CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-5-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

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

(A) Rs 3,90,000

(B) Rs 2,10,000

(C) Rs 3,00,000

(D) Rs 90,000

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

Solution:

Concept:

- An undervalued asset has a carrying amount below its revised value. Revaluation increases the asset by the amount of undervaluation.
- Revised value = old book value + increase on revaluation.

Step 1: Reverse the revaluation The equipment is increased by Rs 90,000 on admission. Hence

$$\text{Old value} = 3,00,000 - 90,000 = \text{Rs } 2,10,000.$$

Step 2: Check the alternatives Adding the increase to Rs 2,10,000 gives the stated revised amount of Rs 3,00,000. Rs 3,90,000 wrongly adds the increase again; Rs 3,00,000 is the revised value and Rs 90,000 is only the increase. The profit-sharing ratios do not affect the asset valuation.

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

Quick Tip to Solve: For an undervalued asset, subtract the upward adjustment from its revised value to recover the old value.

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

(A) 1,000

(B) 4,500

(C) 45,000

(D) 10,000

Correct Answer: (D) 10,000

Solution:

Concept:

- Debentures issued at a discount settle the purchase consideration at their issue price, not their face value.
- Number issued = purchase consideration divided by issue price per debenture.

Step 1: Calculate the issue price Face value is Rs 50 and discount is 10%. Thus

$$\text{Issue price} = 50(1 - 10/100) = \text{Rs } 45.$$

The stated purchase consideration, Rs 4,50,000, is the amount to be discharged.

Step 2: Find and check the number

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

The coupon rate of 10% determines interest, not issue price. The assets and liabilities determine net assets acquired, but do not replace the expressly agreed purchase consideration. The other counts, 1,000, 4,500 and 45,000, do not yield Rs 4,50,000 when multiplied by Rs 45.

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

Quick Tip to Solve: Divide the agreed purchase consideration by Rs 45, the discounted issue price, rather than by face value.

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

(A) Paid-up amount on forfeited shares

(B) Called-up amount on forfeited shares

(C) Face value of shares forfeited

(D) Unpaid amount on forfeited shares

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

Solution:

Concept:

- Forfeiture cancels the called-up share capital relating to the forfeited shares.
- The debit to Share Capital equals number of shares forfeited multiplied by called-up capital per share.

Step 1: Identify the capital to cancel The Share Capital Account was credited when capital was called. On forfeiture, that credited amount must be reversed. Therefore the debit is the called-up amount, whether or not the shareholder actually paid it.

Step 2: Distinguish the other amounts The paid-up capital amount is credited to Share Forfeiture, while unpaid calls are credited to the relevant calls-in-arrears or call accounts. Face value is appropriate only if the full face value has already been called; it is not the general rule. Hence neither the paid amount nor the unpaid amount alone is the debit to Share Capital.

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

Quick Tip to Solve: Reverse the capital originally called on the forfeited shares; do not confuse called-up capital with cash received.

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

(A) Rs 1,20,000

(B) Rs 1,23,600

(C) Rs 1,16,400

(D) Rs 1,34,400

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

Solution:

Concept:

- Early-payment discount at an annual rate is calculated for the unexpired credit period.
- Cash paid = amount due minus discount received.

Step 1: Calculate three months discount The creditors are payable after three months, so the annual

rate must be time-apportioned:

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

Step 2: Calculate the settlement

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

The profit-sharing ratio is irrelevant to the amount paid. Rs 1,20,000 ignores the discount; Rs 1,23,600 adds it; Rs 1,34,400 adds a full year of interest instead of allowing the three-month discount.

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

Quick Tip to Solve: Apply the 12% annual discount for only three months, then deduct it from the creditors balance.

5. Aashree and Manvi were partners in a firm and their capitals were Rs 6,00,000 and Rs 4,00,000 respectively. Normal rate of return in a similar business was 15% and the goodwill of the firm was valued at Rs 3,00,000. If goodwill was calculated at three years purchase of super profits, the average profits of the firm were: [1 mark]

(A) Rs 1,00,000

(B) Rs 45,000

(C) Rs 2,50,000

(D) Rs 1,50,000

Correct Answer: (C) Rs 2,50,000

Solution:

Concept:

- Goodwill = super profit multiplied by years purchase. Super profit = average profit minus normal profit.
- Normal profit = capital employed multiplied by normal rate of return.

Step 1: Recover super profit and normal profit

$$\text{Super profit} = 3,00,000/3 = \text{Rs } 1,00,000,$$
$$\text{Capital employed} = 6,00,000 + 4,00,000 = \text{Rs } 10,00,000,$$
$$\text{Normal profit} = 10,00,000 \times 15/100 = \text{Rs } 1,50,000.$$

Step 2: Recover average profit

$$\text{Average profit} = 1,50,000 + 1,00,000 = \text{Rs } 2,50,000.$$

Rs 1,00,000 is only super profit and Rs 1,50,000 is only normal profit. Rs 45,000 incorrectly applies

the normal return to goodwill rather than capital employed.

Step 3: Conclusion The average profits were Rs 2,50,000. Hence, the correct option is (C).

Quick Tip to Solve: First divide goodwill by three to obtain super profit; add normal return on both partners total capital.

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

(A) 3:2

(B) 2:1

(C) 1:2

(D) 2:3

Correct Answer: (B) 2:1

Solution:

Concept:

- When no new ratio is stated, continuing partners share future profits in their old relative ratio.
- Gain of each continuing partner = new share minus old share.

Step 1: Find the new shares Sudama and Varun retain their relative ratio $6 : 3 = 2 : 1$. Their new shares are therefore $2/3$ and $1/3$; the total of all old ratio terms is $6 + 4 + 3 = 13$.

Step 2: Calculate the individual gains

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

Their gains total $12/39 = 4/13$, exactly Sharma's retired share. Thus $8 : 4 = 2 : 1$; the other listed ratios do not match these gains.

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

Quick Tip to Solve: With no revised ratio, simplify the old shares of the two continuing partners: 6:3 becomes 2:1.

OR

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

(A) 1:2

(B) 8:7

(C) 2:1

(D) 7:4

Correct Answer: (C) 2:1

Solution:

Concept:

- Gaining ratio is obtained from each continuing partner's new share minus old share.
- Use a common denominator before taking the ratio of fractional gains.

Step 1: Express the old and new shares The old ratio totals $8 + 7 + 4 = 19$, so Hari and Abhi held $8/19$ and $4/19$. Their new ratio is $2 : 1$, giving shares $2/3$ and $1/3$.

