CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-7-2

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 October, 2024, Nirmal Ltd. issued 6,000, 11% Debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 10%. 'Loss on Issue of Debentures' will be : [1 mark]

(A) Rs. 1,20,000

(B) Rs. 60,000

(C) Rs. 6,00,000

(D) Rs. 6,60,000

Correct Answer: (B) Rs. 60,000

Solution:

Concept:

- Loss on issue includes discount on issue and premium payable on redemption.
- Premium received on issue is credited separately to Securities Premium; the coupon rate concerns interest.

Step 1: Find the redemption premium The nominal value is $6,000 \times 100 = \text{Rs } 6,00,000$. The premium payable on redemption is $6,00,000 \times 10/100 = \text{Rs } 60,000$.

Step 2: Identify the loss account debit There is no discount on issue. Therefore the debit to Loss on Issue of Debentures is Rs 60,000. The Rs 60,000 issue premium goes to Securities Premium and does not cancel the initial loss-account debit. Option A doubles the premium; C and D represent nominal and redemption amounts.

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

Quick Tip to Solve: Keep issue premium separate from the redemption premium debited as loss.

OR

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

(A) Rs. 9,80,000

(B) Rs. 10,00,000

(C) Rs. 7,84,000

(D) Rs. 8,00,000

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

Solution:

Concept:

- Debentures Account records the face value of debentures issued.
- The difference between face value and issue proceeds is discount on issue.

Step 1: Calculate nominal capital Raja Ltd. issues 8,000 debentures of Rs 100 each. Thus $8,000 \times 100 =$ Rs $8,00,000$ is the debenture liability credited.

Step 2: Separate cash from liability The issue proceeds are $8,000 \times 98 =$ Rs $7,84,000$, and the discount is Rs 16,000. Thus option C is the cash received, not the credit to Debentures Account. Options A and B do not equal either the stated nominal liability or proceeds.

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

Quick Tip to Solve: Multiply the number of debentures by face value when finding the Debentures Account credit.

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

(A) Rs. 75,000

(B) Rs. 85,000

(C) Rs. 80,000

(D) Rs. 90,000

Correct Answer: (C) Rs. 80,000

Solution:

Concept:

- On dissolution, an asset is transferred to Realisation Account at its gross book balance.
- A provision for bad debts is closed separately by transferring its credit balance to Realisation Account.

Step 1: Close the asset balance Sundry Debtors Account has a debit balance of Rs 80,000. Closing that account requires crediting it by its entire balance and debiting Realisation Account by Rs 80,000.

Step 2: Distinguish the provision The Rs 5,000 provision is transferred separately to the credit of Realisation Account. Rs 75,000 is the net effect of these two transfers, not the amount used to close Sundry Debtors Account. Adding the provision to debtors gives Rs 85,000 incorrectly, while Rs 90,000 has no basis.

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

Quick Tip to Solve: Transfer gross debtors first; close their provision through a separate transfer.

OR

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

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

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

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

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

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

Solution:

Concept:

- Depositing cash in the bank increases Bank Account and decreases Cash Account.
- Only actual cash receipts and payments affect the cash balance available for deposit.

Step 1: Find cash left after payment Opening cash is Rs 15,000. Ravi receives Rs 2,000 in cash, leaving $15,000 - 2,000 = \text{Rs } 13,000$. Other payments by cheque do not reduce cash in hand.

Step 2: Determine debit and credit The remaining Rs 13,000 is deposited into the bank: debit Bank Account and credit Cash Account by Rs 13,000 each. The bank overdraft of Rs 10,000 is a separate bank balance and does not determine the amount transferred. A and D reverse the entry, while B uses the wrong amount.

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

Quick Tip to Solve: Deduct the cash payment from cash in hand before recording the cash deposit.

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

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

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

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

(D) When a partner dies.

Correct Answer: (D) When a partner dies.

Solution:

Concept:

- Compulsory dissolution follows insolvency of all partners or all except one, or business becoming unlawful.

- Death of a partner is a contingency subject to the partnership agreement.

Step 1: Examine the compulsory grounds Option A leaves fewer than two solvent partners. Options B and C make the business or its conduct in partnership unlawful. Each therefore requires compulsory dissolution.

Step 2: Examine the death of a partner The partnership agreement may provide that surviving partners continue the firm after a death. Death therefore does not invariably compel dissolution of the firm. It is distinguished from illegality, which the partners cannot overcome by an agreement to continue.

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

Quick Tip to Solve: For compulsory dissolution, look for insolvency of all but one partner or illegality.

OR

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

(A) Death of a partner.

(B) Insolvency of a partner.

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

(D) Expiry of the period of partnership.

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

Solution:

Concept:

- Business becoming illegal compels dissolution of a partnership firm.
- Death, insolvency of one partner and expiry of the agreed term are contingencies whose effect is subject to agreement.

Step 1: Identify the unconditional event When the business becomes illegal, the partners cannot lawfully continue it. An agreement between them cannot authorise an illegal business, so the firm must dissolve under option C.

Step 2: Compare the remaining options Death or insolvency of one partner need not end the firm if the agreement allows the remaining partners to continue. Likewise the partners can agree to continue after expiry of the original period. These events in A, B and D do not carry the unconditional consequence that illegality does.

Step 3: Conclusion The firm dissolves when its business becomes illegal. Hence, the correct option is (C).

Quick Tip to Solve: Select illegality when the alternatives depend on the partners' agreement to continue.

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

(A) Rs. 1,30,000

(B) Rs. 2,02,000

(C) Rs. 1,08,000

(D) Rs. 98,000

Correct Answer: (D) Rs. 98,000

Solution:

Concept:

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

Step 1: Calculate Saloni's profit share Saloni receives $50,000 \times 3/5 =$ Rs $30,000$. Her capital increases by this profit share and the additional capital of Rs 32,000.

Step 2: Reverse the capital movements Opening capital is $1,50,000 + 10,000 - 32,000 - 30,000 =$ Rs $98,000$. Add back drawings because they reduced the closing balance; subtract additions and profit because they increased it. Rs 1,30,000, Rs 2,02,000 and Rs 1,08,000 do not reconcile these four movements to the given closing capital.

Step 3: Conclusion Saloniś capital on 1st April, 2023 was Rs 98,000. Hence, the correct option is (D).

Quick Tip to Solve: Work backwards: add drawings to closing capital and subtract profit and additional capital.

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

(A) Rs. 9,90,000

(B) Rs. 9,00,000

(C) Rs. 1,08,000

(D) Rs. 1,18,800

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

Solution:

Concept:

- Debenture interest is calculated on nominal value at the stated coupon rate.
- Premium on issue or redemption does not change the annual coupon interest.

Step 1: Find the interest-bearing amount The nominal value of Mudra Ltd.ś debentures is $9,000 \times 100 =$ Rs $9,00,000$. Debentures were issued on 1st April, so interest is due for the full year ending 31st March.

Step 2: Apply the coupon rate Annual interest is $9,00,000 \times 12/100 =$ Rs $1,08,000$. Rs 9,90,000 is the premium-inclusive issue or redemption amount; Rs 9,00,000 is the principal. Rs 1,18,800 incorrectly applies 12% to the issue proceeds instead of nominal value.

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

Quick Tip to Solve: Use face value for coupon interest and check whether a full year has elapsed.

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

(A) 7 : 4 : 4

(B) 15 : 8 : 7

(C) 1 : 1 : 1

(D) 16 : 7 : 7

Correct Answer: (A) 7 : 4 : 4

Solution:

Concept:

- A continuing partnerś new share equals old share plus the share acquired from the retiring partner.
- Equal acquisition means an equal addition to each old share, not equal final shares.

Step 1: Divide Hari's retiring share The old shares total ten units. Hari owns $5/10 = 1/2$. Each of the three continuing partners gains $(1/2)/3 = 1/6$.

Step 2: Add the gain to each old share Chander: $3/10 + 1/6 = 14/30$; Prakash and Govind each: $1/10 + 1/6 = 8/30$. Thus the ratio is $14 : 8 : 8 = 7 : 4 : 4$. Option C confuses equal gains with equal final shares; B and D do not result from adding the same one-sixth share to each partner.

Step 3: Conclusion The new ratio of Chander, Prakash and Govind is 7:4:4. Hence, the correct option is (A).

Quick Tip to Solve: Add one-third of Hari's share to each continuing partner before simplifying the ratio.

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

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

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

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

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

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

Solution:

Concept:

- The retiring partner is credited with their share of the firmś goodwill.
- Gaining partners are debited in their gaining ratio when goodwill is adjusted without opening its account.

Step 1: Calculate the gains Each old share is $1/3$. Vimal gains $4/7 - 1/3 = 5/21$, and Ghosh gains $3/7 - 1/3 = 2/21$. Their gaining ratio is therefore $5 : 2$.

Step 2: Allocate Bose's goodwill share Boseś share is $2,10,000/3 =$ Rs $70,000$. Debit Vimal by $70,000 \times 5/7 =$ Rs $50,000$ and Ghosh by $70,000 \times 2/7 =$ Rs $20,000$; credit Bose by Rs 70,000. Option A reverses the adjustment, C opens goodwill against instructions, and D compensates Bose for the whole firmś goodwill.

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

Quick Tip to Solve: Compensate Bose for only his one-third share and charge Vimal and Ghosh in their gaining ratio.

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

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

[1 mark]

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

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

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

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

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

Solution:

Concept:

- A debit balance of Profit and Loss Account represents an accumulated loss incurred before admission.
- Accumulated losses are charged to the old partners in their old profit-sharing ratio; the incoming partner does not bear them.

Step 1: Allocate the existing loss Jim and Joy share profits equally. Therefore, each bears Rs $45,000 \times \frac{1}{2} =$ Rs $22,500$. John's new share of $1/5$ does not determine the allocation of this earlier loss.

Step 2: Choose the correct debit and credit The old partners' capital accounts must be debited to reduce their claims, and Profit and Loss Account must be credited by Rs 45,000 to clear its debit balance. Option (B) wrongly includes John; (C) charges him the entire loss; (D) reverses the correct treatment.

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

Quick Tip to Solve: Allocate a pre-admission debit balance only in the old ratio; ignore the new partner's share.

9. Radha and Rohit were partners in a firm. Radha withdrew a fixed amount at the beginning of every quarter for the year ended 31st March, 2024. Interest on drawings is charged at 12% p.a. Interest on Radha's drawings was charged for _____ months. [1 mark]

(A) 3

(B) 6

(C) 4.5

(D) 7.5

Correct Answer: (D) 7.5

Solution:

Concept:

- For equal periodic drawings, interest on total drawings is calculated using the average period outstanding.
- Average period $=$ (first period $+$ last period)$/2$.

Step 1: Identify the four periods Beginning-of-quarter withdrawals occur on 1 April, 1 July, 1 October and 1 January. Up to 31 March, their interest periods are respectively $12, 9, 6, 3$ months. Equal amounts mean that these four periods receive equal weight.

Step 2: Calculate the average period

$$\text{Average period} = \frac{12+9+6+3}{4} = 7.5 \text{ months.}$$

The rate of 12% affects the interest amount, not the average time. Three months is only the last drawing's period, six months applies to quarter-middle drawings, and 4.5 months applies to quarter-end drawings.

Step 3: Conclusion Interest is charged on total drawings for 7.5 months. Hence, the correct option is (D).

Quick Tip to Solve: For beginning-of-quarter drawings, average the first 12 months and last 3 months.

