# CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-1-3

## Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

### General Instructions

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

(ii) This question paper is divided into two Parts : **Part – A** and **Part – B**.

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

(iv) **Part – B** has **two** options. Candidates must 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. Money received in advance from the shareholders before it is actually called up by the directors is:** [1 mark]

(A) credited to calls in advance account.

(B) debited to calls in advance account.

(C) credited to calls account.

(D) debited to calls in arrears account.

**Correct Answer:** (A) credited to calls in advance account.

**Solution:**

**Concept:**

- Calls in advance are amounts received before the company makes the corresponding call; they are a liability until adjusted.
- Receipt of money increases Bank, while the liability towards the shareholder is credited.

**Step 1:** Identify the nature of the receipt The directors have not yet called up this amount. It therefore cannot be treated as payment against a call already due, or as calls in arrears, which represents an unpaid amount already called.

**Step 2:** Apply the credit rule Receipt creates a liability in Calls in Advance Account, so that account is credited. A debit would reduce this liability. Calls Account is used when the call becomes due; Calls in Arrears Account concerns unpaid calls and cannot record money received early.

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

**Quick Tip to Solve:** Look for whether the call is already due: money received before its due call is a credit balance in calls in advance.

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**2(a). Debentures in respect of which all details including names, addresses and particulars of holding of the debenture holders are entered in a register kept by the company are called:** [1 mark]

(A) Bearer debentures

(B) Redeemable debentures

(C) Registered debentures

(D) Secured debentures

**Correct Answer:** (C) Registered debentures

**Solution:**

**Concept:**

- Registered debentures identify their holders in a register maintained by the issuing company.
- The classifications registered/bearer, redeemable/irredeemable and secured/unsecured describe

different features.

**Step 1:** Use the identifying feature The question specifically states that names, addresses and particulars of holdings appear in the company register. These details identify a registered holder and therefore identify registered debentures.

**Step 2:** Distinguish the other classifications Bearer debentures are transferable by delivery and are not identified by this registration feature. Redeemable refers to repayment of principal, while secured refers to a charge on assets. Neither repayment nor security is the distinguishing information given here.

**Step 3:** Conclusion These are Registered debentures. Hence, the correct option is (C).

**Quick Tip to Solve:** Match names and holdings entered in a company register directly with registered debentures, regardless of security or maturity.

OR

**2(b). That portion of the called up capital which has been actually received from the shareholders is known as:** [1 mark]

(A) Paid up capital

(B) Called up capital

(C) Uncalled capital

(D) Reserve capital

**Correct Answer:** (A) Paid up capital

**Solution:**

**Concept:**

- Called-up capital is the portion of subscribed capital that the company has demanded from shareholders.
- Paid-up capital is the amount actually received against calls: Paid-up capital = Called-up capital − Calls in arrears.

**Step 1:** Separate the demand from its collection The company may call up an amount without receiving all of it. Called-up capital therefore describes the demand, whereas the question asks specifically for the portion actually received from shareholders.

**Step 2:** Identify the amount received The collected portion is paid-up capital. Uncalled capital is the amount not yet demanded, and reserve capital is the portion of uncalled capital callable only on winding up. Neither represents the collection against calls already made.

**Step 3:** Conclusion The amount is Paid up capital. Hence, the correct option is (A).

**Quick Tip to Solve:** Use the words actually received to identify paid-up capital; called-up capital may still include unpaid calls.

**3(a). Misha, Sarita and Isha were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. With effect from 1st April 2024, they decided that they will share profits and losses equally. The gain or sacrifice by the partners due to change in profit sharing ratio will be:** [1 mark]

(A) Misha's sacrifice 1/6, Isha's gain 1/6

(B) Misha's gain 1/6, Isha's sacrifice 1/6

(C) Misha's sacrifice 1/6, Sarita's gain 1/3, Isha's sacrifice 1/6

(D) Misha's sacrifice 1/3, Isha's gain 1/3

**Correct Answer:** (A) Misha's sacrifice 1/6, Isha's gain 1/6

**Solution:**

**Concept:**

- A partner sacrifices when the old share exceeds the new share: Sacrifice $=$ Old share $-$ New share.
- A negative sacrifice denotes gain; all new equal shares are $1/3$.

**Step 1:** Compare old and new shares The old shares of Misha, Sarita and Isha are $3/6, 2/6, 1/6$, respectively. Equal sharing makes each new share $1/3 = 2/6$. Thus Misha gives up $3/6 - 2/6 = 1/6$, while Sarita has no change.

**Step 2:** Identify the gain and test the choices Isha gains $2/6 - 1/6 = 1/6$. The sacrifice and gain balance. Option (B) reverses the direction, option (C) incorrectly changes Sarita's share, and option (D) doubles both changes. Only option (A) matches all three partners.

**Step 3:** Conclusion Misha sacrifices $1/6$, Isha gains $1/6$, and Sarita has no change. Hence, the correct option is (A).

**Quick Tip to Solve:** Convert every old and new share to sixths before subtracting, and check that total sacrifice equals total gain.

OR

**3(b). Sia, Tisha and Aryan were partners sharing profits and losses in the ratio of 4 : 7 : 1. The firm closes its books on 31st March every year. Tisha died on 1st July, 2024. Sia and Aryan will acquire Tisha's share in which of the following ratio?** [1 mark]

(A) 1 : 1

(B) 4 : 1

(C) 4 : 7

(D) 7 : 1

**Correct Answer:** (B) 4 : 1

**Solution:**

**Concept:**

- In the absence of a contrary agreement, surviving partners acquire a deceased partner's share in their existing mutual profit-sharing ratio.

- Gaining ratio compares increases in the shares of the surviving partners; the deceased partner is excluded.

**Step 1:** Identify the surviving partners Tisha is the deceased partner. Sia and Aryan are the survivors, and their existing shares are $4/12$ and $1/12$. No different arrangement for taking Tisha's share is stated, so their mutual ratio remains $4 : 1$.

**Step 2:** Verify the gains Their new shares are $4/5$ and $1/5$. Their gains are $4/5 - 4/12 = 28/60$ and $1/5 - 1/12 = 7/60$, giving $28 : 7 = 4 : 1$. Equal sharing and the ratios including Tisha's old seven parts do not apply. The dates do not alter this ratio.

**Step 3:** Conclusion Sia and Aryan acquire Tisha's share in the ratio $4 : 1$. Hence, the correct option is (B).

**Quick Tip to Solve:** Delete the deceased partner from the old ratio when no special arrangement for acquisition of the share is given.

**4. Anuj and Kartik were partners in a firm sharing profits and losses in the ratio of 5 : 4. Anuj withdrew Rs. 20,000 in the beginning of every alternate month starting from 1st April, 2023 during the year ended 31st March, 2024. Interest on Anuj's drawings @ 6% p.a. for the year ended 31st March, 2024 will be:** [1 mark]

(A) Rs. 8,400

(B) Rs. 1,200

(C) Rs. 4,200

(D) Rs. 3,600

**Correct Answer:** (C) Rs. 4,200

**Solution:**

**Concept:**

- Interest on each drawing is $I = P \times r/100 \times t/12$, where $t$ is the number of months outstanding.
- For equal drawings at regular intervals, the average period is the mean of the first and last outstanding periods.

**Step 1:** Find the dates and average period Beginning-of-alternate-month drawings occur on 1 April, 1 June, 1 August, 1 October, 1 December and 1 February. Their outstanding periods to 31 March are $12, 10, 8, 6, 4, 2$ months. Hence there are six drawings and the average period is $(12 + 2)/2 = 7$ months.

**Step 2:** Calculate the interest and compare Total drawings are Rs $20,000 \times 6 =$ Rs $1,20,000$. Thus

$$I = 1,20,000 \times \frac{6}{100} \times \frac{7}{12} = \text{Rs } 4,200.$$

Rs 8,400 doubles the correct interest; Rs 1,200 and Rs 3,600 do not use the actual weighted period of these six drawings.

**Step 3:** Conclusion Interest on drawings is Rs 4,200. Hence, the correct option is (C).

**Quick Tip to Solve:** For alternate-month drawings beginning in April, count six withdrawals and use the average of twelve and two months.

**5(a).** **Vishesh, Manik and Amit were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 1. Amit retired on 31st March, 2024. Vishesh and Manik acquired Amit's share in the ratio of 2 : 3. The new profit sharing ratio between Vishesh and Manik after Amit's retirement will be:** [1 mark]

(A) 5 : 4

(B) 2 : 3

(C) 1 : 1

(D) 27 : 23

**Correct Answer:** (D) 27 : 23

**Solution:**

**Concept:**

- Each continuing partner's new share equals the old share plus the share acquired from the retiring partner.
- The gaining ratio allocates only the retiring partner's share; it is not necessarily the new profit-sharing ratio.

**Step 1:** Allocate Amit's share Amit's old share is $1/10$. Vishesh acquires $(1/10)(2/5) = 2/50$, and Manik acquires $(1/10)(3/5) = 3/50$. These gains together equal Amit's entire $5/50$ share.

**Step 2:** Add the gains to the old shares Vishesh's new share is $5/10 + 2/50 = 27/50$. Manik's is $4/10 + 3/50 = 23/50$. Their sum is one. Option (A) retains the old mutual ratio, option (B) is only the gaining ratio, and option (C) incorrectly makes the resulting shares equal.

**Step 3:** Conclusion The new profit-sharing ratio is $27 : 23$. Hence, the correct option is (D).

**Quick Tip to Solve:** Allocate the retiring partner's fraction using the gaining ratio, then add each gain to that partner's old share.

OR

**5(b).** **Varsha, Aryan and Nimit were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Varsha retired and surrendered 1/3rd of her share in favour of Aryan and the remaining share in favour of Nimit. The new profit sharing ratio between Aryan and Nimit will be:** [1 mark]

(A) 2 : 1

(B) 8 : 7

(C) 1 : 2

(D) 1 : 1

**Correct Answer:** (B) 8 : 7

**Solution:**

**Concept:**

- New share equals old share plus the fraction acquired from the retiring partner.
- A stated fraction of a partner's share must be multiplied by that partner's actual old share.

**Step 1:** Compute the shares surrendered Varsha's share is $2/5$. Aryan gains one-third of it, namely $(1/3)(2/5) = 2/15$. Nimit gains the remaining two-thirds, namely $(2/3)(2/5) = 4/15$. The gains total $6/15 = 2/5$.

**Step 2:** Find the new ratio Aryan's new share is $2/5 + 2/15 = 8/15$, and Nimit's is $1/5 + 4/15 = 7/15$. Thus their ratio is $8 : 7$. Option (A) retains their old ratio, option (C) confuses the gains with final shares, and option (D) incorrectly assumes equality.

**Step 3:** Conclusion The new ratio between Aryan and Nimit is $8 : 7$. Hence, the correct option is (B).

**Quick Tip to Solve:** Treat one-third as a fraction of Varsha's two-fifths share, not as an absolute one-third of the firm.

**6. When the partners' capitals are fixed, the drawings made by a partner are recorded on the:** [1 mark]

(A) Debit side of Partner's Capital Account.

(B) Credit side of Partner's Capital Account.

(C) Debit side of Partner's Current Account.

(D) Credit side of Partner's Current Account.

**Correct Answer:** (C) Debit side of Partner's Current Account.

**Solution:**

**Concept:**

- Under the fixed capital method, routine partner adjustments are recorded in separate Current Accounts.
- Drawings reduce the amount due to a partner and are therefore debited to that partner's Current Account.

**Step 1:** Select the account under fixed capitals A fixed Capital Account records permanent capital and changes of a permanent nature. Ordinary drawings are a routine withdrawal rather than a permanent capital adjustment, so they are recorded in the partner's Current Account.

**Step 2:** Select the correct side A withdrawal reduces the partner's claim on the firm, so the Current Account is debited. A credit would increase that claim. Both capital-account choices disregard the fixed capital method, while the credit-current-account choice uses the wrong side for a withdrawal.

**Step 3:** Conclusion Drawings are recorded on the debit side of Partner's Current Account. Hence, the correct option is (C).

**Quick Tip to Solve:** For fixed capitals, send ordinary drawings and routine adjustments to Current Account; drawings always reduce the partner's balance.

**7. 4,000 shares of Rs. 10 each were forfeited for non-payment of second and final call money of Rs. 2 per share. The minimum amount that the company must collect at the time of reissue of these shares will be:** [1 mark]

(A) Rs. 8,000

(B) Rs. 32,000

(C) Rs. 40,000

(D) Rs. 48,000

**Correct Answer:** (A) Rs. 8,000

**Solution:**

**Concept:**

- The discount on reissue of forfeited shares cannot exceed the amount forfeited on those shares.
- Minimum reissue proceeds equal face value less the forfeited amount available to absorb discount.

**Step 1:** Find the amount already received Only the second and final call of Rs 2 per share is unpaid. Hence the amount received and forfeited is $10 - 2 = \text{Rs } 8$ per share, or $4,000 \times 8 = \text{Rs } 32,000$.

**Step 2:** Apply the maximum permitted discount The maximum discount on reissue is Rs 8 per share. Therefore the minimum cash price is $10 - 8 = \text{Rs } 2$ per share and minimum proceeds are $4,000 \times 2 = \text{Rs } 8,000$. Rs 32,000 is the forfeited amount, Rs 40,000 is the face value, and Rs 48,000 exceeds face value; none is the minimum collection.

**Step 3:** Conclusion The minimum collection is $\boxed{\text{Rs } 8,000}$. Hence, the correct option is (A).

**Quick Tip to Solve:** Subtract the paid-up forfeited amount from face value to find minimum reissue cash.

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**8. On 1st April 2023, Veebee Ltd. issued 20,000, 13% debentures of Rs. 100 each at a discount of 10% redeemable at a premium of 5% after 4 years. Total amount of interest on debentures for the year ending 31st March, 2024 will be:** [1 mark]

(A) Rs. 2,00,000

(B) Rs. 2,60,000

(C) Rs. 1,00,000

(D) Rs. 3,00,000

**Correct Answer:** (B) Rs. 2,60,000

**Solution:**

**Concept:**

- Debenture interest is calculated on nominal value at the stated coupon rate.
- Issue discount and redemption premium affect loss on issue, not the annual interest base.

**Step 1:** Determine nominal value and time The nominal value of the debentures is $20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000$. They were issued on 1st April 2023 and remain outstanding up to 31st March 2024, so interest is payable for a full year.

**Step 2:** Calculate the coupon interest Annual interest is Rs $20,00,000 \times 13/100 = \text{Rs } 2,60,000$. The

10% issue discount does not reduce nominal value for interest, and the 5% redemption premium is payable at redemption rather than as annual interest. Thus Rs 2,00,000, Rs 1,00,000 and Rs 3,00,000 do not represent the stated 13% coupon.