Step 2: Calculate and compare gains

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

The gains sum to $21/57 = 7/19$, Murari's share. Their ratio is $14 : 7 = 2 : 1$. Ratios 1:2, 8:7 and 7:4 do not represent these calculated gains.

Step 3: Conclusion The gaining ratio of Hari and Abhi is 2:1. Hence, the correct option is (C).

Quick Tip to Solve: Subtract each old fraction from its new fraction and check that the gains total Murari's 7/19 share.

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

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

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

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

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

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

Solution:

Concept:

- Under the fixed capital method, routine partner adjustments are recorded in the Current Account.
- Charging interest on drawings debits the partner and credits Interest on Drawings Account.

Step 1: Determine the account and amount Because capitals are fixed, Munna's Current Account bears the debit. The options use Rs 1,500, consistent with six months average interest: $50,000 \times 6/100 \times 6/12 = \text{Rs } 1,500$. No particular withdrawal date is given; the decisive distinction is the account and direction.

Step 2: Record the charge Journal

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

Options (A) and (C) reverse the charge; (B) wrongly uses Capital Account despite fixed capitals.

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

Quick Tip to Solve: For fixed capitals, charge interest on drawings to the partner's Current Account, with Interest on Drawings credited.

8. Naisha, Mansi and Aakash were partners in a firm sharing profits and losses in the ratio of 3:2:2. On 1st January, 2025, Aakash advanced a loan of Rs 3,00,000 to the firm. In the absence of a partnership deed, the amount of interest on loan due to Aakash on 31st March, 2025 will be: [1 mark]

(A) Rs 18,000

(B) Rs 4,500

(C) Rs 9,000

(D) Rs 30,000

Correct Answer: (B) Rs 4,500

Solution:

Concept:

- In the absence of an agreement, a partner is entitled to interest on a loan to the firm at 6% per annum.
- Interest is calculated for the actual period the loan remains outstanding, independently of the profit-sharing ratio.

Step 1: Identify the rate and period The loan of Rs 3,00,000 was advanced on 1st January, 2025. Up to 31st March, 2025, it is outstanding for three months. The applicable annual rate is 6%, since the partnership deed does not specify otherwise.

Step 2: Calculate interest

$$I = 3,00,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 4,500.$$

Rs 18,000 is full-year interest and Rs 9,000 is six-month interest; neither uses the stated period. Rs 30,000 also does not follow the applicable rate and period. The sharing ratio $3 : 2 : 2$ does not allocate this interest.

Step 3: Conclusion Interest on loan due to Aakash is Rs 4,500. Hence, the correct option is (B).

Quick Tip to Solve: Count January through March as three months and apply 6% per annum to the loan, not to capital.

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

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

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

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

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

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

Solution:

Concept:

- Accumulated profits earned before admission belong to the old partners and are transferred in their old profit-sharing ratio.
- A credit balance of Profit and Loss Account is accumulated profit; debit that account and credit the old partners.

Step 1: Allocate the accumulated profit Guru receives $40,000 \times 7/10 = \text{Rs } 28,000$, and Prakash receives $40,000 \times 3/10 = \text{Rs } 12,000$. Anu has no claim on profits earned before her admission; her new share does not change this allocation.

Step 2: Record the transfer

Journal of the firm

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

Option (A) incorrectly includes Anu; (C) includes her and reverses the transfer; (D) also reverses the debit and credit.

Step 3: Conclusion Debit Profit and Loss A/c Rs 40,000; credit Guru's Capital A/c Rs 28,000 and Prakash's Capital A/c Rs 12,000. Correct option: (B).

Quick Tip to Solve: For reserves existing at admission, use the old ratio and exclude the incoming partner.

OR

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

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

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

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

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

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

Solution:

Concept:

- The deceased partner is credited with her share of goodwill: total goodwill multiplied by her old share.
- The continuing partners bear this amount in their gaining ratio; with no new ratio stated, they continue in their relative old ratio.

Step 1: Calculate goodwill compensation Samta's goodwill share is $1,80,000 \times 11/20 =$ Rs $99,000$. Mamta and Geeta continue in $5:4$, so they bear $99,000 \times 5/9 =$ Rs $55,000$ and $99,000 \times 4/9 =$ Rs $44,000$, respectively.

Step 2: Pass the adjustment entry

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2025	Mamta's Capital A/c Dr.		55,000	
	Geeta's Capital A/c Dr.		44,000	
	To Samta's Capital A/c			99,000
	(Being Samta's goodwill share adjusted through capitals)			

Option (A) reverses the adjustment. Options (B) and (C) use the entire goodwill instead of only the deceased partner's share.

Step 3: Conclusion Mamta's and Geeta's Capital Accounts are debited Rs 55,000 and Rs 44,000, and Samta's Capital Account is credited Rs 99,000. Correct option: (D).

Quick Tip to Solve: First isolate the deceased partner's share of goodwill; do not distribute the whole valuation.

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

(A) called-up

(B) uncalled

(C) paid-up

(D) subscribed

Correct Answer: (B) uncalled

Solution:

Concept:

- Reserve capital is a designated part of uncalled share capital that is callable only on winding up.
- Called-up capital has already been demanded, while paid-up capital has already been received.

Step 1: Identify the relevant capital stage The question describes money that has not yet been demanded from shareholders. Hence the amount must lie within uncalled capital, with an additional restriction on when it may be called.

Step 2: Check the other choices Called-up capital cannot describe an amount still awaiting a call, and paid-up capital is already collected. Subscribed capital is the wider category taken by subscribers; only its designated uncalled portion qualifies as reserve capital. Thus the precise word required in the blank is uncalled.

Step 3: Conclusion Reserve capital is a portion of uncalled capital. Correct option: (B).

Quick Tip to Solve: The phrase callable only on winding up points to a reserved part of uncalled capital.

OR

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

(A) Irredeemable debentures

(B) Bearer debentures

(C) Specific coupon rate debentures

(D) Zero coupon rate debentures

Correct Answer: (D) Zero coupon rate debentures

Solution:

Concept:

- A coupon is the stated periodic interest rate on a debenture.
- Zero coupon rate debentures carry no specified periodic interest rate; the return may arise from the difference between issue and redemption amounts.

Step 1: Apply the defining feature The printed question asks specifically about the absence of a stated interest rate. A zero coupon rate debenture has this feature, so the description directly matches option (D).

Step 2: Eliminate classifications on other bases Irredeemable describes repayment terms, not whether interest is specified. Bearer describes how ownership or transfer is evidenced, not the interest rate. Specific coupon rate debentures expressly have a specified rate, which contradicts the question. Therefore none of (A), (B) or (C) fits the stated defining feature.