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

(A) Issued Capital

(B) Reserve Capital

(C) Nominal Capital/Registered Capital

(D) Subscribed Capital

Correct Answer: (C) Nominal Capital/Registered Capital

Solution:

Concept:

- Authorised capital is the maximum share capital that a company is authorised to issue under its Memorandum of Association.

- Authorised capital is also called nominal capital or registered capital.

Step 1: Match the definition The question refers to the amount permitted by the Memorandum of Association, rather than the amount actually offered or taken up. This statutory ceiling is nominal or registered capital. Actual issued or subscribed capital can be less than this ceiling.

Step 2: Distinguish the other terms Issued capital is the part offered for subscription, and subscribed capital is the part taken up by subscribers. Reserve capital is the portion of uncalled capital reserved to be called only on winding up. Thus, (A), (B) and (D) describe different concepts and cannot match the stated definition.

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

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

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

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

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

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

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

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

Solution:

Concept:

- In an ordinary partnership, partners have unlimited liability for the obligations of the firm.
- An assertion and its reason must first be judged independently before checking the explanatory link.

Step 1: Judge the assertion Assertion (A) is correct. If the firm's assets are insufficient to pay its debts, partners may have to contribute from their private assets. Their exposure is not confined to the amount of capital they invested in the partnership.

Step 2: Judge the reason Reason (R) is incorrect because it states that liability is limited. For an ordinary partnership, liability for the firm's acts is unlimited; the statement gives the opposite of the applicable principle.

Step 3: Check the explanatory relationship An incorrect reason cannot explain the correct assertion. Option (A) reverses the truth values, while (C) and (D) both incorrectly treat the reason as true. Only option (B) states the correct combination.

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

(B).

Quick Tip to Solve: Judge "limited" carefully: ordinary partners can be required to use private assets for firm debts.

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

(A) Rs. 20,000

(B) Rs. 1,20,000

(C) Rs. 10,000

(D) Rs. 1,60,000

Correct Answer: (A) Rs. 20,000

Solution:

Concept:

- A guaranteed partner receives the guaranteed minimum if the normal profit share is smaller.
- The deficiency is borne by the guaranteeing partners in their agreed ratio, here Pooja and Kumari in 2:1.

Step 1: Find Noori's deficiency Noori's normal share is Rs $3,60,000 \times \frac{1}{4} =$ Rs $90,000$. Compared with the guaranteed Rs 1,20,000, the shortfall is Rs $1,20,000 -$ Rs $90,000 =$ Rs $30,000$.

Step 2: Allocate the deficiency Pooja bears $\frac{2}{2+1}$ of the shortfall, so her burden is Rs $30,000 \times \frac{2}{3} =$ Rs $20,000$. Kumari bears Rs 10,000. Option (B) is the whole guarantee, (C) is Kumari's burden, and (D) is not a deficiency allocation.

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

Quick Tip to Solve: Subtract the normal share from the guarantee first; then apply the guarantors' ratio.

13. LN Ltd. forfeited 200 shares of Rs. 10 each. The amount forfeited was Rs. 1,400. What will be the maximum amount of discount per share at which these shares can be reissued ? [1 mark]

(A) Rs. 1

(B) Rs. 7

(C) Rs. 3

(D) Rs. 4

Correct Answer: (B) Rs. 7

Solution:

Concept:

- Discount allowed on reissue of forfeited shares cannot exceed the forfeited amount attributable to those shares.
- The maximum discount per share equals the relevant forfeited amount divided by the number of shares.

Step 1: Calculate the available discount The forfeited amount relating to 200 shares is Rs 1,400. Therefore, the ceiling per share is

$$\frac{\text{Rs } 1,400}{200} = \text{Rs } 7.$$

This is the capital receipt available to absorb any reissue discount.

Step 2: Check against face value and options At the maximum discount, a fully paid Rs 10 share can be reissued for Rs 3. Thus Rs 3 is the minimum reissue price, not the maximum discount. Rs 1 and Rs 4 are possible smaller discounts, but neither is the maximum requested. The Rs 7 option alone gives the ceiling.

Step 3: Conclusion The maximum discount is Rs 7 per share. Hence, the correct option is (B).

Quick Tip to Solve: Use forfeited amount per share as the discount ceiling; do not confuse it with the reissue price.

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

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

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

To Provision for Bad Debts 30,000

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

To Provision for Bad Debts 6,000

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

To Provision for Bad Debts 2,000

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

Abhinandan's A/c Dr. 2,000

Govindan's A/c Dr. 2,000

To Provision for Bad Debts 6,000

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

To Provision for Bad Debts 6,000

Solution:

Concept:

- On reconstitution, an increase in provision for bad debts is a revaluation loss.
- Only the difference between the required provision and the existing provision is adjusted.

Step 1: Compute the increase Required provision is Rs $3,00,000 \times 10\% =$ Rs $30,000$. Since Rs 24,000 already exists, the additional provision is Rs $30,000 -$ Rs $24,000 =$ Rs $6,000$. Debtors themselves remain at their gross amount.

Step 2: Record the adjustment Journal

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

Option (A) ignores the existing provision; (C) and (D) incorrectly debit partners directly instead of recording this valuation adjustment through Revaluation Account.

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

Quick Tip to Solve: Calculate required provision minus existing provision before deciding the revaluation entry.

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

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

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

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

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

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

Solution:

Concept:

- When goodwill is adjusted without opening Goodwill Account, gaining partners compensate sacrificing partners.
- Sacrifice = old share minus new share; a negative result indicates gain.

Step 1: Compare old and new shares Jayant's share remains $3/6 = 5/10 = 1/2$. Vijayant sacrifices $2/6 - 3/10 = 1/30$, while Anant gains $2/10 - 1/6 = 1/30$. Thus only Vijayant and Anant require a goodwill adjustment.

Step 2: Value the compensation Anant must compensate Vijayant by Rs $6,00,000 \times \frac{1}{30} =$ Rs $20,000$. The gaining partner Anant is debited and sacrificing partner Vijayant credited. Options (B) and (C) reverse the direction; (A) uses the whole firm's goodwill instead of the share transferred.

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

Quick Tip to Solve: Find the fraction transferred before multiplying by goodwill; debit the gaining partner.

OR

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

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

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

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

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

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

Solution:

Concept:

- Sacrifice is the old profit share less the new profit share.
- If the new share exceeds the old share, the difference is a gain; total sacrifice must equal total gain.

Step 1: Find each change Both ratios total 9. Akshay's share falls from $4/9$ to $2/9$, giving a sacrifice of $2/9$. Reet's share rises from $3/9$ to $4/9$, giving a gain of $1/9$. Manya's share rises from $2/9$ to $3/9$, giving a gain of $1/9$.

Step 2: Verify and select Total sacrifice is $2/9$, exactly equal to total gain $1/9 + 1/9 = 2/9$. Option (A) wrongly calls Reet a sacrificer; (B) wrongly calls Akshay a gainer and Manya a sacrificer; (D) reverses all directions. Only (C) correctly identifies every partner's change.

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

Quick Tip to Solve: Compare each partner's numerator directly when both profit-sharing ratios have the same total.

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

(A) Rs. 4,500

(B) Rs. 1,500

(C) Rs. 10,000

(D) Rs. 5,000

Correct Answer: (D) Rs. 5,000

Solution:

Concept:

- On forfeiture, Share Capital Account is debited with the called-up nominal capital on the forfeited shares.
- Securities premium is separate from nominal capital, and an uncalled instalment does not form part of called-up capital.

Step 1: Find called-up nominal capital Each share has a face value of Rs 100, but the first and final call of Rs 50 has not been made. Hence the called-up nominal capital per share is Rs 100 − Rs 50 = Rs 50. The Rs 5 premium included in allotment is not part of Share Capital Account.

Step 2: Calculate the debit and compare For 100 shares, the debit is $100 \times$ Rs 50 = Rs $5,000$. Rs 10,000 wrongly includes the uncalled amount; Rs 1,500 is the unpaid allotment including premium, not called-up capital; Rs 4,500 incorrectly deducts premium from the already nominal called-up amount.

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

Quick Tip to Solve: Debit called-up face value on forfeiture; exclude both uncalled capital and securities premium.

OR

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

(A) Rs. 2,400

(B) Rs. 3,000

(C) Rs. 4,000

(D) Rs. 5,000

Correct Answer: (A) Rs. 2,400

Solution:

Concept:

- Capital reserve receives the forfeiture balance attributable only to shares reissued, after deducting any discount allowed on their reissue.
- A reissue above face value creates securities premium; that premium does not increase the forfeiture profit transferred to capital reserve.

Step 1: Find the amount forfeited per share The final call unpaid is Rs 2 on each share of face value Rs 10. Hence the amount already received and credited to Share Forfeiture Account is $10 - 2 = \text{Rs } 8$ per share. For all 500 shares this is $500 \times 8 = \text{Rs } 4,000$.

Step 2: Restrict the transfer to shares actually reissued Only 300 shares have been reissued. Their proportionate forfeiture balance is $300 \times 8 = \text{Rs } 2,400$. Reissue at Rs 12 against face value Rs 10 gives a premium of Rs 2 per share and no reissue discount, so the full Rs 2,400 is transferred. Rs 4,000 includes unreissued shares; Rs 3,000 is the nominal capital of the reissued shares, and Rs 5,000 is the nominal capital forfeited.

Step 3: Conclusion The transfer to Capital Reserve Account is $\boxed{\text{Rs } 2,400}$. Hence, the correct option is (A).

Quick Tip to Solve: Allocate the forfeited amount to 300 reissued shares before considering any reissue discount.

17. Piyush and Mita were partners in a firm sharing profits and losses in the ratio of 5 : 2. On 31st March, 2024, the firm was dissolved. After transferring various assets (other than cash) and third-party liabilities to Realisation Account, the following transactions took place.

(i) Investments whose book value was Rs. 50,000 were realised at 70%.

(ii) Unrecorded liabilities of Rs. 21,000 were paid.

(iii) Piyush took over stock worth Rs. 78,000 at Rs. 65,000.

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

Solution:

Concept:

- Once assets and external liabilities have been transferred, cash realisations are credited to Realisation Account and payments are debited to it.
- An asset taken over by a partner is debited to that partner's Capital Account at its agreed takeover value, with a credit to Realisation Account.

Step 1: Determine the amounts to record Investments realise $50,000 \times 70/100 = \text{Rs } 35,000$. The book value of Rs 50,000 has already been transferred to Realisation Account, so it is not credited again. The unrecorded liability is paid at Rs 21,000. Stock taken by Piyush is recorded at the agreed Rs 65,000, even though its book value was Rs 78,000. The difference is absorbed in Realisation Account; it does not require a separate loss entry.

Step 2: Pass the dissolution entries

Journal of Piyush and Mita

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2024	Bank A/c Dr.		35,000	
	To Realisation A/c			35,000
	(Being investments realised at 70% of book value)			
31-3-2024	Realisation A/c Dr.		21,000	
	To Bank A/c			21,000
	(Being unrecorded liability paid)			
31-3-2024	Piyush's Capital A/c Dr.		65,000	
	To Realisation A/c			65,000
	(Being stock taken over by Piyush at the agreed value)			

Step 3: Conclusion Credit Realisation Account with Rs 35,000 and Rs 65,000; debit it with Rs 21,000 through the entries above.

Quick Tip to Solve: After asset transfer, use the actual realisation or takeover value; never credit the asset account again.