**Step 3:** Conclusion Total interest is $\boxed{\text{Rs } 2,60,000}$. Hence, the correct option is (B).

**Quick Tip to Solve:** Apply the coupon rate to face value, never to discounted issue proceeds.

**9. Arushi, Vivaan and Mitali were partners in a firm. On 31st March 2024, the firm was dissolved. On that date the firm had debtors of Rs. 60,000 and provision for doubtful debts of Rs. 3,000 were existing in the books. Debtors of Rs. 8,000 proved bad and full amount was realised from the remaining debtors. The amount realised from debtors was:** [1 mark]

(A) Rs. 60,000

(B) Rs. 55,000

(C) Rs. 52,000

(D) Rs. 49,000

**Correct Answer:** (C) Rs. 52,000

**Solution:**

**Concept:**

- Cash realised from debtors is the gross debtors balance less the actual irrecoverable amount.
- A provision for doubtful debts is an existing accounting estimate, not an additional cash deduction.

**Step 1:** Identify the recoverable debtors Debtors total Rs 60,000. Of this amount, Rs 8,000 proved bad, so only $60,000 - 8,000 = \text{Rs } 52,000$ remains recoverable. The question states that this remaining amount was realised in full.

**Step 2:** Separate provision from cash recovery The Rs 3,000 provision already exists in the books and is transferred separately in dissolution accounting. It is not deducted again from the recoverable debtors. Rs 60,000 ignores actual bad debts; Rs 55,000 is unsupported; and Rs 49,000 incorrectly deducts both actual bad debts and the provision.

**Step 3:** Conclusion The amount realised is $\boxed{\text{Rs } 52,000}$. Hence, the correct option is (C).

**Quick Tip to Solve:** For realisation proceeds, deduct actual bad debts only; do not deduct the provision again.

**10. Ashmit, Veena and Rohan were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Veena retired on 31st March, 2024. The capital accounts of Ashmit, Veena and Rohan showed a credit balance of Rs. 2,00,000, Rs. 1,80,000 and Rs. 1,20,000 respectively after making all adjustments relating to revaluation, goodwill, reserves etc. Veena was paid in cash brought in by Ashmit and Rohan in such a way that their capitals were in proportion to their new profit sharing ratio. The new capitals of Ashmit and Rohan will be:** [1 mark]

(A) Ashmit Rs. 3,75,000 and Rohan Rs. 1,25,000

(B) Ashmit Rs. 2,00,000 and Rohan Rs. 1,20,000

(C) Ashmit Rs. 2,50,000 and Rohan Rs. 2,50,000

(D) Ashmit Rs. 3,00,000 and Rohan Rs. 2,00,000

**Correct Answer:** (A) Ashmit Rs. 3,75,000 and Rohan Rs. 1,25,000

**Solution:**

**Concept:**

- In the absence of another agreement, continuing partners share future profits in their old relative ratio.
- Capital introduced to pay the retiring partner increases the combined capitals of the continuing partners by that payment.

**Step 1:** Find the new ratio and total capital After Veena retires, Ashmit and Rohan retain their relative shares $3:1$. Their existing capitals total $2,00,000 + 1,20,000 = \text{Rs } 3,20,000$. They bring in Rs 1,80,000 to pay Veena, giving combined new capitals of Rs 5,00,000.

**Step 2:** Allocate capital in the new ratio Ashmitś capital is $5,00,000 \times 3/4 = \text{Rs } 3,75,000$, and Rohanś is $5,00,000 \times 1/4 = \text{Rs } 1,25,000$. Their introductions are Rs 1,75,000 and Rs 5,000 respectively, totalling the required Rs 1,80,000. Option (B) keeps the old capital total; (C) uses 1:1 and (D) uses 3:2, so these fail the conditions.

**Step 3:** Conclusion New capitals: Ashmit $\boxed{\text{Rs } 3,75,000}$, Rohan $\boxed{\text{Rs } 1,25,000}$. Hence, the correct option is (A).

**Quick Tip to Solve:** Add the retiring partner payment to continuing capitals, then divide in their new ratio.

**11. Nita, Vidur and Mita were partners in a firm sharing profits and losses in the ratio of 3 : 4 : 1. On 1st April 2024, they decided to admit Samir as a new partner. The new profit sharing ratio between Nita, Vidur, Mita and Samir will now be 1 : 1 : 1 : 1. The balance sheet of Nita, Vidur and Mita before Samir's admission showed machinery at Rs. 6,00,000. On the date of admission, it was found that the machinery is overvalued by 20%. The value of machinery shown in the new Balance Sheet after Samir's admission will be:** [1 mark]

(A) Rs. 7,50,000

(B) Rs. 4,80,000

(C) Rs. 7,20,000

(D) Rs. 5,00,000

**Correct Answer:** (D) Rs. 5,00,000

**Solution:**

**Concept:**

- When an asset is overvalued by 20%, its book value represents 120% of its correct value.
- The revised balance sheet records machinery at its correct value after removing the overvaluation.

**Step 1:** Set up the valuation relationship Let the correct value of machinery be $V$. As the machinery is overvalued by 20%, the recorded amount is $V + 0.20V = 1.20V$. The balance sheet shows Rs 6,00,000, so $1.20V = 6,00,000$. The percentage is measured on the correct value.

**Step 2:** Calculate the corrected asset value Therefore $V = 6,00,000 \times 100/120 =$ Rs $5,00,000$. The reduction is Rs 1,00,000, which is exactly 20% of Rs 5,00,000. Rs 4,80,000 incorrectly deducts 20% of the recorded value; Rs 7,50,000 and Rs 7,20,000 increase an asset that needs a reduction. The profit-sharing ratios affect allocation of revaluation loss, not machinery value.

**Step 3:** Conclusion Machinery will appear at $\boxed{\text{Rs } 5,00,000}$. Hence, the correct option is (D).

**Quick Tip to Solve:** Treat the recorded value as 120 percent of correct value when an asset is overvalued by 20 percent.

**12. Sara and Tara were partners in a firm. Their capitals as on 1st April, 2023 were Rs. 6,00,000 and Rs. 4,00,000 respectively. On 1st October, 2023, Tara withdrew Rs. 1,00,000 for personal use. According to the partnership deed, interest on capital was allowed @ 8% p.a.**

**The amount of interest allowed on Tara's capital for the year ended 31st March, 2024 was:** [1 mark]

(A) Rs. 28,000

(B) Rs. 30,000

(C) Rs. 48,000

(D) Rs. 32,000

**Correct Answer:** (D) Rs. 32,000

**Solution:**

**Concept:**

- Interest on capital is calculated on capital contributed to the firm at the deed rate.
- An amount withdrawn for personal use is drawings, unless the question specifies a permanent withdrawal of capital.

**Step 1:** Classify Tara's withdrawal Taraś opening capital is Rs 4,00,000. Her Rs 1,00,000 withdrawal on 1st October is expressly for personal use and is treated as drawings. It does not constitute a stated permanent reduction of her capital for calculating interest on capital.

**Step 2:** Calculate the annual entitlement Interest on Taraś capital is therefore $4,00,000 \times 8/100 =$ Rs $32,000$ for the full year. Rs 28,000 would follow from wrongly treating the personal drawings as capital withdrawn for six months; Rs 30,000 has no basis in the given rate and period; Rs 48,000 is interest on Saraś Rs 6,00,000 capital.

**Step 3:** Conclusion Tara is allowed $\boxed{\text{Rs } 32,000}$ interest on capital. Hence, the correct option is (D).

**Quick Tip to Solve:** Distinguish personal drawings from a permanent withdrawal of capital before time-weighting interest.

**13. Assertion (A): Each partner carrying on the business of the firm is the principal as well as the agent for all the other partners of the firm.**

**Reason (R): There exists a relationship of mutual agency between all the partners.**

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

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

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

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

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

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

**Solution:**

**Concept:**

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

**Step 1:** Judge the assertion Assertion (A) is correct. A partner carrying on the firmś business acts as an agent for the others. The same partner is also a principal because the authorised business acts of other partners bind that partner.

**Step 2:** Judge the reason Reason (R) is correct. Partnership is characterised by mutual agency: each partner has this reciprocal principal-agent relationship with the other partners for the firmś business.

**Step 3:** Check the explanatory link Mutual agency directly explains why a partner has both capacities. Therefore option (B) incorrectly denies the explanatory link; (C) incorrectly rejects the true reason; and (D) incorrectly rejects the true assertion.

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

**Quick Tip to Solve:** Ask who binds whom: acting for others makes the partner agent; being bound makes the partner principal.

**14(a). VL Ltd. offered for public subscription 90,000 equity shares of Rs. 10 each at a premium of 10%. The entire amount was payable on application. Applications were received for 1,00,000 shares and allotment was made to all the applicants on pro-rata basis. The amount received on application was _____.** [1 mark]

(A) Rs. 10,00,000

(B) Rs. 9,00,000

(C) Rs. 9,90,000

(D) Rs. 11,00,000

**Correct Answer:** (D) Rs. 11,00,000

**Solution:**

**Concept:**

- Share issue price equals face value plus securities premium per share.
- Application receipts are based on shares applied for, while allotment determines the amount ultimately retained.

**Step 1:** Find the application price The face value is Rs 10 per share and premium is $10 \times 10/100 = \text{Rs } 1$ per share. Since the entire issue price is payable on application, each application carries Rs 11 per share.

**Step 2:** Use shares applied for Applications cover 1,00,000 shares, so the amount received is $1,00,000 \times 11 = \text{Rs } 11,00,000$. Pro-rata allotment of 90,000 shares affects adjustment or refund of excess receipts, not initial collections. Rs 10,00,000 ignores premium; Rs 9,00,000 uses allotted shares at face value; Rs 9,90,000 is issue price of allotted shares only.

**Step 3:** Conclusion Application money received is $\boxed{\text{Rs } 11,00,000}$. Hence, the correct option is (D).

**Quick Tip to Solve:** Multiply application price by shares applied for, not the smaller number allotted pro rata.

OR

**14(b). VX Ltd. issued 30,000, 8% debentures of Rs. 100 each at a discount of 10% redeemable at a certain rate of premium. On issue of these debentures, 'Loss on issue of debentures account' was debited with Rs. 4,50,000. The amount of premium on redemption of debentures was _____ .** [1 mark]

(A) Rs. 3,00,000

(B) Rs. 1,50,000

(C) Rs. 30,000

(D) Rs. 4,50,000

**Correct Answer:** (B) Rs. 1,50,000

**Solution:**

**Concept:**

- Loss on issue of debentures includes discount allowed on issue and premium payable on redemption.
- Premium on redemption equals total loss on issue less discount on issue.

**Step 1:** Calculate the issue discount Total nominal value is $30,000 \times \text{Rs } 100 = \text{Rs } 30,00,000$. Discount at 10% is therefore $30,00,000 \times 10/100 = \text{Rs } 3,00,000$. The 8% coupon concerns annual interest and does not determine this loss.

**Step 2:** Separate redemption premium The total loss debited is Rs 4,50,000. Hence redemption premium is $4,50,000 - 3,00,000 = \text{Rs } 1,50,000$. Rs 3,00,000 is issue discount alone; Rs 30,000 is unrelated to the loss balance; Rs 4,50,000 includes both components and cannot be premium alone.

**Step 3:** Conclusion Premium on redemption is $\boxed{\text{Rs } 1,50,000}$. Hence, the correct option is (B).

**Quick Tip to Solve:** Remove the known issue discount from total loss to isolate premium payable on redemption.

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**15(a). Kartik, Inder and Lalit were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. With effect from 1st April, 2024, they decided to share profits and losses in the ratio of 2 : 3 : 4. For this purpose, the goodwill of the firm was valued at Rs. 1,80,000. The necessary journal entry to show the effect of the above will be:** [1 mark]

(A) Lalit's Capital A/c Dr. 40,000 To Kartik's Capital A/c 40,000

(B) Kartik's Capital A/c Dr. 40,000 To Lalit's Capital A/c 40,000

(C) Lalit's Capital A/c Dr. 1,80,000 To Kartik's Capital A/c 1,80,000

(D) Kartik's Capital A/c Dr. 1,80,000 To Lalit's Capital A/c 1,80,000

**Correct Answer:** (A) Lalit's Capital A/c Dr. 40,000 To Kartik's Capital A/c 40,000

**Solution:**

**Concept:**

- A partner who gains profit share compensates a partner who sacrifices it. Compensation equals the goodwill of the firm multiplied by the share gained or sacrificed.

- Sacrificing share is old share minus new share; a negative result represents a gain. Goodwill is adjusted through capital accounts without raising a goodwill asset.

**Step 1:** Identify the sacrificing and gaining partners Kartik sacrifices $4/9 - 2/9 = 2/9$. Inder has no change, since $3/9 - 3/9 = 0$. Lalit gains $4/9 - 2/9 = 2/9$. Hence Lalit must compensate Kartik.

**Step 2:** Calculate and record the compensation The adjustment is Rs $1,80,000 \times 2/9 =$ Rs $40,000$. Debit the gaining partner and credit the sacrificing partner. The reverse entry in (B) has the wrong direction; (C) and (D) wrongly use the entire goodwill value.

Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1-4-2024 | Lalit's Capital A/c Dr. | | 40,000 | |
| | To Kartik's Capital A/c | | | 40,000 |
| | (Being goodwill adjusted for the change in profit-sharing ratio) | | | |

**Step 3:** Conclusion Lalit' s Capital A/c is debited and Kartik' s Capital A/c is credited by Rs 40,000. Hence, the correct option is (A).

**Quick Tip to Solve:** Only Kartik and Lalit change shares; multiply goodwill by 2/9 and debit Lalit.

OR

**15(b). Nidhi, Pranav and Ishu were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 1. With effect from 1st April, 2024, they decided to share profits and losses in the ratio of 4 : 1 : 5. On that date, there was a debit balance of Rs. 4,00,000 in the Profit and Loss Account. The necessary journal entry to show the effect of the above will be:** [1 mark]

(A) Ishu's Capital A/c Dr. 1,60,000 To Nidhi's Capital A/c 40,000 To Pranav's Capital A/c 1,20,000

(B) Profit & Loss A/c Dr. 4,00,000 To Nidhi's Capital A/c 2,00,000 To Pranav's Capital A/c 1,60,000 To Ishu's Capital A/c 40,000

(C) Nidhi's Capital A/c Dr. 2,00,000; Pranav's Capital A/c Dr. 1,60,000; Ishu's Capital A/c Dr. 40,000 To Profit & Loss A/c 4,00,000

(D) Nidhi's Capital A/c Dr. 40,000; Pranav's Capital A/c Dr. 1,20,000 To Ishu's Capital A/c 1,60,000

**Correct Answer:** (C) Nidhi's Capital A/c Dr. 2,00,000; Pranav's Capital A/c Dr. 1,60,000; Ishu's Capital A/c Dr. 40,000 To Profit & Loss A/c 4,00,000

**Solution:**

**Concept:**

- A debit balance in the Profit and Loss Account is an accumulated loss. It belongs to the partners in their old profit-sharing ratio.
- Write off the debit balance by debiting the partners' capital accounts and crediting the Profit and Loss Account.

