CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-7-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. Pooja and Kumari were partners in a firm sharing profits and losses in the ratio of 2 : 1. On 1st April, 2023, Noori was admitted for a new partner 1/4th share in the profits of the firm. Noori was guaranteed a minimum profit of Rs. 1,20,000. Any deficiency on this account was to be borne by Pooja and Kumari in their profit sharing ratio. During the year ended 31st March, 2024, the firm earned a net profit of Rs. 3,60,000. The amount of deficiency borne by Pooja will be : [1 mark]

(A) Rs. 20,000

(B) Rs. 1,20,000

(C) Rs. 10,000

(D) Rs. 1,60,000

Correct Answer: (A) Rs. 20,000

Solution:

Concept:

- A guaranteed partner first receives the ordinary share of the firm's profit. The guarantors bear only the shortfall below the guarantee.
- Deficiency equals guaranteed profit less the normal share; it is divided in the agreed deficiency-bearing ratio.

Step 1: Calculate Noori's ordinary share Noori is entitled to $1/4$ of the net profit before applying the guarantee. Hence the ordinary share is Rs $3,60,000 \times 1/4 =$ Rs $90,000$. The guaranteed amount is Rs 1,20,000, so the deficiency is Rs $1,20,000 -$ Rs $90,000 =$ Rs $30,000$.

Step 2: Divide the deficiency Pooja and Kumari bear this shortfall in their ratio $2:1$. Pooja therefore bears Rs $30,000 \times 2/3 =$ Rs $20,000$, while Kumari bears Rs 10,000. Option (C) is Kumari's amount; option (B) is the whole guarantee, and option (D) is not a share of the deficiency.

Step 3: Conclusion Pooja bears Rs 20,000. Hence, the correct option is (A).

Quick Tip to Solve: Compute the shortfall first; apply the guarantors' ratio only to that shortfall.

2. Assertion (A) : Private assets of a partner can also be used for paying off the firm's debts.
Reason (R) : Liability of a partner for acts of the firm is limited.
Choose the correct alternative from the following : [1 mark]

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

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

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

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

Correct Answer: (B) Assertion (A) is correct, but Reason (R) is incorrect.

Solution:

Concept:

- In an ordinary partnership, partners have unlimited liability for obligations of the firm.
- If firm assets are insufficient, partners may have to meet firm debts from personal assets.

Step 1: Judge the assertion Assertion (A) is correct. The private assets of a partner can be used to discharge the firm's outstanding debts when the firm's own assets are insufficient. This follows from the unlimited nature of liability in an ordinary partnership.

Step 2: Judge the reason Reason (R) is incorrect because it describes the partner's liability as limited. The ordinary partnership considered here does not restrict a partner's liability to the capital contributed.

Step 3: Test the explanation A false reason cannot explain the correct assertion. Options (C) and (D) require both statements to be correct, while option (A) reverses their truth values. The appropriate combination is therefore true assertion and false reason.

Step 4: Conclusion The assertion is correct, but the reason is incorrect. Hence, the correct option is (B).

Quick Tip to Solve: For an ordinary partnership, connect use of private assets with unlimited liability.

3. The amount of share capital which a company is authorised to issue by its Memorandum of Association is known as : [1 mark]

(A) Issued Capital

(B) Reserve Capital

(C) Nominal Capital/Registered Capital

(D) Subscribed Capital

Correct Answer: (C) Nominal Capital/Registered Capital

Solution:

Concept:

- Authorised, nominal or registered capital is the maximum share capital permitted by the Memorandum of Association.
- Issued capital is offered for subscription; subscribed capital is taken up by applicants.

Step 1: Identify the defining words The question specifies capital which the company is authorised to issue by its Memorandum of Association. This is the legal ceiling on its share capital, called authorised capital. Nominal capital and registered capital are alternative names for that same ceiling.

Step 2: Distinguish the other categories Issued capital, option (A), is the portion actually offered to the public. Subscribed capital, option (D), is the portion subscribed for. Reserve capital, option (B), is a portion of uncalled capital reserved for calling on winding up. None of these is the capital ceiling stated in the Memorandum.

Step 3: Conclusion The amount is Nominal Capital/Registered Capital. Hence, the correct option is (C).

Quick Tip to Solve: The words "authorised by the Memorandum" identify nominal or registered capital.

4. Nandan and Abhinandan were partners in a firm. They admitted Govindan as a new partner for 1/3rd share in the profits. On Govindan's admission, the Balance Sheet of the firm showed sundry debtors at Rs. 3,00,000 and a provision for bad debts at Rs. 24,000. It was decided to maintain the provision for bad debts at 10% of the debtors.

Which of the following journal entries will show the correct accounting treatment for the above transactions ? [1 mark]

(A) Revaluation A/c Dr. 30,000

To Provision for Bad Debts 30,000

(B) Revaluation A/c Dr. 6,000

To Provision for Bad Debts 6,000

(C) Govindan's A/c Dr. 2,000

To Provision for Bad Debts 2,000

(D) Nandan's A/c Dr. 2,000

Abhinandan's A/c Dr. 2,000

Govindan's A/c Dr. 2,000

To Provision for Bad Debts 6,000

Correct Answer: (B) Revaluation A/c Dr. 6,000

To Provision for Bad Debts 6,000

Solution:

Concept:

- On admission, an increase in provision for bad debts is a revaluation loss.
- Only the excess of the required closing provision over the existing provision is recorded.

Step 1: Find the additional provision The required provision is Rs $3,00,000 \times 10/100 =$ Rs $30,000$. The Balance Sheet already contains a provision of Rs 24,000. Therefore, the additional provision required is Rs $30,000 -$ Rs $24,000 =$ Rs $6,000$. Recording Rs 30,000 again would duplicate the existing provision.

Step 2: Record the revaluation loss The increase reduces the net value of debtors, so Revaluation Account is debited and Provision for Bad Debts is credited. It is not charged directly to the incoming partner or equally to all partners.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr.		6,000	
	To Provision for Bad Debts			6,000
	(Being additional provision created on admission)			

Step 3: Conclusion Revaluation A/c is debited and Provision for Bad Debts credited by Rs 6,000. Hence, the correct option is (B).

Quick Tip to Solve: Compare the required provision with the provision already in the Balance Sheet.

5(a). Jayant, Vijayant and Anant were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. With effect from 1st April, 2024, they decided to share the profits in the ratio of 5 : 3 : 2. For this purpose, the goodwill of the firm was valued at Rs. 6,00,000. The partners decided to treat goodwill without opening goodwill account. By what amount will the partners' accounts be debited or credited ? [1 mark]

(A) Debit Anant by Rs. 6,00,000 and Credit Vijayant by Rs. 6,00,000.

(B) Debit Vijayant by Rs. 6,000 and Credit Anant by Rs. 6,000.

(C) Debit Vijayant by Rs. 20,000 and Credit Anant by Rs. 20,000.

(D) Debit Anant by Rs. 20,000 and Credit Vijayant by Rs. 20,000.

Correct Answer: (D) Debit Anant by Rs. 20,000 and Credit Vijayant by Rs. 20,000.

Solution:

Concept:

- Sacrifice equals old share minus new share; gain equals new share minus old share.
- Without opening Goodwill Account, gaining partners compensate sacrificing partners through their capital accounts.

Step 1: Compare the old and new shares Jayant's share remains $3/6 = 5/10 = 1/2$, so he neither gains nor sacrifices. Vijayant sacrifices $2/6 - 3/10 = 1/30$. Anant gains $2/10 - 1/6 = 1/30$. Thus only Vijayant and Anant participate in the goodwill adjustment.

Step 2: Calculate the compensation Compensation is Rs $6,00,000 \times 1/30 =$ Rs $20,000$. Anant, the gaining partner, is debited and Vijayant, the sacrificing partner, is credited. Options (B) and (C) reverse the direction; option (A) charges the entire goodwill instead of only the transferred share.

Step 3: Conclusion Debit Anant by Rs 20,000 and credit Vijayant by Rs 20,000. Hence, the correct option is (D).

Quick Tip to Solve: Convert both ratios to a common denominator before identifying who pays goodwill.

OR

5(b). Akshay, Reet and Manya were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. With effect from 1st April, 2024, they decided that in future, they will share the profits and losses in the ratio of 2 : 4 : 3. Identify the gain or sacrifice by the partners due to change in the profit sharing ratio from the following : [1 mark]

(A) Akshay's sacrifice 1/9, Reet's sacrifice 1/9, Manya's gain 2/9

(B) Akshay's gain 1/9, Reet's gain 1/9, Manya's sacrifice 2/9

(C) Akshay's sacrifice 2/9, Reet's gain 1/9, Manya's gain 1/9

(D) Akshay's gain 2/9, Reet's sacrifice 1/9, Manya's sacrifice 1/9

Correct Answer: (C) Akshay's sacrifice 2/9, Reet's gain 1/9, Manya's gain 1/9

Solution:

Concept:

- For each partner, sacrifice is old share minus new share; a negative result represents a gain.
- Total sacrifices must equal total gains when the whole profit is redistributed.

Step 1: Calculate each change The old and new ratio totals are both 9. Akshay's sacrifice is $4/9 - 2/9 = 2/9$. Reet's new share exceeds the old share by $4/9 - 3/9 = 1/9$. Manya's new share exceeds the old share by $3/9 - 2/9 = 1/9$.

Step 2: Check and compare the options Akshay's sacrifice of $2/9$ equals the combined gains $1/9 + 1/9 = 2/9$. Option (A) wrongly makes Reet a sacrificing partner; option (B) wrongly makes Akshay a gaining partner; option (D) reverses every direction of change. Only option (C) matches all three changes.

Step 3: Conclusion Akshay sacrifices $2/9$; Reet and Manya each gain $1/9$. Hence, the correct option is (C).

Quick Tip to Solve: When ratio totals are equal, compare corresponding numerators to see gains immediately.

6(a). **X Ltd. forfeited 100 shares of Rs. 100 each for non-payment of the allotment money of Rs. 15 per share (including premium Rs. 5). The first and final call of Rs. 50 per share was not yet made. The amount that was debited to share capital account was :** [1 mark]

(A) Rs. 4,500

(B) Rs. 1,500

(C) Rs. 10,000

(D) Rs. 5,000

Correct Answer: (D) Rs. 5,000

Solution:

Concept:

- On forfeiture, Share Capital Account is debited with called-up nominal capital on the forfeited shares.
- Securities premium is distinct from share capital, and uncalled nominal capital is excluded from the forfeiture debit.

Step 1: Determine called-up nominal value Each share has nominal value Rs 100, but the first and final call of Rs 50 has not yet been made. Thus called-up nominal capital per share is Rs $100 -$ Rs $50 =$ Rs 50. The Rs 5 premium included in allotment is not part of this nominal value.

Step 2: Calculate the debit and reject distractors For 100 forfeited shares, Share Capital Account is debited by $100 \times$ Rs $50 =$ Rs $5,000$. Rs 10,000 is the full nominal capital including the uncalled amount; Rs 1,500 is unpaid allotment including premium. Rs 4,500 incorrectly subtracts the premium from called-up nominal capital.

Step 3: Conclusion Share Capital Account is debited by Rs 5,000. Hence, the correct option is (D).

Quick Tip to Solve: Use called-up face value for the forfeiture debit; keep premium separate.

OR

6(b). **Raman Ltd. forfeited 500 shares of Rs. 10 each for non-payment of final call of Rs. 2 per share. Out of the forfeited shares, 300 shares were re-issued at Rs. 12 per share fully paid-up. The amount that was transferred to Capital Reserve Account was :** [1 mark]

(A) Rs. 2,400

(B) Rs. 3,000

(C) Rs. 4,000

(D) Rs. 5,000

Correct Answer: (A) Rs. 2,400

Solution:

Concept:

- Capital reserve receives the forfeiture balance attributable only to the shares reissued, less any discount allowed on their reissue.

- A premium received on reissue is securities premium; it does not increase the forfeiture profit transferred to capital reserve.

Step 1: Find the forfeited amount per share The fully called-up nominal value is Rs 10 per share and the unpaid final call is Rs 2. Therefore the company had received Rs $10 -$ Rs $2 =$ Rs 8 per forfeited share. For all 500 shares the forfeiture balance is $500 \times$ Rs $8 =$ Rs $4,000$.

Step 2: Restrict the transfer to reissued shares Only 300 shares have been reissued. Their forfeiture balance is $300 \times$ Rs $8 =$ Rs $2,400$. Reissue at Rs 12 against face value Rs 10 involves no discount, so nothing is deducted. Rs 4,000 includes unreissued shares; Rs 3,000 and Rs 5,000 are nominal values rather than the realised forfeiture profit.

Step 3: Conclusion The amount transferred to Capital Reserve is Rs 2,400. Hence, the correct option is (A).

Quick Tip to Solve: Allocate forfeiture money to the reissued quantity before deducting any reissue discount.

7(a). On 1st October, 2024, Nirmal Ltd. issued 6,000, 11% 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. 1,20,000

(B) Rs. 60,000

(C) Rs. 6,00,000

(D) Rs. 6,60,000

Correct Answer: (B) Rs. 60,000

Solution:

Concept:

- Loss on issue of debentures comprises discount on issue, if any, together with premium payable on redemption.
- Premium received on issue is credited to Securities Premium Account; the coupon and issue date concern interest, not the initial loss calculation.

Step 1: Compute face value and redemption premium The total nominal value is $6,000 \times$ Rs $100 =$ Rs $6,00,000$. Redemption at a premium of 10% creates an additional repayment obligation of Rs $6,00,000 \times 10/100 =$ Rs $60,000$.

Step 2: Identify the loss recorded on issue There is no issue discount because debentures are issued at a premium. Hence Loss on Issue of Debentures equals Rs 60,000, the redemption premium. The issue premium is credited separately to Securities Premium Account. Rs 1,20,000 wrongly adds both premiums; Rs 6,00,000 is principal and Rs 6,60,000 is the total redemption obligation.

Step 3: Conclusion Loss on Issue of Debentures is Rs 60,000. Hence, the correct option is (B).

Quick Tip to Solve: For loss on issue, add issue discount and redemption premium; keep issue premium separate.

OR

7(b). Raja Ltd. issued 8,000, 10% Debentures of Rs. 100 each at Rs. 98 per debenture. 10% Debentures Account will be credited by : [1 mark]

(A) Rs. 9,80,000

(B) Rs. 10,00,000

(C) Rs. 7,84,000

(D) Rs. 8,00,000

Correct Answer: (D) Rs. 8,00,000

Solution:

Concept:

- Debentures Account is credited with the nominal value of the debentures issued.
- Cash proceeds may differ from nominal value; a shortfall below face value is recorded separately as discount on issue.

