-term Loans and Advances. They are not an expense of the current period and are not included in trade receivables.

Step 2: Classify income received in advance Income received in advance is money received before the enterprise has earned the related income. It creates an obligation to supply the related goods or services and is presented under the major head Current Liabilities and the sub-head Other Current Liabilities. It is not added to revenue merely because cash has been collected.

Step 3: Classify stores and spare parts Stores and spare parts form part of inventories under the standard classification asked here. They are presented under the major head Current Assets and the sub-head Inventories, rather than under cash or trade receivables.

Step 4: Conclusion The required Balance Sheet classification is:

Balance Sheet classification (Schedule III)

Item	Major Head	Sub-Head
Capital Advances	Non-current Assets	Long-term Loans and Advances
Income received in Advance	Current Liabilities	Other Current Liabilities
Stores and Spare Parts	Current Assets	Inventories

Quick Tip to Solve: Separate an advance paid for a capital asset from income received before earning it: the first is an asset and the second a liability.

32. The average inventory of AB Ltd. is Rs. 1,00,000 and the inventory turnover ratio is 6 times. Calculate the amount of revenue from operations if goods are sold at a profit of 25% on revenue from operations. [3 marks]

Solution:

Concept:

- Inventory turnover ratio $= \dfrac{\text{Cost of revenue from operations}}{\text{Average inventory}}$. It relates inventory to cost, not to the selling price.
- Revenue from operations $=$ Cost of revenue from operations $+$ Gross profit. A profit of 25% on revenue means cost is 75% of revenue.

Step 1: Find cost of revenue from operations The average inventory is Rs 1,00,000 and the inventory turnover ratio is 6 times. Rearranging the inventory turnover formula gives

$$\begin{aligned}\text{Cost of revenue from operations} &= \text{Average inventory} \times \text{Turnover ratio} \\ &= 1,00,000 \times 6 = \text{Rs } 6,00,000.\end{aligned}$$

This is the cost of the goods sold, not their total selling value.

Step 2: Convert cost into revenue Let revenue from operations be R. Profit is stated as a percentage of revenue, so gross profit is $0.25R$ and cost is $R - 0.25R = 0.75R$. Therefore,

$$\begin{aligned}0.75R &= 6,00,000, \\ R &= \frac{6,00,000}{0.75} = \text{Rs } 8,00,000.\end{aligned}$$

Adding 25% to cost would be incorrect because the stated percentage is based on revenue.

Step 3: Verify the result At revenue of Rs 8,00,000, gross profit is $25\% \times 8,00,000 = \text{Rs } 2,00,000$, leaving cost of Rs 6,00,000. This cost divided by average inventory of Rs 1,00,000 gives 6 times, matching the information in the question.

Step 4: Conclusion The revenue from operations of AB Ltd. is Rs 8,00,000.

Quick Tip to Solve: When profit is 25% of sales, divide cost by 75%; do not multiply cost by 125%.

33(a). Prepare a Common Size Balance Sheet of X Ltd. from the following information:

Balance Sheet of X Ltd. as on 31st March, 2023

Particulars	Note No.	31.3.2023 (Rs.)	31.3.2022 (Rs.)
I. Equity and Liabilities:			
1. Shareholders' funds			
(a) Equity Share Capital		30,00,000	15,00,000
(b) Reserves and Surplus		10,00,000	5,00,000
2. Non-current liabilities		20,00,000	20,00,000
3. Current liabilities		20,00,000	10,00,000
Total		80,00,000	50,00,000
II. Assets:			
1. Non-current assets		40,00,000	30,00,000
2. Current assets			
(a) Inventories		40,00,000	20,00,000
Total		80,00,000	50,00,000

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses each equity and liability item as a percentage of total equity and liabilities, and each asset as a percentage of total assets of the same year.
- Common size percentage $= \dfrac{\text{Individual item}}{\text{Balance sheet total}} \times 100$. Each side therefore has a total of 100%, enabling comparison of financial structure across years.

