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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. 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, each partner has one capital account that records both permanent capital changes and routine partner adjustments.
- Credits increase the partner's capital balance; drawings and other debits reduce it.

Step 1: Identify the method The question expressly states that capitals are fluctuating. Therefore, interest on capital and partners' salaries are credited to their capital accounts, while drawings and interest on drawings are debited to those accounts. These entries cause the capital balances to fluctuate.

Step 2: Distinguish the other accounts Current accounts are used for these routine adjustments under the fixed capital method. A Drawings Account records withdrawals alone, so it cannot contain all the listed adjustments. Profit and Loss Appropriation Account determines the distribution of profit, but does not replace each partner's personal capital account.

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

Quick Tip to Solve: First identify fixed or fluctuating capital: routine partner adjustments go to Current Account for fixed capital and Capital Account for fluctuating capital.

2. 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 consists of discount on issue plus premium payable on redemption.
- The fall in Securities Premium equals the loss written off against it in this question.

Step 1: Compute the loss written off The amount utilised from Securities Premium is

$$\text{Loss written off} = 13,00,000 - 3,00,000 = \text{Rs } 10,00,000.$$

The nominal value of the debentures is $40,000 \times 100 = \text{Rs } 40,00,000$.

Step 2: Separate redemption premium from issue discount Premium on redemption is $40,00,000 \times 20\% = \text{Rs } 8,00,000$. Thus,

$$\text{Discount} = 10,00,000 - 8,00,000 = \text{Rs } 2,00,000,$$

$$\text{Discount rate} = \frac{2,00,000}{40,00,000} \times 100 = 5\%.$$

The 20% rate is the redemption premium, not the issue discount. Rates of 15% and 10% would produce total losses of Rs 14,00,000 and Rs 12,00,000 respectively, inconsistent with the amount written off. The 11% coupon determines annual interest, not the issue discount.

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 loss written off before dividing by the nominal debenture value.

3. 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:

- A commission allowed to a partner for carrying out dissolution is a cost of realisation.
- When that partner agrees to bear dissolution expenses, the actual expenses paid personally do not create an additional expense for the firm.

Step 1: Identify the firm's obligation Hari is entitled to the agreed commission of Rs 9,700. This amount is charged to Realisation Account and credited to Hari's Capital Account because it is remuneration owed by the firm for his dissolution work.

Step 2: Examine the actual expense payment Hari agreed to bear the actual dissolution expenses. Bhanu paid Rs 8,900 on Hari's behalf, so this is a payment towards Hari's personal obligation, not an additional payment by the firm. The firm therefore does not debit Realisation Account for Rs 8,900. Nil would incorrectly omit the agreed commission, and Rs 10,000 has no support in the given terms.

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

Quick Tip to Solve: Distinguish the commission owed by the firm from actual expenses borne by the partner; the identity of the person paying for that partner does not change the firm's cost.

4. 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:

- Incoming partner's capital divided by her profit share gives the implied total capital of the new firm.
- Hidden goodwill is the implied total capital less the actual combined capitals of all partners after admission.

Step 1: Find implied total capital Mona brings Rs 1,00,000 for a $\frac{1}{4}$ share. Hence the implied capital for the whole firm is

$$\text{Implied total capital} = 1,00,000 \div \frac{1}{4} = \text{Rs } 4,00,000.$$

This is the capitalised value of the firm, not the goodwill by itself.

Step 2: Deduct actual total capital Include Mona's capital as well as the two existing partners' capitals:

$$\begin{aligned} \text{Actual total capital} &= 1,20,000 + 90,000 + 1,00,000 \\ &= \text{Rs } 3,10,000, \\ \text{Hidden goodwill} &= 4,00,000 - 3,10,000 = \text{Rs } 90,000. \end{aligned}$$

Rs 22,500 is only Mona's one-fourth share of goodwill, while Rs 1,00,000 is her capital contribution. The old profit-sharing ratio does not affect this total goodwill calculation.

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

Quick Tip to Solve: For hidden goodwill, first gross up the incoming capital by the incoming share, then deduct the capitals of all partners including the incoming partner.

5. 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 asset undervalued by 20% is recorded at 80% of its correct value.
- An increase in the value of an asset creates a revaluation gain and is credited to Revaluation Account.

Step 1: Recover the correct asset value Land and building appear at Rs 20,00,000. Since this is 80% of the correct value,

$$\text{Correct value} = 20,00,000 \times \frac{100}{80} = \text{Rs } 25,00,000.$$

The phrase "undervalued by 20%" must not be treated as merely adding 20% of the recorded amount.

Step 2: Record only the increase The increase in land and building is

$$25,00,000 - 20,00,000 = \text{Rs } 5,00,000.$$

This increase is a gain, so Revaluation Account is credited. Debiting would reverse the treatment of an asset increase. Rs 25,00,000 is the revised asset balance, not the amount of the revaluation adjustment. Furniture is not revalued in the question and creates no adjustment.

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

Quick Tip to Solve: When an asset is undervalued by 20%, divide its book value by 80% to recover the correct value; credit only the difference to Revaluation Account.

6. 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 separately for each amount according to the time it remains invested.
- Interest equals capital multiplied by the annual rate and the fraction of the year: $I = C \times r \times t$, where r is the rate as a decimal.

Step 1: Calculate interest on opening capital Bholi's opening capital of Rs 6,00,000 remains in the firm for the entire year from 1st April, 2024 to 31st March, 2025:

$$I_1 = 6,00,000 \times \frac{12}{100} = \text{Rs } 72,000.$$

Step 2: Time-weight the additional capital The additional Rs 50,000 introduced on 30th September earns interest for the remaining six months:

$$I_2 = 50,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 3,000,$$
$$I = 72,000 + 3,000 = \text{Rs } 75,000.$$

Rs 78,000 incorrectly allows a full year's interest on the additional capital. Rs 72,000 omits the additional capital's interest, while Rs 3,000 omits interest on opening capital. The profit-sharing ratio is not used in calculating interest on capital.

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

Quick Tip to Solve: Split opening capital and mid-year additions before applying the rate; the 30th September addition earns six months of interest in this financial year.

7(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 who enter into partnership are called partners individually and a firm collectively.
- Partnership describes the relationship between the persons; it is distinct from the collective name for those persons.

Step 1: Identify what the question asks The key word is collectively. The question asks for the name given to all the persons taken together, rather than the name of their contractual relationship or the designation of each person separately.

Step 2: Distinguish the terms The collective designation is firm. Partners refers to the persons individually, and partnership refers to their relationship. Partners' firm is not the prescribed term in the definition. Therefore, only the option containing Firm fits the wording precisely.

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

Quick Tip to Solve: Associate the definition with three words: individuals are partners, their relationship is partnership, and collectively they are a firm.

OR

7(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 made to the firm beyond capital.
- Default provisions provide equal sharing of profits and losses, with no interest on capital and no remuneration for work done for the firm.

Step 1: Separate loans from capital A loan or advance by a partner is distinct from the amount contributed as capital. Even when no partnership deed exists, the loan or advance attracts interest at

6% per annum. Interest on capital, however, requires an agreement and is not automatically allowed.

Step 2: Check the remaining entitlements Option (A) incorrectly allows interest on capital without an agreement. Option (B) links profit and loss shares to capitals, whereas the default rule is equal sharing. Option (D) incorrectly gives remuneration as an automatic right; salary or other remuneration requires agreement. Option (C) alone matches the default rule for partner loans or advances.

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

Quick Tip to Solve: Without a deed, remember equal profit shares and no capital interest or salary, but 6% interest on a partner's loan or advance.

8(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 $\frac{3}{20}$, Manoj's sacrifice $\frac{3}{20}$

(B) Anup's sacrifice $\frac{3}{20}$, Manoj's gain $\frac{3}{20}$

(C) Anup's gain $\frac{3}{20}$, Manoj's gain $\frac{3}{20}$

(D) Anup's sacrifice $\frac{3}{20}$, Manoj's sacrifice $\frac{3}{20}$

Correct Answer: (B) Anup's sacrifice $\frac{3}{20}$, Manoj's gain $\frac{3}{20}$

Solution:

Concept:

- Sacrifice equals old profit share minus new profit share. A negative sacrifice indicates a gain.
- Convert both ratios to fractional shares of the same total before subtracting; total sacrifice must equal total gain.

Step 1: Express old and new shares The old ratio is $11 : 8 : 1$, with total 20, and the new ratio is $2 : 2 : 1$, with total 5. Thus the new shares, expressed with denominator 20, are

$$\text{Anup} = \frac{8}{20}, \qquad \text{Bharti} = \frac{8}{20}, \qquad \text{Manoj} = \frac{4}{20}.$$

Step 2: Subtract new shares from old shares The changes are

$$\begin{aligned} \text{Anup's sacrifice} &= \frac{11}{20} - \frac{8}{20} = \frac{3}{20}, \\ \text{Bharti's sacrifice} &= \frac{8}{20} - \frac{8}{20} = 0, \\ \text{Manoj's sacrifice} &= \frac{1}{20} - \frac{4}{20} = -\frac{3}{20}. \end{aligned}$$

Thus Manoj gains the share surrendered by Anup, while Bharti's share is unchanged. Option (A)

reverses the directions. Options (C) and (D) incorrectly show both changing partners as gaining or both as sacrificing; their changes would not balance.

Step 3: Conclusion Anup sacrifices $\frac{3}{20}$, Bharti has no gain or sacrifice, and Manoj gains $\frac{3}{20}$. Hence, the correct option is (B).

Quick Tip to Solve: Use old share minus new share consistently: a positive result is sacrifice and a negative result is gain; check that all signed changes sum to zero.

OR

8(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 is the increase in a continuing partner's share: Gain = New share − Old share.
- The gaining ratio compares the gains of the continuing partners in their stated order, here Varun and Tarun.

Step 1: Find the individual gains Varun and Tarun originally held $3/10$ and $2/10$ of the profits. Equal future sharing gives each a new share of $1/2$.

$$\text{Varun's gain} = \frac{1}{2} - \frac{3}{10} = \frac{2}{10},$$
$$\text{Tarun's gain} = \frac{1}{2} - \frac{2}{10} = \frac{3}{10}.$$

Step 2: Compare the gains Their gains total $5/10$, exactly Arun's former share. Thus the required comparison is $(2/10) : (3/10)$. The ratio $1 : 1$ is their new sharing ratio, while $3 : 2$ is their old sharing ratio; neither is the gaining ratio. The ratio $5 : 2$ mixes Arun's and Tarun's former shares.

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

Quick Tip to Solve: Write new share minus old share separately for Varun and Tarun; equal new shares need not give equal gains.

9(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 time each withdrawal remains outstanding until the financial year ends.
- For equal quarterly withdrawals at quarter ends, the average period is $(9+6+3+0)/4 = 4.5$ months.

Step 1: Find total drawings and their period Bajaj withdraws Rs 7,000 on 30th June, 30th September, 31st December and 31st March. These withdrawals remain outstanding for 9, 6, 3 and 0 months respectively. Total drawings are $4 \times 7,000 =$ Rs $28,000$. The last withdrawal earns no interest for the year because it is made on the closing date.

Step 2: Apply the annual interest rate Using the average period,

$$\text{Interest} = 28,000 \times \frac{18}{100} \times \frac{4.5}{12} = \text{Rs } 1,890.$$

Rs 3,150 uses a 7.5-month average, appropriate to the beginning of each quarter. Rs 5,040 charges all drawings for a full year. Rs 420 is one month's interest on the total, so it also uses the wrong period. The profit-sharing ratio does not affect interest on drawings.

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

Quick Tip to Solve: For quarter-end drawings remember 9, 6, 3, 0 months; their average is 4.5 months, not 6 months.

