CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-S-1 - Compartment

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 and 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. Kamal, Vimal and Nirmal are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Their fixed capitals were Rs. 3,00,000, Rs. 2,00,000 and Rs. 1,00,000 respectively. Interest on capital was credited to them @ 10% p.a. instead of 8% p.a. The Adjustment Entry to rectify the error will be: [1 mark]

(A)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Kamal's Current A/c ... Dr.	400	
To Vimal's Current A/c		200
To Nirmal's Current A/c		200

(B)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Kamal's Current A/c ... Dr.	400	
To Nirmal's Current A/c		400

(C)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Vimal's Current A/c ... Dr.	400	
To Nirmal's Current A/c		400

(D)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Vimal's Current A/c ... Dr.	200	
Nirmal's Current A/c ... Dr.	200	
To Kamal's Current A/c		400

Correct Answer: (C)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Vimal's Current A/c ... Dr.	400	
To Nirmal's Current A/c		400

Solution:

Concept:

- Excess interest on capital must be reversed; the resulting increase in divisible profit is shared in the profit-sharing ratio.
- With fixed capitals, adjustments are posted to current accounts.

Step 1: Calculate excess interest The excess rate is $10\% - 8\% = 2\%$. Excess credits to Kamal, Vimal and Nirmal are respectively Rs 6,000, Rs 4,000 and Rs 2,000. The total excess appropriation is Rs

12,000.

Step 2: Determine the net adjustment Reversing excess interest increases divisible profit by Rs 12,000. Its distribution in the ratio $5:3:2$ gives Rs 6,000, Rs 3,600 and Rs 2,400. Kamal has no net adjustment; Vimal must be debited Rs 400 and Nirmal credited Rs 400. Options (A), (B) and (D) wrongly affect Kamal.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Vimal's Current A/c Dr. To Nirmal's Current A/c (Being excess interest adjusted)		400	 400

Step 3: Conclusion Vimal's Current A/c is debited and Nirmal's Current A/c credited by Rs 400. Correct option: (C).

Quick Tip to Solve: Compare each partner's excess interest with their share of the restored profit.

2. Assertion (A): Under the fluctuating capital method, only one account, i.e., capital account is maintained for each partner.

Reason (R): All the adjustments such as share of profit and loss, interest on capital, drawings, interest on drawings, salary or commission to partners, etc. are recorded directly in the capital accounts of the partners.

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

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

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

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

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

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

Solution:

Concept:

- Under the fluctuating capital method, each partner has one capital account.
- Routine partnership adjustments change the balance of that capital account.

Step 1: Judge Assertion (A) Assertion (A) is correct. A separate current account is not maintained under the fluctuating capital method; each partner has a single capital account.

Step 2: Judge Reason (R) Reason (R) is correct. Profit, interest on capital and salary or commission are credited to capital; drawings, interest on drawings and the share of loss are debited directly to capital.

Step 3: Test the explanation Because all these adjustments are recorded in the capital account itself, no separate current account is needed. This explains the assertion. Option (B) incorrectly denies the

explanatory connection, while (C) and (D) incorrectly reject a true statement.

Step 4: Conclusion Both statements are correct, and Reason (R) correctly explains Assertion (A). Correct option: (A).

Quick Tip to Solve: Direct posting of routine adjustments to capital identifies the fluctuating method.

3(a). Which of the following statements is true for 'Reserve Capital'? [1 mark]

(A) It is the portion of the uncalled capital to be called only in the event of winding up of the company.

(B) It is that part of the authorised capital that is actually issued to the public for subscription.

(C) It is a part of the subscribed capital which has been called up to subscribe.

(D) It is that portion of the called up capital which has been actually received from the shareholders.

Correct Answer: (A) It is the portion of the uncalled capital to be called only in the event of winding up of the company.

Solution:

Concept:

- Reserve capital is the designated portion of uncalled share capital callable only on winding up.
- Issued, called-up and paid-up capital describe different stages of share capital.

Step 1: Identify the defining restriction Reserve capital is uncalled capital kept available for the winding up of the company. The restriction on when it can be called is the decisive feature in option (A).

Step 2: Eliminate the other descriptions Option (B) defines issued capital: the part of authorised capital offered for subscription. Option (C) describes called-up capital, namely the part demanded from subscribers. Option (D) describes paid-up capital, the amount actually received against calls. None describes reserve capital.

Step 3: Conclusion Correct option: (A), the portion of uncalled capital callable only in the event of winding up.

Quick Tip to Solve: Look for the winding-up restriction; do not confuse reserve capital with capital reserve.

OR

3(b). On 1st April, 2023, Saya Ltd. issued 7,000, 9% debentures of Rs. 100 each at a premium of 10%. The total amount of interest on debentures for the year ending 31st March, 2024 will be: [1 mark]

(A) Rs. 70,000

(B) Rs. 63,000

(C) Rs. 90,000

(D) Rs. 35,000

Correct Answer: (B) Rs. 63,000

Solution:

Concept:

- Debenture interest is calculated on nominal value, not on issue proceeds.
- Interest equals face value multiplied by the annual rate and the time fraction.

Step 1: Find nominal value and period Total nominal value is $7,000 \times \text{Rs } 100 = \text{Rs } 7,00,000$. From 1st April, 2023 to 31st March, 2024 is a full accounting year.

Step 2: Calculate annual interest

$$\text{Interest} = 7,00,000 \times \frac{9}{100} = \text{Rs } 63,000.$$

The 10% issue premium does not increase the face value on which interest is paid. Rs 70,000 and Rs 90,000 do not apply the stated rate correctly; Rs 35,000 is also inconsistent with the full-year calculation.

Step 3: Conclusion Total interest is Rs 63,000. Correct option: (B).

Quick Tip to Solve: Apply the coupon rate to face value and check the issue date before prorating.

4(a). Ali and Bani were partners in a firm. They admitted Chaman as a new partner with 1/4th share in the profits of the firm. Chaman brought Rs. 5,00,000 as his share of capital. The value of assets of the firm on Chaman's admission was Rs. 20,00,000 and outside liabilities were Rs. 12,00,000. The goodwill of the firm on Chaman's admission was: [1 mark]

(A) Rs. 13,00,000

(B) Rs. 20,00,000

(C) Rs. 8,00,000

(D) Rs. 7,00,000

Correct Answer: (D) Rs. 7,00,000

Solution:

Concept:

- Total capital implied by a new partner equals their capital divided by their profit share.
- Hidden goodwill is implied total capital less the combined actual capitals of all partners.

Step 1: Calculate implied total capital Chaman brings Rs 5,00,000 for a $\frac{1}{4}$ share. Therefore, the capitalised value of the firm is

$$5,00,000 \div \frac{1}{4} = \text{Rs } 20,00,000.$$

Step 2: Compare actual combined capitals The existing net assets represent the old partners' capital: Rs 20,00,000 minus Rs 12,00,000 = Rs 8,00,000. Including Chaman's fresh capital, actual combined capital is Rs 8,00,000 + Rs 5,00,000 = Rs 13,00,000. Thus hidden goodwill is Rs 20,00,000 - Rs 13,00,000 = Rs 7,00,000. The other options represent capital measures rather than this difference.

Step 3: Conclusion Goodwill of the firm is Rs 7,00,000. Correct option: (D).

Quick Tip to Solve: Add the incoming partner's capital to old net assets before finding hidden goodwill.

OR

4(b). Mohit and Rohit were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 1st April, 2024, they admitted Radha for 1/5th share in the profits of the firm. Before Radha's admission, the Balance Sheet of Mohit and Rohit showed furniture at Rs. 6,30,000. On admission of Radha, it was found undervalued by 10%. The journal entry for the above adjustment on Radha's admission will be: [1 mark]

(A)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Revaluation A/c ... Dr.	63,000	
To Furniture A/c		63,000

(B)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Furniture A/c ... Dr.	70,000	
To Revaluation A/c		70,000

(C)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Revaluation A/c ... Dr.	70,000	
To Furniture A/c		70,000

(D)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Furniture A/c ... Dr.	63,000	
To Revaluation A/c		63,000

Correct Answer: (B)

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Furniture A/c ... Dr.	70,000	
To Revaluation A/c		70,000

Solution:

Concept:

- An undervalued asset increases on revaluation: debit the asset and credit Revaluation Account.
- If book value is 10% below correct value, book value is 90% of correct value.

Step 1: Find the correct furniture value Furniture recorded at Rs 6,30,000 is undervalued by 10%. Hence,

$$\text{Correct value} = 6,30,000 \times \frac{100}{90} = \text{Rs } 7,00,000.$$

The required increase is Rs 70,000, not Rs 63,000; the percentage is measured against the correct value.

Step 2: Record the increase Furniture must be debited because its value rises, and Revaluation Account credited for the gain. Options (A) and (C) reverse the direction; option (D) uses the wrong base.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Furniture A/c Dr. To Revaluation A/c (Being undervaluation corrected)		70,000	 70,000

Step 3: Conclusion Furniture A/c is debited and Revaluation A/c credited by Rs 70,000. Correct option: (B).

Quick Tip to Solve: For an asset undervalued by 10%, divide its book value by 90% to obtain correct value.

5. P and Q are partners in a firm sharing profits and losses equally. They admitted R into the partnership firm on 1st April, 2024. It was decided to value goodwill at 2 years' purchase of super profits. The capital of the firm of P and Q was Rs. 5,00,000 and the normal rate of return on capital employed was 10%. During the year ended 31st March, 2024, the profit of the firm was Rs. 2,10,000. The value of goodwill of the firm was: [1 mark]

(A) Rs. 2,50,000

(B) Rs. 1,40,000

(C) Rs. 1,10,000

(D) Rs. 3,20,000

Correct Answer: (D) Rs. 3,20,000

Solution:

Concept:

- Normal profit equals capital employed multiplied by the normal rate of return.
- Super profit is actual profit minus normal profit; goodwill equals super profit times years' purchase.

Step 1: Calculate normal and super profits Normal profit is $5,00,000 \times 10\% = \text{Rs } 50,000$. Actual profit is Rs 2,10,000, so super profit is Rs 2,10,000 - Rs 50,000 = Rs 1,60,000.

Step 2: Apply the purchase factor Goodwill at two years' purchase of super profits is

$$1,60,000 \times 2 = \text{Rs } 3,20,000.$$

Apply the multiplier to super profit, not to capital or normal profit. The other amounts, Rs 2,50,000, Rs 1,40,000 and Rs 1,10,000, do not follow this calculation; equal profit sharing does not change the total goodwill.

Step 3: Conclusion Goodwill is Rs 3,20,000. Correct option: (D).

Quick Tip to Solve: Subtract normal profit from actual profit before multiplying by years' purchase.

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6. Precious Ltd. issued 40,000 10% Debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%. 'Loss on Issue of Debenture Account' will be debited in the books of Precious Ltd. by: [1 mark]

(A) Rs. 5,60,000

(B) Rs. 2,40,000

(C) Rs. 6,00,000

(D) Rs. 4,00,000

Correct Answer: (D) Rs. 4,00,000

Solution:

Concept:

- Loss on issue includes discount on issue, if any, and premium payable on redemption.
- Premium received on issue is credited separately to Securities Premium Account.

Step 1: Calculate redemption premium The nominal value of the debentures is $40,000 \times \text{Rs } 100 = \text{Rs } 40,00,000$. Premium payable on redemption is $40,00,000 \times 10\% = \text{Rs } 4,00,000$.

Step 2: Determine loss account debit There is no discount on issue, since the debentures are issued at a premium. Therefore, Loss on Issue of Debentures Account is debited by the redemption premium of Rs 4,00,000. The Rs 2,00,000 premium received on issue is a separate credit to Securities Premium Account; it is not netted against this initial debit. The other three amounts do not equal the required loss-account debit.

Step 3: Conclusion Loss on Issue of Debentures Account is debited by Rs 4,00,000. Correct option: (D).

Quick Tip to Solve: Keep the issue premium separate from the initial loss-account debit for redemption premium.

7(a). Pawan Ltd. forfeited 1,000 equity shares of Rs. 10 per share for non-payment of first call of Rs. 2 per share. The final call of Rs. 2 per share was yet to be made. The maximum amount of discount at which these shares can be reissued will be: [1 mark]

(A) Rs. 6,000

(B) Rs. 2,000

(C) Rs. 4,000

(D) Rs. 8,000

Correct Answer: (A) Rs. 6,000

Solution:

Concept:

- The maximum discount on reissue cannot exceed the forfeited amount attributable to those shares.
- Forfeited amount is the share capital actually received before forfeiture.

Step 1: Find capital received per share Face value is Rs 10, but the final call of Rs 2 has not been made. Called-up capital is therefore Rs 8 per share. The first call of Rs 2 is unpaid, leaving Rs 6 per share actually received.

Step 2: Calculate maximum permissible discount The amount forfeited on 1,000 shares is $1,000 \times$ Rs $6 =$ Rs $6,000$. This is the maximum discount permissible on reissuing all these shares. Rs 2,000 and Rs 4,000 are not the total forfeited amount; Rs 8,000 wrongly treats the unpaid first call as money received. The uncalled final call is also excluded from the forfeiture credit.

Step 3: Conclusion Maximum discount on reissue is Rs 6,000. Correct option: (A).

Quick Tip to Solve: Subtract both the uncalled final call and unpaid first call from face value to find money forfeited.

OR

7(b). The debentures which are payable on the expiry of a specified period either in lump sum or in instalments during the lifetime of the company are known as _____ debentures. [1 mark]

(A) Convertible

(B) Redeemable

(C) Secured

(D) Specific coupon rate

Correct Answer: (B) Redeemable

Solution:

Concept:

- Redeemable debentures are repayable after a specified period, either in one payment or in instalments.
- The classification by repayment terms is distinct from classification by conversion, security or interest rate.

Step 1: Identify the repayment condition The question specifies repayment on expiry of a stated period or by instalments during the company's lifetime. This is the defining feature of redeemable debentures: the debt has an agreed repayment obligation.

Step 2: Eliminate the other descriptions Convertible debentures can be converted into shares; secured debentures carry a charge on assets; specific coupon rate debentures are classified by their stated interest rate. None of these terms, by itself, describes the specified repayment timing.

Step 3: Conclusion These are redeemable debentures. Hence, the correct option is (B).

Quick Tip to Solve: When the definition mentions repayment after a fixed period, select redeemable; conversion and security describe different features.

