CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-7-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

[1 mark]

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

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

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

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

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

Solution:

Concept:

- A debit balance in Profit and Loss Account represents an accumulated loss belonging to the old partners.
- On admission, accumulated losses are debited to the old partners in their old profit-sharing ratio and the loss account is credited.

Step 1: Identify who bears the loss The loss of Rs 45,000 arose before John's admission. Jim and Joy therefore bear it equally; John's new share of $1/5$ does not apply to this past loss.

Step 2: Distribute and remove the debit balance Each old partner bears $45,000 \times \frac{1}{2} = \text{Rs } 22,500$. Debit Jim and Joy by Rs 22,500 each and credit Profit and Loss Account by Rs 45,000. Option (B) wrongly includes John, (C) charges John alone, and (D) reverses the entry and increases the existing debit balance.

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

Quick Tip to Solve: For accumulated losses at admission, use only the old partners and their old ratio, regardless of the incoming share.

2. 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:

- A retiring partner is entitled to goodwill in proportion to the old profit share.
- When no goodwill account is opened, gaining partners are debited in their gaining ratio and the retiring partner is credited.

Step 1: Calculate the gains and goodwill entitlement **Working Notes:** Bose's share is $2,10,000 \times \frac{1}{3} =$ Rs $70,000$. Vimal's gain is $\frac{4}{7} - \frac{1}{3} = \frac{5}{21}$, and Ghosh's gain is $\frac{3}{7} - \frac{1}{3} = \frac{2}{21}$. Thus, the gaining ratio is $5 : 2$.

Step 2: Allocate the adjustment Debit Vimal by $70,000 \times \frac{5}{7} =$ Rs $50,000$ and Ghosh by $70,000 \times \frac{2}{7} =$ Rs $20,000$; credit Bose by Rs 70,000. Option (A) reverses the direction, (C) opens Goodwill Account contrary to the instruction, and (D) compensates Bose for the entire firm's goodwill rather than his own share.

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: Subtract each old share from the new share first; allocate only the retiring partner's goodwill in that gaining ratio.

3. 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 partner's new share equals the old share plus the share acquired from the retiring partner.
- Equal acquisition means equal additions to old shares; it does not necessarily produce equal new shares.

Step 1: Divide Hari's share equally Hari's old share is $5/10$. Each of Chander, Prakash and Govind acquires $\frac{5}{10} \times \frac{1}{3} = \frac{1}{6}$. The continuing partners retain their own old shares of $3/10, 1/10, 1/10$.

Step 2: Add the acquired portions

$$\text{Chander} = \frac{3}{10} + \frac{1}{6} = \frac{7}{15},$$
$$\text{Prakash} = \frac{1}{10} + \frac{1}{6} = \frac{4}{15},$$
$$\text{Govind} = \frac{1}{10} + \frac{1}{6} = \frac{4}{15}.$$

These shares sum to one. Option (C) incorrectly treats equal acquisition as equal final shares. Options (B) and (D) do not preserve the stated equal gains; in particular, Prakash and Govind must have equal new shares.

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 old share to each continuing partner; do not divide the entire future profit equally.

4. 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 (face) value at the stated coupon rate.
- Issue premium and redemption premium do not form part of the principal used for coupon interest.

Step 1: Find the nominal value and period The nominal value is $9,000 \times \text{Rs } 100 = \text{Rs } 9,00,000$. The debentures were issued on 1st April, 2023, so they remain outstanding for the full year ending 31st March, 2024.

Step 2: Apply the coupon rate

$$\text{Interest} = 9,00,000 \times \frac{12}{100} \times 1 = \text{Rs } 1,08,000.$$

Option (A) is the issue proceeds (also the redemption value here), while (B) is the nominal principal. Option (D), Rs 1,18,800, wrongly calculates 12% on Rs 9,90,000 including premium. The four-year redemption term does not change the current annual coupon.

Step 3: Conclusion The interest due for the year is Rs 1,08,000. Hence, the correct option is (C).

Quick Tip to Solve: For coupon interest, multiply the number of debentures by face value, then apply 12%; ignore both premiums.

5. 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 plus share of profit minus drawings.
- To recover opening capital, reverse the changes: add drawings and deduct additions and profit credited.

Step 1: Calculate Saloni's share of profit **Working Notes:** The profit-sharing ratio is $3 : 2$, so Saloni receives $50,000 \times \frac{3}{5} = \text{Rs } 30,000$. Only her share, not the firm's entire Rs 50,000 profit, increases her capital.

Step 2: Reverse the capital movements

$$\begin{aligned}\text{Opening capital} &= 1,50,000 + 10,000 - 32,000 - 30,000 \\ &= \text{Rs } 98,000.\end{aligned}$$

As a check, $98,000 + 32,000 + 30,000 - 10,000 = 1,50,000$. Option (C) incorrectly uses Mohini's Rs 20,000 profit share instead of Saloni's Rs 30,000. Options (A) and (B) also fail this closing-capital reconciliation; capital introduced and profit must be deducted, not added, when working backwards.

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

Quick Tip to Solve: Work backwards from closing capital: add back Rs 10,000 drawings and deduct Rs 32,000 introduced plus Rs 30,000 profit.

6(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 occurs when all partners, or all except one, become insolvent, or when the business becomes unlawful.
- Death of a partner is a contingency subject to the partnership agreement; the remaining partners may continue if their contract permits it.

Step 1: Test the compulsory grounds Option (A) leaves fewer than two solvent partners and triggers compulsory dissolution. Options (B) and (C) describe illegality: partners cannot lawfully continue the business in partnership. These are compulsory grounds.

Step 2: Distinguish death from illegality Option (D) states that a partner dies. Death may dissolve a firm in the absence of a contrary agreement, but it is not a compulsory ground: the partnership deed may provide for continuation by the surviving partners. The word *not* therefore distinguishes death from the three compulsory events.

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

Quick Tip to Solve: Underline "compulsory": death is subject to agreement, while insolvency of all but one and illegality are mandatory grounds.

OR

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

(A) Death of a partner.

(B) Insolvency of a partner.

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

(D) Expiry of the period of partnership.

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

Solution:

Concept:

- A firm must dissolve when its business becomes illegal; an agreement cannot authorise unlawful business.

- Death, insolvency of a partner and expiry of a fixed term are contingencies whose effect may be modified by agreement.

Step 1: Identify the unconditional ground In option (C), the business of the firm becomes illegal. This makes lawful continuation impossible and causes compulsory dissolution, irrespective of any clause in the partnership deed.

Step 2: Evaluate the remaining choices Options (A), (B) and (D) can lead to dissolution in the absence of a contrary contract. However, an agreement may provide for continuation after a partner dies, becomes insolvent, or the originally fixed period expires. Thus they do not ensure dissolution independently of the agreement. Among the printed choices, illegality is the definite ground.

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

Quick Tip to Solve: When contrasting contingent events with illegality, select illegality as the event that partners cannot contract around.

7(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:

- An asset account is closed by transferring its full book balance to the debit of Realisation Account.
- An existing provision for doubtful debts is transferred separately to the credit of Realisation Account.

Step 1: Identify the account to be closed The Sundry Debtors Account has a debit balance of Rs 80,000. To close that specific account, it must be credited by the full Rs 80,000, with a corresponding debit to Realisation Account.

Step 2: Keep the provision separate The Rs 5,000 provision is separately debited and credited to Realisation Account. The net debit effect of the two transfers is Rs 75,000, but that is not the amount needed to close Sundry Debtors Account. Thus option (A) confuses net realisation effect with gross debtors; (B) wrongly adds the provision and (D) has no basis in the balances given.

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

Quick Tip to Solve: If asked to close the debtors account, use Rs 80,000 gross; transfer the Rs 5,000 provision separately.

OR

7(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:

- Cash deposited into the bank increases the bank balance and reduces cash: Bank Account is debited and Cash Account is credited.
- The amount transferred is cash remaining after cash payments; an existing bank overdraft does not change this cash amount.

Step 1: Find the remaining cash The cash balance was Rs 15,000. Ravi alone was paid Rs 2,000 in cash, leaving $15,000 - 2,000 =$ Rs $13,000$. Other cheque payments do not reduce Cash Account. The Rs 10,000 credit balance belongs to Bank Account and is not the cash deposited.

Step 2: Record the closing transfer Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Cash A/c (Being remaining cash deposited into bank and Cash Account closed)		13,000	13,000

Options (A) and (B) use the overdraft figure instead of remaining cash. Option (D) reverses the debit and credit, describing cash withdrawn from bank rather than deposited.

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

Quick Tip to Solve: Compute physical cash left after paying Ravi, then debit the receiving bank and credit the cash deposited.

8(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 comprises discount on issue, if any, plus premium payable on redemption.
- Premium received on issue is credited separately to Securities Premium; it does not eliminate the initial debit for loss on issue.

Step 1: Find the nominal amount and redemption premium The nominal debenture amount is $6,000 \times \text{Rs } 100 = \text{Rs } 6,00,000$. Premium payable at redemption is $6,00,000 \times 10\% = \text{Rs } 60,000$. There is no discount on issue because the debentures are issued at a premium.

Step 2: Determine the loss recognised on issue

$$\text{Loss on issue} = 0 + 60,000 = \text{Rs } 60,000.$$

The issue premium of Rs 60,000 is a separate capital receipt. Option (A) incorrectly adds both premiums; (C) is the face value and (D) is the issue proceeds or redemption amount. The 11% interest rate and 1st October date affect interest, not the loss arising from the redemption terms.

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

Quick Tip to Solve: For debentures issued at premium and redeemable at premium, the initial loss equals the redemption premium only.

OR

8(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 nominal liability: number of debentures multiplied by face value per debenture.
- An issue discount reduces the cash received; it does not reduce the face value credited to Debentures Account.

Step 1: Identify face value and issue price Each of the 8,000 debentures has a face value of Rs 100, although the company receives only Rs 98. The difference of Rs 2 per debenture is the issue discount. The 10% coupon rate determines interest and does not change the principal liability.

Step 2: Calculate the principal credited

$$\text{Debentures Account credit} = 8,000 \times 100 = \text{Rs } 8,00,000.$$

Cash received is $8,000 \times 98 = \text{Rs } 7,84,000$, so option (C) represents bank receipts, not the debenture liability. Options (A) and (B) do not equal the nominal value of the 8,000 debentures.

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

Quick Tip to Solve: For the Debentures Account credit, multiply quantity by face value; ignore issue price and coupon rate.

9. Daksh and Moksh were partners in a firm. Moksh withdrew a fixed amount at the end of every quarter for the year ended 31st March, 2024. Interest on drawings is charged at 10% p.a. Interest on Moksh's drawings was charged for _____ months. [1 mark]

(A) 6

(B) 7.5

(C) 4.5

(D) 3

Correct Answer: (C) 4.5

Solution:

Concept:

- For equal drawings at regular intervals, interest on total drawings is calculated using their average outstanding period.
- Average period equals the sum of the individual outstanding periods divided by the number of equal withdrawals.

Step 1: List the periods outstanding The quarter-end withdrawals occur on 30th June, 30th September, 31st December and 31st March. Up to the year end, they remain outstanding for 9, 6, 3 and 0 months respectively. The final withdrawal has no time left to earn interest in that accounting year.

Step 2: Find the average period

$$\text{Average period} = \frac{9+6+3+0}{4} = 4.5 \text{ months.}$$

The 10% rate affects the amount of interest, not this time average. Six months would suit equal quarter-middle drawings, while 7.5 months applies to quarter-beginning drawings. Three months is the interval between withdrawals, not their average outstanding period.

Step 3: Conclusion Interest on Moksh's drawings is charged for 4.5 months. Hence, the correct option is (C).

Quick Tip to Solve: For equal quarter-end drawings, average the first and last periods: $(9+0)/2 = 4.5$ months.

10. 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)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Revaluation A/c Dr.	30,000	
To Provision for Bad Debts		30,000

(B)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Revaluation A/c Dr.	6,000	
To Provision for Bad Debts		6,000

(C)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Govindan's A/c Dr.	2,000	
To Provision for Bad Debts		2,000

(D)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
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)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Revaluation A/c Dr.	6,000	
To Provision for Bad Debts		6,000

Solution:

Concept:

- On admission, the existing provision is adjusted to the required balance; only the increase or decrease is recorded.
- An increase in provision reduces net debtors and is a revaluation loss: debit Revaluation Account and credit Provision for Bad Debts Account.

