# CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-4-3

## Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

### General Instructions

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

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

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

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

(v) Questions number **1 to 16** (Part A) and Questions number **27 to 30** (Part B) are Multiple Choice Questions. Each question carries **1** mark.

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

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

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

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

## Part A (60 marks)

*(Accounting for Partnership Firms and Companies)*

**1. Anita and Priyal were partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April, 2024, their capital accounts showed balances of Rs 3,00,000 and Rs 4,00,000 respectively. The partnership deed provided for interest on capital @ 8% p.a. The firm earned a profit of Rs 28,000 for the year ended 31st March, 2025. Interest on capital allowed to Anita and Priyal was:** [1 mark]

(A) Anita Rs 24,000, Priyal Rs 32,000

(B) Anita Rs 16,000, Priyal Rs 12,000

(C) Anita Rs 12,000, Priyal Rs 16,000

(D) Anita Rs 16,800, Priyal Rs 11,200

**Correct Answer:** (C) Anita Rs 12,000, Priyal Rs 16,000

**Solution:**

**Concept:**

- Interest on capital is an appropriation of profit unless the deed expressly makes it a charge.
- When profit is insufficient, distribute the available profit in the ratio of the interest amounts due, rather than the profit-sharing ratio.

**Step 1:** Compute the annual interest due For Anita, interest is $3,00,000 \times 8/100 = \text{Rs } 24,000$. For Priyal, it is $4,00,000 \times 8/100 = \text{Rs } 32,000$. The total claim is Rs 56,000, which exceeds the available profit of Rs 28,000.

**Step 2:** Allocate the available profit The interest claims are in the ratio $24,000 : 32,000 = 3 : 4$. Thus Anita receives $28,000 \times 3/7 = \text{Rs } 12,000$, and Priyal receives $28,000 \times 4/7 = \text{Rs } 16,000$. Option (A) exceeds available profit, (B) reverses the allocation, and (D) incorrectly applies the profit-sharing ratio of $3 : 2$.

**Step 3:** Conclusion Anita is allowed Rs 12,000 and Priyal Rs 16,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Compare total interest with profit first; here profit covers exactly half of each interest claim.

**2. Assertion (A): Goodwill is an intangible asset.**

**Reason (R): Goodwill is the value of the reputation of a firm in respect of profits expected in future over and above the normal profits.**

**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 incorrect, but Reason (R) is correct.

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

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

**Solution:**

**Concept:**

- An intangible asset has economic value but no physical substance.
- Goodwill represents the value of a firm's reputation and its capacity to earn profits above the normal level.

**Step 1:** Judge the assertion Goodwill cannot be physically touched or seen like machinery or a building. Nevertheless, the reputation attached to a business can provide economic benefits. Therefore, Assertion (A), which calls goodwill an intangible asset, is correct.

**Step 2:** Judge the reason Reason (R) correctly relates goodwill to the value of reputation and the expectation of future profits above normal profits. It describes the economic benefit represented by goodwill.

**Step 3:** Test the explanatory connection The source of this value is reputation and superior earning capacity, which have no physical substance. Thus the reason explains why goodwill is an intangible asset. Option (B) wrongly denies this connection, while (C) and (D) wrongly reject a true statement.

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

**Quick Tip to Solve:** For goodwill, connect reputation and future earning capacity with value that has no physical form.

**3. A portion of the uncalled capital reserved by a company to be called only in the event of winding up of the company is called:** [1 mark]

(A) Subscribed but not fully paid capital

(B) Unissued capital

(C) Subscribed capital

(D) Reserve capital

**Correct Answer:** (D) Reserve capital

**Solution:**

**Concept:**

- Uncalled capital is the part of subscribed share capital that the company has not yet demanded from shareholders.
- Reserve capital is the specified portion of uncalled capital reserved to be called only on winding up.

**Step 1:** Identify the defining restriction The question does not describe all unpaid or uncalled capital. Its decisive condition is that the amount can be called only when the company is wound up. This restriction identifies reserve capital.

**Step 2:** Distinguish the other options Subscribed but not fully paid capital describes the extent to which subscribed shares have been paid; it need not be reserved for winding up. Unissued capital has not been offered for subscription, while subscribed capital is the amount taken up by shareholders. None of these terms carries the stated winding-up restriction. Reserve capital must also be distinguished from a capital reserve, which is an accounting reserve arising from capital profits.

**Step 3:** Conclusion The amount is Reserve capital. Hence, the correct option is (D).

**Quick Tip to Solve:** The words "called only on winding up" identify reserve capital, not a capital reserve.

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**4. Dinesh, Siddharth and Naina were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March, 2025, they decided to dissolve the firm. On this date, the firm had debtors amounting to Rs 2,10,000 and provision for doubtful debts of Rs 20,000. On dissolution, debtors of Rs 10,000 proved bad and the remaining debtors realised 90%. Amount realised from debtors will be:** [1 mark]

(A) Rs 1,71,000

(B) Rs 2,00,000

(C) Rs 1,80,000

(D) Rs 1,89,000

**Correct Answer:** (C) Rs 1,80,000

**Solution:**

**Concept:**

- Cash realised from debtors depends on the actual collection terms stated in the question.
- A provision for doubtful debts is an existing accounting estimate, not a further deduction from debtors when actual bad debts and the recovery rate are given.

**Step 1:** Remove the debtors that proved bad Gross debtors are Rs 2,10,000. The debtors of Rs 10,000 that proved bad yield no cash. Hence, the remaining debtors are $2,10,000 - 10,000 =$ Rs $2,00,000$.

**Step 2:** Apply the stated recovery percentage The remaining debtors realise $90\%$, so the collection is $2,00,000 \times 90/100 =$ Rs $1,80,000$. The Rs 20,000 provision is not deducted again. Option (A) applies 90% to net book debtors, (B) ignores the recovery discount, and (D) applies 90% to gross debtors without excluding the bad debts. The partners' profit-sharing ratio does not affect cash collected.

**Step 3:** Conclusion The amount realised from debtors is Rs 1,80,000. Hence, the correct option is (C).

**Quick Tip to Solve:** First remove actual bad debts, then apply the collection rate; do not deduct the existing provision again.

**5. Asha, Manan and Niyati were partners in a firm sharing profits and losses in the ratio of 3:2:1. With effect from 1st April, 2025, they agreed to share profits and losses equally. Due to change in the profit sharing ratio, Asha's gain or sacrifice will be:** [1 mark]

(A) Sacrifice 1/6

(B) Gain 1/6

(C) Sacrifice 1/12

(D) Gain 1/12

**Correct Answer:** (A) Sacrifice 1/6

**Solution:**

**Concept:**

- A partner's sacrifice equals old share minus new share.
- A positive difference is a sacrifice; a negative difference indicates a gain.

**Step 1:** Express both shares on a common denominator Under the old ratio $3:2:1$, Asha's share is $3/(3+2+1) = 3/6 = 1/2$. Since three partners now share equally, her new share is $1/3 = 2/6$.

**Step 2:** Determine the direction of change Asha's sacrifice is $3/6 - 2/6 = 1/6$. Her share has fallen from one-half to one-third, so this is a sacrifice, not a gain. Thus options (B) and (D) have the wrong direction; option (C) also gives the wrong magnitude. As a check, Manan retains $1/3$, and Niyati gains $1/3 - 1/6 = 1/6$, equal to Asha's sacrifice.

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

**Quick Tip to Solve:** Compute old share minus new share; a fall from one-half to one-third is a sacrifice of one-sixth.

**6. A business earned an average profit of Rs 2,00,000 during the last few years. The value of net assets of the business is Rs 17,00,000 and the normal rate of return in a similar business is 10%. The value of goodwill of the business by capitalisation of super-profits method will be:** [1 mark]

(A) Rs 17,00,000

(B) Rs 2,00,000

(C) Rs 3,00,000

(D) Rs 30,000

**Correct Answer:** (C) Rs 3,00,000

**Solution:**

**Concept:**

- Normal profit equals net assets multiplied by the normal rate of return.
- Super profit is average profit minus normal profit; goodwill equals super profit multiplied by $100/\text{normal rate (percent)}$.

**Step 1:** Calculate normal profit and super profit Normal profit is $17,00,000 \times 10/100 = \text{Rs } 1,70,000$. Therefore, super profit is $2,00,000 - 1,70,000 = \text{Rs } 30,000$.

**Step 2:** Capitalise the super profit Goodwill is $30,000 \times 100/10 = \text{Rs } 3,00,000$. Option (D) gives only the annual super profit, before capitalisation. Option (A) is the existing net assets and option (B) is average profit; neither is goodwill. As a check, capitalised average profit is Rs 20,00,000, whose excess over net assets of Rs 17,00,000 is Rs 3,00,000.

**Step 3:** Conclusion The goodwill of the business is Rs 3,00,000. Hence, the correct option is (C).

**Quick Tip to Solve:** At a normal return of 10%, goodwill is ten times the annual super profit, not the super profit itself.

**7(a). ____ debentures refer to those debentures where a charge is created on the assets of the company for the purpose of payment in case of default.** [1 mark]

(A) Unsecured

(B) Secured

(C) Convertible

(D) Registered

**Correct Answer:** (B) Secured

**Solution:**

**Concept:**

- Debentures acknowledge a company's debt to their holders.
- Secured debentures are backed by a charge on company assets, providing security for payment in case of default.

**Step 1:** Identify what the charge provides The key feature in the question is a charge created on assets for payment if the company defaults. The charge gives debenture holders security over those

assets and therefore identifies secured debentures.

**Step 2:** Eliminate the other classifications Unsecured debentures have no such asset security, so option (A) contradicts the stated feature. Convertible debentures are classified by their conversion into shares, not by a charge on assets. Registered debentures are classified by the recording of their holders' names in the company register. Thus neither (C) nor (D) supplies the required security classification.

**Step 3:** Conclusion The blank is "Secured" debentures. Hence, the correct option is (B).

**Quick Tip to Solve:** When the question mentions a charge on assets, classify the debenture by security rather than conversion or registration.

OR

**7(b). As per the provisions of Companies Act, 2013, the amount received as Securities Premium cannot be utilised to:** [1 mark]

(A) Issue fully paid bonus shares to the members

(B) Write off preliminary expenses of the company

(C) Purchase fixed assets

(D) Purchase its own shares, i.e. buyback of shares

**Correct Answer:** (C) Purchase fixed assets

**Solution:**

**Concept:**

- The Securities Premium Account is subject to specified uses under the Companies Act, 2013.
- Permitted uses include fully paid bonus shares, writing off preliminary expenses, and buying back the company's own shares subject to the applicable provisions.

**Step 1:** Check the permitted uses in the options Issuing fully paid bonus shares to members is a permitted use of securities premium, so (A) is not the answer. Writing off preliminary expenses is also permitted, excluding (B). Purchase of the company's own shares through a permitted buyback is an authorised application, excluding (D).

**Step 2:** Identify the unauthorised application Purchase of fixed assets is not one of the specified uses of the Securities Premium Account. The fact that an asset purchase may be a capital transaction does not authorise charging it to this account. The question concerns utilisation of the securities premium balance and its statutory restrictions.

**Step 3:** Conclusion Securities premium cannot be utilised to purchase fixed assets. Hence, the correct option is (C).

**Quick Tip to Solve:** Check the statutory list of uses; a capital expenditure such as buying fixed assets is not automatically permitted.

**8. Ankur and Angad were partners in a firm sharing profits and losses in the ratio of 8:7. On 1st July, 2024, Angad advanced a loan of Rs 8,00,000 to the firm. There is no partnership deed. Angad demands interest on loan @ 10% p.a. On 31st March, 2025, the amount of interest on loan due to Angad will be:** [1 mark]

(A) Rs 36,000

(B) Rs 48,000

(C) Rs 80,000

(D) Rs 60,000

**Correct Answer:** (A) Rs 36,000

**Solution:**

**Concept:**

- In the absence of an agreement, interest on a partner's loan to the firm is allowed at $6\%$ per annum.
- Interest is calculated for the actual period of the loan and is a charge against profit, rather than an appropriation.

**Step 1:** Select the rate and time period There is no partnership deed, so Angad's demand for $10\%$ does not determine the rate. The applicable rate is $6\%$ per annum. From 1st July, 2024 to 31st March, 2025, the loan is outstanding for nine months.

**Step 2:** Calculate and compare the amounts Interest due is

$$\text{Rs } 8,00,000 \times \frac{6}{100} \times \frac{9}{12} = \text{Rs } 36,000.$$

Option (B) uses 6% for an entire year. Option (C) uses 10% for an entire year, and (D) uses the unsupported 10% for nine months. The profit-sharing ratio $8 : 7$ does not affect interest on this loan.

**Step 3:** Conclusion The interest on loan due to Angad is Rs 36,000. Hence, the correct option is (A).

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

**9(a). Rohan and Meeta were partners in a firm sharing profits and losses in the ratio of 5:4. Their capitals were Rs 3,00,000 and Rs 2,00,000 respectively. They admitted Kabir as a new partner for 1/5th share in the profits of the firm. Kabir brought Rs 1,50,000 as his capital. Kabir's share in the goodwill of the firm was:** [1 mark]

(A) Rs 50,000

(B) Rs 20,000

(C) Rs 1,00,000

(D) Rs 2,50,000

**Correct Answer:** (B) Rs 20,000

**Solution:**

**Concept:**

- The incoming partner's capital and profit share imply the total capitalised value of the firm.
- Hidden goodwill is the implied value minus the combined actual capitals, including the new partner's capital.

**Step 1:** Find the implied value and total goodwill Kabir contributes Rs 1,50,000 for a $1/5$ share. The implied total value is $1,50,000 \div (1/5) =$ Rs $7,50,000$. The actual combined capitals are $3,00,000+2,00,000+1,50,000 =$ Rs $6,50,000$. Hence, total hidden goodwill is $7,50,000-6,50,000 =$ Rs $1,00,000$.

**Step 2:** Calculate only Kabir's share Kabir's share of goodwill is $1,00,000 \times 1/5 =$ Rs $20,000$. Option (C) gives the whole firm's goodwill rather than Kabir's share. Option (D) omits Kabir's capital when finding the excess, and (A) does not represent his one-fifth share. The old partners' ratio is not needed to find this amount.

**Step 3:** Conclusion Kabir's share in the goodwill is Rs 20,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Include the incoming partner's capital in actual total capital, then multiply hidden goodwill by his one-fifth share.

OR

**9(b). Ravi, Nisha and Priya were partners in a firm sharing profits and losses in the ratio of 4:3:1. Ravi retired and the balance in his Capital Account after making necessary adjustments on account of reserves and revaluation of assets and re-assessment of liabilities was Rs 2,40,000. Nisha and Priya agreed to pay him Rs 2,70,000 in full settlement of his claim. The value of goodwill of the firm was:** [1 mark]

(A) Rs 30,000

(B) Rs 90,000

(C) Rs 60,000

(D) Rs 1,20,000

**Correct Answer:** (C) Rs 60,000

**Solution:**

**Concept:**

- The excess of the settlement amount over adjusted capital is the retiring partner's share of goodwill.
- Firm's goodwill equals the retiring partner's goodwill entitlement divided by his old profit share.

**Step 1:** Find the goodwill included in the payment Ravi is paid Rs 2,70,000 against adjusted capital of Rs 2,40,000. Since reserves and revaluation have already been adjusted, the excess represents compensation for his share of goodwill.

$$\text{Ravi's goodwill share} = 2,70,000 - 2,40,000 = \text{Rs } 30,000.$$

**Step 2:** Convert the share into the firm's total goodwill Ravi's old share is $4/(4+3+1) = 1/2$. Thus

$$\text{Firm's goodwill} = 30,000 \div \frac{1}{2} = \text{Rs } 60,000.$$

Option (A) gives only Ravi's share, while (B) and (D) do not give Rs 30,000 when multiplied by his one-half share.

**Step 3:** Conclusion The goodwill of the firm is Rs 60,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Subtract adjusted capital from settlement first; then divide the excess by the retiring partner's old share.

**10(a).** **Ravi, Sohan and Neena were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 1st April 2025, Sohan retired and his share was taken up by Ravi and Neena in the ratio of 2:1. The new profit sharing ratio between Ravi and Neena will be:** [1 mark]

(A) 3:2

(B) 2:1

(C) 5:4

(D) 7:3

**Correct Answer:** (D) 7:3

**Solution:**

**Concept:**

- An existing partner's new share equals old share plus the share gained from the retiring partner.
- The specified takeover ratio divides only the retiring partner's share; it is the gaining ratio.

**Step 1:** Allocate Sohan's share Sohan's old profit share is $3/10$. Ravi and Neena take it in the ratio $2:1$, so their gains are

$$\text{Ravi} = \frac{3}{10} \times \frac{2}{3} = \frac{2}{10}, \qquad \text{Neena} = \frac{3}{10} \times \frac{1}{3} = \frac{1}{10}.$$

**Step 2:** Add the gains to the old shares Ravi's old share is $5/10$, while Neena's is $2/10$. Therefore,

$$\text{Ravi} = \frac{5}{10} + \frac{2}{10} = \frac{7}{10}, \qquad \text{Neena} = \frac{2}{10} + \frac{1}{10} = \frac{3}{10}.$$

These shares sum to one. Option (B), $2:1$, is the gaining ratio, not the new ratio; (A) and (C) do not match these computed shares.

