CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-1-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

(ii) This question paper is divided into **two** Parts : **Part – A** and **Part – B**.

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

(iv) **Part – B** has **two** options. Candidates have to attempt only **one** of the given options.
Option-I : Analysis of Financial Statements
Option-II : Computerised Accounting

(v) Questions number **1 to 16** (Part-A) and Questions number **27 to 30** (Part-B) are multiple choice questions. Each question carries **1** mark.

(vi) Questions number **17 to 20** (Part-A) and Questions number **31** and **32** (Part-B) are Short answer type questions. Each question carries **3** marks.

(vii) Questions number **21, 22** (Part-A) and Question number **33** (Part-B) are Long answer type-I questions. Each question carries **4** marks.

(viii) Questions number **23 to 26** (Part-A) and Question number **34** (Part-B) are Long answer type-II questions. Each question carries **6** marks.

(ix) There is no overall choice. However, an internal choice has been provided in few questions in each of the parts.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. The books of Mehul and Barkha showed that their capital employed on 31st March, 2025 was Rs 6,00,000. If the normal profits are Rs 60,000 and super profits are Rs 20,000, then the normal rate of return is: [1 mark]

(A) 6%

(B) 15%

(C) 30%

(D) 10%

Correct Answer: (D) 10%

Solution:

Concept:

- Normal profit is the return expected on capital employed at the normal rate of return.
- Normal rate of return equals normal profit divided by capital employed, multiplied by 100. Super profit is the excess of average profit over normal profit.

Step 1: Select the relevant profit The question gives normal profit as Rs 60,000 and capital employed as Rs 6,00,000. The super profit of Rs 20,000 is additional information; it must not be used as the numerator when computing the normal rate.

Step 2: Calculate and check the rate

$$\text{Normal rate} = \frac{60,000}{6,00,000} \times 100 = 10\%.$$

At the alternative rates of 6%, 15% and 30%, the normal profits would be Rs 36,000, Rs 90,000 and Rs 1,80,000 respectively. None equals the stated normal profit.

Step 3: Conclusion The normal rate of return is 10%. Hence, the correct option is (D).

Quick Tip to Solve: Use normal profit, not super profit or their sum, in the numerator of the normal-rate formula.

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

Assertion (A): Partnership Agreement becomes the basis of relationship among the partners.

Reason (R): Partnership is the result of an agreement between two or more persons to do business and share its profits and losses.

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

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

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

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

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

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

Solution:

Concept:

- Partnership arises from an agreement between persons carrying on business and sharing its profits.
- The partnership agreement establishes the agreed rights, duties and mutual relations of the partners.

Step 1: Evaluate the assertion Assertion (A) is correct. The agreement sets the terms on which the partners conduct the business together, including their profit-sharing arrangements and respective rights and obligations. It therefore forms the basis of their relationship.

Step 2: Evaluate the reason Reason (R) is correct. Partnership is created through an agreement of two or more persons to conduct business and share its profits and losses. The relationship thus has a contractual foundation.

Step 3: Connect the two statements The reason explains the assertion: because partnership itself results from agreement, the agreed terms govern the relationship between partners. Option (B) incorrectly denies this explanatory link, while (C) and (D) incorrectly treat one of the true statements as false.

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

Quick Tip to Solve: For this assertion-reason pair, link the origin of partnership in an agreement to the agreement governing mutual relations.

3(a). If 600 shares of Rs 10 each, issued at a premium of Rs 1 per share are forfeited on which Rs 8 per share (including premium) have been called and Rs 6 per share (including premium) have been paid, then 'Share Forfeiture Account' will be ____ by ____. [1 mark]

(A) credited, Rs 3,000

(B) debited, Rs 3,000

(C) debited, Rs 3,600

(D) credited, Rs 3,600

Correct Answer: (A) credited, Rs 3,000

Solution:

Concept:

- Share Forfeiture Account is credited with the share capital amount already received on the forfeited shares.
- Securities premium received is excluded from the amount credited to Share Forfeiture Account.

Step 1: Separate capital from premium The Rs 6 received per share includes premium of Rs 1. Therefore, capital received per share is

$$\text{Rs } 6 - \text{Rs } 1 = \text{Rs } 5.$$

The called-up capital component is Rs 7 per share, since the Rs 8 called includes the same Rs 1 premium.

Step 2: Determine the forfeiture credit

$$\text{Share forfeiture credit} = 600 \times 5 = \text{Rs } 3,000.$$

The capital received is retained on forfeiture and hence credited, not debited. Rs 3,600 is the total cash received including premium and cannot be credited to Share Forfeiture Account. Thus the debit choices and the Rs 3,600 credit choice are incorrect.

Step 3: Conclusion Share Forfeiture Account will be credited by Rs 3,000. Hence, the correct option is (A).

Quick Tip to Solve: When the amount paid includes premium, subtract the received premium before multiplying by the number of forfeited shares.

OR

3(b). T.D. Ltd. issued Rs 10,00,000, 9% debentures at a discount of 10% redeemable at a certain rate of premium. On issue of these 9% debentures, the premium on redemption of debentures account was credited by Rs 1,00,000. The amount of 'loss on issue of debentures' was: [1 mark]

(A) Rs 1,00,000

(B) Rs 2,00,000

(C) Rs 3,00,000

(D) Nil

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

Solution:

Concept:

- Loss on issue of debentures comprises discount on issue plus premium payable on redemption.
- The debenture interest rate determines periodic interest; it does not determine the loss recognised at issue.

Step 1: Compute the discount on issue The face value of the debentures is Rs 10,00,000 and the issue discount is 10%. Therefore,

$$\text{Discount} = 10,00,000 \times \frac{10}{100} = \text{Rs } 1,00,000.$$

The 9% coupon rate is not used in this calculation.

Step 2: Add the redemption obligation The credit of Rs 1,00,000 to Premium on Redemption of Debentures Account represents the extra amount payable on redemption. Hence,

$$\text{Loss on issue} = 1,00,000 + 1,00,000 = \text{Rs } 2,00,000.$$

Rs 1,00,000 counts only one component; Rs 3,00,000 adds an unsupported amount; nil ignores both issue discount and redemption premium.

Step 3: Conclusion Loss on issue of debentures is Rs 2,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Add issue discount and redemption premium once each; the 9% debenture interest rate is irrelevant to this loss.

4(a). Tarun and Tej were partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April 2024, Tej had given a loan of Rs 50,000 to the firm. The net profit of the firm before charging interest on loan was Rs 3,75,000. The firm closes its books on 31st March every year. The amount of profit transferred from Profit and Loss Account to Profit and Loss Appropriation Account will be: [1 mark]

(A) Rs 3,75,000

(B) Rs 3,72,000

(C) Rs 4,25,000

(D) Rs 3,78,000

Correct Answer: (B) Rs 3,72,000

Solution:

Concept:

- In the absence of an agreed rate, interest on a partner's loan is allowed at 6% per annum.
- Interest on a partner's loan is a charge against profit and is deducted before profit is transferred to Profit and Loss Appropriation Account.

Step 1: Calculate interest for the full year Tej advanced Rs 50,000 on 1st April 2024. The year ends on 31st March 2025, so the loan remains outstanding for twelve months. With no agreed rate given,

$$\text{Interest} = 50,000 \times \frac{6}{100} \times \frac{12}{12} = \text{Rs } 3,000.$$

Step 2: Deduct the charge from profit

$$\text{Profit transferred} = 3,75,000 - 3,000 = \text{Rs } 3,72,000.$$

The 3:2 profit-sharing ratio is used only after determining the distributable profit. Rs 3,75,000 omits interest; Rs 3,78,000 adds a charge instead of deducting it; Rs 4,25,000 incorrectly adds the loan principal to profit.

Step 3: Conclusion Rs 3,72,000 is transferred to Profit and Loss Appropriation Account. Hence, the correct option is (B).

Quick Tip to Solve: Deduct partner-loan interest at 6% when no rate is stated; do this before any appropriation in the profit-sharing ratio.

OR

4(b). Ashok and Vasu were partners in a firm sharing profits and losses in the ratio of 4:3. Their capitals on 31st March, 2025 were Rs 3,00,000 and Rs 3,75,000 respectively. During the year ended 31st March, 2025 Vasu withdrew Rs 40,000 for his personal use and introduced Rs 1,50,000 as additional capital in the business. Profit of the firm for the year ended 31st March, 2025 was Rs 1,40,000. Vasu's capital in the beginning of the year was: [1 mark]

(A) Rs 2,75,000

(B) Rs 4,25,000

(C) Rs 2,05,000

(D) Rs 3,45,000

Correct Answer: (C) Rs 2,05,000

Solution:

Concept:

- Closing capital equals opening capital plus additional capital and share of profit, less drawings.
- To reconstruct opening capital, add drawings to closing capital and deduct the additional capital and profit credited during the year.

Step 1: Find Vasu's profit share Vasu receives 3 parts of the total 7 parts of profit. Hence,

$$\text{Vasu's profit} = 1,40,000 \times \frac{3}{7} = \text{Rs } 60,000.$$

The entire firm's profit must not be credited to Vasu.

Step 2: Reverse the movements in capital

$$\begin{aligned}\text{Opening capital} &= 3,75,000 + 40,000 - 1,50,000 - 60,000 \\ &= \text{Rs } 2,05,000.\end{aligned}$$

As a check, Rs 2,05,000 plus Rs 1,50,000 plus Rs 60,000 less Rs 40,000 gives the stated closing capital of Rs 3,75,000. None of the other opening balances gives this closing balance after the same movements.

Step 3: Conclusion Vasu's capital at the beginning of the year was Rs 2,05,000. Hence, the correct option is (C).

Quick Tip to Solve: Work backwards from closing capital: add drawings, then subtract fresh capital and the partner's own share of profit.

5. Soni and Kush were partners in a firm sharing profits and losses in the ratio of 4:5. Hitesh was admitted as a new partner for 1/5th share in the profits of the firm. After all adjustments regarding general reserve, goodwill, and gain on revaluation of assets and reassessment of liabilities, the balances in capital accounts of Soni and Kush were Rs 7,00,000 and Rs 13,00,000 respectively. Hitesh brought in proportionate capital for his 1/5th share in the profits of the firm. The amount of proportionate capital brought in by Hitesh was: [1 mark]

(A) Rs 25,00,000

(B) Rs 20,00,000

(C) Rs 5,00,000

(D) Rs 10,00,000

Correct Answer: (C) Rs 5,00,000

Solution:

Concept:

- When capital is proportionate to profit shares, the old partners' combined adjusted capital represents their combined share after admission.
- Total capital is obtained by dividing the old partners' adjusted capital by their remaining profit share.

Step 1: Identify the capital represented by the old partners After all adjustments, Soni and Kush together hold capital of

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

Since Hitesh receives $1/5$, the old partners together retain $1 - 1/5 = 4/5$ of the profits. Their Rs 20,00,000 therefore represents four-fifths of total proportionate capital.

Step 2: Calculate Hitesh's proportionate contribution

$$\text{Total capital} = 20,00,000 \times \frac{5}{4} = \text{Rs } 25,00,000,$$
$$\text{Hitesh's capital} = 25,00,000 \times \frac{1}{5} = \text{Rs } 5,00,000.$$

Rs 25,00,000 is total capital, Rs 20,00,000 belongs to the old partners, and Rs 10,00,000 is not the capital corresponding to Hitesh's one-fifth share.

Step 3: Conclusion Hitesh brings in proportionate capital of Rs 5,00,000. Hence, the correct option is (C).

Quick Tip to Solve: The old partners retain four-fifths, so the incoming partner's one-fifth capital is one-fourth of their combined adjusted capital.

6(a). Which of the following is not correct about collateral security? [1 mark]

(A) It is a primary security.

(B) It is an additional security.

(C) It is a subsidiary security.

(D) It is a secondary security.

Correct Answer: (A) It is a primary security.

Solution:

Concept:

- Collateral security is security supplied in addition to the primary security for a loan.
- Debentures given as collateral security provide an additional safeguard to the lender; they are also described as subsidiary or secondary security.

Step 1: Identify the meaning of collateral Collateral supports the principal loan arrangement. For example, a company may provide debentures as an additional safeguard to a lender who already has primary security. The term describes the additional protection, rather than the original primary security.

Step 2: Test each description Option (A), primary security, does not describe collateral security. Option (B), additional security, directly states its meaning. Options (C) and (D), subsidiary and secondary security, are also correct descriptions. Because the question asks for the statement that is not correct, select the primary-security description.

Step 3: Conclusion The incorrect statement is: it is a primary security. Hence, the correct option is (A).

Quick Tip to Solve: Underline "not correct": collateral means additional, subsidiary or secondary security, so reject the primary-security description.

OR

6(b). 'A company is formed according to the provisions of Company Law' indicates which of the following characteristics of a company? [1 mark]

(A) Common Seal

(B) Perpetual Succession

(C) Body Corporate

(D) Limited Liability

Correct Answer: (C) Body Corporate

Solution:

Concept:

- A company is a body corporate created through incorporation under the applicable company law.
- The characteristic identified must match the feature stressed in the statement, here formation

according to law.

Step 1: Identify the feature in the statement The statement emphasises that a company comes into existence according to the provisions of Company Law. This describes its incorporation and status as a body corporate. Formation under the legal process gives the company its corporate existence.

Step 2: Distinguish the remaining options A common seal concerns authentication of company documents. Perpetual succession means continued existence despite changes in members. Limited liability concerns the extent of members' liability. None of these describes the legal formation emphasised in the statement; body corporate is the appropriate characteristic.

Step 3: Conclusion The characteristic indicated is Body Corporate. Hence, the correct option is (C).

Quick Tip to Solve: Match "formed according to Company Law" with incorporation as a body corporate; continuity and limited risk describe different features.

7(a). Chandan, Ravi and Mahesh were partners in a firm sharing profits and losses in the ratio of 5:4:1. From 1st April, 2025 they decided to share the future profits in the ratio of 3:2:1. On that date there existed a general reserve of Rs 7,00,000 in the books of the firm which they decided to distribute among themselves.

In which ratio will the general reserve be distributed among the partners? [1 mark]

(A) New profit sharing ratio

(B) Old profit sharing ratio

(C) Sacrificing / Gaining ratio

(D) Equally

Correct Answer: (B) Old profit sharing ratio

Solution:

Concept:

- General reserve represents accumulated profits earned before the change in the profit-sharing ratio.
- When it is distributed, each partner receives the reserve in the old profit-sharing ratio, which governed those past profits.

Step 1: Identify the applicable ratio The reserve of Rs 7,00,000 existed on 1st April, 2025, before future profits began to be shared in the ratio $3:2:1$. Therefore, the entitlement of Chandan, Ravi and Mahesh is based on their old ratio $5:4:1$.

Step 2: Verify the distribution **Working Notes:** The sum of the old ratio terms is $5+4+1=10$. Their respective shares are

$$7,00,000 \times \frac{5}{10} = 3,50,000, \qquad 7,00,000 \times \frac{4}{10} = 2,80,000, \qquad 7,00,000 \times \frac{1}{10} = 70,000.$$

These amounts total Rs 7,00,000. The new ratio applies to future profits; sacrifice or gain is used for adjustments such as goodwill, and equal distribution is unsupported.

Step 3: Conclusion The general reserve is distributed in the old profit-sharing ratio, $5:4:1$. Hence,

the correct option is (B).

Quick Tip to Solve: For an existing general reserve, identify the ratio in force when the profits accumulated: here it is $5 : 4 : 1$.

OR

7(b). Suman and Tanya were partners in a firm sharing profits and losses in the ratio of 2:1. With effect from 1st April, 2025, they decided to share the profits equally. On that date furniture was appearing in the books of the firm at Rs 4,50,000. At the time of change in the profit sharing ratio, it was found to be undervalued by 10%. In the new balance sheet, furniture will be shown at: [1 mark]

(A) Rs 4,05,000

(B) Rs 4,50,000

(C) Rs 4,95,000

(D) Rs 5,00,000

Correct Answer: (D) Rs 5,00,000

Solution:

Concept:

- An asset undervalued by 10% is recorded at 90% of its correct value.
- To obtain the correct value, divide the book value by $90/100$; do not add 10% of the book value.