8(a). Rima, Seema and Atul were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 1. With effect from 1st April, 2024, they decided to share profits and losses in the ratio of 3 : 1 : 4. Due to change in the profit sharing ratio, Seema's gain or sacrifice will be: [1 mark]

(A) Sacrifice 1/8

(B) Sacrifice 2/8

(C) Gain 3/8

(D) Gain 2/8

Correct Answer: (B) Sacrifice 2/8

Solution:

Concept:

- A partner sacrifices when the old share exceeds the new share: sacrifice = old share minus new share.
- Convert both ratios into fractional shares before comparing an individual partner's entitlement.

Step 1: Calculate Seema's two shares The old ratio totals $4+3+1=8$, so Seema's old share is $3/8$. The new ratio also totals $3+1+4=8$, so her new share is $1/8$.

Step 2: Determine the change

$$\text{Seema's sacrifice} = \frac{3}{8} - \frac{1}{8} = \frac{2}{8}.$$

Her entitlement falls, so this is a sacrifice rather than a gain. Option (A) gives only her new share, while (C) and (D) incorrectly describe the reduction as a gain.

Step 3: Conclusion Seema sacrifices $2/8$ of the firm's profits. Hence, the correct option is (B).

Quick Tip to Solve: For sacrifice subtract new share from old share; a positive result means the partner gives up profit.

OR

8(b). Rohan, Piyush and Suman were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 2. Piyush retired. The new profit sharing ratio between Rohan and Suman after Piyush's retirement was 4 : 3. The gaining ratio of remaining partners will be: [1 mark]

(A) 2 : 1

(B) 3 : 2

(C) 4 : 3

(D) 1 : 1

Correct Answer: (D) 1 : 1

Solution:

Concept:

- Gaining share = new profit share minus old profit share for each continuing partner.
- The gaining ratio compares only the increments acquired by the remaining partners, rather than their total new shares.

Step 1: Find each continuing partner's gain The old ratio totals $3 + 2 + 2 = 7$, and the new ratio totals $4 + 3 = 7$. Thus, Rohan gains $4/7 - 3/7 = 1/7$, and Suman gains $3/7 - 2/7 = 1/7$.

Step 2: Form and check the gaining ratio

$$\text{Rohan} : \text{Suman} = \frac{1}{7} : \frac{1}{7} = 1 : 1.$$

Their total gain is $2/7$, equal to Piyush's old share. The ratios in (A), (B) and (C) would assign unequal gains, whereas both partners actually gain equally.

Step 3: Conclusion The gaining ratio of Rohan and Suman is $1 : 1$. Hence, the correct option is (D).

Quick Tip to Solve: Find each partner's new share minus old share before forming the ratio; do not use the new profit ratio directly.

9. Ranjeet and Ranvijay started a partnership firm on 1st April, 2023. According to the partnership deed, interest on drawings was to be charged @ 10% per annum. Ranjeet withdrew a fixed amount at the end of each month. The total yearly interest on Ranjeet's drawings was Rs. 6,600. The amount of Ranjeet's drawings for the year ended 31st March, 2024 was: [1 mark]

(A) Rs. 1,32,000

(B) Rs. 1,44,000

(C) Rs. 1,21,846

(D) Rs. 1,20,000

Correct Answer: (B) Rs. 1,44,000

Solution:

Concept:

- For equal drawings at the end of every month, the average outstanding period is 5.5 months.
- Interest on total annual drawings D is $I = D \times r/100 \times 5.5/12$, where r is the annual percentage rate.

Step 1: Select the average period The first month-end drawing remains outstanding for 11 months and the last for zero months. Their average period is $(11 + 0)/2 = 5.5$ months. Using 6 or 6.5 months would apply the wrong withdrawal timing.

Step 2: Recover the annual drawings

$$\begin{aligned} 6,600 &= D \times \frac{10}{100} \times \frac{5.5}{12}, \\ D &= 6,600 \times \frac{100}{10} \times \frac{12}{5.5} \\ &= \text{Rs } 1,44,000. \end{aligned}$$

This amount gives monthly drawings of Rs 12,000 and reproduces the stated interest; the other options do not.

Step 3: Conclusion The total annual drawings were Rs 1,44,000. Hence, the correct option is (B).

Quick Tip to Solve: For month-end drawings use 5.5 months on the annual total; divide by 12 only after finding the yearly drawings.

10. On the dissolution of the partnership firm of Gauri and Gaurav, Building appeared in the books at Rs. 21,00,000. One-third of the Building was taken by Gaurav at 20% discount and the remaining was sold at 10% profit. The value at which the Building was taken over by Gaurav was: [1 mark]

(A) Rs. 15,40,000

(B) Rs. 21,00,000

(C) Rs. 5,60,000

(D) Rs. 7,00,000

Correct Answer: (C) Rs. 5,60,000

Solution:

Concept:

- The value of an asset taken over by a partner is the agreed takeover amount after applying the stated discount.
- Apply the discount only to the book value of the portion taken over; a separate sale concerns the remaining portion.

Step 1: Find the book value of Gaurav's portion Gaurav takes one-third of the building. Its corresponding book value is

$$\text{Rs } 21,00,000 \times \frac{1}{3} = \text{Rs } 7,00,000.$$

The remaining two-thirds are sold separately.

Step 2: Apply the takeover discount

$$\text{Takeover value} = 7,00,000 \times \frac{80}{100} = \text{Rs } 5,60,000.$$

Rs 7,00,000 ignores the discount; Rs 21,00,000 is the whole building's book value. Rs 15,40,000 is the sale value of the other two-thirds at a 10% profit and is not Gaurav's takeover value.

Step 3: Conclusion Gaurav took over the building portion for Rs 5,60,000. Hence, the correct option is (C).

Quick Tip to Solve: First isolate the fraction taken over, then apply its discount; keep the sale of the remaining building separate.

11. Mathur, Jain and Verma were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Jain was guaranteed that his share of profit will not be less than Rs. 80,000. The firm's profit for the year ended 31st March, 2024 was Rs. 1,80,000. The amount of deficiency borne by Verma was: [1 mark]

(A) Rs. 15,000

(B) Rs. 5,000

(C) Rs. 20,000

(D) Nil

Correct Answer: (B) Rs. 5,000

Solution:

Concept:

- A guaranteed partner receives at least the agreed minimum profit share; any shortfall is a deficiency.
- When the guarantee is given by the firm without a special bearing ratio, the other partners bear the deficiency in their mutual profit sharing ratio.

Step 1: Find Jain's deficiency Jain's normal share is Rs $1,80,000 \times 2/6 =$ Rs $60,000$. Against his guaranteed Rs 80,000, the shortfall is $80,000 - 60,000 =$ Rs $20,000$.

Step 2: Allocate the shortfall to Verma Mathur and Verma bear the deficiency in their mutual ratio $3 : 1$. Therefore,

$$\text{Verma's burden} = 20,000 \times \frac{1}{4} = \text{Rs } 5,000.$$

Rs 15,000 is Mathur's burden; Rs 20,000 is the whole deficiency. Nil ignores Verma's share in the firm's guarantee.

Step 3: Conclusion Verma bears a deficiency of Rs 5,000. Hence, the correct option is (B).

Quick Tip to Solve: Exclude the guaranteed partner when dividing the shortfall; here Mathur and Verma bear it in 3:1.

12. Parachita Ltd. invited applications for issuing 80,000 equity shares of Rs. 100 each at par. The amount was payable as under:

On Application - Rs. 30 per share

On Allotment - Rs. 20 per share

On first and final call - Balance amount

Applications were received for 2,00,000 equity shares. Allotment was made to all applicants on pro-rata basis. The amount received at the time of allotment was: [1 mark]

(A) Rs. 16,00,000

(B) Rs. 24,00,000

(C) Nil

(D) Rs. 40,00,000

Correct Answer: (C) Nil

Solution:

Concept:

- In pro-rata allotment, excess application money is adjusted against the amount due on allotment.
- Fresh allotment cash equals allotment due less the application surplus applied to it, with no additional receipt when the surplus fully covers the due amount.

Step 1: Calculate the excess application money Application money received is $2,00,000 \times 30 =$ Rs $60,00,000$. Application money required on the allotted shares is $80,000 \times 30 =$ Rs $24,00,000$. Hence the excess available for adjustment is Rs 36,00,000.

Step 2: Compare the excess with allotment due Allotment due is $80,000 \times 20 =$ Rs $16,00,000$. The application surplus of Rs 36,00,000 covers this entire amount, so no fresh cash is received on allotment. Rs 16,00,000 is the gross allotment due, Rs 24,00,000 is application money required, and Rs 40,00,000 is the final call due before any further adjustment.

Step 3: Conclusion The amount received at the time of allotment is Nil. Hence, the correct option is (C).

Quick Tip to Solve: Compare excess application money with allotment due before treating the gross allotment demand as a cash receipt.

13. At the time of forfeiture of shares, Share Capital Account will be debited with: [1 mark]

(A) Unpaid amount on forfeited shares

(B) Face value of shares forfeited

(C) Paid up amount on forfeited shares

(D) Called up amount on forfeited shares

Correct Answer: (D) Called up amount on forfeited shares

Solution:

Concept:

- On forfeiture, Share Capital Account is debited with the called-up capital relating to the forfeited shares.
- The unpaid calls and the amount already received explain the credit side of the forfeiture entry; together they equal the called-up capital debit.

Step 1: Identify the capital to cancel The company cancels only the capital already called on the forfeited shares. Thus, the debit is number of forfeited shares multiplied by called-up amount per share. If the shares are not fully called, this amount is less than their face value.

Step 2: Distinguish the other amounts The unpaid amount is credited to the relevant unpaid call account or Calls in Arrears Account. The capital amount already received is credited to Share Forfeiture Account. Face value is the debit only when the entire nominal value has been called, so it is not the general rule asked here.

Step 3: Conclusion Share Capital Account is debited with the called-up amount on forfeited shares. Hence, the correct option is (D).

Quick Tip to Solve: For the Share Capital debit, use shares forfeited times called-up capital per share, even if the final call is still unmade.

14. Divya and Saurabh are partners in a firm. On 1st October, 2023, Saurabh advanced a loan of Rs. 5,00,000 to the firm. There is no partnership deed. On 31st March, 2024, Saurabh was entitled to get the following amount as interest on loan: [1 mark]

(A) Rs. 25,000

(B) Rs. 30,000

(C) Rs. 15,000

(D) Nil

Correct Answer: (C) Rs. 15,000

Solution:

Concept:

- In the absence of an agreement, a partner's loan to the firm earns interest at 6% per annum.
- Interest is calculated for the actual loan period: $I = P \times r/100 \times t/12$, where P is principal and t is months.

Step 1: Identify the rate and loan period The partnership has no deed, so the applicable rate on Saurabh's loan is 6% per annum. From 1st October, 2023 to 31st March, 2024 the loan is outstanding for six months, rather than for the whole accounting year.

Step 2: Calculate the interest

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

Rs 30,000 would be interest for a full year; Rs 25,000 uses an unsupported rate. Nil confuses interest on a partner's loan with interest on capital, which is not allowed without an agreement.

Step 3: Conclusion Saurabh is entitled to interest on loan of Rs 15,000. Hence, the correct option is (C).

Quick Tip to Solve: Without a deed, use 6% for a partner's loan and prorate from the advance date; interest on capital follows a different rule.

15. Manav and Adi were partners in a firm sharing profits and losses in the ratio of 5 : 3. Roy was admitted with 1/5th share in the profits of the firm. At the time of Roy's admission, Workmen's Compensation Reserve appeared in the Balance Sheet of the firm at Rs. 4,00,000. The claim on account of workmen's compensation was determined at Rs. 4,40,000. The excess amount of claim over the reserve will be debited to: [1 mark]

(A) Realisation Account

(B) Revaluation Account

(C) Roy's Capital Account

(D) Bank Account

Correct Answer: (B) Revaluation Account

Solution:

Concept:

- Workmen Compensation Reserve is used first to meet the compensation liability existing at admission.
- Any claim exceeding the reserve is a revaluation loss borne by the old partners in their old profit-sharing ratio.

Step 1: Determine the uncovered claim The compensation liability is Rs 4,40,000, whereas the existing reserve covers only Rs 4,00,000. Thus the shortfall is $4,40,000 - 4,00,000 = \text{Rs } 40,000$. This additional liability relates to the business before Roy joins.

Step 2: Identify the account to debit The excess of Rs 40,000 is debited to Revaluation Account. Realisation Account is used on dissolution, while this event is admission. Roy does not bear the old loss personally. Bank Account is credited when payment occurs; it is not the expense account to debit. The resulting revaluation loss is ultimately shared by Manav and Adi in their old ratio $5 : 3$.

Step 3: Conclusion The excess claim of Rs 40,000 is debited to Revaluation Account. Hence, the correct option is (B).

Quick Tip to Solve: Compare the claim with the reserve first: only the shortfall goes to Revaluation Account.

16(a). **A, B and C were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. On 1st April, 2024, D was admitted as a partner in the firm. The new profit sharing ratio was 2 : 2 : 1 : 1. The sacrificed share of A was:** [1 mark]

(A) 1/6th

(B) Nil

(C) 3/6th

(D) 2/6th

Correct Answer: (A) 1/6th

Solution:

Concept:

- A partner's sacrificed share equals the old share less the new share.
- Convert both ratios to fractional shares using their respective totals before subtracting.

Step 1: Calculate the old and new shares of A The old ratio $3:2:1$ totals 6, so A's old share is $3/6$. The new ratio $2:2:1:1$ also totals 6, so A's new share is $2/6$. Admission does not itself mean that each old partner sacrifices equally.

Step 2: Subtract and check the alternatives A's sacrifice is $\frac{3}{6}-\frac{2}{6}=\frac{1}{6}$. Nil would mean no change, which is false for A. The fraction $3/6$ is A's old share and $2/6$ is A's new share; neither is the difference. B and C retain their old shares, confirming that A provides D's entire $1/6$ share.

Step 3: Conclusion A sacrifices $\frac{1}{6}$. Hence, the correct option is (A).

Quick Tip to Solve: Write old share minus new share; do not mistake either individual share for the sacrifice.