**Step 1:** Allocate the accumulated loss The old ratio is $5 : 4 : 1$, whose total is 10. Nidhi bears $4,00,000 \times 5/10 =$ Rs $2,00,000$; Pranav bears $4,00,000 \times 4/10 =$ Rs $1,60,000$; Ishu bears $4,00,000 \times$

$1/10 = \text{Rs}\,40,000$. The new ratio cannot determine who bears a loss arising before the change.

**Step 2:** Pass the write-off entry Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1-4-2024 | Nidhi's Capital A/c Dr. | | 2,00,000 | |
| | Pranav's Capital A/c Dr. | | 1,60,000 | |
| | Ishu's Capital A/c Dr. | | 40,000 | |
| | To Profit & Loss A/c | | | 4,00,000 |
| | (Being accumulated loss written off in the old ratio) | | | |

Option (B) reverses the required entry. Options (A) and (D) adjust only changes in shares and do not close the accumulated loss account.

**Step 3:** Conclusion The capital accounts are debited by Rs 2,00,000, Rs 1,60,000 and Rs 40,000 respectively, and Profit & Loss A/c is credited by Rs 4,00,000. Correct option: (C).

**Quick Tip to Solve:** An accumulated debit balance is a loss: debit capitals in the old ratio and credit P&L.

**16. Moksh and Pran were partners in a firm sharing profits and losses in the ratio of 1 : 2. Their capitals were Rs. 5,00,000 and Rs. 3,00,000 respectively. They admitted Tushar as a new partner on 1st April, 2024 for 1/4th share in future profits. Tushar brought Rs. 4,00,000 as his share of capital. The goodwill of the firm on Tushar's admission will be:** [1 mark]

(A) Rs. 16,00,000

(B) Rs. 4,00,000

(C) Rs. 8,00,000

(D) Rs. 12,00,000

**Correct Answer:** (B) Rs. 4,00,000

**Solution:**

**Concept:**

- The capital brought by a new partner for a specified share implies the total capitalised value of the firm: new partner' s capital divided by that share.
- Hidden goodwill equals the implied total value less the aggregate actual capitals of all partners, including the incoming partner.

**Step 1:** Determine the implied value Tushar brings Rs 4,00,000 for $1/4$ share. Thus the implied total value is

$$\frac{4,00,000}{1/4} = \text{Rs}\,16,00,000.$$

This is the value of the firm including goodwill, not goodwill alone, so (A) is incorrect.

**Step 2:** Deduct the actual capitals Total actual capital is

$$5,00,000 + 3,00,000 + 4,00,000 = \text{Rs}\,12,00,000.$$

Therefore hidden goodwill is

$$16,00,000 - 12,00,000 = \text{Rs}\,4,00,000.$$

Option (C) is only the old partners' combined capital, while (D) is the total actual capital; neither is the goodwill.

**Step 3:** Conclusion The goodwill of the firm is Rs 4,00,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Include Tushar' s capital when subtracting actual capital from the implied firm value.

**17. Piyush, Aadi and Sudha were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 3. Aadi died on 1st October, 2024. As per the partnership deed, Aadi's share of profit or loss till the date of death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2024 amounted to Rs. 6,00,000 and that from 1st April to 30th September, 2024 amounted to Rs. 2,00,000. The profit for the year ending 31st March, 2024 was calculated as Rs. 1,50,000. The books of accounts are closed on 31st March every year.**

**Calculate Aadi's share of profits in the firm and pass necessary journal entries for the same. Show your working clearly.** [3 marks]

**Solution:**

**Concept:**

- When the deed specifies a sales basis, apply the preceding year' s profit-to-sales percentage to sales up to the date of death.
- The deceased partner' s share is estimated interim profit multiplied by the old profit-sharing fraction. Credit the partner' s capital and debit Profit and Loss Suspense Account.

**Step 1:** Find the previous year profit rate The previous year' s sales are Rs 6,00,000 and profit is Rs 1,50,000. Thus

$$\text{Profit rate} = \frac{1,50,000}{6,00,000} \times 100 = 25\%.$$

This is a profit percentage on sales, so no conversion from a percentage on cost is needed.

**Step 2:** Estimate profit and Aadi' s entitlement Sales from 1st April to 30th September, 2024 are Rs 2,00,000. Estimated profit up to death is $2,00,000 \times 25/100 = \text{Rs}\,50,000$. Aadi' s old share is $3/(4+3+3) = 3/10$. Hence

$$\text{Aadi' s profit} = 50,000 \times \frac{3}{10} = \text{Rs}\,15,000.$$

The sales already cover the relevant period; do not multiply the result again by six months divided by twelve.

**Step 3:** Record the share of profit Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1-10-2024 | Profit and Loss Suspense A/c Dr. | | 15,000 | |
| | To Aadi's Capital A/c | | | 15,000 |
| | (Being Aadi's estimated profit up to death credited on sales basis) | | | |

The suspense account records estimated profit pending determination of the firm' s actual annual result. The credit increases the amount due to Aadi' s estate. Both sides of this entry equal Rs 15,000.

**Step 4:** Conclusion Aadi' s share of profit up to death is Rs 15,000; debit Profit and Loss Suspense A/c and credit Aadi' s Capital A/c with this amount.

**Quick Tip to Solve:** Use the actual interim sales once; no further time fraction is applied after estimating profit from sales.

**18(a). The firm of Amish, Nitish and Misha, who have been sharing profits in the ratio of 2 : 2 : 1, have existed for some years. Misha wanted that she should get equal share in the profits with Amish and Nitish and she further wished that the change in the profit sharing ratio should come into effect retrospectively for the last three years. Amish and Nitish had agreement for this. The profits for the last three years were: 2021-22 Rs. 1,15,000; 2022-23 Rs. 1,24,000; 2023-24 Rs. 2,11,000. Show adjustment of profits by means of a single adjustment journal entry. Show your working clearly.** [3 marks]

**Solution:**

**Concept:**

- For a retrospective change, compare each partner' s actual credit under the old ratio with the credit that should have been made under the agreed ratio.
- Debit partners who received excess profit and credit partners who received less. A single capital adjustment changes their entitlements without reopening past profit accounts.

**Step 1:** Combine the past profits Total profit for the three years is

$$1,15,000 + 1,24,000 + 2,11,000 = \text{Rs}\,4,50,000.$$

Since the same old and revised ratios apply to every year, one comparison using the combined total is equivalent to making a separate comparison for each year.

**Step 2:** Compare old and revised entitlements Under $2 : 2 : 1$, Amish and Nitish each received $4,50,000 \times 2/5 = \text{Rs}\,1,80,000$, while Misha received $4,50,000 \times 1/5 = \text{Rs}\,90,000$. Equal sharing requires $4,50,000/3 = \text{Rs}\,1,50,000$ each. Amish and Nitish therefore each received Rs 30,000 in excess, and Misha received Rs 60,000 less than due. Total excess equals the shortfall.

**Step 3:** Pass the single adjustment entry Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Amish's Capital A/c Dr. | | 30,000 | |
| | Nitish's Capital A/c Dr. | | 30,000 | |
| | To Misha's Capital A/c | | | 60,000 |
| | (Being profits of the past three years adjusted retrospectively to equal sharing) | | | |

The debit reduces the excess profit credited to each of Amish and Nitish. The credit restores Misha' s shortfall. Total debits and credits both amount to Rs 60,000, so the entry adjusts only the distribution among partners.

**Step 4:** Conclusion Debit Amish' s and Nitish' s Capital Accounts by Rs 30,000 each and credit Misha' s Capital Account by Rs 60,000.

**Quick Tip to Solve:** Add all three years first, then compare 2:2:1 with 1:1:1 to obtain one adjustment.

OR

**18(b). Vidhi, Manas and Ansh were partners sharing profits and losses in the ratio of 2 : 3 : 5. Ansh was given a guarantee that his share of profits in any given year would not be less than Rs. 1,20,000. Deficiency, if any, would be borne by Vidhi and Manas equally. Profits for the year ended 31st March, 2024 amounted to Rs. 2,00,000. Pass necessary journal entries in the books of the firm for division of profits.** [3 marks]

**Solution:**

**Concept:**

- First calculate each partner' s normal share in the agreed profit-sharing ratio, then compare the guaranteed partner' s share with the minimum guarantee.
- The deficiency is charged to the guaranteeing partners in the stated deficiency-bearing ratio, which may differ from their normal profit-sharing ratio.

**Step 1:** Calculate the normal shares Total profit is Rs 2,00,000 and the ratio is $2 : 3 : 5$. Vidhi' s share is $2,00,000 \times 2/10 = \text{Rs}\,40,000$, Manas' s share is $2,00,000 \times 3/10 = \text{Rs}\,60,000$, and Ansh' s share is $2,00,000 \times 5/10 = \text{Rs}\,1,00,000$.

**Step 2:** Allocate the deficiency Ansh is guaranteed Rs 1,20,000. The deficiency is

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

Vidhi and Manas bear this equally, so each gives up Rs 10,000. Final profit shares are therefore Rs 30,000, Rs 50,000 and Rs 1,20,000 respectively, totalling Rs 2,00,000.

**Step 3:** Record distribution and guarantee adjustment Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 31-3-2024 | Profit and Loss Appropriation A/c Dr. | | 2,00,000 | |
| | To Vidhi's Capital A/c | | | 40,000 |
| | To Manas's Capital A/c | | | 60,000 |
| | To Ansh's Capital A/c | | | 1,00,000 |
| | (Being profit distributed in the ratio 2:3:5) | | | |
| 31-3-2024 | Vidhi's Capital A/c Dr. | | 10,000 | |
| | Manas's Capital A/c Dr. | | 10,000 | |
| | To Ansh's Capital A/c | | | 20,000 |
| | (Being guaranteed profit deficiency borne equally) | | | |

The second entry transfers the deficiency between partners and does not create any additional firm profit. Each journal entry has equal total debits and credits.

**Step 4:** Conclusion Final profit shares: Vidhi Rs 30,000; Manas Rs 50,000; Ansh Rs 1,20,000. The Rs 20,000 deficiency is borne equally by Vidhi and Manas.

**Quick Tip to Solve:** Calculate Ansh' s normal share first, then split only his Rs 20,000 deficiency equally.

**19(a). Delight Ltd. purchased assets worth Rs. 4,00,000 and took over liabilities of Rs. 70,000 of Marvel Ltd. for a purchase consideration of Rs. 3,60,000. Delight Ltd. paid the purchase consideration by issuing 11% debentures of Rs. 100 each at a premium of 20%. Pass necessary journal entries in the books of Delight Ltd.** [3 marks]

**Solution:**

**Concept:**

- Purchase consideration is the amount payable to the vendor. Compare it with net assets acquired: assets less liabilities.
- When debentures are issued at a premium, the vendor is settled at the issue price; face value is credited to Debentures Account and premium to Securities Premium Account.

**Step 1:** Determine goodwill and the number of debentures Net assets acquired are Rs $4,00,000 -$ Rs $70,000 =$ Rs $3,30,000$. Since the purchase consideration exceeds net assets, goodwill is Rs $3,60,000 -$ Rs $3,30,000 =$ Rs $30,000$. The issue price per debenture is Rs $100 + 20\% \times$ Rs $100 =$ Rs $120$. Hence the number issued is $3,60,000/120 = 3,000$. Their face value is Rs 3,00,000 and the premium is Rs 60,000.

**Step 2:** Record acquisition and settlement in the journal Journal of Delight Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Sundry Assets A/c Dr. | | 4,00,000 | |
| | Goodwill A/c Dr. | | 30,000 | |
| | To Sundry Liabilities A/c | | | 70,000 |
| | To Marvel Ltd. | | | 3,60,000 |
| | (Being assets and liabilities taken over and goodwill recognised) | | | |
| | Marvel Ltd. Dr. | | 3,60,000 | |
| | To 11% Debentures A/c | | | 3,00,000 |
| | To Securities Premium A/c | | | 60,000 |
| | (Being 3,000 debentures issued at 20% premium in settlement) | | | |

The acquisition entry balances at Rs 4,30,000 on each side; the settlement entry balances at Rs 3,60,000. No cash is paid because the entire vendor balance is discharged by debentures.

**Step 3:** Conclusion Delight Ltd. records goodwill of Rs 30,000 and issues 3,000 11% debentures, crediting Debentures Account with Rs 3,00,000 and Securities Premium Account with Rs 60,000.

**Quick Tip to Solve:** Divide the vendor balance by Rs 120, the issue price, rather than the Rs 100 face value.

OR

**19(b). Prime Ltd. took over assets of Rs. 6,00,000 and liabilities of Rs. 1,00,000 of Rabi Ltd. for a purchase consideration of Rs. 3,60,000. Prime Ltd. issued 10% debentures of Rs. 100 each at a discount of 10% in full satisfaction of purchase consideration. Pass necessary journal entries in the books of Prime Ltd.** [3 marks]

**Solution:**

**Concept:**

- Net assets equal the assets acquired less the liabilities assumed. A purchase consideration below net assets creates capital reserve.
- For debentures issued at a discount, credit Debentures Account with face value and debit Discount on Issue of Debentures Account with the difference between face value and issue proceeds.

**Step 1:** Calculate capital reserve and debentures issued Net assets taken over are Rs $6,00,000 -$ Rs $1,00,000 =$ Rs $5,00,000$. Capital reserve is the excess of net assets over purchase consideration: Rs $5,00,000 -$ Rs $3,60,000 =$ Rs $1,40,000$. Each debenture settles Rs $100 - 10\% \times$ Rs $100 =$ Rs 90 of the vendor balance. The number issued is $3,60,000/90 = 4,000$. Thus face value is Rs 4,00,000 and discount is Rs 40,000.

**Step 2:** Pass the journal entries Journal of Prime Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Sundry Assets A/c Dr. | | 6,00,000 | |
| | To Sundry Liabilities A/c | | | 1,00,000 |
| | To Rabi Ltd. | | | 3,60,000 |
| | To Capital Reserve A/c | | | 1,40,000 |
| | (Being assets and liabilities taken over at an agreed consideration) | | | |
| | Rabi Ltd. Dr. | | 3,60,000 | |
| | Discount on Issue of Debentures A/c Dr. | | 40,000 | |
| | To 10% Debentures A/c | | | 4,00,000 |
| | (Being 4,000 debentures issued at 10% discount in full settlement) | | | |

The first entry balances at Rs 6,00,000 and the second at Rs 4,00,000. Capital reserve arises on the acquisition; the discount arises on the issue of debentures. They therefore appear in their respective entries.

**Step 3:** Conclusion Prime Ltd. records capital reserve of Rs 1,40,000 and issues 4,000 10% debentures of total face value Rs 4,00,000, with discount of Rs 40,000.