Step 1: Set up the valuation equation Let the correct value of furniture be Rs V. Since the furniture is undervalued by 10%, the recorded amount of Rs 4,50,000 represents $100\% - 10\% = 90\%$ of that value. Thus,

$$0.90V = 4,50,000.$$

Step 2: Calculate and check the revised value **Working Notes:**

$$V = 4,50,000 \times \frac{100}{90} = 5,00,000.$$

The increase is Rs 50,000, which is 10% of Rs 5,00,000. Rs 4,95,000 incorrectly adds 10% of the recorded value. Rs 4,05,000 reduces an already undervalued asset, while Rs 4,50,000 makes no revaluation adjustment. The change in profit-sharing ratio does not change the correct asset valuation.

Step 3: Conclusion Furniture will be shown at Rs 5,00,000 in the new balance sheet. Hence, the correct option is (D).

Quick Tip to Solve: If an asset is undervalued by 10%, treat its book value as 90% and divide by 0.90.

8. Tula, Ram and Madhvi were partners in a firm. The partnership deed provided for interest on partners drawings @ 12% p.a. The firm closes its books on 31st March every year. Starting from 31st December, 2025 Madhvi withdrew Rs 40,000 at the end of every month for her personal use. Interest on Madhvi's drawings will be: [1 mark]

(A) Rs 19,200

(B) Rs 4,800

(C) Rs 2,400

(D) Rs 1,600

Correct Answer: (C) Rs 2,400

Solution:

Concept:

- Interest on drawings is calculated separately for the time each withdrawal remains outstanding up to the accounting year-end.
- For equal monthly withdrawals, interest is total drawings $\times$ annual rate $\times$ average months$/12$.

Step 1: Count withdrawals and their periods Withdrawals occur on 31st December, 31st January, the end of February and 31st March. There are four drawings of Rs 40,000 each, not three. Up to 31st March, their interest periods are respectively 3, 2, 1 and 0 months. The last withdrawal attracts no interest for the year.

Step 2: Compute the interest **Working Notes:** The total drawings are Rs $4 \times 40,000 = 1,60,000$, and the average period is $(3+2+1+0)/4 = 1.5$ months. Hence,

$$I = 1,60,000 \times \frac{12}{100} \times \frac{1.5}{12} = 2,400.$$

Rs 19,200 charges a full year on all drawings; Rs 4,800 overstates the period. Rs 1,600 is not the sum of interest for the four stated dates.

Step 3: Conclusion Interest on Madhvi's drawings is Rs 2,400. Hence, the correct option is (C).

Quick Tip to Solve: Include the December and March drawings: the four month-end periods are $3, 2, 1, 0$, averaging 1.5 months.

9(a). Dharam, Karam and Raman were partners in a firm sharing profits and losses in the ratio of 7:8:5. On 31st March, 2025, Raman retired from the firm. Dharam and Karam decided to share profits in future in the ratio of 11:9. Their gaining ratio will be: [1 mark]

(A) 1:1

(B) 1:2

(C) 4:1

(D) 2:1

Correct Answer: (C) 4:1

Solution:

Concept:

- A continuing partner's gain equals the new profit share minus the old profit share.
- The gaining ratio is the ratio of those positive differences; it is not automatically the new profit-sharing ratio.

Step 1: Calculate the gains of the continuing partners **Working Notes:** The old shares of Dharam and Karam are $7/20$ and $8/20$. Their new shares are $11/20$ and $9/20$. Therefore,

$$\text{Dharam's gain} = \frac{11}{20} - \frac{7}{20} = \frac{4}{20},$$
$$\text{Karam's gain} = \frac{9}{20} - \frac{8}{20} = \frac{1}{20}.$$

Step 2: Form and verify the ratio The gains are in the ratio $(4/20) : (1/20) = 4 : 1$. Together, they equal $5/20$, exactly Raman's old share. Ratios $1 : 1$, $1 : 2$ and $2 : 1$ do not reproduce the individual increases from the old shares to the printed new shares.

Step 3: Conclusion Dharam and Karam gain in the ratio $4 : 1$. Hence, the correct option is (C).

Quick Tip to Solve: Both ratios total 20, so subtract corresponding numerators directly: $(11-7) : (9-8) = 4 : 1$.

OR

9(b). Deen, Raju and Hari were partners in a firm sharing profit and losses in the ratio of 7:6:7. On 31st March, 2025 Raju died. Deen and Hari decided to take over Raju's share equally. The new profit sharing ratio between Deen and Hari will be: [1 mark]

(A) 1:1

(B) 7:6

(C) 6:7

(D) 3:2

Correct Answer: (A) 1:1

Solution:

Concept:

- A continuing partner's new share equals the old share plus the acquired share of the deceased partner.
- An equal takeover divides only the deceased partner's share equally; add each resulting gain to the respective old share.

Step 1: Divide the share of Raju equally **Working Notes:** The old ratio totals $7 + 6 + 7 = 20$. Raju's share is $6/20$. Deen and Hari each acquire half of it:

$$\frac{1}{2} \times \frac{6}{20} = \frac{3}{20}.$$

Step 2: Add the gains to the old shares Deen's new share is $7/20 + 3/20 = 10/20$. Hari's new share is also $7/20 + 3/20 = 10/20$. Their new shares add to one and are equal. The options $7 : 6$, $6 : 7$ and $3 : 2$ all give unequal shares, inconsistent with equal old shares increased by equal gains.

Step 3: Conclusion The new profit-sharing ratio between Deen and Hari is $1 : 1$. Hence, the correct option is (A).

Quick Tip to Solve: When the survivors already hold equal shares and gain equally, their new shares must remain equal.

10. Nidhi and Kunal were partners in a firm sharing profits and losses in the ratio of 4:1. Their capitals were Rs 3,00,000 and Rs 2,00,000 respectively. They were entitled to interest on capital @ 6% p.a. The firm earned a profit of Rs 15,000 during the year.

Interest on partners' capitals will be: [1 mark]

(A) Nidhi Rs 18,000; Kunal Rs 12,000

(B) Nidhi Rs 7,500; Kunal Rs 7,500

(C) Nidhi Rs 9,000; Kunal Rs 6,000

(D) Nidhi Rs 12,000; Kunal Rs 3,000

Correct Answer: (C) Nidhi Rs 9,000; Kunal Rs 6,000

Solution:

Concept:

- Interest on capital is an appropriation of profit unless the agreement makes it a charge; it is restricted to available profit.
- When available profit is insufficient, distribute it in the ratio of the interest amounts due, not the profit-sharing ratio.

Step 1: Calculate full interest entitlements **Working Notes:** At 6% per annum, the amounts due are

$$\text{Nidhi} = 3,00,000 \times \frac{6}{100} = 18,000,$$
$$\text{Kunal} = 2,00,000 \times \frac{6}{100} = 12,000.$$

Their total interest entitlement is Rs 30,000 and its ratio is $18,000 : 12,000 = 3 : 2$.

Step 2: Restrict the appropriation to the profit Only Rs 15,000 is available, so Nidhi receives $15,000 \times 3/5 = 9,000$ and Kunal receives $15,000 \times 2/5 = 6,000$. The whole profit is absorbed. Option (A) exceeds the available profit, option (B) incorrectly divides it equally, and option (D) uses the $4 : 1$ profit-sharing ratio instead of the interest entitlement ratio.

Step 3: Conclusion Interest on capital is Rs 9,000 for Nidhi and Rs 6,000 for Kunal. Hence, the correct option is (C).

Quick Tip to Solve: At the same interest rate, insufficient profit is apportioned in the capital ratio, here $3 : 2$.

11. On 1st April, 2024, Dina Ltd. issued 8,000, 9% debentures of Rs 100 each at a discount of 6%. The total amount of interest due on debentures for the year ended 31st March, 2025 will be: [1 mark]

(A) Rs 48,000

(B) Rs 72,000

(C) Rs 1,20,000

(D) Rs 80,000

Correct Answer: (B) Rs 72,000

Solution:

Concept:

- Debenture interest is calculated on nominal or face value, regardless of the price at which the debentures are issued.
- Interest equals number of debentures multiplied by face value per debenture, annual coupon rate and the fraction of the year outstanding.

Step 1: Find the nominal principal and period The nominal debenture liability is $8,000 \times$ Rs $100 =$ Rs $8,00,000$. Issue on 1st April, 2024 means that interest is due for the full year ending 31st March, 2025. The 6% issue discount affects proceeds, not the interest-bearing nominal amount.

Step 2: Apply the coupon rate **Working Notes:**

$$\text{Annual interest} = 8,00,000 \times \frac{9}{100} \times 1 = 72,000.$$

Rs 48,000 is 6% of the nominal value and represents the issue discount. Rs 1,20,000 incorrectly adds that discount to annual interest. Rs 80,000 corresponds to a 10% coupon, whereas the printed rate is 9%.

Step 3: Conclusion The total interest due for the year is Rs 72,000. Hence, the correct option is (B).

Quick Tip to Solve: Circle the 9% coupon and Rs 100 face value; ignore the 6% discount when computing interest.

12. Sakshi Ltd. forfeited 500 equity shares of Rs 10 each, issued at a premium of Rs 2 per share for non-payment of second and final call of Rs 4 per share (including premium).

The maximum amount of discount at which these shares can be reissued is: [1 mark]

(A) Rs 1 per share

(B) Rs 6 per share

(C) Rs 8 per share

(D) Rs 5 per share

Correct Answer: (C) Rs 8 per share

Solution:

Concept:

- Discount on reissue of forfeited shares cannot exceed the capital amount already received and forfeited on those shares.
- Unpaid securities premium is excluded when finding the paid-up capital forfeited; it is not available to cover reissue discount.

Step 1: Separate the unpaid call into capital and premium The total issue price is Rs $10 + 2 = 12$ per share. The unpaid final call of Rs 4 includes the entire premium of Rs 2. Thus, unpaid share capital is Rs $4 - 2 = 2$ per share, while capital already received is Rs $10 - 2 = 8$ per share.

Step 2: Determine the maximum permissible discount **Working Notes:** The forfeited capital on 500 shares is Rs $500 \times 8 = 4,000$. This permits a maximum reissue discount of Rs 8 per share. Rs 6 wrongly subtracts the entire Rs 4 call from face value even though that call includes premium. Rs 1 and Rs 5 are smaller permissible discounts, but neither is the maximum asked for.

Step 3: Conclusion The maximum reissue discount is Rs 8 per share, or Rs 4,000 for all 500 shares. Hence, the correct option is (C).

Quick Tip to Solve: Split the unpaid Rs 4 call first: Rs 2 is premium and only Rs 2 is capital, leaving Rs 8 capital forfeited.

13. Surya Ltd. issued 50,000 equity shares of Rs 10 each. The amount was payable as follows:

on Application - Rs 3 per share

on Allotment - Rs 2 per share

on First and Final Call - the balance

Usha, to whom 700 shares were allotted, paid her entire share money on allotment. Raj, to whom 300 shares were allotted did not pay the first and final call. The amount to be debited to Bank Account for first and final call after it becomes due will be: [1 mark]

(A) Rs 2,50,000

(B) Rs 2,48,500

(C) Rs 2,45,000

(D) Rs 2,52,000

Correct Answer: (C) Rs 2,45,000

Solution:

Concept:

- Cash collected when a call falls due equals the total call due less calls already received in advance and calls remaining in arrears.
- Calls in advance are transferred to the relevant call account when due; that transfer does not create another bank receipt.

Step 1: Calculate the amount of the call **Working Notes:** First and final call per share is Rs $10 - 3 - 2 = 5$. Therefore, the total call due on 50,000 shares is Rs $50,000 \times 5 = 2,50,000$. Usha already paid Rs $700 \times 5 = 3,500$ towards this call on allotment.

Step 2: Deduct advance and unpaid amounts Raj does not pay Rs $300 \times 5 = 1,500$. Hence, the fresh bank receipt is

$$2,50,000 - 3,500 - 1,500 = 2,45,000.$$

Equivalently, cash is received on $50,000 - 700 - 300 = 49,000$ shares at Rs 5 each. Rs 2,50,000 ignores both adjustments; Rs 2,48,500 ignores Usha's advance; Rs 2,52,000 exceeds even the gross call due.

Step 3: Conclusion Bank Account is debited by Rs 2,45,000 for first and final call receipts. Hence, the correct option is (C).

Quick Tip to Solve: For fresh call cash, exclude both Usha's 700 prepaid shares and Raj's 300 unpaid shares.

14. Sidhi, Gyan and Gayatri were partners in a firm sharing profits and losses in the ratio of 3:2:2. On 31st March, 2025 their firm was dissolved. At the time of dissolution a debtor amounting to Rs 25,000 whose debt had been previously written off as bad debt paid 40% of the amount. The accounting treatment for the above transaction will be: [1 mark]

(A) Rs 10,000 will be credited to bad debts recovered account.

(B) Rs 10,000 will be credited to the debtor's personal account.

(C) Rs 10,000 will be credited to realisation account.

(D) Rs 10,000 will be credited to bad debts account.

Correct Answer: (C) Rs 10,000 will be credited to realisation account.

Solution:

Concept:

- A debt already written off is absent from the books. Its subsequent recovery during dissolution is a realisation of an unrecorded asset.
- Cash received from an unrecorded asset is debited to Bank Account and credited to Realisation Account.

Step 1: Calculate the cash recovered Only 40% of the original debt is received. Thus,

$$\text{Recovery} = \text{Rs } 25,000 \times \frac{40}{100} = \text{Rs } 10,000.$$

The unrecovered balance is not a fresh loss: the entire debt had previously been written off.

Step 2: Identify the credit account At dissolution, the receipt increases Bank Account and is a gain in Realisation Account. Bad Debts Recovered Account is used in the ordinary course of business, whereas this receipt belongs to dissolution. The debtor's personal account has no outstanding book balance, and Bad Debts Account records a write-off rather than this realisation.

Step 3: Conclusion Rs 10,000 will be credited to Realisation Account. Hence, the correct option is (C).

Quick Tip to Solve: For a debt already written off, calculate the cash recovered and credit Realisation Account when recovery occurs during dissolution.

15. Chaman and Vatika were partners in a firm sharing profits and losses in the ratio of 4:5. They admitted Mohan as a new partner for 1/5th share in the profits of the firm. Mohan acquired his share equally from Chaman and Vatika. The new profit sharing ratio of Chaman, Vatika and Mohan will be: [1 mark]

(A) 2:2:1

(B) 31:41:18

(C) 41:31:18

(D) 7:8:5

Correct Answer: (B) 31:41:18

Solution:

Concept:

- New share of an existing partner equals old share minus the share sacrificed.
- Equal acquisition from two partners means each sacrifices half of the incoming partner's share, irrespective of their old profit-sharing ratio.

Step 1: Determine each partner's sacrifice Chaman's and Vatika's old shares are $4/9$ and $5/9$, respectively. Mohan acquires $1/5$ in total, equally from both, so each old partner sacrifices

$$\frac{1}{5} \times \frac{1}{2} = \frac{1}{10}.$$

Step 2: Calculate and compare the new shares

$$\begin{aligned} \text{Chaman} &= \frac{4}{9} - \frac{1}{10} = \frac{31}{90}, \\ \text{Vatika} &= \frac{5}{9} - \frac{1}{10} = \frac{41}{90}, \\ \text{Mohan} &= \frac{1}{5} = \frac{18}{90}. \end{aligned}$$

These add to $90/90 = 1$. Option (A) wrongly makes the old partners equal; option (C) reverses their shares. Option (D) gives Mohan $5/20 = 1/4$, contrary to his agreed share of $1/5$.

Step 3: Conclusion The new profit-sharing ratio of Chaman, Vatika and Mohan is $31 : 41 : 18$. Hence, the correct option is (B).

Quick Tip to Solve: When a new partner takes his share equally, subtract the same fraction from both old shares; do not divide the remaining profit in their old ratio.

16. Lalita, Shivani and Madhuri were partners in a firm sharing profits and losses in the ratio of 3:2:1. Madhuri retired from the firm on 31st March, 2025. The balance in her capital account on the date of her retirement was Rs 1,80,000. Lalita and Shivani agreed to pay her Rs 2,25,000 in full settlement of her claim.