OR

16(b). **Anya and Sanya were partners in a firm sharing profits and losses in the ratio of 5 : 2. They admitted Vanya as a new partner for 3/7th share in the profits of the firm. She acquired 2/7th share from Anya and 1/7th share from Sanya. The new profit sharing ratio of Anya, Sanya and Vanya will be:** [1 mark]

(A) 1 : 3 : 3

(B) 5 : 2 : 3

(C) 3 : 1 : 3

(D) 5 : 2 : 1

Correct Answer: (C) 3 : 1 : 3

Solution:

Concept:

- An old partner's new share equals the old share less the share surrendered to the incoming partner.
- The sum of all new shares must equal one.

Step 1: Find the continuing partners' shares Anya's old share is $5/7$ and Sanya's is $2/7$. Since Vanya acquires $2/7$ from Anya and $1/7$ from Sanya, their new shares are respectively $5/7 - 2/7 = 3/7$ and $2/7 - 1/7 = 1/7$.

Step 2: Include Vanya and verify the order Vanya receives $3/7$, giving $3/7 : 1/7 : 3/7 = 3 : 1 : 3$ in the stated order Anya, Sanya, Vanya. The fractions add to $7/7 = 1$. Option (A) interchanges the continuing partners' shares. Options (B) and (D) retain the old ratio entries without accounting for the specified surrender and do not represent these new fractional shares.

Step 3: Conclusion The new profit-sharing ratio is $3 : 1 : 3$. Hence, the correct option is (C).

Quick Tip to Solve: Subtract each specified sacrifice from that partner's old share before forming the new ratio.

17. Pass necessary journal entries for the following transactions on the dissolution of the partnership firm of Banu, Bansal and Bimal after various assets (other than cash) and external liabilities have been transferred to Realisation Account:

(i) The firm had a balance of Rs. 4,80,000 in General Reserve on the date of dissolution.

(ii) Banu had given a loan of Rs. 80,000 to the firm which was fully settled at Rs. 78,000.

(iii) Realisation expenses of Rs. 17,000 were paid by Bansal. [3 marks]

Solution:

Concept:

- Accumulated general reserve is distributed to partners in their profit-sharing ratio. As no ratio is specified, the partners share equally.
- A partner's loan is settled separately from capital. A concession on settlement is credited to Realisation Account.
- Realisation expenses paid personally by a partner are debited to Realisation Account and credited to that partner's Capital Account.

Step 1: Distribute the reserve General Reserve is an accumulated profit and is not transferred to Realisation Account. Each partner receives Rs $4,80,000/3$ = Rs $1,60,000$. The reserve is debited to close it, and the partners' Capital Accounts are credited. Journal of the firm:

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		4,80,000	
	To Banu's Capital A/c			1,60,000
	To Bansal's Capital A/c			1,60,000
	To Bimal's Capital A/c			1,60,000
	(Being general reserve distributed equally)			

Step 2: Settle Banu's loan The whole loan liability of Rs 80,000 is removed, but the cash outflow is only Rs 78,000. The difference, $80,000 - 78,000 =$ Rs $2,000$, is a realisation gain. Journal of the firm:

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Banu's Loan A/c Dr.		80,000	
	To Bank A/c			78,000
	To Realisation A/c			2,000
	(Being loan fully settled at a discount)			

Step 3: Record expenses paid by Bansal Bansal paid the firm's expenses personally, so the firm owes him Rs 17,000. No payment leaves the firm's Bank Account in this entry. Journal of the firm:

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		17,000	
	To Bansal's Capital A/c			17,000
	(Being realisation expenses paid by Bansal)			

Step 4: Conclusion Reserve is credited equally to capitals, the loan settlement produces a Rs 2,000 realisation gain, and Bansal is credited Rs 17,000 for expenses paid.

Quick Tip to Solve: A partner paying expenses personally is credited in Capital Account; a partner's loan uses a separate Loan Account.

18(a). From the following information, calculate the value of goodwill of the firm:

(i) On the basis of capitalisation of super profits, and

(ii) On the basis of capitalisation of average profits.

Average profit for the last four years - Rs. 20,00,000

Capital Employed - Rs. 25,00,000

Normal Rate of Return - 20%

Net Assets of the business - Rs. 25,00,000 [3 marks]

Solution:

Concept:

- Normal profit equals capital employed multiplied by the normal rate of return. Super profit equals average profit less normal profit.
- Goodwill by capitalisation of super profits equals super profit multiplied by 100 divided by the normal rate of return.
- Under capitalisation of average profits, goodwill equals capitalised average profit less net assets of the business.

Step 1: Calculate normal profit and super profit The average annual profit is Rs 20,00,000. Capital employed is Rs 25,00,000 and the normal return is 20%. Therefore,

$$\text{Normal profit} = 25,00,000 \times \frac{20}{100} = \text{Rs } 5,00,000,$$

$$\text{Super profit} = 20,00,000 - 5,00,000 = \text{Rs } 15,00,000.$$

The normal profit is the return that a similar business would ordinarily earn on the same capital. Only the excess over it is capitalised as goodwill in the first method.

Step 2: (i) Capitalise super profits At a normal return of 20%, each Rs 100 of capital earns Rs 20 annually. The capital value supporting the annual super profit is therefore

$$\text{Goodwill} = 15,00,000 \times \frac{100}{20} = \text{Rs } 75,00,000.$$

The rate is used as a divisor in capitalisation, rather than multiplying super profit by 20 per cent.

Step 3: (ii) Capitalise average profits First calculate the total capital value justified by the average earnings:

$$\text{Capitalised average profit} = 20,00,000 \times \frac{100}{20} = \text{Rs } 1,00,00,000.$$

Deduct the stated net assets, not the normal profit:

$$\text{Goodwill} = 1,00,00,000 - 25,00,000 = \text{Rs } 75,00,000.$$

Both methods agree because capital employed and net assets are equal in this question. The capitalised value includes the existing net assets as well as goodwill.

Step 4: Conclusion Goodwill is Rs 75,00,000 under both (i) capitalisation of super profits and (ii) capitalisation of average profits.

Quick Tip to Solve: Capitalise annual earnings by multiplying by 100/rate; deduct net assets only in the average-profit method.

OR

18(b). A, B and C were partners in a firm sharing profits and losses in the ratio of 2 : 3 : 1. Goodwill appeared in their books at Rs. 3,00,000. B retired from the firm on 1st April, 2024. On that date, the goodwill of the firm was valued at Rs. 5,40,000.

Pass the necessary Journal entries in the books of the firm for the treatment of goodwill on B's retirement. [3 marks]

Solution:

Concept:

- Existing goodwill must first be written off against all old partners in their old profit-sharing ratio.
- The retiring partner is compensated for their share of the newly valued goodwill by the gaining partners in the gaining ratio.
- When no new ratio is specified, continuing partners retain their relative old shares. A and C therefore share future profits in the ratio 2:1.

Step 1: Write off goodwill already in the books The existing goodwill of Rs 3,00,000 is written off in the old ratio $2 : 3 : 1$. A bears Rs 1,00,000, B bears Rs 1,50,000 and C bears Rs 50,000. This removes the recorded asset before adjusting the current valuation. Journal of the firm:

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2024	A's Capital A/c Dr.		1,00,000	
	B's Capital A/c Dr.		1,50,000	
	C's Capital A/c Dr.		50,000	
	To Goodwill A/c			3,00,000
	(Being existing goodwill written off in old ratio)			

Step 2: Calculate B's entitlement and the gaining ratio B's share of the valued goodwill is $5,40,000 \times 3/6 =$ Rs $2,70,000$. The new shares of A and C are $2/3$ and $1/3$. Their gains are $2/3 - 2/6 = 2/6$ and $1/3 - 1/6 = 1/6$, so the gaining ratio is $2:1$. They compensate B by Rs 1,80,000 and Rs 90,000 respectively. The whole new valuation is not raised as a permanent asset.

Step 3: Adjust goodwill through capitals Journal of the firm:

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2024	A's Capital A/c Dr.		1,80,000	
	C's Capital A/c Dr.		90,000	
	To B's Capital A/c			2,70,000
	(Being B's share of goodwill adjusted in gaining ratio)			

Thus B has a debit of Rs 1,50,000 for old goodwill and a credit of Rs 2,70,000 for current goodwill, producing a net credit of Rs 1,20,000 from these two adjustments. Each entry balances separately.

Step 4: Conclusion Write off Rs 3,00,000 in the old ratio 2:3:1, then debit A Rs 1,80,000 and C Rs 90,000 to credit B Rs 2,70,000.

Quick Tip to Solve: Write off book goodwill first; compensate the retiring partner using the full current valuation and the gaining ratio.

19(a). Aman Ltd. took over the assets of Rs. 15,00,000 and liabilities of Rs. 17,00,000 of Kamini Ltd. for a purchase consideration of Rs. 30,00,000. Aman Ltd. paid 40% of the purchase consideration by cheque and the balance amount by issue of fully paid equity shares of Rs. 100 each at a premium of 50% in favour of Kamini Ltd.

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

Solution:

Concept:

- Purchase consideration is the amount payable to the vendor; goodwill equals purchase consideration minus the net assets acquired.
- A share issued at a premium credits Share Capital with its face value and Securities Premium Reserve with the excess over face value.

Step 1: Calculate goodwill and the mode of settlement Net assets taken over are Rs $15,00,000 -$ Rs $17,00,000 = -$Rs $2,00,000$. The liabilities exceed the assets; the printed liabilities must therefore

still be credited in full. Goodwill is

$$\text{Rs } 30,00,000 - (-\text{Rs } 2,00,000) = \text{Rs } 32,00,000.$$

The cheque payment is $40\% \times \text{Rs } 30,00,000 = \text{Rs } 12,00,000$, leaving Rs 18,00,000 payable in shares. Each share has issue price Rs $100 + 50\% \times$ Rs $100 =$ Rs 150. Thus $18,00,000/150 = 12,000$ fully paid shares are issued. Share capital is Rs 12,00,000 and securities premium is Rs 6,00,000.

Step 2: Record the acquisition and payment Journal of Aman Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Kamini Ltd. A/c (Being business purchased and goodwill recognised)		15,00,000 32,00,000	 17,00,000 30,00,000
	Kamini Ltd. A/c Dr. To Bank A/c To Equity Share Capital A/c To Securities Premium Reserve A/c (Being vendor settled by cheque and 12,000 shares at 50% premium)		30,00,000	 12,00,000 12,00,000 6,00,000

Step 3: Conclusion Goodwill is Rs 32,00,000. Kamini Ltd. receives Rs 12,00,000 by cheque and 12,000 equity shares of Rs 100 each issued at Rs 150.

Quick Tip to Solve: Calculate the number of shares using the issue price of Rs 150, while crediting share capital at the face value of Rs 100.

OR

19(b). Astha Ltd. took over assets of Rs. 20,00,000 and took over liabilities of Rs. 1,00,000 of Nabha Ltd. for a purchase consideration of Rs. 18,00,000. Astha Ltd. paid half of the amount of purchase consideration through a bank draft and the balance amount was settled by issuing 12% Debentures of Rs. 100 each at a discount of 10% in favour of Nabha Ltd.

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

Solution:

Concept:

- When net assets exceed purchase consideration, the difference is credited to Capital Reserve.
- Debentures issued at a discount are credited at nominal value; the discount is debited separately and does not reduce the Debentures account.

Step 1: Calculate capital reserve and the debenture issue Net assets acquired are Rs $20,00,000 -$ Rs $1,00,000 =$ Rs $19,00,000$. Hence capital reserve is Rs $19,00,000 -$ Rs $18,00,000 =$ Rs $1,00,000$. Half the purchase consideration, Rs 9,00,000, is paid by bank draft; the remaining Rs 9,00,000 is discharged through debentures. Each Rs 100 debenture is issued for $100 - 10 =$ Rs 90, so the number

issued is $9,00,000/90 = 10,000$. The nominal debenture liability is Rs 10,00,000, and discount on issue is Rs 1,00,000. The 12% rate describes interest; it is not the issue discount.

Step 2: Pass journal entries Journal of Astha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		20,00,000	
	To Sundry Liabilities A/c			1,00,000
	To Nabha Ltd. A/c			18,00,000
	To Capital Reserve A/c			1,00,000
	(Being business taken over and capital reserve recognised)			
	Nabha Ltd. A/c Dr.		18,00,000	
	Discount on Issue of Debentures A/c Dr.		1,00,000	
	To Bank A/c			9,00,000
	To 12% Debentures A/c			10,00,000
	(Being vendor paid by bank draft and 10,000 debentures issued at 10% discount)			

Step 3: Conclusion Capital reserve is Rs 1,00,000; bank payment is Rs 9,00,000. The balance is settled by 10,000 debentures of Rs 100 each, with Rs 1,00,000 discount.

Quick Tip to Solve: Divide the vendor balance by Rs 90 to find debenture count, then multiply that count by Rs 100 to find the nominal liability.

20. Lalit, Madhur and Neel were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Neel retired and his capital after making the necessary adjustments on account of reserves and revaluation of assets and liabilities was Rs. 10,00,000. Lalit and Madhur agreed to pay Neel Rs. 22,00,000 in full settlement of his claim.

Pass necessary journal entries for the treatment of goodwill and making final payment to Neel.

[3 marks]

Solution:

Concept:

- The amount paid to a retiring partner above the adjusted capital represents that partner's share of goodwill.
- The continuing partners compensate the retiring partner for goodwill in their gaining ratio through capital accounts.

Step 1: Determine goodwill and the gaining ratio Neel's adjusted capital, after reserves and revaluation, is Rs 10,00,000, whereas his agreed settlement is Rs 22,00,000. Thus his share of goodwill is

$$\text{Rs } 22,00,000 - \text{Rs } 10,00,000 = \text{Rs } 12,00,000.$$

Since no different continuing ratio is stated, Lalit and Madhur continue in their relative old ratio $2 : 2 = 1 : 1$. Each now has $1/2$ share and previously had $2/5$, so each gains $1/2 - 2/5 = 1/10$. The gaining ratio is therefore $1 : 1$. They bear Neel's goodwill equally, Rs 6,00,000 each. The Rs 12,00,000 already represents Neel's goodwill share; it must not be multiplied by his old share again.

