CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-3-2

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(a). Anup, Bharti and Manoj were partners in a firm sharing profits and losses in the ratio of 11:8:1. From 1st April, 2025, they decided to share the future profits in the ratio of 2:2:1. The gain or sacrifice of each partner due to change in profit sharing ratio will be: [1 mark]

(A) Anup's gain $3/20$, Manoj's sacrifice $3/20$

(B) Anup's sacrifice $3/20$, Manoj's gain $3/20$

(C) Anup's gain $3/20$, Manoj's gain $3/20$

(D) Anup's sacrifice $3/20$, Manoj's sacrifice $3/20$

Correct Answer: (B) Anup's sacrifice $3/20$, Manoj's gain $3/20$

Solution:

Concept:

- Sacrifice is old share minus new share; a negative difference means a gain.
- Express the old and new shares with the same denominator before comparing them.

Step 1: Compare the shares Old shares of Anup, Bharti and Manoj are respectively $11/20, 8/20, 1/20$. Their new shares are $2/5, 2/5, 1/5$, or $8/20, 8/20, 4/20$.

Step 2: Identify sacrifice and gain Anup sacrifices $11/20 - 8/20 = 3/20$. Bharti has no change. Manoj gains $4/20 - 1/20 = 3/20$. Thus the total sacrifice equals the total gain. Option (A) reverses both changes, (C) incorrectly makes Anup gain and (D) incorrectly makes Manoj sacrifice.

Step 3: Conclusion Anup sacrifices $3/20$, Bharti neither gains nor sacrifices, and Manoj gains $3/20$. Hence, the correct option is (B).

Quick Tip to Solve: Convert both ratios to twentieths; the partner whose share falls sacrifices.

OR

1(b). Arun, Varun and Tarun were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March, 2025, Arun died. Varun and Tarun decided to share future profits equally. The gaining ratio of Varun and Tarun will be: [1 mark]

(A) 1:1

(B) 3:2

(C) 2:3

(D) 5:2

Correct Answer: (C) 2:3

Solution:

Concept:

- Gaining share equals new share minus old share.

- The gaining ratio compares only the additional shares acquired by the continuing partners.

Step 1: Calculate each survivor's gain Varun and Tarun had old shares $3/10$ and $2/10$. Equal future shares mean $1/2 = 5/10$ each. Their respective gains are $5/10 - 3/10 = 2/10$ and $5/10 - 2/10 = 3/10$.

Step 2: Form and check the ratio The gaining ratio is $(2/10) : (3/10) = 2 : 3$. The gains total $5/10$, exactly Arun's former share. Option (A) is the new ratio and (B) is the old ratio of the survivors; neither measures gains. Option (D) also does not match the calculated increases.

Step 3: Conclusion The gaining ratio of Varun and Tarun is $2 : 3$. Hence, the correct option is (C).

Quick Tip to Solve: Subtract each survivor's old share from one-half before forming the gaining ratio.

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2. Divya and Bholi were partners in a firm sharing profits and losses in the ratio of 3:1. On 1st April, 2024, their fixed capitals were Rs 8,00,000 and Rs 6,00,000 respectively. On 30th September, 2024, Bholi introduced Rs 50,000 as additional capital. Partnership deed provided that interest on capital will be allowed @ 12% p.a. Interest on Bholi's capital for the year ended 31st March, 2025 was: [1 mark]

(A) Rs 78,000

(B) Rs 75,000

(C) Rs 72,000

(D) Rs 3,000

Correct Answer: (B) Rs 75,000

Solution:

Concept:

- Interest on capital is calculated for the period during which each amount remains invested.
- Interest = Capital × Rate × Time in years.

Step 1: Calculate interest on opening capital Bholi's opening capital of Rs 6,00,000 remains invested throughout the year. Its interest is $6,00,000 \times 12/100 =$ Rs $72,000$. The profit-sharing ratio does not affect this calculation.

Step 2: Add interest on additional capital The Rs 50,000 introduced on 30th September earns interest for six months, October to March. Interest is $50,000 \times 12/100 \times 6/12 =$ Rs $3,000$. Total interest is therefore $72,000 + 3,000 =$ Rs $75,000$. Option (A) treats the addition as invested all year; (C) omits its interest and (D) includes only its interest.

Step 3: Conclusion Interest on Bholi's capital is Rs 75,000. Hence, the correct option is (B).

Quick Tip to Solve: Apply twelve months to opening capital and six months to the September addition.

3(a). Persons who have entered into partnership with one another are collectively called: [1 mark]

(A) Firm

(B) Partnership

(C) Partners

(D) Partners' firm

Correct Answer: (A) Firm

Solution:

Concept:

- Persons entering into partnership are individually called partners and collectively called a firm.
- Partnership denotes the relationship between these persons, rather than their collective name.

Step 1: Identify the wording being tested The question asks for the collective name of persons who have entered into partnership. Their collective identity is the firm; each person individually is a partner.

Step 2: Distinguish the alternatives Option (B), partnership, describes the contractual relationship. Option (C), partners, identifies the individual members but is not the defined collective term requested. Option (D), partners' firm, is not the prescribed term. The word collectively therefore decides the answer.

Step 3: Conclusion They are collectively called a firm. Hence, the correct option is (A).

Quick Tip to Solve: Pair the definitions: individually partners, collectively firm, relationship partnership.

OR

3(b). In the absence of partnership deed, partners are entitled to: [1 mark]

(A) Interest on Capital

(B) Share of profits/losses in the ratio of their capitals

(C) Interest @ 6% p.a. on loans/advances by them to the firm

(D) Remuneration for the firm's work

Correct Answer: (C) Interest @ 6% p.a. on loans/advances by them to the firm

Solution:

Concept:

- In the absence of an agreement, a partner is entitled to interest at 6% per annum on a loan or advance to the firm beyond capital.
- Default rules provide equal profit sharing, no interest on capital and no remuneration for conducting the business.

Step 1: Identify the statutory entitlement A loan or advance by a partner is distinct from the partner's capital contribution. Without a partnership deed specifying otherwise, interest on such a loan or advance is allowed at 6% p.a.; this matches option (C).

Step 2: Check the remaining choices Interest on capital and remuneration require an agreement, so

(A) and (D) are not automatic entitlements. Profits and losses are shared equally in the absence of an agreement, irrespective of capital contributions, which rules out (B).

Step 3: Conclusion Partners are entitled to interest at 6% p.a. on their loans or advances to the firm. Hence, the correct option is (C).

Quick Tip to Solve: Keep loan interest separate from capital interest when applying default partnership rules.

4. When capitals of the partners are fluctuating, then the adjustments for drawings, interest on drawings, interest on capital, partners' salary, etc. are shown in the ____. [1 mark]

(A) Current Account of partners

(B) Capital Account of partners

(C) Drawings Account

(D) Profit and Loss Appropriation Account

Correct Answer: (B) Capital Account of partners

Solution:

Concept:

- Under the fluctuating capital method, all changes relating to a partner are recorded in that partner's capital account.
- Separate current accounts are maintained under the fixed capital method for routine adjustments.

Step 1: Apply the fluctuating capital method Drawings and interest on drawings debit the partner's capital account. Interest on capital, salary and the share of profit credit it. These entries cause the capital balance to fluctuate during the year.

Step 2: Eliminate the other accounts Option (A) belongs to the fixed capital system. A drawings account in (C) does not collect salary and interest on capital. The Profit and Loss Appropriation Account in (D) determines appropriations, but the personal adjustments affecting partners' balances are recorded in their capital accounts.

Step 3: Conclusion The adjustments are shown in the Capital Account of partners. Hence, the correct option is (B).

Quick Tip to Solve: Fluctuating capital absorbs routine partner adjustments; fixed capital uses a current account.

5. Nigam Ltd. issued 40,000, 11% Debentures of Rs 100 each at a certain rate of discount. The debentures were to be redeemed at 20% premium. Existing balance of Securities Premium before issue of these debentures was Rs 13,00,000. After writing off 'Loss on issue of debentures', the balance in Securities Premium was Rs 3,00,000. The above debentures were issued at a discount of: [1 mark]

(A) 20%

(B) 15%

(C) 10%

(D) 5%

Correct Answer: (D) 5%

Solution:

Concept:

- Loss on issue of debentures equals discount on issue plus premium payable on redemption.
- The reduction in Securities Premium used to write off the loss gives the total loss written off.

Step 1: Calculate total loss and redemption premium The loss written off is $13,00,000 - 3,00,000 =$ Rs $10,00,000$. Face value of debentures is $40,000 \times 100 =$ Rs $40,00,000$. Redemption premium is $40,00,000 \times 20/100 =$ Rs $8,00,000$.

Step 2: Find the issue discount rate Discount on issue is $10,00,000 - 8,00,000 =$ Rs $2,00,000$. Hence its rate is $(2,00,000/40,00,000) \times 100 = 5\%$. Rates of 20%, 15% and 10% in the other options would produce discounts exceeding Rs 2,00,000 and therefore a larger total loss than recorded.

Step 3: Conclusion The debentures were issued at a discount of 5%. Hence, the correct option is (D).

Quick Tip to Solve: Subtract redemption premium from the total issue loss before dividing by face value.

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6. On 31st March, 2025, the partnership between Hari and Om was dissolved. Hari was appointed to look after dissolution work for which he was allowed a commission of Rs 9,700. He agreed to bear the dissolution expenses. The actual expenses of dissolution amounted to Rs 8,900 which were paid by Hari's friend, Bhanu on his behalf. The amount debited to Realisation Account will be: [1 mark]

(A) Rs 9,700

(B) Rs 8,900

(C) Rs 10,000

(D) Nil

Correct Answer: (A) Rs 9,700

Solution:

Concept:

- Commission payable to a partner for dissolution work is debited to Realisation Account.
- When that partner agrees to bear actual dissolution expenses, those expenses do not become an additional charge to the firm.

Step 1: Identify the firm's agreed charge Hari is entitled to a fixed commission of Rs 9,700 for carrying out the dissolution work and has agreed to bear the expenses. Consequently the agreed commission is the amount chargeable to Realisation Account.

Step 2: Consider the actual payment The actual Rs 8,900 is paid by Bhanu on Hari's behalf. This settles Hari's own responsibility and does not create a further realisation expense of the firm. Option (B) confuses actual expenses with the agreed commission; (C) has no basis in the agreement and (D) ignores the commission payable.

Step 3: Conclusion Realisation Account is debited with Rs 9,700. Hence, the correct option is (A).

Quick Tip to Solve: When a partner bears expenses for fixed commission, charge only the agreed commission to Realisation.

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7. Atul and Nisha were partners in a firm sharing profits and losses in the ratio of 4:1. Their capitals were Rs 1,20,000 and Rs 90,000 respectively. On 1st April, 2025, they admitted Mona as a new partner in the firm for 1/4th share in the future profits. Mona brought Rs 1,00,000 as her capital. The value of goodwill of the firm was: [1 mark]

(A) Rs 22,500

(B) Rs 4,00,000

(C) Rs 90,000

(D) Rs 1,00,000

Correct Answer: (C) Rs 90,000

Solution:

Concept:

- Total capital implied by an incoming partner's contribution equals that contribution divided by the partner's profit share.
- Hidden goodwill equals implied total capital less the actual combined capital of all partners after admission.

Step 1: Infer the firm's total capital Mona contributes Rs 1,00,000 for a $1/4$ share. The implied capital of the whole firm is $1,00,000 \div (1/4) = \text{Rs } 4,00,000$.

Step 2: Calculate hidden goodwill Actual combined capital is $1,20,000 + 90,000 + 1,00,000 = \text{Rs } 3,10,000$. Hidden goodwill is $4,00,000 - 3,10,000 = \text{Rs } 90,000$. Option (A) is only Mona's one-fourth share of goodwill; (B) is implied total capital and (D) is her capital contribution, so none gives the firm's goodwill.

Step 3: Conclusion The goodwill of the firm is Rs 90,000. Hence, the correct option is (C).

Quick Tip to Solve: Include the incoming partner's capital in actual total capital before finding hidden goodwill.

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8. Yashoda and Devi were partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2025, their balance sheet showed land and building at Rs 20,00,000 and furniture at Rs 6,00,000. On that date they admitted Poonam as a new partner for 1/4th share in the future profits of the firm. On Poonam's admission, it was found that land and building is undervalued by 20%. On Poonam's admission, Revaluation Account will be: [1 mark]

(A) debited by Rs 5,00,000

(B) debited by Rs 25,00,000

(C) credited by Rs 25,00,000

(D) credited by Rs 5,00,000

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

Solution:

Concept:

- An increase in an asset is credited to Revaluation Account; the asset account is debited.
- When an asset is undervalued by 20%, its book value represents 80% of its correct value.

Step 1: Calculate the correct value Let the correct value of land and building be V. Then $0.80V =$ Rs $20,00,000$, so $V =$ Rs $25,00,000$. The required increase is $25,00,000 - 20,00,000 =$ Rs $5,00,000$.

Step 2: Determine the revaluation effect The increase in land and building is a revaluation gain, hence Revaluation Account is credited. Options (A) and (B) incorrectly debit the gain; (C) uses the revised asset value instead of the increase. Furniture and the new partner's share do not enter this calculation.

Step 3: Conclusion Revaluation Account is credited by Rs 5,00,000. Hence, the correct option is (D).

Quick Tip to Solve: Divide the book value by 80% before finding the increase for an asset undervalued by 20%.

9(a). On 1st April, 2024, Mobi Ltd. issued 3,000, 9% Debentures of Rs 1,000 each at a premium of 5%. The total amount of interest due on debentures for the year ended 31st March, 2025 will be: [1 mark]

(A) Rs 2,70,000

(B) Rs 1,50,000

(C) Rs 27,000

(D) Rs 15,000

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

Solution:

Concept:

- Debenture interest is computed on nominal value, irrespective of issue premium.
- Annual interest equals number of debentures multiplied by face value and annual interest rate.

