CBSE Class 12 Accountancy Question Paper 2025 with Solution PDF-Set 67-S-2 - 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. 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:

- Under pro-rata allotment, excess application money is adjusted towards the amount due on allotment.
- Fresh cash on allotment is the allotment due less the excess application money available for adjustment, subject to a minimum of zero.

Step 1: Calculate the excess application money Application money received on 2,00,000 shares is $2,00,000 \times 30 = \text{Rs } 60,00,000$. Application money required on the 80,000 allotted shares is $80,000 \times 30 = \text{Rs } 24,00,000$.

$$\text{Excess application money} = 60,00,000 - 24,00,000 = \text{Rs } 36,00,000.$$

Step 2: Adjust the allotment dues Allotment due is $80,000 \times 20 = \text{Rs } 16,00,000$. The excess application money of Rs 36,00,000 covers the entire amount due, so no additional cash is received at allotment. Option (A) is the gross allotment due, (B) is application money required, and (D) is the first and final call due; none represents fresh allotment receipts.

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

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

2. 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:

- Forfeiture cancels the share capital already called up on the forfeited shares.
- Share Capital Account is debited with the number of forfeited shares multiplied by their called-up capital per share, excluding securities premium.

Step 1: Identify the capital to be cancelled The company has credited Share Capital Account only with the amount called up. Forfeiture reverses that credit for the shares concerned. Therefore, the debit must equal called-up capital whether or not the shareholder has paid all the calls.

Step 2: Distinguish the other amounts The unpaid amount is credited to the relevant unpaid call accounts, while the capital amount already received is credited to Share Forfeiture Account. Hence neither unpaid capital nor paid-up capital is the Share Capital debit. Face value is used only when the shares have been fully called up; it is not the general rule. These distinctions rule out (A), (B) as a universal answer, and (C).

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: Ask how much capital was called, not how much was paid; uncalled capital is never cancelled by a debit.

3. 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 is reversed, and the corresponding increase in divisible profit is credited in the profit-sharing ratio.
- For fixed capitals, such adjustments are made through partners' current accounts.

Step 1: Calculate each partner's net adjustment **Working Notes:** The excess rate is $10\% - 8\% = 2\%$. Excess interest credited to Kamal, Vimal and Nirmal is Rs 6,000, Rs 4,000 and Rs 2,000 respectively. Reversing it restores Rs 12,000 to profit, allocated in the ratio $5 : 3 : 2$ as Rs 6,000, Rs 3,600 and Rs 2,400. Thus Kamal has no net adjustment; Vimal is debited Rs 400 and Nirmal credited Rs 400.

Step 2: Record the correcting entry Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Vimal's Current A/c Dr.		400	
	To Nirmal's Current A/c			400
	(Being excess interest on capital rectified after adjusting the consequent profit distribution)			

Options (A), (B) and (D) incorrectly give Kamal a net adjustment; his reversal and restored profit share exactly offset each other.

Step 3: Conclusion Vimal's Current Account is debited Rs 400 and Nirmal's Current Account credited Rs 400. Hence, the correct option is (C).

Quick Tip to Solve: Offset the interest reversal against the extra profit share for each partner before drafting the single adjustment entry.

4. 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 first receives the normal share of profit; a shortfall below the guarantee is the deficiency.
- Where no separate guarantor or deficiency-sharing ratio is stated, the other partners bear the deficiency in their mutual profit-sharing ratio.

Step 1: Compute Jain's deficiency Jain's normal profit share is $1,80,000 \times \frac{2}{6} = \text{Rs } 60,000$. His guaranteed amount is Rs 80,000, so the deficiency to be borne by the other partners is

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

Step 2: Allocate the deficiency to the other partners Mathur and Verma bear the Rs 20,000 deficiency in their mutual ratio $3 : 1$. Verma's burden is $20,000 \times \frac{1}{4} = \text{Rs } 5,000$. Rs 15,000 is Mathur's burden, while Rs 20,000 is the total deficiency. Nil is incorrect because Verma participates in meeting the guarantee.

Step 3: Conclusion The deficiency borne by Verma is Rs 5,000. Hence, the correct option is (B).

Quick Tip to Solve: Exclude the guaranteed partner from the deficiency-sharing ratio: Mathur and Verma share this shortfall in 3:1.

5. 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:

- An asset taken over by a partner is valued at the agreed amount, after applying the stated discount to that partner's portion.
- Amounts realised by selling the remaining asset to outsiders are separate from the partner's takeover value.

Step 1: Find the book value of Gaurav's portion Only one-third of the building is taken over by Gaurav. Its proportionate book value is

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

The remaining two-thirds has a book value of Rs 14,00,000.

Step 2: Apply the takeover discount A discount of 20% means that Gaurav pays 80% of his portion's book value:

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

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 proceeds of the remaining portion at 10% profit. None is Gaurav's takeover amount.

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

Quick Tip to Solve: First isolate the one-third portion, then apply its 20% discount; the 10% profit belongs only to the remaining portion.

6. 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:

- Equal monthly drawings made at month-end remain outstanding for 11, 10, ..., 0 months, giving an average period of 5.5 months.
- If annual drawings are D, interest is $I = D \times \frac{r}{100} \times \frac{5.5}{12}$, where r is the annual interest rate.

Step 1: Identify the correct average period The first withdrawal, at the end of April, attracts interest for 11 months; the last, at the end of March, attracts none. Since every withdrawal is equal, the average period is $(11+0)/2 = 5.5$ months. A six-month or 6.5-month average would apply to different withdrawal timings.

Step 2: Recover the total annual drawings Substitute the given interest and rate:

$$6,600 = D \times \frac{10}{100} \times \frac{5.5}{12}.$$

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

This corresponds to Rs 12,000 each month. Rs 1,32,000 uses a six-month average, and approximately Rs 1,21,846 uses 6.5 months. Rs 1,20,000 would yield only Rs 5,500 interest at the correct timing.

Step 3: Conclusion Ranjeet's annual drawings are Rs 1,44,000. Hence, the correct option is (B).

Quick Tip to Solve: Use 5.5 months for equal month-end drawings; solve for annual drawings before dividing by twelve if monthly drawings are needed.

7(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's sacrifice equals the old profit share minus the new profit share.
- A positive difference is a sacrifice; a negative difference is a gain. Compare fractions of the whole profit, not the ratio numbers alone.

Step 1: Express Seema's old and new shares The old ratio $4 : 3 : 1$ has a total of 8 parts, so Seema's old share is $3/8$. The new ratio $3 : 1 : 4$ also has 8 parts, so her new share is $1/8$. Use the middle term in both ratios because Seema is named second.

Step 2: Calculate and interpret the difference

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

Her share decreases, so the result is a sacrifice, not a gain. Option (A), $1/8$, is her new share rather than the reduction. Options (C) and (D) incorrectly describe a gain; Atul, not Seema, gains $3/8$.

Step 3: Conclusion Seema sacrifices $2/8$, or $1/4$, of the profit. Hence, the correct option is (B).

Quick Tip to Solve: For the partner named, write old share minus new share; a positive answer immediately identifies a sacrifice.

OR

7(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:

- A continuing partner's gain equals the new profit share minus the old profit share.
- The gaining ratio compares these increases, and the total gain must equal the retiring partner's old share.

Step 1: Calculate Rohan's and Suman's gains The old ratio totals $3+2+2=7$ and the new ratio totals $4+3=7$. Rohan's gain is

$$\frac{4}{7}-\frac{3}{7}=\frac{1}{7}.$$

Suman's gain is

$$\frac{3}{7}-\frac{2}{7}=\frac{1}{7}.$$

Step 2: Form the ratio and verify the total Their gaining ratio is $\frac{1}{7}:\frac{1}{7}=1:1$. Together they gain $2/7$, exactly Piyush's old share. The new profit-sharing ratio $4:3$ and their old mutual ratio $3:2$ are not the ratio of the increases; $2:1$ also does not match the equal gains.

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

Quick Tip to Solve: Calculate each survivor's new share minus old share; do not mistake the new ratio for the gaining ratio.

8(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 capital amount forfeited on the shares being reissued.
- Capital received equals called-up capital less unpaid calls; an uncalled amount is neither a receipt nor an arrear.

Step 1: Determine the capital already received The final call of Rs 2 per share has not been made. Thus the called-up amount is $10 - 2 = \text{Rs } 8$ per share. Of this, the first call of Rs 2 is unpaid, so the amount received and forfeited is $8 - 2 = \text{Rs } 6$ per share.

Step 2: Calculate the permissible reissue discount All 1,000 forfeited shares are concerned, giving a Share Forfeiture credit of

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

This credit is the ceiling on the reissue discount. Rs 2,000 is the unpaid first call, Rs 8,000 is called-up capital, and Rs 4,000 combines two different amounts of Rs 2 per share; none measures the capital actually received.

Step 3: Conclusion The maximum discount on reissue is Rs 6,000. Hence, the correct option is (A).

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

OR

8(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 at the end of a specified period or by instalments during the company's lifetime.
- Classification by repayment is different from classification by conversion, security or coupon rate.

Step 1: Identify the basis of classification The statement specifies when the principal will be repaid: after a fixed period, either in one lump sum or through instalments. Such a definite repayment arrangement is the defining feature of redeemable debentures.

Step 2: Distinguish the other descriptions Convertible debentures give a right to convert the debt into shares. Secured debentures are backed by a charge on assets. A specific coupon rate describes the interest payable. None of these three descriptions identifies the fixed repayment period stated in the question.

Step 3: Conclusion The blank is filled by redeemable debentures. Hence, the correct option is (B).

Quick Tip to Solve: Look for the repayment date or instalment schedule: either identifies a redeemable debenture.

9. 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 comprises discount on issue, if any, plus premium payable on redemption.
- Issue premium is credited separately to Securities Premium Account; it does not reduce the initial debit for loss on issue.

Step 1: Calculate the redemption premium The nominal value of the issue is $40,000 \times$ Rs $100 =$ Rs $40,00,000$. The redemption premium is therefore

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

Step 2: Determine the initial loss debit The debentures are issued at a premium, so there is no discount on issue. Thus the loss debit equals the redemption premium alone. The issue premium of $40,00,000 \times 5\% =$ Rs $2,00,000$ is a separate credit; any later use of securities premium to write off the loss does not change its initial recognition. The other amounts do not equal the required redemption premium.

Step 3: Conclusion Loss on Issue of Debenture Account is debited by Rs 4,00,000. Hence, the correct option is (D).

Quick Tip to Solve: For the initial loss debit, add issue discount and redemption premium; keep issue premium separate.

10. 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 less normal profit; goodwill equals super profit multiplied by the agreed years of purchase.

Step 1: Find normal profit The capital employed is Rs 5,00,000 and its normal return is 10%. Hence

$$\text{Normal profit} = 5,00,000 \times \frac{10}{100} = \text{Rs } 50,000.$$

This is the profit an ordinary firm would earn on the same capital.

Step 2: Calculate super profit and goodwill The firm earns Rs 2,10,000, so its excess earning is

$$\text{Super profit} = 2,10,000 - 50,000 = \text{Rs } 1,60,000.$$

Capitalise this excess at two years' purchase:

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

The equal profit-sharing ratio does not enter this firm-level valuation. None of the other choices equals twice the excess over normal profit.

Step 3: Conclusion The goodwill of the firm is Rs 3,20,000. Hence, the correct option is (D).

Quick Tip to Solve: Subtract the normal return of Rs 50,000 first; multiply only the resulting super profit by two.

11(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:

- Capital implied by the incoming partner equals the capital brought divided by that partner's profit share.
- Hidden goodwill equals implied total capital less the combined actual capital of the old and new partners.

Step 1: Infer the total capital Chaman contributes Rs 5,00,000 for a $1/4$ share. The implied capital of the whole firm is therefore

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

This is the capitalised value of the firm, not its goodwill.

Step 2: Deduct the actual combined capital The old partners' net assets are $20,00,000 - 12,00,000 =$ Rs $8,00,000$. Add Chaman's fresh contribution to find the actual combined capital:

$$8,00,000 + 5,00,000 = \text{Rs } 13,00,000.$$

Thus hidden goodwill is

$$20,00,000 - 13,00,000 = \text{Rs } 7,00,000.$$

Rs 13,00,000 is actual capital, Rs 20,00,000 is implied total capital, and Rs 8,00,000 is the old partners' net capital; none is goodwill.

Step 3: Conclusion The goodwill of the firm on Chaman's admission is Rs 7,00,000. Hence, the correct option is (D).

Quick Tip to Solve: Include the new partner's cash in actual capital before deducting it from the implied total capital.

