CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-4-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. Rajat and Samar were partners in a firm sharing profits and losses in the ratio of 5 : 3. Tarun was admitted as a new partner for 2/5th share in the profits of the firm. Tarun brought Rs. 5,00,000 as his share of capital and Rs. 3,00,000 as his share of goodwill premium. The value of goodwill of the firm was : [1 mark]

(A) Rs. 7,50,000

(B) Rs. 12,50,000

(C) Rs. 15,00,000

(D) Rs. 20,00,000

Correct Answer: (A) Rs. 7,50,000

Solution:

Concept:

- The incoming partner pays goodwill premium for the share of future profits acquired.
- Firm goodwill equals the incoming partner's goodwill premium divided by the fraction of profit acquired. Capital introduced is accounted for separately.

Step 1: Identify the relevant amount Tarun pays Rs 3,00,000 for a $2/5$ share of goodwill. His Rs 5,00,000 capital is not part of the goodwill premium; the old partners' ratio does not change the valuation.

Step 2: Gross up the premium

$$\text{Goodwill} = 3,00,000 \div \frac{2}{5} = \text{Rs } 7,50,000.$$

The Rs 12,50,000 figure capitalises the capital contribution instead. Rs 15,00,000 and Rs 20,00,000 do not reproduce the stated premium when multiplied by $2/5$.

Step 3: Conclusion The goodwill of the firm is Rs 7,50,000. Hence, the correct option is (A).

Quick Tip to Solve: Divide the goodwill premium by the new profit share; exclude the capital contribution.

2. Elvis, Finch and Gordon entered into a partnership on 1st July, 2023 with capitals of Rs. 20,00,000 each. The partnership deed provided for interest on capital @ 10% per annum. The firm earned a net profit of Rs. 13,50,000 for the year ended 31st March, 2024. The amount of profit transferred to Elvis's capital account was : [1 mark]

(A) Rs. 2,50,000

(B) Rs. 3,00,000

(C) Rs. 4,00,000

(D) Rs. 4,50,000

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

Solution:

Concept:

- Interest on capital is appropriated at the agreed annual rate for the actual period capital remains invested.
- Where no profit-sharing ratio is specified, partners share the residual profit equally.

Step 1: Calculate interest for nine months From 1 July 2023 to 31 March 2024 the investment period is nine months. Each partner's interest is

$$20,00,000 \times \frac{10}{100} \times \frac{9}{12} = \text{Rs } 1,50,000.$$

Total interest is Rs 4,50,000.

Step 2: Distribute the residual profit Profit available for sharing is Rs 13,50,000 minus Rs 4,50,000, or Rs 9,00,000. Elvis receives $9,00,000/3 = \text{Rs } 3,00,000$. Rs 4,50,000 ignores interest before sharing; Rs 2,50,000 and Rs 4,00,000 do not follow the nine-month appropriation. Interest is a separate credit from the profit share asked for.

Step 3: Conclusion The profit transferred to Elvis's capital account is Rs 3,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Use nine months for interest, then divide only the remaining profit equally among the three partners.

3(a). 'Reserve Capital' can be utilised : [1 mark]

(A) any time during the life of the company.

(B) only at the time of winding up of the company.

(C) to issue fully paid bonus shares.

(D) to provide for premium on the redemption of preference shares.

Correct Answer: (B) only at the time of winding up of the company.

Solution:

Concept:

- Reserve capital is the portion of uncalled share capital reserved to be called only on winding up.
- Reserve capital differs from capital reserve: it is not an accumulated reserve available for distribution or routine utilisation.

Step 1: Identify the restriction The word reserve here qualifies uncalled share capital. The company has reserved the right to call this amount specifically for winding up, when it becomes available to meet the claims arising on liquidation.

Step 2: Check the alternatives It cannot be called freely at any time during the company's life, so (A) fails. Issuing fully paid bonus shares or providing premium on redemption does not constitute winding up, so neither (C) nor (D) describes the use of reserve capital. The stated restriction corresponds exactly to (B).

Step 3: Conclusion Reserve capital can be utilised only at the time of winding up of the company. Hence, the correct option is (B).

Quick Tip to Solve: Associate reserve capital with uncalled capital available on winding up, not with a capital reserve.

OR

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

(A) Sweat equity

(B) Employee Stock Option Plan

(C) Private placement

(D) Buy-back of shares

Correct Answer: (C) Private placement

Solution:

Concept:

- Private placement is an offer or invitation to subscribe to securities made to a select group of persons.
- The identity of the offerees and the nature of the transaction distinguish it from employee incentives

and repurchase of shares.

Step 1: Match the definition The question describes a new offer of securities to selected persons rather than to the general public. This is precisely the defining feature of private placement; it does not require the selected persons to be employees.

Step 2: Eliminate the other terms Sweat equity rewards qualifying contributions such as know-how or value addition. An Employee Stock Option Plan gives employees an option to acquire shares under specified terms. Buy-back means the company purchases its own existing shares. None of these describes a general invitation to a select group to subscribe to securities.

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

Quick Tip to Solve: A select group receiving a subscription offer points to private placement; a repurchase points to buy-back.

---

4. Diksha Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 10 each at a premium of 10%. The whole amount was payable on application. Applications were received for 3,00,000 equity shares. The company decided to allot the shares on pro-rata basis to all the applicants. The amount refunded by the company was : [1 mark]

(A) Rs. 22,00,000

(B) Rs. 33,00,000

(C) Rs. 11,00,000

(D) Rs. 20,00,000

Correct Answer: (A) Rs. 22,00,000

Solution:

Concept:

- Application money per share includes the face value and the premium when the whole issue price is payable on application.
- With all shares fully paid on application, excess money after allotment is refunded; there is no future instalment against which to adjust it.

Step 1: Calculate the issue price Premium per share is $10 \times 10/100 = \text{Rs } 1$. Therefore each applicant paid Rs 11 per share, and total application money received is $3,00,000 \times 11 = \text{Rs } 33,00,000$.

Step 2: Deduct the amount retained Money required on 1,00,000 shares is $1,00,000 \times 11 = \text{Rs } 11,00,000$. Refund equals Rs 33,00,000 minus Rs 11,00,000, or Rs 22,00,000. Rs 33,00,000 is the receipt, Rs 11,00,000 is the amount retained, and Rs 20,00,000 incorrectly excludes premium on the excess applications.

Step 3: Conclusion The amount refunded is Rs 22,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Multiply the excess 2,00,000 applications by the full issue price of Rs 11, including premium.

---

5. 'The business of a partnership firm may be carried on by all the partners or any of them acting for all.'

The above statement highlights which of the following feature of partnership ? [1 mark]

(A) Agreement

(B) Business

(C) Sharing of profit

(D) Mutual agency

Correct Answer: (D) Mutual agency

Solution:

Concept:

- Each partner can act as an agent of the firm and of the other partners for the business of the partnership.
- Mutual agency means a partner acts on behalf of all and the firm is bound by authorised acts in the course of its business.

Step 1: Interpret the crucial words The phrase "any of them acting for all" shows that every partner need not personally conduct every business transaction. One partner may conduct the business as the representative of the others, creating obligations for the firm.

Step 2: Distinguish the other features Agreement concerns the consensual creation of partnership. Business concerns carrying on an economic activity, while sharing of profit concerns division of the earnings. Those features do not capture the authority of one partner to act for the whole firm. That representative authority is mutual agency.

Step 3: Conclusion The highlighted feature is mutual agency. Hence, the correct option is (D).

Quick Tip to Solve: Underline "acting for all": it identifies the partner's agency for the firm and the other partners.

6. Reema, Meesha and Shikha were partners in a partnership firm sharing profits and losses in the ratio of 8 : 7 : 5. On 1st October, 2023, Reema advanced a loan of Rs. 5,00,000 to the firm. There is no partnership deed. The firm's profit for the year ended 31st March, 2024 before charging interest on Reema's loan amounted to Rs. 2,15,000. The amount of profit credited to Shikha's capital account was : [1 mark]

(A) Rs. 80,000

(B) Rs. 70,000

(C) Rs. 50,000

(D) Rs. 42,500

Correct Answer: (C) Rs. 50,000

Solution:

Concept:

- In the absence of a partnership deed, interest on a partner's loan is allowed at 6% per annum as a charge against profit.
- Apply the stated profit-sharing ratio after deducting loan interest; absence of a written deed does not cancel the ratio explicitly given in the question.

Step 1: Charge loan interest for six months Reema advanced Rs 5,00,000 on 1 October 2023, leaving six months to 31 March 2024. Interest is

$$5,00,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 15,000.$$

Distributable profit is Rs 2,15,000 minus Rs 15,000, or Rs 2,00,000.

Step 2: Apply Shikha's share The ratio totals $8 + 7 + 5 = 20$. Shikha receives $2,00,000 \times 5/20 =$ Rs $50,000$. Rs 80,000 and Rs 70,000 are Reema's and Meesha's respective shares; Rs 42,500 does not follow the stated ratio after charging the correct interest.

Step 3: Conclusion The profit credited to Shikha's capital account is Rs 50,000. Hence, the correct option is (C).

Quick Tip to Solve: Deduct six months of 6% loan interest first, then apply Shikha's given fraction of 5/20.

7. White, Shaun and Todd were partners in a firm sharing profits and losses equally. Shaun's wife had advanced a loan of Rs. 1,00,000 to the firm. The firm was dissolved. Shaun's wife's loan had already been transferred to Realisation account. The account credited to discharge Shaun's wife's loan will be : [1 mark]

(A) Shaun's capital account

(B) Bank account

(C) Realisation account

(D) Shaun's loan account

Correct Answer: (B) Bank account

Solution:

Concept:

- A loan from a partner's wife is an outside liability of the firm, distinct from a loan made by the partner personally.
- After an outside liability has been transferred to Realisation Account, its cash settlement debits Realisation and credits Bank.

Step 1: Identify the liability already transferred Shaun's wife is the lender. The liability has already been transferred to Realisation Account, so there is no need to transfer it again and it is not settled through Shaun's capital or his personal loan account.

Step 2: Determine the credit on payment Payment of Rs 1,00,000 reduces the bank balance. Bank Account is therefore credited and Realisation Account is debited with Rs 1,00,000. Crediting Realisation again would increase rather than settle the transferred liability. Shaun's capital and loan accounts would be relevant only to distinct transactions involving Shaun himself, which are not stated here.

Step 3: Conclusion The account credited to discharge Shaun's wife's loan is Bank Account. Hence, the correct option is (B).

Quick Tip to Solve: Once an outside liability is in Realisation, its payment credits Bank, regardless of the lender's relation to a partner.

8. Neeru and Pooja were partners in a partnership firm sharing profits and losses in the ratio of 4 : 3. The firm earned average profits of Rs. 5,00,000 during the last few years. The normal rate of return in a similar business is 10%. The average super profits of the firm were Rs. 4,00,000. The amount of capital employed by the firm was : [1 mark]

(A) Rs. 90,00,000

(B) Rs. 40,00,000

(C) Rs. 50,00,000

(D) Rs. 10,00,000

Correct Answer: (D) Rs. 10,00,000

Solution:

Concept:

- Super profit is average profit minus normal profit, where normal profit is capital employed multiplied by the normal rate of return.
- Capital employed equals normal profit multiplied by 100 and divided by the normal return percentage.

Step 1: Find normal profit The firm earns average profit of Rs 5,00,000, of which Rs 4,00,000 is super profit. Thus normal profit is

$$5,00,000 - 4,00,000 = \text{Rs } 1,00,000.$$

The partners' profit-sharing ratio is not needed to value the firm's capital employed.

Step 2: Capitalise normal profit At a normal return of 10%, capital employed is

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

Rs 40,00,000 capitalises super profit and Rs 50,00,000 capitalises average profit. Rs 90,00,000 wrongly capitalises their sum; all three use an incorrect profit base.

Step 3: Conclusion The capital employed is Rs 10,00,000. Hence, the correct option is (D).

Quick Tip to Solve: Subtract super profit from average profit before capitalising at the normal rate of return.

9. Assertion (A) : Partners' salary is debited to Profit and Loss Appropriation Account and not to Profit and Loss Account.

Reason (R) : Partners' salary is an appropriation of profit, it is not a charge against profits.

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) Both Assertion (A) and Reason (R) are incorrect.

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

Solution:

Concept:

- Partners' salary is an appropriation of net profit under the partnership agreement.
- Profit and Loss Account determines net profit; Profit and Loss Appropriation Account records its distribution among partners.

Step 1: Judge the assertion Partners' salary is allowed under the partnership agreement as a distribution of the profit available to partners. It is therefore debited to Profit and Loss Appropriation Account, after net profit has been determined. Assertion (A) is correct.

Step 2: Judge the reason A charge against profit is deducted in determining net profit. Partners' salary is an appropriation of that profit rather than an operating expense, so Reason (R) is also correct.

Step 3: Check the explanatory link The classification stated in the reason directly determines the account named in the assertion. Hence (B) wrongly denies the explanatory link, while (C) and (D) wrongly reject true statements.

Step 4: Conclusion Both A and R are correct, and R correctly explains A. The correct option is (A).

Quick Tip to Solve: Ask whether the recipient is being rewarded as a partner: partner salary belongs to appropriation.

10. Kabir and Lara were partners in a firm sharing profits and losses in the ratio of 5 : 3. Mark was admitted as a new partner for 2/5th share in the profits of the firm. Mark was to bring 2/5th of the combined capital of Kabir and Lara after all adjustments are carried out. The capitals of Kabir and Lara after all adjustments were Rs. 8,00,000 and Rs. 7,00,000 respectively. The capital brought by Mark was : [1 mark]

(A) Rs. 3,75,000

(B) Rs. 3,00,000

(C) Rs. 6,00,000

(D) Rs. 15,00,000

Correct Answer: (C) Rs. 6,00,000

Solution:

Concept:

- An incoming partner's agreed capital is calculated on the precise base specified in the agreement.
- Here $C_M = \frac{2}{5}(C_K + C_L)$, where C_M is Mark's capital and C_K, C_L are the adjusted capitals of Kabir and Lara.

