CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-5-2

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(a). On 1st April, 2024, the Balance Sheet of Radha and Mohan showed a loan of Rs. 10,000 given by Mohan to the firm. The firm was dissolved on this date. Mohan's loan will be discharged by crediting which of the following account? [1 mark]

(A) Realisation Account

(B) Mohan's Capital Account

(C) Mohan's Current Account

(D) Bank Account

Correct Answer: (D) Bank Account

Solution:

Concept:

- A partner's loan is a separate liability of the firm; its repayment reduces that loan liability.
- Payment through bank reduces the bank asset, so Bank Account is credited.

Step 1: Identify the liability being settled Mohan has lent Rs 10,000 to the firm. This is a loan payable by the firm, distinct from his capital or current account. A partner's loan is not transferred to Realisation Account on dissolution.

Step 2: Identify the credit account Repayment debits Mohan's Loan Account by Rs 10,000 and credits Bank Account by Rs 10,000. Realisation Account is therefore unsuitable; neither Mohan's Capital Account nor his Current Account records the bank payment for settling this separate loan.

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

Quick Tip to Solve: For repayment of a partner's loan, identify the asset going out: credit Bank Account.

OR

1(b). Which of the following events does not result in reconstitution of a firm? [1 mark]

(A) Dissolution of partnership

(B) Dissolution of partnership firm

(C) Death of a partner

(D) Change in profit sharing ratio of existing partners

Correct Answer: (B) Dissolution of partnership firm

Solution:

Concept:

- Reconstitution changes the partnership agreement while the firm continues its business.
- Dissolution of the firm terminates its business and requires settlement of its accounts.

Step 1: Test continuity of the firm Dissolution of partnership means an existing partnership relation-

ship changes. If the business continues under a revised agreement, there is reconstitution. Death of a partner and a change in the profit-sharing ratio are standard occasions for such a change.

Step 2: Distinguish complete closure Dissolution of the partnership firm ends the firm itself, rather than merely altering the agreement among its partners. Thus options (A), (C) and (D) describe changes associated with reconstitution, whereas complete dissolution of the firm does not.

Step 3: Conclusion Dissolution of partnership firm does not result in reconstitution. Hence, the correct option is (B).

Quick Tip to Solve: Ask whether the firm continues: closure of the firm means dissolution, not reconstitution.

2. A, B and C were partners in a firm sharing profits and losses in the ratio of 8 : 5 : 3. It was decided that with effect from 1st April, 2024, profits and losses will be shared in the ratio of 6 : 5 : 5. Due to change in the profit sharing ratio, A's gain or sacrifice will be: [1 mark]

(A) 1/8 gain

(B) 2/8 gain

(C) 1/8 sacrifice

(D) 2/8 sacrifice

Correct Answer: (C) 1/8 sacrifice

Solution:

Concept:

- A partner sacrifices when the old profit share exceeds the new share.
- Sacrificing share = Old share − New share.

Step 1: Find comparable shares The old ratio totals $8+5+3=16$, giving A an old share of $8/16$. The new ratio totals $6+5+5=16$, so A's new share is $6/16$. Both fractions already have the same denominator.

Step 2: Determine the nature of the change A's decrease is

$$\frac{8}{16}-\frac{6}{16}=\frac{2}{16}=\frac{1}{8}.$$

The decrease represents sacrifice, not gain. Options (A) and (B) have the wrong nature of change; option (D) has the wrong fraction because $2/16$ simplifies to $1/8$, not $2/8$.

Step 3: Conclusion A sacrifices $1/8$ of the total profit. Hence, the correct option is (C).

Quick Tip to Solve: Calculate old share minus new share before deciding whether the change is a sacrifice or gain.

3. X Ltd. invited applications for issuing 90,000 equity shares of Rs. 100 each. The amount per share was payable as follows:

On Application - Rs. 20

On Allotment - Rs. 50

On First and final call - Balance

Applications for 2,00,000 shares were received. An applicant who had applied for 5,000 shares paid the entire share money with the application. The total application money received by the company was: [1 mark]

(A) Rs. 44,00,000

(B) Rs. 40,00,000

(C) Rs. 18,00,000

(D) Rs. 90,00,000

Correct Answer: (A) Rs. 44,00,000

Solution:

Concept:

- Application receipts include the amount received from every applicant, including any advance payment.
- Compute the ordinary application amount first, then add only the additional amount paid by the full-payment applicant.

Step 1: Compute ordinary application receipts Applications were received for 2,00,000 shares, not merely the 90,000 shares offered. At Rs 20 per share, the ordinary application receipts would be

$$2,00,000 \times 20 = \text{Rs } 40,00,000.$$

This already includes Rs 20 on each of the special applicant's 5,000 shares.

Step 2: Add the excess payment once The applicant paid Rs 100 per share instead of Rs 20, giving an additional Rs 80 per share. Thus the extra receipt is $5,000 \times 80 = \text{Rs } 4,00,000$. Rs 40,00,000 omits this advance; Rs 18,00,000 uses only shares offered; Rs 90,00,000 is the face value of the issue, not application cash.

Step 3: Conclusion Total application money received is $40,00,000 + 4,00,000 = \text{Rs } 44,00,000$. Hence, the correct option is (A).

Quick Tip to Solve: Add the full-payment applicant's excess over Rs 20, since the normal application calculation already includes Rs 20.

4(a). On 1st April, 2023, Viya Ltd. issued 20,000, 10% debentures of Rs. 100 each at a premium of 10%. The total amount of interest on debentures for the year ended 31st March, 2024 will be: [1 mark]

(A) Rs. 2,000

(B) Rs. 2,20,000

(C) Rs. 2,00,000

(D) Rs. 20,000

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

Solution:

Concept:

- Debenture interest is calculated on nominal value, not on the issue proceeds.
- Interest = Number × Face value × Rate × Time.

Step 1: Calculate nominal debenture capital The nominal value is $20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000$. The 10% issue premium adds to the cash collected but does not increase the principal on which contractual debenture interest is calculated.

Step 2: Apply the annual coupon rate The debentures were issued on 1st April, 2023 and remained outstanding for the whole year to 31st March, 2024. Interest is therefore $20,00,000 \times 10/100 = \text{Rs } 2,00,000$. Rs 2,20,000 incorrectly includes premium; Rs 2,000 and Rs 20,000 understate the annual interest.

Step 3: Conclusion Annual interest is Rs 2,00,000. Hence, the correct option is (C).

Quick Tip to Solve: Apply the coupon rate to face value; ignore the issue premium when calculating debenture interest.

OR

4(b). Radhya Ltd. issued 5,000, 9% debentures of Rs. 100 each at Rs. 97 per debenture. The 9% debentures account will be credited by: [1 mark]

(A) Rs. 4,85,000

(B) Rs. 5,00,000

(C) Rs. 4,50,000

(D) Rs. 50,000

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

Solution:

Concept:

- Debentures Account is credited with the nominal liability, even when the issue is at a discount.
- The difference between nominal value and issue proceeds is discount on issue, not a reduction in nominal debenture capital.

Step 1: Find the nominal liability The company issues 5,000 debentures with a face value of Rs 100

each. The debenture liability is $5,000 \times 100 =$ Rs $5,00,000$. The 9% coupon rate affects interest and does not determine the amount credited on issue.

Step 2: Separate proceeds and discount Cash proceeds are $5,000 \times 97 =$ Rs $4,85,000$, while the discount is $5,000 \times 3 =$ Rs $15,000$. Their sum equals the nominal credit. Option (A) gives proceeds only; neither Rs 4,50,000 nor Rs 50,000 is the nominal liability of these debentures.

Step 3: Conclusion The 9% Debentures Account is credited by Rs 5,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Credit the face value multiplied by the number issued; treat the Rs 3 difference separately as discount.

5. Paratigm Ltd. issued 40,000, 11% debentures of Rs. 100 each at a discount of 5%, redeemable at a premium. On issue of these debentures 'Loss on Issue of Debentures Account' was debited with Rs. 4,00,000. The amount of premium on redemption of debentures was: [1 mark]

(A) Rs. 4,00,000

(B) Rs. 2,00,000

(C) Rs. 4,40,000

(D) Rs. 20,000

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

Solution:

Concept:

- Loss on issue comprises discount on issue plus premium payable on redemption.
- Redemption premium = Total loss on issue − Issue discount.

Step 1: Calculate the discount on issue The total nominal value is $40,000 \times 100 =$ Rs $40,00,000$. Discount at 5% is $40,00,000 \times 5/100 =$ Rs $2,00,000$. The 11% coupon governs periodic interest and is irrelevant to this loss calculation.

Step 2: Isolate the redemption premium The total debit to Loss on Issue of Debentures Account is Rs 4,00,000. After deducting the issue discount of Rs 2,00,000, the remaining loss is the redemption premium. Rs 4,00,000 includes both components; Rs 4,40,000 uses the coupon rate, and Rs 20,000 is too small.

Step 3: Conclusion Premium on redemption is $4,00,000 - 2,00,000 =$ Rs $2,00,000$. Hence, the correct option is (B).

Quick Tip to Solve: Subtract issue discount from total loss on issue to obtain the premium payable on redemption.

6. On the dissolution of the partnership firm of Raman, Hari and Suresh, realisation expenses Rs. 17,000 were paid by a debtor of Rs. 75,000 on behalf of the firm. The remaining amount was received from him along with interest of Rs. 2,000 for delayed payment. Realisation Account will be ____ by ____. [1 mark]

(A) debited, Rs. 17,000

(B) credited, Rs. 50,000

(C) debited, Rs. 77,000

(D) credited, Rs. 60,000

Correct Answer: (D) credited, Rs. 60,000

Solution:

Concept:

- Cash realised from debtors during dissolution is credited to Realisation Account.
- Where a debtor directly pays firm expenses, deduct that amount from the debtor's balance when calculating cash remitted.

Step 1: Find the remaining amount due The debtor owed Rs 75,000 and paid Rs 17,000 of realisation expenses on the firm's behalf. Thus the amount still payable in cash is

$$75,000 - 17,000 = \text{Rs } 58,000.$$

The expense payment is part of the settlement and must not be collected again.

Step 2: Include interest in the cash receipt The remaining Rs 58,000 is received together with Rs 2,000 interest for delayed payment, giving Rs 60,000 received through bank. This receipt is credited to Realisation Account. Rs 50,000 omits part of the receipt; a debit of Rs 77,000 confuses the original debtor plus interest with the cash realised. Rs 17,000 describes expenses rather than this receipt.

Step 3: Conclusion Realisation Account is credited by $58,000 + 2,000 = \text{Rs } 60,000$. Hence, the correct option is (D).

Quick Tip to Solve: For cash received, subtract the expenses already paid by the debtor and then add the interest received.

7. Manoj, Dilip and Rajinder were partners in a firm sharing profits and losses in the ratio of 7 : 3 : 5. Their fixed capitals were Rs. 10,00,000, Rs. 8,00,000 and Rs. 6,00,000, respectively. The partnership deed provided for interest on partners' drawings @ 12% p.a. Which of the following accounts will be debited for charging interest on partners' drawings? [1 mark]

(A) Partners' Capital Account

(B) Profit and Loss Appropriation Account

(C) Interest on Drawings Account

(D) Profit and Loss Account

Correct Answer: No printed option is correct: Partners' Current Accounts must be debited.

Solution:

Concept:

- Under the fixed capital method, routine adjustments for interest, drawings and profits are made through partners' Current Accounts.
- Interest on drawings is a charge against the partner and is credited to Interest on Drawings Account.

Step 1: Identify the correct debit Since the partners maintain fixed capitals, interest on their drawings is debited to their respective Current Accounts. The given capital amounts, profit-sharing ratio and annual interest rate do not change the account to be debited. The question asks for classification rather than calculation.

Step 2: Test every printed option Option (A), Partners' Capital Account, would apply to fluctuating capitals, whereas the question explicitly specifies fixed capitals. Option (B), Profit and Loss Appropriation Account, is credited when interest on drawings is transferred to it. Option (C), Interest on Drawings Account, is credited when charged to partners; option (D), Profit and Loss Account, is not the account charged to partners for this appropriation.

Step 3: Conclusion Partners' Current Accounts must be debited. None of the printed options (A)–(D) is correct.

Quick Tip to Solve: Check whether capitals are fixed before choosing between a partner's Capital Account and Current Account.

8(a). Sudha, a partner withdrew Rs. 12,000 on 31st October, 2023 for her personal use. Interest on drawings is charged @ 6% p.a. The interest on Sudha's drawings for the year ended 31st March, 2024 will be: [1 mark]

(A) Rs. 300

(B) Rs. 30

(C) Rs. 3,000

(D) Rs. 150

Correct Answer: (A) Rs. 300

Solution:

Concept:

- Interest = Drawings × Annual rate × Months/12.
- For a withdrawal on a specific date, use its actual time outstanding to the accounting year-end.

Step 1: Determine the interest period Sudha withdrew Rs 12,000 on 31st October, 2023. The amount remains withdrawn during November, December, January, February and March, giving five months up to 31st March, 2024. An average period used for regular monthly drawings is not needed here.

Step 2: Calculate the charge Interest is

$$12,000 \times \frac{6}{100} \times \frac{5}{12} = \text{Rs } 300.$$

Rs 30 and Rs 3,000 involve a decimal-place error. Rs 150 would charge only half the correct interest period; the actual five-month period must be used for this single withdrawal.

Step 3: Conclusion Interest on Sudha's drawings is Rs 300. Hence, the correct option is (A).

Quick Tip to Solve: Count the months from the withdrawal date to year-end; a 31st October withdrawal is outstanding for five months.

OR

8(b). The partnership deed should be prepared as per the provisions of which of the following Acts? [1 mark]

(A) The Companies Act, 2013

(B) The Indian Partnership Act, 1932

(C) The Indian Stamp Act

(D) The Cooperative Societies Act

Correct Answer: (C) The Indian Stamp Act

Solution:

Concept:

- A partnership deed is the written agreement recording the terms agreed by the partners. It is prepared on stamp paper of the prescribed value under the Indian Stamp Act.

- The legal form of the organisation determines which general Act governs it; stamp duty is a separate requirement for the written instrument.