**Quick Tip to Solve:** Use Rs 90 per debenture to settle Rs 3,60,000; keep acquisition capital reserve separate from issue discount.

**20. The capital of the firm of Seema and Avi is Rs. 12,00,000 and the market rate of interest is 10%. Salary of each partner is Rs. 10,000 per annum. The profits for the last four years were Rs. 3,00,000, Rs. 4,00,000, Rs. 5,00,000 and Rs. 4,00,000 respectively. Goodwill of the firm is to be valued on the basis of three years purchase of last four years average super profits. Calculate the goodwill of the firm.** [3 marks]

**Solution:**

**Concept:**

- Average maintainable profit is the average of past profits after adjusting for the annual remuneration required for the partners' services.
- Normal profit equals capital employed multiplied by the normal rate of return. Super profit is maintainable profit less normal profit; goodwill equals super profit multiplied by the years' purchase.

**Step 1:** Find average maintainable profit The four years are equally weighted, so average profit before the salary adjustment is

$$\frac{\text{Rs } 3,00,000 + \text{Rs } 4,00,000 + \text{Rs } 5,00,000 + \text{Rs } 4,00,000}{4} = \text{Rs } 4,00,000.$$

There are two partners, Seema and Avi. Their combined annual salary is $2 \times \text{Rs } 10,000 = \text{Rs } 20,000$. Deduct this annual charge once from the average profit to obtain maintainable profit of $\text{Rs } 4,00,000 - \text{Rs } 20,000 = \text{Rs } 3,80,000$. This allows for the cost of the partners' services before measuring the firm's excess earning capacity.

**Step 2:** Compute normal profit, super profit and goodwill At the market rate of interest, the normal

return on the firm's capital is

$$\text{Normal profit} = \text{Rs } 12,00,000 \times \frac{10}{100} = \text{Rs } 1,20,000.$$

Hence annual super profit, the excess return above the normal return, is

$$\text{Super profit} = \text{Rs } 3,80,000 - \text{Rs } 1,20,000 = \text{Rs } 2,60,000.$$

The question prescribes three years' purchase of the average super profit. Therefore

$$\text{Goodwill} = \text{Rs } 2,60,000 \times 3 = \text{Rs } 7,80,000.$$

The four years determine the average; the factor three capitalises the resulting annual super profit. They serve different purposes in this valuation.

**Step 3:** Conclusion The goodwill of Seema and Avi's firm is Rs 7,80,000.

**Quick Tip to Solve:** Deduct both partners' salaries, Rs 20,000, before subtracting normal profit of Rs 1,20,000.

**21. Pass necessary journal entries for issue of debentures for the following transactions:**
**(i) Kiero Ltd. issued 80,000, 9% debentures of Rs. 100 each at par, redeemable at a premium of 10%.**
**(ii) Naro Ltd. issued 50,000, 10% debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%.** [4 marks]

**Solution:**

**Concept:**

- Debentures are credited at face value. Issue proceeds equal face value plus any issue premium, while the premium on redemption is a separate liability.
- Loss on issue of debentures includes the redemption premium. An issue premium is credited separately to Securities Premium Reserve and does not reduce the initial debit to Loss on Issue of Debentures.

**Step 1:** (i) Kiero Ltd.: compute the amounts The face value issued is $80,000 \times \text{Rs } 100 = \text{Rs } 80,00,000$. Since the issue is at par, this is also the cash received. The redemption premium is $10\% \times \text{Rs } 80,00,000 = \text{Rs } 8,00,000$. Recognition of that future premium gives a loss on issue of the same amount. The annual coupon rate of $9\%$ does not change the issue entry.

Journal of Kiero Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 80,00,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 8,00,000 | |
| | To 9% Debentures A/c | | | 80,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 8,00,000 |
| | (Being 80,000 debentures issued at par, redeemable at a premium of 10%) | | | |

**Step 2:** (ii) Naro Ltd.: compute and record the issue Face value is $50,000 \times \text{Rs } 100 = \text{Rs } 50,00,000$.

Issue premium is $5\% \times$ Rs $50,00,000 =$ Rs $2,50,000$, making bank receipts Rs 52,50,000. Redemption premium is $10\% \times$ Rs $50,00,000 =$ Rs $5,00,000$. The issue premium and redemption premium are recorded separately.

Journal of Naro Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 52,50,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 5,00,000 | |
| | To 10% Debentures A/c | | | 50,00,000 |
| | To Securities Premium Reserve A/c | | | 2,50,000 |
| | To Premium on Redemption of Debentures A/c | | | 5,00,000 |
| | (Being 50,000 debentures issued at a premium of 5%, redeemable at a premium of 10%) | | | |

The first entry balances at Rs 88,00,000 and the second at Rs 57,50,000 on each side.

**Step 3:** Conclusion Kiero Ltd. records loss on issue of Rs 8,00,000; Naro Ltd. records loss on issue of Rs 5,00,000 and Securities Premium Reserve of Rs 2,50,000.

**Quick Tip to Solve:** Calculate issue proceeds and redemption premium independently; credit debentures only at their face value.

**22. Raja, Bharat and Vedika were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2024 was as follows:**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Creditors | 80,000 | Bank | 15,000 |
| General Reserve | 50,000 | Stock | 70,000 |
| Capitals:<br>Raja 1,10,000<br>Bharat 1,00,000<br>Vedika 90,000 | 3,00,000 | Debtors | 85,000 |
| | | Furniture | 1,20,000 |
| | | Machinery | 1,40,000 |
| Total | 4,30,000 | Total | 4,30,000 |

**Vedika died on 31st July, 2024. According to the partnership deed, her legal representatives are entitled to the following:**

**(i) Balance in her capital account**

**(ii) Interest on capital @ 8% p.a.**

**(iii) Her share in the profit upto the date of death to be calculated on the basis of last year's profit. Vedika's share of profit was Rs. 3,000.**

**(iv) Her share of goodwill calculated on the basis of two years purchase of average profits of last three years. The average profit of last three years was Rs. 40,000. Vedika's drawings upto the date of death were Rs. 12,000.**

**Prepare Vedika's Capital Account to be rendered to her executors.** [4 marks]

**Solution:**

**Concept:**

- Amounts due to a deceased partner include opening capital, the old profit-sharing share of accumulated reserves, interest on capital, profit to death and goodwill, less drawings.
- Vedika's old share is $1/5$. Interest and estimated profit are calculated for four months, from 1 April to 31 July 2024.

**Step 1:** Calculate reserve, interest and profit Vedika's share of General Reserve is Rs $50,000 \times 1/5 =$ Rs $10,000$. This accumulated profit belongs to all partners in their old ratio and is credited to her capital before settlement.

$$\text{Interest on capital} = \text{Rs } 90,000 \times \frac{8}{100} \times \frac{4}{12} = \text{Rs } 2,400.$$

The printed Rs 3,000 is Vedika's share in last year's annual profit. Thus her estimated share for the four months to death is

$$\text{Rs } 3,000 \times \frac{4}{12} = \text{Rs } 1,000.$$

It is already her share; multiplying it again by $1/5$ would incorrectly apportion it twice.

**Step 2:** Calculate goodwill and the settlement Firm's goodwill is Rs $40,000 \times 2 =$ Rs $80,000$. Vedika's share is Rs $80,000 \times 1/5 =$ Rs $16,000$. The continuing partners gain in the ratio $2 : 2 = 1 : 1$, so Raja and Bharat bear Rs 8,000 each. Drawings of Rs 12,000 reduce the amount due; no interest on drawings is specified.

Vedika's Capital Account

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Drawings A/c | 12,000 | By Balance b/d | 90,000 | |
| | To Vedika's Executors' A/c | 1,07,400 | By General Reserve A/c | 10,000 | |
| | | | By Interest on Capital A/c | 2,400 | |
| | | | By Profit and Loss Suspense A/c | 1,000 | |
| | | | By Raja's Capital A/c | 8,000 | |
| | | | By Bharat's Capital A/c | 8,000 | |
| | Total | 1,19,400 | Total | 1,19,400 | |

The whole amount due is transferred to the Executors' Account; no payment is recorded because the question does not state that payment occurred. Vedika's capital account therefore closes on this transfer.

**Step 3:** Conclusion Rs 1,07,400 is due to Vedika's executors on 31 July 2024.

**Quick Tip to Solve:** Use four months for interest and profit, and add the deceased partner's share of General Reserve before deducting drawings.

**23. MK Ltd. was registered with an authorised capital of Rs. 9,00,000 divided into 90,000 equity shares of Rs. 10 each. The company offered to the public for subscription 80,000 equity shares. Applications were received for 78,000 equity shares and shares were allotted to all the applicants. All money due was received with the exception of first and final call money of Rs. 3 per shares on 1,000 shares allotted to Manisha. Her shares were forfeited.**

**Answer the following questions:** [6 marks]

**23(i). The amount of 'Calls in Arrears' disclosed in 'Notes to Accounts' will be:** [1 mark]

(A) Nil

(B) Rs. 2,34,000

(C) Rs. 7,000

(D) Rs. 3,000

**Correct Answer:** (A) Nil

**Solution:**

**Concept:**

- Calls in arrears represent unpaid calls on outstanding shares. Forfeiture cancels the defaulting shares and removes their unpaid call amount.

**Step 1:** Identify the default before forfeiture Manisha failed to pay $1,000 \times$ Rs $3 =$ Rs $3,000$. This was the arrear before forfeiture, so option (D) describes the earlier balance.

**Step 2:** Apply the forfeiture adjustment The forfeiture entry credits Calls in Arrears by Rs 3,000, clearing the debit relating to the cancelled shares. No other shareholder defaulted. Rs 7,000 is the amount already received on these shares and transferred to Share Forfeiture; Rs 2,34,000 is the total call on 78,000 shares, not unpaid calls.

**Step 3:** Conclusion Calls in Arrears disclosed after forfeiture are nil. The correct option is (A).

**Quick Tip to Solve:** Check whether forfeiture has already occurred before reporting unpaid calls as calls in arrears.

**23(ii). The number of shares of MK Ltd. after forfeiture will be:** [1 mark]

(A) 78,000

(B) 89,000

(C) 79,000

(D) 77,000

**Correct Answer:** (D) 77,000

**Solution:**

**Concept:**

- Outstanding subscribed shares after forfeiture equal the shares actually allotted less the forfeited shares; authorised and offered shares are different measures.

**Step 1:** Start with actual allotment The company allotted all 78,000 shares applied for. The 90,000

authorised shares are the legal ceiling, while 80,000 shares were offered; neither is the opening number of subscribed shares.

**Step 2:** Deduct the forfeited holding Manisha's 1,000 shares were forfeited, leaving $78,000 - 1,000 = 77,000$ shares. Option (A) ignores forfeiture. Options (B) and (C) incorrectly deduct the forfeited shares from authorised or offered shares respectively, rather than from the shares actually allotted.

**Step 3:** Conclusion After forfeiture, 77,000 shares remain. The correct option is (D).

**Quick Tip to Solve:** Subtract forfeited shares from allotted shares, never from authorised capital or the public offer.

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**23(iii). In the 'Notes to Accounts', the amount disclosed under 'Share Forfeiture Account' will be:**

[1 mark]

(A) Nil

(B) Rs. 7,000

(C) Rs. 3,000

(D) Rs. 10,000

**Correct Answer:** (B) Rs. 7,000

**Solution:**

**Concept:**

- Share Forfeiture Account is credited with capital money already received on the forfeited shares, excluding any securities premium.

**Step 1:** Calculate paid capital per forfeited share The face value is Rs 10 per share and the unpaid first and final call is Rs 3 per share. Thus Rs $10 -$ Rs $3 =$ Rs 7 had been received per share.

**Step 2:** Compute the forfeiture balance and compare options For 1,000 forfeited shares, the credit is $1,000 \times$ Rs $7 =$ Rs $7,000$. There is no stated reissue to reduce this balance. Nil ignores the money retained; Rs 3,000 is the unpaid call, and Rs 10,000 is the full called-up capital cancelled, not the sum already paid.

**Step 3:** Conclusion Share Forfeiture Account will disclose Rs 7,000. The correct option is (B).

**Quick Tip to Solve:** Forfeiture retains money received: multiply forfeited shares by face value less the unpaid call.

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**23(iv). In the 'Notes to Accounts', the amount disclosed under 'Issued Capital' will be:** [1 mark]

(A) Rs. 9,00,000

(B) Rs. 7,80,000

(C) Rs. 8,00,000

(D) Rs. 7,70,000

**Correct Answer:** (C) Rs. 8,00,000

**Solution:**

**Concept:**

- Issued capital is the face value of shares offered for subscription; subscribed capital is the face value actually subscribed.
- Authorised capital sets the maximum share capital permitted by the memorandum.

**Step 1:** Identify the shares issued MK Ltd. offered 80,000 equity shares of Rs 10 each. Therefore, issued capital is $80,000 \times 10 = \text{Rs } 8,00,000$. The number applied for does not change the number originally offered.

**Step 2:** Test the alternatives Rs 9,00,000 is authorised capital, while Rs 7,80,000 is the face value of 78,000 shares subscribed. Rs 7,70,000 is the face value of the 77,000 shares remaining after forfeiture. Forfeiture affects subscribed capital and its disclosure, but does not reduce issued capital. Thus only Rs 8,00,000 measures the offer made to the public.

**Step 3:** Conclusion Issued capital is $\boxed{\text{Rs } 8,00,000}$. Hence, the correct option is (C).

**Quick Tip to Solve:** For issued capital, multiply the shares offered by face value; ignore applications and forfeiture.

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**23(v). Balance in 'Share Forfeiture Account' will be shown in 'Notes to Accounts' in the Balance Sheet of MK Ltd. under:** [1 mark]

(A) Will not be shown in 'Notes to Accounts'

(B) Issued capital

(C) Authorised capital

(D) Subscribed capital

**Correct Answer:** (D) Subscribed capital

**Solution:**

**Concept:**

- The amount received on forfeited shares remains in Share Forfeiture Account until its disposal on reissue.
- In the share capital note, forfeited shares (amount originally paid up) are added under subscribed capital.

**Step 1:** Calculate the forfeited amount Manisha held 1,000 shares of Rs 10 each and failed to pay the final Rs 3 per share. The amount already received is $1,000 \times (10 - 3) = \text{Rs } 7,000$. This is the credit

balance retained in Share Forfeiture Account.

**Step 2:** Identify the disclosure heading The note shows the capital of shares still subscribed and adds the amount originally paid on forfeited shares under subscribed capital. Accordingly, Rs 7,000 is disclosed there. It is not omitted, and it is neither an authorised-capital limit nor the amount of shares offered under issued capital. Therefore options (A), (B) and (C) do not describe the required placement.

**Step 3:** Conclusion The Share Forfeiture Account balance is shown under subscribed capital. Hence, the correct option is (D).

**Quick Tip to Solve:** Show the amount already received on forfeited shares beneath subscribed capital in the share capital note.