Step 1: Combine the adjusted capitals The question expressly links Mark's capital to the combined adjusted capitals of Kabir and Lara. Their old profit-sharing ratio does not enter this capital calculation.

$$\text{Combined capital} = 8,00,000 + 7,00,000 = \text{Rs } 15,00,000.$$

Step 2: Apply the stated fraction

$$\text{Mark's capital} = \frac{2}{5} \times 15,00,000 = \text{Rs } 6,00,000.$$

The agreement says two-fifths of the old partners' combined capital, not two-fifths of total capital after admission. Rs 3,75,000 and Rs 3,00,000 use incorrect fractions; Rs 15,00,000 omits the fraction altogether.

Step 3: Conclusion Mark brings Rs 6,00,000 as capital. The correct option is (C).

Quick Tip to Solve: Use the exact capital base stated in the agreement before applying the incoming partner's fraction.

11. Prakhar and Rajan were partners in a firm sharing profits and losses in the ratio of 3 : 2 with capitals of Rs. 10,00,000 and Rs. 9,00,000 respectively. Siddharth was admitted as a new partner for 1/5th share in the profits of the firm. The new profit sharing ratio between Prakhar, Rajan and Siddharth was agreed at 12 : 8 : 5. The sacrificing ratio of Prakhar and Rajan will be : [1 mark]

(A) 3 : 2

(B) 1 : 1

(C) 2 : 3

(D) 10 : 9

Correct Answer: (A) 3 : 2

Solution:

Concept:

- A partner's sacrificing share equals old profit share minus new profit share.
- The sacrificing ratio compares the old partners' individual sacrifices; their sum equals the incoming partner's share.

Step 1: Express the old and new shares Sacrifice is old share less new share. The old shares of Prakhar and Rajan are $3/5$ and $2/5$. Since the new ratio totals $12 + 8 + 5 = 25$, their new shares are $12/25$ and $8/25$.

Step 2: Calculate and compare sacrifices

$$\text{Prakhar's sacrifice} = \frac{3}{5} - \frac{12}{25} = \frac{3}{25},$$
$$\text{Rajan's sacrifice} = \frac{2}{5} - \frac{8}{25} = \frac{2}{25}.$$

Their combined sacrifice is $5/25 = 1/5$, exactly Siddharth's share. Equal sacrifice and reversed sacrifice are incorrect, and 10:9 is the capital ratio, which does not determine sacrifice here.

Step 3: Conclusion The sacrificing ratio is $3 : 2$. The correct option is (A).

Quick Tip to Solve: Subtract each new share from the corresponding old share; ignore capital balances in this calculation.

12(a). **Tavish, Umesh and Varun were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. Tavish retired. Umesh and Varun decided to share profits and losses in future in the ratio of 5 : 3. The gaining share of Umesh will be :** [1 mark]

(A) 21/72

(B) 11/72

(C) 45/72

(D) 32/72

Correct Answer: (A) 21/72

Solution:

Concept:

- A continuing partner's gaining share equals new profit share minus old profit share.
- Each ratio must first be converted to fractions of the total profit before subtraction.

Step 1: Identify Umesh old and new shares A continuing partner's gain is the increase in his share of future profits. The old ratio totals $4+3+2=9$, so Umesh's old share is $3/9$. The new ratio totals $5+3=8$, so his new share is $5/8$.

Step 2: Subtract using a common denominator

$$\text{Umesh's gain} = \frac{5}{8} - \frac{3}{9} = \frac{45-24}{72} = \frac{21}{72}.$$

The fraction $11/72$ is Varun's gain, $45/72$ is Umesh's new share without deducting his old share, and $32/72$ is Tavish's outgoing share shared by both continuing partners.

Step 3: Conclusion Umesh's gaining share is $21/72$. The correct option is (A).

Quick Tip to Solve: For an individual gaining share, subtract that partner's old fraction from his new fraction.

OR

12(b). **Asit, Sonu and Hina were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Asit retired and the balance in his capital account after making necessary adjustments on account of reserves and revaluation of assets and liabilities was Rs. 40,00,000. Sonu and Hina agreed to pay him Rs. 45,00,000 in full settlement of his claim. The value of goodwill of the firm was :** [1 mark]

(A) Rs. 5,00,000

(B) Rs. 20,00,000

(C) Rs. 15,00,000

(D) Rs. 10,00,000

Correct Answer: (D) Rs. 10,00,000

Solution:

Concept:

- Hidden goodwill share of a retiring partner is settlement amount less adjusted capital.

- Goodwill of the firm equals the retiring partner's goodwill share divided by that partner's old profit fraction.

Step 1: Find the retiring partner goodwill entitlement Asit's adjusted capital already includes reserves and revaluation. The additional settlement above this adjusted capital represents his share of goodwill.

$$\text{Asit's goodwill share} = 45,00,000 - 40,00,000 = \text{Rs } 5,00,000.$$

Step 2: Gross up to the firm goodwill Asit's old profit share is $3/(3+2+1) = 1/2$. Therefore

$$\text{Goodwill of firm} = 5,00,000 \div \frac{1}{2} = \text{Rs } 10,00,000.$$

Rs 5,00,000 is only Asit's share, not the firm's value. Rs 20,00,000 and Rs 15,00,000 use an incorrect grossing-up factor and do not give him Rs 5,00,000 at his half share.

Step 3: Conclusion The goodwill of the firm is Rs 10,00,000. The correct option is (D).

Quick Tip to Solve: First find the extra settlement, then divide it by the retiring partner's old profit share.

13(a). Ajit, Biswas and Chitra were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Biswas died on 30th September, 2024. The firm closes its books on 31st March every year. Biswas's share of profits till the date of death from the last Balance Sheet date, was to be calculated on the basis of sales. Sales for the year ended 31st March, 2024 amounted to Rs. 24,00,000 and that from 1st April, 2024 to 30th September, 2024 amounted to Rs. 15,00,000. The profits for the year ended 31st March, 2024 were Rs. 2,40,000. Biswas's share of profits till the date of his death was : [1 mark]

(A) Rs. 11,250

(B) Rs. 70,000

(C) Rs. 45,000

(D) Rs. 22,500

Correct Answer: (C) Rs. 45,000

Solution:

Concept:

- Under the sales basis, estimated profit equals sales to death multiplied by the historical profit-to-sales rate.
- The deceased partner receives this estimated profit multiplied by his old profit-sharing fraction.

Step 1: Determine the historical profit rate The question specifies a sales basis, so use profit as a percentage of last year's sales rather than prorating last year's profit by time.

$$\text{Profit rate} = \frac{2,40,000}{24,00,000} \times 100 = 10\%.$$

Step 2: Estimate current profit and allocate the share

$$\text{Profit to death} = 15,00,000 \times 10\% = \text{Rs } 1,50,000,$$
$$\text{Biswas's share} = 1,50,000 \times \frac{3}{10} = \text{Rs } 45,000.$$

The actual sales already cover the period to death, so no further six-month fraction is applied. Rs 22,500 incorrectly halves the result; Rs 11,250 and Rs 70,000 do not follow the given profit rate and share.

Step 3: Conclusion Biswas's share of profit is Rs 45,000. The correct option is (C).

Quick Tip to Solve: On the sales basis, current sales already measure the period: do not multiply again by months over twelve.

OR

13(b). Isha, Julie and Kavita were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. The firm closes its books on 31st March every year. On 12th June, 2024, Kavita died. Her share in the profits of the firm from the last Balance Sheet till the date of death was to be calculated on the basis of last year's profit. Last year's profits were Rs. 6,00,000. Kavita's share of profit till the date of her death was : [1 mark]

(A) Rs. 20,000

(B) Rs. 30,000

(C) Rs. 40,000

(D) Rs. 50,000

Correct Answer: (A) Rs. 20,000

Solution:

Concept:

- On the previous-profit basis, profit to death is estimated in proportion to the elapsed part of the accounting year.
- The deceased partner's share equals last year's profit multiplied by elapsed months divided by twelve and by her old profit fraction.

Step 1: Find the annual share and elapsed period Kavita's old profit share is $1/(3+2+1) = 1/6$. Her share of a full year's profit is therefore $6,00,000 \times 1/6 = \text{Rs } 1,00,000$. From 1 April to 12 June the period is two months and twelve days, taken as $2 + 12/30 = 2.4$ months under the monthly accounting convention.

Step 2: Prorate the annual share

$$\text{Kavita's profit to death} = 1,00,000 \times \frac{2.4}{12} = \text{Rs } 20,000.$$

The previous year's profit is an annual figure, so the elapsed-period fraction is necessary. Rs 30,000,

Rs 40,000 and Rs 50,000 correspond to excessive periods and do not match the two months and twelve days stated.

Step 3: Conclusion Kavita's share of profit till death is Rs 20,000. The correct option is (A).

Quick Tip to Solve: Convert twelve days to 12/30 of a month before prorating the deceased partner's annual share.

14. That portion of the called-up capital which has been actually received from the shareholders is called : [1 mark]

(A) Issued Capital

(B) Reserve Capital

(C) Paid-up Capital

(D) Nominal/Registered Capital

Correct Answer: (C) Paid-up Capital

Solution:

Concept:

- Paid-up capital is the amount of called-up capital actually received from shareholders.
- Paid-up capital equals called-up capital less calls in arrears; calls in advance are excluded.

Step 1: Distinguish called-up and paid-up amounts Called-up capital is the portion of subscribed share capital that the company has demanded from shareholders. The amount actually received against that demand is paid-up capital. Where calls remain unpaid, paid-up capital equals called-up capital less calls in arrears.

Step 2: Eliminate the other descriptions Issued capital is the portion of authorised capital offered for subscription, whether or not called or received. Reserve capital is uncalled capital reserved for being called on winding up. Nominal or registered capital is the authorised ceiling recorded in the memorandum. None of these describes the called-up amount actually collected.

Step 3: Conclusion The portion actually received is Paid-up Capital. The correct option is (C).

Quick Tip to Solve: Associate 'called-up' with the demand and 'paid-up' with the amount received against that demand.

15(a). **On 1st April, 2024, Bright Ltd. issued 20,000, 11% debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 10%. Loss on issue of debentures was :** [1 mark]

(A) Rs. 2,00,000

(B) Rs. 4,00,000

(C) Rs. 20,00,000

(D) Rs. 40,00,000

Correct Answer: (A) Rs. 2,00,000

Solution:

Concept:

- Loss on issue of debentures equals discount on issue plus premium payable on redemption.
- Issue premium is credited separately to Securities Premium Account; the coupon rate determines interest rather than loss on issue.

Step 1: Calculate the redemption premium The face value of the debentures is $20,000 \times 100 =$ Rs $20,00,000$. The premium payable on redemption is a loss recognised when the debentures are issued.

$$\text{Redemption premium} = 20,00,000 \times 10\% = \text{Rs } 2,00,000.$$

Step 2: Separate issue premium from the loss There is no discount on issue. Hence loss on issue equals the redemption premium alone, Rs 2,00,000. The issue premium of Rs 2,00,000 is separately credited to Securities Premium Account; it is not added to the loss or netted off in identifying the loss initially recognised. Rs 4,00,000 wrongly adds both premiums; Rs 20,00,000 and Rs 40,00,000 confuse principal with loss. The 11 percent coupon concerns interest, not this loss.

Step 3: Conclusion Loss on issue of debentures is Rs 2,00,000. The correct option is (A).

Quick Tip to Solve: Loss on issue is discount on issue plus redemption premium; an issue premium is recorded separately.

OR

15(b). **Minimum subscription for allotment of shares as per Securities and Exchange Board of India (SEBI) guidelines cannot be less than 90% of _____ capital.** [1 mark]

(A) Reserve

(B) Issued

(C) Nominal/Registered

(D) Subscribed

Correct Answer: (B) Issued

Solution:

Concept:

- Minimum subscription is the minimum amount that must be subscribed before a company can proceed with allotment.

- The stated minimum subscription requirement is 90% of the issued capital offered for subscription.

Step 1: Identify the relevant capital Issued capital is the portion of authorised capital offered to investors. The subscription requirement is measured against this offer:

$$\text{Minimum subscription} = \text{Issued capital} \times \frac{90}{100}.$$

Step 2: Check the alternatives Reserve capital is uncalled capital reserved for winding up; nominal or registered capital is the authorised ceiling. Subscribed capital is the amount actually taken up by investors, so it is the outcome being tested against the offer. Thus (A), (C) and (D) do not supply the required base.

Step 3: Conclusion The blank is issued capital. Hence, the correct option is (B).

Quick Tip to Solve: Apply the 90% test to capital offered to the public, namely issued capital.

16(a). Shivalik Ltd. issued 7% debentures of Rs. 100 each at a discount of 5% on 1st April, 2023. Discount on issue of debentures, Rs. 1,00,000 was completely written off through Statement of Profit and Loss on 31st March, 2024. On issue of debentures, 'Debentures Account' was credited with _____. [1 mark]

(A) Rs. 10,00,000

(B) Rs. 20,00,000

(C) Rs. 19,00,000

(D) Rs. 1,00,000

Correct Answer: (B) Rs. 20,00,000

Solution:

Concept:

- Debentures Account is credited with the nominal or face value of debentures issued.
- Discount on issue equals face value multiplied by the rate of discount; it is recorded separately from the liability.

Step 1: Recover the face value Let the total face value be F. The discount is 5% of this amount, so

$$0.05F = 1,00,000, \qquad F = \frac{1,00,000 \times 100}{5} = \text{Rs } 20,00,000.$$

Step 2: Distinguish liability from proceeds Cash proceeds are $20,00,000 - 1,00,000 = \text{Rs } 19,00,000$, which explains the tempting option (C). The discount of Rs 1,00,000 is an expense, not the debenture liability. Writing it off later does not change the face value credited on issue. Option (A) also fails the stated 5% calculation.