Step 1: Calculate the increase required

$$\text{Required provision} = 3,00,000 \times \frac{10}{100} = \text{Rs } 30,000,$$

$$\text{Additional provision} = 30,000 - 24,000 = \text{Rs } 6,000.$$

The existing Rs 24,000 must not be recorded again.

Step 2: Record the adjustment Journal of the Firm

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 on admission)			

Option (A) incorrectly debits the entire required balance. Options (C) and (D) charge partners directly and wrongly include the incoming partner in this pre-admission revaluation adjustment.

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

Quick Tip to Solve: Subtract the existing provision from the required provision before deciding the revaluation entry.

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

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

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

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

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

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

Solution:

Concept:

- Sacrifice equals old profit share minus new profit share; a negative result denotes a gain.
- Without opening Goodwill Account, gaining partners compensate sacrificing partners through their capital/current accounts at the agreed goodwill value.

Step 1: Calculate sacrifice or gain **Working Notes**

The old fractions are $3/6, 2/6, 1/6$, and the new fractions are $5/10, 3/10, 2/10$. Thus,

$$\text{Jayant: } \frac{3}{6} - \frac{5}{10} = 0,$$
$$\text{Vijayant: } \frac{2}{6} - \frac{3}{10} = \frac{1}{30} \text{ sacrificed},$$
$$\text{Anant: } \frac{1}{6} - \frac{2}{10} = -\frac{1}{30} \text{ (gain)}.$$

Step 2: Determine the compensation

$$\text{Goodwill adjustment} = 6,00,000 \times \frac{1}{30} = \text{Rs } 20,000.$$

Anant gains and therefore his account is debited; Vijayant sacrifices and his account is credited. Jayant requires no adjustment. Option (A) uses the whole goodwill instead of the transferred share; (B) has the wrong amount and direction, and (C) reverses the correct debit and credit.

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: First compare old and new fractions; only the gaining partner pays the sacrificing partner for goodwill.

OR

11(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:

- To identify sacrifice, subtract each new share from the corresponding old share.
- A positive difference is sacrifice and a negative difference is gain; total sacrifice must equal total gain.

Step 1: Convert the ratios into fractions Both ratios total 9. Akshay, Reet and Manya originally have $4/9, 3/9, 2/9$, respectively, and their new shares are $2/9, 4/9, 3/9$. Equal denominators make the comparison direct.

Step 2: Calculate and check the changes **Working Notes**

$$\begin{aligned}\text{Akshay: } \frac{4}{9} - \frac{2}{9} &= \frac{2}{9} \text{ sacrifice,}\\ \text{Reet: } \frac{3}{9} - \frac{4}{9} &= -\frac{1}{9} \text{ (gain),}\\ \text{Manya: } \frac{2}{9} - \frac{3}{9} &= -\frac{1}{9} \text{ (gain).}\end{aligned}$$

The total gain $1/9 + 1/9 = 2/9$ equals the sacrifice. Option (A) wrongly treats Reet as sacrificing.

Options (B) and (D) wrongly treat Akshay as gaining, although his share falls.

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

Quick Tip to Solve: Use old minus new consistently: a minus sign means the partner gains, not that the share is negative.

12(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 value of the forfeited shares.
- Uncalled capital and securities premium are excluded from the Share Capital debit.

Step 1: Find called-up capital per share The nominal value is Rs 100 and the first and final call of Rs 50 has not been made. Therefore,

$$\text{Called-up capital per share} = 100 - 50 = \text{Rs } 50.$$

The Rs 15 allotment includes Rs 5 premium, so only Rs 10 of allotment relates to share capital.

Step 2: Calculate the forfeiture debit

$$\text{Share Capital Account debit} = 100 \times 50 = \text{Rs } 5,000.$$

Option (C) uses the full face value, incorrectly including the uncalled amount. Option (B) is the unpaid allotment including premium, not called-up capital. Option (A) wrongly subtracts the premium from the already nominal called-up value; premium is separate from face value from the outset.

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

Quick Tip to Solve: At forfeiture use shares multiplied by called-up face value; never add premium or an unmade call.

OR

12(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 relating only to the shares actually reissued, after deducting any reissue discount.
- A premium received on reissue is credited to Securities Premium Account; it is not included in capital reserve.

Step 1: Find the forfeited amount per share The shares have a face value of Rs 10 and the unpaid final call is Rs 2. Thus the amount already received and forfeited is

$$10 - 2 = \text{Rs } 8 \text{ per share.}$$

For all 500 forfeited shares the balance is Rs 4,000, but 200 shares are still unreissued.

Step 2: Restrict the transfer to reissued shares Only the 300 reissued shares release their forfeiture balance:

$$\text{Capital reserve} = 300 \times 8 = \text{Rs } 2,400.$$

Reissue at Rs 12 gives a premium of $300 \times 2 = \text{Rs } 600$ and no discount. Option (B) wrongly combines this premium with the capital profit. Option (C) includes the unreissued shares; option (D) is the face value of all forfeited shares, not the realised capital profit.

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

Quick Tip to Solve: Take forfeiture money per share times shares reissued; deduct discount only, and keep reissue premium separate.

13. SQ Ltd. forfeited 300 shares of Rs. 10 each. The amount forfeited was Rs. 2,700. What will be the maximum discount per share at which these shares can be reissued ? [1 mark]

(A) Rs. 9

(B) Rs. 1

(C) Rs. 3

(D) Rs. 2

Correct Answer: (A) Rs. 9

Solution:

Concept:

- The discount allowed on reissue cannot exceed the forfeited amount attributable to the reissued shares.
- For identical shares, maximum discount per share equals the relevant forfeiture balance divided by the number of shares.

Step 1: Identify the available forfeiture balance The amount forfeited is Rs 2,700 for 300 shares. This amount is available to absorb the discount on reissue. The face value of Rs 10 is not itself the discount limit.

Step 2: Calculate the per-share ceiling

$$\text{Maximum discount per share} = \frac{2,700}{300} = \text{Rs } 9.$$

At this discount the fully paid reissue price would be $10 - 9 = \text{Rs } 1$. Hence option (B) gives the minimum reissue price rather than the maximum discount. Discounts of Rs 3 and Rs 2 in options (C) and (D) are possible but are smaller than the permitted ceiling.

Step 3: Conclusion The maximum discount is Rs 9 per share. Hence, the correct option is (A).

Quick Tip to Solve: Divide the forfeiture balance by the shares concerned; subtract from face value only if asked for minimum reissue price.

14. 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 at least the guaranteed amount; deficiency is the guarantee less the ordinary profit entitlement.
- The guarantors bear that deficiency in the ratio specified in the agreement.

Step 1: Calculate Noori's deficiency **Working Notes**

Noori's ordinary share is one-fourth of the net profit:

$$\text{Normal share} = 3,60,000 \times \frac{1}{4} = \text{Rs } 90,000,$$

$$\text{Deficiency} = 1,20,000 - 90,000 = \text{Rs } 30,000.$$

Only this shortfall, not the full guarantee, is allocated to Pooja and Kumari.

Step 2: Allocate the shortfall to Pooja The deficiency is borne in their stated ratio $2 : 1$. Thus,

$$\text{Pooja's burden} = 30,000 \times \frac{2}{3} = \text{Rs } 20,000.$$

Kumari bears the remaining Rs 10,000, explaining option (C). Option (B) is the full guaranteed profit, and option (D) is unrelated to the share of the deficiency specified by the agreement.

Step 3: Conclusion The deficiency borne by Pooja is Rs 20,000. Hence, the correct option is (A).

Quick Tip to Solve: Find the shortfall after the guaranteed partner's normal share, then split it in the guarantors' ratio.

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

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 debts of the firm.
- If firm assets are insufficient to discharge firm debts, partners' private assets may also be used, subject to the rules for settling liabilities.

Step 1: Evaluate the Assertion The Assertion says private assets of a partner can also be used to pay the firm's debts. This is correct because the partner's responsibility is not confined to capital contributed to the firm.

Step 2: Evaluate the Reason The Reason describes a partner's liability for acts of the firm as limited. This is incorrect for an ordinary partnership: the relevant principle is unlimited liability. Limited liability cannot be substituted for the ordinary partnership rule in this question.

Step 3: Check the explanatory link and alternatives The Reason is false, so it cannot explain the true Assertion. Option (A) reverses the truth values. Options (C) and (D) both incorrectly treat the Reason as correct; their distinction about explanation therefore does not arise.

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

Quick Tip to Solve: For ordinary partnership, remember unlimited liability: a partner's risk can extend beyond capital invested.

16. 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 by its Memorandum of Association to issue.
- Authorised capital is also called nominal capital or registered capital; issued and subscribed capital describe later stages of raising capital.

Step 1: Identify the capital limit in the memorandum The question asks for the amount that the company is authorised to issue, rather than the amount actually offered or accepted. This maximum registered limit is its nominal or registered capital.

Step 2: Distinguish the remaining options Issued capital, option (A), is the portion offered for subscription. Subscribed capital, option (D), is the portion subscribed by applicants. Reserve capital, option (B), is uncalled subscribed capital reserved to be called only on winding up. None of these terms denotes the overall authorised limit specified in the memorandum.

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

Quick Tip to Solve: Link the words "authorised by its Memorandum" directly with authorised, nominal or registered capital.

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

(i) A debtor whose debt of Rs. 40,000 had been written off as bad, paid Rs. 37,000 in full settlement.

(ii) Land and building was sold for Rs. 9,00,000 through a broker who charged Rs. 50,000 as commission.

(iii) Creditors amounting to Rs. 36,000 were paid Rs. 33,000 in full settlement.

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

Solution:

Concept:

- After assets and outside liabilities have been transferred, asset receipts are credited to Realisation Account, while payments of liabilities and realisation expenses are debited to it.

- Recovery of a previously written-off debt is a receipt from an unrecorded asset. Credit Realisation Account with the amount actually received; do not restore the debtor's old balance.

Step 1: Identify the amounts to be recorded

Working Notes

The written-off debtor pays Rs 37,000, which is entirely a realisation receipt. Land and building yields a gross receipt of Rs 9,00,000; the broker's Rs 50,000 commission is a separate realisation expense. The creditors are settled by paying Rs 33,000. Their earlier Rs 36,000 balance has already been transferred to Realisation Account, so neither that liability nor the Rs 3,000 saving requires another separate entry.

Step 2: Record receipts and payments in the journal Journal of Lata and Dheeraj (31st March, 2024)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being recovery of debt previously written off)		37,000	37,000
	Bank A/c Dr. To Realisation A/c (Being land and building sold)		9,00,000	9,00,000
	Realisation A/c Dr. To Bank A/c (Being brokerage paid on sale of land and building)		50,000	50,000
	Realisation A/c Dr. To Bank A/c (Being creditors of Rs 36,000 settled for Rs 33,000)		33,000	33,000

Step 3: Conclusion The above entries record the Rs 37,000 recovery, Rs 9,00,000 sale, Rs 50,000 brokerage and Rs 33,000 settlement. Each entry has equal debits and credits; no further debtor or creditor transfer is needed.

Quick Tip to Solve: Once balances are transferred, route actual receipts and payments through Realisation; record the broker's commission separately from the gross sale.

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

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

Solution:

Concept:

- Existing goodwill is written off by debiting the old partners' capital accounts in their old profit-sharing ratio before admission.
- The incoming partner compensates sacrificing partners for his share of goodwill. In the absence of a different arrangement, Bharat and Ishu sacrifice in their old ratio of $4:1$.
- Credit cash premium to the sacrificing partners. When the new partner brings the specified capital but only part of his goodwill premium, debit his Current Account for the deficiency.

Step 1: Calculate the goodwill adjustments **Working Notes**

Existing goodwill of Rs 50,000 is written off: Bharat's share is $50,000 \times 4/5 = 40,000$, and Ishu's share is $50,000 \times 1/5 = 10,000$.

$$\text{Rishab's premium due} = 4,00,000 \times \frac{1}{4} = \text{Rs } 1,00,000,$$

$$\text{Premium not brought} = 1,00,000 - 60,000 = \text{Rs } 40,000.$$

Distribute the cash premium of Rs 60,000 as Rs 48,000 to Bharat and Rs 12,000 to Ishu. Distribute the unpaid premium of Rs 40,000 as Rs 32,000 and Rs 8,000 respectively. Thus their total compensation is Rs 80,000 and Rs 20,000.