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

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

Solution:

Concept:

- Net assets acquired equal assets taken over less liabilities assumed. Purchase consideration exceeding net assets is goodwill.
- Debentures issued at a premium settle the vendor at issue price; face value is credited to Debentures Account and the excess to Securities Premium Account.

Step 1: Compute goodwill and the debenture issue Assets acquired total $12,00,000 + 20,00,000 =$ Rs $32,00,000$. Net assets are $32,00,000 - 3,00,000 =$ Rs $29,00,000$. Thus goodwill is $35,00,000 - 29,00,000 =$ Rs $6,00,000$. After the bank draft, the consideration remaining is $35,00,000 - 2,00,000 =$ Rs $33,00,000$. Each debenture settles Rs 110, so the number issued is $33,00,000/110 = 30,000$. Face value is Rs 30,00,000 and securities premium is Rs 3,00,000.

Step 2: Record acquisition and settlement

Journal of Varsha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Furniture A/c Dr.		12,00,000	
	Machinery A/c Dr.		20,00,000	
	Goodwill A/c Dr.		6,00,000	
	To Liabilities A/c			3,00,000
	To Rama Ltd.			35,00,000
	(Being assets and liabilities acquired for the agreed consideration)			
1-4-2024	Rama Ltd. Dr.		35,00,000	
	To Bank A/c			2,00,000
	To 11% Debentures A/c			30,00,000
	To Securities Premium A/c			3,00,000
	(Being vendor settled by bank draft and 30,000 debentures issued at 10% premium)			

Step 3: Conclusion Goodwill is Rs 6,00,000; 30,000 debentures are issued, crediting face capital Rs 30,00,000 and securities premium Rs 3,00,000.

Quick Tip to Solve: Divide the unpaid purchase consideration by Rs 110, the issue price, rather than Rs 100 face value.

OR

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

(i) Calculate the number of debentures issued.

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

Solution:

Concept:

- For debentures issued at a discount, the issue price equals face value less discount. The vendor is settled at this issue price.
- The discount is debited to Discount on Issue of Debentures Account; Debentures Account is credited with the full nominal amount.

Step 1: (i) Calculate the number of debentures Each Rs 100 debenture is issued at a discount of $100 \times 10/100 = \text{Rs } 10$. Therefore its issue price is $100 - 10 = \text{Rs } 90$. The number required to settle machinery costing Rs 1,98,000 is

$$N = \frac{1,98,000}{90} = 2,200.$$

The nominal value of the issue is $2,200 \times 100 = \text{Rs } 2,20,000$, and total discount is $2,200 \times 10 = \text{Rs } 22,000$. The 8% rate specifies interest, not the issue price.

Step 2: (ii) Pass the journal entries

Journal of Roshni Ltd.

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

Step 3: Conclusion Roshni Ltd. issues $\boxed{2,200}$ debentures; nominal value is Rs 2,20,000 and discount is Rs 22,000.

Quick Tip to Solve: Use Rs 90 to calculate the number issued, then use Rs 100 to credit the debenture liability.

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

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

Solution:

Concept:

- Existing goodwill is written off against the old partners in their old profit-sharing ratio before admission.
- The incoming partner compensates sacrificing partners for his share of goodwill. With no changed ratio specified, the old partners sacrifice in their old ratio, here 4:1.
- Any goodwill premium not brought in cash is adjusted by debiting the incoming partner's Capital Account and crediting the sacrificing partners' capital accounts.

Step 1: Calculate the adjustments Existing goodwill of Rs 50,000 is written off: Bharat $50,000 \times 4/5 =$ Rs $40,000$, Ishu $50,000 \times 1/5 =$ Rs $10,000$. Rishab's share of goodwill is $4,00,000 \times 1/4 =$ Rs $1,00,000$. Of this, Rs 60,000 is brought in cash and Rs 40,000 is adjusted through his capital. The cash premium is shared as Rs 48,000 and Rs 12,000; the shortfall is shared as Rs 32,000 and Rs 8,000.

Step 2: Pass the admission entries

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bharat's Capital A/c Dr.		40,000	
	Ishu's Capital A/c Dr.		10,000	
	To Goodwill A/c			50,000
	(Being existing goodwill written off in the old ratio 4:1)			
	Bank A/c Dr.		2,60,000	
	To Rishab's Capital A/c			2,00,000
	To Premium for Goodwill A/c			60,000
	(Being capital and part of goodwill premium received in cash)			
	Premium for Goodwill A/c Dr.		60,000	
	Rishab's Capital A/c Dr.		40,000	
	To Bharat's Capital A/c			80,000
	To Ishu's Capital A/c			20,000
	(Being total goodwill compensation credited in the sacrificing ratio 4:1, including the unpaid premium)			

Step 3: Conclusion Write off old goodwill Rs 50,000; credit Bharat and Ishu with total goodwill compensation of Rs 80,000 and Rs 20,000 respectively, debiting Rishab's capital for the unpaid Rs 40,000.

Quick Tip to Solve: Handle old goodwill and the incoming partner's premium separately; distribute each adjustment in its appropriate ratio.

OR

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

Solution:

Concept:

- Normal profit is the return expected on capital employed: Normal profit $=$ Capital employed $\times$ Normal rate$/100$.
- Super-profit is average net profit less normal profit. Goodwill equals super-profit multiplied by the agreed number of years' purchase.
- The incoming partner brings his fraction of the firm's goodwill as premium; his capital contribution is a separate matter.

Step 1: Calculate normal profit The capital employed is Rs 2,00,000 and the normal rate of return is 10%. Therefore,

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

This is the annual profit that a comparable business would normally earn on this capital.

Step 2: Calculate super-profit and value the goodwill The average net profit is Rs 80,000. Only its excess over normal profit represents super-profit:

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

Goodwill is valued at three years' purchase of this amount:

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

Multiplying the entire average profit by three would incorrectly include the normal return.

Step 3: Calculate Sonu's premium Sonu is admitted for $1/5$ of the profits, so he compensates the old partners for that fraction of the total goodwill:

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

The old profit-sharing ratio $4 : 3$ does not affect the total premium payable. It would matter for an allocation only after the partners' sacrifices were determined.

Step 4: Conclusion Sonu must bring goodwill premium of $\boxed{\text{Rs } 36,000}$.

Quick Tip to Solve: First deduct normal profit, then multiply by three, and only then take Sonu's one-fifth share.

20. Amar, Ali and Ajay were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 1st April, 2024, Ajay decided to retire from the firm. On that day, the balance in his capital account after making necessary adjustments on account of reserves, revaluation of assets and reassessment of liabilities was Rs. 2,64,000. Amar and Ali agreed to pay him Rs. 3,00,000 in full settlement of his claim.

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

Solution:

Concept:

- The excess of the agreed settlement over the adjusted capital balance is the retiring partner's share of hidden goodwill.
- Continuing partners compensate the retiring partner for goodwill in their gaining ratio. With no different future ratio given, Amar and Ali continue in their relative old ratio $2 : 2 = 1 : 1$.

Step 1: Find Ajay's share of goodwill Ajay's capital after reserves, revaluation and reassessment of liabilities is Rs 2,64,000. His agreed claim is Rs 3,00,000. As the other adjustments have already been made, the excess is goodwill compensation:

$$\text{Ajay's goodwill share} = 3,00,000 - 2,64,000 = \text{Rs } 36,000.$$

This is Ajay's own share, not the goodwill of the whole firm. His old share is $1/5$, so the implied firm goodwill, if needed as a check, is $36,000 \times 5 = \text{Rs } 1,80,000$.

Step 2: Allocate compensation to the continuing partners Amar and Ali share future profits equally. Each gains $1/2 - 2/5 = 1/10$, so the gaining ratio is $1 : 1$. Thus each bears $36,000/2 = \text{Rs } 18,000$. Debit their capital accounts, because their claims reduce, and credit Ajay's capital account, because his claim increases.

Step 3: Pass the goodwill adjustment entry Journal of the Firm (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 2024	Amar's Capital A/c Dr.		18,000	
	Ali's Capital A/c Dr.		18,000	
	To Ajay's Capital A/c			36,000
	(Being Ajay's share of goodwill adjusted through gaining partners' capital accounts equally.)			

After this entry Ajay's capital balance becomes $2,64,000 + 36,000 = \text{Rs } 3,00,000$, matching the agreed settlement. No Goodwill Account is raised.

Step 4: Conclusion Ajay's share of goodwill is $\boxed{\text{Rs } 36,000}$; debit Amar and Ali by Rs 18,000 each and credit Ajay by Rs 36,000.

Quick Tip to Solve: Compare settlement with already adjusted capital; debit the gaining partners only for that difference.

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

(i) Issued 1,000, 10% Debentures of Rs. 100 each at 5% premium, redeemable at a premium of 10% after 5 years.

(ii) Issued 5,000, 10% Debentures of Rs. 100 each at a premium of 10%, redeemable at par after 5 years. [4 marks]

Solution:

Concept:

- Debentures are credited at nominal value. Issue premium is credited to Securities Premium Reserve; bank receives nominal value plus issue premium.
- Premium payable on redemption is credited to Premium on Redemption of Debentures Account and debited to Loss on Issue of Debentures Account at issue.
- The 10% attached to the debentures is the annual interest rate; it does not determine the issue proceeds.

Step 1: Compute amounts for transaction (i) Nominal value of 1,000 debentures is $1,000 \times 100 =$ Rs $1,00,000$. Issue premium is $1,00,000 \times 5/100 =$ Rs $5,000$, hence bank receives Rs 1,05,000. Redemption premium is $1,00,000 \times 10/100 =$ Rs $10,000$, recognised as loss on issue with a corresponding liability. The five-year term does not change these issue-date amounts.

Step 2: Record issue (i) Journal of RN Ltd. — Transaction (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,05,000	
	Loss on Issue of Debentures A/c Dr.		10,000	
	To 10% Debentures A/c			1,00,000
	To Securities Premium Reserve A/c			5,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being 1,000 debentures of Rs 100 each issued at 5% premium, redeemable at 10% premium after five years.)			

Total debits and credits are each Rs 1,15,000. Issue premium and redemption premium have separate treatment.

Step 3: Compute and record transaction (ii) Nominal value is $5,000 \times 100 =$ Rs $5,00,000$. Issue premium is $5,00,000 \times 10/100 =$ Rs $50,000$, so the proceeds are Rs 5,50,000. Redemption is at par; therefore no redemption premium or loss on issue arises.

Journal of RN Ltd. — Transaction (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		5,50,000	
	To 10% Debentures A/c			5,00,000
	To Securities Premium Reserve A/c			50,000
	(Being 5,000 debentures of Rs 100 each issued at 10% premium, redeemable at par after five years.)			

Both sides total Rs 5,50,000. No interest payment or redemption entry is due as part of the requested issue entries.

Step 4: Conclusion (i) Bank debit Rs 1,05,000 and loss debit Rs 10,000; debentures credit Rs 1,00,000, securities premium credit Rs 5,000 and redemption premium credit Rs 10,000. (ii) Bank debit Rs 5,50,000; debentures credit Rs 5,00,000 and securities premium credit Rs 50,000.

Quick Tip to Solve: Calculate both premiums on face value separately; redemption at par creates no loss-on-issue debit.

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

(i) Balance in his capital account less drawings.

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

(iii) His share of goodwill.