The goodwill of the firm on Madhuri's retirement was: [1 mark]

(A) Rs 1,80,000

(B) Rs 2,25,000

(C) Rs 45,000

(D) Rs 2,70,000

Correct Answer: (D) Rs 2,70,000

Solution:

Concept:

- The excess of the agreed settlement over the retiring partner's capital balance represents that partner's share of hidden goodwill in this question.
- Firm's goodwill equals the retiring partner's goodwill share divided by that partner's old profit share.

Step 1: Identify Madhuri's share of goodwill The amount paid is Rs 2,25,000 against a capital balance of Rs 1,80,000. The excess is

$$\text{Madhuri's goodwill share} = 2,25,000 - 1,80,000 = \text{Rs } 45,000.$$

This excess represents her share, not the goodwill of the entire firm.

Step 2: Gross up to the firm's goodwill In the old ratio $3:2:1$, Madhuri has $1/6$ share. Therefore,

$$\text{Firm's goodwill} = 45,000 \div \frac{1}{6} = \text{Rs } 2,70,000.$$

Option (A) is only her capital balance and option (B) is her total settlement. Option (C) gives only her individual share of goodwill, so none answers the firm's valuation.

Step 3: Conclusion The goodwill of the firm on Madhuri's retirement is Rs 2,70,000. Hence, the correct option is (D).

Quick Tip to Solve: First subtract the capital balance from the settlement; then multiply the excess by 6 because Madhuri owns one-sixth of the firm's goodwill.

17. Average profit of a firm during the last few years is Rs 8,00,000. In similar business, the normal rate of return is 10% of the capital employed. Assets of the business were Rs 60,00,000 and its external liabilities were Rs 20,00,000.

Calculate the value of goodwill by:

(i) Capitalisation of super profits method

(ii) Super profit method if the goodwill is valued at four years' purchase of super profits. [3 marks]

Solution:

Concept:

- Capital employed is the net assets of the business: total assets less external liabilities. Normal profit is capital employed multiplied by the normal rate of return.
- Super profit is the excess of average profit over normal profit. Capitalised super profit is Super profit $\times\, 100/r$, where r is the normal return expressed as a percentage.
- Under the years' purchase method, goodwill equals super profit multiplied by the agreed number of years' purchase.

Step 1: Compute capital employed and normal profit **Working Notes:**

$$\text{Capital employed} = 60,00,000 - 20,00,000 = \text{Rs } 40,00,000,$$

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

Step 2: Determine the super profit The actual average annual profit exceeds the normal return. The excess attributable to the firm's earning advantage is

$$\text{Super profit} = 8,00,000 - 4,00,000 = \text{Rs } 4,00,000.$$

Use this excess, rather than the entire average profit, for both methods requested.

Step 3: Apply both goodwill valuation methods (i) Capitalisation converts the recurring super profit into a capital value at the normal rate of 10%:

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

(ii) Four years' purchase values goodwill at four times the annual super profit:

$$\text{Goodwill} = 4,00,000 \times 4 = \text{Rs } 16,00,000.$$

Step 4: Conclusion Goodwill is (i) Rs 40,00,000 by capitalisation of super profits and (ii) Rs 16,00,000 by four years' purchase of super profits.

Quick Tip to Solve: Find super profit once after deducting normal return on net assets; multiply it by 10 for capitalisation at 10% and by 4 for four years' purchase.

18(a). **Sultan, Singh and Tulsi were partners in a firm sharing profits and losses in the ratio of 9:7:4. Their fixed capitals were Rs 6,00,000, Rs 5,00,000 and Rs 4,00,000. The partnership deed provided that interest on partners capital accounts will be allowed at 10% per annum. After the final accounts for the year were prepared, it was found that interest on capital was allowed @ 12% per annum.**

Pass the necessary adjusting journal entry. [3 marks]

Solution:

Concept:

- Correct an excess appropriation by reversing the excess interest credited and restoring the corresponding reduction in divisible profit in the profit-sharing ratio.
- Under the fixed capital method, adjustments for interest and profit shares are made through partners' Current Accounts; their fixed Capital Accounts remain unchanged.

Step 1: Reverse the excess interest on capital **Working Notes:** Interest was allowed at 12% instead of 10%, so the excess rate is $12\% - 10\% = 2\%$. The excess credited to Sultan, Singh and Tulsi is respectively

$$6,00,000 \times 2\% = \text{Rs } 12,000,$$
$$5,00,000 \times 2\% = \text{Rs } 10,000,$$
$$4,00,000 \times 2\% = \text{Rs } 8,000.$$

These amounts must be debited back. The total excess interest is Rs 30,000.

Step 2: Restore the profit and calculate net adjustments Removing excess interest increases the divisible profit by Rs 30,000. Credit this profit in the ratio $9 : 7 : 4$, whose total is 20.

Particulars (Rs)	Sultan	Singh	Tulsi
Excess interest: debit	12,000	10,000	8,000
Profit restored: credit	13,500	10,500	6,000
Net adjustment	1,500 Cr.	500 Cr.	2,000 Dr.

For example, Sultan's restored profit is $30,000 \times 9/20 = \text{Rs } 13,500$. The net credits total Rs 2,000, exactly equal to Tulsi's net debit.

Step 3: Record the single adjusting entry

Date	Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
Year-end	Tulsi's Current A/c	Dr.		2,000	—
	To Sultan's Current A/c			—	1,500
	To Singh's Current A/c			—	500

(Being excess interest on capital allowed at 12% instead of 10% corrected, together with the consequent adjustment of profit shares.)

Step 4: Conclusion Debit Tulsi's Current Account by Rs 2,000; credit Sultan's Current Account by Rs 1,500 and Singh's Current Account by Rs 500.

Quick Tip to Solve: Reverse only the extra 2% interest, then redistribute its Rs 30,000 total in 9:7:4; use Current Accounts because the capitals are fixed.

OR

18(b). Sameer and Manveer were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st April, 2024, they admitted Sandeep as a new partner for 1/5th share in the profits with a guaranteed minimum amount of Rs 80,000. Sameer and Manveer continue to share profits as before but agreed to bear any deficiency on account of guarantee to Sandeep in the ratio of 3:5. The net profit of the firm for the year ended 31st March, 2025 was Rs 3,20,000.

Prepare Profit and Loss Appropriation Account of Sameer, Manveer and Sandeep for the year ended 31st March, 2025. [3 marks]

Solution:

Concept:

- First distribute the available profit in the new profit-sharing ratio. A guaranteed partner receives the agreed minimum if his ordinary share falls short.
- Deficiency equals guaranteed profit less the ordinary share. The guaranteeing partners bear this deficiency in the expressly agreed ratio, which may differ from their profit-sharing ratio.

Step 1: Determine the new ratio and ordinary shares **Working Notes:** Sandeep receives $1/5$. Sameer and Manveer share the remaining $4/5$ in their old ratio of $5:3$. Thus, Sameer's share is $\frac{4}{5}\times\frac{5}{8}=\frac{1}{2}$, Manveer's is $\frac{4}{5}\times\frac{3}{8}=\frac{3}{10}$, and Sandeep's is $\frac{1}{5}=\frac{2}{10}$. The new ratio is $5:3:2$. On the net profit of Rs 3,20,000, the ordinary shares are Rs 1,60,000, Rs 96,000 and Rs 64,000 respectively.

Step 2: Adjust the guaranteed minimum Sandeep's deficiency is $80,000-64,000=$ Rs $16,000$. Sameer and Manveer bear it in the specified ratio $3:5$:

$$\text{Sameer's burden}=16,000\times\frac{3}{8}=\text{Rs } 6,000,$$
$$\text{Manveer's burden}=16,000\times\frac{5}{8}=\text{Rs } 10,000.$$

Deducting these burdens gives Sameer Rs 1,54,000 and Manveer Rs 86,000; Sandeep receives Rs 80,000.

Step 3: Prepare the Profit and Loss Appropriation Account

Profit and Loss Appropriation Account for the year ended 31st March, 2025

Dr. Particulars	Rs	Cr. Particulars	Rs
To Sameer's Capital A/c	1,54,000	By Profit and Loss A/c	3,20,000
To Manveer's Capital A/c	86,000	(Net profit)	
To Sandeep's Capital A/c	80,000		
Total	3,20,000	Total	3,20,000

Step 4: Conclusion Profit appropriated: Sameer Rs 1,54,000; Manveer Rs 86,000; Sandeep Rs 80,000. The Profit and Loss Appropriation Account balances at Rs 3,20,000.

Quick Tip to Solve: Use 5:3:2 to allocate profit first, then use 3:5 only for the Rs 16,000 guarantee deficiency; mixing these ratios changes the final shares.

19(a). **Raunak Cotton Ltd. purchased machinery of Rs 6,80,000 from Heavy Machines Ltd. The Payment to Heavy Machines Ltd. was made by issuing 10,500 equity shares of Rs 50 each at a premium of 20% and the balance through a cheque.**

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

Solution:

Concept:

- Machinery purchased is debited at its purchase price, and the vendor is credited with the amount payable.
- Shares issued to a vendor credit Share Capital at face value and Securities Premium at the excess of issue price over face value. A cheque payment credits Bank Account.

Step 1: Calculate the settlement amounts **Working Notes:** The premium is calculated on the face value of Rs 50 per share, not on the machinery price.

$$\begin{aligned}
\text{Premium per share} &= 50 \times 20/100 = \text{Rs } 10,\\
\text{Issue price per share} &= 50 + 10 = \text{Rs } 60,\\
\text{Share capital} &= 10,500 \times 50 = \text{Rs } 5,25,000,\\
\text{Securities premium} &= 10,500 \times 10 = \text{Rs } 1,05,000,\\
\text{Value of shares issued} &= 10,500 \times 60 = \text{Rs } 6,30,000,\\
\text{Cheque payment} &= 6,80,000 - 6,30,000 = \text{Rs } 50,000.
\end{aligned}$$

Thus, part of the vendor's claim is settled by shares and the remainder by bank payment.

Step 2: Record the purchase and its settlement **Journal of Raunak Cotton Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
–	Machinery A/c Dr.		6,80,000	
	To Heavy Machines Ltd.			6,80,000
	(Being machinery purchased on credit)			
–	Heavy Machines Ltd. Dr.		6,80,000	
	To Equity Share Capital A/c			5,25,000
	To Securities Premium A/c			1,05,000
	To Bank A/c			50,000
	(Being 10,500 equity shares of Rs 50 issued at 20% premium and balance paid by cheque)			

The settlement credits total Rs 6,80,000, exactly equal to the debit to the vendor; its account is fully discharged.

Step 3: Conclusion Machinery is recorded at Rs 6,80,000. The settlement comprises share capital of Rs 5,25,000, securities premium of Rs 1,05,000 and a cheque for Rs 50,000.

Quick Tip to Solve: Multiply 10,500 by the issue price of Rs 60 to find the vendor claim settled by shares; use Rs 50 only for Share Capital.

OR

19(b). Neo Ltd. took over assets of Rs 25,00,000 and liabilities of Rs 12,00,000 of Madura Ltd. for a purchase consideration of Rs 18,00,000. Neo Ltd. issued 11% debentures of Rs 100 each at a discount of 10% in full satisfaction of the purchase consideration.

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

Solution:

Concept:

- On taking over a business, debit the assets acquired, credit liabilities assumed and credit the vendor with purchase consideration. Excess consideration over net assets is Goodwill.
- Debentures issued at discount are credited at their nominal value. The difference between nominal value and the issue proceeds is debited to Discount on Issue of Debentures.

Step 1: Determine goodwill and the number of debentures **Working Notes:** Net assets represent the assets acquired less the liabilities taken over.

$$\begin{aligned}
\text{Net assets} &= 25,00,000 - 12,00,000 = \text{Rs } 13,00,000,\\
\text{Goodwill} &= 18,00,000 - 13,00,000 = \text{Rs } 5,00,000,\\
\text{Issue price} &= 100 - 10\% \text{ of } 100 = \text{Rs } 90,\\
\text{Number of debentures} &= 18,00,000/90 = 20,000,\\
\text{Nominal value issued} &= 20,000 \times 100 = \text{Rs } 20,00,000,\\
\text{Discount on issue} &= 20,000 \times 10 = \text{Rs } 2,00,000.
\end{aligned}$$

The 11% rate describes the annual interest rate; it does not determine the issue price or the number issued.

Step 2: Record the takeover and settlement **Journal of Neo Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
–	Sundry Assets A/c Dr.		25,00,000	
	Goodwill A/c Dr.		5,00,000	
	To Sundry Liabilities A/c			12,00,000
	To Madura Ltd.			18,00,000
	(Being assets and liabilities taken over for agreed purchase consideration)			
–	Madura Ltd. Dr.		18,00,000	
	Discount on Issue of Debentures A/c Dr.		2,00,000	
	To 11% Debentures A/c			20,00,000
	(Being 20,000 debentures of Rs 100 issued at 10% discount in full settlement)			

The first entry balances at Rs 30,00,000 on each side and the second at Rs 20,00,000. The vendor's Rs 18,00,000 credit is fully cancelled by the settlement debit.

Step 3: Conclusion Goodwill is Rs 5,00,000. Neo Ltd. issues 20,000 debentures with a nominal value of Rs 20,00,000 and records a discount of Rs 2,00,000 to settle the purchase consideration of Rs 18,00,000.

Quick Tip to Solve: Divide purchase consideration by Rs 90, the issue price, to find the number of debentures; then multiply that number by Rs 100 for the credit to Debentures.

20. Shree and Hari were partners in a firm sharing profits and losses in the ratio of 2:3. Their fixed capitals were Rs 4,00,000 and Rs 3,00,000 respectively. The partnership deed provided that Hari is to be allowed a commission of 5% of net profit.

The net profit of the firm for the year ended 31st March, 2025 was Rs 1,00,000.

Pass the following journal entries in the books of the firm:

(i) For crediting Hari's commission to his current account.

(ii) For transferring the commission to Profit and Loss Appropriation Account. [3 marks]

Solution:

Concept:

- A partner's commission is an appropriation of profit, calculated on the given net profit unless the deed specifies an after-commission basis.
- With fixed capitals, credit the partner's Current Account for commission, and close Commission Account by transfer to Profit and Loss Appropriation Account.

Step 1: Calculate Hari's commission **Working Notes:** The deed allows Hari 5% of net profit. Since the question does not state that commission is calculated after charging the commission itself, apply the rate directly to Rs 1,00,000.

$$\text{Hari's commission} = 1,00,000 \times \frac{5}{100} = \text{Rs } 5,000.$$

Hari's fixed capital stays at Rs 3,00,000. The 2:3 ratio applies to residual profit and does not affect his commission.

Step 2: Credit the commission to Hari's Current Account **Journal of the firm — entry (i)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-03-2025	Hari's Commission A/c Dr.		5,000	
	To Hari's Current A/c			5,000
	(Being commission at 5% of net profit credited to Hari's Current Account)			

This entry recognises the amount due to Hari and creates a debit balance in his Commission Account.

Step 3: Transfer commission to the appropriation account **Journal of the firm — entry (ii)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-03-2025	Profit and Loss Appropriation A/c Dr.		5,000	
	To Hari's Commission A/c			5,000
	(Being Hari's commission transferred to Profit and Loss Appropriation Account)			

Crediting the Commission Account closes its debit balance. The appropriation reduces the profit available for distribution without treating the partner's commission as an operating expense.

Step 4: Conclusion Hari's commission of Rs 5,000 is credited to his Current Account and charged to Profit and Loss Appropriation Account through the two entries above.

Quick Tip to Solve: With fixed capitals, route Hari's Rs 5,000 commission to his Current Account. Use a separate Commission Account because the question asks for recognition and transfer entries.

21. On 1st April, 2024 Bhumika Ltd. issued 500, 9% debentures of Rs 500 each at a discount of 10% redeemable at a premium of 6% after five years. On 31st March, 2025 the company had a balance of Rs 30,000 in its Securities Premium Account.

Pass necessary journal entries for issue of 9% Debentures and writing off Loss on issue of Debentures. Also prepare 'Loss on Issue of Debentures Account'. [4 marks]

Solution:

Concept:

- Debentures are credited at their face value. A discount on issue reduces the cash received, while premium on redemption creates an additional liability.
- Loss on issue of debentures equals discount on issue plus premium payable on redemption. It is written off using the available Securities Premium Account and charging the balance to Statement of Profit and Loss.