**23(vi). The amount of 'Share Capital' disclosed in the Balance Sheet of MK Ltd. will be:** [1 mark]

(A) Rs. 7,80,000

(B) Rs. 7,73,000

(C) Rs. 7,77,000

(D) Rs. 7,87,000

**Correct Answer:** (C) Rs. 7,77,000

**Solution:**

**Concept:**

- After forfeiture, the fully paid shares outstanding and the amount originally received on forfeited shares together determine the disclosed share capital.
- Unpaid calls on shares already forfeited are no longer shown as calls in arrears on those shares.

**Step 1:** Calculate capital on outstanding shares Of 78,000 shares allotted, 1,000 were forfeited. Thus $78,000 - 1,000 = 77,000$ shares remain fully paid. Their capital is $77,000 \times 10 =$ Rs $7,70,000$.

**Step 2:** Add the amount paid on forfeited shares The amount received on Manisha's shares is $1,000 \times (10 - 3) =$ Rs $7,000$. Therefore the share capital disclosed is $7,70,000 + 7,000 =$ Rs $7,77,000$. Rs 7,80,000 ignores the unpaid Rs 3,000; Rs 7,73,000 incorrectly deducts that unpaid amount again from the remaining capital. Rs 7,87,000 overstates capital and cannot follow from the shares and cash received.

**Step 3:** Conclusion The disclosed Share Capital is $\boxed{\text{Rs } 7,77,000}$. Hence, the correct option is (C).

**Quick Tip to Solve:** Check disclosed capital as original subscribed face value less the Rs 3,000 never received.

**24. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Sami and Usha after various assets (other than cash) and external liabilities have been transferred to Realisation Account:**

**(i) Creditors of Rs. 18,000 took over all the investments at Rs. 11,000. Remaining amount was paid to them through a cheque.**

**(ii) A debtor whose debt of Rs. 23,000 was written off as bad paid Rs. 15,000 in full settlement.**

**(iii) Usha had given a loan of Rs. 16,000 to the firm. She accepted Rs. 14,000 in full settlement of her loan.**

**(iv) Stock of the book value of Rs. 20,000 was taken over by Sami and Usha in their profit sharing ratio.**

**(v) The firm paid realisation expenses amounting to Rs. 9,000 on behalf of Sami.**

**(vi) The firm had furniture of Rs. 40,000. Usha took over 50% of the furniture at a discount of 10% and the remaining furniture was sold at a profit of 20% on book value.** [6 marks]

**Solution:**

**Concept:**

- After transfer of assets and outside liabilities, receipts are credited and payments debited to Realisation Account.
- Assets taken over by partners are debited to their capital accounts; payments made on a partner's behalf are also debited to that partner.
- Partner loans are settled through their separate loan accounts; a settlement discount is a realisation gain.

**Step 1:** Creditors take investments and receive the balance The investments and creditors have already been transferred to Realisation Account. Their direct adjustment needs no separate entry. Only the remaining liability, $18,000 - 11,000 = \text{Rs } 7,000$, is paid.

Journal of Sami and Usha

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr.<br>To Bank A/c<br>(Being balance paid to creditors after takeover of investments) | | 7,000 | 7,000 |

**Step 2:** Recover a debt previously written off The written-off debtor is not an asset transferred on dissolution. The actual recovery is a realisation gain; the unpaid balance of the old debt requires no new entry.

Journal of Sami and Usha

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Realisation A/c<br>(Being recovery of debt previously written off) | | 15,000 | 15,000 |

**Step 3:** Settle Usha's loan A partner's loan is settled separately from external liabilities. Debit the full loan of Rs 16,000, credit Bank for Rs 14,000 paid, and credit the Rs 2,000 settlement gain to Realisation Account.

Journal of Sami and Usha

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Usha's Loan A/c Dr. | | 16,000 | |
| | To Bank A/c | | | 14,000 |
| | To Realisation A/c | | | 2,000 |
| | (Being Usha's loan settled at a discount) | | | |

**Step 4:** Transfer stock to the partners No profit-sharing ratio is specified; therefore Sami and Usha share equally. Each takes stock of $20,000 \div 2 = \text{Rs } 10,000$. Debit their capital accounts because the takeover reduces the amount payable to them.

Journal of Sami and Usha

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Sami's Capital A/c Dr. | | 10,000 | |
| | Usha's Capital A/c Dr. | | 10,000 | |
| | To Realisation A/c | | | 20,000 |
| | (Being stock taken over equally by the partners) | | | |

**Step 5:** Pay expenses on behalf of Sami The Rs 9,000 is paid on Sami's behalf, so it is charged to his capital account rather than to the firm's Realisation Account.

Journal of Sami and Usha

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Sami's Capital A/c Dr. | | 9,000 | |
| | To Bank A/c | | | 9,000 |
| | (Being realisation expenses paid on behalf of Sami) | | | |

**Step 6:** Realise the furniture Each half has book value $40,000 \times 50\% = \text{Rs } 20,000$. Usha takes one half for $20,000 \times 90\% = \text{Rs } 18,000$; the other half fetches $20,000 \times 120\% = \text{Rs } 24,000$.

Journal of Sami and Usha

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Usha's Capital A/c Dr. | | 18,000 | |
| | Bank A/c Dr. | | 24,000 | |
| | To Realisation A/c | | | 42,000 |
| | (Being furniture taken over by Usha and balance sold) | | | |

**Step 7:** Conclusion The above entries record all six transactions. Furniture realises Rs 42,000 in total, and Usha's loan settlement yields a realisation gain of Rs 2,000.

**Quick Tip to Solve:** When an asset settles a transferred creditor directly, record only any cash balance paid; do not transfer the asset again.

**25(a). Altima Ltd. invited applications for issuing 2,00,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as follows:**

**On application and allotment - Rs. 7 per share (including premium Rs. 1)**

**On first and final call - Balance**

**Applications were received for 2,40,000 shares. Applications for 30,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Excess money received on application and allotment was returned. Manvi, who was allotted 4,000 shares failed to pay the first and final call money. Her shares were forfeited. All the forfeited shares were reissued at Rs. 4 per share fully paid up.**

**Pass necessary journal entries in the books of Altima Ltd.** [6 marks]

**Solution:**

**Concept:**

- Separate the nominal capital and premium portions of each instalment. Only unpaid premium is reversed on forfeiture.
- The reissue discount cannot exceed the capital amount forfeited on the shares reissued. Any remaining forfeiture balance is capital reserve.

**Step 1:** Compute allotment and refund Valid applications are $2,40,000 - 30,000 = 2,10,000$ shares. The pro-rata ratio allotted to applied is $2,00,000 : 2,10,000 = 20 : 21$. Total receipts are Rs 16,80,000. The refund is Rs 2,10,000 to rejected applicants plus Rs 70,000 excess on accepted applications, totalling Rs 2,80,000. No excess is retained against the call.

**Step 2:** Record issue and call Application and allotment comprises Rs 6 capital and Rs 1 premium per share. The balance call is Rs 7, comprising Rs 4 capital and Rs 3 premium. Manvi defaults on $4,000 \times 7 =$ Rs $28,000$, leaving cash collected Rs 13,72,000.

Journal of Altima Ltd. (issue and call)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Share Application and Allotment A/c<br>(Being application and allotment money received on 2,40,000 shares at Rs 7 each) | | 16,80,000 | <br>16,80,000 |
| | Share Application and Allotment A/c Dr.<br>To Share Capital A/c<br>To Securities Premium A/c<br>To Bank A/c<br>(Being 2,00,000 shares allotted and excess application money refunded) | | 16,80,000 | <br>12,00,000<br>2,00,000<br>2,80,000 |
| | Share First and Final Call A/c Dr.<br>To Share Capital A/c<br>To Securities Premium A/c<br>(Being first and final call of Rs 7 per share made due) | | 14,00,000 | <br>8,00,000<br>6,00,000 |
| | Bank A/c Dr.<br>To Share First and Final Call A/c<br>(Being call money received except on Manvi's 4,000 shares) | | 13,72,000 | <br>13,72,000 |

**Step 3:** Record forfeiture and reissue Capital received on Manvi's shares is $4,000 \times 6 =$ Rs $24,000$. Unpaid premium is Rs 12,000; the Rs 4,000 premium already received is retained. Reissue discount is $4,000 \times (10 - 4) =$ Rs $24,000$.

Journal of Altima Ltd. (forfeiture and reissue)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>Securities Premium A/c Dr.<br>To Share First and Final Call A/c<br>To Share Forfeiture A/c<br>(Being 4,000 shares forfeited for unpaid call, reversing unpaid premium) | | 40,000<br>12,000 | <br><br>28,000<br>24,000 |
| | Bank A/c Dr.<br>Share Forfeiture A/c Dr.<br>To Share Capital A/c<br>(Being 4,000 forfeited shares reissued at Rs 4 each as fully paid) | | 16,000<br>24,000 | <br><br>40,000 |

**Step 4:** Conclusion All 4,000 forfeited shares are reissued fully paid. The entire forfeited capital of Rs 24,000 covers the reissue discount, so no amount is transferred to Capital Reserve.

**Quick Tip to Solve:** Refund all excess here: the question expressly says it is returned, so none offsets Manvi's unpaid call.

OR

**25(b). Pass necessary journal entries for forfeiture and reissue of forfeited shares in the following cases:**

**(i) Macil Ltd. forfeited 3,000 shares of Rs. 100 each issued at 20% premium for the non-payment of allotment money of Rs. 30 per share and first call of Rs. 40 per share (including premium Rs. 10). The second and final call of Rs. 30 per share (including premium Rs. 10) was not yet called. Out of these, 2,000 shares were reissued at Rs. 80 per share paid up for Rs. 90 per share.**

**(ii) Avian Ltd. forfeited 10,000 shares of Rs. 10 each on which the first call of Rs. 4 per share was not received and the second and final call of Rs. 1 per share was not yet called. Out of these, 4,000 shares were reissued to Ajay as fully paid up for Rs. 9 per share.** [6 marks]

**Solution:**

**Concept:**

- Debit Share Capital with called-up nominal capital on forfeiture. Exclude capital and premium not yet called.
- Credit Share Forfeiture with capital actually received. On reissue, compare the cash received with the paid-up value stated, and transfer only the surplus attributable to reissued shares.

**Step 1:** Macil Ltd.: determine amounts Issue price is Rs 120 per share. The instalments specified total Rs 100, so application money already received was Rs 20 per share, entirely capital. The final call of Rs 30 includes Rs 10 premium and Rs 20 capital; hence called-up capital is Rs 80 per share. Allotment of Rs 30 is capital, while the first call includes Rs 30 capital and Rs 10 premium. Thus forfeiture debits

capital $3,000 \times 80 =$ Rs $2,40,000$ and unpaid premium $3,000 \times 10 =$ Rs $30,000$. Capital received is Rs 60,000. Reissue credits capital at Rs 90 per share: discount is Rs 10 per share, not Rs 20. Forfeiture attributable to reissued shares is Rs 40,000; deducting Rs 20,000 discount gives Rs 20,000 capital reserve.

**Step 2:** Macil Ltd.: pass entries Journal of Macil Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>Securities Premium A/c Dr.<br>To Share Allotment A/c<br>To Share First Call A/c<br>To Share Forfeiture A/c<br>(Being 3,000 shares forfeited for unpaid allotment and first call) | | 2,40,000<br>30,000 | <br><br>90,000<br>1,20,000<br>60,000 |
| | Bank A/c Dr.<br>Share Forfeiture A/c Dr.<br>To Share Capital A/c<br>(Being 2,000 shares reissued at Rs 80 each, Rs 90 paid up) | | 1,60,000<br>20,000 | <br><br>1,80,000 |
| | Share Forfeiture A/c Dr.<br>To Capital Reserve A/c<br>(Being surplus on the 2,000 reissued shares transferred) | | 20,000 | <br>20,000 |

**Step 3:** Avian Ltd.: determine amounts Called-up capital is $10 - 1 =$ Rs $9$ per share; the final call is uncalled. Capital received is $9 - 4 =$ Rs $5$ per share, so forfeiture balance is Rs 50,000. The 4,000 shares are reissued fully paid, so capital credited is Rs 40,000 and cash received is Rs 36,000. The discount is Rs 4,000. Forfeited capital on these shares is $4,000 \times 5 =$ Rs $20,000$; capital reserve is Rs 16,000.

**Step 4:** Avian Ltd.: pass entries Journal of Avian Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>To Share First Call A/c<br>To Share Forfeiture A/c<br>(Being 10,000 shares forfeited for non-payment of the first call) | | 90,000 | <br>40,000<br>50,000 |
| | Bank A/c Dr.<br>Share Forfeiture A/c Dr.<br>To Share Capital A/c<br>(Being 4,000 shares reissued to Ajay at Rs 9 each as fully paid) | | 36,000<br>4,000 | <br><br>40,000 |
| | Share Forfeiture A/c Dr.<br>To Capital Reserve A/c<br>(Being surplus on the 4,000 reissued shares transferred) | | 16,000 | <br>16,000 |

**Step 5:** Conclusion Macil Ltd. transfers Rs 20,000 to Capital Reserve and retains Rs 20,000 in Share Forfeiture for 1,000 unreissued shares. Avian Ltd. transfers Rs 16,000 to Capital Reserve and retains Rs 30,000 for 6,000 unreissued shares.

**Quick Tip to Solve:** Use the stated paid-up value on reissue: Macil credits Rs 90 per share, while Avian credits the full Rs 10.

**26(a).** **Aryan and Adya were partners in a firm sharing profits and losses in the ratio of 3 : 1. Their Balance Sheet on 31st March, 2024 was as follows:**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Capitals:<br>Aryan 3,20,000<br>Adya 2,40,000 | 5,60,000 | Machinery | 3,90,000 |
| Workmen's Compensation Reserve | 20,000 | Furniture | 80,000 |
| Bank loan | 60,000 | Debtors 90,000<br>Less: Provision 1,000 | 89,000 |
| Creditors | 48,000 | Stock | 77,000 |
| | | Cash | 32,000 |
| | | Profit & Loss Account | 20,000 |
| Total | 6,88,000 | Total | 6,88,000 |

**Dev was admitted into the firm on 1st April, 2024 for 1/5th share in the profits of the firm on the following terms:**

**(i) Dev will bring capital proportionate to his share in the profits of the firm.**

**(ii) Goodwill of the firm was valued at Rs. 2,00,000 and Dev will bring his share of goodwill premium in cash.**

**(iii) Machinery was revalued at Rs. 4,50,000.**

**(iv) A provision for doubtful debts was to be created at 5% on debtors.**

**(v) A liability of Rs. 3,500 included in creditors was not likely to arise.**

**Prepare Revaluation Account and Partners' Capital Accounts on Dev's admission.** [6 marks]

**Solution:**

**Concept:**

- Revaluation gains and losses belong to Aryan and Adya in their old ratio $3:1$. The debit balance of Profit and Loss Account reduces their capitals.
- Dev's goodwill premium equals firm goodwill times his share. The old partners sacrifice in their old ratio when no other sacrifice is specified.
- Dev's capital is based on the adjusted combined capital of the old partners, which represents $4/5$ of the new firm's total capital.

