CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-1-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. The books of Arya and Dev showed that their capital employed on 31st March, 2025 was Rs 9,00,000. If the normal profits are Rs 45,000 and super profits are Rs 27,000, the normal rate of return is: [1 mark]

(A) 3%

(B) 5%

(C) 6%

(D) 9%

Correct Answer: (B) 5%

Solution:

Concept:

- Normal profit is the expected return on capital employed: Normal profit $=$ Capital employed $\times$ $r/100$, where r is the normal annual rate.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Use normal profit, not actual profit The given normal profit is Rs 45,000 on capital employed of Rs 9,00,000. Super profit is the excess over normal profit, so Rs 27,000 is not the numerator when finding the normal rate.

Step 2: Calculate the rate and compare options

$$r = \frac{45,000}{9,00,000} \times 100 = 5\%.$$

The rate of 3% uses super profit; 6% and 9% do not give the stated normal profit on this capital.

Step 3: Conclusion The normal rate of return is 5%. Hence, the correct option is (B).

Quick Tip to Solve: For the normal rate, divide normal profit by capital employed; ignore super profit.

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

(A) Rs 19,200

(B) Rs 4,800

(C) Rs 2,400

(D) Rs 1,600

Correct Answer: (C) Rs 2,400

Solution:

Concept:

- Interest on each drawing is Amount $\times$ Annual rate $\times$ Months/12. Count time from the actual withdrawal date to the year end.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Identify the four withdrawal periods Withdrawals of Rs 40,000 occur on 31 December, 31 January, 28 February and 31 March. Their respective periods up to 31 March are 3, 2, 1 and 0 months. The last withdrawal earns no interest for this accounting year.

Step 2: Calculate total interest

$$\text{Interest} = 40,000 \times \frac{12}{100} \times \frac{3+2+1+0}{12} = \text{Rs } 2,400.$$

Rs 19,200 assumes a full year for every drawing; Rs 4,800 and Rs 1,600 do not use the actual periods for all four drawings.

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

Quick Tip to Solve: List December through March and attach 3, 2, 1, 0 months before calculating interest.

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

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

(A) Rs 1,80,000

(B) Rs 2,25,000

(C) Rs 45,000

(D) Rs 2,70,000

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

Solution:

Concept:

- When the settlement exceeds the retiring partner's adjusted capital, the excess represents that partner's share of goodwill. Firm goodwill equals this share divided by the old profit share.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Find Madhuri's goodwill entitlement Madhuri receives Rs 2,25,000 against her capital balance of Rs 1,80,000. Thus, her share of goodwill is $2,25,000 - 1,80,000 = \text{Rs } 45,000$. This is her individual entitlement, not the goodwill of the entire firm.

Step 2: Gross up using her old share Her old share is $1/(3+2+1) = 1/6$. Therefore,

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

Rs 1,80,000 is her capital, Rs 2,25,000 is settlement, and Rs 45,000 is only her goodwill share.

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

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

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

(A) 2:2:1

(B) 31:41:18

(C) 41:31:18

(D) 7:8:5

Correct Answer: (B) 31:41:18

Solution:

Concept:

- New share of an old partner equals old share minus sacrifice. Equal acquisition by the incoming partner means equal absolute sacrifices by the two old partners.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Compute each old partner's sacrifice Chaman and Vatika have old shares $4/9$ and $5/9$. Mohan obtains $1/5$ in total, equally from them, so each sacrifices $\frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$. Equal sacrifice does not mean that their new shares become equal.

Step 2: Calculate the new shares

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

These shares sum to one. Option (C) reverses the old partners; (A) and (D) do not reflect the equal sacrifices.

Step 3: Conclusion The new ratio is $31 : 41 : 18$. Hence, the correct option is (B).

Quick Tip to Solve: Equal acquisition means subtract 1/10 from each old share, then use denominator 90.

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

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

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

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

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

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

Solution:

Concept:

- At dissolution, cash realised from an asset already written off is credited to Realisation Account. The receipt increases Bank Account, while Realisation records the gain.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Calculate the amount recovered The debt of Rs 25,000 had previously been written off and therefore does not remain as a recorded debtor. Recovery at 40% gives

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

Step 2: Apply dissolution treatment The recovery is from an unrecorded asset during dissolution, so Bank Account is debited and Realisation Account is credited by Rs 10,000. Bad Debts Recovered Account is used in ordinary continuing business; the debtor's personal account is already closed, and Bad Debts Account does not record this dissolution gain.

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

Quick Tip to Solve: A written-off debtor recovered during dissolution is an unrecorded asset realised through Realisation.

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

on Application - Rs 3 per share

on Allotment - Rs 2 per share

on First and Final Call - the balance

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

(A) Rs 2,50,000

(B) Rs 2,48,500

(C) Rs 2,45,000

(D) Rs 2,52,000

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

Solution:

Concept:

- Cash received on a call excludes both amounts already received as calls in advance and amounts unpaid as calls in arrears. Call due and current bank receipt are different amounts.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Determine the final call due The final call per share is $10 - 3 - 2 = \text{Rs } 5$. On 50,000 shares, the total due is $50,000 \times 5 = \text{Rs } 2,50,000$. Usha's advance covers $700 \times 5 = \text{Rs } 3,500$.

Step 2: Deduct advance and unpaid call Raj does not pay $300 \times 5 = \text{Rs } 1,500$. Thus,

$$\text{Bank receipt} = 2,50,000 - 3,500 - 1,500 = \text{Rs } 2,45,000.$$

Option (A) ignores both adjustments; (B) deducts only arrears; (D) cannot represent receipts since it exceeds the total call due.

Step 3: Conclusion Bank Account is debited by Rs 2,45,000. Hence, the correct option is (C).

Quick Tip to Solve: For bank receipt, subtract both Usha's prepaid Rs 3,500 and Raj's unpaid Rs 1,500.

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

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

(A) Rs 1 per share

(B) Rs 6 per share

(C) Rs 8 per share

(D) Rs 5 per share

Correct Answer: (C) Rs 8 per share

Solution:

Concept:

- The maximum discount on reissue cannot exceed the capital amount forfeited on those shares. Securities premium is kept separate from share capital when finding the paid-up capital retained.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Separate unpaid capital and premium The unpaid final call of Rs 4 includes Rs 2 premium. Hence, unpaid share capital is $4 - 2 = \text{Rs } 2$ per share, and capital already received is $10 - 2 = \text{Rs } 8$ per share. The unpaid premium is not a capital receipt.

Step 2: Apply the reissue discount limit The amount forfeited is $500 \times 8 = \text{Rs } 4,000$. Thus, the maximum discount is $4,000/500 = \text{Rs } 8$ per share. Rs 6 incorrectly subtracts the whole call from face value, including premium; Rs 1 and Rs 5 are below, rather than equal to, the permitted maximum.

Step 3: Conclusion The maximum discount is Rs 8 per share. Hence, the correct option is (C).

Quick Tip to Solve: Remove the Rs 2 premium from the unpaid Rs 4 call before calculating paid-up capital.

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

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

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

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

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

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

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

Solution:

Concept:

- Interest on capital is an appropriation of profit unless the deed makes it a charge. When profit is insufficient, distribute available profit in the ratio of the interest entitlements.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Calculate full interest entitlements Nidhi's interest is $3,00,000 \times 6/100 = \text{Rs } 18,000$, and Kunal's is $2,00,000 \times 6/100 = \text{Rs } 12,000$. Total entitlement of Rs 30,000 exceeds available profit of Rs 15,000; their interest ratio is $18,000 : 12,000 = 3 : 2$.

Step 2: Allocate the available profit

$$\text{Nidhi} = 15,000 \times \frac{3}{5} = \text{Rs } 9,000,$$
$$\text{Kunal} = 15,000 \times \frac{2}{5} = \text{Rs } 6,000.$$

Option (A) exceeds profit; (B) uses equal shares; (D) incorrectly uses the profit-sharing ratio of 4:1.

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

Quick Tip to Solve: When profit is short, use the interest entitlement ratio 3:2, not the profit ratio 4:1.

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

(A) 1:1

(B) 1:2

(C) 4:1

(D) 2:1

Correct Answer: (C) 4:1

Solution:

Concept:

- A continuing partner's gain is the new profit share minus the old profit share. Compare fractional shares using the same denominator before expressing the gaining ratio.
- Check the given figures and distinguish the required quantity from related amounts before selecting the printed option.

Step 1: Calculate each continuing partner's gain The old shares of Dharam and Karam are $7/20$ and $8/20$. Their new shares are $11/20$ and $9/20$, since the new ratio also totals 20. Therefore, Dharam gains $(11-7)/20 = 4/20$ and Karam gains $(9-8)/20 = 1/20$.

Step 2: Form and check the gaining ratio

$$\text{Gaining ratio} = \frac{4}{20} : \frac{1}{20} = 4 : 1.$$

Total gain is $5/20$, exactly Raman's old share. The ratios 1:1, 1:2 and 2:1 do not reproduce these individual increases in the continuing partners' shares.

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

Quick Tip to Solve: Subtract old numerators from new numerators over the common denominator 20: 11-7 and 9-8.

OR

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

(A) 1:1

(B) 7:6

(C) 6:7

(D) 3:2

Correct Answer: (A) 1:1

Solution:

Concept:

- A continuing partner gains the fraction of the deceased partner's share taken over by that partner.
- New share = old share + share acquired.

Step 1: Find the equal gains Raju's old share is $6/20$. Deen and Hari acquire this equally, so each gains $\frac{1}{2} \times \frac{6}{20} = \frac{3}{20}$. Equal gain is added to each partner's own old share.

Step 2: Calculate the new shares Deen's new share is $\frac{7}{20} + \frac{3}{20} = \frac{10}{20}$; Hari's new share is also $\frac{7}{20} + \frac{3}{20} = \frac{10}{20}$. Thus their shares total one and are equal. Options (B), (C) and (D) are unequal ratios and cannot represent these equal new shares.

Step 3: Conclusion The new profit sharing ratio of Deen and Hari is $1 : 1$. Correct option: (A).

Quick Tip to Solve: Add half of Raju's share to each survivor before simplifying the ratio.

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

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

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

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

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

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

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

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

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

Solution:

Concept:

- Partnership arises from an agreement, which sets out the mutual rights and duties of partners.

- The reason must both be true and explain the assertion for option (A) to apply.

Step 1: Examine the assertion Assertion (A) is correct. The agreement governs the relationship among partners by setting out terms such as profit sharing, capital contributions, drawings and remuneration.

Step 2: Examine the reason Reason (R) is correct. Partnership results from an agreement between two or more persons to carry on business and share its profits and losses. The agreement is therefore foundational to the partnership.

Step 3: Connect the statements Because the partnership itself is created by agreement, that agreement provides the basis of the partners' relationship. Thus R directly explains A. Option (B) incorrectly denies this link, while (C) and (D) incorrectly reject a true statement.

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

Quick Tip to Solve: After checking both statements, explicitly test whether the reason explains the assertion.

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11. On 1st April, 2024, Kedar Ltd. issued 7,000, 8% debentures of Rs 100 each at a discount of 10%. The total amount of interest due on debentures for the year ended 31st March, 2025 will be: [1 mark]

(A) Rs 70,000

(B) Rs 42,000

(C) Rs 28,000

(D) Rs 56,000

Correct Answer: (D) Rs 56,000

Solution:

Concept:

- Debenture interest is calculated on nominal value, irrespective of the issue price.
- Interest = nominal value $\times$ annual rate $\times$ time in years.