Step 1: Working Notes: calculate the issue proceeds and loss The face value of 500 debentures is $500 \times \text{Rs } 500 = \text{Rs } 2,50,000$. The rates of discount and redemption premium both apply to this face value.

$$\text{Discount} = 2,50,000 \times 10\% = \text{Rs } 25,000,$$

$$\text{Bank receipt} = 2,50,000 - 25,000 = \text{Rs } 2,25,000,$$

$$\text{Redemption premium} = 2,50,000 \times 6\% = \text{Rs } 15,000,$$

$$\text{Loss on issue} = 25,000 + 15,000 = \text{Rs } 40,000.$$

Securities premium absorbs Rs 30,000 of this loss; the remaining $40,000 - 30,000 = \text{Rs } 10,000$ is charged to Statement of Profit and Loss. The 9% rate determines interest, which is not part of loss on issue.

Step 2: Record the journal entries in the books of Bhumika Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2024	Bank A/c Dr.		2,25,000	
	Loss on Issue of Debentures A/c Dr.		40,000	
	To 9% Debentures A/c			2,50,000
	To Premium on Redemption of Debentures A/c			15,000
	(Being 500 debentures of Rs 500 each issued at 10% discount, redeemable at 6% premium.)			
31 Mar 2025	Securities Premium A/c Dr.		30,000	
	Statement of Profit and Loss Dr.		10,000	
	To Loss on Issue of Debentures A/c			40,000
	(Being the loss on issue written off against available securities premium and Statement of Profit and Loss.)			

The issue entry balances at Rs 2,65,000 on each side. Recognition of the redemption premium now records the obligation; it does not mean that redemption cash is paid on the issue date.

Step 3: Prepare Loss on Issue of Debentures Account **Loss on Issue of Debentures Account**

Dr.			Cr.
Particulars	Rs	Particulars	Rs
1 Apr 2024		31 Mar 2025	
To 9% Debentures A/c (discount)	25,000	By Securities Premium A/c	30,000
To Premium on Redemption of Debentures A/c	15,000	By Statement of Profit and Loss	10,000
Total	40,000	Total	40,000

The account is fully written off, so there is no balance to carry down. The five-year redemption term does not divide this write-off into five annual instalments.

Step 4: Conclusion The total loss of Rs 40,000 is written off by debiting Securities Premium Account with Rs 30,000 and Statement of Profit and Loss with Rs 10,000; Loss on Issue of Debentures Account closes with nil balance.

Quick Tip to Solve: Add the issue discount and redemption premium before writing off the loss; do not include the 9% debenture interest in that loss.

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22. Kiran, Raveena and Hina were partners in a firm sharing profits and losses in the ratio of 5:3:2. The firm closes its books on 31st March every year. As per the terms of the partnership deed, on the death of any partner, the goodwill of the firm will be calculated on the basis of four times the average profits of the last three years. Hina died on 1st July 2025. The Profits for the last three years were:

2022-23 Rs 4,75,000

2023-24 Rs 4,05,000

2024-25 Rs 3,20,000

Hina's share of profit upto the date of death was to be calculated on the basis of previous year's profit.

(i) Calculate goodwill of the firm and Hina's share of goodwill.

(ii) Calculate Hina's share in the profits of the firm till the date of her death.

(iii) Pass necessary journal entries for the treatment of goodwill without opening goodwill account and for Hina's share of profit at the time of her death. [4 marks]

Solution:

Concept:

- Goodwill under the average-profit method equals average annual profit multiplied by the agreed years' purchase. A deceased partner receives goodwill in the old profit-sharing ratio.
- Continuing partners compensate the deceased partner for goodwill in their gaining ratio. If no new ratio is specified, they continue in their old relative ratio.
- Profit up to death, estimated from the previous year's profit, equals that annual profit multiplied by the elapsed fraction of the year and the deceased partner's share. Profit and Loss Suspense Account is debited for this estimated share.

Step 1: Working Notes: calculate goodwill and Hina's share For part (i), use the three completed financial years preceding Hina's death. Each year's profit receives equal weight under the average-

profit method:

$$\begin{aligned}\text{Total profits} &= 4,75,000 + 4,05,000 + 3,20,000\\ &= \text{Rs } 12,00,000,\\ \text{Average annual profit} &= \frac{12,00,000}{3} = \text{Rs } 4,00,000,\\ \text{Firm's goodwill} &= 4,00,000 \times 4 = \text{Rs } 16,00,000,\\ \text{Hina's goodwill share} &= 16,00,000 \times \frac{2}{10} = \text{Rs } 3,20,000.\end{aligned}$$

No new profit-sharing arrangement is stated. Therefore, Kiran and Raveena share future profits in their old relative ratio of $5:3$. Their gains are

$$\text{Kiran: } \frac{5}{8} - \frac{5}{10} = \frac{1}{8}; \qquad \text{Raveena: } \frac{3}{8} - \frac{3}{10} = \frac{3}{40}.$$

Thus their gaining ratio is $5:3$, and their goodwill charges are $3,20,000 \times 5/8 = \text{Rs } 2,00,000$ and $3,20,000 \times 3/8 = \text{Rs } 1,20,000$, respectively. Their combined gain $1/8 + 3/40 = 2/10$ equals Hina's old share.

Step 2: Calculate profit up to the date of death For part (ii), the accounting year starts on 1st April 2025. The period up to 1st July 2025 is three months, April to June. Use the immediately preceding year's profit of Rs 3,20,000, as required by the deed; the three-year average used for goodwill is not the basis here.

$$\begin{aligned}\text{Estimated firm profit} &= 3,20,000 \times \frac{3}{12} = \text{Rs } 80,000,\\ \text{Hina's profit share} &= 80,000 \times \frac{2}{10} = \text{Rs } 16,000.\end{aligned}$$

Step 3: Pass the goodwill and profit adjustment entries For part (iii), credit Hina's Capital Account directly for goodwill, without opening Goodwill Account. The continuing partners bear the charge in their gaining ratio.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Jul 2025	Kiran's Capital A/c Dr.		2,00,000	
	Raveena's Capital A/c Dr.		1,20,000	
	To Hina's Capital A/c			3,20,000
	(Being Hina's share of goodwill adjusted through the continuing partners' capital accounts in their gaining ratio of 5:3.)			
1 Jul 2025	Profit and Loss Suspense A/c Dr.		16,000	
	To Hina's Capital A/c			16,000
	(Being Hina's estimated share of profit from 1st April 2025 up to her death credited to her capital account.)			

The first entry balances at Rs 3,20,000 and the second at Rs 16,000. The suspense debit records the interim estimate until the firm's actual profit for the year is determined.

Step 4: Conclusion The firm's goodwill is Rs 16,00,000, Hina's goodwill share is Rs 3,20,000, and her profit share up to death is Rs 16,000. Kiran and Raveena are debited Rs 2,00,000 and Rs 1,20,000 for goodwill; Hina's Capital Account is credited with a total of Rs 3,36,000 through these two adjustments.

Quick Tip to Solve: Keep the two profit bases separate: use the three-year average for goodwill, but only the 2024–25 profit for the three-month profit estimate.

23. Ravneet and Manmeet were partners in a firm sharing profits and losses in the ratio of 7:3. On 31st March, 2025, their Balance Sheet was as follows:

Balance Sheet of Ravneet and Manmeet as on 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	4,50,000	Cash at Bank	2,50,000
Capitals:		Stock	2,50,000
Ravneet 5,00,000		Debtors	2,00,000
Manmeet 3,00,000	8,00,000	Plant & Machinery	5,50,000
	12,50,000		12,50,000

On the above date, the firm was dissolved. The plant and machinery was sold at Rs 4,87,000 and stock at 20% less than the book value. Debtors realised Rs 1,40,000.

Ravneet agreed to bear all realisation expenses for which he was allowed a commission of Rs 9,000. Actual realisation expenses amounted to Rs 7,500.

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

Solution:

Concept:

- Realisation Account records the transfer and disposal of non-cash assets and settlement of outside liabilities. Bank and partners' capital balances are not transferred to it.
- Realisation profit or loss is transferred to partners in their existing profit-sharing ratio, here Ravneet : Manmeet $= 7:3$.
- When a partner bears realisation expenses for an agreed commission, debit Realisation and credit that partner's capital with the commission. Expenses personally borne by that partner require no separate entry in the firm's books.

Step 1: Working Notes: calculate realisations and the loss Stock sells at 20% below its book value:

$$\text{Stock proceeds} = 2,50,000 \times 80\% = \text{Rs } 2,00,000.$$

The total non-cash assets transferred are

$$2,50,000 + 2,00,000 + 5,50,000 = \text{Rs } 10,00,000.$$

Bank receives Rs 4,87,000 for plant and machinery, Rs 2,00,000 for stock and Rs 1,40,000 from debtors, a total of Rs 8,27,000. Creditors are paid their book balance of Rs 4,50,000 because no concession is given. Ravneet is credited with his agreed commission of Rs 9,000; the actual Rs 7,500 is borne by him and is not charged again to Realisation Account.

$$\begin{aligned}\text{Realisation loss} &= (10,00,000 + 4,50,000 + 9,000) \\ &\quad - (4,50,000 + 8,27,000) \\ &= \text{Rs } 1,82,000.\end{aligned}$$

$$\text{Ravneet's share} = 1,82,000 \times 7/10 = \text{Rs } 1,27,400,$$

$$\text{Manmeet's share} = 1,82,000 \times 3/10 = \text{Rs } 54,600.$$

Step 2: Prepare Realisation Account

Realisation Account

Dr. Particulars	Rs	Cr. Particulars	Rs
To Stock	2,50,000	By Creditors	4,50,000
To Debtors	2,00,000	By Bank: Plant	4,87,000
To Plant and Machinery	5,50,000	By Bank: Stock	2,00,000
To Bank (creditors)	4,50,000	By Bank: Debtors	1,40,000
To Ravneet's Capital (commission)	9,000	By Ravneet's Capital (loss)	1,27,400
		By Manmeet's Capital (loss)	54,600
Total	14,59,000	Total	14,59,000

The loss appears on the credit side of Realisation Account to close its excess debit, and on the debit side of the partners' capital accounts.

Step 3: Prepare Partners' Capital Accounts

Partners' Capital Accounts

Dr. Particulars	Ravneet Rs	Manmeet Rs	Cr. Particulars	Ravneet Rs	Manmeet Rs
To Realisation (loss)	1,27,400	54,600	By Balance b/d	5,00,000	3,00,000
To Bank (final payment)	3,81,600	2,45,400	By Realisation (commission)	9,000	–
Total	5,09,000	3,00,000	Total	5,09,000	3,00,000

Both accounts close after the bank payments; no balance is carried forward after dissolution. As a cross-check, cash available for partners is

$$2,50,000 + 8,27,000 - 4,50,000 = \text{Rs } 6,27,000,$$

which equals $3,81,600 + 2,45,400$. The commission is included in Ravneet's capital payment rather than paid separately again.

Step 4: Conclusion Realisation loss is Rs 1,82,000, borne by Ravneet and Manmeet as Rs 1,27,400 and Rs 54,600 respectively. The final bank payments are Rs 3,81,600 to Ravneet and Rs 2,45,400 to Manmeet; both capital accounts and Realisation Account close.

Quick Tip to Solve: Charge only the Rs 9,000 commission to Realisation when Ravneet bears the actual expenses. Charging Rs 7,500 again would overstate the firm's loss.

24(a). Generic Pharma Ltd. invited applications for using 3,00,000 equity shares of Rs 10 each at a premium of Rs 6 per share. The amount was payable as follows:

on Application and Allotment - Rs 4 per share (including premium of Rs 2 per share)

on First and Final Call - Balance

Applications for 4,00,000 shares were received. Applications for 40,000 shares were rejected and the application money was refunded. Shares were allotted on pro-rata basis to the remaining applicants. Excess money received on applications was adjusted towards sums due on first and final call. Jain, an applicant for 3,600 shares failed to pay the first and final call. His shares were forfeited.

Pass necessary journal entries in the books of Generic Pharma Ltd. for the above transactions. Open 'calls in arrears account' and 'calls in advance account', wherever necessary. [6 marks]

Solution:

Concept:

- Share capital records the face value; Securities Premium records the excess issue price. Here application and allotment includes Rs 2 capital and Rs 2 premium, while the final call includes Rs 8 capital and Rs 4 premium per share.
- Under pro-rata allotment, shares allotted equal shares applied for multiplied by the allotment ratio. Excess application money adjusted against a future call is credited to Calls in Advance until that call becomes due.
- On forfeiture, debit called-up Share Capital and unpaid Securities Premium, credit Calls in Arrears, and transfer the capital already received to Share Forfeiture. Premium received is not forfeited.

Step 1: Working Notes: calculate allotment and Jain's default Applications retained are $4,00,000 - 40,000 = 3,60,000$ shares; the ratio of allotment to applications is $3,00,000 : 3,60,000 = 5 : 6$.

$$\begin{aligned}\text{Jain's allotment} &= 3,600 \times 5/6 = 3,000 \text{ shares},\\ \text{Jain's money received} &= 3,600 \times 4 = \text{Rs } 14,400,\\ \text{Application/allotment due} &= 3,000 \times 4 = \text{Rs } 12,000,\\ \text{Jain's excess} &= 14,400 - 12,000 = \text{Rs } 2,400.\end{aligned}$$

The final call is $10+6-4 = \text{Rs } 12$ per share. Jain owes $3,000 \times 12 = \text{Rs } 36,000$; after adjustment of Rs 2,400 his unpaid call is Rs 33,600. The capital received on his shares is $3,000 \times 2 + 2,400 = \text{Rs } 8,400$, including the advance adjusted against call capital. The Rs 6,000 application/allotment premium has been received, but the final-call premium of $3,000 \times 4 = \text{Rs } 12,000$ remains unpaid and is reversed on forfeiture.

$$\begin{aligned}\text{Total excess retained} &= (3,60,000 - 3,00,000) \times 4\\ &= \text{Rs } 2,40,000,\\ \text{Bank receipt on call} &= 36,00,000 - 2,40,000 - 33,600\\ &= \text{Rs } 33,26,400.\end{aligned}$$

Step 2: Record application, allotment and refund

Journal of Generic Pharma Ltd.				
Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
–	Bank A/c Dr. To Share Application and Allotment A/c (Money received on 4,00,000 applications at Rs 4 each)		16,00,000	 16,00,000

–	Share Application and Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	  To Bank A/c
	  To Calls in Advance A/c
	(3,00,000 shares allotted; money on 40,000 rejected applications refunded and excess retained for the final call)
			16,00,000	
				6,00,000
				6,00,000
				1,60,000
				2,40,000

The application and allotment account closes: its Rs 16,00,000 debit is distributed into capital Rs 6,00,000, premium Rs 6,00,000, refund Rs 1,60,000 and advance Rs 2,40,000.

Step 3: Record the final call and its collection

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

–	Share First and Final Call A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Final call of Rs 12 per share due, including Rs 4 premium)
			36,00,000	
				24,00,000
				12,00,000

–	Calls in Advance A/c Dr. To Share First and Final Call A/c (Excess application money adjusted against the final call)		2,40,000	 2,40,000
–	Bank A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Balance call money received except Jain's unpaid amount)		33,26,400 33,600	 33,60,000

Calls in Advance is debited when the advance is used. Calls in Arrears is debited with the amount still unpaid after Jain's advance, not with the gross call of Rs 36,000.

Step 4: Record forfeiture and close the special call accounts

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
	(Jain's 3,000 fully called shares forfeited for non-payment of the final call; unpaid premium reversed)
			30,000
			12,000
				
				33,600
				8,400

The forfeiture entry balances: $30,000 + 12,000 = 33,600 + 8,400 = \text{Rs } 42,000$.

Calls in Advance Account			
Dr. Particulars	Rs	Cr. Particulars	Rs
To Share First and Final Call	2,40,000	By Share Application and Allotment	2,40,000
Total	2,40,000	Total	2,40,000

Calls in Arrears Account			
Dr. Particulars	Rs	Cr. Particulars	Rs
To Share First and Final Call	33,600	By Sundries (forfeiture entry)	33,600
Total	33,600	Total	33,600

Both special call accounts have nil closing balances. Dates are left unspecified because the question provides no transaction dates.