Step 1: Select the base and calculate the percentages **Working Notes**

The base for 2023 is Rs 80,00,000 and the base for 2022 is Rs 50,00,000. The year-specific total must be used for every item; the change between the years is not the denominator.

$$\text{2023 share capital} = \frac{30,00,000}{80,00,000} \times 100 = 37.50\%,$$

$$\text{2023 reserves} = \frac{10,00,000}{80,00,000} \times 100 = 12.50\%,$$

$$\text{2023 non-current liabilities} = \frac{20,00,000}{80,00,000} \times 100 = 25.00\%,$$

$$\text{2022 share capital} = \frac{15,00,000}{50,00,000} \times 100 = 30.00\%,$$

$$\text{2022 non-current assets} = \frac{30,00,000}{50,00,000} \times 100 = 60.00\%.$$

Calculate the remaining percentages in the same way. In 2023 both asset categories are Rs 40,00,000, so each is 50% of total assets. In 2022 inventories are 40% of total assets.

Step 2: Prepare the common size balance sheet **X Ltd. — Common Size Balance Sheet**
As at 31st March, 2023 and 31st March, 2022

Particulars	2023 (Rs)	2022 (Rs)	2023 (%)	2022 (%)
I. Equity and Liabilities				
1. Shareholders' funds				
(a) Equity share capital	30,00,000	15,00,000	37.50	30.00
(b) Reserves and surplus	10,00,000	5,00,000	12.50	10.00
Total shareholders' funds	40,00,000	20,00,000	50.00	40.00
2. Non-current liabilities	20,00,000	20,00,000	25.00	40.00
3. Current liabilities	20,00,000	10,00,000	25.00	20.00
Total	80,00,000	50,00,000	100.00	100.00
II. Assets				
1. Non-current assets	40,00,000	30,00,000	50.00	60.00
2. Current assets				
(a) Inventories	40,00,000	20,00,000	50.00	40.00
Total	80,00,000	50,00,000	100.00	100.00

The shareholders' funds subtotal is included for clarity; it is not added again to its two component amounts. Both sides total 100% separately in each year.

Step 3: Conclusion The common size balance sheet above shows shareholders' funds rising from 40% to 50% of total financing. Non-current assets fall from 60% to 50% of total assets, while inventories rise from 40% to 50%.

Quick Tip to Solve: Use Rs 80,00,000 as the 2023 denominator and Rs 50,00,000 as the 2022 denominator; check each side totals 100% without double-counting the shareholders' funds subtotal.

OR

33(b). From the following information prepare a Comparative Statement of Profit and Loss of Y Ltd:

Particulars	31.3.2023	31.3.2022
Revenue from operations (Rs.)	40,00,000	20,00,000
Purchase of stock in trade (Rs.)	24,00,000	12,00,000
Change in inventories (% of purchase of stock in trade)	25%	20%
Other expenses (Rs.)	2,00,000	1,60,000
Tax rate	40%	40%

[4 marks]

Solution:

Concept:

- A comparative statement shows the previous year and current year amounts, their absolute change and the percentage change based on the previous year.
- Absolute change $=$ Current year $-$ Previous year, and Percentage change $=\dfrac{\text{Absolute change}}{\text{Previous year}}\times 100$.

- Profit before tax equals revenue less total expenses. Tax is charged at the given rate on profit before tax, and profit after tax equals profit before tax less tax.

Step 1: Calculate inventory changes and profits for each year **Working Notes**

The stated change in inventories is a positive expense component. Calculate its amount using the purchases of the corresponding year, not revenue from operations.

$$\text{Inventory change, 2023} = 24,00,000 \times 25\% = \text{Rs } 6,00,000,$$
$$\text{Inventory change, 2022} = 12,00,000 \times 20\% = \text{Rs } 2,40,000.$$

Total expenses comprise purchases, the stated inventory change and other expenses:

$$\begin{aligned}\text{Expenses, 2023} &= 24,00,000 + 6,00,000 + 2,00,000\\ &= \text{Rs } 32,00,000,\\ \text{Expenses, 2022} &= 12,00,000 + 2,40,000 + 1,60,000\\ &= \text{Rs } 16,00,000,\\ \text{Profit before tax, 2023} &= 40,00,000 - 32,00,000 = \text{Rs } 8,00,000,\\ \text{Profit before tax, 2022} &= 20,00,000 - 16,00,000 = \text{Rs } 4,00,000.\end{aligned}$$

Tax at 40% is Rs 3,20,000 in 2023 and Rs 1,60,000 in 2022. Subtracting tax gives profit after tax of Rs 4,80,000 and Rs 2,40,000 respectively.