Step 3: Conclusion Debentures Account was credited with Rs 20,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Divide the total issue discount by 5% to find the nominal debenture liability.

OR

16(b). Keya Ltd. issued 2,00,000, 8% debentures of Rs. 100 each at 10% discount on 1st April, 2023. Interest is payable half-yearly on 30th September and 31st March every year. Interest written off on 31st March, 2024 was : [1 mark]

(A) Rs. 16,00,000

(B) Rs. 14,40,000

(C) Rs. 8,00,000

(D) Rs. 7,20,000

Correct Answer: (A) Rs. 16,00,000

Solution:

Concept:

- Debenture interest is calculated on face value, irrespective of the price at which debentures are issued.
- Interest paid half-yearly is still an annual expense: both instalments are transferred to the Statement of Profit and Loss at the year end.

Step 1: Compute nominal capital and annual interest Total nominal value is

$$2,00,000 \times 100 = \text{Rs } 2,00,00,000.$$

Annual interest is $2,00,00,000 \times 8/100 = \text{Rs } 16,00,000$. The 10% issue discount reduces cash received, not the interest base.

Step 2: Distinguish payment from expense written off Each half-yearly payment is $16,00,000/2 = \text{Rs } 8,00,000$. However, the question asks for interest written off on 31st March, not just the instalment paid that day. The full financial year's interest expense of Rs 16,00,000 is transferred to the Statement of Profit and Loss. Option (C) is only one instalment. Options (B) and (D) incorrectly apply the coupon to discounted proceeds instead of face value.

Step 3: Conclusion The annual interest written off on 31st March, 2024 is Rs 16,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Distinguish half-yearly interest payments from the full annual expense transferred to profit and loss.

17. Nishu, Rishu and Kishu were partners in a firm sharing profits and losses in the ratio of 8 : 7 : 5. They decided to share future profits and losses in the ratio of 5 : 8 : 7 with effect from 1st April, 2024. Their Balance Sheet as at 31st March, 2024 showed :

(i) General Reserve Rs. 10,00,000.

(ii) Debit Balance of Rs. 2,00,000 in Profit and Loss Account.

Goodwill of the firm was valued at Rs. 20,00,000 and revaluation of assets and liabilities resulted in a profit of Rs. 7,00,000. The partners did not want to distribute the General Reserve and the balance of Profit and Loss Account. They also decided that revalued values of assets and liabilities were not to be recorded in the books.

Pass a single adjustment entry to give effect to the above. Show your workings clearly. [3 marks]

Solution:

Concept:

- When reserves and revaluation gains remain unrecorded or undistributed, compensate the sacrificing partner through the gaining partners' capital accounts.
- The adjustment base includes goodwill plus retained net accumulated profits and unrecorded revaluation profit. Each partner's adjustment equals this base times the change in profit share.

Step 1: Find sacrifice and gain The old and new denominators are both 20. Nishu sacrifices $8/20 - 5/20 = 3/20$. Rishu gains $8/20 - 7/20 = 1/20$, while Kishu gains $7/20 - 5/20 = 2/20$. Thus the gaining ratio of Rishu and Kishu is $1 : 2$.

Step 2: Calculate the combined adjustment Net retained accumulated profit is $10,00,000 - 2,00,000 =$ Rs $8,00,000$. Adding goodwill and the unrecorded revaluation profit gives

$$20,00,000 + 8,00,000 + 7,00,000 = \text{Rs } 35,00,000.$$

Nishu must receive $35,00,000 \times 3/20 =$ Rs $5,25,000$. Rishu bears $35,00,000 \times 1/20 =$ Rs $1,75,000$, and Kishu bears $35,00,000 \times 2/20 =$ Rs $3,50,000$.

Step 3: Pass the single adjustment entry Journal of the firm (1st April, 2024)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Rishu's Capital A/c Dr. Kishu's Capital A/c Dr. To Nishu's Capital A/c (Being adjustment for goodwill, retained reserves, accumulated loss and unrecorded revaluation profit on change in ratio)		1,75,000 3,50,000	 5,25,000

The debit total of Rs 5,25,000 equals the credit. The General Reserve and debit Profit and Loss balance stay in the books, and assets and liabilities retain their existing book values.

Step 4: Conclusion Debit Rishu's Capital by Rs 1,75,000 and Kishu's Capital by Rs 3,50,000; credit Nishu's Capital by Rs 5,25,000.

Quick Tip to Solve: Combine goodwill, reserve less accumulated loss, and revaluation profit before applying sacrifice or gain.

18. Sudhir and Balbir were partners in a firm sharing profits and losses in the ratio of 5 : 4. The following is the extract of their Balance Sheet as at 31st March, 2024.

Balance Sheet of Sudhir and Balbir as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Investment Fluctuation Fund	15,00,000	Investments	75,00,000
Workmen Compensation Fund	50,00,000		

On 1st April, 2024, Sushant was admitted as a new partner for 1/9th share in the profits of the firm on the following terms :

(i) Market value of investments was Rs. 60,00,000.

(ii) Claim on account of Workmen Compensation was estimated at Rs. 41,00,000.

Pass necessary journal entries for treatment of Investment Fluctuation Fund and Workmen Compensation Fund on the date of Sushant's admission.

[3 marks]

Solution:

Concept:

- Investment Fluctuation Fund is first used to absorb the fall in investment value; only a surplus belongs to the old partners.
- Workmen Compensation Fund is retained to the extent of the estimated claim; its excess is credited to the old partners in their old profit-sharing ratio.

Step 1: Use the Investment Fluctuation Fund The reduction in investments is $75,00,000 - 60,00,000 =$ Rs $15,00,000$, exactly equal to the available fund. The entire fund absorbs this fall.

Step 2: Determine the compensation surplus Against the Workmen Compensation Fund of Rs 50,00,000, the estimated liability is Rs 41,00,000. The excess $50,00,000 - 41,00,000 =$ Rs $9,00,000$ belongs to Sudhir and Balbir in $5 : 4$: Sudhir receives Rs 5,00,000 and Balbir Rs 4,00,000.

Step 3: Record the journal entries Journal of the firm (1st April, 2024)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Investment Fluctuation Fund A/c Dr. To Investments A/c (Being fall in investment value adjusted against the fund)		15,00,000	 15,00,000
1-4-2024	Workmen Compensation Fund A/c Dr. To Provision for Workmen Compensation Claim A/c To Sudhir's Capital A/c To Balbir's Capital A/c (Being provision created for the estimated claim and surplus distributed in the old ratio of 5:4)		50,00,000	 41,00,000 5,00,000 4,00,000

Both journal entries have equal debits and credits.

Step 4: Conclusion Use Rs 15,00,000 of Investment Fluctuation Fund against investments; create the Rs 41,00,000 compensation provision and credit Sudhir Rs 5,00,000 and Balbir Rs 4,00,000.

Quick Tip to Solve: Compare each fund with its related loss or liability before distributing any excess to old partners.

19(a). **Abhay and Sujoy entered into partnership on 1st April, 2024 with capitals of Rs. 80,00,000 and Rs. 60,00,000 respectively. The partners decided to share profits in the ratio of their capital contribution. They withdrew Rs. 6,00,000 and Rs. 4,00,000 respectively during the year. The partners were charged interest on drawings @ 10% per annum as per the provisions of the partnership deed. Abhay's share of profit was guaranteed by Sujoy at a minimum of Rs. 3,50,000 per annum.**

The profit of the firm for the year ended 31st March, 2024 amounted to Rs. 6,50,000.

Prepare Profit and Loss Appropriation Account of the firm for the year ended 31st March, 2024.

[3 marks]

Solution:

Concept:

- Partners share profit in the agreed capital ratio: $80,00,000 : 60,00,000 = 4 : 3$. Interest on drawings is credited to Profit and Loss Appropriation Account.
- When drawings occur during the year without specified dates, use an average period of six months. A guarantee is invoked only if the normal profit share falls below the guaranteed amount.

Step 1: Compute interest on drawings For Abhay, interest is $6,00,000 \times 10/100 \times 6/12 = \text{Rs } 30,000$. For Sujoy, it is $4,00,000 \times 10/100 \times 6/12 = \text{Rs } 20,000$. Total interest on drawings is Rs 50,000, increasing the profit available for appropriation.

Step 2: Apply the ratio and test the guarantee Distributable profit is $6,50,000 + 50,000 = \text{Rs } 7,00,000$. Abhay's normal share is $7,00,000 \times 4/7 = \text{Rs } 4,00,000$, while Sujoy's is $7,00,000 \times 3/7 = \text{Rs } 3,00,000$. Abhay's share exceeds his guaranteed Rs 3,50,000, so there is no deficiency for Sujoy to bear.

Step 3: Prepare the appropriation account Profit and Loss Appropriation Account for the year ended 31st March, 2024

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Abhay's Capital A/c	4,00,000	By Profit and Loss A/c	6,50,000	
	To Sujoy's Capital A/c	3,00,000	By Interest on Drawings:		
			Abhay	30,000	
			Sujoy	20,000	
	Total	7,00,000	Total	7,00,000	

All available profit is appropriated, leaving no balance to carry down. The drawings themselves reduce partners' capital or current accounts; only their interest enters this appropriation account.

Step 4: Conclusion Profit shares are Abhay Rs 4,00,000 and Sujoy Rs 3,00,000. The appropriation account totals Rs 7,00,000 on each side; the guarantee creates no deficiency.

Quick Tip to Solve: Add interest on drawings to net profit before testing Abhay's guaranteed minimum against his 4/7 share.

OR

19(b). Sonia and Shruti were partners in a firm sharing profits and losses in the ratio of 5 : 3. On 1st April, 2023 the balance in their fixed capital accounts were Rs. 25,00,000 and Rs. 15,00,000 respectively. The profit of the firm for the year ended 31st March, 2024 was Rs. 24,00,000. Calculate their share of profit if :

(i) the partnership deed is silent as to the payment of interest on capital.

(ii) the partnership deed provides for interest on capital @ 10% per annum. [3 marks]

Solution:

Concept:

- Interest on capital is allowed only when the partnership deed authorises it. If the deed is silent, no interest on capital is appropriated.
- The agreed profit-sharing ratio remains $5 : 3$. Divide the profit remaining after authorised interest in this ratio; fixed capitals are the basis for interest, not a substitute for the agreed ratio.

Step 1: (i) Deed silent: divide the entire profit Since no interest on capital is payable, the whole profit of Rs 24,00,000 is available for distribution. The sum of the ratio terms is $5 + 3 = 8$.

$$\text{Sonia's share} = 24,00,000 \times \frac{5}{8} = \text{Rs } 15,00,000,$$
$$\text{Shruti's share} = 24,00,000 \times \frac{3}{8} = \text{Rs } 9,00,000.$$

The two shares total Rs 24,00,000, so the whole year's profit has been allocated.

Step 2: (ii) Deed allows interest: calculate the appropriation first The capitals were outstanding from 1st April, 2023 for the entire year ending 31st March, 2024. Hence no time adjustment is required.

$$\text{Sonia's interest} = 25,00,000 \times 10\% = \text{Rs } 2,50,000,$$
$$\text{Shruti's interest} = 15,00,000 \times 10\% = \text{Rs } 1,50,000,$$
$$\text{Residual profit} = 24,00,000 - 4,00,000 = \text{Rs } 20,00,000.$$

Step 3: Distribute residual profit and distinguish total entitlement Sonia receives residual profit of $20,00,000 \times 5/8 = \text{Rs } 12,50,000$, while Shruti receives $20,00,000 \times 3/8 = \text{Rs } 7,50,000$. Their total entitlements, including interest, are respectively Rs 15,00,000 and Rs 9,00,000. Interest and residual profit are credited to their current accounts because the capitals are fixed. As a check, Rs 4,00,000 interest plus Rs 20,00,000 residual profit equals Rs 24,00,000.

Step 4: Conclusion (i) Profit shares: Sonia Rs 15,00,000; Shruti Rs 9,00,000. (ii) Residual profit shares: Sonia Rs 12,50,000; Shruti Rs 7,50,000, in addition to interest of Rs 2,50,000 and Rs 1,50,000 respectively.

Quick Tip to Solve: First deduct authorised interest; then apply 5:3 only to the residual profit, keeping interest separate.

20(a). **Mallark Ltd. purchased assets of book value Rs. 40,00,000 and took over liabilities of Rs. 5,00,000 from Naroha Ltd. It was agreed that the purchase consideration, Rs. 36,00,000 be paid by issuing 7% debentures of Rs. 100 each at a premium of 20%.**

Record the journal entries in the books of Mallark Ltd. for the above transactions. [3 marks]

Solution:

Concept:

- Purchase consideration is the agreed amount payable to the vendor. Compare it with net assets acquired: excess consideration is goodwill.
- Debentures issued at a premium are credited at face value to Debentures Account, while the premium is credited separately to Securities Premium Account.

Step 1: Determine goodwill and the number of debentures Net assets acquired are $40,00,000 - 5,00,000 =$ Rs $35,00,000$. Purchase consideration is Rs 36,00,000, so goodwill is $36,00,000 - 35,00,000 =$ Rs $1,00,000$. Each Rs 100 debenture is issued for $100 + 20 =$ Rs 120. Therefore, $36,00,000/120 = 30,000$ debentures are issued. Their face value is Rs 30,00,000 and total premium is Rs 6,00,000. The 7% rate determines subsequent interest; it does not determine the issue price.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		40,00,000	
	Goodwill A/c Dr.		1,00,000	
	To Sundry Liabilities A/c			5,00,000
	To Naroha Ltd. A/c			36,00,000
	(Being assets and liabilities taken over for agreed consideration)			
	Naroha Ltd. A/c Dr.		36,00,000	
	To 7% Debentures A/c			30,00,000
	To Securities Premium A/c			6,00,000
	(Being 30,000 debentures issued at 20% premium to vendor)			

The vendor account is cleared by the second entry. The first entry balances at Rs 41,00,000 on each side and the second at Rs 36,00,000 on each side.