Step 2: Record goodwill write-off and cash introduced Journal of the Firm

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

Step 3: Compensate the sacrificing partners Journal of the Firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Premium for Goodwill A/c Dr. To Bharat's Capital A/c To Ishu's Capital A/c (Being cash premium distributed in the sacrificing ratio of 4:1)		60,000	 48,000 12,000
	Rishab's Current A/c Dr. To Bharat's Capital A/c To Ishu's Capital A/c (Being unpaid goodwill premium adjusted through Rishab's Current Account)		40,000	 32,000 8,000

Step 4: Conclusion Write off existing goodwill of Rs 50,000. Rishab's goodwill premium is Rs 1,00,000, comprising Rs 60,000 received and Rs 40,000 debited to his Current Account; Bharat and Ishu receive total premium credits of Rs 80,000 and Rs 20,000.

Quick Tip to Solve: Keep the old Rs 50,000 goodwill write-off separate from Rishab's Rs 1,00,000 premium; both use 4:1 here but represent different adjustments.

OR

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

Solution:

Concept:

- Normal profit is the return ordinarily expected on capital employed: capital employed multiplied by the normal rate of return.
- Super profit equals average profit less normal profit. Goodwill under the super profit method is super profit multiplied by the agreed number of years' purchase.
- The incoming partner brings goodwill premium equal to the firm's goodwill multiplied by the share acquired in the firm's profits.

Step 1: Calculate normal profit **Working Notes**

Capital employed is Rs 2,00,000 and the normal rate of return is 10%. Apply the rate to capital employed, not to the average net profit:

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

This is the ordinary annual return expected from the capital invested in the business.

Step 2: Determine super profit and the firm's goodwill The average net profit of Rs 80,000 exceeds

the normal return by Rs 60,000. Capitalise this excess at three years' purchase:

$$\text{Super profit} = 80,000 - 20,000 = \text{Rs } 60,000,$$
$$\text{Firm's goodwill} = 60,000 \times 3 = \text{Rs } 1,80,000.$$

Multiplying the whole Rs 80,000 average profit by three would incorrectly apply the average profit method instead of the specified super profit method.

Step 3: Calculate Sonu's proportionate premium Sonu acquires one-fifth of the firm's profits, so the premium he brings is one-fifth of the total goodwill:

$$\text{Sonu's premium} = 1,80,000 \times \frac{1}{5} = \text{Rs } 36,000.$$

The old partners' ratio of 4:3 is relevant to allocation of compensation between them, not to determining Sonu's total premium.

Step 4: Conclusion The firm's goodwill is Rs 1,80,000, and the goodwill premium brought by Sonu is $\boxed{\text{Rs } 36,000}$.

Quick Tip to Solve: Follow the sequence: normal profit, excess profit, three years' purchase, then Sonu's one-fifth share.

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

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

Solution:

Concept:

- Debit assets acquired and credit liabilities assumed. Goodwill is the excess of purchase consideration over net assets.
- Debentures issued at a premium settle the vendor's claim at issue price. Credit Debentures Account at face value and Securities Premium Reserve Account for the premium.

Step 1: Determine goodwill and the number of debentures **Working Notes**

Deduct the liabilities taken over from the value of assets acquired:

$$\text{Net assets} = 12,00,000 + 20,00,000 - 3,00,000 = \text{Rs } 29,00,000,$$
$$\text{Goodwill} = 35,00,000 - 29,00,000 = \text{Rs } 6,00,000.$$

After the Rs 2,00,000 bank draft, the vendor is owed Rs 33,00,000. Each debenture settles Rs

$100 + 10 = 110$:

$$\text{Debentures issued} = \frac{33,00,000}{110} = 30,000,$$

$$\text{Face value credited} = 30,000 \times 100 = \text{Rs } 30,00,000,$$

$$\text{Issue premium} = 30,000 \times 10 = \text{Rs } 3,00,000.$$

The 11% rate is the interest rate on debentures; it does not determine their issue price.

Step 2: Record acquisition and settlement Journal of Varsha Ltd. (1st April, 2024)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	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 from Rama Ltd. for the agreed consideration)			
	Rama Ltd. Dr.		35,00,000	
	To Bank A/c			2,00,000
	To 11% Debentures A/c			30,00,000
	To Securities Premium Reserve A/c			3,00,000
	(Being consideration settled by bank draft and 30,000 debentures of Rs 100 each issued at 10% premium)			

Step 3: Conclusion Goodwill is Rs 6,00,000. Varsha Ltd. issues 30,000 debentures, crediting Rs 30,00,000 to 11% Debentures and Rs 3,00,000 to Securities Premium Reserve, in addition to the Rs 2,00,000 bank payment.

Quick Tip to Solve: First subtract the bank draft from consideration; divide the Rs 33,00,000 balance by the Rs 110 issue price, not the Rs 100 face value.

OR

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

(i) Calculate the number of debentures issued.

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

Solution:

Concept:

- Debentures issued to a vendor discharge the purchase consideration at their issue price, whereas the Debentures Account is credited with their nominal value.
- Issue price equals face value less discount. The difference between nominal value and the amount payable to the vendor is debited to Discount on Issue of Debentures Account.

Step 1: Calculate the issue price and number of debentures **Working Notes**

Each debenture has a face value of Rs 100 and is issued at a discount of 10%. Thus the vendor

receives value of Rs 90 for each debenture:

$$\text{Issue price} = 100 - (100 \times 10/100) = \text{Rs } 90,$$
$$\text{Number issued} = \frac{1,98,000}{90} = 2,200,$$
$$\text{Nominal value} = 2,200 \times 100 = \text{Rs } 2,20,000,$$
$$\text{Total discount} = 2,200 \times 10 = \text{Rs } 22,000.$$

The 8% rate determines future interest on the nominal value; it does not determine the issue price or the number of debentures issued.

Step 2: Record the purchase and discharge the vendor's claim Machinery is debited at its purchase cost. Prakash Ltd. is first credited for the liability and then debited when that liability is settled through debentures. No bank payment occurs.

Journal of Roshni Ltd.

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

The second entry balances because Rs 1,98,000 plus Rs 22,000 equals the nominal debenture liability of Rs 2,20,000.

Step 3: Conclusion Roshni Ltd. issues $\boxed{2,200}$ 8% debentures. Their nominal value is Rs 2,20,000 and the discount on issue is Rs 22,000; the journal entries above record both the purchase and settlement.

Quick Tip to Solve: Divide the vendor's claim by Rs 90, the issue price, then credit Debentures at Rs 100 per debenture. Do not divide by the interest rate.

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

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

Solution:

Concept:

- When the retiring partner receives more than the adjusted capital balance in full settlement, the excess represents that partner's share of hidden goodwill.

- The continuing partners compensate the retiring partner for goodwill in their gaining ratio. Their capital accounts are debited and the retiring partner's capital account is credited.

Step 1: Find Rajan's share of hidden goodwill **Working Notes**

Rajan's capital of Rs 1,80,000 already includes all adjustments for reserves, revaluation of assets and reassessment of liabilities. Therefore these adjustments must not be made a second time. Compare this adjusted balance with the amount agreed for full settlement:

$$\text{Rajan's goodwill share} = 2,20,000 - 1,80,000 = \text{Rs } 40,000.$$

This difference is Rajan's own share of goodwill, so it is not multiplied by his old profit share of $1/6$.

Step 2: Determine the continuing partners' gains Since no new ratio is specified, Diksha and Krish continue in their old relative ratio of $3:2$. Their new shares are $3/5$ and $2/5$, respectively.

$$\text{Diksha's gain} = \frac{3}{5} - \frac{3}{6} = \frac{1}{10},$$
$$\text{Krish's gain} = \frac{2}{5} - \frac{2}{6} = \frac{1}{15},$$
$$\text{Gaining ratio} = \frac{1}{10} : \frac{1}{15} = 3:2.$$

Their total gain is $1/10 + 1/15 = 1/6$, equal to Rajan's old share. Accordingly Diksha bears $40,000 \times 3/5 = \text{Rs } 24,000$ and Krish bears $40,000 \times 2/5 = \text{Rs } 16,000$.

Step 3: Adjust goodwill through the partners' capital accounts **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 2024	Diksha's Capital A/c Dr.		24,000	
	Krish's Capital A/c Dr.		16,000	
	To Rajan's Capital A/c			40,000
	(Being Rajan's share of goodwill adjusted through continuing partners' capital accounts in their gaining ratio of 3:2)			

The total debit of Rs 40,000 equals the credit to Rajan. His capital after this goodwill adjustment becomes Rs 2,20,000, agreeing with the settlement amount. The question asks for the goodwill adjustment; the agreement to pay is used to calculate goodwill.

Step 4: Conclusion Rajan's share of goodwill is $\boxed{\text{Rs } 40,000}$. Debit Diksha's Capital Account by Rs 24,000 and Krish's Capital Account by Rs 16,000, and credit Rajan's Capital Account by Rs 40,000.

Quick Tip to Solve: Subtract the already adjusted capital from the settlement amount first; allocate only this excess to the continuing partners in their gaining ratio.

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

(i) Issued 4,000, 8% Debentures of Rs. 100 each at a discount of 10% redeemable at par after 5 years.

(ii) Issued 1,000, 8% Debentures of Rs. 100 each at a premium of 10%, redeemable at premium of 5% after 5 years. [4 marks]

Solution:

Concept:

- Debentures Account is credited with the face value issued. Bank Account records the actual proceeds, while discount is debited and premium on issue is credited to Securities Premium Account.
- A premium payable on redemption is recognised at the time of issue: Loss on Issue of Debentures Account is debited and Premium on Redemption of Debentures Account is credited.
- The coupon rate of 8% determines interest on the nominal debenture liability. It does not change the amount received on issue or the premium payable on redemption.

Step 1: Record issue at discount, redeemable at par **Working Notes for (i)**

The face value of 4,000 debentures is $4,000 \times 100 = \text{Rs } 4,00,000$. A 10% discount reduces proceeds by Rs 40,000:

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

$$\text{Bank receipt} = 4,00,000 - 40,000 = \text{Rs } 3,60,000.$$

Redemption at par means that no additional premium liability arises. The Rs 40,000 discount is recognised at issue.

Journal of ZX Ltd.: transaction (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,60,000	
	Discount on Issue of Debentures A/c Dr.		40,000	
	To 8% Debentures A/c			4,00,000
	(Being 4,000 debentures of Rs 100 each issued at a discount of 10%, redeemable at par after five years)			

Step 2: Record issue at premium, redeemable at premium **Working Notes for (ii)**

The nominal value of 1,000 debentures is $1,000 \times 100 = \text{Rs } 1,00,000$. Calculate the issue and redemption premiums separately, both on face value:

$$\text{Issue premium} = 1,00,000 \times 10\% = \text{Rs } 10,000,$$

$$\text{Bank receipt} = 1,00,000 + 10,000 = \text{Rs } 1,10,000,$$

$$\text{Redemption premium} = 1,00,000 \times 5\% = \text{Rs } 5,000.$$

The issue premium is a capital credit to Securities Premium Account. The redemption premium is a future obligation recognised now against Loss on Issue of Debentures Account. They have different purposes and are shown separately in the issue entry.

Journal of ZX Ltd.: transaction (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,10,000	
	Loss on Issue of Debentures A/c Dr.		5,000	
	To 8% Debentures A/c			1,00,000
	To Securities Premium A/c			10,000
	To Premium on Redemption of Debentures A/c			5,000
	(Being 1,000 debentures of Rs 100 each issued at 10% premium, redeemable at 5% premium after five years)			

Debits and credits in this entry both total Rs 1,15,000. The actual redemption payment occurs after five years; the present entry recognises the issue and the obligation arising from its terms.

