CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-5-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. Munna and Sonu were partners in a firm sharing profits and losses in the ratio of 4:1. Their fixed capitals were Rs 40,00,000 and Rs 30,00,000 respectively. During the year ended 31st March, 2025, Munna withdrew Rs 50,000 for personal use. Interest on drawings was to be charged @ 6% p.a. The journal entry for charging interest on Munna's drawings will be: [1 mark]

(A) Interest on Drawings A/c Dr. 1,500; To Munna's Capital A/c 1,500

(B) Munna's Capital A/c Dr. 1,500; To Interest on Drawings A/c 1,500

(C) Interest on Drawings A/c Dr. 1,500; To Munna's Current A/c 1,500

(D) Munna's Current A/c Dr. 1,500; To Interest on Drawings A/c 1,500

Correct Answer: (D) Munna's Current A/c Dr. 1,500; To Interest on Drawings A/c 1,500

Solution:

Concept:

- Under the fixed-capital method, drawings and interest on drawings are recorded in the partner's Current Account; the fixed Capital Account is unchanged.
- Interest on drawings is charged to the partner: debit the partner's Current Account and credit Interest on Drawings Account.

Step 1: Calculate the interest charge When the withdrawal date is not specified, the usual average period of six months is used. Hence

$$\text{Interest} = 50,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,500.$$

The capital balances and profit-sharing ratio do not affect this charge.

Step 2: Record the charge in the correct account Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Munna's Current A/c Dr.		1,500	
	To Interest on Drawings A/c			1,500
	(Being interest on drawings charged)			

Options (A) and (B) use the Capital Account despite fixed capitals. Option (C) reverses the debit and credit: the charge must reduce Munna's current-account balance.

Step 3: Conclusion Munna's Current Account is debited and Interest on Drawings Account is credited with Rs 1,500. Hence, the correct option is (D).

Quick Tip to Solve: First identify fixed capitals: all drawings-related adjustments go through the Current Account.

2. Sujata and Laxmi were partners in a firm sharing profits and losses in the ratio of 2:1. On 1st April, 2025, they admitted Raghu as a new partner for 1/5th share in the profits of the firm. On the date of Raghu's admission, it was found that the equipment is undervalued by Rs 90,000. After revaluation, the Balance Sheet of Sujata, Laxmi and Raghu showed equipment at Rs 3,00,000. The value of equipment shown in the books of the firm of Sujata and Laxmi before Raghu's admission was: [1 mark]

(A) Rs 3,90,000

(B) Rs 2,10,000

(C) Rs 3,00,000

(D) Rs 90,000

Correct Answer: (B) Rs 2,10,000

Solution:

Concept:

- An undervalued asset has a book value below its correct value; revaluation therefore increases the asset.
- Original book value = revalued amount minus the increase on revaluation.

Step 1: Interpret the revaluation Equipment was undervalued by Rs 90,000. Thus Rs 90,000 is the increase added to its old carrying amount, while Rs 3,00,000 is the amount after that increase. The partners' profit shares affect allocation of revaluation profit, not the equipment's original value.

Step 2: Reverse the increase and check the alternatives Let the original book value be B. Then

$$B + 90,000 = 3,00,000, \qquad B = 3,00,000 - 90,000 = \text{Rs } 2,10,000.$$

Option (A) adds the increase again; option (C) is the new value; option (D) is only the revaluation increase. Adding Rs 90,000 to the calculated old amount reproduces the printed new value.

Step 3: Conclusion The equipment was recorded at Rs 2,10,000 before Raghu's admission. Hence, the correct option is (B).

Quick Tip to Solve: For an undervalued asset, subtract the stated increase from the new balance to recover the old balance.

3. Universal Ltd. took over machinery of Rs 3,30,000, furniture of Rs 1,60,000 and liabilities of Rs 80,000 from Amol Ltd. for a purchase consideration of Rs 4,50,000. The payment to Amol Ltd. was made by issue of 10% Debentures of Rs 50 each at a discount of 10%. The number of debentures issued to Amol Ltd. was: [1 mark]

(A) 1,000

(B) 4,500

(C) 45,000

(D) 10,000

Correct Answer: (D) 10,000

Solution:

Concept:

- The number of debentures issued to a vendor equals purchase consideration divided by the issue price per debenture.
- Issue price at discount = face value $\times(1 -$ discount rate$)$. The coupon rate determines interest, not the issue price.

Step 1: Find the issue price per debenture The face value is Rs 50 and the issue discount is 10%. Therefore

$$\text{Discount} = 50 \times \frac{10}{100} = \text{Rs } 5, \qquad \text{Issue price} = 50 - 5 = \text{Rs } 45.$$

The separate 10% description of the debentures is their coupon rate and does not require any further reduction.

Step 2: Divide the vendor consideration by the issue price The agreed purchase consideration is Rs 4,50,000. Therefore

$$\text{Number of debentures} = \frac{4,50,000}{45} = 10,000.$$

The net assets of Rs 4,10,000 do not replace the explicitly agreed consideration. Checking the other counts: 1,000, 4,500 and 45,000 debentures at Rs 45 would settle Rs 45,000, Rs 2,02,500 and Rs 20,25,000 respectively, none equal to the vendor amount.

Step 3: Conclusion Universal Ltd. issued 10,000 debentures to Amol Ltd. Hence, the correct option is (D).

Quick Tip to Solve: Use the issue price of Rs 45 as the divisor, and distinguish the discount rate from the coupon rate.

4. At the time of forfeiture of shares, 'Share Capital Account' is debited with: [1 mark]

(A) Paid-up amount on forfeited shares

(B) Called-up amount on forfeited shares

(C) Face value of shares forfeited

(D) Unpaid amount on forfeited shares

Correct Answer: (B) Called-up amount on forfeited shares

Solution:

Concept:

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

Step 1: Identify the capital that must be reversed Share Capital Account was credited when the company called amounts on these shares. On forfeiture, the corresponding called-up amount must therefore be debited to remove that capital. Whether a shareholder paid the call changes the cash received and arrears, but does not change the capital already called.

Step 2: Distinguish the competing amounts The paid-up amount in option (A) represents what the shareholder paid towards capital and is normally credited to Share Forfeiture Account. The unpaid amount in option (D) is cleared from calls or Calls in Arrears. The face value in option (C) equals called-up capital only if the shares are fully called; it is not the general rule. Thus the debit is based on called-up capital, including both its paid and unpaid portions.

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

Quick Tip to Solve: For forfeiture, distinguish called-up capital from money received: the capital debit includes unpaid calls too.

5. Tanay and Ishaan were partners in a firm and their capitals were Rs 4,00,000 and Rs 1,00,000 respectively. Normal rate of return in a similar business was 15% and goodwill of the firm was valued at Rs 1,00,000. If goodwill was calculated at two years purchase of super profits, the average profits of the firm were: [1 mark]

(A) Rs 1,25,000

(B) Rs 75,000

(C) Rs 50,000

(D) Rs 1,00,000

Correct Answer: (A) Rs 1,25,000

Solution:

Concept:

- Normal profit = capital employed $\times$ normal rate of return.

- Goodwill = super profit × years' purchase; average profit = normal profit + super profit.

Step 1: Calculate normal profit The combined capital is the capital employed for the stated valuation:

$$\text{Capital employed} = 4,00,000 + 1,00,000 = \text{Rs } 5,00,000.$$

At a normal return of 15%,

$$\text{Normal profit} = 5,00,000 \times \frac{15}{100} = \text{Rs } 75,000.$$

Step 2: Recover super profit and average profit Goodwill is two years' purchase of super profit, so

$$\text{Super profit} = \frac{1,00,000}{2} = \text{Rs } 50,000.$$

Consequently,

$$\text{Average profit} = 75,000 + 50,000 = \text{Rs } 1,25,000.$$

Option (B) gives only normal profit, option (C) only super profit, and option (D) the goodwill value. None of those alone represents the average annual profit.

Step 3: Conclusion The average profit of the firm was Rs 1,25,000. Hence, the correct option is (A).

Quick Tip to Solve: Divide goodwill by two first, then add normal profit; goodwill itself is not the annual super profit.

6(a). Guru and Prakash were partners in a firm sharing profits and losses in the ratio of 7:3. They admitted Anu as a new partner for 1/4th share in the profits of the firm. On the date of Anu's admission, the Profit and Loss Account of Guru and Prakash showed a credit balance of Rs 40,000. The necessary journal entry for its treatment will be: [1 mark]

(A) Profit and Loss A/c Dr. 40,000; To Guru's Capital A/c 21,000; To Prakash's Capital A/c 9,000; To Anu's Capital A/c 10,000

(B) Profit and Loss A/c Dr. 40,000; To Guru's Capital A/c 28,000; To Prakash's Capital A/c 12,000

(C) Guru's Capital A/c Dr. 21,000; Prakash's Capital A/c Dr. 9,000; Anu's Capital A/c Dr. 10,000; To Profit and Loss A/c 40,000

(D) Guru's Capital A/c Dr. 28,000; Prakash's Capital A/c Dr. 12,000; To Profit and Loss A/c 40,000

Correct Answer: (B) Profit and Loss A/c Dr. 40,000; To Guru's Capital A/c 28,000; To Prakash's Capital A/c 12,000

Solution:

Concept:

- Accumulated profits existing before admission belong only to the old partners in their old profit-sharing ratio.
- A credit balance of Profit and Loss Account is distributed by debiting that account and crediting the old partners' Capital Accounts.

Step 1: Allocate the pre-admission profit The Rs 40,000 credit balance was earned before Anu became a partner. It belongs to Guru and Prakash in their old ratio of $7:3$:

$$\text{Guru} = 40,000 \times \frac{7}{10} = \text{Rs } 28,000, \qquad \text{Prakash} = 40,000 \times \frac{3}{10} = \text{Rs } 12,000.$$

Anu's new share does not entitle her to these past profits.

Step 2: Pass the transfer entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Profit and Loss A/c Dr.		40,000	
	To Guru's Capital A/c			28,000
	To Prakash's Capital A/c			12,000
	(Being accumulated profit distributed in the old ratio)			

The debit equals the two credits. Options (A) and (C) wrongly include Anu; option (D) reverses the required entry for a credit balance.

Step 3: Conclusion Debit Profit and Loss Account Rs 40,000; credit Guru's Capital Rs 28,000 and Prakash's Capital Rs 12,000. Hence, the correct option is (B).

Quick Tip to Solve: Freeze the membership at the date the profit was earned: old accumulated profits go only to old partners.

OR

6(b). Samta, Mamta and Geeta were partners in a firm sharing profits and losses in the ratio of 11:5:4. On 31st March, 2025 Samta died. On Samta's death, the goodwill of the firm was valued at Rs 1,80,000. The necessary journal entry for the treatment of goodwill on Samta's death will be: [1 mark]

(A) Samta's Capital A/c Dr. 99,000; To Mamta's Capital A/c 55,000; To Geeta's Capital A/c 44,000

(B) Mamta's Capital A/c Dr. 1,00,000; Geeta's Capital A/c Dr. 80,000; To Samta's Capital A/c 1,80,000

(C) Samta's Capital A/c Dr. 1,80,000; To Mamta's Capital A/c 1,00,000; To Geeta's Capital A/c 80,000

(D) Mamta's Capital A/c Dr. 55,000; Geeta's Capital A/c Dr. 44,000; To Samta's Capital A/c 99,000

Correct Answer: (D) Mamta's Capital A/c Dr. 55,000; Geeta's Capital A/c Dr. 44,000; To Samta's Capital A/c 99,000

Solution:

Concept:

- The deceased partner's share of goodwill equals total goodwill multiplied by that partner's old profit share.
- Continuing partners compensate the deceased partner in their gaining ratio: debit their Capital Accounts and credit the deceased partner's Capital Account.

Step 1: Determine the goodwill share and gaining ratio Samta's old share is $11/20$, so her goodwill

entitlement is

$$1,80,000 \times \frac{11}{20} = \text{Rs } 99,000.$$

With no changed ratio specified, Mamta and Geeta continue in their mutual old ratio $5:4$. Their gains are $5/9 - 5/20 = 11/36$ and $4/9 - 4/20 = 11/45$, respectively, giving the gaining ratio $5:4$.

Step 2: Charge the gaining partners and record the adjustment Mamta bears $99,000 \times 5/9 = \text{Rs } 55,000$, and Geeta bears $99,000 \times 4/9 = \text{Rs } 44,000$.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Mamta's Capital A/c Dr.		55,000	
	Geeta's Capital A/c Dr.		44,000	
	To Samta's Capital A/c			99,000
	(Being Samta's goodwill share adjusted through gaining partners)			

Option (A) reverses the entry. Options (B) and (C) use the firm's full goodwill instead of Samta's share; (C) also reverses the direction.

Step 3: Conclusion Debit Mamta's Capital Rs 55,000 and Geeta's Capital Rs 44,000; credit Samta's Capital Rs 99,000. Hence, the correct option is (D).

Quick Tip to Solve: Calculate only the deceased partner's goodwill share, then debit the survivors in their gaining ratio.

7. Sushil and Sapna were partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2025, the firm was dissolved. On the date of dissolution there existed a balance of Rs 1,20,000 in sundry creditors account. The sundry creditors were payable after three months. They were paid immediately at a discount of 12% p.a. The amount paid to sundry creditors was: [1 mark]

(A) Rs 1,20,000

(B) Rs 1,23,600

(C) Rs 1,16,400

(D) Rs 1,34,400

Correct Answer: (C) Rs 1,16,400

Solution:

Concept:

- A discount for early settlement reduces the amount paid to creditors.
- For an annual discount rate, discount = amount due $\times$ annual rate $\times$ months of early payment divided by 12.

Step 1: Calculate the discount for three months The creditors of Rs 1,20,000 were due after three months but are paid immediately. The discount applies only to this three-month period:

$$\text{Discount} = 1,20,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 3,600.$$

The effective discount for the period is 3%, not the full annual 12%.

Step 2: Deduct the discount from the amount due Cash paid is the liability less the saving on early payment:

$$\text{Amount paid} = 1,20,000 - 3,600 = \text{Rs } 1,16,400.$$

Option (A) ignores the discount; option (B) adds the three-month discount instead of subtracting it; option (D) adds a full year's discount. The partners' profit-sharing ratio does not determine the amount payable to the creditors.

Step 3: Conclusion The amount paid to sundry creditors was Rs 1,16,400. Hence, the correct option is (C).

Quick Tip to Solve: Convert 12% per annum into 3% for three months, then subtract the discount from the creditor balance.

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8. Anish, Neha and Bindu were partners in a firm sharing profits and losses in the ratio of 4:2:1. On 1st October, 2024 Anish advanced a loan of Rs 4,00,000 to the firm. In the absence of a partnership agreement, the amount of interest on loan due to Anish on 31st March, 2025 will be: [1 mark]

(A) Rs 12,000

(B) Rs 24,000

(C) Rs 40,000

(D) Rs 20,000

Correct Answer: (A) Rs 12,000

Solution:

Concept:

- In the absence of an agreement, a partner's loan to the firm carries interest at 6% per annum.
- Interest on a partner's loan is a charge against profit and is calculated for the actual period the loan remains outstanding.

Step 1: Choose the applicable rate and duration Anish advanced a loan, so the rule for interest on a partner's loan applies rather than the rule for interest on capital. The applicable annual rate is 6%. From 1st October, 2024 to 31st March, 2025 the loan is outstanding for six months, or half a year.

Step 2: Calculate the interest and check the options Using principal $\times$ annual rate $\times$ time,

$$\text{Interest} = 4,00,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 12,000.$$

Option (B), Rs 24,000, would apply for a full year. Options (C) and (D) use amounts unsupported by the applicable rate and six-month period. The $4:2:1$ profit-sharing ratio has no role in calculating the lender's entitlement.

Step 3: Conclusion Interest on loan due to Anish on 31st March, 2025 is Rs 12,000. Hence, the correct option is (A).

Quick Tip to Solve: Identify the payment as a loan, use 6% per annum, and count October to March as six months.