Step 1: Determine nominal debenture capital Nominal debenture capital is $3,000 \times$ Rs $1,000 =$ Rs $30,00,000$. The 5% premium is separate from the principal on which the contractual 9% interest is

calculated.

Step 2: Calculate interest for the year The debentures were issued on 1st April, 2024 and remain outstanding for the full year ending 31st March, 2025. Thus interest is $30,00,000 \times 9/100 =$ Rs $2,70,000$. Option (B) incorrectly uses 5%; (C) is one-tenth of the correct interest and (D) does not represent 9% of the nominal principal.

Step 3: Conclusion Total interest due is Rs 2,70,000. Hence, the correct option is (A).

Quick Tip to Solve: Use face value for debenture interest and check the period before applying the annual rate.

OR

9(b). A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called: [1 mark]

(A) Uncalled capital

(B) Paid-up capital

(C) Called-up capital

(D) Reserve capital

Correct Answer: (D) Reserve capital

Solution:

Concept:

- Reserve capital is the portion of uncalled share capital reserved for calling only on winding up.
- Called-up capital is the amount demanded from shareholders; paid-up capital is the amount actually received against calls.

Step 1: Identify the restriction in the question The crucial condition is that the company may demand the specified amount only in the event of winding up. This describes a specially reserved portion of uncalled capital, with a restriction on when it can be called.

Step 2: Distinguish the other terms Option (A), uncalled capital, is the broader amount that has not yet been demanded and need not be restricted to winding up. Options (B) and (C) refer respectively to capital received and capital already demanded. Neither describes an amount reserved for a future winding-up call.

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

Quick Tip to Solve: Look for the words "only in the event of winding up" to identify reserve capital.

10. Chaman, Raman and Suman were partners in a firm sharing profits and losses in the ratio of 5:3:2. With effect from 1st April, 2025, they decided to share the future profits in the ratio of 2:3:5. For this purpose, it was agreed that the goodwill of the firm be valued at Rs 1,00,000. The treatment of goodwill without opening goodwill account will be: [1 mark]

(A) Debit Chaman's Capital A/c by Rs 30,000 and Credit Suman's Capital A/c by Rs 30,000

(B) Debit Suman's Capital A/c by Rs 30,000 and Credit Chaman's Capital A/c by Rs 30,000

(C) Debit Chaman's Capital A/c and Suman's Capital A/c by Rs 15,000 each and credit Raman's Capital A/c by Rs 30,000

(D) Debit Raman's Capital A/c by Rs 30,000 and Credit Chaman's Capital A/c and Suman's Capital A/c by Rs 15,000 each

Correct Answer: (B) Debit Suman's Capital A/c by Rs 30,000 and Credit Chaman's Capital A/c by Rs 30,000

Solution:

Concept:

- The gaining partner compensates the sacrificing partner for goodwill when no goodwill account is opened.
- Sacrifice equals old share minus new share; gain equals new share minus old share.

Step 1: Find sacrifice and gain Chaman sacrifices $5/10 - 2/10 = 3/10$. Raman's share is unchanged at $3/10$. Suman gains $5/10 - 2/10 = 3/10$. Thus only Chaman and Suman participate in the goodwill adjustment.

Step 2: Calculate compensation and its direction The compensation is Rs $1,00,000 \times 3/10 =$ Rs $30,000$. Debit the gaining partner Suman and credit the sacrificing partner Chaman. Option (A) reverses the direction; options (C) and (D) wrongly involve Raman, whose share has not changed.

Step 3: Conclusion Debit Suman's Capital Account by Rs 30,000 and credit Chaman's Capital Account by Rs 30,000. Hence, the correct option is (B).

Quick Tip to Solve: Calculate each partner's change in share first: the gainer pays and the sacrificer receives.

11(a). Paramount Ltd. forfeited 2,000 equity shares of Rs 100 each, Rs 80 called up, issued at a premium of 10%, for non-payment of first call of Rs 20 per share. On forfeiture of these shares, Equity Share Capital Account will be ____ by ____. [1 mark]

(A) debited, Rs 1,60,000

(B) credited, Rs 1,60,000

(C) debited, Rs 2,00,000

(D) credited, Rs 2,00,000

Correct Answer: (A) debited, Rs 1,60,000

Solution:

Concept:

- On forfeiture, Equity Share Capital Account is debited with the called-up nominal capital on the forfeited shares.

- Securities premium is accounted for separately and is not part of equity share capital.

Step 1: Identify the capital being cancelled The company has called up Rs 80 of the Rs 100 nominal value on each share. Therefore the capital recorded for the 2,000 shares is $2,000 \times \text{Rs } 80 = \text{Rs } 1,60,000$. The uncalled Rs 20 per share has not yet formed part of called-up capital.

Step 2: Determine debit or credit Forfeiture cancels the recorded share capital, so the capital account must be debited. The first-call default affects the unpaid-call side of the forfeiture entry; it does not change the called-up amount debited. Options (B) and (D) use the wrong direction, while (C) uses the full face value instead of called-up value.

Step 3: Conclusion Equity Share Capital Account is debited by Rs 1,60,000. Hence, the correct option is (A).

Quick Tip to Solve: For forfeiture, multiply forfeited shares by called-up nominal value, excluding premium.

OR

11(b). Rudali Ltd. invited applications for issuing 2,00,000 equity shares of Rs 10 each at a premium of Rs 2 per share. Rs 5 per share (including premium) was payable on application. Applications for 2,60,000 shares were received. An applicant for 5,000 shares paid his entire share money along with application. The amount received on application was: [1 mark]

(A) Rs 10,00,000

(B) Rs 12,00,000

(C) Rs 12,35,000

(D) Rs 13,35,000

Correct Answer: (D) Rs 13,35,000

Solution:

Concept:

- Application receipts include the prescribed application amount on all shares applied for, plus any advance money received.
- Full issue price equals face value plus securities premium.

Step 1: Calculate normal application receipts Applications were received for 2,60,000 shares. At Rs 5 per share, the normal receipts are $2,60,000 \times 5 = \text{Rs } 13,00,000$. Use applications received, rather than the 2,00,000 shares offered.

Step 2: Add the advance paid by one applicant The full issue price is $10 + 2 = \text{Rs } 12$. Since Rs 5 per share is already included above, additional money on 5,000 shares is $5,000 \times (12 - 5) = \text{Rs } 35,000$. Total receipts are $13,00,000 + 35,000 = \text{Rs } 13,35,000$. Options (A), (B) and (C) do not include both the actual application volume and this extra payment correctly.

Step 3: Conclusion The amount received on application was Rs 13,35,000. Hence, the correct option is (D).

Quick Tip to Solve: Count the full-paying applicant at the normal application rate first, then add only the balance.

12. Delta Ltd. issued 5,000, 10% Debentures of Rs 500 each at Rs 450 per debenture. 10% Debentures Account will be credited by: [1 mark]

(A) Rs 5,00,000

(B) Rs 25,00,000

(C) Rs 2,25,000

(D) Rs 4,50,000

Correct Answer: (B) Rs 25,00,000

Solution:

Concept:

- Debentures Account records the nominal liability, even when debentures are issued at a discount.
- The discount equals the difference between nominal value and issue price and is accounted for separately.

Step 1: Compute the nominal liability The company issues 5,000 debentures with face value Rs 500 each. Therefore the amount credited to 10% Debentures Account is $5,000 \times \text{Rs } 500 = \text{Rs } 25,00,000$. The 10% coupon describes interest, not the amount of principal credited.

Step 2: Separate proceeds from the liability Cash proceeds are $5,000 \times 450 = \text{Rs } 22,50,000$, and the discount is $5,000 \times 50 = \text{Rs } 2,50,000$. Together these explain the nominal credit of Rs 25,00,000. Options (A), (C) and (D) each fail to equal the number issued multiplied by face value.

Step 3: Conclusion 10% Debentures Account is credited by Rs 25,00,000. Hence, the correct option is (B).

Quick Tip to Solve: For the credit to Debentures Account, multiply the number issued by face value, not issue price.

13. Sana Ltd. purchased assets of Rs 19,00,000 from MN Ltd. Sana Ltd. issued 10% Debentures of Rs 100 each at a discount of 5% in full satisfaction of the purchase consideration. The number of debentures issued to MN Ltd. was: [1 mark]

(A) 3,80,000

(B) 20,000

(C) 19,000

(D) 10,000

Correct Answer: (B) 20,000

Solution:

Concept:

- Debentures issued to a vendor settle the purchase consideration at their issue price.
- Issue price at a discount equals face value minus the discount on face value.

Step 1: Calculate the issue price per debenture The face value is Rs 100 and the discount is 5%. Thus the issue price is $100 - (100 \times 5/100) = \text{Rs } 95$. The 10% interest rate does not determine the issue price or the number of debentures.

Step 2: Calculate and verify the number Number issued is Rs $19,00,000/\text{Rs } 95 = 20,000$. Check: $20,000 \times 95 = \text{Rs } 19,00,000$, exactly settling the vendor's claim. Option (C) uses face value instead of issue price; options (A) and (D) would not settle the stated purchase consideration at Rs 95 each.

Step 3: Conclusion The number of debentures issued is 20,000. Hence, the correct option is (B).

Quick Tip to Solve: Divide purchase consideration by the discounted issue price; the coupon rate is irrelevant.

14(a). Atul, Bajaj and Madan were partners in a firm sharing profits and losses in the ratio of 1:2:5. The partnership deed provides that interest on a partner's drawings shall be charged @ 18% per annum. During the year ended 31st March, 2025, Bajaj withdrew Rs 7,000 at the end of each quarter. Interest on Bajaj's drawings will be: [1 mark]

(A) Rs 1,890

(B) Rs 3,150

(C) Rs 420

(D) Rs 5,040

Correct Answer: (A) Rs 1,890

Solution:

Concept:

- Interest on drawings is charged for the period each withdrawal remains outstanding up to the year end.
- For equal withdrawals at the end of each quarter, the average period is 4.5 months.

Step 1: Find the periods of the four drawings Bajaj withdraws Rs 7,000 on 30th June, 30th September, 31st December and 31st March. The respective periods to 31st March are 9, 6, 3 and 0 months, giving an average of $(9+6+3+0)/4 = 4.5$ months.

Step 2: Calculate interest Total drawings are $4 \times 7,000 = \text{Rs } 28,000$. Interest is $28,000 \times 18/100 \times 4.5/12 = \text{Rs } 1,890$. Option (B) corresponds to beginning-of-quarter timing, and (D) charges a full year on all drawings; (C) does not apply the stated 18% rate and correct periods. The profit-sharing ratio does not affect interest on Bajaj's drawings.

Step 3: Conclusion Interest on Bajaj's drawings is Rs 1,890. Hence, the correct option is (A).

Quick Tip to Solve: End-of-quarter drawings use 4.5 months; beginning-of-quarter drawings use 7.5 months.

OR

14(b). Damodar, Rao and Shridharan were partners in a firm sharing profits and losses in the ratio of 3:1:1. Their fixed capitals were Rs 4,00,000; Rs 3,00,000 and Rs 2,00,000 respectively. Interest on capital is allowed at the rate of 6% per annum. Journal entry for allowing interest on Rao's capital will be: [1 mark]

(A) Profit & Loss Appropriation A/c Dr. 18,000; To Rao's Capital A/c 18,000

(B) Profit & Loss Appropriation A/c Dr. 18,000; To Rao's Current A/c 18,000

(C) Interest on Capital A/c Dr. 18,000; To Rao's Current A/c 18,000

(D) Interest on Capital A/c Dr. 18,000; To Rao's Capital A/c 18,000

Correct Answer: (C) Interest on Capital A/c Dr. 18,000; To Rao's Current A/c 18,000

Solution:

Concept:

- Under the fixed capital method, routine adjustments such as interest on capital are credited to the partner's Current Account.
- Interest on capital equals capital multiplied by the annual rate and the period in years.

Step 1: Calculate interest Rao's capital is Rs 3,00,000. Hence interest for the year is $3,00,000 \times 6/100 = \text{Rs } 18,000$. The profit-sharing ratio does not enter this calculation.

Step 2: Record the allowance Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Interest on Capital A/c Dr.		18,000	
	To Rao's Current A/c			18,000
	(Being interest on fixed capital allowed)			

Options (A) and (D) wrongly credit the fixed Capital Account. Option (B) gives a direct appropriation entry rather than the entry for allowing interest through the Interest on Capital Account. That account is subsequently transferred to Profit and Loss Appropriation Account.

Step 3: Conclusion Rao's Current Account is credited by Rs 18,000. The correct option is (C).

Quick Tip to Solve: First check whether capitals are fixed; routine adjustments then go to Current Accounts.

15. Assertion (A): In case of admission of a new partner in the partnership firm, there is a need to ascertain the new profit sharing ratio among all the partners.

Reason (R): On admission of a new partner, the profit sharing ratio among the old partners will change, keeping in view their respective contribution to the profit sharing ratio of the incoming partner.

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:

- New share of an old partner equals old share less the share sacrificed to the incoming partner.
- The new ratio specifies the shares of all partners after admission.

Step 1: Judge the Assertion The Assertion is correct. Admission gives the incoming partner a share in future profits. The firm must therefore ascertain the new shares of every partner for subsequent allocation of profits and losses.

Step 2: Judge the Reason The Reason is correct in the context of admission: the old partners' shares are adjusted according to their respective contributions to the new partner's share. Their remaining shares, together with the incoming partner's share, make up the whole profit.

Step 3: Test the explanatory link The need to determine how much each existing partner sacrifices is precisely why the new profit-sharing ratio must be calculated. Thus the Reason explains the Assertion. Option (B) wrongly denies this link, while (C) and (D) wrongly reject one of the statements.

Step 4: Conclusion Both statements are correct and the Reason explains the Assertion. The correct option is (A).

Quick Tip to Solve: Subtract each partner's own sacrifice from that partner's old share before forming the new ratio.