Step 3: Conclusion Goodwill is Rs 1,00,000. Issue 30,000 debentures, crediting 7% Debentures Rs 30,00,000 and Securities Premium Rs 6,00,000.

Quick Tip to Solve: Divide consideration by Rs 120, the issue price, and keep the 7% interest rate out of that calculation.

OR

20(b). Sunlock Ltd. purchased assets of book value Rs. 50,00,000 and took over liabilities of Rs. 6,00,000 from Moondock Ltd. It paid the purchase consideration by issue of 46,000, 8% debentures of Rs. 100 each at a discount of 10%.

Record the journal entries in the books of Sunlock Ltd. [3 marks]

Solution:

Concept:

- Consideration paid by debentures equals their number multiplied by issue price. A discount reduces the issue price below face value.
- When net assets acquired exceed purchase consideration, credit the difference to Capital Reserve. Discount on Issue of Debentures is debited separately from the acquisition entry.

Step 1: Calculate consideration and capital reserve Each debenture has face value Rs 100 and discount of $100 \times 10\% =$ Rs 10, so its issue price is Rs 90. The purchase consideration is $46,000 \times 90 =$ Rs $41,40,000$. Net assets acquired are $50,00,000 - 6,00,000 =$ Rs $44,00,000$. Thus capital reserve is $44,00,000 - 41,40,000 =$ Rs $2,60,000$. The face value of debentures issued is Rs 46,00,000 and discount is Rs 4,60,000. The 8% coupon relates to interest and does not alter these amounts.

Step 2: Record the transactions **Journal of Sunlock Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		50,00,000	
	To Sundry Liabilities A/c			6,00,000
	To Moondock Ltd. A/c			41,40,000
	To Capital Reserve A/c			2,60,000
	(Being assets and liabilities taken over at agreed consideration)			
	Moondock Ltd. A/c Dr.		41,40,000	
	Discount on Issue of Debentures A/c Dr.		4,60,000	
	To 8% Debentures A/c			46,00,000
	(Being 46,000 debentures issued at 10% discount to vendor)			

The acquisition entry balances at Rs 50,00,000. In the settlement entry, consideration plus discount equals the face value credited, Rs 46,00,000. The vendor has no balance after settlement.

Step 3: Conclusion Purchase consideration is Rs 41,40,000, capital reserve Rs 2,60,000, and discount on issue Rs 4,60,000; 8% Debentures is credited with Rs 46,00,000.

Quick Tip to Solve: Find consideration at Rs 90 per debenture before comparing it with the net assets of Rs 44,00,000.

21. PQ Ltd. invited applications for issuing 6,000, 11% debentures of Rs. 100 each at a premium of Rs. 10 per debenture. The amount was payable as follows :

On Application - Rs. 30 per debenture

On Allotment - Rs. 80 per debenture (including premium)

The debentures were fully subscribed and all money was duly received.

Pass necessary journal entries for the above transactions in the books of PQ Ltd. [4 marks]

Solution:

Concept:

- Debentures are credited at face value. The excess of issue price over face value is credited separately to Securities Premium Reserve.
- Application money is transferred to debentures on allotment; allotment due is recorded before receipt. The stated 11% is the interest rate and does not change the issue entries.

Step 1: Calculate the amounts The issue price is $100 + 10 =$ Rs 110 per debenture. Application money is $6,000 \times 30 =$ Rs $1,80,000$. Allotment due is $6,000 \times 80 =$ Rs $4,80,000$, comprising face value $6,000 \times 70 =$ Rs $4,20,000$ and premium $6,000 \times 10 =$ Rs $60,000$. The face value credited on application and allotment together is therefore Rs 6,00,000. Since subscriptions and receipts are complete, no refund or arrears entry is required.

Step 2: Record the transactions Journal of PQ Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application A/c (Being application money received on 6,000 debentures at Rs 30 each)		1,80,000	1,80,000
	Debenture Application A/c Dr. To 11% Debentures A/c (Being application money transferred on allotment)		1,80,000	1,80,000
	Debenture Allotment A/c Dr. To 11% Debentures A/c To Securities Premium Reserve A/c (Being allotment due at Rs 80 per debenture, including Rs 10 premium)		4,80,000	4,20,000 60,000
	Bank A/c Dr. To Debenture Allotment A/c (Being allotment money received in full)		4,80,000	4,80,000

Step 3: Conclusion Total receipt is Rs 6,60,000: Rs 6,00,000 is credited to 11% Debentures Account and Rs 60,000 to Securities Premium Reserve. Application and allotment accounts are fully settled.

Quick Tip to Solve: Split allotment of Rs 80 into Rs 70 face value and Rs 10 premium before making the due entry.

22. Gopal, Heera and Iqbal were partners in a firm sharing profits and losses equally. Iqbal died on 1st April, 2022. Final dues payable to Iqbal's executor as on the date of death amounted to Rs. 4,00,000. Starting from 31st March, 2023, the executor was to be paid in two equal annual instalments of Rs. 2,00,000 each, with interest @ 10% per annum. Accounts are closed on 31st March every year.

Prepare Iqbal's executor's account till he is finally paid. [4 marks]

Solution:

Concept:

- Interest is charged on unpaid principal for the period it remains outstanding; paying an instalment reduces principal for the following year.
- The executor is a creditor of the firm. Opening dues and interest are credited to the executor account; payments are debited.

Step 1: Calculate annual interest and payments Iqbal died on 1 April 2022, so the first accounting year runs for a full year to 31 March 2023. Interest for this year is $4,00,000 \times 10/100 =$ Rs $40,000$. The first payment includes principal of Rs 2,00,000 and interest of Rs 40,000, giving Rs 2,40,000. The remaining principal after payment is Rs 2,00,000. For the year ending 31 March 2024, interest is $2,00,000 \times 10/100 =$ Rs $20,000$. The final payment is therefore Rs 2,20,000. The equal instalments specified are instalments of principal; interest is paid in addition.

Step 2: Prepare the executor's account Iqbal's Executor's Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	31 March 2023: To Bank A/c	2,40,000	1 April 2022: By Iqbal's Capital A/c	4,00,000	
	31 March 2023: To Balance c/d	2,00,000	31 March 2023: By Interest A/c	40,000	
	Total	4,40,000	Total	4,40,000	
	31 March 2024: To Bank A/c	2,20,000	1 April 2023: By Balance b/d	2,00,000	
			31 March 2024: By Interest A/c	20,000	
	Total	2,20,000	Total	2,20,000	

The opening credit records the final dues transferred from Iqbal's Capital Account. Interest increases the firm's liability before each payment. After the second bank payment, both sides total Rs 2,20,000 for that year and no balance remains to carry forward.

Step 3: Conclusion The executor receives Rs 2,40,000 on 31 March 2023 and Rs 2,20,000 on 31 March 2024. Total interest is Rs 60,000, and the liability is completely discharged on 31 March 2024.

Quick Tip to Solve: Calculate the second year interest only on the Rs 2,00,000 principal left after the first instalment.

23. Manav and Namit were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2024 was as follows :

Balance Sheet of Manav and Namit as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals : Manav 4,00,000 Namit 6,00,000	10,00,000	Machinery	8,00,000
		Investments	5,00,000
Bank Overdraft	9,00,000	Debtors	12,00,000
Creditors	10,00,000	Stock	3,00,000
		Cash in Hand	1,00,000
	29,00,000		29,00,000

The firm was dissolved on the above date and the following transactions took place :

(i) Stock was given to creditors in full settlement of their account.

(ii) Investments were taken over by Manav at 120% of book value.

(iii) Bad debts amounted to Rs. 2,00,000.

(iv) Machinery was realised at 50% discount.

(v) Realisation expenses amounted to Rs. 1,00,000 which were paid by Namit.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- On dissolution, transfer all non-cash assets at book value to the debit of Realisation Account and outside liabilities to its credit. Cash in hand and partners' capitals are not transferred.
- Credit Realisation Account with cash recovered and assets taken over by a partner; debit it with liabilities discharged and realisation expenses. Its balance is distributed in the profit-sharing ratio $3 : 2$.

Step 1: Work out realisations and settlement amounts Investments taken over by Manav are valued at Rs $5,00,000 \times 120\% =$ Rs $6,00,000$. Debtors yield Rs $12,00,000 -$ Rs $2,00,000 =$ Rs $10,00,000$, while machinery yields Rs $8,00,000 \times 50\% =$ Rs $4,00,000$. Thus bank receipts from assets total Rs 14,00,000. Stock and creditors are transferred at their respective book values, but no further entry is required when creditors accept the stock in full settlement. The bank overdraft of Rs 9,00,000 is an outside liability: transfer it to Realisation Account and record its discharge. Expenses paid personally by Namit credit his Capital Account, rather than Bank Account.

Step 2: Prepare the two-sided Realisation Account Realisation Account as at 31st March, 2024

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Machinery	8,00,000	By Bank Overdraft	9,00,000	
	To Investments	5,00,000	By Creditors	10,00,000	
	To Debtors	12,00,000	By Manav's Capital	6,00,000	
	To Stock	3,00,000	By Bank: Machinery	4,00,000	
	To Bank: Overdraft	9,00,000	By Bank: Debtors	10,00,000	
	To Namit's Capital	1,00,000			
	To Partners' Capitals:				
	Manav (profit)	60,000			
	Namit (profit)	40,000			
	Total	39,00,000	Total	39,00,000	

Credits before profit transfer total Rs 39,00,000; debits before that transfer total Rs 38,00,000. The credit balance, Rs 1,00,000, is therefore a realisation profit. Manav receives Rs $1,00,000 \times 3/5 =$ Rs $60,000$; Namit receives Rs $1,00,000 \times 2/5 =$ Rs $40,000$. The account closes by transfer of this profit to partners' capitals, so no balance is carried forward.

Step 3: Conclusion Realisation profit is $\boxed{\text{Rs } 1,00,000}$, credited to Manav's Capital Account Rs 60,000 and Namit's Capital Account Rs 40,000. Both sides of Realisation Account total Rs 39,00,000.

Quick Tip to Solve: When a creditor accepts an already-transferred asset in full settlement, enter neither a second asset sale nor a cash payment for that settlement.

24(a). Centurian Ltd. invited applications for issuing 2,00,000 equity shares of Rs. 10 each at a premium of Rs. 20 per share. The amount was payable as follows :

On Application and Allotment - Rs. 20 per share (including premium Rs. 17 per share)

On First and Final call - Rs. 10 per share (including premium Rs. 3 per share)

Applications were received for 3,00,000 equity shares and allotment was made to the applicants as follows :

Category (i) - Applicants for 2,00,000 shares were allotted 1,50,000 shares.

Category (ii) - Applicants for 1,00,000 shares were allotted 50,000 shares.

Excess money received on application and allotment was adjusted towards sums due on first and final call. Deepali, who had applied for 2,000 shares, failed to pay the first and final call money. Deepali belonged to Category (i). Her shares were subsequently forfeited.

Pass necessary journal entries for the above transactions in the Books of Centurion Ltd.

Open Calls-in-Arrears and Calls-in-Advance account, wherever necessary. [6 marks]

Solution:

Concept:

- Application and allotment include capital of Rs 3 and premium of Rs 17 per share; the call includes capital of Rs 7 and premium of Rs 3. Credit Securities Premium only for the premium component of each instalment.
- Excess application money is credited to Calls-in-Advance only up to the call due. Refund any

remaining excess; transfer advance to the call when it becomes due. Calls-in-Arrears records the unpaid balance.

- On forfeiture, debit Share Capital with called-up face value and credit Share Forfeiture with capital actually received. Previously received premium is retained; reverse only premium which remains unpaid.

Step 1: Compute adjustments The allotment ratio in Category (i) is $3 : 4$. Its receipts are Rs 40,00,000, against application and allotment due of Rs 30,00,000: advance Rs 10,00,000 against calls of Rs 15,00,000, leaving Rs 5,00,000 collectible. Category (ii) receives half the shares applied for. Its receipts are Rs 20,00,000 against application and allotment due of Rs 10,00,000. Of the Rs 10,00,000 excess, Rs 5,00,000 covers its entire call and the remaining Rs 5,00,000 is refundable. Total advance usable against calls is therefore Rs 15,00,000.

Deepali receives $2,000 \times 3/4 = 1,500$ shares. She paid Rs 40,000, of which Rs 30,000 meets application and allotment and Rs 10,000 is advance. Her call is $1,500 \times$ Rs $10 =$ Rs $15,000$; arrears are Rs 5,000. Her advance first covers the Rs 4,500 premium on call, leaving Rs 5,500 towards call capital. Total capital received is

$$1,500 \times \text{Rs } 3 + \text{Rs } 5,500 = \text{Rs } 10,000.$$

All Rs 30,000 of her premium has been received. Bank collection on call is Rs 4,95,000.

Step 2: Record receipt and application-and-allotment adjustment Journal of Centurian Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received on 3,00,000 shares at Rs 20)		60,00,000	 60,00,000
	Share Application and Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c To Calls-in-Advance A/c To Bank A/c (Being allotment of 2,00,000 shares, excess adjusted against calls and balance refunded)		60,00,000	 6,00,000 34,00,000 15,00,000 5,00,000

Step 3: Record call, adjustment, receipt and forfeiture Journal of Centurian Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium A/c (Being call due on 2,00,000 shares at Rs 10)		20,00,000	 14,00,000 6,00,000
	Calls-in-Advance A/c Dr. To Share First and Final Call A/c (Being advance adjusted against call due)		15,00,000	 15,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share First and Final Call A/c (Being balance call received except Deepali's arrears)		4,95,000 5,000	 5,00,000
	Share Capital A/c Dr. To Calls-in-Arrears A/c To Share Forfeiture A/c (Being Deepali's 1,500 fully called shares forfeited; premium already received retained)		15,000	 5,000 10,000

Step 4: Open the required accounts Calls-in-Advance Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share First and Final Call	15,00,000	By Share Application and Allotment	15,00,000	
	Total	15,00,000	Total	15,00,000	

Calls-in-Arrears Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share First and Final Call	5,000	By Share Capital	5,000	
	Total	5,000	Total	5,000	

Both accounts close with nil balances after adjustment and forfeiture respectively; no balance c/d is needed.