OR

11(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	Account No.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Revaluation A/c ... Dr.		63,000	
To Furniture A/c			63,000

(B)

Particulars	Account No.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Furniture A/c ... Dr.		70,000	
To Revaluation A/c			70,000

(C)

Particulars	Account No.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Revaluation A/c ... Dr.		70,000	
To Furniture A/c			70,000

(D)

Particulars	Account No.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Furniture A/c ... Dr.		63,000	
To Revaluation A/c			63,000

Correct Answer: (B)

Particulars	Account No.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Furniture A/c ... Dr.		70,000	
To Revaluation A/c			70,000

Solution:

Concept:

- An undervalued asset must be increased to its correct value; the increase is a gain credited to Revaluation Account.
- If furniture is undervalued by 10%, its recorded value is 90% of its correct value.

Step 1: Find the increase in furniture Let the correct value be V. Since the book value is 10% below that value,

$$0.90V = 6,30,000, \qquad V = \frac{6,30,000}{0.90} = \text{Rs } 7,00,000.$$

Therefore the increase is $7,00,000 - 6,30,000 = \text{Rs } 70,000$. Simply taking 10% of the recorded value would give Rs 63,000 and use the wrong base.

Step 2: Record the upward revaluation The furniture asset increases, so Furniture Account is debited. The gain is credited to Revaluation Account. Options (A) and (C) reverse these accounts; option (D) uses the wrong amount.

Journal

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

Step 3: Conclusion Furniture Account is debited and Revaluation Account is credited by Rs 70,000. Hence, the correct option is (B).

Quick Tip to Solve: For furniture undervalued by 10%, divide its book value by 90% before finding the increase.

12(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 part of uncalled capital reserved to be called only on winding up.
- Issued capital, called-up capital and paid-up capital describe different stages of share subscription and collection.

Step 1: Identify the special restriction The defining condition is that the relevant uncalled amount can be called only when the company is wound up. This distinguishes reserve capital from ordinary

uncalled capital that may be called during the company's normal operations. Option (A) states precisely this restriction.

Step 2: Compare the remaining options Option (B) defines issued capital: the amount of authorised capital offered for subscription. Option (C) describes called-up capital: the subscribed amount the company has demanded. Option (D) describes paid-up capital: the called amount actually received. None describes an amount reserved for a call only at winding up.

Step 3: Conclusion Reserve capital is the portion of uncalled capital to be called only in the event of winding up. Hence, the correct option is (A).

Quick Tip to Solve: Associate reserve capital with an uncalled amount and the winding-up restriction, not with cash received.

OR

12(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 the face value of the debentures at the stated coupon rate.
- Issue premium changes the proceeds received, but does not change the nominal amount on which coupon interest is payable.

Step 1: Identify the interest-bearing principal The company issues 7,000 debentures of Rs 100 each. Their total nominal value is

$$7,000 \times 100 = \text{Rs } 7,00,000.$$

The 10% premium belongs to securities premium; it is not part of the principal used to calculate the 9% coupon.

Step 2: Apply the coupon for the full year The issue is made on 1st April, 2023 and the year ends on 31st March, 2024, so interest runs for 12 months. Thus

$$\text{Interest} = 7,00,000 \times \frac{9}{100} \times \frac{12}{12} = \text{Rs } 63,000.$$

Rs 70,000 would apply the premium rate as if it were the coupon; Rs 90,000 and Rs 35,000 also do not follow from the nominal value, 9% rate and full-year period.

Step 3: Conclusion The total interest on debentures is Rs 63,000. Hence, the correct option is (B).

Quick Tip to Solve: Use Rs 7,00,000 face value and the 9% coupon; the 10% issue premium is irrelevant to interest.

13. There are two statements, Assertion (A) and Reason (R).

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, one capital account is maintained for each partner.
- Capital contributions, withdrawals and periodic adjustments all affect that same capital account; a separate current account is unnecessary.

Step 1: Evaluate Assertion (A) The assertion is correct. Under the fluctuating capital method, each partner has one capital account for capital and routine partnership adjustments. Its balance changes as those transactions are recorded.

Step 2: Evaluate Reason (R) The reason is also correct. Profit shares, interest on capital, and partner salary or commission are credited directly to capital; drawings, interest on drawings, and loss shares are debited directly. These adjustments therefore make the capital balance fluctuate.

Step 3: Check the explanatory connection Recording every such adjustment in the capital account removes the need for a separate current account. Thus the reason directly explains why only one account is maintained. Option (B) wrongly denies this connection; options (C) and (D) wrongly treat one of the true statements as false.

Step 4: Conclusion Both Assertion (A) and Reason (R) are correct, and Reason (R) correctly explains Assertion (A). Hence, the correct option is (A).

Quick Tip to Solve: For an assertion-reason item, check both truths and then ask whether recording all adjustments explains the single account.

14. Ramesh and Jugesh are partners in a firm. On 1st July 2023, Jugesh advanced a loan of Rs. 2,00,000 to the firm. There is no partnership deed. On 31st March, 2024, Jugesh was entitled to get interest on loan amounting to: [1 mark]

(A) Rs. 12,000

(B) Rs. 9,000

(C) Nil

(D) Rs. 20,000

Correct Answer: (B) Rs. 9,000

Solution:

Concept:

- In the absence of an agreement, a partner's loan to the firm carries interest at 6% per annum.
- Loan interest is a charge against profit and is distinct from interest on a partner's capital.

Step 1: Identify the rate and loan period There is no partnership deed, so the applicable rate on Jugesh's loan is 6% per annum. The loan was advanced on 1st July, 2023; the period through 31st March, 2024 is nine months. A full year's interest is therefore not payable.

Step 2: Calculate the amount due Using simple interest,

$$\text{Interest} = 2,00,000 \times \frac{6}{100} \times \frac{9}{12} = \text{Rs } 9,000.$$

Rs 12,000 would be interest for an entire year and overstates the period. Nil confuses loan interest with interest on capital, which is not allowed without an agreement. Rs 20,000 uses neither the applicable rate nor the correct time fraction.

Step 3: Conclusion Jugesh is entitled to interest on his loan of Rs 9,000. Hence, the correct option is (B).

Quick Tip to Solve: With no deed, use 6% on a partner's loan and count nine months from July to March.

15(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 minus the new share of total profits.
- Convert each ratio into fractions using its own total before subtracting; ratio terms alone are not

profit shares.

Step 1: Express A's old and new shares The old ratio totals $3+2+1=6$, so A's old share is $3/6$. The new ratio totals $2+2+1+1=6$, so A's new share is $2/6$.

Step 2: Calculate and check the sacrifice

$$\text{A's sacrifice} = \frac{3}{6} - \frac{2}{6} = \frac{1}{6}.$$

B and C retain $2/6$ and $1/6$ respectively, so A alone supplies D's $1/6$ share. Nil is incorrect because A's share decreases. The fractions $3/6$ and $2/6$ are A's old and new shares, not the difference between them.

Step 3: Conclusion A sacrifices $1/6$ of the firm's profits. Hence, the correct option is (A).

Quick Tip to Solve: Since both ratios total six, subtract A's numerators: $(3-2)/6 = 1/6$.

OR

15(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:

- Each existing partner's new share equals the old share less the share surrendered to the incoming partner.
- The new shares of all partners must total one; convert their fractions to a ratio after finding the remaining shares.

Step 1: Find the remaining shares Anya's old share is $5/7$ and Sanya's is $2/7$. Vanya acquires the specified fractions directly from them:

$$\text{Anya's new share} = \frac{5}{7} - \frac{2}{7} = \frac{3}{7},$$
$$\text{Sanya's new share} = \frac{2}{7} - \frac{1}{7} = \frac{1}{7}.$$

Step 2: Form and verify the new ratio Vanya has $3/7$, so the new ratio is $3/7 : 1/7 : 3/7 = 3 : 1 : 3$. The shares total $7/7 = 1$. Option (A) swaps Anya's and Sanya's shares. Options (B) and (D) retain the

old partners' ratio terms without deducting the specified sacrifices and do not give Vanya her stated share.

Step 3: Conclusion Anya, Sanya and Vanya share future profits in the ratio $3 : 1 : 3$. Hence, the correct option is (C).

Quick Tip to Solve: Subtract each stated sacrifice separately; do not divide Vanya's share in the old ratio when its sources are given.

16. 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:

- On admission, an existing workmen's compensation reserve is applied against the compensation liability determined on that date.
- Any liability exceeding that reserve is a revaluation loss, borne by the old partners in their old profit sharing ratio.

Step 1: Find the uncovered liability The reserve covers Rs 4,00,000 of the claim of Rs 4,40,000. Therefore,

$$\text{Excess claim} = 4,40,000 - 4,00,000 = \text{Rs } 40,000.$$

This additional liability reduces the net assets attributable to the old partners.

Step 2: Identify the account to debit Debit Revaluation Account with Rs 40,000; the reserve is used for the remaining Rs 4,00,000. The resulting loss belongs to Manav and Adi in $5 : 3$, not to the newly admitted Roy. Realisation Account is used on dissolution. Bank is affected on actual payment and is credited for cash paid, not debited to recognise an additional claim.

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 becomes a debit to Revaluation Account on admission.

17. Pass necessary journal entries for the following transactions in the books of Shivam, Sharma and Srijan at the time of dissolution of the firm after various assets (other than cash) and external liabilities have been transferred to Realisation Account:

(i) The firm had a balance of Rs. 5,40,000 in General Reserve on the date of dissolution.

(ii) Sharma was appointed to look after the dissolution process for which he was given remuneration of Rs. 60,000.

(iii) Srijan had given a loan of Rs. 50,000 to the firm which was fully settled at Rs. 48,000. [3 marks]

Solution:

Concept:

- Accumulated reserves belong to the partners and are transferred directly to their capital accounts in the profit sharing ratio. In the absence of a stated agreement, profits are shared equally.
- Remuneration payable to a partner for conducting dissolution is charged to Realisation Account and credited to that partner's capital account.
- A partner's loan is settled separately from capital. Any discount accepted on its settlement is a gain credited to Realisation Account.

Step 1: Prepare working notes **Working Notes:** No profit sharing ratio is stated, so Shivam, Sharma and Srijan share General Reserve equally:

$$\text{Reserve per partner} = \frac{5,40,000}{3} = \text{Rs } 1,80,000.$$

Sharma's remuneration is Rs 60,000. Srijan's loan liability of Rs 50,000 is discharged by paying Rs 48,000, creating a realisation gain of $50,000 - 48,000 = \text{Rs } 2,000$.

Step 2: Record the reserve distribution **Journal of Shivam, Sharma and Srijan**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		5,40,000	
	To Shivam's Capital A/c			1,80,000
	To Sharma's Capital A/c			1,80,000
	To Srijan's Capital A/c			1,80,000
	(Being general reserve distributed equally among the partners)			

The reserve is an accumulated profit, so it is not credited to Realisation Account.

Step 3: Record remuneration and loan settlement **Journal of Shivam, Sharma and Srijan (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		60,000	
	To Sharma's Capital A/c			60,000
	(Being remuneration due to Sharma for conducting dissolution)			
	Srijan's Loan A/c Dr.		50,000	
	To Bank A/c			48,000
	To Realisation A/c			2,000
	(Being Srijan's loan settled at a discount of Rs 2,000)			

The loan account is debited with its full balance so that no loan liability remains. The bank credit

records only the amount actually paid.

Step 4: Conclusion Credit each partner's capital with Rs 1,80,000 for reserve, credit Sharma's capital with Rs 60,000 remuneration, and settle Srijan's Rs 50,000 loan with Rs 48,000 paid and Rs 2,000 credited to Realisation Account.

Quick Tip to Solve: Keep reserves, remuneration and partner loans distinct: reserve goes directly to capitals, remuneration is a realisation expense, and the loan discount is a realisation gain.

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18. 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 excess of the agreed settlement over a retiring partner's adjusted capital represents that partner's share of goodwill.
- Continuing partners compensate the retiring partner for goodwill in their gaining ratio by debiting their capital accounts and crediting the retiring partner's capital account.

Step 1: Calculate Neel's share of goodwill **Working Notes:** Neel's adjusted capital is Rs 10,00,000, whereas his agreed settlement is Rs 22,00,000. Therefore,

$$\text{Neel's goodwill share} = 22,00,000 - 10,00,000 = \text{Rs } 12,00,000.$$

This Rs 12,00,000 is already Neel's share; it must not be multiplied by his old share again. If required, the implied total goodwill would be $12,00,000 \div (1/5) = \text{Rs } 60,00,000$.