Step 5: Conclusion Jain receives 3,000 shares and defaults on Rs 33,600 after adjustment of Rs 2,400 advance. On forfeiture, Share Capital is debited Rs 30,000 and Securities Premium Rs 12,000; Calls in Arrears is credited Rs 33,600 and Share Forfeiture Rs 8,400.

Quick Tip to Solve: Separate the Rs 4 application/allotment payment into Rs 2 capital and Rs 2 premium, then deduct Jain's Rs 2,400 excess before calculating his arrears.

OR

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

24(b)(i). Diksha Ltd. forfeited 3,000 shares of Rs 10 each for non-payment of final call of Rs 2 per share. Out of these, 600 shares were reissued as fully paid up in such a way that Rs 4,200 was transferred to capital reserve. [3 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up nominal amount, credit the unpaid call and credit Share Forfeiture with the capital amount already received.
- On reissue, the discount is debited to Share Forfeiture. Only the remaining forfeiture amount relating to the shares actually reissued is transferred to Capital Reserve.

Step 1: Calculate the forfeiture and reissue amounts

Working Notes

All Rs 10 per share has been called; only the final call of Rs 2 remains unpaid. Thus the capital received is Rs 8 per share.

$$\text{Capital cancelled} = 3,000 \times 10 = \text{Rs } 30,000,$$
$$\text{Final call unpaid} = 3,000 \times 2 = \text{Rs } 6,000,$$
$$\text{Amount forfeited} = 3,000 \times 8 = \text{Rs } 24,000.$$

For the 600 reissued shares, the available forfeiture credit is $600 \times 8 = \text{Rs } 4,800$. Since Rs 4,200 is transferred to Capital Reserve, the discount on their reissue is $4,800 - 4,200 = \text{Rs } 600$. Consequently, cash received is $600 \times 10 - 600 = \text{Rs } 5,400$, or Rs 9 per share.

Step 2: Record the journal entries in Diksha Ltd.'s books

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
–	Share Capital A/c Dr. To Share Final Call A/c To Share Forfeiture A/c (Being 3,000 shares forfeited for unpaid final call of Rs 2 per share)		30,000	 6,000 24,000
–	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 600 forfeited shares reissued at Rs 9 each as fully paid)		5,400 600	 6,000
–	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on 600 reissued shares transferred to Capital Reserve)		4,200	 4,200

The forfeiture balance of $24,000 - 600 - 4,200 = \text{Rs } 19,200$ relates to the 2,400 shares not yet reissued and remains in Share Forfeiture Account.

Step 3: Conclusion The 600 shares are reissued at Rs 9 per share, bringing in Rs 5,400. The reissue discount is Rs 600 and the capital profit transferred is Rs 4,200.

Quick Tip to Solve: Work backwards from capital reserve: forfeiture credit on 600 shares minus Rs 4,200 gives the reissue discount, not the cash received.

24(b)(ii). Ashoka Ltd. forfeited 2,000 equity shares of Rs 100 each issued at a premium of 10% for non-payment of allotment money of Rs 60 per share (including premium). The first and final call of Rs 20 per share was not yet made. The forfeited shares were re-issued at Rs 70 per share fully paid up. [3 marks]

Solution:

Concept:

- Share Capital is debited on forfeiture with nominal capital called up, excluding any uncalled amount. Share Forfeiture is credited only with the capital already received.
- If premium due on allotment has not been received, debit Securities Premium to reverse it. Reissue discount is adjusted against the forfeiture credit of the reissued shares.

Step 1: Separate capital, premium and uncalled money

Working Notes

The premium is $10\% \times \text{Rs } 100 = \text{Rs } 10$ per share. Allotment of Rs 60 includes this premium, so its

capital component is Rs 50. The Rs 20 first and final call has not been made and creates no unpaid-call balance.

$$\text{Capital called per share} = 100 - 20 = \text{Rs } 80,$$
$$\text{Capital received per share} = 80 - 50 = \text{Rs } 30,$$
$$\text{Called capital on 2,000 shares} = 2,000 \times 80 = \text{Rs } 1,60,000,$$
$$\text{Unpaid premium} = 2,000 \times 10 = \text{Rs } 20,000,$$
$$\text{Unpaid allotment} = 2,000 \times 60 = \text{Rs } 1,20,000,$$
$$\text{Amount forfeited} = 2,000 \times 30 = \text{Rs } 60,000.$$

Step 2: Journalise forfeiture and reissue in Ashoka Ltd.'s books

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
–	Share Capital A/c Dr.		1,60,000	
	Securities Premium A/c Dr.		20,000	
	To Share Allotment A/c			1,20,000
	To Share Forfeiture A/c			60,000
	(Being 2,000 shares forfeited for unpaid allotment, including premium; Rs 20 call not yet made)			
–	Bank A/c Dr.		1,40,000	
	Share Forfeiture A/c Dr.		60,000	
	To Share Capital A/c			2,00,000
	(Being 2,000 shares reissued at Rs 70 each as fully paid Rs 100 shares)			

The reissue creates fully paid capital of $2,000 \times 100 = \text{Rs } 2,00,000$, while bank receives $2,000 \times 70 = \text{Rs } 1,40,000$. Thus the discount is Rs 60,000, exactly equal to the forfeiture credit. No amount remains for transfer to Capital Reserve, so no capital-reserve entry is passed.

Step 3: Conclusion Share Forfeiture is credited with Rs 60,000 on forfeiture and fully utilised against the Rs 60,000 reissue discount. Bank receives Rs 1,40,000; Capital Reserve is nil.

Quick Tip to Solve: Exclude the uncalled Rs 20 when forfeiting, but credit the full Rs 100 face value when reissuing as fully paid; reverse the unpaid Rs 10 premium separately.

25(a). **Sanjay and Vijay were partners in a firm sharing profits and losses in the ratio of 4:3. On 1st April, 2025 they admitted Babul as a new partner for 2/5th share in the profits of the firm. On Babul's admission, the following was agreed upon:**

(i) The new profit sharing ratio of Sanjay, Vijay and Babul will be 3:3:4.

(ii) The goodwill of the firm will be valued at four years purchase of the average profits of the last three years. The profits of the previous three years were:

Year	Profit (Rs)
2022-23	16,500
2023-24	17,500
2024-25	18,500

(iii) Babul will bring his share of goodwill premium in cash, half of which will be withdrawn by Sanjay and Vijay.

(iv) On Babul's admission, revaluation of assets and reassessment of liabilities resulted in a loss of Rs 70,000.

(v) At the time of Babul's admission, the firm had a General Reserve of Rs 28,000.

(vi) After making necessary adjustments relating to goodwill, loss on revaluation and general reserve, the capital accounts of Sanjay and Vijay showed balances of Rs 3,50,000 and Rs 2,50,000 respectively. Babul brought proportionate capital for his 2/5th share in the profits of the firm.

Showing your workings clearly pass necessary journal entries for the above transactions in the books of the firm on Babul's admission. [6 marks]

Solution:

Concept:

- Goodwill premium brought by the incoming partner is credited to the sacrificing partners in their sacrificing ratio, calculated as old share minus new share.
- Accumulated reserves and revaluation profit or loss belong to the old partners and are distributed in their old profit-sharing ratio.
- Proportionate capital is calculated from the combined adjusted capital of the old partners and their combined share in the new firm. The incoming partner's capital is separate from goodwill premium.

Step 1: Calculate the sacrificing ratio and goodwill premium **Working Notes**

Sanjay and Vijay's old ratio is $4:3$; their new shares are each $3/10$. Thus:

$$\text{Sanjay's sacrifice} = \frac{4}{7} - \frac{3}{10} = \frac{19}{70},$$
$$\text{Vijay's sacrifice} = \frac{3}{7} - \frac{3}{10} = \frac{9}{70}.$$

The sacrificing ratio is $19:9$. Their combined sacrifice $28/70 = 2/5$ equals Babul's share, confirming

the calculation.

$$\text{Average profit} = \frac{16,500 + 17,500 + 18,500}{3} = \text{Rs } 17,500,$$

$$\text{Firm's goodwill} = 17,500 \times 4 = \text{Rs } 70,000,$$

$$\text{Babul's premium} = 70,000 \times \frac{2}{5} = \text{Rs } 28,000.$$

Sanjay receives $28,000 \times 19/28 = \text{Rs } 19,000$, and Vijay receives $28,000 \times 9/28 = \text{Rs } 9,000$. Each withdraws half of his premium entitlement: Sanjay Rs 9,500 and Vijay Rs 4,500. Total withdrawal is Rs 14,000.

Step 2: Allocate revaluation loss and reserve, then calculate Babul's capital **Working Notes (continued)**

Revaluation loss and General Reserve are shared by Sanjay and Vijay in their old ratio $4 : 3$, since both relate to the period before Babul's admission.

Particulars	Sanjay (Rs)	Vijay (Rs)
Revaluation loss: Rs 70,000	40,000	30,000
General Reserve: Rs 28,000	16,000	12,000

The question gives the old partners' capital balances *after the necessary adjustments*: Rs 3,50,000 and Rs 2,50,000. Therefore, use their sum directly for the proportionate-capital calculation; do not apply the reserve, loss or goodwill adjustments again.

$$\text{Combined adjusted old capital} = 3,50,000 + 2,50,000 = \text{Rs } 6,00,000,$$

$$\text{Old partners' combined new share} = \frac{3}{10} + \frac{3}{10} = \frac{3}{5},$$

$$\text{Total capital of new firm} = 6,00,000 \times \frac{5}{3} = \text{Rs } 10,00,000,$$

$$\text{Babul's capital} = 10,00,000 \times \frac{2}{5} = \text{Rs } 4,00,000.$$

The question requires Babul to bring proportionate capital. It does not require Sanjay and Vijay to equalise their individual capital balances, so no additional cash adjustment between them is made.

Step 3: Record goodwill receipt, its distribution and withdrawal **Journal of the Firm (1 April 2025)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Bank A/c Dr.		28,000	
	To Premium for Goodwill A/c			28,000
	(Being Babul's share of goodwill premium received in cash.)			
1-4-2025	Premium for Goodwill A/c Dr.		28,000	
	To Sanjay's Capital A/c			19,000
	To Vijay's Capital A/c			9,000
	(Being goodwill premium credited to sacrificing partners in the ratio 19:9.)			
1-4-2025	Sanjay's Capital A/c Dr.		9,500	
	Vijay's Capital A/c Dr.		4,500	
	To Bank A/c			14,000
	(Being half of each old partner's share of goodwill premium withdrawn.)			

Goodwill is dealt with through the premium account, which is fully closed after distribution. No goodwill asset needs to be raised in the books.

Step 4: Record revaluation loss, General Reserve and Babul's capital **Journal of the Firm (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Sanjay's Capital A/c Dr.		40,000	
	Vijay's Capital A/c Dr.		30,000	
	To Revaluation A/c			70,000
	(Being revaluation loss transferred to old partners' capitals in the ratio 4:3.)			
1-4-2025	General Reserve A/c Dr.		28,000	
	To Sanjay's Capital A/c			16,000
	To Vijay's Capital A/c			12,000
	(Being General Reserve distributed between the old partners in the ratio 4:3.)			
1-4-2025	Bank A/c Dr.		4,00,000	
	To Babul's Capital A/c			4,00,000
	(Being proportionate capital brought by Babul for his 2/5 share.)			

Only the net revaluation loss is specified; individual asset and liability changes are not given. Therefore its transfer is recorded without inventing asset-wise adjustment entries. Babul's total cash contribution is Rs 4,28,000, comprising capital Rs 4,00,000 and goodwill premium Rs 28,000. After the old partners' Rs 14,000 withdrawal, these transactions increase bank by Rs 4,14,000.

Step 5: Conclusion The sacrificing ratio is $\boxed{19:9}$; goodwill is Rs 70,000 and Babul's premium is

Rs 28,000. Babul brings $\boxed{\text{Rs } 4,00,000}$ as capital. Sanjay and Vijay withdraw Rs 9,500 and Rs 4,500 respectively from their goodwill shares, and all six journal entries above balance.

Quick Tip to Solve: Use 19:9 for goodwill, 4:3 for reserve and revaluation, and the old partners' combined new share of 3/5 to calculate Babul's capital from their adjusted Rs 6,00,000.

OR

25(b). Anuj, Divij and Shilpa were partners in a firm sharing profits and losses in the ratio of 2:1:2. Their Balance Sheet as at 31st March, 2023 was as follows:

Balance Sheet of Anuj, Divij and Shilpa as at 31st March, 2023

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Land & Building	8,00,000
Anuj 3,00,000		Furniture	2,40,000
Divij 4,00,000		Stock	1,20,000
Shilpa 5,00,000	12,00,000	Debtors	1,70,000
Bills Payable	60,000	Cash	50,000
Creditors	1,20,000		
	13,80,000		13,80,000

Anuj retired on the above date on the following terms:

(i) Anuj's share of goodwill was valued at Rs 90,000 and the same was to be treated without opening goodwill account.

(ii) Revaluation of assets and reassessment of liabilities resulted in a gain of Rs 25,000.

(iii) Amount due to Anuj was transferred to his loan account, to be paid in two equal yearly instalments plus interest @ 12% p.a. on the unpaid balance starting from 31st March, 2024.

Prepare Partners' Capital Accounts and Anuj's Loan Account till it is fully discharged. [6 marks]

Solution:

Concept:

- Revaluation profit belongs to all existing partners in their old profit-sharing ratio, here Anuj : Divij : Shilpa $= 2:1:2$.
- When goodwill is adjusted without opening a Goodwill Account, debit the gaining partners' capitals and credit the retiring partner's capital with his share of goodwill.
- Transfer the adjusted amount due to the retiring partner to his Loan Account. Each payment equals the fixed principal instalment plus interest on the opening unpaid principal.

Step 1: Working Notes: calculate the retirement adjustments No new ratio is specified, so Divij and

Shilpa continue in their existing relative ratio $1:2$. Their new shares are $1/3$ and $2/3$.

$$\text{Divij's gain} = \frac{1}{3} - \frac{1}{5} = \frac{2}{15},$$
$$\text{Shilpa's gain} = \frac{2}{3} - \frac{2}{5} = \frac{4}{15}.$$

Thus the gaining ratio is $1:2$. Debit Divij's Capital by $90,000 \times 1/3 = \text{Rs } 30,000$ and Shilpa's Capital by $90,000 \times 2/3 = \text{Rs } 60,000$; credit Anuj's Capital by Rs 90,000. This is Anuj's own goodwill share, so it is not multiplied by $2/5$ again.

$$\text{Revaluation profit: Anuj} = 25,000 \times \frac{2}{5} = \text{Rs } 10,000,$$
$$\text{Divij} = 25,000 \times \frac{1}{5} = \text{Rs } 5,000,$$
$$\text{Shilpa} = 25,000 \times \frac{2}{5} = \text{Rs } 10,000.$$

Step 2: Prepare Partners' Capital Accounts **Partners' Capital Accounts as at 31st March, 2023**
All amounts are in Rs. A, D and S denote Anuj, Divij and Shilpa respectively.

Dr.							Cr.
Particulars	A	D	S	Particulars	A	D	S
To Anuj's Capital	–	30,000	60,000	By Balance b/d	3,00,000	4,00,000	5,00,000
To Anuj's Loan	4,00,000		–	–	By Revaluation	10,000	5,000	10,000
To Balance c/d	–	3,75,000	4,50,000	By Divij's Capital	30,000	–	–
				By Shilpa's Capital	60,000	–	–
Total	4,00,000	4,05,000	5,10,000	Total	4,00,000	4,05,000	5,10,000
				By Balance b/d	–	3,75,000	4,50,000

The last row brings the continuing partners' balances forward on 1st April, 2023. Anuj's Capital Account closes because his entire entitlement is transferred to his loan.

Step 3: Working Notes: calculate the instalments and interest Anuj is owed $3,00,000 + 90,000 + 10,000 = \text{Rs } 4,00,000$. Two equal principal instalments are therefore $4,00,000/2 = \text{Rs } 2,00,000$ each. Interest is additional to these instalments.

$$\text{Interest to 31 March 2024} = 4,00,000 \times 12\% = \text{Rs } 48,000,$$
$$\text{First payment} = 2,00,000 + 48,000 = \text{Rs } 2,48,000,$$
$$\text{Interest to 31 March 2025} = 2,00,000 \times 12\% = \text{Rs } 24,000,$$
$$\text{Second payment} = 2,00,000 + 24,000 = \text{Rs } 2,24,000.$$

After the first payment, only Rs 2,00,000 principal remains; interest for the second year is charged on that balance.