**Step 3:** Conclusion The new profit-sharing ratio of Ravi and Neena is $7:3$. Hence, the correct option is (D).

**Quick Tip to Solve:** Apply the takeover ratio to Sohan's $3/10$ share only, then add each gain to the continuing partner's old share.

OR

**10(b). Kunal, Raj and Leela were partners in a firm sharing profits and losses in the ratio of 4:3:2. On 1st April, 2025, Kunal retired. Raj and Leela decided to share profits in the future in the ratio of 5:3. The gaining ratio between Raj and Leela will be:** [1 mark]

(A) 5:3

(B) 3:2

(C) 21:11

(D) 7:5

**Correct Answer:** (C) 21:11

**Solution:**

**Concept:**

- Gaining share equals new profit share minus old profit share.
- Use a common denominator for both continuing partners before forming their gaining ratio.

**Step 1:** Calculate Raj's gain Raj's old share is $3/9$ and his new share is $5/8$. Hence,

$$\text{Raj's gain} = \frac{5}{8} - \frac{3}{9} = \frac{45-24}{72} = \frac{21}{72}.$$

The old denominator is nine because the original ratio is $4:3:2$.

**Step 2:** Calculate Leela's gain and check the total Leela's old share is $2/9$, and her new share is $3/8$.

$$\text{Leela's gain} = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}.$$

Their combined gain is $32/72 = 4/9$, exactly Kunal's old share. Option (A) is the new ratio, (B) is the old ratio of the continuing partners, and (D) does not represent their actual gains.

**Step 3:** Conclusion The gaining ratio of Raj and Leela is $21:11$. Hence, the correct option is (C).

**Quick Tip to Solve:** Check the two gains by adding them: together they must equal retiring Kunal's old share of $4/9$.

**11(a). 6,000 shares of Rs 25 each were forfeited for non-payment of final call money of Rs 5 per share. The maximum discount that the company can allow on reissue of these shares will be:** [1 mark]

(A) Rs 30,000

(B) Rs 90,000

(C) Rs 1,20,000

(D) Rs 1,50,000

**Correct Answer:** (C) Rs 1,20,000

**Solution:**

**Concept:**

- Discount on reissue of forfeited shares cannot exceed the amount forfeited on those shares.
- Amount forfeited equals the share-capital money already received from the former shareholder.

**Step 1:** Find the amount received before forfeiture Each share has face value Rs 25 and the unpaid final call is Rs 5. Therefore, the amount already received is

$$\text{Amount forfeited per share} = 25 - 5 = \text{Rs } 20.$$

The unpaid call itself is not the credit available in Share Forfeiture Account.

**Step 2:** Apply the discount ceiling to all shares All 6,000 forfeited shares are being considered for reissue.

$$\text{Maximum discount} = 6,000 \times 20 = \text{Rs } 1,20,000.$$

Option (A), Rs 30,000, is the total unpaid call. Option (B) is below the maximum allowed, while option (D), the full face value, exceeds the amount forfeited.

**Step 3:** Conclusion The maximum total discount allowed on reissue is Rs 1,20,000. Hence, the correct option is (C).

**Quick Tip to Solve:** For reissue discount, multiply the shares reissued by money already received per share, not by the unpaid call.

OR

**11(b). 5,000 shares of Rs 20 each were forfeited for non-payment of second and final call of Rs 4 per share. The minimum amount that the company must collect at the time of reissue of these shares will be:** [1 mark]

(A) Rs 20,000

(B) Rs 80,000

(C) Rs 1,00,000

(D) Rs 1,20,000

**Correct Answer:** (A) Rs 20,000

**Solution:**

**Concept:**

- The maximum reissue discount is the amount forfeited on the shares being reissued.
- Minimum reissue proceeds equal face value less the maximum permissible discount.

**Step 1:** Determine the forfeited amount Of the Rs 20 face value, only the second and final call of Rs 4 was unpaid. Thus the original shareholder paid

$$20 - 4 = \text{Rs } 16 \text{ per share.}$$

For 5,000 shares, the amount forfeited is $5,000 \times 16 = \text{Rs } 80,000$. This is the maximum discount, not the required cash collection.

**Step 2:** Find the lowest reissue price To reissue these shares as fully paid, the lowest price is

$$\text{Minimum price per share} = 20 - 16 = \text{Rs } 4.$$

Hence the minimum cash collection is $5,000 \times 4 = \text{Rs } 20,000$. Options (B), (C) and (D) are greater cash collections and therefore cannot be the minimum; (C) equals their full face value.

**Step 3:** Conclusion The company must collect at least Rs 20,000 on reissue. Hence, the correct option is (A).

**Quick Tip to Solve:** When only the final call is unpaid, the minimum fully paid reissue price equals that unpaid amount per share.

**12. Nishi Ltd. issued 80,000, 11% Debentures of Rs 100 each at a premium of 9%, redeemable at a premium of 7%. 'Loss on Issue of Debentures Account' will be debited in the books of Nishi Ltd. by:** [1 mark]

(A) Rs 7,20,000

(B) Rs 8,80,000

(C) Rs 5,60,000

(D) Rs 8,00,000

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

**Solution:**

**Concept:**

- Loss on Issue of Debentures is debited for any issue discount plus the premium payable on redemption.
- Premium received on issue is credited separately to Securities Premium; the coupon rate determines interest.

**Step 1:** Separate the issue and redemption terms The debentures are issued at a premium of $9\%$, so there is no issue discount. Their face value totals

$$80,000 \times 100 = \text{Rs } 80,00,000.$$

The $11\%$ coupon determines annual interest and does not determine the loss recorded on issue.

**Step 2:** Calculate the redemption premium The obligation to repay a $7\%$ redemption premium creates the debit to Loss on Issue of Debentures.

$$\text{Loss on issue} = 80,00,000 \times \frac{7}{100} = \text{Rs } 5,60,000.$$

Rs 7,20,000 in option (A) is the issue premium, while Rs 8,80,000 in (B) is a year's coupon interest. Rs 8,00,000 in (D) corresponds to neither relevant premium rate. Issue premium is not netted against the initial loss debit.

**Step 3:** Conclusion Loss on Issue of Debentures Account is debited by Rs 5,60,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Keep three rates separate: $9\%$ is issue premium, $7\%$ creates the loss debit, and $11\%$ is interest.

**13. Ravi, Sunil and Amit were partners in a firm sharing profits and losses in the ratio of 4:3:5. On 1st April, 2025, Ravi retired. Sunil and Amit decided to share future profits in the ratio of 2:3. After all adjustments with respect to general reserve, goodwill and revaluation, etc., the balances in the capital accounts of Ravi, Sunil and Amit stood at Rs 3,00,000; Rs 2,40,000 and Rs 3,60,000 respectively. It was decided that the amount payable to Ravi will be brought by Sunil and Amit in such a way so as to make their capitals proportionate to their new profit sharing ratio. The amount brought in by Sunil and Amit will be:** [1 mark]

(A) Sunil Rs 1,00,000, Amit Rs 2,00,000

(B) Sunil Rs 1,20,000, Amit Rs 1,80,000

(C) Sunil Rs 1,50,000, Amit Rs 1,50,000

(D) Sunil Rs 80,000, Amit Rs 2,20,000

**Correct Answer:** (B) Sunil Rs 1,20,000, Amit Rs 1,80,000

**Solution:**

**Concept:**

- The continuing partners bring cash sufficient to pay the retiring partner, increasing their combined capital by that amount.
- Target capital is total continuing capital after the cash contribution multiplied by each partner's new profit share.

**Step 1:** Find the target combined capital Sunil and Amit currently have capital of Rs 2,40,000 and Rs 3,60,000. Together they must bring Rs 3,00,000 to pay Ravi. Their combined capital after contribution will be

$$2,40,000 + 3,60,000 + 3,00,000 = \text{Rs } 9,00,000.$$

**Step 2:** Allocate target capital and deduct existing balances Using the new ratio $2 : 3$, Sunil's target capital is $9,00,000 \times 2/5 = \text{Rs } 3,60,000$, and Amit's is $9,00,000 \times 3/5 = \text{Rs } 5,40,000$. Their contributions are therefore

$$\text{Sunil} = 3,60,000 - 2,40,000 = \text{Rs } 1,20,000,$$
$$\text{Amit} = 5,40,000 - 3,60,000 = \text{Rs } 1,80,000.$$

All options total Ravi's claim, but only (B) makes final capitals proportionate to $2 : 3$; the other allocations fail this requirement.

**Step 3:** Conclusion Sunil brings Rs 1,20,000 and Amit brings Rs 1,80,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Check both conditions: cash brought must total Rs 3,00,000 and final capitals must be in the ratio $2 : 3$.

**14. Glaze Ltd. purchased land and building worth Rs 3,84,000 from Sia Ltd. The purchase consideration was paid by issue of 8% Debentures of Rs 100 each at 4% discount. The number of debentures issued by Glaze Ltd. was:** [1 mark]

(A) 3,200

(B) 3,840

(C) 4,800

(D) 4,000

**Correct Answer:** (D) 4,000

**Solution:**

**Concept:**

- The number of debentures equals the purchase consideration divided by their issue price per debenture.
- Issue price at discount equals face value minus discount; the coupon rate determines interest only.

**Step 1:** Calculate the issue price Each debenture has face value Rs 100 and is issued at a $4\%$ discount. Therefore,

$$\text{Issue price} = 100 - \left(100 \times \frac{4}{100}\right) = \text{Rs } 96.$$

Each debenture settles Rs 96 of the purchase consideration, even though its face value is Rs 100.

**Step 2:** Divide consideration by issue price The land and building cost Rs 3,84,000, all settled by the debentures.

$$\text{Number issued} = \frac{3,84,000}{96} = 4,000.$$

As a check, $4,000 \times 96 = 3,84,000$. Option (B), 3,840, incorrectly divides by face value. Options (A) and (C), multiplied by Rs 96, do not settle the stated consideration. The $8\%$ coupon is irrelevant to the number issued.

**Step 3:** Conclusion Glaze Ltd. issued 4,000 debentures. Hence, the correct option is (D).

**Quick Tip to Solve:** Divide the asset price by Rs 96, the discounted issue price; use Rs 100 only when computing total face value.

**15(a).** **Reena and Teena were partners in a firm sharing profits and losses in the ratio of 2:1. Teena withdrew Rs 20,000 at the beginning of each month during the year ended 31st March, 2025. Interest on drawings was to be charged @ 6% per annum. Interest on Teena's drawings for the year ended 31st March, 2025 will be:** [1 mark]

(A) Rs 7,800

(B) Rs 7,200

(C) Rs 9,600

(D) Rs 6,600

**Correct Answer:** (A) Rs 7,800

**Solution:**

**Concept:**

- For equal drawings at regular intervals, interest equals total drawings multiplied by annual rate and average time in years.
- For drawings at the beginning of each month, average time is $(12+1)/2 = 6.5$ months.

**Step 1:** Find total drawings and average period Teena withdraws Rs 20,000 on twelve occasions, so total drawings are $20,000 \times 12 = \text{Rs } 2,40,000$. The first drawing remains outstanding for twelve months and the final drawing for one month.

$$\text{Average period} = \frac{12+1}{2} = 6.5 \text{ months.}$$

**Step 2:** Apply the annual rate for the average period The $6\%$ annual rate must be prorated for the average period.

$$\text{Interest} = 2,40,000 \times \frac{6}{100} \times \frac{6.5}{12} = \text{Rs } 7,800.$$

Rs 7,200 uses six months, appropriate to middle-of-month drawings, while Rs 6,600 uses 5.5 months for end-of-month drawings. Rs 9,600 does not follow the stated timing and rate. The profit-sharing ratio does not affect this calculation.

**Step 3:** Conclusion Interest on Teena's drawings is Rs 7,800. Hence, the correct option is (A).

**Quick Tip to Solve:** Beginning-of-month drawings use 6.5 months: average the twelve months for April's drawing and one month for March's.

OR

**15(b). Rohan and Sohan were partners in a firm sharing profits and losses equally. Rohan withdrew Rs 15,000 at the beginning of each quarter during the year ended 31st March, 2025. Interest on Rohan's drawings will be calculated for an average period of:** [1 mark]

(A) 6 months

(B) 4 1/2 months

(C) 7 1/2 months

(D) 6 1/2 months

**Correct Answer:** (C) 7 1/2 months

**Solution:**

**Concept:**

- For equal drawings at regular intervals, average period is the mean of the time outstanding for the first and last drawings.
- Beginning-of-quarter drawings during an April-to-March year occur on 1 April, 1 July, 1 October and 1 January.

**Step 1:** List the periods outstanding Rohan withdraws the same Rs 15,000 at the beginning of each quarter. To 31 March, the four drawings remain outstanding for twelve, nine, six and three months respectively. Equal amounts allow the ordinary arithmetic average of these periods; the partners' profit-sharing ratio has no effect.

**Step 2:** Calculate and compare the average period The average period is

$$\frac{12+9+6+3}{4} = \frac{30}{4} = 7.5 \text{ months.}$$

Equivalently, average the first and last periods: $(12+3)/2 = 7.5$. Six months applies to middle-of-quarter drawings, and 4.5 months to end-of-quarter drawings. The 6.5-month option is the average for beginning-of-month drawings, not quarterly drawings.

**Step 3:** Conclusion Interest is calculated for an average period of $7\frac{1}{2}$ months. Hence, the correct option is (C).

**Quick Tip to Solve:** For quarterly beginnings, write the four periods 12, 9, 6 and 3 months; their average immediately gives 7.5 months.

**16. P, Q and R were partners in a firm sharing profits and losses in the ratio of 6:5:4. They admitted S as a new partner for 1/8th share in the profits of the firm. It was agreed that Q would retain his original share. The sacrificing ratio of P and R will be:** [1 mark]

(A) 6:5

(B) 4:5

(C) 3:2

(D) 5:4

**Correct Answer:** (C) 3:2

**Solution:**

**Concept:**

- The sacrificing ratio compares the shares given up by the old partners: sacrifice = old share minus new share.
- A partner retaining the original share makes no sacrifice. With no different arrangement stated, the contributing partners provide the incoming share in their existing mutual ratio.

**Step 1:** Identify the partners contributing the share The old shares of P, Q and R are $6/15, 5/15, 4/15$. Since Q retains $5/15$, Q gives up no profit share. S therefore receives the entire $1/8$ share from P and R.

**Step 2:** Compare the sacrifices and the options P and R contribute in their existing ratio $6:4$. Their sacrifices are $\frac{1}{8} \times \frac{6}{10} = \frac{3}{40}$ and $\frac{1}{8} \times \frac{4}{10} = \frac{1}{20}$, respectively. Thus $\frac{3}{40} : \frac{1}{20} = 3:2$. Option (A) compares P with Q, while (D) compares Q with R; Q does not sacrifice. Option (B), $4:5$, also uses Q's share and reverses the required comparison.

**Step 3:** Conclusion The sacrificing ratio of P and R is $\boxed{3:2}$. Hence, the correct option is (C).

**Quick Tip to Solve:** Exclude Q because his share is unchanged; simplify only P:R = 6:4 to obtain the sacrificing ratio.

**17. Shubh, Vansh and Veer were partners in a firm sharing profits and losses equally. On 31st March, 2023, Vansh retired. On the date of retirement, Rs 2,40,000 became due to him. Shubh and Veer agreed to pay Vansh in two equal yearly instalments plus interest @ 10% p.a. on the unpaid balance starting from 31st March, 2024. The firm closes its books on 31st March every year.**

**Prepare Vansh's Loan Account till it is fully paid.** [3 marks]

**Solution:**

**Concept:**

- The amount due on retirement becomes a loan payable to the retiring partner. Interest increases this liability and payments reduce it.
- Equal principal instalments are calculated separately from interest. Interest for each year is charged on the principal outstanding during that year.

**Step 1:** Calculate the principal instalments and yearly interest The loan on 31st March, 2023 is Rs

2,40,000. Each principal instalment is Rs $2,40,000/2 =$ Rs $1,20,000$. For the year ending 31st March, 2024, interest is $2,40,000 \times 10\% =$ Rs $24,000$; hence the payment is Rs 1,44,000. The remaining principal is Rs 1,20,000. For the next year, interest is $1,20,000 \times 10\% =$ Rs $12,000$, making the final payment Rs 1,32,000. Interest is not calculated again on the original loan after the first repayment.

**Step 2:** Prepare the loan account for the first year **Vansh's Loan Account (Dr. and Cr.)**

| Date | Particulars (Dr.) | Rs | Date | Particulars (Cr.) | Rs |
|---|---|---|---|---|---|
| 31-3-24 | To Bank A/c | 1,44,000 | 31-3-23 | By Vansh's Capital A/c | 2,40,000 |
| 31-3-24 | To Balance c/d | 1,20,000 | 31-3-24 | By Interest A/c | 24,000 |
| | Total | 2,64,000 | | Total | 2,64,000 |

The credit from Vansh's Capital Account establishes the debt at retirement. Interest is credited because it is an additional amount owed to Vansh. The balance carried down on the debit side is the unpaid principal, not the original amount plus unpaid interest, because the first year's interest has been paid.