Step 2: Determine the continuing partners' gains Since no new ratio is specified, Lalit and Madhur continue in their old relative ratio $2 : 2 = 1 : 1$. Each now receives half the profits and previously received $2/5$:

$$\text{Gain of each} = \frac{1}{2} - \frac{2}{5} = \frac{1}{10}.$$

The gaining ratio is $1 : 1$, so each bears $12,00,000/2 = \text{Rs } 6,00,000$ of Neel's goodwill compensation.

Step 3: Record goodwill adjustment and final payment **Journal of Lalit, Madhur and Neel**

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 share adjusted through continuing partners' capitals in their gaining ratio of 1:1)		6,00,000 6,00,000	 12,00,000
	Neel's Capital A/c Dr. To Bank A/c (Being final payment made to Neel in full settlement of his claim)		22,00,000	 22,00,000

Neel's capital is credited with Rs 12,00,000 in addition to its adjusted Rs 10,00,000 balance. The debit of Rs 22,00,000 on payment closes his capital account.

Step 4: Conclusion Debit Lalit's and Madhur's capital accounts by Rs 6,00,000 each and credit Neel's capital by Rs 12,00,000 for goodwill. Then debit Neel's capital and credit Bank by Rs 22,00,000 for final settlement.

Quick Tip to Solve: Settlement less adjusted capital gives the retiring partner's goodwill share directly; charge that excess to the gaining partners before recording payment.

19(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 is capital employed multiplied by the normal rate of return. Super profit is average profit less normal profit.
- Under capitalisation of super profits, goodwill equals super profit multiplied by $100/r$, where r is the normal rate expressed as a percentage.
- Under capitalisation of average profits, goodwill equals the capitalised value of average profits less net assets employed in the business.

Step 1: Calculate normal profit and super profit **Working Notes:** Average annual profit is already given as Rs 20,00,000; it is not divided by four again. Capital employed is Rs 25,00,000 and the

normal return is 20%.

$$\text{Normal profit} = 25,00,000 \times \frac{20}{100} = \text{Rs } 5,00,000,$$
$$\text{Super profit} = 20,00,000 - 5,00,000 = \text{Rs } 15,00,000.$$

Super profit measures earnings above the normal return on the existing capital.

Step 2: Apply capitalisation of super profits Capitalise the excess annual earnings at the normal return:

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

This is the capital value which would earn Rs 15,00,000 per year at 20%.

Step 3: Apply capitalisation of average profits First calculate the total capital justified by the firm's average annual earnings, then deduct its actual net assets:

$$\text{Capitalised value} = 20,00,000 \times \frac{100}{20} = \text{Rs } 1,00,00,000,$$
$$\text{Goodwill} = 1,00,00,000 - 25,00,000 = \text{Rs } 75,00,000.$$

Both methods agree because the capital employed used for normal profit equals the stated net assets of Rs 25,00,000.

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

Quick Tip to Solve: At a normal return of 20%, capitalise by multiplying by five. Under the average-profit method, subtract net assets only after capitalising the average profit.

OR

19(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 is written off by debiting all partners' capital accounts in their old profit-sharing ratio, because it belongs to the old partnership.
- The retiring partner's share of the newly valued goodwill is credited to that partner and debited to the continuing partners in their gaining ratio. Goodwill is not raised in the books.

Step 1: Calculate the write-off and goodwill adjustment **Working Notes**

The old ratio of A, B and C is $2:3:1$. Hence the existing goodwill of Rs 3,00,000 is written off as follows:

$$\text{A's debit} = 3,00,000 \times \frac{2}{6} = \text{Rs } 1,00,000,$$
$$\text{B's debit} = 3,00,000 \times \frac{3}{6} = \text{Rs } 1,50,000,$$
$$\text{C's debit} = 3,00,000 \times \frac{1}{6} = \text{Rs } 50,000.$$

No new ratio is given, so A and C continue in their relative old ratio of $2:1$. Their gains are:

$$\text{A: } \frac{2}{3} - \frac{2}{6} = \frac{1}{3}, \qquad \text{C: } \frac{1}{3} - \frac{1}{6} = \frac{1}{6}.$$

The gaining ratio is therefore $2:1$. B's share of goodwill is

$$5,40,000 \times \frac{3}{6} = \text{Rs } 2,70,000.$$

A bears $2,70,000 \times 2/3 = \text{Rs } 1,80,000$, and C bears $2,70,000 \times 1/3 = \text{Rs } 90,000$.

Step 2: Record the goodwill entries **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 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 the old ratio of $2:3:1$)			
1 April 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 through the gaining partners' capital accounts in the ratio $2:1$)			

Step 3: Conclusion Existing goodwill of Rs 3,00,000 is eliminated. B receives a goodwill credit of Rs 2,70,000, borne by A and C at Rs 1,80,000 and Rs 90,000 respectively. The net goodwill-related increase in B's capital is Rs 1,20,000 after the old goodwill write-off.

Quick Tip to Solve: First remove the old goodwill in the old ratio; then compensate B using the full revalued goodwill and the gaining ratio. Do not use only the increase in goodwill.

20(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:

- When a business is purchased, acquired assets are debited, assumed liabilities are credited, and the vendor is credited with the purchase consideration. Goodwill is the excess of consideration over net assets.
- Shares issued to settle a vendor's claim are valued at their issue price. Face value is credited to Equity Share Capital and the excess to Securities Premium.

Step 1: Calculate goodwill and the number of shares **Working Notes**

The assets acquired are Rs 15,00,000, while the liabilities taken over are Rs 17,00,000. Thus net assets are negative:

$$\text{Net assets} = 15,00,000 - 17,00,000 = -\text{Rs } 2,00,000.$$

Goodwill equals the consideration less net assets:

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

The cheque payment is $30,00,000 \times 40\% = \text{Rs } 12,00,000$, leaving Rs 18,00,000 to be settled through shares. Each Rs 100 share carries a premium of $100 \times 50\% = \text{Rs } 50$, so its issue price is Rs 150.

$$\text{Number of shares} = 18,00,000 \div 150 = 12,000,$$
$$\text{Share capital} = 12,000 \times 100 = \text{Rs } 12,00,000,$$
$$\text{Securities premium} = 12,000 \times 50 = \text{Rs } 6,00,000.$$

Step 2: Journalise the purchase and its settlement **Journal of Aman Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		15,00,000	
	Goodwill A/c Dr.		32,00,000	
	To Sundry Liabilities A/c			17,00,000
	To Kamini Ltd. A/c			30,00,000
	(Being assets and liabilities of Kamini Ltd. taken over for the agreed consideration, the excess over net assets being goodwill)			
	Kamini Ltd. A/c Dr.		30,00,000	
	To Bank A/c			12,00,000
	To Equity Share Capital A/c			12,00,000
	To Securities Premium A/c			6,00,000
	(Being purchase consideration settled by cheque and issue of 12,000 fully paid equity shares of Rs 100 each at a premium of Rs 50 per share)			

The first entry balances at Rs 47,00,000 on each side. The second entry credits Rs 30,00,000 in total, clearing the vendor's account.

Step 3: Conclusion Aman Ltd. records goodwill of Rs 32,00,000 and settles the Rs 30,00,000 consideration by paying Rs 12,00,000 through bank and issuing 12,000 equity shares at Rs 150 each, including securities premium of Rs 6,00,000.

Quick Tip to Solve: Keep the negative net assets when computing goodwill. Divide the share-settled balance by Rs 150, the issue price, rather than by the Rs 100 face value.

OR

20(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 the net assets acquired exceed the purchase consideration, the difference is credited to Capital Reserve. The purchase consideration remains the amount payable to the vendor.
- Debentures issued at a discount settle the vendor's claim at their issue price. The Debentures account is credited with nominal value, and the discount is separately debited.

Step 1: Determine capital reserve and debenture details **Working Notes**

The acquired assets are Rs 20,00,000 and the assumed liabilities are Rs 1,00,000. Therefore,

$$\text{Net assets} = 20,00,000 - 1,00,000 = \text{Rs } 19,00,000,$$
$$\text{Capital reserve} = 19,00,000 - 18,00,000 = \text{Rs } 1,00,000.$$

Half of the consideration, $18,00,000 \times 1/2 = \text{Rs } 9,00,000$, is paid through a bank draft. The remaining Rs 9,00,000 is settled by debentures. The issue price per debenture is $100 - 10\% \times 100 = \text{Rs } 90$.

$$\text{Number of debentures} = 9,00,000 \div 90 = 10,000,$$
$$\text{Nominal value} = 10,000 \times 100 = \text{Rs } 10,00,000,$$
$$\text{Discount on issue} = 10,00,000 - 9,00,000 = \text{Rs } 1,00,000.$$

The 12% is the annual interest rate; the 10% discount determines the issue price used to settle the vendor's balance.

Step 2: Record the acquisition and settlement **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 of Nabha Ltd. acquired, the excess of net assets over consideration credited to capital reserve)			
	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 consideration settled by bank draft and issue of 10,000 debentures of Rs 100 each at 10% discount)			

The acquisition entry balances at Rs 20,00,000 and the settlement entry at Rs 19,00,000. Nabha Ltd.'s account is thereby cleared.

Step 3: Conclusion Astha Ltd. credits Capital Reserve with Rs 1,00,000. It pays Rs 9,00,000 by bank draft and issues 10,000 debentures with a nominal value of Rs 10,00,000, recording discount on issue of Rs 1,00,000.

Quick Tip to Solve: Divide the unpaid Rs 9,00,000 by the Rs 90 issue price. Keep the Rs 1,00,000 capital reserve from purchase separate from the Rs 1,00,000 debenture discount.

21. Pass necessary journal entries for the issue of 12% Debentures in the books of Horizon Ltd. in the following cases:

(i) Issued 3,000, 12% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium of 5%.

(ii) Issued 1,000, 12% Debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%. [4 marks]

Solution:

Concept:

- Debentures are credited with their face value. Bank is debited with the issue proceeds actually received.
- Loss on Issue of Debentures includes discount on issue and premium payable on redemption. Premium received on issue is credited separately to Securities Premium Reserve.
- For face value F, discount rate d and redemption-premium rate r, cash proceeds are $F(1-d)$, and the loss on a discounted issue is $F(d+r)$.

Step 1: Calculate the amounts for case (i) The face value is $3,000 \times$ Rs $100 =$ Rs $3,00,000$. The issue discount is $10\% \times$ Rs $3,00,000 =$ Rs $30,000$; therefore cash received is Rs 2,70,000. The premium due on redemption is $5\% \times$ Rs $3,00,000 =$ Rs $15,000$. Both costs are recognised on issue, so Loss on Issue of Debentures is Rs 45,000.

Step 2: Record the discounted issue **Journal of Horizon Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,70,000	
	Loss on Issue of Debentures A/c Dr.		45,000	
	To 12% Debentures A/c			3,00,000
	To Premium on Redemption of Debentures A/c			15,000
	(Being 3,000 debentures of Rs 100 issued at 10% discount, redeemable at 5% premium)			

Step 3: Calculate the amounts for case (ii) Here the face value is $1,000 \times$ Rs $100 =$ Rs $1,00,000$. The 5% issue premium of Rs 5,000 increases the bank receipt to Rs 1,05,000. The 10% redemption premium is Rs 10,000 and is recorded as a loss and a liability at the time of issue. The issue premium is shown separately in Securities Premium Reserve; it is not netted against the debenture liability.

Step 4: Record the issue at a premium **Journal of Horizon Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,05,000	
	Loss on Issue of Debentures A/c Dr.		10,000	
	To 12% Debentures A/c			1,00,000
	To Securities Premium Reserve A/c			5,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being 1,000 debentures of Rs 100 issued at 5% premium, redeemable at 10% premium)			

The entry totals are Rs 3,15,000 for case (i) and Rs 1,15,000 for case (ii), on each side. The stated 12% is the coupon rate; no interest payment is asked for at issue.

Step 5: Conclusion Case (i): Bank Rs 2,70,000 and loss Rs 45,000. Case (ii): Bank Rs 1,05,000, loss Rs 10,000 and Securities Premium Reserve Rs 5,000. The debenture liabilities are credited at face value, with redemption premiums recorded separately.

Quick Tip to Solve: First calculate all percentages on face value: issue terms determine cash, while redemption premium creates a separate liability and loss.