Step 1: Calculate the nominal amount Raja Ltd. issues 8,000 debentures, each with face value Rs 100. The credit to 10% Debentures Account is therefore $8,000 \times \text{Rs } 100 = \text{Rs } 8,00,000$. The interest rate identifies the class of debentures and does not change this principal credit.

Step 2: Reconcile the proceeds with the credit Cash received is $8,000 \times \text{Rs } 98 = \text{Rs } 7,84,000$, and the discount is $8,000 \times \text{Rs } 2 = \text{Rs } 16,000$. Together these debit amounts equal Rs 8,00,000. Option (C) gives cash proceeds, whereas options (A) and (B) do not match the nominal amount issued.

Step 3: Conclusion 10% Debentures Account is credited by Rs 8,00,000. Hence, the correct option is (D).

Quick Tip to Solve: Multiply quantity by face value for Debentures Account, and by issue price for cash.

8(a). Sandhya and Suman were partners in a firm sharing profits and losses in the ratio of 3 : 5. They decided to dissolve the firm on 31st March, 2024. On the date of dissolution, the Balance Sheet of the firm showed a balance of Rs. 80,000 in sundry debtors and a balance of Rs. 5,000 in provision for bad debts account. How much amount will be transferred to Realisation Account to close Sundry Debtors Account ? [1 mark]

(A) Rs. 75,000

(B) Rs. 85,000

(C) Rs. 80,000

(D) Rs. 90,000

Correct Answer: (C) Rs. 80,000

Solution:

Concept:

- Assets are transferred to Realisation Account at their gross book values to close their individual accounts.

- A provision for bad debts is transferred separately to the credit of Realisation Account.

Step 1: Identify the balance to be closed Sundry Debtors Account has a debit balance of Rs 80,000. Closing this asset account requires a credit of the same amount, with a corresponding debit to Realisation Account.

Step 2: Keep the provision separate The Rs 5,000 provision is a separate credit balance and is closed separately by crediting Realisation Account. Rs 75,000 is the net effect of both transfers, not the amount closing Sundry Debtors Account. Rs 85,000 incorrectly adds the provision; Rs 90,000 has no basis.

Step 3: Conclusion Rs 80,000 is transferred to Realisation Account. Hence, the correct option is (C).

Quick Tip to Solve: For an asset transfer, use its gross ledger balance; transfer its provision separately.

OR

8(b). Dev, Bhudev and Shamdev were partners in a firm sharing profits equally. On 31st March, 2024, their firm was dissolved. On this date the bank account showed a credit balance of Rs. 10,000 and there was a debit balance of Rs. 15,000 in the cash account. All payments were settled by cheque. Ravi, a creditor of Rs. 2,000 was not having any bank account, therefore he was paid in cash. Afterwards the cash account was closed by depositing the balance of cash into the bank. The journal entry for closing cash account will be : [1 mark]

(A) Debit Cash A/c by Rs. 10,000 and Credit Bank account by Rs. 10,000

(B) Credit Cash A/c by Rs. 10,000 and Debit Bank account by Rs. 10,000

(C) Debit Bank A/c by Rs. 13,000 and Credit Cash account by Rs. 13,000

(D) Debit Cash A/c by Rs. 13,000 and Credit Bank account by Rs. 13,000

Correct Answer: (C) Debit Bank A/c by Rs. 13,000 and Credit Cash account by Rs. 13,000

Solution:

Concept:

- Depositing cash in the bank increases Bank Account and decreases Cash Account.
- A credit balance in Bank Account represents an overdraft; it does not change the cash available for deposit.

Step 1: Calculate the cash remaining Cash paid to Ravi is Rs 2,000, so the cash remaining is $15,000 - 2,000 =$ Rs $13,000$. Other payments made by cheque do not reduce Cash Account.

Step 2: Determine debit and credit The deposit debits Bank Account and credits Cash Account by Rs 13,000, bringing cash to zero. Options (A) and (B) wrongly use the overdraft amount of Rs 10,000. Option (D) reverses the deposit entry and would increase cash instead of closing it.

Step 3: Conclusion Debit Bank Account and credit Cash Account by Rs 13,000. Hence, the correct option is (C).

Quick Tip to Solve: Calculate cash left after cash payments before considering the direction of the bank entry.

9. Usha and Mohak were partners in a firm. Usha withdrew a fixed amount at the end of every half-year for the year ended 31st March, 2024. Interest on drawings is charged at 9% p.a. Interest on Usha's drawings will be charged for _____ months. [1 mark]

(A) 3

(B) 6

(C) 9

(D) 12

Correct Answer: (A) 3

Solution:

Concept:

- Interest on equal drawings can be calculated on total drawings using their average outstanding period.
- For drawings at the end of each half-year, the periods run from each withdrawal date to the year-end.

Step 1: Find the two periods The first withdrawal is on 30th September, 2023, and remains outstanding for six months up to 31st March, 2024. The second is on 31st March, 2024, so it remains outstanding for zero months in this accounting year.

Step 2: Average the periods As the two withdrawals are equal, the average period is $(6+0)/2 = 3$ months. The 9% annual interest rate is applied for this average period. Six months applies only to the first withdrawal; nine and twelve months do not match these withdrawal dates.

Step 3: Conclusion Interest on total drawings is charged for 3 months. Hence, the correct option is (A).

Quick Tip to Solve: For equal half-year-end drawings, average the first and last outstanding periods: six and zero.

10(a). Which of the following will *not* result in compulsory dissolution of a partnership firm ? [1 mark]

(A) When all partners or all but one partner become insolvent.

(B) When the business of the firm becomes illegal.

(C) When some event has taken place which makes it unlawful for the partners to carry on the business of the firm in partnership.

(D) When a partner dies.

Correct Answer: (D) When a partner dies.

Solution:

Concept:

- Compulsory dissolution follows insolvency of all partners or all but one, or illegality of the business.
- Death of a partner is a contingent event; the partnership contract may provide for continuation.

Step 1: Check compulsory events Option (A) leaves fewer than two solvent partners and hence

requires dissolution. Options (B) and (C) both describe illegality: the firm cannot legally continue its business in partnership in those circumstances.

Step 2: Consider death of a partner Death can lead to dissolution subject to the contract between the partners. A continuation clause may allow the surviving partners to carry on the firm. Therefore death is not a compulsory dissolution event, whereas the other three options describe compulsory grounds.

Step 3: Conclusion Death of a partner does not result in compulsory dissolution. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish an event subject to the partnership agreement from an event making continuation unlawful.

OR

10(b). Which of the following will result in dissolution of a partnership firm ? [1 mark]

(A) Death of a partner.

(B) Insolvency of a partner.

(C) When the business of the firm becomes illegal.

(D) Expiry of the period of partnership.

Correct Answer: (C) When the business of the firm becomes illegal.

Solution:

Concept:

- A firm must dissolve when its business becomes illegal.
- Events such as death, insolvency of one partner or expiry are generally subject to the partnership agreement.

Step 1: Identify the unconditional ground When the business becomes illegal, partners cannot lawfully continue it. This requires dissolution irrespective of a private agreement to continue. This makes the illegality option the definite answer among the alternatives.

Step 2: Compare the other events Death or insolvency of a partner and expiry of a fixed partnership period can cause dissolution subject to the contract between partners. They do not supply the same unconditional legal necessity as illegality. In this single-answer question, option (C) identifies the compulsory ground.

Step 3: Conclusion When the business of the firm becomes illegal, the firm must dissolve. Hence, the correct option is (C).

Quick Tip to Solve: When several contingent dissolution events are listed, identify the event that overrides a continuation agreement.

11. Saloni and Mohini were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2024, Saloni's capital was Rs. 1,50,000. During the year, she withdrew Rs. 10,000 and introduced additional capital of Rs. 32,000. For the year ended 31st March, 2024, the firm earned a profit of Rs. 50,000. Saloni's capital as on 1st April, 2023, was : [1 mark]

(A) Rs. 1,30,000

(B) Rs. 2,02,000

(C) Rs. 1,08,000

(D) Rs. 98,000

Correct Answer: (D) Rs. 98,000

Solution:

Concept:

- Closing capital equals opening capital plus additional capital and profit share, less drawings.
- A partner receives profit in the agreed profit-sharing ratio.

Step 1: Calculate Saloni's profit share Saloni receives $3/(3+2) = 3/5$ of the firm's profit. Thus her share is $50,000 \times 3/5 = \text{Rs } 30,000$. The remaining profit belongs to Mohini and must not be added to Saloni's capital.

Step 2: Work backwards from closing capital Opening capital $= 1,50,000 - 32,000 - 30,000 + 10,000 = \text{Rs } 98,000$. Additional capital and profit are subtracted when reversing the closing balance; drawings are added back. The other options fail this capital reconciliation.

Step 3: Conclusion Saloni's opening capital was Rs 98,000. Hence, the correct option is (D).

Quick Tip to Solve: To recover opening capital, reverse every movement: subtract credits and add back drawings.

12. On 1st April, 2023, Mudra Ltd. issued 9,000, 12% Debentures of Rs. 100 each at 10% premium, redeemable at a premium of 10% after 4 years. The interest due on debentures for the year ended 31st March, 2024 was : [1 mark]

(A) Rs. 9,90,000

(B) Rs. 9,00,000

(C) Rs. 1,08,000

(D) Rs. 1,18,800

Correct Answer: (C) Rs. 1,08,000

Solution:

Concept:

- Debenture interest is calculated on the nominal value of debentures.
- Premium on issue and premium on redemption do not increase the face value used for interest.

Step 1: Find the nominal debenture capital The nominal value issued is $9,000 \times \text{Rs } 100 = \text{Rs } 9,00,000$. The issue premium is additional proceeds, while the redemption premium is payable at redemption;

neither is annual interest-bearing principal.

Step 2: Apply the annual coupon The debentures were issued on 1st April, so a full year's interest is due: $9,00,000 \times 12/100 =$ Rs $1,08,000$. Rs 9,90,000 is issue proceeds, Rs 9,00,000 is face value, and Rs 1,18,800 incorrectly applies interest to issue proceeds.

Step 3: Conclusion Interest due is Rs 1,08,000. Hence, the correct option is (C).

Quick Tip to Solve: Apply the coupon to number of debentures times face value, ignoring issue and redemption premiums.

13. MK Ltd. forfeited 100 shares of Rs. 10 each. The amount forfeited was Rs. 800. The maximum discount per share at which these shares may be reissued will be : [1 mark]

(A) Rs. 2

(B) Rs. 9

(C) Rs. 1

(D) Rs. 8

Correct Answer: (D) Rs. 8

Solution:

Concept:

- Discount on reissue cannot exceed the amount forfeited on the shares being reissued.
- The per-share discount limit equals the related forfeited amount divided by the number of shares.

Step 1: Find the forfeited amount per share The amount forfeited on 100 shares is Rs 800. Therefore, the available forfeiture per share is $800/100 =$ Rs 8. The face value of Rs 10 does not itself determine the maximum discount.

Step 2: Check the proposed discounts A discount of Rs 8 per share uses exactly the Rs 800 forfeited balance. Rs 9 would require Rs 900 and exceeds that balance. Discounts of Rs 2 or Rs 1 are possible but smaller than the maximum. Reissue at the maximum discount would be at Rs 2 per fully paid Rs 10 share.

Step 3: Conclusion Maximum discount is Rs 8 per share. Hence, the correct option is (D).

Quick Tip to Solve: Divide the forfeiture relating to the reissued shares by their number to obtain the discount ceiling.

14. Hari, Chander, Prakash and Govind were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 1 : 1. On 1st April, 2024, Hari retired and his share was acquired equally by Chander, Prakash and Govind. The new profit sharing ratio of Chander, Prakash and Govind will be : [1 mark]

(A) 7 : 4 : 4

(B) 15 : 8 : 7

(C) 1 : 1 : 1

(D) 16 : 7 : 7

Correct Answer: (A) 7 : 4 : 4

Solution:

Concept:

- New share equals old share plus the share acquired from the retiring partner.
- Equal acquisition means equal additions to old shares, not equal final shares.

Step 1: Calculate each partner's gain Hari's old share is $5/10 = 1/2$. It is acquired equally by three continuing partners, so each gains $(1/2)/3 = 1/6$. Their old shares are $3/10, 1/10, 1/10$, respectively.

Step 2: Add gains to old shares Chander's new share is $3/10 + 1/6 = 14/30$. Prakash and Govind each receive $1/10 + 1/6 = 8/30$. The shares total one and yield $14 : 8 : 8 = 7 : 4 : 4$. Equal final shares ignore the unequal old holdings; the other ratios do not reproduce these equal gains.

Step 3: Conclusion The new ratio is 7 : 4 : 4. Hence, the correct option is (A).

Quick Tip to Solve: Add the same gain fraction to each old share before simplifying the final ratio.

---

15. Vimal, Bose and Ghosh were partners in a firm sharing profits and losses equally. On 1st April, 2024, Bose retired from the firm and the new profit sharing ratio between Vimal and Ghosh was decided as 4 : 3. On Bose's retirement, the goodwill of the firm was valued at Rs. 2,10,000. It was decided to treat goodwill without opening goodwill account. By what amount will the partners' capital accounts be debited or credited for the treatment of goodwill on Bose's retirement ? [1 mark]

(A) Debit Bose's A/c by Rs. 70,000, Credit Vimal and Ghosh by Rs. 50,000 and Rs. 20,000, respectively.

(B) Debit Vimal by Rs. 50,000, Debit Ghosh by Rs. 20,000 and Credit Bose by Rs. 70,000.

(C) Credit Vimal, Bose and Ghosh by Rs. 70,000 each and Debit Goodwill A/c by Rs. 2,10,000.

(D) Debit Vimal by Rs. 1,20,000, Debit Ghosh by Rs. 90,000 and Credit Bose's A/c by Rs. 2,10,000.

Correct Answer: (B) Debit Vimal by Rs. 50,000, Debit Ghosh by Rs. 20,000 and Credit Bose by Rs. 70,000.

Solution:

Concept:

- The retiring partner receives their share of goodwill from gaining partners.
- Gaining ratio equals new shares minus old shares and governs the debit to continuing partners.

Step 1: Find the gains Vimal gains $4/7 - 1/3 = 5/21$; Ghosh gains $3/7 - 1/3 = 2/21$. Their gaining ratio is $5 : 2$, and the total gain $7/21 = 1/3$ equals Bose's retiring share.

Step 2: Allocate Bose's goodwill share Bose is entitled to $2,10,000 \times 1/3 =$ Rs $70,000$. Debit Vimal by $70,000 \times 5/7 =$ Rs $50,000$ and Ghosh by Rs 20,000; credit Bose by Rs 70,000. Option (A) reverses the adjustment, (C) opens goodwill, and (D) incorrectly allocates the entire firm's goodwill.