OR

9(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)

Particulars	Debit Amount (Rs)	Credit Amount (Rs)
Profit & Loss Appropriation A/c Dr. To Rao's Capital A/c	18,000	 18,000

(B)

Particulars	Debit Amount (Rs)	Credit Amount (Rs)
Profit & Loss Appropriation A/c Dr. To Rao's Current A/c	18,000	 18,000

(C)

Particulars	Debit Amount (Rs)	Credit Amount (Rs)
Interest on Capital A/c Dr. To Rao's Current A/c	18,000	 18,000

(D)

Particulars	Debit Amount (Rs)	Credit Amount (Rs)
Interest on Capital A/c Dr. To Rao's Capital A/c	18,000	 18,000

Correct Answer: (C)

Particulars	Debit Amount (Rs)	Credit Amount (Rs)
Interest on Capital A/c Dr. To Rao's Current A/c	18,000	 18,000

Solution:

Concept:

- Interest on capital equals capital multiplied by the annual interest rate for the relevant period.
- Under the fixed-capital method, interest on capital is credited to the partner's Current Account; the Capital Account remains fixed.

Step 1: Calculate interest on Rao's capital **Working Notes**

Rao's fixed capital is Rs 3,00,000 and the annual rate is 6%. Thus,

$$\text{Interest on capital} = 3,00,000 \times \frac{6}{100} = \text{Rs } 18,000.$$

The profit-sharing ratio does not determine this amount.

Step 2: Record the entry for allowing interest The allowance is first recorded by debiting Interest on Capital Account and crediting Rao's Current Account. The subsequent transfer of the total interest to Profit & Loss Appropriation Account is a separate entry.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Interest on Capital A/c Dr. To Rao's Current A/c (Being interest allowed on Rao's fixed capital at 6% per annum)		18,000	 18,000

Options (A) and (D) incorrectly credit the fixed Capital Account. Option (B) uses the appropriation account directly rather than the entry asked for allowing interest.

Step 3: Conclusion Debit Interest on Capital A/c and credit Rao's Current A/c by Rs 18,000. Hence, the correct option is (C).

Quick Tip to Solve: For fixed capitals, route interest and other routine partner adjustments through the Current Account.

10. 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:

- On admission, the incoming partner acquires a share of future profits from the existing partners.
- For each old partner, new share equals old share minus the share surrendered; all new shares together must total one.

Step 1: Evaluate the assertion Assertion (A) is correct. The firm must determine the proportion in which all partners, including the incoming partner, will share future profits and losses. The former allocation covered only the existing partners and therefore cannot by itself specify the incoming partner's entitlement.

Step 2: Evaluate the reason Reason (R) is correct. The old partners' shares in the firm's total profits are adjusted for their respective contributions to the incoming partner's share. An old partner who surrenders more of the total profits has a correspondingly greater reduction in that partner's share.

Step 3: Connect the reason with the assertion These adjustments are precisely why a new ratio covering all partners is required. Hence R directly explains A. Option (B) wrongly denies the explanatory link, while (C) and (D) wrongly treat one of the two statements as incorrect.

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

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

11. 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 fraction surrendered *of a partner's share* is multiplied by that partner's existing share of total profits.
- The incoming partner receives the sum of the old partners' sacrifices; each old partner retains the balance.

Step 1: Calculate the shares surrendered Dharam's old share is $7/10$, and Karan's is $3/10$. Their sacrifices are

$$\text{Dharam}: \frac{1}{3} \times \frac{7}{10} = \frac{7}{30} = \frac{28}{120},$$
$$\text{Karan}: \frac{1}{4} \times \frac{3}{10} = \frac{3}{40} = \frac{9}{120}.$$

Vinod receives both sacrifices, totalling $37/120$.

Step 2: Find the retained shares and compare

$$\text{Dharam's new share} = \frac{7}{10} - \frac{7}{30} = \frac{56}{120},$$
$$\text{Karan's new share} = \frac{3}{10} - \frac{3}{40} = \frac{27}{120}.$$

The numerators total $56 + 27 + 37 = 120$, so all profit is allocated. Option (A) leaves the old ratio unadjusted, while (B) and (C) assign Vinod 10 units instead of the 37 units received through sacrifice; (C) also reverses the old partners' positions.

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

Quick Tip to Solve: The words "of his share" mean multiply first: sacrifice is not directly 1/3 or 1/4 of the firm's total profits.

12. Novelty Ltd. issued 3,000, 11% Debentures of Rs 500 each at Rs 450 per debenture. 11% Debentures Account will be credited by: [1 mark]

(A) Rs 13,50,000

(B) Rs 3,00,000

(C) Rs 15,00,000

(D) Rs 33,00,000

Correct Answer: (C) Rs 15,00,000

Solution:

Concept:

- Debentures Account records the face value of the debentures issued, regardless of the issue price.
- An issue below face value creates a discount; it reduces issue proceeds but does not reduce the credit to Debentures Account.

Step 1: Find the nominal value issued Novelty Ltd. issues 3,000 debentures with a face value of Rs 500 each. Therefore the liability represented by these debentures is

$$3,000 \times 500 = \text{Rs } 15,00,000.$$

The stated 11% is the annual interest rate and is not used to determine the principal credited.

Step 2: Distinguish proceeds from the account credit At Rs 450 each, the issue proceeds are $3,000 \times 450 = \text{Rs } 13,50,000$; the difference of Rs 1,50,000 is the discount. Thus option (A) gives proceeds, not the nominal liability. Neither Rs 3,00,000 nor Rs 33,00,000 equals the number issued multiplied by their face value, so (B) and (D) are also incorrect.

Step 3: Conclusion 11% Debentures Account is credited by Rs 15,00,000. Hence, the correct option is (C).

Quick Tip to Solve: For a credit to Debentures Account, multiply number issued by face value; use issue price only for proceeds or settlement.

13. Misha Ltd. purchased assets of Rs 18,80,000 from Vibo Ltd. Misha Ltd. issued 11% Debentures of Rs 100 each at a discount of 6% in full satisfaction of the purchase consideration. The number of debentures issued to Vibo Ltd. was: [1 mark]

(A) 20,000

(B) 11,000

(C) 10,000

(D) 18,000

Correct Answer: (A) 20,000

Solution:

Concept:

- Debentures issued to a vendor discharge the purchase consideration at their issue price, not at their face value.
- Issue price equals face value less issue discount; number issued equals purchase consideration divided by issue price.

Step 1: Calculate the issue price per debenture The face value is Rs 100 and the issue discount is 6%. Hence,

$$\text{Issue price} = 100 - \left(100 \times \frac{6}{100}\right) = \text{Rs } 94.$$

The 11% coupon is used for interest and has no role in calculating the issue price.

Step 2: Divide the consideration by the issue price

$$\text{Number issued} = \frac{18,80,000}{94} = 20,000.$$

Verification: $20,000 \times 94 = \text{Rs } 18,80,000$, exactly the amount owed. The other quantities would settle only Rs 10,34,000 (11,000 debentures), Rs 9,40,000 (10,000 debentures), or Rs 16,92,000 (18,000 debentures). None satisfies the full purchase consideration.

Step 3: Conclusion Misha Ltd. issued 20,000 debentures to Vibo Ltd. Hence, the correct option is (A).

Quick Tip to Solve: For vendor settlement at a discount, divide the amount owed by Rs 94 per Rs 100 debenture, not by Rs 100.

14(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 calculated at the stated coupon rate on the nominal or face value of the debentures.
- Issue premium increases the proceeds received but does not increase the face value on which interest is payable.

Step 1: Determine nominal principal and time The total nominal value is

$$3,000 \times 1,000 = \text{Rs } 30,00,000.$$

The debentures were issued on 1st April, 2024 and remain outstanding throughout the year ended 31st March, 2025. Interest is therefore due for one full year.

Step 2: Apply the coupon rate

$$\text{Interest} = 30,00,000 \times \frac{9}{100} \times 1 = \text{Rs } 2,70,000.$$

The 5% premium is Rs 1,50,000, which explains the tempting option (B), but it is an issue receipt rather than interest. Rs 27,000 omits a factor of ten, and Rs 15,000 is neither the annual coupon nor the correct premium. Interest is unaffected by issuing above par.

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

Quick Tip to Solve: Ignore the 5% issue premium when finding interest: apply the 9% coupon to Rs 30,00,000 face value.

OR

14(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 part of uncalled share capital reserved for being called only on winding up.
- Called-up capital is the amount demanded from shareholders; paid-up capital is the called-up amount actually received.

Step 1: Identify the restriction in the question The company has not called the amount yet, and it has specifically restricted when that amount can be demanded. The decisive condition is that it may be called only in the event of the company's winding up. This special restriction defines reserve capital.

Step 2: Distinguish the other terms Uncalled capital is the broader category of capital not yet demanded and does not by itself imply the winding-up restriction, so (A) is insufficient. Paid-up capital has already been received from shareholders, ruling out (B). Called-up capital has already been demanded, ruling out (C). Reserve capital is also distinct from capital reserve, which is a reserve arising from capital profits.

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

Quick Tip to Solve: Look for "called only on winding up": it identifies reserve capital, a specially restricted part of uncalled capital.

15(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:

- Forfeiture cancels the called-up capital of the forfeited shares; Equity Share Capital Account is debited.
- The capital debit equals the number of shares forfeited multiplied by the called-up face value per share. Securities premium is separate from share capital.

Step 1: Identify the called-up capital Although the face value is Rs 100 per share, only Rs 80 has been called up. The premium of 10% does not increase the amount credited to Equity Share Capital Account. The amount of capital to cancel is therefore

$$2,000 \times \text{Rs } 80 = \text{Rs } 1,60,000.$$

Step 2: Apply the direction of the entry Capital has a credit balance when shares are issued. On forfeiture, that credit is reversed by a debit. Option (B) has the correct amount but the wrong direction. Options (C) and (D) incorrectly use the full face value of Rs 100, including Rs 20 per share that has not been called up.

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 shares by called-up face value; exclude both uncalled capital and securities premium.

OR

15(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 depend on the number of shares applied for, including excess applications.
- If an applicant pays the entire issue price early, add only the amount above the normal application instalment, avoiding double counting.

Step 1: Calculate normal application receipts Applications were received for 2,60,000 shares, so the normal application money is

$$2,60,000 \times \text{Rs } 5 = \text{Rs } 13,00,000.$$

The 2,00,000 shares offered for issue do not limit the money actually received on application.

Step 2: Add the advance from the applicant The issue price is Rs 10 + Rs 2 = Rs 12 per share. The applicant for 5,000 shares paid Rs 12 instead of Rs 5, so the additional receipt is

$$5,000 \times (12 - 5) = \text{Rs } 35,000.$$

Total cash received is Rs 13,00,000 + Rs 35,000 = Rs 13,35,000. Option (A) uses shares offered rather than applications received and ignores the advance; (B) and (C) also fail to include the correctly computed application receipts.

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

Quick Tip to Solve: Count all applications at Rs 5 first, then add only Rs 7 extra for each of the 5,000 fully paid applications.

16. 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:

- When goodwill is adjusted without opening a Goodwill Account, the gaining partner compensates the sacrificing partner through capital accounts.
- Sacrifice is old share minus new share; compensation equals the goodwill value multiplied by the share sacrificed.

Step 1: Find the sacrifice and gain Chaman sacrifices $5/10 - 2/10 = 3/10$. Raman retains $3/10$, so he neither gains nor sacrifices. Suman gains $5/10 - 2/10 = 3/10$. Thus the entire compensation is between Suman and Chaman.

Step 2: Calculate and direct the adjustment The goodwill compensation is

$$\text{Rs } 1,00,000 \times \frac{3}{10} = \text{Rs } 30,000.$$

Debit Suman, the gaining partner, and credit Chaman, the sacrificing partner. Option (A) reverses this adjustment. Options (C) and (D) wrongly involve Raman, whose share has not changed. No Goodwill Account is opened.

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

Quick Tip to Solve: Write old share minus new share for each partner: a positive figure receives credit and a negative figure bears the debit.

17. Tanvi, Manvi and Noori were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 1st April, 2025, their capitals were Rs 8,00,000; Rs 6,00,000 and Rs 4,00,000 respectively. The firm closes its books on 31st March every year. Tanvi died on 30th September, 2025. 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 @ 9% p.a.