22. Kohli, Kamal and Bansal were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 5. Their Balance Sheet as at 31st March, 2024 was as follows:

Balance Sheet of Kohli, Kamal and Bansal as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	12,00,000	Cash in hand	21,00,000
Bills Payable	14,00,000	Cash at Bank	12,00,000
General Reserve	12,00,000	Debtors	13,70,000
Capitals:		Stock	16,30,000
Kohli 20,00,000		Plant and Machinery	1,75,000
Kamal 12,00,000		Investment	13,25,000
Bansal 8,00,000	40,00,000		
	78,00,000		78,00,000

Kamal died on 30th June, 2024. As per the partnership agreement, the executor of Kamal was entitled to:

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

(ii) Interest on capital which amounted to Rs. 60,000.

(iii) His share of goodwill which was Rs. 4,00,000.

(iv) His share of profit from the date of the last Balance Sheet upto the date of death which amounted to Rs. 1,00,000.

(v) Kamal's executors were paid half the amount due immediately and the balance was to be paid in two equal yearly instalments along with interest @ 12% p.a.

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

Solution:

Concept:

- At death, accumulated reserves and all amounts due to the deceased partner are credited to the deceased partner's Capital Account before transferring the balance to the executor.
- The deceased partner's share of goodwill is borne by the continuing partners in their gaining ratio. With no new ratio stated, Kohli and Bansal continue in their old relative ratio, $3 : 5$.
- Interest on an unpaid executor's loan is calculated on the outstanding principal; repayment of principal reduces the interest base for the next year.

Step 1: Prepare the working notes **Working Notes**

Kamal's share of General Reserve is Rs $12,00,000 \times 2/10 =$ Rs $2,40,000$. Kohli and Bansal receive Rs

3,60,000 and Rs 6,00,000 respectively. The continuing partners' gains are

$$\frac{3}{8}-\frac{3}{10}=\frac{3}{40}, \qquad \frac{5}{8}-\frac{5}{10}=\frac{5}{40}.$$

Thus the gaining ratio is $3:5$. Goodwill of Rs 4,00,000 is borne by Kohli, Rs 1,50,000, and Bansal, Rs 2,50,000. The amount due to Kamal is

$$\begin{aligned}\text{Capital due} &= 12,00,000+2,40,000+60,000\\ &\quad +4,00,000+1,00,000=\text{Rs } 20,00,000.\end{aligned}$$

Half, Rs 10,00,000, is payable immediately; Rs 10,00,000 remains as the executor's loan.

Step 2: Distribute the reserve and credit interest **Journal of Kohli, Kamal and Bansal**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-6-24	General Reserve A/c Dr. To Kohli's Capital A/c To Kamal's Capital A/c To Bansal's Capital A/c (Being General Reserve distributed in the old ratio of 3:2:5)		12,00,000	 3,60,000 2,40,000 6,00,000
30-6-24	Interest on Capital A/c Dr. To Kamal's Capital A/c (Being interest on Kamal's capital credited up to his death)		60,000	 60,000

Step 3: Adjust goodwill and profit up to death **Journal (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-6-24	Kohli's Capital A/c Dr. Bansal's Capital A/c Dr. To Kamal's Capital A/c (Being Kamal's goodwill share adjusted through the gaining partners' capitals in 3:5)		1,50,000 2,50,000	 4,00,000
30-6-24	Profit and Loss Suspense A/c Dr. To Kamal's Capital A/c (Being Kamal's share of profit up to death credited to his capital)		1,00,000	 1,00,000

Step 4: Transfer and settle the amount due **Journal (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-6-24	Kamal's Capital A/c Dr. To Kamal's Executor's A/c (Being total amount due transferred to the executor)		20,00,000	20,00,000
30-6-24	Kamal's Executor's A/c Dr. To Bank A/c (Being half the amount due paid immediately)		10,00,000	10,00,000
30-6-24	Kamal's Executor's A/c Dr. To Kamal's Executor's Loan A/c (Being unpaid balance transferred to a loan repayable in two equal yearly instalments with 12% interest)		10,00,000	10,00,000

The opening capital of Rs 12,00,000 is already in the books and needs no fresh entry. The question asks for entries on death, so future loan interest is not accrued on 30 June 2024. Each annual principal instalment will be Rs 5,00,000. Interest for the first year is Rs 1,20,000 on Rs 10,00,000 and for the second year is Rs 60,000 on Rs 5,00,000; the respective future payments will be Rs 6,20,000 and Rs 5,60,000.

Step 5: Conclusion Kamal's executor is entitled to Rs 20,00,000: Rs 10,00,000 is paid immediately and Rs 10,00,000 is transferred to the executor's loan, repayable as two yearly principal instalments of Rs 5,00,000 plus interest at 12% p.a.

Quick Tip to Solve: Include the deceased partner's share of General Reserve before halving the amount payable; apply future interest only to unpaid principal.

23. 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]

23(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:

- Authorised capital is the maximum share capital with which a company is registered; it is distinct from the shares actually issued.
- For authorised shares, nominal capital equals their number multiplied by face value.

Step 1: Identify the registered capital Nisha Ltd. is registered with capital of Rs 6,00,000 in shares of Rs 100 each. This corresponds to $6,00,000/100 = 6,000$ authorised shares. The Rs 6,00,000 already denotes their total nominal value.

Step 2: Distinguish the alternative amounts Option (B), Rs 4,00,000, is the nominal value of 4,000 shares actually issued, not the authorised limit. Option (C) incorrectly multiplies the registered capital by Rs 100 again. Option (D), Rs 3,60,000, is not the registered capital. Amit's unpaid call affects paid-up capital, not authorisation.

Step 3: Conclusion The authorised capital shown in Notes to Accounts is Rs 6,00,000, comprising 6,000 shares of Rs 100 each. Hence, the correct option is (A).

Quick Tip to Solve: Use the capital stated at registration for authorised capital; the issue size and unpaid calls do not change it.

23(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:

- Issued capital is the face value of the shares offered by the company for subscription.
- Issued capital = Number of shares issued $\times$ Face value per share. Unpaid calls do not reduce issued capital.

Step 1: Calculate the nominal value issued Nisha Ltd. issued 4,000 shares of Rs 100 each. Therefore,

$$\text{Issued capital} = 4,000 \times \text{Rs } 100 = \text{Rs } 4,00,000.$$

The fact that the issue was fully subscribed confirms that all these issued shares were taken up.

Step 2: Separate issue size from other capital figures Rs 6,00,000 in option (B) is authorised capital. Rs 3,92,000 in option (D) deducts the unpaid call of $200 \times \text{Rs } 40 = \text{Rs } 8,000$ and represents paid-up share capital, not issued capital. Rs 3,60,000 in option (A) also fails to equal the face value of 4,000 issued shares.

Step 3: Conclusion Issued capital is Rs 4,00,000, comprising 4,000 shares of Rs 100 each. Hence, the

correct option is (C).

Quick Tip to Solve: Multiply issued shares by face value first; deduct calls in arrears only when calculating paid-up capital.

23(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:

- Subscribed capital is separately disclosed for fully paid shares and shares that are not fully paid.
- For partly paid shares, show the called-up nominal amount less calls unpaid to obtain the paid-up amount included in the share capital note.

Step 1: Identify the shares that are not fully paid Only Amit's 200 shares are not fully paid. Their nominal called-up value is $200 \times \text{Rs } 100 = \text{Rs } 20,000$. Application and allotment, Rs 30 each, have been received on these shares; only the Rs 40 first and final call is unpaid.

Step 2: Deduct the call unpaid on these shares Calls unpaid are $200 \times \text{Rs } 40 = \text{Rs } 8,000$. Thus the amount shown for subscribed but not fully paid shares is

$$\text{Rs } 20,000 - \text{Rs } 8,000 = \text{Rs } 12,000.$$

Option (B) is their gross nominal value before deducting arrears. Option (C), Rs 3,80,000, belongs to the other 3,800 fully paid shares. Option (A), Rs 3,92,000, combines both paid-up categories.

Step 3: Conclusion The amount of subscribed and not fully paid-up capital is Rs 12,000, representing 200 shares with Rs 60 paid per share. Hence, the correct option is (D).

Quick Tip to Solve: Isolate Amit's 200 shares, then multiply by Rs 60 actually paid; do not include the other 3,800 fully paid shares.

23(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:

- Subscribed and fully paid capital comprises shares on which the entire called face value has been received.
- Shares with an unpaid call are disclosed separately as subscribed but not fully paid; they are not included in the fully paid category.

Step 1: Identify the fully paid shares All 4,000 shares were subscribed, but Amit has not paid the final call on 200 shares. Therefore, the number of fully paid shares is $4,000 - 200 = 3,800$. Application and allotment receipts on Amit's shares do not make those shares fully paid.

Step 2: Calculate the fully paid capital Each of the 3,800 fully paid shares has a face value of Rs 100. Thus,

$$\text{Fully paid capital} = 3,800 \times 100 = \text{Rs } 3,80,000.$$

Rs 20,000 is the face value of the 200 partly paid shares, while Rs 12,000 is their paid-up amount. Rs 3,92,000 includes both the fully paid capital and the paid-up portion of those 200 shares, so it is not the fully paid category alone.

Step 3: Conclusion Subscribed and fully paid capital is Rs 3,80,000. Hence, the correct option is (B).

Quick Tip to Solve: Remove Amit's 200 shares from the share count before multiplying by Rs 100 to find the fully paid category.

23(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:

- Calls in arrears are amounts called by the company but not received from shareholders by the due date.
- Arrears are calculated using the unpaid instalment per share, rather than the face value or the amount already received.

Step 1: Identify the unpaid instalment Application of Rs 30 and allotment of Rs 30 per share were received in full. Only Amit failed to pay the first and final call of Rs 40 per share on his 200 shares. Therefore, only this call creates arrears.

Step 2: Multiply by the defaulting shares

$$\text{Calls in arrears} = 200 \times 40 = \text{Rs } 8,000.$$

Rs 12,000 is the application and allotment money already received on Amit's shares, and Rs 20,000 is their full face value. Neither is the unpaid call. Nil is incorrect because the final call has been made and remains unpaid by Amit.

Step 3: Conclusion Calls in arrears amount to Rs 8,000. Hence, the correct option is (C).

Quick Tip to Solve: Multiply the 200 defaulting shares by the unpaid call of Rs 40, ignoring instalments already received.

23(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:

- Share capital presented under Shareholders' Funds is the paid-up amount of subscribed capital, after deducting calls in arrears from called-up capital.
- Authorised capital is the registered ceiling and issued capital is the nominal value offered; neither automatically equals paid-up capital.

Step 1: Calculate called-up capital and arrears The whole face value of Rs 100 has been called on all 4,000 subscribed shares. Called-up capital is therefore $4,000 \times 100 = \text{Rs } 4,00,000$. Amit's unpaid call is $200 \times 40 = \text{Rs } 8,000$; application and allotment were received in full.

Step 2: Determine the amount shown in the Balance Sheet

$$\text{Share capital} = 4,00,000 - 8,000 = \text{Rs } 3,92,000.$$

This also equals Rs 3,80,000 on fully paid shares plus Rs 12,000 received on Amit's shares. Rs 3,80,000 omits that latter amount. Rs 4,00,000 ignores the arrears, while Rs 6,00,000 is authorised capital and does not represent the amount paid up.

Step 3: Conclusion Share capital under Shareholders' Funds is Rs 3,92,000. Hence, the correct option is (A).

Quick Tip to Solve: Deduct only Amit's unpaid Rs 8,000 from called-up capital; do not remove the money already paid on his shares.

24(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 means allotting shares proportionately. Excess application money is transferred to Share Allotment and reduces the subsequent cash payable.
- Share Capital records only called-up nominal value. Securities Premium records the premium separately; premium due but unpaid is reversed when shares are forfeited.
- Share Forfeiture records capital money already received. Discount on reissue is debited to this account and the surplus on shares reissued is transferred to Capital Reserve.