Step 3: Conclusion Debit Vimal Rs 50,000 and Ghosh Rs 20,000; credit Bose Rs 70,000. Hence, the correct option is (B).

Quick Tip to Solve: Charge only the retiring partner's goodwill share to the continuing partners in their gaining ratio.

---

16. Jim and Joy were partners in a firm sharing profits and losses equally. On 1st April, 2024, they admitted John as a new partner for 1/5th share in the profits of the firm. On the date of John's admission, the Balance Sheet of Jim and Joy showed a debit balance of Rs. 45,000 in Profit and Loss Account.

From the following, what will be the accounting treatment for this balance on John's admission ?

[1 mark]

(A) Debit Jim and Joy by Rs. 22,500 each and Credit Profit and Loss Account by Rs. 45,000.

(B) Debit Jim and Joy by Rs. 18,000 each, Debit John by Rs. 9,000 and Credit Profit and Loss Account by Rs. 45,000.

(C) Debit John by Rs. 45,000 and Credit Jim and Joy by Rs. 22,500 each.

(D) Debit Profit and Loss Account by Rs. 45,000 and Credit Jim and Joy by Rs. 22,500 each.

Correct Answer: (A) Debit Jim and Joy by Rs. 22,500 each and Credit Profit and Loss Account by Rs. 45,000.

Solution:

Concept:

- A debit balance in Profit and Loss Account is an accumulated loss belonging to the old partners.
- On admission, accumulated losses are debited to old partners in their old profit-sharing ratio; the incoming partner bears no pre-admission loss.

Step 1: Allocate the old loss Jim and Joy shared profits equally before John joined. Each must therefore bear Rs $45,000 \times \frac{1}{2} =$ Rs $22,500$. John's new share of $1/5$ has no bearing on allocation of this earlier loss.

Step 2: Clear the debit balance and test the alternatives Debit Jim's Capital Account and Joy's Capital Account by Rs 22,500 each and credit Profit and Loss Account by Rs 45,000. The credit eliminates its existing debit balance. Option (B) wrongly charges John for an old loss; (C) wrongly makes John bear the whole loss and rewards the old partners; (D) increases the debit balance and credits the old partners instead of charging them.

Step 3: Conclusion Jim and Joy are debited by Rs 22,500 each and Profit and Loss Account is credited by Rs 45,000. Hence, the correct option is (A).

Quick Tip to Solve: Allocate every pre-admission accumulated loss using the old ratio, excluding the incoming partner.

---

17. Jain and Gupta were partners in a firm sharing profits and losses in the ratio of 7 : 3. On 31st March, 2024, the firm was dissolved. After transferring various assets (other than cash Rs. 6,400) and the third-party liabilities to Realisation Account, the following transactions took place :

(i) Debtors Rs. 80,000 were taken over by a debt collection agency at 10% discount.

(ii) Creditors amounting to Rs. 40,000 were taken over by Jain.

(iii) Realisation expenses amounted to Rs. 5,100, which were paid by Gupta.

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

Solution:

Concept:

- After assets and third-party liabilities have been transferred to Realisation Account, subsequent receipts, settlements and expenses are recorded against Realisation Account.
- A partner who assumes a liability or pays expenses personally is credited in the capital account because the firm owes that partner the corresponding amount.

Step 1: Calculate cash received from debtors The debt collection agency takes over debtors of Rs 80,000 at a discount of 10%. The firm receives $80,000 - 80,000 \times 10/100 = \text{Rs } 72,000$. Since debtors have already been transferred, credit Realisation Account, not Debtors Account. The discount is absorbed in the eventual realisation result.

Step 2: Record the three transactions

Journal of Jain and Gupta

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2024	Bank A/c Dr. To Realisation A/c (Being debtors realised at 10% discount)		72,000	 72,000
31-3-2024	Realisation A/c Dr. To Jain's Capital A/c (Being creditors taken over by Jain)		40,000	 40,000
31-3-2024	Realisation A/c Dr. To Gupta's Capital A/c (Being realisation expenses paid by Gupta)		5,100	 5,100

The initial cash balance of Rs 6,400 is not an asset transferred to Realisation Account and requires no entry among these three transactions. The old profit-sharing ratio is needed only when the final realisation profit or loss is distributed.

Step 3: Conclusion Bank is debited by Rs 72,000; Jain's Capital Account is credited by Rs 40,000; Gupta's Capital Account is credited by Rs 5,100, with the corresponding entries in Realisation Account.

Quick Tip to Solve: After transfer to Realisation, use that account for asset receipts and liability settlements; credit a partner who pays for the firm.

18(a). Bharat and Ishu were partners in a firm sharing profits and losses in the ratio of 4 : 1. Rishab was admitted into partnership for 1/4th share in the profits of the firm. Goodwill of the firm was valued at Rs. 4,00,000. Rishab brought Rs. 2,00,000 as his capital and Rs. 60,000 out of his share of goodwill premium in cash. At the time of Rishab's admission, goodwill was appearing in the books of the firm at Rs. 50,000.

Pass necessary journal entries for the above transactions in the books of the firm on Rishab's admission. [3 marks]

Solution:

Concept:

- Existing goodwill is written off against the old partners in their old profit-sharing ratio before adjusting the incoming partner's premium.
- The incoming partner compensates sacrificing partners for his share of goodwill. When no different sacrifice is given, the old partners sacrifice in their old ratio.

Step 1: Calculate the goodwill adjustments Existing goodwill of Rs 50,000 is written off: Bharat $= 50,000 \times 4/5 =$ Rs $40,000$, Ishu $= 50,000 \times 1/5 =$ Rs $10,000$. Rishab's share of goodwill is $4,00,000 \times 1/4 =$ Rs $1,00,000$. He pays Rs 60,000, leaving Rs 40,000 to be adjusted through his capital. Bharat and Ishu receive total compensation of Rs 80,000 and Rs 20,000 respectively, in the sacrificing ratio $4 : 1$.

Step 2: Pass the admission entries

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bharat's Capital A/c Dr. Ishu's Capital A/c Dr. To Goodwill A/c (Being existing goodwill written off in old ratio)		40,000 10,000	 50,000
	Bank A/c Dr. To Rishab's Capital A/c To Premium for Goodwill A/c (Being capital and part premium received)		2,60,000	 2,00,000 60,000
	Premium for Goodwill A/c Dr. Rishab's Capital A/c Dr. To Bharat's Capital A/c To Ishu's Capital A/c (Being full goodwill share adjusted in sacrificing ratio)		60,000 40,000	 80,000 20,000

Step 3: Conclusion Existing goodwill is written off by Rs 40,000 and Rs 10,000 to Bharat and Ishu. Their goodwill compensation is Rs 80,000 and Rs 20,000; Rishab's unpaid premium of Rs 40,000 is debited to his capital.

Quick Tip to Solve: Calculate the entire goodwill entitlement first; separate cash premium from the unpaid portion charged to the new partner's capital.

OR

18(b). Sana and Rajesh were partners in a firm sharing profits and losses in the ratio of 4 : 3. They admitted Sonu into partnership for 1/5th share in the profits of the firm. Goodwill of the firm was to be valued at three years' purchase of super-profits. Average net profit of the firm was Rs. 80,000. Capital employed in the business was Rs. 2,00,000 and normal rate of return was 10%. Calculate the amount of goodwill premium brought by Sonu. [3 marks]

Solution:

Concept:

- Normal profit equals capital employed multiplied by the normal rate of return; it is the benchmark return expected from the business.
- Super-profit equals average net profit less normal profit. Goodwill equals super-profit multiplied by years' purchase, and the entrant's premium is his share of that goodwill.

Step 1: Find normal profit and super-profit Capital employed is Rs 2,00,000 and the normal rate of return is 10%. Thus

$$\text{Normal profit} = 2,00,000 \times \frac{10}{100} = \text{Rs } 20,000.$$

Average net profit is Rs 80,000, so

$$\text{Super-profit} = 80,000 - 20,000 = \text{Rs } 60,000.$$

Only this excess earning capacity is capitalised under the super-profit method; using the entire average profit would overstate goodwill.

Step 2: Value goodwill and calculate Sonu's premium The valuation uses three years' purchase of super-profits:

$$\text{Goodwill} = 60,000 \times 3 = \text{Rs } 1,80,000.$$

Sonu is admitted for $1/5$ of the firm's profits, so his goodwill premium is

$$\text{Premium} = 1,80,000 \times \frac{1}{5} = \text{Rs } 36,000.$$

The old partners' ratio of $4 : 3$ concerns distribution of compensation between them; it does not change the total premium brought by Sonu. His capital contribution is separate from this premium and is not required to calculate it.

Step 3: Conclusion Sonu brings goodwill premium of Rs 36,000, based on firm goodwill of Rs 1,80,000.

Quick Tip to Solve: Apply the new partner's share only after subtracting normal profit and multiplying super-profit by years' purchase.

19(a). **On 1st April, 2024, Varsha Ltd. purchased from Rama Ltd., furniture at Rs. 12,00,000 and machinery at Rs. 20,00,000. It also took over its liabilities amounting to Rs. 3,00,000. The purchase consideration of Rs. 35,00,000 was paid by issuing a bank draft of Rs. 2,00,000 and the balance by issue of 11% Debentures of Rs. 100 each, at a premium of 10%.**

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

Solution:

Concept:

- Goodwill on acquisition is the excess of purchase consideration over the net identifiable assets acquired.
- Debentures issued at a premium settle the vendor at issue price; their nominal value is credited to Debentures Account and the premium to Securities Premium Reserve.

Step 1: Calculate goodwill and debentures issued Assets acquired total $12,00,000 + 20,00,000 =$ Rs $32,00,000$. Net assets are $32,00,000 - 3,00,000 =$ Rs $29,00,000$. Purchase consideration of Rs 35,00,000 therefore includes goodwill of $35,00,000 - 29,00,000 =$ Rs $6,00,000$. After the bank draft of Rs 2,00,000, the balance due is Rs 33,00,000. Each Rs 100 debenture is issued at Rs 110, so $33,00,000/110 = 30,000$ debentures are issued. Their face value is Rs 30,00,000 and premium is Rs 3,00,000.

Step 2: Record acquisition and settlement

Journal of Varsha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Furniture A/c Dr.		12,00,000	
	Machinery A/c Dr.		20,00,000	
	Goodwill A/c Dr.		6,00,000	
	To Liabilities A/c			3,00,000
	To Rama Ltd.			35,00,000
	(Being assets and liabilities taken over)			
1-4-2024	Rama Ltd. Dr.		35,00,000	
	To Bank A/c			2,00,000
	To 11% Debentures A/c			30,00,000
	To Securities Premium Reserve A/c			3,00,000
	(Being consideration settled by draft and debentures)			

Step 3: Conclusion Goodwill is Rs 6,00,000. Varsha Ltd. issues 30,000 debentures of Rs 100 each at 10% premium and pays Rs 2,00,000 by bank draft.

Quick Tip to Solve: Divide the vendor balance by Rs 110 issue price, then split the resulting proceeds into face value and premium.

OR

19(b). Roshni Ltd. purchased machinery worth Rs. 1,98,000 from Prakash Ltd. The purchase consideration was paid by issue of 8% debentures of Rs. 100 each at 10% discount.

(i) Calculate the number of debentures issued.

(ii) Pass necessary journal entries for purchase of machinery and issue of debentures. [3 marks]

Solution:

Concept:

- A debenture issued at a discount brings consideration equal to face value less the issue discount. The rate of interest does not determine its issue price.
- When debentures are issued to a vendor, debit the vendor with the purchase consideration, debit the discount separately and credit Debentures Account with the nominal value.

Step 1: Calculate the number of debentures The issue price of each Rs 100 debenture is

$$100 - \frac{10}{100} \times 100 = \text{Rs } 90.$$

The machinery costs Rs 1,98,000 and the entire consideration is discharged by debentures. Therefore,

$$\text{Number issued} = \frac{1,98,000}{90} = 2,200.$$

Their face value is $2,200 \times 100 = \text{Rs } 2,20,000$, and the discount on issue is $2,200 \times 10 = \text{Rs } 22,000$. The 8% rate is the annual interest rate; it is not deducted from the purchase consideration.

Step 2: Record the purchase and discharge of the vendor Journal of Roshni Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Machinery A/c Dr. To Prakash Ltd. (Being machinery purchased on credit)		1,98,000	 1,98,000
	Prakash Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 8% Debentures A/c (Being 2,200 debentures of Rs 100 issued at 10% discount to settle the vendor)		1,98,000 22,000	 2,20,000

The second entry clears the creditor in full: its total debit is Rs 2,20,000, equal to the nominal debenture liability credited. No Bank Account is involved because the payment is in debentures.

Step 3: Conclusion Roshni Ltd. issues $\boxed{2,200}$ debentures. Machinery is recorded at Rs 1,98,000, debentures at Rs 2,20,000 and discount on issue at Rs 22,000.

Quick Tip to Solve: Divide the purchase consideration by Rs 90, the issue price, rather than by the Rs 100 face value.

20. Rani, Manav and Pushpa were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 1st April, 2024, Rani decided to retire from the firm. On that day, the balance in her capital account after making necessary adjustments on account of reserves, revaluation of assets and reassessment of liabilities was Rs. 3,08,000. Manav and Pushpa agreed to pay her Rs. 3,80,000 in full settlement of her claim.

Calculate Rani's share of goodwill and pass the necessary journal entry for the same. [3 marks]

Solution:

Concept:

- The excess of the agreed retirement settlement over the adjusted capital balance represents the retiring partnerś share of hidden goodwill.
- The continuing partners compensate the retiring partner in their gaining ratio. When no new ratio is specified, the continuing partners retain their relative old ratio.

Step 1: Calculate Rani's share of goodwill Rani's adjusted capital of Rs 3,08,000 already includes the effects of reserves, revaluation and reassessment of liabilities. It is therefore compared directly with her agreed total entitlement:

$$\begin{aligned}\text{Rani's goodwill share} &= \text{Agreed settlement} - \text{Adjusted capital}\\ &= 3,80,000 - 3,08,000\\ &= \text{Rs } 72,000.\end{aligned}$$

This is Rani's share, so it is not multiplied by her old share again. If total firm goodwill were required, it would be $72,000 \div (5/10) = \text{Rs } 1,44,000$.

Step 2: Determine the gaining ratio and record the adjustment Manav and Pushpa continue in their relative old ratio of $3 : 2$. Their new shares are $3/5$ and $2/5$; their gains are respectively

$$\frac{3}{5} - \frac{3}{10} = \frac{3}{10}, \qquad \frac{2}{5} - \frac{2}{10} = \frac{2}{10}.$$

Thus the gaining ratio is $3 : 2$. Manav bears $72,000 \times 3/5 = \text{Rs } 43,200$, and Pushpa bears $72,000 \times 2/5 = \text{Rs } 28,800$.

Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 2024	Manav's Capital A/c Dr.		43,200	
	Pushpa's Capital A/c Dr.		28,800	
	To Rani's Capital A/c			72,000
	(Being Rani's share of goodwill adjusted through the gaining partners' capital accounts in the ratio 3:2)			

The credit increases Rani's capital to Rs 3,80,000, matching the agreed settlement. No separate Goodwill Account is opened for this adjustment.

Step 3: Conclusion Raniś share of goodwill is $\boxed{\text{Rs } 72,000}$. Debit Manavś Capital by Rs 43,200 and Pushpaś Capital by Rs 28,800; credit Raniś Capital by Rs 72,000.

Quick Tip to Solve: First subtract adjusted capital from the settlement; distribute that excess among the gaining partners only.

21. Pass necessary journal entries for the issue of debentures in the books of NK Ltd. for the following transactions :

(i) Issued 500, 9% Debentures of Rs. 100 each at 10% discount, redeemable at a premium of 10% after 5 years.

(ii) Issued 400, 9% Debentures of Rs. 100 each at 5% discount, redeemable at par after 5 years.

[4 marks]

Solution:

Concept:

- Debentures Account is credited with the face value of the securities issued; Bank Account is debited with the actual issue proceeds.
- Loss on Issue of Debentures includes the discount on issue and any premium payable on redemption. Premium on Redemption of Debentures Account records the additional future liability.

Step 1: Transaction (i): discount on issue and premium on redemption For 500 debentures of Rs 100 each, the nominal value is $500 \times 100 =$ Rs $50,000$. The 10% discount is Rs 5,000, so cash received is Rs 45,000. Redemption premium is another $50,000 \times 10\% =$ Rs $5,000$. Hence the total loss on issue is $5,000 + 5,000 =$ Rs $10,000$.

Journal of NK Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		45,000	
	Loss on Issue of Debentures A/c Dr.		10,000	
	To 9% Debentures A/c			50,000
	To Premium on Redemption of Debentures A/c			5,000
	(Being 500 debentures issued at 10% discount, redeemable after five years at 10% premium)			

The total debits and credits both equal Rs 55,000. The redemption premium is recognised at issue because it is part of the contractual liability, although it becomes payable after five years.

Step 2: Transaction (ii): discount on issue and redemption at par For 400 debentures, nominal value is $400 \times 100 =$ Rs $40,000$. The issue discount is $40,000 \times 5\% =$ Rs $2,000$, and the amount received is $40,000 - 2,000 =$ Rs $38,000$. Since redemption is at par, no redemption premium arises.

Journal of NK Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		38,000	
	Discount on Issue of Debentures A/c Dr.		2,000	
	To 9% Debentures A/c			40,000
	(Being 400 debentures issued at 5% discount, redeemable at par after five years)			

Here both sides total Rs 40,000. The 9% rate relates to interest on face value and does not affect either issue proceeds calculation. The question asks for issue entries, so neither future interest nor redemption-payment entries are required.

Step 3: Conclusion (i) Bank debit Rs 45,000; loss on issue debit Rs 10,000; debentures credit Rs 50,000 and redemption premium credit Rs 5,000. (ii) Bank debit Rs 38,000; discount debit Rs 2,000; debentures credit Rs 40,000.

Quick Tip to Solve: Calculate issue discount and redemption premium separately on face value; add both only when finding total loss on issue.

22. Hans, Sohan and Kishore were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. The firm closes its books on 31st March every year. On 1st August, 2024, Kishore died. The partnership deed provided that on the death of a partner, his executors will be entitled for :

(i) Balance in his capital account less drawings.

(ii) Interest on capital @ 12% p.a.

(iii) His share of goodwill.

(iv) His share in the profits of the firm till the date of his death calculated on the basis of average profit of the previous four years.

The following information was obtained from the books of the firm on the date of Kishore's death :

(a) Balance in his capital account on 1st April, 2024 was Rs. 4,00,000 and he had withdrawn Rs. 90,000 till that date for his treatment.

(b) Goodwill of the firm on Kishore's death was valued at Rs. 60,000.

(c) Profits of the firm for the last four completed years were : Rs. 2,00,000, Rs. 2,20,000, Rs. 1,20,000 and Rs. 1,80,000.

Prepare Kishore's capital account to be presented to his executors. [4 marks]

Solution:

Concept:

- A deceased partner's capital account is credited with opening capital, interest on capital, goodwill entitlement and profit up to death; drawings are debited.
- Kishore's old profit share is $1/(3+2+1) = 1/6$. The period from 1st April to 1st August is four months; annual amounts are multiplied by $4/12$.
- The balance payable is transferred to the deceased partner's executor's account, closing the capital account.

Step 1: Calculate interest and goodwill Interest on the opening capital for four months is

$$4,00,000 \times \frac{12}{100} \times \frac{4}{12} = \text{Rs } 16,000.$$

The goodwill entitlement is $60,000 \times 1/6 = \text{Rs } 10,000$. The surviving partners bear this adjustment in their gaining ratio. With no changed ratio stated, Hans and Sohan continue in their relative ratio of $3:2$; their capital accounts are debited by Rs 6,000 and Rs 4,000 respectively. Only Kishore's credit is required in this account.

Step 2: Determine profit up to death The four completed years are all included in the average:

$$\text{Average annual profit} = \frac{2,00,000 + 2,20,000 + 1,20,000 + 1,80,000}{4} = \text{Rs } 1,80,000.$$

Kishore's share for four months is

$$1,80,000 \times \frac{4}{12} \times \frac{1}{6} = \text{Rs } 10,000.$$

This estimated profit is credited through Profit and Loss Suspense Account. The Rs 90,000 withdrawn

for treatment is deducted separately from capital; it is not a firm expense.

Step 3: Prepare the capital account Kishore's Capital Account (as at 1st August, 2024)

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Drawings	90,000	By Balance b/d	4,00,000
To Kishore's Executor's A/c	3,46,000	By Interest on Capital A/c	16,000
		By Hans's Capital A/c	6,000
		By Sohan's Capital A/c	4,000
		By Profit and Loss Suspense A/c	10,000
Total	4,36,000	Total	4,36,000

The debit transfer of Rs 3,46,000 closes Kishore's account and creates the corresponding liability to his executor. No balance c/d remains in the deceased partner's capital account.

Step 4: Conclusion The amount payable to Kishore's executor is $\boxed{\text{Rs } 3,46,000}$.

Quick Tip to Solve: Use four months for both interest and estimated profit; deduct treatment drawings only after adding Kishore's entitlements.

23(a). Mayank Ltd. invited applications for issuing 70,000 equity shares of Rs. 100 each. The amount was payable as follows :

On Application - Rs. 20 per share

On Allotment - Rs. 40 per share

On First call - Rs. 20 per share

On Second and Final Call - Balance

Applications for 1,00,000 shares were received and allotment was made to all the applicants on pro-rata basis. Excess application money received with application was adjusted towards sums due on allotment. Jay, a shareholder who had applied for 1,000 shares, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Afterwards the first call was made. Meenakshi, the shareholder of 1,400 shares, failed to pay the first call money and her shares were forfeited just after the first call. The second and final call has not been made.

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

Solution:

Concept:

- Pro-rata allotment gives $70,000/1,00,000 = 7/10$ of the shares applied for. Excess application money is credited against allotment due.
- On forfeiture, debit Share Capital with called-up capital on forfeited shares; credit unpaid calls and Share Forfeiture with capital already received.
- A call made after forfeiture applies only to shares still outstanding. The uncalled second and final call gives rise to no journal entry.

Step 1: Calculate pro-rata adjustment and Jay's default Application receipts are $1,00,000 \times 20 =$ Rs $20,00,000$. Application capital is $70,000 \times 20 =$ Rs $14,00,000$; excess Rs 6,00,000 is adjusted to allotment. Allotment due is $70,000 \times 40 =$ Rs $28,00,000$, leaving Rs 22,00,000 receivable.

Jay receives $1,000 \times 7/10 = 700$ shares. His application payment is Rs 20,000, of which Rs 14,000 is application capital and Rs 6,000 meets allotment. Thus his unpaid allotment is $700 \times 40 - 6,000 =$ Rs $22,000$. Called capital on his shares is $700 \times 60 =$ Rs $42,000$; forfeiture credit is Rs 20,000. Allotment cash actually collected is Rs 21,78,000.

Step 2: Record application and allotment Journal of Mayank Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being applications received for 1,00,000 shares)		20,00,000	 20,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Being application transferred and excess adjusted)		20,00,000	 14,00,000 6,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 70,000 shares)		28,00,000	 28,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received except Jay's balance)		21,78,000	 21,78,000

Step 3: Record Jay's forfeiture and compute first call Journal of Mayank Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Jay's 700 shares forfeited for unpaid allotment)		42,000	 22,000 20,000

Outstanding shares after Jay's forfeiture are $70,000 - 700 = 69,300$. First call due is $69,300 \times 20 =$ Rs $13,86,000$. Meenakshi holds 1,400 allotted shares and defaults on $1,400 \times 20 =$ Rs $28,000$. Hence first-call cash received is Rs 13,58,000. Her called-up capital is $1,400 \times 80 =$ Rs $1,12,000$. Having paid application and allotment (including the adjustment), she has paid $1,400 \times 60 =$ Rs $84,000$.

Step 4: Record the first call and Meenakshi's forfeiture Journal of Mayank Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr. To Share Capital A/c (Being first call due on 69,300 shares)		13,86,000	 13,86,000
	Bank A/c Dr. To Share First Call A/c (Being first call received except Meenakshi's default)		13,58,000	 13,58,000
	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c (Being Meenakshi's 1,400 shares forfeited)		1,12,000	 28,000 84,000

The second and final call of Rs 20 per share has not been made, so it is neither due nor included in either forfeiture entry. No reissue is given; Share Forfeiture remains a credit balance until the relevant shares are reissued.

Step 5: Conclusion Jay's 700 shares and Meenakshi's 1,400 shares are forfeited; Share Forfeiture is credited with Rs 20,000 and Rs 84,000 respectively (total Rs 1,04,000).

Quick Tip to Solve: Deduct Jay's 700 forfeited shares before making the first call; use the excess application adjustment to reduce his unpaid allotment.

OR

23(b). Pass necessary journal entries for forfeiture and re-issue of shares for the following transactions :

(i) Sierra Ltd. forfeited 500 shares of Rs. 10 each, issued at a premium of Rs. 2 per share (payable with allotment) for non-payment of allotment money of Rs. 5 per share (including premium). The first and final call of Rs. 3 per share was not made. All the forfeited shares were reissued at Rs. 11 per share, fully paid-up.

(ii) Mahira Ltd. forfeited 800 shares of Rs. 10 each on which first call of Rs. 3 per share was not received. The second and final call of Rs. 2 per share was not yet called. Out of these, 400 shares were reissued as Rs. 8 paid-up for Rs. 7 per share. [6 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up nominal amount only. Reverse securities premium when it was due but never received.
- The amount already received towards nominal capital is credited to Share Forfeiture. Reissue discount cannot exceed forfeiture on those reissued shares.
- Only the forfeiture surplus relating to shares actually reissued is transferred to Capital Reserve; the balance for unreissued shares is retained.

Step 1: (i) Sierra Ltd.: determine called-up and received amounts The uncalled final call is Rs 3, so nominal capital called up is $10 - 3 =$ Rs 7 per share. Allotment of Rs 5 includes Rs 2 premium and Rs 3 nominal capital. Thus the amount received towards capital is $7 - 3 =$ Rs 4 per share. For 500 shares, capital debited is Rs 3,500, unpaid allotment is Rs 2,500, unpaid premium is Rs 1,000 and forfeiture credit is Rs 2,000. The uncalled amount is not recorded as arrears.

Step 2: (i) Record Sierra Ltd. journal entries Journal of Sierra Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		3,500	
	Securities Premium A/c Dr.		1,000	
	To Share Allotment A/c			2,500
	To Share Forfeiture A/c			2,000
	(Being 500 shares forfeited for unpaid allotment, premium reversed)			
	Bank A/c Dr.		5,500	
	To Share Capital A/c			5,000
	To Securities Premium A/c			500
	(Being 500 forfeited shares reissued fully paid at Rs 11 each)			
	Share Forfeiture A/c Dr.		2,000	
	To Capital Reserve A/c			2,000
	(Being profit on reissue transferred to capital reserve)			

Step 3: (ii) Mahira Ltd.: calculate forfeiture and reissue surplus The final Rs 2 is uncalled; hence the nominal amount called up is Rs 8 per share. Since Rs 3 first call is unpaid, Rs 5 per share has been received. Accordingly, for 800 shares, Share Capital is debited by $800 \times 8 = \text{Rs } 6,400$, First Call credited by Rs 2,400 and Share Forfeiture credited by Rs 4,000. On reissue of 400 shares, bank receives Rs 2,800 and paid-up capital is Rs 3,200, creating a Rs 400 discount. Forfeiture attributable to these shares is $400 \times 5 = \text{Rs } 2,000$, so Rs 1,600 is capital profit. The remaining Rs 2,000 stays in Share Forfeiture for the 400 unreissued shares.

Step 4: (ii) Record Mahira Ltd. journal entries Journal of Mahira Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		6,400	
	To Share First Call A/c			2,400
	To Share Forfeiture A/c			4,000
	(Being 800 shares forfeited for non-payment of first call)			
	Bank A/c Dr.		2,800	
	Share Forfeiture A/c Dr.		400	
	To Share Capital A/c			3,200
	(Being 400 shares reissued at Rs 7 each as Rs 8 paid-up)			
	Share Forfeiture A/c Dr.		1,600	
	To Capital Reserve A/c			1,600
	(Being surplus relating to the 400 reissued shares transferred)			

Step 5: Conclusion Sierra Ltd. transfers Rs 2,000 to Capital Reserve and records Rs 500 fresh securities premium on reissue. Mahira Ltd. transfers Rs 1,600 to Capital Reserve and retains Rs 2,000 in Share Forfeiture.

Quick Tip to Solve: First exclude each uncalled instalment from called-up capital; transfer forfeiture surplus only for the shares actually reissued.

24(a). Uma and Umesh were partners in a firm sharing profits and losses in the ratio of 2 : 3. On 31st March, 2024, their Balance Sheet was as follows :

Balance Sheet of Uma and Umesh as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals : Uma 5,00,000 Umesh 7,50,000	12,50,000	Land and Building	10,00,000
Creditors	50,000	Furniture	1,00,000
General Reserve	75,000	Debtors 80,000 Less : Provision for doubtful debts 5,000	75,000
Workmen Compensation Fund	25,000	Stock	40,000
Outstanding Electricity Bill	10,000	Bank	1,95,000
	14,10,000		14,10,000

On the above date, Daya was admitted as a new partner on the following terms :

(i) The new profit sharing ratio of Uma, Umesh and Daya will be 2 : 3 : 5.