Step 3: Conclusion These are zero coupon rate debentures. Correct option: (D).

Quick Tip to Solve: Classify a debenture by the feature asked: coupon concerns interest, not redemption or transfer.

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

(A) Debited to Profit and Loss Account

(B) Credited to Profit and Loss Account

(C) Debited to Profit and Loss Suspense Account

(D) Credited to Profit and Loss Suspense Account

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

Solution:

Concept:

- A deceased partner is entitled to profit earned from the last balance-sheet date up to death.
- Before current-year accounts are finally prepared, the estimated profit share is debited to Profit and Loss Suspense Account and credited to the deceased partner's Capital Account.

Step 1: Identify the interim entitlement John's share relates to the period ending on his death, 31st July, 2025. The final profit for the accounting year is not yet available, so his share is recorded through a suspense account rather than the final Profit and Loss Account.

Step 2: Determine the debit side

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Profit and Loss Suspense A/c Dr.		X	
	To John's Capital A/c			X
	(Being estimated profit share up to death credited to John)			

Here X denotes his computed share; the question supplies no amount. Options (A) and (B) use the final account; (D) reverses the suspense-account treatment.

Step 3: Conclusion His share is debited to Profit and Loss Suspense Account. Correct option: (C).

Quick Tip to Solve: For profit estimated up to death, debit Profit and Loss Suspense and credit the deceased partner's capital.

OR

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

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

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

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

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

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

Solution:

Concept:

- Gain equals new share minus old share; a negative result denotes sacrifice.
- Compare each continuing partner separately, because a continuing partner can sacrifice even when another partner retires.

Step 1: Calculate Shashi's change Shashi's old share is $5/10 = 1/2$ and new share is $3/8$. Thus $3/8 - 1/2 = -1/8$, showing a sacrifice of $1/8$. Any option describing his change as a gain is incorrect.

Step 2: Calculate Maya's change and verify Maya's old share is $3/10$ and new share is $5/8$. Her gain is $5/8 - 3/10 = (25 - 12)/40 = 13/40$. The net gain is $13/40 - 1/8 = 8/40 = 1/5$, exactly Komal's old share $2/10$. This rules out option (C), which incorrectly shows Maya sacrificing.

Step 3: Conclusion Shashi sacrifices $1/8$, while Maya gains $13/40$. Correct option: (A).

Quick Tip to Solve: Use new minus old separately for each partner, then check that net gain equals the retiring share.

12. On 1st April, 2024, EE Ltd. issued 3,000, 9% Debentures of Rs 50 each at a premium of 5%, redeemable at a premium of Rs 10 per debenture after five years. Interest on the debentures was to be paid on half-yearly basis on 30th September and 31st March. Interest on debentures for the year ended 31st March, 2025 will be: [1 mark]

(A) Rs 6,750

(B) Rs 15,000

(C) Rs 7,500

(D) Rs 13,500

Correct Answer: (D) Rs 13,500

Solution:

Concept:

- Debenture interest is calculated on nominal value, irrespective of issue or redemption premium.
- Annual interest equals number of debentures multiplied by face value multiplied by the annual coupon rate.

Step 1: Find the interest-bearing principal The nominal debenture amount is $3,000 \times$ Rs $50 =$ Rs $1,50,000$. The 5% issue premium and Rs 10 redemption premium do not form part of the principal for coupon interest.

Step 2: Calculate and combine the half-yearly amounts The debentures remain outstanding throughout 1st April, 2024 to 31st March, 2025. Each half-yearly payment is $1,50,000 \times 9/100 \times 6/12 =$ Rs $6,750$. Total annual interest is $6,750 + 6,750 =$ Rs $13,500$. Option (A) is only one instalment; Rs 15,000 and Rs 7,500 do not follow the stated 9% coupon rate.

Step 3: Conclusion Interest for the year ended 31st March, 2025 is Rs 13,500. Correct option: (D).

Quick Tip to Solve: Half-yearly payment changes the number of instalments, not the total annual coupon interest.

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

(A) Rs 1,800

(B) Rs 2,700

(C) Rs 450

(D) Rs 3,600

Correct Answer: (B) Rs 2,700

Solution:

Concept:

- Interest on each drawing equals amount multiplied by annual rate multiplied by time outstanding in years.
- Only drawings made from the stated starting date are included; the profit-sharing ratio does not determine drawings interest.

Step 1: List the actual withdrawals Arora withdraws Rs 30,000 on 1st October, 2024 and Rs 30,000 on 1st January, 2025. Up to 31st March, 2025, these drawings remain outstanding for six months and three months, respectively. There are only two withdrawals in this period.

Step 2: Compute interest by products Interest is

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

Rs 1,800 includes only the October drawing. Rs 450 and Rs 3,600 do not reflect the two actual amounts and their six- and three-month durations.

Step 3: Conclusion Interest on Arora's drawings is Rs 2,700. Correct option: (B).

Quick Tip to Solve: For a partial year, write the actual drawing dates before choosing any average-period formula.

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

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

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

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

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

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

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

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

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

Solution:

Concept:

- A new partner contributes the agreed capital in cash or in kind to acquire an ownership interest in the firm.
- Admission confers rights to share in the assets and in the future profits of the partnership.

Step 1: Judge Assertion (A) The assertion correctly states the standard admission arrangement: the incoming partner brings the amount of capital agreed with the existing partners. The contribution can be money or assets in kind, so it need not be restricted to cash.

Step 2: Judge Reason (R) The reason is also correct. The incoming partner acquires rights in the partnership assets and the agreed share of future profits upon admission. These are the ownership and profit rights associated with becoming a partner.

Step 3: Check the explanatory link The capital contribution is made in consideration of the incoming partner acquiring an interest in the firm and its assets. The stated rights therefore explain the agreed contribution mentioned in the assertion. Option (B) incorrectly denies this link, while (C) and (D) incorrectly reject one of the true statements.

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

Quick Tip to Solve: For admission assertions, connect capital contribution with the new partner's ownership rights.

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

(A) Rs 3

(B) Rs 7

(C) Rs 10

(D) Rs 6

Correct Answer: (A) Rs 3

Solution:

Concept:

- On reissue, discount allowed cannot exceed the amount forfeited on those shares.
- Minimum reissue price equals face value less the amount already received per share.

Step 1: Find the amount forfeited per share The shares have a face value of Rs 10. Only the final call of Rs 3 was unpaid, so the company had already received $10 - 3 = \text{Rs } 7$ per share. This received capital is available to absorb a discount on reissue.