Step 1: Find the nominal amount The nominal value is $7,000 \times$ Rs $100 =$ Rs $7,00,000$. The discount reduces the proceeds received by the company; it does not reduce the contractual face value on which interest is payable.

Step 2: Compute interest for the year The debentures were issued on 1st April, 2024 and remain outstanding for the full year to 31st March, 2025. Thus interest is Rs $7,00,000 \times \frac{8}{100} =$ Rs $56,000$. Rs 70,000 is the issue discount, Rs 42,000 uses an incorrect rate, and Rs 28,000 is only half the annual interest.

Step 3: Conclusion Total interest due is Rs 56,000. Correct option: (D).

Quick Tip to Solve: Apply 8 percent to face value, and use the full twelve months from 1st April.

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

(A) credited, Rs 3,000

(B) debited, Rs 3,000

(C) debited, Rs 3,600

(D) credited, Rs 3,600

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

Solution:

Concept:

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

Step 1: Separate capital from premium The Rs 6 received per share includes Rs 1 premium. Therefore the capital received per share is Rs $6 -$ Rs $1 =$ Rs 5. The called capital per share is Rs 7, because the Rs 8 called also includes the premium.

Step 2: Determine the forfeiture credit The capital amount retained on 600 forfeited shares is $600 \times$ Rs $5 =$ Rs $3,000$. This is credited to Share Forfeiture Account. Option (B) has the wrong side, (C) has both the wrong side and amount, and (D) wrongly includes the Rs 600 premium in the amount forfeited.

Step 3: Conclusion Share Forfeiture Account will be credited by Rs 3,000. Correct option: (A).

Quick Tip to Solve: Deduct premium already received from the amount paid before multiplying by the shares.

OR

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

(A) Rs 1,00,000

(B) Rs 2,00,000

(C) Rs 3,00,000

(D) Nil

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

Solution:

Concept:

- Loss on issue of debentures includes discount on issue and premium payable on redemption.
- The interest rate determines periodic interest; it does not determine the issue loss.

Step 1: Calculate the discount The nominal debenture amount is Rs 10,00,000. Discount on issue is

Rs $10,00,000 \times \frac{10}{100}$ = Rs $1,00,000$. This is a loss because the company receives less than the nominal liability.

Step 2: Include the redemption premium The credit to Premium on Redemption of Debentures Account shows a further obligation of Rs 1,00,000. Total loss on issue is therefore Rs $1,00,000$ + Rs $1,00,000$ = Rs $2,00,000$. Option (A) includes only one component, (C) adds an unsupported amount, and (D) ignores both losses.

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

Quick Tip to Solve: Add the issue discount and the recorded redemption premium; ignore the coupon rate here.

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

(A) Rs 3,75,000

(B) Rs 3,72,000

(C) Rs 4,25,000

(D) Rs 3,78,000

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

Solution:

Concept:

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

Step 1: Calculate the loan interest Tej lent Rs 50,000 on 1st April, 2024, so the loan is outstanding for the full accounting year. No agreed rate is given. Interest is Rs $50,000 \times \frac{6}{100}$ = Rs $3,000$.

Step 2: Find the profit available for appropriation Deduct this charge from profit before loan interest: Rs $3,75,000$ − Rs $3,000$ = Rs $3,72,000$. The 3:2 ratio is applied later to distributable profit, not to this charge. Option (A) omits interest, (C) adds the loan principal, and (D) adds interest instead of deducting it.

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

Quick Tip to Solve: Charge loan interest before appropriations; the default rate is 6 percent per annum.

OR

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

(A) Rs 2,75,000

(B) Rs 4,25,000

(C) Rs 2,05,000

(D) Rs 3,45,000

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

Solution:

Concept:

- Closing capital = opening capital + additional capital + profit share - drawings.
- Reverse the movements in capital to calculate the opening balance.

Step 1: Calculate Vasu's profit share Vasu receives $3/(4+3) = 3/7$ of the profit. His share is Rs $1,40,000 \times \frac{3}{7}$ = Rs $60,000$. This increases his capital during the year.

Step 2: Reverse the capital changes Opening capital equals Rs $3,75,000$ − Rs $1,50,000$ − Rs $60,000$ + Rs $40,000$ = Rs $2,05,000$. Check: $2,05,000 + 1,50,000 + 60,000 - 40,000 = 3,75,000$. Additional capital and profit are deducted when working backwards; drawings are added. The other options do not satisfy this reconciliation.

Step 3: Conclusion Vasu's opening capital was Rs 2,05,000. Correct option: (C).

Quick Tip to Solve: Work backwards: subtract additional capital and profit share, then add drawings.

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

(A) Rs 25,00,000

(B) Rs 20,00,000

(C) Rs 5,00,000

(D) Rs 10,00,000

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

Solution:

Concept:

- Adjusted capitals of continuing partners represent their combined share of total capital.
- Proportionate capital follows the new partner's share of the total firm capital.

Step 1: Relate old partners' capital to their share Soni and Kush together have adjusted capital of Rs $7,00,000 + \text{Rs } 13,00,000 = \text{Rs } 20,00,000$. They retain $1 - 1/5 = 4/5$ of the profits after admission.

Step 2: Calculate Hitesh's capital Total capital is Rs $20,00,000 \div \frac{4}{5} = \text{Rs } 25,00,000$. Hitesh brings Rs $25,00,000 \times \frac{1}{5} = \text{Rs } 5,00,000$. Option (A) is total firm capital; (B) is the combined old partners' capital, and (D) is twice Hitesh's required contribution. The old 4:5 ratio is unnecessary for this calculation.

Step 3: Conclusion Hitesh brought proportionate capital of Rs 5,00,000. Correct option: (C).

Quick Tip to Solve: Use the old partners' adjusted total as four-fifths, not as the whole firm capital.

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

(A) It is a primary security.

(B) It is an additional security.

(C) It is a subsidiary security.

(D) It is a secondary security.

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

Solution:

Concept:

- Collateral security is additional or secondary security furnished to a lender.
- It supplements the primary security and may be used when the borrower defaults.

Step 1: Identify the meaning of collateral A lender may already have primary security for a loan and also obtain debentures as collateral security. These debentures provide an additional safeguard for recovery if the borrower does not meet the loan obligation.

Step 2: Test every statement Option (A) calls collateral the primary security, which contradicts its supplementary character. Options (B), (C) and (D) describe it as additional, subsidiary and secondary security respectively; these all express the correct meaning. Since the question asks for the statement that is not correct, select (A).

Step 3: Conclusion The statement that collateral security is a primary security is not correct. Correct option: (A).

Quick Tip to Solve: Underline "not correct" and remember that collateral supplements the primary security.

OR

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

(A) Common Seal

(B) Perpetual Succession

(C) Body Corporate

(D) Limited Liability

Correct Answer: (C) Body Corporate

Solution:

Concept:

- A company is a body corporate: it is incorporated under company law and acquires a legal identity.
- Incorporation is distinct from continuity of existence, a seal and the extent of members' liability.

Step 1: Identify the characteristic The statement specifically describes formation according to the provisions of Company Law. This statutory incorporation makes the company a body corporate, with a legal existence distinct from its members.

Step 2: Eliminate the other characteristics Common seal refers to a means of authentication. Perpetual succession means continuity despite changes in membership. Limited liability restricts members' financial liability; it does not describe the legal process of formation.

Step 3: Conclusion The correct option is (C): Body Corporate.

Quick Tip to Solve: Match formation under law with incorporation; continuity points to perpetual succession.

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

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

(A) New profit sharing ratio

(B) Old profit sharing ratio

(C) Sacrificing / Gaining ratio

(D) Equally

Correct Answer: (B) Old profit sharing ratio

Solution:

Concept:

- General reserve represents accumulated profits earned before the change in the profit-sharing ratio.
- Accumulated profits belong to partners in their old profit-sharing ratio.

Step 1: Choose the appropriate ratio The reserve of Rs 7,00,000 existed on 1st April, 2025, before future profits began to be shared in the new ratio. Therefore Chandan, Ravi and Mahesh receive it in their old ratio, $5 : 4 : 1$.

Step 2: Check the distribution and alternatives The respective shares are $7,00,000 \times 5/10 =$ Rs $3,50,000$, Rs 2,80,000 and Rs 70,000. Their total is Rs 7,00,000. The new ratio applies to future profits; sacrificing/gaining ratios measure changes in shares, while equal division ignores their existing entitlement.

Step 3: Conclusion The correct option is (B): Old profit sharing ratio, $5 : 4 : 1$.

Quick Tip to Solve: For a reserve already in the books, use the ratio in force when that reserve was earned.

OR

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

(A) Rs 4,05,000

(B) Rs 4,50,000

(C) Rs 4,95,000

(D) Rs 5,00,000

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

Solution:

Concept:

- An asset undervalued by 10% is recorded at 90% of its correct value.
- To reverse the undervaluation, divide the recorded value by 0.90; the increase is the difference between correct and book values.

Step 1: Find the correct value Let the correct furniture value be V. The recorded amount is lower than this value by 10%, so $0.90V = \text{Rs } 4,50,000$. Therefore

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

Step 2: Check the revaluation and alternatives The increase is $5,00,000 - 4,50,000 = \text{Rs } 50,000$. It is 10% of the correct value, confirming the stated undervaluation. Rs 4,05,000 wrongly reduces the asset; Rs 4,50,000 ignores revaluation. Rs 4,95,000 adds 10 percent of book value, which does not reverse a 10 percent undervaluation of the correct value.

Step 3: Conclusion The correct option is (D): Rs 5,00,000.

Quick Tip to Solve: Reverse a 10 percent undervaluation by dividing book value by 90 percent, rather than adding 10 percent.

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17. Average profit of a firm during the last few years is Rs 11,00,000. In similar business, the normal rate of return is 10% of the capital employed. Assets of the business were Rs 90,00,000 and its external liabilities were Rs 10,00,000.

Calculate the value of goodwill by:

(i) Capitalisation of super profits method

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

Solution:

Concept:

- Capital employed equals total assets less external liabilities.

- Normal profit equals capital employed multiplied by the normal rate of return; super profit equals average profit less normal profit.
- Capitalised super profits equal super profit multiplied by $100/\text{normal rate}$; under the purchase method, goodwill equals super profit multiplied by years of purchase.

Step 1: Calculate capital employed External liabilities are deducted because they represent outsiders' claims on assets. Thus

$$\text{Capital employed} = 90,00,000 - 10,00,000 = \text{Rs } 80,00,000.$$

The given average profit of Rs 11,00,000 requires no further averaging.

Step 2: Calculate normal profit and super profit The normal return on the capital employed is

$$\text{Normal profit} = 80,00,000 \times \frac{10}{100} = \text{Rs } 8,00,000.$$

The excess of the firm's average profit over this normal return is

$$\text{Super profit} = 11,00,000 - 8,00,000 = \text{Rs } 3,00,000.$$

This excess is the basis for both methods requested.

Step 3: Part (i): Capitalisation of super profits Capitalise the recurring super profit at the normal rate of return:

$$\text{Goodwill} = 3,00,000 \times \frac{100}{10} = \text{Rs } 30,00,000.$$

As a check, capitalised average profit is Rs 1,10,00,000; subtracting actual capital employed of Rs 80,00,000 also gives Rs 30,00,000.