(ii) Daya will bring Rs. 10,00,000 as her capital and Rs. 2,00,000 as her share of goodwill premium.

(iii) The value of Land and Building will be increased by Rs. 2,00,000.

(iv) Furniture will be depreciated by 10%.

(v) Rs. 3,000 bad debts will be written off and a provision for bad and doubtful debts be created @ 5% of debtors.

(vi) Outstanding electricity bill will be paid off.

Pass necessary journal entries for the above transactions on Daya's admission. [6 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit belong to the old partners in their old ratio, Uma : Umesh = 2 : 3.
- Goodwill premium is credited to sacrificing partners in their sacrificing ratio. The sacrifice equals old share minus new share.
- Bad debts reduce debtors before the new provision is calculated. Paying an existing liability reduces bank and the liability, without affecting revaluation profit.

Step 1: Calculate sacrifice and reserve distribution Uma sacrifices $2/5 - 2/10 = 2/10$, while Umesh sacrifices $3/5 - 3/10 = 3/10$; hence their sacrificing ratio is $2 : 3$. Daya brings Rs 2,00,000 goodwill premium, credited Rs 80,000 to Uma and Rs 1,20,000 to Umesh. General Reserve Rs 75,000 and Workmen Compensation Fund Rs 25,000 total Rs 1,00,000. As no compensation claim is specified, distribute the entire fund and reserve: Uma Rs 40,000 and Umesh Rs 60,000.

Step 2: Record reserves, capital and goodwill Journal of the firm (31st March, 2024)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		75,000	
	Workmen Compensation Fund A/c Dr.		25,000	
	To Uma's Capital A/c			40,000
	To Umesh's Capital A/c			60,000
	(Being accumulated reserves distributed in old ratio 2 : 3)			
	Bank A/c Dr.		12,00,000	
	To Daya's Capital A/c			10,00,000
	To Premium for Goodwill A/c			2,00,000
	(Being capital and goodwill premium brought by Daya)			
	Premium for Goodwill A/c Dr.		2,00,000	
	To Uma's Capital A/c			80,000
	To Umesh's Capital A/c			1,20,000
	(Being goodwill premium distributed in sacrificing ratio 2 : 3)			

Step 3: Calculate asset adjustments and record them Furniture depreciation is $1,00,000 \times 10\% =$ Rs $10,000$. After writing off Rs 3,000 bad debts, debtors are Rs 77,000 and the required provision is $77,000 \times 5\% =$ Rs $3,850$. Writing off bad debts against the existing Rs 5,000 provision leaves Rs 2,000; an additional provision of Rs 1,850 is therefore charged to Revaluation. This is equivalent to charging Rs 3,000 bad debts and releasing Rs 1,150 excess provision.

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Land and Building A/c Dr.		2,00,000	
	To Revaluation A/c			2,00,000
	(Being increase in value of land and building recorded)			
	Revaluation A/c Dr.		10,000	
	To Furniture A/c			10,000
	(Being furniture depreciated by 10 percent)			
	Provision for Doubtful Debts A/c Dr.		3,000	
	To Debtors A/c			3,000
	(Being bad debts written off against existing provision)			
	Revaluation A/c Dr.		1,850	
	To Provision for Doubtful Debts A/c			1,850
	(Being provision increased from Rs 2,000 to Rs 3,850)			

Step 4: Transfer revaluation profit and settle the liability Revaluation profit is $2,00,000 - 10,000 - 1,850 =$ Rs $1,88,150$. Uma receives $1,88,150 \times 2/5 =$ Rs $75,260$ and Umesh receives $1,88,150 \times 3/5 =$ Rs $1,12,890$. The existing electricity liability is paid at its book value, so it creates no revaluation gain or loss.

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr.		1,88,150	
	To Uma's Capital A/c			75,260
	To Umesh's Capital A/c			1,12,890
	(Being revaluation profit distributed in old ratio 2 : 3)			
	Outstanding Electricity Bill A/c Dr.		10,000	
	To Bank A/c			10,000
	(Being outstanding electricity bill paid off)			

Step 5: Conclusion The admission entries allocate goodwill premium in 2 : 3 and transfer revaluation profit of Rs 1,88,150 to Uma and Umesh as Rs 75,260 and Rs 1,12,890 respectively. Daya is credited with capital of Rs 10,00,000.

Quick Tip to Solve: Calculate the new provision on Rs 77,000 debtors after bad debts, and keep settlement of the existing electricity liability out of Revaluation.

OR

24(b). Naval, Nyaya and Nritya were partners in a firm sharing profits and losses in the ratio of 3 : 5 : 2. On 31st March, 2024, their Balance Sheet was as follows :

Balance Sheet of Naval, Nyaya and Nritya as at 31st March, 2024

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Land and Building	9,50,000
Naval	2,00,000	Plant and Machinery	2,00,000
Nyaya	3,00,000	Furniture	50,000
Nritya	5,00,000	Stock	70,000
General Reserve	80,000	Debtors	95,000
Mrs. Naval's Loan	2,00,000	Less: Provision for doubtful debts	(5,000)
Creditors	1,50,000	Net Debtors	90,000
		Bank	70,000
Total	14,30,000	Total	14,30,000

On the above date, Nyaya retired from the firm on the following terms :

(i) Goodwill of the firm was valued at Rs. 1,20,000 and Nyaya's share of the same was to be adjusted through the capital accounts of remaining partners.

(ii) Land and Building was to be increased by Rs. 50,000.

(iii) Plant and Machinery will be depreciated by 10%.

(iv) All debtors were found to be good, hence provision for bad debts was not required.

(v) Investments of Rs. 65,000 were unrecorded.

(vi) Amount payable to Nyaya was transferred to his loan account.

Prepare Revaluation Account and Partners' Capital Accounts on Nyaya's retirement. [6 marks]

Solution:

Concept:

- Revaluation records changes in assets and liabilities; its profit belongs to all old partners in their old ratio, here $3:5:2$.
- Accumulated reserves also belong to the old partners. The retiring partner receives goodwill compensation from the continuing partners in their gaining ratio.
- When no new ratio is specified, the continuing partners retain their relative old shares. Naval and Nritya therefore share future profits, and gain Nyayaś share, in $3:2$.

Step 1: Calculate revaluation profit Land and Building increases by Rs 50,000; the unused provision for doubtful debts of Rs 5,000 is written back; and unrecorded investments of Rs 65,000 are recognised. Depreciation on Plant and Machinery is $2,00,000 \times 10\% = \text{Rs } 20,000$.

$$\text{Revaluation profit} = 50,000 + 5,000 + 65,000 - 20,000 = \text{Rs } 1,00,000.$$

This profit is credited to Naval, Nyaya and Nritya in the old ratio: Rs 30,000, Rs 50,000 and Rs 20,000 respectively.

Step 2: Prepare Revaluation Account Revaluation Account (amounts in Rs)

Dr. Particulars	Amount	Particulars Cr.	Amount
To Plant and Machinery	20,000	By Land and Building	50,000
To Partners' Capitals:		By Provision for doubtful debts	5,000
Naval	30,000	By Investments	65,000
Nyaya	50,000		
Nritya	20,000		
Total	1,20,000	Total	1,20,000

Step 3: Distribute reserve and adjust goodwill General Reserve of Rs 80,000 is distributed in $3:5:2$: Naval Rs 24,000, Nyaya Rs 40,000 and Nritya Rs 16,000. Nyaya's goodwill entitlement is $1,20,000 \times 5/10 = \text{Rs } 60,000$. Naval bears $60,000 \times 3/5 = \text{Rs } 36,000$, and Nritya bears Rs 24,000. Debit their capital accounts and credit Nyaya's capital; goodwill is not raised as an asset. Nyaya's final capital is $3,00,000 + 40,000 + 50,000 + 60,000 = \text{Rs } 4,50,000$, transferred in full to Nyaya's Loan Account.

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

Dr. Particulars	Naval	Nyaya	Nritya	Particulars Cr.	Naval	Nyaya	Nritya
To Nyaya's Capital	36,000	–	24,000	By Balance b/d	2,00,000	3,00,000	5,00,000
To Nyaya's Loan	–	4,50,000	–	By General Reserve	24,000	40,000	16,000
To Balance c/d	2,18,000	–	5,12,000	By Revaluation	30,000	50,000	20,000
				By Naval's Capital	–	36,000	–
				By Nritya's Capital	–	24,000	–
Total	2,54,000	4,50,000	5,36,000	Total	2,54,000	4,50,000	5,36,000

Goodwill adjustments are shown through capital accounts. Naval and Nritya carry their balances forward; Nyaya has no capital balance after the loan transfer. Mrs. Naval's Loan and creditors are unchanged and do not enter these accounts.

Step 5: Conclusion Revaluation profit is Rs 1,00,000. Nyayaś loan is Rs 4,50,000; closing capitals are Naval Rs 2,18,000 and Nritya Rs 5,12,000.

Quick Tip to Solve: Keep reserve and revaluation in the old ratio, but charge retirement goodwill to the gaining partners.

25. Raja, Rajan and Rajani were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2024, their Balance Sheet was as follows :

Balance Sheet of Raja, Rajan and Rajani as at 31st March, 2024

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Land and Building	9,00,000
Raja	3,00,000	Plant and Machinery	6,00,000
Rajan	4,00,000	Furniture	1,20,000
Rajani	5,00,000	Debtors	80,000
General Reserve	1,60,000	Less: Provision for doubtful debts	(8,000)
Creditors	80,000	Net Debtors	72,000
Raja's Loan	3,00,000	Bills Receivable	18,000
Mrs. Raja's Loan	1,90,000	Stock	1,00,000
Outstanding Wages	10,000	Bank	1,30,000
Total	19,40,000	Total	19,40,000

On the above date, the firm was dissolved. Assets were realised and liabilities were paid off as follows :

(i) Land and Building was sold for Rs. 20,00,000.

(ii) Plant and Machinery realised Rs. 40,000 less than their book value and furniture was taken over by the creditors in full settlement of their account.

(iii) Debtors and Bills Receivable realised Rs. 90,000.

(iv) 60% of the stock was taken over by Raja at 90% of the book value and the remaining stock realised at Rs. 44,000.

(v) Outstanding wages were paid in full.

(vi) Mrs. Raja's loan was paid with interest of Rs. 10,000.

(vii) Realisation expenses were Rs. 8,000.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- Transfer non-cash assets at gross book values to the debit of Realisation Account, and outside liabilities and the related provision to its credit.
- Credit cash realisations and assets taken over by partners; debit payments of outside liabilities and realisation expenses. Transfer the resulting profit in the old profit-sharing ratio.

Step 1: Identify transfers and settlement rules Transfer Land and Building Rs 9,00,000, Plant and Machinery Rs 6,00,000, Furniture Rs 1,20,000, gross Debtors Rs 80,000, Bills Receivable Rs 18,000 and Stock Rs 1,00,000 to Realisation Account. Their total is Rs 18,18,000. Transfer the Rs 8,000 provision separately to the credit, together with creditors Rs 80,000, Mrs. Raja's Loan Rs 1,90,000 and outstanding wages Rs 10,000. Bank is a cash asset and is excluded. Raja's own loan is a partner's loan, paid separately outside Realisation Account. General Reserve goes directly to partners' capitals; it is not a realisation profit.

Step 2: Work out receipts and payments Plant and Machinery realises $6,00,000 - 40,000 =$

Rs $5,60,000$. Raja takes stock with book value $1,00,000 \times 60\% =$ Rs $60,000$ at $60,000 \times 90\% =$ Rs $54,000$; debit his capital and credit Realisation. Remaining stock realises Rs 44,000. Total cash receipts are $20,00,000 + 5,60,000 + 90,000 + 44,000 =$ Rs $26,94,000$. Furniture settles creditors completely, so no additional entry for its takeover is required after both book balances have been transferred. Mrs. Raja receives $1,90,000 + 10,000 =$ Rs $2,00,000$, including interest. Wages of Rs 10,000 and expenses of Rs 8,000 are also paid.

Step 3: Prepare Realisation Account Realisation Account (amounts in Rs)

Dr. Particulars	Amount	Particulars Cr.	Amount
To Land and Building	9,00,000	By Provision for doubtful debts	8,000
To Plant and Machinery	6,00,000	By Creditors	80,000
To Furniture	1,20,000	By Mrs. Raja's Loan	1,90,000
To Debtors	80,000	By Outstanding Wages	10,000
To Bills Receivable	18,000	By Bank:	
To Stock	1,00,000	Land and Building	20,00,000
To Bank:		Plant and Machinery	5,60,000
Outstanding Wages	10,000	Debtors and Bills Receivable	90,000
Mrs. Raja's Loan with interest	2,00,000	Stock	44,000
Realisation expenses	8,000	By Raja's Capital (stock)	54,000
To Partners' Capitals (profit):			
Raja	4,00,000		
Rajan	4,00,000		
Rajani	2,00,000		
Total	30,36,000	Total	30,36,000

Before profit transfer, total debits are Rs 20,36,000 and total credits are Rs 30,36,000. Hence the profit is Rs 10,00,000, allocated in the ratio $2:2:1$. Both sides then agree.

Step 4: Conclusion Realisation profit is Rs 10,00,000, credited to Raja Rs 4,00,000, Rajan Rs 4,00,000 and Rajani Rs 2,00,000.

Quick Tip to Solve: When creditors take an already transferred asset in full settlement, do not record a fictitious cash payment.

26. Meetu Ltd. is registered with an authorised capital of Rs. 1,00,00,000 divided into equity shares of Rs. 10 each. The company invited application for issuing 5,00,000 equity shares at a premium of Rs. 3 per share. The amount was payable as follows :

On Application and Allotment - Rs. 8 per share (including premium)

On First call - Rs. 3 per share

On Second and Final call - Rs. 2 per share

The issue was fully subscribed. All calls were made and were duly received except from Bhola holding 5,000 shares, who could not pay the second and final call. His shares were forfeited.

Answer the following questions : [6 marks]

26(i). The amount of share capital to be shown under the heading 'Shareholder's Funds' will be : [1 mark]

(A) Rs. 49,90,000

(B) Rs. 49,50,000

(C) Rs. 50,00,000

(D) Rs. 65,00,000

Correct Answer: (A) Rs. 49,90,000

Solution:

Concept:

- Share capital shown in the Balance Sheet includes subscribed fully paid-up capital plus the capital amount received on forfeited shares pending reissue.
- Securities premium is separate from share capital. Forfeiture cancels the called-up face value of the defaulting shares.