(ii) Her share in the profits of the firm till the date of her death.

Till 30th September, 2025 Tanvi had withdrawn Rs 1,00,000 for personal use and interest on drawings @ 12% p.a. is to be charged. Her share in the profits of the firm was calculated on the basis of last year's profit. Last year's profit amounted to Rs 3,60,000.

Prepare Tanvi's Capital Account to be presented to her legal representatives. [3 marks]

Solution:

Concept:

- The deceased partner is credited with opening capital, interest on capital and her profit share up to death; drawings and interest on drawings are debited.
- Time-based profit up to death is estimated from the preceding annual profit. Where drawing dates are unspecified, drawings are treated as spread evenly over the relevant period and charged for its midpoint.

Step 1: Working Notes: calculate the amounts due The period from 1st April to 30th September is six months. Tanvi's profit share is $5/10$. Therefore,

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

$$\text{Profit up to death} = 3,60,000 \times \frac{6}{12} = \text{Rs } 1,80,000,$$

$$\text{Tanvi's profit share} = 1,80,000 \times \frac{5}{10} = \text{Rs } 90,000.$$

The profit share is credited through Profit and Loss Suspense Account because the financial year has not yet ended.

Step 2: Working Notes: calculate interest on drawings No withdrawal dates are specified. Taking drawings as spread evenly over these six months, the average period is $6/2 = 3$ months, not six months.

$$\text{Interest on drawings} = 1,00,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 3,000.$$

The balance payable is $8,00,000 + 36,000 + 90,000 - 1,00,000 - 3,000 = \text{Rs } 8,23,000$.

Step 3: Prepare the capital account **Tanvi's Capital Account (up to 30th September, 2025)**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Drawings A/c	1,00,000	By Balance b/d	8,00,000	
	To Interest on Drawings A/c	3,000	By Interest on Capital A/c	36,000	
	To Tanvi's Executor's A/c	8,23,000	By Profit and Loss Suspense A/c	90,000	
	Total	9,26,000	Total	9,26,000	

The balancing amount is transferred to Tanvi's Executor's Account, representing the sum payable to her legal representatives. The transfer closes the deceased partner's capital account.

Step 4: Conclusion Tanvi's legal representatives are entitled to Rs 8,23,000, transferred to her Executor's Account. The Capital Account totals Rs 9,26,000 on each side.

Quick Tip to Solve: Use six months for capital interest and profit, but three months for drawings interest when drawings are spread over that six-month period.

18(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:

- Excess interest on capital must be withdrawn from the partners who received it, and the resulting increase in divisible profit is credited in the profit-sharing ratio.
- Under the fixed-capital method, adjustments for interest and profit are made in Current Accounts; the fixed Capital Accounts are left unchanged.

Step 1: Working Notes: reverse excess interest The excess rate is $12\% - 9\% = 3\%$. Laxmi received excess interest of $8,00,000 \times 3/100 =$ Rs $24,000$; Rani received Rs 21,000 and Priya received Rs 15,000. These amounts must be debited to their Current Accounts. The aggregate excess interest is Rs 60,000, so the distributable profit rises by the same amount.

Step 2: Working Notes: redistribute the released profit The profit-sharing ratio is $5 : 7 : 8$, whose total is 20. The extra profit credits and net adjustments are:

Particulars (Rs)	Laxmi	Rani	Priya
Excess interest: debit	24,000	21,000	15,000
Extra profit: credit	15,000	21,000	24,000
Net adjustment	9,000 Dr.	Nil	9,000 Cr.

For example, Laxmi's extra profit credit is $60,000 \times 5/20 =$ Rs $15,000$. Rani's debit and credit cancel exactly. The total net debit equals the total net credit.

Step 3: Pass the single adjustment entry **Journal**

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 at the correct rate of 9% and the resulting profit redistributed in the ratio of 5:7:8)			

No entry is needed in Rani's Current Account because the two effects are equal. This single entry rectifies the net balances without reopening every appropriation entry.

Step 4: Conclusion Debit Laxmi's Current Account and credit Priya's Current Account by Rs 9,000 each. Rani requires no net adjustment.

Quick Tip to Solve: Reverse only the excess 3%, redistribute that total in 5:7:8, and post the net difference to Current Accounts because capitals are fixed.

OR

18(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:

- After admitting a partner for a specified share, the existing partners divide the remaining share in their old ratio when no other change is stated.
- A guaranteed partner receives at least the guaranteed amount. The deficiency is charged only to the partner who undertakes the guarantee.

Step 1: Working Notes: find the new ratio and ordinary shares Suman takes $1/5$, leaving $4/5$ for Sukesh and Surbhi in their old ratio $5:3$.

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

The new ratio is $5:3:2$. Out of Rs 5,50,000, their ordinary profit shares are Rs 2,75,000, Rs 1,65,000 and Rs 1,10,000 respectively.

Step 2: Working Notes: apply the guarantee Suman's ordinary share of Rs 1,10,000 is below the guarantee of Rs 1,20,000. The deficiency is therefore

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

Sukesh alone bears this amount. His final share becomes Rs 2,75,000 - Rs 10,000 = Rs 2,65,000. Surbhi's share remains Rs 1,65,000, while Suman receives Rs 1,20,000. Their total remains Rs 5,50,000; the guarantee reallocates profit and does not create a new expense.

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 profit transferred from Profit and Loss Account is fully appropriated among the partners, leaving no balance in this account. Capital Accounts are used because fixed capitals are not specified.

Step 4: Conclusion The final profit shares are Sukesh Rs 2,65,000, Surbhi Rs 1,65,000 and Suman Rs 1,20,000. Both sides of the appropriation account total Rs 5,50,000.

Quick Tip to Solve: First calculate Suman's normal one-fifth share, then transfer the Rs 10,000 shortfall only from Sukesh to Suman.

19(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:

- When assets and liabilities are taken over, debit the individual assets and credit the liabilities and the vendor with the purchase consideration. Excess net assets over consideration is credited to Capital Reserve.
- Debentures are credited at their face value. At a discount, the vendor is settled at the issue price and the difference is debited to Discount on Issue of Debentures Account.

Step 1: Calculate net assets and the number of debentures **Working Notes**

Total assets taken over are Rs $12,00,000 + 1,90,000 + 3,00,000 = 16,90,000$. Deduct the liabilities of Rs 90,000 to find net assets of Rs 16,00,000. Since these exceed the purchase consideration, the difference is a capital profit:

$$\text{Capital reserve} = 16,00,000 - 15,30,000 = \text{Rs } 70,000.$$

Each debenture settles Rs $100 - 10 = 90$ of the amount owed to Nitara Ltd. Therefore,

$$\begin{aligned} \text{Number of debentures} &= 15,30,000/90 = 17,000, \\ \text{Face value issued} &= 17,000 \times 100 = \text{Rs } 17,00,000, \\ \text{Discount on issue} &= 17,000 \times 10 = \text{Rs } 1,70,000. \end{aligned}$$

The 11% rate is the interest rate; it does not determine the issue price or number of debentures.

Step 2: Record the purchase and settlement **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 and capital reserve recognised)			
	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 of Rs 100 each issued at 10% discount in settlement of the purchase consideration)			

The purchase entry balances at Rs 16,90,000 and the settlement entry balances at Rs 17,00,000. The vendor's credit and debit are both Rs 15,30,000, so nothing remains payable.

Step 3: Conclusion Oasis Ltd. issues 17,000 debentures of Rs 100 each. Capital Reserve is Rs 70,000 and Discount on Issue of Debentures is Rs 1,70,000, recorded through the above journal entries.

Quick Tip to Solve: Divide the purchase consideration by Rs 90, the issue price, rather than by the Rs 100 face value; credit debentures at face value afterward.

OR

19(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 the excess of purchase consideration over net assets taken over, where net assets equal assets less liabilities.
- Debentures issued at a premium are credited at face value; the excess issue price is credited to Securities Premium. The bank draft settles the balance of the vendor's account.

Step 1: Calculate goodwill and the bank draft **Working Notes**

Bharat Heavy Industries Ltd. takes over net assets of Rs $20,00,000 - 8,00,000 = 12,00,000$. The purchase consideration of Rs 15,00,000 exceeds the net assets, so the difference is goodwill:

$$\text{Goodwill} = 15,00,000 - 12,00,000 = \text{Rs } 3,00,000.$$

Each Rs 100 debenture is issued at Rs $100 + 25 = 125$. The debentures therefore discharge Rs 10,00,000 of the purchase consideration:

$$\begin{aligned} \text{Debentures at face value} &= 8,000 \times 100 = \text{Rs } 8,00,000, \\ \text{Securities premium} &= 8,000 \times 25 = \text{Rs } 2,00,000, \\ \text{Bank draft} &= 15,00,000 - 10,00,000 = \text{Rs } 5,00,000. \end{aligned}$$

The 9% coupon rate affects interest on debentures, not the consideration discharged by their issue.

Step 2: Record the acquisition and discharge of consideration **Journal of Bharat Heavy Industries Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 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 the business of Mac Ltd. purchased and goodwill recognised)			
1 Apr. 2025	Mac Ltd. Dr.		15,00,000	
	To 9% Debentures A/c			8,00,000
	To Securities Premium A/c			2,00,000
	To Bank A/c			5,00,000
	(Being purchase consideration settled by 8,000 debentures of Rs 100 each at 25% premium and the balance by bank draft)			

The first entry totals Rs 23,00,000 on each side. The second totals Rs 15,00,000 on each side and clears Mac Ltd.'s account completely.

Step 3: Conclusion Goodwill of Rs 3,00,000 is recognised. The consideration is paid through debentures of face value Rs 8,00,000, securities premium of Rs 2,00,000 and a bank draft of Rs 5,00,000, as recorded above.

Quick Tip to Solve: Compute goodwill from net assets first. To calculate the bank draft, deduct the debentures' issue value of Rs 10,00,000, including premium, from the consideration.

20. Rita and Mohit were partners in a firm sharing profits and losses in the ratio of 7:3. Their capitals were Rs 7,00,000 and Rs 3,00,000 respectively. The normal rate of return was 10%.

The profits of the last four years were:

Year	Profit (Rs)
2021-22	3,30,000
2022-23	4,00,000
2023-24	(70,000)
2024-25	5,00,000

The closing stock for the year 2024-25 was undervalued by Rs 40,000. 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:

- Super profit is the excess of adjusted average profit over normal profit. Normal profit equals capital employed multiplied by the normal rate of return.

- Under the super-profit method, goodwill equals average super profit multiplied by the agreed years' purchase. An undervaluation of closing stock understates that year's profit and must be added back.

Step 1: Correct the profit and find the four-year average **Working Notes**

Closing stock appears on the credit side of the Trading Account. Its undervaluation by Rs 40,000 understates the profit for 2024-25 by the same amount. Thus the corrected profit is Rs $5,00,000 + 40,000 = 5,40,000$. The parenthesised amount for 2023-24 is a loss and must be deducted.

Year	Adjusted profit/(loss) (Rs)
2021-22	3,30,000
2022-23	4,00,000
2023-24	(70,000)
2024-25	5,40,000
Total	12,00,000

$$\text{Average profit} = \frac{12,00,000}{4} = \text{Rs } 3,00,000.$$

No adjustment for the next year's opening stock is needed because that year is outside the four-year period being averaged.

Step 2: Compute normal profit and average super profit Use the sum of the two partners' stated capitals as capital employed:

$$\text{Capital employed} = 7,00,000 + 3,00,000 = \text{Rs } 10,00,000,$$
$$\text{Normal annual profit} = 10,00,000 \times \frac{10}{100} = \text{Rs } 1,00,000,$$
$$\text{Average super profit} = 3,00,000 - 1,00,000 = \text{Rs } 2,00,000.$$

The normal profit is the return expected at the normal rate. Only the excess over it represents super profit. The profit-sharing ratio of 7:3 is not used because the question asks for the firm's total goodwill, not its allocation between partners.