Step 3: Conclusion In (i), the bank receives Rs 3,60,000 and discount is Rs 40,000 against debentures of Rs 4,00,000. In (ii), the bank receives Rs 1,10,000; Securities Premium is Rs 10,000 and redemption premium, recognised as loss on issue, is Rs 5,000 against debentures of Rs 1,00,000.

Quick Tip to Solve: Prepare three amounts separately: face value, cash received and redemption premium. Credit Debentures at face value and recognise a promised redemption premium even though payment is five years away.

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 the opening capital, interest on capital, goodwill entitlement and profit earned up to death; drawings reduce the amount payable to the executors.
- Interest on capital equals capital multiplied by the annual rate and the fraction of the year.

Estimated profit to the date of death equals average annual profit multiplied by the time fraction and the deceased partner's profit share.

- When the continuing partners retain their relative profit shares, they compensate the deceased partner for goodwill in their gaining ratio. The final capital balance is transferred to the executor's account.

Step 1: Calculate interest and profit up to the date of death **Working Notes**

Kishore's profit share is $1/6$. From 1st April to 1st August, 2024, the elapsed period is four months. Apply interest to his opening capital; the drawings are deducted separately, and no interest on drawings is stipulated.

$$\begin{aligned}
\text{Interest on capital} &= 4,00,000 \times \frac{12}{100} \times \frac{4}{12} = \text{Rs } 16,000,\\
\text{Average annual profit} &= \frac{2,00,000 + 2,20,000 + 1,20,000 + 1,80,000}{4}\\
&= \text{Rs } 1,80,000,\\
\text{Profit up to death} &= 1,80,000 \times \frac{4}{12} = \text{Rs } 60,000,\\
\text{Kishore's share} &= 60,000 \times \frac{1}{6} = \text{Rs } 10,000.
\end{aligned}$$

The estimated profit is credited through Profit and Loss Suspense Account because the accounting year has not ended.

Step 2: Calculate Kishore's goodwill entitlement Kishore's share of goodwill is $60,000 \times 1/6 =$ Rs $10,000$. In the absence of a revised ratio, Hans and Sohan continue in their relative ratio $3:2$; their gains are $3/5 - 3/6 = 1/10$ and $2/5 - 2/6 = 1/15$, giving a gaining ratio of $3:2$. Thus Hans's Capital Account is debited by Rs 6,000 and Sohan's Capital Account by Rs 4,000, with Kishore's Capital Account credited by Rs 10,000.

Step 3: Prepare Kishore's capital account **Kishore's Capital Account**

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

The balance payable is transferred to Kishore's Executor's Account; it is not carried forward in the deceased partner's capital account. Check: $4,00,000 + 16,000 + 10,000 + 10,000 - 90,000 = 3,46,000$.

Step 4: Conclusion Kishore's executors are entitled to $\boxed{\text{Rs } 3,46,000}$. His capital account totals Rs 4,36,000 on each side after transferring this amount to the executor's account.

Quick Tip to Solve: Use four months, from 1st April to 1st August, for both interest and estimated profit; apply Kishore's one-sixth share only to goodwill and firm profit, not to his own capital interest.

23(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:

- Goodwill premium is credited to the sacrificing partners in the sacrificing ratio, calculated as old share minus new share. The new partner's capital contribution is credited separately to her Capital Account.
- Accumulated reserves and revaluation profit belong to the old partners and are transferred in their old profit-sharing ratio. A compensation fund with no stated claim is treated as a free reserve.
- Revaluation Account records changes in asset and liability values. Paying an already recorded liability at its book value reduces both the liability and bank, without a revaluation gain or loss.

Step 1: Work out sacrifice and revaluation adjustments **Working Notes**

Uma and Umesh's old ratio is $2:3$, while the new ratio is $2:3:5$.

$$\text{Uma's sacrifice} = \frac{2}{5} - \frac{2}{10} = \frac{2}{10},$$
$$\text{Umesh's sacrifice} = \frac{3}{5} - \frac{3}{10} = \frac{3}{10}.$$

The sacrificing ratio is $2:3$; premium of Rs 2,00,000 is therefore credited as Rs 80,000 to Uma and Rs 1,20,000 to Umesh. General Reserve and Workmen Compensation Fund total Rs 1,00,000; with no

compensation claim stated, this is distributed as Rs 40,000 and Rs 60,000.

$$\begin{aligned}
\text{Furniture depreciation} &= 1,00,000 \times 10\% = \text{Rs } 10,000,\\
\text{Debtors after bad debts} &= 80,000 - 3,000 = \text{Rs } 77,000,\\
\text{Required provision} &= 77,000 \times 5\% = \text{Rs } 3,850,\\
\text{Reduction in provision} &= 5,000 - 3,850 = \text{Rs } 1,150,\\
\text{Revaluation profit} &= 2,00,000 + 1,150 - 10,000 - 3,000\\
&= \text{Rs } 1,88,150.
\end{aligned}$$

Uma receives $1,88,150 \times 2/5 = \text{Rs } 75,260$ and Umesh receives $1,88,150 \times 3/5 = \text{Rs } 1,12,890$.

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

All entries below are dated 31st March, 2024.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-24	Bank A/c Dr. To Daya's Capital A/c To Premium for Goodwill A/c (Being capital and goodwill premium brought in by Daya)		12,00,000	 10,00,000 2,00,000
31-3-24	Premium for Goodwill A/c Dr. To Uma's Capital A/c To Umesh's Capital A/c (Being goodwill premium credited in sacrificing ratio 2:3)		2,00,000	 80,000 1,20,000
31-3-24	General Reserve A/c Dr. Workmen Compensation Fund A/c Dr. To Uma's Capital A/c To Umesh's Capital A/c (Being accumulated reserves distributed in the old ratio 2:3, no compensation claim being stated)		75,000 25,000	 40,000 60,000

Step 3: Record the changes in assets **Journal (continued): Revaluation adjustments**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-24	Land and Building A/c Dr. To Revaluation A/c (Being increase in value of land and building recorded)		2,00,000	 2,00,000
31-3-24	Revaluation A/c Dr. To Furniture A/c (Being furniture depreciated by 10%)		10,000	 10,000
31-3-24	Revaluation A/c Dr. To Debtors A/c (Being bad debts written off on admission)		3,000	 3,000
31-3-24	Provision for Doubtful Debts A/c Dr. To Revaluation A/c (Being provision reduced from Rs 5,000 to Rs 3,850, or 5% of remaining debtors)		1,150	 1,150

Debtors now stand at Rs 77,000 gross, with a provision of Rs 3,850 and net carrying amount of Rs

73,150. This method records the bad debt separately and adjusts the existing provision only by the excess Rs 1,150, avoiding double counting.

Step 4: Pay the liability and transfer revaluation profit **Journal (continued): Settlement and profit transfer**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-24	Outstanding Electricity Bill A/c Dr. To Bank A/c (Being outstanding electricity bill paid at its book value)		10,000	 10,000
31-3-24	Revaluation A/c Dr. To Uma's Capital A/c To Umesh's Capital A/c (Being revaluation profit transferred to old partners in ratio 2:3)		1,88,150	 75,260 1,12,890

Each entry has equal debits and credits. As a check, adjusted capitals are Uma: $5,00,000 + 80,000 + 40,000 + 75,260 =$ Rs $6,95,260$, Umesh: $7,50,000 + 1,20,000 + 60,000 + 1,12,890 =$ Rs $10,42,890$, and Daya: Rs 10,00,000. Bank is $1,95,000 + 12,00,000 - 10,000 =$ Rs $13,85,000$. No adjustment to make capitals proportionate is required by the admission terms.

Step 5: Conclusion The journal entries above record Daya's admission, the Rs 2,00,000 goodwill premium and the payment of the outstanding bill. Revaluation profit of Rs 1,88,150 is credited to Uma and Umesh as Rs 75,260 and Rs 1,12,890 respectively.

Quick Tip to Solve: Calculate the 5% provision on debtors after the Rs 3,000 write-off, then compare Rs 3,850 with the existing Rs 5,000 provision. Payment of the recorded electricity liability has no revaluation effect.

OR

23(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 gains and losses belong to all partners in their old profit-sharing ratio, $3:5:2$. An increase in an asset and cancellation of an unnecessary provision are gains; depreciation is a loss.
- General Reserve is credited to all partners in the old ratio. The retiring partner's goodwill is credited to that partner and charged to the continuing partners in their gaining ratio.
- Since no changed ratio is specified, Naval and Nritya continue in their relative old ratio, $3:2$. Their gains are $3/5 - 3/10 = 3/10$ and $2/5 - 2/10 = 2/10$, so their gaining ratio is also $3:2$.

Step 1: Calculate the revaluation adjustments Land and Building increases by Rs 50,000. Depreciation on Plant and Machinery is $2,00,000 \times 10\% =$ Rs $20,000$. The entire provision of Rs 5,000 is released because all debtors are good, and the unrecorded investments are recognised at Rs 65,000. Therefore,

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

Naval, Nyaya and Nritya receive Rs 30,000, Rs 50,000 and Rs 20,000 respectively. The existing liabilities are unchanged and are not transferred to Revaluation Account.

Step 2: Prepare Revaluation Account **Revaluation Account as at 31st March, 2024**

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 Doubtful Debts	5,000	
	To Nyaya's Capital	50,000	By Investments	65,000	
	To Nritya's Capital	20,000			
	Total	1,20,000	Total	1,20,000	

Step 3: Distribute reserve and adjust goodwill General Reserve of Rs 80,000 is distributed in the old ratio: Naval receives $80,000 \times 3/10 =$ Rs $24,000$, Nyaya receives Rs 40,000 and Nritya receives Rs 16,000. Nyaya's share of the firm's goodwill is $1,20,000 \times 5/10 =$ Rs $60,000$. It is credited to Nyaya's Capital Account. Naval is debited with $60,000 \times 3/5 =$ Rs $36,000$ and Nritya with $60,000 \times 2/5 =$ Rs $24,000$. Goodwill is adjusted through capitals; no Goodwill Account is raised.

Step 4: Prepare the partners' Capital Accounts **Naval's Capital Account as at 31st March, 2024**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Nyaya's Capital (goodwill)	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 as at 31st March, 2024

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 (goodwill)	36,000	
			By Nritya's Capital (goodwill)	24,000	
	Total	4,50,000	Total	4,50,000	

Nritya's Capital Account as at 31st March, 2024

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Nyaya's Capital (goodwill)	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	

Nyaya's full settlement is transferred to his Loan Account, so his Capital Account closes. Naval and Nritya retain credit capital balances in the continuing firm.

Step 5: Conclusion Revaluation profit is Rs 1,00,000. Nyaya's Loan Account is credited with Rs 4,50,000; the closing capitals of Naval and Nritya are Rs 2,18,000 and Rs 5,12,000 respectively.

Quick Tip to Solve: Credit reserves and revaluation in the old ratio, but debit the retiring partner's goodwill only to the continuing partners in their gaining ratio.

24. 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 : Raja 3,00,000 Rajan 4,00,000 Rajani 5,00,000	12,00,000	Land and Building Plant and Machinery Furniture	9,00,000 6,00,000 1,20,000
General Reserve	1,60,000	Debtors 80,000 Less : Provision for doubtful debts 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		
	19,40,000		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:

- On dissolution, non-cash assets are transferred to the debit of Realisation Account at gross book values. External liabilities and the provision for doubtful debts are transferred to its credit.
- Realisation Account is credited with cash proceeds and assets taken over by a partner, and debited with payments to external creditors and realisation expenses. Profit is transferred to partners' capitals in their old ratio, $2:2:1$.
- Bank balance, partners' capital balances, General Reserve and a partner's own loan do not enter Realisation Account. An outside party's loan, including Mrs. Raja's Loan, does enter it.

Step 1: Determine the book-value transfers Transfer Land and Building Rs 9,00,000, Plant and Machinery Rs 6,00,000, Furniture Rs 1,20,000, gross Debtors Rs 80,000, Bills Receivable Rs 18,000 and Stock Rs 1,00,000 to the debit of Realisation Account. Their total is Rs 18,18,000. Transfer Creditors Rs 80,000, Mrs. Raja's Loan Rs 1,90,000, Outstanding Wages Rs 10,000 and Provision for Doubtful Debts Rs 8,000 to its credit, totalling Rs 2,88,000. Gross debtors and their provision are shown separately so that neither the provision nor the debtors are counted twice.