9. Arora and Gurmeet were partners in a firm sharing profits and losses in the ratio of 3:2. Starting from 1st October, 2024 Arora withdrew Rs 30,000 at the beginning of each quarter for his personal use. Interest on drawings was to be charged @ 12% per annum. Interest on Arora's drawings for the year ended 31st March, 2025 was: [1 mark]

(A) Rs 1,800

(B) Rs 2,700

(C) Rs 450

(D) Rs 3,600

Correct Answer: (B) Rs 2,700

Solution:

Concept:

- Interest on each drawing is calculated for the time from its withdrawal to the accounting year end: $I = P \times r \times t/12$, where t is in months.
- For equal quarterly drawings, the average period is the mean of the first and last outstanding periods.

Step 1: Identify the two withdrawals Arora withdraws Rs 30,000 on 1st October, 2024 and again on 1st January, 2025. These amounts remain outstanding for six months and three months respectively up to 31st March, 2025. The profit-sharing ratio does not affect interest on personal drawings.

Step 2: Calculate interest and check the options

$$I = 30,000 \times \frac{12}{100} \times \frac{6}{12} + 30,000 \times \frac{12}{100} \times \frac{3}{12} = 1,800 + 900 = \text{Rs } 2,700.$$

Rs 1,800 counts only the first withdrawal; Rs 450 does not cover the two stated withdrawals; Rs 3,600 incorrectly charges both for six months.

Step 3: Conclusion Interest on Arora's drawings is $\boxed{\text{Rs } 2,700}$. Hence, the correct option is (B).

Quick Tip to Solve: Use only the two quarters from October to March: total drawings Rs 60,000 have an average outstanding period of 4.5 months.

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

Assertion (A): At the time of admission of a new partner in a partnership firm, the newly admitted partner brings an agreed amount of capital either in cash or in kind.

Reason (R): On admission, the new partner gets the right to acquire share in the assets and profits of the partnership firm.

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

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

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

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

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

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

Solution:

Concept:

- A newly admitted partner contributes the agreed capital in cash or in kind to obtain an ownership interest in the partnership assets.
- Admission also confers a right to share future profits; compensation for that profit right is dealt with through goodwill.

Step 1: Judge the assertion The assertion is correct. The incoming partner brings the capital agreed with the existing partners. The contribution may be cash, or it may take the form of other assets accepted by the firm.

Step 2: Judge the reason The reason is also correct. Admission gives the new partner a share in the assets of the firm and the right to participate in its future profits according to the new agreement.

Step 3: Check the explanatory connection The new partner contributes capital in consideration of the ownership rights obtained on admission, particularly the right to share in the assets. Thus the reason explains the assertion. Option (B) wrongly denies this connection, while (C) and (D) wrongly treat one of the true statements as false.

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

Quick Tip to Solve: Connect capital with the right in net assets, and goodwill with compensation for the share of future profits.

11(a). **Merak Ltd. forfeited 6,000 equity shares of Rs 10 each for non-payment of final call of Rs 3 per share. The minimum amount per share at which these shares can be reissued will be:** [1 mark]

(A) Rs 3

(B) Rs 7

(C) Rs 10

(D) Rs 6

Correct Answer: (A) Rs 3

Solution:

Concept:

- The discount allowed on reissue of a forfeited share cannot exceed the amount forfeited on that share.
- Minimum reissue price equals the paid-up value on reissue less the forfeited amount available per share.

Step 1: Find the forfeited amount Each share has a face value of Rs 10. Only the final call of Rs 3 was unpaid, so the amount already received and forfeited per share is $10 - 3 = \text{Rs } 7$. For 6,000 shares, this totals Rs 42,000.

Step 2: Apply the maximum discount On reissue as fully paid, the largest permissible discount is Rs 7 per share. Therefore,

$$\text{Minimum price} = 10 - 7 = \text{Rs } 3.$$

Prices of Rs 7, Rs 10 and Rs 6 are permissible but exceed the minimum. At Rs 3, total reissue proceeds are Rs 18,000 and the entire Rs 42,000 forfeiture balance absorbs the discount.

Step 3: Conclusion The minimum reissue price is $\boxed{\text{Rs } 3 \text{ per share}}$. Hence, the correct option is (A).

Quick Tip to Solve: When only a final call is unpaid, subtract the amount already received from face value to obtain the minimum fully paid reissue price.

OR

11(b). Nori Ltd. issued 20,000, 11% debentures of Rs 100 each at a premium of 10%, redeemable at a premium of 5%. Loss on issue of debentures account will be debited by: [1 mark]

(A) Rs 20,00,000

(B) Rs 1,00,000

(C) Rs 3,00,000

(D) Rs 2,00,000

Correct Answer: (B) Rs 1,00,000

Solution:

Concept:

- Loss on issue includes any discount on issue and the premium payable on redemption.
- Premium received on issue is credited to Securities Premium; it does not reduce the initial debit recording the redemption premium.

Step 1: Calculate the redemption premium The nominal value of the debentures issued is $20,000 \times 100 = \text{Rs } 20,00,000$. Redemption premium is

$$20,00,000 \times \frac{5}{100} = \text{Rs } 1,00,000.$$

This future redemption obligation is recognised as loss on issue.

Step 2: Distinguish the issue premium The 10% issue premium is Rs 2,00,000 and belongs to Securities Premium. There is no discount on issue. Therefore the initial debit to Loss on Issue of Debentures is Rs 1,00,000. Rs 20,00,000 is face value, Rs 2,00,000 is issue premium, and Rs 3,00,000 incorrectly adds the two premiums. Any later writing off of the loss is a separate transaction.

Step 3: Conclusion Loss on Issue of Debentures Account is debited by $\boxed{\text{Rs } 1,00,000}$. Hence, the correct option is (B).

Quick Tip to Solve: Keep premium received on issue separate from premium payable on redemption when computing the initial loss debit.

12. On 1st April, 2024, MM Ltd. issued 4,000, 9% Debentures of Rs 50 each at a premium of 5%, redeemable at a premium of Rs 10 per debenture after five years. Interest on the debentures was to be paid on half-yearly basis on 30th September and 31st March. Interest on debentures for the year ended 31st March, 2025 will be: [1 mark]

(A) Rs 10,000

(B) Rs 20,000

(C) Rs 18,000

(D) Rs 9,000

Correct Answer: (C) Rs 18,000

Solution:

Concept:

- Debenture interest is calculated on nominal value at the stated coupon rate, independently of issue and redemption premiums.
- Half-yearly payment changes the instalment amount, not the interest for a full year.

Step 1: Determine the interest-bearing principal The nominal value is $4,000 \times 50 = \text{Rs } 2,00,000$. The debentures were issued on 1st April, 2024, so interest runs for the full year to 31st March, 2025. Neither the 5% issue premium nor the Rs 10 redemption premium enters this calculation.

Step 2: Calculate both half-yearly instalments

$$\text{Each half-year interest} = 2,00,000 \times \frac{9}{100} \times \frac{6}{12} = \text{Rs } 9,000,$$
$$\text{Annual interest} = 9,000 + 9,000 = \text{Rs } 18,000.$$

Rs 9,000 covers only one half-year; Rs 10,000 and Rs 20,000 do not apply the stated 9% annual rate to nominal value.

Step 3: Conclusion Interest for the year is $\boxed{\text{Rs } 18,000}$. Hence, the correct option is (C).

Quick Tip to Solve: Calculate the full-year coupon on face value first; split it into two equal payments only when payment timing is needed.

13(a). **Reserve capital is that portion of the ____ capital that can be called only in the event of winding up of the company.** [1 mark]

(A) called-up

(B) uncalled

(C) paid-up

(D) subscribed

Correct Answer: (B) uncalled

Solution:

Concept:

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

Step 1: Identify the relevant capital category The defining condition is that the amount has not yet been called and is reserved for a possible call at winding up. It must therefore be a portion of uncalled capital.

Step 2: Eliminate the other categories Called-up capital has already been demanded, so it cannot be the amount awaiting a special future call. Paid-up capital has already been received. Subscribed capital is the broader amount taken up by shareholders and includes both called and uncalled portions; the precise portion required by the question is uncalled capital. Reserve capital should also be distinguished from capital reserve, which is a reserve arising from capital profits.

Step 3: Conclusion Reserve capital is a portion of uncalled capital. Hence, the correct option is (B).

Quick Tip to Solve: Focus on the word called: capital callable only at winding up must still be uncalled during the company's life.

OR

13(b). **The debentures which do not carry a specific rate of interest are known as:** [1 mark]

(A) Irredeemable debentures

(B) Bearer debentures

(C) Specific coupon rate debentures

(D) Zero coupon rate debentures

Correct Answer: (D) Zero coupon rate debentures

Solution:

Concept:

- A coupon rate specifies the periodic interest payable on a debenture.
- Zero coupon rate debentures carry no stated periodic interest rate; their return can arise from the difference between issue and redemption amounts.

Step 1: Match the feature in the question The absence of a specific interest rate identifies zero coupon rate debentures. They do not pay interest through a regular stated coupon. They may instead be issued at a discount and redeemed at a higher amount.

Step 2: Test the alternative classifications Irredeemable refers to the repayment terms and does not by itself mean that interest is absent. Bearer refers to ownership and transfer by delivery, not the coupon rate. Specific coupon rate debentures explicitly carry a stated interest rate and therefore have the opposite characteristic to that described. Only zero coupon rate debentures match the question.

Step 3: Conclusion These are zero coupon rate debentures. Hence, the correct option is (D).

Quick Tip to Solve: Classify by the feature named: coupon concerns interest, bearer concerns ownership, and redeemability concerns repayment.

14(a). John, Honey and Racob were partners in a firm sharing profits and losses equally. On 31st July, 2025 John died. His share in the profits of the firm from the date of last balance sheet till the date of his death will be: [1 mark]

(A) Debited to Profit and Loss Account

(B) Credited to Profit and Loss Account

(C) Debited to Profit and Loss Suspense Account

(D) Credited to Profit and Loss Suspense Account

Correct Answer: (C) Debited to Profit and Loss Suspense Account

Solution:

Concept:

- A deceased partner is entitled to the share of profit earned from the last accounting date to the date of death.
- When this intervening profit is estimated before final accounts are prepared, Profit and Loss Suspense Account is debited and the deceased partner's Capital Account is credited.

Step 1: Identify the amount due to John John is entitled to one-third of the estimated profit for the period ending on 31st July, 2025, because all three partners share equally. This increases the amount owed to his estate and therefore is credited to his Capital Account.

Step 2: Identify the corresponding debit The matching debit is recorded in Profit and Loss Suspense Account until the actual profit for the accounting period is determined. Crediting the suspense account would reverse the required treatment. Using Profit and Loss Account directly does not apply the usual interim estimation treatment asked here. No numerical profit is supplied, so only the account and debit or credit treatment are required.

Step 3: Conclusion John's profit share is debited to Profit and Loss Suspense Account. Hence, the correct option is (C).

Quick Tip to Solve: First credit the deceased partner for the entitlement; the corresponding debit for interim estimated profit goes to Profit and Loss Suspense.

OR

14(b). Shashi, Maya and Komal were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March, 2025 Komal retired. The new profit sharing ratio between Shashi and Maya was decided as 3:5. The gain or sacrifice of Shashi and Maya on Komal's retirement was: [1 mark]

(A) Shashi's sacrifice 1/8; Maya's gain 13/40

(B) Shashi's gain 1/8; Maya's sacrifice 13/40

(C) Shashi's sacrifice 1/8; Maya's sacrifice 13/40

(D) Shashi's gain 1/8; Maya's gain 13/40

Correct Answer: (A) Shashi's sacrifice 1/8; Maya's gain 13/40

Solution:

Concept:

- For each continuing partner, gain equals new share minus old share.
- A negative result represents sacrifice; the net gain of the continuing partners equals the retiring partner's old share.

Step 1: Calculate Shashi's change Shashi's old share is $5/10 = 1/2$, and his new share is $3/8$. Thus

$$\text{Gain} = \frac{3}{8} - \frac{1}{2} = -\frac{1}{8}.$$

The negative sign shows a sacrifice of $1/8$, even though another partner is retiring.

Step 2: Calculate Maya's change and verify Maya's old share is $3/10$, and her new share is $5/8$. Hence

$$\text{Gain} = \frac{5}{8} - \frac{3}{10} = \frac{25-12}{40} = \frac{13}{40}.$$

Net gain is $13/40 - 1/8 = 8/40 = 1/5$, equal to Komal's old share $2/10$. Options (B), (C) and (D) give the wrong sign for one or both partners.

Step 3: Conclusion Shashi sacrifices $\boxed{1/8}$, while Maya gains $\boxed{13/40}$. Hence, the correct option is (A).

Quick Tip to Solve: Compute each partner's new share minus old share separately; retirement does not guarantee that every continuing partner gains.

15(a). **Sudama, Sharma and Varun were partners in a firm sharing profits and losses in the ratio of 6:4:3. Sharma retired from the firm on 31st March, 2025. The gaining ratio of Sudama and Varun will be:** [1 mark]

(A) 3:2

(B) 2:1

(C) 1:2

(D) 2:3

Correct Answer: (B) 2:1

Solution:

Concept:

- The gaining ratio compares the increases in the continuing partners' shares: gain = new share minus old share.
- When no new agreement is given, the continuing partners retain their relative old ratio.

Step 1: Determine the continuing ratio Sudama and Varun had old shares $6/13$ and $3/13$. With Sharma retiring and no different agreement stated, their future ratio is $6 : 3 = 2 : 1$. Their new shares are therefore $2/3$ and $1/3$.

Step 2: Check the actual gains

$$\text{Sudama's gain} = \frac{2}{3} - \frac{6}{13} = \frac{8}{39},$$
$$\text{Varun's gain} = \frac{1}{3} - \frac{3}{13} = \frac{4}{39}.$$

The ratio of gains is $8 : 4 = 2 : 1$. It is not $3 : 2$, $1 : 2$, or $2 : 3$: those alternatives do not preserve the continuing partners' relative shares. The total gain $12/39 = 4/13$ equals Sharma's old share.

Step 3: Conclusion The gaining ratio of Sudama and Varun is $\boxed{2 : 1}$. Hence, the correct option is (B).

Quick Tip to Solve: If the new ratio is unstated, remove the retiring partner and simplify the remaining old ratio.

OR

15(b). Hari, Murari and Abhi were partners in a firm sharing profits and losses in the ratio of 8:7:4. Murari retired from the firm on 31st March, 2025. Hari and Abhi decided to share profits in the future in the ratio of 2:1. The gaining ratio of Hari and Abhi was: [1 mark]

(A) 1:2

(B) 8:7

(C) 2:1

(D) 7:4

Correct Answer: (C) 2:1

Solution:

Concept:

- For each continuing partner, gain = new profit share minus old profit share.
- Compare gains only after expressing the old and new shares using a common denominator.

Step 1: Write old and new shares The old ratio $8 : 7 : 4$ has total 19. Hari's old share is $8/19$ and Abhi's is $4/19$. The agreed new ratio $2 : 1$ gives new shares $2/3$ and $1/3$. Murari's share $7/19$ must be acquired by these two partners.

Step 2: Calculate the gains independently

$$\text{Hari's gain} = \frac{2}{3} - \frac{8}{19} = \frac{14}{57},$$
$$\text{Abhi's gain} = \frac{1}{3} - \frac{4}{19} = \frac{7}{57}.$$

Thus their gains compare as $14 : 7 = 2 : 1$. Together they gain $21/57 = 7/19$, exactly Murari's share. Option (A) reverses the required order; (B) and (D) use parts of the old three-partner ratio rather than the gains of Hari and Abhi.

Step 3: Conclusion Hari and Abhi gain in the ratio $\boxed{2 : 1}$. Hence, the correct option is (C).

Quick Tip to Solve: Calculate new minus old for each named continuing partner, even when the new ratio looks familiar.