Step 3: Apply two years' purchase Multiply the average annual super profit by the stated purchase factor of two:

$$\text{Goodwill} = 2,00,000 \times 2 = \text{Rs } 4,00,000.$$

As a check, the four annual super profits are Rs 2,30,000, Rs 3,00,000, Rs (1,70,000) and Rs 4,40,000. Their sum of Rs 8,00,000 divided by four gives the same average super profit of Rs 2,00,000.

Step 4: Conclusion The value of the firm's goodwill is $\boxed{\text{Rs } 4,00,000}$, based on two years' purchase of average super profits of Rs 2,00,000.

Quick Tip to Solve: Add the Rs 40,000 closing-stock undervaluation to the last year's profit, and subtract the Rs 70,000 loss before averaging; then deduct normal profit only once from the average.

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:

- Debentures are credited with their face value. The bank receives the issue price, and any issue premium is credited to Securities Premium Reserve.
- Premium payable on redemption is recognised as a liability at issue; the corresponding debit is Loss on Issue of Debentures. Interest rates identify the debenture accounts and do not affect the issue price.

Step 1: Calculate the amounts for AB Ltd. The face value is $30,000 \times$ Rs $100 =$ Rs $30,00,000$. Issue premium is $5\% \times$ Rs $30,00,000 =$ Rs $1,50,000$; hence cash received is Rs 31,50,000. Redemption premium is $10\% \times$ Rs $30,00,000 =$ Rs $3,00,000$, which is the loss recognised on issue. Issue premium and redemption premium are recorded in their separate accounts.

Step 2: Record the issue in AB Ltd.'s journal **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 of Rs 100 each issued at 5% premium, redeemable at 10% premium)			

Both sides of this compound entry total Rs 34,50,000. The issue premium does not reduce the face value credited to Debentures Account.

Step 3: Calculate and journalise CD Ltd.'s issue Face value and bank receipt are both $40,000 \times$ Rs $100 =$ Rs $40,00,000$, since the issue is at par. Redemption premium is $10\% \times$ Rs $40,00,000 =$ Rs $4,00,000$. There is no Securities Premium Reserve credit in this case.

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 of Rs 100 each issued at par, redeemable at 10% premium)			

Total debits equal total credits of Rs 44,00,000. The redemption premium is provided now although its payment will occur on redemption.

Step 4: Conclusion AB Ltd. records bank proceeds of Rs 31,50,000 and loss on issue of Rs 3,00,000; CD Ltd. records bank proceeds of Rs 40,00,000 and loss on issue of Rs 4,00,000. The entries above

recognise both the face-value liability and the redemption premium.

Quick Tip to Solve: Calculate issue premium and redemption premium separately on face value; 10% and 8% in the debenture names are coupon rates, not issue premiums.

22. Namrata, Bhavi and Surbhi were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March, 2025, their capitals were Rs 10,00,000; Rs 8,00,000 and Rs 6,00,000 respectively. With effect from 1st April, 2025, they decided to share the future profits equally. It was agreed that on change in profit sharing ratio:

(i) Goodwill of the firm will be valued at Rs 2,40,000.

(ii) Revaluation of assets and liabilities will be carried out. The revaluation of assets and reassessment of liabilities resulted in a gain of Rs 20,000.

(iii) Total capital of the reconstituted firm will be Rs 30,00,000 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: compensation equals the firm's goodwill multiplied by the share gained or sacrificed.
- Revaluation gain belongs to the partners in their old profit sharing ratio. After goodwill and revaluation adjustments, compare each capital with the capital required in the new ratio to find cash brought in or paid off.

Step 1: Work out the goodwill adjustment **Working Notes**

Old ratio is $5:3:2$ and new ratio is $1:1:1$. Namrata sacrifices, while Bhavi and Surbhi gain:

$$\text{Namrata's sacrifice} = \frac{5}{10} - \frac{1}{3} = \frac{1}{6},$$
$$\text{Bhavi's gain} = \frac{1}{3} - \frac{3}{10} = \frac{1}{30},$$
$$\text{Surbhi's gain} = \frac{1}{3} - \frac{2}{10} = \frac{2}{15}.$$

Therefore Namrata's Capital Account is credited with Rs $2,40,000 \times 1/6 =$ Rs $40,000$. Bhavi's Capital Account is debited with Rs $2,40,000 \times 1/30 =$ Rs $8,000$, and Surbhi's with Rs $2,40,000 \times 2/15 =$ Rs $32,000$. The two debits exactly equal Namrata's credit, so total capital is unchanged by goodwill compensation.

Step 2: Allocate revaluation gain and calculate cash adjustments The revaluation gain of Rs 20,000 is credited in the old ratio $5:3:2$: Namrata Rs 10,000, Bhavi Rs 6,000 and Surbhi Rs 4,000. Thus

their adjusted capitals, before cash settlement, are:

$$\text{Namrata: } 10,00,000 + 40,000 + 10,000 = 10,50,000,$$
$$\text{Bhavi: } 8,00,000 - 8,000 + 6,000 = 7,98,000,$$
$$\text{Surbhi: } 6,00,000 - 32,000 + 4,000 = 5,72,000.$$

All amounts above are in Rs. The required capital of each partner is Rs $30,00,000 \times 1/3 =$ Rs $10,00,000$. Namrata withdraws Rs 50,000; Bhavi brings in Rs 2,02,000; Surbhi brings in Rs 4,28,000. Net cash introduced is $2,02,000 + 4,28,000 - 50,000 =$ Rs $5,80,000$, taking total adjusted capital from Rs 24,20,000 to Rs 30,00,000.

Step 3: Prepare the partners' capital accounts **Partners' Capital Accounts as at 1st April, 2025**

Dr. Particulars	Amount (Rs) Namrata	Bhavi	Surbhi	Particulars	Amount (Rs) Cr. Namrata	Bhavi	Surbhi
To Namrata's Capital A/c	–	8,000	32,000	By Balance b/d	10,00,000	8,00,000	6,00,000
To Bank A/c	50,000	–	–	By Bhavi's Capital A/c	8,000	–	–
To Balance c/d	10,00,000	10,00,000	10,00,000	By Surbhi's Capital A/c	32,000	–	–
				By Revaluation A/c	10,000	6,000	4,000
				By Bank A/c	–	2,02,000	4,28,000
Total	10,50,000	10,08,000	10,32,000	Total	10,50,000	10,08,000	10,32,000
				By Balance b/d	10,00,000	10,00,000	10,00,000

Debit and credit totals agree separately for each partner. The debit-side balances carried down become credit-side opening capital balances after reconstitution.

Step 4: Conclusion The reconstituted capital is Rs 10,00,000 for each partner. Namrata is paid Rs 50,000, while Bhavi and Surbhi introduce Rs 2,02,000 and Rs 4,28,000 respectively.

Quick Tip to Solve: Adjust goodwill and revaluation first; only then compare each resulting capital with Rs 10,00,000 to decide whether cash is received or repaid.

23(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:

- On admission, accumulated reserves and revaluation profit belong to the old partners in their old profit-sharing ratio of $3:2$.
- Goodwill premium compensates the sacrificing partners. As no different sacrifice is specified, Anand and Bir sacrifice in their old ratio $3:2$.
- Asset decreases and new liabilities are debited to Revaluation Account; asset increases and liabilities written back are credited to it.

Step 1: Compute the adjustments **Working Notes**

The goodwill premium of Rs 15,000 is credited to Anand and Bir as $15,000 \times 3/5 = \text{Rs } 9,000$ and $15,000 \times 2/5 = \text{Rs } 6,000$. No workmen compensation claim is stated, so the whole fund of Rs 15,000 is also distributed in the old ratio.

$$\begin{aligned}
\text{Stock decrease} &= 45,000 \times 10\% = \text{Rs } 4,500,\\
\text{Machinery increase} &= 90,000 \times 10\% = \text{Rs } 9,000,\\
\text{Furniture decrease} &= 30,000 - 27,000 = \text{Rs } 3,000,\\
\text{Bad-debt provision} &= 36,000 \times 5\% = \text{Rs } 1,800.
\end{aligned}$$

The outstanding repair bill creates a liability of Rs 600. Unrecorded investments increase assets by Rs 3,000, while the creditor write-back decreases liabilities by Rs 900. These are revaluation adjustments, not cash transactions.

Step 2: Record capital, goodwill and the accumulated fund **Journal of Anand, Bir and Vishal (1st April, 2025)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	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 by Vishal)			
	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 goodwill premium distributed in the sacrificing ratio of 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 to old partners in their old ratio, no claim being stated)			

Step 3: Record decreases in value and new liabilities **Journal (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Revaluation A/c Dr.		9,900	
	To Stock A/c			4,500
	To Furniture A/c			3,000
	To Provision for Bad Debts A/c			1,800
	To Outstanding Repairs A/c			600
	(Being asset decreases, provision for bad debts and outstanding repair liability recorded)			

The debit of Rs 9,900 equals the total credits of Rs 4,500, Rs 3,000, Rs 1,800 and Rs 600. The full debtors balance remains recorded; its recoverable amount is reduced through the provision.

Step 4: Record increases and transfer the revaluation profit **Journal (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	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 machinery appreciation, unrecorded investments and creditor write-back recorded)			
	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 to old partners in the ratio 3:2)			

Revaluation profit is $12,900 - 9,900 =$ Rs $3,000$. Its distribution is $3,000 \times 3/5 =$ Rs $1,800$ to Anand and $3,000 \times 2/5 =$ Rs $1,200$ to Bir. Vishal receives no share because the gains arose before his admission.

Step 5: Conclusion The above journal entries record Vishal's admission. Revaluation profit is Rs 3,000, shared by Anand and Bir as Rs 1,800 and Rs 1,200. The goodwill premium and workmen compensation fund are each distributed as Rs 9,000 and Rs 6,000.

Quick Tip to Solve: Keep the Rs 15,000 goodwill premium and Rs 15,000 compensation fund separate: both go to the old partners, but neither belongs in Revaluation Account.

OR

23(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:

- At retirement, revaluation profit or loss and accumulated reserves are shared by all old partners in their old ratio, here $1:1:1$.
- The retiring partner's goodwill share is borne by continuing partners in their gaining ratio; gain equals new share minus old share.
- The amount due to the retiring partner is settled by the stated bank payment and transfer of the unpaid balance to the retiring partner's Loan Account.

Step 1: Calculate the gaining ratio and goodwill **Working Notes**

Radha and Meera will share future profits in the ratio $3:2$. Their respective gains are

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

Thus the gaining ratio is $4:1$. Shyam's share of goodwill is $6,00,000 \times 1/3 =$ Rs $2,00,000$. Debit Radha's Capital Account by $2,00,000 \times 4/5 =$ Rs $1,60,000$, debit Meera's Capital Account by $2,00,000 \times 1/5 =$ Rs $40,000$, and credit Shyam's Capital Account by Rs 2,00,000. Goodwill is adjusted through capitals without raising a goodwill asset.

The General Reserve of Rs 3,00,000 gives each partner Rs 1,00,000. The stock reduction of Rs 1,20,000 and patents write-off of Rs 1,80,000 cause a revaluation loss of Rs 3,00,000, also Rs 1,00,000 per partner.

Step 2: Prepare the Revaluation Account **Revaluation Account as at 31st March, 2025**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
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

The loss is transferred to the debit of each partner's Capital Account. Revaluation Account closes with equal totals; it carries no balance forward.

Step 3: Prepare the continuing partners capital accounts **Radha's Capital Account**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
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 A/c	1,00,000
To Balance c/d	2,40,000		
Total	5,00,000	Total	5,00,000
		By Balance b/d	2,40,000

Meera's Capital Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
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 A/c	1,00,000
To Balance c/d	3,60,000		
Total	5,00,000	Total	5,00,000
		By Balance b/d	3,60,000

The closing capitals reflect each continuing partner's share of reserves and losses, followed by the goodwill compensation payable to Shyam.

Step 4: Prepare Shyam capital account and settle the amount due Shyam's amount due before settlement is

$$4,00,000 + 1,00,000 - 1,00,000 + 2,00,000 = \text{Rs } 6,00,000.$$

After the bank payment of Rs 1,00,000, the remaining Rs 5,00,000 becomes his loan to the firm.