Step 2: Prepare the comparative statement with changes **Y Ltd. — Comparative Statement of Profit and Loss**

For the years ended 31st March, 2022 and 31st March, 2023

Particulars	2022 (Rs)	2023 (Rs)	Increase (Rs)	%
I. Revenue from operations	20,00,000	40,00,000	20,00,000	100
II. Total revenue	20,00,000	40,00,000	20,00,000	100
III. Expenses				
Purchase of stock in trade	12,00,000	24,00,000	12,00,000	100
Change in inventories	2,40,000	6,00,000	3,60,000	150
Other expenses	1,60,000	2,00,000	40,000	25
Total expenses	16,00,000	32,00,000	16,00,000	100
IV. Profit before tax (II–III)	4,00,000	8,00,000	4,00,000	100
V. Tax expense (40%)	1,60,000	3,20,000	1,60,000	100
VI. Profit after tax (IV–V)	2,40,000	4,80,000	2,40,000	100

For example, the percentage increase in inventory change is

$$\frac{6,00,000 - 2,40,000}{2,40,000} \times 100 = 150\%.$$

Other expenses increase by $40,000/1,60,000 \times 100 = 25\%$. All other non-heading lines in the statement increase by 100%, since their 2023 amounts are twice the 2022 amounts.

Step 3: Conclusion Y Ltd.'s revenue and total expenses both increase by 100%. Profit before tax rises from Rs 4,00,000 to Rs 8,00,000, and profit after tax rises from Rs 2,40,000 to Rs 4,80,000, an increase of Rs 2,40,000 or 100%.

Quick Tip to Solve: First convert the inventory percentages into rupee expenses using purchases. Then use the 2022 amount as the denominator for each percentage change; do not subtract the two inventory percentage rates.

34. Following is the Balance Sheet of Bharat Gas Ltd. as at 31.3.2023:

Balance Sheet of Bharat Gas Ltd. as at 31.3.2023

Particulars	Note No.	31.3.2023 (Rs.)	31.3.2022 (Rs.)
I Equity and Liabilities:			
1. Shareholders' funds			
(a) Share capital		14,00,000	10,00,000
(b) Reserves and Surplus	1	5,00,000	4,00,000
2. Non-current Liabilities			
Long term borrowings		5,00,000	1,40,000
3. Current liabilities			
(a) Trade payables		1,00,000	60,000
(b) Short term provisions	2	80,000	60,000
Total		25,80,000	16,60,000
II Assets:			
1. Non-current Assets			
(a) Fixed Assets (Property, plant and equipment and intangible assets)			
(i) Tangible assets (Property, plant and equipment)	3	16,00,000	9,00,000
(ii) Intangible assets	4	1,40,000	2,00,000
2. Current Assets			
(a) Inventories		2,50,000	2,00,000
(b) Trade receivables		5,00,000	3,00,000
(c) Cash and cash equivalents		90,000	60,000
Total		25,80,000	16,60,000

Notes to Accounts:

Note No.	Particulars	31.3.2023 (Rs.)	31.3.2022 (Rs.)
1.	Reserves and Surplus: Balance in Statement of Profit and Loss	5,00,000	4,00,000
2.	Short term provisions: Provision for Taxation	80,000	60,000
3.	Tangible Assets: (Property, plant and equipment) Machinery	18,50,000	10,00,000
	Less: Accumulated Depreciation	(2,50,000)	(1,00,000)
		16,00,000	9,00,000
4.	Intangible Assets: Goodwill	1,40,000	2,00,000

Adjustments: During the year a machine costing Rs. 3,00,000 on which accumulated depreciation was Rs. 45,000 was sold for Rs. 1,35,000.

Calculate 'Cash flows from Operating Activities'. [6 marks]

Solution:

Concept:

- Under the indirect method, start with net profit before tax, add non-cash and non-operating expenses, and adjust changes in operating current assets and current liabilities.

- Depreciation, goodwill written off and loss on sale of machinery reduce accounting profit without being operating cash payments; each is added back.
- Deduct income tax paid after calculating cash generated from operations. Cash balances, share capital and long-term borrowings are not operating working-capital adjustments.