Step 2: Apply the maximum permissible discount The largest discount is Rs 7 per share; therefore the minimum reissue price is $10 - 7 = \text{Rs } 3$. Rs 7, Rs 10 and Rs 6 are permissible prices but are all above the minimum asked for.

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

Quick Tip to Solve: Subtract the amount forfeited from face value; do not mistake the amount received for the minimum price.

OR

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

(A) Rs 20,00,000

(B) Rs 1,00,000

(C) Rs 3,00,000

(D) Rs 2,00,000

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

Solution:

Concept:

- Loss on issue includes discount on issue, if any, and the premium payable on redemption.
- Premium collected on issue is credited separately to Securities Premium Account.

Step 1: Identify the redemption obligation The face value issued is $20,000 \times 100 = \text{Rs } 20,00,000$. The redemption premium is $20,00,000 \times 5/100 = \text{Rs } 1,00,000$. There is no discount on issue.

Step 2: Separate issue premium from loss The issue premium of Rs 2,00,000 is a separate credit to

Securities Premium Account; it is not netted against redemption premium when recording the issue. Thus the loss debit is Rs 1,00,000. Rs 20,00,000 is nominal capital, Rs 2,00,000 is issue premium, and Rs 3,00,000 incorrectly adds both premiums.

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

Quick Tip to Solve: Record issue premium separately; the loss debit here equals only the premium payable on redemption.

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16. Anchal, Prabhat and Karan were partners in a firm sharing profits and losses in the ratio of 3:2:1. On 31st March, 2025, Anchal retired. The balance in her capital account after making the necessary adjustments on account of reserves and revaluation of assets and reassessment of liabilities was Rs 5,10,000. Anchal was paid Rs 5,90,000 in full settlement of her claim. The value of goodwill of the firm on the date of Anchal's retirement was: [1 mark]

(A) Rs 80,000

(B) Rs 5,10,000

(C) Rs 5,90,000

(D) Rs 1,60,000

Correct Answer: (D) Rs 1,60,000

Solution:

Concept:

- Payment above the adjusted capital balance represents the retiring partner's share of goodwill.
- Firm's goodwill equals the retiring partner's goodwill share divided by her old profit share.

Step 1: Find Anchal's goodwill share The adjusted capital already includes reserves and revaluation. The excess settlement is therefore goodwill: $5,90,000 - 5,10,000 = \text{Rs } 80,000$. This is Anchal's share, not the goodwill of the whole firm.

Step 2: Gross up to the firm's goodwill Anchal's old share is $3/(3+2+1) = 1/2$. Hence total goodwill is $80,000 \div (1/2) = \text{Rs } 1,60,000$. Rs 80,000 is only her share; Rs 5,10,000 is adjusted capital and Rs 5,90,000 is the total settlement.

Step 3: Conclusion The goodwill of the firm is $\boxed{\text{Rs } 1,60,000}$. Hence, the correct option is (D).

Quick Tip to Solve: First isolate the excess over adjusted capital, then divide by the retiring partner's old share.

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

Solution:

Concept:

- Goodwill arises when purchase consideration exceeds the net assets acquired.
- Debentures issued at premium settle the vendor at face value plus the issue premium; the coupon rate does not determine their number.

Step 1: Calculate goodwill and the mode of settlement Net assets acquired are $12,40,000 - 3,40,000 =$ Rs $9,00,000$. Purchase consideration is Rs 11,00,000, so goodwill is Rs 2,00,000. Half the consideration paid by cheque is Rs 5,50,000. The remaining Rs 5,50,000 is discharged at Rs 110 per debenture, giving $5,50,000/110 = 5,000$ debentures. Their nominal value is Rs 5,00,000 and securities premium is Rs 50,000.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		12,40,000	
	Goodwill A/c Dr.		2,00,000	
	To Sundry Liabilities A/c			3,40,000
	To Amrex Ltd.			11,00,000
	(Being business purchased, excess consideration recognised as goodwill)			
	Amrex Ltd. Dr.		11,00,000	
	To Bank A/c			5,50,000
	To 9% Debentures A/c			5,00,000
	To Securities Premium A/c			50,000
	(Being vendor paid half by cheque and balance by 5,000 debentures issued at 10% premium)			

Step 3: Conclusion Goodwill is Rs 2,00,000; the consideration is settled by a cheque of Rs 5,50,000 and 5,000 debentures of Rs 100 each issued at a premium of Rs 10 each.

Quick Tip to Solve: Divide the non-cash consideration by Rs 110, not Rs 100, to obtain the number of debentures.

OR

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

Solution:

Concept:

- Debentures are credited at their nominal value; issue discount is debited separately.
- Securities Premium Account can be used to write off discount on issue; the remaining amount is charged to Statement of Profit and Loss.

Step 1: Calculate proceeds and discount Total nominal value is $8,000 \times 100 = \text{Rs } 8,00,000$. The 10% discount is Rs 80,000, so cash proceeds are Rs 7,20,000. The available Securities Premium balance covers Rs 50,000 of this discount. The remaining $80,000 - 50,000 = \text{Rs } 30,000$ is charged to Statement of Profit and Loss. The 9% coupon determines interest and has no effect on issue proceeds or discount.

Step 2: Pass the issue and write-off entries Journal of Zara Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2024	Bank A/c Dr.		7,20,000	
	Discount on Issue of Debentures A/c Dr.		80,000	
	To 9% Debentures A/c			8,00,000
	(Being 8,000 debentures of Rs 100 issued at 10% discount)			
1-4-2024	Securities Premium A/c Dr.		50,000	
	Statement of Profit and Loss Dr.		30,000	
	To Discount on Issue of Debentures A/c			80,000
	(Being discount written off against securities premium and Statement of Profit and Loss)			

Step 3: Conclusion Bank receives Rs 7,20,000. The discount of Rs 80,000 is written off using Rs 50,000 from Securities Premium and Rs 30,000 from Statement of Profit and Loss.

Quick Tip to Solve: Use the Securities Premium balance first; charge only the uncovered Rs 30,000 to profit and loss.

18. Aastha, Diya and Mohit were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March, 2025 their Balance Sheet was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Aastha 2,20,000 Diya 3,10,000 Mohit 4,00,000	9,30,000	Patents	2,50,000
General Reserve	50,000	Land and Building	4,76,000
Creditors	20,000	Stock	1,34,000
		Debtors	95,000
		Cash at bank	45,000
Total	10,00,000	Total	10,00,000

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

(i) Goodwill of the firm was valued at Rs 2,00,000 and the same was to be treated without opening goodwill account.

(ii) Revaluation of assets and reassessment of liabilities resulted in a loss of Rs 60,000.