16. Shaurya, Morya and Gaurav were partners in a firm sharing profits and losses in the ratio of 3:2:1. On 31st March, 2025, Shaurya retired. The balance in his capital account after making the necessary adjustments on account of reserves and revaluation of assets and reassessment of liabilities was Rs 3,20,000. Shaurya was paid Rs 3,90,000 in full settlement of his claim. The value of goodwill of the firm on the date of Shaurya's retirement was: [1 mark]

(A) Rs 1,40,000

(B) Rs 70,000

(C) Rs 3,20,000

(D) Rs 3,90,000

Correct Answer: (A) Rs 1,40,000

Solution:

Concept:

- An amount paid to a retiring partner above the adjusted capital balance represents that partner's share of goodwill.
- Firm's goodwill = retiring partner's goodwill share divided by the retiring partner's old profit share.

Step 1: Find Shaurya's share of goodwill His adjusted capital already includes reserves and revaluation. Therefore the excess settlement is attributed to goodwill:

$$\text{Goodwill share} = \text{Rs } 3,90,000 - \text{Rs } 3,20,000 = \text{Rs } 70,000.$$

The entire payment cannot be treated as goodwill because it includes the capital claim.

Step 2: Gross up to goodwill of the firm Shaurya's old share is $3/(3+2+1) = 1/2$. Hence

$$\text{Firm's goodwill} = 70,000 \div \frac{1}{2} = \text{Rs } 1,40,000.$$

Option (B) gives only Shaurya's share; (C) is his adjusted capital; and (D) is the full settlement. None of these three represents the goodwill of the whole firm.

Step 3: Conclusion The firm's goodwill is $\boxed{\text{Rs } 1,40,000}$. Hence, the correct option is (A).

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

17. Namita, Narendra and Kunwar were partners in a firm sharing profits and losses in the ratio of 3:1:1. The firm closes its books on 31st March every year. Kunwar died on 30th September, 2025. His share in the profits of the firm from 1st April, 2025 to 30th September, 2025 was calculated as per the provisions of the partnership deed which amounted to Rs 15,600. On the date of Kunwar's death, the Balance Sheet of the firm showed General Reserve of Rs 40,000 and Profit and Loss Account (Dr.) Rs 80,000. Pass necessary journal entries on Kunwar's death in the books of the firm. [3 marks]

Solution:

Concept:

- Accumulated reserves belong to all partners in the old profit-sharing ratio; accumulated losses are also borne in that ratio.
- The deceased partner's profit up to death is credited to the capital account by debiting Profit and Loss Suspense Account when the final profit is not yet determined.

Step 1: Allocate the accumulated balances The old ratio is $3:1:1$, totalling 5. General Reserve of Rs 40,000 is credited to Namita, Narendra and Kunwar by Rs 24,000, Rs 8,000 and Rs 8,000. The debit balance of Profit and Loss Account is an accumulated loss: Rs 80,000 is debited to their capitals by Rs 48,000, Rs 16,000 and Rs 16,000. These adjustments use the old ratio because the balances arose before death.

Step 2: Record the entries on 30th September, 2025 Journal of the Firm

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

	General Reserve A/c Dr.
	  To Namita's Capital A/c
	  To Narendra's Capital A/c
	  To Kunwar's Capital A/c
	(Being reserve distributed in the old ratio of 3:1:1)
			40,000	
				24,000
				8,000
				8,000

	Namita's Capital A/c Dr. Narendra's Capital A/c Dr. Kunwar's Capital A/c Dr. To Profit and Loss A/c (Being accumulated loss written off in the old ratio)		48,000 16,000 16,000	 80,000
	Profit and Loss Suspense A/c Dr. To Kunwar's Capital A/c (Being Kunwar's share of profit up to death credited to his capital)		15,600	 15,600

Step 3: Check the deceased partner's adjustment The amount of Rs 15,600 is already Kunwar's calculated share for the six-month period. It must not be multiplied again by $1/5$ or $6/12$. His net capital adjustment from these entries is $8,000 - 16,000 + 15,600 =$ Rs $7,600$, a credit. No total amount payable to his executor can be calculated without the remaining capital balance.

Step 4: Conclusion General Reserve and accumulated loss are transferred in $3:1:1$; Kunwar's capital is credited with Rs 15,600 for profit up to death. His net capital increase from these adjustments is Rs 7,600.

Quick Tip to Solve: An amount expressly given as the deceased partner's share of profit is credited in full, without another time or ratio adjustment.

18. Jatin, Karan and Sia were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31st March, 2025, their Balance Sheet was as follows:

Balance Sheet of Jatin, Karan and Sia as at 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Jatin 3,20,000 Karan 3,90,000 Sia 5,00,000	12,10,000	Patents	4,05,000
General Reserve	50,000	Land and Building	4,95,000
Creditors	30,000	Stock	1,85,000
		Debtors	1,78,000
		Cash at bank	27,000
Total	12,90,000	Total	12,90,000

Jatin retired from the firm on the above date on the following terms:

(i) Goodwill of the firm was valued at Rs 3,00,000 and the same was to be treated without opening goodwill account.

(ii) Revaluation of assets and reassessment of liabilities resulted in a loss of Rs 75,000.

(iii) Amount payable to Jatin was transferred to his loan account.

Pass necessary journal entries for goodwill, general reserve and revaluation of assets and reassessment of liabilities on Jatin's retirement. [3 marks]

Solution:

Concept:

- Goodwill compensation is credited to the retiring partner and debited to gaining partners in their gaining ratio when no goodwill account is opened.
- Reserves and revaluation profit or loss are shared by all old partners in their old profit-sharing ratio.

Step 1: Calculate the required adjustments The old ratio is $2:2:1$. Karan and Sia continue in $2:1$, so their gains are $2/3 - 2/5 = 4/15$ and $1/3 - 1/5 = 2/15$, a gaining ratio of $2:1$. Jatin's goodwill share is $3,00,000 \times 2/5 =$ Rs $1,20,000$, borne by Karan (Rs 80,000) and Sia (Rs 40,000). General Reserve of Rs 50,000 is distributed as Rs 20,000, Rs 20,000 and Rs 10,000. Revaluation loss of Rs 75,000 is charged as Rs 30,000, Rs 30,000 and Rs 15,000.

Step 2: Pass the adjustment entries on 31st March, 2025 Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Karan's Capital A/c Dr. Sia's Capital A/c Dr. To Jatin's Capital A/c (Being Jatin's goodwill share adjusted through gaining partners' capitals in 2:1)		80,000 40,000	 1,20,000
	General Reserve A/c Dr. To Jatin's Capital A/c To Karan's Capital A/c To Sia's Capital A/c (Being reserve distributed in the old ratio of 2:2:1)		50,000	 20,000 20,000 10,000
	Jatin's Capital A/c Dr. Karan's Capital A/c Dr. Sia's Capital A/c Dr. To Revaluation A/c (Being revaluation loss transferred in the old ratio)		30,000 30,000 15,000	 75,000

Step 3: Give effect to the loan transfer specified in the terms Jatin's final claim is $3,20,000 + 1,20,000 + 20,000 - 30,000 =$ Rs $4,30,000$. The specified transfer to loan is:Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Jatin's Capital A/c Dr. To Jatin's Loan A/c (Being amount payable to Jatin transferred to his loan account)		4,30,000	 4,30,000

Step 4: Conclusion The goodwill adjustment is Rs 1,20,000; reserve of Rs 50,000 and revaluation loss of Rs 75,000 are allocated in $2:2:1$. Jatin's resulting loan is Rs 4,30,000.

Quick Tip to Solve: Use the gaining ratio only for goodwill compensation; use the old ratio for reserves and revaluation.

19(a). Kiara Ltd. purchased assets worth Rs 12,40,000 and took over liabilities of Rs 3,40,000 of Amrex Ltd. for a purchase consideration of Rs 11,00,000. Kiara Ltd. paid half the amount by cheque. The balance amount was settled by issuing 9% debentures of Rs 100 each at a premium of 10%. Pass necessary journal entries for the above transactions in the books of Kiara Ltd. [3 marks]

Solution:

Concept:

- Goodwill on purchase equals purchase consideration less the net identifiable assets taken over.
- Debentures issued for consideration are credited at face value; the excess issue value is credited to Securities Premium Account.

Step 1: Calculate goodwill and the debenture issue Net assets acquired are $12,40,000 - 3,40,000 =$ Rs $9,00,000$. Since consideration is Rs 11,00,000, goodwill is $11,00,000 - 9,00,000 =$ Rs $2,00,000$.

Half the consideration, Rs 5,50,000, is paid by cheque. The other half is settled by debentures issued at $100 + 10 =$ Rs 110 each. Thus $5,50,000/110 = 5,000$ debentures are issued, with face value Rs 5,00,000 and premium Rs 50,000. The 9% rate is the interest rate; it does not determine the issue value.

Step 2: Record acquisition and settlement Journal of Kiara Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Amrex Ltd. A/c (Being business of Amrex Ltd. purchased for Rs 11,00,000)		12,40,000 2,00,000	 3,40,000 11,00,000
	Amrex Ltd. A/c Dr. To Bank A/c (Being half the purchase consideration paid by cheque)		5,50,000	 5,50,000
	Amrex Ltd. A/c Dr. To 9% Debentures A/c To Securities Premium A/c (Being balance settled by issue of 5,000 debentures of Rs 100 each at 10% premium)		5,50,000	 5,00,000 50,000

Step 3: Verify the vendor account and issue proceeds Amrex Ltd. is credited with the agreed consideration of Rs 11,00,000, and debited with Rs 5,50,000 for each settlement, clearing its balance. The debenture face value and premium total $5,00,000 + 50,000 =$ Rs $5,50,000$. The premium is a capital receipt and is not added to the debenture liability.

Step 4: Conclusion Goodwill is Rs 2,00,000. Kiara Ltd. pays Rs 5,50,000 by cheque and issues 5,000 debentures, crediting Debentures Rs 5,00,000 and Securities Premium Rs 50,000.

Quick Tip to Solve: Divide the amount settled by the issue price of Rs 110, then split the proceeds between face value and premium.

OR

19(b). On 1st April, 2024, Zara Ltd. issued 8,000, 9% Debentures of Rs 100 each at a discount of 10%. The company had a balance of Rs 50,000 in the Securities Premium Account on the same date. Pass necessary journal entries for the issue of debentures and to write off discount on issue of debentures. [3 marks]

Solution:

Concept:

- Debentures are credited at their face value; the difference between face value and issue proceeds is debited to Discount on Issue of Debentures Account.
- The available Securities Premium balance is used to write off the discount; the remaining discount is charged to Statement of Profit and Loss.

Step 1: Calculate face value, proceeds and discount The face value of the issue is $8,000 \times$ Rs $100 =$ Rs $8,00,000$. At a discount of 10%, each debenture brings in Rs 90. Therefore,

$$\text{Bank proceeds} = 8,000 \times 90 = \text{Rs } 7,20,000,$$
$$\text{Discount} = 8,00,000 \times 10\% = \text{Rs } 80,000.$$

The 9% rate is the interest rate and does not determine the amount received on issue.

Step 2: Record the issue **Journal of Zara Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2024	Bank A/c Dr.		7,20,000	
	Discount on Issue of Debentures A/c Dr.		80,000	
	To 9% Debentures A/c			8,00,000
	(Being 8,000 debentures of Rs 100 each issued at a discount of 10%)			

Step 3: Write off the discount Of the total discount of Rs 80,000, Rs 50,000 is absorbed by Securities Premium. The balance is $80,000 - 50,000 =$ Rs $30,000$, charged to Statement of Profit and Loss.

Journal of Zara Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2024	Securities Premium A/c Dr.		50,000	
	Statement of Profit and Loss A/c Dr.		30,000	
	To Discount on Issue of Debentures A/c			80,000
	(Being discount on issue written off against Securities Premium and Statement of Profit and Loss)			

Step 4: Conclusion Zara Ltd. receives Rs 7,20,000 and records debentures of Rs 8,00,000. The Rs 80,000 discount is written off using Securities Premium of Rs 50,000 and Statement of Profit and Loss of Rs 30,000.

Quick Tip to Solve: First calculate discount on the Rs 8,00,000 face value; use the Rs 50,000 premium balance before charging the remaining Rs 30,000 to profit and loss.

20. Diksha, Raj and Amit were partners in a firm sharing profits and losses in the ratio of 6:3:1. On 1st April, 2025 Amit retired. On the date of Amit's retirement, there existed a balance of Rs 90,000 in Workmen's Compensation Fund. Pass the necessary journal entries for treatment of Workmen's Compensation Fund on Amit's retirement in each of the following cases:

(i) Claim on account of Workmen's Compensation was estimated at Rs 1,00,000.

(ii) Claim on account of Workmen's Compensation was estimated at Rs 70,000.

(iii) Claim on account of Workmen's Compensation was estimated at Rs 90,000. [3 marks]

Solution:

Concept:

- Workmen's Compensation Fund is first applied towards the estimated compensation claim; only the surplus belongs to the old partners.
- Any surplus is credited to all old partners in the old ratio $6:3:1$, including retiring partner Amit. Any claim exceeding the fund is a revaluation loss shared in that ratio.

Step 1: Case (i): claim exceeds the fund The claim of Rs 1,00,000 exceeds the fund of Rs 90,000 by Rs 10,000. Debit the fund for its entire balance and Revaluation Account for the shortfall; credit the full claim as a liability.

Journal of the firm: Case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2025	Workmen's Compensation Fund A/c Dr.		90,000	
	Revaluation A/c Dr.		10,000	
	To Workmen's Compensation Claim A/c			1,00,000
	(Being the estimated claim provided using the fund and charging the shortfall to revaluation)			
1 Apr. 2025	Diksha's Capital A/c Dr.		6,000	
	Raj's Capital A/c Dr.		3,000	
	Amit's Capital A/c Dr.		1,000	
	To Revaluation A/c			10,000
	(Being the revaluation loss transferred to old partners in the ratio 6:3:1)			

The loss shares are $10,000 \times 6/10 = 6,000$, $10,000 \times 3/10 = 3,000$ and $10,000 \times 1/10 = 1,000$, respectively.

Step 2: Case (ii): claim is below the fund The distributable surplus is $90,000 - 70,000 =$ Rs $20,000$. Diksha, Raj and Amit receive $20,000 \times 6/10 = 12,000$, $20,000 \times 3/10 = 6,000$ and $20,000 \times 1/10 = 2,000$, respectively.

Journal of the firm: Case (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2025	Workmen's Compensation Fund A/c Dr.		90,000	
	To Workmen's Compensation Claim A/c			70,000
	To Diksha's Capital A/c			12,000
	To Raj's Capital A/c			6,000
	To Amit's Capital A/c			2,000
	(Being the claim provided and the surplus distributed to old partners in the ratio 6:3:1)			

Step 3: Case (iii): claim equals the fund The whole fund is required for the claim. There is neither a surplus for the partners nor a shortfall to charge to revaluation. **Journal of the firm: Case (iii)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2025	Workmen's Compensation Fund A/c Dr.		90,000	
	To Workmen's Compensation Claim A/c			90,000
	(Being the entire fund transferred to the estimated compensation claim)			

Step 4: Conclusion Case (i): revaluation loss Rs 10,000, borne as Rs 6,000, Rs 3,000 and Rs 1,000. Case (ii): surplus Rs 20,000, credited as Rs 12,000, Rs 6,000 and Rs 2,000. Case (iii): the Rs 90,000 fund is wholly used for the claim.

Quick Tip to Solve: Compare the claim with Rs 90,000 before distributing anything: share only a surplus, and charge any deficiency in the old ratio 6:3:1.

21. Pass necessary journal entries for issue of debentures for the following transactions:

(i) KL Ltd. issued 80,000, 9% Debentures of Rs 100 each at a premium of 10%, redeemable at a premium of 5%.

(ii) UH Ltd. issued 40,000, 9% Debentures of Rs 100 each at par, redeemable at a premium of 10%. [4 marks]

Solution:

Concept:

- Debentures are credited at their nominal value. An issue premium is credited separately to Securities Premium Account and increases the bank proceeds.
- A premium payable on redemption is recognised when debentures are issued: debit Loss on Issue of Debentures and credit Premium on Redemption of Debentures. Both premiums are calculated on face value.