Shyam's Capital Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Revaluation A/c	1,00,000	By Balance b/d	4,00,000
To Bank A/c	1,00,000	By General Reserve A/c	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

Shyam's Capital Account has no balance c/d because the whole amount has been settled through Bank and Loan Accounts.

Step 5: Conclusion Revaluation loss is Rs 3,00,000. The closing capitals are Radha Rs 2,40,000 and Meera Rs 3,60,000. Shyam receives Rs 1,00,000 immediately, and Rs 5,00,000 is transferred to his Loan Account.

Quick Tip to Solve: Use the old equal ratio for reserves and revaluation, but the gaining ratio 4:1 for Shyam's goodwill; the new ratio 3:2 is not the goodwill-adjustment ratio.

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24. Astha Ltd. was registered with an authorised capital of Rs 20,00,000 divided into shares of Rs 10 each. On 1st April, 2025, the company offered to the public for subscription 1,40,000 shares. Applications for 1,35,000 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 2 per share. [6 marks]

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

(A) Rs 5,000

(B) Rs 50,000

(C) Rs 40,000

(D) Rs 10,000

Correct Answer: (D) Rs 10,000

Solution:

Concept:

- Calls in arrears are amounts called by the company but unpaid by shareholders.
- Unpaid call amount equals the number of defaulting shares multiplied by the unpaid call per share.

Step 1: Identify the default The default concerns only 5,000 shares and only the second and final call of Rs 2 per share. The face value of Rs 10 is not wholly unpaid; earlier instalments have already been received.

Step 2: Calculate arrears and check the alternatives

$$\text{Calls in arrears} = 5,000 \times 2 = \text{Rs } 10,000.$$

Option (A), Rs 5,000, merely repeats the number of shares. Option (B), Rs 50,000, is their face value; option (C), Rs 40,000, is the amount already paid on those shares at Rs 8 each. Neither is the unpaid call amount.

Step 3: Conclusion Calls in arrears are Rs 10,000. Hence, the correct option is (D).

Quick Tip to Solve: Multiply the 5,000 defaulting shares by the unpaid call of Rs 2, not by the Rs 10 face value.

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

(A) Rs 13,40,000

(B) Rs 13,00,000

(C) Rs 13,50,000

(D) Rs 14,00,000

Correct Answer: (B) Rs 13,00,000

Solution:

Concept:

- Subscribed and fully paid-up capital includes only shares on which the entire called face value has been paid.
- Shares with calls in arrears belong to subscribed but not fully paid-up capital, and must be excluded from the fully paid category.

Step 1: Find the fully paid shares All 1,35,000 applications were allotted in full, so subscribed shares are 1,35,000. Of these, 5,000 shares have an unpaid final call. Therefore fully paid shares number $1,35,000 - 5,000 = 1,30,000$.

Step 2: Calculate capital and distinguish the alternatives

$$\text{Subscribed and fully paid-up capital} = 1,30,000 \times 10 = \text{Rs } 13,00,000.$$

Option (A), Rs 13,40,000, is total paid-up share capital including the amount paid on partly paid shares. Option (C), Rs 13,50,000, is the full nominal value of all subscribed shares. Option (D), Rs 14,00,000, represents issued capital. None is the fully paid subset requested.

Step 3: Conclusion Subscribed and fully paid-up capital is Rs 13,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Exclude all 5,000 partly paid shares before multiplying by Rs 10; merely subtracting arrears gives total paid-up capital.

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

(A) Rs 40,000

(B) Rs 50,000

(C) Rs 10,000

(D) Nil

Correct Answer: (A) Rs 40,000

Solution:

Concept:

- Subscribed but not fully paid-up capital is the amount paid on shares whose called-up value has not been paid in full.
- For these shares, paid-up amount equals called-up capital less calls in arrears.

Step 1: Identify the partly paid shares Only the shareholder holding 5,000 shares has failed to pay the final call. The other subscribed shares are fully paid. Each of these 5,000 shares has a face value of Rs 10, but Rs 2 remains unpaid; hence Rs 8 per share has been received.

Step 2: Calculate their paid-up amount

$$5,000 \times (10 - 2) = \text{Rs } 40,000.$$

Option (B), Rs 50,000, is the called-up face value before deducting arrears. Option (C), Rs 10,000, is only the unpaid call. Option (D) is incorrect because partly paid shares do exist.

Step 3: Conclusion The subscribed but not fully paid-up capital is $\boxed{\text{Rs } 40,000}$. Hence, the correct option is (A).

Quick Tip to Solve: For the 5,000 defaulting shares, multiply by Rs 8 received, not by the Rs 2 unpaid call.

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

(A) Rs 13,00,000

(B) Rs 13,10,000

(C) Rs 13,40,000

(D) Rs 13,50,000

Correct Answer: (C) Rs 13,40,000

Solution:

Concept:

- The Balance Sheet reports paid-up share capital: called-up subscribed capital less calls in arrears.
- Authorised and issued capital disclose limits and offers; they do not replace the amount actually subscribed and paid.

Step 1: Calculate subscribed capital and arrears All the 1,35,000 shares applied for were allotted. Their full face value has been called up, giving $1,35,000 \times 10 = \text{Rs } 13,50,000$. The only arrears are

$5,000 \times 2 = \text{Rs } 10,000$.

Step 2: Deduct the unpaid call

$$\text{Paid-up capital} = 13,50,000 - 10,000 = \text{Rs } 13,40,000.$$

Equivalently, fully paid shares contribute Rs 13,00,000 and partly paid shares contribute Rs 40,000. Option (A) omits the latter contribution; option (B) adds only arrears to fully paid capital; option (D) fails to deduct arrears.

Step 3: Conclusion Share capital shown in the Balance Sheet is $\boxed{\text{Rs } 13,40,000}$. Hence, the correct option is (C).

Quick Tip to Solve: Start from 1,35,000 allotted shares, not 1,40,000 offered shares, and subtract the single unpaid call.

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 10,000

(B) Rs 50,000

(C) Rs 5,000

(D) Rs 40,000

Correct Answer: (D) Rs 40,000

Solution:

Concept:

- Share Forfeiture Account is credited with the amount already received towards share capital on shares forfeited.
- Unpaid calls are cancelled on forfeiture; they are not a receipt and cannot form part of the forfeiture balance.

Step 1: Find the capital received per share The face value of each forfeited share is Rs 10 and the unpaid second and final call is Rs 2. Therefore, the amount already received towards capital is $10 - 2 = \text{Rs } 8$ per share. There is no premium in this issue.

Step 2: Find the forfeiture balance

$$\text{Share Forfeiture} = 5,000 \times 8 = \text{Rs } 40,000.$$

This balance appears in the Notes to Accounts under share capital for the forfeited shares until reissue. Option (A) represents unpaid calls; option (B) is the full called-up capital; option (C) is the number of shares expressed incorrectly as money.

Step 3: Conclusion Share Forfeiture Account will appear at $\boxed{\text{Rs } 40,000}$. Hence, the correct option is (D).

Quick Tip to Solve: Forfeiture retains the Rs 8 already received on each share; it does not retain the Rs 2 never paid.

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

(A) Rs 40,000

(B) Rs 50,000

(C) Rs 10,000

(D) Rs 15,000

Correct Answer: (C) Rs 10,000

Solution:

Concept:

- The discount on reissue of forfeited shares cannot exceed the capital amount forfeited on those same shares.
- Minimum reissue proceeds for fully paid shares equal their face value less the available forfeiture balance.

Step 1: Determine the maximum permissible discount The company has received Rs 8 on each of the 5,000 shares before forfeiture. The available forfeiture balance is therefore $5,000 \times 8 = \text{Rs } 40,000$. This is the maximum total discount permitted on reissue.

Step 2: Calculate the minimum total reissue price

$$5,000 \times 10 - 40,000 = \text{Rs } 10,000.$$

This equals Rs 2 per share. The options quote aggregate amounts for all 5,000 shares. Rs 40,000 and Rs 50,000 are permissible higher proceeds, but neither is the minimum. Rs 15,000 also exceeds the minimum; it would leave part of the forfeiture balance unused.

Step 3: Conclusion The minimum reissue price is $\boxed{\text{Rs } 10,000}$ in total, or Rs 2 per share. Hence, the correct option is (C).

Quick Tip to Solve: Subtract the Rs 8 forfeited per share from its Rs 10 face value; then multiply by all 5,000 shares.

25(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:

- Pro-rata allotment distributes shares in the ratio of shares allotted to valid shares applied for; excess application money is adjusted against the subsequent call.
- Share Capital receives only face value. Securities Premium receives the issue premium; premium due but not received is reversed when the shares are forfeited.
- Share Forfeiture is credited only with capital already received on the forfeited shares, including excess application money adjusted towards capital.

Step 1: Prepare the working notes **Working Notes**

The valid applications are $6,00,000 - 1,00,000 = 5,00,000$ shares. Hence the allotment ratio is $4,00,000 : 5,00,000 = 4 : 5$. The defaulting applicant receives $500 \times 4/5 = 400$ shares. Application and allotment of Rs 6 includes Rs 4 capital and Rs 2 premium. The remaining call is $(10+4)-6 = \text{Rs } 8$, comprising Rs 6 capital and Rs 2 premium.

$$\begin{aligned} \text{Application receipts} &= 6,00,000 \times 6 = \text{Rs } 36,00,000, \\ \text{Refund} &= 1,00,000 \times 6 = \text{Rs } 6,00,000, \\ \text{Excess adjusted to call} &= (5,00,000 - 4,00,000) \times 6 \\ &= \text{Rs } 6,00,000. \end{aligned}$$

For the defaulting shareholder, excess money is $(500-400)\times 6 = \text{Rs } 600$. His call is $400 \times 8 = \text{Rs } 3,200$, so the unpaid balance is Rs 2,600. Adjusting the Rs 600 against the capital portion of the call, capital received is $400 \times 4 + 600 = \text{Rs } 2,200$; the unpaid call premium is $400 \times 2 = \text{Rs } 800$.

Step 2: Record the application receipts and allotment **Journal of Madhav Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received on 6,00,000 shares at Rs 6 per share)		36,00,000	 36,00,000

	Share Application and Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	  To Bank A/c
	  To Share First and Final Call A/c
	(Being 4,00,000 shares allotted pro-rata, rejected applications refunded and excess adjusted to call)
			36,00,000	
				16,00,000
				8,00,000
				6,00,000
				6,00,000

The application and allotment account is closed: Rs 16,00,000 capital, Rs 8,00,000 premium, Rs 6,00,000 refund and Rs 6,00,000 advance adjustment together equal Rs 36,00,000.

Step 3: Record the call and its receipt The call due is $4,00,000 \times 8 =$ Rs $32,00,000$. Cash received is $32,00,000 - 6,00,000 - 2,600 =$ Rs $25,97,400$. The excess adjusted earlier is deducted only once.

Journal of Madhav Ltd. (continued)

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

	Share First and Final Call A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being call of Rs 8 per share due, including premium of Rs 2 per share)
			32,00,000	
				24,00,000
				8,00,000

	Bank A/c Dr. To Share First and Final Call A/c (Being call money received after adjustment of excess and excluding Rs 2,600 unpaid)		25,97,400	 25,97,400

Step 4: Record forfeiture of the defaulting shares The full face value of 400 shares has been called, so Share Capital is debited by $400 \times 10 =$ Rs $4,000$. Reverse only the unpaid Rs 800 premium, retain the Rs 800 premium already received on application and allotment, and credit the Rs 2,200 capital receipt to Share Forfeiture.

Journal of Madhav Ltd. (continued)

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

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Share First and Final Call A/c
	  To Share Forfeiture A/c
	(Being 400 shares forfeited for non-payment of the call after adjusting excess application money)
			4,000
			800
				
				2,600
				2,200

The entry balances because $4,000 + 800 = 2,600 + 2,200 =$ Rs $4,800$. The call account also closes: Rs 6,00,000 adjusted, Rs 25,97,400 received and Rs 2,600 cancelled total Rs 32,00,000.