Step 4: Part (ii): Four years purchase of super profits Here the purchase factor is four, so

$$\text{Goodwill} = 3,00,000 \times 4 = \text{Rs } 12,00,000.$$

The factor is applied to super profit, not average profit, because this method values only the excess earning capacity.

Step 5: Conclusion Goodwill is (i) Rs 30,00,000 by capitalisation of super profits and (ii) Rs 12,00,000 by four years purchase of super profits.

Quick Tip to Solve: Compute super profit once, then apply the distinct factor required by each goodwill method.

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

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

Solution:

Concept:

- Machinery is recorded at its purchase price; the vendor is credited with the amount payable.
- Share Capital is credited at face value and Securities Premium at the excess of issue price over face value.

Step 1: Calculate the share settlement and cheque Premium per share is $50 \times 20/100 = \text{Rs } 10$; hence issue price is Rs 60. The shares settle $10,500 \times 60 = \text{Rs } 6,30,000$. Of this, Rs 5,25,000 is face value and Rs 1,05,000 is securities premium. The balance paid by cheque is $6,80,000 - 6,30,000 = \text{Rs } 50,000$.

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

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

The first entry recognises the asset and the vendor liability. The second extinguishes that liability through shares and bank payment. Each entry balances independently, and no cash application or allotment account is needed because shares are issued directly to the vendor.

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

Quick Tip to Solve: Use issue price to find vendor settlement, but credit Share Capital only with face value.

OR

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

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

Solution:

Concept:

- Net assets acquired equal assets taken over less liabilities assumed; excess purchase consideration over net assets is goodwill.
- Debentures issued at a discount settle the vendor at issue price, while the debenture account is

credited at face value.

Step 1: Calculate net assets and goodwill Net assets acquired are $25,00,000 - 12,00,000 =$ Rs $13,00,000$. Purchase consideration exceeds net assets, so goodwill is $18,00,000 - 13,00,000 =$ Rs $5,00,000$.

Step 2: Calculate the debenture issue Issue price per debenture is $100 - 10 =$ Rs 90. Thus $18,00,000/90 = 20,000$ debentures are issued. Their total face value is Rs 20,00,000, and the discount is $20,000 \times 10 =$ Rs $2,00,000$. The 11% rate is the interest rate and does not change issue proceeds.

Step 3: Record the transactions Journal of Neo Ltd.

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

The Business Purchase Account closes when net assets and goodwill are recorded. Madura Ltd.'s account closes on the debenture issue; no bank payment is involved.

Step 4: Conclusion Goodwill is Rs 5,00,000. Neo Ltd. issues 20,000 debentures of Rs 100, crediting debentures by Rs 20,00,000 and debiting discount by Rs 2,00,000.

Quick Tip to Solve: Divide purchase consideration by Rs 90 issue price, not by the Rs 100 face value.

19(a). Sultan, Singh and Tulsi were partners in a firm sharing profits and losses in the ratio of 9:7:4. Their fixed capitals were Rs 6,00,000, Rs 5,00,000 and Rs 4,00,000. The partnership deed provided that interest on partners capital accounts will be allowed at 10% per annum. After the final accounts for the year were prepared, it was found that interest on capital was allowed @ 12% per annum. Pass the necessary adjusting journal entry. [3 marks]

Solution:

Concept:

- Interest on capital is an appropriation of profit. An excess allowance reduces the residual profit available for distribution in the profit-sharing ratio.
- Under the fixed-capital method, past adjustments are recorded through partners' current accounts;

fixed capitals remain unchanged.

Step 1: Calculate the excess interest allowed The excess rate is $12\% - 10\% = 2\%$. Hence the excess credits already given are:

$$\text{Sultan} = 6,00,000 \times 2/100 = \text{Rs } 12,000,$$
$$\text{Singh} = 5,00,000 \times 2/100 = \text{Rs } 10,000,$$
$$\text{Tulsi} = 4,00,000 \times 2/100 = \text{Rs } 8,000.$$

Total excess interest is Rs 30,000. These excess credits must be reversed.

Step 2: Determine the net adjustment Reversing excess interest increases divisible profit by Rs 30,000. Distribute this in the ratio $9 : 7 : 4$: Sultan receives Rs 13,500, Singh Rs 10,500 and Tulsi Rs 6,000. Compare each rightful profit credit with the interest debit: Sultan has a net credit of $13,500 - 12,000 = \text{Rs } 1,500$; Singh has a net credit of $10,500 - 10,000 = \text{Rs } 500$; Tulsi has a net debit of $8,000 - 6,000 = \text{Rs } 2,000$. Net debits and credits both total Rs 2,000.

Step 3: Pass the single adjusting entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Tulsi's Current A/c Dr.		2,000	
	To Sultan's Current A/c			1,500
	To Singh's Current A/c			500
	(Being excess interest on capital adjusted after allowing the resulting additional profit in the agreed ratio)			

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

Quick Tip to Solve: Compare the reversal of excess interest with the extra profit share for each partner before passing one net entry.

OR

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

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

Solution:

Concept:

- A guaranteed partner first receives the normal share of profit. Any shortfall below the guarantee is borne by the guaranteeing partners in the agreed deficiency ratio.

- The old partners retain their relative ratio of $5:3$ within the remaining $4/5$ share; therefore the new ratio is $1/2:3/10:1/5=5:3:2$.

Step 1: Calculate the ordinary shares and deficiency Profit for appropriation is Rs 3,20,000. Sameer's ordinary share is $3,20,000\times 1/2=$ Rs $1,60,000$; Manveer's share is $3,20,000\times 3/10=$ Rs $96,000$; Sandeep's share is $3,20,000\times 1/5=$ Rs $64,000$. Since Sandeep is guaranteed Rs 80,000, his deficiency is $80,000-64,000=$ Rs $16,000$. The guarantee changes the final allocation, not the firm's total profit.

Step 2: Allocate the deficiency and prepare the account Sameer bears $16,000\times 3/8=$ Rs $6,000$, and Manveer bears $16,000\times 5/8=$ Rs $10,000$. Their final credits are therefore Rs 1,54,000 and Rs 86,000 respectively. Sandeep receives Rs 80,000. As no fixed-capital method is specified, the allocation is shown to partners' capital accounts.

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

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

The entire profit is appropriated, so this nominal account closes without any balance carried down. The check $1,54,000+86,000+80,000=3,20,000$ confirms the account balances.

Step 3: Conclusion The final profit allocation is Sameer Rs 1,54,000, Manveer Rs 86,000 and Sandeep Rs 80,000.

Quick Tip to Solve: Use 5:3 for ordinary profit sharing, but use 3:5 only for charging the Rs 16,000 guarantee deficiency.

20. Aditya and Anand were partners in a firm sharing profits and losses in the ratio of 4:1. The partnership deed provided that Anand is to be allowed a commission of 10% on net profit. The net profit of the firm for the year ended 31st March, 2025 was Rs 2,00,000.

Pass necessary journal entries for allowing commission to Anand and transfer of the same to Profit and Loss Appropriation Account. [3 marks]

Solution:

Concept:

- A partner's commission is an appropriation of profit, credited to that partner and ultimately debited to the Profit and Loss Appropriation Account.
- When commission is stated simply as a percentage of net profit, calculate it on the stated net profit. The fraction $r/(100+r)$ is used only when the deed specifies profit after charging such commission.

Step 1: Calculate commission payable to Anand The deed provides commission at 10% on net profit of Rs 2,00,000. Therefore:

$$\text{Anand's commission}=2,00,000\times\frac{10}{100}=\text{Rs } 20,000.$$

The profit-sharing ratio $4:1$ does not affect this commission calculation. It applies to the residual profit after appropriations. The question does not state that the commission is calculated after charging itself, so no adjustment of the percentage denominator is required.

Step 2: Record the allowance and its transfer Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2025	Commission to Anand A/c Dr. To Anand's Capital A/c (Being commission at 10% of net profit allowed to Anand)		20,000	20,000
31-3-2025	Profit and Loss Appropriation A/c Dr. To Commission to Anand A/c (Being partner's commission transferred to Profit and Loss Appropriation Account)		20,000	20,000

The first entry recognises Anand's entitlement. The second closes the commission account into the appropriation account. Anand's capital is credited because the fixed-capital method has not been specified; under that method his current account would be used. Both entries balance independently, and the commission account has no closing balance.

Step 3: Conclusion Commission allowed to Anand is Rs 20,000; it is credited to his capital account and transferred to the debit of Profit and Loss Appropriation Account.

Quick Tip to Solve: Do not apply the 4:1 ratio to commission: first calculate 10% of Rs 2,00,000 and then pass the two requested entries.

21. On 1st April, 2024 Divya Ltd. invited applications for issuing 10,000, 8% debentures of Rs 10 each at a discount of 6%. These debentures were redeemable at a premium of 10% after five years. The issue was fully subscribed and the debentures were allotted in full to all the applicants. On 31st March, 2025 the company had a balance of Rs 9,000 in its Securities Premium Account.

Pass necessary journal entries for the issue of 8% Debentures and writing off Loss on issue of Debentures. Also prepare 'Loss on Issue of Debentures Account'. [4 marks]

Solution:

Concept:

- Debentures are credited at their face value. Discount on issue and premium payable on redemption together constitute Loss on Issue of Debentures.
- The loss is written off using the available Securities Premium first, and the balance is charged to Statement of Profit and Loss. Premium on Redemption of Debentures remains a liability until redemption.

Step 1: Calculate the issue proceeds and total loss Face value of debentures $= 10,000 \times$ Rs $10 =$

Rs $1,00,000$.

$$\text{Discount on issue} = 1,00,000 \times 6\% = \text{Rs } 6,000,$$

$$\text{Application money received} = 1,00,000 - 6,000 = \text{Rs } 94,000,$$

$$\text{Premium on redemption} = 1,00,000 \times 10\% = \text{Rs } 10,000,$$

$$\text{Loss on issue} = 6,000 + 10,000 = \text{Rs } 16,000.$$

The available Securities Premium of Rs 9,000 is used to write off part of this loss; the remaining Rs 7,000 is charged to Statement of Profit and Loss on 31st March, 2025. No redemption entry is passed now because the debentures are redeemable after five years.

Step 2: Record issue and write-off in the journal Journal of Divya Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received for 10,000 debentures at 6% discount)		94,000	 94,000
1-4-2024	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being debentures allotted at discount, redeemable at 10% premium)		94,000 16,000	 1,00,000 10,000
31-3-2025	Securities Premium A/c Dr. Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (Being loss written off against Securities Premium and Statement of Profit and Loss)		9,000 7,000	 16,000

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

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To 8% Debentures A/c (discount)	6,000	By Securities Premium A/c	9,000	
	To Premium on Redemption of Debentures A/c	10,000	By Statement of Profit and Loss	7,000	
			By Balance c/d	Nil	
	Total	16,000	Total	16,000	

The account closes after the entire loss is written off; its closing balance is nil.

Step 4: Conclusion Loss on issue is Rs 16,000: Rs 9,000 is written off against Securities Premium and Rs 7,000 against Statement of Profit and Loss. The Loss on Issue of Debentures Account has a nil balance.

Quick Tip to Solve: Add the issue discount and redemption premium before applying Securities Premium; do not deduct the premium from cash received.