Step 5: Conclusion Deepali's 1,500 shares are forfeited for arrears of Rs 5,000, crediting Share Forfeiture with Rs 10,000. Calls-in-Advance of Rs 15,00,000 is fully adjusted and Rs 5,00,000 excess application money is refunded.

Quick Tip to Solve: Calculate the excess for each category separately: Category (ii)'s excess exceeds its entire call, so the surplus must be refunded before determining total calls-in-advance.

OR

24(b). Romerio Ltd. issued Rs. 80,00,000, 8% debentures of Rs. 100 each on 1st April, 2023 at par, redeemable at a premium of 5%. The company had Rs. 3,00,000 in its Securities Premium Account. Give journal entries in the books of Romerio Ltd. relating to the :

(i) Issue of Debentures.

(ii) Debenture interest for the year ending 31st March, 2024 assuming that interest was paid yearly on 31st March.

(iii) Writing off Debenture Interest and Loss on Issue of Debentures. [6 marks]

Solution:

Concept:

- Debentures issued at par bring cash equal to face value. A premium payable on redemption is recognised immediately as Loss on Issue of Debentures and a liability.
- Annual interest is calculated on the nominal debenture capital, irrespective of the redemption premium. Securities Premium may be used to write off the loss on issue; the remaining loss is charged to the Statement of Profit and Loss.

Step 1: Calculate issue proceeds, premium and interest The number of debentures is $80,00,000/100 = 80,000$. Issue proceeds equal Rs $80,00,000$, while the redemption premium is

$$80,00,000 \times \frac{5}{100} = \text{Rs } 4,00,000.$$

The debentures remain outstanding for the full financial year from 1st April, 2023 to 31st March, 2024. Therefore,

$$\text{Annual interest} = 80,00,000 \times \frac{8}{100} = \text{Rs } 6,40,000.$$

The loss on issue is written off using Securities Premium of Rs 3,00,000 and charging the balance of Rs 1,00,000 to the Statement of Profit and Loss.

Step 2: Record the issue of debentures Journal of Romerio Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2023	Bank A/c Dr.		80,00,000	
	Loss on Issue of Debentures A/c Dr.		4,00,000	
	To 8% Debentures A/c			80,00,000
	To Premium on Redemption of Debentures A/c			4,00,000
	(Being 80,000 debentures issued at par, redeemable at 5% premium)			

Step 3: Record interest due and paid Journal of Romerio Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2024	Debenture Interest A/c Dr. To Debentureholders A/c (Being annual interest due on 8% debentures)		6,40,000	 6,40,000
31-3-2024	Debentureholders A/c Dr. To Bank A/c (Being annual interest paid)		6,40,000	 6,40,000

Step 4: Write off interest and loss on issue Journal of Romerio Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2024	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being debenture interest transferred to profit and loss)		6,40,000	 6,40,000
31-3-2024	Securities Premium A/c Dr. Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Being loss on issue written off using securities premium and the balance charged to profit and loss)		3,00,000 1,00,000	 4,00,000

Step 5: Conclusion Annual debenture interest is Rs $6,40,000$. The loss on issue of Rs $4,00,000$ is written off against Securities Premium (Rs 3,00,000) and the Statement of Profit and Loss (Rs 1,00,000).

Quick Tip to Solve: Calculate interest on face value only; redemption premium creates a separate liability at the date of issue.

25(a). Atharv and Anmol were partners in a firm sharing profits and losses in the ratio of 5 : 2. Their Balance Sheet as at 31st March, 2024 was as follows :

Balance Sheet of Atharv and Anmol as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals : Atharv 8,00,000 Anmol 4,00,000	12,00,000	Fixed Assets	14,00,000
General Reserve	3,50,000	Stock	4,90,000
Creditors	9,10,000	Debtors	5,60,000
		Cash	10,000
	24,60,000		24,60,000

On 1st April, 2024, Surya was admitted as a new partner for 2/7th share in the profits of the firm on the following terms :

(i) The new profit sharing ratio between Atharv, Anmol and Surya will be 4 : 1 : 2.

(ii) Fixed Assets were to be reduced by 10%.

(iii) Stock was sold at Rs. 4,20,000.

(iv) Surya shall bring Rs. 3,00,000 as capital and Rs. 2,00,000 for his share of goodwill premium in cash.

(v) Capital accounts of old partners be adjusted on the basis of Surya's capital in the business, actual cash to be paid off to, or brought in by the old partners, as the case may be.

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

Solution:

Concept:

- Accumulated reserves and revaluation gains or losses belong to the old partners in their old profit-sharing ratio, here $5:2$.
- Goodwill premium is credited to sacrificing partners in their sacrificing ratio. Capitals are then adjusted to the new ratio using the incoming partner's capital as the base.

Step 1: Find sacrifice, goodwill and reserve shares The new shares of Atharv, Anmol and Surya are $4/7, 1/7, 2/7$. Hence the sacrifices are

$$\text{Atharv}: \frac{5}{7} - \frac{4}{7} = \frac{1}{7}, \qquad \text{Anmol}: \frac{2}{7} - \frac{1}{7} = \frac{1}{7}.$$

The sacrificing ratio is $1:1$, so the goodwill premium of Rs 2,00,000 is credited equally: Rs 1,00,000 each to Atharv and Anmol. General Reserve of Rs 3,50,000 is distributed in the old ratio $5:2$: Rs 2,50,000 and Rs 1,00,000 respectively. Surya receives no part of the accumulated reserve or revaluation loss, because these relate to the period before admission.

Step 2: Prepare Revaluation Account Fixed assets decrease by $14,00,000 \times 10\% =$ Rs $1,40,000$. Stock is actually sold for Rs 4,20,000 against its book value of Rs 4,90,000; only the loss of Rs 70,000 enters Revaluation Account. Thus total loss is Rs 2,10,000, borne by Atharv and Anmol in $5:2$, namely Rs 1,50,000 and Rs 60,000.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Fixed Assets A/c	1,40,000	By Atharv's Capital A/c	1,50,000
To Stock A/c	70,000	By Anmol's Capital A/c	60,000
Total	2,10,000	Total	2,10,000

Step 3: Calculate capital adjustments After reserve, goodwill and revaluation adjustments, the old partners' capitals are

$$\begin{aligned}\text{Atharv} &= 8,00,000 + 2,50,000 + 1,00,000 - 1,50,000\\ &= \text{Rs } 10,00,000,\\ \text{Anmol} &= 4,00,000 + 1,00,000 + 1,00,000 - 60,000\\ &= \text{Rs } 5,40,000.\end{aligned}$$

Surya brings Rs 3,00,000 for a $2/7$ share, so total capital must be

$$3,00,000 \times \frac{7}{2} = \text{Rs } 10,50,000.$$

Required capitals in $4:1:2$ are Atharv Rs 6,00,000, Anmol Rs 1,50,000 and Surya Rs 3,00,000. Therefore Atharv withdraws Rs 4,00,000 and Anmol withdraws Rs 3,90,000. The stock-sale proceeds and Surya's cash contribution provide cash for these payments.

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

Dr.							Cr.
Particulars	Atharv	Anmol	Surya	Particulars	Atharv	Anmol	Surya
To Revaluation A/c	1,50,000	60,000	–	By Balance b/d	8,00,000	4,00,000	–
To Cash A/c	4,00,000	3,90,000	–	By General Reserve	2,50,000	1,00,000	–
To Balance c/d	6,00,000	1,50,000	3,00,000	By Premium for Goodwill	1,00,000	1,00,000	–
				By Cash A/c	–	–	3,00,000
Total	11,50,000	6,00,000	3,00,000	Total	11,50,000	6,00,000	3,00,000

The goodwill premium is first received separately in cash and then transferred to the sacrificing partners; it does not increase Surya's capital. Closing capitals sum to Rs 10,50,000 and agree with the new profit-sharing ratio.

Step 5: Conclusion Revaluation loss is Rs 2,10,000. Closing capitals are Atharv Rs 6,00,000, Anmol Rs 1,50,000 and Surya Rs 3,00,000; cash paid to Atharv and Anmol is Rs 4,00,000 and Rs 3,90,000 respectively.

Quick Tip to Solve: Use Surya's capital and share to fix total capital only after adjusting old capitals for reserve, goodwill and revaluation.

OR

25(b). Chandan, Deepak and Elvish were partners in a firm sharing profits and losses in the ratio of 1 : 2 : 2. Their Balance Sheet as at 31st March, 2024 stood as follows :

Balance Sheet of Chandan, Deepak and Elvish as at 31st March, 2024

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Capitals:		15,00,000	Fixed Assets	27,00,000
Chandan	7,00,000			
Deepak	5,00,000			
Elvish	3,00,000			
General Reserve		4,50,000	Stock	3,00,000
Creditors		13,50,000	Debtors	2,00,000
			Cash	1,00,000
		33,00,000		33,00,000

Chandan retired from the firm on 1st April, 2024 on the following terms :

(i) Fixed assets were to be depreciated by 10%.

(ii) Debtors of Rs. 30,000 were to be written off as bad debts.

(iii) Goodwill of the firm was valued at Rs. 6,00,000 and the retiring partner's share is adjusted through the capital accounts of the remaining partners.

(iv) Chandan was paid through cash brought in by Deepak and Elvish in such a way so as to make their capitals proportionate to their new profit sharing ratio.

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

Solution:

Concept:

- Accumulated reserves and revaluation loss belong to all old partners in their old ratio $1:2:2$.
- The continuing partners share equally, so their gaining ratio is $1:1$. They compensate Chandan for his share of goodwill through their capitals.

Step 1: Determine reserve, revaluation and goodwill adjustments Fixed asset depreciation is Rs $27,00,000 \times 10\% =$ Rs $2,70,000$. Together with bad debts of Rs 30,000, the revaluation loss is Rs 3,00,000. Chandan, Deepak and Elvish bear Rs 60,000, Rs 1,20,000 and Rs 1,20,000 respectively. General Reserve of Rs 4,50,000 is credited in the old ratio: Rs 90,000, Rs 1,80,000 and Rs 1,80,000 respectively.

The remaining partners continue in their relative old ratio $2:2=1:1$. Each gains $1/2-2/5=1/10$, giving a gaining ratio of $1:1$. Chandan's goodwill entitlement is Rs $6,00,000 \times 1/5 =$ Rs $1,20,000$. Debit Deepak and Elvish by Rs 60,000 each and credit Chandan by Rs 1,20,000. No goodwill asset is raised.

Step 2: Prepare Revaluation Account Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Fixed Assets	2,70,000	By Chandan's Capital	60,000
To Debtors (bad debts)	30,000	By Deepak's Capital	1,20,000
		By Elvish's Capital	1,20,000
Total	3,00,000	Total	3,00,000

The credit transfers the loss to the partners; it is not a revaluation gain. There is no balance carried down in this nominal account.

Step 3: Calculate cash brought in and closing capitals After the above adjustments, the capitals are:

$$C = 7,00,000 + 90,000 - 60,000 + 1,20,000 = 8,50,000,$$
$$D = 5,00,000 + 1,80,000 - 1,20,000 - 60,000 = 5,00,000,$$
$$E = 3,00,000 + 1,80,000 - 1,20,000 - 60,000 = 3,00,000.$$

Deepak and Elvish bring the entire Rs 8,50,000 payable to Chandan, leaving the existing cash in the firm. Their final combined capital is $5,00,000 + 3,00,000 + 8,50,000 =$ Rs $16,50,000$. Each requires Rs 8,25,000 in the new equal ratio. Thus Deepak brings $8,25,000 - 5,00,000 =$ Rs $3,25,000$, and Elvish brings $8,25,000 - 3,00,000 =$ Rs $5,25,000$.

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

Dr.	Chandan	Deepak	Elvish	Cr.	Chandan	Deepak	Elvish
To Revaluation	60,000	1,20,000	1,20,000	By Balance b/d	7,00,000	5,00,000	3,00,000
To Chandan	–	60,000	60,000	By Reserve	90,000	1,80,000	1,80,000
To Cash	8,50,000	–	–	By Deepak	60,000	–	–
To Balance c/d	–	8,25,000	8,25,000	By Elvish	60,000	–	–
				By Cash	–	3,25,000	5,25,000
Total	9,10,000	10,05,000	10,05,000	Total	9,10,000	10,05,000	10,05,000

The transfers labelled Deepak and Elvish on Chandan's credit side represent goodwill compensation. The corresponding debit in each continuing partner's account is labelled Chandan. Chandan's capital closes on payment; the continuing capitals carry forward equally.

Step 5: Conclusion Revaluation loss is Rs 3,00,000; Chandan is paid Rs 8,50,000. Deepak and Elvish bring Rs 3,25,000 and Rs 5,25,000 respectively, leaving capital balances of Rs 8,25,000 each.

Quick Tip to Solve: Adjust reserves, revaluation and goodwill before calculating the cash needed for equal closing capitals.