(iii) Amount payable to Aastha was transferred to her loan account.

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

Solution:

Concept:

- Accumulated reserves and revaluation loss belong to all partners in the old ratio, here 5:3:2.
- When goodwill is adjusted without opening its account, gaining partners debit their capital accounts and credit the retiring partner's capital.

Step 1: Compute the three adjustments Aastha's goodwill share is $2,00,000 \times 5/10 =$ Rs $1,00,000$. With no new ratio specified, Diya and Mohit continue in their relative old ratio 3:2, and gain in 3:2. They bear Rs 60,000 and Rs 40,000 respectively. General Reserve of Rs 50,000 is credited to Aastha, Diya and Mohit in 5:3:2: Rs 25,000, Rs 15,000 and Rs 10,000. Revaluation loss of Rs 60,000 is debited in the same old ratio: Rs 30,000, Rs 18,000 and Rs 12,000.

Step 2: Pass the adjustment journal entries Journal of the Firm (31st March, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2025	Diya's Capital A/c Dr.		60,000	
	Mohit's Capital A/c Dr.		40,000	
	To Aastha's Capital A/c			1,00,000
	(Being retiring partner's goodwill adjusted through gaining partners)			
	General Reserve A/c Dr.		50,000	
	To Aastha's Capital A/c			25,000
	To Diya's Capital A/c			15,000
	To Mohit's Capital A/c			10,000
	(Being reserve distributed in the old ratio 5:3:2)			
	Aastha's Capital A/c Dr.		30,000	
	Diya's Capital A/c Dr.		18,000	
	Mohit's Capital A/c Dr.		12,000	
	To Revaluation A/c			60,000
	(Being revaluation loss transferred in the old ratio 5:3:2)			

Step 3: Transfer the retiring partner's final claim Aastha's final balance is $2,20,000 + 1,00,000 + 25,000 - 30,000 =$ Rs $3,15,000$. In accordance with the retirement term, transfer it as follows.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2025	Aastha's Capital A/c Dr.		3,15,000	
	To Aastha's Loan A/c			3,15,000
	(Being amount due on retirement transferred to loan)			

Step 4: Conclusion The goodwill credit to Aastha is Rs 1,00,000; her reserve share is Rs 25,000 and her revaluation loss share is Rs 30,000. The resulting Rs 3,15,000 is transferred to her loan account.

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

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

Solution:

Concept:

- Accumulated reserves belong to all partners and are credited to their capital accounts in the old profit-sharing ratio, here $3:1:1$.
- An accumulated debit balance of Profit and Loss Account is a loss and is debited to the partners in

the old ratio. The deceased partner's profit up to death is credited through Profit and Loss Suspense Account.

Step 1: Calculate the shares The old shares of Namita, Narendra and Kunwar are respectively $3/5, 1/5, 1/5$. Thus, General Reserve of Rs 40,000 is allocated as Rs 24,000, Rs 8,000 and Rs 8,000. The accumulated loss of Rs 80,000 is allocated as Rs 48,000, Rs 16,000 and Rs 16,000. Kunwar's share of current-period profit is already given as Rs 15,600; it must not be multiplied by $1/5$ again. This profit is for the six months from 1 April to 30 September 2025.

Step 2: Record the journal entries Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-9-2025	General Reserve A/c Dr.		40,000	
	To Namita's Capital A/c			24,000
	To Narendra's Capital A/c			8,000
	To Kunwar's Capital A/c			8,000
	(Being reserve distributed in the old ratio)			
	Namita's Capital A/c Dr.		48,000	
	Narendra's Capital A/c Dr.		16,000	
	Kunwar's Capital A/c Dr.		16,000	
	To Profit and Loss A/c			80,000
	(Being accumulated loss transferred in the old ratio)			
	Profit and Loss Suspense A/c Dr.		15,600	
	To Kunwar's Capital A/c			15,600
	(Being deceased partner's share of profit up to death credited)			

Step 3: Conclusion Kunwar's Capital Account receives credits of Rs 8,000 and Rs 15,600 and a debit of Rs 16,000: a net credit of Rs 7,600 from these adjustments.

Quick Tip to Solve: Use the old ratio for both reserves and accumulated losses; the given deceased partner's profit is already his share.

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20. Anita, Gaurav and Suresh were partners in a firm sharing profits and losses in the ratio of 4:3:3. On 1st April, 2025, Gaurav retired. On the date of Gaurav's retirement, there existed a balance of Rs 1,50,000 in Workmen's Compensation Fund. Pass the necessary journal entries for treatment of Workmen's Compensation Fund on Gaurav's retirement in each of the following cases:

(i) Claim on account of Workmen's Compensation was estimated at Rs 2,00,000.

(ii) Claim on account of Workmen's Compensation was estimated at Rs 1,20,000.

(iii) Claim on account of Workmen's Compensation was estimated at Rs 1,50,000. [3 marks]

Solution:

Concept:

- The Workmen's Compensation Fund is first applied against the estimated claim. Only its excess is distributed to partners in their old ratio $4 : 3 : 3$.

- If the claim exceeds the fund, the deficiency is debited to Revaluation Account and ultimately borne by all old partners. Each case is independent.

Step 1: Case (i): claim Rs 2,00,000 The claim exceeds the fund by $2,00,000 - 1,50,000 = \text{Rs } 50,000$. The loss is borne by Anita, Gaurav and Suresh as Rs 20,000, Rs 15,000 and Rs 15,000 respectively.

Journal: Case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Workmen's Compensation Fund A/c Dr.		1,50,000	
	Revaluation A/c Dr.		50,000	
	To Workmen's Compensation Claim A/c			2,00,000
	(Being claim provided and deficiency charged to revaluation)			
	Anita's Capital A/c Dr.		20,000	
	Gaurav's Capital A/c Dr.		15,000	
	Suresh's Capital A/c Dr.		15,000	
	To Revaluation A/c			50,000
	(Being loss transferred in the old ratio)			

Step 2: Case (ii): claim Rs 1,20,000 The excess fund is $1,50,000 - 1,20,000 = \text{Rs } 30,000$. Distribute it in $4:3:3$, giving Anita Rs 12,000, Gaurav Rs 9,000 and Suresh Rs 9,000.

Journal: Case (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Workmen's Compensation Fund A/c Dr.		1,50,000	
	To Workmen's Compensation Claim A/c			1,20,000
	To Anita's Capital A/c			12,000
	To Gaurav's Capital A/c			9,000
	To Suresh's Capital A/c			9,000
	(Being claim provided and surplus distributed in the old ratio)			

Step 3: Case (iii): claim Rs 1,50,000 The fund exactly equals the claim, so there is no surplus or deficiency and no capital adjustment is needed.