**Step 3:** Complete the loan account in the second year **Vansh's Loan Account (continued)**

| Date | Particulars (Dr.) | Rs | Date | Particulars (Cr.) | Rs |
|---|---|---|---|---|---|
| 31-3-25 | To Bank A/c | 1,32,000 | 1-4-24 | By Balance b/d | 1,20,000 |
| | | | 31-3-25 | By Interest A/c | 12,000 |
| | Total | 1,32,000 | | Total | 1,32,000 |

No balance is carried forward after the final payment because both the remaining principal and the second year's interest have been discharged.

**Step 4:** Conclusion Vansh receives Rs 1,44,000 on 31st March, 2024 and Rs 1,32,000 on 31st March, 2025. His loan is then fully paid; total interest is Rs 36,000.

**Quick Tip to Solve:** Divide Rs 2,40,000 into equal principal instalments first, then add 10% interest on each year's opening principal.

**18(a). Century Ltd. forfeited 5,000 shares of Rs 100 each issued at 40% premium for non-payment of allotment money of Rs 35 per share and first call of Rs 50 per share (including premium Rs 25). The second and final call of Rs 40 per share (including premium Rs 15) has not yet been called. Out of these, 3,000 shares were reissued as fully paid-up for Rs 90 per share. Pass necessary journal entries for forfeiture and reissue of forfeited shares in the books of Century Ltd.** [3 marks]

**Solution:**

**Concept:**

- On forfeiture, Share Capital is debited with called-up capital. Securities Premium is debited only for premium already called but not received.
- The amount of capital previously received is credited to Share Forfeiture. Reissue discount is debited to this account; only the surplus relating to reissued shares becomes Capital Reserve.

**Step 1:** Separate capital, premium and uncalled amounts The issue price is Rs 140 per share. The second and final call includes Rs 25 capital and Rs 15 premium, so called-up capital is $100-25 =$ Rs 75 per share. Allotment of Rs 35 consists entirely of capital; the first call comprises Rs 25 capital and Rs 25 premium. Application money received was $140 - 35 - 50 - 40 =$ Rs 15 per share. Hence

capital debited is $5,000 \times 75 =$ Rs $3,75,000$, unpaid called premium is $5,000 \times 25 =$ Rs $1,25,000$, and forfeiture credit is $5,000 \times 15 =$ Rs $75,000$. The uncalled final instalment is excluded.

**Step 2:** Record the forfeiture **Journal of Century Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr. | | 3,75,000 | |
| | Securities Premium A/c Dr. | | 1,25,000 | |
| | To Share Allotment A/c | | | 1,75,000 |
| | To Share First Call A/c | | | 2,50,000 |
| | To Share Forfeiture A/c | | | 75,000 |
| | (Being 5,000 shares forfeited for non-payment of allotment and first call.) | | | |

**Step 3:** Record reissue and the realised capital profit For 3,000 shares, cash received is $3,000 \times 90 =$ Rs $2,70,000$, while fully paid capital credited is Rs 3,00,000. The discount is Rs 30,000. Their forfeited amount is $3,000 \times 15 =$ Rs $45,000$; the surplus is $45,000 - 30,000 =$ Rs $15,000$.

**Journal of Century Ltd. (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 2,70,000 | |
| | Share Forfeiture A/c Dr. | | 30,000 | |
| | To Share Capital A/c | | | 3,00,000 |
| | (Being 3,000 forfeited shares reissued at Rs 90 each as fully paid.) | | | |
| | Share Forfeiture A/c Dr. | | 15,000 | |
| | To Capital Reserve A/c | | | 15,000 |
| | (Being surplus on 3,000 reissued shares transferred to Capital Reserve.) | | | |

The forfeiture balance relating to 2,000 unreissued shares remains $2,000 \times 15 =$ Rs $30,000$.

**Step 4:** Conclusion Capital Reserve is credited with Rs 15,000. The remaining Share Forfeiture balance is Rs 30,000 for the 2,000 unreissued shares.

**Quick Tip to Solve:** Exclude both parts of the uncalled Rs 40 instalment, and transfer forfeiture profit only for the 3,000 shares actually reissued.

OR

**18(b). Almond Ltd. purchased a running business of Cashew Ltd. comprising of land and building Rs 85,00,000, machinery Rs 50,00,000 and sundry liabilities Rs 10,00,000 for a purchase consideration of Rs 1,00,00,000. Payment of Rs 10,00,000 was made through a cheque and the remaining amount by issue of 11% Debentures of Rs 100 each at a premium of 20%. Pass necessary journal entries for the above transactions in the books of Almond Ltd.** [3 marks]

**Solution:**

**Concept:**

- Assets and liabilities taken over are recorded at agreed values. Net assets less purchase consideration constitute Capital Reserve when the difference is positive.
- Debentures issued at a premium settle the vendor at their issue price. The face value is credited to Debentures and the excess to Securities Premium.

**Step 1:** Calculate the capital reserve and the debenture issue Net assets taken over are $85,00,000 + 50,00,000 - 10,00,000 =$ Rs $1,25,00,000$. Purchase consideration is Rs 1,00,00,000, so Capital Reserve is Rs 25,00,000. After the cheque payment, the balance due is $1,00,00,000 - 10,00,000 =$ Rs $90,00,000$. Each debenture settles Rs 120, including its Rs 20 premium. Thus the number issued is $90,00,000/120 = 75,000$. Their face value is Rs 75,00,000 and premium is Rs 15,00,000.

**Step 2:** Record purchase of the business and its net assets **Journal of Almond Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Business Purchase A/c Dr. | | 1,00,00,000 | |
| | To Cashew Ltd. A/c | | | 1,00,00,000 |
| | (Being purchase consideration payable for the running business.) | | | |
| | Land and Building A/c Dr. | | 85,00,000 | |
| | Machinery A/c Dr. | | 50,00,000 | |
| | To Sundry Liabilities A/c | | | 10,00,000 |
| | To Business Purchase A/c | | | 1,00,00,000 |
| | To Capital Reserve A/c | | | 25,00,000 |
| | (Being assets and liabilities taken over and excess net assets credited to Capital Reserve.) | | | |

**Step 3:** Settle the amount payable to Cashew Ltd. **Journal of Almond Ltd. (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Cashew Ltd. A/c Dr. | | 1,00,00,000 | |
| | To Bank A/c | | | 10,00,000 |
| | To 11% Debentures A/c | | | 75,00,000 |
| | To Securities Premium A/c | | | 15,00,000 |
| | (Being purchase consideration settled by cheque and 75,000 debentures of Rs 100 each issued at 20% premium.) | | | |

**Step 4:** Conclusion Almond Ltd. issues 75,000 debentures of Rs 100 each at Rs 120, credits Securities Premium with Rs 15,00,000, and recognises Capital Reserve of Rs 25,00,000.

**Quick Tip to Solve:** Deduct the cheque from purchase consideration, then divide the balance by Rs 120 rather than the Rs 100 face value.

**19. Sakshi and Anumita were partners in a firm sharing profits and losses in the ratio of 2:3. From 1st April, 2025, they decided to share future profits and losses in the ratio of 4:1. On this date, their balance sheet showed a balance of Rs 60,000 in Contingency Reserve and a debit balance of Rs 2,00,000 in the Profit and Loss Account. The partners decided to distribute the Contingency Reserve, but decided not to disturb the Profit and Loss Account, which will continue in the books of the reconstituted firm.**

**Pass necessary journal entries for the above transactions on the reconstitution of the firm. Show your workings clearly.** [3 marks]

**Solution:**

**Concept:**

- A reserve distributed at reconstitution belongs to the old partners in their old profit-sharing ratio.
- When an accumulated loss remains in the books, a capital adjustment preserves its allocation in the old ratio: the sacrificing partner compensates the gaining partner for the additional future loss burden.

**Step 1:** Distribute the Contingency Reserve in the old ratio Sakshi's share of the reserve is $60,000 \times 2/5 = \text{Rs } 24,000$, and Anumita's share is $60,000 \times 3/5 = \text{Rs } 36,000$. This distribution concerns an existing reserve, so the new ratio is irrelevant.

**Journal of the Firm**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1-4-2025 | Contingency Reserve A/c Dr. | | 60,000 | |
| | To Sakshi's Capital A/c | | | 24,000 |
| | To Anumita's Capital A/c | | | 36,000 |
| | (Being Contingency Reserve distributed in the old ratio of 2:3.) | | | |

**Step 2:** Calculate the adjustment for the retained loss Sakshi gains $4/5 - 2/5 = 2/5$, while Anumita sacrifices $3/5 - 1/5 = 2/5$. If the Rs 2,00,000 accumulated loss were subsequently borne in the new ratio, Sakshi would bear Rs 1,60,000 instead of her old-ratio burden of Rs 80,000. Anumita would bear Rs 40,000 instead of Rs 1,20,000. Sakshi therefore needs a capital credit of Rs 80,000, while Anumita needs an equal debit. The adjustment is $2,00,000 \times 2/5 = \text{Rs } 80,000$. This reverses the direction used for a retained accumulated profit.

**Step 3:** Pass the capital adjustment without changing Profit and Loss Account **Journal of the Firm (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1-4-2025 | Anumita's Capital A/c Dr. | | 80,000 | |
| | To Sakshi's Capital A/c | | | 80,000 |
| | (Being adjustment for accumulated loss retained in the books on change in profit-sharing ratio.) | | | |

There is no debit or credit to Profit and Loss Account in this entry. Its debit balance of Rs 2,00,000 continues unchanged, as required by the partners' agreement.

**Step 4:** Conclusion Debit Contingency Reserve Rs 60,000 and credit Sakshi and Anumita Rs 24,000 and Rs 36,000. For the retained loss, debit Anumita Rs 80,000 and credit Sakshi Rs 80,000; Profit and Loss Account remains unchanged.

**Quick Tip to Solve:** For a retained loss, compare each partner's old and new loss burden: credit the partner whose share of that burden increases.

**20(a). Rohit, Ashish and Sameer entered into a partnership on 1st October, 2024 with capitals of Rs 12,00,000; Rs 6,00,000 and Rs 6,00,000 respectively. They decided to share the profits and losses in the ratio of 3:1:1. Partners were entitled to interest on capital @ 5% per annum as per the provisions of the partnership deed. Sameer was given a guarantee that his share of profit, after charging interest on capital, will not be less than Rs 1,50,000 per annum. Any deficiency arising on that account shall be met by Rohit. The profit for the year ended 31st March, 2025 amounted to Rs 5,00,000. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2025.** [3 marks]

**Solution:**

**Concept:**

- Interest on capital is an appropriation of profit: capital $\times$ annual rate $\times$ time in years. Both capitals and an annual profit guarantee must be adjusted to the period of business.
- Divide the profit remaining after interest on capital in the agreed ratio $3:1:1$. Rohit bears a deficiency only if Sameer's share is below his proportionate guaranteed amount.

**Step 1:** Working Notes: calculate interest for six months The firm commenced on 1st October, 2024, so the period up to 31st March, 2025 is six months. Interest on the initial capitals is therefore:

$$\text{Rohit} = 12,00,000 \times \frac{5}{100} \times \frac{6}{12} = \text{Rs } 30,000,$$
$$\text{Ashish} = 6,00,000 \times \frac{5}{100} \times \frac{6}{12} = \text{Rs } 15,000,$$
$$\text{Sameer} = 6,00,000 \times \frac{5}{100} \times \frac{6}{12} = \text{Rs } 15,000.$$

Total interest on capital is Rs 60,000; distributable profit is $5,00,000 - 60,000 = \text{Rs } 4,40,000$.

**Step 2:** Working Notes: compare the share with the guarantee Normal profit shares are Rohit: $4,40,000 \times 3/5 = \text{Rs } 2,64,000$; Ashish and Sameer: $4,40,000 \times 1/5 = \text{Rs } 88,000$ each. Sameer's guarantee is stated per annum, so the minimum for this six-month accounting period is $1,50,000 \times 6/12 = \text{Rs } 75,000$. His share of Rs 88,000 exceeds this minimum by Rs 13,000. Consequently there is no deficiency for Rohit to bear; Sameer's separate interest on capital is not counted in this comparison because the guarantee applies after charging that interest.

**Step 3:** Prepare the Profit and Loss Appropriation Account **Profit and Loss Appropriation Account for the year ended 31st March, 2025**

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Interest on capital: | | By Profit and Loss A/c | 5,00,000 | |
| | Rohit | 30,000 | | | |
| | Ashish | 15,000 | | | |
| | Sameer | 15,000 | | | |
| | To Profit transferred to partners' capital A/cs: | | | | |
| | Rohit | 2,64,000 | | | |
| | Ashish | 88,000 | | | |
| | Sameer | 88,000 | | | |
| | Total | 5,00,000 | Total | 5,00,000 | |

The whole profit is appropriated, leaving no balance to carry forward.

**Step 4:** Conclusion Interest on capital is Rs 30,000, Rs 15,000 and Rs 15,000; the remaining profit credited to Rohit, Ashish and Sameer is Rs 2,64,000, Rs 88,000 and Rs 88,000 respectively. No guarantee adjustment is required.

**Quick Tip to Solve:** For a firm starting in October, reduce both annual interest and the annual guarantee to six months before comparing the guaranteed partner's profit share.

OR

**20(b). Tara, Dev and Ishaan were partners in a firm sharing profits and losses in the ratio of 4:3:1. The partnership deed provided for charging interest on drawings @ 10% p.a. The drawings of Tara, Dev and Ishaan during the year ending 31st March, 2025 amounted to Rs 30,000; Rs 18,000 and Rs 12,000 respectively. After the final accounts were prepared, it was discovered that interest on drawings was not taken into consideration. Give necessary adjusting journal entry to correct the omission. Show your workings clearly.** [3 marks]

**Solution:**

**Concept:**

- Interest on drawings is charged to the drawing partner and credited to Profit and Loss Appropriation Account, increasing the profit available for distribution in the partners' profit-sharing ratio.
- When only annual drawings are given without dates, use the usual average period of six months. A single adjustment compares each partner's charge with the additional profit share due to that partner.

**Step 1:** Working Notes: compute the omitted interest No dates of drawings are specified. Taking the usual average period of six months, interest equals annual drawings multiplied by $10/100 \times 6/12$:

$$\text{Tara} = 30,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,500,$$
$$\text{Dev} = 18,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 900,$$
$$\text{Ishaan} = 12,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 600.$$

Total interest omitted is $1,500 + 900 + 600 = \text{Rs } 3,000$. This amount should have increased divisible profit; it must therefore also be credited to the partners in the ratio $4 : 3 : 1$.

**Step 2:** Working Notes: find each partner's net adjustment

| Particulars | Tara (Rs) | Dev (Rs) | Ishaan (Rs) |
|---|---|---|---|
| Interest on drawings: debit | 1,500 | 900 | 600 |
| Additional profit: credit | 1,500 | 1,125 | 375 |
| Net adjustment | Nil | 225 credit | 225 debit |

Additional profit shares are $3,000 \times 4/8 = 1,500$, $3,000 \times 3/8 = 1,125$ and $3,000 \times 1/8 = 375$. Tara's debit and credit cancel. Dev was under-credited by Rs 225, while Ishaan was over-credited by Rs 225; only these net differences require adjustment.

**Step 3:** Record the single adjusting entry **Journal of the firm**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 31-03-2025 | Ishaan's Capital A/c Dr.<br>To Dev's Capital A/c<br>(Being omitted interest on drawings and the related profit distribution adjusted through partners' capital accounts) | | 225 | <br>225 |

No adjustment is needed in Tara's account. If fixed capitals are maintained, the identical debit and credit would be made to the respective current accounts.

**Step 4:** Conclusion Debit Ishaan's Capital A/c and credit Dev's Capital A/c by Rs 225 each. Tara requires no adjustment.

**Quick Tip to Solve:** Do not debit all three partners without redistributing the interest: subtract each partner's interest charge from their share of the Rs 3,000 increase in divisible profit.

**21. On 1st April, 2024, Kavita Ltd. issued 40,000, 9% Debentures of Rs 100 each at a premium of 8%, redeemable at par after 5 years. The company closes its books on 31st March every year.**

**Pass necessary journal entries in the books of Kavita Ltd. for issue of debentures, payment of interest on debentures and writing off interest for the year ended 31st March, 2025.** [4 marks]

**Solution:**

**Concept:**

- Debentures are credited with their nominal value. Any excess of issue price over nominal value is credited to Securities Premium Account, while Bank Account is debited with the total proceeds.
- Debenture interest is a charge against profit, calculated on the nominal value outstanding for the period. It is transferred to Statement of Profit and Loss after recording the liability and its payment.

**Step 1:** Working Notes: calculate issue proceeds and annual interest Kavita Ltd. issues 40,000 debentures with face value Rs 100 each. The premium is 8% of face value, i.e. Rs 8 per debenture, so the issue price is Rs 108.

$$\text{Nominal value} = 40,000 \times 100 = \text{Rs } 40,00,000,$$
$$\text{Issue premium} = 40,00,000 \times \frac{8}{100} = \text{Rs } 3,20,000,$$
$$\text{Bank proceeds} = 40,00,000 + 3,20,000 = \text{Rs } 43,20,000,$$
$$\text{Annual interest} = 40,00,000 \times \frac{9}{100} = \text{Rs } 3,60,000.$$

The debentures are outstanding for the full year from 1st April, 2024 to 31st March, 2025. Interest is based on Rs 40,00,000, not on the issue proceeds of Rs 43,20,000. Redemption at par creates no premium on redemption and no loss on issue.