16. Dharam and Karan were partners in a firm sharing profits and losses in the ratio of 7:3. On 1st April, 2025, they admitted Vinod as a new partner in the firm. Dharam surrendered 1/3rd of his share in favour of Vinod and Karan surrendered 1/4th of his share in favour of Vinod. The new profit sharing ratio will be: [1 mark]

(A) 7:3:1

(B) 56:27:10

(C) 27:56:10

(D) 56:27:37

Correct Answer: (D) 56:27:37

Solution:

Concept:

- A surrender of a fraction of a partner's share is applied to that partner's old share, not to total profits.
- The incoming partner receives the sum of the shares sacrificed by the old partners.

Step 1: Find the remaining shares Old shares of Dharam and Karan are $7/10$ and $3/10$. Dharam retains $\frac{7}{10}(1-\frac{1}{3}) = \frac{7}{15} = \frac{56}{120}$. Karan retains $\frac{3}{10}(1-\frac{1}{4}) = \frac{9}{40} = \frac{27}{120}$.

Step 2: Find Vinod's share and check the options Vinod receives $\frac{7}{10} \times \frac{1}{3} + \frac{3}{10} \times \frac{1}{4} = \frac{7}{30} + \frac{3}{40} = \frac{37}{120}$. The shares total $(56+27+37)/120 = 1$. Option (A) ignores the specified sacrifices; (B) has the wrong incoming share; (C) also reverses the old partners' order.

Step 3: Conclusion The new ratio Dharam : Karan : Vinod is $56 : 27 : 37$. The correct option is (D).

Quick Tip to Solve: Use a common denominator only after calculating the fractions each old partner retains.

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17. Rani, Megha and Mahan were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 1st April, 2025, their capitals were Rs 7,50,000; Rs 4,00,000 and Rs 5,00,000 respectively. The firm closes its books on 31st March every year. On 31st December, 2025, Mahan died. The partnership deed provides that in the event of death of a partner, his/her legal representatives will be entitled to the following:

(i) Interest on capital @ 12% p.a.

(ii) His share in the profits of the firm till the date of his death.

Mahan had withdrawn Rs 1,20,000 for personal use till 31st December, 2025 and interest on drawings @ 10% p.a. is to be charged. His share in the profits of the firm was calculated on the basis of the average profits of last three years. The average profits of last three years were Rs 6,00,000.

Prepare Mahan's Capital Account to be presented to his legal representatives. [3 marks]

Solution:

Concept:

- The deceased partner is credited with interest on capital and accrued profit up to death, and debited with drawings and interest on drawings.

- Where dates of drawings are not given, drawings are treated as spread evenly over the relevant period; the average period is half that period.

Step 1: Calculate accrued entitlements The period from 1st April to 31st December is nine months. Interest on capital is $5,00,000 \times 12/100 \times 9/12 =$ Rs $45,000$. Mahan's profit share is $1/(2+2+1) = 1/5$. His profit to the date of death is $6,00,000 \times 9/12 \times 1/5 =$ Rs $90,000$. This amount is credited through Profit and Loss Suspense Account because the current year's actual profit is not yet available.

Step 2: Calculate drawings adjustment Total drawings are Rs 1,20,000. As individual withdrawal dates are not specified, the average period for drawings over nine months is $9/2 = 4.5$ months. Interest on drawings is $1,20,000 \times 10/100 \times 4.5/12 =$ Rs $4,500$. Both drawings and this interest reduce the amount due.

Step 3: Prepare the account Mahan's Capital Account (up to 31st December, 2025)

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Drawings A/c	1,20,000	By Balance b/d	5,00,000	
	To Interest on Drawings A/c	4,500	By Interest on Capital A/c	45,000	
	To Mahan's Executors' A/c	5,10,500	By Profit and Loss Suspense A/c	90,000	
	Total	6,35,000	Total	6,35,000	

The balance due is transferred to the Executors' Account, closing the deceased partner's Capital Account. Thus no balance remains to carry down in his name.

Step 4: Conclusion The amount payable to Mahan's legal representatives is Rs 5,10,500.

Quick Tip to Solve: For a death during the year, use the same elapsed period for capital interest and estimated profit.

18(a). Oasis Ltd. purchased building worth Rs 12,00,000, machinery worth Rs 1,90,000 and furniture worth Rs 3,00,000 from Nitara Ltd. and took over its liabilities of Rs 90,000 for a purchase consideration of Rs 15,30,000. Oasis Ltd. paid the purchase consideration by issuing 11% Debentures of Rs 100 each at a discount of 10%. Pass necessary journal entries in the books of Oasis Ltd. for the above transactions. [3 marks]

Solution:

Concept:

- Net assets equal assets acquired less liabilities assumed. Excess net assets over purchase consideration is Capital Reserve.
- Debentures are credited at face value; a discount on issue is separately debited.

Step 1: Calculate net assets and consideration Total assets are $12,00,000 + 1,90,000 + 3,00,000 =$ Rs $16,90,000$. Net assets are $16,90,000 - 90,000 =$ Rs $16,00,000$. Purchase consideration is Rs 15,30,000, so Capital Reserve is $16,00,000 - 15,30,000 =$ Rs $70,000$.

Step 2: Calculate the debenture issue Each Rs 100 debenture is issued at $100 - 10 =$ Rs 90. The number issued is $15,30,000/90 = 17,000$. Their face value is Rs 17,00,000 and the discount is

$17,000 \times 10 = \text{Rs } 1,70,000$. The 11 percent coupon determines future interest; it does not determine the issue proceeds.

Step 3: Pass the journal entries Journal of Oasis Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Building A/c Dr.		12,00,000	
	Machinery A/c Dr.		1,90,000	
	Furniture A/c Dr.		3,00,000	
	To Sundry Liabilities A/c			90,000
	To Nitara Ltd.			15,30,000
	To Capital Reserve A/c			70,000
	(Being assets and liabilities taken over)			
	Nitara Ltd. Dr.		15,30,000	
	Discount on Issue of Debentures A/c Dr.		1,70,000	
	To 11% Debentures A/c			17,00,000
	(Being 17,000 debentures issued at 10% discount in settlement)			

The first entry balances at Rs 16,90,000 and the settlement entry balances at Rs 17,00,000. The vendor's liability is thereby fully discharged.

Step 4: Conclusion Capital Reserve is Rs 70,000; 17,000 debentures are issued, with discount of Rs 1,70,000.

Quick Tip to Solve: Divide the purchase consideration by issue price, then credit debentures at their face value.

OR

18(b). On 1st April, 2025, Bharat Heavy Industries Ltd. purchased the running business of Mac Ltd. consisting of sundry assets of the book value of Rs 20,00,000 and sundry liabilities of Rs 8,00,000 for a purchase consideration of Rs 15,00,000. The purchase consideration was paid by issuing 8,000, 9% Debentures of Rs 100 each at a premium of 25% and the balance was paid by a bank draft in favour of Mac Ltd. Pass necessary journal entries for the above transactions in the books of Bharat Heavy Industries Ltd. [3 marks]

Solution:

Concept:

- Goodwill is purchase consideration less net identifiable assets acquired.
- Debentures are credited at nominal value and the issue premium is credited to Securities Premium Reserve.

Step 1: Calculate goodwill Net assets taken over are $20,00,000 - 8,00,000 = \text{Rs } 12,00,000$. Purchase consideration exceeds net assets by $15,00,000 - 12,00,000 = \text{Rs } 3,00,000$, which is recorded as Goodwill. The purchase consideration is the amount payable to Mac Ltd.; it is not the face value of debentures.

Step 2: Calculate the settlement amounts Nominal value of 8,000 debentures is $8,000 \times 100 = \text{Rs } 8,00,000$. Premium is $8,00,000 \times 25/100 = \text{Rs } 2,00,000$. Thus the debentures discharge Rs

10,00,000 and the bank draft pays the balance $15,00,000 - 10,00,000 =$ Rs $5,00,000$. The 9 percent rate is the coupon rate, not the issue premium.

Step 3: Pass the journal entries Journal of Bharat Heavy Industries Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Sundry Assets A/c Dr.		20,00,000	
	Goodwill A/c Dr.		3,00,000	
	To Sundry Liabilities A/c			8,00,000
	To Mac Ltd.			15,00,000
	(Being running business purchased)			
1-4-2025	Mac Ltd. Dr.		15,00,000	
	To 9% Debentures A/c			8,00,000
	To Securities Premium Reserve A/c			2,00,000
	To Bank A/c			5,00,000
	(Being purchase consideration settled by debentures at 25% premium and bank draft)			

Both entries balance: the acquisition entry at Rs 23,00,000 and the settlement entry at Rs 15,00,000.

Step 4: Conclusion Goodwill is Rs 3,00,000, Securities Premium Reserve is Rs 2,00,000 and the bank draft is Rs 5,00,000.

Quick Tip to Solve: Value debentures at face value plus issue premium before finding the cash balance payable.

19(a). Laxmi, Rani and Priya were partners in a firm sharing profits and losses in the ratio of 5:7:8. Their fixed capitals were Rs 8,00,000; Rs 7,00,000 and Rs 5,00,000 respectively. The partnership deed provided interest on capital @ 9% per annum. For the year ending 31st March, 2025, interest on capital was provided @ 12% per annum. Showing your workings clearly, pass a single adjustment entry to rectify the error. [3 marks]

Solution:

Concept:

- Interest on capital is an appropriation of profit. Excess interest credited must be reversed, while the resulting increase in divisible profit is credited in the profit-sharing ratio.
- With fixed capitals, adjustments are made through partners' current accounts. The net adjustment equals the restored profit share less the excess interest already received.

Step 1: Calculate excess interest The excess rate is $12\% - 9\% = 3\%$. The amounts wrongly credited are:

Particulars (Rs)	Laxmi	Rani	Priya
Interest at 12%	96,000	84,000	60,000
Correct interest at 9%	72,000	63,000	45,000
Excess interest	24,000	21,000	15,000

Thus, total excess interest is Rs 60,000. Reversing it increases the profit available for distribution by the same amount.

Step 2: Find the net adjustment Distribute Rs 60,000 in the ratio $5 : 7 : 8$, whose total is 20:

$$\text{Laxmi's share} = 60,000 \times 5/20 = 15,000,$$
$$\text{Rani's share} = 60,000 \times 7/20 = 21,000,$$
$$\text{Priya's share} = 60,000 \times 8/20 = 24,000.$$

Laxmi must give up Rs $24,000 - 15,000 = 9,000$. Rani's excess interest equals her restored share, so no net adjustment is due. Priya must receive Rs $24,000 - 15,000 = 9,000$.

Step 3: Pass the single adjustment entry Journal of the Firm (31st March, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2025	Laxmi's Current A/c Dr.		9,000	
	To Priya's Current A/c			9,000
	(Being excess interest on capital adjusted through current accounts)			

The debit and credit are equal. Fixed capital balances are unaffected because the correction belongs in current accounts.

Step 4: Conclusion Debit Laxmi's Current A/c by Rs 9,000 and credit Priya's Current A/c by Rs 9,000; Rani needs no adjustment.

Quick Tip to Solve: Use only the excess 3% interest, then compare it with each partner's share of Rs 60,000 restored profit.

OR

19(b). Sukesh and Surbhi were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st April, 2024, they admitted Suman, as a new partner for 1/5th share in the profits of the firm with a minimum guaranteed profit of Rs 1,20,000. Any deficiency arising on that account will be borne by Sukesh. The net profit of the firm for the year ended 31st March, 2025 was Rs 5,50,000. Prepare Profit and Loss Appropriation Account of the firm for the year ended 31st March, 2025. [3 marks]

Solution:

Concept:

- A new partner receiving one-fifth leaves four-fifths for the old partners, divided in their old ratio unless another ratio is agreed.
- A guaranteed minimum is compared with the new partner's normal profit share. A deficiency borne by one named partner is deducted only from that partner's share.

Step 1: Determine the new profit-sharing ratio Suman receives $1/5$. Sukesh and Surbhi retain $4/5$ collectively and share it in $5 : 3$:

$$\text{Sukesh} = \frac{4}{5} \times \frac{5}{8} = \frac{1}{2},$$
$$\text{Surbhi} = \frac{4}{5} \times \frac{3}{8} = \frac{3}{10},$$
$$\text{Suman} = \frac{1}{5}.$$

Thus, their new ratio is $5 : 3 : 2$. These fractions add to one, so all the firm's profit is distributed.

Step 2: Calculate the guarantee deficiency Normal shares of the net profit of Rs 5,50,000 are Sukesh Rs 2,75,000, Surbhi Rs 1,65,000 and Suman Rs 1,10,000. Suman's guaranteed amount is Rs 1,20,000, so:

$$\text{Deficiency} = 1,20,000 - 1,10,000 = \text{Rs } 10,000.$$

Sukesh alone bears the deficiency. His final share is Rs $2,75,000 - 10,000 = 2,65,000$. Surbhi's share remains Rs 1,65,000 and Suman receives Rs 1,20,000. The guarantee redistributes profit; it does not increase the firm's total profit.

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

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Sukesh's Capital A/c	2,65,000	By Profit and Loss A/c	5,50,000	
	To Surbhi's Capital A/c	1,65,000	(Net profit)		
	To Suman's Capital A/c	1,20,000			
	Total	5,50,000	Total	5,50,000	

The whole profit is appropriated, leaving no closing balance. No interest, salary or other appropriation is given in the question.

Step 4: Conclusion Final profit shares: Sukesh Rs 2,65,000; Surbhi Rs 1,65,000; Suman Rs 1,20,000. Total appropriation is Rs 5,50,000.

Quick Tip to Solve: Compute Suman's normal one-fifth share first; debit the Rs 10,000 shortfall only to Sukesh.

20. Akash and Mita were partners in a firm sharing profits and losses in the ratio of 5:3. Their capitals were Rs 9,00,000 and Rs 6,00,000 respectively. The normal rate of return was 15%.