Step 5: Conclusion The required entries record the issue of 4,00,000 shares and forfeiture of 400 shares. Call cash received is Rs 25,97,400, and Share Forfeiture is credited with Rs 2,200.

Quick Tip to Solve: Convert 500 applied shares into 400 allotted shares first; adjust the Rs 600 excess once and exclude premium from Share Forfeiture.

OR

25(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:

- On forfeiture, Share Capital is debited with the called-up capital, unpaid calls are credited, and the capital amount already received is credited to Share Forfeiture.
- Discount on re-issue is debited to Share Forfeiture. Only the surplus relating to shares actually re-issued is transferred to Capital Reserve.

Step 1: Calculate the forfeited capital and re-issue surplus **Working Notes**

The final call of Rs 30 was not made, so called-up capital per share is Rs $100 - 30 = 70$. The unpaid first call is Rs 20, hence the capital received per share is Rs $70 - 20 = 50$.

$$\text{Capital forfeited} = 800 \times 70 = \text{Rs } 56,000,$$
$$\text{Unpaid first call} = 800 \times 20 = \text{Rs } 16,000,$$
$$\text{Amount forfeited} = 800 \times 50 = \text{Rs } 40,000.$$

The 600 re-issued shares become fully paid at Rs 100 each, so capital credited is Rs 60,000. Cash received is Rs 54,000 and the re-issue discount is Rs 6,000. The forfeiture balance attributable to these shares is $600 \times 50 = \text{Rs } 30,000$, leaving Rs 24,000 for Capital Reserve. The Rs 10,000 relating to the 200 unre-issued shares remains in Share Forfeiture.

Step 2: Record the forfeiture and re-issue **Journal of NN Ltd.**

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

	Share Capital A/c Dr.
	  To Share First Call A/c
	  To Share Forfeiture A/c
	(Being 800 shares forfeited for non-payment of the first call of Rs 20 per share)
			56,000	
				16,000
				40,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 600 shares re-issued as fully paid for Rs 54,000)		54,000 6,000	 60,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on 600 re-issued shares transferred to Capital Reserve)		24,000	 24,000

Step 3: Conclusion Capital Reserve is Rs 24,000. Share Forfeiture retains a credit balance of Rs 10,000 for the 200 shares not yet re-issued.

Quick Tip to Solve: Debit only Rs 70 per share on forfeiture because the Rs 30 final call was not made; credit Rs 100 per share when re-issued as fully paid.

25(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:

- Fully called-up shares are forfeited by debiting their face-value capital, crediting the unpaid call and crediting Share Forfeiture with the capital already received.
- Premium already received is not reversed on forfeiture. Re-issue discount is adjusted against Share Forfeiture, and the remaining surplus on re-issued shares becomes Capital Reserve.

Step 1: Determine the capital received and re-issue discount **Working Notes**

Only the second and final call of Rs 20 per share is unpaid. The premium of Rs 20 per share has therefore already been received and remains in Securities Premium. Capital received per share is Rs $100 - 20 = 80$; the premium is excluded from the amount forfeited.

$$\text{Share Capital debited} = 7,000 \times 100 = \text{Rs } 7,00,000,$$
$$\text{Unpaid final call} = 7,000 \times 20 = \text{Rs } 1,40,000,$$
$$\text{Share Forfeiture credited} = 7,000 \times 80 = \text{Rs } 5,60,000.$$

All 7,000 shares are re-issued as fully paid for Rs 80 each. The bank receipt is Rs $7,000 \times 80 = 5,60,000$ and the discount is Rs $7,000 \times (100 - 80) = 1,40,000$. This discount is within the forfeited capital. Since all the forfeited shares are re-issued, the entire remaining balance of Rs $5,60,000 - 1,40,000 = 4,20,000$ is transferred to Capital Reserve.

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

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

	Share Capital A/c Dr.
	  To Share Second and Final Call A/c
	  To Share Forfeiture A/c
	(Being 7,000 shares forfeited for non-payment of the final call of Rs 20 per share)
			7,00,000	
				1,40,000
				5,60,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 7,000 shares re-issued at Rs 80 per share as fully paid)		5,60,000 1,40,000	 7,00,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on all re-issued shares transferred to Capital Reserve)		4,20,000	 4,20,000

Step 3: Conclusion The re-issue discount is Rs 1,40,000 and the transfer to Capital Reserve is Rs 4,20,000. Securities Premium is unaffected.

Quick Tip to Solve: Exclude the received Rs 20 premium from Share Forfeiture; only Rs 80 capital received per share is available to cover re-issue discount.

26. 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:

- Assets and third-party liabilities have already been transferred to Realisation. Cash realised and assets taken over by a partner are credited to Realisation; payments to settle outside liabilities are debited to it.
- A partner's loan is settled through the separate Loan Account. A reduction accepted in full settlement is credited to Realisation as a gain.
- Realisation expenses paid by a partner on behalf of the firm debit Realisation and credit that partner's Capital Account, unless the partner has agreed to bear them personally.

Step 1: Record the stock taken over and sold **Working Notes: (i)**

Each half of the stock has a book value of Rs $80,000 \times 50\% = 40,000$. Sophia takes over her half for Rs $40,000 \times 90\% = 36,000$, while the other half realises Rs $40,000 \times 115\% = 46,000$. The original stock transfer is not repeated.

Journal of Sophia and Lalit – 31st March, 2025

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sophia's Capital A/c Dr. To Realisation A/c (Being half the stock taken over by Sophia at 10% below book value)		36,000	36,000
	Bank A/c Dr. To Realisation A/c (Being the remaining stock sold at a gain of 15%)		46,000	46,000

Step 2: Record the unrecorded investment sold (ii) An unrecorded investment has no balance in the books to transfer. Its sale proceeds are recorded directly as a gain through Realisation.

Journal – 31st March, 2025

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being unrecorded investment sold for Rs 25,000)		25,000	25,000

Step 3: Record debtor collections and recovery of old bad debts **Working Notes: (iii)**

Existing debtors realise Rs $1,20,000 \times 90\% = 1,08,000$. The separate recovery of Rs 5,000 relates to a debt already written off last year, so it is an additional realisation. The Rs 12,000 shortfall on existing debtors needs no separate bad-debt entry because their full book value has already been debited to Realisation.

Journal – 31st March, 2025

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being debtors realised at 90% of book value)		1,08,000	 1,08,000
	Bank A/c Dr. To Realisation A/c (Being recovery of bad debts written off last year)		5,000	 5,000

Step 4: Settle Sophia's loan (iv) Sophia's Loan Account still shows Rs 52,000 because a partner's loan is not a third-party liability transferred to Realisation. Paying Rs 41,000 extinguishes the whole loan. The resulting gain is Rs $52,000 - 41,000 = 11,000$.

Journal – 31st March, 2025

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

Step 5: Pay creditors at a discount (v) Creditors are paid Rs $60,000 \times 95\% = 57,000$. The Rs 3,000 discount is automatically reflected in Realisation because their full Rs 60,000 balance was already credited to that account.

Journal – 31st March, 2025

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being creditors of Rs 60,000 paid at a discount of 5%)		57,000	 57,000

Step 6: Record expenses paid by Lalit (vi) The expenses belong to the firm, but Lalit pays them personally. Realisation is debited and Lalit's Capital Account is credited for reimbursement. The firm's Bank Account is not credited because the firm has not paid the cash.

Journal – 31st March, 2025

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

Step 7: Conclusion All six transactions are recorded. Sophia's stock takeover debits her capital by Rs 36,000; settlement of her loan creates a gain of Rs 11,000; and Lalit's capital is credited with Rs 7,000 for expenses paid.

Quick Tip to Solve: Do not repeat transfers already made to Realisation. Keep Sophia's loan separate, and credit Lalit's capital when he pays the firm's expenses.

Part B (20 marks)

Option I

(Analysis of Financial Statements)

27. 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 are the principal revenue-producing activities of an enterprise and other activities that are neither investing nor financing activities.
- Cash-flow classification depends on the nature of the enterprise: making loans and advances is part of the ordinary business of a financial enterprise.

Step 1: Evaluate Statement I Statement I is true. The primary or main activities of an enterprise generate its operating revenue; cash flows from these activities are classified as operating cash flows. Thus the statement correctly identifies the central nature of operating activities.

Step 2: Evaluate Statement II and compare the options Statement II is also true. A financial enterprise ordinarily earns revenue by making loans and advances, so cash paid for these transactions is usually an operating cash outflow. Classifying loans made as investing activities applies generally to non-financial enterprises and does not make this statement false. Option (A) wrongly rejects both statements; (B) wrongly rejects Statement II; and (C) wrongly rejects Statement I.

Step 3: Conclusion Both Statements I and II are true. Hence, the correct option is (D).

Quick Tip to Solve: Before classifying loans made, identify the business: lending is an operating activity for a financial enterprise.

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 involve acquisition or disposal of long-term assets and investments, and returns received on investments.
- Under the usual classification for a non-financial enterprise, interest and dividend received are investing inflows; interest and dividend paid are financing outflows.

Step 1: Classify the three cash flows Payment of taxes is normally an operating outflow unless specifically attributable to investing or financing activities. Payment of dividend and interest is a financing outflow. Receipt of interest and dividend is an investing inflow because these amounts represent returns on investments.

Step 2: Test the combinations Only statement (iii) belongs to investing activities. Options (A) and (B) incorrectly include payment of taxes, and option (C) incorrectly includes payment of dividend and interest. Thus none of these combinations describes only investing activities.

Step 3: Conclusion Receipt of interest and dividend, (iii) only, is an investing activity. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish returns received on investments from interest and dividend paid to providers of finance.

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; receipts of royalties are operating cash inflows.
- Investing activities relate to long-term assets and investments, while financing activities change owners' capital or borrowings.

Step 1: Identify the revenue receipt Royalties arise from the revenue-producing operations of the enterprise. Their receipt is therefore classified as an operating activity, which makes statement (C) correct.

Step 2: Check the other statements Sale of property is ordinarily an investing activity, so (A) is incorrect. Depositing cash into bank merely transfers money between cash and bank balances; total cash and cash equivalents do not change, so (B) is incorrect. Buy-back of own equity shares reduces share capital and is a financing outflow, making (D) incorrect.

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

Quick Tip to Solve: Cash deposited in bank changes the location of cash; it does not change total cash and cash equivalents.

29. 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. Let original current liabilities be L; then original current assets are $1.5L$.
- When a ratio exceeds one, adding the same positive amount to its numerator and denominator

brings it closer to one.

Step 1: Analyse a credit purchase Goods purchased on credit increase inventory and trade payables by the same amount, Rs 75,000. The new ratio is

$$\frac{1.5L + 75,000}{L + 75,000} = 1 + \frac{0.5L}{L + 75,000} < 1.5.$$

Thus a credit purchase reduces the current ratio.

Step 2: Rule out the remaining transactions Sale of furniture with book value Rs 18,000 at a loss of Rs 2,000 brings Rs 16,000 into current assets while current liabilities remain unchanged, increasing the ratio. Selling goods costing Rs 60,000 for Rs 80,000 increases current assets by the Rs 20,000 profit, also increasing the ratio. Payment of trade payables reduces both current assets and current liabilities by Rs 40,000; since the original ratio exceeds one, the ratio increases when positive liabilities remain.

Step 3: Conclusion Goods purchased on credit for Rs 75,000 will reduce the current ratio. Hence, the correct option is (B).

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

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:

- The Statement of Profit and Loss is a primary financial statement reporting income, expenses and profit or loss for an accounting period.
- Comparative and common-size statements are tools of financial statement analysis prepared using the primary financial statements.

Step 1: Identify the primary statement The Statement of Profit and Loss reports the company's financial performance for the year and forms part of its financial statements. It is therefore the direct answer to the question.