**Step 1:** Compute revaluation profit Machinery appreciation is Rs $4,50,000 - 3,90,000 = 60,000$. Required provision is Rs $90,000 \times 5/100 = 4,500$; the existing provision is Rs 1,000, so only Rs 3,500 is additionally charged. Release of the creditors liability gives a gain of Rs 3,500. Thus revaluation profit is Rs $60,000 + 3,500 - 3,500 = 60,000$, credited Rs 45,000 to Aryan and Rs 15,000 to Adya.

Revaluation Account (Rs)

| Dr. Particulars | Amount | Cr. Particulars | Amount |
|---|---|---|---|
| To Provision for doubtful debts | 3,500 | By Machinery | 60,000 |
| To Aryan's Capital | 45,000 | By Creditors | 3,500 |
| To Adya's Capital | 15,000 | | |
| Total | 63,500 | Total | 63,500 |

**Step 2:** Calculate goodwill and adjusted capitals Working Notes: In the absence of a workmen's compensation claim, distribute the reserve of Rs 20,000: Aryan Rs 15,000, Adya Rs 5,000. Write

off the debit balance of Profit and Loss Account in the same ratio: Aryan Rs 15,000, Adya Rs 5,000. These two adjustments cancel in total but must both appear in the capital accounts.

Dev brings goodwill premium of Rs $2,00,000 \times 1/5 = 40,000$. Credit Aryan Rs 30,000 and Adya Rs 10,000. Their adjusted capitals are:

$$\text{Aryan} = 3,20,000 + 15,000 - 15,000 + 45,000 + 30,000 = 3,95,000,$$
$$\text{Adya} = 2,40,000 + 5,000 - 5,000 + 15,000 + 10,000 = 2,65,000.$$

The combined Rs 6,60,000 represents the old partners' remaining $4/5$ share. Thus Dev's capital is Rs $6,60,000 \times 1/4 = 1,65,000$, separately from his Rs 40,000 goodwill premium.

**Step 3:** Prepare the capital accounts Partners' Capital Accounts (Rs)

| Dr. | Aryan | Adya | Dev | Cr. | Aryan | Adya | Dev |
|---|---|---|---|---|---|---|---|
| To P&L A/c | 15,000 | 5,000 | – | By Balance b/d | 3,20,000 | 2,40,000 | – |
| To Balance c/d | 3,95,000 | 2,65,000 | 1,65,000 | By W.C. Reserve | 15,000 | 5,000 | – |
| | | | | By Revaluation | 45,000 | 15,000 | – |
| | | | | By Premium | 30,000 | 10,000 | – |
| | | | | By Bank | – | – | 1,65,000 |
| Total | 4,10,000 | 2,70,000 | 1,65,000 | Total | 4,10,000 | 2,70,000 | 1,65,000 |

The new ratio is $(3/4)(4/5) : (1/4)(4/5) : 1/5 = 3 : 1 : 1$. Total new capital is Rs 8,25,000, of which Dev's Rs 1,65,000 is exactly one-fifth.

**Step 4:** Conclusion Revaluation profit is Rs 60,000. Closing capitals are Aryan Rs 3,95,000, Adya Rs 2,65,000 and Dev Rs 1,65,000. Dev brings Rs 2,05,000 in cash including goodwill premium.

**Quick Tip to Solve:** Treat the asset-side Profit and Loss balance as a loss; calculate Dev's capital from the old partners' adjusted four-fifths capital.

OR

**26(b). Ashish, Vinit and Reema were partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet on 31st March, 2024 was as follows:**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Capitals:<br>Ashish 2,00,000<br>Vinit 2,00,000<br>Reema 1,00,000 | 5,00,000 | Patents | 80,000 |
| General Reserve | 50,000 | Furniture | 3,00,000 |
| Bills Payable | 80,000 | Stock | 1,70,000 |
| Creditors | 40,000 | Debtors 80,000<br>Less: Provision 8,000 | 72,000 |
| | | Cash | 48,000 |
| Total | 6,70,000 | Total | 6,70,000 |

**On the above date, Vinit retired on the following terms:**

**(i) Goodwill of the firm was valued at Rs. 60,000 and the same was adjusted into the capital accounts of Ashish and Reema who will share profits in future in the ratio of 3 : 2.**

**(ii) Value of stock was to be reduced by Rs. 10,000.**

**(iii) Patents are found undervalued by 20%.**

**(iv) Vinit was paid Rs. 20,000 immediately on retirement and the balance was transferred to his loan account carrying interest @ 8% p.a.**

**Pass necessary journal entries on Vinit's retirement.** [6 marks]

**Solution:**

**Concept:**

- Accumulated reserves and revaluation profit are distributed among all old partners in the old ratio $2:2:1$.
- The continuing partners compensate the retiring partner for goodwill in their gaining ratio. Only the unpaid retirement balance becomes the loan; future interest is not booked on the retirement date.

**Step 1:** Determine goodwill and revaluation adjustments Working Notes: Ashish's gain is $3/5 - 2/5 = 1/5$, and Reema's gain is $2/5 - 1/5 = 1/5$. Their gaining ratio is $1:1$. Vinit's goodwill share is Rs $60,000 \times 2/5 = 24,000$, borne equally at Rs 12,000 each.

Patents recorded at Rs 80,000 are undervalued by 20%; their book value represents 80% of the correct value. Correct value is Rs $80,000 \times 100/80 = 1,00,000$, giving an increase of Rs 20,000. With the stock decrease of Rs 10,000, revaluation profit is Rs 10,000, shared Rs 4,000, Rs 4,000 and Rs 2,000. General Reserve of Rs 50,000 is shared Rs 20,000, Rs 20,000 and Rs 10,000 respectively.

**Step 2:** Record reserve and goodwill Journal of the Firm (31st March, 2024)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | General Reserve A/c Dr. | | 50,000 | |
| | To Ashish's Capital A/c | | | 20,000 |
| | To Vinit's Capital A/c | | | 20,000 |
| | To Reema's Capital A/c | | | 10,000 |
| | (Being reserve distributed in old ratio.) | | | |
| | Ashish's Capital A/c Dr. | | 12,000 | |
| | Reema's Capital A/c Dr. | | 12,000 | |
| | To Vinit's Capital A/c | | | 24,000 |
| | (Being Vinit's goodwill adjusted in gaining ratio.) | | | |

**Step 3:** Record revaluation Journal of the Firm (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Revaluation A/c Dr. | | 10,000 | |
| | To Stock A/c | | | 10,000 |
| | (Being decrease in value of stock.) | | | |
| | Patents A/c Dr. | | 20,000 | |
| | To Revaluation A/c | | | 20,000 |
| | (Being undervaluation of patents corrected.) | | | |
| | Revaluation A/c Dr. | | 10,000 | |
| | To Ashish's Capital A/c | | | 4,000 |
| | To Vinit's Capital A/c | | | 4,000 |
| | To Reema's Capital A/c | | | 2,000 |
| | (Being profit distributed in old ratio.) | | | |

**Step 4:** Settle Vinit and transfer the unpaid balance Vinit's amount due is Rs $2,00,000 + 20,000 + 24,000 + 4,000 = 2,48,000$. Immediate payment of Rs 20,000 leaves Rs 2,28,000 payable as a loan.

Journal of the Firm (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Vinit's Capital A/c Dr. | | 2,48,000 | |
| | To Cash A/c | | | 20,000 |
| | To Vinit's Loan A/c | | | 2,28,000 |
| | (Being amount due settled partly in cash and balance transferred to loan at 8% p.a.) | | | |

No interest is accrued on the date of retirement because no loan period has elapsed. For a full subsequent year, interest would be Rs $2,28,000 \times 8/100 = 18,240$. All entries above have equal debits and credits.

**Step 5:** Conclusion Vinit is entitled to Rs 2,48,000: Rs 20,000 is paid immediately and Rs 2,28,000 is transferred to his Loan Account at 8% p.a.

**Quick Tip to Solve:** Compute the gaining ratio before adjusting goodwill; where a value is undervalued by 20%, its recorded amount is 80% of correct value.

## Part B (20 marks)

*OPTION – I*

*(Analysis of Financial Statements)*

**27(a). Which of the following are operating activities for the purpose of preparing cash flow statement?**

**(i) Cash payments to suppliers for goods and services.**

**(ii) Dividend received from investments in other enterprises.**

**(iii) Cash receipts from royalties, fees, commissions and other revenues.**

**(iv) Cash repayments of amounts borrowed.** [1 mark]

(A) (i), (ii) and (iii)

(B) (i) and (iii)

(C) (i), (iii) and (iv)

(D) (iii) and (iv)

**Correct Answer:** (B) (i) and (iii)

**Solution:**

**Concept:**

- Operating activities are the principal revenue-generating activities and other activities that are neither investing nor financing.
- For a non-financial enterprise, investment dividends are investing receipts; repayments of borrowing are financing outflows.

**Step 1:** Identify operating cash flows Payments to suppliers for goods and services, (i), relate to the normal trading cycle. Receipts from royalties, fees, commissions and other revenues, (iii), arise from revenue-generating operations. Therefore both (i) and (iii) are operating activities.

**Step 2:** Reject the other combinations Dividend received from investments in other enterprises, (ii), is

an investing receipt. Repayment of borrowed amounts, (iv), is a financing payment because it reduces borrowings. Thus (A) wrongly includes (ii), (C) wrongly includes (iv), and (D) includes (iv) while omitting (i).

**Step 3:** Conclusion Only (i) and (iii) are operating activities. Hence, the correct option is (B).

**Quick Tip to Solve:** Trace goods, services and revenue receipts to operations; trace investment returns to investing and loan repayments to financing.

OR

**27(b). Which of the following statements is incorrect?** [1 mark]

(A) Payment of dividend and interest will result in cash outflow from financing activities.

(B) Payment of employee benefit expenses will result in cash outflows from operating activities.

(C) Receipt of interest and dividend will result in cash inflow from financing activities.

(D) Operating activities are the principal revenue generating activities of the enterprise.

**Correct Answer:** (C) Receipt of interest and dividend will result in cash inflow from financing activities.

**Solution:**

**Concept:**

- For a non-financial enterprise, interest and dividend received are investing cash inflows.
- Interest and dividend paid are financing outflows, while employee expenses form part of operating payments.

**Step 1:** Check statements A and B Payment of dividend distributes funds to owners and payment of interest is the cost of financing. Both are financing outflows under the CBSE classification, so (A) is correct. Employee benefit payments arise from the normal operations of the enterprise, so (B) is also correct.

**Step 2:** Test statements C and D Receipts of interest and dividend represent returns on investments and are classified as investing inflows, not financing inflows. Hence (C) states the wrong classification. Statement (D) correctly describes operating activities as the principal revenue-generating activities. Since the question asks for the incorrect statement, the correct descriptions in (A), (B) and (D) must be rejected as answers.

**Step 3:** Conclusion Statement (C) is incorrect: interest and dividend received are investing cash inflows. Hence, the correct option is (C).

**Quick Tip to Solve:** Read the word incorrect first; distinguish investment income received from interest or dividend paid on financing.

**28. Statement-I: Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.**

**Statement-II: Cash payments to acquire fixed assets including intangibles and capitalised research and development results in cash outflow from investing activities.**

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

(A) Both the Statements are true.

(B) Both the Statements are false.

(C) Only Statement I is true.

(D) Only Statement II is true.

**Correct Answer:** (A) Both the Statements are true.

**Solution:**

**Concept:**

- Investing activities comprise acquisition and disposal of long-term assets and investments other than cash equivalents.
- Payments for acquiring tangible and intangible fixed assets are investing cash outflows.

**Step 1:** Examine Statement I Statement I gives the definition of investing activities. The exclusion of cash equivalents is essential: movements between cash and cash equivalents belong to cash management. Thus Statement I is true.

**Step 2:** Examine Statement II and the options Payments to acquire fixed assets, including intangible assets and capitalised research and development, acquire long-term resources. They are therefore cash outflows from investing activities, so Statement II is also true. Options (B), (C) and (D) each incorrectly treat at least one true statement as false.

**Step 3:** Conclusion Both statements are true. Hence, the correct option is (A).

**Quick Tip to Solve:** Classify a payment by the asset acquired: long-term assets indicate investing activities.

**29(a). The tool of analysis of financial statements which indicates the trend and direction of financial position and operating results is _____.** [1 mark]

(A) Comparative Statements

(B) Common Size Statements

(C) Cash Flow Analysis

(D) Ratio Analysis

**Correct Answer:** (A) Comparative Statements

**Solution:**

**Concept:**

- Comparative statements place amounts for different accounting periods side by side.
- Absolute and percentage changes reveal the direction of financial and operating performance.

**Step 1:** Identify the required comparison A trend and its direction require comparison over time. Comparative balance sheets and comparative statements of profit and loss show whether individual financial items have increased or decreased between periods.

**Step 2:** Distinguish the other tools Common size statements show each item as a percentage of a common base. Cash flow analysis explains changes in cash from operating, investing and financing activities. Ratio analysis studies relationships between selected figures. Comparative statements directly show the period-to-period changes sought in this question.

**Step 3:** Conclusion The tool is Comparative Statements. Hence, the correct option is (A).

**Quick Tip to Solve:** For direction of change between periods, look for comparative statements and their change columns.

OR

**29(b). Ratios that are calculated for measuring the efficiency of operations of the business based on effective utilization of resources are known as _____.** [1 mark]

(A) Profitability ratios

(B) Solvency ratios

(C) Turnover ratios

(D) Liquidity ratios

**Correct Answer:** (C) Turnover ratios

**Solution:**

**Concept:**

- Turnover ratios, also called activity or efficiency ratios, measure how effectively business resources are used.
- They relate sales or cost of operations to the corresponding investment in assets or resources.

**Step 1:** Identify the purpose of the ratios The question focuses on operational efficiency through effective utilisation of resources. Inventory turnover, trade receivables turnover and working capital turnover are examples that measure the rate at which resources support business activity.

**Step 2:** Eliminate the other categories Profitability ratios measure earning capacity; solvency ratios examine long-term financial soundness; liquidity ratios examine the ability to meet short-term obligations. None is the category specifically named for utilisation efficiency. That purpose belongs to turnover ratios.

**Step 3:** Conclusion These are Turnover ratios. Hence, the correct option is (C).

**Quick Tip to Solve:** Link the words resource utilisation and operating efficiency to turnover or activity ratios.

**30. The Debt Equity Ratio of Manak Enterprises is 2.5 : 1. Which of the following transaction will result in increase in this ratio?** [1 mark]

(A) Purchase of goods on credit Rs. 2,00,000.

(B) Payment to creditors Rs. 3,00,000.