Step 2: Calculate proceeds and settlements Plant and Machinery realises $6,00,000 - 40,000 =$ Rs $5,60,000$. Raja takes stock with book value $1,00,000 \times 60\% =$ Rs $60,000$, valued for settlement at $60,000 \times 90\% =$ Rs $54,000$. Credit Realisation and debit Raja's Capital with this amount; it is not a bank receipt. The remaining stock yields Rs 44,000. Total bank receipts are:

$$\begin{aligned}\text{Proceeds} &= 20,00,000 + 5,60,000 + 90,000 + 44,000 \\ &= \text{Rs } 26,94,000.\end{aligned}$$

Furniture is taken over by creditors in full settlement. Both its book value and the creditors' liability have already been transferred; no further entry is needed for this direct settlement. Wages paid are Rs 10,000. Mrs. Raja receives $1,90,000 + 10,000 =$ Rs $2,00,000$, including interest. Realisation expenses are Rs 8,000. Thus the cash payments charged to Realisation total Rs 2,18,000.

Step 3: Prepare Realisation Account **Realisation Account as at 31st March, 2024**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	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 (Outstanding Wages)	10,000	By Bank (Debtors and Bills Receivable)	90,000	
	To Bank (Mrs. Raja's Loan and interest)	2,00,000	By Raja's Capital (stock)	54,000	
	To Bank (expenses)	8,000	By Bank (remaining 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	

Step 4: Verify the profit distribution Total credits are $2,88,000 + 26,94,000 + 54,000 =$ Rs $30,36,000$. Debits before transferring profit are $18,18,000 + 2,18,000 =$ Rs $20,36,000$. Their difference is Rs 10,00,000. Distribute it in the ratio $2:2:1$: Raja receives $10,00,000 \times 2/5 =$ Rs $4,00,000$, Rajan receives Rs 4,00,000 and Rajani receives Rs 2,00,000. These debit entries close Realisation Account with equal totals. Raja's own loan of Rs 3,00,000 is settled separately and is therefore excluded from this account.

Step 5: Conclusion Profit on realisation is Rs 10,00,000, transferred to Raja, Rajan and Rajani in amounts of Rs 4,00,000, Rs 4,00,000 and Rs 2,00,000 respectively. Realisation Account totals Rs 30,36,000 on each side.

Quick Tip to Solve: When a creditor accepts a transferred asset in full settlement, record no extra receipt or payment; a partner's takeover instead credits Realisation at the agreed value.

25(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 available shares in proportion to applications. Excess application money is transferred to Share Allotment, reducing the cash payable on allotment.
- On forfeiture, debit Share Capital with the called-up amount; credit the unpaid instalment account and credit Share Forfeiture with capital already received, including adjusted application money.
- A call is made only on shares outstanding on that date. No entry is passed for an instalment that has not been called.

Step 1: Working Notes: calculate allotment and Jay's default The allotment ratio is $70,000 : 1,00,000 = 7 : 10$. Application money received is $1,00,000 \times 20 =$ Rs $20,00,000$. Of this, $70,000 \times 20 =$ Rs $14,00,000$ is application capital, and Rs 6,00,000 is adjusted against allotment. Jay receives $1,000 \times 7/10 = 700$ shares. His application payment is Rs 20,000; Rs 14,000 relates to application on allotted shares and Rs 6,000 is adjusted against allotment. His gross allotment due is $700 \times 40 =$ Rs $28,000$, so the unpaid amount is Rs 22,000. Total allotment due is Rs 28,00,000. Cash received is $28,00,000 - 6,00,000 - 22,000 =$ Rs $21,78,000$. Jay's called-up capital is $700 \times 60 =$ Rs $42,000$, and his forfeiture credit is Rs 20,000.

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

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

Step 3: Working Notes: calculate the first call and second forfeiture After Jay's forfeiture, shares outstanding are $70,000 - 700 = 69,300$. First call due is $69,300 \times 20 =$ Rs $13,86,000$. Meenakshi does not pay $1,400 \times 20 =$ Rs $28,000$; bank receipts are therefore Rs 13,58,000. Meenakshi had paid the application and allotment capital of Rs 60 per share, including any application excess adjusted. Her forfeiture credit is $1,400 \times 60 =$ Rs $84,000$, and called-up capital cancelled is $1,400 \times 80 =$ Rs $1,12,000$. The final Rs 20 per share remains uncalled.

Step 4: Record the 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. To Share Capital A/c *(Being first call due on 69,300 shares)*		13,86,000	 13,86,000
	Bank A/c Dr. To Share First Call A/c *(Being first call received except from Meenakshi)*		13,58,000	 13,58,000
	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c *(Being 1,400 shares forfeited at Rs 80 called-up)*		1,12,000	 28,000 84,000

Step 5: Conclusion The journal entries record both forfeitures. Share Forfeiture has a total credit of Rs 1,04,000, and 67,900 shares remain at Rs 80 called-up each. No second and final call entry is required.

Quick Tip to Solve: For Jay, use shares applied for to find application cash, then shares allotted to find the call amounts; exclude his forfeited shares from the first call.

OR

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

[6 marks]

25(b)(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.

Solution:

Concept:

- Forfeiture cancels only called-up share capital. Securities Premium is debited on forfeiture only when the premium was due but not received.
- On reissue, credit Share Capital with the paid-up value granted. A reissue discount is debited to Share Forfeiture; a reissue premium is credited to Securities Premium.
- Transfer only the forfeiture profit relating to reissued shares to Capital Reserve. Amounts relating to shares still forfeited stay in Share Forfeiture.

Step 1: Working Notes: analyse Sierra Ltd. The uncalled capital is Rs 3 per share, so called-up capital is $10 - 3 =$ Rs 7 per share. Allotment of Rs 5 includes Rs 2 premium and Rs 3 capital. Thus capital already received is $7 - 3 =$ Rs 4 per share. For 500 shares: Share Capital debit is Rs 3,500, unpaid Securities Premium debit is Rs 1,000, unpaid allotment credit is Rs 2,500, and Share Forfeiture credit is Rs 2,000. Reissue at Rs 11 fully paid brings in Rs 5,500; capital is credited with Rs 5,000 and the fresh premium is Rs 500. Since there is no reissue discount, the whole Rs 2,000 forfeiture balance becomes capital profit.

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

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

Step 3: Conclusion Sierra Ltd. forfeits Rs 3,500 of called-up capital, reverses Rs 1,000 unpaid premium, and credits Share Forfeiture with Rs 2,000. On reissue it receives Rs 5,500, credits capital with Rs 5,000 and premium with Rs 500, and transfers Rs 2,000 to Capital Reserve.

Quick Tip to Solve: Separate the Rs 2 unpaid premium from the Rs 5 allotment arrears; cancel only Rs 7 called-up capital on forfeiture but credit Rs 10 capital on fully paid reissue.

25(b)(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.

Solution:

Concept:

- Forfeiture cancels only called-up share capital. Securities Premium is debited on forfeiture only when the premium was due but not received.
- On reissue, credit Share Capital with the paid-up value granted. A reissue discount is debited to Share Forfeiture; a reissue premium is credited to Securities Premium.
- Transfer only the forfeiture profit relating to reissued shares to Capital Reserve. Amounts relating to shares still forfeited stay in Share Forfeiture.

Step 1: Working Notes: analyse Mahira Ltd. The second call of Rs 2 was never made, so called-up capital is Rs 8 per share. First-call arrears are Rs 3 per share; capital received is $8 - 3 =$ Rs 5 per share. Therefore forfeiture cancels $800 \times 8 =$ Rs $6,400$ of capital, credits first-call arrears of Rs 2,400 and credits Share Forfeiture with Rs 4,000. Only 400 shares are reissued. Cash is $400 \times 7 =$ Rs $2,800$ and paid-up capital is $400 \times 8 =$ Rs $3,200$, giving a Rs 400 discount. Forfeiture attributable to these shares is $400 \times 5 =$ Rs $2,000$; the capital profit is $2,000 - 400 =$ Rs $1,600$. The other Rs 2,000 remains against the 400 unreissued shares.

Step 2: Pass Mahira Ltd. entries Journal of Mahira Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Share Capital A/c Dr.
	  To Share First Call A/c
	  To Share Forfeiture A/c
	(Being 800 shares forfeited for non-payment of first call)
			6,400	
				2,400
				4,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c *(Being 400 shares reissued at Rs 7 as Rs 8 paid-up)*		2,800 400	 3,200
	Share Forfeiture A/c Dr. To Capital Reserve A/c *(Being net profit on 400 reissued shares transferred)*		1,600	 1,600

Step 3: Conclusion Mahira Ltd. forfeits Rs 6,400 of called-up capital and credits Share Forfeiture with Rs 4,000. The 400 reissued shares yield Rs 1,600 for Capital Reserve after the Rs 400 discount; Rs 2,000 stays in Share Forfeiture for the 400 unreissued shares.

Quick Tip to Solve: Allocate forfeiture to only the 400 reissued shares before deducting their Rs 400 discount; use the Rs 8 paid-up value, rather than face value, for reissue capital.

26. Meera Ltd. is registered with an authorised capital of Rs. 1,00,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 1,00,000 equity shares at a premium of Rs. 2 per share. The amount was payable as follows :

On application - Rs. 3 per share

On allotment - Rs. 4 per share (including premium)

On first call - Rs. 2 per share

On second and final call - Rs. 3 per share

Applications were received for 95,000 shares and allotment was made to all the applicants. All calls were made and duly received except the second and final call of 1,000 shares held by Tushar.

Answer the following questions : [6 marks]

26(i). The amount of 'share capital' to be shown in the Balance Sheet under the head 'Shareholders' Funds' will be : [1 mark]

(A) Rs. 9,50,000

(B) Rs. 10,00,000

(C) Rs. 9,47,000

(D) Rs. 9,43,000

Correct Answer: (C) Rs. 9,47,000

Solution:

Concept:

- Share capital in the Balance Sheet reflects paid-up nominal capital: called-up capital less calls in arrears.
- Securities premium is separate from share capital; the Rs 2 premium per share does not increase nominal capital.

Step 1: Calculate called-up capital and arrears All 95,000 allotted shares have been called up to their Rs 10 face value. Thus called-up capital is $95,000 \times 10 = \text{Rs } 9,50,000$. Tushar has not paid the final Rs 3 on 1,000 shares, so calls in arrears are $1,000 \times 3 = \text{Rs } 3,000$.

Step 2: Deduct unpaid calls and compare the options The amount reported is $9,50,000 - 3,000 = \text{Rs } 9,47,000$. Option (A) ignores unpaid calls; (B) is the nominal capital offered for subscription, not paid-up capital. Option (D) would deduct Rs 7,000, whereas Tushar has already paid Rs 7 nominal capital per share and owes only Rs 3 per share.

Step 3: Conclusion The Balance Sheet shows share capital of Rs 9,47,000. Hence, the correct option is (C).

Quick Tip to Solve: Deduct only the unpaid final call from allotted shares at face value; keep the Rs 2 premium outside share capital.

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

(A) Rs. 10,00,000

(B) Rs. 9,50,000

(C) Rs. 9,40,000

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

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

Solution:

Concept:

- Authorised capital is the maximum nominal capital permitted by the company's registration; it is disclosed separately from issued and subscribed capital.
- An undersubscription or a shareholder's default does not reduce the registered authorised capital.

Step 1: Identify the registered maximum The passage states that Meera Ltd. is registered with authorised capital of Rs 1,00,00,000, divided into shares of Rs 10 each. This corresponds to $1,00,00,000/10 = 10,00,000$ authorised shares. The question asks for the rupee amount, not the number of shares.

Step 2: Distinguish the other capital amounts Option (A), Rs 10,00,000, is the nominal value of the 1,00,000 shares offered. Option (B), Rs 9,50,000, is subscribed nominal capital. Option (C), Rs 9,40,000, concerns the 94,000 fully paid shares. None changes the registered ceiling, which remains Rs 1,00,00,000.

Step 3: Conclusion Authorised capital in Notes to Accounts is Rs 1,00,00,000. Hence, the correct option is (D).

Quick Tip to Solve: For authorised capital, read the registered ceiling directly; do not replace it with the smaller number of shares offered or allotted.