Step 1: Identify the requirement for the deed The question asks about preparation of the written deed. The stamp-paper requirement for this instrument comes from the Indian Stamp Act; it is different from the general law governing partnerships.

Step 2: Distinguish the other Acts The Indian Partnership Act, 1932 governs partnership relations, but is not the answer to this specific preparation requirement. The Companies Act, 2013 concerns companies, while the Cooperative Societies Act concerns cooperative societies.

Step 3: Conclusion The correct option is (C): The Indian Stamp Act.

Quick Tip to Solve: For deed preparation on stamp paper, identify the Stamp Act; distinguish it from the law governing partnerships.

9. The debentures that can be transferred by way of delivery and the company does not keep any record of the debentures holders are called: [1 mark]

(A) Redeemable debentures

(B) Convertible debentures

(C) Zero Coupon Rate debentures

(D) Bearer debentures

Correct Answer: (D) Bearer debentures

Solution:

Concept:

- Bearer debentures are transferable by mere delivery. Their holders are not entered in a register maintained by the issuing company.
- Debenture classifications describe distinct features such as transferability, redemption, conversion and interest payment.

Step 1: Match the transfer feature Transfer by delivery means that possession of the instrument passes to the transferee without recording the new holder with the company. This is the characteristic of bearer debentures.

Step 2: Reject unrelated classifications Redeemable describes repayment at a specified time, convertible describes conversion into shares, and zero coupon rate describes the absence of periodic coupon interest. None of these names identifies transfer by delivery with no holder register.

Step 3: Conclusion The correct option is (D): Bearer debentures.

Quick Tip to Solve: Use the two clues together: delivery of the instrument and no company record of holders indicate bearer debentures.

10(a). Jeeta Ltd. forfeited 300 shares of Rs. 100 each for the non-payment of final call of Rs. 10 per share. The amount credited to share forfeiture account will be: [1 mark]

(A) Rs. 30,000

(B) Rs. 27,000

(C) Rs. 9,000

(D) Rs. 3,000

Correct Answer: (B) Rs. 27,000

Solution:

Concept:

- Share Forfeiture Account is credited with the capital amount already received on the forfeited shares. Unpaid calls are excluded from this credit.
- Forfeiture credit equals number of forfeited shares multiplied by capital received per share; any securities premium is treated separately.

Step 1: Find capital received per share The face value is Rs 100 and only the final call of Rs 10 is unpaid. Thus capital received per share is $100 - 10 = \text{Rs } 90$.

Step 2: Calculate the forfeiture credit For 300 shares, the credit is

$$300 \times 90 = \text{Rs } 27,000.$$

Option (A) is the total face value, while option (D) is the unpaid final call. Option (C) does not equal the capital received on these shares.

Step 3: Conclusion The correct option is (B): Rs $27,000$.

Quick Tip to Solve: For forfeiture credit, multiply the shares forfeited by capital already received, excluding the unpaid call.

OR

10(b). Meeta Ltd. invited applications for issuing 30,000 equity shares of Rs. 10 each. Applications for 29,500 shares were received. Allotment was made in full. A shareholder holding 100 shares failed to pay the first call of Rs. 2 per share. His shares were forfeited. The second call of Rs. 3 per share was not yet made. The amount debited to share capital account, on the forfeiture of shares will be: [1 mark]

(A) Rs. 3,00,000

(B) Rs. 2,95,000

(C) Rs. 700

(D) Rs. 300

Correct Answer: (C) Rs. 700

Solution:

Concept:

- On forfeiture, Share Capital Account is debited by the called-up capital of the forfeited shares. An uncalled amount is excluded even though it forms part of the face value.
- Called-up capital includes both amounts paid and amounts called but unpaid; it excludes amounts not yet called.

Step 1: Find called-up capital per share The shares have face value Rs 10, but the second call of Rs 3 has not been made. Called-up capital is therefore $10 - 3 =$ Rs 7 per share. The unpaid first call is already called up.

Step 2: Apply only to the forfeited shares Only 100 shares are forfeited, so the debit is

$$100 \times 7 = \text{Rs } 700.$$

Options (A) and (B) refer to the whole issue or subscription. Option (D), Rs 300, is the uncalled amount on these shares and cannot be debited as called-up capital.

Step 3: Conclusion The correct option is (C): Rs 700.

Quick Tip to Solve: Use only forfeited shares and called-up value; subtract any call that the company has not yet made.

11. John and Harry were partners in a firm sharing profits and losses in the ratio of 2 : 1. On 1st April, 2023, they admitted Dinesh as a new partner for 1/4th share in the profits of the firm with a guarantee that his share in the profits shall be at least Rs. 1,00,000. The net profit of the firm for the year ended 31st March, 2024 was Rs. 2,80,000. John's share in the profits of the firm after giving the guaranteed amount of profit to Dinesh will be: [1 mark]

(A) Rs. 1,40,000

(B) Rs. 1,20,000

(C) Rs. 1,00,000

(D) Rs. 70,000

Correct Answer: (B) Rs. 1,20,000

Solution:

Concept:

- The guaranteed partner receives at least the agreed minimum profit. Where the old partners jointly guarantee it without another ratio, they bear the deficiency in their old profit-sharing ratio.
- The deficiency equals guaranteed profit less the normal profit share, if this difference is positive.

Step 1: Find the guaranteed deficiency Dineshś normal share is $2,80,000 \times \frac{1}{4} = \text{Rs } 70,000$. The guarantee requires Rs $1,00,000$, so the deficiency is $1,00,000 - 70,000 = \text{Rs } 30,000$.

Step 2: Adjust John's profit Johnś normal share is $2,80,000 \times \frac{3}{4} \times \frac{2}{3} = \text{Rs } 1,40,000$. He bears $30,000 \times \frac{2}{3} = \text{Rs } 20,000$, leaving Rs $1,20,000$. Option (A) ignores the guarantee; (C) is Dineshś minimum and (D) is his normal share.

Step 3: Conclusion The correct option is (B): John receives Rs $1,20,000$.

Quick Tip to Solve: Compute the deficiency first, then deduct the guarantor's share of it from that partner's normal profit.

12. Sun and Moon were partners in a firm sharing profits and losses equally. Their fixed capitals were Rs. 5,00,000 each. After the accounts for the year ended 31st March, 2024 were prepared, it was discovered that interest on capital @ 10% p.a. was not credited to the partners' current accounts as provided in the partnership deed.

The rectifying adjustment entry for the same will be: [1 mark]

(A) No Entry

(B)

Particulars		Debit Amount (Rs.)	Credit Amount (Rs.)
Sun's Current A/c	Dr.	50,000	
To Moon's Current A/c			50,000

(C)

Particulars		Debit Amount (Rs.)	Credit Amount (Rs.)
Moon's Current A/c	Dr.	50,000	
To Sun's Current A/c			50,000

(D)

Particulars		Debit Amount (Rs.)	Credit Amount (Rs.)
Sun's Current A/c	Dr.	50,000	
Moon's Current A/c	Dr.	50,000	
To Profit and Loss Appropriation A/c			1,00,000

Correct Answer: (A) No Entry

Solution:

Concept:

- A past adjustment records the net effect on each partner after allowing the omitted appropriation and reversing the excess profit already distributed.
- Equal capital and equal profit shares produce equal interest entitlements and equal reductions in distributed profit.

Step 1: Calculate interest and excess profit Each partner is entitled to interest of $5,00,000 \times 10\% =$ Rs $50,000$. Total omitted interest is Rs $1,00,000$, so the previously distributed profit was overstated by that amount.

Step 2: Find the net adjustment Since profits are shared equally, each partner must give up $1,00,000 \div 2 =$ Rs $50,000$ of earlier profit and receive Rs $50,000$ interest. Each net adjustment is zero. Options (B) and (C) incorrectly transfer value between equal partners; (D) does not record the net correction of completed accounts.

Step 3: Conclusion The correct option is (A): No Entry.

Quick Tip to Solve: Compare each partner's interest credit with that partner's share of the profit reduction before passing an adjustment.

13. On dissolution of a firm, there was an unrecorded asset of Rs. 15,000 which was taken over by a partner at Rs. 13,000. Partner's capital account will be debited by: [1 mark]

(A) Rs. 15,000

(B) Rs. 28,000

(C) Rs. 2,000

(D) Rs. 13,000

Correct Answer: (D) Rs. 13,000

Solution:

Concept:

- When a partner takes over an unrecorded asset on dissolution, the partnerś capital account is debited at the agreed takeover value and Realisation Account is credited.
- Taking an asset reduces the amount payable to the partner; therefore the partner receives a debit, not a credit.

Step 1: Identify the recorded amount The asset was unrecorded, so there is no book value to transfer out of the books. The agreed value for taking it over is Rs $13,000$, which measures the benefit received by the partner.

Step 2: Apply the debit rule The partnerś capital is reduced by Rs $13,000$. Option (A) uses the stated asset value rather than the agreed takeover amount; (B) adds unrelated values and (C) gives their difference. None measures the amount charged to the partner.

Step 3: Conclusion The correct option is (D): Rs $13,000$.

Quick Tip to Solve: For an unrecorded asset taken over by a partner, use its agreed takeover value as the capital debit.

14(a). Rani, Maharani and Laxmi were partners in a firm sharing profits and losses in the ratio of 3 : 3 : 2. On 1st April, 2024 they admitted Reena as a new partner for 1/5th share in the profits of the firm. Reena acquired her share from Rani and Maharani in the ratio of 3 : 2. The new profit sharing ratio between Rani, Maharani, Laxmi and Reena will be: [1 mark]

(A) 51 : 59 : 40 : 50

(B) 51 : 59 : 50 : 40

(C) 59 : 51 : 50 : 40

(D) 40 : 51 : 59 : 50

Correct Answer: (B) 51 : 59 : 50 : 40

Solution:

Concept:

- An old partnerś new share equals the old share less the share sacrificed. A partner who makes no sacrifice retains the old share.
- The sacrificing ratio allocates the incoming partner's share among the partners who surrender it.

Step 1: Calculate the individual sacrifices Reena receives $\frac{1}{5}$. Rani sacrifices $\frac{1}{5} \times \frac{3}{5} = \frac{3}{25}$, and Maharani sacrifices $\frac{1}{5} \times \frac{2}{5} = \frac{2}{25}$. Laxmi makes no sacrifice.

Step 2: Find the new shares in order Rani: $\frac{3}{8} - \frac{3}{25} = \frac{51}{200}$; Maharani: $\frac{3}{8} - \frac{2}{25} = \frac{59}{200}$; Laxmi: $\frac{2}{8} = \frac{50}{200}$; Reena: $\frac{1}{5} = \frac{40}{200}$. The numerators total 200. The other options either interchange Laxmi and Reena or assign the sacrifices to the wrong partners.

Step 3: Conclusion The correct option is (B): $51 : 59 : 50 : 40$.

Quick Tip to Solve: Convert all new shares to a common denominator and preserve the partner order specified in the question.

OR

14(b). Ravita, Savita, Kavita and Babita were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2 : 2. On 1st April, 2024 Savita retired and her share was acquired equally by the remaining partners. The new profit sharing ratio between Ravita, Kavita and Babita will be: [1 mark]

(A) 2 : 1 : 1

(B) 1 : 2 : 1

(C) 1 : 1 : 2

(D) 3 : 3 : 2

Correct Answer: (A) 2 : 1 : 1

Solution:

Concept:

- On retirement, each continuing partnerś new share equals the old share plus the share acquired from the retiring partner. Equal acquisition means an equal fraction is added, not an equal final share.
- The fractions of all continuing partners must add to one after the retiring partner's entire share is distributed.

Step 1: Distribute Savita's share The old ratio totals 12, so Savitaś share is $\frac{3}{12}$. Dividing it equally among the three remaining partners gives each a gain of $\frac{3}{12} \div 3 = \frac{1}{12}$.

Step 2: Calculate the new ratio Ravita receives $\frac{5}{12} + \frac{1}{12} = \frac{6}{12}$. Kavita and Babita each receive $\frac{2}{12} + \frac{1}{12} = \frac{3}{12}$. Hence $6 : 3 : 3 = 2 : 1 : 1$. Options (B) and (C) put the largest share with another partner, while (D) does not reflect equal gains.

Step 3: Conclusion The correct option is (A): $2 : 1 : 1$.

Quick Tip to Solve: Split the retiring partner's fraction equally, add it to each old fraction, and simplify only at the end.

15. There are two statements Assertion (A) and Reason (R):

Assertion (A): The partners' fixed capital accounts always show a credit balance, which shall remain the same (fixed) year after year unless there is any addition or withdrawal of capital.

Reason (R): When capitals are fixed, then various items like share of profit or loss, interest on capital, drawings, interest on drawings, etc. are recorded in partners' capital accounts.

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

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

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

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

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

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

Solution:

Concept:

- Under the fixed capital method, permanent capital changes are recorded in Capital Accounts. Routine adjustments are recorded separately in Current Accounts.
- A Current Account may show either a debit or a credit balance because it accumulates these routine adjustments.

Step 1: Judge the assertion Assertion (A) is correct in the fixed capital method: capital balances remain fixed from year to year unless additional capital is introduced or capital is permanently withdrawn. These capital accounts show credit balances.

Step 2: Judge the reason Reason (R) is incorrect. Profit or loss, interest on capital, drawings and interest on drawings are recorded in the partners' Current Accounts under this method, not in their fixed Capital Accounts.

Step 3: Test the explanation An incorrect reason cannot explain the assertion. Recording these routine items separately in Current Accounts is precisely what keeps the fixed Capital Accounts unchanged. Thus options (A) and (B) wrongly accept the reason, while (D) reverses the truth values.

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

Quick Tip to Solve: For fixed capitals, separate permanent capital changes from routine adjustments posted to Current Accounts.

16. Sona and Mona were partners in a firm sharing profits and losses in the ratio of 4 : 3. On 1st April, 2024, they admitted Leena as a new partner. The new profit sharing ratio on Leena's admission was 2 : 3 : 1. Sona's sacrifice on Leena's admission was: [1 mark]

(A) Nil

(B) 5/21

(C) 4/7

(D) 3/7

Correct Answer: (B) 5/21

Solution:

Concept:

- Sacrificing share equals old profit share minus new profit share. Use the total of the ratio terms as the denominator in each case.
- A positive difference is a sacrifice; a negative difference is a gain. Calculate the change for the partner named in the question.