Step 1: Calculate fully paid-up capital After forfeiture, $5,00,000 - 5,000 = 4,95,000$ shares remain fully paid. Their face-value capital is $4,95,000 \times 10 =$ Rs $49,50,000$.

Step 2: Add forfeited capital received Bhola paid face-value capital of $(8 - 3) + 3 =$ Rs 8 per share, so Share Forfeiture is $5,000 \times 8 =$ Rs $40,000$. Thus share capital shown is $49,50,000 + 40,000 =$ Rs $49,90,000$. Option (B) omits forfeiture; (C) ignores its effect; (D) includes premium in the original issue proceeds.

Step 3: Conclusion The amount shown is Rs 49,90,000. Hence, the correct option is (A).

Quick Tip to Solve: Add the capital received on forfeited shares to fully paid capital; exclude securities premium.

26(ii). Total number of shares into which the authorised share capital of the company is divided is : [1 mark]

(A) 10,00,000

(B) 5,00,000

(C) 1,00,000

(D) 11,50,000

Correct Answer: (A) 10,00,000

Solution:

Concept:

- The number of authorised shares equals authorised capital divided by face value per share.
- Authorised capital is the registered ceiling; the quantity actually offered is issued capital and may be smaller.

Step 1: Use registered capital and denomination The authorised capital is Rs 1,00,00,000 and each equity share has face value Rs 10. Therefore,

$$\text{Authorised shares} = \frac{1,00,00,000}{10} = 10,00,000.$$

The Rs 3 premium does not change the denomination.

Step 2: Check the alternatives Option (A) gives 10,00,000 shares and matches the calculation. Option (B), 5,00,000, is the number issued rather than authorised. Option (C), 1,00,000, would represent only Rs 10,00,000 of nominal capital. Option (D), 11,50,000, would require Rs 1,15,00,000 authorised capital, exceeding the stated ceiling.

Step 3: Conclusion The authorised capital is divided into 10,00,000 shares. Hence, the correct option is (A).

Quick Tip to Solve: Divide registered capital by face value, using neither issue price nor the number offered.

26(iii). Total amount of 'Subscribed and fully paid-up' capital will be : [1 mark]

(A) Rs. 5,00,00,000

(B) Rs. 49,50,000

(C) Rs. 50,00,000

(D) Rs. 49,90,000

Correct Answer: (B) Rs. 49,50,000

Solution:

Concept:

- Fully paid-up capital is the face value of subscribed shares on which every call has been received.
- Forfeited shares cease to form subscribed capital; the amount previously received on them is shown separately as share forfeiture.

Step 1: Identify surviving fully paid shares The issue of 5,00,000 shares was fully subscribed, but

Bholaś 5,000 shares were forfeited after failure to pay the final call. Hence $5,00,000 - 5,000 = 4,95,000$ shares remain subscribed and fully paid.

Step 2: Calculate nominal capital and test options At Rs 10 per share, fully paid capital is $4,95,000 \times 10 =$ Rs $49,50,000$. Option (A) is ten times the original nominal issue. Option (C) ignores forfeiture, while option (D) adds Rs 40,000 forfeited capital to the surviving fully paid capital; that addition belongs to the broader share-capital presentation, not this category.

Step 3: Conclusion Subscribed and fully paid-up capital is Rs 49,50,000. Hence, the correct option is (B).

Quick Tip to Solve: Remove forfeited shares before multiplying by face value for fully paid-up capital.

26(iv). 'Subscribed but not fully paid-up' capital will be : [1 mark]

(A) Rs. 48,500

(B) Nil

(C) Rs. 51,500

(D) Rs. 70,000

Correct Answer: (B) Nil

Solution:

Concept:

- Subscribed but not fully paid-up capital concerns outstanding subscribed shares on which part of the called nominal value remains unpaid.
- Forfeiture cancels the defaulting shareholder's shares; the amount already received towards capital is transferred to Share Forfeiture Account.

Step 1: Identify the shares remaining subscribed Bhola held $5,000$ shares and failed to pay the final call of Rs 2 per share. However, his shares have already been forfeited. They therefore no longer form part of the outstanding subscribed shares.

Step 2: Classify the remaining shares The remaining $5,00,000 - 5,000 = 4,95,000$ shares are fully paid. Consequently, there are no outstanding partly paid shares. Rs 48,500, Rs 51,500 and Rs 70,000 do not represent any subscribed but not fully paid-up capital after forfeiture.

Step 3: Conclusion Subscribed but not fully paid-up capital is Nil. Hence, the correct option is (B).

Quick Tip to Solve: Check whether the defaulting shares are still outstanding or have already been forfeited.

26(v). The issued capital of the company is : [1 mark]

(A) Rs. 50,00,000

(B) Rs. 5,00,000

(C) Rs. 65,00,000

(D) Rs. 1,00,00,000

Correct Answer: (A) Rs. 50,00,000

Solution:

Concept:

- Issued capital is the nominal value of shares offered for subscription.
- Securities premium is recorded separately and is excluded from share capital.

Step 1: Calculate nominal capital issued Meetu Ltd. offered $5,00,000$ equity shares with a face value of Rs 10 each. Thus, issued capital equals $5,00,000 \times 10 =$ Rs $50,00,000$. The Rs 3 premium per share does not change the nominal value.

Step 2: Compare the alternatives Rs 5,00,000 confuses the number of shares with their nominal monetary value. Rs 65,00,000 includes securities premium in the issue proceeds. Rs 1,00,00,000 is the authorised capital, the maximum permitted capital rather than the capital actually issued. Forfeiture does not change the historical amount issued.

Step 3: Conclusion The issued capital is Rs $50,00,000$. Hence, the correct option is (A).

Quick Tip to Solve: Multiply the number of shares offered by face value, excluding premium.

26(vi). 'Share Forfeiture Account' will appear under subscribed capital at : [1 mark]

(A) Rs. 55,000

(B) Rs. 50,000

(C) Rs. 10,000

(D) Rs. 40,000

Correct Answer: (D) Rs. 40,000

Solution:

Concept:

- Share Forfeiture Account is credited with the capital amount already received on forfeited shares.
- Premium already collected is retained in Securities Premium Account and is excluded from the forfeiture credit.

Step 1: Find capital received per share Application and allotment receipts of Rs 8 include premium of Rs 3. Thus capital received at that stage is Rs $8 - 3 = 5$ per share. The first call of Rs 3 was also received, giving paid capital of Rs $5 + 3 = 8$ per share.

Step 2: Calculate forfeiture balance and reject other amounts For $5,000$ forfeited shares, the credit is $5,000 \times 8 =$ Rs $40,000$. Rs 55,000 wrongly includes the collected premium; Rs 50,000 is the nominal capital cancelled; Rs 10,000 is the unpaid final call. None is the capital amount received and forfeited.

Step 3: Conclusion Share Forfeiture Account appears at Rs $40,000$. Hence, the correct option is (D).

Quick Tip to Solve: Deduct premium from receipts before calculating capital forfeited.

Part B (20 marks)

Option – I

(Analysis of Financial Statements)

27(a). If the operating ratio of Sana Ltd. is 28%, its operating profit ratio will be _____. [1 mark]

(A) 100%

(B) 72%

(C) 28%

(D) 128%

Correct Answer: (B) 72%

Solution:

Concept:

- Operating ratio measures operating cost as a percentage of revenue from operations.
- Operating profit ratio measures the remaining percentage: operating profit ratio $= 100\% -$ operating ratio.

Step 1: Apply the complementary relationship Operating cost and operating profit together equal revenue from operations. Dividing this identity by revenue and multiplying by 100 gives operating ratio plus operating profit ratio equal to 100%.

Step 2: Substitute the given operating ratio Operating profit ratio $= 100\% - 28\% = 72\%$. The 28% option repeats the cost proportion; 100% ignores operating costs, while 128% incorrectly adds the cost percentage to total revenue.

Step 3: Conclusion The operating profit ratio is 72%. Hence, the correct option is (B).

Quick Tip to Solve: Subtract the operating ratio from 100 to find the operating profit ratio.

OR

27(b). The statement which expresses all items of a financial statement as a percentage of some common base is _____. [1 mark]

(A) Comparative Statement

(B) Common Size Statement

(C) Statement of Profit and Loss

(D) Position Statement

Correct Answer: (B) Common Size Statement

Solution:

Concept:

- A common size statement expresses each item as a percentage of a common base.
- Typical bases are revenue from operations for income statements and total assets or total equity and liabilities for balance sheets.

Step 1: Identify the percentage-based analysis The wording specifies that every item is related to one common base. This is vertical analysis, in which the base is taken as 100% and each item is expressed relative to it. The named analytical statement is the Common Size Statement.

Step 2: Eliminate the other statements A Comparative Statement shows changes between accounting periods, including absolute and percentage changes. A Statement of Profit and Loss reports financial performance, and a Position Statement reports financial position. Their ordinary formats do not by themselves express every item as a percentage of a common base.

Step 3: Conclusion The statement is a Common Size Statement. Hence, the correct option is (B).

Quick Tip to Solve: Look for one common base taken as 100 percent to identify a common size statement.

28. The Current Ratio of Manas Ltd. is 2 : 1. Which of the following transactions will reduce the current ratio ? [1 mark]

(A) Payment to trade payables

(B) Issue of shares

(C) Sale of inventory at a loss

(D) Cash collected from trade receivables

Correct Answer: (C) Sale of inventory at a loss

Solution:

Concept:

- Current ratio $=$ current assets/current liabilities.
- A reduction in current assets with current liabilities unchanged reduces the current ratio.

Step 1: Test a sale of inventory at a loss Inventory is removed at its carrying amount, while cash or trade receivables increase by the lower sale proceeds. The loss therefore reduces total current assets. Current liabilities remain unchanged, so the original ratio of $2 : 1$ falls.

Step 2: Test the remaining transactions Payment to trade payables reduces both current assets and current liabilities by the same amount; when the original ratio exceeds one, this increases the ratio. A cash issue of shares increases current assets without increasing current liabilities, so the ratio rises. Cash collected from trade receivables only exchanges one current asset for another, leaving the ratio unchanged.

Step 3: Conclusion Sale of inventory at a loss reduces the current ratio. Hence, the correct option is (C).

Quick Tip to Solve: Track the change in total current assets, not merely the cash balance.

29(a). Which of the following transactions will result in 'Cash Flows from Operating Activities' ?

[1 mark]

(A) Purchase of Inventory

(B) Payment of Dividend

(C) Purchase of Property

(D) Issue of Debentures

Correct Answer: (A) Purchase of Inventory

Solution:

Concept:

- Operating activities are the principal revenue-producing activities and other activities that are neither investing nor financing.
- Cash payments to acquire goods for normal resale are operating cash outflows.

Step 1: Classify inventory purchases Inventory is acquired for the ordinary trading or manufacturing operations of the enterprise. Cash paid to suppliers for inventory is therefore included in cash flows from operating activities. An operating cash flow may be either an inflow or an outflow.

Step 2: Classify the other alternatives Payment of dividend is a financing cash outflow because it distributes a return to owners. Purchase of property is an investing cash outflow because it acquires a long-term asset. Issue of debentures is a financing cash inflow because it raises borrowed capital. Thus these three transactions are outside operating activities.

Step 3: Conclusion Purchase of Inventory results in cash flows from operating activities. Hence, the correct option is (A).

Quick Tip to Solve: Purchases for normal resale belong to operations; purchases of long-term assets belong to investing.

OR

29(b). 'Sale of Patents' will result in : [1 mark]

(A) Cash outflows from investing activities

(B) Cash inflows from investing activities

(C) Cash inflows from financing activities

(D) Cash inflows from operating activities

Correct Answer: (B) Cash inflows from investing activities

Solution:

Concept:

- Investing activities include acquisition and disposal of long-term assets, including intangible assets.
- A receipt from disposal is a cash inflow; a payment for acquisition is a cash outflow.

Step 1: Identify the asset and the activity A patent is an intangible non-current asset that provides a right to use an invention. Selling it disposes of a long-term asset, so the receipt belongs to investing activities rather than the ordinary operating cycle or the raising of finance.

Step 2: Determine the direction and compare options The sale brings money into the business, so it is an inflow. An investing outflow would arise on buying a patent. Financing inflows arise from raising owners' funds or borrowings, while operating inflows arise from principal revenue-producing activities. These descriptions do not fit the sale of a patent.

Step 3: Conclusion Sale of Patents results in cash inflows from investing activities. Hence, the correct option is (B).

Quick Tip to Solve: Classify a patent as a long-term intangible asset, then use sale to identify the inflow direction.

30. Statement I : Sale of marketable securities will result in flow of cash.

Statement II : Cash flow implies movement of cash in and out due to some non-cash items.

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

(A) Both the statements are true.

(B) Both the statements are false.

(C) Statement I is true, Statement II is false.

(D) Statement I is false, Statement II is true.

Correct Answer: (B) Both the statements are false.

Solution:

Concept:

- Cash equivalents are short-term highly liquid investments readily convertible into known amounts of cash with insignificant risk of changes in value.
- Movements between cash and cash equivalents are excluded from cash flows; non-cash transactions also do not create cash flows.

Step 1: Evaluate Statement I In this CBSE cash flow context, marketable securities are treated as cash equivalents. Their sale converts a cash equivalent into cash without changing the total of cash and cash equivalents. It is therefore not reported as a cash flow. Statement I is false.

Step 2: Evaluate Statement II and select the combination Cash flow is an inflow or outflow of cash and cash equivalents arising from cash transactions. A non-cash item, such as depreciation, does not itself move cash; its adjustment under the indirect method only reconciles accounting profit with operating cash flow. Statement II is consequently false. The alternatives asserting that either or both statements are true are rejected.

Step 3: Conclusion Both statements are false. Hence, the correct option is (B).

Quick Tip to Solve: Check total cash plus cash equivalents: an internal transfer between them is not a cash flow.

31. Under which major heads and sub-heads (if any) will the following items be shown in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013 ?

(i) Capital Reserve

(ii) Trade Payables

(iii) Goodwill [3 marks]

Solution:

Concept:

- Schedule III classifies each balance-sheet item according to its nature as equity, liability or asset. A major head is broader than the sub-head containing the specific item.
- Capital reserve represents a capital profit retained in the company; trade payables are amounts payable for goods or services acquired in the ordinary course of business.
- Goodwill is an intangible asset: it has value but no physical form, and is classified among non-current assets.

Step 1: Classify the equity and liability items Capital reserve is part of the shareholders' funds, since it is a reserve rather than an amount owed to an outside party. Its sub-head is Reserves and Surplus. Trade payables are classified under Current Liabilities. Trade Payables is itself the separate line item under that major head; no further sub-head is needed here.