Step 2: Adjust goodwill and make final payment Journal of the Partnership Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Lalit's Capital A/c Dr. Madhur's Capital A/c Dr. To Neel's Capital A/c (Being Neel's goodwill adjusted in gaining ratio 1:1)		6,00,000 6,00,000	 12,00,000
	Neel's Capital A/c Dr. To Bank A/c (Being Neel's claim settled in full through bank)		22,00,000	 22,00,000

After the goodwill adjustment, Neel's capital has a credit balance of Rs $10,00,000$ + Rs $12,00,000$ = Rs $22,00,000$. Debiting it for the final payment closes his account; goodwill need not be raised as an asset.

Step 3: Conclusion Debit Lalit's and Madhur's capital accounts by Rs 6,00,000 each, credit Neel's capital by Rs 12,00,000, and pay Neel Rs 22,00,000 through bank.

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

21. Pass necessary journal entries for the issue of 11% Debentures in the books of Arpita Ltd. in the following cases:

(i) Issued 2,000, 11% Debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 5%.

(ii) Issued 5,000, 11% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium of 5%. [4 marks]

Solution:

Concept:

- Debentures are credited at their nominal value. Issue premium is credited to Securities Premium Reserve; the bank receives the issue price.
- Premium payable on redemption is a liability credited at issue. Loss on Issue of Debentures equals issue discount plus redemption premium. The stated 11% rate is the coupon rate and does not change the issue entry.

Step 1: Case (i): Issue at premium, redeemable at premium Nominal value = $2,000 \times 100$ = Rs $2,00,000$. Issue premium = $2,00,000 \times 10\%$ = Rs $20,000$, so the cash received is Rs 2,20,000. Redemption premium = $2,00,000 \times 5\%$ = Rs $10,000$; it is recorded as a loss when the debentures are issued.

Journal of Arpita Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,20,000	
	Loss on Issue of Debentures A/c Dr.		10,000	
	To 11% Debentures A/c			2,00,000
	To Securities Premium Reserve A/c			20,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being 2,000 debentures issued at 10% premium, redeemable at 5% premium)			

Step 2: Case (ii): Issue at discount, redeemable at premium Nominal value $= 5,000 \times 100 =$ Rs $5,00,000$. Discount $= 5,00,000 \times 10\% =$ Rs $50,000$; cash received is Rs 4,50,000. Redemption premium $= 5,00,000 \times 5\% =$ Rs $25,000$. Hence total loss $= 50,000 + 25,000 =$ Rs $75,000$.

Journal of Arpita Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,50,000	
	Loss on Issue of Debentures A/c Dr.		75,000	
	To 11% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c			25,000
	(Being 5,000 debentures issued at 10% discount, redeemable at 5% premium)			

The debit total Rs 5,25,000 equals the credit total. No interest entry is needed merely for issuing the debentures.

Step 3: Conclusion Case (i): Bank Rs 2,20,000; Securities Premium Reserve Rs 20,000; loss Rs 10,000. Case (ii): Bank Rs 4,50,000; loss Rs 75,000. Redemption premiums are Rs 10,000 and Rs 25,000 respectively.

Quick Tip to Solve: Calculate face value first; apply both issue and redemption percentages to face value, not to the cash received.

22. Adayant, Shifa and Rohan were partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2. Their Balance Sheet as at 31st March, 2024 stood as follows:

Balance Sheet of Adayant, Shifa and Rohan as at 31st March, 2024

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Building	4,10,000
Adayant	4,00,000	Investments	1,32,500
Shifa	1,20,000	Stock	17,500
Rohan	1,80,000	Debtors	63,000
General Reserve	1,20,000	Cash at Bank	1,37,000
Bills Payable	1,40,000	Cash at Hand	3,20,000
Creditors	1,20,000		
Total	10,80,000	Total	10,80,000

Shifa died on 30th June, 2024. As per the partnership deed, the executors of Shifa were entitled to:

(i) Amount standing to the credit of her capital account.

(ii) Interest on capital which was Rs. 5,750.

(iii) Her share of goodwill which was Rs. 42,000.

(iv) Her share in the profits of the firm from the date of the last Balance Sheet up to the date of death which amounted to Rs. 76,250.

(v) Shifa's executors were paid half of the payable amount immediately and the balance amount was to be paid in two equal yearly instalments along with interest 8% p.a.

Pass necessary journal entries for the above transactions on Shifa's death. [4 marks]

Solution:

Concept:

- Accumulated reserves belong to all partners in their old profit-sharing ratio, here $2 : 1 : 2$. The deceased partner receives her capital, reserve share, interest, goodwill share and profit up to death.
- Continuing partners compensate the deceased partner for goodwill in their gaining ratio. With no changed ratio specified, Adayant and Rohan continue in $2 : 2 = 1 : 1$; their gains are equal.
- The amount due is transferred to the executor. Interest on unpaid principal is charged for the period outstanding; instalments reduce principal only.

Step 1: Credit entitlements on death Shifa's reserve share is $1,20,000 \times 1/5 = \text{Rs } 24,000$. Adayant and Rohan each gain $1/2 - 2/5 = 1/10$, so each bears half the goodwill, Rs 21,000. The given Rs 5,750 and Rs 76,250 are already Shifa's interest and profit entitlements and must not be multiplied again by her share.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-6-2024	General Reserve A/c Dr.		1,20,000	
	To Adayant's Capital A/c			48,000
	To Shifa's Capital A/c			24,000
	To Rohan's Capital A/c			48,000
	(Being reserve distributed in the old ratio 2:1:2)			
30-6-2024	Interest on Capital A/c Dr.		5,750	
	To Shifa's Capital A/c			5,750
	(Being interest on capital credited)			
30-6-2024	Adayant's Capital A/c Dr.		21,000	
	Rohan's Capital A/c Dr.		21,000	
	To Shifa's Capital A/c			42,000
	(Being goodwill adjusted equally between gaining partners)			
30-6-2024	Profit and Loss Suspense A/c Dr.		76,250	
	To Shifa's Capital A/c			76,250
	(Being share of profit up to death credited)			

Step 2: Transfer and immediate payment Amount due $= 1,20,000+24,000+5,750+42,000+76,250 =$ Rs $2,68,000$. Half is Rs 1,34,000, leaving the same amount outstanding.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-6-2024	Shifa's Capital A/c Dr.		2,68,000	
	To Shifa's Executors A/c			2,68,000
	(Being amount due transferred to executors)			
30-6-2024	Shifa's Executors A/c Dr.		1,34,000	
	To Bank A/c			1,34,000
	(Being half the amount due paid immediately)			

Step 3: Check the agreed instalment schedule Each principal instalment $= 1,34,000/2 =$ Rs $67,000$. First-year interest $= 1,34,000 \times 8\% =$ Rs $10,720$; first payment is Rs 77,720. Second-year interest $= 67,000 \times 8\% =$ Rs $5,360$; second payment is Rs 72,360. The executor balance after the first principal instalment is Rs 67,000 and after the second is nil.

Step 4: Conclusion Shifa's executors are entitled to Rs 2,68,000. Immediate payment is Rs 1,34,000. The remaining principal is paid in two yearly instalments of Rs 67,000, with interest of Rs 10,720 and Rs 5,360 respectively.

Quick Tip to Solve: Add the deceased partner's reserve share before halving the amount payable; charge each year's interest on the opening unpaid principal.

23(a). Hira Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 10 each at 10% premium. The amount was payable as follows:

On Application - Rs. 3 per share

On Allotment - Rs. 3 per share (including premium)

On first and final call - Balance amount

Applications were received for 1,40,000 shares and shares were allotted on a pro-rata basis to all the applicants. The excess money received on application was adjusted towards sums due on allotment. All the shareholders paid the allotment money due except one shareholder who was allotted 1,000 shares. These shares were forfeited immediately. All these shares were reissued to Shashi as Rs. 5 paid up for Rs. 4 per share. First and final call has not been made.

Pass necessary journal entries in the books of Hira Ltd. Open Calls-in-Arrears Account wherever required. [6 marks]

Solution:

Concept:

- Pro-rata allotment distributes shares in the ratio of shares allotted to shares applied for; excess application money adjusts allotment.
- On forfeiture, debit called-up capital and credit unpaid calls and capital already received. Reverse premium only when unpaid.
- Reissue discount is charged to Share Forfeiture; the remaining surplus on reissued shares transfers to Capital Reserve.

Step 1: Calculate the pro-rata adjustment and arrears The allotment ratio is $1,00,000 : 1,40,000 = 5 : 7$. Total application receipts are $1,40,000 \times$ Rs $3 =$ Rs $4,20,000$. Application capital required is Rs 3,00,000, leaving Rs 1,20,000 to adjust against allotment. Allotment due is Rs 3,00,000, of which Rs 2,00,000 is capital and Rs 1,00,000 is premium. The balance collectible is therefore Rs 1,80,000.

The defaulting shareholder applied for $1,000 \times 7/5 = 1,400$ shares and paid Rs 4,200. Of this, Rs 3,000 meets application capital and Rs 1,200 adjusts allotment. Against allotment due of Rs 3,000, the unpaid balance is Rs 1,800. The adjusted Rs 1,200 covers the Rs 1,000 premium; hence premium is not reversed on forfeiture. Capital called up is Rs 5 per share, since the final call has not been made. Capital received is $4,200 - 1,000 =$ Rs $3,200$.

Step 2: Record application, allotment and forfeiture Journal of Hira Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,20,000	
	To Share Application A/c			4,20,000
	(Being application money received on 1,40,000 shares)			
	Share Application A/c Dr.		4,20,000	
	To Share Capital A/c			3,00,000
	To Share Allotment A/c			1,20,000
	(Being application money transferred and excess adjusted)			
	Share Allotment A/c Dr.		3,00,000	
	To Share Capital A/c			2,00,000
	To Securities Premium A/c			1,00,000
	(Being allotment money due including premium)			
	Bank A/c Dr.		1,78,200	
	Calls-in-Arrears A/c Dr.		1,800	
	To Share Allotment A/c			1,80,000
	(Being balance allotment received except arrears)			
	Share Capital A/c Dr.		5,000	
	To Calls-in-Arrears A/c			1,800
	To Share Forfeiture A/c			3,200
	(Being 1,000 shares forfeited for unpaid allotment)			

Step 3: Record reissue and transfer the realised surplus The reissue credits only the paid-up amount of $1,000 \times$ Rs $5 =$ Rs $5,000$. Bank receives Rs 4,000, so the discount is Rs 1,000. It is covered by the Rs 3,200 forfeiture balance. All forfeited shares have been reissued; consequently the remaining Rs 2,200 is a realised capital profit.

Journal of Hira Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,000	
	Share Forfeiture A/c Dr.		1,000	
	To Share Capital A/c			5,000
	(Being shares reissued as Rs 5 paid up for Rs 4 each)			
	Share Forfeiture A/c Dr.		2,200	
	To Capital Reserve A/c			2,200
	(Being surplus on all reissued shares transferred)			

Step 4: Open Calls-in-Arrears Account Calls-in-Arrears Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Allotment A/c	1,800	By Share Capital A/c	1,800	
	Total	1,800	Total	1,800	

The arrears are cancelled on forfeiture, leaving no balance. No entry is passed for the first and final call because it has not been made.

Step 5: Conclusion Calls-in-Arrears is Rs 1,800; forfeiture credit is Rs 3,200; reissue discount is Rs 1,000; Capital Reserve is Rs 2,200.

Quick Tip to Solve: Separate premium from capital before computing forfeiture, and credit only Rs 5 paid-up capital on this reissue.

OR

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

(i) Krisha Ltd. forfeited 1,000 shares of Rs. 10 each, fully called-up on which only Rs. 4,000 had been received. 500 of the forfeited shares were reissued for Rs. 8 per share fully paid-up.

(ii) XYZ Ltd. forfeited 20,000 shares of Rs. 10 each issued at a premium of Rs. 1 per share, for non-payment of second and final call of Rs. 2 per share. 70% of these shares were reissued at Rs. 7 per share fully paid-up. [6 marks]

Solution:

Concept:

- Forfeiture cancels called-up share capital; the amount already received towards capital is credited to Share Forfeiture.
- Reissue discount cannot exceed the forfeiture amount attributable to the shares reissued.
- Only the surplus attributable to reissued shares transfers to Capital Reserve; the balance for unreissued shares remains in Share Forfeiture.

Step 1: Compute the amounts for Krisha Ltd. Capital called up on 1,000 shares is $1,000 \times$ Rs $10 =$ Rs $10,000$. Capital received is Rs 4,000, so unpaid calls are Rs 6,000. The precise unpaid instalment is not specified; Calls-in-Arrears is therefore used. Of the forfeited shares, 500 are reissued, representing half the forfeiture balance: $4,000 \times 500/1,000 =$ Rs $2,000$. Reissue proceeds are Rs 4,000 against fully paid capital of Rs 5,000, giving discount of Rs 1,000. Capital profit on these shares is $2,000 - 1,000 =$ Rs $1,000$. The remaining Rs 2,000 forfeiture relates to 500 unreissued shares and is retained.

Step 2: Record the entries in Krisha Ltd. Journal of Krisha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		10,000	
	To Calls-in-Arrears A/c			6,000
	To Share Forfeiture A/c			4,000
	(Being 1,000 fully called shares forfeited)			
	Bank A/c Dr.		4,000	
	Share Forfeiture A/c Dr.		1,000	
	To Share Capital A/c			5,000
	(Being 500 shares reissued fully paid at Rs 8 each)			
	Share Forfeiture A/c Dr.		1,000	
	To Capital Reserve A/c			1,000
	(Being surplus on 500 reissued shares transferred)			

Step 3: Compute the amounts for XYZ Ltd. The default is solely in the second and final call of

Rs 2 per share, so the issue premium has already been received and is not reversed. Called-up capital is $20,000 \times$ Rs $10 =$ Rs $2,00,000$, unpaid final call is Rs 40,000, and capital received is Rs 1,60,000. Reissued shares are $20,000 \times 70\% = 14,000$. Bank receives $14,000 \times$ Rs $7 =$ Rs $98,000$, and the discount is $14,000 \times$ Rs $3 =$ Rs $42,000$. Forfeiture attributable to the reissued shares is $14,000 \times$ Rs $8 =$ Rs $1,12,000$; hence the surplus is Rs 70,000. The balance of Rs 48,000 relates to 6,000 unreissued shares and remains in Share Forfeiture.