Step 1: Find Sona's old and new shares Sona's old share is $4/(4+3) = 4/7$. Her new share is $2/(2+3+1) = 2/6 = 1/3$. The two ratios have different totals, so their first terms cannot be subtracted directly.

Step 2: Calculate the sacrifice and check the choices

$$\text{Sona's sacrifice} = \frac{4}{7} - \frac{1}{3} = \frac{12-7}{21} = \frac{5}{21}.$$

Nil would mean her share is unchanged. The fractions $4/7$ and $3/7$ are old profit shares, not her reduction in share. Thus only the second option gives the required difference.

Step 3: Conclusion Sona sacrifices $5/21$ of the profits. Hence, the correct option is (B).

Quick Tip to Solve: Convert each ratio to a fraction first: Sona's new share is 2/6, not 2/7.

17. Daya and Deena were partners in a firm sharing profits and losses in the ratio of 3 : 1. On 1st April, 2023, their capital accounts showed balances of Rs. 5,00,000 and Rs. 6,00,000 respectively. The partnership deed provided for interest on capital @ 12% p.a. Show the treatment of interest on capital in the following cases if:

(i) During the year ended 31st March, 2024, the firm earned a profit of Rs. 2,00,000.

(ii) During the year ended 31st March, 2024, the firm earned a profit of Rs. 66,000. [3 marks]

Solution:

Concept:

- Interest on capital is an appropriation of profit unless the deed makes it a charge. If profit is sufficient, allow the full contractual interest before sharing the balance.
- If available profit is less than total interest entitlement, distribute that profit in the ratio of the partners' interest entitlements, not the profit-sharing ratio.

Step 1: Calculate the annual interest entitlements Both opening capitals are given on 1st April, 2023 and no change during the year is specified. Interest is therefore calculated for the full year:

$$\text{Daya} = \text{Rs } 5,00,000 \times 12\% = \text{Rs } 60,000,$$
$$\text{Deena} = \text{Rs } 6,00,000 \times 12\% = \text{Rs } 72,000.$$

Total interest entitlement is Rs 1,32,000 and the entitlement ratio is $60,000 : 72,000 = 5 : 6$.

Step 2: Case (i): profit of Rs 2,00,000 Profit exceeds total interest entitlement. Allow Daya interest of Rs 60,000 and Deena interest of Rs 72,000. The balance is $2,00,000 - 1,32,000 = \text{Rs } 68,000$. Distribute it in the agreed ratio $3 : 1$: Daya receives $68,000 \times 3/4 = \text{Rs } 51,000$, and Deena receives $68,000 \times 1/4 = \text{Rs } 17,000$. Total credits, including interest and profit share, are Rs 1,11,000 and Rs 89,000 respectively; together these exhaust Rs 2,00,000.

Step 3: Case (ii): profit of Rs 66,000 The profit is insufficient for the full interest of Rs 1,32,000. Restrict interest to the available Rs 66,000 and divide it in the entitlement ratio $5 : 6$. Daya is allowed $66,000 \times 5/11 = \text{Rs } 30,000$, and Deena is allowed $66,000 \times 6/11 = \text{Rs } 36,000$. The entire profit is appropriated as interest, so there is no residual profit to divide in the ratio $3 : 1$. The unpaid portion is not treated as a loss or a further entitlement for this year.

Step 4: Conclusion (i) Interest: Daya Rs 60,000; Deena Rs 72,000. Residual profit shares: Rs 51,000 and Rs 17,000. (ii) Interest is restricted to Rs 30,000 and Rs 36,000 respectively; no profit remains.

Quick Tip to Solve: Compare profit with Rs 1,32,000 first; use 5:6 for restricted interest and 3:1 only for residual profit.

18(a). KM Ltd. acquired assets worth Rs. 7,20,000 and took over liabilities of Rs. 2,00,000 of LS Ltd. for a purchase consideration of Rs. 9,60,000. KM Ltd. issued 12% debentures of Rs. 100 each at a discount of 4% in favour of LS Ltd. for payment of purchase consideration.

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

Solution:

Concept:

- Purchase consideration is the amount payable to the vendor. Goodwill is purchase consideration less net identifiable assets acquired.
- Debentures issued at a discount discharge the vendor at their issue price. The difference between face value and issue proceeds is debited to Discount on Issue of Debentures Account.

Step 1: Calculate goodwill and the number of debentures Net assets acquired are $7,20,000 - 2,00,000 = \text{Rs } 5,20,000$. Since the purchase consideration is Rs 9,60,000, goodwill is $9,60,000 - 5,20,000 = \text{Rs } 4,40,000$. Issue price per debenture is $100 - 4 = \text{Rs } 96$; therefore the number issued is $9,60,000/96 = 10,000$. Their face value is Rs 10,00,000 and total discount is $10,000 \times 4 = \text{Rs } 40,000$. The rate 12% is the interest rate, not the issue discount.

Step 2: Record acquisition and payment Journal of KM Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To LS Ltd. (Being business purchased and goodwill recognised)		7,20,000 4,40,000	 2,00,000 9,60,000
	LS Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 12% Debentures A/c (Being 10,000 debentures issued at 4% discount to settle the vendor)		9,60,000 40,000	 10,00,000

The acquisition entry totals Rs 11,60,000 on each side. The settlement entry totals Rs 10,00,000 on each side and closes the vendor balance in full.

Step 3: Conclusion Goodwill is Rs 4,40,000. Issue 10,000 debentures of Rs 100 each at Rs 96, recording Rs 40,000 as discount on issue.

Quick Tip to Solve: Divide purchase consideration by Rs 96, the issue price, to find the number of debentures.

OR

18(b). Varsha Ltd. invited applications for issuing 2,000, 12% debentures of Rs. 100 each at a premium of Rs. 30 per debenture. Full amount was payable on application. Applications were received for 5,000 debentures. Applications for 3,000 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants.

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

Solution:

Concept:

- When the entire amount is payable on application, application receipts include both the face value and the securities premium.
- Rejected applications are refunded in full. Transfer the accepted application money to Debentures Account at face value and Securities Premium Reserve for the premium.

Step 1: Calculate receipts, refund and accepted amount Application money per debenture is $100+30 =$ Rs 130. Money received for 5,000 applications is $5,000 \times 130 =$ Rs $6,50,000$. Refund for 3,000 rejected applications is $3,000 \times 130 =$ Rs $3,90,000$. Accepted money is $2,000 \times 130 =$ Rs $2,60,000$, comprising face value Rs 2,00,000 and premium Rs 60,000. The 12% rate relates to future debenture interest; it does not affect these receipts.

Step 2: Record the application transactions Journal of Varsha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application A/c (Being full application money received for 5,000 debentures)		6,50,000	 6,50,000
	Debenture Application A/c Dr. To Bank A/c (Being application money on 3,000 rejected applications refunded)		3,90,000	 3,90,000
	Debenture Application A/c Dr. To 12% Debentures A/c To Securities Premium Reserve A/c (Being 2,000 debentures allotted at a premium of Rs 30 each)		2,60,000	 2,00,000 60,000

The application account is cleared because its credit of Rs 6,50,000 equals the refund of Rs 3,90,000 plus the transfer of Rs 2,60,000. Each entry has equal debit and credit totals.

Step 3: Conclusion Application receipts are Rs 6,50,000 and refunds Rs 3,90,000. Allotment creates debentures of Rs 2,00,000 and securities premium of Rs 60,000.

Quick Tip to Solve: Refund Rs 130 per rejected application, including the premium, before transferring accepted money.

19(a). Abha and Sara were partners in a firm. Their capitals were: Abha Rs. 3,00,000 and Sara Rs. 2,00,000. The normal rate of return in similar business is 10%. The profits of the firm of Abha and Sara for the last three years were:

2021-22 - Rs. 60,000

2022-23 - Rs. 90,000

and 2023-24 - Rs. 1,20,000

Calculate goodwill of the firm on the following basis:

(i) Four years purchase of the average profits for the last three years.

(ii) Capitalisation of super-profits. [3 marks]

Solution:

Concept:

- Average profit equals total profit of the specified years divided by the number of years. Under the years' purchase method, multiply average profit by the specified purchase period.
- Normal profit equals capital employed multiplied by the normal rate of return. Super profit is average profit less normal profit; its capitalised value is goodwill.

Step 1: Compute average profit The question gives profits for three years, with no abnormal items or

adjustments. Give each year equal weight:

$$\text{Average profit} = \frac{60,000 + 90,000 + 1,20,000}{3} = \frac{2,70,000}{3} = \text{Rs } 90,000.$$

The four years mentioned in part (i) refer to years' purchase, not the number of historical years to average.

Step 2: Part (i): four years' purchase of average profits Under this method, goodwill is the average annual maintainable profit multiplied by the number of years' purchase:

$$\text{Goodwill} = \text{Rs } 90,000 \times 4 = \text{Rs } 3,60,000.$$

No normal return is deducted for this particular method, because it expressly uses average profits rather than super profits.

Step 3: Part (ii): capitalisation of super profits Capital employed is the sum of the partners' capitals: $3,00,000 + 2,00,000 = \text{Rs } 5,00,000$. Hence normal profit is $5,00,000 \times 10\% = \text{Rs } 50,000$. Super profit is $90,000 - 50,000 = \text{Rs } 40,000$. Capitalise this excess earning at the normal rate:

$$\text{Goodwill} = \frac{40,000 \times 100}{10} = \text{Rs } 4,00,000.$$

Check: capitalised average profit is Rs 9,00,000; deducting capital employed of Rs 5,00,000 again gives Rs 4,00,000.

Step 4: Conclusion Goodwill is (i) Rs 3,60,000 by four years' purchase of average profits, and (ii) Rs 4,00,000 by capitalisation of super profits.

Quick Tip to Solve: For capitalisation, deduct the normal profit of Rs 50,000 before dividing super profit by 10%.

OR

19(b). Vijay, Ravi and Raman were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 1st April, 2024, they admitted Kamal as a new partner for 1/10th share in the profits. It was decided that new profit sharing ratio will be 4 : 2 : 3 : 1. On Kamal's admission, the goodwill of the firm was valued at Rs. 6,00,000. Kamal brought his share of goodwill premium in cash.

(i) Calculate the sacrificing ratio.

(ii) Pass necessary journal entries for the treatment of goodwill on Kamal's admission.

Show your working notes clearly. [3 marks]

Solution:

Concept:

- Sacrifice equals old share less new share. A negative sacrifice represents a gain, for which the gaining partner must compensate the sacrificing partners.
- Goodwill compensation equals the firm's goodwill multiplied by the share sacrificed or gained;

premium brought by the incoming partner is credited to the sacrificing partners.

Step 1: Calculate the sacrifices and Raman's gain The old shares of Vijay, Ravi and Raman are $5/10, 3/10, 2/10$; their new shares are $4/10, 2/10, 3/10$. Thus,

$$\text{Vijay's sacrifice} = 5/10 - 4/10 = 1/10,$$
$$\text{Ravi's sacrifice} = 3/10 - 2/10 = 1/10,$$
$$\text{Raman's sacrifice} = 2/10 - 3/10 = -1/10.$$

Hence Vijay and Ravi sacrifice equally, in the ratio $1 : 1$, while Raman gains $1/10$. The total sacrifice of $2/10$ finances both Kamal's admission and Raman's increased share.

Step 2: Calculate goodwill compensation and record the entries Kamal brings Rs $6,00,000 \times 1/10 =$ Rs $60,000$. Raman must also compensate Rs $60,000$ for his gain. Vijay and Ravi each receive Rs $6,00,000 \times 1/10 =$ Rs $60,000$. The cash premium is first distributed equally, and Raman's adjustment supplies the balance.

Journal of the Firm (1st April, 2024)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Cash A/c Dr.		60,000	
	To Premium for Goodwill A/c			60,000
	(Being goodwill premium brought by Kamal)			
	Premium for Goodwill A/c Dr.		60,000	
	To Vijay's Capital A/c			30,000
	To Ravi's Capital A/c			30,000
	(Being premium distributed in sacrificing ratio)			
	Raman's Capital A/c Dr.		60,000	
	To Vijay's Capital A/c			30,000
	To Ravi's Capital A/c			30,000
	(Being Raman's gain adjusted for goodwill)			

Step 3: Conclusion The sacrificing ratio of Vijay and Ravi is $1 : 1$; Raman gains $1/10$. Kamal brings Rs 60,000 and Raman's capital is debited by Rs 60,000, so Vijay and Ravi are credited Rs 60,000 each in total.

Quick Tip to Solve: Check every old partner's share: an existing partner who gains must compensate for goodwill even when the new partner brings premium.

20. Aman, Govind and Guru were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Sudarshan was admitted for 1/4th share in the profits of the firm. The new profit sharing ratio between Aman, Govind, Guru and Sudarshan was agreed at 9 : 5 : 4 : 6. The total capital of the new firm was agreed upon as Rs. 3,60,000. Sudarshan will bring 1/4th of this as his capital. The capitals of the other partners were also to be adjusted according to the new profit sharing ratio. The capitals of Aman, Govind and Guru after all adjustments stood at Rs. 60,000, Rs. 80,000 and Rs. 45,000 respectively.

Calculate the new capitals of Aman, Govind and Guru. Also pass necessary journal entries for the above transactions in the books of the firm. [3 marks]

Solution:

Concept:

- Each partner's required capital equals the agreed total capital multiplied by that partner's new profit share.
- Compare required capital with adjusted existing capital: a shortage is brought in cash and an excess is refunded through cash.

Step 1: Determine the capitals in the new ratio The sum of the new ratio is $9+5+4+6=24$. Using the agreed total capital of Rs 3,60,000 gives:

$$\begin{aligned}\text{Aman} &= 3,60,000 \times 9/24 = \text{Rs } 1,35,000,\\ \text{Govind} &= 3,60,000 \times 5/24 = \text{Rs } 75,000,\\ \text{Guru} &= 3,60,000 \times 4/24 = \text{Rs } 60,000,\\ \text{Sudarshan} &= 3,60,000 \times 6/24 = \text{Rs } 90,000.\end{aligned}$$

Sudarshan's capital is also one-fourth of the total, as required. Aman brings $1,35,000 - 60,000 =$ Rs $75,000$; Guru brings $60,000 - 45,000 =$ Rs $15,000$. Govind withdraws $80,000 - 75,000 =$ Rs $5,000$.