Step 4: Prepare Anuj's Loan Account until discharge **Anuj's Loan Account**

Dr.					Cr.
Date	Particulars	Rs	Date	Particulars	Rs
31-03-2024	To Bank	2,48,000	31-03-2023	By Capital	4,00,000
31-03-2024	To Balance c/d	2,00,000	31-03-2024	By Interest	48,000
	Total	4,48,000		Total	4,48,000
31-03-2025	To Bank	2,24,000	01-04-2024	By Balance b/d	2,00,000
			31-03-2025	By Interest	24,000
	Total	2,24,000		Total	2,24,000

Interest increases the amount payable and is credited to the Loan Account; bank payments reduce the liability and are debited. Total payments of Rs 4,72,000 equal principal of Rs 4,00,000 plus total interest of Rs 72,000. No balance remains after the final payment.

Step 5: Conclusion Divij's and Shilpa's closing capitals are $\boxed{\text{Rs } 3,75,000}$ and $\boxed{\text{Rs } 4,50,000}$. Anuj's loan of $\boxed{\text{Rs } 4,00,000}$ is fully discharged by payments of Rs 2,48,000 on 31st March, 2024 and Rs 2,24,000 on 31st March, 2025.

Quick Tip to Solve: Rs 90,000 is already Anuj's goodwill share. Divide it between Divij and Shilpa in their gaining ratio 1:2; for the loan, halve the principal first and add declining-balance interest separately.

26. Dharma Ltd. was registered with an authorised capital of Rs 30,00,000 divided into 3,00,000 equity shares of Rs 10 each. The amount was payable as follows: On Application - Rs 2 per share; On Allotment - Rs 5 per share; On First and Final Call - Balance. The company offered 90,000 shares for public subscription. All the shares were subscribed and the company received all the money due, except allotment and call money on 4,000 shares held by Aditi and call money on 3,000 shares held by Rohit. The directors forfeited shares of Aditi and Rohit. [6 marks]

26(i). The nominal capital of Dharma Ltd. is: [1 mark]

(A) Rs 30,00,000

(B) Rs 3,00,000

(C) Rs 9,00,000

(D) Rs 33,00,000

Correct Answer: (A) Rs 30,00,000

Solution:

Concept:

- Share capital categories distinguish the authorised ceiling, the shares issued and the shares subscribed and paid for.
- Forfeiture removes the defaulting shares from subscribed capital; money already received on them is retained in Share Forfeiture Account.

Step 1: Identify the meaning of nominal capital Nominal capital is the authorised or registered capital: the maximum share capital permitted by the company's constitutional documents. The stem directly states an authorised capital of Rs 30,00,000, divided into 3,00,000 shares of Rs 10 each.

Step 2: Compute the authorised amount and check the choices

$$\text{Nominal capital} = 3,00,000 \times 10 = \text{Rs } 30,00,000.$$

Rs 3,00,000 confuses the number of authorised shares with their rupee value. Rs 9,00,000 is the amount offered to the public, and Rs 33,00,000 has no basis in the stated authorised shares. Subsequent forfeiture does not alter the registered ceiling.

Step 3: Conclusion Nominal capital is $\boxed{\text{Rs } 30,00,000}$. Hence, the correct option is (A).

Quick Tip to Solve: Multiply authorised shares, not shares offered to the public, by face value to obtain nominal capital.

26(ii). The issued capital of the company is: [1 mark]

(A) Rs 3,00,000

(B) Rs 30,00,000

(C) Rs 9,00,000

(D) Rs 33,00,000

Correct Answer: (C) Rs 9,00,000

Solution:

Concept:

- Share capital categories distinguish the authorised ceiling, the shares issued and the shares subscribed and paid for.
- Forfeiture removes the defaulting shares from subscribed capital; money already received on them is retained in Share Forfeiture Account.

Step 1: Identify the shares offered to the public Issued capital is the portion of authorised capital offered for subscription. Dharma Ltd. offered 90,000 equity shares of face value Rs 10 each. Use the shares offered, even though the company was authorised to issue a larger number.

Step 2: Compute issued capital and eliminate alternatives

$$\text{Issued capital} = 90,000 \times 10 = \text{Rs } 9,00,000.$$

Rs 30,00,000 is authorised capital, whereas Rs 3,00,000 is merely the numerical count of authorised shares treated incorrectly as money. Rs 33,00,000 is unrelated to the stated issue. The later forfeiture of defaulting shares does not change the original amount offered for subscription.

Step 3: Conclusion Issued capital is $\boxed{\text{Rs } 9,00,000}$. Hence, the correct option is (C).

Quick Tip to Solve: For issued capital, select the 90,000 shares offered and multiply by Rs 10; do not use the authorised share count.

26(iii). Subscribed and fully paid capital of Dharma Ltd. will be: [1 mark]

(A) Rs 9,00,000

(B) Rs 8,30,000

(C) Rs 8,56,000

(D) Nil

Correct Answer: (B) Rs 8,30,000

Solution:

Concept:

- Share capital categories distinguish the authorised ceiling, the shares issued and the shares subscribed and paid for.
- Forfeiture removes the defaulting shares from subscribed capital; money already received on them is retained in Share Forfeiture Account.

Step 1: Find the shares remaining fully paid All 90,000 shares were originally subscribed. Aditi's 4,000 shares and Rohit's 3,000 shares were forfeited because the required instalments were not fully paid. The other shares are fully paid at Rs 10 each.

$$\text{Fully paid shares} = 90,000 - 4,000 - 3,000 = 83,000.$$

Step 2: Value only the fully paid shares

$$\text{Subscribed and fully paid capital} = 83,000 \times 10 = \text{Rs } 8,30,000.$$

Rs 9,00,000 includes the forfeited shares, which no longer form subscribed capital. Rs 8,56,000 is not the face value of the 83,000 fully paid shares. Nil would incorrectly ignore those remaining shares. The money retained on forfeited shares is shown separately in the share capital note.

Step 3: Conclusion Subscribed and fully paid capital is $\boxed{\text{Rs } 8,30,000}$. Hence, the correct option is (B).

Quick Tip to Solve: After forfeiture, subtract both defaulting holdings from 90,000 before valuing fully paid shares at Rs 10 each.

26(iv). The amount of 'Share Capital' presented in the Balance Sheet of Dharma Ltd. under 'Shareholders Funds' will be:

[1 mark]

(A) Rs 8,30,000

(B) Rs 8,59,000

(C) Rs 9,00,000

(D) Rs 30,00,000

Correct Answer: (B) Rs 8,59,000

Solution:

Concept:

- Share capital categories distinguish the authorised ceiling, the shares issued and the shares subscribed and paid for.
- Forfeiture removes the defaulting shares from subscribed capital; money already received on them is retained in Share Forfeiture Account.

Step 1: Calculate the two components of the share capital head Fully paid capital after forfeiture is $(90,000 - 4,000 - 3,000) \times 10 = \text{Rs } 8,30,000$. The retained paid-up amounts on forfeited shares are added under the Share Capital head. Aditi paid only application money of Rs 2 per share; Rohit paid application plus allotment, or Rs 7 per share.

$$\text{Share forfeiture balance} = 4,000 \times 2 + 3,000 \times 7 = \text{Rs } 29,000.$$

Step 2: Add the retained forfeiture amount

$$\text{Share Capital shown} = 8,30,000 + 29,000 = \text{Rs } 8,59,000.$$

Rs 8,30,000 omits the retained forfeiture balance. Rs 9,00,000 is issued capital before the effect of forfeiture, and Rs 30,00,000 is authorised capital. Neither is the amount presented under this Balance Sheet head after forfeiture. No reissue is stated, so the Rs 29,000 remains in Share Forfeiture Account.

Step 3: Conclusion The Balance Sheet Share Capital amount is $\boxed{\text{Rs } 8,59,000}$. Hence, the correct option is (B).

Quick Tip to Solve: For the Balance Sheet total, add the Rs 29,000 retained on forfeited shares to the Rs 8,30,000 fully paid capital.

26(v). In the Notes to Accounts, the amount to be shown under 'Share Forfeiture Account' will be: [1 mark]

(A) Rs 32,000

(B) Rs 12,000

(C) Rs 44,000

(D) Rs 29,000

Correct Answer: (D) Rs 29,000

Solution:

Concept:

- Share capital categories distinguish the authorised ceiling, the shares issued and the shares subscribed and paid for.
- Forfeiture removes the defaulting shares from subscribed capital; money already received on them is retained in Share Forfeiture Account.

Step 1: Identify the capital money actually received Share Forfeiture Account is credited with capital money received on the forfeited shares. Aditi failed to pay allotment and call money, so she paid only Rs 2 application money per share. Rohit failed only to pay the call, so he paid Rs 2 application plus Rs 5 allotment per share.

Step 2: Calculate and distinguish receipts from arrears

$$\text{Aditi: } 4,000 \times 2 = \text{Rs } 8,000,$$
$$\text{Rohit: } 3,000 \times (2+5) = \text{Rs } 21,000,$$
$$\text{Total forfeiture credit} = \text{Rs } 29,000.$$

Rs 32,000 is Aditi's unpaid allotment and call money, not money forfeited. Rs 12,000 is only her unpaid call money. Rs 44,000 is not the retained capital receipts of either holding or their total. Since no shares have been reissued, the entire Rs 29,000 balance is disclosed.

Step 3: Conclusion Share Forfeiture Account has $\boxed{\text{Rs } 29,000}$. Hence, the correct option is (D).

Quick Tip to Solve: For forfeiture credit use money already received: Aditi Rs 2 and Rohit Rs 7 per share, not their unpaid instalments.

26(vi). Subscribed and not fully paid capital of Dharma Ltd. will be: [1 mark]

(A) Rs 9,00,000

(B) Rs 8,30,000

(C) Rs 8,56,000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- Share capital categories distinguish the authorised ceiling, the shares issued and the shares subscribed and paid for.
- Forfeiture removes the defaulting shares from subscribed capital; money already received on them is retained in Share Forfeiture Account.

Step 1: Identify whether any partly paid holding remains The call is Rs $10 - 2 - 5 = 3$ per share. Aditi and Rohit are the only shareholders who failed to pay all amounts due, and their entire holdings have been forfeited. Consequently their shares are removed from subscribed capital; the retained receipts are transferred to Share Forfeiture Account.

Step 2: Classify the remaining subscribed shares The remaining $90,000 - 4,000 - 3,000 = 83,000$ shares are fully paid at Rs 10 each. No outstanding subscribed shares remain partly paid, so subscribed and not fully paid capital is nil. Rs 9,00,000 is the original issued amount; Rs 8,30,000 is subscribed and fully paid capital. Rs 8,56,000 is neither the value of a remaining partly paid holding nor the correct capital total. The Rs 29,000 forfeiture balance does not create a partly paid subscribed holding.

Step 3: Conclusion Subscribed and not fully paid capital is $\boxed{\text{Nil}}$. Hence, the correct option is (D).

Quick Tip to Solve: Check whether defaulting shares are still held: once both holdings are forfeited, no partly paid subscribed shares remain.

Part B (20 marks)

Option - I (Analysis of Financial Statements)

27(a). The process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of Balance Sheet and the Statement of Profit and Loss is called: [1 mark]

(A) Comparative Statement Analysis

(B) Cash Flow Analysis

(C) Financial Analysis

(D) Common Size Analysis

Correct Answer: (C) Financial Analysis

Solution:

Concept:

- Financial analysis identifies financial strengths and weaknesses by establishing meaningful relationships between financial statement items.
- Comparative statements, common-size statements and cash flow analysis are particular tools of financial analysis.

Step 1: Identify the scope of the definition The question refers to the overall process of examining relationships between Balance Sheet and Statement of Profit and Loss items. This broad process is financial analysis, which helps assess liquidity, profitability, solvency and operational efficiency.

Step 2: Distinguish the specific tools Comparative statement analysis compares financial figures across periods. Common-size analysis expresses items as percentages of a common base. Cash flow analysis focuses on cash inflows and outflows. Each is narrower than the general process defined here.

Step 3: Conclusion The process is Financial Analysis. Hence, the correct option is (C).

Quick Tip to Solve: Look for the broad phrase "financial strengths and weaknesses": it identifies financial analysis, while comparisons and percentages identify its tools.

OR

27(b). Ratios calculated to measure the ability of the business to pay the amount due to stakeholders as and when it is due are known as: [1 mark]

(A) Solvency ratios

(B) Liquidity ratios

(C) Activity ratios

(D) Profitability ratios

Correct Answer: (B) Liquidity ratios

Solution:

Concept:

- Liquidity means the ability to meet short-term obligations as they fall due.
- Liquidity ratios compare current resources with current liabilities; examples include the current ratio and quick ratio.

Step 1: Identify the ability being measured The phrase "as and when it is due" focuses on timely payment of obligations using resources available in the short term. The relevant class of ratios is therefore liquidity ratios.

Step 2: Eliminate the other ratio classes Solvency ratios assess the long-term financial position and ability to service long-term debt. Activity ratios measure how efficiently assets are used, while profitability ratios measure earning capacity. These do not directly measure the immediate payment ability asked here.

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

Quick Tip to Solve: Associate timely settlement of current dues with liquidity; associate long-term debt security with solvency.

28. Which of the following transaction will affect the 'Gross Profit Ratio' of a company:

(i) Revenue from operations Rs 1,00,000

(ii) Purchased goods worth Rs 70,000.

(iii) Goods costing Rs 15,000 withdrawn for personal use.

(iv) Goods costing Rs 50,000 sold for Rs 60,000. [1 mark]

(A) (iv)

(B) (i) and (ii)

(C) (ii) and (iii)

(D) (i) and (iii)

Correct Answer: (A) (iv)

Solution:

Concept:

- Gross profit ratio is $\dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$, where gross profit equals net sales less cost of revenue from operations.
- A sale with both selling price and cost specified provides a definite gross profit margin. Purchases and drawings must be adjusted correctly before determining cost of goods sold.

Step 1: Calculate the margin in transaction (iv) Goods costing Rs 50,000 are sold for Rs 60,000. Thus gross profit on this sale is $60,000 - 50,000 = \text{Rs } 10,000$, and the gross profit percentage on the sale is $\dfrac{10,000}{60,000} \times 100 = 16\dfrac{2}{3}\%$. This sale directly contributes to both gross profit and revenue from operations.

Step 2: Assess the remaining statements Statement (i) gives only revenue from operations, without the corresponding cost or any change in selling margin. Statement (ii), purchase of goods, does not itself establish a realised profit: unsold purchases remain in inventory. In statement (iii), goods withdrawn for personal use are deducted from purchases and recorded as drawings; they are not a sale producing gross profit. Thus the transaction expressly identifying a sale and its gross profit is (iv).

Step 3: Conclusion Transaction (iv) is the appropriate choice. Hence, the correct option is (A).

Quick Tip to Solve: Use selling price, not cost price, as the denominator of the gross profit ratio; first remove goods withdrawn for personal use from purchases.

29(a). Purchase of marketable securities or short term investments are not considered for the preparation of cash flow statement because: [1 mark]

(A) These are current assets

(B) These constitute cash equivalents

(C) These are intangible assets

(D) These are tangible assets

Correct Answer: (B) These constitute cash equivalents

Solution:

Concept:

- Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.
- Movements between cash and cash equivalents are cash-management transactions and do not change their combined total.

Step 1: Identify the category intended The marketable securities or short-term investments referred to here are treated as cash equivalents. Buying them exchanges one component of cash and cash equivalents for another component, so the combined cash balance does not change.

Step 2: Identify why the alternatives fail Being a current asset alone is insufficient: payments for other current assets, such as inventory, may be cash flows. Tangibility or intangibility is unrelated to this exclusion. It is the cash-equivalent character that matters. A short-term investment that fails the cash-equivalent criteria would not qualify for this treatment.

Step 3: Conclusion These constitute cash equivalents. Hence, the correct option is (B).