Journal: Case (iii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Workmen's Compensation Fund A/c Dr.		1,50,000	
	To Workmen's Compensation Claim A/c			1,50,000
	(Being the fund utilised fully to provide for the claim)			

Step 4: Conclusion The three independent cases produce a revaluation loss of Rs 50,000, a distributable surplus of Rs 30,000, and no surplus or loss, respectively.

Quick Tip to Solve: Compare the estimated claim with the fund before using the old ratio; distribute only the excess, never the whole fund when a claim exists.

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

(i) AS Ltd. issued 60,000, 9% Debentures of Rs 100 each at a premium of 10%, redeemable at a premium of 5%.

(ii) WS Ltd. issued 30,000, 9% Debentures of Rs 100 each at par, redeemable at a premium of 10%. [4 marks]

Solution:

Concept:

- Debentures are credited at their face value. Cash received above face value is credited to Securities Premium Reserve Account.
- Premium payable on redemption is credited to Premium on Redemption of Debentures Account and debited to Loss on Issue of Debentures Account at the time of issue. The coupon rate determines interest, not issue proceeds.

Step 1: Case (i): calculate AS Ltd. amounts Face value issued is $60,000 \times 100 = \text{Rs } 60,00,000$. Issue premium is $60,00,000 \times 10\% = \text{Rs } 6,00,000$, so bank receives Rs 66,00,000. Redemption premium is $60,00,000 \times 5\% = \text{Rs } 3,00,000$, recognised as loss on issue and a liability at issue. The total debit and credit in the entry each equal Rs 69,00,000. The 9% rate does not change these calculations.

Step 2: Journal of AS Ltd. Journal of AS Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		66,00,000	
	Loss on Issue of Debentures A/c Dr.		3,00,000	
	To 9% Debentures A/c			60,00,000
	To Securities Premium Reserve A/c			6,00,000
	To Premium on Redemption of Debentures A/c			3,00,000
	(Being 60,000 debentures of Rs 100 issued at 10% premium, redeemable at 5% premium)			

Step 3: Case (ii): calculate WS Ltd. amounts Face value is $30,000 \times 100 = \text{Rs } 30,00,000$. Since issue is at par, bank receives Rs 30,00,000 and no securities premium arises. Redemption premium is $30,00,000 \times 10\% = \text{Rs } 3,00,000$. This amount is debited to loss on issue and credited as premium payable on redemption. Each side of the journal entry totals Rs 33,00,000.

Step 4: Journal of WS Ltd. Journal of WS Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		30,00,000	
	Loss on Issue of Debentures A/c Dr.		3,00,000	
	To 9% Debentures A/c			30,00,000
	To Premium on Redemption of Debentures A/c			3,00,000
	(Being 30,000 debentures of Rs 100 issued at par, redeemable at 10% premium)			

Step 5: Conclusion AS Ltd. records cash of Rs 66,00,000 and issue premium of Rs 6,00,000; WS Ltd. records cash of Rs 30,00,000. Each records loss on issue and redemption premium of Rs 3,00,000.

Quick Tip to Solve: Calculate both premiums on face value: issue premium increases cash, while redemption premium creates a future liability and loss on issue.

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

Solution:

Concept:

- The incoming partner receives his agreed share. The old partners divide the remaining profit in their existing ratio when no other arrangement is specified.
- The guaranteed partner's deficiency is the guaranteed amount less his normal share. It is borne by the guaranteeing partners in the ratio expressly agreed for this purpose.

Step 1: Calculate normal profit shares Agarwal receives $1/5$ of profit. Jain and Gupta share the remaining $4/5$ in their old ratio of $3:1$. Thus Jain's new share is $\frac{4}{5}\times\frac{3}{4}=\frac{3}{5}$, and Gupta's is $\frac{4}{5}\times\frac{1}{4}=\frac{1}{5}$. The new profit-sharing ratio is $3:1:1$.

$$\text{Jain's normal share} = 3,00,000\times\frac{3}{5} = \text{Rs } 1,80,000,$$
$$\text{Gupta's normal share} = 3,00,000\times\frac{1}{5} = \text{Rs } 60,000,$$
$$\text{Agarwal's normal share} = 3,00,000\times\frac{1}{5} = \text{Rs } 60,000.$$

Step 2: Allocate the guarantee deficiency Agarwal must receive Rs 75,000, so the deficiency is $75,000-60,000=$ Rs $15,000$. Jain and Gupta bear this in $1:3$, as stated in the question. Jain's burden is $15,000\times\frac{1}{4}=$ Rs $3,750$; Gupta's burden is $15,000\times\frac{3}{4}=$ Rs $11,250$. Therefore Jain receives $1,80,000-3,750=$ Rs $1,76,250$, Gupta receives $60,000-11,250=$ Rs $48,750$, and Agarwal receives $60,000+15,000=$ Rs $75,000$. The deficiency is a transfer between partners; it does not change the firm's total profit.

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

for the year ended 31st March, 2025

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

All the available profit has been transferred to partners, so no balance is carried down. The total distribution is $1,76,250+48,750+75,000=$ Rs $3,00,000$, agreeing with the credit side.

Step 4: Conclusion Jain, Gupta and Agarwal receive respectively $\boxed{\text{Rs } 1,76,250,\ \text{Rs } 48,750,\ \text{Rs } 75,000}$. Both sides of the appropriation account total Rs 3,00,000.

Quick Tip to Solve: Calculate normal shares first; allocate only the Rs 15,000 deficiency in the separate guarantee-bearing ratio of 1:3.

OR

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

Solution:

Concept:

- A partner's sacrifice equals old share minus new share. A positive difference is sacrifice; a negative difference indicates a gain of its absolute value.
- When goodwill is adjusted through capital accounts without opening a Goodwill Account, gaining partners are debited and sacrificing partners credited with the value of the gain or sacrifice.