Step 2: Record the capital receipts and refund Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr.		90,000	
	To Sudarshan's Capital A/c			90,000
	(Being capital brought by Sudarshan)			
	Cash A/c Dr.		90,000	
	To Aman's Capital A/c			75,000
	To Guru's Capital A/c			15,000
	(Being shortages of capital brought in cash)			
	Govind's Capital A/c Dr.		5,000	
	To Cash A/c			5,000
	(Being excess capital refunded to Govind)			

After the receipts and refund, the capitals total $1,35,000 + 75,000 + 60,000 + 90,000 =$ Rs $3,60,000$. Thus both the total and individual proportions agree with the admission terms.

Step 3: Conclusion The new capitals are Aman Rs 1,35,000, Govind Rs 75,000 and Guru Rs 60,000. Sudarshan brings Rs 90,000; Aman and Guru bring Rs 75,000 and Rs 15,000 respectively, while Govind receives Rs 5,000.

Quick Tip to Solve: Multiply the total capital by each share first, then subtract existing capital to distinguish cash contributions from refunds.

21. Gupta, Jain and Singh were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. On 31st March, 2020, Gupta retired. On the date of retirement Rs. 4,80,000 became due to him. Jain and Singh agreed to pay Gupta in four equal yearly instalments plus interest @ 10% p.a. on the unpaid balance starting from 31st March, 2021. The firm closes its books on 31st March every year. Prepare Gupta's Loan Account till it is fully paid. [4 marks]

Solution:

Concept:

- The amount due to a retiring partner becomes a loan when payment is deferred. It is credited to the retiring partner's loan account by transfer from the capital account.
- Equal yearly instalments of principal are calculated by dividing the loan by the number of instalments. Interest is charged on the outstanding principal, separately from principal repayment.

Step 1: Calculate principal repayments and yearly interest Gupta's loan on 31st March, 2020 is Rs 4,80,000. Each of the four equal principal instalments is $4,80,000/4 =$ Rs $1,20,000$. Since interest is payable in addition, the total cash payments decrease as the unpaid principal decreases.

Year ended	Opening loan	Interest (10%)	Principal	Cash paid
31-3-2021	4,80,000	48,000	1,20,000	1,68,000
31-3-2022	3,60,000	36,000	1,20,000	1,56,000
31-3-2023	2,40,000	24,000	1,20,000	1,44,000
31-3-2024	1,20,000	12,000	1,20,000	1,32,000

All amounts above are in Rs. The profit-sharing ratio does not affect this schedule because the sum payable to Gupta is already determined.

Step 2: Prepare the loan account until final settlement Interest increases the liability on the credit side, while cash paid reduces it on the debit side. Each closing balance therefore represents only unpaid principal.

Gupta's Loan Account

Dr. Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
			31-3-20	By Gupta's Capital A/c	4,80,000
31-3-21	To Cash A/c	1,68,000	31-3-21	By Interest A/c	48,000
31-3-21	To Balance c/d	3,60,000			
	Total	5,28,000		Total	5,28,000
			1-4-21	By Balance b/d	3,60,000
31-3-22	To Cash A/c	1,56,000	31-3-22	By Interest A/c	36,000
31-3-22	To Balance c/d	2,40,000			
	Total	3,96,000		Total	3,96,000
			1-4-22	By Balance b/d	2,40,000
31-3-23	To Cash A/c	1,44,000	31-3-23	By Interest A/c	24,000
31-3-23	To Balance c/d	1,20,000			
	Total	2,64,000		Total	2,64,000
			1-4-23	By Balance b/d	1,20,000
31-3-24	To Cash A/c	1,32,000	31-3-24	By Interest A/c	12,000
	Total	1,32,000		Total	1,32,000

The final account has no balance to carry down: the last principal instalment and its interest have both been paid.

Step 3: Conclusion Gupta is paid Rs 1,68,000, Rs 1,56,000, Rs 1,44,000 and Rs 1,32,000 on 31st March, 2021 to 2024 respectively. His loan is fully discharged on 31st March, 2024; total interest is Rs 1,20,000.

Quick Tip to Solve: Reduce only the principal by Rs 1,20,000 each year; compute interest on that year's opening unpaid principal before adding it to the payment.

22. On 1st April, 2023, YK Ltd. issued 20,000, 9% debentures of Rs. 100 each at a premium of 5%, redeemable after five years at par. The company closes its books on 31st March every year. Interest on debentures is payable half yearly on 30th September and 31st March every year.

Pass necessary journal entries in the books of the company for issue of debentures and payment of interest for the year ending 31st March, 2024. [4 marks]

Solution:

Concept:

- Debentures issued at a premium are credited to the Debentures Account at face value; the excess received is credited to Securities Premium. Redemption at par creates no premium on redemption.
- Interest is calculated on face value, irrespective of issue price. Each half-year carries interest of $9\% \times 6/12$; interest is an expense transferred to the Statement of Profit and Loss.

Step 1: Calculate issue proceeds and interest Face value issued is $20,000 \times$ Rs $100 =$ Rs $20,00,000$. Premium is $20,00,000 \times 5\% =$ Rs $1,00,000$, so bank receives Rs 21,00,000. Interest for each six-month period is $20,00,000 \times 9/100 \times 6/12 =$ Rs $90,000$. Both periods fall wholly in the year ending 31st March, 2024. No discount or loss on issue arises because issue is at premium and redemption is at par.

Step 2: Record issue of debentures Journal of YK Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2023	Bank A/c Dr.		21,00,000	
	To 9% Debentures A/c			20,00,000
	To Securities Premium A/c			1,00,000
	(Being 20,000 debentures issued at 5% premium, redeemable at par)			

Step 3: Record interest on 30-9-2023 Journal of YK Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-9-2023	Debenture Interest A/c Dr.		90,000	
	To Debentureholders A/c			90,000
	(Being half-yearly interest on 9% debentures becoming due)			
30-9-2023	Debentureholders A/c Dr.		90,000	
	To Bank A/c			90,000
	(Being half-yearly interest paid)			

Step 4: Record interest on 31-3-2024 Journal of YK Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2024	Debenture Interest A/c Dr. To Debentureholders A/c (Being half-yearly interest on 9% debentures becoming due)		90,000	 90,000
31-3-2024	Debentureholders A/c Dr. To Bank A/c (Being half-yearly interest paid)		90,000	 90,000

Step 5: Transfer annual interest expense Journal of YK Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2024	Statement of Profit and Loss Dr. To Debenture Interest A/c (Being annual debenture interest transferred to profit and loss)		1,80,000	 1,80,000

Step 6: Conclusion The company receives Rs 21,00,000, including securities premium of Rs 1,00,000. Each half-yearly interest payment is Rs 90,000 and the annual interest expense is Rs 1,80,000.

Quick Tip to Solve: Calculate coupon interest on Rs 20,00,000 face value, never on the Rs 21,00,000 issue proceeds.

23(a). Kishore and Ranjan were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 1st April, 2024, their Balance Sheet was as follows:

Balance Sheet of Kishore and Ranjan as at 1st April, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Sundry Creditors	1,80,000	Cash in hand	30,000
General Reserve	20,000	Debtors	1,20,000
Capitals:		Stock	1,50,000
Kishore 6,00,000		Furniture	1,00,000
Ranjan 4,00,000	10,00,000	Land and Building	8,00,000
	12,00,000		12,00,000

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

(i) Singh will bring Rs. 1,50,000 as his capital and Rs. 50,000 as his share of goodwill premium.

(ii) The value of stock will be reduced by 10% and Land and Building will be appreciated by 10%.

(iii) Furniture will be revalued at Rs. 90,000.

(iv) A provision for doubtful debts will be created on sundry debtors at 5%.

(v) Investments worth Rs. 10,000 not mentioned in the Balance Sheet will be taken into account.

(vi) A creditor of Rs. 1,000 is not likely to claim his money and is to be written off.

Pass necessary journal entries for the above transactions in the books of the firm on Singh's admission.

[6 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit earned before admission belong to the old partners in their old profit-sharing ratio, Kishore:Ranjan $= 3 : 2$.
- Premium for goodwill compensates sacrificing partners. Since no different sacrifice is specified, Kishore and Ranjan sacrifice in their old ratio $3 : 2$; distribute Rs 50,000 accordingly.
- Revaluation Account is debited for decreases in assets and new liabilities and credited for increases in assets, unrecorded assets and reductions in liabilities.

Step 1: Work out the valuation adjustments Stock decreases by $1,50,000 \times 10\% =$ Rs $15,000$. Land and Building increases by $8,00,000 \times 10\% =$ Rs $80,000$. Furniture decreases by $1,00,000 - 90,000 =$ Rs $10,000$. The new provision is $1,20,000 \times 5\% =$ Rs $6,000$. Unrecorded investments add Rs 10,000 to assets; writing off an unclaimed creditor reduces liabilities by Rs 1,000. Thus revaluation credits total Rs 91,000 and debits Rs 31,000, yielding Rs 60,000 profit.

Step 2: Distribute reserve and record admission receipts Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	General Reserve A/c Dr.		20,000	
	To Kishore's Capital A/c			12,000
	To Ranjan's Capital A/c			8,000
	(Being general reserve distributed in the old ratio 3:2)			
1-4-2024	Cash A/c Dr.		2,00,000	
	To Singh's Capital A/c			1,50,000
	To Premium for Goodwill A/c			50,000
	(Being capital and goodwill premium brought in by Singh)			
1-4-2024	Premium for Goodwill A/c Dr.		50,000	
	To Kishore's Capital A/c			30,000
	To Ranjan's Capital A/c			20,000
	(Being goodwill premium distributed in the sacrificing ratio 3:2)			

Step 3: Record revaluation of assets and liabilities Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Revaluation A/c Dr.		31,000	
	To Stock A/c			15,000
	To Furniture A/c			10,000
	To Provision for Doubtful Debts A/c			6,000
	(Being stock and furniture reduced and provision for doubtful debts created)			
1-4-2024	Land and Building A/c Dr.		80,000	
	To Revaluation A/c			80,000
	(Being land and building appreciated by 10%)			
1-4-2024	Investments A/c Dr.		10,000	
	To Revaluation A/c			10,000
	(Being unrecorded investments brought into the books)			
1-4-2024	Sundry Creditors A/c Dr.		1,000	
	To Revaluation A/c			1,000
	(Being unclaimed creditor written back)			

Step 4: Transfer revaluation profit and check capital balances Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Revaluation A/c Dr.		60,000	
	To Kishore's Capital A/c			36,000
	To Ranjan's Capital A/c			24,000
	(Being revaluation profit transferred in the old ratio 3:2)			

Kishore receives $60,000 \times 3/5 = \text{Rs } 36,000$, while Ranjan receives $60,000 \times 2/5 = \text{Rs } 24,000$. Their capital balances become $6,00,000 + 12,000 + 30,000 + 36,000 = \text{Rs } 6,78,000$ and $4,00,000 + 8,000 + 20,000 + 24,000 = \text{Rs } 4,52,000$. Singh has no share in the old reserve or pre-admission revaluation profit. Goodwill premium is not withdrawn because withdrawal is not specified.

Step 5: Conclusion Revaluation profit is Rs 60,000, credited Rs 36,000 to Kishore and Rs 24,000 to Ranjan. Goodwill premium is credited Rs 30,000 and Rs 20,000 respectively. After reserve distribution and these adjustments, capitals are Kishore Rs 6,78,000, Ranjan Rs 4,52,000 and Singh Rs 1,50,000.

Quick Tip to Solve: Route valuation changes through Revaluation, but distribute the existing general reserve directly to the old capitals.

OR

23(b). Arti, Bharti and Gayatri were partners in a firm sharing profits and losses in ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2024 was a follows:

Balance Sheet of Arti, Bharti and Gayatri as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	1,50,000	Cash at Bank	1,30,000
General Reserve	1,30,000	Debtors	70,000
Employees' Provident Fund	25,000	Stock	1,05,000
Workmen Compensation Fund	75,000	Machinery	1,40,000
Capitals:		Building	2,00,000
Arti 2,00,000		Patents	5,000
Bharti 1,00,000		Profit and Loss A/c	80,000
Gayatri 50,000	3,50,000		
	7,30,000		7,30,000

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

(i) Goodwill of the firm was valued at Rs. 3,00,000.

(ii) A provision of 5% for doubtful debts was to be created on debtors.

(iii) Machinery was to be depreciated by 10% and building was to be appreciated by Rs. 22,500.

(iv) Patents were considered as valueless and hence had to be written off.

(v) A claim of Rs. 15,000 was admitted for workmen compensation.

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

Solution:

Concept:

- Revaluation records changes in asset and liability values; its profit or loss belongs to all old partners in their old ratio, here $5 : 3 : 2$.
- Accumulated reserves and losses also belong to the old partners. Only the excess of Workmen Compensation Fund over the admitted claim is distributed.
- In the absence of a new ratio, the continuing partners retain their relative ratio $3 : 2$. Their gaining ratio is therefore $3 : 2$; they compensate Arti for her share of goodwill through their capital accounts.

Step 1: Compute revaluation adjustments Provision for doubtful debts is $70,000 \times 5\% =$ Rs $3,500$; depreciation on machinery is $1,40,000 \times 10\% =$ Rs $14,000$. Patents of Rs 5,000 are written off. Building appreciates by Rs 22,500. Thus total decreases are Rs 22,500, exactly equal to the appreciation: revaluation profit or loss is nil. The workmen's claim is met against the existing fund, so it does not create an additional revaluation loss.

Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Provision for doubtful debts	3,500	By Building	22,500
To Machinery	14,000		
To Patents	5,000		
Total	22,500	Total	22,500

Step 2: Distribute reserves, loss and goodwill General Reserve of Rs 1,30,000 is credited to Arti, Bharti and Gayatri by Rs 65,000, Rs 39,000 and Rs 26,000. The debit balance of Profit and Loss Account, Rs 80,000, is debited by Rs 40,000, Rs 24,000 and Rs 16,000 respectively. From Workmen Compensation Fund, retain Rs 15,000 for the claim and distribute only $75,000 - 15,000 =$ Rs $60,000$, giving credits of Rs 30,000, Rs 18,000 and Rs 12,000.