Step 2: Distinguish analytical statements A common-size Statement of Profit and Loss expresses items as percentages of a common base. A comparative Balance Sheet and a comparative Statement of Profit and Loss show changes between periods. Options (A), (C) and (D) are analytical presentations derived from financial statements rather than the primary statement asked for here.

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

Quick Tip to Solve: When distinguishing primary statements from analysis tools, look for the words comparative or common-size.

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 the enterprise's capacity to meet its long-term obligations and the financial risk arising from its capital structure.
- Return on investment measures profitability by relating profit to the capital employed in earning it.

Step 1: Classify return on investment Return on investment expresses the return earned on capital employed, usually as profit before interest and tax divided by capital employed, multiplied by 100. Its focus is earning capacity and efficiency in using capital; it is a profitability ratio.

Step 2: Check the solvency measures Debt-equity ratio compares long-term debt with shareholders' funds. Interest coverage ratio measures the capacity of earnings to cover interest obligations. Proprietary ratio indicates the proportion of total assets financed by shareholders' funds. These three are solvency ratios, eliminating options (A), (C) and (D).

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

Quick Tip to Solve: Profit relative to capital employed measures return; debt, owners' funding and interest coverage assess solvency.

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) Unclaimed dividend

(ii) Trademarks

(iii) Vehicles [3 marks]

Solution:

Concept:

- Schedule III separates equity and liabilities from assets and classifies the relevant balances into current and non-current heads.
- A liability is an amount payable by the company. Non-current assets used over several periods are classified according to whether they have physical substance.

Step 1: Classify unclaimed dividend Unclaimed dividend is dividend already declared but not yet

collected by the shareholders. It remains payable by the company and does not become a reserve merely because it has not been claimed. It appears on the equity and liabilities side under Current Liabilities, sub-head Other Current Liabilities.

Step 2: Classify trademarks and vehicles A trademark is an identifiable right that gives a business a commercial benefit without physical substance. It is therefore an intangible non-current asset. A vehicle has physical substance and is held for use in the business over more than one period, so it is a tangible non-current asset, classified as Property, Plant and Equipment.

Step 3: Present the required heads Balance Sheet classification under Schedule III

Item	Major head	Sub-head / classification
Unclaimed dividend	Current Liabilities	Other Current Liabilities
Trademarks	Non-current Assets	Fixed assets: Intangible Assets
Vehicles	Non-current Assets	Fixed assets: Tangible Assets (Property, Plant and Equipment)

Step 4: Conclusion Unclaimed dividend is an other current liability; trademarks are intangible non-current assets; vehicles are tangible non-current assets under Property, Plant and Equipment.

Quick Tip to Solve: First decide whether the item is payable or owned; for a long-term asset, use physical substance to distinguish tangible from intangible assets.

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

Particulars	**Note No.**	**2024–25**	**2023–24**
Revenue from operations		**Rs 60,00,000**	**Rs 40,00,000**
Cost of revenue from operations		**50% of revenue from operations**	**50% of revenue from operations**
Other Expenses		**Rs 15,00,000**	**Rs 10,00,000**
Tax Rate		**50%**	**50%**

[3 marks]

Solution:

Concept:

- A comparative Statement of Profit and Loss places the previous year beside the current year and shows the absolute change and percentage change for each item.
- Absolute change equals current year minus previous year. Percentage change equals absolute change divided by previous-year amount, multiplied by 100.
- Profit before tax equals revenue less total expenses; profit after tax equals profit before tax less tax.

Step 1: Calculate expenses and profits for both years For 2023–24, cost of revenue from operations is $50\% \times$ Rs $40,00,000 =$ Rs $20,00,000$. Adding other expenses of Rs 10,00,000 gives total expenses of Rs 30,00,000, profit before tax of Rs 10,00,000, tax of Rs 5,00,000 and profit after tax of Rs 5,00,000. For 2024–25, cost of revenue from operations is $50\% \times$ Rs $60,00,000 =$ Rs $30,00,000$. Adding other expenses of Rs 15,00,000 gives total expenses of Rs 45,00,000, profit before tax of Rs 15,00,000, tax

of Rs 7,50,000 and profit after tax of Rs 7,50,000.

Step 2: Prepare the comparative statement **Kumar 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	40,00,000	60,00,000	20,00,000	50
Total revenue	40,00,000	60,00,000	20,00,000	50
Expenses:				
Cost of revenue from operations	20,00,000	30,00,000	10,00,000	50
Other expenses	10,00,000	15,00,000	5,00,000	50
Total expenses	30,00,000	45,00,000	15,00,000	50
Profit before tax	10,00,000	15,00,000	5,00,000	50
Less: Tax at 50%	5,00,000	7,50,000	2,50,000	50
Profit after tax	5,00,000	7,50,000	2,50,000	50

Step 3: Conclusion Profit after tax increased from Rs 5,00,000 in 2023–24 to Rs 7,50,000 in 2024–25, an increase of Rs 2,50,000 or 50%.

Quick Tip to Solve: Arrange the previous year first and always divide the increase by the previous-year amount, not the current-year amount.

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 profit before interest and tax (EBIT) covers the interest payable on long-term debt: Interest coverage ratio $=$ EBIT/Interest on long-term debt.
- Profit after tax (PAT) equals profit before tax (PBT) multiplied by $1-t$, where t is the tax rate expressed as a decimal. Thus PBT $=$ PAT$/(1-t)$.
- Interest is already deducted in arriving at PBT. Add it back to obtain EBIT. Shareholders' funds are not used in this ratio because the denominator is the interest charge, not capital employed.

Step 1: Calculate annual interest on long-term debt The debt carries interest at 8% per annum. Apply this rate to the given long-term debt of Rs 10,00,000:

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

This is the fixed interest obligation that the business must cover from its earnings before interest and tax.

Step 2: Recover profit before tax from profit after tax The tax rate is 40% of profit before tax. Hence the given net profit after tax of Rs 2,40,000 represents 60% of profit before tax:

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

As a check, tax is $4,00,000 \times 40\% = \text{Rs } 1,60,000$; deducting this from Rs 4,00,000 gives the stated PAT of Rs 2,40,000. Adding 40% directly to PAT would use the wrong base.

Step 3: Add back interest and apply the coverage formula PBT is after charging interest. Therefore add the interest of Rs 80,000 to PBT to find the profit available before that charge:

$$\text{EBIT} = 4,00,000 + 80,000 = \text{Rs } 4,80,000.$$

Now divide EBIT by the annual interest charge:

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

Both numerator and denominator are rupee amounts, so the ratio is expressed in times. The given shareholders' funds of Rs 30,00,000 do not enter this calculation.

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

Quick Tip to Solve: With tax at 40%, divide PAT by 0.60 first; then add interest back before dividing by interest to find its coverage.

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 compares cost of revenue from operations (cost of goods sold) with average inventory: Inventory turnover ratio = Cost of revenue from operations/Average inventory.
- Revenue from operations equals cost of revenue from operations plus gross profit. A gross profit of 25% on cost means that revenue is 125% of cost; it does not mean that gross profit is 25% of sales.
- Average inventory is the arithmetic mean of opening and closing inventory: Average inventory = (Opening inventory + Closing inventory)/2.

Step 1: Determine cost of revenue from operations Let cost of revenue from operations be C. Since

gross profit is 25% of cost, the selling revenue is $C + 0.25C = 1.25C$. Therefore:

$$C = 15,00,000 \times \frac{100}{125} = \text{Rs } 12,00,000.$$

The gross profit is consequently $12,00,000 \times 25\% = \text{Rs } 3,00,000$. Adding this to cost reproduces the stated revenue of Rs 15,00,000, confirming that the percentage has been applied to its correct base.

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

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

Use both balances to obtain average inventory:

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

Step 3: Substitute in the inventory turnover formula Inventory is measured at cost, so compare it with cost of revenue from operations, rather than with sales revenue containing a profit element:

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

The rupee units cancel, so express the ratio in times.

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

Quick Tip to Solve: For gross profit of 25% on cost, multiply sales by $100/125$ to obtain cost. When closing inventory is twice opening inventory, average inventory is 1.5 times opening 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 operations is obtained by adjusting accrual profit for non-cash charges and changes in operating current assets and current liabilities.
- Depreciation is added back because it reduces profit without a cash payment. A transfer to general reserve deducted in arriving at the given profit is also added back; it is an appropriation, not an operating expense.
- An increase in an operating current asset is deducted and a decrease is added. For an operating current liability, an increase is added and a decrease is deducted.

Step 1: Restore profit before the reserve transfer The question explicitly gives Rs 50,000 after the transfer of Rs 15,000 to general reserve. Therefore, first reverse this appropriation. The transfer does not involve payment to an outside party and must not reduce operating cash flow.

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

Depreciation of Rs 20,000 has also been charged. Adding this non-cash expense gives operating profit before working-capital changes of Rs 85,000.

Step 2: Calculate the working-capital adjustments **Working Notes**

Compare the closing balances on 31 March 2025 with the opening balances on 31 March 2024. Trade receivables rise by Rs 5,000, inventories rise by Rs 15,000 and accrued incomes rise by Rs 5,000. These increases represent profit or resources not yet converted into operating cash and are deducted. Prepaid expenses fall by Rs 5,000, so this decrease is added.

Trade payables increase by Rs 10,000 and expenses payable increase by Rs 2,500: expenses recognised exceed the related cash payments, so both increases are added. Income received in advance decreases by Rs 5,000; the related income has been recognised without a corresponding current-period receipt, so deduct this decrease.

$$\begin{aligned}\text{Net adjustment} &= -5,000 - 15,000 - 5,000 + 5,000 \\ &\quad + 10,000 + 2,500 - 5,000 \\ &= -\text{Rs } 12,500.\end{aligned}$$

Step 3: Prepare the operating activities section **JC Ltd.**
Cash Flow Statement (Extract)
For the year ended 31 March 2025

Particulars	Rs	Rs
A. Cash flows from operating activities		
Net profit as given		50,000
Add: Transfer to general reserve		15,000
Profit before appropriation		65,000
Add: Depreciation		20,000
Operating profit before working-capital changes		85,000
Increase in trade receivables	(5,000)	
Increase in inventories	(15,000)	
Decrease in prepaid expenses	5,000	
Increase in accrued incomes	(5,000)	
Increase in trade payables	10,000	
Increase in expenses payable	2,500	
Decrease in income received in advance	(5,000)	
Net working-capital adjustment		(12,500)
Cash generated from operations		72,500
Net cash from operating activities		**72,500**

No income-tax payment is specified, so no additional tax deduction can be made from the information given. Parentheses indicate amounts deducted.

Step 4: Conclusion Net cash flow from operating activities for the year ended 31 March 2025 is **Rs 72,500 (inflow)**.

Quick Tip to Solve: Read the dates before subtracting balances: 2025 is the closing column. Add back both depreciation and the reserve transfer before applying the opposite sign rules for current assets and current liabilities.

Option II (Computerised Accounting)

27. 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:

- Present value is the single amount today that is financially equivalent to a series of future payments, after allowing for the time value of money.
- The spreadsheet function PV calculates this present value using the periodic interest rate, number of periods and periodic payment.

Step 1: Identify the time at which the lump sum is required The question asks for the lump-sum equivalent of payments that occur in the future. Discounting those payments to the present gives their present value; the function designed for this purpose is PV.

Step 2: Distinguish the other financial functions NPER gives the number of payment periods, so it does not give a money amount. FV gives a value accumulated at a future date rather than the present lump-sum equivalent. PMT finds the regular payment for a loan or investment rather than the lump sum. Thus none of these three matches the requested present-value calculation.

Step 3: Conclusion The required function is PV (present value). Hence, the correct option is (C).

Quick Tip to Solve: For a lump sum today equivalent to future instalments, choose PV; reserve FV for a value accumulated at a future date.

28(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 a ready-to-use package designed for common accounting requirements rather than the specialised needs of one organisation.
- Its usual advantages are low cost and minimal system support; it is suitable for businesses with a low volume of accounting operations.