Step 1: Calculate profit before tax **Working Notes**

The Statement of Profit and Loss balance rises from Rs 4,00,000 to Rs 5,00,000. No dividend or transfer to reserves is given, so profit after tax is Rs 1,00,000. Using the standard treatment where no separate tax charge or tax payment is supplied, the closing provision is current-year tax and the opening provision is paid during the year.

$$\text{Profit after tax} = 5,00,000 - 4,00,000 = \text{Rs } 1,00,000,$$
$$\text{Profit before tax} = 1,00,000 + 80,000 = \text{Rs } 1,80,000.$$

Tax paid is Rs 60,000. The provision movement checks: opening Rs 60,000 + current charge Rs 80,000 - payment Rs 60,000 = closing Rs 80,000.

Step 2: Find the non-cash and non-operating charges Depreciation on the machine sold must be removed from accumulated depreciation, so the current-year depreciation is greater than the simple increase in that balance.

$$\begin{aligned}\text{Depreciation} &= 2,50,000 + 45,000 - 1,00,000\\ &= \text{Rs } 1,95,000,\\ \text{Book value of machine sold} &= 3,00,000 - 45,000 = \text{Rs } 2,55,000,\\ \text{Loss on sale} &= 2,55,000 - 1,35,000 = \text{Rs } 1,20,000,\\ \text{Goodwill written off} &= 2,00,000 - 1,40,000 = \text{Rs } 60,000.\end{aligned}$$

The sale proceeds of Rs 1,35,000 belong to investing activities. Only the loss included in profit is added back here.

Step 3: Adjust operating working capital Inventories increase by Rs 50,000 and trade receivables by Rs 2,00,000; both increases absorb operating cash and are deducted. Trade payables increase by Rs 40,000, conserving cash and therefore being added. The net working-capital adjustment is a deduction of Rs 2,10,000. The taxation provision is treated separately through the tax charge and payment, avoiding a second adjustment.

Step 4: Prepare the operating activities section **Bharat Gas Ltd.**
Cash Flow Statement (Extract)
For the year ended 31st March, 2023

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net profit before tax	1,80,000
Add: Depreciation on machinery	1,95,000
Add: Loss on sale of machinery	1,20,000
Add: Goodwill written off	60,000
Operating profit before working-capital changes	**5,55,000**
Less: Increase in inventories	(50,000)
Less: Increase in trade receivables	(2,00,000)
Add: Increase in trade payables	40,000
Cash generated from operations	**3,45,000**
Less: Income tax paid	(60,000)
Net cash from operating activities	**2,85,000**

Step 5: Conclusion Cash flows from operating activities amount to $\boxed{\text{Rs } 2,85,000}$, a net cash inflow.

Quick Tip to Solve: For machinery sold, add its accumulated depreciation to the closing accumulated depreciation before deducting the opening balance; add back only the sale loss in operating cash flow.

OPTION - II (Computerised Accounting)

27(a). Excel considers which of the following group of mathematical operations of equal importance?

[1 mark]

(A) Multiplication and Addition
(B) Division and Multiplication
(C) Exponent and Multiplication
(D) Subtraction and Division

Correct Answer: (B) Division and Multiplication

Solution:

Concept:

- Excel evaluates arithmetic operations according to operator precedence: exponentiation precedes multiplication and division, which precede addition and subtraction.
- Multiplication and division share the same priority; when both occur without brackets, Excel evaluates them from left to right.

Step 1: Identify the operations at the same level Division and multiplication are both multiplicative operations. For example, the formula =12/3*2 gives 8: first divide 12 by 3, then multiply by 2. Division does not automatically precede multiplication.

Step 2: Eliminate the remaining pairs In (A), multiplication precedes addition. In (C), exponentiation precedes multiplication. In (D), division precedes subtraction. Thus none of these pairs has equal

precedence.

Step 3: Conclusion Division and multiplication have equal importance. Hence, the correct option is (B).

Quick Tip to Solve: Group multiplication with division and addition with subtraction; evaluate each equal-priority group from left to right.

OR

27(b). How many rows are available in Excel 2007? [1 mark]

(A) 5663

(B) 65536

(C) 72257

(D) 4332

Correct Answer: No printed option is correct: Excel 2007 has 10,48,576 rows; 65,536 is the older-format limit.