Step 1: Compute the pro-rata adjustment and default **Working Notes**

The premium is $10\% \times \text{Rs } 10 = \text{Rs } 1$ per share. Allotment of Rs 3 comprises Rs 2 capital and Rs 1 premium. Thus Rs 5 of nominal capital is called up: Rs 3 on application and Rs 2 on allotment. The first and final call of Rs 5 has not been made, so no entry for that call is required.

$$\text{Application received} = 1,40,000 \times 3 = \text{Rs } 4,20,000,$$
$$\text{Application capital} = 1,00,000 \times 3 = \text{Rs } 3,00,000,$$
$$\text{Excess adjusted} = 4,20,000 - 3,00,000 = \text{Rs } 1,20,000.$$

The applicant allotted 1,000 shares applied for $1,000 \times 1,40,000/1,00,000 = 1,400$ shares and paid Rs 4,200. Of this, Rs 3,000 is application capital and Rs 1,200 is adjusted against allotment. Hence his unpaid allotment is $3,000 - 1,200 = \text{Rs } 1,800$. The excess is adjusted against allotment capital first: the unpaid amount comprises Rs 800 capital and Rs 1,000 premium. Consequently, capital received and forfeited is Rs 4,200, and unpaid premium of Rs 1,000 is reversed.

$$\text{Allotment cash received} = 3,00,000 - 1,20,000 - 1,800 = \text{Rs } 1,78,200.$$

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,40,000 shares at Rs 3 each)		4,20,000	 4,20,000

	Share Application A/c Dr.
	  To Share Capital A/c
	  To Share Allotment A/c
	(Being application money transferred to capital and excess adjusted towards allotment)
			4,20,000	
				3,00,000
				1,20,000

	Share Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being allotment due on 1,00,000 shares at Rs 3 each, including premium of Rs 1)
			3,00,000	
				2,00,000
				1,00,000

	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Allotment A/c (Being allotment received after excess application adjustment, except Rs 1,800 transferred to Calls-in-Arrears)		1,78,200 1,800	 1,80,000

Step 3: Record forfeiture, reissue and capital reserve Forfeiture removes $1,000 \times 5 =$ Rs $5,000$ of called-up capital and the unpaid premium. Reissue as Rs 5 paid up for Rs 4 means cash of Rs 4,000 and a discount of Rs 1,000, which is within the forfeited amount of Rs 4,200. All forfeited shares are reissued, so the remaining $4,200 - 1,000 =$ Rs $3,200$ is a capital profit.

Journal of Hira Ltd. (continued)

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

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Calls-in-Arrears A/c
	  To Share Forfeiture A/c
	(Being 1,000 shares forfeited for unpaid allotment and unpaid premium reversed)
			5,000
			1,000
				
				1,800
				4,200

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 1,000 forfeited shares reissued to Shashi at Rs 4 each as Rs 5 paid up)		4,000 1,000	 5,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue transferred to Capital Reserve)		3,200	 3,200

Step 4: Conclusion Calls-in-Arrears of Rs 1,800 is cleared on forfeiture; Rs 1,000 unpaid premium is reversed. The forfeited capital is Rs 4,200, reissue discount is Rs 1,000 and the transfer to Capital Reserve is Rs 3,200. No first and final call entry arises.

Quick Tip to Solve: For the defaulting allottee, first find 1,400 shares applied for. Adjust the Rs 1,200 excess against allotment capital before separating unpaid capital and premium.

OR

24(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:

- On forfeiture, debit Share Capital with the called-up nominal capital, credit unpaid calls, and credit Share Forfeiture with the capital amount already received.
- Reissue discount is debited to Share Forfeiture. Only the surplus relating to shares actually reissued is transferred to Capital Reserve; the balance on unreissued shares remains in Share Forfeiture.
- Premium already received is retained in Securities Premium Reserve. It is not reversed when forfeiture is solely for a later unpaid call.

Step 1: (i) Calculate the forfeiture and reissue amounts for Krisha Ltd. **Working Notes:** Called-up capital is $1,000 \times 10 = \text{Rs } 10,000$. Capital received is Rs 4,000, so unpaid calls are Rs 6,000 and the forfeited amount is Rs 4 per share. On reissue of 500 shares, bank receives $500 \times 8 = \text{Rs } 4,000$, while fully paid capital is Rs 5,000. The reissue discount is therefore Rs 1,000. The forfeiture attributable to these 500 shares is $500 \times 4 = \text{Rs } 2,000$; the capital profit transferred is $2,000 - 1,000 = \text{Rs } 1,000$.

Step 2: (i) Record the journal entries of Krisha Ltd. **Journal of Krisha Ltd.**

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

The remaining 500 forfeited shares carry an untransferred Share Forfeiture credit of Rs 2,000.

Step 3: (ii) Calculate the forfeiture and reissue amounts for XYZ Ltd. **Working Notes:** The unpaid second and final call is $20,000 \times 2 = \text{Rs } 40,000$. Capital called up is Rs 2,00,000 and capital received is $20,000 \times (10-2) = \text{Rs } 1,60,000$. The Rs 1 premium per share was received earlier, since only the final call is unpaid; it is excluded from Share Forfeiture. Shares reissued number $20,000 \times 70\% = 14,000$. Bank receives $14,000 \times 7 = \text{Rs } 98,000$, and discount is $14,000 \times 3 = \text{Rs } 42,000$. Forfeiture on these shares is $14,000 \times 8 = \text{Rs } 1,12,000$, giving a capital profit of $1,12,000 - 42,000 = \text{Rs } 70,000$.

Step 4: (ii) Record the journal entries of XYZ Ltd. **Journal of XYZ Ltd.**

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

The balance for the 6,000 unreissued shares is $6,000 \times 8 =$ Rs $48,000$ in Share Forfeiture. Each journal entry has equal debit and credit totals.

Step 5: Conclusion Capital Reserve is credited with Rs 1,000 in Krisha Ltd. and Rs 70,000 in XYZ Ltd. Share Forfeiture retains Rs 2,000 and Rs 48,000 respectively for the unreissued shares.

Quick Tip to Solve: First find the capital received per forfeited share. Multiply it by only the number reissued, then subtract the discount on those reissued shares to find Capital Reserve.

25. L and M were partners in a firm sharing profits and losses in the ratio of 3 : 2. They agreed to dissolve the firm on 31st March, 2024. The Balance Sheet of the firm as on that date was as follows:

Balance Sheet of L and M as at 31st March, 2024

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	2,00,000	Cash in hand	2,00,000
Loan by M	2,00,000	Cash at Bank	1,00,000
General Reserve	5,00,000	Sundry Debtors 2,50,000	
Loan by Mrs. L	3,00,000	Less: Provision for Doubtful Debts 50,000	2,00,000
Capitals:		Plant and Machinery	5,00,000
L 7,00,000		Building	6,00,000
M 6,00,000	13,00,000	Furniture	2,00,000
		Goodwill	7,00,000
	25,00,000		25,00,000

The following transactions took place at the time of dissolution:

(i) Bills payable were paid Rs. 1,90,000 in full settlement.

(ii) Plant and Machinery and Building were sold for Rs. 11,00,000.

(iii) L agreed to pay his wife's loan and he took over furniture at its book value.

(iv) Debtors realised at Rs. 1,90,000.

(v) Firm had to pay Rs. 20,000 for outstanding salary which was not provided earlier.

(vi) Realisation expenses amounted to Rs. 20,000.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- Realisation Account is debited with non-cash assets at their gross book values and credited with provisions and external liabilities. Cash, bank balances, partners' loans, reserves and partners' capitals are not transferred to it.
- Asset proceeds and assets taken over by partners are credited; liability settlements, liabilities taken over by partners and dissolution expenses are debited. The resulting profit or loss is transferred to partners in their profit-sharing ratio.

Step 1: Identify the balances transferred on dissolution Transfer Sundry Debtors at their gross amount of Rs 2,50,000, Plant and Machinery Rs 5,00,000, Building Rs 6,00,000, Furniture Rs 2,00,000 and Goodwill Rs 7,00,000 to the debit side. Their total is Rs 22,50,000. Credit the provision for doubtful debts of Rs 50,000 separately; this gives the same net effect as the debtors' carrying amount of Rs 2,00,000. Bills Payable Rs 2,00,000 and Mrs. L's loan Rs 3,00,000 are external liabilities and are credited. M's loan is a partner's loan, so it is settled separately. The Rs 5,00,000 General Reserve is transferred directly to capitals in the ratio 3 : 2 and is excluded from Realisation Account.

Step 2: Record realisations and settlements Credit Realisation Account with asset proceeds, shown as By Bank A/c in its particulars column: Rs 11,00,000 for Plant and Machinery and Building together, and Rs 1,90,000 for Debtors. Credit Realisation and debit L's Capital with Rs 2,00,000 for furniture taken over at book value. No proceeds are stated for Goodwill, so it produces no realisation credit. Debit Rs 1,90,000 for settlement of Bills Payable. Because L takes responsibility for Mrs. L's loan, debit Realisation and credit L's Capital with Rs 3,00,000; the firm makes no cash payment for this loan. The unrecorded outstanding salary paid, Rs 20,000, and realisation expenses, Rs 20,000, are further debits.

Step 3: Prepare the Realisation Account **Realisation Account**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Sundry Debtors A/c	2,50,000	By Provision for Doubtful Debts A/c	50,000
To Plant and Machinery A/c	5,00,000	By Bills Payable A/c	2,00,000
To Building A/c	6,00,000	By Mrs. L's Loan A/c	3,00,000
To Furniture A/c	2,00,000	By Bank A/c (Plant and Machinery and Building)	11,00,000
To Goodwill A/c	7,00,000	By Bank A/c (Debtors)	1,90,000
To Bank A/c (Bills Payable)	1,90,000	By L's Capital A/c (Furniture)	2,00,000
To L's Capital A/c (Mrs. L's loan taken over)	3,00,000	By Partners' Capital A/cs (Loss):	
To Bank A/c (Outstanding salary)	20,000	L	4,44,000
To Bank A/c (Realisation expenses)	20,000	M	2,96,000
Total	27,80,000	Total	27,80,000

The account closes by transferring its loss to the partners' capital accounts; no balance is carried forward after dissolution.

Step 4: Verify and apportion the loss **Working Notes:** Total debits are Rs 27,80,000 and credits

before transferring the loss are Rs 20,40,000. Therefore:

$$\text{Realisation loss} = 27,80,000 - 20,40,000 = \text{Rs } 7,40,000,$$
$$\text{L's share} = 7,40,000 \times \frac{3}{5} = \text{Rs } 4,44,000,$$
$$\text{M's share} = 7,40,000 \times \frac{2}{5} = \text{Rs } 2,96,000.$$

As a cross-check, the Goodwill loss is Rs 7,00,000, the loss on net Debtors is Rs 10,000, the gain on Bills Payable is Rs 10,000, and salary plus expenses cost Rs 40,000. The other assets and Mrs. L's loan settle at book value. Thus the net loss is again Rs 7,40,000.

Step 5: Conclusion Realisation Account totals Rs 27,80,000 on each side. The loss of Rs 7,40,000 is debited to L's Capital by Rs 4,44,000 and M's Capital by Rs 2,96,000.

Quick Tip to Solve: Treat Mrs. L's loan as an outside liability, but M's loan as a partner's loan. Transfer gross Debtors and credit their provision separately so the same Rs 50,000 is not counted twice.

26(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:

- Revaluation profit and the debit balance of Profit and Loss Account belong to all old partners in their old ratio, $2:2:1$.
- The retiring partner receives his share of goodwill from the continuing partners in their gaining ratio. An asset taken over is debited to his capital at its agreed revalued amount.
- After all adjustments, compare each continuing partner's capital with total capital multiplied by the new share; cash introduced makes good a shortage.

Step 1: Working Notes: distribute past balances The asset-side Profit and Loss balance of Rs 1,50,000 is an accumulated loss, so debit Sia, Manav and Ajay with Rs 60,000, Rs 60,000 and Rs 30,000 respectively. The revaluation profit of Rs 1,20,000 is credited in the same old ratio: Rs 48,000, Rs 48,000 and Rs 24,000. Employees' Provident Fund is a liability, so it is not distributed as a reserve.

Step 2: Working Notes: adjust goodwill and the asset taken over The new shares of Sia and Ajay are $3/5$ and $2/5$. Their gains are

$$\text{Sia's gain} = 3/5 - 2/5 = 1/5,$$

$$\text{Ajay's gain} = 2/5 - 1/5 = 1/5.$$

Hence, the gaining ratio is $1:1$. Manav's goodwill share is Rs $4,00,000 \times 2/5 =$ Rs $1,60,000$; debit Sia and Ajay by Rs 80,000 each and credit Manav by Rs 1,60,000. Goodwill is adjusted directly, without raising a goodwill asset.

$$\text{Revalued land and building} = 8,50,000 + 1,20,000 = \text{Rs } 9,70,000,$$

$$\text{Taken by Manav} = 9,70,000 \times 40\% = \text{Rs } 3,88,000.$$

Debit Manav's Capital Account with the asset taken. His remaining amount due is $8,00,000 + 48,000 + 1,60,000 - 60,000 - 3,88,000 =$ Rs $5,60,000$. Since no cash settlement of this remaining balance is specified, transfer it to Manav's Loan Account.