Step 2: Present the required classification Balance Sheet classification as per Schedule III, Part I

Item	Major head	Sub-head / presentation
Capital Reserve	Shareholders' Funds	Reserves and Surplus
Trade Payables	Current Liabilities	Trade Payables (separate line item)
Goodwill	Non-current Assets	Fixed Assets: Intangible Assets

Goodwill belongs to intangible fixed assets because it is a non-physical resource giving benefits beyond the current operating period. It is not included in tangible assets or current assets.

Step 3: Conclusion Capital Reserve: Shareholders' Funds, Reserves and Surplus; Trade Payables: Current Liabilities; Goodwill: Non-current Assets, Fixed Assets, Intangible Assets.

Quick Tip to Solve: First decide whether the item is equity, an outside liability or an asset; then select its specific Schedule III sub-head.

32. From the following information, prepare a Comparative Statement of Profit and Loss of X Ltd. for the year ended 31st March, 2024.

Particulars	2023 - 24	2022 - 23
Revenue from operations	Rs. 40,00,000	Rs. 20,00,000
Cost of revenue from operations	60% of Revenue from operations	50% of Revenue from operations
Employees Benefit Expenses	Rs. 8,00,000	Rs. 6,00,000
Tax Rate	25%	25%

[3 marks]

Solution:

Concept:

- A comparative statement shows the previous year, the current year, the absolute change and the percentage change for each item.
- Absolute change = current-year amount minus previous-year amount; percentage change = absolute change divided by previous-year amount, multiplied by 100.
- Profit before tax equals revenue from operations less the stated operating expenses. Tax is 25% of profit before tax; profit after tax is the balance.

Step 1: Calculate expenses, profit and tax For 2022–23, cost of revenue from operations is $20,00,000 \times 50\% =$ Rs $10,00,000$. Hence, total expenses are $10,00,000 + 6,00,000 =$ Rs $16,00,000$, profit before tax is Rs 4,00,000, tax is Rs 1,00,000 and profit after tax is Rs 3,00,000.

For 2023–24, cost of revenue from operations is $40,00,000 \times 60\% =$ Rs $24,00,000$. Total expenses are $24,00,000 + 8,00,000 =$ Rs $32,00,000$. Profit before tax is Rs 8,00,000, tax is Rs 2,00,000 and profit after tax is Rs 6,00,000.

Step 2: Prepare the comparative statement X Ltd.

Comparative Statement of Profit and Loss for the year ended 31st March, 2024

Particulars	2022–23 Rs	2023–24 Rs	Increase Rs	Change %
Revenue from operations	20,00,000	40,00,000	20,00,000	100
Expenses:				
Cost of revenue from operations	10,00,000	24,00,000	14,00,000	140
Employees benefit expenses	6,00,000	8,00,000	2,00,000	33.33
Total expenses	16,00,000	32,00,000	16,00,000	100
Profit before tax	4,00,000	8,00,000	4,00,000	100
Less: Tax	1,00,000	2,00,000	1,00,000	100
Profit after tax	3,00,000	6,00,000	3,00,000	100

For example, the increase in cost is $14,00,000/10,00,000 \times 100 = 140\%$, while the increase in employees benefit expenses is $2,00,000/6,00,000 \times 100 = 33.33\%$ (rounded). All percentage changes use 2022–23 as the base year.

Step 3: Conclusion Profit after tax increases from Rs 3,00,000 to Rs 6,00,000, an increase of Rs 3,00,000 or 100%.

Quick Tip to Solve: Use the older year as the denominator for every percentage change, even when the table gives the current year first.

33(a). **The following information has been obtained from the books of Gama Ltd. :**

Particulars	Amount (Rs.)
Inventory	2,50,000
Total Current Assets	3,40,000
Shareholder's Funds	10,00,000
12% Debentures	20,00,000
Net Profit Before Tax	9,60,000
Cost of Revenue from Operations	6,00,000

Calculate :

(i) Debt Equity Ratio

(ii) Interest Coverage Ratio [4 marks]

Solution:

Concept:

- Debt-equity ratio compares long-term debt with shareholders' funds: Debt-equity ratio $=$ Long-term debt/Shareholders' funds.
- Interest coverage ratio measures the number of times profit before interest and tax covers interest on long-term debt: Interest coverage ratio $=$ EBIT/Interest.
- Net profit before tax has already deducted interest. Therefore, EBIT $=$ Net profit before tax $+$ Interest.

Step 1: Calculate the debt-equity ratio The long-term debt given is the 12% debentures of Rs 20,00,000. Shareholders' funds are Rs 10,00,000. Thus,

$$\text{Debt-equity ratio} = \frac{20,00,000}{10,00,000} = 2:1.$$

This means the company has Rs 2 of long-term debt for each Rs 1 of shareholders' funds. Inventory and total current assets do not enter this ratio because neither represents long-term debt or shareholders' funds.

Step 2: Find annual interest and profit before interest and tax Interest is calculated on the face value of the debentures at the stated annual rate:

$$\text{Interest} = 20,00,000 \times \frac{12}{100} = \text{Rs } 2,40,000.$$

The given net profit before tax of Rs 9,60,000 is after charging interest. Add that interest back to obtain the profit available to cover it:

$$\text{EBIT} = 9,60,000 + 2,40,000 = \text{Rs } 12,00,000.$$

Tax is not deducted, because interest coverage uses profit before tax as well as before interest.

Step 3: Calculate interest coverage Substitute the profit before interest and tax and the annual

interest:

$$\text{Interest coverage ratio} = \frac{12,00,000}{2,40,000} = 5 \text{ times.}$$

Thus operating earnings before interest and tax cover the annual debenture interest five times. Dividing the given Rs 9,60,000 directly by interest would yield 4 times, which incorrectly uses profit after interest. Cost of revenue from operations is not needed because profit before tax is already supplied.

Step 4: Conclusion (i) Debt-equity ratio $= 2:1$. (ii) Interest coverage ratio $= 5$ times.

Quick Tip to Solve: When profit before tax is supplied, add debenture interest back before dividing by interest to find interest coverage.

OR

33(b). Calculate Current Assets and Quick Assets of Beeta Ltd. from the following information :

Quick Ratio = 0.75 : 1

Current Liabilities = Rs. 6,00,000

Revenue from Operations are Rs. 4,00,000

Gross Profit ratio is 20% of revenue from operations

Inventory turnover ratio = 4 times

Inventory at the end is Rs. 40,000 more than inventory at the beginning. [4 marks]

Solution:

Concept:

- Quick ratio equals quick assets divided by current liabilities. Quick assets exclude inventory and prepaid expenses from current assets.
- Inventory turnover ratio equals cost of revenue from operations divided by average inventory, the mean of opening and closing inventory.

Step 1: Calculate quick assets Using the quick ratio of $0.75:1$,

$$\text{Quick assets} = 0.75 \times 6,00,000 = \text{Rs } 4,50,000.$$

This ratio relates quick assets to current liabilities, not to sales or inventory.

Step 2: Calculate average inventory Gross profit is calculated on revenue from operations, so

$$\begin{aligned} \text{Gross profit} &= 4,00,000 \times 20/100 = \text{Rs } 80,000, \\ \text{Cost of revenue} &= 4,00,000 - 80,000 = \text{Rs } 3,20,000, \\ \text{Average inventory} &= 3,20,000/4 = \text{Rs } 80,000. \end{aligned}$$

Inventory turnover uses cost of revenue rather than revenue itself. Using sales here would overstate average inventory.

Step 3: Find closing inventory and current assets Let opening inventory be x. Closing inventory is

$x + 40,000$. Therefore,

$$[x + (x + 40,000)]/2 = 80,000,$$
$$2x + 40,000 = 1,60,000,$$
$$x = 60,000.$$

Closing inventory is Rs 1,00,000. Current assets at the year end include this closing inventory rather than the average inventory used for the turnover ratio. No prepaid expenses are supplied, so

$$\text{Current assets} = 4,50,000 + 1,00,000 = \text{Rs } 5,50,000.$$

As a check, opening inventory of Rs 60,000 and closing inventory of Rs 1,00,000 have an average of Rs 80,000; dividing cost of revenue of Rs 3,20,000 by this average gives the stated turnover of four times.

Step 4: Conclusion Current Assets = $\boxed{\text{Rs } 5,50,000}$; Quick Assets = $\boxed{\text{Rs } 4,50,000}$.

Quick Tip to Solve: Find average inventory from turnover, then add half the closing-opening difference to obtain closing inventory before adding it to quick assets.

34(a). From the following information extracted from the books of Kant Ltd., calculate 'Cash Flows from Operating Activities'.

Profit earned during the year is Rs. 1,95,000 after considering the following items :

Particulars	Amount (Rs.)
Depreciation on Machinery	50,000
Goodwill written off	30,000
Loss on Sale of Machinery	10,000
Transfer to General Reserve	1,05,000

At the end of the year, Trade Receivables showed an increase of Rs. 2,00,000 and Trade Payables a decrease of Rs. 10,000. [3 marks]

Solution:

Concept:

- Under the indirect method, operating cash flow starts with profit before tax and adjusts non-cash charges, non-operating items and changes in operating working capital.
- A transfer to general reserve is an appropriation of profit, not an operating expense or cash outflow. When stated profit is after this transfer, restore the transfer to find profit before appropriation.
- An increase in trade receivables and a decrease in trade payables both reduce cash generated from operations.

Step 1: Restore profit before appropriation The question states that profit of Rs 1,95,000 is after considering the transfer to general reserve of Rs 1,05,000. Restore this appropriation:

$$\text{Profit before appropriation} = 1,95,000 + 1,05,000 = \text{Rs } 3,00,000.$$

No tax charge or tax payment is supplied. This amount is therefore the starting profit for the operating cash flow calculation. The reserve transfer does not itself involve payment of cash.

Step 2: Adjust non-cash and non-operating charges Depreciation on machinery and goodwill written off reduced accounting profit without using cash during the year, so both are added back. Loss on sale of machinery is also added back: the disposal belongs to investing activities, and its loss must not reduce operating cash flow.

$$\begin{aligned}\text{Operating profit before working capital changes} &= 3,00,000 + 50,000 + 30,000 + 10,000 \\ &= \text{Rs } 3,90,000.\end{aligned}$$

Step 3: Prepare the operating activities statement An increase in receivables means that part of the revenue recognised has not been collected in cash. A decrease in payables means cash paid to suppliers exceeds the corresponding credit purchases or expenses. Both changes are consequently deducted.

Cash Flow Statement of Kant Ltd. (Extract: Operating Activities)

Particulars	Amount (Rs)
Profit earned after specified items	1,95,000
Add: Transfer to general reserve	1,05,000
Profit before appropriation	3,00,000
Add: Depreciation on machinery	50,000
Add: Goodwill written off	30,000
Add: Loss on sale of machinery	10,000
Operating profit before working capital changes	3,90,000
Less: Increase in trade receivables	(2,00,000)
Less: Decrease in trade payables	(10,000)
Cash generated from operations	1,80,000
Net cash flows from operating activities	1,80,000

No income-tax payment is given for a further deduction. Thus cash generated from operations is also the net cash inflow from operating activities on the information provided.

Step 4: Conclusion Cash Flows from Operating Activities = $\boxed{\text{Rs } 1,80,000 \text{ (inflow)}}$.

Quick Tip to Solve: Restore a reserve transfer when the given profit is after appropriation, then add back non-cash charges before deducting the two adverse working capital changes.

34(b). From the following information extracted from the books of Vandana Ltd., calculate Cash Flows from Investing Activities.

Particulars	31.3.2023 (Rs.)	31.3.2024 (Rs.)
Machinery	24,00,000	28,00,000
Accumulated Depreciation on Machinery	(2,00,000)	(3,00,000)
	22,00,000	25,00,000

Additional Information :

A piece of machinery costing Rs. 8,00,000 on which accumulated depreciation was Rs. 40,000, was sold for Rs. 5,00,000. [3 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire machinery and cash received from its sale. Use the gross machinery balances to calculate additions during the year.
- The gross cost equation is opening machinery plus purchases less cost of machinery sold equals closing machinery. Accumulated depreciation is a non-cash adjustment and is not a separate investing cash flow.

Step 1: Calculate machinery purchased during the year The table gives machinery at gross cost of Rs 24,00,000 on 31 March 2023 and Rs 28,00,000 on 31 March 2024. The machinery sold originally cost Rs 8,00,000. Therefore, the increase of Rs 4,00,000 alone is not the purchase amount: it is the net increase after removing the cost of the asset sold.

$$\begin{aligned} \text{Purchases} &= \text{Closing cost} - \text{Opening cost} + \text{Cost sold} \\ &= 28,00,000 - 24,00,000 + 8,00,000 \\ &= \text{Rs } 12,00,000. \end{aligned}$$

Step 2: Identify the actual disposal proceeds The question explicitly gives the cash sale proceeds as Rs 5,00,000. The carrying amount of the asset sold was Rs 8,00,000 less accumulated depreciation of Rs 40,000, or Rs 7,60,000. Hence the loss was Rs 2,60,000, but neither this loss nor accumulated depreciation is an additional investing cash payment. The sale contributes only the cash actually received, Rs 5,00,000.

Step 3: Prepare the investing activities statement The purchases calculated from the cost balances are the cash outflow for acquiring machinery, while disposal proceeds are the cash inflow. No other investing transaction or non-cash acquisition is given.

Cash Flow Statement of Vandana Ltd. (Extract: Investing Activities)

Particulars	Amount (Rs)
Cash Flows from Investing Activities	
Proceeds from sale of machinery	5,00,000
Purchase of machinery	(12,00,000)
Net cash used in investing activities	(7,00,000)

Thus Rs 5,00,000 less Rs 12,00,000 produces a negative cash flow of Rs 7,00,000. The net book values of Rs 22,00,000 and Rs 25,00,000 are not used as gross purchase balances because they already

reflect depreciation.

Step 4: Conclusion Cash Flows from Investing Activities = $\boxed{\text{Rs } 7,00,000 \text{ (outflow)}}$.

Quick Tip to Solve: Add the original cost of machinery sold to the increase in gross machinery to find purchases; use the actual sale proceeds as the inflow.

Option II (Computerised Accounting)

27(a). Computerised Accounting System rests on Five Pillars :
Data, People, Procedure and _____, _____.
Identify the blank pillars from the following : [1 mark]

(A) Hardware, Software
(B) User, Customer
(C) Software, Logic
(D) Timely access, Hardware

Correct Answer: (A) Hardware, Software

Solution:

Concept:

- The five pillars of a Computerised Accounting System are data, people, procedures, hardware and software. Hardware supplies the physical equipment, while software supplies the instructions that process accounting data.
- Read the description carefully and distinguish the named feature from the other terms offered.