Step 4: Record the entries in XYZ Ltd. Journal of XYZ Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		2,00,000	
	To Share Second and Final Call A/c			40,000
	To Share Forfeiture A/c			1,60,000
	(Being 20,000 shares forfeited for unpaid final call)			
	Bank A/c Dr.		98,000	
	Share Forfeiture A/c Dr.		42,000	
	To Share Capital A/c			1,40,000
	(Being 14,000 shares reissued fully paid at Rs 7 each)			
	Share Forfeiture A/c Dr.		70,000	
	To Capital Reserve A/c			70,000
	(Being surplus on 14,000 reissued shares transferred)			

Step 5: Conclusion Capital Reserve: Krisha Ltd. Rs 1,000; XYZ Ltd. Rs 70,000. Remaining Share Forfeiture balances are Rs 2,000 and Rs 48,000 respectively.

Quick Tip to Solve: Allocate the forfeiture balance to shares actually reissued before subtracting the reissue discount.

24(a). Sia, Manav and Ajay 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 Sia, Manav and Ajay as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	4,00,000	Land and Building	8,50,000
Bank Overdraft	3,00,000	Machinery	6,00,000
Capitals:		Investments	2,00,000
Sia 9,00,000		Stock	6,00,000
Manav 8,00,000		Debtors	3,00,000
Ajay 2,00,000	19,00,000	Bank	1,00,000
Employee's Provident Fund	2,00,000	Profit and Loss Account	1,50,000
	28,00,000		28,00,000

On 31st March, 2024, Manav retired from the firm and the remaining partners decided to carry on the business. The assets and liabilities were revalued which resulted into a gain of Rs. 1,20,000 because of the increase in the value of Land and Building by the same amount.

(i) 40% of Land and Building were taken by retiring partner at revalued value.

(ii) Goodwill of the firm be valued at Rs. 4,00,000. Sia and Ajay decided to share future profits and losses in the ratio of 3 : 2.

(iii) The total capital of the new firm will be Rs. 20,00,000 which will be in proportion of the new profit sharing ratio of Sia and Ajay. For this, necessary cash was brought in or was paid off to the

partners, as the case may be.

Prepare Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- Accumulated losses and revaluation profit belong to all old partners in their old profit-sharing ratio, $2:2:1$.
- The gaining partners compensate the retiring partner for his share of goodwill in their gaining ratio. An asset taken over is debited to the retiring partner at its agreed value.
- Continuing partners bring in cash for a capital deficiency or withdraw cash for an excess, so that their closing capitals equal the agreed total capital in the new ratio.

Step 1: Distribute the old loss and revaluation profit The debit balance of Profit and Loss Account, Rs 1,50,000, is an accumulated loss. Debit Sia, Manav and Ajay by Rs 60,000, Rs 60,000 and Rs 30,000 respectively. Revaluation profit of Rs 1,20,000 is credited in the same ratio: Rs 48,000, Rs 48,000 and Rs 24,000 respectively. Employee's Provident Fund is a liability to employees; it is not a free reserve and is not distributed to partners.

Step 2: Adjust goodwill and the asset taken over The gains of Sia and Ajay are

$$\frac{3}{5}-\frac{2}{5}=\frac{1}{5}, \qquad \frac{2}{5}-\frac{1}{5}=\frac{1}{5}.$$

Thus the gaining ratio is $1:1$. Manav's goodwill entitlement is $4,00,000 \times 2/5 =$ Rs $1,60,000$. Debit Sia and Ajay by Rs 80,000 each and credit Manav by Rs 1,60,000. No goodwill asset is raised.

$$\text{Revalued land and building} = 8,50,000 + 1,20,000 = 9,70,000,$$
$$\text{Value taken by Manav} = 9,70,000 \times 40\% = 3,88,000.$$

Debit Manav's capital with Rs 3,88,000 for this asset.

Step 3: Determine the capital adjustment and retirement balance Before cash adjustment, Sia's capital is $9,00,000-60,000+48,000-80,000 =$ Rs $8,08,000$; Ajay's is $2,00,000-30,000+24,000-80,000 =$ Rs $1,14,000$. Their required capitals are $20,00,000 \times 3/5 =$ Rs $12,00,000$ and $20,00,000 \times 2/5 =$ Rs $8,00,000$. Consequently they bring in Rs 3,92,000 and Rs 6,86,000. Manav's balance after taking land is $8,00,000 - 60,000 + 48,000 + 1,60,000 - 3,88,000 =$ Rs $5,20,000$, transferred to his Loan Account because no cash settlement of this remaining retirement dues is specified.

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

Dr. Particulars	Sia	Manav	Ajay	Cr. Particulars	Sia	Manav	Ajay
To P&L A/c	60,000	60,000	30,000	By Balance b/d	9,00,000	8,00,000	2,00,000
To Manav (goodwill)	80,000	–	80,000	By Revaluation A/c	48,000	48,000	24,000
To Land & Building	–	3,88,000	–	By Sia (goodwill)	–	80,000	–
To Manav Loan A/c	–	5,20,000	–	By Ajay (goodwill)	–	80,000	–
To Balance c/d	12,00,000	–	8,00,000	By Bank A/c	3,92,000	–	6,86,000
Total	13,40,000	9,68,000	9,10,000	Total	13,40,000	9,68,000	9,10,000

Step 5: Conclusion Closing capitals: Sia Rs 12,00,000 and Ajay Rs 8,00,000. Cash introduced: Rs 3,92,000 and Rs 6,86,000 respectively. Manav takes land worth Rs 3,88,000; the balance due to him is Rs 5,20,000.

Quick Tip to Solve: Distribute the debit Profit and Loss balance first; value the land taken over after adding the revaluation increase.

OR

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

Balance Sheet of Karan and Arjun as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals:		Machinery	4,00,000
Karan 5,00,000		Furniture	2,00,000
Arjun 5,00,000	10,00,000	Debtors 4,00,000	
General Reserve	1,50,000	Less: Provision for	
Workmen's Compensation Fund	1,50,000	Doubtful Debts 50,000	3,50,000
		Stock	1,50,000
		Cash	2,00,000
	13,00,000		13,00,000

On 1st April, 2024, Nakul was admitted into the partnership for 1/4th share in the profits of the firm on the following terms:

(i) Nakul brought Rs. 4,00,000 as his capital and his share of goodwill premium in cash. Goodwill of the firm was valued at Rs. 2,00,000.

(ii) Furniture was valued at Rs. 2,50,000.

(iii) A provision for doubtful debts @ 10% is to be maintained on debtors.

(iv) The liability against Workmen's Compensation Fund was estimated at Rs. 1,20,000.

(v) After the above adjustments, the capitals of Karan and Arjun were to be adjusted taking Nakul's capital as the base. Excess or shortage in the capital accounts of Karan and Arjun was to be adjusted by opening current accounts.

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

Solution:

Concept:

- In the absence of a different sacrifice arrangement, old partners retain their old ratio in the remaining share. Old reserves and revaluation results belong to the old partners.
- Only the excess of Workmenś Compensation Fund over the estimated claim is distributed. The claim remains a liability.
- Total capital is inferred from the incoming partnerś capital divided by his share. An excess adjusted capital transferred to a Current Account is debited to Capital Account.

Step 1: Find the ratios and distribute the reserves and premium Nakul takes $1/4$; the old partners retain $3/4$ in their old ratio $3:2$. Hence Karan's share is $3/5 \times 3/4 = 9/20$, Arjun's is $2/5 \times 3/4 = 6/20$ and Nakul's is $5/20$: new ratio $9:6:5$. Karan and Arjun sacrifice in $3:2$. Nakul brings goodwill premium $2,00,000 \times 1/4 = \text{Rs } 50,000$, credited to Karan Rs 30,000 and Arjun Rs 20,000. General Reserve Rs 1,50,000 is credited Rs 90,000 and Rs 60,000. The surplus compensation fund is $1,50,000 - 1,20,000 = \text{Rs } 30,000$, credited Rs 18,000 and Rs 12,000. Retain Rs 1,20,000 as the compensation liability; it is covered by the existing fund.

Step 2: Prepare Revaluation Account Furniture increases by $2,50,000 - 2,00,000 = \text{Rs } 50,000$. The

required doubtful-debt provision is $4,00,000 \times 10\% =$ Rs $40,000$, against an existing Rs 50,000, releasing Rs 10,000. Total revaluation profit is therefore Rs 60,000, distributed Rs 36,000 to Karan and Rs 24,000 to Arjun.

Revaluation Account (amounts in Rs)

Dr. Particulars	Amount	Cr. Particulars	Amount
To Karan Capital A/c	36,000	By Furniture A/c	50,000
To Arjun Capital A/c	24,000	By Provision for Doubtful Debts	10,000
Total	60,000	Total	60,000

Step 3: Calculate the target capitals and current transfers Nakul's Rs 4,00,000 capital represents $1/4$ of total capital. The agreed total is $4,00,000 \div 1/4 =$ Rs $16,00,000$. Target capitals are Karan $16,00,000 \times 9/20 =$ Rs $7,20,000$, Arjun $16,00,000 \times 6/20 =$ Rs $4,80,000$ and Nakul Rs 4,00,000. Karan's adjusted capital is $5,00,000 + 90,000 + 18,000 + 30,000 + 36,000 =$ Rs $6,74,000$, a shortage of Rs 46,000. Credit his Capital Account and debit his Current Account by this amount. Arjun's adjusted capital is $5,00,000 + 60,000 + 12,000 + 20,000 + 24,000 =$ Rs $6,16,000$, an excess of Rs 1,36,000: debit Capital Account and credit Current Account. These transfers require no cash.

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

Dr. Particulars	Karan	Arjun	Nakul	Cr. Particulars	Karan	Arjun	Nakul
To Current A/c	–	1,36,000	–	By Balance b/d	5,00,000	5,00,000	–
To Balance c/d	7,20,000	4,80,000	4,00,000	By General Reserve	90,000	60,000	–
				By W.C. Fund	18,000	12,000	–
				By Premium for Goodwill	30,000	20,000	–
				By Revaluation A/c	36,000	24,000	–
				By Bank A/c	–	–	4,00,000
				By Current A/c	46,000	–	–
Total	7,20,000	6,16,000	4,00,000	Total	7,20,000	6,16,000	4,00,000

Step 5: Conclusion Revaluation profit is Rs 60,000. Closing capitals are Karan Rs 7,20,000, Arjun Rs 4,80,000 and Nakul Rs 4,00,000. Karanś Current Account has a debit of Rs 46,000 and Arjunś a credit of Rs 1,36,000.

Quick Tip to Solve: Use only Nakulś capital, excluding goodwill premium, to infer total capital; release just the surplus compensation fund.

25. Jai and Kavi were partners in a firm sharing profits and losses equally. They agreed to dissolve the firm on 31st March, 2024. Their Balance Sheet as on 31st March, 2024 was as follows:

Balance Sheet of Jai and Kavi as at 31st March, 2024

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	2,00,000	Cash in Hand	2,00,000
Loan by Kavi	2,00,000	Cash at Bank	4,00,000
General Reserve	4,00,000	Debtors: 3,40,000	
Profit and Loss A/c	4,00,000	Less: Provision for Doubtful Debts: 40,000	3,00,000
Loan by Mrs. Kavi	1,50,000	Land and Building	6,00,000
Capitals: Jai: 5,00,000		Machinery	5,00,000
Kavi: 5,00,000	10,00,000	Goodwill	3,50,000
Total	23,50,000	Total	23,50,000

The following transaction took place at the time of dissolution:

(i) Land and Building realised Rs. 4,50,000.

(ii) Jai took Machinery at Rs. 4,50,000.

(iii) Bills Payable were paid Rs. 1,96,000 in full settlement.

(iv) Debtors realised at Rs. 2,70,000.

(v) Firm had to pay Rs. 5,000 for Outstanding Salary which was not provided earlier.

(vi) Realisation expenses were Rs. 19,000.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- Realisation Account records the transfer and disposal of non-cash assets and settlement of outside liabilities on dissolution. Assets are transferred at gross book values; the related provision is credited separately.
- A partner's own loan is settled separately from Realisation Account. A loan from a partner's wife is an outside liability and is transferred to Realisation Account.
- Realisation loss is transferred to partners' capital accounts in their profit-sharing ratio; Jai and Kavi share equally, so each bears one-half.

Step 1: Identify the transfers Transfer debtors at their gross amount of Rs 3,40,000, land and building Rs 6,00,000, machinery Rs 5,00,000 and goodwill Rs 3,50,000 to the debit side. Total assets transferred are Rs 17,90,000. Credit provision for doubtful debts Rs 40,000, bills payable Rs 2,00,000 and Mrs. Kavi's loan Rs 1,50,000. Cash in hand and cash at bank are not transferred. Kavi's own loan, general reserve, the credit balance of Profit and Loss Account and partners' capitals are dealt with outside this account.

Step 2: Record realisations and payments Land and building and debtors bring bank receipts of Rs 4,50,000 and Rs 2,70,000 respectively. Machinery taken by Jai is credited to Realisation Account and debited to his capital account for Rs 4,50,000. Goodwill realises nothing, so there is no corresponding receipt. Debit the actual bills settlement of Rs 1,96,000, repayment of Mrs. Kavi's loan at its book value Rs 1,50,000, previously unrecorded salary Rs 5,000 and expenses Rs 19,000. The Rs 4,000

saving on bills is automatically included by crediting the full liability and debiting only its settlement amount.

Step 3: Prepare the Realisation Account Realisation Account of Jai and Kavi as at 31st March, 2024

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Debtors	3,40,000	By Provision for doubtful debts	40,000	
	To Land and building	6,00,000	By Bills payable	2,00,000	
	To Machinery	5,00,000	By Mrs. Kavi's loan	1,50,000	
	To Goodwill	3,50,000	By Bank (land and building)	4,50,000	
	To Bank (bills payable)	1,96,000	By Jai's capital (machinery)	4,50,000	
	To Bank (Mrs. Kavi's loan)	1,50,000	By Bank (debtors)	2,70,000	
	To Bank (outstanding salary)	5,000	By Jai's capital (loss)	3,00,000	
	To Bank (expenses)	19,000	By Kavi's capital (loss)	3,00,000	
	Total	21,60,000	Total	21,60,000	

The debit total before transferring loss is Rs 21,60,000 and the credit total before loss is Rs 15,60,000. Their difference is Rs 6,00,000, which is closed by crediting Realisation Account and debiting the two capital accounts equally.

Step 4: Conclusion Realisation loss is Rs 6,00,000; Jai and Kavi each bear Rs 3,00,000. The Realisation Account closes with equal totals of Rs 21,60,000.