Step 1: Part (i): calculate the amounts for KL Ltd. For $80,000$ debentures of Rs 100 each, face value is $80,000 \times 100 =$ Rs $80,00,000$. The issue price per debenture is Rs 110 and the redemption value

per debenture is Rs 105.

$$\text{Issue premium} = 80,00,000 \times 10\% = \text{Rs } 8,00,000,$$
$$\text{Bank proceeds} = 80,00,000 + 8,00,000 = \text{Rs } 88,00,000,$$
$$\text{Redemption premium} = 80,00,000 \times 5\% = \text{Rs } 4,00,000.$$

There is no discount on issue. The redemption premium creates a loss on issue of Rs 4,00,000, recorded separately from the issue premium.

Step 2: Part (i): journal entry in KL Ltd. **Journal of KL Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		88,00,000	
	Loss on Issue of Debentures A/c Dr.		4,00,000	
	To 9% Debentures A/c			80,00,000
	To Securities Premium A/c			8,00,000
	To Premium on Redemption of Debentures A/c			4,00,000
	(Being 80,000 debentures of Rs 100 each issued at 10% premium, redeemable at 5% premium)			

Total debits and credits are each Rs 92,00,000. The redemption premium is a future payment obligation, so it is credited separately rather than added to Debentures Account.

Step 3: Part (ii): calculate the amounts for UH Ltd. The face value is $40,000 \times \text{Rs } 100 = \text{Rs } 40,00,000$. Issue at par means the bank receives precisely this amount. Redemption at a premium of 10% creates an additional obligation of

$$\text{Redemption premium} = 40,00,000 \times 10\% = \text{Rs } 4,00,000.$$

This is the loss on issue. Securities Premium is not credited because no premium is collected on issue.

Step 4: Part (ii): journal entry in UH Ltd. **Journal of UH Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		40,00,000	
	Loss on Issue of Debentures A/c Dr.		4,00,000	
	To 9% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			4,00,000
	(Being 40,000 debentures of Rs 100 each issued at par, redeemable at 10% premium)			

Both sides total Rs 44,00,000. The 9% coupon affects subsequent interest, not the issue entry.

Step 5: Conclusion KL Ltd.: Bank Rs 88,00,000; Debentures Rs 80,00,000; Securities Premium Rs 8,00,000; loss and redemption premium Rs 4,00,000 each. UH Ltd.: Bank and Debentures Rs 40,00,000 each; loss and redemption premium Rs 4,00,000 each.

Quick Tip to Solve: Keep issue premium and redemption premium separate: the former raises cash and Securities Premium; the latter creates a loss and a future liability.

22(a). Jain and Gupta were partners in a firm sharing profits and losses in the ratio of 3:1. On 1st April, 2024, Agarwal was admitted as a new partner for 1/5th share in the profits of the firm with a minimum guaranteed amount of Rs 75,000. Any deficiency arising out of this account will be borne by Jain and Gupta in the ratio of 1:3. During the year ended 31st March, 2025, the firm earned a net profit of Rs 3,00,000. Prepare Profit and Loss Appropriation Account of Jain, Gupta and Agarwal for the year ended 31st March, 2025. [4 marks]

Solution:

Concept:

- A guaranteed partner receives the greater of the normal profit share and the guaranteed minimum. The deficiency is borne by the partners in the agreed guarantee ratio.
- After admission, distribute the remaining share among the old partners in their old ratio unless another arrangement is specified. A guarantee changes the final appropriation, not the firm's total profit.

Step 1: Calculate the normal shares of profit **Working Notes**

Agarwal receives $1/5$, leaving $4/5$ for Jain and Gupta. Their relative ratio remains $3:1$. Thus, Jain's share is $\frac{4}{5} \times \frac{3}{4} = \frac{3}{5}$ and Gupta's share is $\frac{4}{5} \times \frac{1}{4} = \frac{1}{5}$. The new profit-sharing ratio is $3:1:1$. On the profit of Rs 3,00,000, normal shares are Jain Rs 1,80,000, Gupta Rs 60,000 and Agarwal Rs 60,000.

Step 2: Allocate the guarantee deficiency Agarwal's normal share is below the guaranteed minimum. The deficiency is

$$\text{Rs } 75,000 - \text{Rs } 60,000 = \text{Rs } 15,000.$$

Jain and Gupta bear this deficiency in $1:3$, the separately specified guarantee ratio, rather than their profit-sharing ratio. Jain bears $15,000 \times 1/4 = \text{Rs } 3,750$; Gupta bears $15,000 \times 3/4 = \text{Rs } 11,250$. Deduct these amounts from their normal shares and add the entire deficiency to Agarwal's share.

Step 3: Prepare the appropriation account **Profit and Loss Appropriation Account of Jain, Gupta and Agarwal**

for the year ended 31st March, 2025

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Jain's Capital A/c	1,76,250	By Profit and Loss A/c	3,00,000
To Gupta's Capital A/c	48,750	(Net profit)	
To Agarwal's Capital A/c	75,000		
Total	3,00,000	Total	3,00,000

The account closes by transferring the entire profit to the partners, so no balance is carried forward. The check is $1,76,250 + 48,750 + 75,000 = 3,00,000$. If capitals are fixed, the same appropriations are credited to the partners' current accounts instead.

Step 4: Conclusion Final profit appropriations are **Jain Rs 1,76,250, Gupta Rs 48,750 and Agarwal Rs 75,000.**

Quick Tip to Solve: First divide profit in 3:1:1, then deduct the shortfall in the separate 1:3 guarantee ratio; using 3:1 for the deficiency reverses the intended burden.

OR

22(b). Annu, Bandhu, Sheelu and Golu were partners in a firm sharing profits and losses in the ratio of 4:3:2:1. On 1st April, 2025, they decided to share the future profits equally. For this purpose the goodwill of the firm was valued at Rs 4,00,000. Calculate gain or sacrifice of the partners on change in profit sharing ratio and pass a single adjustment journal entry for the treatment of goodwill. [4 marks]

Solution:

Concept:

- Sacrifice equals old share minus new share; gain equals new share minus old share. Positive sacrifice entitles a partner to compensation for the future profit share surrendered.
- When goodwill is adjusted without opening a goodwill account, debit gaining partners and credit sacrificing partners by the firm's goodwill multiplied by their individual gain or sacrifice.

Step 1: Compare old and new profit shares **Working Notes**

The old ratio $4:3:2:1$ has ten parts, while equal sharing gives each partner $1/4$. Express all shares with denominator 20 so that changes can be compared directly.

Partner	Old share	New share	Old minus new	Result
Annu	$8/20$	$5/20$	$3/20$	Sacrifice $3/20$
Bandhu	$6/20$	$5/20$	$1/20$	Sacrifice $1/20$
Sheelu	$4/20$	$5/20$	$-1/20$	Gain $1/20$
Golu	$2/20$	$5/20$	$-3/20$	Gain $3/20$

Thus Annu and Bandhu sacrifice in $3:1$, whereas Sheelu and Golu gain in $1:3$. Total sacrifice and total gain both equal $4/20$, confirming that the entire change has been accounted for.

Step 2: Calculate compensation for goodwill Use the whole firm's goodwill of Rs 4,00,000 with each fractional change; do not distribute the entire goodwill merely in the gaining ratio.

$$\text{Annu's credit} = 4,00,000 \times \frac{3}{20} = \text{Rs } 60,000,$$
$$\text{Bandhu's credit} = 4,00,000 \times \frac{1}{20} = \text{Rs } 20,000,$$
$$\text{Sheelu's debit} = 4,00,000 \times \frac{1}{20} = \text{Rs } 20,000,$$
$$\text{Golu's debit} = 4,00,000 \times \frac{3}{20} = \text{Rs } 60,000.$$

The gaining partners compensate the sacrificing partners by Rs 80,000 in total. This is an inter-partner adjustment; no cash payment or goodwill asset is recorded.

Step 3: Pass the single adjustment entry

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2025	Sheelu's Capital A/c Dr.		20,000	
	Golu's Capital A/c Dr.		60,000	
	To Annu's Capital A/c			60,000
	To Bandhu's Capital A/c			20,000
	(Being goodwill adjusted through partners' capital accounts for the change to equal profit sharing)			
	Total		80,000	80,000

Debits equal credits. Capital accounts are used because no fixed-capital arrangement is given; under fixed capitals, the same entry would use the partners' current accounts.

Step 4: Conclusion Annu sacrifices $3/20$, Bandhu sacrifices $1/20$, Sheelu gains $1/20$, and Golu gains $3/20$. Debit Sheelu Rs 20,000 and Golu Rs 60,000; credit Annu Rs 60,000 and Bandhu Rs 20,000 through their capital accounts.

Quick Tip to Solve: Convert the old and equal shares to twentieths first: 8, 6, 4, 2 become 5 each. Partners above 5 sacrifice and are credited; those below 5 gain and are debited.

23(a). Ajanta Ltd. invited applications for issuing 30,000 equity shares of Rs 10 each at a premium of Rs 5 per share. The amount was payable as follows:

On Application and Allotment - Rs 10 per share (including premium)

On first and final call - Balance

Applications for 50,000 shares were received. Applications for 10,000 shares were rejected and their application money was refunded. Pro-rata allotment was made to the remaining applicants. Excess money received with application was adjusted towards sums due on first and final call. Sonu, an applicant of 4,000 shares, paid his entire share money with application. Vedika, to whom 300 shares were allotted, failed to pay the first and final call. After giving her the mandatory notice, her shares were forfeited. Pass necessary journal entries for the above transactions in the books of Ajanta Ltd. [6 marks]

Solution:

Concept:

- Pro-rata allotment distributes shares in the ratio of shares allotted to valid applications. Excess application money is adjusted against the call; any amount beyond the total amount payable on allotted shares is refunded.
- Premium received is credited to Securities Premium. On forfeiture, debit called-up share capital, credit unpaid call money and credit Share Forfeiture with capital already received.

Step 1: Calculate allotment and Sonu's surplus Valid applications are $50,000 - 10,000 = 40,000$ shares, so the allotment ratio is $30,000 : 40,000 = 3 : 4$. Sonu receives $4,000 \times 3/4 = 3,000$ shares. He pays $4,000 \times 15 =$ Rs $60,000$, but owes only $3,000 \times 15 =$ Rs $45,000$. Thus Rs 15,000 is refunded; Rs 30,000 meets application and allotment and Rs 15,000 meets his call. Total receipts

are $50,000 \times 10 + 4,000 \times 5 =$ Rs $5,20,000$. The rejected applications require a separate refund of Rs 1,00,000.

Step 2: Compute the call adjustment and Vedika's default After both refunds, Rs 4,05,000 remains. Application and allotment due is $30,000 \times 10 =$ Rs $3,00,000$, split equally between capital and premium. Therefore Rs 1,05,000 is retained as calls in advance. Vedika applied for $300 \times 4/3 = 400$ shares and paid Rs 4,000. Her application and allotment due is Rs 3,000, leaving Rs 1,000 for the call. Her call is $300 \times 5 =$ Rs $1,500$, so the unpaid balance is only Rs 500. Fresh call cash is $1,50,000 - 1,05,000 - 500 =$ Rs $44,500$. Capital received on her shares is $3,000 - 500 =$ Rs $2,500$; all Rs 1,500 premium has already been received.

Step 3: Record application, refund and allotment **Journal of Ajanta Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received, including Sonu's full payment)		5,20,000	 5,20,000
	Share Application and Allotment A/c Dr. To Bank A/c (Being Rs 1,00,000 returned on rejection and Rs 15,000 surplus refunded to Sonu)		1,15,000	 1,15,000
	Share Application and Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c To Calls in Advance A/c (Being application and allotment adjusted and excess retained for the call)		4,05,000	 1,50,000 1,50,000 1,05,000

Step 4: Record the call and forfeiture **Journal of Ajanta Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call of Rs 5 on 30,000 shares made due)		1,50,000	 1,50,000
	Calls in Advance A/c Dr. To Share First and Final Call A/c (Being advance money adjusted against the call now due)		1,05,000	 1,05,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call money received except Vedika's unpaid Rs 500)		44,500	 44,500
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being Vedika's 300 fully called shares forfeited after notice)		3,000	 500 2,500

Step 5: Conclusion The call brings in Rs 44,500 cash. Vedika's forfeiture debits Share Capital by Rs 3,000 and credits unpaid call by Rs 500 and Share Forfeiture by Rs 2,500. Sonu receives a Rs 15,000

refund of money beyond the price of his allotted shares.

Quick Tip to Solve: Work out each defaulterś applied shares first: Vedikaś excess Rs 1,000 reduces her unpaid call to Rs 500.

OR

23(b)(i). Rao Ltd. forfeited 750 equity shares of Rs 10 each for non-payment of first call of Rs 3 per share (including premium of Rs 1 per share). The second and final call of Rs 3 per share was not yet made. Of the forfeited shares, 500 were re-issued for Rs 2,500, Rs 7 per share paid-up. Pass necessary journal entries for the above transactions in the books of Rao Ltd. [3 marks]

Solution:

Concept:

- Forfeiture reverses only capital called up. Premium included in a due but unpaid call is also reversed by debiting Securities Premium.
- Reissue discount is charged to the forfeiture amount of the shares reissued. Only the remaining surplus attributable to those shares is transferred to Capital Reserve.

Step 1: Determine called-up capital and unpaid amounts The final capital call of Rs 3 has not been made, so called-up capital is $10 - 3 =$ Rs 7 per share. The unpaid first call of Rs 3 comprises Rs 2 capital and Rs 1 premium. Capital already received is therefore $7 - 2 =$ Rs 5 per share. For 750 shares, debit capital $750 \times 7 =$ Rs $5,250$ and unpaid premium $750 \times 1 =$ Rs 750; credit the unpaid first call Rs 2,250 and forfeiture Rs 3,750. No entry is made for the uncalled final Rs 3.

Step 2: Calculate reissue discount and transferable surplus The 500 shares are reissued at $2,500/500 =$ Rs 5 each as Rs 7 paid-up. Their capital credit is Rs 3,500 and the discount is $500 \times (7 - 5) =$ Rs $1,000$. Their forfeiture credit is $500 \times 5 =$ Rs $2,500$, leaving Rs 1,500 for Capital Reserve. The remaining 250 unreissued shares retain $250 \times 5 =$ Rs $1,250$ in Share Forfeiture; that balance is not transferred.

Step 3: Pass the journal entries **Journal of Rao Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		5,250	
	Securities Premium A/c Dr.		750	
	To Share First Call A/c			2,250
	To Share Forfeiture A/c			3,750
	(Being 750 shares forfeited for unpaid first call, including unpaid premium)			
	Bank A/c Dr.		2,500	
	Share Forfeiture A/c Dr.		1,000	
	To Share Capital A/c			3,500
	(Being 500 forfeited shares reissued as Rs 7 paid-up for Rs 5 each)			
	Share Forfeiture A/c Dr.		1,500	
	To Capital Reserve A/c			1,500
	(Being profit on 500 reissued shares transferred to capital reserve)			

Step 4: Conclusion Capital Reserve is credited with Rs 1,500. Share Forfeiture retains Rs 1,250 for the 250 shares not yet reissued; the reissued shares stand as Rs 7 paid-up.

Quick Tip to Solve: Separate the Rs 1 premium from the unpaid Rs 3 call, and calculate reissue discount against Rs 7 paid-up, not Rs 10 face value.

23(b)(ii). Lily Ltd. forfeited 2,000 equity shares of Rs 10 each for non-payment of first and final call of Rs 2 per share. 750 of the forfeited shares were reissued to Ashok for Rs 10,000 as fully paid-up. The remaining shares were reissued to Sudha at Rs 9 per share fully paid-up. Pass necessary journal entries for the above transactions in the books of Lily Ltd. [3 marks]

Solution:

Concept:

- On forfeiture of fully called shares, debit Share Capital with face value, credit unpaid call money and transfer capital received to Share Forfeiture.
- Reissue proceeds above paid-up capital are Securities Premium. Reissue discount is debited to Share Forfeiture; the related net forfeiture surplus becomes Capital Reserve.