**Step 2:** Record the issue at premium **Journal of Kavita Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 01-04-2024 | Bank A/c Dr.<br>To 9% Debentures A/c<br>To Securities Premium A/c<br>(Being 40,000, 9% debentures of Rs 100 each issued at 8% premium, redeemable at par) | | 43,20,000 | <br>40,00,000<br>3,20,000 |

The premium is a capital receipt credited separately from the debenture liability.

**Step 3:** Record interest due, its payment and transfer to profit and loss **Journal of Kavita Ltd. (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 31-03-2025 | Debenture Interest A/c Dr.<br>To Debentureholders A/c<br>(Being interest due on 9% debentures for the year) | | 3,60,000 | <br>3,60,000 |
| 31-03-2025 | Debentureholders A/c Dr.<br>To Bank A/c<br>(Being debenture interest paid) | | 3,60,000 | <br>3,60,000 |
| 31-03-2025 | Statement of Profit and Loss A/c Dr.<br>To Debenture Interest A/c<br>(Being debenture interest transferred to Statement of Profit and Loss) | | 3,60,000 | <br>3,60,000 |

The final entry closes the expense account for the year. No tax deduction is specified in the question, so the full interest is shown paid to debentureholders. The five-year redemption term does not spread the annual interest expense over five years.

**Step 4:** Conclusion Bank receives Rs 43,20,000 on issue, including securities premium of Rs 3,20,000. Interest of Rs 3,60,000 is paid and charged to Statement of Profit and Loss for the year ended 31st March, 2025.

**Quick Tip to Solve:** Apply 9% to the face value of Rs 40,00,000; the 8% issue premium affects Bank and Securities Premium, not the annual interest calculation.

**22. Anmol, Kapeesh and Meera were partners in a firm sharing profits and losses in the ratio of 4:3:3. The firm closes its books on 31st March every year. On 1st July, 2025, Kapeesh died. On that date his capital account showed a credit balance of Rs 2,50,000 and he had withdrawn Rs 20,000 till that date for personal use. On the date of Kapeesh's death, the firm had a General Reserve of Rs 90,000. The partnership deed provided that on the death of a partner, his executors will be entitled to the following:**

**(i) Balance in the capital account and interest on the same @ 12% p.a.**

**(ii) His share in the goodwill of the firm. The goodwill of the firm on Kapeesh's death was valued at Rs 1,40,000.**

**(iii) His share in the profits of the firm was to be calculated on the basis of previous year's profit. The profit of the firm for the year ended 31st March, 2025 was Rs 6,00,000.**

**Prepare Kapeesh's Capital Account to be presented to his executors.** [4 marks]

**Solution:**

**Concept:**

- A deceased partner's capital account is credited with the opening capital, interest on capital, share of accumulated reserves, goodwill and profit up to death. Drawings and the amount transferred to the executor are debited.
- Kapeesh's profit share is $3/10$. The period from 1st April to 1st July, 2025 is three months, so time-dependent entitlements use $3/12$ of a year.

**Step 1:** Calculate Kapeesh's entitlements Interest on capital is calculated on Rs 2,50,000 for the three months preceding death. No interest on drawings is charged because the deed gives no such provision.

$$\text{Interest on capital} = 2,50,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 7,500,$$

$$\text{Share of reserve} = 90,000 \times \frac{3}{10} = \text{Rs } 27,000,$$

$$\text{Share of goodwill} = 1,40,000 \times \frac{3}{10} = \text{Rs } 42,000,$$

$$\text{Profit up to death} = 6,00,000 \times \frac{3}{12} \times \frac{3}{10} = \text{Rs } 45,000.$$

In the absence of a changed ratio, Anmol and Meera continue in their relative old ratio of $4:3$; they gain Kapeesh's share in this ratio. Their capitals are therefore debited for goodwill by Rs 24,000 and Rs 18,000 respectively, while Kapeesh is credited with Rs 42,000. Profit up to death is credited through Profit and Loss Suspense Account because it is estimated from the preceding year's profit.

**Step 2:** Prepare the capital account and transfer the amount due **Kapeesh's Capital Account**

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Drawings A/c | 20,000 | By Balance b/d | 2,50,000 | |
| | To Kapeesh's Executor's A/c | 3,51,500 | By Interest on Capital A/c | 7,500 | |
| | | | By General Reserve A/c | 27,000 | |
| | | | By Anmol's Capital A/c | 24,000 | |
| | | | By Meera's Capital A/c | 18,000 | |
| | | | By Profit and Loss Suspense A/c | 45,000 | |
| | Total | 3,71,500 | Total | 3,71,500 | |

The total credits are Rs 3,71,500. After deducting drawings of Rs 20,000, the liability is transferred to Kapeesh's Executor's Account. This transfer closes the deceased partner's capital account; it does not record payment to the executor.

**Step 3:** Conclusion The amount due to Kapeesh's executor is $\boxed{\text{Rs } 3,51,500}$. Kapeesh's Capital Account totals Rs 3,71,500 on each side.

**Quick Tip to Solve:** Apply the three-month factor only to interest and current-year profit; reserve and goodwill shares are not time-apportioned.

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**23(a). Astha Ltd. invited applications for issuing 1,00,000 equity shares of Rs 10 each. The amount per share was payable as follows: Rs 2 on application; Rs 3 on allotment; Rs 3 on first call and Rs 2 on second and final call. Applications were received for 1,50,000 shares. Applications for 30,000 shares were rejected and application money refunded. The shares were allotted on pro-rata basis to the applicants of 1,20,000 shares. Excess money received with applications was adjusted towards sums due on allotment. All shareholders paid the allotment money except Sarthak, who was allotted 2,000 shares. These shares were forfeited. The first call was made thereafter and duly received. The second and final call was not yet made. Pass necessary journal entries for the above transactions in the books of Astha Ltd. Open Calls-in-Arrears Account, wherever required.** [6 marks]

**Solution:**

**Concept:**

- Application money on rejected applications is refunded. For pro-rata allotment, application money in excess of the amount required on allotted shares is transferred to Share Allotment Account.
- On forfeiture, Share Capital Account is debited only with capital called up at that date; unpaid calls are credited to Calls-in-Arrears Account and capital already received is credited to Share Forfeiture Account.

**Step 1:** Work out the pro-rata adjustment and Sarthak's default The allotment ratio is $1,00,000 : 1,20,000 = 5 : 6$. Total application money is $1,50,000 \times 2 = \text{Rs } 3,00,000$, of which $30,000 \times 2 = \text{Rs } 60,000$ is refunded. Application money transferred to capital is Rs 2,00,000 and the excess transferred to allotment is Rs 40,000.

$$\begin{aligned}
\text{Sarthak's applications} &= 2,000 \times \frac{6}{5} = 2,400 \text{ shares},\\
\text{Application money paid} &= 2,400 \times 2 = \text{Rs } 4,800,\\
\text{Excess adjusted} &= 4,800 - (2,000 \times 2) = \text{Rs } 800,\\
\text{Allotment arrears} &= 2,000 \times 3 - 800 = \text{Rs } 5,200,\\
\text{Bank receipt on allotment} &= 3,00,000 - 40,000 - 5,200\\
&= \text{Rs } 2,54,800.
\end{aligned}$$

At forfeiture, only application and allotment have been called, so capital debited is $2,000 \times 5 = \text{Rs } 10,000$. The entire Rs 4,800 received from Sarthak, including Rs 800 applied to allotment, is credited to Share Forfeiture Account.

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

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Share Application A/c<br>(Being application money received on 1,50,000 shares at Rs 2 each) | | 3,00,000 | <br>3,00,000 |
| | Share Application A/c Dr.<br>To Share Capital A/c<br>To Share Allotment A/c<br>To Bank A/c<br>(Being application money transferred to capital and allotment, and rejected applications refunded) | | 3,00,000 | <br>2,00,000<br>40,000<br>60,000 |
| | Share Allotment A/c Dr.<br>To Share Capital A/c<br>(Being allotment due on 1,00,000 shares at Rs 3 each) | | 3,00,000 | <br>3,00,000 |
| | Bank A/c Dr.<br>Calls-in-Arrears A/c Dr.<br>To Share Allotment A/c<br>(Being allotment money received after adjustment of Rs 40,000, except Sarthak's unpaid balance) | | 2,54,800<br>5,200 | <br><br>2,60,000 |

**Step 3:** Record forfeiture followed by the first call **Journal of Astha Ltd. (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>To Calls-in-Arrears A/c<br>To Share Forfeiture A/c<br>(Being Sarthak's 2,000 shares forfeited for non-payment of allotment; Rs 5 per share called up) | | 10,000 | <br>5,200<br>4,800 |
| | Share First Call A/c Dr.<br>To Share Capital A/c<br>(Being first call due on 98,000 outstanding shares at Rs 3 each) | | 2,94,000 | <br>2,94,000 |
| | Bank A/c Dr.<br>To Share First Call A/c<br>(Being the first call received in full) | | 2,94,000 | <br>2,94,000 |

The first call follows forfeiture, so it applies to $1,00,000 - 2,000 = 98,000$ shares. The second and final call has not been made and therefore creates no journal entry or arrears.

**Step 4:** Close the Calls-in-Arrears Account on forfeiture **Calls-in-Arrears Account**

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Share Allotment A/c | 5,200 | By Share Capital A/c | 5,200 | |
| | Total | 5,200 | Total | 5,200 | |

The debit represents Sarthak's unpaid allotment balance. The forfeiture entry clears it in full; hence no balance is carried down.

**Step 5:** Conclusion Allotment receipts are Rs 2,54,800, the forfeiture credit is Rs 4,800 and first-call receipts are Rs 2,94,000. Calls-in-Arrears Account closes with no balance after forfeiture.

**Quick Tip to Solve:** Forfeit at Rs 5 called up per share, then make the first call on only 98,000 shares; include Sarthak's Rs 800 excess application money in the forfeiture credit.

OR

**23(b). Orion Enterprises Ltd. invited applications for issue of 70,000 equity shares of Rs 10 each at a premium of Rs 1 per share. The amount was payable as follows:**

**On Application - Rs 4 per share (including premium Rs 1 per share)**

**On Allotment - Rs 6 per share**

**On First and final call - Balance**

**Applications were received for 2,00,000 shares. Allotment was made as under:**

**Category A: Applicants for 1,20,000 shares were allotted 60,000 shares.**

**Category B: Applicants for 80,000 shares were allotted 10,000 shares.**

**Excess money received with applications was adjusted towards sums due on allotment only. Meeta, from category A, who was allotted 500 shares, failed to pay allotment money and first and final call and Japna, from category B, who had applied for 1,600 shares, failed to pay the first and final call money.**

**Pass necessary journal entries in the books of Orion Enterprises Ltd. for the above transactions.**

[6 marks]

**Solution:**

**Concept:**

- Application of Rs 4 contains Rs 3 share capital and Re 1 premium. Allotment is Rs 6 capital, leaving a final capital call of Re 1.
- Excess application is adjusted against allotment only; any excess beyond that instalment must be refunded.
- Calls in arrears are the amounts still unpaid after giving the shareholder credit for excess application.

**Step 1:** Prepare working notes for the category adjustments **Working Notes**

Category A receives 60,000 shares against applications for 1,20,000 shares. Application receipts are $1,20,000 \times 4 =$ Rs $4,80,000$; application required is $60,000 \times 4 =$ Rs $2,40,000$. The excess Rs 2,40,000 is adjusted against allotment of $60,000 \times 6 =$ Rs $3,60,000$, leaving Rs 1,20,000 payable.

Category B receives 10,000 shares against applications for 80,000 shares. Receipts are Rs 3,20,000 and application required is Rs 40,000. Of the excess Rs 2,80,000, Rs 60,000 meets allotment and Rs 2,20,000 is refunded. No amount is retained for the call. Total allotment adjustment is Rs 3,00,000.

**Step 2:** Work out individual defaults and the final call Meeta applied for $500 \times 2 = 1,000$ shares and paid Rs 4,000. Application required on 500 shares is Rs 2,000, so her excess of Rs 2,000 meets part of her Rs 3,000 allotment. Her allotment arrears are Rs 1,000.

Japna receives $1,600 \times 10,000/80,000 = 200$ shares. Her Rs 6,400 application payment covers Rs 800 application and Rs 1,200 allotment; Rs 4,400 is refunded. Thus she has no allotment arrears.

Final call per share is $10 + 1 - 4 - 6 =$ Re $1$. Meeta defaults on Rs 500 and Japna on Rs 200, making total call arrears Rs 700. Allotment cash is $1,20,000 - 1,000 =$ Rs $1,19,000$, and call cash is $70,000 - 700 =$ Rs $69,300$.

**Step 3:** Record application receipts, adjustment and allotment due **Journal of Orion Enterprises Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Share Application A/c<br>(Being application money received on 2,00,000 shares at Rs 4 each) | | 8,00,000 | <br>8,00,000 |
| | Share Application A/c Dr.<br>To Share Capital A/c<br>To Securities Premium A/c<br>To Share Allotment A/c<br>To Bank A/c<br>(Being application money adjusted, excess applied to allotment only and remaining amount refunded) | | 8,00,000 | <br>2,10,000<br>70,000<br>3,00,000<br>2,20,000 |
| | Share Allotment A/c Dr.<br>To Share Capital A/c<br>(Being allotment due on 70,000 shares at Rs 6 each) | | 4,20,000 | <br>4,20,000 |

**Step 4:** Record allotment receipts and the final call **Journal of Orion Enterprises Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>Calls-in-Arrears A/c Dr.<br>To Share Allotment A/c<br>(Being allotment balance received except Rs 1,000 due from Meeta) | | 1,19,000<br>1,000 | <br><br>1,20,000 |
| | Share First and Final Call A/c Dr.<br>To Share Capital A/c<br>(Being first and final call due on 70,000 shares at Re 1 each) | | 70,000 | <br>70,000 |
| | Bank A/c Dr.<br>Calls-in-Arrears A/c Dr.<br>To Share First and Final Call A/c<br>(Being call received except Rs 500 from Meeta and Rs 200 from Japna) | | 69,300<br>700 | <br><br>70,000 |

**Step 5:** Conclusion Share capital credited is Rs 7,00,000 and securities premium is Rs 70,000. Application refunds total Rs 2,20,000 and calls in arrears total Rs 1,700 (Meeta Rs 1,500; Japna Rs 200). The entries above record all stated transactions.

**Quick Tip to Solve:** Cap Category B's excess adjustment at Rs 6 per allotted share; refund the rest because adjustment is allowed against allotment only.

**24. Bright Motors Ltd. was registered with an authorised capital of Rs 10,00,00,000 divided into equity shares of Rs 100 each. The company issued 3,00,000 shares to the public for subscription. The amount was payable as follows: On application - Rs 30 per share; On allotment - Rs 50 per share; On first and final call - balance. All the shares were fully subscribed. All amounts were duly received except from Raman, a holder of 500 shares, who failed to pay the first and final call.** [6 marks]

**24(i). Total number of shares into which the authorised share capital of the company is divided, is:** [1 mark]

(A) 10,00,00,000

(B) 1,00,00,000

(C) 10,00,000

(D) 3,00,000

**Correct Answer:** (C) 10,00,000

**Solution:**

**Concept:**

- Authorised capital is the maximum nominal share capital registered by the company.
- The number of authorised shares equals authorised capital divided by the face value of one share.

**Step 1:** Identify the registered amount and denomination The registered authorised capital is Rs 10,00,00,000 and each equity share has a face value of Rs 100. The issue of 3,00,000 shares is only a portion of the authorised shares; it does not change the registered ceiling.

**Step 2:** Divide capital by face value

$$\text{Authorised shares} = \frac{10,00,00,000}{100} = 10,00,000.$$

Option (A) reproduces the amount of capital instead of the number of shares; (B) uses an incorrect divisor, while (D) gives only the issued shares.

**Step 3:** Conclusion The authorised capital is divided into 10,00,000 equity shares. Hence, the correct option is (C).

**Quick Tip to Solve:** Divide the authorised rupee amount by Rs 100; do not substitute the 3,00,000 issued shares.

**24(ii). Amount of 'Subscribed and fully paid-up capital' of Bright Motors Ltd. will be:** [1 mark]

(A) Rs 2,99,50,000

(B) Rs 3,00,00,000

(C) Rs 10,00,00,000

(D) Rs 2,99,90,000

**Correct Answer:** (A) Rs 2,99,50,000

**Solution:**

**Concept:**

- Subscribed and fully paid-up capital includes only shares for which the entire called face value has been received.
- Exclude the defaulting shares from this category and multiply the remaining number by Rs 100.

**Step 1:** Count the fully paid shares All 3,00,000 issued shares were subscribed. Raman holds 500 shares and has not paid the final call, so these shares are not fully paid. Thus, fully paid shares are $3,00,000 - 500 = 2,99,500$.