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

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

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

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

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

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

Solution:

Concept:

- A deceased partner's capital account is credited with opening capital, interest on capital, share of goodwill and profit up to death; drawings are debited.
- Kishore's old profit share is $1/6$. From 1st April to 1st August, the elapsed accounting period is four months. The balance due is transferred to his executors' account.

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

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

The date of each drawing is not specified and no interest on drawings is provided in the deed. Deduct the stated drawings of Rs 90,000 separately. Kishore's share of goodwill is

$$60,000 \times \frac{1}{6} = \text{Rs } 10,000.$$

In the absence of a stated new ratio, Hans and Sohan continue in their relative old ratio of 3:2. Their goodwill compensation is Rs 6,000 and Rs 4,000 respectively.

Step 2: Calculate profit up to death Use the average of all four completed years, rather than the

latest year's profit:

$$\text{Average annual profit} = \frac{2,00,000 + 2,20,000 + 1,20,000 + 1,80,000}{4}$$
$$= \text{Rs } 1,80,000.$$
$$\text{Kishore's profit share} = 1,80,000 \times \frac{4}{12} \times \frac{1}{6}$$
$$= \text{Rs } 10,000.$$

This interim profit is credited through Profit and Loss Suspense Account because the firm's annual accounts have not yet been closed.

Step 3: Prepare Kishore's Capital Account Kishore's Capital Account as on 1st August, 2024

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Drawings	90,000	By Balance b/d	4,00,000
To Kishore's Executors	3,46,000	By Interest on Capital	16,000
		By Hans's Capital	6,000
		By Sohan's Capital	4,000
		By P&L Suspense	10,000
Total	4,36,000	Total	4,36,000

The balancing amount transferred to the executors equals capital plus the three entitlements less drawings. Transfer to the executors closes Kishore's capital account; it is not an immediate cash payment.

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

Quick Tip to Solve: For a death on 1st August, count four months from 1st April for both interest and interim profit.

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

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

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Land and Building	9,00,000
Raja 3,00,000		Plant and Machinery	6,00,000
Rajan 4,00,000		Furniture	1,20,000
Rajani 5,00,000	12,00,000	Debtors 80,000	
General Reserve	1,60,000	Less: Provision 8,000	72,000
Creditors	80,000	Bills Receivable	18,000
Raja's Loan	3,00,000	Stock	1,00,000
Mrs. Raja's Loan	1,90,000	Bank	1,30,000
Outstanding Wages	10,000		
Total	19,40,000	Total	19,40,000

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

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

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

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

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

(v) Outstanding wages were paid in full.

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

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

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- Realisation Account receives the book values of non-cash assets on its debit side and external liabilities plus asset provisions on its credit side. Bank and a partner's loan are excluded from these transfers.
- Actual asset proceeds and assets taken over by partners are credited. Payments of external liabilities, related interest and realisation expenses are debited. Profit is distributed in the old ratio, here $2:2:1$.

Step 1: Work out asset proceeds and takeovers Plant and machinery realises $6,00,000 - 40,000 =$ Rs $5,60,000$. Debtors and bills receivable jointly realise Rs 90,000; record one combined receipt, avoiding double counting.

Raja takes over stock with a book value of $1,00,000 \times 60\% =$ Rs $60,000$. The agreed value is $60,000 \times 90\% =$ Rs $54,000$, credited to Realisation Account and debited to Raja's Capital Account. The remaining stock yields Rs 44,000. Total cash received from assets is

$$20,00,000 + 5,60,000 + 90,000 + 44,000 = \text{Rs } 26,94,000.$$

Furniture is surrendered directly to creditors in full settlement. Both its book value and the creditors' balance are transferred to Realisation Account, but no separate bank payment or receipt is recorded for their settlement.

Step 2: Determine liabilities, expenses and profit Transfer debtors at their gross book value of Rs 80,000 and separately credit the provision for doubtful debts of Rs 8,000. This preserves the net carrying amount of Rs 72,000 without deducting the provision twice.

Mrs. Raja's loan is an external liability, unlike Raja's own loan. Its settlement requires $1,90,000 + 10,000 =$ Rs $2,00,000$. Outstanding wages require Rs 10,000 and expenses require Rs 8,000. Total payments through Realisation Account are Rs 2,18,000.

The debit transfers of assets total Rs 18,18,000. Credit transfers total $80,000 + 1,90,000 + 10,000 + 8,000 =$ Rs $2,88,000$. Thus,

$$\begin{aligned}\text{Realisation profit} &= (2,88,000 + 26,94,000 + 54,000) \\ &\quad - (18,18,000 + 2,18,000) \\ &= \text{Rs } 10,00,000.\end{aligned}$$

Raja and Rajan each receive Rs 4,00,000 and Rajani receives Rs 2,00,000. General Reserve is transferred directly to partners' capitals, and Raja's loan is settled separately; neither enters this account.

Step 3: Prepare Realisation Account Realisation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Land and Building	9,00,000	By Provision for doubtful debts	8,000
To Plant and Machinery	6,00,000	By Creditors	80,000
To Furniture	1,20,000	By Mrs. Raja's Loan	1,90,000
To Debtors	80,000	By Outstanding Wages	10,000
To Bills Receivable	18,000	By Bank (Land and Building)	20,00,000
To Stock	1,00,000	By Bank (Plant and Machinery)	5,60,000
To Bank (Wages)	10,000	By Bank (Debtors and B/R)	90,000
To Bank (Mrs. Raja's Loan)	2,00,000	By Raja's Capital (Stock)	54,000
To Bank (Expenses)	8,000	By Bank (Stock)	44,000
To Raja's Capital (Profit)	4,00,000		
To Rajan's Capital (Profit)	4,00,000		
To Rajani's Capital (Profit)	2,00,000		
Total	30,36,000	Total	30,36,000

The account closes after the realisation profit is transferred to the partners; there is no balance carried down.

Step 4: Conclusion Realisation profit is $\boxed{\text{Rs } 10,00,000}$, distributed to Raja, Rajan and Rajani as Rs 4,00,000, Rs 4,00,000 and Rs 2,00,000 respectively.

Quick Tip to Solve: When creditors accept an asset in full settlement, transfer both book balances but record no fictitious bank payment.

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

On Application - Rs. 20 per share

On Allotment - Rs. 40 per share

On First call - Rs. 20 per share

On Second and Final Call - Balance

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

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

Solution:

Concept:

- Pro-rata allotment distributes the 70,000 shares among applications for 1,00,000 shares in the ratio $7:10$; excess application money reduces allotment payable.
- On forfeiture, debit share capital with called-up capital, credit the unpaid instalment, and credit Share Forfeiture with capital already received. Uncalled capital is excluded.

Step 1: Calculate pro-rata allotment and the application adjustment Application received $= 1,00,000 \times 20 =$ Rs $20,00,000$. Application capital $= 70,000 \times 20 =$ Rs $14,00,000$; the excess Rs 6,00,000 is adjusted towards allotment. Jay receives $1,000 \times 7/10 = 700$ shares. His application payment is Rs 20,000, of which Rs 14,000 is application capital and Rs 6,000 is adjusted against allotment. Thus his unpaid allotment is $700 \times 40 - 6,000 =$ Rs $22,000$. Total allotment cash received is $28,00,000 - 6,00,000 - 22,000 =$ Rs $21,78,000$.

Step 2: Record application, allotment and the first forfeiture Journal of Mayank Ltd. (application and allotment)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		20,00,000	
	To Share Application A/c			20,00,000
	(Being application money received on 1,00,000 shares)			
	Share Application A/c Dr.		20,00,000	
	To Share Capital A/c			14,00,000
	To Share Allotment A/c			6,00,000
	(Being application money transferred and excess adjusted)			
	Share Allotment A/c Dr.		28,00,000	
	To Share Capital A/c			28,00,000
	(Being allotment due on 70,000 shares at Rs 40 each)			
	Bank A/c Dr.		21,78,000	
	To Share Allotment A/c			21,78,000
	(Being allotment received except Rs 22,000 due from Jay)			
	Share Capital A/c Dr.		42,000	
	To Share Allotment A/c			22,000
	To Share Forfeiture A/c			20,000
	(Being Jay's 700 shares forfeited at Rs 60 called-up)			

Step 3: Calculate the first call after forfeiting Jay's shares Only $70,000 - 700 = 69,300$ shares remain for the first call. Hence the call due is $69,300 \times 20 =$ Rs $13,86,000$. Meenakshi fails to pay $1,400 \times 20 =$ Rs $28,000$, leaving cash receipts of Rs 13,58,000. Her shares have Rs 80 called-up each, but Rs 60 each has already been paid through application and allotment. Therefore, Share Capital is debited by Rs 1,12,000 and Share Forfeiture is credited by Rs 84,000.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		13,86,000	
	To Share Capital A/c			13,86,000
	(Being first call due on 69,300 shares at Rs 20 each)			
	Bank A/c Dr.		13,58,000	
	To Share First Call A/c			13,58,000
	(Being first call received except on 1,400 shares of Meenakshi)			
	Share Capital A/c Dr.		1,12,000	
	To Share First Call A/c			28,000
	To Share Forfeiture A/c			84,000
	(Being Meenakshi's 1,400 shares forfeited at Rs 80 called-up)			

Step 5: Conclusion Jay: 700 shares forfeited, with Rs 20,000 credited to Share Forfeiture. Meenakshi: 1,400 shares forfeited, with Rs 84,000 credited to Share Forfeiture. No entry is passed for the unmade second and final call.

Quick Tip to Solve: Apply the excess application money to the defaulting shareholder individually before computing unpaid allotment; remove forfeited shares before making the next call.

OR

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

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

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

Solution:

Concept:

- Forfeiture cancels called-up capital. Reverse securities premium when it was due but never received; retain capital actually received in Share Forfeiture.
- Reissue discount is charged to the forfeiture relating to the reissued shares. Transfer only the resulting surplus on those shares to Capital Reserve.

Step 1: Compute amounts for Sierra Ltd. The unmade first and final call is Rs 3 per share. Thus capital called-up is $10-3=$ Rs 7 per share, totalling Rs 3,500. Unpaid allotment is $500\times5=$ Rs $2,500$, including unpaid premium of $500\times2=$ Rs $1,000$. Capital already received is $500\times(7-3)=$ Rs $2,000$. Since the premium included in allotment was not received, reverse it on forfeiture. On reissue, Rs 11 is received for each fully paid Rs 10 share: Rs 5,000 is share capital and Rs 500 is fresh securities premium. The reissue is above face value, so no forfeiture balance is used as discount. All Rs 2,000 is capital profit.

Step 2: Pass the entries for Sierra Ltd. Journal of Sierra Ltd.

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

Step 3: Compute amounts for Mahira Ltd. The second and final call of Rs 2 has not been made, so called-up capital is $10-2=$ Rs 8 per share. Debit Share Capital by $800\times8=$ Rs $6,400$. The unpaid first call is $800\times3=$ Rs $2,400$, while capital received is $800\times5=$ Rs $4,000$. Of these shares, only 400 are reissued. Their paid-up capital is $400\times8=$ Rs $3,200$, against cash of $400\times7=$ Rs $2,800$, creating Rs 400 discount. Their related forfeiture is $4,000\times400/800=$ Rs $2,000$, so capital profit is $2,000-400=$ Rs $1,600$. The other Rs 2,000 stays in Share Forfeiture for the 400 shares not reissued.