The profits of the last four years were:

Year	Profit (Rs)
2021-22	**5,50,000**
2022-23	**5,00,000**
2023-24	**(1,50,000)**
2024-25	**6,50,000**

The closing stock for the year 2024-25 was undervalued by Rs 50,000. Goodwill is to be valued at two years' purchase of last four years' average super profits. Calculate the value of goodwill of the firm. [3 marks]

Solution:

Concept:

- Correct historical profits before averaging. Undervaluation of closing stock understates that year's profit by the same amount, so add it back.
- Normal profit equals capital employed multiplied by the normal rate of return. Super profit is maintainable average profit less normal profit; goodwill equals super profit multiplied by

years'purchase.

Step 1: Correct the profit and find the average The closing stock for 2024–25 is undervalued by Rs 50,000. Correcting closing stock increases that year's gross profit and hence net profit:

$$\text{Corrected profit for 2024–25} = 6,50,000 + 50,000 = \text{Rs } 7,00,000.$$

The loss in 2023–24 must be deducted, not added:

Year	Adjusted profit/(loss) (Rs)
2021–22	5,50,000
2022–23	5,00,000
2023–24	(1,50,000)
2024–25	7,00,000
Total	16,00,000

Therefore, average profit is Rs $16,00,000/4 = 4,00,000$. The question gives only this closing-stock correction, so it is applied to the stated year's profit.

Step 2: Calculate normal profit and super profit Capital employed is the total capital of the partners:

$$\text{Capital employed} = 9,00,000 + 6,00,000 = \text{Rs } 15,00,000,$$
$$\text{Normal profit} = 15,00,000 \times \frac{15}{100} = \text{Rs } 2,25,000,$$
$$\text{Average super profit} = 4,00,000 - 2,25,000 = \text{Rs } 1,75,000.$$

The normal return is the benchmark earning on the combined capital. The profit-sharing ratio $5:3$ does not enter the valuation of the firm's total goodwill.

Step 3: Apply two years purchase The firm earns Rs 1,75,000 per year above the normal return. Under the prescribed super-profit method:

$$\text{Goodwill} = \text{Average super profit} \times 2 = 1,75,000 \times 2 = \text{Rs } 3,50,000.$$

Equivalently, since capital employed and the normal rate are the same for the four years, subtracting the annual normal profit from the average profit gives the same result as averaging the four annual super profits.

Step 4: Conclusion The value of goodwill of the firm is $\boxed{\text{Rs } 3,50,000}$.

Quick Tip to Solve: Add Rs 50,000 to the last profit, retain the Rs 1,50,000 loss as negative, and deduct normal return before multiplying by two.

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

(i) AB Ltd. issued 30,000, 10% Debentures of Rs 100 each at a premium of 5%, redeemable at a premium of 10%.

(ii) CD Ltd. issued 40,000, 8% Debentures of Rs 100 each at par, redeemable at a premium of 10%. [4 marks]

Solution:

Concept:

- The nominal value of debentures is credited to the relevant Debentures Account. Cash received includes the issue premium, which is credited separately to Securities Premium Reserve.
- Premium payable on redemption is a liability credited on issue; the corresponding debit is Loss on Issue of Debentures. The coupon rate determines interest and does not change the amount received on issue.

Step 1: Calculate the amounts for AB Ltd. The nominal value is $30,000 \times \text{Rs } 100 = \text{Rs } 30,00,000$. Issue premium is $5\% \times 30,00,000 = \text{Rs } 1,50,000$, so Bank receives Rs 31,50,000. Redemption premium is $10\% \times 30,00,000 = \text{Rs } 3,00,000$, recorded as loss on issue and as a liability.

Journal of AB Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		31,50,000	
	Loss on Issue of Debentures A/c Dr.		3,00,000	
	To 10% Debentures A/c			30,00,000
	To Securities Premium Reserve A/c			1,50,000
	To Premium on Redemption of Debentures A/c			3,00,000
	(Being 30,000 debentures issued at 5% premium, redeemable at 10% premium)			

Step 2: Record the issue by CD Ltd. The nominal value is $40,000 \times \text{Rs } 100 = \text{Rs } 40,00,000$. Since the issue is at par, Bank receives Rs 40,00,000 and there is no securities premium. Redemption premium is $10\% \times 40,00,000 = \text{Rs } 4,00,000$.

Journal of CD Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		40,00,000	
	Loss on Issue of Debentures A/c Dr.		4,00,000	
	To 8% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			4,00,000
	(Being 40,000 debentures issued at par, redeemable at 10% premium)			

The debits and credits total Rs 34,50,000 in AB Ltd. and Rs 44,00,000 in CD Ltd. respectively.

Step 3: Conclusion AB Ltd. records issue premium of Rs 1,50,000 and loss on issue of Rs 3,00,000; CD Ltd. records loss on issue of Rs 4,00,000. The entries above recognise both issues and their redemption premiums.

Quick Tip to Solve: Compute both premiums on face value; the 10% and 8% coupon rates do not enter these issue entries.

22. Vikas, Saurav and Govind were partners in a firm sharing profits and losses in the ratio of 2:3:5. On 31st March, 2025, their capitals were Rs 5,00,000; Rs 3,00,000 and Rs 2,00,000 respectively. With effect from 1st April, 2025, they decided to share the future profits equally. Due to change in profit sharing ratio, it was agreed that:

(i) Goodwill of the firm will be valued at Rs 9,00,000.

(ii) Revaluation of assets and liabilities will be carried out. The revaluation of assets and reassessment of liabilities resulted in a loss of Rs 1,00,000.

(iii) The total capital of the reconstituted firm will be Rs 12,00,000 and the same will be in proportion of the new profit sharing ratio of the partners. For this purpose, necessary cash will be brought in by the partners or paid off to the partners, as the case may be.

Prepare Partners' Capital Accounts on the reconstitution of the firm. [4 marks]

Solution:

Concept:

- On a change in profit sharing ratio, gaining partners compensate sacrificing partners for goodwill: goodwill adjustment equals firm goodwill multiplied by the individual gain or sacrifice.
- Revaluation loss belongs to the partners in their old ratio. After goodwill and revaluation adjustments, compare each adjusted capital with the capital required in the new ratio to find cash introduced or withdrawn.

Step 1: Adjust goodwill in the partners' capitals The old shares of Vikas, Saurav and Govind are $2/10, 3/10, 5/10$; each new share is $1/3$. Thus:

$$\text{Vikas's gain} = \frac{1}{3} - \frac{2}{10} = \frac{2}{15},$$
$$\text{Saurav's gain} = \frac{1}{3} - \frac{3}{10} = \frac{1}{30},$$
$$\text{Govind's sacrifice} = \frac{5}{10} - \frac{1}{3} = \frac{1}{6}.$$

Vikas is debited $9,00,000 \times 2/15 = \text{Rs } 1,20,000$; Saurav is debited $9,00,000 \times 1/30 = \text{Rs } 30,000$. Govind is credited $9,00,000 \times 1/6 = \text{Rs } 1,50,000$. This direct adjustment compensates Govind without raising goodwill in the books.

Step 2: Determine revaluation loss and cash adjustments Distribute the Rs 1,00,000 revaluation loss in the old ratio $2:3:5$: Vikas Rs 20,000, Saurav Rs 30,000 and Govind Rs 50,000. Their adjusted capitals are therefore:

$$\text{Vikas} = 5,00,000 - 1,20,000 - 20,000 = \text{Rs } 3,60,000,$$
$$\text{Saurav} = 3,00,000 - 30,000 - 30,000 = \text{Rs } 2,40,000,$$
$$\text{Govind} = 2,00,000 + 1,50,000 - 50,000 = \text{Rs } 3,00,000.$$

Required capital per partner is Rs $12,00,000/3 = \text{Rs } 4,00,000$. Cash introduced equals required capital minus adjusted capital: Rs 40,000, Rs 1,60,000 and Rs 1,00,000 respectively. All three introduce cash; no partner withdraws cash.

Step 3: Prepare the capital accounts Partners' Capital Accounts (amounts in Rs)

Dr.							Cr.
Particulars	Vikas	Saurav	Govind	Particulars	Vikas	Saurav	Govind
To Govind's Capital	1,20,000	30,000	–	By Balance b/d	5,00,000	3,00,000	2,00,000
To Revaluation	20,000	30,000	50,000	By Vikas's Capital	–	–	1,20,000
To Balance c/d	4,00,000	4,00,000	4,00,000	By Saurav's Capital	–	–	30,000
				By Bank (cash introduced)	40,000	1,60,000	1,00,000
Total	5,40,000	4,60,000	4,50,000	Total	5,40,000	4,60,000	4,50,000

The goodwill debits equal the goodwill credit, Rs 1,50,000. Total adjusted capital before cash is Rs 9,00,000; adding Rs 3,00,000 cash brings total capital to Rs 12,00,000.

Step 4: Conclusion Vikas, Saurav and Govind bring in Rs 40,000, Rs 1,60,000 and Rs 1,00,000 respectively. Each partner closes with capital of Rs 4,00,000, giving total capital of Rs 12,00,000 in the new equal ratio.

Quick Tip to Solve: Apply goodwill and revaluation first; only then compare each adjusted capital with the equal target of Rs 4,00,000.

23. Sophia and Lalit were partners in a firm sharing profits and losses equally. Their firm was dissolved on 31st March, 2025. After transferring sundry assets (other than cash in hand and cash at bank) and the third party liabilities to the Realisation Account, the following transactions took place:

(i) The firm had stock of the book value of Rs 80,000. 50% of the stock was taken over by Sophia at 10% less than its book value and the remaining stock was sold at a gain of 15%.

(ii) There was an unrecorded investment which was sold for Rs 25,000.

(iii) There were debtors of Rs 1,20,000. Debtors realised 90% only and Rs 5,000 were recovered for bad debts written off last year.

(iv) Sophia had given a loan to the firm of Rs 52,000. She was paid Rs 41,000 in full settlement of her claim.

(v) Creditors of Rs 60,000 were paid at a discount of 5%.

(vi) Expenses of realisation amounting to Rs 7,000 were paid by Lalit.

Pass necessary journal entries for the above transactions in the books of the firm. [6 marks]

Solution:

Concept:

- After assets and third party liabilities are transferred, asset recoveries credit Realisation Account and liability settlements debit it.
- An asset taken by a partner is debited to that partner's capital account. Partner loans are settled separately; any concession is a realisation gain.
- Realisation expenses paid personally by a partner are debited to Realisation Account and credited

to the partner's capital account.

Step 1: Work out the stock realisations The book value of each half is $80,000 \times 50\% =$ Rs $40,000$. Sophia takes her half at $40,000 \times 90\% =$ Rs $36,000$, debited to her capital. The remaining half realises $40,000 \times 115\% =$ Rs $46,000$ in bank. Since stock has already been transferred to Realisation Account, both recoveries credit Realisation Account.

Step 2: Record stock, investment and debtor recoveries Journal of the firm (31st March, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sophia's Capital A/c Dr.		36,000	
	To Realisation A/c			36,000
	(Being half of stock taken over at 10 percent below book value.)			
	Bank A/c Dr.		46,000	
	To Realisation A/c			46,000
	(Being remaining stock sold at a gain of 15 percent.)			
	Bank A/c Dr.		25,000	
	To Realisation A/c			25,000
	(Being unrecorded investment sold.)			
	Bank A/c Dr.		1,08,000	
	To Realisation A/c			1,08,000
	(Being 90 percent of debtors realised.)			
	Bank A/c Dr.		5,000	
	To Realisation A/c			5,000
	(Being recovery of bad debts written off last year.)			

Debtors yield $1,20,000 \times 90\% =$ Rs $1,08,000$. The shortfall is already reflected through Realisation Account; no separate bad-debt entry is required. Recovery of an earlier bad debt also credits Realisation Account.

Step 3: Settle the partner loan Sophia's loan was excluded from third party liabilities, so it is settled through her separate loan account. The concession is $52,000 - 41,000 =$ Rs $11,000$, a gain credited to Realisation Account.

Journal of the firm (31st March, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sophia's Loan A/c Dr.		52,000	
	To Bank A/c			41,000
	To Realisation A/c			11,000
	(Being Sophia's loan settled in full for Rs 41,000.)			

Step 4: Pay creditors and recognise expenses borne by Lalit Creditors are paid $60,000 \times 95\% =$ Rs $57,000$. Their transfer has already credited Realisation Account, so only the actual settlement is now debited. Expenses paid personally by Lalit increase the amount due to him; therefore credit his capital account.

Journal of the firm (31st March, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		57,000	
	To Bank A/c			57,000
	(Being creditors paid after 5 percent discount.)			
	Realisation A/c Dr.		7,000	
	To Lalit's Capital A/c			7,000
	(Being realisation expenses paid by Lalit on behalf of the firm.)			

Step 5: Conclusion The above journal entries record all six transactions, including the Rs 11,000 gain on settlement of Sophia's loan and the Rs 7,000 due to Lalit for expenses paid.

Quick Tip to Solve: After transfer to Realisation Account, enter actual recoveries and payments; keep a partner loan separate from capital.

24. Maya Ltd. was registered with an authorised capital of Rs 30,00,000 divided into shares of Rs 10 each. On 1st April, 2025, the company offered to the public for subscription 1,30,000 shares. Applications for 1,20,000 shares were received and allotment was made in full to all the applicants. A shareholder holding 5,000 shares failed to pay the second and final call of Rs 3 per share. [6 marks]

24(i). The amount of 'calls in arrears' will be: [1 mark]

(A) Rs 35,000

(B) Rs 15,000

(C) Rs 50,000

(D) Rs 5,000

Correct Answer: (B) Rs 15,000

Solution:

Concept:

- Calls in arrears are amounts already called by the company but not received from shareholders.
- Fully paid shares have their entire face value received; partly paid shares are shown at called-up value less unpaid calls.

Step 1: Identify the unpaid call Only the holder of $5,000$ allotted shares failed to pay. The second and final call was Rs 3 per share; the other shareholders have no unpaid call.