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

(A) Rs. 10,00,000

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

(C) Rs. 1,00,000

(D) Rs. 9,50,000

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

Solution:

Concept:

- Issued capital is the nominal value of shares offered for subscription: number offered multiplied by face value.
- Premium, actual subscriptions and calls in arrears are distinct from issued nominal capital.

Step 1: Value the shares offered Meera Ltd. invited applications for 1,00,000 equity shares of face value Rs 10 each. Therefore issued capital is $1,00,000 \times 10 =$ Rs $10,00,000$. The Rs 2 issue premium

is credited separately and is not included in issued share capital.

Step 2: Separate issued capital from the alternatives Option (B), Rs 1,00,00,000, is the authorised limit. Option (C), Rs 1,00,000, confuses the number offered with their nominal rupee value. Option (D), Rs 9,50,000, values the 95,000 shares actually subscribed. Undersubscription and Tushar's unpaid call do not change the amount originally issued for subscription.

Step 3: Conclusion Issued capital in Notes to Accounts is Rs 10,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Multiply the shares offered by face value for issued capital; use shares allotted only when calculating subscribed capital.

26(iv). The amount of 'Subscribed and fully paid capital' shown in 'Notes to Accounts' will be :

[1 mark]

(A) Rs. 9,47,000

(B) Rs. 9,40,000

(C) Rs. 10,00,000

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

Correct Answer: (B) Rs. 9,40,000

Solution:

Concept:

- Subscribed and fully paid capital includes the face value of shares on which every amount called towards share capital has been received.
- Securities premium is excluded from share capital; the face value here is Rs 10 per share.

Step 1: Identify fully paid shares Allotment was made for $95,000$ shares. Tushar did not pay the final call on $1,000$ shares, so these shares are not fully paid. Thus fully paid shares $= 95,000 - 1,000 = 94,000$.

Step 2: Calculate capital and compare options The fully paid capital is $94,000 \times 10 =$ Rs $9,40,000$. Rs $9,47,000$ is the total paid-up share capital including the amount received on Tushar's shares. Rs $10,00,000$ is issued capital, while Rs $1,00,00,000$ is authorised capital; neither is fully paid subscribed capital.

Step 3: Conclusion Subscribed and fully paid capital is Rs $9,40,000$. Hence, the correct option is (B).

Quick Tip to Solve: First exclude shares with unpaid calls; multiply only the remaining shares by face value.

26(v). The amount of 'subscribed but not fully paid capital' shown in 'Notes to Accounts' will be : [1 mark]

(A) Rs. 9,40,000

(B) Rs. 10,000

(C) Rs. 9,50,000

(D) Rs. 7,000

Correct Answer: (D) Rs. 7,000

Solution:

Concept:

- Subscribed but not fully paid shares are disclosed separately from fully paid shares in the share-capital note.
- Their called-up face value is reduced by calls-in-arrears to obtain the amount included in paid-up share capital.

Step 1: Calculate the unpaid amount Tushar holds $1,000$ shares with an unpaid second and final call of Rs 3 each. Calls-in-arrears are therefore $1,000 \times 3 =$ Rs $3,000$. All other amounts were received.

Step 2: Find the net amount in the note The called-up face value of these shares is $1,000 \times 10 =$ Rs $10,000$. Less unpaid calls of Rs $3,000$, the subscribed but not fully paid capital is Rs $7,000$. Option (B) gives the gross face value before deducting arrears. Rs $9,40,000$ relates to fully paid shares and Rs $9,50,000$ to the gross subscribed capital of all shares.

Step 3: Conclusion The amount shown after deducting calls-in-arrears is Rs $7,000$. Hence, the correct option is (D).

Quick Tip to Solve: For partly paid shares, show face value less unpaid calls; exclude securities premium from capital.

26(vi). The amount of 'calls-in-arrears' will be shown under : [1 mark]

(A) Authorised capital

(B) Issued capital

(C) Subscribed but not fully paid capital

(D) Subscribed and fully paid capital

Correct Answer: (C) Subscribed but not fully paid capital

Solution:

Concept:

- Calls-in-arrears are amounts called on allotted shares that shareholders have not yet paid.
- In the share-capital note, calls-in-arrears are deducted in the subscribed but not fully paid capital category.

Step 1: Identify the arrears The second and final call of Rs 3 per share is unpaid on Tushar's $1,000$ shares. Therefore calls-in-arrears are $1,000 \times 3 =$ Rs $3,000$, and those shares are not fully paid.

Step 2: Select the relevant disclosure category Authorised capital gives the registered limit and issued capital gives the amount offered for subscription; neither depends on collection of calls. Fully paid shares have no outstanding calls. The unpaid call is therefore shown as a deduction under subscribed but not fully paid capital, reducing the called-up amount to the paid-up amount.

Step 3: Conclusion Calls-in-arrears are shown under subscribed but not fully paid capital. Hence, the correct option is (C).

Quick Tip to Solve: Link unpaid calls to the partly paid shares, not to the authorised or issued capital limits.

Part B (20 marks)

Option I (Analysis of Financial Statements)

27(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 an enterprise and related routine transactions.
- Cash paid to suppliers for inventory is an operating outflow; long-term asset and capital transactions belong to other activity classes.

Step 1: Classify the inventory purchase Inventory is bought for the normal trading cycle. A cash purchase of inventory is a payment to suppliers and is included in cash flows from operating activities. The question concerns the cash-flow effect of the transaction.

Step 2: Check the remaining transactions Payment of dividend is a financing outflow under the CBSE classification. Purchase of property is an investing outflow because it acquires a long-term asset. Issue of debentures is a financing inflow because it raises borrowed capital. These transactions do not represent the routine purchase of goods for 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 paid for goods held for resale as operating; distinguish it from buying a fixed asset.

OR

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

(A) Cash outflows from investing activities

(B) Cash inflows from investing activities

(C) Cash inflows from financing activities

(D) Cash inflows from operating activities

Correct Answer: (B) Cash inflows from investing activities

Solution:

Concept:

- Investing activities include acquisition and disposal of long-term assets, including intangible assets.
- A sale for cash creates an inflow; a purchase for cash creates an outflow.

Step 1: Identify the asset category A patent is an intangible non-current asset. Its disposal is therefore an investing activity, rather than an activity that raises share capital or borrowings. Any gain or loss on disposal does not change the classification of the sale proceeds.

Step 2: Determine the direction and eliminate alternatives Sale of the patent brings cash into the enterprise, so the proceeds are a cash inflow from investing activities. Option (A) has the direction reversed and would apply to purchase. Option (C) concerns financing, while option (D) concerns principal revenue-producing operations; neither is the category for 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: For an asset disposal, first classify the asset; then use sale to identify the cash inflow.

28(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 $= \dfrac{\text{Cost of revenue from operations} + \text{Operating expenses}}{\text{Revenue from operations}} \times 100.$
- Operating profit ratio $= 100\% -$ Operating ratio, since operating cost and operating profit together make up revenue from operations.

Step 1: Use the complementary relationship For every Rs 100 of revenue from operations, an operating ratio of 28% means Rs 28 is used in operating costs. The remainder is operating profit. Both ratios use the same revenue base.

Step 2: Subtract from the revenue percentage

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

Option (C) repeats the operating ratio instead of finding its complement. Option (D) adds the ratios and option (A) ignores the operating cost, so neither gives the profit percentage.

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

Quick Tip to Solve: Operating ratio and operating profit ratio always add to 100% when calculated on the same revenue base.

OR

28(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 every financial-statement item as a percentage of one common base.
- The usual base is revenue from operations for an income statement and total assets or total equity and liabilities for a balance sheet.

Step 1: Recognise the definition The key phrase is a percentage of some common base. This converts different absolute amounts into comparable proportions within a statement. For example, an expense can be expressed as a percentage of revenue from operations.

Step 2: Distinguish the other statement types A comparative statement primarily shows figures for different periods with absolute and percentage changes. A Statement of Profit and Loss reports income, expenses and profit, and a position statement reports assets, equity and liabilities. Merely naming either underlying financial statement does not mean all its items have been converted to percentages of a common base.

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

Quick Tip to Solve: The phrase common base points to common size; change between years points to a comparative statement.

29. 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 $= \dfrac{\text{Current assets}}{\text{Current liabilities}}$. A fall in current assets with liabilities unchanged reduces this ratio.
- When the initial current ratio is greater than one, payment of a current liability decreases both sides equally and increases the ratio.

Step 1: Analyse sale of inventory at a loss On sale at a loss, the inventory removed from current assets exceeds the cash or receivable added. Total current assets fall while current liabilities remain unchanged. For example, starting with Rs 200 of assets and Rs 100 of liabilities, selling inventory costing Rs 50 for Rs 40 gives $190/100 = 1.9 : 1$.

Step 2: Check the alternatives Payment of Rs 20 to trade payables in the same example gives $180/80 = 2.25 : 1$, an increase. An issue of shares for cash increases current assets without increasing current liabilities. Collection from receivables merely exchanges one current asset for another and leaves the ratio unchanged.

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

Quick Tip to Solve: Track the net change in total current assets: replacing inventory with a smaller cash amount lowers the ratio.

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

Solution:

Concept:

- For this CBSE cash-flow classification, marketable securities form part of cash equivalents, together with cash and bank balances.
- Cash flow means movement into or out of cash and cash equivalents through transactions involving non-cash items. Transfers within cash and cash equivalents are excluded.

Step 1: Test Statement I Sale of marketable securities converts a cash equivalent into cash. It changes the composition of cash and cash equivalents but does not cause a flow into or out of that combined total. Therefore Statement I is false.

Step 2: Test Statement II Statement II describes cash moving in or out because of a transaction involving a non-cash item. For example, the cash purchase of machinery exchanges cash for a non-cash asset and creates a cash outflow; sale of machinery for cash creates an inflow. In that sense Statement II is true. This does not mean that a non-cash expense such as depreciation itself creates a cash flow.

Step 3: Compare the options The two statements have different truth values: the first is false and the second is true. Thus both-true and both-false combinations are eliminated, as is the combination that reverses these truth values.

Step 4: Conclusion Statement I is false and Statement II is true. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish an exchange within cash equivalents from an exchange of cash with a non-cash asset or liability.

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

(i) Trademarks

(ii) Calls-in-advance

(iii) Livestock [3 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities by their nature. Non-current assets provide benefits over a period longer than the current operating cycle, whereas current liabilities represent amounts payable in the short term.
- Property, Plant and Equipment and Intangible Assets include tangible assets with physical substance and intangible assets that represent identifiable rights without physical substance.

Step 1: Classify the assets by their nature A trademark is an identifiable legal right used in the business. It has no physical substance, so it is an intangible asset under Non-Current Assets. Livestock has physical existence and is classified as a tangible asset, or Property, Plant and Equipment, under Non-Current Assets in the prescribed company balance-sheet classification.

Step 2: Identify the liability for calls received early Calls-in-advance is money received from share-holders before the company has called that amount on their shares. Until the relevant call is made, it is a liability of the company and is not included in called-up Share Capital. It is shown under Current Liabilities, within Other Current Liabilities.

Step 3: Present the major heads and sub-heads **Balance Sheet Classification**

Item	Major head	Sub-head and classification
Trademarks	Non-Current Assets	Property, Plant and Equipment and Intangible Assets: Intangible Assets
Calls-in-advance	Current Liabilities	Other Current Liabilities
Livestock	Non-Current Assets	Property, Plant and Equipment and Intangible Assets: Property, Plant and Equipment (Tangible Assets)

Step 4: Conclusion Trademarks are intangible non-current assets; calls-in-advance are other current liabilities; livestock is a tangible non-current asset under Property, Plant and Equipment.

Quick Tip to Solve: For these items, ask whether there is a physical asset, a legal right or money received before a call: livestock, trademarks and calls-in-advance then fall into their respective heads.