Step 1: Identify the governing idea The five pillars of a Computerised Accounting System are data, people, procedures, hardware and software. Hardware supplies the physical equipment, while software supplies the instructions that process accounting data.

Step 2: Compare the printed options The question already supplies data, people and procedure. The two missing pillars must therefore be hardware and software. A user is part of people; logic is not a separately named pillar, and timely access describes a benefit rather than a component. Thus the pairs in (B), (C) and (D) do not complete the standard list.

Step 3: Conclusion Hardware and Software. Hence, the correct option is (A).

Quick Tip to Solve: Recall the five pillars as people and procedures using hardware and software to process data.

OR

27(b). Which of the following is *not* a limitation of Computerised Accounting System ? [1 mark]

(A) Faster obsolescence.

(B) Economy in processing of accounting data.

(C) Data are prone to hacking.

(D) Data may be lost or corrupted due to power interruptions.

Correct Answer: (B) Economy in processing of accounting data.

Solution:

Concept:

- A limitation is a disadvantage or risk of using a Computerised Accounting System. An advantage, such as saving processing costs, does not belong in a list of limitations.
- Read the description carefully and distinguish the named feature from the other terms offered.

Step 1: Identify the governing idea A limitation is a disadvantage or risk of using a Computerised Accounting System. An advantage, such as saving processing costs, does not belong in a list of limitations.

Step 2: Compare the printed options Economy in processing means that accounting information can be processed efficiently at lower cost, so it is a benefit. Faster obsolescence requires upgrades, hacking threatens data security, and power interruptions can cause data loss or corruption. These make (A), (C) and (D) limitations.

Step 3: Conclusion Economy in processing of accounting data. Hence, the correct option is (B).

Quick Tip to Solve: For a question asking which is not a limitation, identify the benefit among the risks.

28. MS Excel considers which of the following group of mathematical operations to be of equal importance ? [1 mark]

(A) Subtraction and Division

(B) Multiplication and Addition

(C) Division and Multiplication

(D) Exponents and Division

Correct Answer: (C) Division and Multiplication

Solution:

Concept:

- Excel applies arithmetic operators in precedence groups. Exponentiation comes before multiplication and division; multiplication and division come before addition and subtraction. Operators in the same group are evaluated from left to right.
- Read the description carefully and distinguish the named feature from the other terms offered.

Step 1: Identify the governing idea Excel applies arithmetic operators in precedence groups. Exponentiation comes before multiplication and division; multiplication and division come before addition

and subtraction. Operators in the same group are evaluated from left to right.

Step 2: Compare the printed options Division and multiplication have equal priority. For example, the expression $12/3*2$ is evaluated from left to right as $4*2=8$. Subtraction and division, multiplication and addition, and exponents and division belong to different priority groups, eliminating (A), (B) and (D).

Step 3: Conclusion Division and Multiplication. Hence, the correct option is (C).

Quick Tip to Solve: Treat multiplication and division as one precedence level, evaluating ties from left to right.

29(a). How is navigation conducted from first to last cell in a cluster of data in a column by skipping all the cells in between ? [1 mark]

(A) Home + Page down

(B) Home + Down arrow (↓)

(C) End + Down arrow (↓)

(D) CTRL + Down arrow (↓) successively

Correct Answer: (C) End + Down arrow (↓)

Solution:

Concept:

- In Excel, pressing End activates End mode; pressing Down Arrow next moves to the bottom boundary of the current continuous data region. This skips the intervening filled cells in the column.
- Home and Page Down perform different movements and do not provide this End-mode boundary navigation.

Step 1: Identify the governing idea Start at the first cell of a continuous cluster of data. Press End and then Down Arrow to move directly to the last cell of that cluster. The printed End + Down arrow notation denotes this keyboard sequence.

Step 2: Compare the printed options Option (C) names End-mode navigation to the edge of the data cluster. Home with Page Down or Down Arrow does not do this. Ctrl + Down Arrow is also a working shortcut for a contiguous data region; however, (D) adds successive repetition, whereas the asked first-to-last cluster movement is the End-mode sequence in (C).

Step 3: Conclusion End + Down arrow. Hence, the correct option is (C).

Quick Tip to Solve: Press End first, then Down Arrow, to reach the lower edge of a continuous data cluster.

OR

29(b). Individual values represented by bars, columns, lines, pie or various forms plotted on a chart are known as : [1 mark]

(A) data point

(B) data label

(C) data series

(D) data markers

Correct Answer: (D) data markers

Solution:

Concept:

- A data marker is the visual representation used to show a value on a chart, such as a bar, column, symbol or pie sector. Its size or position communicates the value represented.
- Read the description carefully and distinguish the named feature from the other terms offered.

Step 1: Identify the governing idea A data marker is the visual representation used to show a value on a chart, such as a bar, column, symbol or pie sector. Its size or position communicates the value represented.

Step 2: Compare the printed options The wording describes the plotted graphical forms, so the required term is data markers. A data point is the individual underlying value, a data label is explanatory text attached to a plotted value, and a data series is a collection of related data points. These distinctions rule out (A), (B) and (C).

Step 3: Conclusion Data markers. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish the plotted shape, called a data marker, from its value, label and series.

30. Identify the error which will be displayed on the screen when the value is not available to a function or formula : [1 mark]

(A) Correct #DIV/0! Error

(B) Correct #NUM! Error

(C) Correct #N/A Error

(D) Correct #Name Error

Correct Answer: (C) Correct #N/A Error

Solution:

Concept:

- The spreadsheet error #N/A indicates that a required value is not available to a function or formula. N/A stands for not available and identifies a missing or unavailable result.
- Read the description carefully and distinguish the named feature from the other terms offered.

Step 1: Identify the governing idea The spreadsheet error #N/A indicates that a required value is not

available to a function or formula. N/A stands for not available and identifies a missing or unavailable result.

Step 2: Compare the printed options The described condition is an unavailable value, which matches #N/A. A division by zero produces #DIV/0!, an invalid numerical argument can produce #NUM!, and an unrecognised formula name produces #NAME?. Those correspond to different problems and do not fit the condition in the question.

Step 3: Conclusion Correct #N/A Error. Hence, the correct option is (C).

Quick Tip to Solve: Match the phrase not available directly to N/A before considering other spreadsheet errors.

31. With the help of an example explain sequential code and block code. [3 marks]

Solution:

Concept:

- A code is a short numerical or alphanumerical identification assigned to an account, transaction or other accounting item.
- Sequential coding assigns consecutive numbers; block coding reserves separate number ranges for distinct groups of accounts.

Step 1: Sequential code: meaning and example Under sequential coding, items are allotted numbers consecutively, in the order in which they are entered or created. Each new item receives the next available number. For example, sales invoices may be numbered 1001, 1002, 1003 and 1004. Invoice 1003 is identified by its individual serial number; the digits need not describe the customer or the nature of the sale. This method is simple to operate and makes it easy to identify a missing invoice number or an unexplained break in the sequence.

Step 2: Block code: meaning and example Under block coding, a complete range or block of numbers is reserved for a particular category. Individual items within that category are then assigned codes from that block. For example, a business may reserve 100–199 for assets, 200–299 for liabilities, 300–399 for capital, 400–499 for revenue and 500–599 for expenses. Within the asset block, Cash can be 101, Bank 102 and Machinery 103. Thus the block identifies the broad class while the individual number identifies the specific account. Unused numbers within each block permit additional accounts to be inserted in the same class.

Step 3: Conclusion Sequential code identifies items by consecutive serial numbers, such as invoices 1001, 1002 and 1003. Block code identifies both a group and its members, such as assets 100–199 with Cash 101 and Bank 102.

Quick Tip to Solve: For sequential coding show consecutive item numbers; for block coding first reserve a range and then place individual accounts inside it.

32. Explain the following :

(i) Memo Voucher

(ii) Post-dated Voucher

(iii) User defined Voucher [3 marks]

Solution:

Concept:

- A voucher is the document or input form used to record the details of a business transaction in an accounting system.
- Special voucher types distinguish provisional entries, transactions intended for a future date and forms designed for a business-specific recording requirement.

Step 1: (i) Memo voucher A memo voucher is a non-accounting voucher used to record a transaction provisionally for information or as a reminder. It does not immediately affect the books of account or the financial statements. Once the transaction is confirmed and the necessary details are available, it can be converted into the appropriate regular accounting voucher. For example, cash given to an employee for an expense whose final amount is not yet known may initially be noted in a memo voucher; the actual expense is recorded after the bill is received.

Step 2: (ii) Post-dated voucher A post-dated voucher records a transaction intended to take effect on a future date. It is entered beforehand and marked with the relevant future date; it does not affect the current books until that date becomes applicable. For example, details of a payment by a cheque dated 30 April can be entered in advance as a post-dated payment voucher for 30 April. The future transaction is therefore retained in the system without prematurely changing the present accounts.

Step 3: (iii) User defined voucher A user defined voucher is a voucher type created or customised by the user to suit the specific recording, classification or reporting needs of a business. It may be based on a standard voucher type, with a separate name, numbering method and suitable default settings. For example, a business may create a Cash Sales voucher under the Sales type to record and separately identify its cash sales. Such vouchers bring consistency to recurring entries and help retrieve a particular class of transactions conveniently.

Step 4: Conclusion A memo voucher is provisional and non-accounting; a post-dated voucher becomes effective on a future date; and a user defined voucher is tailored to the particular needs of the business.

Quick Tip to Solve: Distinguish these vouchers by their purpose: provisional record, future effective date, or business-specific recording format.

33(a). Explain 'Generic' and 'Customised' accounting software. [4 marks]

Solution:

Concept:

- Accounting software records and processes accounting transactions and helps prepare ledgers, trial balances and financial reports.

- The suitability of a software package depends on the volume and complexity of transactions, reporting needs and the extent to which the business requires special features.

Step 1: Generic accounting software Generic accounting software is a ready-to-use package developed for the common accounting needs of many businesses. It provides standard facilities such as voucher entry, ledger maintenance, preparation of a trial balance and financial statements. The same basic package is sold to a large number of users, so its development cost is spread across them and its purchase price is generally comparatively low. Installation is relatively quick, and standard documentation, training and vendor support are commonly available. It is suitable for a small or medium business whose accounting procedures fit the standard package. For example, a small trading concern may use a ready-made package to record purchases, sales, receipts and payments. However, unusual reporting needs or special operating procedures may not be fully accommodated by its standard features.

Step 2: Customised accounting software Customised accounting software is accounting software adapted or modified to meet the specific requirements of a particular business. A standard package may be altered to provide special input screens, reports, classifications or links with other business systems. For example, a business with several branches may need a specially designed branch-wise profitability report, or a manufacturer may need its accounting system linked to its own inventory and production records. Customisation makes the system fit the organisation's procedures more closely and can improve the relevance of its reports. It normally involves additional expenditure, time for modification and testing, user training and continuing technical support. Consequently, it is appropriate where the benefit of meeting special business needs justifies the extra cost and effort.

Step 3: Conclusion Generic software offers standard accounting functions for many businesses at a generally lower cost. Customised software adapts those functions to the particular procedures and reporting requirements of an individual business.

Quick Tip to Solve: Explain each type through its target user, standard or adapted features, cost and a practical business example.

OR

33(b). 'A business data needs to be guarded from its competitors.' Explain which features of Computerised Accounting System help a business to maintain its secrecy.

[4 marks]

Solution:

Concept:

- Confidentiality means allowing only authorised persons to read or use business accounting data. Prices, customer balances and business plans must be protected from competitors.
- A Computerised Accounting System (CAS) provides security through password protection, access controls and encryption of confidential data.

Step 1: Password protection and security controls The system identifies an authorised user through

a user name and a secret password. A person without valid credentials cannot open the protected accounting data. The administrator can assign different rights to different users: for example, a clerk may enter sales vouchers while only the accountant can view final accounts or confidential reports. Thus, every employee need not have access to all business information. Passwords should remain confidential and be changed periodically; sharing them would defeat the protection.

Step 2: Data encryption Encryption converts readable accounting information into a coded, unreadable form. The data can be restored to its original form only through the appropriate decryption key or authorised facility. Therefore, even if an unauthorised person obtains a copy of the stored or transmitted data, the information cannot readily be understood. This protects commercially sensitive details from disclosure to competitors. Encryption protects the contents, while password and access controls restrict entry to the system; both work together to maintain secrecy.

Step 3: Conclusion Password protection with controlled user access, and data encryption, are the CAS features that help the business maintain the secrecy of its accounting information.

Quick Tip to Solve: Explain both how passwords restrict access and how encryption makes copied data unreadable; merely naming the features is insufficient.

34. State the steps to import data from a text file. [6 marks]

Solution:

Concept:

- Importing brings information stored in an external text file into a spreadsheet so that it can be organised, calculated and analysed.
- The Text Import Wizard separates fields using a delimiter, such as a comma or tab, or using fixed column widths, and assigns an appropriate format to each column.

Step 1: Open the destination workbook and select the source Open Microsoft Excel and the workbook into which the data is to be imported. Select the worksheet and the starting cell for the imported range. On the Data tab, choose Get External Data and then From Text. In the Import Text File dialogue box, locate the folder containing the text file, select that file and click Import. This opens the Text Import Wizard.

Step 2: Choose the original data type in the wizard In the first step of the Text Import Wizard, select Delimited if characters such as commas or tabs separate the fields. Select Fixed width if the fields occupy columns of a specified width. Select the row from which importing should begin, check the file origin or character encoding where required, and inspect the preview. Click Next to continue.

Step 3: Specify how the fields are separated For a delimited file, select the correct delimiter, such as Tab, Comma, Semicolon, Space or another specified character. Select the appropriate text qualifier if text fields are enclosed in quotation marks. For a fixed-width file, create, move or remove the column-break lines in the preview. Check that each field falls into its intended column, then click Next.

Step 4: Set the column data formats Select each column in the preview and specify its data format, such as General, Text or Date. Choose the correct order for dates. For example, an account code with

leading zeroes should be imported as Text so that its zeroes are retained. Use the option to skip a column only when that field is not required. Verify the preview and click Finish.

Step 5: Place the imported data and check it In the Import Data dialogue box, choose Existing worksheet and confirm the destination cell, or choose New worksheet if the data is to be placed separately. Click OK to insert the data. Check the headings, record count, dates and numerical columns against the text file, then save the workbook. These checks help detect a wrong delimiter or data format before the imported information is used in accounting calculations.

Step 6: Conclusion Import the selected text file through Data, From Text; specify its field separation and column formats in the Text Import Wizard; then select the worksheet destination and confirm the import.

Quick Tip to Solve: Remember the sequence: select file, choose data type, set separators, format columns, choose destination, and check the imported records.