Step 1: Calculate forfeiture and Ashok's reissue The original holders paid $10 - 2 =$ Rs 8 per share. For 2,000 forfeited shares, called-up capital is Rs 20,000, the unpaid call is Rs 4,000 and the amount forfeited is Rs 16,000. Ashok pays Rs 10,000 for 750 fully paid shares whose capital is $750 \times 10 =$ Rs $7,500$. The excess Rs 2,500 is Securities Premium, not Capital Reserve. Because there is no reissue discount on these shares, their entire forfeiture credit $750 \times 8 =$ Rs $6,000$ transfers to Capital Reserve.

Step 2: Record forfeiture and reissue to Ashok **Journal of Lily Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		20,000	
	To Share First and Final Call A/c			4,000
	To Share Forfeiture A/c			16,000
	(Being 2,000 shares forfeited for non-payment of the Rs 2 call)			
	Bank A/c Dr.		10,000	
	To Share Capital A/c			7,500
	To Securities Premium A/c			2,500
	(Being 750 shares reissued fully paid to Ashok at a premium)			
	Share Forfeiture A/c Dr.		6,000	
	To Capital Reserve A/c			6,000
	(Being forfeiture surplus on Ashok's 750 shares transferred)			

Step 3: Calculate Sudha's reissue and the remaining surplus The remaining shares number $2,000 - 750 = 1,250$. Sudha pays $1,250 \times 9 =$ Rs $11,250$, while fully paid capital credited is Rs 12,500. The Rs 1,250 discount is charged to Share Forfeiture. The forfeiture balance attributable to these shares is $1,250 \times 8 =$ Rs $10,000$; after discount, Rs 8,750 transfers to Capital Reserve. Both reissues together exhaust all forfeited shares, so no Share Forfeiture balance remains.

Step 4: Record reissue to Sudha **Journal of Lily Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 1,250 shares reissued fully paid to Sudha at Rs 9 each)		11,250 1,250	 12,500
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being remaining surplus on Sudha's shares transferred)		8,750	 8,750

Step 5: Conclusion Total Capital Reserve is Rs 14,750 (Rs 6,000 + Rs 8,750), and Securities Premium is Rs 2,500. Share Forfeiture is fully closed after the two reissues.

Quick Tip to Solve: Keep Ashokś Rs 2,500 reissue premium separate from the Rs 6,000 forfeiture surplus; only the latter goes to Capital Reserve.

24(a). Promil, Kamlesh and Ritika were partners in a firm sharing profits and losses in the ratio of 5:3:2. From 1st April, 2025 they decided to share future profits in the ratio of 2:3:5. On 31st March, 2025, their Balance Sheet was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Sundry Creditors	3,00,000	Bank	1,80,000
General Reserve	1,60,000	Sundry Debtors	1,20,000
Capitals: Promil 2,80,000 Kamlesh 2,20,000 Ritika 1,40,000	6,40,000	Stock	2,40,000
		Land and Building	5,60,000
Total	11,00,000	Total	11,00,000

It was agreed that:

(i) Land and Building will be valued at Rs 6,62,000.

(ii) A provision of 5% on debtors will be made for bad and doubtful debts.

(iii) Goodwill of the firm will be valued at Rs 1,80,000 and the same will be treated without opening goodwill account.

(iv) The value of stock will be reduced to Rs 2,00,000.

Showing your working clearly, pass necessary journal entries for the above transactions in the books of the firm. [6 marks]

Solution:

Concept:

- On a change in profit-sharing ratio, accumulated reserves and revaluation profit or loss belong to the partners in their old ratio, here $5 : 3 : 2$.

- The gaining partner compensates the sacrificing partner for goodwill. Without opening Goodwill Account, debit the gaining partner and credit the sacrificing partner.
- An increase in an asset is credited to Revaluation Account; an asset decrease or new provision is debited to it.

Step 1: Calculate sacrifice and goodwill adjustment **Working Notes**

$$\begin{aligned}\text{Promil's sacrifice} &= \frac{5}{10} - \frac{2}{10} = \frac{3}{10},\\ \text{Kamlesh's change} &= \frac{3}{10} - \frac{3}{10} = 0,\\ \text{Ritika's gain} &= \frac{5}{10} - \frac{2}{10} = \frac{3}{10}.\end{aligned}$$

Ritika therefore compensates Promil by Rs $1,80,000 \times 3/10 =$ Rs $54,000$. Kamlesh neither gains nor sacrifices and has no goodwill adjustment.

Step 2: Calculate reserve shares and revaluation profit The General Reserve of Rs 1,60,000 is divided in the old ratio: Promil Rs 80,000, Kamlesh Rs 48,000 and Ritika Rs 32,000.

$$\begin{aligned}\text{Increase in land and building} &= 6,62,000 - 5,60,000 = 1,02,000,\\ \text{Provision on debtors} &= 1,20,000 \times 5\% = 6,000,\\ \text{Decrease in stock} &= 2,40,000 - 2,00,000 = 40,000,\\ \text{Revaluation profit} &= 1,02,000 - 6,000 - 40,000 = 56,000.\end{aligned}$$

All amounts above are in Rs. The profit shares in $5:3:2$ are Rs 28,000, Rs 16,800 and Rs 11,200 respectively. These adjustments relate to the old partnership and must not use the new ratio.

Step 3: Record the reserve and revised asset values **Journal of Promil, Kamlesh and Ritika**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		1,60,000	
	To Promil's Capital A/c			80,000
	To Kamlesh's Capital A/c			48,000
	To Ritika's Capital A/c			32,000
	(Being reserve transferred in the old ratio of 5:3:2)			
	Land and Building A/c Dr.		1,02,000	
	To Revaluation A/c			1,02,000
	(Being increase in value of land and building recorded)			
	Revaluation A/c Dr.		46,000	
	To Provision for Doubtful Debts A/c			6,000
	To Stock A/c			40,000
	(Being provision created and stock reduced to Rs 2,00,000)			

Step 4: Transfer the profit and adjust goodwill **Journal of Promil, Kamlesh and Ritika (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr. To Promil's Capital A/c To Kamlesh's Capital A/c To Ritika's Capital A/c (Being revaluation profit transferred in the old ratio of 5:3:2)		56,000	 28,000 16,800 11,200
	Ritika's Capital A/c Dr. To Promil's Capital A/c (Being goodwill adjusted for Ritika's gain and Promil's sacrifice without opening Goodwill Account)		54,000	 54,000

Each entry has equal debits and credits. The goodwill entry transfers value between capitals and does not create any asset in the firm's books.

Step 5: Conclusion The entries distribute General Reserve of Rs 1,60,000 and revaluation profit of Rs 56,000 in the old ratio, and transfer Rs 54,000 from Ritika's capital to Promil's capital for goodwill.

Quick Tip to Solve: Use the old ratio for both reserve and revaluation; only the goodwill compensation uses the sacrifice/gain of 3/10.

OR

24(b). Mr. Rinku and Mrs. Pinky were partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2025, their balance sheet was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	86,000	Cash at Bank	43,000
Mrs. Rinku's Loan	20,000	Stock	20,000
Pinky's Husband's Loan	30,000	Investments	30,000
Investment Fluctuation Fund	12,000	Debtors 50,000 less Provision 5,000	45,000
General Reserve	30,000	Building	3,40,000
Capitals: Mr. Rinku 1,00,000 Mrs. Pinky 2,00,000	3,00,000		
Total	4,78,000	Total	4,78,000

On the above date the firm was dissolved and the following transactions took place:

(i) Mr. Rinku agreed to pay Mrs. Rinku's loan and took away stock for Rs 16,000.

(ii) Mrs. Pinky took half of the investments at 10% less. Debtors realised Rs 44,000, Building realised Rs 4,00,000, Creditors were paid Rs 5,000 less and the remaining investments were sold for Rs 19,000. An old furniture not recorded in the books of the firm was taken over by Mrs. Pinky for Rs 18,000. Realisation expenses amounted to Rs 6,000.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- On dissolution, transfer non-cash assets at gross book values to the debit of Realisation Account and outside liabilities and asset provisions to its credit.
- Credit Realisation with asset sale proceeds and assets taken by partners; debit it with liabilities paid or assumed by partners and realisation expenses.
- Transfer the resulting realisation profit or loss to the partners in their profit-sharing ratio of $3:2$.

Step 1: Determine transfers and takeover values **Working Notes** Debtors are transferred at their gross amount of Rs 50,000, with the Rs 5,000 provision separately credited. Cash at Bank is not transferred. General Reserve is transferred directly to partners' capitals in $3:2$, so it does not enter Realisation Account. The Investment Fluctuation Fund of Rs 12,000 is credited to Realisation along with the transfer of investments at Rs 30,000.

Mrs. Rinku's loan and Pinky's husband's loan are outside liabilities, not loans from the partners themselves. Both must therefore be transferred to Realisation. Mr. Rinku's assumption of his wife's loan is recorded by debiting Realisation and crediting his Capital Account with Rs 20,000.

$$\begin{aligned} \text{Investments taken by Pinky} &= \text{Rs } 30,000 \times \tfrac{1}{2} \times 90\% \\ &= \text{Rs } 13,500, \\ \text{Creditors paid} &= \text{Rs } 86,000 - \text{Rs } 5,000 \\ &= \text{Rs } 81,000. \end{aligned}$$

Pinky's husband's loan is paid at its book amount, Rs 30,000, as no concession or takeover is specified. The unrecorded furniture has no book-value transfer, but its Rs 18,000 takeover value is credited to Realisation.

Step 2: Prepare the Realisation Account **Realisation Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Stock A/c	20,000	By Creditors A/c	86,000	
	To Investments A/c	30,000	By Mrs. Rinku's Loan A/c	20,000	
	To Debtors A/c	50,000	By Pinky's Husband's Loan A/c	30,000	
	To Building A/c	3,40,000	By Provision for Doubtful Debts A/c	5,000	
	To Mr. Rinku's Capital A/c (wife's loan)	20,000	By Investment Fluctuation Fund A/c	12,000	
	To Bank A/c (creditors)	81,000	By Mr. Rinku's Capital A/c (stock)	16,000	
	To Bank A/c (Pinky's husband's loan)	30,000	By Mrs. Pinky's Capital A/c (investments)	13,500	
	To Bank A/c (expenses)	6,000	By Bank A/c (debtors)	44,000	
	To Mr. Rinku's Capital A/c (profit)	51,900	By Bank A/c (building)	4,00,000	
	To Mrs. Pinky's Capital A/c (profit)	34,600	By Bank A/c (investments)	19,000	
			By Mrs. Pinky's Capital A/c (furniture)	18,000	
	Total	6,63,500	Total	6,63,500	

Step 3: Verify the profit transfer Before transferring profit, the credit total is Rs 6,63,500 and the debit total is Rs 5,77,000. Thus

$$\begin{aligned}\text{Realisation profit} &= \text{Rs } 6,63,500 - \text{Rs } 5,77,000\\ &= \text{Rs } 86,500,\\ \text{Rinku's share} &= \text{Rs } 86,500 \times \tfrac{3}{5} = \text{Rs } 51,900,\\ \text{Pinky's share} &= \text{Rs } 86,500 \times \tfrac{2}{5} = \text{Rs } 34,600.\end{aligned}$$

Profit is entered on the debit side of Realisation and credited to the partners' Capital Accounts. This closes the nominal account with equal totals, rather than carrying a balance forward.

Step 4: Conclusion Realisation profit is Rs 86,500: Mr. Rinku receives Rs 51,900 and Mrs. Pinky Rs 34,600. Both sides of Realisation Account total Rs 6,63,500.

Quick Tip to Solve: Distinguish a partner from a partner's spouse: both spouse loans enter Realisation, while cash and General Reserve do not.

25. Diwan Ltd. was registered with an authorised capital of Rs 1,00,00,000, divided into 1,00,000 equity shares of Rs 100 each. The company invited applications for issuing 50,000 shares. The amount was payable as follows: On Application and Allotment - Rs 30 per share; On First call - Rs 40 per share; On Second and Final call - balance. The issue was fully subscribed. All amounts were duly received except from Nawal, a shareholder holding 700 shares, who failed to pay the second and final call. His shares were forfeited. [6 marks]

25(i). The Registered capital of Diwan Ltd. is: [1 mark]

(A) Rs 1,00,00,000

(B) Rs 1,00,000

(C) Rs 50,00,000

(D) Rs 50,000

Correct Answer: (A) Rs 1,00,00,000

Solution:

Concept:

- Registered capital is the authorised capital stated in the memorandum: the maximum nominal share capital the company may issue.
- Capital is an amount in rupees, obtained by multiplying the number of shares by their face value.

Step 1: Identify the registered limit The company is registered with 1,00,000 equity shares of Rs 100 each. Thus registered capital is

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

Issuing fewer shares does not alter this registered limit.

Step 2: Distinguish the alternatives Rs 50,00,000 is the nominal value of the 50,000 shares offered, so option (C) describes issued capital. The numbers 1,00,000 and 50,000 are share counts, not the rupee amounts of registered capital; therefore (B) and (D) are incorrect. Call defaults and forfeiture also do not reduce the authorised limit.

Step 3: Conclusion Registered capital is Rs 1,00,00,000. Hence, the correct option is (A).

Quick Tip to Solve: For registered capital, multiply the authorised number of shares by face value; ignore the smaller number offered.

25(ii). The Issued capital of Diwan Ltd. is: [1 mark]

(A) Rs 1,00,00,000

(B) Rs 1,00,000

(C) Rs 50,00,000

(D) Rs 50,000

Correct Answer: (C) Rs 50,00,000

Solution:

Concept:

- Issued capital is the nominal value of the shares that a company offers for subscription.
- Use the offered number of shares and their face value, rather than the authorised ceiling or the cash collected.

Step 1: Calculate the amount offered Diwan Ltd. invited applications for 50,000 equity shares of Rs 100 each. Hence

$$\text{Issued capital} = 50,000 \times \text{Rs } 100 = \text{Rs } 50,00,000.$$

The issue was fully subscribed, so there is no shortfall in subscription against this offer.

Step 2: Check the other figures Rs 1,00,00,000 is authorised capital, making (A) incorrect. Option (B) uses the authorised share count as a rupee amount, while (D) uses the issued share count without multiplying by Rs 100. The later default and forfeiture affect subscribed/paid-up capital and its presentation, not the amount originally issued.

Step 3: Conclusion Issued capital is Rs 50,00,000. Hence, the correct option is (C).

Quick Tip to Solve: For issued capital, use 50,000 shares offered, not the authorised 1,00,000 shares, and multiply by Rs 100.

25(iii). Calls in arrears of the company amounted to: [1 mark]

(A) Rs 21,000

(B) Rs 70,000

(C) Nil

(D) Rs 49,000

Correct Answer: (C) Nil

Solution:

Concept:

- Calls in arrears are amounts called but not received on subscribed shares.
- When the defaulting shares are forfeited, the related unpaid call is cancelled by crediting Calls in Arrears Account.

Step 1: Find the original unpaid call The second and final call per share is Rs 100 − Rs 30 − Rs 40 = Rs 30. Nawal initially owed $700 \times$ Rs 30 = Rs $21,000$. Thus (A) is the default before the stated

forfeiture, not the remaining balance after it.

Step 2: Give effect to the forfeiture The stem states that his shares were forfeited. The forfeiture debits Share Capital by Rs 70,000 and credits Share Forfeiture by Rs 49,000 and Calls in Arrears by Rs 21,000. This clears the entire unpaid-call balance. Option (B) is the called-up capital cancelled, and (D) is the amount already received on the forfeited shares; neither is an unpaid call remaining after forfeiture.

Step 3: Conclusion After the forfeiture, calls in arrears are Nil. Hence, the correct option is (C).

Quick Tip to Solve: First calculate Rs 21,000 unpaid, then cancel it on forfeiture; the closing calls-in-arrears balance is zero.