Step 3: Working Notes: determine cash to be introduced Before capital adjustment, Sia has $9,00,000 + 48,000 - 60,000 - 80,000 =$ Rs $8,08,000$, and Ajay has $2,00,000 + 24,000 - 30,000 - 80,000 =$ Rs $1,14,000$. Required capitals out of Rs 20,00,000 are Rs 12,00,000 and Rs 8,00,000 in the new ratio $3:2$. Therefore, Sia brings Rs 3,92,000 and Ajay brings Rs 6,86,000 through Bank.

Step 4: Prepare the Partners' Capital Accounts **Partners' Capital Accounts**

Dr. (All amounts in Rs)				Cr. (All amounts in Rs)			
Particulars	Sia	Manav	Ajay	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's Capital (goodwill)	80,000	–	80,000	By Revaluation A/c	48,000	48,000	24,000
To Land and Building	–	3,88,000	–	By Sia's Capital (goodwill)	–	80,000	–
To Manav's Loan	–	5,60,000	–	By Ajay's Capital (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	10,08,000	9,10,000	Total	13,40,000	10,08,000	9,10,000

The closing balances are brought down on the credit side in the next period: Sia Rs 12,00,000 and Ajay Rs 8,00,000. Manav's capital is closed by the asset transfer and transfer of the unpaid amount to his loan account.

Step 5: Conclusion Sia and Ajay bring in Rs 3,92,000 and Rs 6,86,000 respectively, leaving capitals of Rs 12,00,000 and Rs 8,00,000. Manav takes land and building worth Rs 3,88,000; his balance of Rs 5,60,000 is transferred to his Loan Account.

Quick Tip to Solve: First debit the accumulated loss and goodwill compensation; only then compare continuing capitals with the new Rs 20,00,000 total.

OR

26(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 Doubtful Debts 50,000**	**3,50,000**
Workmen's Compensation Fund	**1,50,000**	**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:

- Revaluation profit, existing general reserve and any surplus compensation fund belong to the old partners in their old ratio, $3 : 2$.
- In the absence of a different sacrifice agreement, the old partners sacrifice in their old ratio. Goodwill premium is credited to them in that sacrificing ratio.
- Total capital is found from the new partner's capital divided by his share. Excess or shortage of old partners' capitals is transferred to current accounts as directed.

Step 1: Working Notes: calculate the new ratio and goodwill Nakul receives $1/4$; Karan and Arjun retain $3/4$ in their existing ratio $3 : 2$. Thus their new shares are $9/20$, $6/20$ and $5/20$, and the new ratio is $9 : 6 : 5$. Nakul brings goodwill premium Rs $2,00,000 \times 1/4 =$ Rs $50,000$, credited to Karan and Arjun as Rs 30,000 and Rs 20,000. His cash contribution is Rs 4,50,000 in all; only Rs 4,00,000 is credited as his capital.

Step 2: Working Notes: identify revaluation and reserve adjustments Furniture appreciates by $2,50,000 - 2,00,000 =$ Rs $50,000$. Required provision for doubtful debts is $10\% \times 4,00,000 =$ Rs $40,000$, so the existing Rs 50,000 provision falls by Rs 10,000. Both are revaluation gains; total profit is Rs 60,000, shared Rs 36,000 and Rs 24,000. The General Reserve of Rs 1,50,000 is distributed as Rs 90,000 and Rs 60,000. Of the Workmen's Compensation Fund of Rs 1,50,000, Rs 1,20,000 is retained against the estimated liability. Only the surplus Rs 30,000 is credited to the old partners as Rs 18,000 and Rs 12,000. There is no revaluation loss for the claim already covered by this fund.

Step 3: Prepare the Revaluation Account **Revaluation Account**

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

The profit has been transferred in full, so this nominal account has no closing balance.

Step 4: Working Notes: adjust fixed capitals through current accounts Using Nakul's capital as the base,

$$\text{Total capital} = 4,00,000 \div \frac{1}{4} = \text{Rs } 16,00,000.$$

Required capitals are Karan: $16,00,000 \times 9/20 =$ Rs $7,20,000$, and Arjun: $16,00,000 \times 6/20 =$

Rs $4,80,000$.

$$\begin{aligned}\text{Karan's adjusted capital} &= 5,00,000 + 90,000 + 18,000 + 36,000 + 30,000\\ &= \text{Rs } 6,74,000,\\ \text{Arjun's adjusted capital} &= 5,00,000 + 60,000 + 12,000 + 24,000 + 20,000\\ &= \text{Rs } 6,16,000.\end{aligned}$$

Karan's shortage Rs 46,000 is debited to his Current Account and credited to his Capital Account. Arjun's excess Rs 1,36,000 is debited to his Capital Account and credited to his Current Account. These are transfers, not additional cash transactions.

Step 5: Prepare the Partners' Capital Accounts **Partners' Capital Accounts**

Dr. (All amounts in Rs)				Cr. (All amounts in Rs)			
Particulars	Karan	Arjun	Nakul	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 (surplus)	18,000	12,000	–
				By Revaluation A/c	36,000	24,000	–
				By Premium for Goodwill	30,000	20,000	–
				By Cash 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

These closing capitals are brought down on the credit side of the next period's accounts. The resulting current-account balances are Karan: Rs 46,000 debit; Arjun: Rs 1,36,000 credit.

Step 6: Conclusion Revaluation profit is Rs 60,000. Final capitals of Karan, Arjun and Nakul are Rs 7,20,000, Rs 4,80,000 and Rs 4,00,000 respectively. Karan has a debit current balance of Rs 46,000 and Arjun a credit current balance of Rs 1,36,000.

Quick Tip to Solve: Use gross debtors for the 10% provision and distribute only the compensation fund surplus; compare adjusted capitals with the 9:6:5 capital targets.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

27(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:

- The tax provision is a liability: opening provision plus the current-year charge equals tax paid plus closing provision.
- The provision charged during the year is an accrual; it need not equal the actual cash payment.

Step 1: Reconcile the provision balance Let tax paid be T. The opening liability is Rs 9,00,000, the additional provision is Rs 6,00,000, and the closing liability is Rs 12,00,000. Therefore,

$$9,00,000 + 6,00,000 - T = 12,00,000.$$

The closing balance is larger than the opening balance because part of the year's tax charge remains unpaid.

Step 2: Calculate the cash payment and compare the options Rearranging gives

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

Option (A) states the closing provision, option (B) the opening provision, and option (C) the year's provision charge. None is the payment obtained by reconciling the liability. Option (D) is the actual tax paid.

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

Quick Tip to Solve: For tax paid, add the opening provision and the current tax charge, then subtract the closing provision.

OR

27(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 actual receipt or payment of cash or cash equivalents.
- Acquiring an asset by directly issuing shares is a non-cash investing and financing transaction, excluded from the cash flow statement.

Step 1: Trace what is exchanged The company receives machinery worth Rs 30,00,000 and issues equity shares to the supplier as consideration. Machinery increases and share capital increases by the corresponding amount, but there is no receipt into or payment out of Cash or Bank Account. The value of the asset is not itself a cash flow.

Step 2: Test the proposed cash-flow classifications Option (A) is incorrect because receiving machinery is not a cash receipt from investing. Option (B) would apply to a cash purchase of machinery, whereas shares settle this purchase. Option (C) is incorrect because no cash is paid in a financing transaction. The transaction is excluded from the cash flow statement and disclosed separately as a non-cash investing and financing transaction. Therefore, option (D) applies.

Step 3: Conclusion There is no flow of cash on acquiring machinery by directly issuing equity shares. Hence, the correct option is (D).

Quick Tip to Solve: Look at the consideration: direct issue of shares to the machinery supplier means neither Cash nor Bank is involved.

28. 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 payments to acquire long-term assets, including intangible assets such as purchased goodwill.
- Interest paid is an operating cash flow for a financial enterprise and a financing cash flow for a non-financial enterprise under the CBSE classification.

Step 1: Examine Statement I Goodwill acquired by payment is an intangible non-current asset. Its purchase represents investment in a long-term asset, so the payment is classified as an investing activity for both financial and non-financial enterprises. Statement I is therefore true.

Step 2: Examine Statement II and the choices Payment of interest is a financing activity for a non-financial enterprise. However, for a financial enterprise, borrowing and lending form part of its principal revenue-producing operations, and interest paid is an operating activity. The words "all types of enterprises" make Statement II false. Thus (A) incorrectly treats Statement II as true, while (B) and (C) incorrectly treat Statement I as false.

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

Quick Tip to Solve: When classifying interest, first check whether the enterprise is financial; purchase of goodwill remains investing.

29. _____ 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 equals long-term debt divided by shareholders' funds. With debt unchanged, an increase in shareholders' funds reduces this ratio.
- Current ratio equals current assets divided by current liabilities. A transaction confined to non-

current assets and shareholders' funds leaves this ratio unchanged.

Step 1: Test the non-cash issue of shares Issuing shares directly to purchase land and building increases share capital and hence shareholders' funds. Long-term debt does not change, so the debt-equity ratio decreases. Land and building are non-current assets: neither current assets nor current liabilities changes, leaving the current ratio unchanged.

Step 2: Eliminate the other transactions Both an issue of equity shares for cash and an issue of preference shares for cash increase shareholders' funds, but also increase cash, a current asset. They therefore change the current ratio. Redemption of debentures reduces long-term debt, but the cash payment also reduces current assets and changes the current ratio. Only the direct issue of shares for the non-current assets satisfies both conditions.

Step 3: Conclusion Issue of shares for purchase of land and building decreases the debt-equity ratio without changing the current ratio. Hence, the correct option is (D).

Quick Tip to Solve: To keep the current ratio unchanged, look for a transaction that touches neither current assets nor current liabilities.

30(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 interprets accounting data to assess profitability, liquidity, solvency and changes in financial position.
- Different interested groups use this analysis for different decisions; the historical and monetary nature of accounting information also imposes limitations.

Step 1: Identify the users of analysis Creditors use financial analysis to assess repayment capacity, but they are not its only users. Management uses it for planning and control, investors for returns and investment decisions, and lenders for solvency assessment. Therefore the word "only" makes statement (A) incorrect.

Step 2: Check the remaining statements Statement (B) describes a limitation: conventional financial statements use historical monetary amounts without adjusting for price-level changes. Statement (C) is also a limitation because factors such as employee skills and management quality are not fully expressed in monetary accounting data. Statement (D) correctly states a purpose of analysis: comparisons and relationships help explain changes in profitability and financial position. These three

statements are therefore not the requested incorrect statement.

Step 3: Conclusion Financial statement analysis is used by several interested groups, not only creditors. Hence, the correct option is (A).

Quick Tip to Solve: In a question asking for the incorrect statement, test restrictive words such as "only" against the full list of users.

OR

30(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 funds invested in the business: shareholders' funds plus non-current liabilities.
- Net working capital equals current assets minus current liabilities. Capital employed can also be found by deducting current liabilities from total assets.

Step 1: Derive the asset-based equation Write total assets as non-current assets plus current assets, and deduct current liabilities:

$$\begin{aligned}\text{Capital employed} &= \text{Total assets} - \text{Current liabilities}\\ &= \text{Non-current assets} + \text{Current assets}\\ &\quad - \text{Current liabilities}\\ &= \text{Non-current assets} + \text{Net working capital.}\end{aligned}$$

This is exactly the equation in option (B).

Step 2: Check the signs and funding categories Option (A) subtracts non-current liabilities, whereas these long-term funds must be added to shareholders' funds. Option (C) subtracts net working capital even though it is part of the funds employed in assets. Option (D) adds current liabilities to share capital and reserves; it should add non-current liabilities instead. None of these gives the required long-term capital measure.

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

Quick Tip to Solve: Start from total assets less current liabilities, then combine current assets less current liabilities into net working capital.

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) Unclaimed Dividend

(ii) Trademarks

(iii) Pre-paid Rent [3 marks]

Solution:

Concept:

- Schedule III, Part I presents assets and liabilities under their respective major heads and sub-heads. Classification depends on the nature of an item and whether it is current or non-current.
- An unpaid obligation belongs to liabilities, an identifiable long-term right without physical substance is an intangible asset, and an expense paid in advance is an asset until its benefit is consumed.

Step 1: Classify unclaimed dividend Unclaimed dividend is dividend already payable to shareholders but not yet collected by them. It remains a present payment obligation of the company. Therefore it is shown under the major head **Current Liabilities** and sub-head **Other Current Liabilities**, rather than under reserves and surplus.

Step 2: Classify trademarks A trademark is an identifiable right that provides benefits over more than one accounting period without having physical substance. It is therefore a **Non-current Asset**, classified as a fixed asset of an intangible nature, under **Intangible Assets**. It is not inventory or a tangible asset.