Arti's goodwill share is $3,00,000 \times 5/10 =$ Rs $1,50,000$. Bharti and Gayatri bear it in their gaining ratio $3:2$, giving debits of Rs 90,000 and Rs 60,000. Goodwill is adjusted directly; no goodwill asset is raised.

Step 3: Prepare the capital accounts Partners' Capital Accounts

Dr. Particulars	Arti Rs	Bharti Rs	Gayatri Rs	Particulars Cr.	Arti Rs	Bharti Rs	Gayatri Rs
To Profit and Loss A/c	40,000	24,000	16,000	By Balance b/d	2,00,000	1,00,000	50,000
To Arti's Capital A/c	–	90,000	60,000	By General Reserve	65,000	39,000	26,000
To Balance c/d	4,05,000	43,000	12,000	By Workmen Compensation Fund	30,000	18,000	12,000
				By Bharti's Capital A/c	90,000	–	–
				By Gayatri's Capital A/c	60,000	–	–
Total	4,45,000	1,57,000	88,000	Total	4,45,000	1,57,000	88,000

Arti's closing credit is the amount due to her on retirement. No cash settlement is specified, so the account displays this outstanding amount as its closing balance. Employees' Provident Fund remains a liability and is not distributed among partners.

Step 4: Conclusion Revaluation has nil profit or loss. The closing capital balances are Arti Rs 4,05,000 (amount payable on retirement), Bharti Rs 43,000 and Gayatri Rs 12,000.

Quick Tip to Solve: For a compensation reserve, first retain the admitted claim; distribute only the surplus in the old ratio.

24(a). Radhika Ltd. invited applications for issuing 40,000 equity shares of Rs. 100 each at a premium of Rs. 50 per share. The amount was payable as follows:

On Application and Allotment - Rs. 40 per share (including Rs. 10 premium)

On First call - Rs. 45 per share (including Rs. 5 premium)

On Second and final call - Balance

Applications for 39,000 shares were received. Allotment was made in full to all the applicants. Dinu, to whom 100 shares were allotted, failed to pay the first call money. His shares were immediately forfeited. The forfeited shares were re-issued thereafter at Rs. 70 per share fully paid up. The second and final call was not yet made.

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

Solution:

Concept:

- Share capital records only the nominal amount called. Securities Premium records premium when due; unpaid premium is reversed when shares are forfeited.
- On forfeiture, Share Forfeiture receives only capital already collected. On reissue, discount from face value is debited to this account, up to the forfeited amount relating to the reissued shares.

Step 1: Separate capital from premium Application and allotment of Rs 40 includes Rs 10 premium, so capital is Rs 30 per share. First call of Rs 45 includes Rs 5 premium, so further capital is Rs 40. Thus, at forfeiture, capital called is Rs 70 per share, and Dinu has paid capital of Rs 30 per share. The uncalled second and final instalment would be Rs 65 (capital Rs 30 and premium Rs 35); since it has not been made, it creates no entry.

For 39,000 shares, application and allotment receipts are Rs 15,60,000. First-call money due is Rs 17,55,000; default is $100 \times 45 = \text{Rs } 4,500$, leaving receipts of Rs 17,50,500.

Step 2: Record the transactions Journal of Radhika Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		15,60,000	
	To Share Application and Allotment A/c			15,60,000
	(Being money received on 39,000 shares at Rs 40)			
	Share Application and Allotment A/c Dr.		15,60,000	
	To Share Capital A/c			11,70,000
	To Securities Premium A/c			3,90,000
	(Being allotment of 39,000 shares; capital Rs 30 each)			
	Share First Call A/c Dr.		17,55,000	
	To Share Capital A/c			15,60,000
	To Securities Premium A/c			1,95,000
	(Being first call due at Rs 45, including premium Rs 5)			
	Bank A/c Dr.		17,50,500	
	To Share First Call A/c			17,50,500
	(Being first call received except on Dinu's 100 shares)			
	Share Capital A/c Dr.		7,000	
	Securities Premium A/c Dr.		500	
	To Share First Call A/c			4,500
	To Share Forfeiture A/c			3,000
	(Being 100 shares forfeited for first-call default)			
	Bank A/c Dr.		7,000	
	Share Forfeiture A/c Dr.		3,000	
	To Share Capital A/c			10,000
	(Being 100 shares reissued at Rs 70 fully paid)			

Step 3: Check forfeiture and reissue Forfeiture debits called-up capital $100 \times 70 = \text{Rs } 7,000$, reverses unpaid first-call premium of Rs 500, and credits unpaid call of Rs 4,500 and capital received of Rs 3,000. Premium already received on application is retained.

Reissue creates fully paid capital of $100 \times 100 = \text{Rs } 10,000$. Against bank receipts of Rs 7,000, the Rs 3,000 discount uses the entire forfeited capital. Therefore no balance remains for transfer to Capital Reserve. The second and final call was not made on the other shares, so no entry for that call is passed.

Step 4: Conclusion The forfeiture credit and reissue discount are both Rs 3,000; consequently, no amount is transferred to Capital Reserve. The journal above records all transactions up to reissue.

Quick Tip to Solve: At forfeiture debit only called-up capital, but on a fully paid reissue credit the full face value of the reissued shares.

OR

24(b). Sona Ltd. invited applications for issuing 60,000 equity shares of Rs. 50 each. The amount was payable as follows:

On Application - Rs. 20 per share

On Allotment - Rs. 25 per share

On First and final call - Balance

Applications for 90,000 shares were received. Applications for 10,000 shares were rejected and application money refunded. Shares were allotted on pro-rata basis to the remaining applicants. Excess money received with applications was adjusted towards sums due on allotment. Rahul, to whom 600 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately. Afterwards, the first and final call was made. Mona, to whom 1,000 shares were allotted, failed to pay the first and final call. Her shares were also forfeited.

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

Solution:

Concept:

- Application money received is first transferred to share capital for allotted shares; rejected applications are refunded and excess application money is adjusted against allotment.
- On forfeiture, Share Capital is debited with the called-up amount. Unpaid calls are credited to the respective call account, and the capital amount already received is credited to Share Forfeiture.

Step 1: Calculate pro-rata adjustment and Rahul's default Accepted applications are for $90,000 - 10,000 = 80,000$ shares against $60,000$ shares allotted. Thus applications : allotment $= 4 : 3$. Total application receipts are Rs $18,00,000$, refund Rs $2,00,000$, share capital Rs $12,00,000$, and excess Rs $4,00,000$. Rahul applied for $600 \times 4/3 = 800$ shares, paid Rs $16,000$, and had excess application money of Rs $4,000$. His allotment due was Rs $15,000$, so his unpaid allotment is Rs $11,000$. His shares were called up to Rs 45 each; forfeiture credit is Rs $16,000$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received)		18,00,000	 18,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Being application money adjusted and rejected applications refunded)		18,00,000	 12,00,000 4,00,000 2,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 60,000 shares)		15,00,000	 15,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after excess adjustment and Rahul's default)		10,89,000	 10,89,000

Step 3: Record Rahul's forfeiture and the final call The final call is Rs $50 - 20 - 25 = 5$ per share. After Rahul's forfeiture, $59,400$ shares remain, so the call due is Rs $2,97,000$. Mona defaults on Rs $1,000 \times 5 = 5,000$, giving bank receipts of Rs $2,92,000$.

Journal of Sona Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being 600 shares forfeited for unpaid allotment)		27,000	 11,000 16,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being final call due on 59,400 shares)		2,97,000	 2,97,000
	Bank A/c Dr. To Share First and Final Call A/c (Being final call received except from Mona)		2,92,000	 2,92,000
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being Mona's 1,000 fully called shares forfeited)		50,000	 5,000 45,000

Step 4: Conclusion Rahul's and Mona's forfeitures credit Share Forfeiture with Rs $16,000$ and Rs $45,000$, respectively: total Rs $61,000$.

Quick Tip to Solve: For a pro-rata defaulter, deduct excess application money from allotment due before calculating unpaid allotment.

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

Balance Sheet of Dev, Santosh and Arti as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals:		Plant and Machinery	8,00,000
Dev 2,00,000		Land and Building	3,64,000
Santosh 4,00,000		Debtors 1,90,000 Less: Provision for Doubtful Debts 10,000	1,80,000
Arti 4,00,000	10,00,000	Stock	4,40,000
Santosh's Loan	3,40,000	Cash at Bank	2,10,000
Mrs. Dev's Loan	4,00,000		
Outstanding Salary	34,000		
Creditors	2,20,000		
	19,94,000		19,94,000

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

(i) Debtors were taken over by the creditors in full settlement of their account.

(ii) Dev agreed to pay off Mrs. Dev's loan.

(iii) 50% of the stock was taken over by Santosh at 10% less than the book value. The remaining stock was sold at a profit of 20%.

(iv) Land and Building was taken over by Arti for Rs. 10,00,000 and Plant and Machinery was sold as

scrap for Rs. 1,70,000.

(v) Realisation expenses were Rs. 40,000.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- Transfer non-cash assets at gross book values to the debit of Realisation Account and outside liabilities and provisions to its credit. Partner loans and capitals are settled separately.
- Assets taken over by partners are credited to Realisation; liabilities assumed by partners are debited. Distribute the final realisation profit in the profit-sharing ratio $1 : 2 : 2$.

Step 1: Calculate stock proceeds and identify transfers Stock taken over by Santosh is $4,40,000 \times 50\% \times 90\% =$ Rs $1,98,000$. The other half is sold for $2,20,000 \times 120\% =$ Rs $2,64,000$. Record debtors at their gross value of Rs $1,90,000$, with the provision of Rs $10,000$ credited separately. Creditors take over debtors in full settlement, so no additional cash or takeover entry is made after both accounts have been transferred. Their book-value difference is automatically reflected in the realisation result.

Step 2: Account for liabilities and non-cash settlements Mrs. Dev's loan of Rs $4,00,000$ is an outside liability: transfer it to Realisation and then debit Realisation when Dev assumes it, crediting Dev's Capital. Outstanding salary of Rs $34,000$ is transferred and paid in full. Santosh's own loan is a partner loan, so it is excluded from this account. Cash at bank and partner capitals are also excluded from the initial asset and liability transfers. Arti's takeover of land and building gives a credit of Rs $10,00,000$, whereas sale of machinery gives a bank credit of Rs $1,70,000$.

Step 3: Prepare the balanced account Realisation Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Plant and Machinery	8,00,000	By Provision for Doubtful Debts	10,000	
	To Land and Building	3,64,000	By Mrs. Dev's Loan	4,00,000	
	To Debtors	1,90,000	By Outstanding Salary	34,000	
	To Stock	4,40,000	By Creditors	2,20,000	
	To Dev's Capital	4,00,000	By Santosh's Capital (stock)	1,98,000	
	To Bank (salary)	34,000	By Bank (stock)	2,64,000	
	To Bank (expenses)	40,000	By Arti's Capital	10,00,000	
			By Bank (machinery)	1,70,000	
	To Dev's Capital (profit)	5,600			
	To Santosh's Capital (profit)	11,200			
	To Arti's Capital (profit)	11,200			
	Total	22,96,000	Total	22,96,000	

Before the profit transfer, credits total Rs $22,96,000$ and debits total Rs $22,68,000$. Hence the profit is Rs $28,000$. Dev receives $28,000/5 = 5,600$; Santosh and Arti each receive $28,000 \times 2/5 = 11,200$. The account closes with equal totals; no balance is carried forward after dissolution.

Step 4: Conclusion Realisation profit is Rs $28,000$, transferred to Dev, Santosh and Arti in amounts of Rs $5,600$, Rs $11,200$ and Rs $11,200$, respectively.

Quick Tip to Solve: When creditors take over debtors in full settlement, transfer both book balances but do not invent a cash payment.

26. ABC Ltd. was registered with authorised capital of Rs. 1,00,00,000 divided into 10,00,000 equity shares of Rs. 10 each. On 1st April, 2024, the company offered to the public for subscription, 1,00,000 shares. Applications for 99,000 shares were received and allotment was made in full to all the applicants. A shareholder holding 9,000 shares failed to pay the final call of Rs. 3 per share.

Answer the following questions: [6 marks]

26(i). The authorised capital of the company is: [1 mark]

(A) Rs. 10,00,000

(B) Rs. 9,90,000

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

(D) Rs. 99,45,000

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

Solution:

Concept:

- Authorised capital is the maximum nominal share capital permitted by the memorandum. It is distinct from the portion offered or actually subscribed.
- Keep the number of shares separate from the rupee amount: capital or arrears equals the relevant number of shares multiplied by the relevant amount per share.

Step 1: Select the relevant base Authorised capital is the maximum nominal share capital permitted by the memorandum. It is distinct from the portion offered or actually subscribed. The final-call default does not alter the registered or offered share count.

Step 2: Calculate and test the choices The required amount is Rs $10,00,000 \times 10 = 1,00,00,000$. Rs $10,00,000$ is the issued capital, and Rs $9,90,000$ is the subscribed nominal capital. Neither limits the company's registered authority. The amount Rs $99,45,000$ has no basis in the registered share count.

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

Quick Tip to Solve: Choose the relevant share count first, then multiply by face value for capital or by the unpaid call for arrears.

26(ii). The issued capital of ABC Ltd. is: [1 mark]

(A) Rs. 1,00,000

(B) Rs. 99,000

(C) Rs. 94,500

(D) Rs. 10,00,000

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

Solution:

Concept:

- Issued capital is the nominal value of shares offered for subscription. Use the number offered, regardless of how many applications are accepted or calls remain unpaid.

- Keep the number of shares separate from the rupee amount: capital or arrears equals the relevant number of shares multiplied by the relevant amount per share.

Step 1: Select the relevant base Issued capital is the nominal value of shares offered for subscription. Use the number offered, regardless of how many applications are accepted or calls remain unpaid. The final-call default does not alter the registered or offered share count.

Step 2: Calculate and test the choices The required amount is Rs $1,00,000 \times 10 = 10,00,000$. Rs $1,00,000$ is the number of shares offered expressed incorrectly as money. Rs $99,000$ is the number subscribed, not issued capital. Rs $94,500$ is unrelated to the issued share count and face value.

Step 3: Conclusion The issued amount is Rs $10,00,000$. Hence, the correct option is (D).