Quick Tip to Solve: Keep Kavi's own loan outside Realisation, but include Mrs. Kavi's loan as an outside liability.

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26. Nisha Ltd. was registered with a capital of Rs. 6,00,000 in shares of Rs. 100 each. It issued 4,000 shares. The amount was payable as follows:

On Application - Rs. 30 per share

On Allotment - Rs. 30 per share

On First and Final Call - Balance

The issue was fully subscribed and all amounts payable on application and allotment were duly received. Amit, a shareholder, failed to pay first and final call of Rs. 40 per share on his 200 shares.

Answer the following questions: [6 marks]

26(i). The Authorised capital of Nisha Ltd. shown in 'Notes to Accounts' will be: [1 mark]

(A) Rs. 6,00,000

(B) Rs. 4,00,000

(C) Rs. 6,00,00,000

(D) Rs. 3,60,000

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

Solution:

Concept:

- The face value is Rs 100 per share. Authorised capital is the registered limit; issued capital is the nominal value offered for subscription. Unpaid calls affect paid-up capital, not the authorised or issued amount.
- Calls in arrears are calls made but unpaid: defaulting shares $\times$ unpaid call per share.

Step 1: Apply the relevant capital category The company is registered with capital of Rs 6,00,000. Thus its authorised number of shares is $6,00,000/100 = 6,000$, even though it issues only 4,000 shares.

Step 2: Check the amount and alternatives Rs 4,00,000 is issued capital, not the registered limit. Rs 6,00,00,000 incorrectly treats an amount already stated in rupees as a number of shares; Rs 3,60,000 has no basis in the registered capital.

Step 3: Conclusion Rs 6,00,000. Hence, the correct option is (A).

Quick Tip to Solve: First identify the capital category asked for; subtract arrears only when calculating the paid-up amount.

26(ii). The Issued capital of Nisha Ltd. shown in 'Notes to Accounts' will be: [1 mark]

(A) Rs. 3,60,000

(B) Rs. 6,00,000

(C) Rs. 4,00,000

(D) Rs. 3,92,000

Correct Answer: (C) Rs. 4,00,000

Solution:

Concept:

- The face value is Rs 100 per share. Authorised capital is the registered limit; issued capital is the nominal value offered for subscription. Unpaid calls affect paid-up capital, not the authorised or issued amount.
- Calls in arrears are calls made but unpaid: defaulting shares $\times$ unpaid call per share.

Step 1: Apply the relevant capital category The company issues 4,000 shares of Rs 100 each. Therefore issued capital is $4,000 \times 100 =$ Rs $4,00,000$. All issued shares are subscribed.

Step 2: Check the amount and alternatives Rs 6,00,000 is authorised capital. Rs 3,92,000 is the paid-up amount after deducting arrears; Rs 3,60,000 does not equal the nominal value of issued shares. A default on calls does not reduce issued capital.

Step 3: Conclusion Rs 4,00,000. Hence, the correct option is (C).

Quick Tip to Solve: First identify the capital category asked for; subtract arrears only when calculating the paid-up amount.

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

(A) Rs. 3,92,000

(B) Rs. 20,000

(C) Rs. 3,80,000

(D) Rs. 12,000

Correct Answer: (D) Rs. 12,000

Solution:

Concept:

- The face value is Rs 100 per share. Authorised capital is the registered limit; issued capital is the nominal value offered for subscription. Unpaid calls affect paid-up capital, not the authorised or issued amount.
- Calls in arrears are calls made but unpaid: defaulting shares $\times$ unpaid call per share.

Step 1: Apply the relevant capital category Only Amit's 200 shares are not fully paid. Application and allotment received on them total Rs 60 per share, so the paid-up amount of these shares is $200 \times 60 = \text{Rs } 12,000$.

Step 2: Check the amount and alternatives Their nominal capital is Rs 20,000, but calls in arrears of Rs 8,000 must be deducted to show the amount paid up. Rs 3,80,000 belongs to fully paid shares, and Rs 3,92,000 is the total paid-up capital across both categories.

Step 3: Conclusion Rs 12,000. Hence, the correct option is (D).

Quick Tip to Solve: First identify the capital category asked for; subtract arrears only when calculating the paid-up amount.

26(iv). 'Subscribed and fully paid capital' of Nisha Ltd. shown in 'Notes to Accounts' will be: [1 mark]

(A) Rs. 20,000

(B) Rs. 3,80,000

(C) Rs. 12,000

(D) Rs. 3,92,000

Correct Answer: (B) Rs. 3,80,000

Solution:

Concept:

- The face value is Rs 100 per share. Authorised capital is the registered limit; issued capital is the nominal value offered for subscription. Unpaid calls affect paid-up capital, not the authorised or issued amount.
- Calls in arrears are calls made but unpaid: defaulting shares $\times$ unpaid call per share.

Step 1: Apply the relevant capital category Of the 4,000 subscribed shares, 200 belonging to Amit are not fully paid. Fully paid shares therefore number $4,000 - 200 = 3,800$, each paid to its face value of Rs 100.

Step 2: Check the amount and alternatives The amount is $3,800 \times 100 = \text{Rs } 3,80,000$. Rs 20,000 is the nominal value of Amit's shares; Rs 12,000 is the amount received on his partly paid shares. Rs 3,92,000 includes both fully and partly paid capital.

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

Quick Tip to Solve: First identify the capital category asked for; subtract arrears only when calculating the paid-up amount.

26(v). Calls in arrears of Nisha Ltd. will be: [1 mark]

(A) Rs. 12,000

(B) Rs. 20,000

(C) Rs. 8,000

(D) Nil

Correct Answer: (C) Rs. 8,000

Solution:

Concept:

- The face value is Rs 100 per share. Authorised capital is the registered limit; issued capital is the nominal value offered for subscription. Unpaid calls affect paid-up capital, not the authorised or issued amount.
- Calls in arrears are calls made but unpaid: defaulting shares $\times$ unpaid call per share.

Step 1: Apply the relevant capital category The first and final call is the balance of the Rs 100 face value after application Rs 30 and allotment Rs 30: $100 - 30 - 30 = \text{Rs } 40$ per share. Amit defaults on 200 shares.

Step 2: Check the amount and alternatives Calls in arrears are $200 \times 40 = \text{Rs } 8,000$. Rs 12,000 is already received on those shares; Rs 20,000 is their entire nominal value. Nil is incorrect because the final call remains unpaid.

Step 3: Conclusion Rs 8,000. Hence, the correct option is (C).

Quick Tip to Solve: First identify the capital category asked for; subtract arrears only when calculating the paid-up amount.

26(vi). The amount of 'Share Capital' shown under 'Shareholders' Funds' in the Balance Sheet of Nisha Ltd. will be: [1 mark]

(A) Rs. 3,92,000

(B) Rs. 3,80,000

(C) Rs. 4,00,000

(D) Rs. 6,00,000

Correct Answer: (A) Rs. 3,92,000

Solution:

Concept:

- The face value is Rs 100 per share. Authorised capital is the registered limit; issued capital is the nominal value offered for subscription. Unpaid calls affect paid-up capital, not the authorised or issued amount.
- Calls in arrears are calls made but unpaid: defaulting shares $\times$ unpaid call per share.

Step 1: Apply the relevant capital category Total called-up capital is $4,000 \times 100 =$ Rs $4,00,000$. Calls unpaid by Amit are $200 \times 40 =$ Rs $8,000$, so paid-up share capital is Rs 4,00,000 less Rs 8,000.

Step 2: Check the amount and alternatives Thus the balance-sheet amount is Rs 3,92,000, also equal to fully paid capital Rs 3,80,000 plus partly paid capital Rs 12,000. Rs 4,00,000 ignores arrears; Rs 3,80,000 omits the partly paid shares; Rs 6,00,000 is authorised capital.

Step 3: Conclusion Rs 3,92,000. Hence, the correct option is (A).

Quick Tip to Solve: First identify the capital category asked for; subtract arrears only when calculating the paid-up amount.

Part B (20 marks)

Option – I

(Analysis of Financial Statements)

27(a). From the following, identify the incorrect statement related to 'Analysis of Financial Statements'. [1 mark]

(A) Financial statement analysis is used only by the creditors.

(B) Financial statement analysis does not take price level changes into consideration.

(C) Financial statement analysis ignores non-monetary aspects.

(D) Financial statement analysis helps to identify the reasons for change in profitability and financial position of the firm.

Correct Answer: (A) Financial statement analysis is used only by the creditors.

Solution:

Concept:

- Financial statement analysis evaluates profitability and financial position for users making economic decisions.

- Historical monetary statements have limitations: price-level changes and non-monetary factors are generally excluded.

Step 1: Identify the users Creditors are only one group of users. Shareholders, potential investors, management, employees and other interested parties also use financial statement analysis. Therefore the restriction to creditors alone is incorrect.

Step 2: Check the other statements Statements (B) and (C) describe recognised limitations of analysis based on financial statements. Statement (D) describes its purpose: comparing financial information helps explain changes in profitability and financial position. Thus these three statements do not meet the requirement to identify the incorrect statement.

Step 3: Conclusion The incorrect statement is (A): financial statement analysis is used only by the creditors.

Quick Tip to Solve: For an incorrect-statement MCQ, examine restrictive words such as "only" first.

OR

27(b). Choose the correct equation with respect to capital employed from the following: [1 mark]

(A) Capital Employed = Shareholders' funds - Non-current Liabilities

(B) Capital Employed = Non-current assets + Net working capital

(C) Capital Employed = Non-current assets - Net working capital

(D) Capital Employed = Share capital + Reserves and Surplus + Current Liabilities

Correct Answer: (B) Capital Employed = Non-current assets + Net working capital

Solution:

Concept:

- Capital employed is the long-term finance invested in the business.
- Net working capital equals current assets less current liabilities.

Step 1: Derive the assets-side formula Capital employed equals total assets less current liabilities. Splitting total assets into non-current and current assets gives

$$\text{Capital employed} = \text{Non-current assets} + (\text{Current assets} - \text{Current liabilities}).$$

The bracket is net working capital.

Step 2: Check each alternative Option (B) matches this identity. Option (A) subtracts non-current liabilities, whereas long-term debt is added to shareholders' funds in the financing approach. Option (C) wrongly subtracts net working capital. Option (D) includes current liabilities instead of non-current liabilities and therefore does not represent capital employed.

Step 3: Conclusion Capital employed = Non-current assets + Net working capital. Hence, the correct option is (B).

Quick Tip to Solve: Remember the paired identities: long-term funds, or total assets less current liabilities.

28. _____ will decrease Debt-Equity Ratio and will not change Current Ratio. [1 mark]

(A) Issue of equity shares for cash

(B) Issue of preference shares for cash

(C) Redemption of debentures

(D) Issue of shares for purchase of land and building

Correct Answer: (D) Issue of shares for purchase of land and building

Solution:

Concept:

- Debt-equity ratio = Long-term debt / Shareholders' funds.
- Current ratio = Current assets / Current liabilities.

Step 1: Analyse shares issued for fixed assets Issuing shares to acquire land and building increases shareholders' funds and non-current assets. Long-term debt is unchanged, so the larger denominator decreases the debt-equity ratio. Neither current assets nor current liabilities changes; hence the current ratio is unchanged.

Step 2: Eliminate the cash transactions Under (A) and (B), cash and shareholders' funds increase. Although the debt-equity ratio decreases, current assets increase and the current ratio changes. Under (C), redemption reduces long-term debt but also reduces cash; thus the current ratio changes. Only the direct exchange of shares for land and building satisfies both conditions.

Step 3: Conclusion Issue of shares for purchase of land and building satisfies both conditions. The correct option is (D).

Quick Tip to Solve: Trace each transaction through debt, equity, current assets and current liabilities separately.

29. Statement I: Purchase of goodwill is classified as investing activity in case of all types of enterprises.
Statement II: Payment of interest is classified as financing activity in case of all types of enterprises.
Choose the correct option from the following: [1 mark]

(A) Both statement I and statement II are true.

(B) Both statement I and statement II are false.

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

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

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

Solution:

Concept:

- Investing activities include cash purchases of long-term assets, including intangible assets.
- Interest paid is an operating cash flow for a financial enterprise and a financing cash flow for other enterprises.

Step 1: Evaluate Statement I Goodwill is an intangible non-current asset. Its cash purchase is acquisition of a long-term asset and is classified as an investing activity. This classification applies to

both financial and non-financial enterprises. Therefore Statement I is true.

Step 2: Evaluate Statement II and the options For a financial enterprise, paying interest is part of its principal revenue-producing operations and is an operating activity. For a non-financial enterprise, interest paid is a financing activity. Therefore the claim that interest payment is financing for all enterprises is false. Options (A), (B) and (C) have the wrong truth combination; only (D) matches.

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

Quick Tip to Solve: In interest-classification questions, first identify whether the enterprise is financial.

30(a). Manish Ltd. had balance in Provision for Taxation Account of Rs. 9,00,000 and Rs. 12,00,000 as on 31st March, 2023 and 2024 respectively. Provision for tax made during the year was Rs. 6,00,000. The amount of tax paid during the year was: [1 mark]

(A) Rs. 12,00,000

(B) Rs. 9,00,000

(C) Rs. 6,00,000

(D) Rs. 3,00,000

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

Solution:

Concept:

- Opening tax provision plus the provision made during the year equals tax paid plus closing tax provision.
- A provision is a liability; the expense created during the year need not equal the cash paid.

Step 1: Set up the provision movement The opening provision on 31st March, 2023 is Rs 9,00,000. The provision created during the year is Rs 6,00,000 and the closing provision on 31st March, 2024 is Rs 12,00,000. Hence,

$$\text{Tax paid} = \text{Opening provision} + \text{Provision made} - \text{Closing provision}.$$

Step 2: Substitute and check the options

$$\text{Tax paid} = 9,00,000 + 6,00,000 - 12,00,000 = \text{Rs } 3,00,000.$$

Options (A) and (B) merely repeat the closing and opening balances. Option (C) is the provision expense, not the payment: part of the expense increases the outstanding liability.

Step 3: Conclusion Tax paid during the year was Rs 3,00,000. Hence, the correct option is (D).

Quick Tip to Solve: Add the opening liability and current provision, then deduct the closing unpaid liability.