**Step 2:** Value only the fully paid shares

$$\text{Fully paid-up capital} = 2,99,500 \times 100 = \text{Rs } 2,99,50,000.$$

Option (B) is total called-up capital, (C) is authorised capital, and (D) includes Rs 40,000 paid on the partly paid shares. That last amount belongs to a separate category.

**Step 3:** Conclusion Subscribed and fully paid-up capital is Rs 2,99,50,000. Hence, the correct option is (A).

**Quick Tip to Solve:** Exclude all 500 defaulting shares from the fully paid category, not just their unpaid Rs 20 call.

**24(iii). Amount of 'Subscribed but not fully paid-up capital' of Bright Motors Ltd. will be:** [1 mark]

(A) Rs 2,99,90,000

(B) Rs 2,99,50,000

(C) Rs 3,00,00,000

(D) Rs 40,000

**Correct Answer:** (D) Rs 40,000

**Solution:**

**Concept:**

- Subscribed but not fully paid-up capital shows the amount paid on subscribed shares with unpaid calls.
- The paid portion equals the called nominal value of those shares less their calls in arrears.

**Step 1:** Identify the amount paid on Raman's shares Only Raman's 500 shares are not fully paid. He

paid application of Rs 30 and allotment of Rs 50 per share, so Rs 80 per share has been received. The final call is $100 - 30 - 50 = $ Rs 20 per share.

**Step 2:** Deduct unpaid calls from their nominal value

$$500 \times 100 - 500 \times 20 = 50,000 - 10,000 = \text{Rs } 40,000.$$

Equivalently, $500 \times 80 = $ Rs $40,000$. Option (A) is total paid-up capital, (B) concerns only fully paid shares, and (C) is the entire called-up capital; none measures this partly paid category.

**Step 3:** Conclusion Subscribed but not fully paid-up capital is Rs 40,000. Hence, the correct option is (D).

**Quick Tip to Solve:** For the 500 partly paid shares, show Rs 50,000 called up less Rs 10,000 unpaid: Rs 40,000.

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**24(iv). Amount of 'Share Capital' to be presented in the Balance Sheet of Bright Motors Ltd. will be:** [1 mark]

(A) Rs 3,00,00,000

(B) Rs 2,99,50,000

(C) Rs 2,99,90,000

(D) Rs 10,00,00,000

**Correct Answer:** (C) Rs 2,99,90,000

**Solution:**

**Concept:**

- Share capital presented in the balance sheet is subscribed called-up capital less calls in arrears.
- It includes both fully paid shares and the paid portion of shares that are not fully paid.

**Step 1:** Calculate called-up capital and unpaid calls The entire face value has been called, including the final call of $100 - 30 - 50 = $ Rs 20. Called-up capital is $3,00,000 \times 100 = $ Rs $3,00,00,000$. Raman's arrears are $500 \times 20 = $ Rs $10,000$.

**Step 2:** Find the amount presented in the balance sheet

$$\text{Share capital} = 3,00,00,000 - 10,000 = \text{Rs } 2,99,90,000.$$

The same result is Rs 2,99,50,000 fully paid capital plus Rs 40,000 on partly paid shares. Option (A) ignores arrears, (B) omits the partly paid capital, and (D) reports the authorised ceiling.

**Step 3:** Conclusion Share capital presented in the balance sheet is Rs 2,99,90,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Deduct only the unpaid Rs 10,000, rather than the full Rs 50,000 face value of Raman's shares.

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**24(v). If the defaulting 500 shares are forfeited, 'Share Forfeiture Account' will be shown in the 'Notes to Accounts' at:** [1 mark]

(A) Rs 10,000

(B) Rs 40,000

(C) Rs 50,000

(D) Rs 5,000

**Correct Answer:** (B) Rs 40,000

**Solution:**

**Concept:**

- Share Forfeiture Account is credited with the share capital money already received on forfeited shares.
- The unpaid call is excluded; no securities premium is involved in this issue.

**Step 1:** Identify capital receipts on the forfeited shares Raman paid application of Rs 30 and allotment of Rs 50 on each of his 500 shares. He did not pay the final call of Rs 20. Therefore, the amount received towards capital is $30 + 50 = \text{Rs } 80$ per share.

**Step 2:** Calculate the forfeited amount and compare the options

$$\text{Share forfeiture} = 500 \times 80 = \text{Rs } 40,000.$$

This balance is shown in the share capital note until reissue. Option (A) is the unpaid call of Rs 10,000, (C) is the full face value of Rs 50,000, and (D) is not the amount received on these shares.

**Step 3:** Conclusion Share Forfeiture Account will be shown at Rs 40,000. Hence, the correct option is (B).

**Quick Tip to Solve:** For forfeiture, multiply the 500 shares by the Rs 80 actually received, not the Rs 20 unpaid.

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**24(vi). If all the forfeited shares are reissued @ Rs 90 per share fully paid-up, the amount credited to Capital Reserve Account will be:** [1 mark]

(A) Rs 35,000

(B) Rs 40,000

(C) Rs 10,000

(D) Rs 50,000

**Correct Answer:** (A) Rs 35,000

**Solution:**

**Concept:**

- Reissue discount is the difference between face value credited as fully paid and the reissue price.
- Capital reserve receives the forfeiture balance attributable to reissued shares after deducting the reissue discount.

**Step 1:** Calculate forfeiture and discount on reissue The 500 forfeited shares had received Rs 80 each, giving Share Forfeiture Account a credit of $500 \times 80 = \text{Rs } 40,000$. Reissue at Rs 90 as fully paid Rs 100 shares creates a discount of $500 \times (100 - 90) = \text{Rs } 5,000$.

**Step 2:** Transfer the remaining forfeiture balance

$$\text{Capital reserve} = 40,000 - 5,000 = \text{Rs } 35,000.$$

All forfeited shares are reissued, so the entire remaining balance is transferred. Option (B) fails to deduct reissue discount, (C) is the original unpaid call, and (D) is the nominal capital of the reissued shares.

**Step 3:** Conclusion The amount credited to Capital Reserve Account is Rs 35,000. Hence, the correct option is (A).

**Quick Tip to Solve:** Use Rs 80 forfeited less Rs 10 reissue discount per share: Rs 70 multiplied by 500 shares.

**25(a). Arjun and Kavya were partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet as at 31st March, 2025 was as follows:**

**Balance Sheet of Arjun and Kavya as at 31st March, 2025**

| Liabilities | | Amount (Rs) | Assets | | Amount (Rs) |
|---|---|---|---|---|---|
| Capitals: | | | Building | | 6,00,000 |
| Arjun | 4,80,000 | | Investments | | 2,80,000 |
| Kavya | 5,20,000 | 10,00,000 | Stock | | 3,76,000 |
| Investment Fluctuation Reserve | | 1,00,000 | Debtors | 1,60,000 | |
| | | | Less: Provision for doubtful debts | 7,000 | 1,53,000 |
| Creditors | | 4,00,000 | Cash | | 91,000 |
| | | 15,00,000 | | | 15,00,000 |

**On 1st April, 2025, Raghav was admitted as a new partner for 1/4th share in the profits of the firm on the following terms:**

**(i) Raghav shall bring Rs 5,00,000 as his capital.**

**(ii) Goodwill of the firm was valued at Rs 4,00,000. Raghav was unable to bring his share of goodwill premium in cash.**

**(iii) Provision for doubtful debts was to be created @ 10% on debtors.**

**(iv) Investments were valued at Rs 2,00,000 and building was to be brought down to Rs 5,00,000.**

**(v) Capitals of Arjun and Kavya were to be adjusted on the basis of Raghav's capital in the business. Actual cash was to be paid off or brought in by the old partners as the case may be.**

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

**Solution:**

**Concept:**

- In the absence of a different sacrifice agreement, Arjun and Kavya surrender the incoming partner's share in their old ratio, $3:2$. Revaluation loss and the surplus investment fluctuation reserve belong to these old partners in that ratio.
- A fall in investments is first met from the investment fluctuation reserve. Only the excess fall, if any, is charged to Revaluation Account. The additional doubtful-debt provision is the required provision less its existing balance.
- Goodwill premium not brought in cash is debited to the incoming partner's capital and credited to the sacrificing partners. With fluctuating capitals, use Raghav's capital remaining after this adjustment to fix proportionate capitals in the business.

**Step 1:** Determine the new shares and goodwill adjustment Raghav takes $1/4$; the old partners retain $3/4$ in the ratio $3:2$. Thus

$$A:K:R=\left(\frac{3}{5}\times\frac{3}{4}\right):\left(\frac{2}{5}\times\frac{3}{4}\right):\frac{1}{4}=9:6:5.$$

Their sacrifices are $3/20$ and $2/20$, i.e. $3:2$. Raghav's goodwill share is Rs $4,00,000\times 1/4=$ Rs $1,00,000$. Debit his Capital Account by Rs 1,00,000 and credit Arjun and Kavya by Rs 60,000 and Rs 40,000 respectively. No goodwill asset is raised.

**Step 2:** Adjust the reserve and prepare Revaluation Account Investments fall by Rs $2,80,000-$ Rs $2,00,000=$ Rs $80,000$. Apply this against the Rs 1,00,000 investment fluctuation reserve; distribute its remaining Rs 20,000 to Arjun and Kavya as Rs 12,000 and Rs 8,000. This investment loss is not charged again to revaluation.

Required doubtful-debt provision is $10\%\times$ Rs $1,60,000=$ Rs $16,000$, so the additional charge is Rs 9,000. Building decreases by Rs 1,00,000. Revaluation loss is therefore Rs 1,09,000, shared as Rs 65,400 and Rs 43,600.

**Revaluation Account**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Building | 1,00,000 | By Arjun's Capital | 65,400 |
| To Provision for doubtful debts | 9,000 | By Kavya's Capital | 43,600 |
| Total | 1,09,000 | Total | 1,09,000 |

**Step 3:** Calculate the capital targets and cash adjustments Raghav's capital remaining in the business is Rs $5,00,000-$Rs $1,00,000=$ Rs $4,00,000$. Since this represents his $1/4$ share, the total adjusted capital is Rs 16,00,000. Arjun requires Rs $16,00,000\times 9/20=$ Rs $7,20,000$; Kavya requires Rs $16,00,000\times 6/20=$ Rs $4,80,000$.

$$A_{\text{adjusted}}=4,80,000+12,000+60,000-65,400=4,86,600,$$
$$K_{\text{adjusted}}=5,20,000+8,000+40,000-43,600=5,24,400.$$

Hence Arjun brings Rs 2,33,400 and Kavya withdraws Rs 44,400. These cash adjustments make the final capitals proportionate to $9:6:5$.

**Step 4:** Prepare the partners' capital accounts **Arjun's Capital Account**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Revaluation | 65,400 | By Balance b/d | 4,80,000 |
| To Balance c/d | 7,20,000 | By Investment fluctuation reserve | 12,000 |
| | | By Raghav's Capital | 60,000 |
| | | By Cash | 2,33,400 |
| Total | 7,85,400 | Total | 7,85,400 |

**Kavya's Capital Account**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Revaluation | 43,600 | By Balance b/d | 5,20,000 |
| To Cash | 44,400 | By Investment fluctuation reserve | 8,000 |
| To Balance c/d | 4,80,000 | By Raghav's Capital | 40,000 |
| Total | 5,68,000 | Total | 5,68,000 |

**Raghav's Capital Account**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Arjun's Capital | 60,000 | By Cash | 5,00,000 |
| To Kavya's Capital | 40,000 | | |
| To Balance c/d | 4,00,000 | | |
| Total | 5,00,000 | Total | 5,00,000 |

**Step 5:** Conclusion Revaluation loss is Rs 1,09,000. Final capitals are Arjun Rs 7,20,000, Kavya Rs 4,80,000 and Raghav Rs 4,00,000. Arjun brings Rs 2,33,400; Kavya receives Rs 44,400.

**Quick Tip to Solve:** First absorb the investment fall in its reserve, then deduct unpaid goodwill from Raghav's capital before using that adjusted capital as the proportionate base.

OR

**25(b).** **Aarav, Kunal and Manav were partners in a firm sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as at 31st March, 2025 was as follows:**

**Balance Sheet of Aarav, Kunal and Manav as at 31st March, 2025**

| Liabilities | | Amount (Rs) | Assets | | Amount (Rs) |
|---|---|---|---|---|---|
| Sundry Creditors | | 70,000 | Cash | | 2,30,000 |
| Workmen Compensation Reserve | | 1,00,000 | Debtors | 90,000 | |
| | | | Less: Provision for doubtful debts | 10,000 | 80,000 |
| Capitals: | | | Stock | | 1,60,000 |
| Aarav | 3,00,000 | | Machinery | | 2,50,000 |
| Kunal | 2,50,000 | | Building | | 1,50,000 |
| Manav | 1,50,000 | 7,00,000 | | | |
| | | 8,70,000 | | | 8,70,000 |

**Aarav retired on the above date and it was agreed that:**

**(i) Kunal and Manav will share future profits in the ratio of 1:4.**

**(ii) Goodwill of the firm be valued at Rs 6,00,000 and the retiring partner's share would be adjusted through the capital accounts of the remaining partners.**

**(iii) An unrecorded creditor of Rs 20,000 was to be taken into account.**

**(iv) Debtors of Rs 15,000 were to be written off as bad debts.**

**(v) Liability on account of workmen compensation amounted to Rs 40,000.**

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

**Pass necessary journal entries for the above transactions in the books of the firm on Aarav's retirement.**

[6 marks]

**Solution:**

**Concept:**

- Gain equals the new share less the old share. A continuing partner who sacrifices also receives goodwill compensation; only a gaining partner is debited for goodwill.
- The available provision absorbs bad debts before the excess is charged to Revaluation Account. Revaluation profit or loss and the unused workmen compensation reserve are allocated in the old ratio, $5 : 3 : 2$.
- The retiring partner's final capital balance, after goodwill, reserve and revaluation adjustments, is transferred to his Loan Account when it is not immediately paid.

**Step 1:** Determine the goodwill adjustment Kunal's new share is $1/5 = 2/10$, less than his old $3/10$, so he sacrifices $1/10$. Manav's new share is $4/5 = 8/10$; he gains $8/10 - 2/10 = 6/10$. Aarav sacrifices

his entire $5/10$. Thus Manav compensates both sacrificing partners:

$$\text{Aarav's credit} = \text{Rs } 6,00,000 \times 5/10 = \text{Rs } 3,00,000,$$
$$\text{Kunal's credit} = \text{Rs } 6,00,000 \times 1/10 = \text{Rs } 60,000,$$
$$\text{Manav's debit} = \text{Rs } 6,00,000 \times 6/10 = \text{Rs } 3,60,000.$$

No goodwill asset is raised. Crediting only Aarav and charging both continuing partners would incorrectly treat Kunal as a gaining partner.

**Step 2:** Record goodwill, the unrecorded creditor and bad debts All entries below are dated 31st March, 2025. Debtors written off are Rs 15,000, but Rs 10,000 is covered by the existing provision. Therefore the additional revaluation loss is only Rs 5,000. Together with the unrecorded creditor, total revaluation loss is Rs 25,000.

**Journal of the Firm**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Manav's Capital A/c Dr. | | 3,60,000 | |
| | To Aarav's Capital A/c | | | 3,00,000 |
| | To Kunal's Capital A/c | | | 60,000 |
| | (Being goodwill compensation for the shares sacrificed by Aarav and Kunal) | | | |
| | Revaluation A/c Dr. | | 20,000 | |
| | To Sundry Creditors A/c | | | 20,000 |
| | (Being unrecorded creditor recognised) | | | |
| | Provision for Doubtful Debts A/c Dr. | | 10,000 | |
| | Revaluation A/c Dr. | | 5,000 | |
| | To Debtors A/c | | | 15,000 |
| | (Being bad debts written off against the available provision and the excess charged to revaluation) | | | |

**Step 3:** Record the compensation liability and distribute the revaluation loss Workmen compensation reserve is Rs 1,00,000 against an actual liability of Rs 40,000. Retain the liability and distribute the surplus Rs 60,000 to Aarav, Kunal and Manav as Rs 30,000, Rs 18,000 and Rs 12,000. The revaluation loss Rs 25,000 is shared in $5:3:2$ as Rs 12,500, Rs 7,500 and Rs 5,000.

**Journal of the Firm (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Workmen Compensation Reserve A/c Dr. | | 1,00,000 | |
| | To Workmen Compensation Liability A/c | | | 40,000 |
| | To Aarav's Capital A/c | | | 30,000 |
| | To Kunal's Capital A/c | | | 18,000 |
| | To Manav's Capital A/c | | | 12,000 |
| | (Being liability provided and surplus reserve distributed in the old ratio) | | | |
| | Aarav's Capital A/c Dr. | | 12,500 | |
| | Kunal's Capital A/c Dr. | | 7,500 | |
| | Manav's Capital A/c Dr. | | 5,000 | |
| | To Revaluation A/c | | | 25,000 |
| | (Being revaluation loss transferred in the old ratio of 5:3:2) | | | |

**Step 4:** Transfer the amount due to Aarav to his loan account Aarav's final claim includes his opening

capital, goodwill compensation and reserve share, less his revaluation loss:

$$\text{Amount due} = 3,00,000 + 3,00,000 + 30,000 - 12,500 = \text{Rs } 6,17,500.$$

**Journal of the Firm (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Aarav's Capital A/c Dr.<br>To Aarav's Loan A/c<br>(Being the amount due on retirement transferred to Aarav's loan account) | | 6,17,500 | <br>6,17,500 |

This entry closes Aarav's Capital Account without reducing cash. His claim becomes a liability of the reconstituted firm.