26. Following is the extract of the Balance Sheet of Sankalp Ltd. as per Schedule III, Part I of the Companies Act, 2013 as at 31st March, 2024 along with the notes to accounts:

Balance Sheet of Sankalp Ltd. as at 31st March, 2024 (An extract)

Particulars	Note No.	31.03.2024 (Rs)	31.03.2023 (Rs)
I – Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	29,80,000	25,00,000

Notes to Accounts as at 31st March, 2023

Note No.	Particulars	31.03.2023 (Rs)
1	Share Capital	
	Authorised Capital	
	4,50,000 Equity Shares of Rs 10 each	45,00,000
	Issued Capital	
	2,50,000 Equity Shares of Rs 10 each	25,00,000
	Subscribed Capital	
	Subscribed and fully paid-up	
	2,50,000 Equity Shares of Rs 10 each	25,00,000
	Subscribed but not fully paid-up	NIL
	Total	25,00,000

Notes to Accounts as at 31st March, 2024

Note No.	Particulars	31.03.2024 (Rs)
1	Share Capital	
	Authorised Capital	
	4,50,000 Equity Shares of Rs 10 each	45,00,000
	Issued Capital	
	3,00,000 Equity Shares of Rs 10 each	30,00,000
	Subscribed Capital	
	Subscribed and fully paid-up	
	2,90,000 Equity Shares of Rs 10 each	29,00,000
	Subscribed but not fully paid-up	
	10,000 Equity Shares of Rs 10 each fully called-up	1,00,000
	Less: Calls-in-Arrears	
	10,000 Equity Shares at Rs 2 per share	(20,000)
	Subscribed but not fully paid-up (net)	80,000
	Total	29,80,000

Answer the following questions: [6 marks]

26(i). Equity share capital issued during the year 2023 - 24 amounted to : [1 mark]

(A) Rs. 2,10,000

(B) Rs. 4,90,000

(C) Rs. 5,00,000

(D) Rs. 5,50,000

Correct Answer: (C) Rs. 5,00,000

Solution:

Concept:

- Issued capital is measured at face value; calls in arrears affect paid-up capital, not the amount issued.
- Use the share capital notes to distinguish issued capital, called-up capital and actual amounts received.

Step 1: Compare issued capital at the two dates The notes show issued capital of Rs 30,00,000 at 31 March 2024 and Rs 25,00,000 at 31 March 2023. Hence the issue during the year is $30,00,000 - 25,00,000 = \text{Rs } 5,00,000$.

Step 2: Check the alternatives This also equals 50,000 additional shares multiplied by Rs 10 each. Rs 4,90,000 confuses other adjustments with the face value issued; Rs 2,10,000 and Rs 5,50,000 do not equal the change in issued capital. The paid-up capital increase of Rs 4,80,000 is lower because of unpaid calls.

Step 3: Conclusion Rs 5,00,000. Hence, the correct option is (C).

Quick Tip to Solve: Keep the number of shares separate from the rupee amount; identify the account requested before calculating.

26(ii). The number of shares on which the amount called-up was not received were : [1 mark]

(A) 10,000

(B) 40,000

(C) 50,000

(D) 1,50,000

Correct Answer: (A) 10,000

Solution:

Concept:

- The number of defaulting shares is calls in arrears divided by the unpaid call per share.
- Use the share capital notes to distinguish issued capital, called-up capital and actual amounts received.

Step 1: Read the arrears note The note expressly identifies 10,000 equity shares carrying calls in arrears of Rs 2 per share. Total unpaid calls are therefore $10,000 \times 2 = \text{Rs } 20,000$.

Step 2: Verify the share count Dividing Rs $20,000$ by Rs 2 gives 10,000 shares. The 50,000 shares issued during the year are not all defaulting shares. Neither 40,000 nor 1,50,000 agrees with the arrears note or this calculation. The question asks for a number of shares, not the rupee amount unpaid.

Step 3: Conclusion 10,000 shares. Hence, the correct option is (A).

Quick Tip to Solve: Keep the number of shares separate from the rupee amount; identify the account requested before calculating.

26(iii). On 1st April, 2024, Sankalp Ltd. forfeited all the shares on which the called-up amount was not received. 'Share Capital Account' will be debited with : [1 mark]

(A) Rs. 20,000

(B) Rs. 80,000

(C) Rs. 1,00,000

(D) Rs. 1,20,000

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

Solution:

Concept:

- On forfeiture, Share Capital is debited with the called-up face value on the forfeited shares.
- Use the share capital notes to distinguish issued capital, called-up capital and actual amounts received.

Step 1: Identify called-up capital There are 10,000 defaulting shares of Rs 10 each and the entire Rs 10 has been called up. Capital to cancel is $10,000 \times 10 = \text{Rs } 1,00,000$.

Step 2: Distinguish receipt from capital cancelled Of this amount, Rs 20,000 is unpaid and Rs 80,000 has already been received. These amounts are credited to Calls-in-Arrears and Share Forfeiture respectively on forfeiture; neither determines the debit to Share Capital. Rs 1,20,000 exceeds the total called-up value. Thus the full Rs 1,00,000 must be removed from Share Capital.

Step 3: Conclusion Rs 1,00,000. Hence, the correct option is (C).

Quick Tip to Solve: Keep the number of shares separate from the rupee amount; identify the account requested before calculating.

26(iv). On forfeiture of shares, the amount credited to 'Share Forfeiture Account' will be : [1 mark]

(A) Rs. 20,000

(B) Rs. 80,000

(C) Rs. 1,00,000

(D) Rs. 1,20,000

Correct Answer: (B) Rs. 80,000

Solution:

Concept:

- Share Forfeiture is credited with the amount already received towards the capital of forfeited shares.
- Use the share capital notes to distinguish issued capital, called-up capital and actual amounts received.

Step 1: Compute capital already received Called-up capital on 10,000 shares is $10,000 \times \text{Rs } 10 = \text{Rs } 1,00,000$. Unpaid calls are Rs 20,000, so receipts towards capital are $1,00,000 - 20,000 = \text{Rs } 80,000$.

Step 2: Check the proposed amounts Equivalently, Rs 8 was received per share, giving $10,000 \times 8 =$ Rs $80,000$. Rs 20,000 represents unpaid calls, not receipts. Rs 1,00,000 is the called-up capital cancelled on forfeiture, while Rs 1,20,000 exceeds that capital. Only the amount received can be credited to Share Forfeiture.

Step 3: Conclusion Rs 80,000. Hence, the correct option is (B).

Quick Tip to Solve: Keep the number of shares separate from the rupee amount; identify the account requested before calculating.

26(v). If all the forfeited shares are reissued at Rs. 9 per share fully paid-up, the amount credited to 'Capital Reserve' will be : [1 mark]

(A) Rs. 20,000

(B) Rs. 80,000

(C) Rs. 1,00,000

(D) Rs. 70,000

Correct Answer: (D) Rs. 70,000

Solution:

Concept:

- After reissue, the forfeiture balance relating to the reissued shares, less reissue discount, is transferred to Capital Reserve.
- Use the share capital notes to distinguish issued capital, called-up capital and actual amounts received.

Step 1: Find the discount on reissue The 10,000 forfeited shares have face value Rs 10 each and are reissued fully paid for Rs 9 each. Discount allowed is $10,000 \times (10 - 9) =$ Rs $10,000$.

Step 2: Determine the capital profit Forfeiture credit is $10,000 \times (10 - 2) =$ Rs $80,000$. After using Rs 10,000 for the reissue discount, the balance is $80,000 - 10,000 =$ Rs $70,000$. Rs 80,000 omits the discount adjustment; Rs 20,000 is the original unpaid call and Rs 1,00,000 is called-up capital. All shares are reissued, so the entire remaining balance is transferred.

Step 3: Conclusion Rs 70,000. Hence, the correct option is (D).

Quick Tip to Solve: Keep the number of shares separate from the rupee amount; identify the account requested before calculating.

26(vi). If the forfeited shares are reissued at a minimum reissue price, the amount credited to 'Capital Reserve A/c' will be : [1 mark]

(A) Nil

(B) Rs. 20,000

(C) Rs. 80,000

(D) Rs. 1,00,000

Correct Answer: (A) Nil

Solution:

Concept:

- The maximum permissible reissue discount equals the amount forfeited on the shares being reissued.
- Use the share capital notes to distinguish issued capital, called-up capital and actual amounts received.

Step 1: Determine minimum reissue price Each share had Rs 8 paid and Rs 2 unpaid. Thus Rs 8 per share stands forfeited. For a Rs 10 fully paid share, the minimum reissue price is $10 - 8 = \text{Rs } 2$.

Step 2: Apply the entire forfeiture balance At this price the discount is Rs 8 per share, totalling $10,000 \times 8 = \text{Rs } 80,000$. The whole forfeiture balance of Rs 80,000 is used to meet the discount. Hence $80,000 - 80,000 = 0$ remains for Capital Reserve. Rs 20,000 is the cash received on reissue at this minimum price; Rs 80,000 and Rs 1,00,000 are not residual capital profits.

Step 3: Conclusion Nil. Hence, the correct option is (A).

Quick Tip to Solve: Keep the number of shares separate from the rupee amount; identify the account requested before calculating.

Part B (20 marks)

Option – I
(Analysis of Financial Statements)

27(a). Cash Flow Statement is prepared in accordance with : [1 mark]

(A) Accounting Standard 3

(B) Accounting Standard 26

(C) The Companies Act, 2013

(D) The Companies Act, 1956

Correct Answer: (A) Accounting Standard 3

Solution:

Concept:

- Accounting Standard 3 (AS 3) specifies the preparation and presentation of the Cash Flow Statement.
- Cash flows are classified into operating, investing and financing activities.

Step 1: Identify the applicable standard The question asks for the accounting standard governing the Cash Flow Statement. AS 3 deals specifically with cash flows and requires their classification according to the nature of the activity.

Step 2: Check the alternatives AS 26 concerns intangible assets, so option (B) is unsuitable. The Companies Acts provide the statutory framework for companies, but neither Act is the accounting standard prescribing the cash flow presentation; therefore (C) and (D) do not answer the question.

Step 3: Conclusion The correct option is (A): Accounting Standard 3.

Quick Tip to Solve: Associate AS 3 directly with the three classes of cash flows.

OR

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

(A) Proceeds from sale of goods and services will result in cash outflow from operating activities.

(B) Payment of dividend will result in cash outflow from investing activities.

(C) Sale of machinery will result in cash outflow from investing activities.

(D) Payment of employee benefit expenses will result in cash outflow from operating activities.

Correct Answer: (D) Payment of employee benefit expenses will result in cash outflow from operating activities.

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Cash paid to employees for their services is an operating cash outflow.

Step 1: Classify employee benefit payments Employees provide services used in the ordinary operations of the business. Payment of employee benefit expenses therefore reduces cash under operating activities, exactly as stated in option (D).

Step 2: Test the other statements Proceeds from goods and services are operating inflows, so (A) reverses the direction. Dividend paid is a financing outflow, so (B) uses the wrong activity. Sale of machinery is an investing inflow, so (C) reverses its direction.

Step 3: Conclusion The correct option is (D): Payment of employee benefit expenses is a cash outflow from operating activities.

Quick Tip to Solve: Check both the activity category and the direction of cash before choosing a statement.

28(a). **The tool of 'Analysis of Financial Statements' which indicates the trend and direction of financial position and operating results is :** [1 mark]

(A) Ratio Analysis

(B) Cash Flow Analysis

(C) Common Size Statements

(D) Comparative Statements

Correct Answer: (D) Comparative Statements

Solution:

Concept:

- Comparative statements place figures for two or more periods side by side.
- Absolute and percentage changes reveal the trend and direction of financial position and operating results.

Step 1: Identify the purpose described To find whether financial position and operating results are improving or declining, compare corresponding figures across accounting periods. Comparative statements show these changes in amounts and percentages.

Step 2: Eliminate the other tools Ratio analysis studies relationships between selected figures. Cash flow analysis focuses on cash movements. Common size statements express items relative to a common base to show composition. The wording about trend and direction across periods describes comparative statements.

Step 3: Conclusion The correct option is (D): Comparative Statements.

Quick Tip to Solve: For trend and direction over periods, look for comparative statements and their change columns.

OR

28(b). **While preparing Common Size Statement of Profit and Loss of a company, each item is expressed as a percentage of _____.** [1 mark]

(A) Revenue from operations

(B) Total liabilities

(C) Total expenses

(D) Total assets

Correct Answer: (A) Revenue from operations

Solution:

Concept:

- In a Common Size Statement of Profit and Loss, revenue from operations is the common base, taken as 100%.
- For each item, Percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$.

Step 1: Choose the base for income analysis Revenue from operations represents the principal

operating revenue of the company. Expressing income and expense items as percentages of this base allows the operating structure and profitability of different periods or companies to be compared.

Step 2: Check the remaining options Total liabilities and total assets relate to the balance sheet rather than the base for this statement. Total expenses are not the standard common base for the Common Size Statement of Profit and Loss. Revenue from operations itself is shown as 100%.

Step 3: Conclusion The correct option is (A): Revenue from operations.

Quick Tip to Solve: Use revenue from operations as 100% for every common size profit and loss percentage.

---

29. Statement I : Snow Ltd. made a net profit of Rs. 5,00,000 after taking into consideration interest on investment of Rs. 1,00,000. Operating profit before working capital changes would be Rs. 4,00,000.

Statement II : To calculate operating profit, before working capital changes, interest on investment is subtracted from net profit because it is a non-operating income.

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

(A) Only Statement I is true.

(B) Only Statement II is true.

(C) Both the Statements are false.

(D) Both the Statements are true.

Correct Answer: (D) Both the Statements are true.

Solution:

Concept:

- Non-operating income credited in arriving at net profit is deducted to determine operating profit before working capital changes.
- Interest on investments is non-operating income for the company in this question.

Step 1: Evaluate Statement I Net profit already includes interest on investments. Removing this income gives

$$\text{Operating profit before working capital changes} = \text{Rs } 5,00,000 - \text{Rs } 1,00,000 = \text{Rs } 4,00,000.$$

No other adjustments are given. Thus Statement I is true.

Step 2: Evaluate Statement II The interest increases net profit but does not arise from the principal operating activities. It must therefore be subtracted when moving from net profit to operating profit before working capital changes. Statement II is true and also explains the adjustment made in Statement I. Options (A), (B) and (C) incorrectly reject at least one true statement.

Step 3: Conclusion The correct option is (D): Both the Statements are true.

Quick Tip to Solve: Deduct investment interest already credited to profit before calculating operating cash profit.

---

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

(A) Payment of outstanding salary

(B) Cash received from debtors

(C) Sale of goods at a profit

(D) Purchase of goods for cash

Correct Answer: (D) Purchase of goods for cash

Solution:

Concept:

- Quick ratio $= \dfrac{\text{Quick assets}}{\text{Current liabilities}}$; inventory is excluded from quick assets.
- A cash purchase of goods exchanges a quick asset for inventory without changing current liabilities.