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

2022-23 Rs 4,75,000

2023-24 Rs 4,05,000

2024-25 Rs 3,20,000

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

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

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

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

Solution:

Concept:

- Goodwill equals average annual profit multiplied by the agreed years of purchase. A deceased partner is entitled to goodwill in the old profit-sharing ratio.
- Without opening Goodwill Account, debit gaining partners and credit the deceased partner's Capital Account. Profit to the date of death is credited through Profit and Loss Suspense Account.

Step 1: Calculate goodwill and Hina's entitlement The three completed financial years specified in the deed are used; profit up to death is dealt with separately.

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

No new ratio is specified, so Kiran and Raveena continue in their relative old ratio of $5:3$. Their new shares are $5/8$ and $3/8$; their gains are $5/8 - 5/10 = 1/8$ and $3/8 - 3/10 = 3/40$, respectively. Hence their gaining ratio is $5:3$. Kiran bears $3,20,000 \times 5/8 = \text{Rs } 2,00,000$, and Raveena bears $3,20,000 \times 3/8 = \text{Rs } 1,20,000$.

Step 2: Calculate profit up to the date of death The firm closes its books on 31st March. The period from 1st April, 2025 to 1st July, 2025 is three months. The previous year's profit is Rs 3,20,000; the three-year average used for goodwill is not used for this calculation.

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

This amount is due to Hina in addition to her goodwill entitlement. Since the current year's final profit has not yet been determined, Profit and Loss Suspense Account is debited.

Step 3: Record the two adjustments on 1st July, 2025 Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-7-2025	Kiran's Capital A/c Dr. Raveena's Capital A/c Dr. To Hina's Capital A/c (Being Hina's share of goodwill adjusted through the gaining partners' capital accounts in the ratio 5:3)		2,00,000 1,20,000	 3,20,000
1-7-2025	Profit and Loss Suspense A/c Dr. To Hina's Capital A/c (Being Hina's share of profit for three months credited on the basis of previous year's profit)		16,000	 16,000

Each entry balances independently. No Goodwill Account is opened, and no payment or executor transfer entry is needed for the adjustments asked here.

Step 4: Conclusion Firm goodwill is Rs 16,00,000; Hina's goodwill share is Rs 3,20,000 and her profit share to death is Rs 16,000. Her Capital Account is credited with Rs 3,36,000 through these two adjustments.

Quick Tip to Solve: Use the three-year average only for goodwill; for profit to death use Rs 3,20,000 for three months and then Hina's 2/10 share.

23. Seema and Raveena were partners in a firm sharing profits and losses in the ratio of 11:9. On 31st March, 2025, their Balance Sheet was as follows:

Balance Sheet of Seema and Raveena as on 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	7,00,000	Cash at Bank	2,00,000
Capitals:		Stock	4,00,000
Seema 9,00,000		Debtors	6,00,000
Raveena 11,00,000	20,00,000	Plant & Machinery	15,00,000
	27,00,000		27,00,000

On the above date the firm was dissolved. Plant and Machinery was sold at 20% less than the book value and stock at Rs 3,90,000. Debtors were realised in full. Raveena agreed to bear all realisation expenses for which she was allowed a commission of Rs 10,000. Actual realisation expenses amounted to Rs 8,000.

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

Solution:

Concept:

- On dissolution, transfer all non-cash assets to the debit and external liabilities to the credit of Realisation Account. Bank balance and partners' capitals are not transferred to Realisation Account.
- Realisation loss is shared in the profit-sharing ratio 11 : 9. An agreed commission payable to the partner who bears expenses is debited to Realisation Account and credited to her Capital Account; the expenses she bears personally are not separately charged to the firm.

Step 1: Calculate realisation proceeds and the loss Plant and Machinery realises Rs $15,00,000 \times 80\% =$ Rs $12,00,000$. Stock realises Rs 3,90,000 and debtors Rs 6,00,000. Total receipts from assets are therefore Rs 21,90,000, against book values of Rs 25,00,000. Creditors are settled at their book value, so their transfer and settlement have no net effect on the loss. Including Raveena's agreed commission, the loss is:

$$\text{Loss} = 25,00,000 - 21,90,000 + 10,000 = \text{Rs } 3,20,000.$$

Seema's share is $3,20,000 \times 11/20 =$ Rs $1,76,000$; Raveena's share is $3,20,000 \times 9/20 =$ Rs $1,44,000$. Actual expenses of Rs 8,000 are borne by Raveena personally, so no additional debit is made for them.

Step 2: Prepare Realisation Account Realisation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Stock	4,00,000	By Creditors	7,00,000
To Debtors	6,00,000	By Bank:	
To Plant & Machinery	15,00,000	Plant & Machinery	12,00,000
To Bank (creditors)	7,00,000	Stock	3,90,000
To Raveena's Capital (commission)	10,000	Debtors	6,00,000
		By Loss transferred to:	
		Seema's Capital	1,76,000
		Raveena's Capital	1,44,000
Total	32,10,000	Total	32,10,000

Step 3: Prepare Partners' Capital Accounts Partners' Capital Accounts

Dr.			Cr.		
Particulars	Seema (Rs)	Raveena (Rs)	Particulars	Seema (Rs)	Raveena (Rs)
To Realisation (loss)	1,76,000	1,44,000	By Balance b/d	9,00,000	11,00,000
			By Realisation (commission)	—	10,000
To Bank	7,24,000	9,66,000			
To Balance c/d	Nil	Nil			
Total	9,00,000	11,10,000	Total	9,00,000	11,10,000

The final bank funds available are $2,00,000 + 21,90,000 - 7,00,000 =$ Rs $16,90,000$, equal to $7,24,000 + 9,66,000$. The commission is credited through Raveena's capital, so it is included in her final payment rather than paid twice.

Step 4: Conclusion Realisation loss is Rs 3,20,000, shared by Seema Rs 1,76,000 and Raveena Rs 1,44,000. Final capital payments are Seema Rs 7,24,000 and Raveena Rs 9,66,000.

Quick Tip to Solve: Charge only the agreed Rs 10,000 commission to Realisation when Raveena personally bears the actual expenses.

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

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

(A) Rs 30,00,000

(B) Rs 3,00,000

(C) Rs 9,00,000

(D) Rs 33,00,000

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

Solution:

Concept:

- Authorised capital is the registered ceiling; issued capital is the face value of shares offered for subscription.
- After forfeiture, only the remaining shares form subscribed capital. Amounts already received on forfeited shares are shown separately as share forfeiture under share capital.

Step 1: Identify the relevant capital category Nominal capital means authorised capital, which is the maximum face value of shares the company is registered to issue. The stem expressly gives this as Rs 30,00,000.

Step 2: Calculate and test the options $3,00,000 \times$ Rs $10 =$ Rs $30,00,000$. Rs 3,00,000 is the number of authorised shares, not their rupee value. Rs 9,00,000 is issued capital, while Rs 33,00,000 has no basis in the stated registration.

Step 3: Conclusion Nominal capital is Rs 30,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Multiply the registered 3,00,000 shares by Rs 10; forfeiture does not change authorised capital.

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

(A) Rs 3,00,000

(B) Rs 30,00,000

(C) Rs 9,00,000

(D) Rs 33,00,000

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

Solution:

Concept:

- Authorised capital is the registered ceiling; issued capital is the face value of shares offered for subscription.
- After forfeiture, only the remaining shares form subscribed capital. Amounts already received on forfeited shares are shown separately as share forfeiture under share capital.

Step 1: Identify the relevant capital category The company offers 90,000 shares to the public. Issued capital is calculated on these shares at their face value of Rs 10 each, irrespective of the instalment schedule.

Step 2: Calculate and test the options $90,000 \times \text{Rs } 10 = \text{Rs } 9,00,000$. Rs 30,00,000 is authorised capital rather than the amount issued. Neither Rs 3,00,000 nor Rs 33,00,000 equals the face value of the shares offered. Later forfeiture does not change the amount originally issued.

Step 3: Conclusion Issued capital is Rs 9,00,000. Hence, the correct option is (C).

Quick Tip to Solve: Multiply the 90,000 shares offered by Rs 10; later forfeiture does not change issued capital.

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

(A) Rs 9,00,000

(B) Rs 8,30,000

(C) Rs 8,56,000

(D) Nil

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

Solution:

Concept:

- Authorised capital is the registered ceiling; issued capital is the face value of shares offered for subscription.
- After forfeiture, only the remaining shares form subscribed capital. Amounts already received on forfeited shares are shown separately as share forfeiture under share capital.

Step 1: Identify the relevant capital category All 90,000 shares were initially subscribed. The directors forfeited Aditi's 4,000 and Rohit's 3,000 shares, leaving $90,000 - 4,000 - 3,000 = 83,000$ shares outstanding. All money due on these remaining shares was received.

Step 2: Calculate and test the options Fully paid subscribed capital is $83,000 \times$ Rs $10 =$ Rs $8,30,000$. Rs 9,00,000 includes the forfeited shares. Rs 8,56,000 is neither the face value of the remaining fully paid shares nor the amount of share capital after forfeiture. Nil is incorrect because 83,000 fully paid shares remain.

Step 3: Conclusion Subscribed and fully paid capital is Rs 8,30,000. Hence, the correct option is (B).

Quick Tip to Solve: Use the position after forfeiture: remove the 7,000 forfeited shares, and keep their paid amounts separately.

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

[1 mark]

(A) Rs 8,30,000

(B) Rs 8,59,000

(C) Rs 9,00,000

(D) Rs 30,00,000

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

Solution:

Concept:

- Authorised capital is the registered ceiling; issued capital is the face value of shares offered for subscription.
- After forfeiture, only the remaining shares form subscribed capital. Amounts already received on forfeited shares are shown separately as share forfeiture under share capital.

Step 1: Identify the relevant capital category After forfeiture, fully paid subscribed capital is $(90,000 - 7,000) \times$ Rs $10 =$ Rs $8,30,000$. Aditi paid only application money: $4,000 \times 2 =$ Rs $8,000$. Rohit paid application and allotment: $3,000 \times 7 =$ Rs $21,000$.

Step 2: Calculate and test the options Add share forfeiture of $8,000 + 21,000 =$ Rs $29,000$ to Rs 8,30,000. Share capital shown is therefore Rs 8,59,000. Rs 8,30,000 omits forfeited receipts; Rs 9,00,000 ignores forfeiture; Rs 30,00,000 is merely the authorised ceiling, not the presented total.

Step 3: Conclusion Share Capital presented is Rs 8,59,000. Hence, the correct option is (B).

Quick Tip to Solve: Use the position after forfeiture: remove the 7,000 forfeited shares, and keep their paid amounts separately.

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

(A) Rs 32,000

(B) Rs 12,000

(C) Rs 44,000

(D) Rs 29,000

Correct Answer: (D) Rs 29,000

Solution:

Concept:

- Authorised capital is the registered ceiling; issued capital is the face value of shares offered for subscription.
- After forfeiture, only the remaining shares form subscribed capital. Amounts already received on forfeited shares are shown separately as share forfeiture under share capital.

Step 1: Identify the relevant capital category Share Forfeiture Account receives the amount of capital already paid on shares forfeited. Aditi failed to pay allotment and call, so only her application payment of $4,000 \times$ Rs $2 =$ Rs $8,000$ is retained.