Step 3: Classify pre-paid rent and present the heads Pre-paid rent represents payment for rental benefits that have not yet been consumed. In the absence of any stated long-term period, it is treated as a current prepayment, under **Current Assets**, sub-head **Other Current Assets**. It is not charged as an expense for the unexpired period.

Balance Sheet classification under Schedule III

Item	Major head	Sub-head / classification
Unclaimed Dividend	Current Liabilities	Other Current Liabilities
Trademarks	Non-current Assets	Fixed assets: Intangible Assets
Pre-paid Rent	Current Assets	Other Current Assets

Step 4: Conclusion Unclaimed dividend is an other current liability; trademarks are intangible non-current assets; pre-paid rent is an other current asset.

Quick Tip to Solve: Distinguish an unpaid amount owed to shareholders from a prepaid expense: the former is a liability, the latter an asset.

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		25,00,000	20,00,000
Employee benefit expenses		3,75,000	2,50,000
Other expenses		13,75,000	10,00,000
Tax rate 50%			

[3 marks]

Solution:

Concept:

- A comparative statement presents the previous year and current year side by side, together with the absolute and percentage changes. The previous year's amount is the base for each percentage.
- Absolute change = Current year amount - Previous year amount; percentage change = Absolute change divided by Previous year amount, multiplied by 100.
- Profit before tax equals revenue less expenses, and profit after tax equals profit before tax less income tax. Apply the given tax rate of 50% to profit before tax in each year.

Step 1: Calculate expenses and profits for both years **Working Notes (amounts in Rs)**

$$\begin{aligned}\text{Expenses, 2022–23} &= 2,50,000 + 10,00,000 = 12,50,000,\\ \text{Expenses, 2023–24} &= 3,75,000 + 13,75,000 = 17,50,000,\\ \text{PBT, 2022–23} &= 20,00,000 - 12,50,000 = 7,50,000,\\ \text{PBT, 2023–24} &= 25,00,000 - 17,50,000 = 7,50,000.\end{aligned}$$

Here PBT means profit before tax. In each year, tax is $7,50,000 \times 50\% = 3,75,000$, so profit after tax is $7,50,000 - 3,75,000 = 3,75,000$.

Step 2: Compute the changes using the previous year as base Revenue increases by Rs $5,00,000$, which is $5,00,000/20,00,000 \times 100 = 25\%$. Employee benefit expenses rise by Rs $1,25,000$, or 50%, while other expenses rise by Rs $3,75,000$, or 37.50%. Total expenses increase by Rs $5,00,000$, or 40%. Since revenue and total expenses rise by the same absolute amount, profit before tax, tax and profit after tax all remain unchanged.

Step 3: Prepare the comparative statement **Comparative Statement of Profit and Loss**
For the years ended 31st March, 2023 and 2024

Particulars	Note No.	2022–23 (Rs)	2023–24 (Rs)	Increase (Rs)	Change (%)
I. Revenue from operations		20,00,000	25,00,000	5,00,000	25.00
II. Total Revenue		20,00,000	25,00,000	5,00,000	25.00
III. Expenses					
Employee benefit expenses		2,50,000	3,75,000	1,25,000	50.00
Other expenses		10,00,000	13,75,000	3,75,000	37.50
Total Expenses		12,50,000	17,50,000	5,00,000	40.00
IV. Profit before tax (II–III)		7,50,000	7,50,000	0	0.00
V. Tax expense (50%)		3,75,000	3,75,000	0	0.00
VI. Profit after tax (IV–V)		3,75,000	3,75,000	0	0.00

Step 4: Conclusion Revenue rose by 25% and total expenses by 40%. Profit before tax remained Rs $7,50,000$ and profit after tax remained Rs $3,75,000$ in both years, a change of 0%.

Quick Tip to Solve: Use 2022–23 as the denominator for every percentage change; equal rupee rises in revenue and expenses leave profit unchanged.

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:

- The quick ratio compares quick assets with current liabilities:

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}.$$

- Inventory turnover ratio equals cost of revenue from operations divided by average inventory. Average inventory is the mean of opening and closing inventories.
- Quick assets exclude inventory and prepaid expenses from current assets. With no prepaid expenses given here, current assets equal quick assets plus closing inventory.

Step 1: Calculate quick assets The ratio $0.70 : 1$ means that every Rs 1 of current liabilities is

supported by Rs 0.70 of quick assets. Thus,

$$\begin{aligned}\text{Quick assets} &= 0.70 \times \text{Current liabilities} \\ &= 0.70 \times 80,000 = \text{Rs } 56,000.\end{aligned}$$

Step 2: Find cost of revenue from operations and average inventory Inventory turnover uses cost, so deduct gross profit from revenue before applying the turnover ratio:

$$\begin{aligned}\text{Cost of revenue from operations} &= 4,00,000 - 75,000 \\ &= \text{Rs } 3,25,000, \\ \text{Average inventory} &= \frac{3,25,000}{5} = \text{Rs } 65,000.\end{aligned}$$

Using sales directly in the turnover formula would overstate average inventory because sales include gross profit.

Step 3: Derive closing inventory Let opening inventory be Rs x. Closing inventory is then Rs $(x + 20,000)$. Their average is Rs 65,000:

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

Therefore, closing inventory is $55,000 + 20,000 = \text{Rs } 75,000$. The mean of Rs 55,000 and Rs 75,000 checks to Rs 65,000.

Step 4: Calculate current assets Current assets are measured at the end of the period, so add closing inventory, rather than average or opening inventory, to quick assets:

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

Step 5: Conclusion Current Assets are $\boxed{\text{Rs } 1,31,000}$ and Quick Assets are $\boxed{\text{Rs } 56,000}$.

Quick Tip to Solve: Closing inventory equals average inventory plus half the increase: $65,000 + 20,000/2 = 75,000$. Add this closing figure to quick assets.

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 earned on total capital employed: $\text{ROI} = \dfrac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100$.
- Profit after tax equals profit before tax multiplied by $(1 - t)$, where t is the tax rate expressed as a fraction. Therefore, reverse tax by dividing by $(1 - t)$.
- Debenture interest is a finance cost deducted before arriving at profit before tax. Add it back to obtain profit before interest and tax, since capital employed includes debt finance.

Step 1: Recover profit before tax The given net profit of Rs 6,00,000 is after both interest and tax. At a tax rate of 40%, it represents $100\% - 40\% = 60\%$ of profit before tax:

$$\begin{aligned}\text{Profit before tax} &= \frac{\text{Profit after tax}}{1 - 0.40} \\ &= \frac{6,00,000}{0.60} = \text{Rs } 10,00,000.\end{aligned}$$

The corresponding tax is $10,00,000 \times 40\% = \text{Rs } 4,00,000$, leaving the stated Rs 6,00,000 after tax. Merely adding 40 percent of the after-tax profit would use the wrong base.

Step 2: Calculate debenture interest and add it back Annual interest on the 10 percent debentures is calculated on their face amount:

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

Profit before tax already has this interest deducted. To measure earnings available to all providers of capital, restore the finance cost:

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

Step 3: Apply the return on investment formula Use the given capital employed of Rs 50,00,000 directly. Debentures are already part of capital employed, so do not add them again to the denominator:

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

As a check, Rs 24 earned before interest and tax for each Rs 100 employed gives Rs 12,00,000 on Rs 50,00,000 of capital employed.

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

Quick Tip to Solve: Undo tax first by dividing the after-tax profit by 0.60, then add debenture interest. Reversing this order incorrectly grosses up the interest for tax.

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 No.	Particulars	31.03.2024 (Rs.)	31.03.2023 (Rs.)
1.	Reserves and Surplus		
	General Reserve Surplus i.e. Balance in Statement of Profit and Loss	2,00,000 3,00,000	1,50,000 1,50,000
		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, start with net profit before tax, add back financing expenses, adjust operating working capital, and deduct income tax paid.
- An increase in General Reserve is an appropriation of profit. Add it to the increase in the surplus to reconstruct the profit earned during the year.
- Purchases of non-current assets and investments are investing outflows. Debenture interest and changes in share capital or bank overdraft are financing items for this non-financial company.

Step 1: Reconstruct profit before tax and debenture interest The surplus increased by Rs $3,00,000 -$ Rs $1,50,000 =$ Rs $1,50,000$. The transfer to General Reserve is Rs $2,00,000 -$ Rs $1,50,000 =$ Rs $50,000$. With no further tax information supplied, the closing provision is taken as the provision made during the year and the opening provision as tax paid during the year. Thus,

$$\begin{aligned}\text{Profit before tax} &= 1,50,000 + 50,000 + 1,00,000\\ &= \text{Rs } 3,00,000.\\ \text{Debenture interest} &= 4,00,000 \times \frac{10}{100}\\ &= \text{Rs } 40,000.\end{aligned}$$

The debentures have the same opening and closing balance, so the full year's interest is added back when computing operating cash flow. No depreciation or disposal is given, so no separate adjustment for either is introduced.

Step 2: Prepare cash flow from operating activities A decrease in inventory releases cash of Rs 50,000. The decrease in trade receivables releases a further Rs 1,00,000. The provision for taxation is handled through the profit-before-tax and tax-paid adjustments; it is not also included as an operating working-capital liability.

Pari Ltd.: Cash Flow Statement (Extract)

For the year ended 31st March, 2024

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net profit before tax	3,00,000
Add: Debenture interest	40,000
Operating profit before working-capital changes	3,40,000
Add: Decrease in inventories	50,000
Add: Decrease in trade receivables	1,00,000
Cash generated from operations	4,90,000
Less: Income tax paid (opening provision)	(50,000)
Net cash from operating activities	**4,40,000**

Step 3: Prepare cash flow from investing activities In the absence of information about depreciation, disposals or non-cash acquisitions, the increase in the carrying amount of the non-current operating assets represents purchases: Rs 7,00,000 minus Rs 3,00,000 equals Rs 4,00,000. Similarly, investments purchased are Rs 4,00,000 minus Rs 1,00,000, or Rs 3,00,000. Both payments reduce cash.

Pari Ltd.: Cash Flow Statement (Extract, continued)

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

As a check, financing cash flow is Rs 5,00,000 from share capital, less Rs 1,00,000 overdraft repayment and Rs 40,000 interest, giving Rs 3,60,000. Hence the net cash increase is Rs 4,40,000 minus Rs 7,00,000 plus Rs 3,60,000, or Rs 1,00,000. This agrees with cash and cash equivalents increasing from Rs 3,00,000 to Rs 4,00,000.

Step 4: Conclusion Cash flow from operating activities is **Rs 4,40,000 (inflow)** and cash flow from investing activities is **Rs 7,00,000 (outflow)**.

Quick Tip to Solve: Add the reserve transfer back to the surplus increase, and treat tax separately; do not also count the tax provision as a working-capital change.

Option – II (Computerised Accounting)

27(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:

- Vector LOOKUP searches an ascending lookup vector and returns the corresponding entry from the result vector.
- When no exact match exists, it uses the largest lookup value less than the search value. A search value below the smallest entry gives #N/A.

Step 1: Evaluate the lookup for 8 The lookup vector is 4.23, 4.62, 5.86 and 7.94 in ascending order. Since 8 is larger than every listed number, LOOKUP selects 7.94, the largest eligible value. Its corresponding result in B5 is Pear. An exact match is not necessary, so the first result is not #N/A.

Step 2: Evaluate the lookup for 3.5 The search value 3.5 is less than the minimum lookup value, 4.23. There is no value less than or equal to 3.5 in the range, so the result is #N/A. Mango would require a lookup value at least 4.23 and below 4.62. This excludes (B), while (C) and (D) also give the wrong first result.

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

Quick Tip to Solve: Compare each search value with the smallest and largest entries before looking for an exact match: above the maximum returns the last result; below the minimum gives #N/A.

OR

27(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 calculation.
- An array formula can perform calculations on several values and produce multiple results from one formula.

Step 1: Identify the feature described The question describes a single formula that produces more than one result. Array formulas apply operations to collections of cells or values, so an array is the relevant feature. For example, pairwise multiplication of two equal-sized ranges can produce a corresponding list of products.

Step 2: Eliminate the other choices A derived value names a calculated outcome, not the feature for building the formula. A vector describes a one-row or one-column arrangement and does not name the general formula feature asked for. ROUND() rounds a number to a specified precision. Thus none of (A), (B) or (C) identifies the required array formula facility.

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

Quick Tip to Solve: Associate the phrase single formula with multiple results with an array formula; ROUND() only describes a rounding operation.

28. 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 worksheet location using column and row coordinates.
- The #REF! error indicates that a formula contains an invalid cell reference.