**Step 5:** Conclusion Manav is debited Rs 3,60,000 for goodwill; Aarav and Kunal are credited Rs 3,00,000 and Rs 60,000. Revaluation loss is Rs 25,000, reserve surplus is Rs 60,000, and Aarav's loan is Rs 6,17,500.

**Quick Tip to Solve:** Calculate each continuing partner's actual gain: Kunal sacrifices here. Also offset the existing Rs 10,000 provision before charging the Rs 15,000 bad debts to revaluation.

**26. Jhalak and Arsh were partners in a firm sharing profits and losses equally. Their Balance Sheet as at 31st March, 2025 was as follows:**

| Liabilities | Amount (Rs) | Assets | Amount (Rs) |
|---|---|---|---|
| Capitals:<br>Jhalak 8,00,000<br>Arsh 12,00,000 | 20,00,000 | Machinery | 12,00,000 |
| Jhalak's Loan | 5,00,000 | Investments | 8,00,000 |
| Creditors | 13,00,000 | Debtors | 15,00,000 |
| Mrs. Arsh's Loan | 7,00,000 | Stock | 5,00,000 |
| | | Cash at bank | 5,00,000 |
| Total | 45,00,000 | Total | 45,00,000 |

**The firm was dissolved on the above date and the following transactions took place:**

**(i) Debtors were taken over by Creditors in full settlement of their account.**

**(ii) Arsh agreed to pay off Mrs. Arsh's loan.**

**(iii) Investments were taken over by Arsh at 90% of book value.**

**(iv) Machinery was realised at 20% discount.**

**(v) 50% of the stock was sold at a profit of 20% and the balance was taken over by Jhalak at 10% discount.**

**(vi) Realisation expenses were Rs 20,000 which were paid by Jhalak.**

**Prepare Realisation Account.** [6 marks]

**Solution:**

**Concept:**

- On dissolution, all non-cash assets are transferred to the debit of Realisation Account at their book values, and external liabilities are transferred to its credit. A partner's own loan is settled separately.
- Assets taken over by a partner are credited to Realisation Account and debited to the partner's Capital Account. An external liability assumed by a partner is debited to Realisation Account and credited to that partner's Capital Account.
- Realisation expenses paid personally by a partner are debited to Realisation Account. The resulting profit or loss is divided in the old profit-sharing ratio, here $1:1$.

**Step 1:** Identify the transfers and the non-cash settlement The assets transferred are machinery Rs 12,00,000, investments Rs 8,00,000, debtors Rs 15,00,000 and stock Rs 5,00,000, totalling Rs 40,00,000. Cash at bank is excluded. Creditors of Rs 13,00,000 and Mrs. Arsh's loan of Rs 7,00,000 are external liabilities, so both are credited. Jhalak's own loan is excluded. Since creditors accept debtors in full settlement, no further entry is made for this exchange: both balances have already been transferred.

**Step 2:** Calculate the amounts realised or taken over Arsh takes investments at $8,00,000 \times 90\% =$ Rs $7,20,000$, and assumes Mrs. Arsh's loan of Rs 7,00,000. Machinery yields $12,00,000 \times 80\% =$ Rs $9,60,000$. Half the stock has a book value of Rs 2,50,000: its sale yields $2,50,000 \times 120\% =$ Rs $3,00,000$. Jhalak takes the other half at $2,50,000 \times 90\% =$ Rs $2,25,000$. Expenses of Rs 20,000 paid by Jhalak are credited to her Capital Account, not Bank Account.

**Step 3:** Prepare the Realisation Account **Realisation Account of Jhalak and Arsh**

| Dr. | | Cr. | |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Machinery | 12,00,000 | By Creditors | 13,00,000 |
| To Investments | 8,00,000 | By Mrs. Arsh's Loan | 7,00,000 |
| To Debtors | 15,00,000 | By Arsh's Capital (investments) | 7,20,000 |
| To Stock | 5,00,000 | By Bank (machinery) | 9,60,000 |
| To Arsh's Capital (loan assumed) | 7,00,000 | By Bank (stock) | 3,00,000 |
| To Jhalak's Capital (expenses) | 20,000 | By Jhalak's Capital (stock) | 2,25,000 |
| | | By Jhalak's Capital (loss) | 2,57,500 |
| | | By Arsh's Capital (loss) | 2,57,500 |
| **Total** | **47,20,000** | **Total** | **47,20,000** |

**Step 4:** Check the loss transferred to capitals Total debits before transfer of loss are Rs 47,20,000. Credits before transfer of loss are $13,00,000+7,00,000+7,20,000+9,60,000+3,00,000+2,25,000 =$ Rs $42,05,000$. The difference is Rs 5,15,000, allocated equally: $5,15,000 \div 2 =$ Rs $2,57,500$ to each partner. Realisation Account is closed by these transfers and carries no balance forward.

**Step 5:** Conclusion Realisation loss is $\boxed{\text{Rs } 5,15,000}$, borne equally by Jhalak and Arsh at $\boxed{\text{Rs } 2,57,500}$ each. Both sides of Realisation Account total Rs 47,20,000.

**Quick Tip to Solve:** When creditors accept an asset in full settlement, transfer both book balances first and make no second entry for the exchange.

## Part B (20 marks)

*Option I (Analysis of Financial Statements)*

**27. The Debt-Equity Ratio of a company is 2:1. Which of the following transactions will increase the Debt-Equity Ratio?** [1 mark]

(A) Issue of Shares Rs 2,00,000

(B) Issue of 8% Debentures Rs 5,00,000

(C) Issue of Bonus shares Rs 4,00,000

(D) Payment to Creditors Rs 1,00,000

**Correct Answer:** (B) Issue of 8% Debentures Rs 5,00,000

**Solution:**

**Concept:**

- Debt-equity ratio $= \dfrac{\text{Long-term debt}}{\text{Shareholders' funds}}$. It measures long-term financial leverage.
- A transaction increases this ratio if it raises long-term debt without raising shareholders' funds.

**Step 1:** Examine the debenture issue Let shareholders' funds be Rs $E$, where $E > 0$. Existing long-term debt is Rs $2E$. Issuing Rs 5,00,000 of debentures changes the ratio to $(2E + 5,00,000)/E = 2 + 5,00,000/E$, which exceeds 2. The coupon rate of 8% does not alter the principal added to debt.

**Step 2:** Eliminate the other transactions Issuing shares raises shareholders' funds, so option (A) reduces the ratio. Bonus shares merely transfer reserves into share capital and leave total shareholders' funds unchanged, so (C) has no effect. Payment to trade creditors reduces a current liability and cash, leaving long-term debt and equity unchanged; hence (D) also has no effect.

**Step 3:** Conclusion Issue of 8% Debentures of Rs 5,00,000 increases the debt-equity ratio. Hence, the correct option is $\boxed{\text{(B)}}$.

**Quick Tip to Solve:** For debt-equity questions, track long-term debt and total shareholders' funds; a bonus issue only rearranges equity.

**28(a). Which of the following statements are correct?**

**I. A low current ratio endangers the business and puts it at risk of facing a situation, where it will not be able to pay its short-term debts on time.**

**II. Trade payables turnover ratio expresses the relationship between net credit sales and average trade payables.**

**III. Operating profit ratio plus Gross profit ratio = 100.**

**IV. Inventory turnover ratio determines the number of times inventory is converted into revenue from operations during the accounting period under consideration.** [1 mark]

(A) I and II

(B) II and III

(C) III and IV

(D) I and IV

**Correct Answer:** (D) I and IV

**Solution:**

**Concept:**

- Current ratio compares current assets with current liabilities; a low ratio signals possible difficulty meeting short-term obligations.
- Trade payables turnover uses net credit purchases, while inventory turnover relates cost of revenue from operations to average inventory.

**Step 1:** Judge statements I and II Statement I is correct: insufficient current assets relative to current liabilities can place timely payment of short-term debts at risk. Statement II is incorrect because trade payables turnover is net credit purchases divided by average trade payables, not net credit sales divided by average trade payables.

**Step 2:** Judge statements III and IV and select the pair Statement III is incorrect. Operating ratio plus operating profit ratio equals 100%; gross profit ratio is not the complementary ratio. Statement IV correctly describes inventory turnover as the number of times inventory is converted into revenue from operations during the period. Thus I and IV are correct. Options (A), (B) and (C) each include at least one of the false statements II or III.

**Step 3:** Conclusion The correct statements are I and IV. Hence, the correct option is $\boxed{\text{(D)}}$.

**Quick Tip to Solve:** Remember the two traps: payables turnover uses credit purchases, and operating ratio complements operating profit ratio.

OR

**28(b). Ratios that are calculated for measuring the efficiency of operations of business based on effective utilisation of resources are called:** [1 mark]

(A) Turnover ratios

(B) Profitability ratios

(C) Solvency ratios

(D) Liquidity ratios

**Correct Answer:** (A) Turnover ratios

**Solution:**

**Concept:**

- Turnover or activity ratios measure how efficiently a business uses its resources in generating revenue from operations.
- Different ratio groups answer different questions: efficiency, profitability, long-term solvency or short-term liquidity.

**Step 1:** Identify the defining words The question asks about efficiency of operations based on effective utilisation of resources. This is the purpose of turnover ratios, also called activity ratios. For example, inventory turnover indicates how frequently inventory moves through the operating cycle, while receivables turnover reflects collection efficiency.

**Step 2:** Distinguish the remaining groups Profitability ratios measure earning ability, so (B) does not match the definition. Solvency ratios assess the capacity to meet long-term obligations, ruling out (C). Liquidity ratios assess short-term payment capacity, ruling out (D). The wording therefore identifies the turnover group specifically.

**Step 3:** Conclusion These are turnover ratios. Hence, the correct option is $\boxed{\text{(A)}}$.

**Quick Tip to Solve:** Associate resource utilisation and operational efficiency with turnover ratios; associate payment capacity with liquidity or solvency.

**29. Statement I: Quick Credit Ltd., a finance company, paid interest on borrowings amounting to Rs 80,000. This will be shown as cash outflow from operating activities in its Cash Flow Statement.**

**Statement II: Royal Foods Ltd., a non-financial enterprise, paid dividends amounting to Rs 2,30,000. It will be shown as cash outflow from operating activities in its Cash Flow Statement.**

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

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

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

(C) Both the Statements are true.

(D) Both the Statements are false.

**Correct Answer:** (A) Statement I is true and Statement II is false.

**Solution:**

**Concept:**

- For a financial enterprise, interest paid is classified as an operating cash flow because financing customers is part of its principal business.
- Under the CBSE cash-flow treatment, dividends paid are financing cash outflows, representing payments to providers of ownership capital.

**Step 1:** Evaluate Statement I Quick Credit Ltd. is explicitly a finance company. Interest on its borrowings is a cost connected with its principal revenue-producing operations. Therefore the payment of Rs 80,000 is shown as an operating cash outflow, and Statement I is true.

**Step 2:** Evaluate Statement II and the choices Royal Foods Ltd. is a non-financial enterprise. Its Rs 2,30,000 dividend payment is a financing cash outflow, not an operating cash outflow, so Statement II is false. Option (B) reverses both verdicts, (C) incorrectly treats Statement II as true, and (D) incorrectly treats Statement I as false.

**Step 3:** Conclusion Statement I is true and Statement II is false. Hence, the correct option is $\boxed{(A)}$.

**Quick Tip to Solve:** Check the nature of the enterprise before classifying interest; classify dividends paid as financing cash outflows.

**30(a). The following information was obtained about the cash flows of XYZ Ltd. for the year ended 31st March, 2025: Cash inflows from operating activities Rs 28,000; cash used in investing activities Rs 32,000 and cash inflows from financing activities Rs 5,000. If the opening balance of cash and cash equivalents on 1st April, 2024 was Rs 25,000, the closing balance of cash and cash equivalents on 31st March, 2025 will be:** [1 mark]

(A) Rs 90,000

(B) Rs 6,000

(C) Rs 26,000

(D) Rs 70,000

**Correct Answer:** (C) Rs 26,000

**Solution:**

**Concept:**

- Net change in cash and cash equivalents equals the algebraic sum of operating, investing and financing cash flows.
- Closing cash and cash equivalents equal opening cash and cash equivalents plus the net change during the year.

**Step 1:** Compute the net cash movement Cash inflows are positive and cash used is negative. Thus operating cash flow is Rs 28,000, investing cash flow is Rs $-32,000$, and financing cash flow is Rs 5,000. The net increase is

$$28,000 - 32,000 + 5,000 = \text{Rs } 1,000.$$

**Step 2:** Reconcile opening and closing cash Add the net increase to the opening balance:

$$\text{Closing balance} = 25,000 + 1,000 = \text{Rs } 26,000.$$

Treating investing cash used as an inflow would produce Rs 90,000, the trap in (A). Rs 6,000 and Rs 70,000 in (B) and (D) also fail the opening-plus-net-change reconciliation.

**Step 3:** Conclusion The closing balance on 31st March, 2025 is $\boxed{\text{Rs } 26,000}$. Hence, the correct option is (C).

**Quick Tip to Solve:** Write an explicit minus sign against cash used in investing before adding the three activity totals to opening cash.

OR

**30(b). The following information was obtained from the books of PQR Ltd.: Profit and Loss balance (Dr.) as at 31st March, 2024: Rs 30,000; Profit and Loss balance (Cr.) as at 31st March, 2025: Rs 56,000; Interim Dividend paid during the year: Rs 36,000. The net profit before taxation for the year ended 31st March, 2025 will be:** [1 mark]

(A) Rs 86,000

(B) Rs 62,000

(C) Rs 1,22,000

(D) Rs 50,000

**Correct Answer:** (C) Rs 1,22,000

**Solution:**

**Concept:**

- A debit balance in Profit and Loss represents an accumulated loss and is treated as a negative opening balance.
- Profit for the year equals closing surplus minus opening surplus plus distributions charged to that surplus; add interim dividend back to recover profit.

**Step 1:** Find the increase in the Profit and Loss balance The opening balance is a debit of Rs 30,000, hence $-$Rs $30,000$; the closing credit balance is $+$Rs $56,000$. The increase after the dividend is

$$56,000 - (-30,000) = \text{Rs } 86,000.$$

Subtracting Rs 30,000 as though it were an opening credit would misread the question.

**Step 2:** Restore the dividend appropriation Interim dividend of Rs 36,000 reduced the surplus but is a distribution of profit, not an expense in determining profit. Therefore

$$\text{Net profit before taxation} = 86,000 + 36,000 = \text{Rs } 1,22,000.$$

No separate tax amount is provided for adjustment. Option (A) omits the dividend add-back; (B) treats the opening debit as a credit; (D) wrongly deducts the dividend from the increase.

**Step 3:** Conclusion Net profit before taxation is $\boxed{\text{Rs } 1,22,000}$. Hence, the correct option is (C).

**Quick Tip to Solve:** Convert a debit opening Profit and Loss balance into a negative number, subtract it, and then add back interim dividend.

**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:**

**(a) Licenses and Franchise**

**(b) Capital Advance**

**(c) Stores and Spares** [3 marks]

**Solution:**

**Concept:**

- Schedule III classifies assets as non-current or current and then places each asset under its appropriate sub-head according to its nature.
- Intangible assets are identifiable assets without physical substance. Inventories include stores and spares held for use in the normal operating cycle.

**Step 1:** Identify the nature of each asset Licenses and franchise represent contractual or legal rights used by the company over more than one accounting period. They have no physical form and are therefore intangible assets. A capital advance is an amount advanced towards acquiring a capital asset; it is classified under long-term loans and advances, rather than as an inventory or a trade receivable. Stores and spares are supplies held for use in the company's operations and are included in inventories.

**Step 2:** Present the prescribed heads and sub-heads Balance Sheet classification (Schedule III, Part I)

| Item | Major head | Sub-head |
|---|---|---|
| (a) Licenses and franchise | Non-current assets | Fixed assets: Intangible assets |
| (b) Capital advance | Non-current assets | Long-term loans and advances |
| (c) Stores and spares | Current assets | Inventories |

The classification distinguishes long-term rights and advances for capital expenditure from operating supplies. No amount is provided, so only the relevant heads are required.

**Step 3:** Conclusion Licenses and franchise: Non-current assets, Intangible assets; Capital advance: Non-current assets, Long-term loans and advances; Stores and spares: Current assets, Inventories.

**Quick Tip to Solve:** Look at what the asset represents: a right is intangible, a capital advance is a long-term advance, and operating stores are inventory.

**32. From the following information, prepare a Comparative Statement of Profit and Loss of YX Ltd. for the year ended 31st March, 2025:**

| Particulars | 2024-25 (Rs) | 2023-24 (Rs) |
|---|---|---|
| Revenue from Operations | 30,00,000 | 20,00,000 |
| Other Income (% of Revenue from Operations) | 60% | 50% |
| Employee Benefit Expenses | 12,00,000 | 6,00,000 |
| Tax Rate 40% | | |

[3 marks]

**Solution:**

**Concept:**

- A comparative statement shows the previous and current year's amounts, the absolute change, and the percentage change measured against the previous year.
- Change = Current year − Previous year, and Percentage change $= \dfrac{\text{Change}}{\text{Previous year}} \times 100$.