Step 2: Calculate and test the options Rohit paid application and allotment, or Rs 7 per share, giving $3,000 \times$ Rs $7 =$ Rs $21,000$. The credit is $8,000 + 21,000 =$ Rs $29,000$. Rs 32,000, Rs 12,000 and Rs 44,000 do not represent the amounts actually received on these forfeited shares; unpaid amounts are not forfeited receipts.

Step 3: Conclusion Share Forfeiture Account is Rs 29,000. Hence, the correct option is (D).

Quick Tip to Solve: Use the position after forfeiture: remove the 7,000 forfeited shares, and keep their paid amounts separately.

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

(A) Rs 9,00,000

(B) Rs 8,30,000

(C) Rs 8,56,000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- Authorised capital is the registered ceiling; issued capital is the face value of shares offered for subscription.
- After forfeiture, only the remaining shares form subscribed capital. Amounts already received on forfeited shares are shown separately as share forfeiture under share capital.

Step 1: Identify the relevant capital category Before forfeiture, the two defaulting holders had unpaid

amounts. However, the directors have forfeited all 7,000 defaulting shares. Such shares cease to be included in subscribed capital; the question must be answered after this stated event.

Step 2: Calculate and test the options The remaining $90,000 - 7,000 = 83,000$ shares are fully paid. There are therefore no outstanding subscribed shares that are not fully paid. Rs 9,00,000 is the initially issued capital, Rs 8,30,000 is fully paid subscribed capital, and Rs 8,56,000 is not the face value of any outstanding partly paid shares; none is partly paid subscribed capital after forfeiture.

Step 3: Conclusion Subscribed and not fully paid capital is Nil. Hence, the correct option is (D).

Quick Tip to Solve: Use the position after forfeiture: remove the 7,000 forfeited shares, and keep their paid amounts separately.

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

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

on First and Final Call - Balance

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

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

Solution:

Concept:

- Application and allotment money includes Rs 2 capital and Rs 2 premium per share. Total issue price is Rs 16, so the call is Rs 12, comprising Rs 8 capital and Rs 4 premium.
- Excess application money adjusted against a future call is credited to Calls in Advance. Calls in Arrears records the unpaid call after using the defaulter's advance.
- On forfeiture, debit called-up capital and unpaid securities premium; credit arrears and the capital amount already received to Share Forfeiture.

Step 1: Calculate pro-rata allotment and excess money Applications retained are $4,00,000 - 40,000 = 3,60,000$ shares. Thus the allotment ratio is $3,00,000 : 3,60,000 = 5 : 6$. Application receipts are $4,00,000 \times 4 =$ Rs $16,00,000$, refunds are Rs 1,60,000, and the amount required on allotted shares is Rs 12,00,000. The excess transferred to calls in advance is therefore Rs 2,40,000.

Step 2: Record application and allotment Journal of Generic Pharma Ltd. (Application and allotment)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received on 4,00,000 shares at Rs 4 each)		16,00,000	 16,00,000
	Share Application and Allotment A/c Dr. To Bank A/c To Share Capital A/c To Securities Premium A/c To Calls in Advance A/c (Being rejected applications refunded, allotment recorded and excess transferred to calls in advance)		16,00,000	 1,60,000 6,00,000 6,00,000 2,40,000

Step 3: Work out Jain's default Jain receives $3,600 \times 5/6 = 3,000$ shares. He paid Rs 14,400 on application, whereas Rs 12,000 is needed on his allotment, leaving Rs 2,400 advance. His call liability is $3,000 \times 12 =$ Rs $36,000$; arrears after advance adjustment are Rs 33,600. Of his original payment, Rs 6,000 is application premium, leaving Rs 8,400 capital received, including the advance used against capital on call. The unpaid call premium is $3,000 \times 4 =$ Rs $12,000$.

Step 4: Record the call and forfeiture Journal of Generic Pharma Ltd. (Call and forfeiture)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium A/c (Being call of Rs 12 per share due, including remaining premium of Rs 4)		36,00,000	 24,00,000 12,00,000
	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being call received after advance adjustment, except Jain's unpaid balance)		33,26,400 2,40,000 33,600	 36,00,000
	Share Capital A/c Dr. Securities Premium A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being Jain's 3,000 shares forfeited and unpaid premium reversed)		30,000 12,000	 33,600 8,400

Step 5: Open the calls accounts Calls in Advance Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To First and Final Call	2,40,000	By Application and Allotment	2,40,000	
	Total	2,40,000	Total	2,40,000	

Calls in Arrears Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To First and Final Call	33,600	By Share Capital and Securities Premium (forfeiture)	33,600	
	Total	33,600	Total	33,600	

Both accounts close with nil balance after adjustment and forfeiture; hence there is no balance c/d.

Step 6: Conclusion Jain is allotted 3,000 shares; calls in arrears are Rs 33,600 and share forfeiture is credited with Rs 8,400. Both calls accounts close after adjustment and forfeiture.

Quick Tip to Solve: For Jain, subtract his Rs 2,400 excess application money before recording the call default; reverse only the unpaid Rs 4 premium per share.

OR

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

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

(ii) Ashoka Ltd. forfeited 2,000 equity shares of Rs 100 each issued at a premium of 10% for non-payment of allotment money of Rs 60 per share (including premium). The first and final call of Rs 20 per share was not yet made. The forfeited shares were re-issued at Rs 70 per share fully paid up. [6 marks]

Solution:

Concept:

- Forfeiture cancels the capital called up on the forfeited shares. Unpaid premium previously credited is reversed by debiting Securities Premium.
- Reissue discount is debited to Share Forfeiture and cannot exceed the capital forfeited on those shares. Only the surplus relating to reissued shares is transferred to Capital Reserve.

Step 1: Case (i): calculate forfeiture and reissue price Diksha Ltd. has received $10 - 2 = \text{Rs } 8$ per share. Hence capital forfeited is $3,000 \times 8 = \text{Rs } 24,000$. The forfeiture amount attached to the 600 reissued shares is $600 \times 8 = \text{Rs } 4,800$. Since Rs 4,200 is transferred to capital reserve, the reissue discount must be $4,800 - 4,200 = \text{Rs } 600$. Fully paid nominal capital on reissue is Rs 6,000; bank receipts are therefore $6,000 - 600 = \text{Rs } 5,400$, or Rs 9 per share.

Step 2: Case (i): journal entries Journal of Diksha Ltd.

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

	Share Capital A/c Dr.
	  To Share Final Call A/c
	  To Share Forfeiture A/c
	(Being 3,000 shares forfeited for non-payment of final call of Rs 2 each)
			30,000	
				6,000
				24,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 600 forfeited shares reissued at Rs 9 each fully paid)		5,400 600	 6,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on 600 reissued shares transferred to capital reserve)		4,200	 4,200

Step 3: Case (ii): determine called-up capital and unpaid premium The issue price is Rs 110 per share, comprising Rs 100 capital and Rs 10 premium. The Rs 20 first and final call was not made, so called-up capital at forfeiture is only $100 - 20 =$ Rs 80 per share. Allotment of Rs 60 includes Rs 10 premium and Rs 50 capital. Thus the capital already received is $80 - 50 =$ Rs 30 per share, totalling Rs 60,000. Unpaid allotment totals Rs 1,20,000 and unpaid premium totals Rs 20,000. On reissue as fully paid, credit the full Rs 100 nominal capital per share even though only Rs 80 had been called up before forfeiture.

Step 4: Case (ii): journal entries Journal of Ashoka Ltd.

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

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Share Allotment A/c
	  To Share Forfeiture A/c
	(Being 2,000 shares forfeited for unpaid allotment, including premium)
			1,60,000
			20,000
				
				1,20,000
				60,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 2,000 forfeited shares reissued at Rs 70 each fully paid)		1,40,000 60,000	 2,00,000

Step 5: Check reserve and remaining forfeiture Ashoka's reissue discount is $(100 - 70) \times 2,000 =$ Rs $60,000$. It uses the entire forfeiture balance, so no capital reserve entry arises. Diksha retains forfeiture of $2,400 \times 8 =$ Rs $19,200$ on the shares not yet reissued. That amount remains in Share Forfeiture and is not transferred to reserve merely because another 600 shares were reissued.

Step 6: Conclusion Diksha reissues 600 shares at Rs 9 each and transfers Rs 4,200 to Capital Reserve. Ashoka reissues all shares at Rs 70 fully paid; its entire Rs 60,000 forfeiture balance absorbs the discount, leaving no capital reserve.

Quick Tip to Solve: For Ashoka, debit only Rs 80 called-up capital at forfeiture, but credit Rs 100 capital on fully paid reissue; reverse its unpaid Rs 10 premium.

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

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

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

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

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

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

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

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

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

Solution:

Concept:

- Goodwill premium compensates sacrificing partners in their sacrificing ratio: old share minus new share.
- General reserve and revaluation loss belong to old partners in the old ratio $4:3$.
- The adjusted capital of existing partners represents their combined new share; use it to determine proportionate capital of the incoming partner.

Step 1: Calculate goodwill and the sacrificing ratio

$$\text{Average profit} = (16,500 + 17,500 + 18,500)/3 = \text{Rs } 17,500,$$
$$\text{Goodwill} = 17,500 \times 4 = \text{Rs } 70,000,$$
$$\text{Babul's premium} = 70,000 \times 2/5 = \text{Rs } 28,000.$$

Sanjay sacrifices $4/7 - 3/10 = 19/70$; Vijay sacrifices $3/7 - 3/10 = 9/70$. Thus the sacrificing ratio is $19:9$. Premium credits are Rs 19,000 and Rs 9,000; half is withdrawn: Rs 9,500 and Rs 4,500 respectively.

Step 2: Distribute old balances and determine capital The revaluation loss of Rs 70,000 is debited to Sanjay and Vijay in $4:3$, i.e., Rs 40,000 and Rs 30,000. General reserve of Rs 28,000 is credited in the same ratio, i.e., Rs 16,000 and Rs 12,000. The stated adjusted capitals already include all these adjustments; do not adjust them a second time. Existing partners' combined capital is

$3,50,000 + 2,50,000 =$ Rs $6,00,000$, representing $3/5$ of the total capital.

Total capital $= 6,00,000 \times 5/3 =$ Rs $10,00,000$, Babul's capital $= 10,00,000 \times 2/5 =$ Rs $4,00,000$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Cash A/c Dr.		28,000	
	To Premium for Goodwill A/c			28,000
	(Being Babul's goodwill premium received)			
	Premium for Goodwill A/c Dr.		28,000	
	To Sanjay's Capital A/c			19,000
	To Vijay's Capital A/c			9,000
	(Being premium distributed in sacrificing ratio 19:9)			
	Sanjay's Capital A/c Dr.		9,500	
	Vijay's Capital A/c Dr.		4,500	
	To Cash A/c			14,000
	(Being half of goodwill premium withdrawn)			

Step 4: Record revaluation, reserve and capital Journal of the Firm (continued; 1st April, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Sanjay's Capital A/c Dr.		40,000	
	Vijay's Capital A/c Dr.		30,000	
	To Revaluation A/c			70,000
	(Being revaluation loss transferred in old ratio 4:3)			
	General Reserve A/c Dr.		28,000	
	To Sanjay's Capital A/c			16,000
	To Vijay's Capital A/c			12,000
	(Being accumulated reserve transferred in old ratio)			
	Cash A/c Dr.		4,00,000	
	To Babul's Capital A/c			4,00,000
	(Being proportionate capital brought by Babul)			

Step 5: Conclusion Goodwill is Rs 70,000; the sacrificing ratio is $19 : 9$; Babul brings Rs 28,000 premium and Rs 4,00,000 capital. The necessary journal entries are given above.