Step 4: Pass the entries for Mahira Ltd. Journal of Mahira Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		6,400	
	To Share First Call A/c			2,400
	To Share Forfeiture A/c			4,000
	(Being 800 shares forfeited with Rs 8 called-up each)			
	Bank A/c Dr.		2,800	
	Share Forfeiture A/c Dr.		400	
	To Share Capital A/c			3,200
	(Being 400 shares reissued at Rs 7 as Rs 8 paid-up)			
	Share Forfeiture A/c Dr.		1,600	
	To Capital Reserve A/c			1,600
	(Being profit on the 400 reissued shares transferred)			

Step 5: Conclusion Sierra Ltd.: transfer Rs 2,000 to Capital Reserve. Mahira Ltd.: transfer Rs 1,600 to Capital Reserve and retain Rs 2,000 in Share Forfeiture for shares not yet reissued.

Quick Tip to Solve: Compare reissue cash with the stated paid-up value, then transfer forfeiture profit only for the shares actually reissued.

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

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

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

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

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

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

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

(iv) Furniture will be depreciated by 10%.

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

(vi) Outstanding electricity bill will be paid off.

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

Solution:

Concept:

- Admission revaluation and accumulated reserves belong to the old partners in their old ratio, $2:3$. Goodwill premium compensates the sacrificing partners.
- The sacrificing shares are $2/5 - 2/10 = 2/10$ for Uma and $3/5 - 3/10 = 3/10$ for Umesh, giving a sacrificing ratio of $2:3$.

Step 1: Calculate the adjustments Furniture depreciation is $1,00,000 \times 10\% =$ Rs $10,000$. After writing off bad debts, debtors are $80,000 - 3,000 =$ Rs $77,000$; the required provision is $77,000 \times 5\% =$ Rs $3,850$. Hence the existing provision of Rs 5,000 is reduced by Rs 1,150. Revaluation profit is

$$2,00,000 - 10,000 - 3,000 + 1,150 = \text{Rs } 1,88,150.$$

Uma receives Rs 75,260 and Umesh Rs 1,12,890. General reserve and the workmen compensation fund, with no claim stated, are distributed to old partners. Paying an already recorded electricity liability produces no fresh loss.

Step 2: Record capital, goodwill and accumulated reserves Journal of Uma and Umesh

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Daya's Capital A/c To Premium for Goodwill A/c (Being capital and goodwill premium received from Daya)		12,00,000	 10,00,000 2,00,000
	Premium for Goodwill A/c Dr. To Uma's Capital A/c To Umesh's Capital A/c (Being premium transferred in the sacrificing ratio of 2 : 3)		2,00,000	 80,000 1,20,000
	General Reserve A/c Dr. To Uma's Capital A/c To Umesh's Capital A/c (Being general reserve distributed in the old ratio)		75,000	 30,000 45,000
	Workmen Compensation Fund A/c Dr. To Uma's Capital A/c To Umesh's Capital A/c (Being unclaimed compensation fund distributed in the old ratio)		25,000	 10,000 15,000

Step 3: Record revaluation and settlement Journal of Uma and Umesh (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Land and Building A/c Dr. To Revaluation A/c (Being increase in property value recorded)		2,00,000	 2,00,000
	Revaluation A/c Dr. To Furniture A/c (Being furniture depreciated by 10 percent)		10,000	 10,000
	Revaluation A/c Dr. To Debtors A/c (Being bad debts written off)		3,000	 3,000
	Provision for Doubtful Debts A/c Dr. To Revaluation A/c (Being provision reduced to Rs 3,850 on remaining debtors)		1,150	 1,150
	Revaluation A/c Dr. To Uma's Capital A/c To Umesh's Capital A/c (Being revaluation profit distributed in the old ratio)		1,88,150	 75,260 1,12,890
	Outstanding Electricity Bill A/c Dr. To Bank A/c (Being outstanding electricity bill paid)		10,000	 10,000

Step 4: Conclusion Daya is admitted with capital of Rs 10,00,000; the goodwill premium is credited Rs 80,000 to Uma and Rs 1,20,000 to Umesh. Revaluation profit of Rs 1,88,150 is shared in the old ratio of 2 : 3.

Quick Tip to Solve: Calculate the new provision only after deducting bad debts, and distribute pre-admission gains in the old ratio.

OR

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

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

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals : Naval 2,00,000 Nyaya 3,00,000 Nritya 5,00,000	10,00,000	Land and Building Plant and Machinery Furniture Stock	9,50,000 2,00,000 50,000 70,000
General Reserve	80,000	Debtors 95,000 Less : Provision for doubtful debts 5,000	90,000
Mrs. Naval's Loan	2,00,000	Bank	70,000
Creditors	1,50,000		
	14,30,000		14,30,000

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

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

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

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

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

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

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

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

Solution:

Concept:

- Revaluation profit and general reserve are distributed among all partners in the old ratio $3 : 5 : 2$.
- As no new ratio is specified, Naval and Nritya continue in their relative old ratio $3 : 2$. The gaining ratio is therefore $3 : 2$, used to compensate Nyaya for goodwill.

Step 1: Calculate revaluation and goodwill The increase in land and building is Rs 50,000. Depreciation on plant and machinery is $2,00,000 \times 10\% = \text{Rs } 20,000$. All debtors are good, so the entire Rs 5,000 provision is released; unrecorded investments are recognised at Rs 65,000.

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

The shares of Naval, Nyaya and Nritya are Rs 30,000, Rs 50,000 and Rs 20,000. Their shares of the Rs 80,000 reserve are Rs 24,000, Rs 40,000 and Rs 16,000 respectively. Nyaya's goodwill share is $1,20,000 \times 5/10 = \text{Rs } 60,000$. Naval and Nritya bear Rs 36,000 and Rs 24,000 in their gaining ratio. No goodwill asset is raised.

Step 2: Prepare Revaluation Account Revaluation Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Plant and Machinery	20,000	By Land and Building	50,000	
	To Naval's Capital	30,000	By Provision for	5,000	
	To Nyaya's Capital	50,000	Doubtful Debts		
	To Nritya's Capital	20,000	By Investments	65,000	
	Total	1,20,000	Total	1,20,000	

Step 3: Prepare capital accounts The following accounts show every capital adjustment. The retiring partner is settled through a loan, so no bank payment is recorded.

Naval's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Nyaya's Capital	36,000	By Balance b/d	2,00,000	
	To Balance c/d	2,18,000	By General Reserve	24,000	
			By Revaluation	30,000	
	Total	2,54,000	Total	2,54,000	

Nyaya's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Nyaya's Loan	4,50,000	By Balance b/d	3,00,000	
			By General Reserve	40,000	
			By Revaluation	50,000	
			By Naval's Capital	36,000	
			By Nritya's Capital	24,000	
	Total	4,50,000	Total	4,50,000	

Nritya's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Nyaya's Capital	24,000	By Balance b/d	5,00,000	
	To Balance c/d	5,12,000	By General Reserve	16,000	
			By Revaluation	20,000	
	Total	5,36,000	Total	5,36,000	

Step 4: Conclusion Revaluation profit is Rs 1,00,000. Naval and Nritya have closing capitals of Rs 2,18,000 and Rs 5,12,000 respectively; Rs 4,50,000 payable to Nyaya is transferred to his Loan Account.

Quick Tip to Solve: Use the old ratio for reserve and revaluation, but the gaining ratio for the retiring partner's goodwill.

26. Neera Ltd. is registered with an authorised capital of Rs. 2,00,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 2,00,000 equity shares at a premium of Rs. 2 per share. Applications were received for 1,95,000 shares and allotment was made to all the applicants. All calls were made and duly received except the final call of Rs. 2 per share on 5,000 shares. The company forfeited these shares. Answer the following questions : [6 marks]

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

(A) Rs. 19,50,000

(B) Rs. 19,40,000

(C) Rs. 20,00,000

(D) Rs. 2,00,00,000

Correct Answer: (B) Rs. 19,40,000

Solution:

Concept:

- Share capital includes paid-up capital on outstanding shares plus the amount originally paid towards face value on forfeited shares pending reissue.
- Securities premium is excluded from share capital.

Step 1: Find the surviving fully paid capital After forfeiture, $1,95,000 - 5,000 = 1,90,000$ shares remain. Their fully paid face value is $1,90,000 \times 10 =$ Rs $19,00,000$.

Step 2: Include the forfeited capital The forfeited shares had paid $10 - 2 =$ Rs 8 each towards capital. Share Forfeiture is therefore $5,000 \times 8 =$ Rs $40,000$. Total share capital is $19,00,000 + 40,000 =$ Rs $19,40,000$. Rs 19,50,000 ignores the unpaid final call; Rs 20,00,000 is issued capital, and Rs 2,00,00,000 is authorised capital.

Step 3: Conclusion The share capital shown is Rs 19,40,000. Hence, the correct option is (B).

Quick Tip to Solve: After forfeiture, add the forfeiture balance to fully paid capital; keep securities premium separate.

26(ii). 'Subscribed but not fully paid capital' to be shown in 'Notes to Accounts' will be : [1 mark]

(A) Rs. 19,00,000

(B) Rs. 19,40,000

(C) Rs. 20,00,000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- Subscribed but not fully paid capital relates to shares still outstanding on which part of the called-up amount remains unpaid.

- Forfeiture cancels the defaulting shares and removes their calls in arrears.

Step 1: Identify the shares outstanding after forfeiture The default relates to $5,000$ shares, and all these shares have been forfeited. The remaining $1,95,000 - 5,000 = 1,90,000$ shares are fully paid.

Step 2: Classify the capital correctly There are no outstanding partly paid shares. Thus this category is nil. Rs 19,00,000 is subscribed and fully paid capital; Rs 19,40,000 includes share forfeiture within share capital, while Rs 20,00,000 is issued capital. None is a partly paid balance after forfeiture.

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

Quick Tip to Solve: Check whether defaulting shares still exist: forfeited shares do not remain subscribed but partly paid.

26(iii). The amount of 'Authorised Capital' to be shown in 'Notes to Accounts' will be : [1 mark]

(A) Rs. 20,00,000

(B) Rs. 2,00,00,000

(C) Rs. 19,50,000

(D) Rs. 19,40,000

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

Solution:

Concept:

- Authorised capital is the maximum nominal share capital permitted by the company's Memorandum of Association.
- Issue, subscription, unpaid calls and forfeiture affect other capital categories, not the authorised limit.

Step 1: Read the registered capital limit The company is registered with authorised capital of Rs 2,00,00,000, divided into shares of Rs 10 each. Thus the authorised number is $2,00,00,000/10 = 20,00,000$ shares.

Step 2: Distinguish the other figures The invitation for 2,00,000 shares gives issued capital of Rs 20,00,000. Rs 19,50,000 is the nominal value of the shares initially allotted, while Rs 19,40,000 is share capital after adjusting forfeiture. These amounts do not alter the registered ceiling, so options (A), (C) and (D) are incorrect.

Step 3: Conclusion Authorised capital is Rs 2,00,00,000. Hence, the correct option is (B).

Quick Tip to Solve: For authorised capital, use the registered nominal limit and ignore subsequent subscription and call defaults.

26(iv). The amount of 'Issued Capital' to be shown in 'Notes to Accounts' will be : [1 mark]

(A) Rs. 20,00,000

(B) Rs. 9,50,000

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

(D) Rs. 9,40,000

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

Solution:

Concept:

- Issued capital is the face value of the shares offered by a company for subscription.
- Securities premium is disclosed separately from share capital.