Step 1: Recognise the usual features of generic software A standard package is developed for many users, spreading its development cost and making it relatively cheaper. Its standard functions require minimal support and suit a business whose accounting operations are limited. Therefore options (B), (C) and (D) describe generic software.

Step 2: Identify the feature that does not fit Increased data security is not a distinguishing feature of generic accounting software. Such packages commonly provide limited user authentication and access-control customisation compared with tailored systems. This does not mean they have no security; it means increased data security is not the stated characteristic of this category.

Step 3: Conclusion Increased data security is not a feature of generic computerised accounting software in this classification. Hence, the correct option is (A).

Quick Tip to Solve: For generic software, remember low cost, standard features and minimal support; do not confuse it with security tailored to a particular organisation.

OR

28(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:

- A spreadsheet intersection operation requests cells common to two specified ranges.
- If the ranges have no cells in common, their intersection is empty and Excel returns the #NULL! error.

Step 1: Apply the intersection rule The question states that the two areas do not intersect. Since no cell belongs to both ranges, the requested intersection cannot supply a value. The spreadsheet therefore displays #NULL!, which is the error identified in option (B).

Step 2: Eliminate errors with different causes A row of hash symbols usually means that a numerical or date value cannot be displayed in the available column width. A name error concerns an unrecognised name in a formula, while #REF! indicates an invalid cell reference. Neither a narrow display, an unknown name nor an invalid reference is the specific problem described here.

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

Quick Tip to Solve: When a question says that two ranges have no common cells, connect an empty intersection directly with #NULL!.

29(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 ability of a system to adapt its processing capacity or volume to changing business requirements.

- A growing business may have more transactions and accounting records; a scalable system can accommodate the resulting change in workload.

Step 1: Match the wording to the feature The decisive words are changing the volume of data processing in accordance with the size and growth of the business. They describe adjusting the scale of accounting operations as the business expands or its workload changes, which is scalability.

Step 2: Separate the alternative features Reliability concerns dependable and consistent operation. Transparency concerns the visibility and traceability of information. A simple and integrated system offers ease of use and connected accounting functions. These features may also be valuable, but none specifically names the ability to handle a changing volume of data.

Step 3: Conclusion The feature highlighted is scalability. Hence, the correct option is (B).

Quick Tip to Solve: Underline size, growth and changing volume: together these words point to scalability rather than reliability or integration.

OR

29(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 against known data or specified rules to assess whether the input is acceptable.
- Validation is a checking process; entering, storing or unnecessarily duplicating data are different activities.

Step 1: Identify the checking process The input is compared with known data, so the operation tests the acceptability of what has been entered. For example, a recorded code can be checked against a list of valid codes. This comparison is data validation.

Step 2: Reject the alternatives Storage data refers to retaining data for later use and does not describe the comparison. Data entry is the act of inputting the data; checking it is a separate process. Redundant data means unnecessary duplication, not verification against a known reference. Therefore only option (A) matches the stated activity.

Step 3: Conclusion The process is data validation. Hence, the correct option is (A).

Quick Tip to Solve: Identify the action in the question: comparing input with a known reference means validation; typing it means entry and retaining it means storage.

30. ____ 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 is a bar, point, slice or other symbol representing a data value in a chart.
- A data label supplies identifying information about the individual data point, such as its value or category name.

Step 1: Identify the chart element described The question describes extra information attached to a data marker. For example, a sales bar may carry the label Rs 50,000 so that the reader can identify its exact value without estimating from the axis. Such information is a data label.

Step 2: Eliminate the other options Source data are the worksheet values used to create the chart. Secondary data describe data collected from existing sources. A data series is a group of related data points plotted together. None of these is the identifying label attached to an individual marker.

Step 3: Conclusion A data label provides the additional information. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish a series of plotted values from the label that identifies one particular marker.

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

Solution:

Concept:

- A code is a short numerical or alphanumerical identifier assigned to an accounting item or record to facilitate identification, entry and processing.
- Sequential coding assigns consecutive identifiers, whereas block coding reserves separate ranges for different classes of items.

Step 1: Explain sequential codes with an example Sequential codes are numbers or letters allotted consecutively to successive items or documents. Each new item receives the next available code in the sequence. For example, successive sales invoices may be numbered 001, 002, 003 and 004. Similarly, employees can be allotted employee numbers 1001, 1002 and 1003. The code identifies the record and its position in the sequence; it does not by itself indicate a separate accounting category. A missing number in a document sequence can also prompt a check for an omitted document.

Step 2: Explain block codes with an example Block codes divide the available code numbers into reserved blocks, with each block assigned to a particular group. For example, an illustrative chart of accounts may reserve 100–199 for assets, 200–299 for liabilities, 300–399 for income and 400–499

for expenses. Cash can be assigned 101, Bank 102, Creditors 201 and Rent Expense 401. The range immediately identifies the group, while the individual number identifies the particular account. Unused numbers within a block permit later additions to that group.

Step 3: Conclusion Sequential codes identify records in consecutive order; block codes identify both an item's group, through its reserved range, and the individual item within that group.

Quick Tip to Solve: Use invoice numbers for a sequential-code example and reserved account-number ranges for a block-code example.

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

Solution:

Concept:

- Voucher entry records the debit and credit effects of transactions in the computerised accounting system.
- Entries can be classified according to their purpose in the accounting period: establishing opening balances, closing nominal accounts and making period-end adjustments.

Step 1: Identify opening entries Opening entries bring forward the balances of assets, liabilities and capital from the previous accounting period into the new books. For example, the balances of Cash, Bank, Debtors, Creditors and Capital appearing at the end of the previous year become the opening balances for the new year. They establish the starting financial position and do not represent fresh purchases, sales or expenses of the new period.

Step 2: Identify closing entries Closing entries transfer the balances of nominal accounts to the Trading Account or Profit and Loss Account at the end of the accounting period. For example, the balance of Sales is transferred to the Trading Account and the balance of Salaries is transferred to the Profit and Loss Account. The resulting net profit or loss is transferred to Capital or the appropriate equity account. This closes the income and expense accounts for the completed period.

Step 3: Identify adjustment entries Adjustment entries record adjustments required for preparation of the final accounts, such as outstanding expenses, prepaid expenses, accrued income and depreciation. These entries allocate income and expenses to the correct accounting period and update assets and liabilities. For example, an unpaid salary relating to the current period must be recognised as an expense and a liability even though cash has not yet been paid.

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

Quick Tip to Solve: Recall the purpose of the entry: beginning balances, closure of nominal accounts, or final-account adjustments.

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

Solution:

Concept:

- Creating a company establishes a separate set of accounting records and stores the basic particulars used by the accounting package.
- The creation screen records identification, accounting-period, currency and security information before routine transactions are entered.

Step 1: Enter the company identification and location Supply the directory or data-storage path where the company's records are to be saved and the company's name. Enter the mailing name, postal address, country, State and PIN code. Enter the income-tax number or Permanent Account Number (PAN). Add the contact details required by the screen, such as telephone number, fax number, e-mail address and website. These particulars identify the entity and provide the details used on its printed reports and documents.

Step 2: Specify the accounts and accounting period Select the type of records to be maintained, for example Accounts Only or Accounts with Inventory. Enter the financial-year beginning and ending dates as requested by the software, and the date from which the books are to be maintained. The financial-year opening date identifies the reporting period, whereas the books-beginning date states when recording in this set of books starts; these dates need not always be identical.

Step 3: Enter the base-currency information Provide the base-currency symbol and its formal name, such as Rs and Indian Rupee. Specify the relevant display settings, including decimal places, the name of the decimal part such as paise, and the number of decimal places for amounts in words, where the screen requests these. These settings determine how monetary amounts are presented throughout the company's records.

Step 4: Set the security particulars Choose whether security control is to be used. When enabled, enter the authorised administrator or user name and password. Enter a data-encryption or TallyVault password if that protection is selected. These particulars govern access to the company records and protection of the stored data. Finally, check all the entered particulars and accept or confirm the screen to save the company information.

Step 5: Conclusion The necessary information covers the data directory, company and mailing particulars, records to be maintained, financial-year and books-beginning dates, base currency and relevant security settings.

Quick Tip to Solve: Recall company creation under five heads: identity, storage, accounting period, currency and security.

OR

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

Solution:

Concept:

- A chart or graph is a pictorial representation of numerical data, using visual forms such as columns, bars, lines or sectors of a circle.
- Charts communicate relationships, comparisons and patterns contained in worksheet data; the appropriate chart type depends on the purpose of presentation.

Step 1: Define a chart or graph A chart or graph presents numerical information visually instead of presenting it only as rows and columns of figures. For example, a column chart can compare the sales of different products, a line chart can show monthly sales movements, and a pie chart can show the shares of different expenses in total expenses.

Step 2: Explain simplicity and quick understanding A chart condenses a large amount of numerical information into an easily understood picture. The reader can grasp the broad position quickly without reading every value in a lengthy table. This makes accounting information easier to communicate to users who may not be familiar with detailed statements.

Step 3: Explain comparison and identification of trends Charts make comparisons between categories or periods convenient. Differences in the heights of columns, for example, show which product has higher sales. A line graph also reveals increases, decreases and fluctuations over time, making a trend easier to identify than by examining separate worksheet entries.

Step 4: Explain analysis, decisions and effective presentation Charts draw attention to relationships and unusual movements, such as a sharp rise in one expense category, so that users can investigate their causes and make informed decisions. They also make reports more attractive and memorable. In Excel, a chart linked to source cells reflects changes in those cells, helping to keep the visual presentation consistent with the underlying data.

Step 5: Conclusion A chart or graph is a visual presentation of numerical data. Its chief advantages are easy understanding, quick comparison, identification of trends, support for analysis and decisions, and effective communication.

Quick Tip to Solve: Begin with the definition, then explain each advantage through a simple sales or expenses example; distinguish comparison across categories from trends over time.

34. State the steps to create a 'Pie Chart' using Excel. [6 marks]

Solution:

Concept:

- A pie chart shows how each category contributes to the total of a single data series. The whole circle represents the total and each sector represents one category's proportion.
- The chart uses category labels and their corresponding numerical values. A category's percentage

is its value divided by the total, multiplied by 100.

Step 1: Enter and arrange the source data Open Excel and enter the data in a worksheet. Place the category names in one column and the corresponding amounts in the adjacent column, with suitable headings. For example, list different expense heads beside their amounts. Use a single series of non-negative values with a positive total so that its parts can be shown meaningfully as shares of a whole.

Step 2: Select the data range Select the cells containing the category names and their corresponding values, including the headings where appropriate. Do not include the grand-total row as a separate category: the circle already represents the total, and including that row would count the total again and distort the proportions.

Step 3: Insert the pie chart Click the Insert tab on the Ribbon. In the Charts group, choose the Pie chart command (which may be labelled Insert Pie or Doughnut Chart), and select a suitable pie subtype, such as 2-D Pie. Excel creates a chart from the selected range and places it in the worksheet.

Step 4: Check the plotted categories and series Confirm that each slice corresponds to the intended category and that only the required numerical series has been plotted. If the selected range or labels are incorrect, use the chart's Select Data command to correct the series values and category labels. Check that the largest value is represented by the largest slice.

Step 5: Add a title, legend and data labels Select the chart and use the chart tools to enter a meaningful chart title, such as Composition of Expenses. Display a legend or category-name labels to identify the slices. Add data labels to show values or percentages; in Format Data Labels, select the required label contents. Percentage labels indicate each category's share in the total and make the chart easier to interpret.

Step 6: Format, position and save the chart Choose a suitable chart style and contrasting colours, and adjust the title, legend and label positions so that they are readable. Resize and move the chart to a convenient location in the worksheet, or use Move Chart to place it on a separate chart sheet if required. Finally, save the workbook to retain both the source data and the chart.

Step 7: Conclusion To create a pie chart, enter and select the category-wise data, choose Insert and the required Pie subtype, verify the source range, add the title and labels, format the chart, and save the workbook.

Quick Tip to Solve: Select category labels with one value series and leave the grand-total row out of the selection; otherwise the pie chart will show incorrect shares.