Quick Tip to Solve: Use 19:9 for goodwill, 4:3 for old reserves and revaluation, and the combined 3/5 share for capital.

OR

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

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

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

Anuj retired on the above date on the following terms:

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

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

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

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

Solution:

Concept:

- When continuing partners keep their relative profit ratio unchanged, Divij and Shilpa share future profits in $1:2$; they compensate Anuj for goodwill in their gaining ratio $1:2$.
- Revaluation profit is credited to all old partners in the old ratio $2:1:2$. The retiring partnerś adjusted capital is transferred to his loan account.
- Equal yearly principal instalments exclude interest. Interest at 12 percent is charged on the unpaid principal at the beginning of each year.

Step 1: Work out goodwill and revaluation adjustments No changed ratio is specified for the continuing partners, so their relative ratio remains $1:2$. Divij's gain is $1/3 - 1/5 = 2/15$, and Shilpa's gain is $2/3 - 2/5 = 4/15$. Thus the gaining ratio is $1:2$. Anuj's goodwill of Rs 90,000 is credited to his capital and debited to Divij and Shilpa by Rs 30,000 and Rs 60,000 respectively; no goodwill asset is opened. Revaluation profit of Rs 25,000 is credited in $2:1:2$: Anuj Rs 10,000, Divij Rs 5,000, Shilpa Rs 10,000.

$$\text{Anuj's amount due} = 3,00,000 + 90,000 + 10,000 = \text{Rs } 4,00,000,$$
$$\text{Divij's closing capital} = 4,00,000 + 5,000 - 30,000 = \text{Rs } 3,75,000,$$
$$\text{Shilpa's closing capital} = 5,00,000 + 10,000 - 60,000 = \text{Rs } 4,50,000.$$

Step 2: Prepare the capital accounts Partners' Capital Accounts as at 31st March, 2023

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
Anuj's Capital Account			
To Loan A/c	4,00,000	By Balance b/d	3,00,000
		By Divij's Capital A/c (goodwill)	30,000
		By Shilpa's Capital A/c (goodwill)	60,000
		By Revaluation A/c	10,000
Total	4,00,000	Total	4,00,000
Divij's Capital Account			
To Anuj's Capital A/c	30,000	By Balance b/d	4,00,000
To Balance c/d	3,75,000	By Revaluation A/c	5,000
Total	4,05,000	Total	4,05,000
Shilpa's Capital Account			
To Anuj's Capital A/c	60,000	By Balance b/d	5,00,000
To Balance c/d	4,50,000	By Revaluation A/c	10,000
Total	5,10,000	Total	5,10,000

On 1st April, 2023, the continuing partners' credit balances brought down are Divij Rs 3,75,000 and Shilpa Rs 4,50,000. Anuj's capital is closed by transfer of the entire sum due to his loan account.

Step 3: Calculate the annual loan payments Each principal instalment is $4,00,000/2 = \text{Rs } 2,00,000$. For the year ending 31st March, 2024, interest is $4,00,000 \times 12/100 = \text{Rs } 48,000$, so the first cash payment is Rs 2,48,000. After that payment, principal outstanding is Rs 2,00,000. For the year ending 31st March, 2025, interest is $2,00,000 \times 12/100 = \text{Rs } 24,000$, so the second cash payment is Rs 2,24,000. The principal is then fully repaid. The cash payments differ because the two equal instalments refer to principal, with interest payable in addition.

Step 4: Prepare the loan account until discharge Anuj's Loan Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
31-3-2024 To Bank A/c	2,48,000	31-3-2023 By Capital A/c	4,00,000
31-3-2024 To Balance c/d	2,00,000	31-3-2024 By Interest A/c	48,000
Total	4,48,000	Total	4,48,000
31-3-2025 To Bank A/c	2,24,000	1-4-2024 By Balance b/d	2,00,000
		31-3-2025 By Interest A/c	24,000
Total	2,24,000	Total	2,24,000

The credit for interest increases the amount payable to Anuj; each bank payment debits the loan account. The balance after the second payment is nil, so no balance is carried forward.

Step 5: Conclusion Anuj receives a loan credit of Rs 4,00,000, discharged by payments of Rs 2,48,000 on 31st March, 2024 and Rs 2,24,000 on 31st March, 2025. Divij and Shilpa retain capitals of Rs 3,75,000 and Rs 4,50,000.

Quick Tip to Solve: Divide only the principal into equal instalments; calculate each year's interest on the remaining principal.

Part B (20 marks)

Option – I

(Analysis of Financial Statements)

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

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

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

(A) Both the Statements are true.

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

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

(D) Both the Statements are false.

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

Solution:

Concept:

- Interest and dividend received are classified according to the nature of the enterprise under AS 3.
- For a non-financial enterprise these receipts are investing cash flows; for a financial enterprise they are operating cash flows.

Step 1: Examine Statement I A non-financial enterprise earns interest and dividends as returns on its investments. These receipts are therefore investing activities. Financing activities concern changes in owners' capital and borrowings. Hence Statement I, which calls the receipts financing activities, is false.

Step 2: Examine Statement II and the choices For a financial enterprise, earning interest and dividends forms part of its principal revenue-producing activities, so these receipts are operating activities. Statement II is therefore also false. Options (A), (B) and (C) each require at least one statement to be true and are eliminated.

Step 3: Conclusion Both statements are false. Hence, the correct option is (D).

Quick Tip to Solve: Check the enterprise first: investment returns are investing for non-financial firms and operating for financial firms.

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

(A) These are current assets

(B) These constitute cash equivalents

(C) These are intangible assets

(D) These are tangible assets

Correct Answer: (B) These constitute cash equivalents

Solution:

Concept:

- Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value.
- Transfers between cash and cash equivalents are cash-management transactions.

Step 1: Identify the nature of the investment The marketable securities or short-term investments referred to here constitute cash equivalents. Buying them converts one component of cash and cash equivalents into another, without changing the combined balance.

Step 2: Eliminate the other reasons Being a current asset alone does not exclude a transaction from the cash flow statement: payments for inventories can be operating cash flows. The description as tangible or intangible assets also does not explain the exclusion. The decisive reason is their classification as cash equivalents.

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

Quick Tip to Solve: For transfers involving cash equivalents, compare the combined cash and cash-equivalent balance before and after the transaction.

OR

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

(A) Purchase of marketable securities

(B) Cash payment to suppliers of goods

(C) Payment of employee benefit expenses

(D) Payment of insurance premium

Correct Answer: (A) Purchase of marketable securities

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of the enterprise and other activities that are neither investing nor financing.
- Payments connected with normal trading operations are operating cash outflows.

Step 1: Test the trading payments Cash paid to suppliers of goods, employee benefit expenses and

insurance premiums relates to the normal conduct of business. Therefore, options (B), (C) and (D) represent operating cash outflows.

Step 2: Test marketable securities Purchase of the marketable securities in this context is a conversion of cash into cash equivalents. It is a cash-management transaction and is excluded from cash flows. Even where a security does not qualify as a cash equivalent, its purchase by an ordinary non-financial enterprise is an investing transaction, rather than an operating payment.

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

Quick Tip to Solve: Separate normal trading payments from cash-management transfers before choosing the non-operating item.

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

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

(ii) Purchased goods worth Rs 70,000.

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

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

(A) (iv)

(B) (i) and (ii)

(C) (ii) and (iii)

(D) (i) and (iii)

Correct Answer: (A) (iv)

Solution:

Concept:

- Gross profit ratio compares gross profit with revenue from operations: $\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$.
- A sale at a stated cost and selling price establishes both revenue and the gross profit earned.

Step 1: Identify the transaction with a profit margin In (iv), goods costing Rs 50,000 are sold for Rs 60,000. Thus gross profit is $60,000 - 50,000 = \text{Rs } 10,000$, and the gross profit ratio for this sale is $\frac{10,000}{60,000} \times 100 = 16\frac{2}{3}\%$. This transaction directly affects the revenue and gross profit used in the ratio.

Step 2: Check the remaining statements Statement (i) merely states revenue from operations, without the related cost or margin. A purchase in (ii) by itself does not establish profit; unsold purchases form closing inventory. Goods withdrawn at cost in (iii) are deducted from purchases and treated as drawings, so they do not constitute a sale or generate gross profit. Thus the intended transaction is (iv).

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

Quick Tip to Solve: A purchase or withdrawal at cost does not establish a trading margin; identify the sale with both cost and selling price.

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

(A) Comparative Statement Analysis

(B) Cash Flow Analysis

(C) Financial Analysis

(D) Common Size Analysis

Correct Answer: (C) Financial Analysis

Solution:

Concept:

- Financial analysis evaluates financial strengths and weaknesses by establishing relationships between financial statement items.
- The balance sheet shows financial position, while the statement of profit and loss shows operating performance.

Step 1: Match the definition The question describes the broad process of examining relationships between items in both statements to assess the financial strengths and weaknesses of a firm. This is the definition of financial analysis.

Step 2: Distinguish the specific techniques Comparative statement analysis compares amounts across periods, and common size analysis expresses items as percentages of a common base. Cash flow analysis examines cash movements. These are particular analytical approaches, whereas the definition given describes the wider process itself.

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

Quick Tip to Solve: When the wording asks for the overall process of assessing financial strengths and weaknesses, choose financial analysis.

OR

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

(A) Solvency ratios

(B) Liquidity ratios

(C) Activity ratios

(D) Profitability ratios

Correct Answer: (B) Liquidity ratios

Solution:

Concept:

- Liquidity ratios measure the ability to discharge short-term obligations when they fall due.

- Current ratio and quick ratio are common measures of liquidity.

Step 1: Identify the payment-capacity test The ability to pay amounts as and when they become due concerns the availability of liquid resources to meet obligations promptly. In the classification of ratios used here, this is measured by liquidity ratios.

Step 2: Distinguish other categories Solvency ratios assess the long-term financial position and debt-paying capacity. Activity ratios measure efficiency in using assets, while profitability ratios measure earning capacity. The emphasis on meeting amounts when due points to liquidity, rather than efficiency or profit.

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

Quick Tip to Solve: Use the phrase meeting obligations when due as the cue for liquidity; long-term financial stability points to solvency.

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

(i) Vehicles

(ii) Provision for taxation

(iii) Work in progress [3 marks]

Solution:

Concept:

- Schedule III groups balance sheet items by their nature and by whether they are current or non-current.
- Physical assets used in business are classified under property, plant and equipment; goods under production are inventories.

Step 1: Classify vehicles Vehicles are physical assets used for business operations over more than one accounting period. They belong to Assets, under the major head Non-current assets, and the sub-head Property, plant and equipment (within Property, plant and equipment and intangible assets). They are not inventories because they are held for use rather than sale in the ordinary course.

Step 2: Classify provision for taxation Provision for taxation represents an estimated tax obligation expected to be settled in the short term. It belongs to Equity and liabilities, under the major head Current liabilities and the sub-head Short-term provisions. It is distinct from a deferred tax liability, which is classified separately.