Step 2: Calculate and compare the alternatives

$$\text{Calls in arrears} = 5,000 \times 3 = \text{Rs } 15,000.$$

Rs 35,000 is the amount already received on these shares, Rs 50,000 is their face value, and Rs 5,000 merely equals their number. None of those is the unpaid call amount.

Step 3: Conclusion Rs 15,000. Hence, the correct option is (B).

Quick Tip to Solve: Multiply only the defaulting shares by the unpaid call per share.

24(ii). The 'subscribed and fully paid-up capital' of Maya Ltd. will be: [1 mark]

(A) Rs 11,65,000

(B) Rs 11,85,000

(C) Rs 11,50,000

(D) Rs 12,00,000

Correct Answer: (C) Rs 11,50,000

Solution:

Concept:

- Calls in arrears are amounts already called by the company but not received from shareholders.
- Fully paid shares have their entire face value received; partly paid shares are shown at called-up value less unpaid calls.

Step 1: Count fully paid shares All $1,20,000$ applicants received their shares. Exclude the $5,000$ shares on which the final call is unpaid: $1,20,000 - 5,000 = 1,15,000$ shares are fully paid.

Step 2: Value the fully paid shares

$$\text{Fully paid-up capital} = 1,15,000 \times 10 = \text{Rs } 11,50,000.$$

Rs 12,00,000 includes the face value of defaulting shares. Rs 11,85,000 is total paid-up capital including partly paid shares; Rs 11,65,000 does not follow from either classification.

Step 3: Conclusion Rs 11,50,000. Hence, the correct option is (C).

Quick Tip to Solve: Exclude the defaulting shares before multiplying fully paid shares by face value.

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

(A) Rs 35,000

(B) Rs 15,000

(C) Rs 50,000

(D) Nil

Correct Answer: (A) Rs 35,000

Solution:

Concept:

- Calls in arrears are amounts already called by the company but not received from shareholders.
- Fully paid shares have their entire face value received; partly paid shares are shown at called-up value less unpaid calls.

Step 1: Identify the partly paid shares The holder of $5,000$ shares paid all amounts except the final call of Rs 3 per share. Hence each such share has $10 - 3 = \text{Rs } 7$ paid on it.

Step 2: Calculate the amount to be disclosed

$$5,000 \times (10 - 3) = \text{Rs } 35,000.$$

This is the paid amount for subscribed shares that are not fully paid. Rs 15,000 is calls in arrears and Rs 50,000 is their gross called-up value before deducting arrears. Nil is incorrect because these shares remain subscribed.

Step 3: Conclusion Rs 35,000. Hence, the correct option is (A).

Quick Tip to Solve: For partly paid capital deduct unpaid calls from the called-up amount of those shares.

24(iv). The amount of 'share capital' to be shown in the Balance Sheet of Maya Ltd. will be: [1 mark]

(A) Rs 11,65,000

(B) Rs 12,00,000

(C) Rs 11,50,000

(D) Rs 11,85,000

Correct Answer: (D) Rs 11,85,000

Solution:

Concept:

- Calls in arrears are amounts already called by the company but not received from shareholders.
- Fully paid shares have their entire face value received; partly paid shares are shown at called-up value less unpaid calls.

Step 1: Find the subscribed called-up capital Although authorised capital is Rs 30,00,000 and $1,30,000$ shares were offered, only $1,20,000$ shares were subscribed. Their fully called-up value is $1,20,000 \times 10 =$ Rs $12,00,000$.

Step 2: Deduct the calls in arrears

$$\text{Paid-up share capital} = 12,00,000 - (5,000 \times 3) = \text{Rs } 11,85,000.$$

Rs 12,00,000 omits arrears, Rs 11,50,000 excludes even the money received on partly paid shares, and Rs 11,65,000 is unsupported by the given calls.

Step 3: Conclusion Rs 11,85,000. Hence, the correct option is (D).

Quick Tip to Solve: Balance Sheet share capital equals subscribed called-up capital less calls in arrears.

24(v). If all the shares on which second and final call was not received, are forfeited, 'Share Forfeiture Account' will appear in the 'Notes to Accounts' at: [1 mark]

(A) Rs 15,000

(B) Rs 35,000

(C) Rs 50,000

(D) Rs 85,000

Correct Answer: (B) Rs 35,000

Solution:

Concept:

- Calls in arrears are amounts already called by the company but not received from shareholders.
- Fully paid shares have their entire face value received; partly paid shares are shown at called-up value less unpaid calls.

Step 1: Identify money already received On each defaulting share of face value Rs 10, only the Rs 3 final call is unpaid. Thus the company has already received $10 - 3 =$ Rs 7 per share towards share capital.

Step 2: Calculate the forfeiture credit

$$\text{Share Forfeiture Account} = 5,000 \times 7 = \text{Rs } 35,000.$$

Forfeiture credits the capital money received on the forfeited shares. Rs 15,000 is the unpaid call, Rs 50,000 is the called-up capital cancelled, and Rs 85,000 incorrectly adds unrelated amounts.

Step 3: Conclusion Rs 35,000. Hence, the correct option is (B).

Quick Tip to Solve: Credit Share Forfeiture with capital money received, excluding the unpaid call.

24(vi). The minimum price at which the forfeited shares can be reissued is: [1 mark]

(A) Rs 85,000

(B) Rs 50,000

(C) Rs 35,000

(D) Rs 15,000

Correct Answer: (D) Rs 15,000

Solution:

Concept:

- Calls in arrears are amounts already called by the company but not received from shareholders.
- Fully paid shares have their entire face value received; partly paid shares are shown at called-up value less unpaid calls.

Step 1: Find the maximum permissible discount The amount forfeited is $5,000 \times (10 - 3) =$ Rs $35,000$. The discount on reissue as fully paid cannot exceed this amount, i.e. Rs 7 per share.

Step 2: Compute the minimum receipt

$$\text{Minimum reissue price} = 5,000 \times 10 - 35,000 = \text{Rs } 15,000.$$

This is Rs 3 per share for all $5,000$ forfeited shares. Rs 50,000 is reissue at par and Rs 35,000 is the forfeiture balance, not the minimum receipt. Rs 85,000 exceeds face value and cannot be the minimum.

Step 3: Conclusion Rs 15,000. Hence, the correct option is (D).

Quick Tip to Solve: Subtract forfeited capital money from face value to find the minimum total reissue receipt.

25(a). Anand and Bir were partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2025, their Balance Sheet was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	45,000	Cash	9,000
Workmen Compensation Fund	15,000	Debtors	36,000
Capitals: Anand 90,000 Bir 60,000	1,50,000	Stock	45,000
		Furniture	30,000
		Plant and Machinery	90,000
Total	2,10,000	Total	2,10,000

On 1st April, 2025, they admitted Vishal as a new partner for 1/6th share in the profits of the firm. It was agreed that:

(i) Vishal will bring Rs 45,000 as his capital and Rs 15,000 for his share of goodwill premium.

(ii) Stock was to be reduced by 10% and machinery was to be appreciated by 10%.

(iii) Furniture was revalued at Rs 27,000.

(iv) 5% provision for bad debts was to be created and Rs 600 were to be provided for outstanding repair bill.

(v) There were unrecorded investments of Rs 3,000 which were to be recorded.

(vi) A creditor of Rs 900 was not likely to claim his money and hence was to be written off.

Pass necessary journal entries for the above transactions in the books of the firm on Vishal's admission.

[6 marks]

Solution:

Concept:

- Revaluation gains and losses belong to Anand and Bir in the old ratio $3 : 2$. In the absence of a different arrangement, they sacrifice in that same ratio.
- Goodwill premium compensates the sacrificing partners. An accumulated workmen compensation fund, with no claim specified, is distributed to the old partners in their old profit-sharing ratio.

- An increase in an asset or a decrease in a liability credits Revaluation Account; a decrease in an asset or a new liability debits it.

Step 1: Calculate the adjustments The reduction in stock is $45,000 \times 10\% =$ Rs $4,500$; machinery increases by $90,000 \times 10\% =$ Rs $9,000$. Furniture decreases by $30,000 - 27,000 =$ Rs $3,000$. The provision for doubtful debts is $36,000 \times 5\% =$ Rs $1,800$. Outstanding repairs add a liability of Rs 600. Recording investments yields Rs 3,000 and writing back creditors yields Rs 900.

$$\text{Revaluation gains} = 9,000 + 3,000 + 900 = 12,900,$$
$$\text{Revaluation losses} = 4,500 + 3,000 + 1,800 + 600 = 9,900,$$
$$\text{Net profit} = 12,900 - 9,900 = \text{Rs } 3,000.$$

Anand receives Rs 1,800 and Bir Rs 1,200 of this profit. Each Rs 15,000 amount (fund and goodwill premium) is apportioned as Rs 9,000 to Anand and Rs 6,000 to Bir. Vishal's capital is credited separately; it is not a revaluation gain.

Step 2: Record capital, goodwill and accumulated fund Journal of the firm (1st April, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr	Cash A/c Dr.		60,000	
	To Vishal's Capital A/c			45,000
	To Premium for Goodwill A/c			15,000
	(Being capital and goodwill premium brought in)			
	Premium for Goodwill A/c Dr.		15,000	
	To Anand's Capital A/c			9,000
	To Bir's Capital A/c			6,000
	(Being premium distributed in sacrificing ratio 3:2)			
	Workmen Compensation Fund A/c Dr.		15,000	
	To Anand's Capital A/c			9,000
	To Bir's Capital A/c			6,000
	(Being fund distributed as no claim exists)			

Step 3: Record revaluation and transfer its profit Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr	Revaluation A/c Dr.		9,900	
	To Stock A/c			4,500
	To Furniture A/c			3,000
	To Provision for Doubtful Debts A/c			1,800
	To Outstanding Repairs A/c			600
	(Being asset reductions and liabilities provided)			
	Plant and Machinery A/c Dr.		9,000	
	Investments A/c Dr.		3,000	
	Creditors A/c Dr.		900	
	To Revaluation A/c			12,900
	(Being asset increases and creditor written back)			
	Revaluation A/c Dr.		3,000	
	To Anand's Capital A/c			1,800
	To Bir's Capital A/c			1,200
	(Being revaluation profit transferred in old ratio)			

Step 4: Conclusion The above entries record Vishal's admission. Revaluation profit is Rs 3,000,

shared by Anand and Bir as Rs 1,800 and Rs 1,200 respectively.

Quick Tip to Solve: Keep capital, goodwill premium and revaluation separate: only the old partners receive the fund and revaluation profit.

OR

25(b). Radha, Shyam and Meera were partners in a firm sharing profits and losses equally. Their Balance Sheet as at 31st March, 2025 was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Radha 4,00,000 Shyam 4,00,000 Meera 4,00,000	12,00,000	Patents	1,80,000
General Reserve	3,00,000	Building	6,90,000
Creditors	1,80,000	Debtors	2,70,000
		Stock	3,60,000
		Bank	1,80,000
Total	16,80,000	Total	16,80,000

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

(i) The new profit sharing ratio between the remaining partners was agreed at 3:2.

(ii) The value of stock was to be reduced by Rs 1,20,000.

(iii) Patents were considered as valueless and hence were to be written off.

(iv) Goodwill of the firm was valued at Rs 6,00,000 on Shyam's retirement.

(v) Shyam was paid Rs 1,00,000 immediately on his retirement and the balance was transferred to his loan account.

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

Solution:

Concept:

- Revaluation loss and the general reserve are allocated among all three partners in their old ratio 1 : 1 : 1. Goodwill compensation is borne only by the continuing partners in their gaining ratio.
- Gaining share equals new share minus old share. The retiring partner receives his old share of total goodwill through capital adjustments without raising a goodwill asset.
- The retiring partner's adjusted capital is settled partly through Bank Account and the unpaid balance through his Loan Account.

Step 1: Calculate loss and distribute reserve Stock is reduced by Rs 1,20,000 and patents of Rs 1,80,000 are written off completely. Both are losses, so total revaluation loss is Rs 3,00,000. Each of Radha, Shyam and Meera bears Rs 1,00,000. General reserve of Rs 3,00,000 is also credited equally, Rs 1,00,000 to each partner. Thus these two adjustments cancel in each capital account, although

both must be shown separately.

Step 2: Calculate the gaining ratio and goodwill adjustment Radha's old share and Meera's old share are each $1/3$. Their respective gains are

$$\text{Radha}: \frac{3}{5}-\frac{1}{3}=\frac{4}{15}, \qquad \text{Meera}: \frac{2}{5}-\frac{1}{3}=\frac{1}{15}.$$

The gaining ratio is therefore $4:1$. Shyam's share of goodwill is $6,00,000 \times 1/3 =$ Rs $2,00,000$. Debit Radha's capital by Rs 1,60,000 and Meera's capital by Rs 40,000; credit Shyam's capital by Rs 2,00,000. Shyam's capital becomes $4,00,000+1,00,000-1,00,000+2,00,000 =$ Rs $6,00,000$. After the immediate bank payment of Rs 1,00,000, transfer Rs 5,00,000 to his loan account.

Step 3: Prepare Revaluation Account Revaluation Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Stock A/c	1,20,000	By Radha's Capital A/c	1,00,000	
	To Patents A/c	1,80,000	By Shyam's Capital A/c	1,00,000	
			By Meera's Capital A/c	1,00,000	
	Total	3,00,000	Total	3,00,000	

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

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Revaluation A/c	1,00,000	By Balance b/d	4,00,000	
	To Shyam's Capital A/c	1,60,000	By General Reserve	1,00,000	
	To Balance c/d	2,40,000			
	Total	5,00,000	Total	5,00,000	

Shyam's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Revaluation A/c	1,00,000	By Balance b/d	4,00,000	
	To Bank A/c	1,00,000	By General Reserve	1,00,000	
	To Shyam's Loan A/c	5,00,000	By Radha's Capital A/c	1,60,000	
			By Meera's Capital A/c	40,000	
	Total	7,00,000	Total	7,00,000	

Meera's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Revaluation A/c	1,00,000	By Balance b/d	4,00,000	
	To Shyam's Capital A/c	40,000	By General Reserve	1,00,000	
	To Balance c/d	3,60,000			
	Total	5,00,000	Total	5,00,000	

Step 5: Conclusion Revaluation loss is Rs 3,00,000. Closing capitals are Radha Rs 2,40,000 and Meera Rs 3,60,000; Shyam's loan is Rs 5,00,000 after the Rs 1,00,000 payment.