OR

30(b). Acquisition of machinery by issue of equity shares of Rs. 30,00,000 will result in: [1 mark]

(A) Cash inflow from investing activities Rs. 30,00,000

(B) Cash outflow from investing activities Rs. 30,00,000

(C) Cash outflow from financing activities Rs. 30,00,000

(D) No flow of cash

Correct Answer: (D) No flow of cash

Solution:

Concept:

- A cash flow requires an inflow or outflow of cash or cash equivalents.
- Non-cash investing and financing transactions are excluded from the cash flow statement and disclosed separately.

Step 1: Identify what is exchanged Machinery worth Rs 30,00,000 is acquired directly by issuing equity shares. The company receives machinery and gives shares to the supplier; it neither receives cash from investors nor pays cash to the machinery supplier.

Step 2: Determine the cash-flow treatment Although this transaction changes both a non-current asset and share capital, neither change involves cash or cash equivalents. Therefore it creates no cash flow. Options (A) and (B) incorrectly treat the acquisition as a cash investing transaction. Option (C) incorrectly assumes a financing cash payment. The non-cash transaction is disclosed separately from the cash flow statement.

Step 3: Conclusion There is no flow of cash. Hence, the correct option is (D).

Quick Tip to Solve: Ask whether cash actually moved; increases in assets and share capital alone do not prove a cash flow.

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

(i) Accrued Income

(ii) Work-in-progress

(iii) Capital Advances [3 marks]

Solution:

Concept:

- Schedule III classifies assets as non-current or current and then under their appropriate sub-heads.
- A classification follows the nature of the asset: accrued income is receivable, work-in-progress is inventory, and a capital advance relates to a capital asset.

Step 1: Classify accrued income Accrued income has been earned but has not yet been received. It represents a receivable and, in the normal operating context of this question, is shown under Current Assets, sub-head Other Current Assets. It is not cash already received and is not an inventory item.

Step 2: Classify work-in-progress Work-in-progress consists of partly completed goods held in the production process. It is shown under Current Assets, sub-head Inventories. Its incomplete state does not make it a fixed asset; it is part of stock that will ordinarily be completed and sold in the operating cycle.

Step 3: Classify capital advances Capital advances are amounts paid towards acquiring capital assets. They are shown under Non-current Assets, sub-head Long-term Loans and Advances. The capital purpose distinguishes them from advances relating to ordinary current operating expenditure.

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

Item	Major head	Sub-head
Accrued Income	Current Assets	Other Current Assets
Work-in-progress	Current Assets	Inventories
Capital Advances	Non-current Assets	Long-term Loans and Advances

Step 5: Conclusion Accrued Income: Current Assets–Other Current Assets; Work-in-progress: Current Assets–Inventories; Capital Advances: Non-current Assets–Long-term Loans and Advances.

Quick Tip to Solve: First decide current versus non-current, then identify the specific Schedule III sub-head.

32. From the following information, prepare a Comparative Statement of Profit and Loss for the year ended 31st March, 2023 and 2024:

Particulars	Note No.	2023-24 (Rs.)	2022-23 (Rs.)
Revenue from operations		50,00,000	40,00,000
Employee benefit expenses		7,50,000	5,00,000
Other expenses		27,50,000	20,00,000
Tax Rate 50%			

[3 marks]

Solution:

Concept:

- In a comparative statement, absolute change equals the current-year amount minus the previous-year amount. Percentage change equals absolute change divided by the previous-year amount, multiplied by 100.
- Profit before tax is revenue from operations less total expenses. Tax is 50% of profit before tax; profit after tax is the balance.

Step 1: Calculate expenses and profits for both years For 2022-23, total expenses are Rs $5,00,000 + 20,00,000 = 25,00,000$. Profit before tax is Rs $40,00,000 - 25,00,000 = 15,00,000$; tax and profit after tax are each Rs $7,50,000$.

For 2023-24, total expenses are Rs $7,50,000 + 27,50,000 = 35,00,000$. Profit before tax is Rs $50,00,000 - 35,00,000 = 15,00,000$; tax and profit after tax are each Rs $7,50,000$.

Step 2: Prepare the comparative statement Comparative Statement of Profit and Loss for the years ended 31st March, 2023 and 2024

Particulars	2022-23 (Rs)	2023-24 (Rs)	Increase (Rs)	Change (%)
Revenue from operations	40,00,000	50,00,000	10,00,000	25
Expenses:				
Employee benefit expenses	5,00,000	7,50,000	2,50,000	50
Other expenses	20,00,000	27,50,000	7,50,000	37.5
Total expenses	25,00,000	35,00,000	10,00,000	40
Profit before tax	15,00,000	15,00,000	0	0
Less: Tax at 50%	7,50,000	7,50,000	0	0
Profit after tax	7,50,000	7,50,000	0	0

For example, the increase in other expenses is $\frac{7,50,000}{20,00,000} \times 100 = 37.5\%$. All percentage changes use 2022-23 as the base.

Step 3: Conclusion Profit after tax is Rs $7,50,000$ in both years. Revenue increased by 25%, but the equal absolute increase in total expenses left profit unchanged.

Quick Tip to Solve: Place 2022-23 first as the base year; divide every increase by that same row's 2022-23 amount.

33(a). Calculate Current Assets and Quick Assets of a company from the following information:

Quick Ratio = 0.70 : 1

Inventory Turnover Ratio = 5 times

Inventory at the end was Rs. 20,000 more than inventory in the beginning

Gross Profit = Rs. 75,000

Current Liabilities = Rs. 80,000

Revenue from Operations = Rs. 4,00,000 [4 marks]

Solution:

Concept:

- Quick ratio equals quick assets divided by current liabilities. Quick assets exclude inventory and prepaid expenses from current assets; no prepaid expenses are given here.
- Inventory turnover ratio equals cost of revenue from operations divided by average inventory, where average inventory is half the sum of opening and closing inventory.

Step 1: Find quick assets from the quick ratio The given quick ratio is $0.70 : 1$ and current liabilities are Rs $80,000$. Hence,

$$\text{Quick assets} = \text{Quick ratio} \times \text{Current liabilities}$$
$$= 0.70 \times 80,000 = \text{Rs } 56,000.$$

This gives the liquid portion of current assets directly; inventory must be calculated separately before current assets can be obtained.

Step 2: Calculate cost of revenue and average inventory Gross profit is the excess of revenue from

operations over cost of revenue from operations. Therefore,

$$\text{Cost of revenue} = 4,00,000 - 75,000 = \text{Rs } 3,25,000.$$

Using the inventory turnover ratio of 5 times,

$$\text{Average inventory} = \frac{3,25,000}{5} = \text{Rs } 65,000.$$

Revenue itself is not the numerator of the inventory turnover ratio; its cost is required.

Step 3: Determine closing inventory and current assets Let opening inventory be Rs x. Closing inventory is then Rs $(x + 20,000)$. Thus,

$$\frac{x + (x + 20,000)}{2} = 65,000,$$
$$2x + 20,000 = 1,30,000,$$
$$x = 55,000.$$

Closing inventory is Rs $55,000 + 20,000 = 75,000$. Current assets are measured at the reporting date, so add closing inventory, rather than average inventory:

$$\text{Current assets} = 56,000 + 75,000 = \text{Rs } 1,31,000.$$

As a check, the average of Rs $55,000$ and Rs $75,000$ is Rs $65,000$, reproducing the turnover ratio.

Step 4: Conclusion Current Assets = Rs $1,31,000$; Quick Assets = Rs $56,000$.

Quick Tip to Solve: Closing inventory is average inventory plus half the Rs 20,000 increase: Rs 65,000 + Rs 10,000.

OR

33(b). Calculate 'Return on Investment' from the following information:
Net profit after interest and tax Rs. 6,00,000
10% Debentures Rs. 20,00,000
Capital employed Rs. 50,00,000
Tax rate 40% [4 marks]

Solution:

Concept:

- Return on investment (ROI) measures profit before interest and tax as a percentage of capital employed: ROI $= \frac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100$.
- Profit after tax equals profit before tax multiplied by $(1 - \text{tax rate})$. Debenture interest is added after reversing tax, since interest is deducted before tax is calculated.

Step 1: Reverse the tax deduction The net profit of Rs $6,00,000$ is after both interest and tax. At a

tax rate of 40%, this represents 60% of profit before tax, which is still after interest.

$$\begin{aligned}\text{Profit before tax} &= \frac{\text{Profit after tax} \times 100}{100 - 40} \\ &= \frac{6,00,000 \times 100}{60} = \text{Rs } 10,00,000.\end{aligned}$$

The corresponding tax expense is Rs $10,00,000 \times 40\% = 4,00,000$. Deducting it gives the stated net profit of Rs $6,00,000$; therefore the tax reversal is consistent.

Step 2: Add interest to obtain profit before interest and tax Annual interest on the 10% debentures is

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

Profit before tax has already had this interest deducted. Add it back to measure the earnings available on the total capital employed:

$$\begin{aligned}\text{Profit before interest and tax} &= 10,00,000 + 2,00,000 \\ &= \text{Rs } 12,00,000.\end{aligned}$$

Interest must be added after grossing up the after-tax profit; adding it to net profit first would incorrectly reverse tax on the interest as well.

Step 3: Calculate return on investment The question directly gives capital employed as Rs $50,00,000$. Use that total without adding the debentures again:

$$\text{ROI} = \frac{12,00,000}{50,00,000} \times 100 = 24\%.$$

The numerator is profit before financing costs and tax, matching the denominator that represents the business's total long-term capital.

Step 4: Conclusion Return on Investment is $\boxed{24\%}$.

Quick Tip to Solve: First divide Rs 6,00,000 by 0.60, then add Rs 2,00,000 interest before dividing by capital employed.

34. Calculate Cash Flows from Operating and Investing Activities on the basis of the information given in the Balance Sheet of Pari Ltd. as at 31st March, 2024.

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

Particulars	Note No.	31.03.2024 (Rs.)	31.03.2023 (Rs.)
I - Equity and Liabilities:			
1. Shareholders' Funds			
(a) Share Capital		10,00,000	5,00,000
(b) Reserves and Surplus	1	5,00,000	3,00,000
2. Non-Current Liabilities			
Long-term Borrowings	2	4,00,000	4,00,000
3. Current Liabilities			
(a) Short-term Borrowings	3	-	1,00,000
(b) Short-term Provisions	4	1,00,000	50,000
Total		20,00,000	13,50,000
II - Assets			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets		7,00,000	3,00,000
(b) Non-Current Investments		4,00,000	1,00,000
2. Current Assets			
(a) Inventories		2,00,000	2,50,000
(b) Trade Receivables		3,00,000	4,00,000
(c) Cash and Cash Equivalents		4,00,000	3,00,000
Total		20,00,000	13,50,000

Notes to Accounts:

Note	Particulars	31.03.2024 (Rs)	31.03.2023 (Rs)
1	Reserves and Surplus		
	General Reserve	2,00,000	1,50,000
	Surplus: Balance in Statement of Profit and Loss	3,00,000	1,50,000
	Total	5,00,000	3,00,000
2	Long-term Borrowings: 10% Debentures	4,00,000	4,00,000
3	Short-term Borrowings: Bank Overdraft	-	1,00,000
4	Short-term Provisions: Provision for Taxation	1,00,000	50,000

[6 marks]

Solution:

Concept:

- Under the indirect method, operating cash flow adjusts profit for non-operating items and changes in operating working capital.
- Interest paid on debentures is a financing cash flow; purchases of fixed assets and non-current investments are investing cash flows.
- Tax paid is deducted from cash generated from operations.

Step 1: Reconstruct profit before tax The increase in surplus is $3,00,000 - 1,50,000 = \text{Rs } 1,50,000$. Transfer to general reserve is $2,00,000 - 1,50,000 = \text{Rs } 50,000$. Hence profit after tax before this appropriation is Rs 2,00,000. The previous year's tax provision is treated as paid during the year and

the closing provision as the current year's tax charge.

$$\text{Profit before tax} = 2,00,000 + 1,00,000 = \text{Rs } 3,00,000.$$

Debenture interest is $4,00,000 \times 10\% = \text{Rs } 40,000$. It is added back because its cash payment belongs to financing activities.

Step 2: Calculate operating cash flow Cash Flow Statement of Pari Ltd. (Operating Activities), year ended 31st March, 2024

Particulars	Amount (Rs)
Net profit before tax	3,00,000
Add: Interest on debentures	40,000
Operating profit before working capital changes	3,40,000
Add: Decrease in inventories (2,50,000 - 2,00,000)	50,000
Add: Decrease in trade receivables (4,00,000 - 3,00,000)	1,00,000
Cash generated from operations	4,90,000
Less: Income tax paid	(50,000)
Net cash from operating activities	4,40,000

Reductions in inventory and receivables release cash. The bank overdraft is a borrowing, so its repayment is excluded from operating working capital.

Step 3: Calculate investing cash flow No depreciation, disposal or other adjustment to non-current assets is given. Therefore the increases represent cash purchases.

Cash Flow Statement of Pari Ltd. (Investing Activities), year ended 31st March, 2024

Particulars	Amount (Rs)
Purchase of property, plant, equipment and intangible assets	(4,00,000)
Purchase of non-current investments	(3,00,000)
Net cash used in investing activities	(7,00,000)

The purchases equal $7,00,000 - 3,00,000$ and $4,00,000 - 1,00,000$, respectively.

Step 4: Cross-check the cash movement Share capital increased by Rs 5,00,000. After repayment of the Rs 1,00,000 bank overdraft and interest payment of Rs 40,000, financing cash inflow is Rs 3,60,000. Thus net cash increase is

$$4,40,000 - 7,00,000 + 3,60,000 = \text{Rs } 1,00,000,$$

which agrees with cash and cash equivalents increasing from Rs 3,00,000 to Rs 4,00,000.

Step 5: Conclusion Net cash from operating activities is $\boxed{\text{Rs } 4,40,000}$; net cash used in investing activities is $\boxed{\text{Rs } 7,00,000}$.

Quick Tip to Solve: Add the reserve transfer back when reconstructing profit, and classify debenture interest as financing.

Option – II (Computerised Accounting)

27(a). What is the outcome of an arithmetic expression or function called? [1 mark]

(A) Horizontal vector

(B) Derived value

(C) Basic value

(D) Vertical vector

Correct Answer: (B) Derived value

Solution:

Concept:

- A basic value is entered directly as data; a derived value is calculated from existing data.
- An arithmetic expression or a function transforms its inputs into a calculated output.