Step 1: Compare old and new profit shares The old ratio is $4:3:2:1$, whose total is 10. The new ratio is $1:1:1:1$, so every partner receives $1/4$. Use denominator 20 to compare them directly:

$$\begin{aligned}
\text{Annu: } &\frac{4}{10}-\frac{1}{4}=\frac{8}{20}-\frac{5}{20}=\frac{3}{20} \quad \text{(sacrifice)},\\
\text{Bandhu: } &\frac{3}{10}-\frac{1}{4}=\frac{6}{20}-\frac{5}{20}=\frac{1}{20} \quad \text{(sacrifice)},\\
\text{Sheelu: } &\frac{2}{10}-\frac{1}{4}=\frac{4}{20}-\frac{5}{20}=-\frac{1}{20} \quad \text{(gain)},\\
\text{Golu: } &\frac{1}{10}-\frac{1}{4}=\frac{2}{20}-\frac{5}{20}=-\frac{3}{20} \quad \text{(gain)}.
\end{aligned}$$

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

Step 2: Value each partner's goodwill adjustment Multiply each fraction by the firm's goodwill of Rs 4,00,000. Annu is credited with $4,00,000 \times \frac{3}{20} = \text{Rs } 60,000$, and Bandhu with $4,00,000 \times \frac{1}{20} = \text{Rs } 20,000$. Sheelu is debited with $4,00,000 \times \frac{1}{20} = \text{Rs } 20,000$, and Golu with $4,00,000 \times \frac{3}{20} = \text{Rs } 60,000$. The gaining partners compensate the sacrificing partners for the increased right to future profits. The total adjustment is Rs 80,000 on each side, rather than the full goodwill value, because only the changed shares require compensation.

Step 3: Pass the single adjustment journal entry **Journal of the partnership firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2025	Sheelu's Capital A/c Dr.		20,000	
	Golu's Capital A/c Dr.		60,000	
	To Annu's Capital A/c			60,000
	To Bandhu's Capital A/c			20,000
	(Being goodwill adjusted on change in profit-sharing ratio)			

The journal balances at Rs 80,000 on both sides. No Goodwill Account is opened, since the required single entry directly adjusts the partners' capital accounts.

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

Quick Tip to Solve: Write all shares over 20: positive old-minus-new differences receive goodwill credits, and negative differences require debits.

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

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

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

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

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

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

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

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

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

[6 marks]

Solution:

Concept:

- Revaluation profit and accumulated reserves belong to the old partners in their old profit-sharing ratio of $3:2$.
- Suraj acquires $1/4$ share from the old partners in their existing ratio; their combined remaining share is $3/4$. Goodwill premium compensates the sacrificing partners.
- An asset taken over by a partner is debited to that partner at the agreed value. Proportionate capital uses the adjusted combined capitals of the old partners.

Step 1: Revalue the assets and liabilities Furniture decreases by Rs 20,000, because its book value is Rs 1,20,000 and Asha takes it for Rs 1,00,000. Plant and Machinery increases by Rs 30,000. Creditors decrease by Rs 5,000, giving a gain. Thus revaluation profit is $30,000 + 5,000 - 20,000 =$ Rs $15,000$. Asha receives $15,000 \times 3/5 =$ Rs $9,000$, and Indra receives Rs 6,000.

Revaluation Account

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

Step 2: Distribute reserve and goodwill premium General Reserve of Rs 50,000 is credited to Asha and Indra in the ratio $3:2$, giving Rs 30,000 and Rs 20,000. Suraj brings goodwill premium of

$1,00,000 \times 1/4 = \text{Rs } 25,000$. Their sacrifices are $3/20$ and $2/20$, so the premium is credited as Rs 15,000 and Rs 10,000 respectively. It remains in the business since no withdrawal is stated.

Step 3: Calculate proportionate capital After all adjustments, Asha's capital is

$$4,00,000 + 30,000 + 9,000 + 15,000 - 1,00,000 = \text{Rs } 3,54,000.$$

Indra's capital is $3,00,000 + 20,000 + 6,000 + 10,000 = \text{Rs } 3,36,000$. Combined adjusted old capital is Rs 6,90,000, representing $3/4$ of total capital. Hence

$$\text{Total capital} = 6,90,000 \times 4/3 = \text{Rs } 9,20,000,$$
$$\text{Suraj's capital} = 9,20,000 \times 1/4 = \text{Rs } 2,30,000.$$

Suraj separately brings Rs 25,000 goodwill premium, so his total bank contribution is Rs 2,55,000.

Step 4: Prepare the partners capital accounts Partners' Capital Accounts

Dr. Particulars	Asha Rs	Indra Rs	Suraj Rs	Cr. Particulars	Asha Rs	Indra Rs	Suraj Rs
To Furniture	1,00,000	–	–	By Balance b/d	4,00,000	3,00,000	–
To Balance c/d	3,54,000	3,36,000	2,30,000	By General Reserve	30,000	20,000	–
				By Revaluation	9,000	6,000	–
				By Goodwill Premium	15,000	10,000	–
				By Bank	–	–	2,30,000
Total	4,54,000	3,36,000	2,30,000	Total	4,54,000	3,36,000	2,30,000

The old partners retain their adjusted individual balances; only Suraj is required to bring proportionate capital. No instruction requires Asha and Indra to readjust their capitals between themselves.

Step 5: Conclusion Revaluation profit is Rs 15,000. Closing capitals are Asha Rs 3,54,000, Indra Rs 3,36,000 and Suraj Rs 2,30,000.

Quick Tip to Solve: Deduct the furniture taken over before using the old partners combined adjusted capital to calculate the new partner capital.

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

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

On first and final call - Balance

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

Solution:

Concept:

- Application and allotment of Rs 10 contains Rs 5 capital and Rs 5 premium. The remaining Rs 5 per share is the first and final call.
- Pro-rata allotment is made to applicants for 40,000 shares in the ratio allotted to applied of $30,000 : 40,000 = 3 : 4$.
- Only unpaid called-up capital is credited to Calls in Arrears on forfeiture. Premium already received is not reversed.

Step 1: Compute Sonu and total application adjustments Sonu applies for 4,000 shares and receives $4,000 \times 3/4 = 3,000$ shares. He pays $4,000 \times 15 =$ Rs $60,000$. His application and allotment due is Rs 30,000 and call due is Rs 15,000; the remaining Rs 15,000 is refundable. Total receipts are $50,000 \times 10 + 4,000 \times 5 =$ Rs $5,20,000$. Rejected applicants receive Rs 1,00,000. Total refund, including Sonu, is Rs 1,15,000. Against Rs 3,00,000 application and allotment due, Rs 1,05,000 remains as calls in advance.