Step 1: Identify the shares issued Neera Ltd. invited applications for $2,00,000$ equity shares. Issued capital is based on this offer, even though applications were received for only $1,95,000$ shares. The face value is Rs 10; the Rs 2 premium does not form part of share capital.

Step 2: Compute issued capital

$$\text{Issued capital} = 2,00,000 \times \text{Rs } 10 = \text{Rs } 20,00,000.$$

The lower subscription and subsequent forfeiture affect subscribed capital, not the number originally issued. Hence Rs 9,50,000, Rs 1,00,00,000 and Rs 9,40,000 do not represent the issued face value.

Step 3: Conclusion Issued capital is Rs 20,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Use shares offered, not shares applied for, when calculating issued capital.

26(v). The amount of 'Subscribed and fully paid share capital' to be shown in 'Notes to Accounts' will be : [1 mark]

(A) Rs. 19,50,000

(B) Rs. 19,40,000

(C) Rs. 19,00,000

(D) Rs. 1,90,000

Correct Answer: (C) Rs. 19,00,000

Solution:

Concept:

- Subscribed and fully paid capital includes only shares remaining fully paid.
- Forfeited shares cease to form part of subscribed share capital until reissued.

Step 1: Identify fully paid shares All $1,95,000$ applicants were allotted shares, but $5,000$ shares failed to pay the final call and were forfeited. Therefore the remaining fully paid shares are $1,95,000 - 5,000 = 1,90,000$.

Step 2: Calculate their face value

$$\text{Fully paid capital} = 1,90,000 \times \text{Rs } 10 = \text{Rs } 19,00,000.$$

Rs 19,50,000 includes forfeited shares at full face value. Rs 19,40,000 combines fully paid capital and the forfeiture balance, while Rs 1,90,000 is the share count, not its rupee value.

Step 3: Conclusion Subscribed and fully paid share capital is Rs 19,00,000. Hence, the correct option is (C).

Quick Tip to Solve: Remove forfeited shares from the subscribed share count before multiplying by face value.

26(vi). The amount of 'Share Forfeiture' shown in the 'Notes to Accounts' will be : [1 mark]

(A) Rs. 10,000

(B) Rs. 40,000

(C) Rs. 5,000

(D) Rs. 50,000

Correct Answer: (B) Rs. 40,000

Solution:

Concept:

- Share Forfeiture records the capital amount already received on forfeited shares.
- Securities premium received is excluded when computing the forfeited capital amount.

Step 1: Find capital received per share The face value is Rs 10 and the unpaid final call is Rs 2. Thus capital already received on each forfeited share is $\text{Rs } 10 - \text{Rs } 2 = \text{Rs } 8$. The issue premium is separate from this capital receipt.

Step 2: Calculate forfeiture balance

$$\text{Share Forfeiture} = 5,000 \times \text{Rs } 8 = \text{Rs } 40,000.$$

Rs 10,000 is the unpaid call, whereas Rs 50,000 is the full face value of the forfeited shares. Rs 5,000 is neither the capital received nor the unpaid call amount. No reissue is stated, so the entire forfeiture balance remains.

Step 3: Conclusion Share Forfeiture is Rs 40,000. Hence, the correct option is (B).

Quick Tip to Solve: Multiply forfeited shares by paid-up face value, excluding any securities premium.

Part B (20 marks)

Option – I

(Analysis of Financial Statements)

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

(A) Payment to trade payables

(B) Issue of shares

(C) Sale of inventory at a loss

(D) Cash collected from trade receivables

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

Solution:

Concept:

- Current ratio is Current assets/Current liabilities.
- Selling inventory at a loss reduces total current assets by the loss amount.

Step 1: Examine sale at a loss Suppose current assets are Rs 200 and current liabilities Rs 100, giving $2:1$. If inventory costing Rs 50 is sold for Rs 40, cash rises by Rs 40 while inventory falls by Rs 50. Current assets become Rs 190 and liabilities stay Rs 100; the ratio falls to $1.9:1$.

Step 2: Check the remaining transactions Payment to trade payables reduces both current assets and liabilities equally; when the initial ratio exceeds one, this increases the ratio. A cash issue of shares increases current assets without increasing current liabilities, so it increases the ratio. Collecting receivables merely replaces one current asset with another, leaving the ratio unchanged.

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

Quick Tip to Solve: For inventory sales, compare sale proceeds with book cost to find the change in current assets.

28(a). Which of the following transactions will result in 'Cash Flows from Operating Activities' ? [1 mark]

(A) Purchase of Inventory

(B) Payment of Dividend

(C) Purchase of Property

(D) Issue of Debentures

Correct Answer: (A) Purchase of Inventory

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of the enterprise.

- Cash paid for inventory used in normal trading is an operating cash outflow.

Step 1: Classify inventory purchase Purchasing inventory is part of the normal trading cycle: goods are bought to be sold in the ordinary course of business. Cash paid for these goods therefore belongs to cash flows from operating activities.

Step 2: Distinguish the other choices Dividend payment is a financing cash outflow because it is a distribution to owners. Buying property is an investing outflow because it acquires a long-term asset. Issuing debentures is a financing inflow because it raises borrowed funds. These three transactions do not arise from normal trading operations.

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

Quick Tip to Solve: Classify cash purchases of goods for resale under operating activities.

OR

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

(A) Cash outflows from investing activities

(B) Cash inflows from investing activities

(C) Cash inflows from financing activities

(D) Cash inflows from operating activities

Correct Answer: (B) Cash inflows from investing activities

Solution:

Concept:

- Investing activities include acquiring and disposing of long-term assets.
- A patent is an intangible non-current asset; cash received on its disposal is an investing inflow.

Step 1: Identify the asset and direction A patent provides a long-term legal right and is classified as an intangible non-current asset. Its sale disposes of that asset. Since the company receives cash rather than paying it, the transaction is a cash inflow.

Step 2: Determine the activity Disposal of a non-current asset belongs to investing activities. Option (A) has the wrong direction of cash movement. Option (C) would concern raising capital or borrowings, while option (D) would concern the principal revenue-producing operations. Neither category describes disposal of a patent.

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

Quick Tip to Solve: Treat cash received on disposal of an intangible non-current asset as an investing inflow.

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

(A) 100%

(B) 72%

(C) 28%

(D) 128%

Correct Answer: (B) 72%

Solution:

Concept:

- Operating ratio is operating cost as a percentage of revenue from operations.
- Operating profit ratio equals 100% − Operating ratio.

Step 1: Relate cost and profit Revenue from operations consists of operating cost plus operating profit. When all three are expressed as percentages of the same revenue base, the operating ratio and operating profit ratio add up to 100 percent.

Step 2: Calculate the complement

$$\text{Operating profit ratio} = 100\% - 28\% = 72\%.$$

The 28 percent given is the cost proportion, not the profit proportion. A ratio of 100 percent would leave no operating cost, while 128 percent incorrectly adds the cost percentage to the total rather than subtracting it.

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

Quick Tip to Solve: When both use revenue from operations as base, subtract the operating ratio from 100 percent.

OR

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

(A) Comparative Statement

(B) Common Size Statement

(C) Statement of Profit and Loss

(D) Position Statement

Correct Answer: (B) Common Size Statement

Solution:

Concept:

- A common size statement expresses each item as a percentage of a common base.
- This presentation supports comparison by removing differences in absolute scale.

Step 1: Identify the percentage method In a common size statement, each financial statement item is

divided by a selected base and multiplied by 100. Revenue from operations is the usual base for the statement of profit and loss; total assets or total equity and liabilities is the base for a balance sheet.

Step 2: Distinguish the alternatives A comparative statement displays amounts for different periods along with changes. A statement of profit and loss reports income and expenses, while a position statement reports assets, equity and liabilities. These names alone do not specify that every item is converted into a percentage of a common base.

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

Quick Tip to Solve: Look for a common denominator and percentages to recognise a common size statement.

30. Statement I : Sale of marketable securities will result in flow of cash.
Statement II : Cash flow implies movement of cash in and out due to some non-cash items.
Choose the correct option from the following : [1 mark]

(A) Both the statements are true.
(B) Both the statements are false.
(C) Statement I is true, Statement II is false.
(D) Statement I is false, Statement II is true.

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

Solution:

Concept:

- Cash flow is movement into or out of cash and cash equivalents.
- Transfers between cash and cash equivalents do not constitute cash flows.

Step 1: Evaluate Statement I In this question, marketable securities are treated as cash equivalents. Selling them converts one component of cash and cash equivalents into another. Total cash and cash equivalents do not change, so this internal conversion is excluded from cash flows. Statement I is false.

Step 2: Evaluate Statement II Cash flow requires an actual inflow or outflow of cash or cash equivalents. Non-cash items such as depreciation do not themselves move cash; they may only be adjusted when reconciling profit with operating cash flow. Therefore the claim that cash flow arises due to non-cash items is false. Since each statement is false, the choices asserting either statement to be true are rejected.

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

Quick Tip to Solve: Check whether total cash plus cash equivalents changes, rather than cash alone.

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

(i) Unclaimed dividend

(ii) Public Deposits

(iii) Patents [3 marks]

Solution:

Concept:

- Schedule III groups liabilities by their nature and maturity. An unpaid dividend is an amount payable to shareholders, whereas a public deposit is a borrowing.
- Patents are identifiable non-physical rights used by the business; hence they form part of non-current intangible assets.

Step 1: Classify the liabilities Unclaimed dividend remains payable even after the company has declared it. It is shown under Current Liabilities, sub-head Other Current Liabilities, because it is neither share capital nor a trade payable. Public deposits are funds borrowed from the public. In the usual classification where no short-term maturity is specified, they appear under Non-Current Liabilities, sub-head Long-term Borrowings. A deposit repayable within twelve months would instead require current classification.

Step 2: Classify patents and present the extract Patents confer a legal right and have no physical substance. They are therefore classified as intangible assets, not as inventory or a financial investment. The required classification is:

Item	Major head	Sub-head
Unclaimed dividend	Current Liabilities	Other Current Liabilities
Public deposits	Non-Current Liabilities	Long-term Borrowings
Patents	Non-Current Assets	Property, Plant and Equipment and Intangible Assets: Intangible Assets

Step 3: Conclusion Unclaimed dividend: Other Current Liabilities; Public deposits: Long-term Borrowings; Patents: Intangible Assets under Non-Current Assets.

Quick Tip to Solve: Identify whether the item is a payable, a borrowing or a non-physical right before choosing its Schedule III sub-head.

32. Prepare a Comparative Balance Sheet of Tushar Ltd. as at 31st March, 2024, from the following information.

Particulars	Note No.	31.3.2024 Rs.	31.3.2023 Rs.
I - Equity and Liabilities :			
1. Shareholders' Funds			
Share Capital		**27,00,000**	**18,00,000**
2. Non-Current Liabilities			
Long-term Borrowings		**9,00,000**	**6,00,000**
3. Current Liabilities			
Trade Payables		**3,00,000**	**2,00,000**
Total		**39,00,000**	**26,00,000**
II - Assets :			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets		**33,00,000**	**20,00,000**
2. Current Assets			
(a) Inventory		**3,00,000**	**2,00,000**
(b) Cash and Cash Equivalents		**3,00,000**	**4,00,000**
Total		**39,00,000**	**26,00,000**

[3 marks]

Solution:

Concept:

- A comparative balance sheet shows the previous and current balances, absolute change and percentage change for each item.
- Absolute change = Current year amount - Previous year amount; percentage change = Absolute change divided by previous year amount, multiplied by 100.