Quick Tip to Solve: For retirement goodwill, calculate gains from the old shares before apportioning compensation; the new ratio alone gives the wrong charge.

26(a). Madhav Ltd. invited applications for issuing 4,00,000 equity shares of Rs 10 each at a premium of Rs 4 per share. The amount was payable as follows:

On Application and Allotment - Rs 6 per share (including premium Rs 2)

On First and Final Call - Balance

Applications for 6,00,000 shares were received. Applications for 1,00,000 shares were rejected and the application money was refunded. Shares were allotted on pro-rata basis to the remaining applicants. Excess money received on application and allotment was adjusted towards sums due on first and final call. A shareholder, who had applied for 500 shares, failed to pay the first and final call. His shares were forfeited. Pass necessary journal entries in the books of Madhav Ltd. for the above transactions. [6 marks]

Solution:

Concept:

- Application and allotment contain capital of Rs 4 and premium of Rs 2 per share. The call contains the remaining capital of Rs 6 and premium of Rs 2 per share.
- Excess application money is adjusted against the call; on forfeiture, debit called-up capital and unpaid premium, and credit unpaid call and the capital amount received.

Step 1: Calculate pro-rata allotment and call adjustment Accepted applications cover $6,00,000 - 1,00,000 = 5,00,000$ shares, against $4,00,000$ shares allotted. The allotment ratio is $4:5$. Application receipts are $6,00,000 \times 6 =$ Rs $36,00,000$; refund is $1,00,000 \times 6 =$ Rs $6,00,000$. Of the retained Rs 30,00,000, Rs 24,00,000 is due on application and allotment, comprising capital Rs 16,00,000 and premium Rs 8,00,000. Excess Rs 6,00,000 is transferred to the first and final call. The total call is $4,00,000 \times 8 =$ Rs $32,00,000$.

Step 2: Determine the defaulting shareholder's balance The applicant receives $500 \times 4/5 = 400$ shares. Money paid is $500 \times 6 =$ Rs $3,000$; application and allotment due is $400 \times 6 =$ Rs $2,400$. Thus excess Rs 600 is adjusted against call Rs 3,200, leaving Rs 2,600 unpaid. Called-up capital is Rs 4,000; unpaid call premium is $400 \times 2 =$ Rs 800. Capital received is Rs 1,600 on application and allotment plus Rs 600 adjusted towards call, namely Rs 2,200. Accordingly the forfeiture entry balances: Rs 4,000 + Rs 800 = Rs 2,600 + Rs 2,200.

Step 3: Record receipts, allotment and the call Journal of Madhav Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		36,00,000	
	To Share Application and Allotment A/c			36,00,000
	(Being application money received)			
	Share Application and Allotment A/c Dr.		36,00,000	
	To Bank A/c			6,00,000
	To Share Capital A/c			16,00,000
	To Securities Premium A/c			8,00,000
	To Share First and Final Call A/c			6,00,000
	(Being refund, allotment and excess adjustment)			
	Share First and Final Call A/c Dr.		32,00,000	
	To Share Capital A/c			24,00,000
	To Securities Premium A/c			8,00,000
	(Being first and final call due)			
	Bank A/c Dr.		25,97,400	
	To Share First and Final Call A/c			25,97,400
	(Being call received after adjustment and default)			

Step 4: Record forfeiture of 400 shares Journal of Madhav Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		4,000	
	Securities Premium A/c Dr.		800	
	To Share First and Final Call A/c			2,600
	To Share Forfeiture A/c			2,200
	(Being 400 shares forfeited for call default)			

Step 5: Conclusion The company receives Rs 25,97,400 on the call and forfeits 400 shares; the Share Forfeiture credit is Rs 2,200.

Quick Tip to Solve: First convert shares applied for into shares allotted; deduct the excess application money before computing call arrears.

OR

26(b)(i). NN Ltd. forfeited 800 equity shares of Rs 100 each for non-payment of the first call of Rs 20 per share. The second and final call of Rs 30 per share was not yet made. Out of the forfeited shares, 600 shares were re-issued for Rs 54,000 as fully paid-up. Pass necessary journal entries for the above transactions in the books of NN Ltd. [3 marks]

Solution:

Concept:

- Only called-up capital is debited on forfeiture: an uncalled final call is excluded.
- On reissue as fully paid, credit the full face value; charge any reissue discount to Share Forfeiture. Transfer only the surplus relating to reissued shares to Capital Reserve.

Step 1: Calculate forfeiture and reissue amounts Called-up value per share is $100 - 30 = \text{Rs } 70$. For 800 shares, capital called is Rs 56,000, unpaid first call is $800 \times 20 = \text{Rs } 16,000$, and capital received is $800 \times 50 = \text{Rs } 40,000$. The 600 reissued shares have fully paid capital Rs 60,000 against cash Rs

54,000, giving discount Rs 6,000. Forfeiture attributable to them is $40,000 \times 600/800 = \text{Rs } 30,000$; capital reserve is Rs 24,000. The remaining Rs 10,000 stays in Share Forfeiture for the 200 shares not yet reissued.

Step 2: Pass the journal entries Journal of NN Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		56,000	
	To Share First Call A/c			16,000
	To Share Forfeiture A/c			40,000
	(Being 800 shares forfeited, Rs 70 called up)			
	Bank A/c Dr.		54,000	
	Share Forfeiture A/c Dr.		6,000	
	To Share Capital A/c			60,000
	(Being 600 shares reissued as fully paid)			
	Share Forfeiture A/c Dr.		24,000	
	To Capital Reserve A/c			24,000
	(Being surplus on reissued shares transferred)			

Step 3: Conclusion Capital Reserve is credited with Rs 24,000; Share Forfeiture retains Rs 10,000 for the 200 unreissued shares.

Quick Tip to Solve: Exclude the uncalled Rs 30 when forfeiting, but use Rs 100 per share for fully paid reissue.

26(b)(ii). KG Ltd. forfeited 7,000 equity shares of Rs 100 each, issued at a premium of Rs 20 per share, for non-payment of second and final call of Rs 20 per share. The forfeited shares were re-issued at Rs 80 per share, fully paid-up. Pass necessary journal entries for the above transactions in the books of KG Ltd. [3 marks]

Solution:

Concept:

- Forfeiture reverses called-up share capital and credits unpaid calls and capital already received.
- Premium already received remains in Securities Premium; reissue discount is debited to Share Forfeiture, with its remaining balance transferred to Capital Reserve.

Step 1: Compute the amounts The full capital of Rs 100 per share has been called. The unpaid final call is Rs 20, so capital received is Rs 80 per share. For 7,000 shares, debit capital Rs 7,00,000, credit unpaid call Rs 1,40,000 and credit forfeiture Rs 5,60,000. The issue premium of Rs 20 was received earlier because only the second and final call is unpaid; therefore Securities Premium is not reversed. Reissue at Rs 80 brings cash Rs 5,60,000 for fully paid capital Rs 7,00,000. Discount is Rs 1,40,000, within the forfeiture balance. The surplus is $5,60,000 - 1,40,000 = \text{Rs } 4,20,000$.

Step 2: Pass the journal entries Journal of KG Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		7,00,000	
	To Share Second and Final Call A/c			1,40,000
	To Share Forfeiture A/c			5,60,000
	(Being 7,000 shares forfeited for call default)			
	Bank A/c Dr.		5,60,000	
	Share Forfeiture A/c Dr.		1,40,000	
	To Share Capital A/c			7,00,000
	(Being shares reissued at Rs 80, fully paid)			
	Share Forfeiture A/c Dr.		4,20,000	
	To Capital Reserve A/c			4,20,000
	(Being surplus on all reissued shares transferred)			

Step 3: Conclusion The reissue discount is Rs 1,40,000 and the transfer to Capital Reserve is Rs 4,20,000.

Quick Tip to Solve: Distinguish capital received from premium received; only capital receipts enter Share Forfeiture.

Part B (20 marks)

Option I (Analysis of Financial Statements)

27. The Current Ratio of Megh Raj Ltd. is 1.5:1. Which of the following transactions will reduce the ratio? [1 mark]

(A) Sale of furniture of Rs 18,000 at a loss of Rs 2,000

(B) Goods purchased on credit Rs 75,000

(C) Sale of goods costing Rs 60,000 for Rs 80,000

(D) Payment of trade payables Rs 40,000

Correct Answer: (B) Goods purchased on credit Rs 75,000

Solution:

Concept:

- Current ratio is current assets divided by current liabilities. When the ratio exceeds one, an equal addition to both moves it towards one.

Step 1: Test the credit purchase Let current liabilities be $L > 0$, so current assets are $1.5L$. A credit purchase adds inventory and trade payables of Rs 75,000 each. The new ratio is $(1.5L + 75,000)/(L + 75,000) < 1.5$, since $1.5L + 75,000 < 1.5L + 1,12,500$.

Step 2: Eliminate the other transactions (A) Selling furniture, a non-current asset, for Rs 16,000 increases current assets and raises the ratio. (C) Selling goods for Rs 80,000 removes inventory Rs 60,000, increasing net current assets by Rs 20,000 and raising the ratio. (D) Payment of trade payables reduces current assets and current liabilities equally; with an initial ratio above one, the ratio increases (provided liabilities remain positive).

Step 3: Conclusion Goods purchased on credit reduce the current ratio. Hence, the correct option is (B).

Quick Tip to Solve: For a current ratio above one, equal additions to numerator and denominator reduce the ratio.

28(a). Which of the following are 'investing activities' for preparation of Cash Flow Statement?

(i) Payment of taxes

(ii) Payment of dividend and interest

(iii) Receipt of interest and dividend

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

(A) (i), (ii) and (iii)

(B) (i) and (ii)

(C) (ii) and (iii)

(D) (iii) only

Correct Answer: (D) (iii) only

Solution:

Concept:

- Investing activities concern acquisition and disposal of long-term assets and investments.
- For a non-financial enterprise, interest and dividends received are investing cash inflows.

Step 1: Classify the receipts Receipt of interest and dividend represents returns on investments. Therefore item (iii) belongs to investing activities.

Step 2: Exclude the payments Payment of taxes is generally operating, unless specifically identifiable with another activity. Payment of dividend and interest is financing for a non-financial enterprise. Thus neither (i) nor (ii) belongs to investing here; options (A), (B) and (C) include an incorrect item.

Step 3: Conclusion Only (iii) is an investing activity. Hence, the correct option is (D).

Quick Tip to Solve: Identify returns received on investments separately from financing payments.

OR

28(b). Which of the following statements is correct? [1 mark]

(A) Sale of property is a financing activity.

(B) Cash deposited into bank will result in outflow of cash.

(C) Receipt of royalties is an operating activity.

(D) Buy-back of own equity shares is an investing activity.

Correct Answer: (C) Receipt of royalties is an operating activity.

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Transfers between cash and cash equivalents do not constitute cash flows.

Step 1: Identify the operating receipt Royalties arise from ordinary revenue-producing activities, so receipt of royalties is an operating cash inflow. Statement (C) is correct.

Step 2: Check the remaining alternatives Sale of property is generally investing, so (A) is incorrect. Depositing cash into a bank merely transfers cash from one component to another without changing total cash and cash equivalents, making (B) incorrect. Buy-back of own equity shares reduces share capital and is financing, so (D) is incorrect.

Step 3: Conclusion Receipt of royalties is an operating activity. Hence, the correct option is (C).

Quick Tip to Solve: A change between cash-in-hand and bank balance is an internal cash transfer.

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29. Statement I: Operating activities are the activities that constitute the primary or main activities of an enterprise.

Statement II: Cash advances and loans made by financial enterprises are usually classified as operating activities.

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

(A) Both the Statements are false.

(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 true.

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

Solution:

Concept:

- Operating activities constitute the principal revenue-producing activities of the enterprise.
- The nature of the enterprise determines whether lending cash is an operating or investing activity.

Step 1: Assess Statement I The primary or main business activities generate operating cash flows. Statement I correctly describes these activities and is true.

Step 2: Assess Statement II For financial enterprises, making loans and advances is part of their ordinary revenue-producing business. Such payments are therefore usually operating activities. Statement II is also true. Treating all loans as investing would overlook the specific reference to financial enterprises; consequently options (A), (B) and (C) do not describe the two statements correctly.

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

Quick Tip to Solve: Before classifying a loan, check whether lending is the enterprise's ordinary business.

30(a). Which of the following is a financial statement of a company? [1 mark]

(A) Common Size Statement of Profit and Loss

(B) Statement of Profit and Loss

(C) Comparative Balance Sheet

(D) Comparative Statement of Profit and Loss

Correct Answer: (B) Statement of Profit and Loss

Solution:

Concept:

- A company prepares its Statement of Profit and Loss to report income, expenses and profit or loss for an accounting period.
- Comparative and common-size statements are tools of financial statement analysis.

Step 1: Identify the basic statement The Statement of Profit and Loss is one of the financial statements prepared by a company. It reports the operating results of the accounting period.

Step 2: Distinguish analysis tools A common-size statement expresses amounts as percentages of a common base. Comparative statements show figures across periods and their changes. Thus (A), (C) and (D) are analytical presentations based on financial statements, whereas (B) names the financial statement itself.

Step 3: Conclusion Statement of Profit and Loss is the required financial statement. Hence, the correct option is (B).

Quick Tip to Solve: Distinguish the original financial statement from comparative and common-size analysis.