Solution:

Concept:

- Excel 2007 supports $2^{20} = 10,48,576$ rows in a worksheet in its native workbook format.
- The older Excel 97–2003 worksheet limit is 65,536 rows; the version and file format therefore matter.

Step 1: Apply the limit for the stated version The question explicitly names Excel 2007. Its row headings extend from 1 to 10,48,576, so the available number of rows is 10,48,576. The older limit must not be substituted merely because it appears among the options.

Step 2: Compare all printed options Options (A), (C) and (D), namely 5663, 72257 and 4332, are not the Excel 2007 row limit. Option (B), 65536, is the Excel 97–2003 limit and also applies to an old-format workbook opened in compatibility mode. The question does not specify such a workbook. Therefore none of the four printed choices gives the normal Excel 2007 limit.

Step 3: Conclusion Excel 2007 has 10,48,576 rows per worksheet. None of the printed options is correct for the stated version.

Quick Tip to Solve: Remember the version change: Excel 2003 has 65,536 rows; Excel 2007 native worksheets have 10,48,576 rows.

28. How are 'absolute cell references' and 'mixed reference' identified in Excel? [1 mark]

(A) using $ sign

(B) using £ sign

(C) using # sign

(D) using ~ sign

Correct Answer: (A) using $ sign

Solution:

Concept:

- An absolute reference fixes both the column and row by placing a dollar sign before each: `$A$1`.
- A mixed reference fixes only one component: `$A1` fixes column A, while `A$1` fixes row 1.

Step 1: Identify the reference marker The dollar sign tells Excel to keep the immediately following column letter or row number unchanged when a formula is copied. An absolute reference contains two such signs, whereas a mixed reference contains one.

Step 2: Check the other symbols The pound sign, hash sign and tilde do not lock a row or column in a cell reference. Their presence elsewhere in a worksheet does not make a reference absolute or mixed. For example, copying `$A1` down one row gives `$A2`: the locked column stays fixed.

Step 3: Conclusion Absolute and mixed cell references are identified by the dollar sign. Hence, the correct option is (A).

Quick Tip to Solve: Place a dollar sign immediately before the component to lock: `$A1` locks the column and `A$1` locks the row.

29(a). 'A piece of information shown in a graph which is assigned to the data series' is known as: [1 mark]

(A) data point

(B) data table

(C) plot point

(D) legend

Correct Answer: (D) legend

Solution:

Concept:

- A chart legend identifies a data series through its name and the colour, symbol or pattern assigned to that series.
- A data series is a related set of values; a data point is one individual value represented within that series.

Step 1: Connect the description with the chart element The information assigned to a series tells the reader which colour or symbol represents that series. For example, a legend may identify blue bars as Sales and orange bars as Expenses. This identifying information is the legend.

Step 2: Distinguish the distractors A data point or plot point represents a particular observation, rather than a key identifying a whole series. A data table displays the underlying numerical values in rows and columns. Hence options (A), (B) and (C) do not name the chart key described.

Step 3: Conclusion The information identifying the data series is the legend. Hence, the correct option is (D).

Quick Tip to Solve: Look for the series-name and colour key in a graph: that key is the legend, while an individual plotted value is a data point.

OR

29(b). 'LABELS' in Excel means: [1 mark]

(A) A text or special character

(B) Used for rows, columns or descriptive information

(C) Can be treated mathematically

(D) (A) and (B) both

Correct Answer: (D) (A) and (B) both

Solution:

Concept:

- Labels are textual entries, including text and special characters, used to describe the contents of a worksheet.
- Labels serve as headings for rows or columns and as other descriptive information; unlike numeric values, they are not directly used in arithmetic.

Step 1: Evaluate the descriptions of labels Option (A) describes the nature of a label: text or special characters. Option (B) describes its use: row headings, column headings and descriptive information. For example, the label Sales explains a column of monetary amounts.

Step 2: Reject mathematical treatment Option (C) describes numerical values rather than labels. Excel adds or subtracts the numbers associated with labels, not the descriptive text itself. Since both (A) and (B) correctly describe labels, the combined choice is required.

Step 3: Conclusion Both descriptions of labels are valid. Hence, the correct option is (D).

Quick Tip to Solve: Separate the description from the amount: Sales is a label, while the number entered under Sales is a value.