Step 1: Match invalid coordinates to the error If the referenced cell location is invalid, the formula cannot use that reference. For example, deleting a row or column that a formula explicitly refers to may invalidate the reference. Excel then displays #REF!, so the reference-error option matches the situation described.

Step 2: Distinguish the alternatives #NAME? relates to unrecognised text or names in a formula. #N/A indicates that a required value is unavailable, often in a lookup. A sequence of hash signs commonly indicates that a column cannot display a formatted value in the available width. Those are different from an invalid reference, eliminating (A), (C) and (D).

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

Quick Tip to Solve: Link REF to reference: an invalid cell address produces #REF!, whereas an unavailable lookup result produces #N/A.

29(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 into a spreadsheet cell as input data.
- A derived value is calculated from an arithmetic expression or a function using input values.

Step 1: Identify the calculated outcome The result of an arithmetic expression or function is obtained by processing other values. For example, multiplying a quantity by a price produces an amount, while SUM calculates a total. Such outcomes are derived values because they arise from a calculation rather than direct entry of the result.

Step 2: Rule out the input and arrangement terms A basic value is the original input, so (C) does not describe the calculated result. A horizontal vector is an arrangement across a row, and a vertical vector is an arrangement down a column. These describe the arrangement of data, not the name for the outcome of a function; hence (A) and (D) are unsuitable.

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

Quick Tip to Solve: Ask whether the cell's value was entered directly or obtained by calculation: a calculated outcome is a derived value.

OR

29(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:

- An absolute reference fixes both the column and row, while a mixed reference fixes only one of them.
- The dollar sign is placed before the part of the cell address that must remain fixed when a formula is copied.

Step 1: Show the absolute and mixed forms In `$A$1`, both the column A and row 1 are fixed, so this is an absolute reference. In `$A1`, only the column is fixed; in `A$1`, only the row is fixed. The latter two are mixed references. Each form is identified by the dollar sign.

Step 2: Exclude the other symbols The hash sign, tilde and pound sign do not fix a column or row in these Excel cell references. A plain reference such as A1 has neither part fixed and is relative. Therefore only the dollar-sign option identifies both absolute and mixed references correctly.

Step 3: Conclusion They are identified using the **dollar sign**. Hence, the correct option is **(C)**.

Quick Tip to Solve: Read each dollar sign as locking the next part: in `$A1` the column stays fixed, while in `A$1` the row stays fixed when the formula is copied.

30. 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 functions are predefined formulae used to perform calculations or other operations on supplied arguments.
- Functions are classified into categories according to the purpose they serve, such as Financial, Logical, Statistical and Text functions.

Step 1: Recall the classification Excel 2007 provides 12 categories of functions in the classification used for spreadsheet applications. A category is a group of related functions; it is not an individual function or a worksheet tab.

Step 2: Compare the stated numbers Option (C) gives 12 and agrees with this classification. Options (A), (B) and (D), giving 2, 6 and 7 respectively, understate the number of categories. Counting only a few familiar groups, such as Mathematical, Financial and Logical, would omit other available categories.

Step 3: Conclusion There are 12 categories of functions in Excel 2007. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish the number of function categories from the much larger number of individual functions.

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

Solution:

Concept:

- A worksheet cell is identified by the intersection of its column and row. A formula can refer to that address to use the value stored there.
- The reference type determines whether the address changes when the formula is copied to another cell. Dollar signs lock the relevant row or column.

Step 1: Explain a cell reference A cell reference is the address that identifies a cell in a worksheet. In the A1 reference style, the column letter is followed by the row number. Thus, `B4` identifies the cell in column B and row 4. A formula such as `=B4+C4` adds the values stored at those two addresses; it does not add their column letters or row numbers.

Step 2: Explain a relative cell reference A relative reference changes according to the displacement of a copied formula. It contains no dollar signs, for example `A1`. If `=A1+B1` in cell C1 is copied one row down to C2, it becomes `=A2+B2`. Both referenced rows increase by one, preserving their positions

relative to the formula cell. Relative references are useful for repeating the same calculation for successive records.

Step 3: Explain an absolute cell reference An absolute reference fixes both the column and the row by putting a dollar sign before each, as in `$A$1`. When a formula containing this reference is copied to another row or column, the reference remains `$A$1`. For example, copying `=B2*$A$1` down one row changes it to `=B3*$A$1`. This allows several amounts to be multiplied by the same rate stored in A1.

Step 4: Conclusion A cell reference identifies a worksheet location; a relative reference adjusts on copying, while an absolute reference keeps both its row and column fixed.

Quick Tip to Solve: To keep a rate cell fixed when copying a formula, put a dollar sign before both its column and row: `$A$1`.

32. Explain the following:

(i) Contra voucher

(ii) Post-dated voucher

(iii) Receipt voucher [3 marks]

Solution:

Concept:

- A voucher records the details of a transaction and provides the basis for entering it in a computerised accounting system.
- The voucher type is selected according to the nature of the transaction or, for a post-dated voucher, the future date on which it is to take effect.

Step 1: Explain a contra voucher A contra voucher records transfers between cash and bank accounts, or between the business's own bank accounts. Examples are cash deposited into the bank, cash withdrawn from the bank for office use, and transfer of funds from one bank account to another. These transactions change the location of the firm's funds; they do not represent income earned or an expense incurred. Cash withdrawn by the owner for personal use is drawings, not a contra transfer for office use.

Step 2: Explain a post-dated voucher A post-dated voucher is entered with a date later than the current date. It is used to record a transaction intended to take effect on that future date, such as a payment through a post-dated cheque. Until the specified date arrives, it is treated as a future-dated entry rather than an effective transaction of the current date. This enables the business to retain the details in advance while applying them to the appropriate accounting date.

Step 3: Explain a receipt voucher A receipt voucher records money received in cash or through the bank. Examples include receipt from a debtor, cash introduced by the proprietor and interest received. It identifies the cash or bank account receiving the amount and the corresponding account from which the receipt arises. A receipt from a debtor increases cash or bank and reduces the debtor's balance; it does not create a second sale. Transfers between the firm's own cash and bank accounts are recorded through contra vouchers.

Step 4: Conclusion A contra voucher records internal cash or bank transfers, a post-dated voucher records an entry to take effect on a future date, and a receipt voucher records money received by the business.

Quick Tip to Solve: Check whether funds are merely moving between the firm's own cash and bank accounts before choosing receipt instead of contra.

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

Solution:

Concept:

- Accounting software records and processes accounting transactions and produces reports. The organisation's size, reporting needs and complexity determine the suitable type.
- Customisation adapts an existing package, whereas tailoring involves developing software specifically for an organisation's requirements.

Step 1: Explain customised accounting software Customised accounting software is an existing, ready-made accounting package modified to suit the particular requirements of a user. Its basic accounting framework is already available, but changes are made to features such as invoice formats, account classifications, data entry screens or reports. It suits organisations whose requirements are not fully met by the standard package but can be met by adapting it. For example, a business may ask the supplier to modify a standard package to produce a particular sales report or invoice format.

Step 2: Explain tailored accounting software Tailored accounting software is designed and developed specifically for an organisation after studying its accounting procedures and information needs. The developer builds the system to meet those requirements, rather than merely modifying an existing general-purpose package. It is suitable for large or specialised organisations with complex operations, special controls or a need to integrate accounting with other functions. For example, an organisation may commission a system linking its branch transactions, inventory and specialised management reports.

Step 3: Distinguish their development and suitability Customised software starts from an established package, so its scope is constrained by the package's underlying design. Tailored software can be planned around the organisation's particular workflow and reporting requirements. Developing and testing a tailored system generally requires more time, specialised support and expenditure than adapting an available package. The organisation should therefore compare the benefits of the additional features with their development and maintenance cost.

Step 4: Conclusion Customised software modifies an existing accounting package for the user, while tailored software is developed specifically for the organisation's needs.

Quick Tip to Solve: Use the starting point to distinguish the two: modification of an existing package is customisation; specific development for one organisation is tailoring.

OR

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

Solution:

Concept:

- Data validation controls the type of data or the range of values that a user may enter into a spreadsheet cell.
- A validation rule specifies the acceptable input; an error alert explains what is wrong when an invalid entry is attempted.

Step 1: Explain the meaning of data validation Data validation is a spreadsheet facility used to restrict entries in selected cells according to prescribed conditions. It helps maintain the accuracy and consistency of data entered in an accounting worksheet. For example, a quantity cell may be restricted to whole numbers greater than zero, a date cell to dates in the accounting period, or a department cell to a list of valid department names. The rule checks whether an entry satisfies the specified condition; it does not establish whether an otherwise acceptable figure is factually correct.

Step 2: Describe what the Error Alert tab facilitates The Error Alert tab in the Data Validation dialogue box facilitates the display and customisation of a message when a user enters data that violates the validation rule. The user can select whether to show an error alert after invalid data is entered, choose its style, and enter a suitable title and error message. For a quantity restricted to positive whole numbers, the title could be "Invalid quantity" and the message "Enter a whole number greater than zero." Thus the alert tells the user the nature of the problem and how to correct the entry.

Step 3: Distinguish the available alert styles The **Stop** style prevents the invalid entry from being accepted and requires the user to retry or cancel it. The **Warning** style warns the user but permits the invalid entry if the user confirms that it should be retained. The **Information** style informs the user that the entry is invalid but also allows it to be accepted. The style therefore determines whether an invalid input is strictly blocked or may be retained after an alert.

Step 4: Conclusion Data validation restricts cell input using specified conditions. The Error Alert tab enables a customised title, message and alert style to guide the user when those conditions are violated.

Quick Tip to Solve: Separate the rule from the response: validation defines acceptable entries, while Error Alert defines the message and whether invalid input is blocked or may be accepted.

34. What is 'HLOOKUP' function? Explain its syntax. [6 marks]

Solution:

Concept:

- HLOOKUP means horizontal lookup. It searches for a value across the top row of a table and returns a value from a specified row in the same column.
- The lookup row is always the first row of the selected table; the return row is counted relative to that table, starting with 1.

- An exact match is requested with FALSE. TRUE, or an omitted final argument, requests an approximate match and requires the first row to be sorted in ascending order for reliable results.

Step 1: Define HLOOKUP and state its use HLOOKUP is a spreadsheet lookup function used when the comparison values or headings are arranged horizontally across the first row of a table. After locating the required heading, it moves down within the same column to obtain the corresponding information from the row specified by the user. For example, where product codes appear across the top row and their prices below, HLOOKUP can retrieve the price for a selected product code.

Step 2: Write the syntax The syntax is:

```
=HLOOKUP(lookup_value, table_array,
  row_index_num, [range_lookup])
```

The square brackets indicate that `range_lookup` is optional; the brackets themselves are not typed in the formula. The other three arguments are required.

Step 3: Explain the lookup and table arguments **lookup_value:** The value to be found in the first row of the table. It may be a number, text or a reference to a cell containing the required value. Text supplied directly in the formula is enclosed in double quotation marks.

table_array: The range of cells containing the data to be searched and returned, such as `B1:D3`. The top row of this selected range contains the lookup values. The range must also include the row from which the result is to be returned.

Step 4: Explain the return-row and matching arguments **row_index_num:** The row number within `table_array` from which to return the result. A value of 1 refers to the first row of the selected table, 2 to its second row, and so on; it is not necessarily the worksheet's row number. A value below 1 gives a `#VALUE!` error, while a number greater than the table's number of rows gives a `#REF!` error.

range_lookup: A logical value controlling matching. FALSE finds an exact match and returns `#N/A` if no match exists; sorting is unnecessary. TRUE, or omission of this argument, gives an approximate match. With the top row sorted in ascending order, an exact match is used if available; otherwise the largest value less than the lookup value is used. If the lookup value is smaller than the smallest first-row value, the result is `#N/A`.

Step 5: Apply the syntax to a simple table Suppose cells B1, C1 and D1 contain product codes P1, P2 and P3 respectively, and B2, C2 and D2 contain their prices of Rs 100, Rs 150 and Rs 200. Then:

```
=HLOOKUP("P2", B1:D2, 2, FALSE)
```

searches the first row B1:D1 for P2, locates it in column C and returns the value in the second row of the table, C2, namely 150. The argument 2 selects the price row, and FALSE prevents an approximate product-code match.

Step 6: Conclusion HLOOKUP searches horizontally in the first row of a table and returns the corresponding value from a specified row in the same column. Its four arguments specify the lookup value, table range, return-row number and exact or approximate matching method.

Quick Tip to Solve: Count the return row from the top of the selected table, and use FALSE for exact product codes. If the final argument is omitted, remember that approximate matching is used.