OR

30(b). Which of the following is not a Solvency Ratio? [1 mark]

(A) Debt-Equity Ratio

(B) Return on Investment

(C) Interest Coverage Ratio

(D) Proprietary Ratio

Correct Answer: (B) Return on Investment

Solution:

Concept:

- Solvency ratios assess long-term financial stability and ability to meet long-term obligations.
- Return on investment measures profitability relative to capital employed.

Step 1: Classify return on investment Return on investment compares profit with capital employed. Its purpose is to measure earning efficiency, so it is a profitability ratio rather than a solvency ratio.

Step 2: Check all other options Debt-equity ratio examines the relationship of long-term debt and shareholders' funds. Interest coverage ratio measures capacity to meet interest obligations. Proprietary ratio indicates the proportion of assets financed by shareholders' funds. These three concern long-term solvency, so (A), (C) and (D) cannot answer a question asking for the exception.

Step 3: Conclusion Return on Investment is not a solvency ratio. Hence, the correct option is (B).

Quick Tip to Solve: For a question asking which ratio is not solvency, look for a measure of profits.

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

(i) Outstanding Salary

(ii) Capital work-in-progress

(iii) Stores and Spare parts [3 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities according to their nature and current or non-current classification.
- Outstanding operating expenses are normally current liabilities; inventories are current assets.
- Capital work-in-progress represents expenditure on incomplete capital assets and belongs to non-current assets.

Step 1: Classify outstanding salary Salary already earned by employees but unpaid at the balance sheet date is an obligation payable in the normal operating cycle. It is classified under Current Liabilities, sub-head Other Current Liabilities. It is an accrued expense, rather than a provision for an uncertain obligation.

Step 2: Classify capital work-in-progress Expenditure on a capital asset which is still under construc-

tion has not yet become a completed asset available for use. It is shown under Non-current Assets, sub-head Fixed Assets, as Capital Work-in-progress in the prescribed school Schedule III presentation.

Step 3: Classify stores and spare parts Stores and spare parts held for ordinary consumption are inventories. They appear under Current Assets, sub-head Inventories. The item describes ordinary stores and spares and gives no special indication of major stand-by equipment to be treated as a capital asset.

Step 4: Conclusion Balance Sheet classification (Schedule III)

Item	Major head	Sub-head
Outstanding Salary	Current Liabilities	Other Current Liabilities
Capital work-in-progress	Non-current Assets	Fixed Assets: Capital Work-in-progress
Stores and Spare parts	Current Assets	Inventories

Quick Tip to Solve: Unpaid salary is a liability; unfinished capital assets and consumable stores are assets.

32. From the following information of GV Ltd., prepare a Comparative Statement of Profit and Loss for the years ended 31st March, 2024 and 2025:

Particulars	**2024-25**	**2023-24**
Revenue from operations	**Rs 30,00,000**	**Rs 20,00,000**
Cost of revenue from operations	**50% of revenue from operations**	**50% of revenue from operations**
Other Expenses	**Rs 7,50,000**	**Rs 5,00,000**
Tax Rate	**50%**	**50%**

[3 marks]

Solution:

Concept:

- Absolute change equals the current-year amount minus the previous-year amount.
- Percentage change is $\dfrac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$.
- Profit before tax equals revenue less expenses; profit after tax equals profit before tax less tax.

Step 1: Calculate cost and total expenses For 2023-24, cost of revenue is $50\% \times$ Rs $20,00,000 =$ Rs $10,00,000$. Total expenses are $10,00,000 + 5,00,000 =$ Rs $15,00,000$. For 2024-25, cost is $50\% \times$ Rs $30,00,000 =$ Rs $15,00,000$, and total expenses are $15,00,000 + 7,50,000 =$ Rs $22,50,000$.

Step 2: Calculate profit and tax Profit before tax is $20,00,000 - 15,00,000 =$ Rs $5,00,000$ in 2023-24 and $30,00,000 - 22,50,000 =$ Rs $7,50,000$ in 2024-25. Tax at 50% is Rs 2,50,000 and Rs 3,75,000 respectively. Therefore profit after tax is Rs 2,50,000 and Rs 3,75,000 respectively.

Step 3: Compare the years Revenue increases by $30,00,000 - 20,00,000 =$ Rs $10,00,000$, which is $10,00,000/20,00,000 \times 100 = 50\%$. Since both categories of expenses rise in the same proportion and the tax rate remains unchanged, each expense and profit figure also increases by 50%.

Step 4: Conclusion GV Ltd.: Comparative Statement of Profit and Loss for the years ended 31st March, 2024 and 2025

Particulars	2023-24 (Rs)	2024-25 (Rs)	Increase (Rs)	Change (%)
Revenue from operations	20,00,000	30,00,000	10,00,000	50
Cost of revenue	10,00,000	15,00,000	5,00,000	50
Other expenses	5,00,000	7,50,000	2,50,000	50
Total expenses	15,00,000	22,50,000	7,50,000	50
Profit before tax	5,00,000	7,50,000	2,50,000	50
Tax expense (50%)	2,50,000	3,75,000	1,25,000	50
Profit after tax	2,50,000	3,75,000	1,25,000	50

Quick Tip to Solve: Use the earlier year as the denominator for every percentage change.

33(a). From the following information, calculate 'Interest Coverage Ratio':

Shareholders' funds	**Rs 30,00,000**
8% Long-term debt	**Rs 10,00,000**
Net profit after tax	**Rs 2,40,000**
Tax Rate	**40%**

[4 marks]

Solution:

Concept:

- Interest coverage ratio measures the number of times earnings before interest and tax (EBIT) cover the interest payable on long-term debt: Interest coverage ratio $=$ EBIT/Interest on long-term debt.
- Net profit after tax is the profit remaining after both interest and income tax. If t is the tax rate, Profit before tax $=$ Profit after tax$/(1-t)$. Interest is then added back to obtain EBIT.

Step 1: Calculate the annual interest on long-term debt The outstanding long-term debt is Rs 10,00,000 and its annual interest rate is 8%. Therefore,

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

This is the fixed financing charge that must be covered by the earnings available before deducting interest and tax. Shareholders' funds do not carry this stated debt interest rate.

Step 2: Work backwards from profit after tax to profit before tax Tax is 40% of profit before tax, so the amount remaining after tax represents 60% of profit before tax. Hence,

$$\text{Profit before tax} = \frac{2,40,000}{1-0.40} = \frac{2,40,000}{0.60} = \text{Rs } 4,00,000.$$

As a check, tax on Rs 4,00,000 is Rs 1,60,000, leaving the given net profit of Rs 2,40,000. Simply adding 40% of profit after tax would use the wrong tax base.

Step 3: Add interest back and apply the ratio Profit before tax has already been reduced by interest.

Add that financing expense back to find the earnings available to cover it:

$$\text{EBIT} = 4,00,000 + 80,000 = \text{Rs } 4,80,000,$$
$$\text{Interest coverage ratio} = \frac{4,80,000}{80,000} = 6 \text{ times}.$$

The shareholders' funds figure is not required: this ratio compares earnings with interest expense, rather than equity with debt. All figures used relate to the same annual period.

Step 4: Conclusion The interest coverage ratio is $\boxed{6 \text{ times}}$. Earnings before interest and tax cover the annual interest obligation six times.

Quick Tip to Solve: First divide profit after tax by 0.60, then add the Rs 80,000 interest before dividing by interest; do not use shareholders' funds.

OR

33(b). From the following information, calculate 'Inventory Turnover Ratio':

Revenue from operations	**Rs 15,00,000**
Opening inventory	**Rs 2,00,000**

Gross profit is 25% of cost of revenue from operations. Closing inventory was 2 times the opening inventory. [4 marks]

Solution:

Concept:

- Inventory turnover ratio relates the cost of revenue from operations (cost of goods sold) to the average inventory held: Inventory turnover ratio = Cost of revenue from operations/Average inventory.
- Revenue from operations equals cost of revenue from operations plus gross profit. When gross profit is expressed as a percentage of cost, revenue must be divided by $1 +$ gross profit rate on cost to recover the cost.
- Where opening and closing inventory are given, Average inventory = (Opening inventory + Closing inventory)/2. This matches a period's cost with the average inventory held over that period.

Step 1: Determine cost of revenue from operations Gross profit is 25% of cost, not 25% of revenue. Let cost of revenue from operations be C. Revenue therefore represents 125% of cost:

$$15,00,000 = C + 0.25C = 1.25C,$$
$$C = \frac{15,00,000}{1.25} = \text{Rs } 12,00,000.$$

The corresponding gross profit is Rs 3,00,000. This is one-fourth of Rs 12,00,000 and, when added to cost, gives the stated revenue of Rs 15,00,000. Deducting 25% of revenue would not satisfy the given cost-based condition.

Step 2: Calculate closing inventory and average inventory Closing inventory is twice the opening inventory of Rs 2,00,000:

$$\text{Closing inventory} = 2 \times 2,00,000 = \text{Rs } 4,00,000,$$
$$\text{Average inventory} = \frac{2,00,000 + 4,00,000}{2}$$
$$= \text{Rs } 3,00,000.$$

Both opening and closing amounts enter the average. Using only the closing inventory would ignore the lower inventory held at the start of the period and would distort the turnover calculation.

Step 3: Compare cost with average inventory Substitute cost and average inventory, both measured at cost, in the turnover formula:

$$\text{Inventory turnover ratio} = \frac{12,00,000}{3,00,000} = 4 \text{ times}.$$

Revenue itself is not used in the numerator because it includes the gross profit element, whereas inventory is valued at cost. The resulting ratio expresses how many times average inventory is represented by the period's cost of goods sold.

Step 4: Conclusion The inventory turnover ratio is $\boxed{4 \text{ times}}$, based on cost of revenue from operations of Rs 12,00,000 and average inventory of Rs 3,00,000.

Quick Tip to Solve: For gross profit of 25 percent on cost, divide sales by 1.25; then divide that cost by the average of opening and closing inventory.

34. JC Ltd. earned a net profit of Rs 50,000 after providing depreciation of Rs 20,000 on fixed assets and a transfer of Rs 15,000 to general reserve. The position of its Current Assets and Current Liabilities was as follows:

Particulars	31.03.2025 (Rs)	31.03.2024 (Rs)
Trade Receivables	75,000	70,000
Trade Payables	75,000	65,000
Inventories	40,000	25,000
Expenses Payable	7,500	5,000
Prepaid Expenses	5,000	10,000
Accrued Incomes	20,000	15,000
Income Received in Advance	5,000	10,000

Calculate cash flows from operating activities. [6 marks]

Solution:

Concept:

- Under the indirect method, cash flow from operating activities starts with net profit and adjusts it for non-cash charges, appropriations and changes in operating working capital.
- Depreciation is added back because it reduces accounting profit without a current cash payment. A

transfer to general reserve is added back when the stated profit is after that transfer.

- An increase in an operating current asset is deducted; a decrease is added. An increase in an operating current liability is added; a decrease is deducted.

Step 1: Restore profit before the reserve appropriation The stated net profit of Rs 50,000 is after the transfer of Rs 15,000 to general reserve. The transfer is an appropriation of profit and does not cause an operating cash outflow. Thus profit before this appropriation is

$$\text{Rs } 50,000 + \text{Rs } 15,000 = \text{Rs } 65,000.$$

Depreciation of Rs 20,000 is a non-cash expense already charged in arriving at profit. Adding it back gives operating profit before working-capital changes of Rs 85,000.

Step 2: Determine the working-capital adjustments Compare each closing balance on 31.03.2025 with its opening balance on 31.03.2024. Trade receivables increase by Rs 5,000, inventories by Rs 15,000 and accrued incomes by Rs 5,000; all three increases are deducted because the corresponding cash has not been realised or has been invested in current assets. Prepaid expenses decrease by Rs 5,000, which is added.

Trade payables increase by Rs 10,000 and expenses payable by Rs 2,500, so both are added because expenses or purchases exceed the related cash payments. Income received in advance decreases by Rs 5,000; this is deducted because income recognised exceeds the related current-period receipt.

Step 3: Prepare the operating cash flow statement Cash Flow Statement of JC Ltd. (extract) for the year ended 31.03.2025

Particulars	Amount (Rs)
Net profit after depreciation and transfer to reserve	50,000
Add: Transfer to general reserve	15,000
Net profit before reserve appropriation	65,000
Add: Depreciation on fixed assets	20,000
Operating profit before working-capital changes	85,000
Less: Increase in trade receivables	(5,000)
Add: Increase in trade payables	10,000
Less: Increase in inventories	(15,000)
Add: Increase in expenses payable	2,500
Add: Decrease in prepaid expenses	5,000
Less: Increase in accrued incomes	(5,000)
Less: Decrease in income received in advance	(5,000)
Cash generated from operations	72,500
Net cash flow from operating activities	72,500

The net working-capital adjustment is a deduction of Rs 12,500. No income-tax payment is given for a further adjustment.

Step 4: Conclusion Net cash flow from operating activities is $\boxed{\text{Rs } 72,500}$, an inflow.

Quick Tip to Solve: Start with profit before reserve transfer, then add depreciation; reverse the sign of changes in operating assets.

Option II (Computerised Accounting)

27(a). 'Computerised Accounting System enables changing the volume of data processing in accordance with the size and growth of the business.' Identify the feature of Computerised Accounting System being highlighted in the statement: [1 mark]

(A) Reliability

(B) Scalability

(C) Transparency

(D) Simple and integrated

Correct Answer: (B) Scalability

Solution:

Concept:

- Scalability is the capacity of a system to change its processing volume as the organisation grows.
- Reliability concerns dependable results; transparency concerns clear, understandable records.

Step 1: Identify the clue The statement links the volume of data processing directly to the size and growth of the business. A system that can accommodate a larger or smaller workload has scalability.

Step 2: Compare all four choices Option (B) matches this capacity to expand. Reliability in (A) concerns consistent and dependable operation, while transparency in (C) concerns visibility and clarity. Simple and integrated in (D) refers to ease of use and coordinated accounting functions, rather than a change in processing volume.