Step 1: Calculate changes using 2023 as the base For share capital, the increase is $27,00,000 - 18,00,000 =$ Rs $9,00,000$, or 50%. Long-term borrowings and trade payables also increase by 50%. Non-current assets rise by Rs $13,00,000$, giving $13,00,000/20,00,000 \times 100 = 65\%$. Inventory rises by 50%, while cash falls by Rs $1,00,000$, or 25%. A decrease is shown by a minus sign.

Step 2: Prepare the comparative statement **Tushar Ltd. – Comparative Balance Sheet as at 31st March, 2024**

Particulars	2023 (Rs)	2024 (Rs)	Change (Rs)	%
I. Equity and Liabilities				
Shareholders' Funds: Share Capital	18,00,000	27,00,000	9,00,000	50
Non-Current Liabilities: Long-term Borrowings	6,00,000	9,00,000	3,00,000	50
Current Liabilities: Trade Payables	2,00,000	3,00,000	1,00,000	50
Total	26,00,000	39,00,000	13,00,000	50
II. Assets				
Non-Current Assets: Property, Plant and Equipment and Intangible Assets	20,00,000	33,00,000	13,00,000	65
Current Assets: Inventory	2,00,000	3,00,000	1,00,000	50
Cash and Cash Equivalents	4,00,000	3,00,000	-1,00,000	-25
Total	26,00,000	39,00,000	13,00,000	50

The totals of assets and equity plus liabilities agree in each year. Their equal increase also checks the absolute-change columns.

Step 3: Conclusion Total assets and total equity and liabilities each increase by Rs 13,00,000, or 50%; cash and cash equivalents alone decrease by 25%.

Quick Tip to Solve: Always divide each change by its own 2023 balance; the non-current asset increase is 65%, even though the total increases by 50%.

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

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

Calculate :

(i) Debt Equity Ratio

(ii) Interest Coverage Ratio [4 marks]

Solution:

Concept:

- Debt-equity ratio compares long-term debt with shareholders' funds: Debt-equity ratio = Long-term debt/Shareholders' funds.
- Interest coverage ratio measures how often profit before interest and tax covers interest on long-term debt: ICR = Profit before interest and tax/Interest.
- Profit before tax is after charging interest. Add the debenture interest back once to obtain profit before interest and tax.

Step 1: (i) Calculate the debt-equity ratio The long-term debt supplied in the question consists of the 12% debentures of Rs $20,00,000$. Shareholders' funds are Rs $10,00,000$. Thus,

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

This means the company has two rupees of long-term borrowed funds for every rupee of shareholders' funds. Current assets and inventory do not enter either term of this ratio.

Step 2: (ii) Compute annual interest and profit before interest and tax Interest is calculated on the face amount of debentures at their stated annual rate:

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

The given net profit before tax of Rs $9,60,000$ has already borne this interest charge. Restore it to calculate the earnings available to meet interest:

$$\text{Profit before interest and tax} = 9,60,000 + 2,40,000 = \text{Rs } 12,00,000.$$

No tax adjustment is needed because the supplied profit is already before tax.

Step 3: Calculate the coverage

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

The earnings before interest and tax are five times the annual interest obligation. Dividing the given profit before tax directly by interest would give four times, but that omits the interest add-back and therefore uses the wrong numerator. Inventory, total current assets and cost of revenue from operations are not required for these two ratios; they would be relevant to other liquidity or activity calculations.

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

Quick Tip to Solve: For interest coverage, first calculate Rs 2,40,000 debenture interest and add it back to the given profit before tax.

OR

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

Quick Ratio = 0.75 : 1

Current Liabilities = Rs. 6,00,000

Revenue from Operations are Rs. 4,00,000

Gross Profit ratio is 20% of revenue from operations

Inventory turnover ratio = 4 times

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

Solution:

Concept:

- Quick ratio equals quick assets divided by current liabilities. Quick assets exclude inventory and prepaid expenses from current assets.
- Inventory turnover equals cost of revenue from operations divided by average inventory; average inventory is half the sum of opening and closing inventories.

Step 1: Find quick assets Quick assets can be obtained directly using the given current liabilities:

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

These are the assets available to meet current liabilities without selling inventory.

Step 2: Calculate average inventory Gross profit is 20 percent of revenue from operations, so the cost is the remaining 80 percent:

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

Step 3: Find closing inventory and current assets Let opening inventory be x rupees. Closing inventory is $x + 40,000$ rupees. Therefore,

$$\frac{x + (x + 40,000)}{2} = 80,000 \quad \Rightarrow \quad x = 60,000.$$

Closing inventory is thus Rs $1,00,000$. Closing inventory, rather than average inventory, is included in current assets at the reporting date. Since no prepaid expenses or other exclusions from quick assets are given,

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

Check: average inventory is $(60,000 + 1,00,000)/2 = 80,000$, and turnover is $3,20,000/80,000 = 4$ times, as required.

Step 4: Conclusion Current assets are $\boxed{\text{Rs } 5,50,000}$ and quick assets are $\boxed{\text{Rs } 4,50,000}$.

Quick Tip to Solve: Calculate quick assets directly from the quick ratio, then add closing inventory, never average inventory.

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

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

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

At the end of the year, Trade Receivables showed an increase of Rs. 2,00,000 and Trade Payables a decrease of Rs. 10,000. [6 marks total]

Solution:

Concept:

- Under the indirect method, profit is adjusted for non-cash charges, non-operating items and changes in operating working capital to calculate cash flows from operating activities.
- Transfer to general reserve is an appropriation of profit rather than a cash expense. When the given profit is after that transfer, add it back to recover profit before appropriation.
- An increase in trade receivables and a decrease in trade payables both reduce operating cash flow: the former ties up cash in customers, while the latter uses cash to settle suppliers.

Step 1: Restore profit before appropriation The stated profit of Rs 1,95,000 is after considering transfer to general reserve of Rs 1,05,000. This transfer does not represent an operating payment and must be restored:

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

Step 2: Adjust non-cash and non-operating expenses Depreciation and goodwill written off are non-cash charges, so both are added back. The loss on sale is also added back: the actual machinery sale proceeds belong to investing activities. Thus,

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

The loss is reversed only to remove its effect on accounting profit; it is not an operating cash receipt.

Step 3: Prepare the operating activities extract Kant Ltd. — Cash Flow Statement (Operating Activities)

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

An increase in receivables means that some recognised revenue has not yet been collected. A decrease in payables means that payments to suppliers exceed the related current-period credit purchases or expenses. Both changes therefore reduce the cash generated. No income tax payment is given for a further adjustment.

Step 4: Conclusion Kant Ltd.'s net cash flows from operating activities are $\boxed{\text{Rs } 1,80,000 \text{ (inflow)}}$.

Quick Tip to Solve: Restore the reserve transfer before non-cash adjustments, and subtract both increased receivables and decreased payables.

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

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

Additional Information :

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

Solution:

Concept:

- Cash flows from investing activities include cash paid to acquire machinery and cash received from its sale. Record these gross cash flows separately.
- Use machinery at original cost to find purchases: closing cost = opening cost + purchases - original cost of machinery sold. Accumulated depreciation changes carrying values, but is not itself a cash payment.

Step 1: Calculate the purchase of machinery The machinery figures of Rs 24,00,000 and Rs 28,00,000 are gross costs. The separately shown accumulated depreciation produces the net carrying amounts of

Rs 22,00,000 and Rs 25,00,000. Since the machinery sold originally cost Rs 8,00,000, the gross-cost reconciliation is:

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

No credit purchase or other non-cash acquisition is stated, so the purchases represent the cash outflow for machinery. Using net carrying amounts without adjusting depreciation would understate this outflow.

Step 2: Identify the cash proceeds and prepare the investing activities extract The question gives sale proceeds of Rs 5,00,000. Record that amount as the investing inflow; neither the original cost of Rs 8,00,000 nor the carrying amount of Rs 7,60,000 is the cash received. The carrying amount is Rs 8,00,000 less accumulated depreciation of Rs 40,000. Any resulting loss affects the operating-profit reconciliation, not this investing extract.

Vandana Ltd. — Cash Flow Statement (Investing Activities)

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

Depreciation is excluded from this extract because it allocates an asset's cost without a current cash movement. The separate disclosure of sale proceeds and purchases shows both cash movements before their net total is taken.

Step 3: Conclusion Vandana Ltd. has net cash flows from investing activities of $\boxed{\text{Rs } (7,00,000)}$, that is, a cash outflow of Rs 7,00,000.

Quick Tip to Solve: Find machinery purchases from the gross-cost balances and the original cost sold; use actual sale proceeds for the investing inflow.

Option II (Computerised Accounting)

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

(A) Correct #DIV/0! Error

(B) Correct #NUM! Error

(C) Correct #N/A Error

(D) Correct #Name Error

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

Solution:

Concept:

- A spreadsheet error identifies why a formula cannot return its intended result. The error $\#N/A$ means that a required value is not available.

- Different error codes identify different causes; an unavailable lookup result differs from an invalid numeric calculation.

Step 1: Identify the unavailable-value error When a value required by a function or formula is unavailable, the spreadsheet returns $\#N/A$. For example, a lookup function can display this error when its required match cannot be found.

Step 2: Distinguish the other options $\#DIV/0!$ indicates division by zero or an empty divisor. $\#NUM!$ indicates an invalid numeric value or calculation. $\#NAME?$ indicates an unrecognised name or text in a formula. These do not describe an unavailable value.

Step 3: Conclusion The correct option is (C): Correct $\#N/A$ Error.

Quick Tip to Solve: Associate N/A with not available; do not confuse an unavailable match with division by zero.

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

(A) Home + Page down

(B) Home + Down arrow (↓)

(C) End + Down arrow (↓)

(D) CTRL + Down arrow (↓) successively

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

Solution:

Concept:

- A contiguous data cluster is a continuous block of populated cells in a column. End-mode navigation can move directly to the edge of this block.
- Press End, then the Down Arrow, to jump from the first populated cell to the last populated cell in that column cluster.

Step 1: Use End-mode navigation Select the first cell in the column cluster. Press End and then press the Down Arrow. Excel moves the active cell directly to the lower edge of the contiguous data region, without selecting the intervening cells. This is the navigation sequence represented by End + Down arrow in option (C).

Step 2: Compare the available choices The Home combinations in (A) and (B) do not describe this movement to the lower edge of the data cluster. Ctrl + Down Arrow also normally jumps to the edge of a contiguous region, so (D) mentions a related shortcut. The specified End-mode sequence, End followed by Down Arrow, is the expected response to this question.

Step 3: Conclusion The expected option is (C): End + Down arrow. Press End first, then the Down Arrow.

Quick Tip to Solve: For End-mode navigation, press End and then Down Arrow to reach the lower edge of a continuous column cluster.

OR

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

(A) data point

(B) data label

(C) data series

(D) data markers

Correct Answer: (D) data markers

Solution:

Concept:

- Data markers are the visible bars, columns, lines, pie slices or other shapes that represent individual values in a chart.
- A data series is a related set of plotted values; data labels display information beside the plotted markers.

Step 1: Identify the graphical representation The question describes the visible forms plotted on a chart: bars, columns, lines and pie sectors. These graphical representations are called data markers. Their dimensions or positions communicate the underlying values.