32. Prepare a Common Size Balance Sheet of ZXT Ltd. from the following information.

Particulars	Note No.	31.3.2024 Rs	31.3.2023 Rs
I – Equity and Liabilities:			
1. Shareholders' Funds **Share Capital**		**30,00,000**	**10,00,000**
2. Non-Current Liabilities **Long-term Borrowings**		**16,00,000**	**8,00,000**
3. Current Liabilities		**4,00,000**	**2,00,000**
Total		**50,00,000**	**20,00,000**
II – Assets:			
1. Non-Current Assets **Property, Plant and Equipment and Intangible assets**		**30,00,000**	**14,00,000**
2. Current Assets **Inventory**		**20,00,000**	**6,00,000**
Total		**50,00,000**	**20,00,000**

[3 marks]

Solution:

Concept:

- A common-size balance sheet expresses every item as a percentage of the total balance sheet for the same year. Total Assets and Total Equity and Liabilities each represent 100%.
- The percentage of an item is $\dfrac{\text{Amount of the item}}{\text{Total of the same year}} \times 100$. The amounts remain unchanged; the percentages reveal the relative composition of funds and assets.

Step 1: Identify the separate base for each year Use Rs 50,00,000 as the base for 31 March 2024 and Rs 20,00,000 as the base for 31 March 2023. Each year's liabilities and assets must be divided by its own total. This is a composition comparison, so the difference between the two years is not the percentage base.

Step 2: Calculate the percentages **Working Notes**

For 2024, Share Capital, Long-term Borrowings and Current Liabilities are respectively:

$$\frac{30,00,000}{50,00,000} \times 100 = 60\%, \quad \frac{16,00,000}{50,00,000} \times 100 = 32\%, \quad \frac{4,00,000}{50,00,000} \times 100 = 8\%.$$

For 2023, the corresponding proportions are 50%, 40% and 10%. Property, Plant and Equipment and Intangible Assets represent 60% in 2024 and 70% in 2023. Inventory represents the remaining 40% and 30%, respectively.

Step 3: Prepare the statement with amounts and percentages **Common Size Balance Sheet of ZXT Ltd.**

Particulars	Note No.	2024 Rs	2023 Rs	2024 %	2023 %
I. Equity and Liabilities					
1. Shareholders' Funds Share Capital		30,00,000	10,00,000	60	50
2. Non-Current Liabilities Long-term Borrowings		16,00,000	8,00,000	32	40
3. Current Liabilities		4,00,000	2,00,000	8	10
Total		**50,00,000**	**20,00,000**	**100**	**100**
II. Assets					
1. Non-Current Assets Property, Plant and Equipment and Intangible Assets		30,00,000	14,00,000	60	70
2. Current Assets Inventory		20,00,000	6,00,000	40	30
Total		**50,00,000**	**20,00,000**	**100**	**100**

Amounts and percentages are as at 31 March of the respective year. Check: $60 + 32 + 8 = 100$ and $50 + 40 + 10 = 100$; the asset percentages also total 100 in each year.

Step 4: Conclusion The common-size balance sheet above shows each year's total as 100%. Share Capital rises from 50% to 60% of total funds, while Inventory rises from 30% to 40% of Total Assets.

Quick Tip to Solve: Keep two distinct denominators: Rs 50,00,000 for every 2024 item and Rs 20,00,000 for every 2023 item; check both sides total 100% separately.

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: $\text{Debt Equity Ratio} = \dfrac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$. Debentures form part of long-term debt.

- Interest Coverage Ratio measures how many times profit before interest and tax covers interest on long-term debt: $\text{Interest Coverage Ratio} = \dfrac{\text{Profit Before Interest and Tax}}{\text{Interest on Long-term Debt}}$.
- Profit Before Tax is after charging interest. Therefore, add the interest expense back to Profit Before Tax to obtain Profit Before Interest and Tax; no tax adjustment is needed when the profit is already before tax.

Step 1: Identify the long-term debt and owners' funds The 12% Debentures of Rs 20,00,000 are the long-term borrowings. Shareholders' Funds are Rs 10,00,000. Inventory, Total Current Assets and Cost of Revenue from Operations are not required for either of the ratios asked here: they are not the relevant debt, equity or interest-cover numerator.

Step 2: Calculate the Debt Equity Ratio Substitute the long-term debt and Shareholders' Funds:

$$\text{Debt Equity Ratio} = \frac{20,00,000}{10,00,000} = 2:1.$$

This means that for every Rs 1 of Shareholders' Funds, Gama Ltd. has Rs 2 of long-term debt. The ratio compares the two sources of long-term finance, rather than comparing debt with Total Assets.

Step 3: Calculate annual interest and profit before interest and tax **Working Notes**

Interest on the 12% Debentures is:

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

The reported Net Profit Before Tax of Rs 9,60,000 has already borne this finance cost. Restore it to find the earnings available to meet interest:

$$\begin{aligned}\text{Profit Before Interest and Tax} &= \text{Profit Before Tax} + \text{Interest}\\ &= 9,60,000 + 2,40,000\\ &= \text{Rs } 12,00,000.\end{aligned}$$

Step 4: Calculate the Interest Coverage Ratio Divide the profit before interest and tax by the annual interest liability:

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

Thus earnings before interest and tax can meet the annual debenture interest five times. Using Rs 9,60,000 directly would incorrectly give four times because the numerator would already be reduced by the interest being tested.

Step 5: Conclusion (i) Debt Equity Ratio is $\boxed{2:1}$.

(ii) Interest Coverage Ratio is $\boxed{5 \text{ times}}$.

Quick Tip to Solve: With profit before tax given, first calculate debenture interest and add it back; use that higher profit for interest coverage, but use only long-term debt over shareholders' funds for debt equity.

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

Step 1: Calculate quick assets Using the given quick ratio and current liabilities,

$$\begin{aligned}\text{Quick assets} &= \text{Quick ratio} \times \text{Current liabilities} \\ &= 0.75 \times \text{Rs } 6,00,000 = \text{Rs } 4,50,000.\end{aligned}$$

This amount represents assets that are readily available to meet current liabilities, excluding inventory.

Step 2: Obtain cost of revenue and average inventory Gross profit is calculated on revenue from operations, not on cost:

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

Inventory turnover uses cost of revenue from operations in the numerator, so using sales directly would overstate inventory.

Step 3: Determine 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 consequently Rs $(60,000 + 40,000) = \text{Rs } 1,00,000$. The average of Rs 60,000 and Rs 1,00,000 is indeed Rs 80,000. With no prepaid expenses specified, the difference between current

assets and quick assets is closing inventory:

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

Step 4: Conclusion Beeta Ltd.'s current assets are $\boxed{\text{Rs } 5,50,000}$ and quick assets are $\boxed{\text{Rs } 4,50,000}$.

Quick Tip to Solve: Closing inventory exceeds the average by half the opening-to-closing increase: add Rs 20,000 to Rs 80,000 before adding inventory to quick assets.

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

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

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

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

Solution:

Concept:

- Under the indirect method, profit is adjusted for non-cash expenses, non-operating items and changes in operating working capital to determine cash generated from operations.
- A transfer to general reserve is an appropriation of profit, not an operating expense or cash outflow. When the stated profit is after this transfer, restore the transfer before calculating operating profit.
- An increase in trade receivables and a decrease in trade payables both reduce operating cash flow relative to accrual profit.

Step 1: Restore profit before the reserve transfer The question states that profit of Rs 1,95,000 is after considering all four listed items, including transfer to general reserve. Add back the appropriation of Rs 1,05,000:

$$\text{Adjusted profit} = \text{Rs } (1,95,000 + 1,05,000) = \text{Rs } 3,00,000.$$

Transferring profit to a reserve only reallocates shareholders' funds; it does not represent an operating cash payment. No tax expense or income-tax payment is supplied for a separate adjustment.

Step 2: Reverse non-cash and non-operating deductions Depreciation on machinery of Rs 50,000 and goodwill written off of Rs 30,000 reduce accounting profit without a current cash outflow. Add both back. Also add back the loss on sale of machinery of Rs 10,000 because disposal of machinery belongs

to investing activities. The loss itself is not an operating cash payment.

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

Step 3: Adjust working capital and present the statement The increase in trade receivables means Rs 2,00,000 of recognised revenue has not been collected. The decrease in trade payables means cash paid exceeded the related accrual expense by Rs 10,000. Deduct both changes.

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

Particulars	**Amount (Rs)**
Profit as given	1,95,000
Add: Transfer to general reserve	1,05,000
Profit before appropriation	3,00,000
Adjustments for non-cash and non-operating items:	
Depreciation on machinery	50,000
Goodwill written off	30,000
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 from operating activities	**1,80,000**

No further adjustment is available from the given information. The cash generated from operations therefore equals the net operating cash flow for this calculation.

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

Quick Tip to Solve: Add back the reserve transfer because profit is stated after it; then subtract both the receivables increase and the payables decrease.

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:

- Investing activities include cash paid to acquire machinery and cash received from its sale. The statement records the actual cash proceeds, not the machinery's original cost or carrying amount.
- When accumulated depreciation is shown separately, the machinery balances are gross cost. Thus, closing cost equals opening cost plus purchases less original cost of machinery sold.

Step 1: Calculate machinery purchased during the year The machinery figures of Rs 24,00,000 and Rs 28,00,000 are gross amounts: accumulated depreciation is deducted separately to arrive at the net figures of Rs 22,00,000 and Rs 25,00,000. The asset sold must therefore be removed from gross machinery at its original cost of Rs 8,00,000.

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

As no non-cash acquisition or outstanding payment is given, this purchase is treated as a cash payment for machinery.

Step 2: Distinguish sale proceeds from book value The carrying amount of machinery sold is its cost less accumulated depreciation, whereas the investing cash receipt is the amount actually received.

$$\begin{aligned}\text{Carrying amount sold} &= \text{Rs } (8,00,000 - 40,000)\\ &= \text{Rs } 7,60,000,\\ \text{Loss on sale} &= \text{Rs } (7,60,000 - 5,00,000)\\ &= \text{Rs } 2,60,000.\end{aligned}$$

Only the sale proceeds of Rs 5,00,000 appear as an investing inflow. The loss and depreciation are not separate investing cash payments; deducting either would count an accounting adjustment as a cash flow.

Step 3: Present cash flows from investing activities **Vandana Ltd.**
Cash Flow Statement (Extract) for the year ended 31 March 2024

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)**

Parentheses show the cash outflow. The net amount follows from cash receipts of Rs 5,00,000 less cash payments of Rs 12,00,000.

Step 4: Conclusion Vandana Ltd.'s cash flows from investing activities are $\boxed{-\text{Rs } 7,00,000}$, that is, net cash used of Rs 7,00,000.

Quick Tip to Solve: Use gross machinery cost to find purchases: add the cost sold to the increase in cost. Use the sale price, not book value, as the investing receipt.

Option II (Computerised Accounting)

27(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: Both (C) and (D) are defensible: End followed by Down Arrow and Ctrl + Down Arrow both jump to the lower boundary of a contiguous data region.

Solution:

Concept:

- Navigation keys move the active cell without editing the worksheet data.
- Ctrl+ ↓ moves to the lower boundary of the current contiguous data region in a column.

Step 1: Identify the required movement The task is to jump from the first occupied cell to the last occupied cell of a continuous vertical cluster, without selecting each intervening cell. The Ctrl key combined with the Down Arrow gives this boundary jump.

Step 2: Compare the shortcuts Home with Page Down or Down Arrow is not the required data-region shortcut. End followed by Down Arrow, option (C), performs the boundary jump through Excel End mode. Ctrl with Down Arrow, option (D), also performs the jump directly, and can be repeated for subsequent boundaries. Since the question does not exclude End mode, its wording does not distinguish uniquely between these two valid choices.

Step 3: Conclusion Both **(C), End + Down arrow**, and **(D), CTRL + Down arrow successively**, are defensible. The printed choices do not give a unique correct answer.

Quick Tip to Solve: For a continuous column of data, hold Ctrl and press the Down Arrow to jump to its lower edge.

OR

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

(A) data point

(B) data label

(C) data series

(D) data markers

Correct Answer: (D) data markers

Solution:

Concept:

- A chart displays worksheet values using graphical shapes such as columns, bars, lines and pie slices.
- Data markers are the visible graphical representations used to depict individual values in a chart.

Step 1: Identify what the question describes The reference to bars, columns, lines and pie forms points to the graphical objects used to represent the values. These visible representations are called data markers.

Step 2: Distinguish related chart terms A data point is an individual underlying value; a data series is a related group of values. A data label is text or a number displayed beside a marker. The question emphasises the plotted graphical forms, so data markers is the intended chart term.