Step 1: Find the transaction that reduces quick assets Purchase of goods for cash reduces cash, a quick asset, while increasing inventory, which is not a quick asset. Current liabilities remain unchanged. The numerator therefore falls with the denominator unchanged, reducing the ratio from 2 : 1.

Step 2: Test all remaining transactions If current liabilities are L, quick assets are $2L$. Payment of outstanding salary x gives $(2L - x)/(L - x) > 2$, so (A) increases the ratio. Cash collected from debtors exchanges one quick asset for another, leaving (B) unchanged. Sale of goods at a profit increases cash or debtors while inventory is excluded, so (C) increases quick assets.

Step 3: Conclusion The correct option is (D): Purchase of goods for cash.

Quick Tip to Solve: A cash purchase of inventory lowers quick assets because inventory never enters the quick ratio.

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

(a) Calls-in-Advance

(b) Work-in-Progress

(c) Bank Overdraft [3 marks]

Solution:

Concept:

- Items are classified according to their nature as assets or liabilities and their current or non-current status.
- Amounts received against calls not yet made are liabilities; incomplete production is inventory; bank overdraft is short-term borrowing.

Step 1: Classify calls-in-advance Calls-in-advance are amounts received from shareholders before the relevant calls become due. They are not yet part of called-up share capital. Until the call becomes due, the company owes an obligation in respect of this amount, so it is classified under Current Liabilities, sub-head Other Current Liabilities.

Step 2: Classify work-in-progress Work-in-progress represents goods on which the production process has begun but is not complete. It is inventory held within the normal operating cycle. It is therefore classified under Current Assets, sub-head Inventories, with work-in-progress disclosed as the inventory category.

Step 3: Classify bank overdraft A bank overdraft is the amount drawn from the bank in excess of the available balance, subject to the sanctioned limit. It is a borrowing rather than a negative cash asset. Under the required balance sheet classification, it belongs to Current Liabilities, sub-head Short-term Borrowings.

Step 4: Present the Schedule III classification Balance Sheet classification (extract)

Item	Major head	Sub-head
Calls-in-Advance	Current Liabilities	Other Current Liabilities
Work-in-Progress	Current Assets	Inventories
Bank Overdraft	Current Liabilities	Short-term Borrowings

Step 5: Conclusion Calls-in-Advance: Current Liabilities / Other Current Liabilities; Work-in-Progress: Current Assets / Inventories; Bank Overdraft: Current Liabilities / Short-term Borrowings.

Quick Tip to Solve: Classify the nature first: advance call money is a liability, unfinished goods are inventory, and overdraft is borrowing.

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

Particulars	2023-24 (Rs.)	2022-23 (Rs.)
Revenue from Operations	80,00,000	40,00,000
Purchase of Stock in Trade	8,00,000	4,00,000
Other Expenses	80,000	40,000
Tax rate 50%		

[3 marks]

Solution:

Concept:

- A common size statement expresses every item as a percentage of revenue from operations of the same year: Percentage $= \dfrac{\text{Item}}{\text{Revenue from operations}} \times 100$. Revenue is the base of 100 per cent.
- Profit before tax is revenue less the stated expenses. Tax expense is 50 per cent of profit before tax, and profit after tax is the balance.

Step 1: Calculate the profits and tax For 2023-24, total expenses are Rs $8,00,000 + 80,000 = 8,80,000$. Hence profit before tax is Rs $80,00,000 - 8,80,000 = 71,20,000$, tax is Rs $71,20,000 \times 50\% = 35,60,000$, and profit after tax is Rs 35,60,000. For 2022-23, total expenses are Rs $4,00,000 + 40,000 = 4,40,000$. Profit before tax is Rs $40,00,000 - 4,40,000 = 35,60,000$; tax and profit after tax are each Rs 17,80,000.

Step 2: Prepare the common size statement Each year's purchases are 10 per cent and other expenses

are 1 per cent of its own revenue. Therefore total expenses are 11 per cent, profit before tax is 89 per cent and tax and profit after tax are each 44.5 per cent. The comparative information supplied is presented alongside the current year.

Betanik Ltd.
Common Size Statement of Profit and Loss for the year ended 31st March, 2024

Particulars	2023-24 (Rs)	2022-23 (Rs)	2023-24 (%)	2022-23 (%)
I. Revenue from operations	80,00,000	40,00,000	100	100
II. Total income	80,00,000	40,00,000	100	100
III. Expenses:				
Purchase of stock in trade	8,00,000	4,00,000	10	10
Other expenses	80,000	40,000	1	1
Total expenses	8,80,000	4,40,000	11	11
IV. Profit before tax (II–III)	71,20,000	35,60,000	89	89
V. Tax expense	35,60,000	17,80,000	44.5	44.5
VI. Profit after tax (IV–V)	35,60,000	17,80,000	44.5	44.5

Step 3: Conclusion For 2023-24, profit before tax is Rs 71,20,000 (89% of revenue) and profit after tax is Rs 35,60,000 (44.5% of revenue). Both years have identical common size percentages.

Quick Tip to Solve: Use each year's own revenue as 100%; apply the 50% tax rate to profit before tax, never directly to revenue.

33(a). From the following information, calculate Interest Coverage Ratio :

Particulars	Amount (Rs.)
Profit after Tax	**6,30,000**
Tax Rate	**30%**
15% Debentures	**20,00,000**
Equity Share Capital	**10,00,000**

[4 marks]

Solution:

Concept:

- Interest coverage ratio measures how many times earnings before interest and tax (EBIT) cover interest on long-term debt: Interest coverage ratio $= \dfrac{\text{EBIT}}{\text{Interest on long-term debt}}$.
- Profit after tax (PAT) equals profit before tax (PBT) multiplied by $1 - t$, where t is the tax rate. Thus PBT $=$ PAT$/(1 - t)$, and EBIT equals PBT plus interest.

Step 1: Restore profit before tax The given Rs 6,30,000 is after charging tax at 30 per cent. It therefore represents 70 per cent of profit before tax. Dividing by 70 per cent reverses the tax deduction; merely adding 30 per cent of PAT would use the wrong base.

$$\text{PBT} = \frac{6,30,000 \times 100}{100 - 30} = \frac{6,30,000}{0.70} = \text{Rs } 9,00,000.$$

The tax expense is consequently Rs $9,00,000 - 6,30,000 = 2,70,000$, which is exactly 30 per cent of

Rs 9,00,000.

Step 2: Calculate annual debenture interest Debentures carry a fixed annual interest rate of 15 per cent on their face amount of Rs 20,00,000:

$$\text{Interest} = 20,00,000 \times \frac{15}{100} = \text{Rs } 3,00,000.$$

Equity share capital does not carry contractual interest. The Rs 10,00,000 equity capital is therefore excluded from the interest denominator; dividends are an appropriation of profit.

Step 3: Find EBIT and compare it with interest Profit before tax is calculated after debenture interest has already been charged. Add this interest back to obtain earnings available before meeting interest and tax:

$$\text{EBIT} = 9,00,000 + 3,00,000 = \text{Rs } 12,00,000.$$

$$\text{Interest coverage ratio} = \frac{12,00,000}{3,00,000} = 4 \text{ times}.$$

Thus the operating earnings used in this ratio cover the annual debenture interest four times. Using PAT or PBT directly would understate the cover because those profits include deductions that the numerator must reverse.

Step 4: Conclusion The Interest Coverage Ratio is $\boxed{4 \text{ times}}$.

Quick Tip to Solve: First divide PAT by 0.70 to reverse tax; then add Rs 3,00,000 interest before dividing by the same interest.

OR

33(b). Calculate the amount of Opening Trade Receivables and Closing Trade Receivables from the following information :

Trade Receivables Turnover Ratio = 5 times

Cost of Revenue from operations = Rs. 8,00,000

Gross Profit Ratio = 20%

Closing Trade Receivables were Rs. 40,000 more than that in the beginning.

Cash sales were 1/4 times of Credit sales. [4 marks]

Solution:

Concept:

- Gross profit ratio is gross profit divided by revenue from operations, multiplied by 100. Cost of revenue is therefore 100% − gross profit ratio of revenue.
- Trade receivables turnover ratio equals net credit revenue from operations divided by average trade receivables. Average trade receivables are $(\text{Opening} + \text{Closing})/2$.

Step 1: Determine total revenue from operations Gross profit is 20 per cent of revenue, so the given

cost is the remaining 80 per cent. The percentage is based on sales, not on cost.

$$\text{Revenue from operations} = \frac{8,00,000 \times 100}{80} = \text{Rs } 10,00,000.$$

Gross profit is Rs $10,00,000 \times 20\% = 2,00,000$, confirming that cost is Rs $10,00,000 - 2,00,000 = 8,00,000$.

Step 2: Separate credit sales from cash sales Let credit sales be C. Cash sales are one-fourth of credit sales, so total sales are $C + C/4 = 5C/4$. It follows that credit sales form four-fifths of total sales, rather than three-fourths.

$$\frac{5}{4}C = 10,00,000 \quad \Rightarrow \quad C = \text{Rs } 8,00,000.$$

Cash sales are Rs 2,00,000. Only credit sales are used in the receivables turnover numerator because cash sales do not create trade receivables.

Step 3: Calculate average receivables and the two balances From the turnover ratio,

$$\text{Average trade receivables} = \frac{8,00,000}{5} = \text{Rs } 1,60,000.$$

Let opening trade receivables be Rs x. Closing trade receivables are Rs $(x + 40,000)$. Therefore,

$$\begin{aligned} \frac{x + (x + 40,000)}{2} &= 1,60,000, \\ 2x + 40,000 &= 3,20,000, \\ x &= 1,40,000. \end{aligned}$$

Closing trade receivables are Rs $1,40,000 + 40,000 = 1,80,000$. The average of these balances is Rs 1,60,000 and Rs $8,00,000/1,60,000 = 5$ times, verifying both the difference condition and the turnover ratio.

Step 4: Conclusion Opening Trade Receivables are $\boxed{\text{Rs } 1,40,000}$, and Closing Trade Receivables are $\boxed{\text{Rs } 1,80,000}$.

Quick Tip to Solve: Cash sales equal one-fourth of credit sales, so use four-fifths of total sales; opening and closing lie Rs 20,000 below and above their average.

34. Calculate 'Cash Flows from Investing Activities' from the following information :

Particulars	31.03.2024 (Rs.)	31.03.2023 (Rs.)
10% Long Term Investments	2,50,000	4,50,000
Plant and Machinery	8,00,000	6,00,000
Goodwill	1,40,000	1,00,000
Investment in shares of 'Pinnacle Ltd.'	14,00,000	5,00,000
Patents	-	1,50,000

Additional Information :

(i) A machine costing Rs. 60,000 (depreciation provided thereon Rs. 18,000) was sold for Rs. 48,000. Depreciation charged during the year was Rs. 60,000.

(ii) Dividend received from Pinnacle Ltd. Rs. 40,000.

(iii) Interest received on 10% Long Term Investments Rs. 45,000.

(iv) Patents were sold at their book value. [6 marks]

Solution:

Concept:

- Investing activities include cash purchases and sales of non-current assets and investments. For a non-financial enterprise, interest and dividends received are investing inflows.
- When plant balances are carrying amounts, purchases equal closing carrying amount minus opening carrying amount plus depreciation and the carrying amount of assets sold. Non-cash depreciation itself is excluded from cash flows.

Step 1: Calculate the cash purchase of plant and machinery The carrying amount of the machine sold is cost less accumulated depreciation:

$$60,000 - 18,000 = \text{Rs } 42,000.$$

The sale proceeds are Rs 48,000; the resulting profit of Rs 6,000 does not change the investing inflow. Reconcile the carrying amounts of plant and machinery:

$$\begin{aligned}\text{Purchases} &= 8,00,000 - 6,00,000 + 42,000 + 60,000 \\ &= \text{Rs } 3,02,000.\end{aligned}$$

Depreciation of Rs 60,000 reduces the asset balance without using cash, so it must be added while calculating purchases. Use the book value of Rs 42,000 here, not the sale proceeds of Rs 48,000.

Step 2: Determine the other investment cash movements Long-term investments decrease from Rs 4,50,000 to Rs 2,50,000, giving sale proceeds of Rs 2,00,000 in the absence of any stated profit or loss. Investment in Pinnacle Ltd. increases by $14,00,000 - 5,00,000 = \text{Rs } 9,00,000$, an investing outflow. Goodwill purchased is $1,40,000 - 1,00,000 = \text{Rs } 40,000$. Patents with opening book value Rs 1,50,000 are sold at that value, giving an inflow of Rs 1,50,000. Include actual interest received of Rs 45,000 and dividend received of Rs 40,000; the stated interest rate is not a substitute for the actual cash receipt.

Step 3: Prepare the cash flow statement extract Cash Flow Statement (Investing Activities) for the year ended 31 March 2024

Particulars	Amount (Rs)
Sale of 10% long-term investments	2,00,000
Sale of plant and machinery	48,000
Sale of patents	1,50,000
Interest received	45,000
Dividend received	40,000
Total cash inflows	4,83,000
Purchase of plant and machinery	(3,02,000)
Purchase of goodwill	(40,000)
Purchase of shares of Pinnacle Ltd.	(9,00,000)
Total cash outflows	(12,42,000)
Net cash used in investing activities	(7,59,000)

Parentheses indicate cash outflows. The net amount is $4,83,000 - 12,42,000 = -7,59,000$.

Step 4: Conclusion Net cash used in investing activities is $\boxed{\text{Rs } 7,59,000}$, i.e. cash flow from investing activities is $-$Rs $7,59,000$.

Quick Tip to Solve: For plant purchases, reconcile book values first; put the actual sale proceeds separately in the investing statement.