Step 2: Separate the nearby terms A data point is the underlying individual value, while its visible representation is the data marker. A data series groups related points. A data label supplies text or a value beside a marker. Since the question emphasises the plotted graphical forms, data markers is the appropriate term.

Step 3: Conclusion The correct option is (D): data markers.

Quick Tip to Solve: Match the visible shape on a chart with marker; distinguish it from the value or label it represents.

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

(A) Subtraction and Division

(B) Multiplication and Addition

(C) Division and Multiplication

(D) Exponents and Division

Correct Answer: (C) Division and Multiplication

Solution:

Concept:

- Operator precedence determines the order in which a spreadsheet evaluates arithmetic in a formula.
- Multiplication and division have equal precedence; operations at the same precedence level are

evaluated from left to right.

Step 1: Apply the arithmetic hierarchy Excel evaluates exponents before multiplication and division, and evaluates multiplication and division before addition and subtraction. Therefore division and multiplication belong to the same precedence group.

Step 2: Check all printed pairs Subtraction and division are at different levels, as are multiplication and addition. Exponents and division are also at different levels. For instance, $= 24/4 * 2$ evaluates from left to right as $6 \times 2 = 12$, illustrating equal precedence for division and multiplication.

Step 3: Conclusion The correct option is (C): Division and Multiplication.

Quick Tip to Solve: Group multiplication with division, and addition with subtraction; apply each equal-level group left to right.

30(a). Computerised Accounting System rests on Five Pillars :

Data, People, Procedure and _____, _____.

Identify the blank pillars from the following : [1 mark]

(A) Hardware, Software

(B) User, Customer

(C) Software, Logic

(D) Timely access, Hardware

Correct Answer: (A) Hardware, Software

Solution:

Concept:

- A computerised accounting system combines data, people, procedures, hardware and software.
- Hardware provides physical computing resources, while software supplies the instructions that process accounting data.

Step 1: Complete the set of five pillars The question already supplies Data, People and Procedure. The two remaining pillars are Hardware and Software. Together these provide the information, users, operating methods, physical equipment and programs needed by the system.

Step 2: Eliminate the other combinations User and customer do not supply the missing technological pillars; users are already covered by people. Software and logic omit hardware. Timely access is a desirable characteristic of information rather than one of the five system pillars, and that pair also omits software.

Step 3: Conclusion The correct option is (A): Hardware, Software.

Quick Tip to Solve: Recall the five pillars as data, people, procedures, hardware and software; check which two are missing.

OR

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

(A) Faster obsolescence.

(B) Economy in processing of accounting data.

(C) Data are prone to hacking.

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

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

Solution:

Concept:

- A limitation is a drawback or risk of a system; an advantage is a benefit gained from using it.
- Computerised accounting can process large volumes of accounting data economically and quickly.

Step 1: Identify the benefit Economy in processing accounting data reduces the resources and cost required for routine accounting work. It is therefore an advantage of a computerised accounting system, and satisfies the question asking for what is not a limitation.

Step 2: Check the remaining choices Faster obsolescence requires systems to be replaced or upgraded. Hacking threatens the confidentiality and integrity of data. Power interruptions can cause data loss or corruption when adequate safeguards are absent. Each is a drawback or risk, so none of these three answers fits the word not.

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

Quick Tip to Solve: Underline not in the question, then choose the benefit while rejecting the three system risks.

31. Explain the following :

(i) Memo Voucher

(ii) Post-dated Voucher

(iii) User defined Voucher [3 marks]

Solution:

Concept:

- A voucher is a document or electronic record used to record a transaction in an accounting system. Its type determines the purpose and treatment of the entry.
- Memo, post-dated and user-defined vouchers distinguish provisional information, future-dated transactions and business-specific recording needs.

Step 1: Explain memo voucher A memo voucher records a provisional transaction or a transaction kept as a memorandum. It does not affect the accounts or financial statements while it remains a memo voucher. When the transaction is confirmed, it can be converted into a regular accounting voucher. For example, cash given to an employee for anticipated travel expenses may first be recorded provisionally and adjusted when the actual expense details are received.

Step 2: Explain post-dated voucher A post-dated voucher records a transaction with a date later than the date on which it is entered. It is useful for future-dated receipts or payments, such as a cheque issued today but dated for the next month. It does not affect the current accounts before its specified date; it becomes effective for accounting on the relevant future date.

Step 3: Explain user-defined voucher A user-defined voucher is a voucher type created by the user to suit the particular requirements of the business, usually by adapting a standard voucher type. Its name, numbering or other relevant features can be specified for a particular class of transactions. For example, a business may create a separate Cash Sales voucher under the sales voucher type to distinguish cash sales from other sales.

Step 4: Conclusion Memo vouchers hold provisional entries, post-dated vouchers hold future-dated entries, and user-defined vouchers provide a transaction format tailored to the business.

Quick Tip to Solve: Identify whether the need is provisional recording, a future effective date, or a special business format before naming the voucher.

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

Solution:

Concept:

- Codification assigns a distinct number or symbol to an account or item, making classification, identification and retrieval easier.
- A sequential code follows serial order; a block code reserves a separate range of numbers for each group of accounts or items.

Step 1: Explain sequential code with an example In sequential coding, consecutive numbers are allotted to items or accounts in the order in which they are introduced. Each new item receives the next available number. For example, a business can code its customers as 001 for Amit, 002 for Bina, 003 for Charu and 004 for Deepak. The number identifies the customer, but the serial number by itself does not indicate a category such as location or type of customer. The system is simple to introduce and extend by using the next number.

Step 2: Explain block code with an example In block coding, the full set of codes is divided into blocks, and each block is reserved for a particular class. Individual accounts are numbered within the appropriate block. For example, a business may reserve 100–199 for assets, 200–299 for liabilities, 300–399 for income and 400–499 for expenses. Within the asset block, Cash can be 101, Bank 102 and Furniture 103; within the liability block, Creditors can be 201 and Bank Loan 202. Thus, the code identifies the individual account and also indicates its broad class. Unused numbers within a block allow further accounts of the same class to be added.

Step 3: Conclusion Sequential codes use consecutive serial numbers, such as customer codes 001, 002 and 003. Block codes reserve ranges for groups, such as 100–199 for assets and 200–299 for liabilities.

Quick Tip to Solve: Use consecutive customer numbers for sequential coding and reserved account-class ranges for block coding; show at least one account within each range.

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

Solution:

Concept:

- The suitability of accounting software depends on how closely its features match the size, transactions and reporting needs of the organisation.
- Generic software supplies common ready-to-use accounting facilities, while customised software adapts an existing package to the needs of a particular user.

Step 1: Explain generic accounting software Generic accounting software is a ready-made package developed for a wide range of users. It provides common accounting functions such as recording transactions, maintaining ledgers and preparing standard financial statements and reports. A business normally installs it, enters its master data and uses the facilities already provided. Since the development cost is shared among many users, it is generally less expensive and quicker to implement. It is suitable for small and medium businesses whose accounting requirements are largely standard. However, a user may have to adjust some procedures to the available package because its standard features may not fully accommodate unusual transactions or specialised reports.

Step 2: Explain customised accounting software Customised accounting software is an existing accounting package modified to satisfy the particular requirements of an organisation. Its facilities may be adapted to the nature of the business, its internal procedures, account classification, voucher formats, controls or reporting requirements. For example, a trading concern may have a standard package modified to produce its own branch-wise sales and stock reports. Customisation gives a closer fit to the business and reduces the need to reshape its procedures around a standard package. It generally involves additional cost, implementation time, training and maintenance support compared with using the generic package unchanged. It is suitable when standard software supplies the basic functions but needs changes to meet specific requirements.

Step 3: Conclusion Generic software offers standard ready-made accounting facilities for many users. Customised software modifies an existing package to meet the specific accounting and reporting requirements of a particular organisation.

Quick Tip to Solve: Remember the key distinction: generic means a standard package; customised means an existing package adapted for a specific user.

OR

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

[4 marks]

Solution:

Concept:

- Confidentiality means that business accounting data can be accessed and understood only by authorised persons. A computerised accounting system (CAS) provides security controls to protect confidential records.
- Password security controls entry to the system, while data encryption protects the readable content of the stored data. User permissions restrict the work that an authorised user can perform.

Step 1: Password security and access control The software permits the business to create user accounts secured by passwords. A person must supply the correct credentials before accessing the accounting data. Passwords should be kept secret and changed when necessary, so that a competitor or an unauthorised employee cannot simply open the company's books.

Access rights can also be assigned according to responsibility. For example, a voucher-entry operator may enter transactions but may be prevented from viewing confidential financial reports or changing security settings. Thus, even a person who has access to the system need not have access to all its data.

Step 2: Data encryption Encryption converts accounting data from a readable form into a coded or scrambled form. The encrypted data can be restored to its readable form only through the authorised decryption mechanism, such as the appropriate key or password.

Consequently, merely obtaining a copy of the stored file does not enable an outsider to read the business information. Encryption is especially useful for protecting sensitive records such as costs, selling prices, customer balances and financial results. The business must also keep its encryption credentials confidential; otherwise, the protection can be defeated.

Step 3: Conclusion Password security, controlled user access and data encryption help a business maintain secrecy. Passwords and permissions restrict access to the records, while encryption prevents unauthorised persons from understanding protected data.

Quick Tip to Solve: Explain both the barrier to opening the books (password security) and the barrier to reading copied data (encryption).

34. 'As per the requirement of the user, MS Excel gives an option to change chart elements.' State the options available to change the 'Shape Outline'. [6 marks]

Solution:

Concept:

- The Shape Outline command formats the border or outline of the selected chart element. The required chart element must first be selected so that the formatting applies to that element.

- Outline formatting includes its colour, visibility, thickness and line style. These changes affect the appearance of the selected element without changing the chart's source data.

Step 1: Select the element and open Shape Outline Click the chart and select the element whose outline is to be changed, for example the chart area, plot area or a suitable data series. On the chart's Format tab, use Shape Outline in the Shape Styles group. The following options allow the outline to be formatted according to the user's requirements.

Step 2: Colour options Theme Colours: Select an outline colour from the colours associated with the workbook's current theme. This helps maintain a consistent appearance across the chart and workbook.

Standard Colours: Select an outline colour from the standard colour palette supplied by Excel.

More Outline Colours: Open the additional colour choices to select a colour beyond the displayed palette, including a custom colour. These colour options determine the colour of the selected element's border.

Step 3: No Outline and Weight No Outline: Remove the visible border of the selected chart element. This changes only its outline; it does not delete the element or the data represented by it.

Weight: Select the thickness of the outline. A heavier line produces a more prominent border, whereas a thinner line gives a lighter appearance. Use a thickness appropriate to the size of the chart so that the border does not obscure other details.

Step 4: Dashes and Arrows Dashes: Choose the line pattern, such as a solid, dashed or dotted outline. The pattern provides another way to distinguish the selected outline without altering the underlying values.

Arrows: Where applicable to the selected line or shape, choose arrowhead styles for its ends. This option is relevant to line-type shapes; an arrowhead is not applicable to every closed chart element. The available choices depend on the type of object selected.

Step 5: Conclusion The Shape Outline menu provides Theme Colours, Standard Colours, More Outline Colours, No Outline, Weight, Dashes and, for applicable line shapes, Arrows. Together these control the outline's colour, visibility, thickness, pattern and arrowhead style.

Quick Tip to Solve: Remember the outline controls in groups: colour choices, no border, line thickness, line pattern and applicable arrowheads.