25(iv). 'Share Forfeiture Account' will appear in the 'Notes to Accounts' at: [1 mark]

(A) Rs 21,000

(B) Rs 70,000

(C) Nil

(D) Rs 49,000

Correct Answer: (D) Rs 49,000

Solution:

Concept:

- Share Forfeiture Account is credited with the capital money already received on the forfeited shares.
- Before reissue, this balance is disclosed as the amount originally paid on forfeited shares in the share capital note.

Step 1: Calculate the amount received Nawal paid application and allotment of Rs 30 and first call of Rs 40 per share. Thus the amount received is $700 \times (30 + 40) = \text{Rs } 49,000$. His unpaid final call of Rs 30 per share is excluded from this calculation.

Step 2: Check the alternatives Rs 21,000 is the unpaid final call, while Rs 70,000 is the face value of the forfeited shares. Nil is incorrect because the Rs 49,000 already received is retained by the company and no reissue has yet occurred in this part.

Step 3: Conclusion Share Forfeiture Account appears at $\boxed{\text{Rs } 49,000}$. The correct option is (D).

Quick Tip to Solve: Multiply forfeited shares by the amount actually received, not by the face value or the unpaid call.

25(v). The amount of 'Share Capital' presented in the Balance Sheet of Diwan Ltd. will be: [1 mark]

(A) Rs 49,30,000

(B) Rs 50,00,000

(C) Rs 49,79,000

(D) Rs 49,49,000

Correct Answer: (C) Rs 49,79,000

Solution:

Concept:

- After forfeiture, remove the called-up capital of forfeited shares from subscribed capital.
- The amount originally paid on forfeited shares is added in the share capital note until those shares are reissued.

Step 1: Determine capital on shares still outstanding All Rs 100 per share has been called. After forfeiture, $50,000 - 700 = 49,300$ fully paid shares remain outstanding. Their subscribed and fully paid capital is $49,300 \times 100 = \text{Rs } 49,30,000$.

Step 2: Include the amount paid on forfeited shares The retained amount on forfeited shares is $700 \times 70 = \text{Rs } 49,000$. The disclosure is:

Diwan Ltd.: Note to Accounts—Share Capital

Particulars	Amount (Rs)
Subscribed and fully paid: 49,300 equity shares of Rs 100 each	49,30,000
Add: Forfeited shares—amount originally paid	49,000
Total share capital	49,79,000

Rs 49,30,000 omits the forfeiture balance, while Rs 50,00,000 ignores the unpaid money and forfeiture. Rs 49,49,000 does not follow from either the outstanding capital or the retained amount.

Step 3: Conclusion The Balance Sheet presents share capital of $\boxed{\text{Rs } 49,79,000}$. The correct option is (C).

Quick Tip to Solve: After forfeiture, add the amount already received on forfeited shares to the capital of the remaining shares.

25(vi). If all the forfeited shares are reissued at Rs 30 per share, fully paid-up, the amount transferred to 'Capital Reserve' will be: [1 mark]

(A) Rs 49,000

(B) Rs 70,000

(C) Rs 21,000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- The discount on reissue of forfeited shares is debited to Share Forfeiture Account.

- Capital reserve is the forfeiture balance relating to the reissued shares less the discount allowed on their reissue.

Step 1: Calculate the discount allowed on reissue The shares of face value Rs 100 are reissued as fully paid for Rs 30 each. Therefore the discount is $100 - 30 =$ Rs 70 per share, or $700 \times 70 =$ Rs $49,000$ in total.

Step 2: Calculate the surplus after discount The original amount received on these shares is $700 \times (30 + 40) =$ Rs $49,000$. Hence the transferable surplus is $49,000 - 49,000 = 0$. Rs 49,000 is wholly used to meet the discount; Rs 70,000 is face value and Rs 21,000 is reissue cash, so none of these represents capital reserve.

Step 3: Conclusion The amount transferred to Capital Reserve is $\boxed{\text{Nil}}$. The correct option is (D).

Quick Tip to Solve: At the minimum reissue price, the entire forfeiture balance meets the discount, leaving no capital reserve.

26. Asha and Indra were partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet on 31st March, 2025 was as following:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Asha 4,00,000 Indra 3,00,000	7,00,000	Plant and Machinery	4,05,000
General Reserve	50,000	Furniture	1,20,000
Creditors	20,000	Debtors 80,000 Less: Provision for doubtful debts 4,000	76,000
		Stock	1,54,000
		Cash at bank	15,000
Total	7,70,000	Total	7,70,000

On 1st April, 2025, Suraj was admitted for 1/4 share in the profits of the firm on the following terms:

(i) Suraj will bring capital proportionate to his share in the profits of the firm.

(ii) Goodwill of the firm was valued at Rs 1,00,000 and Suraj will bring his share of goodwill premium in cash.

(iii) Furniture was taken over by Asha at Rs 1,00,000.

(iv) A liability of Rs 5,000 included in creditors was not likely to arise.

(v) Plant and Machinery was revalued at Rs 4,35,000.

Prepare Revaluation Account and Partners' capital accounts on Suraj's admission. Show the calculation of proportionate capital clearly.

[6 marks]

Solution:

Concept:

- Revaluation gains and losses and the existing general reserve belong to the old partners in their old profit-sharing ratio of $3:2$.
- In the absence of a different sacrifice, Asha and Indra sacrifice in their old ratio; the goodwill premium is credited in that ratio.
- An asset taken by a partner is debited to that partner's capital at its agreed takeover value. The difference from book value passes through Revaluation Account.
- The adjusted combined capital of the old partners represents their remaining $3/4$ share; the incoming partner brings capital for his $1/4$ share.

Step 1: Calculate revaluation and goodwill adjustments Plant and machinery increases by $4,35,000 - 4,05,000 =$ Rs $30,000$. Furniture taken over for Rs 1,00,000 has book value Rs 1,20,000, giving a loss of Rs 20,000. The Rs 5,000 liability no longer expected to arise is written back as a gain. Hence revaluation profit is $30,000 + 5,000 - 20,000 =$ Rs $15,000$, divided as Asha Rs 9,000 and Indra Rs 6,000.

Suraj's goodwill premium is $1,00,000 \times 1/4 =$ Rs $25,000$. Asha receives credit of Rs 15,000 and Indra Rs 10,000. The Rs 50,000 general reserve is distributed as Rs 30,000 and Rs 20,000 respectively. As no withdrawal of premium is specified, these credits remain in the old partners' capitals.

Step 2: Prepare Revaluation Account **Revaluation Account**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Furniture A/c	20,000	By Plant and Machinery A/c	30,000
To Asha's Capital A/c	9,000	By Creditors A/c	5,000
To Indra's Capital A/c	6,000		
Total	35,000	Total	35,000

The entire profit is transferred to the old partners, leaving no balance in Revaluation Account. Furniture is removed at book value: Rs 1,00,000 is charged to Asha and the Rs 20,000 loss is charged to revaluation.

Step 3: Calculate Suraj's proportionate capital The old partners' adjusted capitals are:

$$\begin{aligned}\text{Asha} &= 4,00,000 + 30,000 + 15,000 + 9,000 - 1,00,000\\ &= \text{Rs } 3,54,000,\\ \text{Indra} &= 3,00,000 + 20,000 + 10,000 + 6,000\\ &= \text{Rs } 3,36,000.\end{aligned}$$

Their combined capital is Rs 6,90,000 for a $3/4$ share. Therefore:

$$\text{Total proportionate capital} = 6,90,000 \times \frac{4}{3} = \text{Rs } 9,20,000,$$

$$\text{Suraj's capital} = 9,20,000 \times \frac{1}{4} = \text{Rs } 2,30,000.$$

Suraj brings Rs 2,30,000 capital plus Rs 25,000 premium, a total cash contribution of Rs 2,55,000. Only the capital portion is credited to his Capital Account; the premium is credited to the old partners. The question does not require the old partners to adjust their individual capitals to the new ratio.

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

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Furniture A/c	1,00,000	By Balance b/d	4,00,000
To Balance c/d	3,54,000	By General Reserve A/c	30,000
		By Premium for Goodwill A/c	15,000
		By Revaluation A/c	9,000
Total	4,54,000	Total	4,54,000

Indra's Capital Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Balance c/d	3,36,000	By Balance b/d	3,00,000
		By General Reserve A/c	20,000
		By Premium for Goodwill A/c	10,000
		By Revaluation A/c	6,000
Total	3,36,000	Total	3,36,000

Step 5: Prepare Suraj's capital account and check totals **Suraj's Capital Account**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Balance c/d	2,30,000	By Bank A/c	2,30,000
Total	2,30,000	Total	2,30,000

Closing partners' capitals total $3,54,000 + 3,36,000 + 2,30,000 = \text{Rs } 9,20,000$. This agrees with the total proportionate capital calculated above; Suraj's Rs 2,30,000 is exactly one-fourth of that total.

Step 6: Conclusion Revaluation profit is $\boxed{\text{Rs } 15,000}$. Closing capitals are Asha Rs 3,54,000, Indra Rs 3,36,000 and Suraj Rs 2,30,000; Suraj brings a further Rs 25,000 as goodwill premium.

Quick Tip to Solve: Calculate old partners' adjusted capitals after reserve, goodwill, revaluation and asset takeover before finding the new partner's proportionate capital.

Part B (20 marks)

Option I (Analysis of Financial Statements)

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

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

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

(A) Both the statements are true.

(B) Both the statements are false.

(C) Statement I is true, but Statement II is false.

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

Correct Answer: (C) Statement I is true, but Statement II is false.

Solution:

Concept:

- For a non-financial enterprise, interest paid and dividends paid are cash outflows from financing activities.
- For a financial enterprise, interest paid is an operating cash flow, while dividends paid remain financing cash flows.

Step 1: Assess Statement I Interest paid is the cost of obtaining finance and dividends paid are distributions to shareholders. Under the prescribed cash-flow classification for a non-financial enterprise, both are financing activities. Therefore Statement I is true.

Step 2: Assess Statement II and the combinations In a financial enterprise, interest paid forms part of its principal revenue-producing operations and is classified as operating. Dividends paid are financing in nature. Neither payment is an investing activity, so Statement II is false. Options (A) and (D) incorrectly accept Statement II, while option (B) incorrectly rejects Statement I.

Step 3: Conclusion Statement I is true and Statement II is false. The correct option is $\boxed{(C)}$.

Quick Tip to Solve: For a financial enterprise, change interest paid to operating; dividends paid remain financing in either type of enterprise.

28(a). During the year ended 31st March, 2025, H.P. Ltd. paid an interim dividend of Rs 50,00,000. From the following, choose the correct option for the purpose of preparing 'Cash Flow Statement':

[1 mark]

(A) Rs 50,00,000 paid as interim dividend during the year will be shown as outflow of cash under financing activities and added back to net profit to calculate cash flows from operating activities.

(B) Rs 50,00,000 paid as interim dividend during the year will be shown as outflow of cash under financing activities and deducted from net profit to calculate cash flows from operating activities.

(C) Rs 50,00,000 paid as interim dividend during the year will be shown as cash outflow from financing activities only.

(D) Rs 50,00,000 paid as interim dividend during the year will be added back to net profit to calculate cash flows from operating activities only.

Correct Answer: (A) Rs 50,00,000 paid as interim dividend during the year will be shown as outflow of cash under financing activities and added back to net profit to calculate cash flows from operating activities.

Solution:

Concept:

- Interim dividend paid is a distribution to shareholders and is reported as an outflow under financing activities.
- In the standard indirect-method calculation from the change in the profit balance, add back the interim dividend appropriated during the year to reconstruct profit before that distribution.

Step 1: Classify the payment H.P. Ltd. has paid Rs 50,00,000 to shareholders as interim dividend. This reduces cash and is shown as a financing outflow of Rs 50,00,000. It is not an operating expense or an investing payment.

Step 2: Reconstruct profit and test the options When deriving net profit from the movement in the profit balance, the dividend appropriation has reduced that balance. Add back Rs 50,00,000 to obtain profit before the distribution for the operating cash-flow calculation. This add-back does not represent a cash receipt; it prevents a financing distribution from reducing operating profit. Option (B) wrongly deducts it again. Option (C) omits the profit-reconstruction adjustment, and option (D) omits the actual financing outflow. If profit before appropriation is already supplied, it must not be added back twice.

Step 3: Conclusion Show Rs 50,00,000 as a financing cash outflow and add it back when reconstructing net profit from the profit balance. The correct option is (A).

Quick Tip to Solve: Track both effects of interim dividend: reverse its appropriation while reconstructing profit and record its cash payment under financing.

OR

28(b). Which of the following is a financing activity for the purpose of preparing a Cash Flow Statement? [1 mark]

(A) Interest received

(B) Dividend received

(C) Royalties received

(D) Interest paid on debentures

Correct Answer: (D) Interest paid on debentures

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings.
- For a non-financial enterprise, interest paid is a financing cash outflow; interest and dividends received are investing cash inflows.

Step 1: Identify the borrowing-related cash flow Debentures are borrowed funds. Interest paid on debentures is the cost of obtaining that finance and is classified as a cash outflow from financing activities.

Step 2: Check the other choices Interest received and dividend received are returns on investments and belong to investing activities in the usual non-financial company classification. Royalties received arise from revenue-generating activities and are operating receipts. Thus none of options (A), (B) or (C) represents the required financing activity.

Step 3: Conclusion Interest paid on debentures is a financing activity. Hence, the correct option is (D).

Quick Tip to Solve: Link debentures with borrowed capital: the interest paid is a financing outflow.

29. The following information is obtained from the books of Devdutt Ltd.:

Working capital - Rs 4,00,000

Trade Payables - Rs 50,000

Other Current liabilities - Rs 1,00,000

Current assets of Devdutt Ltd. are: [1 mark]

(A) Rs 2,50,000

(B) Rs 4,50,000

(C) Rs 5,00,000

(D) Rs 5,50,000

Correct Answer: (D) Rs 5,50,000

Solution:

Concept:

- Working capital is the excess of current assets over current liabilities: $WC = CA - CL$.
- Current liabilities include both trade payables and other current liabilities; hence $CA = WC + CL$.

Step 1: Calculate total current liabilities Both listed liabilities must be included.

$$CL = 50,000 + 1,00,000 = \text{Rs } 1,50,000.$$

Trade payables are not an additional asset or a deduction from the working capital supplied.

Step 2: Recover current assets and check

$$CA = 4,00,000 + 1,50,000 = \text{Rs } 5,50,000.$$

Checking, $5,50,000 - 1,50,000 = 4,00,000$, the given working capital. Option (A) incorrectly subtracts liabilities; options (B) and (C) omit one component of current liabilities.

Step 3: Conclusion Current assets are Rs 5,50,000. Hence, the correct option is (D).

Quick Tip to Solve: When working capital is given, add all current liabilities to recover current assets.

30(a). **From the following information obtained from the books of accounts of Ananda Ltd., calculate 'Quick Ratio' of the company:**

Total Current Assets (including stock and prepaid expenses) Rs 2,00,000; Stock Rs 20,000; Prepaid expenses Rs 10,000; Current liabilities Rs 1,70,000. [1 mark]

(A) 20:17

(B) 1:1

(C) 18:17

(D) 19:17

Correct Answer: (B) 1:1

Solution:

Concept:

- Quick ratio measures liquid assets available per rupee of current liabilities: Quick ratio = Quick assets/Current liabilities.
- Quick assets exclude stock and prepaid expenses from current assets because these are not readily available for paying current obligations.

Step 1: Find quick assets

$$\text{Quick assets} = 2,00,000 - 20,000 - 10,000 = \text{Rs } 1,70,000.$$

Stock requires sale before it becomes cash; prepaid expenses represent future services rather than a cash resource.

Step 2: Compute the ratio and test the options

$$\text{Quick ratio} = \frac{1,70,000}{1,70,000} = 1:1.$$

Option (A), $20:17$, includes both excluded items. Option (C), $18:17$, deducts stock alone; option (D), $19:17$, deducts prepaid expenses alone. Both exclusions are essential.

Step 3: Conclusion The quick ratio is $1:1$. Hence, the correct option is (B).