30. Which of the following type of software suffers from the limitation of low secrecy level and software being prone to data frauds? [1 mark]

(A) tailored

(B) specific

(C) generic

(D) (A) and (B) both

Correct Answer: (C) generic

Solution:

Concept:

- Generic accounting software is a ready-to-use package designed for the common requirements of many businesses.
- Secrecy depends on restrictions on access to data and on controls against unauthorised alterations.

Step 1: Identify the limitation of a widely used package Generic software has a standard design and is available to many users. Its common procedures are widely known and it offers relatively limited organisation-specific security controls. In the textbook comparison, its low secrecy level makes it more prone to manipulation and data fraud.

Step 2: Compare the remaining alternatives Tailored software is developed to suit a particular organisation, including its security requirements. Specific software addresses particular requirements instead of being a general ready-to-use package. Therefore (A) and (B), and consequently their combination in (D), do not identify the standard limitation asked here. The question concerns a relative limitation, not a claim that every generic package is always insecure.

Step 3: Conclusion Generic software suffers from the stated limitation. Hence, the correct option is (C).

Quick Tip to Solve: Link ready-to-use generic packages with low cost and wide availability, but relatively low secrecy.

31. Explain 'Sequential Codes' and 'Block Codes' with examples. [3 marks]

Solution:

Concept:

- A code is a short number or symbol used to identify a record or account uniquely and to make processing and retrieval easier.
- Sequential coding allocates consecutive identifiers; block coding reserves separate ranges for different classes of records.

Step 1: Explain sequential codes with an example Sequential codes are numbers or letters assigned one after another in a definite order. Each new record receives the next available code. For example, invoices issued in a year may be numbered 001, 002, 003, 004 and so on. Invoice 004 is followed by invoice 005. This system is simple and makes it easy to check completeness: a missing number can be investigated for a missing or cancelled document. The serial number identifies a record, but by itself

does not classify its nature. For example, invoice number 005 does not indicate whether the sale was cash or credit.

Step 2: Explain block codes with an example Block codes assign a reserved range, or block, of numbers to each category. Individual accounts within that category then receive codes from its block. For example, codes 100–199 may be reserved for assets, 200–299 for liabilities, 300–399 for capital, 400–499 for income and 500–599 for expenses. Within the assets block, cash may be 101, bank 102 and furniture 103. Thus code 102 both identifies the bank account and indicates its membership of the assets class. Unused numbers in a block can accommodate new accounts in the same category without renumbering existing accounts.

Step 3: Conclusion Sequential codes identify records in serial order, whereas block codes classify records by reserved ranges and identify individual records within those ranges.

Quick Tip to Solve: Use invoice serial numbers for sequential coding and reserved account-number ranges for block coding; explain what the code reveals.

32. How to use 'Mark Common Formula Error' in Excel? Explain. [3 marks]

Solution:

Concept:

- Background error checking examines worksheet formulas for common problems and places a small coloured triangle in the top-left corner of a suspected cell.
- An error indicator draws attention to a possible mistake; the user must inspect the formula before correcting it or choosing to ignore the warning.

Step 1: Enable background error checking Click the Microsoft Office Button, select Excel Options, and open the Formulas category. Under Error Checking, tick Enable background error checking. This allows Excel to mark common formula problems automatically as the worksheet is used. In versions with a File tab, the corresponding route is File, Options, Formulas.

Step 2: Choose how errors are marked If a different indicator colour is required, choose it in the Indicate errors using this colour box. Confirm the settings. A marked cell then shows a small triangle in its upper-left corner; this visual indicator is distinct from the error value that may appear as the cell's displayed result.

Step 3: Inspect and deal with each marked cell Select a cell containing the triangle and click the Error Checking button that appears beside it. Read the first entry, which describes the suspected problem, then choose the appropriate command to investigate or correct the formula. The available commands depend on the error type. Choose Ignore Error only after confirming that the formula is intentional; Excel will omit that flagged issue from subsequent checks. Repeat the selection and inspection for the other marked cells.

Step 4: Conclusion Enable background checking, locate the marked cells and use each cell's Error Checking menu to investigate and correct common formula errors.

Quick Tip to Solve: Follow Options, Formulas, background checking, then triangle and Error Checking; do not confuse Ignore Error with correcting a formula.