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

Quick Tip to Solve: Associate growth in business size and processing volume with scalability.

OR

27(b). The process of comparing input data with some known data is known as: [1 mark]

(A) Data Validation

(B) Storage data

(C) Data entry

(D) Redundant data

Correct Answer: (A) Data Validation

Solution:

Concept:

- Data validation checks input data against known data, permitted values or prescribed rules.
- Data entry inputs records, storage retains them, and redundancy means unnecessary duplication.

Step 1: Identify the checking process The question describes a comparison between incoming data and known data. This is a check on the acceptability of the input, so it is data validation.

Step 2: Eliminate the alternatives Option (A) names this checking process. Storage data in (B) refers

to keeping data, rather than comparing it. Data entry in (C) refers to entering data into the system. Redundant data in (D) means repeated or duplicate data and does not describe a validity check.

Step 3: Conclusion The correct option is (A): Data Validation.

Quick Tip to Solve: Look for comparison or checking against known values: that signals data validation.

28. ____ provides additional information about a data marker to identify the details of data point in a data series. [1 mark]

(A) Source data

(B) Secondary data

(C) Data series

(D) Data label

Correct Answer: (D) Data label

Solution:

Concept:

- A data marker represents a particular value on a chart, such as a column or a point.
- A data label supplies identifying information about that marker, such as its value or category.

Step 1: Connect the description to the chart element The blank refers to information attached to an individual data marker to identify the details of the corresponding data point. This is the purpose of a data label.

Step 2: Check the other options Option (D), data label, fits exactly. Source data in (A) is the underlying material used to construct the chart. Secondary data in (B) is data obtained from existing sources. A data series in (C) is a related set of plotted values, rather than the additional information attached to one marker.

Step 3: Conclusion The correct option is (D): Data label.

Quick Tip to Solve: A series is a collection of values; the label tells you about a particular plotted value.

29. Which financial function calculates the lump-sum amount for series of future payments? [1 mark]

(A) NPER

(B) FV

(C) PV

(D) PMT

Correct Answer: (C) PV

Solution:

Concept:

- PV computes the present value: the equivalent lump-sum value now of a series of future payments.

- FV finds a future accumulated value, PMT a periodic payment, and NPER the number of payment periods.

Step 1: Identify the required amount The question asks for the lump-sum equivalent of a series of future payments. Bringing those payments to a single present amount is the role of the present-value function, PV.

Step 2: Distinguish all choices Option (C) is PV. NPER in (A) returns the number of periods, not a money amount. FV in (B) gives the value accumulated at a future date. PMT in (D) calculates a recurring periodic payment, rather than the lump-sum present value of the series.

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

Quick Tip to Solve: Use PV to convert future instalments into their equivalent lump-sum amount today.

30(a). Which of the following is not a feature of 'Generic' Computerised Accounting Software?

[1 mark]

(A) Increased data security

(B) Suitable for business with low accounting operations

(C) Requires minimal system support

(D) Cheaper

Correct Answer: (A) Increased data security

Solution:

Concept:

- Generic accounting software is ready-made software suited to standard accounting needs and relatively low-volume operations.
- It is relatively inexpensive and requires minimal system support; enhanced data security is not its distinguishing feature.

Step 1: Recall the generic package profile Generic packages serve common accounting requirements without extensive customisation. They are cheaper, suit businesses with low accounting operations and generally require minimal system support.

Step 2: Apply the negative wording The question asks which feature does not belong. Options (B), (C) and (D) all describe the usual advantages or suitability of generic software. Increased data security in (A) is not a characteristic advantage of such generic packages, so it is the required exception.

Step 3: Conclusion The correct option is (A): Increased data security.

Quick Tip to Solve: For a NOT question, first tick the three standard generic-package traits: low volume, minimal support and low cost.

OR

30(b). Identify what will be displayed on the screen when we specify an intersection of two areas that do not intersect. [1 mark]

(A) Correct a ##### Error

(B) Correct a #NULL! Error

(C) Correct a #Name Error

(D) Correct a #REF! Error

Correct Answer: (B) Correct a #NULL! Error

Solution:

Concept:

- The intersection operator asks for cells common to two ranges.
- An empty intersection produces the spreadsheet error #NULL!.

Step 1: Apply the intersection rule When two specified areas do not overlap, there is no common cell to return. The spreadsheet therefore displays #NULL!, which is the error named in option (B).

Step 2: Eliminate the other errors Option (A), #####, usually indicates insufficient column width for displaying a value. A name error in (C) concerns an unrecognised name or text in a formula, while #REF! in (D) denotes an invalid cell reference. None describes a valid pair of ranges with no intersection.

Step 3: Conclusion The screen displays #NULL! Error. Hence, the correct option is (B).

Quick Tip to Solve: Associate NULL with an empty intersection: look for common cells before checking column width or references.

31. What are the three categories in which accounting entries can be classified while entering them in vouchers? [3 marks]

Solution:

Concept:

- Voucher entries are classified according to their role in the accounting period.
- The three categories are opening entries, regular entries and closing entries.

Step 1: Opening entries Opening entries bring the balances of the previous accounting period into the new accounting year. They establish the opening position of assets, liabilities and capital before current-year transactions are recorded. For example, the previous closing cash balance becomes the opening cash balance. They carry forward permanent account balances rather than record a fresh sale or purchase.

Step 2: Regular entries Regular entries record business transactions occurring during the accounting year. Examples include purchases, sales, receipts from customers, payments to suppliers and payment of expenses. These entries are entered through the appropriate vouchers and update the relevant ledger balances as business takes place.

Step 3: Closing entries Closing entries are made at the end of the accounting period to close nominal accounts and determine the result of operations. Trading items are transferred to the Trading Account, while other expenses and incomes are transferred to the Profit and Loss Account. The resulting profit or loss is then transferred to capital or the appropriate equity account.

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

Quick Tip to Solve: Use the accounting-year sequence: carry balances in, record daily business, then close income and expense accounts.

32. Explain Sequential codes and Block codes with the help of example. [3 marks]

Solution:

Concept:

- A code is a short identifier allotted to an account, document or other accounting item.
- Sequential coding assigns consecutive identifiers; block coding reserves a range for each group.

Step 1: Sequential codes with example Sequential codes assign numbers or letters consecutively to successive items, without using a separate number range for each class. For example, invoices may be numbered 1001, 1002, 1003 and 1004 in their order of issue. The next invoice receives 1005. A gap in the sequence, such as 1003 missing between 1002 and 1004, draws attention to a missing or cancelled document and can be investigated. An invoice can also be traced from its unique number.

Step 2: Block codes with example In block coding, the available range of numbers is divided into blocks, and each block is reserved for a specific group. For example, account codes 100-199 may be reserved for assets, 200-299 for liabilities and 300-399 for capital. Within the asset block, cash may receive 101, bank 102 and machinery 103. Thus the block indicates the broad account class, while the complete code identifies the individual account. Unused numbers within each block allow new accounts to be added to that class.

Step 3: Distinguish their organisation Sequential coding emphasises the order in which identifiers are assigned. Block coding emphasises classification into reserved ranges; numbers within a block may themselves be assigned sequentially. Thus the two ideas can operate together within a single coding system.

Step 4: Conclusion Sequential codes follow a consecutive series, such as invoice numbers 1001-1005. Block codes reserve ranges for groups, such as 100-199 for asset accounts.

Quick Tip to Solve: Check whether the number merely identifies the next item or also locates the item in a reserved group range.

33(a). List the necessary information to be filled by a user on company creation screen. [4 marks]

Solution:

Concept:

- Company creation establishes the identity, accounting period and basic configuration of the business.
- Accurate master information is necessary because vouchers and reports use these settings.

Step 1: Company identity and contact details Enter the company name and mailing name, complete postal address, country, state and PIN code. Provide the telephone or mobile number, fax number, e-mail address and website where the screen provides those fields. The mailing details identify the business on printed documents and correspondence.

Step 2: Data location and accounting configuration Specify the directory or location in which the company data will be stored. Select the nature of accounts to be maintained, such as accounts only or accounts with inventory, according to the business requirements. This establishes whether inventory records are maintained along with financial records.

Step 3: Accounting dates Enter the date from which the financial year begins and the date from which books are to be maintained. The financial-year commencement establishes the reporting period, whereas the books-beginning date establishes the start of accounting records in the software. These dates must correspond to the intended company records.

Step 4: Security and base currency Fill in the security-control details where required, including the administrator or user name and password, and any data-protection or encryption setting. Enter base-currency information, such as its symbol and formal name, the number of decimal places and the name used for the fractional part. For an Indian company, the base currency is normally Indian rupees with two decimal places.

Step 5: Conclusion The necessary company-creation information covers company and mailing details, data directory, accounts/inventory configuration, financial-year and books-beginning dates, security settings and base-currency details.

Quick Tip to Solve: Group the fields as identity, data setup, dates, security and currency so that no major company-creation section is omitted.

OR

33(b). What is a Chart/Graph? Explain its advantages. [4 marks]

Solution:

Concept:

- A chart or graph presents numerical worksheet data visually through bars, lines, slices or other graphical symbols.
- Visual presentation helps users compare figures, recognise patterns and communicate accounting information.

Step 1: Meaning of a chart or graph A chart or graph is a pictorial representation of numerical data. In a spreadsheet, it displays selected worksheet values in a visual form, such as a column chart, line chart or pie chart. For example, monthly sales can be shown by columns, with the months along one axis and sales amounts along the other. The size or position of each graphical symbol represents the corresponding value.

Step 2: Simple presentation and quick understanding A chart condenses a large collection of figures into a form that is easy to understand at a glance. A user can see the overall position without reading and mentally comparing every cell in the underlying worksheet. This makes accounting reports clearer, including for readers who are unfamiliar with detailed numerical statements.

Step 3: Comparison and identification of trends Charts make comparisons between periods, departments or products easier. For example, adjacent columns can compare actual and budgeted sales. A line graph of successive months reveals increases, decreases and fluctuations, helping the user identify the direction of change and unusual results that require investigation.

Step 4: Analysis, decisions and effective communication A suitable chart highlights relationships and proportions: for example, a pie chart shows each expense category's share in total expenditure. Such visual analysis supports planning and managerial decisions. Charts also make reports and presentations more effective by drawing attention to significant results. In a spreadsheet, a linked chart can reflect changes in its source cells, keeping the graphical report consistent with revised data.

Step 5: Conclusion A chart or graph is a visual presentation of numerical data. Its principal advantages are easy understanding, quick comparison, identification of trends and relationships, and clearer communication for decision-making.

Quick Tip to Solve: Define the visual representation first, then explain each advantage with a sales, budget or expense example.

34. Which functions can be used as an alternative to the 'IF' function for elaborate tests and why? Explain its various types with syntax. [6 marks]

Solution:

Concept:

- LOOKUP finds a value in a worksheet range and returns a corresponding result. Its two syntax forms are vector and array.
- A lookup table can replace a long sequence of nested IF tests when outcomes are obtained by matching values or ordered limits.

Step 1: Alternative to elaborate IF tests and the reason The LOOKUP function can be used instead of elaborate nested IF tests. When many conditions associate an input with a result, storing the possible inputs or limits and their results in a table avoids writing a separate IF test for every case. The formula becomes shorter and the rules are easier to inspect and maintain. For instance, a table of lower sales limits and corresponding commission rates can supply the applicable rate. LOOKUP has two forms: vector and array. VLOOKUP and HLOOKUP are related vertical and horizontal lookup functions.

Step 2: LOOKUP: vector form and syntax The vector form searches a single row or a single column

and returns the result at the same relative position in another single row or column. Its syntax is:

`=LOOKUP(lookup_value, lookup_vector, result_vector)`

Here, `lookup_value` is the value to find; `lookup_vector` is the one-row or one-column search range; and `result_vector` contains the corresponding results and has the same number of entries. For example, `=LOOKUP(E2,A2:A6,B2:B6)` searches the ordered limits in A2:A6 and returns the corresponding entry from B2:B6.

Step 3: LOOKUP: array form and syntax The array form uses one rectangular range containing both the search values and the results. Its syntax is:

`=LOOKUP(lookup_value, array)`

The `array` is the range of cells. If it has more columns than rows, LOOKUP searches its first row and returns a value from the same column in its last row. If it has as many rows as columns, or more rows than columns, it searches its first column and returns a value from the same row in its last column. For example, `=LOOKUP(E2,A2:B6)` searches the first column of this range and returns the corresponding value in its last column.

Step 4: Ordering and matching rules In both LOOKUP forms, arrange the search values in ascending order. If no exact match exists, LOOKUP uses the largest search value less than or equal to the requested value. Thus, a sales amount between two lower limits receives the rate corresponding to the lower applicable limit. If the requested value is below the smallest search value, LOOKUP returns the `#N/A` error. These matching rules must agree with the intended conditions before a nested IF formula is replaced.

Step 5: Related vertical and horizontal lookup functions VLOOKUP searches down the first column of a table and returns a value from a specified column in the matched row:

`=VLOOKUP(lookup_value, table_array,`

`col_index_num, range_lookup)`

HLOOKUP searches across the top row and returns a value from a specified row in the matched column:

`=HLOOKUP(lookup_value, table_array,`

`row_index_num, range_lookup)`

The column or row index counts from the first column or row of the table. In these two functions, `FALSE` requests an exact match; `TRUE`, or an omitted final argument, requests an approximate match and requires the search column or row to be in ascending order.

Step 6: Conclusion LOOKUP replaces elaborate nested IF tests by finding the applicable result in a table. Its two forms are vector `LOOKUP(lookup_value, lookup_vector, result_vector)` and array `LOOKUP(lookup_value, array)`; VLOOKUP and HLOOKUP provide related vertical and horizontal searches.

Quick Tip to Solve: Remember that vector LOOKUP uses separate search and result ranges, while array LOOKUP uses one range containing both.