(C) Issue of debentures Rs. 6,00,000.

(D) Sale of furniture of the book value of Rs. 4,00,000 at a profit of 10%.

**Correct Answer:** (C) Issue of debentures Rs. 6,00,000.

**Solution:**

**Concept:**

- Debt equity ratio $= \dfrac{\text{Long-term debt}}{\text{Shareholders' funds}}$.
- With shareholders' funds unchanged, additional long-term debt increases this ratio.

**Step 1:** Test the debt transactions Purchasing goods on credit increases trade payables, a current liability, and paying creditors reduces current liabilities. Neither changes long-term debt or shareholders' funds, so options (A) and (B) leave the debt equity ratio unchanged. Issuing debentures increases long-term debt by Rs 6,00,000 without increasing equity.

**Step 2:** Test the furniture sale and compare Let equity be $E > 0$; existing debt is $2.5E$. After issue of debentures, the ratio is $(2.5E + 6,00,000)/E > 2.5$. Sale of furniture at a profit of $10\%$ generates profit of Rs 40,000, increasing shareholders' funds and reducing the ratio. Thus option (D) does not increase it.

**Step 3:** Conclusion Issue of debentures of Rs 6,00,000 increases the ratio. Hence, the correct option is (C).

**Quick Tip to Solve:** Use long-term debt in this ratio; changes in trade creditors alone do not affect it.

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

**(i) Calls in advance**

**(ii) Licences and Franchise**

**(iii) Prepaid Insurance** [3 marks]

**Solution:**

**Concept:**

- Schedule III classifies assets and liabilities by their nature and current or non-current status.
- Calls in advance are amounts received before being called; intangible assets lack physical substance.
- Prepaid expenses represent benefits to be received in a future accounting period.

**Step 1:** Classify each item by its nature Calls in advance are not called-up share capital. They remain an obligation until the relevant call becomes due and are presented as other current liabilities. Licences and franchise are identifiable non-physical rights used by the business, so they are intangible fixed assets. Prepaid insurance is the unexpired portion of an insurance payment and is presented as

a current asset under other current assets.

**Step 2:** Present the Schedule III classification Classification in the Company's Balance Sheet

| Item | Major head | Sub-head |
|---|---|---|
| Calls in advance | Current liabilities | Other current liabilities |
| Licences and Franchise | Non-current assets | Fixed assets: Intangible assets |
| Prepaid Insurance | Current assets | Other current assets |

The first item belongs to the equity and liabilities side; the remaining two belong to the assets side. A prepaid premium is not charged again as a current expense: its unexpired benefit is carried as an asset.

**Step 3:** Conclusion Calls in advance: Current liabilities – Other current liabilities; Licences and Franchise: Non-current assets – Fixed assets – Intangible assets; Prepaid Insurance: Current assets – Other current assets.

**Quick Tip to Solve:** Keep calls received early outside share capital, and distinguish intangible rights from prepaid expenses.

**32. From the following information of NK Ltd., prepare a common size Statement of Profit and Loss for the years ended 31st March, 2023 and 31st March, 2024:**

| Particulars | 2023-24 (Rs.) | 2022-23 (Rs.) |
|---|---|---|
| Revenue from operations | 20,00,000 | 10,00,000 |
| Cost of materials consumed | 5,00,000 | 3,00,000 |
| Employee benefit expenses | 2,00,000 | 1,00,000 |
| Income Tax @ 40% | | |

[3 marks]

**Solution:**

**Concept:**

- For each year, common size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$.
- Revenue from operations is taken as $100\%$ separately for each year.
- Profit before tax equals revenue less the given operating expenses; profit after tax deducts income tax.

**Step 1:** Calculate profit and tax for both years For 2023-24, total expenses are Rs $5,00,000 + 2,00,000 = 7,00,000$. Profit before tax is Rs $20,00,000 - 7,00,000 = 13,00,000$; tax at $40\%$ is Rs 5,20,000, leaving profit after tax of Rs 7,80,000. For 2022-23, total expenses are Rs $3,00,000 + 1,00,000 = 4,00,000$. Profit before tax is Rs 6,00,000; tax at $40\%$ is Rs 2,40,000, leaving profit after tax of Rs 3,60,000.

**Step 2:** Prepare the common size statement NK Ltd. – Common Size Statement of Profit and Loss for the years ended 31st March, 2024 and 31st March, 2023

| Particulars | 2023-24 Rs | 2022-23 Rs | 2023-24 % | 2022-23 % |
|---|---|---|---|---|
| Revenue from operations | 20,00,000 | 10,00,000 | 100 | 100 |
| Expenses: | | | | |
| Cost of materials consumed | 5,00,000 | 3,00,000 | 25 | 30 |
| Employee benefit expenses | 2,00,000 | 1,00,000 | 10 | 10 |
| Total expenses | 7,00,000 | 4,00,000 | 35 | 40 |
| Profit before tax | 13,00,000 | 6,00,000 | 65 | 60 |
| Tax expense | 5,20,000 | 2,40,000 | 26 | 24 |
| Profit after tax | 7,80,000 | 3,60,000 | 39 | 36 |

For example, materials consumed in 2023-24 are $5,00,000/20,00,000 \times 100 = 25\%$. The tax percentage in the common size statement uses revenue as its denominator, although the tax amount itself is calculated on profit before tax.

**Step 3:** Conclusion Profit after tax is Rs 7,80,000 ($39\%$) in 2023-24 and Rs 3,60,000 ($36\%$) in 2022-23.

**Quick Tip to Solve:** Compute tax on profit before tax first; then divide every statement item by that year's revenue.

**33(a). Calculate opening and closing Trade Payables from the following information:**

**Total purchases Rs. 15,00,000;**

**Cash purchases are 25% of credit purchases;**

**Trade payables turnover ratio is 4 times;**

**Closing trade payables are two times of opening trade payables.** [4 marks]

**Solution:**

**Concept:**

- Trade payables turnover ratio measures how often average trade payables are paid during the year: Trade payables turnover ratio $= \dfrac{\text{Net credit purchases}}{\text{Average trade payables}}$.
- Average trade payables are the arithmetic mean of opening and closing balances. Writing these balances as $O$ and $C$, respectively, their average is $(O + C)/2$. Cash purchases must be excluded from the turnover ratio numerator.

**Step 1:** Separate credit purchases from total purchases Let credit purchases be $C$. Cash purchases are $25\%$ of credit purchases, so they equal $0.25C$. Total purchases therefore consist of $C + 0.25C = 1.25C$, rather than cash purchases being $25\%$ of total purchases. Thus,

$$C = \frac{\text{Rs } 15,00,000}{1.25} = \text{Rs } 12,00,000.$$

Cash purchases are $25\% \times$ Rs $12,00,000 =$ Rs $3,00,000$. These two amounts add to the given total of Rs 15,00,000. No purchase returns are given, so net credit purchases are Rs 12,00,000.

**Step 2:** Determine average trade payables Substituting the credit purchases and turnover ratio into the formula gives

$$4 = \frac{\text{Rs } 12,00,000}{\text{Average trade payables}},$$

$$\text{Average trade payables} = \frac{\text{Rs } 12,00,000}{4} = \text{Rs } 3,00,000.$$

The ratio of four times therefore relates to the average of the two balances, not either balance separately.

**Step 3:** Use the relationship between opening and closing balances Let opening trade payables be $x$; closing trade payables are $2x$. Hence,

$$\frac{x+2x}{2} = \text{Rs } 3,00,000 \quad \Rightarrow \quad 3x = \text{Rs } 6,00,000 \quad \Rightarrow \quad x = \text{Rs } 2,00,000.$$

Closing trade payables are therefore $2 \times \text{Rs } 2,00,000 = \text{Rs } 4,00,000$. As a check, their average is Rs 3,00,000 and $12,00,000/3,00,000 = 4$ times, satisfying both conditions.

**Step 4:** Conclusion Opening trade payables are $\boxed{\text{Rs } 2,00,000}$, and closing trade payables are $\boxed{\text{Rs } 4,00,000}$.

**Quick Tip to Solve:** When cash purchases are a percentage of credit purchases, divide total purchases by $1+$ that percentage before using the turnover formula.

OR

**33(b). From the following information, calculate 'Return on Investment':**

**Shareholders Funds Rs. 16,00,000**

**10% Debentures Rs. 8,00,000**

**Current Liabilities Rs. 2,00,000**

**Current Assets Rs. 5,00,000**

**Non-Current Assets Rs. 21,00,000**

**Net profit after tax was Rs. 3,00,000 and the tax amounted to Rs. 1,00,000.** [4 marks]

**Solution:**

**Concept:**

- Return on investment evaluates the operating return earned on long-term funds: $\text{ROI} = \dfrac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100.$
- Capital employed equals shareholders' funds plus non-current liabilities. It can also be obtained as total assets less current liabilities; both methods should agree.
- Profit after tax must be increased by tax and interest on long-term borrowings to obtain profit before interest and tax. Interest on debentures is a financing charge, so it is added back when measuring return on the combined funds of shareholders and long-term lenders.

**Step 1:** Calculate annual debenture interest The company has 10% debentures of Rs 8,00,000. Since

no different period or change in the balance is specified, the annual interest is

$$\text{Debenture interest} = \text{Rs } 8,00,000 \times \frac{10}{100} = \text{Rs } 80,000.$$

This amount must be restored to profit before using a return ratio whose denominator includes debenture funds.

**Step 2:** Calculate profit before interest and tax Net profit after tax is Rs 3,00,000 and tax is Rs 1,00,000. First add back tax to arrive at profit before tax, and then add back debenture interest:

$$\begin{aligned} \text{Profit before tax} &= 3,00,000 + 1,00,000 = \text{Rs } 4,00,000, \\ \text{Profit before interest and tax} &= 4,00,000 + 80,000 \\ &= \text{Rs } 4,80,000. \end{aligned}$$

Using profit after tax directly would omit both the tax charge and the return paid to debenture holders.

**Step 3:** Determine capital employed Debentures represent non-current liabilities. Therefore,

$$\begin{aligned} \text{Capital employed} &= \text{Shareholders' funds} + \text{Debentures} \\ &= 16,00,000 + 8,00,000 = \text{Rs } 24,00,000. \end{aligned}$$

The asset approach confirms this amount: non-current assets plus current assets less current liabilities equal $21,00,000 + 5,00,000 - 2,00,000 = \text{Rs } 24,00,000$. Current liabilities are excluded because they are not long-term funds employed in the business.

**Step 4:** Substitute in the return on investment formula Matching the profit before interest and tax with the corresponding capital employed gives

$$\text{ROI} = \frac{4,80,000}{24,00,000} \times 100 = 20\%.$$

The numerator represents earnings available before financing interest and tax, while the denominator includes both shareholders' funds and debenture capital. This consistent basis measures the return on total long-term investment.

**Step 5:** Conclusion Return on investment is $\boxed{20\%}$.

**Quick Tip to Solve:** For ROI, add both tax and debenture interest back to net profit after tax, and divide by shareholders' funds plus long-term debt.

**34. (a) From the following information, calculate Cash Flows from Investing Activities:**

| Particulars | 31-3-2024 (Rs.) | 31-3-2023 (Rs.) |
|---|---|---|
| Machinery (at cost) | 3,80,000 | 3,00,000 |
| Accumulated Depreciation | 62,000 | 45,000 |

**Additional Information: A machine costing Rs. 50,000 on which accumulated depreciation was Rs. 20,000 was sold at a profit of 10%.**

**(b) From the following information, calculate Cash flows from Financing Activities:**

| Particulars | 31-3-2024 (Rs.) | 31-3-2023 (Rs.) |
|---|---|---|
| Equity Share Capital | 12,00,000 | 8,00,000 |
| 11% Debentures | 3,00,000 | 4,00,000 |
| Securities Premium | 1,40,000 | 1,00,000 |

**Additional Information: Interest paid on debentures amounted to Rs. 40,000.** [6 marks]

**Solution:**

**Concept:**

- Investing activities include cash paid to purchase machinery and cash received on its sale. The carrying amount sold is cost less accumulated depreciation.
- Financing activities include proceeds from issue of shares, redemption of debentures and, for a non-financial company, interest paid.
- Only cash flows enter the statement; depreciation itself is a non-cash charge.

**Step 1:** Part (a): Calculate proceeds from sale The machine sold had cost Rs 50,000 and accumulated depreciation of Rs 20,000. Its book value and sale proceeds are:

$$\text{Book value} = 50,000 - 20,000 = \text{Rs } 30,000,$$
$$\text{Profit on sale} = 30,000 \times 10\% = \text{Rs } 3,000,$$
$$\text{Sale proceeds} = 30,000 + 3,000 = \text{Rs } 33,000.$$

The profit percentage is applied to the book value of the asset sold. The resulting Rs 33,000 is the cash inflow, rather than the profit alone.

**Step 2:** Part (a): Find machinery purchased and investing cash flow Using the machinery balances at original cost, purchases are the balancing amount:

$$\text{Purchases} = 3,80,000 - 3,00,000 + 50,000 = \text{Rs } 1,30,000.$$

The cost of the disposed machine is added back because it reduced the closing machinery balance. The change in accumulated depreciation is not a cash flow. As a check, depreciation for the year is $62,000 - 45,000 + 20,000 = \text{Rs } 37,000$.

Cash Flow from Investing Activities

| Particulars | Amount (Rs) | Amount (Rs) |
|---|---|---|
| Proceeds from sale of machinery | 33,000 | |
| Purchase of machinery | (1,30,000) | |
| Net cash used in investing activities | | (97,000) |

**Step 3:** Part (b): Identify the financing cash movements Equity share capital has increased by $12,00,000 - 8,00,000 =$ Rs $4,00,000$. Securities premium has increased by $1,40,000 - 1,00,000 =$ Rs $40,000$. Thus total cash proceeds from issue of shares, including premium, are Rs 4,40,000.

Debentures have decreased by $4,00,000 - 3,00,000 =$ Rs $1,00,000$, representing a financing outflow on redemption. The question directly states interest paid of Rs 40,000; use this cash amount rather than calculating interest from the opening or closing debenture balance.

**Step 4:** Part (b): Present financing activities Cash Flow from Financing Activities

| Particulars | Amount (Rs) | Amount (Rs) |
|---|---|---|
| Proceeds from equity shares, including premium | 4,40,000 | |
| Redemption of debentures | (1,00,000) | |
| Interest paid on debentures | (40,000) | |
| Net cash from financing activities | | 3,00,000 |

Thus $4,40,000 - 1,00,000 - 40,000 =$ Rs $3,00,000$ is the net financing inflow.

**Step 5:** Conclusion (a) Net cash used in investing activities is $\boxed{\text{Rs } 97,000}$. (b) Net cash from financing activities is $\boxed{\text{Rs } 3,00,000}$.

**Quick Tip to Solve:** Use cost balances to find machinery purchases, book value to find sale proceeds, and include share premium in financing receipts.