Quick Tip to Solve: Choose the relevant share count first, then multiply by face value for capital or by the unpaid call for arrears.

26(iii). The amount of calls-in-arrears will be: [1 mark]

(A) Rs. 27,000

(B) Rs. 90,000

(C) Rs. 2,97,000

(D) Nil

Correct Answer: (A) Rs. 27,000

Solution:

Concept:

- Calls-in-arrears are the amount called by the company but not paid by shareholders. Multiply the defaulting share count by the unpaid call per share.
- Keep the number of shares separate from the rupee amount: capital or arrears equals the relevant number of shares multiplied by the relevant amount per share.

Step 1: Select the relevant base Only the holder of $9,000$ shares failed to pay the final call of Rs 3 per share. The other subscribed shares are not in arrears.

Step 2: Calculate and test the choices The required amount is Rs $9,000 \times 3 = 27,000$. Rs $90,000$ is the full face value of the defaulting shares, not their unpaid call. Rs $2,97,000$ is the final call on all 99,000 subscribed shares. Nil is incorrect because the stem explicitly states that a shareholder defaulted.

Step 3: Conclusion The calls-in-arrears amount is Rs $27,000$. Hence, the correct option is (A).

Quick Tip to Solve: Choose the relevant share count first, then multiply by face value for capital or by the unpaid call for arrears.

26(iv). The 'subscribed and fully paid up capital' of ABC Ltd. will be: [1 mark]

(A) Rs. 10,00,000

(B) Rs. 9,00,000

(C) Rs. 99,00,000

(D) Rs. 98,73,000

Correct Answer: (B) Rs. 9,00,000

Solution:

Concept:

- Subscribed and fully paid-up capital comprises only shares on which the entire called face value has been received.
- Number of fully paid shares equals shares allotted less shares with unpaid calls.

Step 1: Identify the fully paid shares Of the 99,000 shares allotted, 9,000 shares have the final call unpaid. Thus fully paid shares are $99,000 - 9,000 = 90,000$. The remaining shares cannot be included in this category.

Step 2: Calculate their capital Each fully paid share has a face value of Rs 10. Hence the relevant capital is $90,000 \times 10 =$ Rs $9,00,000$. Option (A) uses the issued shares instead of fully paid shares, while (C) and (D) do not match the allotted share count and face value.

Step 3: Conclusion The subscribed and fully paid-up capital is Rs 9,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Subtract shares with unpaid calls before multiplying by the full face value.

26(v). 'Subscribed but not fully paid up capital' of ABC Ltd. will be: [1 mark]

(A) Rs. 98,73,000

(B) Rs. 8,73,000

(C) Rs. 90,000

(D) Rs. 63,000

Correct Answer: (D) Rs. 63,000

Solution:

Concept:

- Subscribed but not fully paid-up capital is the amount paid on subscribed shares whose called amount has not been received in full.
- Paid amount per partly paid share equals called face value less unpaid call.

Step 1: Identify the partly paid holding The shareholder holding 9,000 shares has not paid the final call of Rs 3 per share. Since the full Rs 10 has been called, the amount actually paid on each of these shares is $10 - 3 =$ Rs 7.

Step 2: Find the amount under this heading The amount paid on the partly paid shares is $9,000 \times 7 =$ Rs $63,000$. Rs 90,000 is their gross called-up value before deducting arrears, not their paid-up amount.

Neither Rs 98,73,000 nor Rs 8,73,000 follows from these 9,000 shares.

Step 3: Conclusion Subscribed but not fully paid-up capital is Rs 63,000. Hence, the correct option is (D).

Quick Tip to Solve: For partly paid capital, use the amount received on the affected shares, after calls in arrears.

26(vi). The amount of 'Share Capital' presented is the Balance Sheet of ABC Ltd. will be: [1 mark]

(A) Rs. 9,63,000

(B) Rs. 98,73,000

(C) Rs. 9,90,000

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

Correct Answer: (A) Rs. 9,63,000

Solution:

Concept:

- Share capital shown in the balance sheet is subscribed called-up capital less calls in arrears.
- Authorised capital and issued capital are disclosures, distinct from the net paid-up capital amount.

Step 1: Compute called-up capital and arrears Allotment was made for 99,000 shares of Rs 10 each, giving called-up capital of $99,000 \times 10 =$ Rs $9,90,000$. Calls in arrears are $9,000 \times 3 =$ Rs $27,000$.

Step 2: Obtain net share capital Therefore, the amount presented is $9,90,000 - 27,000 =$ Rs $9,63,000$. This also equals fully paid capital Rs 9,00,000 plus partly paid capital Rs 63,000. Option (C) ignores arrears; (D) is authorised capital; (B) exceeds subscribed capital.

Step 3: Conclusion Share capital in the balance sheet is Rs 9,63,000. Hence, the correct option is (A).

Quick Tip to Solve: Cross-check net share capital by adding the fully paid and partly paid categories.

Part B (20 marks)

Option – I

(Analysis of Financial Statements)

27. Statement I: In case of non-financial enterprises, payment of interest and dividends are classified as financing activities, whereas receipt of interest and dividends are classified as investing activities.

Statement II: Investing and financing transactions that require the use of cash or cash equivalents, should be excluded from cash flow statement.

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

(A) Both the statements are false.

(B) Both the statements are true.

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

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

Correct Answer: (D) Statement I is true and Statement II is false.

Solution:

Concept:

- For a non-financial enterprise, interest and dividends paid are financing cash flows; interest and dividends received are investing cash flows.
- Only investing and financing transactions involving no cash or cash equivalents are excluded from the cash flow statement.

Step 1: Evaluate Statement I Payments of interest and dividends concern the cost of finance and returns to owners. Receipts of interest and dividends concern returns on investments. The classifications stated in Statement I are therefore correct.

Step 2: Evaluate Statement II and the alternatives Statement II says transactions that require cash or cash equivalents should be excluded. Such cash transactions are included under their relevant activities. It is non-cash transactions, such as shares issued to acquire machinery, that are excluded. Statement II is false, so options (A), (B) and (C) give an incorrect truth combination.

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

Quick Tip to Solve: Read whether the exclusion refers to cash transactions or non-cash transactions before judging it.

28(a). **The activities that result in changes in the size and composition of the owners' capital and borrowings of the enterprise are called ____.** [1 mark]

(A) Operating Activities

(B) Investing Activities

(C) Managerial Activities

(D) Financing Activities

Correct Answer: (D) Financing Activities

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings.
- Operating activities concern principal revenue-producing operations; investing activities concern long-term assets and investments.

Step 1: Apply the definition The question specifically mentions owners' capital and borrowings. These are sources of finance. Examples are issue of equity shares, issue of debentures, repayment of loans and redemption of preference shares.

Step 2: Distinguish the other choices Operating activities describe ordinary revenue-generating business transactions, not changes in financing sources. Investing activities describe acquiring or disposing of long-term assets or investments. Managerial activities is not a separate cash flow category under AS 3. Thus only financing activities match both capital and borrowing changes.

Step 3: Conclusion These are Financing Activities. Hence, the correct option is (D).

Quick Tip to Solve: Use the words capital and borrowings to identify financing activities immediately.

OR

28(b). **Which of the following transactions will not result in the inflow of cash?** [1 mark]

(A) Cash deposited in the bank Rs. 80,000

(B) Payment of salaries Rs. 50,000

(C) Issue of 9% debentures Rs. 10,00,000

(D) Purchase of machinery Rs. 2,00,000

Correct Answer: No unique option: (A), (B) and (D) all satisfy the printed wording.

Solution:

Concept:

- A cash inflow increases cash and cash equivalents from a transaction with an external party.
- Transfers between cash and bank do not change total cash and cash equivalents; payments cause outflows.

Step 1: Examine options (A) and (B) Cash deposited in the bank, Rs 80,000, transfers cash in hand into a bank balance. Total cash and cash equivalents do not increase, so (A) is not a cash inflow.

Payment of salaries, Rs 50,000, is an operating cash outflow, so (B) also does not result in an inflow.

Step 2: Examine options (C) and (D) An issue of debentures for cash, Rs 10,00,000, produces a financing cash inflow. Purchase of machinery for cash, Rs 2,00,000, produces an investing cash outflow. Therefore (D) also satisfies the printed negative wording. A single correct option cannot be identified from this set.

Step 3: Conclusion Options (A), (B) and (D) do not result in a cash inflow. The printed question has multiple valid choices.

Quick Tip to Solve: Check each option against the negative wording; distinguish transfers, inflows and outflows.

29. Ratios that are calculated for measuring the efficiency of operations of business based on effective utilisation of resources are called: [1 mark]

(A) Activity Ratios

(B) Profitability Ratios

(C) Solvency Ratios

(D) Liquidity Ratios

Correct Answer: (A) Activity Ratios

Solution:

Concept:

- Activity ratios measure the efficiency with which a business uses its resources.
- These are also called turnover ratios, including inventory, trade receivables and working capital turnover ratios.

Step 1: Identify what is being measured The key phrase is effective utilisation of resources. Ratios comparing turnover or revenue with resources employed indicate how efficiently those resources support business operations. This is the purpose of activity ratios.

Step 2: Eliminate the other categories Profitability ratios measure earning capacity or profit margins. Solvency ratios assess the long-term financial position and ability to meet long-term obligations. Liquidity ratios assess the ability to meet short-term liabilities. These do not directly describe the resource-use efficiency asked for here.

Step 3: Conclusion The ratios are Activity Ratios. Hence, the correct option is (A).

Quick Tip to Solve: Associate efficiency and resource utilisation with activity or turnover ratios.

30(a). Operating ratio of a company is 63%. Its gross profit ratio is 20%. What will be its operating profit ratio? [1 mark]

(A) 27%

(B) 23%

(C) 43%

(D) 83%

Correct Answer: 37%; none of the printed options is correct.

Solution:

Concept:

- Operating ratio is operating cost divided by revenue from operations, multiplied by 100.
- Operating profit ratio equals 100% − operating ratio.

Step 1: Use the complementary relationship Revenue from operations is divided into operating cost and operating profit. Consequently their percentages add to 100. With the printed operating ratio of 63%, the operating profit ratio is $100\% - 63\% = 37\%$.

Step 2: Check consistency and every option The gross profit ratio of 20% does not change this identity. It implies cost of revenue of 80%, already greater than the printed operating ratio of 63%, so the data are internally unusual under the standard non-negative expense model. Nevertheless the direct complement is 37%, whereas the listed choices are 27%, 23%, 43% and 83%. None equals the calculated result.

Step 3: Conclusion The operating profit ratio implied by the printed operating ratio is 37%; no listed option is correct.

Quick Tip to Solve: Subtract the operating ratio from 100; gross profit ratio is unnecessary for this calculation.

OR

30(b). Which of the following is not a purpose of analysis of financial statements? [1 mark]

(A) To assess the current profitability and the operational efficiency of the firm.

(B) To ascertain the relative importance of different components of financial position of the firm.

(C) To just study the reports of the company.

(D) To judge the ability of the firm to repay its debt.

Correct Answer: (C) To just study the reports of the company.

Solution:

Concept:

- Financial statement analysis interprets relationships and trends to assess performance and financial position.
- Its purposes include evaluating profitability, operating efficiency, composition of assets and liabilities, and debt-paying capacity.

Step 1: Identify the genuine objectives Assessing current profitability and operational efficiency is a central purpose, so (A) is a valid objective. Comparing the relative importance of financial-position components is another objective, as in common-size analysis, so (B) is also valid.

Step 2: Identify the choice that is not a purpose Judging the ability to repay debt helps lenders assess solvency and liquidity; hence (D) is a genuine purpose. Merely studying company reports without interpreting their relationships or drawing useful conclusions does not state a purpose of financial statement analysis. Therefore the word just makes option (C) the required answer.

Step 3: Conclusion To just study the reports of the company is not a purpose of financial statement analysis. Hence, the correct option is (C).

Quick Tip to Solve: Look for interpretation and decision-making: merely reading reports does not state an analytical objective.

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

(a) Prepaid Insurance

(b) Unpaid Dividend

(c) Public Deposits [3 marks]

Solution:

Concept:

- Schedule III separates assets into non-current and current assets, and liabilities into non-current and current liabilities.
- Classification follows the nature of the item: an unexpired expense is an asset; an amount payable is a liability; deposits accepted are borrowings.

Step 1: Classify prepaid insurance Prepaid insurance is the part of an insurance premium that relates to a future accounting period. Since the benefit has not yet been consumed, it is not charged as the current period's expense. It is shown under the major heading **Current Assets** and the sub-heading **Other Current Assets**. It is neither inventory nor a trade receivable.

Step 2: Classify unpaid dividend Unpaid dividend is dividend declared by the company but still payable to shareholders. The amount is an obligation of the company and is shown under the major heading **Current Liabilities**, sub-heading **Other Current Liabilities**. It is not included in trade payables, since the liability does not arise from buying goods or services in the ordinary course of business.

Step 3: Classify public deposits Public deposits represent money borrowed by the company from the public. In the usual Schedule III classification of public deposits, they appear under the major heading **Non-Current Liabilities** and sub-heading **Long-term Borrowings**. This is the classification for deposits repayable beyond twelve months; an amount specifically becoming due within twelve months would instead be a current liability. No such current maturity is stated here.

Step 4: Conclusion (a) Prepaid Insurance: Current Assets — Other Current Assets.

(b) Unpaid Dividend: Current Liabilities — Other Current Liabilities.

(c) Public Deposits: Non-Current Liabilities — Long-term Borrowings.

Quick Tip to Solve: For these three items, identify future benefit, declared amount payable and borrowing respectively before selecting the Schedule III sub-heading.

32. From the following Balance Sheet of Vinayak Ltd., prepare a Comparative Balance Sheet.

Balance Sheet of Vinayak Ltd. as at 31st March, 2024

Particulars	31.3.2024 (Rs.)	31.3.2023 (Rs.)
I - Equity and Liabilities:		
1. Shareholders' Funds		
Share Capital	11,25,000	7,50,000
2. Non-Current Liabilities		
Long-term Borrowings	4,50,000	3,00,000
3. Current Liabilities		
Trade Payables	1,50,000	1,00,000
Total	17,25,000	11,50,000
II - Assets:		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets	12,75,000	8,50,000
2. Current Assets		
(a) Inventories	3,00,000	2,00,000
(b) Cash and Cash Equivalents	1,50,000	1,00,000
Total	17,25,000	11,50,000

[3 marks]

Solution:

Concept:

- Absolute change equals the amount at 31.3.2024 minus the corresponding amount at 31.3.2023.
- Percentage change is $\dfrac{\text{Absolute change}}{\text{Amount at 31.3.2023}} \times 100$. The previous year is the base year.