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

Quick Tip to Solve: Distinguish the value (data point), its plotted shape (data marker), and its displayed text (data label).

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

(A) Correct #DIV/0! Error

(B) Correct #NUM! Error

(C) Correct #N/A Error

(D) Correct #Name Error

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

Solution:

Concept:

- The error `#N/A` denotes a value that is not available to a function or formula.
- Spreadsheet error codes identify different reasons why a calculation cannot return its expected result.

Step 1: Match the stated cause to its error The question states that a required value is unavailable. For example, a lookup that cannot find the requested item may return the not-available error. The

relevant code is therefore the one containing N/A.

Step 2: Reject the other causes `#DIV/0!` concerns division by zero; `#NUM!` concerns an invalid numerical argument or result; and the name error concerns an unrecognised name in a formula. None of these specifically denotes a value that is unavailable.

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

Quick Tip to Solve: Read N/A as not available; use the cause of the error to distinguish it from zero-division and name errors.

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

(A) Hardware, Software

(B) User, Customer

(C) Software, Logic

(D) Timely access, Hardware

Correct Answer: (A) Hardware, Software

Solution:

Concept:

- The five pillars of a computerised accounting system are hardware, software, people, procedures and data.
- Hardware provides the physical computing equipment, while software supplies the programs that process accounting data.

Step 1: Complete the list of pillars The question already gives data, people and procedure. Removing these three from the complete five-pillar list leaves the physical equipment and the accounting programs.

Step 2: Check all proposed pairs Hardware and software supply exactly the two missing pillars. Users and customers do not complete the list because people is already included. Logic is not a separate pillar in this classification, and timely access is a desirable feature rather than a pillar.

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

Quick Tip to Solve: Recall all five pillars together, then cross out data, people and procedure to identify the missing pair.

OR

29(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 that constrains the use of a computerised accounting system.
- Economy in processing means carrying out accounting work at a lower processing cost and is a benefit.

Step 1: Identify the favourable feature Processing large amounts of accounting data efficiently can reduce repetitive work and the cost per transaction. Economy in processing is therefore an advantage, which satisfies the question asking for the feature that is not a limitation.

Step 2: Check the remaining alternatives Faster obsolescence creates replacement and upgrading costs. Hacking threatens data security. Power interruptions can cause loss or corruption of data. Each of these is a genuine drawback or risk, so none answers the negative wording of the question.

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

Quick Tip to Solve: Underline not in the question and choose the benefit, while treating obsolescence, hacking and data loss as risks.

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

(A) Subtraction and Division

(B) Multiplication and Addition

(C) Division and Multiplication

(D) Exponents and Division

Correct Answer: (C) Division and Multiplication

Solution:

Concept:

- Excel evaluates arithmetic operators according to their precedence; multiplication and division occupy the same level.
- Operations at the same precedence level are normally evaluated from left to right unless parentheses change the order.

Step 1: Locate the equal-precedence pair Among the listed pairs, division and multiplication belong

to the same level. Neither operation automatically takes priority over the other merely because it is division or multiplication.

Step 2: Check the other pairs Addition and subtraction are at a lower level than multiplication and division, while exponentiation is at a higher level. Thus each of the other options mixes two levels. For instance, $12 \div 3 \times 2 = 4 \times 2 = 8$ when evaluated from left to right.

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

Quick Tip to Solve: For an unbracketed sequence containing only multiplication and division, work from left to right.

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

Solution:

Concept:

- A code is a short numerical or alphanumerical identification assigned to an account or document so that it can be stored, retrieved and processed systematically.
- Sequential coding assigns consecutive numbers; block coding reserves a range of numbers for each class of accounts or documents.

Step 1: Sequential code: meaning and example In sequential coding, consecutive numbers are allotted to successive records, normally in the order in which they occur. For example, sales invoices may be numbered 1001, 1002, 1003 and 1004 as they are issued. The number identifies the individual invoice and its place in the sequence; it does not by itself identify an account category. A missing number in the series can alert the accountant to a missing or cancelled document that should be checked.

Step 2: Block code: meaning and example In block coding, a separate block or range of numbers is reserved for each category, and individual accounts are assigned numbers within that block. For example, a business may reserve 100–199 for assets, 200–299 for liabilities, 300–399 for income and 400–499 for expenses. Cash could then be coded 101 and Bank 102, while Creditors could be coded 201. Thus the block identifies the class and the full code identifies the particular account. Unused numbers within a block allow new accounts in that class to be added without renumbering existing accounts.

Step 3: Conclusion Sequential codes identify successive records, as in invoices 1001, 1002 and 1003. Block codes identify both a category and an item within it, as in asset codes 101 for Cash and 102 for Bank within the block 100–199.

Quick Tip to Solve: For a sequential-code example, show consecutive document numbers; for a block-code example, first give a reserved range and then accounts within it.

32. Explain the following :

(i) Memo Voucher

(ii) Post-dated Voucher

(iii) User defined Voucher [3 marks]

Solution:

Concept:

- In a computerised accounting system, a voucher is an electronic document used to enter and organise transaction information.
- Special voucher types differ in their purpose and in whether, and when, their entries affect the books of account.

Step 1: (i) Memo Voucher A memo voucher is a non-accounting voucher used to record information about a transaction temporarily, for reference or clarification. It does not affect the ledger balances or financial statements while it remains a memo voucher. For example, an advance given to an employee for travelling expenses may initially be noted in a memo voucher while the supporting expense details are awaited. After the details are verified, the memo can be converted into the appropriate regular accounting voucher so that the transaction enters the books.

Step 2: (ii) Post-dated Voucher A post-dated voucher records a transaction bearing a future date. It is entered in advance but does not affect the current books before that date; its accounting effect is recognised when the specified date arrives. For example, a payment voucher for a cheque dated 15 April may be entered on 31 March and marked post-dated. The payment is then associated with 15 April rather than being included as a payment on 31 March.

Step 3: (iii) User defined Voucher A user defined voucher is a voucher type created by the user to meet a particular business requirement, generally by taking an existing voucher type as its basis. Its name, numbering and other features can be set to suit that requirement. For example, a business may create a separate "Cash Sales" voucher type under the Sales voucher category. This allows cash sales to be identified and numbered separately while retaining the accounting nature of a sales voucher.

Step 4: Conclusion A memo voucher is a temporary non-accounting record, a post-dated voucher has a future effective date, and a user defined voucher is a specially created voucher type suited to the business's recording needs.

Quick Tip to Solve: Distinguish these vouchers by three questions: Is it only a memorandum, is its accounting date in the future, or has the user created a special type?

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

Solution:

Concept:

- Accounting software records transactions, processes accounting data and prepares reports such as ledgers, trial balances and financial statements.
- Generic software serves common accounting needs, whereas customised software adapts an existing

package to the special requirements of a particular organisation.

Step 1: Generic accounting software Generic accounting software is a ready-to-use package developed for the common accounting requirements of many businesses. It provides standard facilities such as voucher entry, ledger maintenance, preparation of a trial balance and generation of financial statements. The same basic package can be supplied to many users, so its development cost is spread over a large number of customers and its price is generally lower. It can usually be installed and put into use quickly, with relatively simple user training. It is suitable for businesses whose accounting procedures and reporting needs fit the package's standard features. Its limitation is that unusual controls, specialised reports or industry-specific requirements may not be fully supported by the standard package.

Step 2: Customised accounting software Customised accounting software is an existing accounting package modified to meet the specific needs of a particular organisation. The modifications may concern the chart of accounts, voucher formats, information to be captured, report formats or controls over users' access. For example, a business may have a standard package adapted to prepare separate branch-wise sales reports and management reports in its required format. The software therefore fits the organisation's procedures more closely and provides more relevant information. However, customisation generally requires additional time, expense and technical assistance; staff may also need training in the modified features. This is useful when the standard package's facilities do not meet the business's requirements adequately.

Step 3: Conclusion Generic software offers standard, ready-to-use accounting facilities for many businesses. Customised software modifies an existing package for a particular organisation, providing a closer fit at additional cost and implementation effort.

Quick Tip to Solve: Describe generic software as a standard package and customised software as an adapted package; support the distinction with one specific reporting modification.

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 keeping business information available only to authorised persons. Accounts may contain sensitive information about prices, profits, customers and suppliers which competitors should not obtain.
- Password security controls access to the computerised accounting system (CAS), while data encryption protects the meaning of the stored or transmitted information.

Step 1: Password security A CAS can require a user name and a password before permitting access to the company's accounts. The password authenticates the user and prevents a person without valid

credentials from opening the protected records. Passwords should be kept confidential and changed when necessary; sharing a password would defeat this protection.

Step 2: Restrict each user's access Password-based security can be combined with user-specific permissions. An employee is allowed to see or change only the records needed for the assigned work. For example, a data-entry operator may enter vouchers while only the authorised manager can view confidential financial reports or change security settings. This limits unnecessary access to sensitive business data.

Step 3: Data encryption Encryption converts readable accounting data into a coded, unreadable form by using a cryptographic method and a key. Merely obtaining a copy of an encrypted file does not reveal the business information in a usable form. Thus, encryption helps guard confidential records against disclosure to competitors or other unauthorised persons.

Step 4: Authorised recovery of the information The encrypted data is converted back into readable form through decryption using the appropriate key. The key must therefore be available to authorised users and protected from outsiders. Access control protects entry into the system, and encryption adds protection to the data itself, including confidential files being stored or transferred.

Step 5: Conclusion The principal CAS features which help maintain business secrecy are **password security with controlled user access** and **data encryption with protected decryption keys**.

Quick Tip to Solve: Link password security to who may access the accounts, and encryption to whether an intercepted file can be read.

34. Explain the financial function which is used to calculate interest rate per period of an annuity.

[6 marks]

Solution:

Concept:

- An annuity is a series of equal payments made at regular intervals. The spreadsheet financial function `RATE` calculates the interest rate per payment period for an annuity.
- Its calculation relates the present value, equal periodic payment, number of periods and desired future value. All periods and payments must use the same time basis.

Step 1: State the function and its syntax The required financial function is `RATE`. Its syntax is:

```
=RATE(nper, pmt, pv, [fv], [type], [guess])
```

The square brackets indicate optional arguments; they are not typed around the argument values in the formula. The result is a decimal rate for one payment period, which can be displayed using percentage formatting.

Step 2: Explain the three required arguments `nper` is the total number of payment periods in the annuity. For a loan repaid monthly for five years, it is $5 \times 12 = 60$.

`pmt` is the constant payment made in each period. In a loan calculation this normally includes principal and interest, but excludes additional taxes or charges.

pv is the present value, that is, the current lump-sum value of the future payments. For a loan, it is the principal received at the start.

Step 3: Explain the three optional arguments fv is the future value or balance desired after the last payment. Its default is zero, as for a loan that will be fully repaid.

type specifies the timing of payments: 0 means payment at the end of each period, and 1 means payment at the beginning. The default is 0.

guess is an initial estimate of the interest rate used to start the iterative calculation. If omitted, it is 0.10, or 10%. It is only a starting estimate and is not the rate necessarily returned by the function.

Step 4: Use consistent signs and periods Amounts received and amounts paid must have opposite signs. Thus, for a borrower who receives a positive loan amount as pv, the repayments entered as pmt are negative. A positive number for both would misrepresent the cash flows.

If payments and nper are monthly, RATE returns a monthly rate. For monthly rate r, the nominal annual rate is $12r$; the effective annual rate is $(1+r)^{12}-1$. With annual payments it returns an annual rate directly.

Step 5: Illustrate the result Suppose Rs 1,000 is received today and a single payment of Rs 1,100 is made at the end of one year, leaving no balance. Enter:

```
=RATE(1,-1100,1000,0,0)
```

This returns 0.10, displayed as 10%, because $1,000(1+0.10)=1,100$. The period here is one year, so this is the annual interest rate. For a multi-period annuity, the same function finds the rate consistent with the entire series of equal payments.

Step 6: Conclusion RATE calculates the interest rate per period of an annuity from nper, pmt and pv, with optional fv, type and guess arguments.

Quick Tip to Solve: Before using RATE, make the cash inflow and outflow signs opposite and check whether one payment period is a month or a year.