Quick Tip to Solve: Check cash-equivalent status before classifying an investment purchase: a transfer within cash and cash equivalents creates no net cash flow.

OR

29(b). Which of the following will not amount to cash outflow from operating activities? [1 mark]

(A) Purchase of marketable securities

(B) Cash payment to suppliers of goods

(C) Payment of employee benefit expenses

(D) Payment of insurance premium

Correct Answer: (A) Purchase of marketable securities

Solution:

Concept:

- Operating cash flows arise from principal revenue-producing activities, such as paying suppliers and employees.
- A purchase of a cash equivalent is a transfer within cash and cash equivalents, rather than an

operating cash outflow.

Step 1: Examine the marketable securities purchase In the context of this question, marketable securities are treated as cash equivalents. Their purchase merely converts cash into another cash-equivalent component and is excluded from the cash flow statement. It therefore does not amount to an operating cash outflow.

Step 2: Classify the other payments Cash paid to suppliers of goods relates to normal trading operations. Employee benefit expenses pay for labour used in operations, and insurance premium is an ordinary operating expense. Consequently, the payments in (B), (C) and (D) are operating cash outflows.

Step 3: Conclusion Purchase of marketable securities is the required choice. Hence, the correct option is (A).

Quick Tip to Solve: Separate payments for day-to-day business costs from transfers between cash and cash equivalents before selecting an operating cash outflow.

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30. Statement-I: In case of non-financial enterprises, receipts of interest and dividend are classified as financing activities.

Statement-II: In case of financial enterprises receipts of interest and dividend are classified as investing activities.

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

(A) Both the Statements are true.

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

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

(D) Both the Statements are false.

Correct Answer: (D) Both the Statements are false.

Solution:

Concept:

- For a non-financial enterprise, interest and dividends received are investing cash flows: they are returns on investments.
- For a financial enterprise, interest and dividends received are operating cash flows because they relate to its principal revenue-producing activities.

Step 1: Evaluate Statement I Statement I calls interest and dividend receipts financing activities for a non-financial enterprise. This is false: such receipts are classified as investing activities. Financing activities concern changes in owners' capital and borrowings, rather than returns earned on investments.

Step 2: Evaluate Statement II Statement II calls these receipts investing activities for a financial enterprise. This is false: earning interest and dividend income forms part of the ordinary business of a financial enterprise, so these receipts are operating cash flows.

Step 3: Compare the combinations Both statements assign the wrong category. Hence (A), which

treats both as true, is rejected, and (B) and (C), each treating one statement as true, are also rejected.

Step 4: Conclusion Both the Statements are false. Hence, the correct option is (D).

Quick Tip to Solve: For receipts of interest and dividends, remember: non-financial enterprise means investing; financial enterprise means operating.

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

(i) Stores and Spare parts

(ii) Livestock

(iii) Public Deposits [3 marks]

Solution:

Concept:

- The Balance Sheet groups assets and liabilities by their nature and current or non-current classification.
- Inventories are current assets, whereas tangible assets held for continuing business use appear within non-current assets. Borrowed funds are liabilities, not shareholders' funds.

Step 1: Classify stores and spare parts Stores and spare parts are consumable materials held for use in business operations. In the standard classification asked here, they are included in Inventories under the major head Current Assets. Their physical form does not make them fixed assets: their purpose is consumption or use in the operating cycle.

Step 2: Classify livestock Livestock held for continuing use in the business is a physical asset. Under the prescribed school-level Schedule III classification, it is shown under Non-Current Assets, within Fixed Assets (Tangible Assets), also described as Property, Plant and Equipment. It is not an intangible asset because it has physical existence.

Step 3: Classify public deposits Public deposits are funds borrowed from the public and are repayable obligations. In the usual classification, with no short-term maturity specified in this question, they are shown under Non-Current Liabilities, in Long-Term Borrowings. They are not share capital or reserves. A deposit specifically repayable within the current classification period would instead require current-liability treatment.

Step 4: Present the required heads and sub-heads

Item	Major head	Sub-head
Stores and spare parts	Current Assets	Inventories
Livestock	Non-Current Assets	Fixed Assets: Tangible Assets (Property, Plant and Equipment)
Public deposits	Non-Current Liabilities	Long-Term Borrowings

Step 5: Conclusion Stores and spare parts: Current Assets–Inventories; livestock: Non-Current Assets–Tangible Fixed Assets; public deposits: Non-Current Liabilities–Long-Term Borrowings.

Quick Tip to Solve: Classify by use and repayment period: consumable stores are inventory, livestock used in business is tangible, and public deposits are borrowed funds.

32. From the following Balance sheets of Royal Sugar Mills Ltd. as at 31st March, 2024 and 2025, prepare a Comparative Balance Sheet:

Particulars	Note No.	31-3-2025 (Rs)	31-3-2024 (Rs)
I. Equity and Liabilities:			
1. Shareholders' Funds			
Share Capital		24,00,000	20,00,000
2. Non-current Liabilities			
Long term borrowings		12,00,000	10,00,000
3. Current liabilities			
Trade Payables		6,00,000	5,00,000
Total		42,00,000	35,00,000
II. Assets:			
1. Non-Current Assets			
Property, plant and equipment and intangible assets		30,00,000	25,00,000
2. Current Assets			
(a) Inventories		2,00,000	4,00,000
(b) Cash & Cash equivalents		10,00,000	6,00,000
Total		42,00,000	35,00,000

[3 marks]

Solution:

Concept:

- A comparative balance sheet shows each item in the previous year and current year, its absolute change and its percentage change. Here 31 March 2024 is the base date.
- Absolute change $=$ Amount in 2025 $-$ Amount in 2024. Percentage change $= \dfrac{\text{Absolute change}}{\text{Amount in 2024}} \times 100$. A negative change denotes a decrease.

Step 1: Calculate changes using the previous year as the base The liabilities-side items each increase by one-fifth of their 2024 amounts. For example, share capital increases by Rs $24,00,000 -$ Rs $20,00,000 =$ Rs $4,00,000$, giving $4,00,000/20,00,000 \times 100 = 20\%$. For inventories, the change is Rs $2,00,000 -$ Rs $4,00,000 =$ $-$Rs $2,00,000$, or -50%. For cash and cash equivalents, it is Rs $4,00,000$, or $4,00,000/6,00,000 \times 100 = 66.67\%$.

Step 2: Prepare the comparative balance sheet

Royal Sugar Mills Ltd.
Comparative Balance Sheet
as at 31 March 2024 and 2025

Particulars	2024 (Rs)	2025 (Rs)	Change (Rs)	Change (%)
I. Equity and Liabilities				
Shareholders' funds:				
Share capital	20,00,000	24,00,000	4,00,000	20
Non-current liabilities:				
Long-term borrowings	10,00,000	12,00,000	2,00,000	20
Current liabilities:				
Trade payables	5,00,000	6,00,000	1,00,000	20
Total	**35,00,000**	**42,00,000**	**7,00,000**	**20**
II. Assets				
Non-current assets:				
Property, plant and equipment and intangible assets	25,00,000	30,00,000	5,00,000	20
Current assets:				
Inventories	4,00,000	2,00,000	(2,00,000)	(50)
Cash and cash equivalents	6,00,000	10,00,000	4,00,000	66.67
Total	**35,00,000**	**42,00,000**	**7,00,000**	**20**

Figures in parentheses denote decreases. Percentage figures are rounded to two decimal places where necessary. The asset changes reconcile: $5,00,000 - 2,00,000 + 4,00,000 = 7,00,000$, equal to the increase in equity and liabilities.

Step 3: Conclusion Total assets and total equity and liabilities both increased by Rs $7,00,000$, or 20%. Inventories decreased by 50%, while cash and cash equivalents increased by 66.67%.

Quick Tip to Solve: Always divide the change by the 2024 amount, even though the question prints the 2025 column first.

33(a). From the following information, calculate:

(i) Current ratio and

(ii) Debt to capital employed ratio

Information	Rs
Total Assets	6,00,000
Non-Current Liabilities	1,40,000
Shareholders' Funds	4,20,000
Non-current Assets	5,20,000

[4 marks]

Solution:

Concept:

- Current ratio $= \dfrac{\text{Current assets}}{\text{Current liabilities}}$. Current assets equal total assets less non-current assets.
- The balance-sheet equation gives total assets equal to shareholders' funds plus non-current liabilities plus current liabilities.
- Debt to capital employed ratio $= \dfrac{\text{Long-term debt}}{\text{Capital employed}}$, where capital employed equals shareholders' funds plus non-current liabilities. Here the given non-current liabilities constitute long-term debt.

Step 1: (i) Determine current assets and current liabilities All amounts below are in rupees. Current assets are the portion of total assets remaining after deducting non-current assets:

$$\begin{aligned}\text{Current assets} &= 6,00,000 - 5,20,000\\ &= 80,000.\end{aligned}$$

Current liabilities are the balance of total financing after deducting shareholders' funds and non-current liabilities:

$$\begin{aligned}\text{Current liabilities} &= 6,00,000 - 4,20,000 - 1,40,000\\ &= 40,000.\end{aligned}$$

Do not treat total outside liabilities as current liabilities; non-current liabilities must first be excluded.

Step 2: (i) Calculate the current ratio Substituting the current assets and current liabilities:

$$\text{Current ratio} = \frac{80,000}{40,000} = 2:1.$$

Thus, the company has Rs 2 of current assets for each rupee of current liabilities. Non-current assets are excluded because this ratio compares short-term resources with short-term obligations.

Step 3: (ii) Calculate debt to capital employed ratio Capital employed represents the long-term funds invested in the business:

$$\begin{aligned}\text{Capital employed} &= 4,20,000 + 1,40,000\\ &= 5,60,000.\end{aligned}$$

The same amount is obtained from total assets less current liabilities: $6,00,000 - 40,000 = 5,60,000$.

$$\text{Debt to capital employed ratio} = \frac{1,40,000}{5,60,000} = 0.25 : 1.$$

Long-term debt therefore supplies 25% of capital employed. Using shareholders' funds alone as the denominator would calculate a different ratio, namely debt-equity ratio.

Step 4: Conclusion (i) Current ratio $= \boxed{2 : 1}$. (ii) Debt to capital employed ratio $= \boxed{0.25 : 1}$, equivalent to 25%.

Quick Tip to Solve: Find current liabilities from the balance-sheet equation, then cross-check capital employed as total assets minus current liabilities.

OR

33(b). From the following information, calculate:

(i) Debt-Equity Ratio and

(ii) Total Assets to Debt ratio

Information	Rs
Long-term borrowings	8,00,000
Other long-term liabilities	80,000
Long term provisions	1,20,000
Share capital	24,00,000
Reserves and Surplus	6,00,000
Non-current Assets	36,00,000
Current Assets	14,00,000
Current Liabilities	10,00,000

[4 marks]

Solution:

Concept:

- Debt-equity ratio $= \dfrac{\text{Long-term debt}}{\text{Shareholders' funds}}$. Long-term debt includes long-term borrowings, other long-term liabilities and long-term provisions.
- Shareholders' funds equal share capital plus reserves and surplus. Total assets equal non-current assets plus current assets.
- Total assets to debt ratio $= \dfrac{\text{Total assets}}{\text{Long-term debt}}$. Current liabilities are excluded from debt in both these long-term solvency ratios.

Step 1: Identify long-term debt and shareholders' funds All amounts below are in rupees. Aggregate

all the non-current liability categories, rather than using only long-term borrowings:

$$\begin{aligned}\text{Long-term debt} &= 8,00,000 + 80,000 + 1,20,000\\ &= 10,00,000.\\ \text{Shareholders' funds} &= 24,00,000 + 6,00,000\\ &= 30,00,000.\end{aligned}$$

The Rs 10,00,000 of current liabilities is a separate short-term source of finance. It is not added to the debt figure for these ratios. Reserves and surplus belong to equity and must be added to share capital.

Step 2: (i) Calculate debt-equity ratio Compare long-term outside funds with owners' funds:

$$\text{Debt-equity ratio} = \frac{10,00,000}{30,00,000} = 1:3 = 0.33:1 \text{ (approximately)}.$$

This means that for every Rs 3 supplied by shareholders, Rs 1 is supplied through long-term debt. The exact ratio is $1:3$; the decimal form is rounded to two decimal places. Using only share capital in the denominator would omit the owners' reserves.

Step 3: (ii) Calculate total assets to debt ratio Include both categories of assets:

$$\begin{aligned}\text{Total assets} &= 36,00,000 + 14,00,000\\ &= 50,00,000.\\ \text{Total assets to debt ratio} &= \frac{50,00,000}{10,00,000}\\ &= 5:1.\end{aligned}$$

The company has Rs 5 of total assets for each rupee of long-term debt. As a cross-check, total assets equal total financing: shareholders' funds of Rs 30,00,000 plus long-term debt of Rs 10,00,000 plus current liabilities of Rs 10,00,000 equals Rs 50,00,000. Current liabilities are used in this balance-sheet check but not in the ratio's denominator.

Step 4: Conclusion (i) Debt-equity ratio $= \boxed{1:3}$, or approximately $\boxed{0.33:1}$. (ii) Total assets to debt ratio $= \boxed{5:1}$.

Quick Tip to Solve: Add all three non-current liability amounts to obtain debt; the current liabilities figure is useful only for the balance-sheet cross-check here.

34. For the year ended 31st March 2025, Sona Ltd. made a profit of Rs 4,00,000 after charging depreciation of Rs 75,000 on fixed assets and a transfer of Rs 1,50,000 to general reserve. Goodwill written off during the year was Rs 80,000. The company sold machinery of the book value of Rs 90,000 at Rs 95,000. During the year, trade receivables increased by Rs 40,000 and trade payables increased by Rs 30,000. Prepaid expenses increased by Rs 2,000 and outstanding wages decreased by Rs 20,000.

Calculate cash flows from operating activities. [6 marks]

Solution:

Concept:

- Under the indirect method, begin with net profit before tax and adjust for non-cash items, non-operating items and changes in operating working capital.
- A transfer to general reserve is an appropriation of profit, not an operating expense. Add it back when the stated profit is after that transfer.
- An increase in an operating current asset reduces operating cash flow; an increase in an operating current liability increases it. Decreases have the opposite effect.

Step 1: Restore profit before its appropriation **Working Notes**

The stated profit of Rs 4,00,000 is after transfer of Rs 1,50,000 to general reserve. This transfer merely moves profit within shareholders' funds; it does not involve a cash payment. Therefore,

$$\text{Profit before reserve transfer} = 4,00,000 + 1,50,000 = \text{Rs } 5,50,000.$$

No income-tax expense or tax payment is given, so no separate tax adjustment is required.

Step 2: Remove non-cash and non-operating effects Depreciation of Rs 75,000 and goodwill written off of Rs 80,000 reduce accounting profit without using cash in the current year. Both are added back. The profit on sale of machinery is

$$\text{Profit on sale} = 95,000 - 90,000 = \text{Rs } 5,000.$$

This gain is deducted from operating profit because the machinery disposal belongs to investing activities. The full sale proceeds of Rs 95,000 are not an operating receipt.

$$\begin{aligned}\text{Operating profit before working-capital changes} &= 5,50,000 + 75,000 + 80,000 - 5,000 \\ &= \text{Rs } 7,00,000.\end{aligned}$$

Step 3: Adjust operating working capital The Rs 40,000 increase in trade receivables represents revenue not yet collected, so deduct it. The Rs 30,000 increase in trade payables represents expenditure not yet paid, so add it. The Rs 2,000 increase in prepaid expenses represents cash paid ahead of expense recognition, so deduct it. Outstanding wages decreased by Rs 20,000: cash paid exceeds the expense charged by this amount, so deduct it.

$$\text{Net working-capital adjustment} = -40,000 + 30,000 - 2,000 - 20,000 = -\text{Rs } 32,000.$$

Step 4: Prepare the operating-activities statement **Sona Ltd.**
Cash Flow from Operating Activities
For the year ended 31st March, 2025

Particulars	Amount (Rs)
Profit after transfer to general reserve	4,00,000
Add: Transfer to general reserve	1,50,000
Net profit before adjustments	5,50,000
Add: Depreciation on fixed assets	75,000
Add: Goodwill written off	80,000
Less: Profit on sale of machinery	(5,000)
Operating profit before working-capital changes	7,00,000
Less: Increase in trade receivables	(40,000)
Add: Increase in trade payables	30,000
Less: Increase in prepaid expenses	(2,000)
Less: Decrease in outstanding wages	(20,000)
Net cash from operating activities	6,68,000

Step 5: Conclusion Net cash generated from operating activities for the year ended 31st March, 2025 is $\boxed{\text{Rs } 6,68,000}$.