Step 1: Calculate the changes The statement compares the same balance sheet heads over two dates. For share capital, the increase is Rs $11,25,000 - 7,50,000 = 3,75,000$. Relative to the base-year share capital, the increase is

$$\frac{3,75,000}{7,50,000} \times 100 = 50\%.$$

Similarly, long-term borrowings rise by Rs 1,50,000, trade payables by Rs 50,000, property, plant and equipment and intangible assets by Rs 4,25,000, inventories by Rs 1,00,000 and cash and cash equivalents by Rs 50,000. Every increase is one-half of its corresponding previous-year amount, so each percentage change is 50%.

Step 2: Prepare the comparative statement **Comparative Balance Sheet of Vinayak Ltd. As at 31st March, 2024 and 31st March, 2023**

Particulars	31.3.2023 Rs	31.3.2024 Rs	Increase Rs	Change %
I. Equity and Liabilities				
1. Shareholders' Funds				
Share Capital	7,50,000	11,25,000	3,75,000	50
2. Non-Current Liabilities				
Long-term Borrowings	3,00,000	4,50,000	1,50,000	50
3. Current Liabilities				
Trade Payables	1,00,000	1,50,000	50,000	50
Total	11,50,000	17,25,000	5,75,000	50
II. Assets				
1. Non-Current Assets				
Property, Plant and Equipment and Intangible Assets	8,50,000	12,75,000	4,25,000	50
2. Current Assets				
(a) Inventories	2,00,000	3,00,000	1,00,000	50
(b) Cash and Cash Equivalents	1,00,000	1,50,000	50,000	50
Total	11,50,000	17,25,000	5,75,000	50

The increase in total assets agrees with the increase in total equity and liabilities. This checks that the comparative statement remains balanced.

Step 3: Conclusion Total assets and total equity and liabilities each increased by Rs 5,75,000, i.e. 50%; every individual balance sheet item also increased by 50%.

Quick Tip to Solve: Use 2023 as the denominator; here every 2024 figure is 1.5 times its 2023 figure, so all percentage increases are 50 percent.

33(a). The current ratio of Jack Ltd. is 3.2 : 1 and the quick ratio is 1.5 : 1. The excess of current assets over quick assets was represented by inventories which were Rs. 68,000. Calculate:

(i) Current Assets

(ii) Quick Assets

(iii) Current Liabilities [4 marks]

Solution:

Concept:

- Current ratio is Current Assets/Current Liabilities; quick ratio is Quick Assets/Current Liabilities. Both ratios use the same denominator.
- Quick assets exclude inventories and prepaid expenses from current assets. Here the question explicitly states that the entire excess of current assets over quick assets consists of inventories.

Step 1: Express both asset amounts using current liabilities Let current liabilities be Rs x. The current ratio of $3.2 : 1$ means current assets are 3.2 times current liabilities, while the quick ratio of $1.5 : 1$

means quick assets are 1.5 times current liabilities. Hence,

$$\text{Current Assets} = 3.2x,$$
$$\text{Quick Assets} = 1.5x.$$

The two asset amounts must be related to the same value of x. The ratios cannot be subtracted from the monetary inventory figure directly without first interpreting them as multiples of current liabilities.

Step 2: Use inventories to calculate current liabilities Since inventories are the entire difference between current assets and quick assets, subtract the second expression from the first:

$$\begin{aligned}\text{Current Assets} - \text{Quick Assets} &= \text{Inventories},\\ 3.2x - 1.5x &= 68,000,\\ 1.7x &= 68,000,\\ x &= \frac{68,000}{1.7} = 40,000.\end{aligned}$$

Thus, the common denominator of the two given ratios, current liabilities, is Rs 40,000.

Step 3: Calculate the assets and check both ratios Substitute current liabilities of Rs 40,000 in the two expressions:

$$\text{Current Assets} = 3.2 \times 40,000 = \text{Rs } 1,28,000,$$
$$\text{Quick Assets} = 1.5 \times 40,000 = \text{Rs } 60,000.$$

The difference is Rs $1,28,000 - 60,000 = 68,000$, exactly the given inventories. Further, $1,28,000/40,000 = 3.2$ and $60,000/40,000 = 1.5$, which reproduce both ratios. No additional exclusion from current assets is needed because the full difference has already been identified as inventories.

Step 4: Conclusion (i) Current Assets = Rs 1,28,000.

(ii) Quick Assets = Rs 60,000.

(iii) Current Liabilities = Rs 40,000.

Quick Tip to Solve: Subtract the ratio numerators first: inventories equal $(3.2 - 1.5)$ times current liabilities, so divide Rs 68,000 by 1.7.

OR

33(b). From the following information obtained from the books of KVK Ltd., calculate 'Net Assets Turnover Ratio' and 'Debt Equity Ratio':

Information	Amount (Rs.)
Preference Share Capital	8,00,000
Equity Share Capital	12,00,000
General Reserve	2,00,000
Balance in the Statement of Profit and Loss	6,00,000
15% Debentures	4,00,000
12% Loan	4,00,000
Revenue from Operations for the year 2023-24	72,00,000

[4 marks]

Solution:

Concept:

- Net assets turnover ratio measures revenue earned per rupee of capital employed: Ratio $=$ $\dfrac{\text{Revenue from Operations}}{\text{Capital Employed}}$.
- Capital employed comprises shareholders' funds and long-term debt. Debt-equity ratio is long-term debt divided by shareholders' funds; preference capital is included in shareholders' funds.

Step 1: Calculate shareholders' funds Add both classes of share capital and the accumulated reserves and surplus. The balance in the Statement of Profit and Loss is a positive surplus, so it increases shareholders' funds.

$$\begin{aligned}\text{Shareholders' Funds} &= \text{Rs}\,(8,00,000 + 12,00,000 \\ &\quad + 2,00,000 + 6,00,000) \\ &= \text{Rs}\,28,00,000.\end{aligned}$$

Step 2: Calculate debt and capital employed The debentures and loan constitute long-term borrowings. Their interest rates identify the borrowings but do not change the principal used in these ratios.

$$\begin{aligned}\text{Long-term Debt} &= \text{Rs}\,(4,00,000 + 4,00,000) \\ &= \text{Rs}\,8,00,000, \\ \text{Capital Employed} &= \text{Rs}\,(28,00,000 + 8,00,000) \\ &= \text{Rs}\,36,00,000.\end{aligned}$$

Since opening capital employed is not supplied, use the capital employed calculated from the given figures.

Step 3: Apply the two ratio formulae

$$\text{Net Assets Turnover Ratio} = \frac{72,00,000}{36,00,000} = 2 \text{ times},$$
$$\text{Debt-Equity Ratio} = \frac{8,00,000}{28,00,000}$$
$$= \frac{2}{7} : 1 \approx 0.286 : 1.$$

Thus the business earns two rupees of revenue per rupee of capital employed. Its long-term debt is approximately 28.6 percent of shareholders' funds. Use revenue, not profit, in the turnover ratio, and include preference capital in equity for this accounting ratio.

Step 4: Conclusion Net Assets Turnover Ratio is 2 times and Debt-Equity Ratio is $2 : 7$, or approximately $0.286 : 1$.

Quick Tip to Solve: First total shareholders' funds; add long-term debt for turnover, but divide that debt by shareholders' funds for debt-equity.

34(a). The following information has been extracted from the books of Ram Lal Ltd.:

Particulars	31.3.2024 (Rs.)	31.3.2023 (Rs.)
Surplus: Balance in Statement of Profit and Loss	17,00,000	8,00,000
Patents	-	50,000
Sundry Debtors	5,80,000	4,20,000
Sundry Creditors	1,40,000	60,000
Cash and Cash Equivalents	2,00,000	90,000

Additional Information:

Interim dividend paid during the year was Rs. 1,20,000.

Calculate Cash Flows from Operating Activities. [6 marks total]

Solution:

Concept:

- Under the indirect method, operating cash flow is found by adjusting net profit for non-cash expenses and changes in operating current assets and liabilities.
- An interim dividend reduces the surplus but is a financing cash outflow for a non-financial company. Add it back when deriving profit from the change in surplus.
- Patents written off are a non-cash expense. An increase in debtors is deducted, whereas an increase in creditors is added when converting accrual profit into operating cash flow.

Step 1: Derive net profit from the surplus balances The closing surplus exceeds the opening surplus by Rs 9,00,000. This increase is after payment of interim dividend. Restore that appropriation to

calculate the profit earned during the year. No tax expense or tax payment is given in the question.

$$\begin{aligned}\text{Net Profit} &= \text{Closing Surplus} - \text{Opening Surplus} \\ &\quad + \text{Interim Dividend Paid} \\ &= \text{Rs } (17,00,000 - 8,00,000 + 1,20,000) \\ &= \text{Rs } 10,20,000.\end{aligned}$$

Interim dividend is restored only to reconstruct profit; it is not an operating cash receipt.

Step 2: Identify non-cash and working-capital adjustments Patents have fallen from Rs 50,000 to nil. With no sale of patents stated, the amount is treated as patents written off and added back because it reduces accounting profit without an operating cash payment.

$$\begin{aligned}\text{Increase in Debtors} &= \text{Rs } (5,80,000 - 4,20,000) \\ &= \text{Rs } 1,60,000, \\ \text{Increase in Creditors} &= \text{Rs } (1,40,000 - 60,000) \\ &= \text{Rs } 80,000.\end{aligned}$$

Increased debtors represent income not yet collected, so deduct them. Increased creditors represent expenses for which payment remains outstanding, so add them.

Step 3: Prepare the operating activities section Cash Flow Statement of Ram Lal Ltd. (Extract) for the year ended 31 March 2024

Particulars	Amount (Rs)
A. Cash Flows from Operating Activities	
Net profit before tax	10,20,000
Add: Patents written off	50,000
Operating profit before working-capital changes	10,70,000
Less: Increase in sundry debtors	(1,60,000)
Add: Increase in sundry creditors	80,000
Cash generated from operations	9,90,000
Income tax paid (no amount given)	—
Net cash from operating activities	9,90,000

The cash and cash equivalents balances are excluded from working-capital adjustments. Their increase measures the combined effect of operating, investing and financing activities, so it cannot be used as operating cash flow alone.

Step 4: Conclusion Cash flow from operating activities is a cash inflow of Rs $9,90,000$.

Quick Tip to Solve: Restore interim dividend when deriving profit from surplus, then add back patents written off before adjusting debtors and creditors.

34(b). The following information has been extracted from the books of Lata Ltd.:

Particulars	31.3.2024 (Rs.)	31.3.2023 (Rs.)
Machinery (Cost)	70,00,000	50,00,000
Accumulated Depreciation	10,00,000	8,00,000

Additional Information:

(i) During the year a piece of machinery costing Rs. 1,40,000 on which accumulated depreciation was Rs. 90,000, was sold at a gain of Rs. 10,000.

(ii) Depreciation charged during the year amounted to Rs. 2,90,000.

Calculate Cash Flows from Investing Activities.

Solution:

Concept:

- Investing activities include cash paid to purchase tangible fixed assets and cash received from their sale.
- Sale proceeds equal the carrying amount of the asset sold plus the gain on sale; depreciation itself is a non-cash expense.

Step 1: Calculate the carrying amount and sale proceeds The machinery sold had original cost Rs. 1,40,000 and accumulated depreciation Rs. 90,000. Hence its carrying amount on disposal was

$$1,40,000 - 90,000 = \text{Rs. } 50,000.$$

The machinery was sold at a gain of Rs. 10,000; therefore cash received from the sale was

$$50,000 + 10,000 = \text{Rs. } 60,000.$$

The gain is added to the carrying amount, not to the original cost.

Step 2: Determine the cash purchase of machinery The machinery balances are explicitly given at cost. Therefore depreciation is not deducted while reconciling this account. Let purchases be P. Then

$$50,00,000 + P - 1,40,000 = 70,00,000,$$
$$P = \text{Rs. } 21,40,000.$$

No credit purchase or other non-cash acquisition is stated, so this addition is treated as cash paid for machinery.

Step 3: Verify accumulated depreciation The accumulated depreciation balance is reconciled separately: opening balance plus current-year depreciation less depreciation on the asset disposed of equals the closing balance. Thus

$$8,00,000 + 2,90,000 - 90,000 = \text{Rs. } 10,00,000.$$

This agrees with the supplied closing balance and confirms the disposal adjustment. Depreciation of Rs. 2,90,000 is not an investing cash payment.

Step 4: Prepare the investing activities section Cash Flow Statement of Lata Ltd. (Extract) for the year ended 31 March 2024

Particulars	Amount (Rs.)
Cash flows from investing activities	
Purchase of machinery	(21,40,000)
Proceeds from sale of machinery	60,000
Net cash used in investing activities	(20,80,000)

Parentheses denote cash outflows. The sale receipt offsets part of the purchase payment; the gain is already included in the receipt and must not be added again.

Step 5: Conclusion Net cash used in investing activities is Rs. 20,80,000 (cash outflow).

Quick Tip to Solve: Reconcile machinery at cost first, then add the gain to the carrying amount to find the sale receipt.

Option II (Computerised Accounting)

27. In a graph, the area bounded by different axes is known as: [1 mark]

(A) Data point

(B) Axis title

(C) Plot area

(D) Legend

Correct Answer: (C) Plot area

Solution:

Concept:

- The plot area is the region enclosed by the chart axes in which data series are plotted.
- A chart contains separate elements for values, axis descriptions and the key identifying series.

Step 1: Identify the bounded region The horizontal and vertical axes enclose the region used to display the graphical representation of values. This interior region is called the plot area, so option (C) describes the area in the question.

Step 2: Check the other chart elements A data point represents an individual value. An axis title names the variable or category measured on an axis. A legend identifies the different data series. None of these is the area enclosed by the axes.