**Step 1:** Calculate income, profit and tax for both years Other income is calculated on each year's revenue from operations:

$$\text{2023-24 other income} = 20,00,000 \times 50\% = \text{Rs } 10,00,000,$$
$$\text{2024-25 other income} = 30,00,000 \times 60\% = \text{Rs } 18,00,000.$$

Total income is Rs 30,00,000 and Rs 48,00,000 respectively. Deducting employee benefit expenses gives profit before tax of Rs 24,00,000 and Rs 36,00,000. The stated tax rate of 40% applies to both years: tax is Rs 9,60,000 and Rs 14,40,000. Hence profit after tax is Rs 14,40,000 and Rs 21,60,000 respectively.

**Step 2:** Prepare the comparative statement **YX Ltd.**

Comparative Statement of Profit and Loss for the year ended 31st March, 2025

| Particulars | 2023-24 (Rs) | 2024-25 (Rs) | Increase (Rs) | Increase (%) |
|---|---|---|---|---|
| I. Revenue from operations | 20,00,000 | 30,00,000 | 10,00,000 | 50 |
| II. Other income | 10,00,000 | 18,00,000 | 8,00,000 | 80 |
| III. Total income (I + II) | 30,00,000 | 48,00,000 | 18,00,000 | 60 |
| IV. Expenses: Employee benefit expenses | 6,00,000 | 12,00,000 | 6,00,000 | 100 |
| V. Profit before tax (III - IV) | 24,00,000 | 36,00,000 | 12,00,000 | 50 |
| VI. Tax expense (40%) | 9,60,000 | 14,40,000 | 4,80,000 | 50 |
| VII. Profit after tax (V - VI) | 14,40,000 | 21,60,000 | 7,20,000 | 50 |

For example, the increase in other income is $18,00,000 - 10,00,000 = \text{Rs } 8,00,000$, which is $8,00,000/10,00,000 \times 100 = 80\%$. Every percentage uses the 2023-24 figure as its base.

**Step 3:** Conclusion Profit after tax increased from Rs 14,40,000 in 2023-24 to Rs 21,60,000 in 2024-25, an increase of Rs 7,20,000 or 50%.

**Quick Tip to Solve:** First turn the other-income percentages into rupee amounts, then use the previous year's rupee figure as the base for every percentage change.

**33(a)(i). Calculate Revenue from Operations from the following information:**

**Average inventory – Rs 1,20,000**

**Inventory turnover ratio – 8 times**

**Goods are sold at a profit of 20% on revenue from operations** [4 marks total]

**Solution:**

**Concept:**

- Inventory turnover ratio relates the cost of revenue from operations to average inventory: Inventory turnover ratio $=$ Cost of revenue from operations/Average inventory.
- Revenue from operations comprises cost and gross profit. When profit is given as a percentage of revenue, deduct that percentage from 100 to determine the cost percentage of revenue.

**Step 1:** Calculate the cost of revenue from operations Rearrange the inventory turnover formula and substitute the given average inventory of Rs 1,20,000 and turnover of 8 times:

$$\begin{aligned}\text{Cost of revenue from operations} &= \text{Average inventory} \times 8\\ &= \text{Rs } 1,20,000 \times 8\\ &= \text{Rs } 9,60,000.\end{aligned}$$

This is the cost of the goods sold, so it must be converted into the corresponding selling revenue before answering the question.

**Step 2:** Convert cost into revenue using the margin on sales Gross profit is 20% of revenue from operations; consequently cost is $100\% - 20\% = 80\%$ of revenue. Therefore

$$\text{Revenue from operations} = \frac{9,60,000}{0.80} = \text{Rs } 12,00,000.$$

As a check, gross profit is Rs 2,40,000, which is 20% of Rs 12,00,000. Adding this profit to the Rs 9,60,000 cost reproduces revenue. Multiplying cost by 1.20 would treat the percentage as a profit on cost and would not satisfy the given condition.

**Step 3:** Conclusion Revenue from operations is $\boxed{\text{Rs } 12,00,000}$.

**Quick Tip to Solve:** A 20% margin on revenue makes cost 80% of revenue: divide the cost found from inventory turnover by 0.80.

**33(a)(ii). Calculate Trade Payables Turnover Ratio from the following information:**

**Credit purchases during 2024–25: Rs 24,00,000**

**Creditors on 1st April, 2024: Rs 3,00,000**

**Bills Payables on 1st April, 2024: Rs 2,00,000**

**Creditors on 31st March, 2025: Rs 4,80,000**

**Bills Payables on 31st March, 2025: Rs 2,20,000**

**Solution:**

**Concept:**

- Trade payables include both sundry creditors and bills payable arising from credit purchases. Average trade payables are the arithmetic mean of their opening and closing balances.
- Trade payables turnover ratio measures how many times credit purchases cover average trade payables: Ratio = Net credit purchases/Average trade payables. The result is expressed in times.

**Step 1:** Determine opening, closing and average trade payables Add bills payable to creditors at each date, because converting a creditor into a bill does not remove the trade obligation:

$$\begin{aligned}\text{Opening trade payables} &= 3,00,000 + 2,00,000 = \text{Rs } 5,00,000,\\ \text{Closing trade payables} &= 4,80,000 + 2,20,000 = \text{Rs } 7,00,000,\\ \text{Average trade payables} &= \frac{5,00,000 + 7,00,000}{2}\\ &= \text{Rs } 6,00,000.\end{aligned}$$

These are the balances at the beginning and end of the same financial year, 2024–25, for which credit purchases are supplied.

**Step 2:** Calculate the turnover ratio Use the given credit purchases of Rs 24,00,000; no purchase returns are stated. Divide by the average combined trade liability:

$$\text{Trade payables turnover ratio} = \frac{24,00,000}{6,00,000} = 4 \text{ times}.$$

Thus annual credit purchases are four times average trade payables. Using creditors alone would omit bills payable, understate the denominator and overstate the turnover ratio. Using only the closing balance would also ignore the opening position required for the average.

**Step 3:** Conclusion Trade payables turnover ratio is $\boxed{4 \text{ times}}$.

**Quick Tip to Solve:** First add creditors and bills payable separately at both dates; then average the two totals before dividing credit purchases by that average.

OR

**33(b). From the details given below, calculate:**

| | |
|---|---|
| **Trade Receivables** | **Rs 5,00,000** |
| **Inventory** | **Rs 2,40,000** |
| **Marketable Securities** | **Rs 1,20,000** |
| **Cash** | **Rs 80,000** |
| **Prepaid Expenses** | **Rs 60,000** |
| **Bills Payable** | **Rs 1,20,000** |
| **Sundry Creditors** | **Rs 2,40,000** |
| **Expenses Payable** | **Rs 1,40,000** |
| **Debentures** | **Rs 3,00,000** |
| **Revenue from Operations** | **Rs 24,00,000** |

[4 marks]

**33(b)(i). Quick Ratio**

**Solution:**

**Concept:**

- Quick Ratio measures the ability to meet current liabilities from quick assets. It is calculated as Quick Assets/Current Liabilities.
- Quick assets include cash, marketable securities and trade receivables. Inventory and prepaid expenses are excluded because they are not immediately available to settle liabilities.

**Step 1:** Identify and total quick assets Trade receivables, marketable securities and cash are the liquid assets given in the question. Inventory of Rs 2,40,000 and prepaid expenses of Rs 60,000 do not enter the numerator.

$$\begin{aligned}\text{Quick Assets} &= 5,00,000 + 1,20,000 + 80,000 \\ &= \text{Rs } 7,00,000.\end{aligned}$$

**Step 2:** Total current liabilities and calculate the ratio Bills payable, sundry creditors and expenses payable are current liabilities. Debentures of Rs 3,00,000 represent long-term borrowing and are excluded from current liabilities.

$$\begin{aligned}\text{Current Liabilities} &= 1,20,000 + 2,40,000 + 1,40,000 \\ &= \text{Rs } 5,00,000, \\ \text{Quick Ratio} &= \frac{7,00,000}{5,00,000} = 1.4 : 1.\end{aligned}$$

Thus, each rupee of current liabilities is supported by Rs 1.40 of quick assets.

**Step 3:** Conclusion The Quick Ratio is $\boxed{1.4 : 1}$.

**Quick Tip to Solve:** For this numerator, add only receivables, marketable securities and cash; exclude inventory and prepaid expenses, and keep debentures out of current liabilities.

**33(b)(ii). Working Capital Turnover Ratio**

**Solution:**

**Concept:**

- Working Capital Turnover Ratio measures revenue from operations generated per rupee of working capital: Revenue from Operations/Working Capital.
- Working capital equals current assets minus current liabilities. Unlike quick assets, current assets include inventory and prepaid expenses.

**Step 1:** Calculate current assets and current liabilities Include trade receivables, inventory, marketable securities, cash and prepaid expenses in current assets. Bills payable, sundry creditors and expenses payable form current liabilities; the debentures are long-term borrowings and are excluded.

$$\begin{aligned}\text{Current Assets} &= 5,00,000 + 2,40,000 + 1,20,000 \\ &\quad + 80,000 + 60,000 \\ &= \text{Rs } 10,00,000, \\ \text{Current Liabilities} &= 1,20,000 + 2,40,000 + 1,40,000 \\ &= \text{Rs } 5,00,000.\end{aligned}$$

**Step 2:** Find working capital and substitute in the formula Subtract the current obligations from total current assets to obtain the amount financed by longer-term funds. Use the working capital provided by these balances, since opening balances are not given.

$$\begin{aligned}\text{Working Capital} &= 10,00,000 - 5,00,000 \\ &= \text{Rs } 5,00,000, \\ \text{Working Capital Turnover Ratio} &= \frac{24,00,000}{5,00,000} \\ &= 4.8 \text{ times}.\end{aligned}$$

Revenue from operations is Rs 4.80 for every rupee of working capital employed.

**Step 3:** Conclusion The Working Capital Turnover Ratio is $\boxed{4.8 \text{ times}}$.

**Quick Tip to Solve:** Restore inventory and prepaid expenses when moving from quick assets to current assets; subtract current liabilities before dividing revenue by working capital.

**34(a). From the following information, calculate Cash Flows from Investing Activities:**

| Particulars | 31.03.2025 (Rs) | 31.03.2024 (Rs) |
|---|---|---|
| Machinery (At Cost) | 6,00,000 | 2,60,000 |
| Accumulated Depreciation | 1,00,000 | 35,000 |

**Additional Information: During the year, a machine costing Rs 80,000 on which accumulated depreciation was Rs 20,000, was sold at a loss of 20%.** [6 marks total]

**Solution:**

**Concept:**

- Cash paid to acquire machinery is an investing outflow, while cash received on its sale is an investing inflow. Depreciation itself is a non-cash charge.
- Since machinery balances are at cost, purchases equal closing cost minus opening cost plus the original cost of machinery sold. Sale proceeds equal the carrying amount less the loss on disposal.

**Step 1:** Calculate the proceeds from sale of machinery **Working Notes**

Deduct the accumulated depreciation on the machine sold from its original cost to obtain its carrying amount at disposal:

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

The loss of 20% is calculated on this carrying amount, rather than on the original cost:

$$\text{Loss on sale} = 60,000 \times 20\% = \text{Rs } 12,000,$$
$$\text{Sale proceeds} = 60,000 - 12,000 = \text{Rs } 48,000.$$

Thus Rs 48,000 is the cash inflow from disposal; the loss is not a separate investing cash payment.

**Step 2:** Determine the cash purchase of machinery The cost account loses the full original cost of the asset sold. Consequently, the increase in its balance alone understates purchases:

$$\text{Opening cost} + \text{Purchases} - \text{Cost sold} = \text{Closing cost},$$
$$\text{Purchases} = 6,00,000 - 2,60,000 + 80,000$$
$$= \text{Rs } 4,20,000.$$

No non-cash acquisition or outstanding payment is specified. Hence the purchase is treated as a cash investing outflow. The movement in accumulated depreciation does not reduce the cost-account purchases.

**Step 3:** Prepare the investing activities extract **Cash Flow Statement (Extract) for the year ended 31 March 2025**

| Particulars | Amount (Rs) |
|---|---|
| **Cash Flows from Investing Activities** | |
| Proceeds from sale of machinery | 48,000 |
| Purchase of machinery | (4,20,000) |
| **Net cash used in investing activities** | **(3,72,000)** |

Parentheses denote a cash outflow. Only the actual purchase payment and sale receipt enter this extract.

**Step 4:** Conclusion Net cash flow from investing activities is $\boxed{-\text{Rs } 3,72,000}$, i.e. net cash used of Rs 3,72,000.

**Quick Tip to Solve:** When machinery is stated at cost, add the original cost of the asset sold to the balance increase to find purchases; use its depreciated carrying amount to calculate sale proceeds.

**34(b). From the following information, calculate Cash Flows from Financing Activities:**

| Particulars | 31.03.2025 (Rs) | 31.03.2024 (Rs) |
|---|---|---|
| Equity Share Capital | 15,00,000 | 10,00,000 |
| 10% Debentures | 11,00,000 | 8,00,000 |
| Bank Overdraft | 3,00,000 | 2,00,000 |
| Cash at Bank | 78,000 | 54,000 |

**Additional Information: Rs 3,00,000, 10% Debentures were issued on 1st October, 2024.**

**Solution:**

**Concept:**

- Financing activities change the size or composition of owners' capital and borrowings. Cash proceeds from share and debenture issues and an increase in bank overdraft are financing inflows in the CBSE treatment.
- Interest paid on debentures is a financing outflow for a non-financial enterprise. Calculate interest separately for the full-year opening debentures and the part-year new issue; cash at bank is a cash balance, not a financing transaction.

**Step 1:** Calculate the inflows from capital and borrowings **Working Notes**

With no non-cash issue, redemption or other adjustment given, the increases in equity share capital and debentures represent cash received:

$$\begin{aligned}\text{Share issue proceeds} &= 15,00,000 - 10,00,000 = \text{Rs } 5,00,000,\\ \text{Debenture issue proceeds} &= 11,00,000 - 8,00,000 = \text{Rs } 3,00,000,\\ \text{Increase in bank overdraft} &= 3,00,000 - 2,00,000 = \text{Rs } 1,00,000.\end{aligned}$$

The debenture increase agrees with the additional information that Rs 3,00,000 of debentures were issued during the year.

**Step 2:** Calculate the debenture interest paid The opening Rs 8,00,000 debentures remain outstanding for the full year. The new issue on 1 October 2024 bears interest for six months up to 31 March 2025:

$$\begin{aligned}\text{Interest on opening debentures} &= 8,00,000 \times \frac{10}{100} = \text{Rs } 80,000,\\ \text{Interest on new debentures} &= 3,00,000 \times \frac{10}{100} \times \frac{6}{12}\\ &= \text{Rs } 15,000,\\ \text{Total interest} &= 80,000 + 15,000 = \text{Rs } 95,000.\end{aligned}$$

As no outstanding interest is stated, this interest is treated as paid and deducted under financing activities.

**Step 3:** Prepare the financing activities extract **Cash Flow Statement (Extract) for the year ended 31 March 2025**

| Particulars | Amount (Rs) |
|---|---|
| **Cash Flows from Financing Activities** | |
| Proceeds from issue of equity shares | 5,00,000 |
| Proceeds from issue of 10% debentures | 3,00,000 |
| Increase in bank overdraft | 1,00,000 |
| Total financing inflows | 9,00,000 |
| Less: Interest paid on debentures | (95,000) |
| **Net cash from financing activities** | **8,05,000** |

The increase in cash at bank of Rs 24,000 is excluded from this section because it is a change in cash holdings, not a source of finance.

**Step 4:** Conclusion Net cash generated from financing activities is $\boxed{\text{Rs } 8,05,000}$, a cash inflow.

**Quick Tip to Solve:** Apply the full-year interest rate to opening debentures and only six months to the October issue. Include the overdraft increase, but exclude the change in cash at bank.

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*Option II (Computerised Accounting)*

**27. It is a widely accepted security control. It uses binary encoding format of storage to offer access to database. It is known as:** [1 mark]

(A) Password security

(B) Data audit

(C) Data vault

(D) Data integrity

**Correct Answer:** (A) Password security

**Solution:**

**Concept:**

- Password security permits database access only to authorised users who know the password.
- In computerised accounting terminology, the security control described by binary encoded storage and controlled database access is password security.

**Step 1:** Identify the access-control mechanism The question asks for the widely used control that authorises access to a database. A password serves as the access key: a user who does not know it cannot retrieve the protected information. The stated description of binary encoded storage belongs to password security in this context.

**Step 2:** Distinguish the four options Option (A), password security, is the named access-control mechanism. Option (B), data audit, tracks and checks entries and alterations. Option (C), data vault, provides additional protection of stored information. Option (D), data integrity, describes data

accuracy and consistency, which security controls help preserve; it is not the name of the access mechanism asked for.