Quick Tip to Solve: Before dividing by current liabilities, remove both inventory and prepaid expenses.

OR

30(b). 'Analysis of financial statements is useful and significant to different users.' Which of the following users is concerned with a firm's long-term solvency and survival? [1 mark]

(A) Labour unions

(B) Trade payables

(C) Finance manager

(D) Lenders

Correct Answer: (D) Lenders

Solution:

Concept:

- Long-term solvency is the ability of a business to meet its long-term debt obligations and continue operating.
- Financial statement users examine different aspects according to their economic interest in the business.

Step 1: Identify the user with a long-term credit exposure Lenders supply loan capital and need assurance that interest and principal will be paid over the loan period. They therefore examine long-term solvency, the safety of their funds and the survival of the firm.

Step 2: Distinguish the remaining users Labour unions primarily consider wages, employment security and the capacity to pay benefits. Trade payables are short-term creditors concerned mainly with liquidity and timely payment. A finance manager examines overall financial performance and decisions, but the user specifically associated with long-term debt safety in this classification is the lender.

Step 3: Conclusion Lenders are concerned with long-term solvency and survival. Hence, the correct option is (D).

Quick Tip to Solve: Match long-term debt safety with lenders; match short-term payment capacity with trade creditors.

31. The following information was extracted from the Statement of Profit and Loss of Chaman Ltd. for the year ended 31st March, 2025:

Particulars	31.3.2025 (Rs)	31.3.2024 (Rs)
Revenue from operations	40,00,000	32,00,000
Employee Benefit Expenses	20,00,000	16,00,000
Other Expenses	2,00,000	4,00,000
Tax Rate	50%	

Prepare a Comparative Statement of Profit and Loss. [3 marks]

Solution:

Concept:

- A comparative statement shows the previous and current year amounts, their absolute change, and percentage change using the previous year as the base.
- Change $=$ Current year $-$ Previous year, and Change % $=$ Change/Previous year $\times 100$.
- Profit before tax equals revenue less expenses; profit after tax equals profit before tax less tax. The given tax rate of 50% applies to both years.

Step 1: Calculate expenses, profit and tax For 2024, total expenses are $16,00,000 + 4,00,000 =$ Rs $20,00,000$. Profit before tax is $32,00,000 - 20,00,000 =$ Rs $12,00,000$, and tax and profit after tax are each Rs 6,00,000. For 2025, expenses are $20,00,000 + 2,00,000 =$ Rs $22,00,000$. Profit before tax is Rs 18,00,000; tax and profit after tax are each Rs 9,00,000.

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

Comparative Statement of Profit and Loss

For the years ended 31st March, 2024 and 2025

Particulars	2024 (Rs)	2025 (Rs)	Change (Rs)	%
I. Revenue from operations	32,00,000	40,00,000	8,00,000	25
II. Other income	–	–	–	–
III. Total revenue	32,00,000	40,00,000	8,00,000	25
IV. Expenses:				
Employee benefit expenses	16,00,000	20,00,000	4,00,000	25
Other expenses	4,00,000	2,00,000	-2,00,000	-50
Total expenses	20,00,000	22,00,000	2,00,000	10
V. Profit before tax (III–IV)	12,00,000	18,00,000	6,00,000	50
VI. Tax expense (50%)	6,00,000	9,00,000	3,00,000	50
VII. Profit after tax (V–VI)	6,00,000	9,00,000	3,00,000	50

The minus signs indicate decreases. For example, other expenses decreased by $2,00,000/4,00,000 \times 100 = 50\%$; profit after tax increased by $3,00,000/6,00,000 \times 100 = 50\%$.

Step 3: Conclusion Profit after tax increased from Rs 6,00,000 to Rs 9,00,000, an increase of Rs 3,00,000 or 50%.

Quick Tip to Solve: Use 2024 as the denominator for every percentage change, including decreases in expenses.

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

(i) Demand deposits with banks

(ii) Long-term loans

(iii) Livestock [3 marks]

Solution:

Concept:

- Schedule III classifies company balance sheet items under equity and liabilities or assets, with current and non-current categories.
- Demand deposits are available on demand; long-term loans represent long-term borrowed funds; livestock held for continuing use is a tangible fixed asset.

Step 1: Classify demand deposits with banks Demand deposits can be withdrawn on demand and form part of cash and cash equivalents. They appear on the assets side under the major head Current Assets, with the sub-head Cash and Cash Equivalents. Their immediate availability distinguishes them from a long-term restricted deposit.

Step 2: Classify long-term loans Long-term loans are shown under Equity and Liabilities, within the major head Non-current Liabilities and the sub-head Long-term Borrowings. Here loans denote funds borrowed by the company; loans advanced to another party would be a different asset item. Their long-term repayment period distinguishes them from short-term borrowings.

Step 3: Classify livestock and present the headings Livestock is a physical asset held for use in the business and is classified within non-current tangible fixed assets, under Property, Plant and Equipment. It is not an intangible asset merely because it is living.

Balance Sheet Classification (Schedule III)

Item	Major head	Sub-head
Demand deposits with banks	Current Assets	Cash and Cash Equivalents
Long-term loans	Non-current Liabilities	Long-term Borrowings
Livestock	Non-current Assets	Fixed Assets: Tangible Assets (Property, Plant and Equipment)

Step 4: Conclusion Demand deposits: Current Assets—Cash and Cash Equivalents; long-term loans: Non-current Liabilities—Long-term Borrowings; livestock: Non-current Assets—Tangible Fixed Assets (Property, Plant and Equipment).

Quick Tip to Solve: First identify asset or liability, then current or non-current, and finally the Schedule III sub-head.

33(a). **'Net Asset Turnover' ratio of a company is 2 times. State with reason whether the following transactions will increase, decrease or not affect the ratio:**

(i) Cash sales Rs 3,00,000

(ii) Issue of equity shares Rs 10,00,000

(iii) Issue of 9% debentures Rs 5,00,000

(iv) Credit purchase of goods Rs 50,000 [4 marks]

Solution:

Concept:

- Net Asset Turnover Ratio measures revenue from operations generated per rupee of capital employed: Net Asset Turnover Ratio $=$ Revenue from Operations/Net Assets.
- Net assets mean total assets less current liabilities, or shareholders' funds plus non-current liabilities. A credit purchase increases current assets and current liabilities equally.

Step 1: (i) Cash sales of Rs 3,00,000 Cash sales increase revenue from operations. In this transaction-effect question, with no profit margin given, the sale is treated as a conversion of inventory into cash at carrying value. Cash increases and inventory decreases by the same amount, leaving total assets and hence net assets unchanged. If original net assets are N, original revenue is $2N$. The new ratio is

$$\frac{2N + 3,00,000}{N} = 2 + \frac{3,00,000}{N} > 2.$$

Hence the ratio increases. The relevant increase is in sales, rather than a fresh investment of capital.

Step 2: (ii) Issue of equity shares of Rs 10,00,000 The issue brings in cash and increases shareholders' funds by Rs 10,00,000. Current liabilities remain unchanged, so net assets increase by Rs 10,00,000. Issuing shares is a capital transaction and does not create revenue from operations. The revised ratio is $2N/(N + 10,00,000)$, which is below 2. Therefore the ratio decreases.

Step 3: (iii) Issue of 9% debentures of Rs 5,00,000 Cash and long-term borrowings both increase by Rs 5,00,000. Long-term borrowings form part of capital employed; they are not deducted as current liabilities when calculating net assets. Thus net assets increase while revenue from operations is unchanged. The ratio becomes $2N/(N + 5,00,000)$, so it decreases. The coupon rate does not change the immediate effect of issuing the debentures.

Step 4: (iv) Credit purchase of goods of Rs 50,000 Inventory, a current asset, increases by Rs 50,000 and trade payables, a current liability, increase by the same amount. Therefore the change in net assets is $50,000 - 50,000 = 0$. A purchase does not itself generate sales revenue. With neither numerator nor denominator changing, the ratio remains 2 times.

Step 5: Conclusion (i) Increases; (ii) decreases; (iii) decreases; (iv) remains unchanged at 2 times, using the stated carrying-value convention for the cash sale.

Quick Tip to Solve: Track sales separately from capital employed; for a credit purchase, deduct the matching increase in trade payables from the increase in inventory.

OR

33(b). From the following information, calculate 'Proprietary Ratio' and 'Debt-to-Equity Ratio':

Equity Share Capital	**Rs 3,00,000**
Preference Share Capital	**Rs 1,00,000**
Reserves and Surplus	**Rs 1,00,000**
Plant and Machinery	**Rs 3,50,000**
Non-Current Investments	**Rs 1,00,000**
Current Assets	**Rs 2,00,000**
Long-term Borrowings	**Rs 1,50,000**

[4 marks]

Solution:

Concept:

- Proprietary Ratio is shareholders' funds divided by total assets. It measures the proportion of the company's assets financed by owners' funds.
- Debt-to-Equity Ratio is long-term debt divided by shareholders' funds. Both equity share capital and preference share capital form part of shareholders' funds, together with reserves and surplus.

Step 1: Calculate shareholders' funds Add both classes of share capital and reserves and surplus. Preference shareholders are owners for this ratio, so their capital must not be classified as long-term borrowings.

$$\begin{aligned}\text{Shareholders' funds} &= \text{Rs } (3,00,000 + 1,00,000 + 1,00,000) \\ &= \text{Rs } 5,00,000.\end{aligned}$$

This is the numerator for the Proprietary Ratio and the denominator for the Debt-to-Equity Ratio.

Step 2: Calculate total assets Total assets include plant and machinery, non-current investments and current assets. Non-current investments are included because the Proprietary Ratio uses total assets, not merely operating assets.

$$\begin{aligned}\text{Total assets} &= \text{Rs } (3,50,000 + 1,00,000 + 2,00,000) \\ &= \text{Rs } 6,50,000.\end{aligned}$$

As a cross-check, shareholders' funds of Rs 5,00,000 plus long-term borrowings of Rs 1,50,000 equal the given assets of Rs 6,50,000.

Step 3: Calculate Proprietary Ratio Substitute shareholders' funds and total assets in the formula:

$$\text{Proprietary Ratio} = \frac{5,00,000}{6,50,000} = \frac{10}{13} = 0.7692 \text{ (approximately)}.$$

Thus owners provide approximately 76.92% of the finance represented by total assets. In ratio form this is $10 : 13$, or approximately $0.77 : 1$.

Step 4: Calculate Debt-to-Equity Ratio Take the given long-term borrowings of Rs 1,50,000 as debt

and the complete shareholders' funds of Rs 5,00,000 as equity:

$$\text{Debt-to-Equity Ratio} = \frac{1,50,000}{5,00,000} = 0.30.$$

Long-term debt therefore equals 30% of shareholders' funds. Using equity share capital alone as the denominator would incorrectly omit preference capital and accumulated reserves.

Step 5: Conclusion Proprietary Ratio $= 10 : 13 \approx 0.77 : 1$ (76.92%); Debt-to-Equity Ratio $= 0.30 : 1$.

Quick Tip to Solve: Compute shareholders' funds once by including both share capitals and reserves, then reuse Rs 5,00,000 in the two required ratios.

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34. From the following information obtained from the books of 'Sawera Ltd.', calculate Cash from Operations:

Net Profit for the year ended 31st March, 2025 after charging depreciation of Rs 80,000 and after writing off goodwill Rs 2,000 was Rs 5,40,000.

Additional Information:

Particulars	31.3.2024 (Rs)	31.3.2025 (Rs)
Commission received in advance	10,000	4,000
Accrued interest	60,000	80,000
Outstanding rent	40,000	30,000
Trade receivables	3,24,000	3,43,000
Trade payables	2,30,000	2,97,000
Inventories	54,000	79,000
Other current assets	27,000	24,700

[6 marks]

Solution:

Concept:

- Under the indirect method, start with the net profit and add back expenses which reduced profit without using cash, such as depreciation and goodwill written off.
- An increase in a current asset is deducted and a decrease is added. An increase in a current liability is added and a decrease is deducted when reconciling accrual profit with cash from operations.
- Cash from operations equals operating profit before working-capital changes plus the net working-capital adjustment. Amounts in brackets in the statement represent deductions.

Step 1: Reverse the non-cash charges Net profit of Rs 5,40,000 has already been reduced by depreciation of Rs 80,000 and goodwill written off of Rs 2,000. Neither charge represents a current cash payment. Add each back once:

$$\text{Operating profit before working-capital changes} = 5,40,000 + 80,000 + 2,000 = \text{Rs } 6,22,000.$$

Step 2: Calculate changes in the current balances Commission received in advance falls by Rs 6,000

and outstanding rent falls by Rs 10,000; both are decreases in current liabilities and are deducted. Trade payables rise by Rs 67,000 and are added, since the corresponding expenditure has not yet used cash.

Accrued interest increases by Rs 20,000, trade receivables increase by Rs 19,000 and inventories increase by Rs 25,000. These increases in current assets are deducted. Other current assets decrease by Rs 2,300 and are added. Use the change between the two dates, never the closing balance itself.

Step 3: Prepare the cash-from-operations statement **Sawera Ltd. — Cash from Operations**
For the year ended 31st March, 2025

Particulars	Amount (Rs)
Net profit for the year	5,40,000
Add: Depreciation	80,000
Add: Goodwill written off	2,000
Operating profit before working-capital changes	6,22,000
Decrease in commission received in advance	(6,000)
Increase in accrued interest	(20,000)
Decrease in outstanding rent	(10,000)
Increase in trade receivables	(19,000)
Increase in trade payables	67,000
Increase in inventories	(25,000)
Decrease in other current assets	2,300
Net working-capital adjustment	(10,700)
Cash from operations	**6,11,300**

The positive adjustments total Rs 69,300 and the deductions total Rs 80,000. Thus the net working-capital adjustment is a deduction of Rs 10,700. The question supplies no separate income-tax payment for deduction.

Step 4: Conclusion Cash from operations for the year ended 31st March, 2025 is $\boxed{\text{Rs } 6,11,300}$.

Quick Tip to Solve: Add back the two non-cash expenses first; then apply opposite signs to current-asset and current-liability increases, using only their year-to-year changes.

Option II (Computerised Accounting)

27. How is navigation conducted from the first to the last cell in a cluster of data in a column by skipping all the cells in between? [1 mark]

(A) END + Down arrow (↓)

(B) HOME + Page down

(C) HOME + Down arrow (↓)

(D) CTRL + Down arrow (↓) successively

Correct Answer: Both (A) and (D) perform the stated navigation; the printed choices do not give a unique answer.

Solution:

Concept:

- A continuous cluster of spreadsheet data is a range of occupied cells without an intervening blank cell in the direction of movement.
- Both End-mode navigation and CTRL with an arrow key can move directly to the boundary of a continuous data region.

Step 1: Test the two boundary-navigation methods Select the first cell in a continuous column of data. Pressing END and then the Down arrow moves to the last occupied cell in the cluster, so (A) works. Holding CTRL and pressing the Down arrow also moves to that last occupied cell; repeating this shortcut moves through further boundaries, so (D) works as well. Neither method requires visiting the intermediate cells.

Step 2: Evaluate the remaining choices and the ambiguity HOME relates to the beginning of a row, so the HOME combinations in (B) and (C) do not describe the required boundary jump down a column. However, the question does not restrict the user to End-mode navigation or otherwise distinguish (A) from (D). Thus there are two defensible choices, and it would be incorrect to declare either of these working methods invalid merely to force a unique answer.

Step 3: Conclusion Both (A), END followed by Down arrow, and (D), CTRL + Down arrow, perform the stated navigation. The printed question has no unique correct option.

Quick Tip to Solve: END followed by Down arrow and CTRL + Down arrow both jump to a data boundary; a blank cell interrupts a continuous cluster.

28(a). Which of the following is not a feature of Tailored accounting software? [1 mark]

(A) Designed specially for large enterprises

(B) Requires minimal or no support from system

(C) Requires special training before use

(D) Needs technical installation efforts

Correct Answer: (B) Requires minimal or no support from system

Solution:

Concept:

- Tailored accounting software is developed for the specific accounting requirements and business processes of an enterprise.
- Its specialised design generally requires technical installation, user training and continuing system support.