Step 3: Conclusion The correct option is (C): Plot area.

Quick Tip to Solve: Look inside the axes for the plot area; use the legend only to identify series.

28(a). 'MAJN' for Mangaluru Junction is an example of: [1 mark]

(A) Secret code

(B) Mnemonic code

(C) Sequential code

(D) Block code

Correct Answer: (B) Mnemonic code

Solution:

Concept:

- Mnemonic codes use letters or abbreviations associated with the name of the item being represented.
- Sequential codes follow a numerical sequence, whereas block codes allocate different ranges to groups.

Step 1: Relate the code to its name The letters in MAJN provide an abbreviated, memorable identification of Mangaluru Junction. A code designed to help recall the name it represents is a mnemonic code.

Step 2: Eliminate the alternatives A secret code is intended to conceal meaning, which is not the purpose here. A sequential code depends on consecutive numbers or positions, and a block code depends on reserved groups of numbers. MAJN is a name-based abbreviation rather than either numerical coding method.

Step 3: Conclusion The correct option is (B): Mnemonic code.

Quick Tip to Solve: If an abbreviation reminds you of the name it represents, classify it as mnemonic.

OR

28(b). Which of the following is not contained in Account group - Current Liabilities in the Account group of Balance Sheet? [1 mark]

(A) Bank Overdraft

(B) Duties and Taxes

(C) Provisions

(D) Sundry Creditors

Correct Answer: (A) Bank Overdraft

Solution:

Concept:

- In the computerised account-group hierarchy, Current Liabilities includes Duties and Taxes, Provisions and Sundry Creditors.
- Bank overdraft accounts are classified under the Bank OD/Bank OCC subgroup of Loans (Liability).

Step 1: Identify the account group being tested The question asks about the predefined account-group hierarchy used in computerised accounting. In that hierarchy Bank Overdraft is grouped with Loans

(Liability), rather than being included in the Current Liabilities account group.

Step 2: Check the remaining choices Duties and Taxes records amounts payable to government authorities; Provisions records estimated liabilities; and Sundry Creditors records amounts payable to suppliers. These are all included under the Current Liabilities group. Thus options (B), (C) and (D) do not satisfy the word not in the question.

Step 3: Conclusion The correct option is (A): Bank Overdraft.

Quick Tip to Solve: For this software-group question, locate Bank OD under Loans (Liability) before choosing.

29. A cell reference that either holds raw or column constant when the formula or function is copied to another location is known as: [1 mark]

(A) Mixed cell reference

(B) Relative cell reference

(C) Ranges

(D) Absolute cell reference

Correct Answer: (A) Mixed cell reference

Solution:

Concept:

- A mixed cell reference fixes either the column or the row while allowing the other component to change on copying.
- An absolute reference fixes both components; a relative reference fixes neither component.

Step 1: Recognise the fixed component The wording says either the row or the column remains constant. A mixed reference has precisely this property. For example, $A1 fixes column A and permits the row to change, while A$1 fixes row 1 and permits the column to change.

Step 2: Distinguish the alternatives An absolute reference such as A1 holds both the column and row constant, so option (D) is too restrictive for the stated condition. A relative reference such as A1 changes both as appropriate. A range denotes a collection of cells, not the rule for fixing one reference component.

Step 3: Conclusion The correct option is (A): Mixed cell reference.

Quick Tip to Solve: Count the dollar signs: one fixes either row or column; two fix both.

30(a). Name the accounting information sub-system which deals with payment of wages and salaries of employees. [1 mark]

(A) Costing sub-system

(B) Expense accounting sub-system

(C) Payroll accounting sub-system

(D) Tax accounting sub-system

Correct Answer: (C) Payroll accounting sub-system

Solution:

Concept:

- The payroll accounting subsystem processes employee remuneration, including wages and salaries.
- Payroll records support the computation of gross pay, deductions and the net amount payable to employees.

Step 1: Identify the transaction Payment of wages and salaries is employee remuneration. The subsystem dedicated to calculating and recording this remuneration, including deductions and net pay, is the payroll accounting subsystem.

Step 2: Compare the other subsystems The costing subsystem determines costs of products or services. The expense accounting subsystem records general expenses, while the tax accounting subsystem deals with tax-related accounting. Although employee payments are expenses and may involve deductions, the specialised subsystem asked for is payroll accounting.

Step 3: Conclusion The correct option is (C): Payroll accounting sub-system.

Quick Tip to Solve: Connect employee wages and salaries directly with payroll before considering broader expense heads.

OR

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

(A) Batch processing

(B) Data validation

(C) Real time processing

(D) Processing and Revalidation

Correct Answer: (A) Batch processing

Solution:

Concept:

- Batch processing collects transactions over a period and processes the accumulated group together.
- Real time processing updates records as individual transactions occur; validation checks whether input data meets requirements.

Step 1: Identify the processing pattern The question describes data accumulated from several sources

and then processed together in one slot. Collection first and processing as a group is the defining feature of batch processing.

Step 2: Test the other choices Data validation checks the correctness or acceptability of input; it does not describe when an accumulated group is processed. Real time processing processes transactions immediately as they arise. Processing and Revalidation is not the standard name of the grouped processing method described here.

Step 3: Conclusion The correct option is (A): Batch processing.

Quick Tip to Solve: When transactions wait and are processed together in one scheduled slot, choose batch processing.

31. In an accounting software how many pre-defined account groups exist? State their further division with reference to number and type. [3 marks]

Solution:

Concept:

- An account group collects ledger accounts of a similar nature, so that the software can classify balances and prepare financial reports correctly.
- Pre-defined groups are built into the software. Primary groups provide the main classification; sub-groups provide a more detailed classification within it.

Step 1: State the total and its first division There are 28 pre-defined account groups in the accounting software. Of these, 15 are primary groups and the remaining 13 are sub-groups. Thus, the total is $15 + 13 = 28$. The 13 sub-groups form a separate subdivision within the main groups; they are not 13 additional primary groups.

Step 2: Classify the primary groups by type Of the 15 primary groups, 9 relate to Balance Sheet items and are capital in nature. These include groups for assets, liabilities and capital. The remaining 6 relate to the Profit and Loss Account and are revenue in nature: Sales Accounts, Purchase Accounts, Direct Incomes, Direct Expenses, Indirect Incomes and Indirect Expenses. Thus, the primary-group division is $9 + 6 = 15$.

Step 3: Explain the sub-groups The 13 sub-groups give more detailed classification under the primary groups and relate to Balance Sheet items. For example, Bank Accounts and Cash-in-hand are sub-groups under Current Assets, while Secured Loans is under Loans (Liability). The hierarchy therefore places a ledger under the appropriate group so that its balance reaches the correct financial statement.

Step 4: Conclusion There are 28 pre-defined groups: 15 primary groups and 13 sub-groups. The 15 primary groups comprise 9 Balance Sheet groups and 6 Profit and Loss Account groups.

Quick Tip to Solve: Remember the two divisions in sequence: 28 = 15 + 13, and the 15 primary groups = 9 Balance Sheet + 6 Profit and Loss groups.

32. Explain the ways in which accounting software provide data security, safety and confidentiality.

[3 marks]

Solution:

Concept:

- Accounting records require protection from unauthorised access, accidental loss and unauthorised disclosure. Security controls determine who may use the system and what each user may do.
- Safety measures preserve recoverable copies of the records, while confidentiality measures restrict access to sensitive information.

Step 1: Authenticate users and restrict their rights Accounting software provides user names and passwords so that only authorised persons can enter the system. Different access levels can be assigned to different users. For example, an operator may enter vouchers, while only the accountant or administrator may alter masters, approve transactions or view confidential reports. Such user-defined rights restrict both access and unauthorised changes.

Step 2: Protect confidential data The data can be encrypted or protected through a data vault, so that stored information cannot be read without the required authorisation or password. Password protection of company data and restricted access to reports help keep business transactions, employee details and other sensitive records confidential. Passwords should be kept secret and changed periodically so that these controls remain effective.

Step 3: Keep data safe and recoverable The software provides backup and restore facilities. Regular backups, maintained securely on a separate storage medium, allow accounting data to be restored if the working files are accidentally deleted, corrupted or lost through equipment failure. Audit trails or edit logs, where provided, record the user and changes made, helping management trace alterations and detect misuse. Backups protect against loss; access restrictions and encryption protect against disclosure.

Step 4: Conclusion Accounting software provides security and confidentiality through passwords, user access rights and encryption, and provides data safety through backup and restoration facilities.

Quick Tip to Solve: Link each control to its purpose: passwords identify users, access rights limit actions, encryption hides data, and backups enable recovery.

33(a). State the steps to prepare a chart.

[4 marks]

Solution:

Concept:

- A chart is a graphical representation of worksheet data. It uses categories and numerical series to show comparisons, trends or proportions clearly.
- The source range, chart type, titles, axes, legend and final position must be selected so that the graph communicates the intended information accurately.

Step 1: Prepare and select the source data Enter the data in the worksheet in a clear table, with category labels and suitable row or column headings. Check the values and select the cell range

containing the data to be represented, including the headings that will identify the categories and series. Avoid including irrelevant totals if they would distort the comparison.

Step 2: Insert a suitable chart On the Insert tab, go to the Charts group and select the required chart type and subtype. For example, select a column chart to compare categories, a line chart to show a trend, or a pie chart to show the composition of one total. The spreadsheet creates a chart from the selected range. In versions using the Chart Wizard, begin with Insert Chart and choose the chart type in the wizard.

Step 3: Check the data range and series Confirm that the chart uses the intended worksheet range. Check whether the series should be read in rows or columns, and use Select Data or Switch Row/Column when required. Ensure that category labels, series names and values correspond to the worksheet. This prevents a correct table from being displayed with the wrong categories or a misleading legend.

Step 4: Add chart options and choose the location Give the chart a meaningful title. Add category-axis and value-axis titles where applicable, and display an appropriate legend and, if useful, data labels or gridlines. Check the scale and formatting for readability. Finally, place the chart as an object in the worksheet or on a separate chart sheet, resize it suitably and save the workbook. In the Chart Wizard, specify these chart options and the location before clicking Finish.

Step 5: Conclusion To prepare a chart, select the labelled source data, choose a suitable chart type, confirm the range and series, set the chart options, and place and save the completed chart.

Quick Tip to Solve: Before finishing, compare the chart labels and plotted values with the selected cells; a wrong series direction can reverse categories and headings.

OR

33(b). What is meant by internal margin while using MS Excel? State the options available. [4 marks]

Solution:

Concept:

- Internal margin is the space between the border of a text box or shape and the text contained in it. It controls the placement of text inside the object.
- The four internal margins are left, right, top and bottom. They concern space within an object; worksheet page margins concern the space around a printed page.

Step 1: Meaning of internal margin While using MS Excel, internal margin means the blank space separating the text inside a text box or shape from its outer boundary. For example, increasing the left internal margin moves the text farther from the left border without moving the text box itself. It gives the text breathing space and improves readability, particularly when the object has a visible outline or a coloured background.

Step 2: Options available The following four internal-margin options are available:

1. **Left:** Sets the distance between the left border of the text box and its text.
2. **Right:** Sets the distance between the right border and the text.

3. **Top:** Sets the distance between the upper border and the text.
4. **Bottom:** Sets the distance between the lower border and the text.

Each margin may be adjusted separately to provide the required spacing. To change these settings, select the text box or shape, open its formatting options, and locate the Text Box settings under Text Options. Enter the required left, right, top and bottom margin values. The setting changes the space inside the selected object, rather than the worksheet's row heights, column widths or printed-page margins.

Step 3: Conclusion Internal margin is the blank space between the text and the boundary of a text box or shape. Its four options are Left, Right, Top and Bottom.

Quick Tip to Solve: Remember the four edges of a text box: left, right, top and bottom are the four internal-margin settings.

34. List any six questions which are often asked when a user wants to be benefited by conditional formatting. Also state how colour scale is used to format cells. [6 marks]

Solution:

Concept:

- Conditional formatting changes the appearance of cells automatically according to rules based on their values. It makes patterns, exceptions and comparisons easier to identify.
- A colour scale compares numerical values in a selected range and assigns a graduated range of colours, rather than applying one identical fill to every cell.

Step 1: Six questions answered with conditional formatting A user may ask any of the following questions:

1. Who has sold goods worth more than Rs 50,000 this month? A greater-than rule highlights sales exceeding the specified amount.
2. Which products have shown a revenue increase of more than 10 percent from one year to the next? Highlighting percentage increases identifies these products.
3. Who are the highest-performing and lowest-performing students in the class? Top/bottom rules identify the extremes in the marks range.
4. Which employees have performance ratings above the average? An above-average rule highlights their ratings.
5. Which entries are duplicates in a list of invoice numbers? A duplicate-values rule identifies repeated invoice numbers for checking.
6. Which stock items have quantities below the minimum required level? A less-than rule, or a formula comparing quantity with the reorder level, highlights items requiring attention.

These questions illustrate how conditional formatting helps users identify exceptions and trends without checking each cell individually. The criteria and the range must match the question being investigated.

Step 2: Using a colour scale to format cells

1. Select the range of numerical cells to be compared, such as the sales amounts of different

branches.

2. On the Home tab, in the Styles group, choose Conditional Formatting and then Colour Scales.
3. Select a suitable two-colour or three-colour scale from the displayed choices. Excel applies the scale to the selected range.
4. In a two-colour scale, the two end colours represent low and high values, while intermediate values receive shades between them. In a three-colour scale, a third colour represents the midpoint as well.
5. If a particular comparison requires custom limits, choose More Rules and specify the minimum, midpoint when applicable, maximum and their colours. Confirm the rule to apply it.

For example, in a three-colour red-yellow-green scale with red assigned to low values and green to high values, the lowest sales appear red, middle values appear yellow, and the highest appear green, with graduated shades between them. The colours depend on the scale selected; green is not automatically the correct colour for every high-value comparison. When values change, Excel reevaluates the rule and updates the displayed colours.

Step 3: Conclusion Conditional formatting answers comparison and exception questions such as the six listed above. Colour Scales format a selected numerical range using graduated colours to show the relative low, middle and high values.

Quick Tip to Solve: Select the numerical range first, then use Home > Conditional Formatting > Colour Scales; check which colour represents low and high values.