Step 1: Identify the calculated output The outcome comes from evaluating an expression or applying a function, so it is obtained from the supplied values rather than entered independently. For example, adding two cell values produces a calculated result.

Step 2: Compare the alternatives A derived value describes this calculated output. A basic value is an original input. Horizontal and vertical vectors describe arrangements of data across a row or down a column, so neither names the outcome of a calculation.

Step 3: Conclusion The outcome is a derived value. Hence, the correct option is (B).

Quick Tip to Solve: Distinguish the original input from the result calculated using that input.

OR

27(b). How are 'absolute cell reference' and 'mixed cell reference' identified in Excel? [1 mark]

(A) Using # sign

(B) Using ~ sign

(C) Using $ sign

(D) Using £ sign

Correct Answer: (C) Using $ sign

Solution:

Concept:

- The dollar sign ($) fixes a row or column in a spreadsheet reference.
- An absolute reference fixes both coordinates; a mixed reference fixes only one.

Step 1: Recognise the reference notation In `$A$1`, both column A and row 1 are fixed. In `$A1`, only the column is fixed; in `A$1`, only the row is fixed. Thus the same sign identifies absolute and mixed references.

Step 2: Check the alternatives The signs #, ~ and £ do not lock a cell coordinate when a formula is copied. The dollar sign is placed immediately before whichever coordinate must remain fixed.

Step 3: Conclusion Both are identified using the $ sign. Hence, the correct option is (C).

Quick Tip to Solve: Look for the dollar sign immediately before the fixed row or column.

28. How many categories of function are available in Excel 2007? [1 mark]

(A) 2

(B) 6

(C) 12

(D) 7

Correct Answer: (C) 12

Solution:

Concept:

- Excel 2007 groups built-in functions by their purpose to help users select an appropriate calculation.
- A function category is a group of functions; it is different from an individual function.

Step 1: Recall the classification Excel 2007 provides twelve categories of functions in the classification used for computerised accounting. Examples of purpose-based groups include financial, logical, text, date and time, lookup and reference, and mathematical functions.

Step 2: Match the number to the options The required count is 12, which appears in option (C). The counts 2, 6 and 7 do not give the complete classification; counting only a few familiar groups would understate the total.

Step 3: Conclusion There are 12 categories of functions. Hence, the correct option is (C).

Quick Tip to Solve: Count categories of functions, rather than the individual functions in one category.

29(a). What is the result for the following function based on the data provided?

1	A	B
2	4.23	Mango
3	4.62	Orange
4	5.86	Banana
5	7.94	Pear

= LOOKUP(8,A2:A5,B2:B5)

= LOOKUP(3.5,A2:A5,B2:B5) [1 mark]

(A) Pear, #N/A

(B) Pear, Mango

(C) #N/A, Mango

(D) #N/A, #N/A

Correct Answer: (A) Pear, #N/A

Solution:

Concept:

- With ascending lookup values, LOOKUP returns the result corresponding to the largest value not exceeding the lookup value.
- If the lookup value is smaller than every value in the lookup vector, LOOKUP returns `#N/A`.

Step 1: Evaluate the first expression The lookup vector is $4.23, 4.62, 5.86, 7.94$, in ascending order. For lookup value 8, the largest eligible entry is 7.94, whose corresponding result in column B is Pear. A value above the last entry therefore still produces a result.

Step 2: Evaluate the second expression The lookup value 3.5 is smaller than the smallest entry, 4.23. There is no eligible entry at or below it, so the result is `#N/A`, not Mango. The alternatives giving an error for 8 or Mango for 3.5 fail these lookup rules.

Step 3: Conclusion The results, in order, are Pear and `#N/A`. Hence, the correct option is (A).

Quick Tip to Solve: Compare each lookup value with the smallest and largest entries before searching inside the vector.

OR

29(b). What is used to build single formula with multiple results in Excel? [1 mark]

(A) Derived value

(B) Vectors

(C) Round()

(D) Array

Correct Answer: (D) Array

Solution:

Concept:

- An array is a collection of values processed together in a spreadsheet formula.
- An array formula can perform calculations on several values and return multiple results from one formula.

Step 1: Identify the required feature The question specifies a single formula with multiple results. This is the characteristic use of an array formula: it works with a collection of values and can supply a corresponding collection of calculated outputs.

Step 2: Eliminate the other choices A derived value names a calculated output, rather than the formula structure. A vector names a one-dimensional arrangement of values. ROUND() rounds a number to a specified precision. An array supplies the structure used to build the required multiple-result formula.

Step 3: Conclusion An array is used. Hence, the correct option is (D).

Quick Tip to Solve: Associate one formula returning several outputs with an array formula.

30. Identify the error which will be displayed on screen when the set of co-ordinates that a cell occupies on a worksheet is invalid. [1 mark]

(A) Correct a # NAME ? Error

(B) Correct # REF ! Error

(C) Correct a # N/A Error

(D) Correct a ##### Error

Correct Answer: (B) Correct # REF ! Error

Solution:

Concept:

- A cell reference identifies a cell by its column and row. An invalid reference means that a formula no longer points to a valid cell or range.
- Spreadsheet error codes distinguish invalid references, unrecognised names, unavailable values and display-width problems.

Step 1: Identify the error caused by an invalid reference The error #REF! appears when a formula contains an invalid cell reference. For example, deleting a row or column to which a formula refers

may make that reference invalid. Thus the stated invalid set of worksheet co-ordinates indicates a reference error.

Step 2: Eliminate the other codes #NAME? indicates an unrecognised name or text in a formula, while #N/A indicates that a required value is unavailable. A series of hash signs usually means that the column is too narrow to display the cell value. These are different from an invalid cell address.

Step 3: Conclusion The required error is #REF! Hence, the correct option is (B).

Quick Tip to Solve: Link REF to reference: if a formula points to a deleted or invalid cell address, choose the reference error.

31. Explain 'cell reference', 'relative cell reference' and 'absolute cell reference'. [3 marks]

Solution:

Concept:

- A spreadsheet cell lies at the intersection of a column and a row. A formula can use the cell address to obtain its stored value.
- Relative references change with the position of a copied formula; absolute references keep both the column and row fixed.

Step 1: Cell reference A cell reference is the address or set of co-ordinates identifying a particular cell in a worksheet. It is normally formed from the column letter followed by the row number: B5 means the cell in column B and row 5. A formula such as =B5*2 uses the value stored in B5 rather than requiring that value to be entered again.

Step 2: Relative cell reference A relative cell reference changes automatically when a formula is copied to another cell, according to the change in its position. For example, if the formula =A1+B1 in C1 is copied one row down to C2, it becomes =A2+B2. Both references move down by one row. This allows the same calculation to be applied to successive records.

Step 3: Absolute cell reference An absolute cell reference remains fixed when a formula is copied. A dollar sign is placed before both the column letter and the row number, for example A1. If =B2*A1 is copied one row down, it becomes =B3*A1. The reference to the common rate in A1 remains unchanged, although B2 changes relatively to B3.

Step 4: Conclusion A cell reference identifies a cell; a relative reference such as A1 adjusts on copying, whereas an absolute reference such as A1 stays fixed.

Quick Tip to Solve: When copying a formula, move an ordinary address by the copying distance; keep both parts fixed if each has a dollar sign.

32. Explain the following:

(i) Contra voucher

(ii) Post-dated voucher

(iii) Receipt voucher [3 marks]

Solution:

Concept:

- In a computerised accounting system, a voucher is the input record used to enter a transaction with its date, accounts and amount.
- Voucher types distinguish the nature of a transaction or the date on which it is intended to become effective.

Step 1: Contra voucher A contra voucher records a transfer between cash and bank accounts, or between the business's own bank accounts. Examples include cash deposited into the bank, cash withdrawn from the bank for office use, and funds transferred from one bank account to another. It records an internal movement of funds, rather than an income or expense.

Step 2: Post-dated voucher A post-dated voucher is entered with a date later than the current date. It is used to record a transaction that is to take effect on that future date, such as an entry relating to a post-dated cheque. It does not affect the current books before its effective date; when that date is reached, it becomes effective in the accounting records.

Step 3: Receipt voucher A receipt voucher records money received by the business in cash or through a bank. It identifies the cash or bank account receiving the amount and the corresponding account from which or on account of which it is received. For example, collection from a debtor or receipt of commission can be entered through a receipt voucher.

Step 4: Conclusion A contra voucher records internal transfers of cash or bank funds, a post-dated voucher records a future-effective transaction, and a receipt voucher records money received.

Quick Tip to Solve: Classify the event first: own cash/bank transfer means contra, money coming in means receipt, and a future effective date means post-dated.

33(a). Explain 'customised' and 'tailored' accounting softwares. [4 marks]

Solution:

Concept:

- Accounting software must suit the organisation's transactions, reporting needs, size and control requirements.
- Customisation adapts an existing package, whereas tailoring develops software specifically for a particular organisation.

Step 1: Customised accounting software Customised accounting software is an existing ready-made accounting package modified to meet the requirements of a particular user. The basic software is already available, but its features, input formats, reports or other settings are changed to suit the organisation. For example, an existing package may be adapted to produce an organisation-specific

invoice or an additional management report. It is useful when a standard package broadly meets the business's needs but requires some changes. The cost and time involved in these modifications depend on their extent; the business still works within the basic structure of the original package.

Step 2: Tailored accounting software Tailored accounting software is designed and developed specifically for a particular organisation after studying its accounting requirements. Its transaction processing, controls, data structure and reporting facilities are built around that organisation's operations. For example, an enterprise with a special production and branch-accounting system may commission a dedicated package integrating those activities. Such software can closely meet complex or specialised needs, but development usually takes more time and costs more than obtaining an existing package. It also requires testing, trained personnel and continuing maintenance or developer support.

Step 3: Distinguish their basis The starting point of customised software is a package already in existence, which is then adapted. The starting point of tailored software is the organisation's own requirements, on the basis of which a dedicated system is developed. Thus both aim to fit the user's needs, but the method of obtaining that fit is different.

Step 4: Conclusion Customised software modifies an existing accounting package for the user; tailored software is developed specifically to meet the accounting requirements of a particular organisation.

Quick Tip to Solve: Ask what existed first: an existing package modified for the user is customised; software developed for that user is tailored.

OR

33(b). What is meant by 'data validation'? What is facilitated by 'Error Alert tab'? [4 marks]

Solution:

Concept:

- Data validation checks whether an entry meets rules specified for a cell before it is accepted as valid data.
- An error alert provides feedback when a user directly enters a value that violates a validation rule; its style determines whether the user can proceed.

Step 1: Meaning of data validation Data validation is the spreadsheet facility used to define and enforce restrictions on the type and range of data entered in selected cells. The user specifies a condition, and a new entry is checked against that condition. For example, a quantity cell may allow only whole numbers from 1 to 100, a transaction-date cell may allow dates within the accounting year, and a category cell may allow selection only from a specified list. Thus validation helps prevent unsuitable entries at the point of data entry and promotes consistent accounting records. It checks compliance with the chosen rule; it does not establish that an otherwise permitted entry is factually correct.

Step 2: Facilities of the Error Alert tab The Error Alert tab in the Data Validation dialog box facilitates the display and customisation of an error message when invalid data is entered. The user can enable

the option to show an error alert after invalid data is entered, select the alert style, and specify a suitable title and explanatory error message. For example, the title may be “Invalid quantity” and the message may be “Enter a whole number between 1 and 100.”

The three styles are Stop, Warning and Information. Stop rejects the invalid entry and requires it to be corrected or cancelled. Warning alerts the user but allows the entry to be accepted if the user chooses to continue. Information informs the user of the violation and also permits continuation. Choosing the appropriate style therefore determines how strictly a validation rule is enforced during direct entry.

Step 3: Conclusion Data validation restricts entries according to specified conditions. The Error Alert tab sets the alert style, title and message displayed for an invalid entry, including whether the user may continue with it.

Quick Tip to Solve: Distinguish the validation rule from the alert: Settings defines acceptable data, while Error Alert controls the response to an invalid entry.

34. Which error occurs when a column is not wide enough or a negative date or time is used? How can this error be corrected, if:

(i) Error is due to the width of the column?

(ii) Date and time are negative numbers? [6 marks]

Solution:

Concept:

- A spreadsheet stores numerical values separately from their displayed number formats; the available column width must accommodate the formatted value.
- The ##### display appears when a formatted number cannot fit in its column or when a negative date or time cannot be displayed in the selected date/time system.

Step 1: Identify the error The error is the hash or overflow display, #####. The number of hash symbols visible depends on the width of the cell. It can appear because the column is too narrow for the complete formatted numeric value, or because the cell contains a negative date or time which cannot be represented in the selected date/time format. Therefore, the same display has two possible causes, and the correction depends on which cause applies.

Step 2: Correct an error caused by insufficient column width Increase the width of the affected column until the entire value is visible. Position the mouse pointer on the right boundary of the column heading and drag the boundary to the right. Alternatively, double-click that boundary to AutoFit the column to its contents, or use the column-width/AutoFit command from the Format menu. For example, a long currency amount may need extra space for its digits, commas, currency symbol and decimal places.

If the layout requires a narrow column, reduce the displayed decimal places or choose an appropriate shorter number format, provided the required precision of the displayed information is preserved. Widening the column changes the space available for display; it does not alter the stored numerical value or the underlying formula.

Step 3: Correct an error caused by negative date or time values Check both the entered dates or times

and the formula producing the result. Correct an incorrectly entered date or time. If a subtraction has been entered in the wrong order, subtract the earlier date/time from the later date/time so that the intended elapsed duration is non-negative. For instance, an elapsed-time calculation should normally use finishing time minus starting time; a duration crossing midnight must also account for the change of day.

If a negative difference is intentional and must be retained, change the cell format from Date or Time to General or Number. The cell then displays the negative numerical value instead of attempting to display an unsupported negative calendar date or time. Dates are stored as serial numbers and times as fractions of a day, so the displayed number must be interpreted in those units. Merely widening a column cannot correct an unsupported negative date/time value.

Step 4: Conclusion The display is #####. For case (i), widen or AutoFit the column. For case (ii), correct the date/time entry or calculation to obtain the intended valid value; if a negative difference is required, use General or Number format to display it numerically.

Quick Tip to Solve: First AutoFit the column. If hashes remain, inspect the date/time value and formula; extra width cannot display an unsupported negative date or time.