**Step 3:** Conclusion The correct option is (A) Password security.

**Quick Tip to Solve:** Look for the function of permitting authorised database access: a password is the access key, while a data audit tracks changes.

**28(a). Fixed Asset Accounting sub-system generates information about:** [1 mark]

(A) Loans

(B) Purchase expenses

(C) Depreciation

(D) Inventory purchased

**Correct Answer:** (C) Depreciation

**Solution:**

**Concept:**

- The fixed asset accounting sub-system records acquisition, use and disposal of fixed assets and computes their depreciation.
- Depreciation allocates the depreciable amount of a fixed asset over its useful life and updates its carrying amount.

**Step 1:** Link the sub-system to its records Fixed assets remain in use over several accounting periods. The fixed asset register records cost, acquisition date, useful life, depreciation method and accumulated depreciation. The sub-system therefore generates depreciation information for accounts and reports.

**Step 2:** Eliminate the other options Option (A), loans, relates to borrowings and finance records. Option (B), purchase expenses, relates to purchase or expenditure records. Option (D), inventory purchased, belongs to inventory or purchase accounting. Option (C), depreciation, directly measures the periodic allocation of fixed asset cost and is the appropriate output of the fixed asset accounting sub-system.

**Step 3:** Conclusion The correct option is (C) Depreciation.

**Quick Tip to Solve:** Connect each sub-system to its asset class: fixed assets generate depreciation, whereas goods held for sale belong to inventory accounting.

OR

**28(b). A column chart can be changed to a pie chart because:**

**I. Only one data series is used to plot it.**

**II. The plotted data values are positive.**

**III. The data values are not equal to zero also.**

**IV. More than seven categories of data can be represented.**

**Identify the correct option:** [1 mark]

(A) All except point I are correct.

(B) All except point II are correct.

(C) All except point III are correct.

(D) All except point IV are correct.

**Correct Answer:** (D) All except point IV are correct.

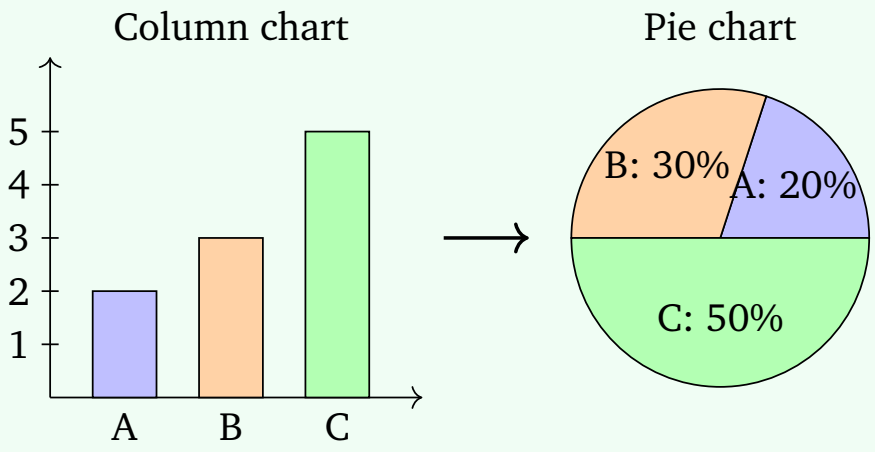
**Solution:**

**Concept:**

- A pie chart shows each category's share of the total for a single data series.
- Positive, non-zero values give visible sectors; a small number of categories keeps the chart readable.

**Step 1:** Check statements I, II and III Statement I supplies the single series needed for a pie chart. Statements II and III ensure that the categories have positive values and hence meaningful visible shares of the whole. These are the usual suitability conditions for converting the column chart into a pie chart.

**Step 2:** Check statement IV and the alternatives The recommended number of categories for a clear pie chart is seven or fewer. More than seven slices makes comparisons difficult, so statement IV is not a suitability condition. Options (A), (B) and (C) incorrectly reject one of the valid conditions I, II and III. The illustration shows the same three positive values as columns and as shares of one total.




*One data series: A = 2, B = 3, C = 5; total = 10.*

**Step 3:** Conclusion All except point IV are correct. Hence, the correct option is (D).

**Quick Tip to Solve:** For a suitable pie chart, check one series, positive shares and no more than seven categories.

**29(a). The accounting software which satisfies the requirement of large business organisations with multiusers and geographically scattered locations is:** [1 mark]

(A) Generic software

(B) Tailored software

(C) Specific software

(D) Both (A) and (C)

**Correct Answer:** (B) Tailored software

**Solution:**

**Concept:**

- Tailored accounting software is developed to meet the particular requirements of an organisation.
- Large organisations may need integrated processing for multiple users and geographically dispersed branches.

**Step 1:** Match the organisational requirements The question emphasises a large business, many simultaneous users and different locations. Such an organisation needs software designed around its own procedures, access controls, branch operations and reporting requirements. These are characteristic reasons for selecting tailored software.

**Step 2:** Eliminate the other choices Generic software provides standard features for common accounting needs. Specific software serves a particular application or requirement, but that description alone does not identify the comprehensive organisation-specific system described here. Thus neither (A) nor (C), nor their combination in (D), is the appropriate classification.

**Step 3:** Conclusion The required category is tailored software. Hence, the correct option is (B).

**Quick Tip to Solve:** Link large, geographically dispersed organisations with software tailored to their own integrated requirements.

OR

**29(b). Which of the following is not contained on formula tab on Excel ribbon?** [1 mark]

(A) Page layout

(B) Function library

(C) Defined names

(D) Calculations

**Correct Answer:** (A) Page layout

**Solution:**

**Concept:**

- Excel groups related commands on Ribbon tabs; the Formulas tab contains commands for functions and calculation.
- Page Layout is a separate Ribbon tab concerned with page appearance and printing arrangements.

**Step 1:** Identify the groups belonging to Formulas Function Library contains commands to choose and insert functions. Defined Names manages named cells and ranges. Calculation controls calculation operations and modes. Therefore options (B), (C) and (D) describe contents of the Formulas tab.

**Step 2:** Find the separate tab Page Layout contains settings such as margins, orientation, size and other page-formatting controls. It is itself a separate tab on the Ribbon, so it is not a group contained within the Formulas tab. The word 'not' in the question requires selecting this exception.

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

**Quick Tip to Solve:** Separate formula-related groups from printing controls: Page Layout is its own Ribbon tab.

**30. A1: E2 refers to:** [1 mark]

(A) Rows on Excel sheet

(B) Cells between starting point A1 to ending point E2

(C) Column on Excel sheet

(D) Alphabetic arrangement between A to E

**Correct Answer:** (B) Cells between starting point A1 to ending point E2

**Solution:**

**Concept:**

- A cell address combines a column letter with a row number, such as A1.
- A colon between two cell addresses denotes the rectangular range including both endpoints.

**Step 1:** Interpret the endpoints A1 is the cell in column A and row 1, while E2 is the cell in column E and row 2. Thus A1:E2 includes columns A through E in both rows 1 and 2, including the endpoint cells themselves.

**Step 2:** Check the options using the range The range contains A1, B1, C1, D1, E1 and A2, B2, C2, D2, E2: five columns multiplied by two rows, or ten cells. It does not denote whole rows, a whole column or an alphabetical arrangement. Therefore options (A), (C) and (D) do not describe this cell reference.

**Step 3:** Conclusion A1:E2 refers to the cells from starting point A1 to ending point E2. Hence, the correct option is (B).

**Quick Tip to Solve:** Read the colon as 'through', include both endpoints, and count five columns by two rows.

**31. What are the three categories in which entries can be classified while making voucher entry?**

[3 marks]

**Solution:**

**Concept:**

- Entries made through vouchers may be classified by their role in opening, adjusting and closing the accounting records.
- Opening entries carry forward balances; adjustment entries recognise period-end adjustments; closing entries transfer temporary account balances.

**Step 1:** Opening entries These entries bring the previous accounting period's closing balances into the books at the beginning of the new period. The balances of assets, liabilities and capital become the opening balances for the current year. For example, the closing cash, debtors, creditors and capital balances of the previous year are carried forward. In accounting software, the relevant opening amounts are entered against the appropriate ledger accounts so that current-year transactions start from the correct position.

**Step 2:** Closing entries These entries are made at the end of an accounting period to close temporary accounts and determine the period's result. Income and expense balances are transferred to the relevant final accounts, and the resulting profit or loss is transferred to capital or the appropriate equity account. Thus the next period begins without carrying forward the previous year's revenue and expense balances as current-year transactions.

**Step 3:** Adjustment entries These entries record adjustments needed to determine correct profit and financial position for the period. Examples include outstanding expenses, prepaid expenses, accrued income and depreciation. An outstanding salary adjustment recognises the salary expense attributable to the current period and the related liability even though payment has not yet been made. Such adjustments bring the accounts into line with accrual accounting before the final statements are completed.

**Step 4:** Conclusion The three categories are opening entries, closing entries and adjustment entries.

**Quick Tip to Solve:** Remember the purpose: open with carried-forward balances, adjust the period's figures, then close temporary accounts.

**32. What is a 'Radar Chart'? What purpose does it serve?** [3 marks]

**Solution:**

**Concept:**

- A radar chart displays category values on separate value axes that radiate from a common centre.
- Points representing one data series are joined to form a profile, allowing several series to be compared across the same categories.

**Step 1:** Explain the construction and meaning A radar chart, also called a spider or web chart, has one spoke for each category. A value is plotted on each spoke at a distance from the centre corresponding to its magnitude on that axis. The points for a data series are connected in category order. Each series

therefore forms a closed shape. With several series, their profiles can be displayed on the same set of spokes using different lines or colours.

**Step 2:** Explain its purpose The chart compares the aggregate pattern of values of several data series across common categories. It helps a reader identify relative strengths, weaknesses, high values and low values, and see whether the profiles of the series are similar. For example, two branches can be compared across the same product categories using sales measured in the same unit and on a consistent scale. A point farther from the centre indicates a larger value on its spoke; comparing corresponding spokes reveals which branch has the higher value in each category. This makes a multidimensional comparison easy to see without reading every number in a table.

**Step 3:** Conclusion A radar chart plots values on axes radiating from a common centre. It serves to compare the overall profiles and category-wise performance of one or more data series.

**Quick Tip to Solve:** Remember spokes for categories, distance for value, and connected profiles for comparing data series.

**33(a). What are the options available to select 'Minimum' and 'Maximum' type while changing conditional format?** [4 marks]

**Solution:**

**Concept:**

- Conditional formatting changes a cell's appearance according to its value or a rule, without changing the data stored in the cell.
- In a colour-scale rule, the Minimum and Maximum Type settings determine how the lower and upper limits of the scale are obtained.

**Step 1:** List the available Type choices The following choices are available when editing the conditional-formatting rule:

| Minimum Type | Maximum Type |
|---|---|
| Lowest Value | Highest Value |
| Number | Number |
| Percent | Percent |
| Percentile | Percentile |
| Formula | Formula |

Lowest Value automatically uses the smallest value in the selected range; Highest Value automatically uses the largest. Thus these two choices use the actual extremes of the data and adjust when those extremes change.

**Step 2:** Explain the other ways to set the limits **Number:** Enter a specific numerical limit, such as a minimum of 0 and a maximum of 100. These limits remain fixed even if the data change.

**Percent:** Enter a percentage from 0 to 100 to locate a limit within the span between the lowest and highest values. For example, 50 percent is halfway between these extremes.

**Percentile:** Enter a percentile from 0 to 100 to obtain a limit from the distribution of values. This considers the ordered data and is different from a percentage of the numerical span.

**Formula:** Enter a formula that returns the numerical value to be used as the limit. The threshold then

depends on the formula result.

**Step 3:** Conclusion Minimum offers **Lowest Value, Number, Percent, Percentile and Formula**; Maximum offers **Highest Value, Number, Percent, Percentile and Formula**.

**Quick Tip to Solve:** Remember the four common choices together: Number, Percent, Percentile and Formula. Only the automatic extreme changes from Lowest Value to Highest Value.

OR

**33(b). The computer screen shows correct a #DIV/0! Error when a number is divided by zero in the calculations. Give the reason for showing this error (except the one given here). Also state the possible solutions to correct this error.** [4 marks]

**Solution:**

**Concept:**

- The spreadsheet error `#DIV/0!` indicates that a calculation has no valid non-zero divisor.
- In a division formula, a reference to an empty cell can be treated as zero. Therefore, an error can appear even when no zero was typed directly into the formula.

**Step 1:** Identify the additional reason Apart from directly dividing by zero, this error occurs when the formula uses a **blank cell reference as the divisor**. For example, suppose A1 contains 500 and B1 is empty. The formula `=A1/B1` produces `#DIV/0!`, because the empty denominator cell is treated as zero in this calculation. The intended value may not yet have been entered, or the formula may refer to the wrong cell.

**Step 2:** Correct the input or the cell reference **Enter the missing data:** Check the denominator cell and enter its correct, non-zero numerical value. If B1 should contain 10, entering 10 makes `=A1/B1` return 50. Do not insert an arbitrary value merely to remove the error.

**Correct an incorrect reference:** If the denominator was meant to be taken from another cell, edit the formula so that it refers to the correct cell containing a valid non-zero divisor. Also check a denominator calculated by another formula, since that formula may itself return zero.

**Step 3:** Handle data that are not yet available Where the divisor legitimately remains blank or zero while data are being entered, use a logical test before division. For example:

```
=IF(B1=0,"",A1/B1)
```

For a blank or zero B1 this displays an empty string; otherwise it carries out the division. An alternative is `=IFERROR(A1/B1,"")`, which replaces an error result with an empty display. IFERROR also hides other errors, so the input and formula should be checked first. An error-handling formula controls the display; it does not supply missing data or make division by zero valid.

**Step 4:** Conclusion The additional reason is a **blank divisor cell**. Correct the missing value or cell reference, or use a suitable IF or IFERROR formula to handle unavailable data without displaying the error.

**Quick Tip to Solve:** Inspect the cell after the division sign first: a blank denominator can cause the same error as zero. Check that input before adding error handling.

**34. What is 'HLOOKUP'? How it is different from 'VLOOKUP'? Explain its syntax.** [6 marks]

**Solution:**

**Concept:**

- A lookup function searches for a specified value in a reference table and returns a related value from that table.
- HLOOKUP means horizontal lookup: the search keys are arranged across the first row. VLOOKUP means vertical lookup: the search keys are arranged down the first column.

**Step 1:** Explain the purpose of HLOOKUP HLOOKUP is a spreadsheet function that searches for a value in the top row of a selected table and returns the value from a specified row in the same column as the match. It is useful when headings or codes are arranged horizontally, with their related information in the rows below. For example, if employee codes occupy the first row and their salary amounts occupy the second row, HLOOKUP can retrieve the salary belonging to a particular employee code.

**Step 2:** Distinguish HLOOKUP from VLOOKUP The functions differ in the arrangement of the lookup table and the direction in which the result is located:

| Basis | HLOOKUP | VLOOKUP |
|---|---|---|
| Search direction | Searches horizontally across the first row of the selected table. | Searches vertically down the first column of the selected table. |
| Result location | Returns a value from a specified row in the matched column. | Returns a value from a specified column in the matched row. |
| Index argument | Uses a row index number. | Uses a column index number. |
| Suitable arrangement | Lookup keys are arranged across columns. | Lookup keys are arranged down rows. |

Both functions can be instructed to seek an exact or an approximate match; their principal difference is the orientation of the reference table.

**Step 3:** State and explain the syntax The syntax is:

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

**lookup_value:** The value to be searched for in the first row of the table. It may be a number, text in quotation marks or a cell reference.

**table_array:** The range containing the lookup row and the rows from which data are to be returned, for example A1:D3.

**row_index_num:** The row number within the selected range from which the result is required. The top row of the range is counted as 1, the next as 2, and so on. This is a relative position within the table, not necessarily the worksheet row number.

**range_lookup:** An optional logical argument. FALSE (or 0) requests an exact match; if no exact match exists, the function returns `#N/A`. TRUE (or 1), or omission of this argument, requests an approximate match. For a reliable approximate match, the first row must be sorted in ascending order; the function uses an exact match if available, otherwise the largest key less than the lookup value. A lookup value below the smallest key returns `#N/A`. The square brackets in the displayed syntax indicate an optional argument and are not typed in the formula.

**Step 4:** Illustrate the row index with an example Suppose A1:D1 contains employee codes, A2:D2 contains employee names and A3:D3 contains their salaries. The formula

```
=HLOOKUP(102, A1:D3, 3, FALSE)
```

searches for employee code 102 in A1:D1 and returns the salary from the third row of A1:D3 in the same column. FALSE is appropriate because an employee code must match exactly. If the same records were arranged vertically with codes in the first column, VLOOKUP would be used, specifying the salary column's position instead.

**Step 5:** Conclusion HLOOKUP searches the top row and retrieves data from a specified row of the matched column; VLOOKUP searches the first column and retrieves data from a specified column of the matched row. HLOOKUP requires a lookup value, a table range and a row index, with an optional match-mode argument.

**Quick Tip to Solve:** Read H as horizontal and V as vertical. Count the result row or column from the start of the selected table, and use FALSE when looking up an exact employee or account code.