Quick Tip to Solve: First restore the reserve transfer, then add back non-cash charges. Deduct only the machinery-sale profit from operating profit, not its sale proceeds.

Option - II (Computerised Accounting)

27(a). The encryption of data facilitates: [1 mark]

(A) Easy processing of data and keeping records.
(B) Securing the accounting reports.
(C) Generation of mnemonic codes.
(D) Codification

Correct Answer: (B) Securing the accounting reports.

Solution:

Concept:

- Encryption converts readable data into coded form so that authorised access requires the appropriate decryption key.
- Its main purpose is confidentiality and protection of accounting information.

Step 1: Identify the security function Accounting reports may contain confidential financial information. Encryption protects their contents against unauthorised reading during storage or transmission. Thus securing the accounting reports describes the purpose of encryption.

Step 2: Eliminate the other choices Easy processing and record keeping describe general benefits of computerisation, not encryption. Mnemonic codes are memorable identifiers for accounts or

items. Codification classifies or labels data; it does not by itself protect the contents of reports from unauthorised access.

Step 3: Conclusion Encryption facilitates securing the accounting reports. Hence, the correct option is (B).

Quick Tip to Solve: Link encryption with confidentiality and a decryption key; distinguish it from ordinary coding of account names.

OR

27(b). How many columns exist on Excel 2006 worksheet? [1 mark]

(A) 2056

(B) 256

(C) 275

(D) 26

Correct Answer: (B) 256

Solution:

Concept:

- In the legacy Excel worksheet format, columns run from A through IV and there are 256 columns.
- Column labels follow alphabetic notation: after Z come AA, AB and subsequent two-letter labels.

Step 1: Identify the worksheet limit tested The options test the legacy worksheet limit of 256 columns. The terminal column label IV confirms this number: I is the ninth letter and V is the twenty-second, giving $9 \times 26 + 22 = 256$.

Step 2: Check the alternatives Only 256 agrees with the legacy column limit. The value 26 counts just the single-letter labels A through Z and omits the remaining columns. Neither 2056 nor 275 is the applicable column limit. The printed wording uses the designation Excel 2006; the column count represented by the available choices is that of the older worksheet format.

Step 3: Conclusion The worksheet limit intended by the printed choices is 256 columns. Hence, the correct option is (B).

Quick Tip to Solve: Remember A to IV for the legacy worksheet: IV gives $9 \times 26 + 22 = 256$, so 26 alone cannot be the full column count.

28. Which of the following is not contained on formula tab on Excel ribbon? [1 mark]

(A) Defined names

(B) Page layout

(C) Function library

(D) Calculation

Correct Answer: (B) Page layout

Solution:

Concept:

- The Formulas tab groups tools for inserting functions, defining names and controlling formula calculations.
- Page Layout is a separate ribbon tab used for page setup and related worksheet presentation settings.

Step 1: Locate the formula-related groups Function Library provides functions for calculations. Defined Names manages named cells and ranges used in formulas. Calculation controls recalculation settings. Therefore options (A), (C) and (D) belong with the Formulas tab.

Step 2: Identify the separate tab Page Layout concerns settings such as margins, orientation and print arrangement. It is a separate tab, rather than a group contained within the Formulas tab. The question asks which choice is not contained there, so the separate tab must be selected.

Step 3: Conclusion Page layout is not contained on the Formulas tab. Hence, the correct option is (B).

Quick Tip to Solve: For a NOT question, first group Function Library, Defined Names and Calculation together; Page Layout is the separate tab.

29. What will be displayed on the screen when Excel does not recognise the text or formula? [1 mark]

(A) Correct a # DIV/0! Error

(B) Correct a # N/A Error

(C) Correct a # Name Error

(D) Correct a # Null! Error

Correct Answer: (C) Correct a # Name Error

Solution:

Concept:

- Excel displays `#NAME?` when it cannot recognise a name or text used in a formula, for example a misspelled function name.
- Different error indicators identify different causes; an unrecognised name is distinct from division by zero or an unavailable lookup result.

Step 1: Match the error to its cause If a formula contains an unrecognised function or undefined name, Excel cannot interpret that text as a valid formula element. The corresponding error is `#NAME?`,

represented by the printed Name Error choice.

Step 2: Eliminate errors with other meanings `#DIV/0!` means division by zero or a blank divisor. `#N/A` indicates that a required value is unavailable, often in a lookup. `#NULL!` arises from an invalid intersection of ranges. These causes differ from text or a formula name not being recognised.

Step 3: Conclusion Excel displays the `#NAME?` error, corresponding to the printed Name Error choice. Hence, the correct option is (C).

Quick Tip to Solve: When a function name is misspelled or an undefined name is used, think NAME; when the divisor is zero, think DIV/0.

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

(A) Horizontal value

(B) Derived value

(C) Basic value

(D) Vertical value

Correct Answer: (B) Derived value

Solution:

Concept:

- A basic value is entered directly, whereas a derived value is calculated from other values using an expression or function.
- Arithmetic expressions and spreadsheet functions transform their inputs into calculated results.

Step 1: Identify how the value is obtained The question describes an outcome obtained by evaluating an arithmetic expression or a function. For example, if a cell uses the formula $= 5 + 3$, its result 8 is calculated from the inputs, so it is a derived value.

Step 2: Distinguish the other descriptions A basic value is supplied directly as input rather than computed from a formula. Horizontal and vertical describe directions or arrangements of cells; they do not classify the outcome of a calculation. Thus only derived value describes the result of an expression or function.

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

Quick Tip to Solve: Ask whether a value was typed as data or calculated by a formula: typed input is basic, while the calculated result is derived.

OR

30(b). What value of range look up in VLOOKUP() and HLOOKUP() is used for returning only exact value? [1 mark]

(A) False

(B) True

(C) Blank

(D) Zero

Correct Answer: Both (A) FALSE and (D) zero request an exact match.

Solution:

Concept:

- The range lookup argument specifies whether VLOOKUP or HLOOKUP requires an exact match or allows an approximate match.
- The logical value FALSE requests an exact match; the numerical value 0 is its equivalent in this argument.

Step 1: Identify the exact-match setting Set the last argument to FALSE to return a result only for an exact match of the lookup value. If no exact match is found, the lookup returns the `#N/A` error instead of substituting an approximate match. This applies to both vertical and horizontal lookup.

Step 2: Check all printed alternatives Option (A), False, is the standard logical setting. Option (B), True, enables approximate matching, and omitting the optional argument, as suggested by Blank in option (C), defaults to approximate matching. Option (D), Zero, is also accepted as the numerical equivalent of FALSE, so the printed alternatives do not distinguish two technically equivalent exact-match settings.

Step 3: Conclusion Both option (A), FALSE, and option (D), Zero, request an exact match. The printed alternatives therefore have two technically correct answers, so no unique option can be selected.

Quick Tip to Solve: For a customer code or account number, explicitly enter FALSE (or 0) as the last lookup argument to prevent approximate matching.

31. State any three advantages and three limitations of Computerised Accounting System. [3 marks]

Solution:

Concept:

- A Computerised Accounting System (CAS) records and processes accounting data through accounting software to produce useful financial information.
- Its advantages arise from automated processing; its limitations arise from costs, dependence on people and equipment, and risks to electronic records.

Step 1: State three advantages **1. Speed:** A CAS processes large volumes of transactions rapidly and can generate ledgers, trial balances and financial reports without separately preparing each record by hand.

2. Accuracy: Once correct data and accounting instructions are supplied, arithmetic and posting operations are performed consistently, reducing manual calculation and posting errors. Accuracy does not mean that wrongly entered data becomes correct.

3. Timely and updated information: As transactions are recorded, related balances and reports can be updated promptly. Management can obtain current information for decisions without waiting for lengthy manual compilation.

Step 2: State three limitations **1. Installation and maintenance cost:** Computers, accounting software, upgrades and maintenance involve expenditure, which can be substantial for a small business.

2. Need for trained personnel: Employees require training to enter transactions correctly, operate the software and interpret reports. Errors in input or incorrect configuration can still produce misleading accounts.

3. Risk of system failure or data loss: Hardware faults, power problems, malicious software or unauthorised access can disrupt work and damage or expose records. Regular backups and security controls are therefore necessary.

Step 3: Conclusion Three advantages are speed, accuracy and timely information. Three limitations are installation and maintenance costs, the need for trained personnel, and the risk of system failure or data loss.

Quick Tip to Solve: Separate the answer into three benefits and three limitations; qualify accuracy by remembering that the system depends on correct input.

32. What are 'Radar Charts'? What purpose do they serve? [3 marks]

Solution:

Concept:

- A chart presents worksheet data visually, making relationships and comparisons easier to understand than a list of figures alone.
- A radar chart has a separate value axis for each category, with all axes radiating from a common centre. Points belonging to the same data series are joined.

Step 1: Explain the meaning of a radar chart A radar chart is a graphical representation in which categories are arranged around a central point. Each category has its own radial axis, and a data value is plotted along that axis according to its scale. The plotted values for a series are connected to form a closed shape. More than one series can be plotted on the same category axes, allowing their shapes and values to be compared. It is also commonly called a spider chart because of its appearance.

Step 2: Explain the purposes served Radar charts compare the aggregate pattern of several data series across a common set of categories. They show the relative position of each series in each category and help the reader identify stronger and weaker areas, similarities and differences at a glance.

For example, a business may compare actual and budgeted performance across several departments. Plotting both series against the same department categories helps identify departments where actual performance is above or below budget. The chart is particularly useful when the purpose is to compare

a performance profile across categories, rather than to show a continuous time trend. The categories and their scales must be interpreted consistently for a meaningful comparison.

Step 3: Conclusion Radar charts display category values on axes radiating from a common centre. They serve to compare several series across the same categories and reveal their relative performance patterns.

Quick Tip to Solve: Remember the two defining features: axes spread out from one centre, and each series joins its category values into a shape for comparison.

33(a). Explain any two ways in which Computerized Accounting System safeguards the secrecy of business data. [4 marks]

Solution:

Concept:

- Secrecy of accounting data means preventing unauthorised persons from reading or using confidential business information.
- A CAS can protect secrecy through access controls and data encryption. These controls address who may enter the system and whether stored or transmitted data can be understood.

Step 1: Explain password and access security **1. Password security and user access control:** The accounting system requires an authorised user identity and password before permitting access. Only a person with valid credentials is allowed to enter the system. The administrator can assign different access rights according to each employee's duties, restricting the information a user can view and the operations the user can perform.

For example, an employee entering sales invoices need not be allowed to view confidential payroll details or alter the system's security settings. Separate user accounts and appropriate permissions restrict disclosure to employees who need the information for their work. Strong passwords must be kept confidential and access should be withdrawn when a user no longer requires it.

Step 2: Explain data encryption **2. Data encryption:** Encryption converts readable accounting data into coded form by using an encryption process and a key. An authorised recipient uses the appropriate decryption key to convert the coded information back into readable form. A person who obtains the encrypted file without the necessary key cannot readily understand its contents.

Encryption can protect confidential records stored on a computer or backup device and records transmitted electronically. For example, an encrypted file containing salary details remains protected even if an unauthorised person obtains a copy, provided the decryption key is kept secure. Thus encryption protects the information itself in addition to the controls that restrict entry to the system.

Step 3: Conclusion A Computerised Accounting System safeguards secrecy through password-based access controls that restrict authorised users to permitted information, and encryption that makes data unreadable without the proper decryption key.

Quick Tip to Solve: For two distinct safeguards, explain who can access the data using passwords, then explain how encryption protects the contents of the data.

OR

33(b). Name the table which is an interactive way to quickly summaries large amounts of data. State any three reasons why this table is designed. [4 marks]

Solution:

Concept:

- A Pivot Table is an interactive spreadsheet table that summarises a large data set by organising its fields into categories and calculating summaries.
- It helps the user analyse and compare data without manually rewriting the underlying records. The same source data can be viewed in different summarised forms.

Step 1: Identify the table The table described is a **Pivot Table**. For example, a sales register may contain thousands of transactions with customer, product, region and amount fields. A Pivot Table can present a compact summary of these records, such as total sales for each product or region. Three reasons for designing this table are explained below.

Step 2: Query and analyse large amounts of data A Pivot Table enables the user to query large amounts of data in a user-friendly way. Instead of examining every transaction individually, the user can select relevant categories and view the information needed for a particular question, such as the sales attributable to a particular region.

Step 3: Subtotal and aggregate numerical data It can subtotal and aggregate numerical data and summarise it by categories and subcategories. For instance, sales can be totalled product-wise and then region-wise. Summary operations such as sum, count and average make it possible to compare performance and obtain meaningful totals from detailed records.

Step 4: Rearrange the summary to obtain different views It permits the user to move rows to columns or columns to rows, that is, to pivot the report. This rearrangement produces different summaries of the same source data. A report showing products down the rows and regions across the columns can be rearranged to show regions down the rows and products across the columns, making a different comparison easier to study.

Step 5: Conclusion The required table is a **Pivot Table**. It is designed to query large data sets conveniently, subtotal and aggregate numerical data, and pivot rows and columns to present different summaries.

Quick Tip to Solve: Link the word "Pivot" to rearranging the same data: name the table first, then explain three distinct purposes with a short sales-data example.

34. Explain various options available to change the alignment of the text in the cells. [6 marks]

Solution:

Concept:

- Cell alignment determines the position and orientation of a cell's contents within the available cell space. Formatting alignment does not change the underlying value used in calculations.

- The Alignment settings of the Format Cells dialog provide horizontal and vertical alignment, indentation, text orientation and text-control options.

Step 1: Set horizontal alignment Horizontal alignment positions text across the width of the cell. **Left** places it against the left edge, **Center** midway across the cell and **Right** against the right edge. Under **General**, text is normally left-aligned and numbers right-aligned. **Fill** repeats the contents across the cell width. **Justify** spaces wrapped text so that complete lines align with both edges, while **Distributed** spreads the contents across the width. **Center Across Selection** centres a heading across selected cells without merging those cells. For example, a numerical amount can be right-aligned and a column heading centred.

Step 2: Set vertical alignment Vertical alignment positions text within the height of a cell. **Top** places it against the upper edge, **Center** midway between the upper and lower edges and **Bottom** against the lower edge. The **Justify** and **Distributed** options spread lines of text vertically within the available height. These differences become clear when a row is taller than the text it contains.

Step 3: Adjust indentation and orientation **Indentation** offsets the text from the relevant cell edge by the chosen indent level. It helps distinguish subheadings from main headings. **Orientation** changes the angle at which text is displayed; the user may rotate text upwards or downwards, or display it vertically. For example, a long column heading can be rotated to fit a narrow column while remaining identifiable.

Step 4: Wrap text within a cell **Wrap Text** displays a long entry on more than one line within the same cell. The column width determines where the lines break, and the row height must be sufficient to show all the lines. This is useful for long descriptions that should remain readable without making the column excessively wide.

Step 5: Shrink text to fit the cell **Shrink to Fit** reduces the displayed font size so that the entry fits within the existing cell width. Unlike wrapping, it aims to retain the entry on one line. It is useful when the column width must stay fixed, although very long entries may become difficult to read at the reduced size.

Step 6: Merge cells for a common heading **Merge Cells** combines adjacent selected cells into one larger cell, within which the text can be aligned. **Merge and Center** also centres the text in that merged area and is commonly used for a report title. For an ordinary left-to-right worksheet, only the upper-left cell's contents are retained, so the other selected cells should be empty before merging.

Step 7: Conclusion Text alignment can be changed through horizontal and vertical positioning, indentation and orientation. Wrap Text, Shrink to Fit and Merge Cells control how the text occupies the available cell area.

Quick Tip to Solve: Organise the answer as position, direction and fit: horizontal/vertical alignment, indent/orientation, then wrap/shrink/merge. Explain what each option visibly changes.