33(a). State why do you need to change a chart? How can it be changed? Why is it said that changing a column chart to a pie chart is easy? Give reasons. [4 marks]

Solution:

Concept:

- A chart presents worksheet data graphically. The suitable chart type depends on the relationship to be highlighted, such as comparison, trend or proportion.
- A chart remains linked to its source data. Changing its type changes the visual representation without requiring the underlying values to be entered again.

Step 1: Explain why a chart may need changing The initially selected chart may not communicate the intended information clearly, or the purpose of the presentation may change. For example, a column chart compares sales amounts across products, while a pie chart highlights each product's share of total sales. A change can therefore improve clarity and suitability. Titles, labels, legends, colours and scale may also need revision to make the information easier to interpret or to suit a report's format.

Step 2: Describe how to change the chart Select the existing chart to display Chart Tools. On the Design tab, choose Change Chart Type, select the desired chart type and subtype in the dialog box, and click OK. Alternatively, right-click the chart and select Change Chart Type. Excel redraws the selected chart from its existing source range. Review the result and adjust its title, data labels, legend and formatting as necessary. To change the plotted range or series themselves, use Select Data; a type change alone need not change those worksheet values.

Step 3: Explain the easy conversion from columns to a pie With one suitable data series, both charts can use exactly the same category names and values. The column chart represents each value by a column's height; the pie chart represents it by a slice proportional to the total. Excel already knows the range and category labels, so choosing Pie in Change Chart Type automatically calculates the relative slices. Neither fresh data entry nor manual construction of the slices is necessary. For instance, values 20, 30 and 50 become shares of 20%, 30% and 50% of their total.

Step 4: Check that the data suit a pie chart A pie chart is appropriate for a single series of non-negative values forming a meaningful whole. If the column chart contains several series, select the one to be represented before making the pie chart. A pie chart does not preserve the comparisons of multiple series shown by a grouped column chart. Check the categories and labels after conversion so that the resulting proportions remain understandable.

Step 5: Conclusion Change a chart when another presentation better serves the purpose. Excel's Change Chart Type command makes a suitable column-to-pie conversion easy by reusing the existing data and calculating the slices automatically.

Quick Tip to Solve: Choose columns to compare amounts and a pie to show shares of one total; verify that only one suitable series feeds the pie.

OR

33(b). State the advantages of computerized accounting system. [4 marks]

Solution:

Concept:

- A computerised accounting system records and processes transactions using accounting software and a common database.
- Once a transaction is entered correctly, the software can update connected records and generate reports according to the accounting rules built into it.

Step 1: Explain speed and accuracy **Speed:** A large number of transactions can be processed quickly. Posting, balancing and preparation of reports take much less time than manual processing, so current financial information becomes available promptly.

Accuracy: The system performs calculations and postings accurately when the input and programmed rules are correct. Automatic calculations reduce arithmetic and posting errors; however, correct data entry remains necessary.

Step 2: Explain reliability and efficient storage **Reliability and consistency:** The same accounting procedure is applied repeatedly without fatigue. Similar transactions receive consistent treatment, making the resulting records dependable.

Storage and retrieval: A large volume of accounting data can be stored in little physical space. Records can be searched and retrieved quickly by date, voucher number or account, while backups help preserve them against loss.

Step 3: Explain timely reports and integrated working **Timely information:** Trial balances, financial statements and management reports can be generated whenever needed from updated records. This supports monitoring, planning and decisions.

Integration and efficiency: Information entered once can update related ledgers and reports. This reduces repeated manual work and duplication, and improves the efficiency of the accounting staff. Electronic records also reduce the need for paper files.

Step 4: Conclusion The advantages are faster processing, greater accuracy, consistent and reliable records, compact storage with quick retrieval, timely reporting and efficient integration of accounting work.

Quick Tip to Solve: Pair each advantage with its practical effect: speed means quicker reports, accuracy means fewer calculation errors, and integration means less repeated entry.

34.

	A	B	C	D	E
1	S. No	Product	Q1 sales	Q2 Sales	Total half yearly sales
2	1	A	10000	15000	25000
3	2	B	40000	35000	75000
4	3	C	25000	40000	65000
5	4	D	30000	50000	80000
6	5	E	34000	45000	79000
7	6	F	12000	30000	42000
8	7	G	38000	56000	94000

Using the worksheet find out the error and its reason for the given 'VLOOKUP' syntax.