Step 1: Identify the normal features A large enterprise can require software designed around its particular operations, so (A) describes a feature. Such a system may have organisation-specific screens, controls and reporting routines, explaining why special training in (C) and technical installation efforts in (D) are required.

Step 2: Find the statement that contradicts those features The need to install, maintain and adapt a specialised system means that minimal or no system support is not a characteristic feature. Statement (B) contradicts the technical support normally needed by tailored software. The word "not" makes this exception the required choice.

Step 3: Conclusion The correct option is (B): Requires minimal or no support from system.

Quick Tip to Solve: Link tailored software with specialised requirements and technical support; in this negative question, select the claim that denies that support.

OR

28(b). When an arithmetic expression or function is executed, the value produced is known as: [1 mark]

(A) Horizontal value

(B) Vertical value

(C) Derived value

(D) Basic value

Correct Answer: (C) Derived value

Solution:

Concept:

- A basic value is entered directly as data, whereas a derived value is obtained by processing existing values through an expression or function.

- The output of a spreadsheet formula is therefore derived from its operands or function arguments.

Step 1: Relate execution to the resulting value Executing an arithmetic expression performs a calculation on its inputs. For example, if A1 contains 12 and A2 contains 8, the formula `=A1+A2` produces 20. The value 20 is calculated from the inputs and is a derived value.

Step 2: Eliminate the other descriptions Horizontal and vertical describe directions or arrangements of cells, not the origin of a calculated result. A basic value is a direct input, so (D) does not describe the output of the stated computation. Option (C) alone names the result produced through calculation.

Step 3: Conclusion The correct option is (C): Derived value.

Quick Tip to Solve: Ask whether the value was entered directly or calculated: direct input is basic, while an expression's or function's output is derived.

29(a). #NAME? Error indicates: [1 mark]

(A) Syntax error in the formula

(B) Missing data in the worksheet

(C) Formula referring to a protected call

(D) Excel does not understand the text used in the formula.

Correct Answer: (D) Excel does not understand the text used in the formula.

Solution:

Concept:

- The `#NAME?` error occurs when Excel does not recognise text used in a formula, such as a misspelled function name or an undefined name.
- Error codes identify particular kinds of failure; a general description of an invalid formula is less precise than the meaning of the specific code.

Step 1: Identify the meaning of the error If a formula uses a name that Excel cannot interpret, the program cannot evaluate that part of the formula. For example, a misspelled function such as `=SUMM(A1:A3)` causes an unrecognised-name problem. This directly matches the description in (D).

Step 2: Check the competing statements A generic syntax error in (A) is too broad to specify the meaning of `#NAME?`. Missing worksheet data does not by itself cause an unrecognised-name error, and worksheet protection concerns editing permissions rather than recognition of formula text. Thus (B) and (C) do not explain this error code.

Step 3: Conclusion The correct option is (D): Excel does not understand the text used in the formula.

Quick Tip to Solve: On seeing `#NAME?`, inspect the spelling of function names and defined names before looking for missing data or protection settings.

OR

29(b). Which of the following statements best describes the purpose of a data vault in an accounting software? [1 mark]

(A) It helps in data analysis and reporting.

(B) It is used to maintain audit trails.

(C) It ensures data confidentiality and integrity through restricted access.

(D) It is used to back up deleted vouchers automatically.

Correct Answer: (C) It ensures data confidentiality and integrity through restricted access.

Solution:

Concept:

- Accounting data contain sensitive financial information and need protection against unauthorised access and alteration.
- A data vault provides secure storage with restricted access, helping preserve confidentiality and integrity of accounting information.

Step 1: Connect a data vault with its main purpose Confidentiality means that only authorised users can access the information. Integrity concerns protection against unauthorised changes. Restricting access to securely stored accounting data directly supports both requirements, as described in (C).

Step 2: Distinguish the other software functions Data analysis and reporting in (A) concern processing and presenting information. An audit trail in (B) records who performed transactions or changes. Backing up deleted vouchers in (D) concerns recovery. These are distinct functions and do not state the principal security purpose of a data vault.

Step 3: Conclusion The correct option is (C): It ensures data confidentiality and integrity through restricted access.

Quick Tip to Solve: Associate the word vault with controlled access to protected data; separate this security purpose from reporting, audit trails and recovery.

30. The PMT function in MS Excel is used to: [1 mark]

(A) Calculate the total interest on a loan.

(B) Calculate the periodic payment for a loan or investment.

(C) Calculate the future value of an investment.

(D) Calculate the present value of a series of payments.

Correct Answer: (B) Calculate the periodic payment for a loan or investment.

Solution:

Concept:

- PMT calculates a constant periodic payment using a constant rate of interest and a fixed number of payment periods.

- For a loan, the periodic payment includes principal repayment and interest; it does not represent interest alone.

Step 1: Identify the quantity returned by PMT Given the rate per period, number of periods and present loan amount, PMT returns the equal instalment payable each period. It can similarly find the regular payment needed for an investment, using the appropriate present and future values. Thus the description in option (B) matches its purpose.

Step 2: Distinguish the other financial quantities Option (A) describes total interest, whereas PMT gives an instalment including principal and interest for a loan. Option (C) describes a future value, calculated by FV. Option (D) describes a present value, calculated by PV. These quantities differ from the periodic payment returned by PMT.

Step 3: Conclusion PMT is used to calculate the periodic payment for a loan or investment. Hence, the correct option is (B).

Quick Tip to Solve: Read PMT as "payment"; match the interest-rate period to the payment period before using the function.

31. What is meant by codification? Explain the meaning of mnemonic codes with the help of an example. [3 marks]

Solution:

Concept:

- Codification gives a short, systematic identifier to an account or other data item so that it can be recognised, classified and processed consistently.
- Mnemonic codes use letters or abbreviations that suggest the name or meaning of the item represented, making the codes easy to remember.

Step 1: Define codification Codification is the process of assigning numbers, letters, or a combination of them as codes to different accounts or items. The assigned code identifies an item without repeatedly writing its full description. In a computerised accounting system, consistent codes help in entering transactions, grouping similar accounts and retrieving the required information. Each code should identify its intended account clearly to avoid confusing it with another account.

Step 2: Explain mnemonic codes with an example A mnemonic code is a meaningful abbreviation formed from the name or description of the item. For example, the code `BANK` may represent the Bank Account, while `PUR` may represent the Purchases Account. The letters themselves remind the user of the account represented. Thus `PUR` is easier to associate with purchases than an arbitrary number that gives no clue to the account name. The abbreviation must be used consistently in the coding scheme.

Step 3: Conclusion Codification assigns systematic identifiers to accounts or items. Mnemonic codes are identifiers that suggest their meaning, such as `PUR` for Purchases Account.

Quick Tip to Solve: For a mnemonic-code example, choose an abbreviation whose letters clearly suggest the account name, and state that name beside it.

32. State any three limitations of Computerised Accounting System. [3 marks]

Solution:

Concept:

- A computerised accounting system processes accounting data through hardware, software and trained personnel; its benefits depend on these resources working properly.
- Its limitations include expenditure on training, dependence on reliable systems and risks to the security of accounting information.

Step 1: Explain the cost of training **Cost of training:** Staff need training to operate the accounting software, enter transactions correctly and understand the reports produced. Training uses both money and working time. Further expenditure may arise when the software is upgraded or the system is changed. Therefore, installing the software alone does not ensure that employees can use the system effectively.

Step 2: Explain the risk of system failure **System failure:** Hardware faults, software problems or loss of power can interrupt accounting operations. A failure may also damage or destroy stored accounting records, especially when adequate backups are absent. Until the system and data are restored, the organisation may be unable to process transactions or obtain timely reports. Dependence on a functioning computer system is therefore a limitation.

Step 3: Explain the risk of security breaches **Security breaches:** Unauthorised access can expose confidential financial information or allow records to be altered or deleted. Stolen passwords and inadequate access controls increase this risk. The organisation must spend effort on passwords, user permissions and other controls to protect its accounting database; computerisation does not itself guarantee confidentiality or integrity.

Step 4: Conclusion Three limitations are the cost of training, the risk of system failure, and the risk of security breaches affecting accounting information.

Quick Tip to Solve: State each limitation by name and add its practical effect: training costs money, failure interrupts work, and unauthorised access threatens data.

33(a). Give the meaning of the following: [4 marks]

33(a)(i). Cell reference

Solution:

Concept:

- A worksheet consists of cells located at the intersections of rows and columns.
- A cell reference identifies the location of a cell so that a formula can use its contents.

Step 1: Identify the address In the usual A1 notation, write the column letter followed by the row number. Thus, B5 identifies the cell at the intersection of column B and row 5.

Step 2: Relate the address to a formula A formula such as `=B5*2` obtains the value stored in B5 and doubles it. The reference names the location; it is not the value stored in that location.

Step 3: Conclusion A cell reference is the address of a cell in a worksheet, expressed by its column

letter and row number, for example B5.

Quick Tip to Solve: Read a cell address as column first and row second: B5 means column B, row 5.

33(a)(ii). Relative cell reference

Solution:

Concept:

- A relative reference identifies a cell by its position relative to the cell containing the formula.
- When the formula is copied, the reference adjusts by the same number of rows and columns.

Step 1: Recognise the notation A relative cell reference is written without dollar signs, for example A1. Neither its column nor its row is fixed when the formula is copied to another cell.

Step 2: Examine copying If B1 contains `=A1*2`, copying the formula one row down to B2 changes it to `=A2*2`. Each formula uses the value in the cell immediately to its left, preserving the relative position.

Step 3: Conclusion A relative cell reference is a reference that changes automatically according to the new position of a copied formula, for example A1 changing to A2 when copied down one row.

Quick Tip to Solve: For a relative reference, count the rows and columns moved and shift the reference by the same amounts.

33(a)(iii). Absolute cell reference

Solution:

Concept:

- An absolute reference identifies a fixed cell when a formula is copied.
- A dollar sign before both the column letter and the row number fixes both parts of the address.

Step 1: Recognise the fixed address Write an absolute reference as `$A$1`. The first dollar sign fixes column A, and the second fixes row 1. Copying the formula therefore does not change the referenced cell.

Step 2: Apply it to a common value If A1 stores a common tax rate, the formula `=B2*$A$1` can be copied down. The next formula becomes `=B3*$A$1`: B2 changes with the row, but the rate is still taken from A1.

Step 3: Conclusion An absolute cell reference is a cell address whose column and row remain unchanged when the formula is copied, for example `$A$1`.

Quick Tip to Solve: To keep using one common rate in copied formulas, place a dollar sign before both its column and its row.

33(a)(iv). Mixed cell reference

Solution:

Concept:

- A mixed reference combines one absolute part with one relative part of a cell address.
- A dollar sign fixes the part immediately following it; the other part adjusts when the formula is copied.

Step 1: Fix the column only In `$A1`, column A is absolute and row 1 is relative. Copying a formula containing this reference one row down changes it to `$A2`, while copying one column right leaves the reference as `$A1`.

Step 2: Fix the row only In `A$1`, row 1 is absolute and column A is relative. Copying one column right changes this reference to `B$1`, while copying one row down leaves it as `A$1`.

Step 3: Conclusion A mixed cell reference has either a fixed column and a relative row, such as `$A1`, or a relative column and a fixed row, such as `A$1`.

Quick Tip to Solve: Locate the single dollar sign: before the letter it locks the column; before the number it locks the row.

OR

33(b). Explain Array form of LOOKUP function. [4 marks]

Solution:

Concept:

- The array form of LOOKUP searches for a specified value in the first row or first column of a rectangular range and returns the corresponding value from its last row or last column.
- Its syntax is `LOOKUP(lookup_value, array)`. The lookup value is the value to find; the array is the range containing the search values and the values to return.

Step 1: Identify the search direction The shape of the array determines how LOOKUP searches. If the array has more columns than rows, it searches the first row and returns the value in the same column of the last row. If the array is square or has more rows than columns, it searches the first column and returns the value in the same row of the last column. Intermediate rows or columns do not supply the returned result.

Step 2: Arrange the search values and apply the matching rule Arrange the values in the first search row or column in ascending order, such as numbers from smallest to largest or text alphabetically. LOOKUP returns the corresponding result for an exact match. If an exact match is absent, it uses the largest search value that is less than or equal to the lookup value. If the lookup value is smaller than every search value, the function returns the `#N/A` error. Unsorted search values can produce an incorrect result.

Step 3: Illustrate a vertical array Suppose A2:A4 contains the product codes 100, 200 and 300, in that order, and B2:B4 contains the corresponding prices Rs 500, Rs 750 and Rs 900. The range A2:B4 has

more rows than columns, so `=LOOKUP(200,A2:B4)` searches column A and returns 750 from column B. The formula `=LOOKUP(250,A2:B4)` also returns 750: 200 is the largest listed code not exceeding 250. A lookup value of 50 returns `#N/A`, since it is below the smallest listed code.

Step 4: Conclusion Thus, the array form of LOOKUP uses two arguments and the shape of the array to search its first row or column and retrieve the corresponding entry from its last row or column, following the ascending-order matching rule.

Quick Tip to Solve: Count the array's rows and columns first to identify the search direction, then check that the first search row or column is sorted in ascending order.

34. A company wants to present its sales data for last five years in a graphical form using MS Excel. As a student of Computerised Accounting, state steps to create a chart in Excel to represent the data visually. [6 marks]

Solution:

Concept:

- A chart is a graphical representation of worksheet data. For five years of sales, the years form the categories and sales form the numerical data series.
- A column chart compares the sales amounts for different years, while a line chart highlights the trend over time. Clear titles, axis labels and units make either chart understandable.

Step 1: Enter and organise the sales data Open an Excel workbook and enter the headings Year and Sales (Rs) in cells A1 and B1. Enter the five years in chronological order in A2:A6 and their actual sales figures in B2:B6. Keep each year's sales on the same row as that year. Enter sales as numbers so that Excel can plot them; use the cell's number format to display currency. If the amounts are in thousands or lakhs, state that unit in the heading.

Step 2: Select the source range Select cells A1:B6, including the headings and all five observations. The headings help Excel identify the category labels and the series name. Avoid including an unrelated total row, because it would appear as an additional category rather than one of the five years.

Step 3: Insert an appropriate chart Open the Insert tab and use the Charts group to select a suitable chart type. For example, choose a two-dimensional clustered column chart to compare annual sales, or choose a line chart to show the sales trend. Excel inserts a chart based on the selected cells. In a version that uses the Chart Wizard, choose Insert, Chart and select the chart type and subtype in the wizard.

Step 4: Verify the categories and data series Check that the horizontal axis shows the five years and that the plotted series contains the five sales amounts. If Excel treats the years as another numerical series, use Select Data to retain Sales as the series, set B2:B6 as its values, and set A2:A6 as the horizontal category labels. The series name should refer to B1. In the Chart Wizard, check these details in the source-data stage.

Step 5: Add titles and format the chart Give the chart a descriptive title, such as Sales for the Last Five Years. Label the horizontal axis Year and the vertical axis Sales (Rs), or use the unit actually used in the worksheet. Choose a readable scale and number format. Use a clear colour, readable text

and optional data labels. A legend may identify the Sales series, though a single clearly titled series does not require one. For a column chart, keep the value axis starting at zero so that column heights compare fairly.

Step 6: Position, check and save the chart Move and resize the chart so that its title, labels and all five observations are visible. It may remain as an object in the current worksheet or be moved to a separate chart sheet. In the Chart Wizard, choose the chart location and finish. Compare the plotted values with the original worksheet entries to confirm accuracy, then save the workbook containing the data and chart.

Step 7: Conclusion The company's five-year sales chart is created by organising and selecting the data, inserting a suitable chart, confirming its source range and labels, formatting it clearly, and saving the completed workbook.

Quick Tip to Solve: Include the column headings when selecting the range, and confirm that Excel uses Year as the category labels and Sales as the only numerical series.