*OPTION - II (Computerised Accounting)*

**27(a). To safeguard assets and optimise the use of resources of a business:** [1 mark]

(A) shield and secure its assets only.

(B) try to earn sufficient profits only.

(C) keep internal checks and controls.

(D) ensure accuracy in accounting records only.

**Correct Answer:** (C) keep internal checks and controls.

**Solution:**

**Concept:**

- Internal checks allocate duties and cross-check work; internal controls protect assets and promote efficient use of resources.
- Authorisation, custody controls and verification together help prevent errors, fraud and waste.

**Step 1:** Identify the comprehensive safeguard A system of internal checks and controls safeguards the assets of a business and helps ensure that its resources are used economically and efficiently.

Responsibility is assigned and transactions are checked rather than being left entirely to one person.

**Step 2:** Compare all the options Option (A) considers only asset security, (B) only profits and (D) only accounting accuracy. Each is narrower than the combined objective stated. Option (C) provides the organisational mechanism that supports both protection of assets and optimum resource use.

**Step 3:** Conclusion The correct option is (C): keep internal checks and controls.

**Quick Tip to Solve:** When a question combines asset protection with efficiency, look for the comprehensive system of internal controls.

OR

**27(b). Which of the following item is not included in Account group-loans (liabilities) in the Account group of Balance Sheet?** [1 mark]

(A) Bank overdraft

(B) Sundry creditors

(C) Unsecured loans

(D) Secured loans

**Correct Answer:** (B) Sundry creditors

**Solution:**

**Concept:**

- Loans (liabilities) groups borrowing accounts by the nature of the loan.
- Sundry creditors are trade payables arising from credit purchases, rather than borrowing accounts.

**Step 1:** Identify the borrowing accounts Secured loans and unsecured loans are borrowings classified according to whether security has been provided. Bank overdraft is also a borrowing facility and is included under the loans (liabilities) group.

**Step 2:** Separate trade liabilities Sundry creditors represent amounts payable to suppliers for goods or services purchased on credit. These belong to the sundry creditors group under current liabilities. Thus (A), (C) and (D) are loan-related groups, whereas (B) is the exception asked for.

**Step 3:** Conclusion The correct option is (B): Sundry creditors.

**Quick Tip to Solve:** Distinguish money borrowed from a lender from amounts due to suppliers for credit purchases.

**28. Which of the following is an adjustment voucher normally used for non-cash transaction?** [1 mark]

(A) Payment voucher

(B) Receipt voucher

(C) Contra voucher

(D) Journal voucher

**Correct Answer:** (D) Journal voucher

**Solution:**

**Concept:**

- A journal voucher records non-cash adjustments such as depreciation and outstanding expenses.
- Payment and receipt vouchers record cash or bank outflows and inflows; contra vouchers record transfers within cash and bank accounts.

**Step 1:** Identify a non-cash adjustment An adjustment such as depreciation debits an expense and credits the relevant asset or provision account without receiving or paying cash. A journal voucher is the normal document used to enter this type of adjustment in a computerised accounting system.

**Step 2:** Eliminate the other vouchers A payment voucher supports a payment, and a receipt voucher supports a receipt. A contra voucher records cash-to-bank, bank-to-cash or bank-to-bank transfers. These do not serve as the general voucher for non-cash adjusting entries. Hence option (D) fits the question.

**Step 3:** Conclusion The correct option is (D): Journal voucher.

**Quick Tip to Solve:** For depreciation, accruals and other entries without cash movement, select the journal voucher.

**29(a). Which of the following is not an advantage of Computerised Accounting System?** [1 mark]

(A) Timely generation of reports in desired format.

(B) Unprogrammed and un-specific reports cannot be generated.

(C) Economy in processing of accounting data.

(D) Efficient record keeping.

**Correct Answer:** (B) Unprogrammed and un-specific reports cannot be generated.

**Solution:**

**Concept:**

- A computerised accounting system processes data quickly and produces reports according to programmed instructions.
- Dependence on predefined programs can restrict generation of reports that have not been specified.

**Step 1:** Recognise the advantages Timely reports in a desired format, economical processing of accounting data and efficient record keeping are benefits of computerised accounting. Therefore options (A), (C) and (D) describe advantages.

**Step 2:** Identify the limitation The inability to generate unprogrammed and unspecified reports is

a restriction on flexibility: the system needs instructions or a suitable report design before it can produce such output. Option (B) therefore describes a limitation, which is exactly what the negative wording of the question asks us to select.

**Step 3:** Conclusion The correct option is (B): Unprogrammed and un-specific reports cannot be generated.

**Quick Tip to Solve:** Underline "not an advantage" first, then select the restriction rather than a processing benefit.

OR

**29(b). The need for codification is for:** [1 mark]

(A) easy processing of data and keeping the records.

(B) generation of mnemonic codes.

(C) to secure accounting reports.

(D) the encryption of data.

**Correct Answer:** (A) easy processing of data and keeping the records.

**Solution:**

**Concept:**

- Codification assigns a code to an account or data item for systematic identification and classification.
- Codes make the storage, retrieval and processing of accounting records easier and more consistent.

**Step 1:** State the purpose of coding An accounting code provides a concise identifier for each account or category. It helps the computer classify transactions, locate the relevant record and process data systematically, while reducing ambiguity in identification.

**Step 2:** Compare the alternatives Easy processing of data and keeping records states the purpose directly, so (A) is correct. Mnemonic codes in (B) are merely one possible type of code. Securing reports in (C) and encryption in (D) concern data security rather than the basic purpose of accounting codification.

**Step 3:** Conclusion The correct option is (A): easy processing of data and keeping the records.

**Quick Tip to Solve:** Treat codification as systematic identification and classification; encryption instead concerns security.

**30. To see all the available shape styles, which of the following button is to be clicked?** [1 mark]

(A) More

(B) Custom

(C) Chart root

(D) Picture

**Correct Answer:** (A) More

**Solution:**

**Concept:**

- A shape style is a predefined combination of fill, outline and visual effects applied to a selected shape.
- The Shape Styles gallery initially displays a limited set of styles; its More button expands the gallery.

**Step 1:** Identify the gallery control Click the More button attached to the Shape Styles gallery to display all the available styles and then select the desired style.

**Step 2:** Check the other choices Custom is not the button used to expand this gallery. Chart root relates to chart structure rather than shape-style choices, and Picture refers to image-related tools. None of these three choices displays the complete Shape Styles gallery.

**Step 3:** Conclusion The correct option is (A): More.

**Quick Tip to Solve:** Look for the More arrow at the end of a gallery when all preset styles are required.

**31. What is meant by 'Data', 'Information' and 'Transaction'?** [3 marks]

**Solution:**

**Concept:**

- Data are the raw facts used as input; information is the meaningful output obtained by processing those facts.
- A business transaction is an economic event measurable in money that changes the financial position of the business.

**Step 1:** Define data Data means raw, unprocessed facts and figures collected for a particular purpose. Individually, these facts may not convey an organised meaning. For example, a list of invoice numbers, customer names, quantities and selling prices is sales data. Such facts are entered into the computerised accounting system as input.

**Step 2:** Define information Information means data that have been processed, organised and presented in a meaningful form useful to the user. For example, sorting and totalling the sales data produces a customer-wise sales report or the total sales for a month. This output supports decisions and communicates the result of processing.

**Step 3:** Define transaction A transaction is a business event or dealing that can be expressed in money and affects the assets, liabilities or capital of the business. For example, purchasing goods for Rs 5,000 in cash is a transaction: goods increase and cash decreases. The transaction supplies the facts that are

recorded and processed in accounting.

**Step 4:** Conclusion Data are raw facts; information is processed, meaningful data; a transaction is a monetary business event recorded in the accounts.

**Quick Tip to Solve:** Use one sales example to distinguish raw invoice facts from a processed sales report.

**32. List six features of an Accounting Software.** [3 marks]

**Solution:**

**Concept:**

- Accounting software records and processes accounting transactions systematically and generates useful financial information.
- Its features support reliable recording, efficient processing, controlled access and preparation of reports.

**Step 1:** Features relating to recording and processing 1. Fast processing: a large number of transactions can be recorded and processed quickly.

2. Accuracy: the software performs calculations and postings accurately when the input and configuration are correct.

3. Integrated processing: a transaction entered once can update the relevant ledger accounts and associated records, reducing repeated data entry.

**Step 2:** Features relating to reporting and control 4. Automatic reporting: the system can generate a trial balance, profit and loss account, balance sheet and other accounting reports from the stored records.

5. Data security: passwords and user access rights restrict access to authorised persons and help protect accounting data.

6. Data storage and backup: large volumes of accounting records can be stored, retrieved when needed and backed up for recovery.

Together, these features make accounting records easier to maintain and financial information available promptly; correct input and suitable controls remain essential.

**Step 3:** Conclusion Six features are fast processing, accuracy, integrated processing, automatic reporting, data security, and data storage with backup.

**Quick Tip to Solve:** Remember six distinct functions: speed, accuracy, integration, reports, security and backup.

**33(a). Each and every data from Notepad file can be saved as an Excel data file. This provides a lead that Excel worksheet consists of four types of data in cell. Name and state these data types.** [4 marks]

**Solution:**

**Concept:**

- A spreadsheet cell stores a value of a particular data type; the type determines how Excel interprets and processes the value.
- The four cell-value data types are number, text, logical and error. A formula is an expression that returns a value of one of these types.

**Step 1:** Number data Number data consists of numeric values used in arithmetic calculations, such as quantities, prices, percentages and amounts. For example, 2500 or 12.5 can be added, multiplied or used in other numerical operations. Dates and times are also stored internally as serial numbers, although a date or time format changes their appearance.

**Step 2:** Text data Text data consists of characters or strings, including letters, words, symbols and combinations of letters and digits. Examples are Sales Account, Delhi and Invoice A101. Text commonly provides headings, labels and descriptions. A number deliberately stored as text, such as a telephone number, is treated as a label rather than an ordinary numerical quantity.

**Step 3:** Logical data Logical data consists of the truth values TRUE and FALSE. These values show whether a condition is satisfied. For example, if cell A1 contains 80, the comparison $= A1 > 50$ returns TRUE. Logical values are useful in comparisons and conditional calculations.

**Step 4:** Error data Error data consists of special values displayed when Excel cannot evaluate an entry or calculation successfully. Examples include #DIV/0! when a number is divided by zero, #VALUE! when an unsuitable type of operand is used, and #REF! when a cell reference is invalid. An error value identifies a problem that needs correction; it is not an ordinary text label.

**Step 5:** Conclusion The four types of data in worksheet cells are number, text, logical and error.

**Quick Tip to Solve:** Classify the value a cell holds: quantity, label, truth value or error indicator.

OR

**33(b). What is meant by 'Data Validation'? What is facilitated by 'Error Alert Tab'?** [4 marks]

**Solution:**

**Concept:**

- Data validation is an Excel facility for specifying rules that restrict the type or value of data accepted in selected worksheet cells.
- The Settings tab defines the permitted input; the Error Alert tab controls the warning displayed when an invalid value is entered directly in a validated cell.

**Step 1:** Meaning and purpose of Data Validation Data Validation helps maintain accuracy and consistency of accounting data by checking entries against a prescribed condition. For example, a cell can be restricted to whole numbers, a particular date range, decimal values within limits, text

of a specified length, or values chosen from a list. To require a discount rate between 0 and 10, the user selects the cells and sets the appropriate lower and upper limits through Data, Data Validation, Settings. An entry outside the allowed limits is invalid. Thus validation controls the input rather than merely changing the cell's appearance.

**Step 2:** Facilities provided by the Error Alert tab The Error Alert tab enables the user to show an error message after invalid data is entered. The user can select the checkbox to display the alert, choose its style, and enter a suitable title and explanatory error message, such as "Enter a value from 0 to 10". Three alert styles are available. Stop rejects the invalid entry and requires the user to retry or cancel. Warning informs the user of the invalid value but permits it to be accepted after confirmation. Information displays an advisory message and also allows the invalid value to be retained. The tab therefore determines both the wording of the feedback and how strictly the validation rule is enforced; Warning and Information do not compel correction as Stop does.

**Step 3:** Conclusion Data Validation specifies acceptable cell entries. The Error Alert tab provides a customised invalid-entry message and a choice of Stop, Warning or Information to control the response to an invalid entry.

**Quick Tip to Solve:** Distinguish the rule in Settings from the invalid-entry message in Error Alert; only the Stop style blocks acceptance of an invalid entry.

**34. If a user wishes to change a 'Text Option' as an element of chart, how can he/she do so? Explain.**

[6 marks]

**Solution:**

**Concept:**

- Chart text includes the chart title, axis titles, axis labels, legend and data labels. Formatting is applied to the selected chart element or to selected text within it.
- Text Options controls the appearance and arrangement of text through Text Fill and Outline, Text Effects and Text Box settings.

**Step 1:** Select the text-bearing chart element Click the chart to activate Chart Tools, then click the element whose text is to be changed, such as the chart title. Make sure that the intended element is selected. The element can also be selected through the Current Selection list on the Format tab. If only certain words in a title need a different format, select those words within the title instead of formatting the whole chart.

**Step 2:** Open the formatting controls Right-click the selected element and choose its Format command, for example Format Chart Title or Format Axis. Alternatively, use Format Selection in the Current Selection group on the Chart Tools Format tab. In the formatting pane, choose Text Options. The available settings relate to the selected element. For basic font changes, use the Home tab's Font group or the shortcut font controls to choose the font face, size, bold, italic and font colour as required.

**Step 3:** Set Text Fill and Text Outline Under Text Options, select Text Fill and Outline. Text Fill changes the inside of the letters: choose, for example, a solid colour or a gradient and set the colour and transparency as required. Text Outline changes the border around the letters. Choose no outline

or a solid outline and adjust its colour and width. These settings affect the lettering itself; the fill and border of the surrounding chart element are controlled separately.

**Step 4:** Apply Text Effects Select Text Effects to apply an appropriate effect such as shadow, reflection, glow or a three-dimensional effect. Open the required category and select a preset or adjust the available settings. For example, a small shadow can emphasise a chart title. Keep the effect restrained so that titles and labels remain legible and the accounting information is easy to read.

**Step 5:** Arrange the text and review the chart Use Text Box settings, where available for the selected element, to change text alignment, text direction or rotation, internal margins and wrapping. For instance, axis text may be rotated to prevent adjacent category labels from overlapping. Check the result on the chart, make any necessary adjustments and close the formatting pane. The selected formatting is reflected in the chart without changing the source figures represented by it.

**Step 6:** Conclusion Select the required chart element, open its Format pane and choose Text Options. Change Text Fill and Outline, Text Effects and Text Box settings as needed; use the Font controls for the typeface, size and style, and then check that the text is clear.

**Quick Tip to Solve:** Select the title, label or legend first; Text Options then formats that element's letters, while Font controls handle its font and size.