Step 3: Classify work in progress Work in progress consists of goods whose manufacture is incomplete at the reporting date. It belongs to Assets, under Current assets and the sub-head Inventories.

Item	Major head	Sub-head
Vehicles	Non-current assets	Property, plant and equipment
Provision for taxation	Current liabilities	Short-term provisions
Work in progress	Current assets	Inventories

Step 4: Conclusion Vehicles are non-current property, plant and equipment; provision for taxation is a short-term provision under current liabilities; work in progress is inventory under current assets.

Quick Tip to Solve: Classify the nature first: use over several periods, obligation payable, or goods awaiting completion.

32. From the following Balance Sheets of Bijoy Ltd. as at 31st March 2024 and 2025, prepare a Comparative Balance sheet:

Particulars	Note No.	31-3-2025 (Rs)	31-3-2024 (Rs)
I. Equity and Liabilities:			
1. Shareholders' Funds			
Share Capital		15,00,000	12,00,000
2. Non-current Liabilities			
Long term borrowings		8,00,000	6,00,000
3. Current liabilities			
Trade Payables		2,00,000	2,00,000
Total		25,00,000	20,00,000
II. Assets:			
1. Non-Current Assets			
Property, plant and equipment and intangible assets		21,00,000	14,00,000
2. Current Assets			
(a) Inventories		2,00,000	3,00,000
(b) Cash & Cash equivalents		2,00,000	3,00,000
Total		25,00,000	20,00,000

[3 marks]

Solution:

Concept:

- Absolute change equals the current-year amount minus the previous-year amount: $\Delta =$ Amount in 2025 $-$ Amount in 2024.
- Percentage change uses the previous year as the base: $\%$ change $= \dfrac{\Delta}{\text{Amount in 2024}} \times 100.$

Step 1: Compute increases and decreases Share capital increases by Rs 3,00,000, giving $3,00,000/12,00,000 \times 100 = 25\%$. Long-term borrowings increase by Rs 2,00,000, or 33.33%. Trade payables show no change. Property, plant and equipment and intangible assets increase by Rs 7,00,000, or 50%. Inventories and cash and cash equivalents each decrease by Rs 1,00,000, or 33.33%. Negative values below denote decreases.

Step 2: Prepare the comparative statement **Bijoy Ltd.: Comparative Balance Sheet as at 31st March, 2024 and 2025**

Particulars	2024 (Rs)	2025 (Rs)	Change (Rs)	Change (%)
I. Equity and liabilities				
1. Shareholders' funds				
Share capital	12,00,000	15,00,000	3,00,000	25.00
2. Non-current liabilities				
Long-term borrowings	6,00,000	8,00,000	2,00,000	33.33
3. Current liabilities				
Trade payables	2,00,000	2,00,000	Nil	Nil
Total	20,00,000	25,00,000	5,00,000	25.00
II. Assets				
1. Non-current assets				
Property, plant and equipment and intangible assets	14,00,000	21,00,000	7,00,000	50.00
2. Current assets				
(a) Inventories	3,00,000	2,00,000	-1,00,000	-33.33
(b) Cash and cash equivalents	3,00,000	2,00,000	-1,00,000	-33.33
Total	20,00,000	25,00,000	5,00,000	25.00

Step 3: Check both sides The increase in equity and liabilities is Rs 3,00,000 plus Rs 2,00,000, totalling Rs 5,00,000. The net increase in assets is Rs 7,00,000 less Rs 1,00,000 less Rs 1,00,000, also Rs 5,00,000. Thus both sides agree, and the total percentage increase is $5,00,000/20,00,000 \times 100 = 25\%$. Percentages are rounded to two decimal places.

Step 4: Conclusion The total balance sheet size increases from Rs 20,00,000 to Rs 25,00,000, an increase of Rs 5,00,000 or 25%.

Quick Tip to Solve: Always divide the change by the earlier-year figure; use the same base year for every row.

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

(i) Current ratio and

(ii) Debt to capital employed ratio

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

[4 marks]

Solution:

Concept:

- Current ratio measures short-term solvency: Current Ratio = Current Assets/Current Liabilities. Current assets are the assets other than non-current assets.
- The balance-sheet equation states that total assets equal shareholders' funds plus non-current

liabilities plus current liabilities.

- Debt to capital employed ratio is long-term debt divided by capital employed. Capital employed equals shareholders' funds plus non-current liabilities.

Step 1: Determine current assets and current liabilities Deduct non-current assets from total assets to obtain the portion available as current assets:

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

Both shareholders' funds and non-current liabilities are long-term sources. Deducting them from total assets gives current liabilities:

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

The check is that total liabilities and equity are Rs $4,20,000 + 1,40,000 + 40,000 = 6,00,000$, equal to total assets.

Step 2: Calculate the current ratio Use only current assets and current liabilities in this liquidity ratio:

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

Thus, the business has Rs 2 of current assets for each Rs 1 of current liabilities. Non-current assets do not enter the numerator of this ratio.

Step 3: Calculate debt to capital employed ratio Long-term debt is the given non-current liabilities of Rs 1,40,000. Capital employed is:

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

This also equals total assets less current liabilities, namely Rs $6,00,000 - 40,000$. Hence,

$$\text{Debt to Capital Employed Ratio} = \frac{1,40,000}{5,60,000} = 0.25:1.$$

Debt therefore finances 25% of the capital employed; current liabilities are excluded from long-term debt and from capital employed.

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

Quick Tip to Solve: Derive current liabilities from the balance-sheet equation first; capital employed then equals total assets minus those current liabilities.

OR

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

(i) Debt-Equity Ratio and

(ii) Total Assets to Debt ratio

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

[4 marks]

Solution:

Concept:

- Debt-equity ratio measures the relationship between long-term debt and shareholders' funds: Debt-equity Ratio = Long-term Debt/Shareholders' Funds.
- Long-term debt includes long-term borrowings, other long-term liabilities and long-term provisions. Shareholders' funds equal share capital plus reserves and surplus.
- Total assets to debt ratio measures asset coverage for long-term debt: Total Assets to Debt Ratio = Total Assets/Long-term Debt, with total assets comprising current and non-current assets.

Step 1: Ascertain long-term debt Include all three categories of non-current liabilities supplied in the question:

$$\begin{aligned}\text{Long-term Debt} &= 8,00,000 + 80,000 + 1,20,000\\ &= \text{Rs } 10,00,000.\end{aligned}$$

Long-term borrowings alone would understate debt because other long-term liabilities and long-term provisions also represent obligations payable over the long term. The separately stated current liabilities of Rs 10,00,000 are short-term obligations and are excluded from debt for both these ratios.

Step 2: Calculate shareholders' funds and debt-equity ratio Add share capital and accumulated reserves and surplus to obtain the owners' funds:

$$\begin{aligned}\text{Shareholders' Funds} &= 24,00,000 + 6,00,000\\ &= \text{Rs } 30,00,000.\end{aligned}$$

Therefore,

$$\text{Debt-equity Ratio} = \frac{10,00,000}{30,00,000} = 1:3.$$

This means the business has Rs 1 of long-term debt for every Rs 3 of shareholders' funds. In decimal form the ratio is approximately $0.33:1$.

Step 3: Determine total assets and their coverage of debt Both current assets and non-current assets belong in total assets:

$$\text{Total Assets} = 36,00,000 + 14,00,000$$
$$= \text{Rs } 50,00,000.$$

The balance-sheet equation checks: shareholders' funds Rs 30,00,000 plus long-term debt Rs 10,00,000 plus current liabilities Rs 10,00,000 equal total assets Rs 50,00,000. Now divide total assets by long-term debt:

$$\text{Total Assets to Debt Ratio} = \frac{50,00,000}{10,00,000} = 5:1.$$

Thus, every Rs 1 of long-term debt is covered by Rs 5 of total assets. Do not deduct current liabilities from the numerator, since this ratio uses total assets rather than capital employed.

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

Quick Tip to Solve: Use the same long-term debt of Rs 10,00,000 for both ratios; change the comparison figure from shareholders' funds to total assets.

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

Calculate cash flows from operating activities. [6 marks]

Solution:

Concept:

- The indirect method converts accrual profit into cash generated by operations by reversing non-cash expenses and non-operating gains.
- Increases in operating current assets reduce operating cash flow; increases in operating current liabilities increase it. Transfers to reserves are appropriations and must be added back when already deducted.

Step 1: Determine the gain on sale of machinery The machinery was sold for Rs 95,000 against its book value of Rs 90,000. Therefore, profit on sale is $95,000 - 90,000 = \text{Rs } 5,000$. Deduct this gain from the given profit because it is an investing-related gain included in profit. The entire sale proceeds belong to investing activities and are not added to operating cash flow.

Step 2: Find operating profit before working capital changes The given profit of Rs 4,00,000 is after charging depreciation and the transfer to general reserve. Add back depreciation of Rs 75,000, general reserve transfer of Rs 1,50,000 and goodwill written off of Rs 80,000. These charges did not involve an operating cash outflow in the current period. Deduct the machinery sale gain of Rs 5,000. Thus, operating profit before working capital changes is $4,00,000 + 75,000 + 1,50,000 + 80,000 - 5,000 =$

Rs $7,00,000$.

Step 3: Prepare the operating activities section Cash Flow Statement of Sona Ltd. for the year ended 31st March 2025 (Extract)

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

No income tax payment is specified, so no further adjustment is made.

Step 4: Conclusion Net cash inflow from operating activities is $\boxed{\text{Rs } 6,68,000}$.

Quick Tip to Solve: Add back the reserve transfer because the stated profit is after that transfer; remove only the Rs 5,000 machinery gain from operating profit.

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

(A) Correct a # DIV/0! Error

(B) Correct a # N/A Error

(C) Correct a # Name Error

(D) Correct a # Null! Error

Correct Answer: (C) Correct a # Name Error

Solution:

Concept:

- The #NAME? error arises when a spreadsheet cannot recognise text in a formula, such as a misspelt function or undefined name.
- Error types identify different faults: division by zero, unavailable lookup results and invalid range intersections are distinct from unrecognised text.

Step 1: Identify the error condition The question specifies that Excel does not recognise the text or formula. This points to a name-recognition problem, represented by the printed option referring to a # Name Error.

Step 2: Eliminate the other errors Option (A), #DIV/0!, refers to division by zero. Option (B), #N/A, indicates that a required value is unavailable. Option (D), #NULL!, concerns an invalid intersection of ranges. None describes the name-recognition fault stated here.

Step 3: Conclusion The correct option is (C): Correct a # Name Error.

Quick Tip to Solve: For unrecognised text, check function spelling and defined names before inspecting cell values.

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

(A) Horizontal value

(B) Derived value

(C) Basic value

(D) Vertical value

Correct Answer: (B) Derived value

Solution:

Concept:

- A basic value is entered directly into a worksheet, while a derived value is calculated from existing values.
- An arithmetic expression or a function processes its inputs to produce a calculated result.

Step 1: Classify the calculated result The outcome of an arithmetic expression or a function is obtained by calculation. It is derived from the operands, cell references or arguments supplied to that expression or function.

Step 2: Compare the options It is therefore a derived value, option (B). A basic value is an original input rather than a computed outcome. Horizontal and vertical describe directions or arrangements in a worksheet, so options (A) and (D) do not classify the result of a calculation.

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

Quick Tip to Solve: Ask whether the value was entered directly or calculated: a calculated outcome is a derived value.