Option II (Computerised Accounting)

27(a). The code that enables identification of missing documents is : [1 mark]

(A) Sequential code

(B) Mnemonic code

(C) Alphabetic code

(D) Block code

Correct Answer: (A) Sequential code

Solution:

Concept:

- Sequential codes number documents consecutively. A break in the expected numerical sequence identifies a missing document.
- Mnemonic codes aid memory; alphabetic codes use letters, while block codes allocate ranges to categories.

Step 1: Apply the sequence test Suppose vouchers are numbered 101, 102, 103 and 105. The missing number 104 immediately shows that a document needs investigation. This is the control provided by sequential coding.

Step 2: Compare the alternatives A mnemonic code describes an item through an abbreviation; an alphabetic code specifies letters; a block code groups items into reserved ranges. None of these descriptions by itself ensures that missing documents are revealed by a break in consecutive numbering.

Step 3: Conclusion Sequential code identifies missing documents. Hence, the correct option is (A).

Quick Tip to Solve: For missing documents, look for a gap in consecutive voucher numbers.

OR

27(b). Absence of data item is represented by a special value i.e. : [1 mark]

(A) Single value

(B) Store value

(C) Null value

(D) Multi value

Correct Answer: (C) Null value

Solution:

Concept:

- A null value represents an absent, unknown or unavailable data item in a database.
- Null is different from the numeric value zero and from a deliberate text entry.

Step 1: Identify what is absent The question asks for the special representation of absence of a data item. When a field has no supplied value, the database can represent this condition as null rather than inventing a number or a word.

Step 2: Check the offered terms Single value and multi value describe the number of values associated with data; they do not name the special missing-data representation. Store value is also not the recognised database term for absence. Null value directly matches the condition stated.

Step 3: Conclusion The special value is Null value. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish a missing field (null) from an actual numeric zero.

28. What is the activity sequence of the basic information processing model ? [1 mark]

(A) Organise data, collect data and then process data.

(B) Process data, organise data and then collect data.

(C) Process data, communicate information and then collect data.

(D) Collect data, organise and process data and then communicate information.

Correct Answer: (D) Collect data, organise and process data and then communicate information.

Solution:

Concept:

- The basic information processing sequence is collection of data, organisation and processing of data, and communication of information.
- Raw data are inputs; processing converts them into meaningful information that is then delivered to users.

Step 1: Establish the logical order A system first collects the source data, such as sales transactions. It then organises and processes those data, for example by classifying and totalling transactions. Finally it communicates useful information through reports.

Step 2: Eliminate reversed sequences Option (A) organises data before collection. Options (B) and (C) start with processing even though the input data have not yet been collected. Option (D) places collection first, organisation and processing next, and communication last, so it preserves the necessary dependencies.

Step 3: Conclusion Collect data, organise and process data, and then communicate information. Hence, the correct option is (D).

Quick Tip to Solve: Remember input before processing, and useful output after processing.

29. It is a widely accepted security control. It uses binary coding format of storage to offer access to database. It is known as : [1 mark]

(A) Data vault

(B) Password security

(C) Data audit

(D) Data integrity

Correct Answer: (B) Password security

Solution:

Concept:

- Password security controls access by requiring the user to supply an authorised password.
- Access control differs from auditing, which reviews activity, and data integrity, which concerns accuracy and consistency.

Step 1: Identify the security purpose The decisive feature in the question is offering access to a database through a widely accepted security control. Password security authenticates the user through a secret credential before permitting access; the reference to binary storage does not change that purpose.

Step 2: Compare the alternatives A data vault denotes protected storage rather than the named user authentication control. Data audit examines records or activity, while data integrity concerns the correctness and consistency of data. Neither audit nor integrity is the password-based access mechanism described.

Step 3: Conclusion The control is Password security. Hence, the correct option is (B).

Quick Tip to Solve: Use the purpose of the control: authenticating access points to password security.

30(a). 'LABELS' in Excel means : [1 mark]

(A) A text or special character

(B) Used for rows, columns or descriptive information

(C) Can be treated mathematically

(D) Both (A) and (B)

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

Solution:

Concept:

- Labels are text or special-character entries used to identify or describe spreadsheet data.
- They commonly supply row headings, column headings and explanatory descriptions rather than numerical operands.

Step 1: Evaluate statements (A) and (B) A label can be text or a special character, making statement (A) correct. Labels also identify rows, columns and descriptive information, making statement (B) correct. These statements describe the content and purpose of labels respectively.

Step 2: Distinguish labels from numeric values A label is not treated as a numeric operand merely because it is entered in a cell, so statement (C) is not the defining property of labels. Since both (A) and (B) are correct, the combined choice (D) is the appropriate answer rather than either incomplete individual choice.

Step 3: Conclusion Labels include text or special characters and provide headings or descriptions. Hence, the correct option is (D).

Quick Tip to Solve: Headings and descriptions are labels; numerical calculations use numeric values.

OR

30(b). Which of the following is not contained on formula tab on Excel ribbon ? [1 mark]

(A) Function library

(B) Defined names

(C) Page layout

(D) Calculations

Correct Answer: (C) Page layout

Solution:

Concept:

- The Formulas tab groups tools used to insert functions, manage names and control calculations.
- A ribbon tab is different from a group of commands placed inside another tab.

Step 1: Check the groups on the Formulas tab Function Library contains functions, Defined Names manages named cells and ranges, and Calculation controls recalculation. Thus options (A), (B) and (D) all describe tools associated with the Formulas tab.

Step 2: Identify the separate tab Page Layout is a separate ribbon tab concerned with page setup, margins, orientation and printing layout. It is not a group contained on the Formulas tab.

Step 3: Conclusion Page layout is not contained on the Formulas tab. Hence, the correct option is (C).

Quick Tip to Solve: Look for the option that names a separate ribbon tab rather than a group of formula commands.

31. Differentiate between tailored and specific softwares on any three basis. [3 marks]

Solution:

Concept:

- Tailored software is developed to meet the particular requirements of an individual organisation.
- Specific software is designed for a particular accounting activity or application and can serve users having that common requirement.

Step 1: Basis 1: Purpose and coverage Tailored software is designed around the accounting procedures, controls and reporting needs of a particular organisation. Its scope is determined by that organisation and may integrate several activities. Specific software addresses a defined activity, such as payroll processing or inventory management, and its standard facilities are directed towards that activity.

Step 2: Basis 2: Development and availability Tailored software is made to order after studying the requirements of the intended user. Analysis, programming and testing therefore take time before it can be used. Specific software is already developed for its stated application and can generally be acquired and installed more quickly when its facilities meet the user's needs.

Step 3: Basis 3: Cost and modification Tailored software normally involves a higher development cost because one organisation bears the cost of designing its particular system. It can incorporate the required changes through its developer. Specific software generally costs less because development costs can be spread across many users; major changes beyond its standard facilities are comparatively restricted.

Step 4: Conclusion The three bases of distinction are purpose and coverage, development and availability, and cost and modification. Tailored software follows an organisation's individual requirements; specific software follows the needs of a defined application.

Quick Tip to Solve: Use the same basis for both sides of each comparison; payroll is a useful example of a specific application.

32. Write the advantages of using Graphs. [3 marks]

Solution:

Concept:

- Graphs present numerical accounting data visually through bars, lines, sectors or other suitable forms.
- A useful graph communicates relationships in data while retaining an appropriate scale and clear labels.

Step 1: Simplify and communicate numerical information Graphs condense a large volume of figures into an easily understood visual presentation. A reader can grasp the broad meaning of information quickly without examining every entry in a detailed numerical statement. They also make reports more attractive and accessible to users who find lengthy tables difficult to interpret.

Step 2: Facilitate comparisons A graph makes comparison between products, departments, periods or categories easier. For example, a bar graph of departmental sales immediately shows which department has higher or lower sales. A pie chart can show the relative contribution of individual expense heads to total expenditure.

Step 3: Reveal trends and support decisions A series plotted over time reveals the direction and pattern of change, such as rising sales, seasonal fluctuations or falling profit. Unusually high or low values become easier to notice. These comparisons and trends help management assess performance, identify areas needing attention and plan future action. Thus graphs save interpretation time and assist informed decisions.

Step 4: Conclusion Graphs simplify complex figures, enable quick comparison, reveal trends and exceptional values, and improve the communication of accounting information for decision-making.

Quick Tip to Solve: Connect each advantage to an accounting example: sales comparisons, expense proportions or profit trends.

33(a). What are the different phases of accounting cycle which can be processed through the use of computers ? [4 marks]

Solution:

Concept:

- The accounting cycle converts evidence of financial transactions into classified records and financial statements.
- Computers process accounting data through input, processing and output, while preserving the underlying rules of double-entry accounting.

Step 1: Identify transactions and prepare source documents The cycle begins with identifying financial transactions and collecting evidence such as invoices, receipts and payment documents. Relevant particulars, including date, amount and the accounts affected, are entered through appropriate vouchers. Computerised input checks help detect missing fields or inconsistent entries before the transaction is accepted.

Step 2: Record transactions and post to ledgers Transactions are recorded in the journal or relevant subsidiary records using the appropriate debit and credit accounts. In a computerised system, the accepted voucher updates the relevant ledger accounts automatically. The same stored transaction data can therefore produce both chronological transaction records and account-wise classified records without repeated manual posting.

Step 3: Balance accounts and prepare the trial balance The software totals the debit and credit entries in each ledger account and calculates the closing balance. These balances are brought together in a trial balance to check the equality of total debits and credits. Adjusting entries, for example for outstanding expenses, prepaid expenses or depreciation, are then recorded so that income and expenses relate to the correct accounting period. The updated records provide adjusted balances.

Step 4: Prepare financial statements and close the period Using the adjusted account balances, the computer can prepare the Trading Account and Profit and Loss Account, or the applicable Statement of Profit and Loss, and the Balance Sheet. It can also generate supporting schedules and reports. Closing entries transfer nominal account balances to the appropriate final accounts, and permanent account balances are carried forward to the next period. Correct input and proper accounting treatment remain necessary for reliable output.

Step 5: Conclusion Computers can process the phases of identifying and documenting transactions, recording, ledger posting, balancing and trial balance preparation, adjustments, preparation of financial statements, and closing and carrying forward balances.

Quick Tip to Solve: Remember the sequence: source document, voucher, journal, ledger, trial balance, adjustments and final accounts.

OR

33(b). List eight uses of accounting softwares. [4 marks]

Solution:

Concept:

- Accounting software records business transactions, processes them into account balances and produces useful accounting reports.
- Its uses extend from routine voucher entry to control over receivables, payables, inventory and financial reporting.

Step 1: Recording and processing transactions 1. **Recording transactions:** It records cash, bank, purchase, sales and journal transactions through suitable accounting vouchers.

2. **Maintaining ledger accounts:** It posts recorded transactions to the appropriate accounts and calculates their balances automatically.

3. **Preparing the trial balance:** It compiles ledger balances into a trial balance, helping check the arithmetical equality of total debits and credits.

4. **Preparing financial statements:** It prepares the Trading Account, Statement of Profit and Loss and Balance Sheet from the accounting records, as applicable to the business.

Step 2: Managing balances and providing control information 5. **Managing receivables:** It maintains customer accounts, tracks invoices and receipts, and reports amounts outstanding from debtors.

6. **Managing payables:** It maintains supplier accounts and shows outstanding bills and their due dates to help plan payments.

7. **Controlling inventory:** It maintains item-wise stock records, records receipts and issues, and supplies information on stock quantities and values.

8. **Preparing bank reconciliation:** It compares entries in the bank account with the bank statement and identifies differences such as uncleared cheques.

Step 3: Conclusion Eight uses are transaction recording, ledger maintenance, trial balance preparation, financial statement preparation, receivables management, payables management, inventory control and bank reconciliation.

Quick Tip to Solve: Recall the flow from vouchers to final accounts, then add customer, supplier, stock and bank controls to obtain eight distinct uses.

34. Which error appears when there is formula or function with 'invalid' numeric value ? How can you correct it ? [6 marks]

Solution:

Concept:

- The `#NUM!` error occurs when a spreadsheet formula or function contains an invalid numeric value or cannot calculate a valid numeric result.
- Correction requires checking the numerical arguments, the permitted range of the calculation and, where relevant, the convergence of an iterative function.

Step 1: Identify the error and inspect the numeric arguments The error displayed is `#NUM!`. Select the affected cell and examine the formula and the cells supplying its arguments. Check that the numerical values are valid for the function being used and that the arguments have been entered in the correct positions.

For example, `=SQRT(-25)` produces `#NUM!` because a negative number has no real square root. If the intended input was positive 25, correct the input to `=SQRT(25)`; the result is 5. Correct the source value only after checking the intended calculation. Do not simply remove a minus sign from a correctly entered value.

Step 2: Correct the form and size of the numbers Enter numeric arguments in a valid numeric form. Remove inappropriate currency symbols, unit labels or other characters typed directly into a numeric argument, and apply the required currency or number format to the cell instead. Check that all numerical inputs meet the function's domain restrictions.

If a formula produces a number that is too large or too small for the spreadsheet to represent, change the formula or the scale of the calculation so that the result lies within its permitted numeric range. Merely changing the displayed number format does not change the underlying value or correct such an overflow.

Step 3: Check functions that require an iterative solution Functions such as `IRR` and `RATE` may display

`#NUM!` when they cannot find a result. Verify their inputs and, where a guess argument is available, supply a suitable starting guess. For `IRR`, also check that the cash-flow series contains at least one positive and one negative value.

Where an iterative calculation is applicable, review the iteration settings, including the maximum number of iterations and the permitted change, so the calculation can converge. Recalculate after correcting the underlying cause and check that the returned result is meaningful for the data.

Step 4: Conclusion The error is `#NUM!`. Correct it by supplying valid numeric arguments, keeping the calculation within the permitted numeric range, and resolving convergence problems where an iterative function is involved.

Quick Tip to Solve: For `#NUM!`, check the function's numeric domain first, then the size of the result, and finally the guess and convergence for iterative functions.