(i) = VLOOKUP (B1, B2 : E8, 2, 0)

(ii) = SQRT (VLOOKUP (B5, B8 : E8, 2, 0) - 100000)

(iii) = VLOOKUP (A2, A2 : A8, 2, 0)

(iv) = VLOOKUP (B2, B3, E4, 5, 0)

(v) = VLOOKUP (B2, A2 : E8, 0, 0)

(vi) = VLOOKUP (B2, B2, E8, 2, 0)/0 [6 marks]

Solution:

Concept:

- The syntax is `VLOOKUP(lookup_value,table_array,col_index_num,range_lookup)`. The last argument 0 requests an exact match in the first column of the selected range.
- The return-column number is counted from 1 within that range. A missing exact match produces `#N/A`; an invalid column reference produces `#REF!`; a column number below 1 produces `#VALUE!`.
- Check the written syntax first, then evaluate inner functions before outer operations. `SQRT` of a negative number produces `#NUM!`; division of a numeric result by zero produces `#DIV/0!`.

Step 1: Check formula (i): the lookup value B1 contains the heading `Product`. The first column of B2:E8 contains product codes A, B, C, D, E, F and G. The exact-match search cannot find the heading among these codes, so the result is `#N/A`. To look up product A's Q1 sales, for example, use `=VLOOKUP(B2,B2:E8,2,0)`, which returns 10,000.

Step 2: Check formula (ii): evaluate the inner lookup first B5 contains product D, whereas B8:E8 is a single-row range whose first cell B8 contains G. Therefore `VLOOKUP(B5,B8:E8,2,0)` returns `#N/A`. That error propagates through the subtraction and `SQRT`; the formula as printed returns `#N/A`.

A negative square root would give `#NUM!`, but the printed lookup does not first return a number. If the range were B2:E8, it would return C5, namely 30,000; subtracting 1,00,000 would give $-70,000$, and only that different formula would yield `#NUM!`.

Step 3: Check formula (iii): the width of the table A2:A8 contains just one column. The value in A2 can be found there, but return-column number 2 asks for a second column outside the selected table. The error is `#REF!`. The range must include the required return column: `=VLOOKUP(A2,A2:B8,2,0)` would return product A.

Step 4: Check formula (iv): count the arguments The printed expression `VLOOKUP(B2,B3,E4,5,0)`

supplies five arguments, because B3 and E4 are separated by a comma. VLOOKUP accepts at most four arguments, so Excel rejects this expression with a too-many-arguments message; it does not calculate a worksheet error value. A rectangular table range must use a colon, such as B3:E4.

Even if that comma were replaced with a colon, B3:E4 has only four columns, so return-column number 5 would still be invalid. For product A's half-year sales, a suitable corrected expression is `=VLOOKUP(B2,B2:E8,4,0)`, returning 25,000.

Step 5: Check formula (v): reject a zero column number The return-column number is 0. Since numbering starts at 1, this invalid argument gives `#VALUE!`. There is also a separate lookup problem: B2 contains product A, but the first column of A2:E8 contains serial numbers, not product codes. Both the column number and the search range must be chosen correctly. For product A's Q1 sales use `=VLOOKUP(B2,B2:E8,2,0)`, returning 10,000.

Step 6: Check formula (vi): syntax before division In `VLOOKUP(B2,B2,E8,2,0)/0`, the VLOOKUP call again has five comma-separated arguments. Excel therefore rejects the formula as having too many arguments before performing the division.

If the comma between B2 and E8 is replaced by a colon, the lookup becomes `VLOOKUP(B2,B2:E8,2,0)` and returns 10,000. Dividing that numeric result by 0 would then give `#DIV/0!`. Thus the printed expression has a syntax defect first and a zero-divisor defect after the range is corrected.

Step 7: Conclusion For the formulae exactly as printed: (i) `#N/A`; (ii) `#N/A`; (iii) `#REF!`; (iv) too many arguments; (v) `#VALUE!`; (vi) too many arguments. In (ii), a negative-root error requires a successful numeric lookup first; in (vi), `#DIV/0!` arises after correcting the table-range separator.

Quick Tip to Solve: Count VLOOKUP's arguments, inspect the first column of its range, and check the return-column number before evaluating SQRT or division outside the lookup.