OR

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

(A) False

(B) True

(C) Blank

(D) Zero

Correct Answer: (A) False

Solution:

Concept:

- The range_lookup argument specifies whether VLOOKUP or HLOOKUP uses approximate or exact matching.
- The logical value FALSE requests an exact match; TRUE or an omitted argument permits approximate matching.

Step 1: Select exact matching To return only an exact match, set the range_lookup argument to FALSE. If no exact match exists, the lookup returns an error rather than an approximate result.

Step 2: Interpret the alternatives TRUE and a blank argument do not demand exact matching. The printed option (A), False, gives the conventional logical setting. Zero in option (D) is also interpreted as FALSE by Excel, so it is an equivalent numerical encoding; the direct logical-value answer expected by the question is False.

Step 3: Conclusion The expected correct option is $\boxed{(A)}$: False. Numerically, zero also represents FALSE in this argument.

Quick Tip to Solve: Use FALSE explicitly as the last lookup argument to make an exact-match request easy to read.

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

(A) Easy processing of data and keeping records.

(B) Securing the accounting reports.

(C) Generation of mnemonic codes.

(D) Codification

Correct Answer: (B) Securing the accounting reports.

Solution:

Concept:

- Encryption converts readable data into an encoded form using a key.
- Only an authorised party with the appropriate decryption key can recover the original readable information.

Step 1: Identify the purpose of encryption Accounting reports contain financial information that needs protection against unauthorised reading. Encrypting the data makes it unintelligible to a person who lacks the required decryption key.

Step 2: Compare the stated uses Thus encryption facilitates securing accounting reports, option (B). Easy processing and record keeping describe general computerised accounting benefits. Mnemonic-code generation and codification concern the assignment of identifiers or codes; they do not provide the confidentiality offered by encryption.

Step 3: Conclusion The correct option is (B): Securing the accounting reports.

Quick Tip to Solve: Link encryption with confidentiality and access protection, rather than routine record processing.

OR

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

(A) 2056

(B) 256

(C) 275

(D) 26

Correct Answer: (B) 256

Solution:

Concept:

- The older Excel worksheet format has 256 columns, labelled A through IV.
- The question uses the printed wording Excel 2006 and offers the legacy worksheet column count among its alternatives.

Step 1: Identify the worksheet column count The legacy Excel worksheet has 256 columns. The sequence runs from A to Z, then AA onward, ending at IV. This is the worksheet specification tested by the available answers.

Step 2: Check the alternatives Option (B) states 256 and matches that count. The numbers 2056 and 275 are not the legacy column limit. The number 26 counts only the single-letter labels A to Z and ignores the subsequent double-letter columns, so option (D) is incomplete.

Step 3: Conclusion The correct option is (B): 256 columns.

Quick Tip to Solve: Remember the legacy pair: 256 columns ending at IV; do not stop counting at the single letters A to Z.

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

(A) Defined names

(B) Page layout

(C) Function library

(D) Calculation

Correct Answer: (B) Page layout

Solution:

Concept:

- The Formulas tab groups tools used to insert functions, manage defined names and control calculation.
- A ribbon tab is distinct from the command groups displayed within that tab.

Step 1: Check the formula-related groups Defined Names manages names assigned to cells and ranges. Function Library provides functions for formulas, while Calculation controls recalculation. Thus options (A), (C) and (D) all belong on the Formulas tab.

Step 2: Identify the separate tab Page Layout is a separate ribbon tab containing page setup and related layout tools; it is not a group contained on the Formulas tab. The word "not" therefore selects Page layout.

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

Quick Tip to Solve: Distinguish a ribbon tab from its groups: names, functions and calculation all concern formulas.

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

Solution:

Concept:

- A radar chart displays multivariable data on several value axes radiating from a common centre.
- Each axis represents a different category or characteristic; values for a data series are plotted on these axes and joined to form a profile.

Step 1: Explain the construction and meaning In a radar chart, the category axes are arranged around a central point like spokes of a wheel. For each series, the magnitude for each category is marked on the corresponding axis. Joining these points produces a polygon-like outline. Additional data series can be drawn on the same axes, using different colours or line styles, so that their shapes can be compared.

Step 2: State the purpose Radar charts serve to compare the aggregate pattern of several data series across several characteristics simultaneously. They show the relative strengths, weaknesses and balance of each series across the categories. For example, two departments can be compared on common performance measures; the outlines reveal where one performs better or worse than the other. A value farther from the centre indicates a larger value on that axis, so comparisons must use

the labelled scale.

Step 3: Conclusion Radar charts are spoke-axis charts used to compare the profiles and relative performance of data series over several categories.

Quick Tip to Solve: Look at the entire outline to compare profiles, then check each spoke to locate the differences.

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

Solution:

Concept:

- A Computerised Accounting System records and processes accounting transactions using computer hardware and accounting software.
- Benefits depend on accurate inputs, suitable controls and reliable equipment; automation does not itself guarantee correct source data.

Step 1: State three advantages (1) Speed: large numbers of transactions can be processed quickly, and ledgers, trial balances and reports can be generated promptly. (2) Accuracy: programmed calculations reduce routine arithmetic and posting errors when the data and instructions entered are correct. (3) Reliability and consistency: the same accounting procedures are applied consistently to transactions, and information can be retrieved in a standard form whenever required.

Step 2: State three limitations (1) Cost of training: staff require initial and continuing training to operate the software correctly, particularly after changes or upgrades. (2) Staff opposition: employees may resist the new system because of unfamiliarity, changed duties or fear of loss of employment, which can hinder implementation. (3) Disruption and security risk: hardware failure, viruses or unauthorised access may interrupt work, destroy records or expose confidential information unless adequate backups and access controls are maintained.

Step 3: Conclusion Three advantages are speed, accuracy and consistent processing. Three limitations are training costs, staff resistance, and risks of system disruption or loss of data security.

Quick Tip to Solve: For each advantage link automation to a benefit; for each limitation identify a practical implementation risk.

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

Solution:

Concept:

- Secrecy means preventing unauthorised persons from viewing confidential business and accounting information.
- A Computerised Accounting System can restrict entry to the system and separately restrict the information available to each authorised user.

Step 1: Use passwords to authenticate users The system administrator assigns a user identity and a password to each authorised user. The accounting software permits entry only after checking these credentials. A person without a valid password cannot normally open the accounting application or access its records. Passwords should be kept confidential, made difficult to guess and changed periodically. This provides a barrier against outsiders and prevents casual access to private records such as salaries, bank balances and customer information.

Step 2: Define access rights and security levels The administrator assigns different access permissions to different users according to their duties. A user may be allowed to enter vouchers or view only specified records, while access to confidential reports, master records or administrative functions is reserved for designated staff. For example, an employee entering sales vouchers need not receive access to payroll records. Thus, even someone who can log in does not automatically obtain access to every file or report. Restrictions on viewing, editing and printing help prevent unauthorised disclosure or alteration of confidential business information.

Step 3: Conclusion Two ways are password-controlled access and user-specific access rights. Together they restrict who may enter the system and what confidential data each user may access.

Quick Tip to Solve: Distinguish authentication (who may log in) from authorisation (which records that user may access).

OR

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

Solution:

Concept:

- A Pivot Table is an interactive summary table that organises a large data set into a compact report for analysis.
- Fields can be placed in rows, columns and filters, while numerical values can be summarised using functions such as sum, count and average.

Step 1: Identify the table The table is a **Pivot Table**. For example, transaction data containing date, product, region and sales amount can be summarised as total sales by product and region. The source records need not be individually read to obtain each total.

Step 2: Reason 1: Summarise and analyse large amounts of data A Pivot Table is designed to query and summarise large quantities of data in a user-friendly way. It can calculate subtotals, totals, counts and averages for selected categories. For example, it can show total sales for each product from thousands of sales records, making the relevant accounting information easier to understand.

Step 3: Reason 2: Compare categories and reveal details It is designed to subtotal and aggregate numerical data, summarise it by categories and subcategories, and create customised calculations. A user can expand or collapse levels to see detailed information or a broad summary. Comparing sales across regions, for instance, helps identify differences and trends that are difficult to see in the

original list.

Step 4: Reason 3: Reorganise the summary interactively It is designed to move rows to columns or columns to rows, that is, to pivot the report, and to filter, sort or group relevant information. The user can therefore view different summaries of the same source data quickly. A report showing products by region can be rearranged to show regions by product without rewriting the source transactions.

Step 5: Conclusion The table is a **Pivot Table**. It is designed to summarise large data sets, aggregate and compare categories with access to detail, and rearrange or filter the summary interactively.

Quick Tip to Solve: Remember three distinct Pivot Table purposes: summarise values, compare grouped categories, and pivot or filter the report.

34. What is data formatting? What tools are used to format a data? Explain. [6 marks]

Solution:

Concept:

- Data formatting means changing the appearance and display of data in worksheet cells so that it is clear, consistent and easy to read.
- Formatting normally changes how a value is displayed, without changing the underlying value used in calculations. It includes number formats, fonts, alignment, borders and colours.

Step 1: Meaning and purpose of data formatting Data formatting is the process of applying a suitable presentation style to worksheet data. It distinguishes headings from details, displays amounts and dates correctly and makes reports readable. For example, the value 25000 can be displayed with a currency symbol and two decimal places without changing the value on which a formula operates. In Excel, the required cells are selected first; the tools are available mainly on the Home tab and in the Format Cells dialog box.

Step 2: Number-format tools The Number group and the Number tab of Format Cells provide formats such as General, Number, Currency, Accounting, Date, Time, Percentage and Fraction. Currency or Accounting format is useful for monetary amounts; Date format gives dates a consistent appearance. Increase Decimal and Decrease Decimal control displayed decimal places, while the comma style helps make large amounts readable. These tools should match the meaning of the data: a rate may be shown as a percentage and a transaction date as a date.

Step 3: Font tools Font tools change the typeface, size, bold, italic, underline and font colour. A report title can be made larger and bold, while column headings can be distinguished from transaction details. Fill Colour adds a background colour to selected cells, making headings or important totals stand out. Consistent font choices improve readability throughout the worksheet.

Step 4: Alignment tools Alignment tools position data horizontally or vertically within a cell, including left, centre and right alignment. Wrap Text displays a long heading on multiple lines within a cell, and text orientation changes its direction. Merge and Centre can centre a report title across selected columns. Appropriate alignment prevents labels from appearing crowded and makes related columns easier to follow.

Step 5: Borders, dimensions and format-copying tools Borders draw lines around cells or cell ranges to separate headings, details and totals. Row-height and column-width tools, including AutoFit, provide adequate space for the displayed contents. Format Painter copies the formatting of one cell or range to another, so that reports maintain a consistent style without repeating each formatting operation.

Step 6: Cell styles and conditional formatting Cell Styles apply a predefined combination of formats to headings, totals or other cells. Conditional Formatting applies a format when a specified condition is met, for example highlighting an overdue amount or a value below a chosen limit. This draws attention to significant information automatically and supports quick review of accounting data.

Step 7: Conclusion Data formatting makes worksheet information clear and meaningful. The principal tools include number formats, font and colour controls, alignment, borders, row and column sizing, Format Painter, Cell Styles and Conditional Formatting.

Quick Tip to Solve: Organise the explanation around display of values, appearance of text, placement in cells and highlighting; give one practical example of each.