Step 2: Calculate Vedika arrears and forfeiture Vedika receives 300 shares, so she applied for $300 \times 4/3 = 400$ shares. She paid Rs 4,000, of which Rs 3,000 meets application and allotment and Rs 1,000 is adjusted against her call. Call due is $300 \times 5 =$ Rs $1,500$; unpaid balance is only Rs 500. Capital received is Rs 1,500 on application and allotment plus Rs 1,000 towards call, totalling Rs 2,500. Premium of Rs 1,500 has already been received.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received, including Sonu's advance)		5,20,000	 5,20,000
	Share Application and Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c To Calls in Advance A/c To Bank A/c (Being shares allotted, surplus adjusted and excess refunded)		5,20,000	 1,50,000 1,50,000 1,05,000 1,15,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call of Rs 5 per share made)		1,50,000	 1,50,000

Step 4: Record call receipt and forfeiture Total call money is Rs 1,50,000. After adjusting advances of Rs 1,05,000, Rs 45,000 is collectible; deducting Vedika arrears of Rs 500 gives cash receipt of Rs 44,500.

Journal of Ajanta Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Calls in Advance A/c Dr. Bank A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being advance adjusted and call received except Vedika's balance)		1,05,000 44,500 500	 1,50,000
	Share Capital A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being Vedika's 300 shares forfeited after notice)		3,000	 500 2,500

Step 5: Conclusion Call receipt is Rs 44,500; Vedika arrears are Rs 500 and the amount credited to Share Forfeiture is Rs 2,500.

Quick Tip to Solve: For a pro-rata defaulter, deduct the excess application money from the call before recording arrears or forfeiture.

OR

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

Solution:

Concept:

- Uncalled capital is excluded from forfeiture. The second and final call of Rs 3 has not been made, so called-up capital is Rs 7 per share.
- Unpaid premium included in a call must be reversed by debiting Securities Premium. The amount forfeited comprises capital actually received.
- Capital Reserve receives only the surplus forfeiture belonging to shares actually reissued, after deducting their reissue discount.

Step 1: Determine called-up capital and amount forfeited Face value is Rs 10, with Rs 3 still uncalled; capital called up is Rs 7 per share. The unpaid first call of Rs 3 contains capital Rs 2 and premium Rs 1. Therefore capital previously received is $7 - 2 =$ Rs 5 per share. For 750 shares, debit Share Capital by Rs 5,250 and Securities Premium by Rs 750; credit unpaid first call Rs 2,250 and Share Forfeiture Rs 3,750. Both sides total Rs 6,000.

Step 2: Compute reissue discount and capital reserve For 500 shares reissued as Rs 7 paid-up, Share Capital is credited by $500 \times 7 =$ Rs $3,500$. Cash received is Rs 2,500, so discount is Rs 1,000. Forfeiture relating to these shares is $500 \times 5 =$ Rs $2,500$; surplus is $2,500 - 1,000 =$ Rs $1,500$. The remaining 250 shares retain forfeiture of $250 \times 5 =$ Rs $1,250$ until reissue.

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

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

Step 4: Conclusion Share Forfeiture is credited by Rs 3,750 on forfeiture; reissue discount is Rs 1,000 and Capital Reserve is Rs 1,500.

Quick Tip to Solve: Exclude the uncalled final instalment, and separate unpaid premium from unpaid capital before calculating the forfeiture amount.

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

Solution:

Concept:

- On forfeiture, debit Share Capital with called-up capital, credit the unpaid call, and credit Share Forfeiture with the capital already received.
- Reissue above face value creates Securities Premium; a reissue discount is debited to Share Forfeiture. The forfeiture balance attributable to shares reissued is transferred to Capital Reserve.

Step 1: Calculate the amounts Capital forfeited is $2,000 \times 10 = \text{Rs } 20,000$. The unpaid call is $2,000 \times 2 = \text{Rs } 4,000$, so Share Forfeiture is credited with Rs 16,000. Ashok receives capital of $750 \times 10 = \text{Rs } 7,500$ for Rs 10,000; hence premium is Rs 2,500. Sudha receives $2,000 - 750 = 1,250$ shares, paying $1,250 \times 9 = \text{Rs } 11,250$; the reissue discount is Rs 1,250.

Step 2: Record forfeiture and reissues Journal of Lily Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		20,000	
	To Share First and Final Call A/c			4,000
	To Share Forfeiture A/c			16,000
	(Being 2,000 shares forfeited for unpaid call)			
	Bank A/c Dr.		10,000	
	To Share Capital A/c			7,500
	To Securities Premium A/c			2,500
	(Being 750 shares reissued fully paid to Ashok)			
	Bank A/c Dr.		11,250	
	Share Forfeiture A/c Dr.		1,250	
	To Share Capital A/c			12,500
	(Being 1,250 shares reissued to Sudha at Rs 9 each)			
	Share Forfeiture A/c Dr.		14,750	
	To Capital Reserve A/c			14,750
	(Being surplus on all reissued shares transferred)			

Step 3: Conclusion Capital Reserve is $16,000 - 1,250 = \boxed{\text{Rs } 14,750}$, and Securities Premium is Rs 2,500.

Quick Tip to Solve: Use Ashok's total payment of Rs 10,000, not Rs 10 per share; the excess over Rs 7,500 is premium.

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

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

It was agreed that:

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

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

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

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

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

Solution:

Concept:

- Accumulated reserves and revaluation profit belong to the old partners in their old ratio, $5:3:2$.
- Goodwill is adjusted through the capital accounts of gaining and sacrificing partners without opening a Goodwill Account. Sacrifice equals old share minus new share.

Step 1: Work out the reserve and goodwill adjustments General Reserve of Rs 1,60,000 is distributed as: Promil Rs 80,000, Kamlesh Rs 48,000 and Ritika Rs 32,000. Promil sacrifices $5/10 - 2/10 = 3/10$; Kamlesh has no change; Ritika gains $5/10 - 2/10 = 3/10$. Thus Ritika compensates Promil by $1,80,000 \times 3/10 = \text{Rs } 54,000$. This is a capital adjustment, with no goodwill asset created.

Step 2: Compute revaluation profit Land and Building increases by $6,62,000 - 5,60,000 = \text{Rs } 1,02,000$. Provision for doubtful debts is $1,20,000 \times 5\% = \text{Rs } 6,000$. Stock decreases by $2,40,000 - 2,00,000 = \text{Rs } 40,000$. Therefore revaluation profit is $1,02,000 - 6,000 - 40,000 = \text{Rs } 56,000$, divided in the old ratio as Rs 28,000, Rs 16,800 and Rs 11,200 respectively.

Step 3: Journalise reserve and revaluation Journal of the firm (31st March, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		1,60,000	
	To Promil's Capital A/c			80,000
	To Kamlesh's Capital A/c			48,000
	To Ritika's Capital A/c			32,000
	(Being reserve distributed in old ratio)			
	Land and Building A/c Dr.		1,02,000	
	To Revaluation A/c			1,02,000
	(Being increase in property value recorded)			
	Revaluation A/c Dr.		46,000	
	To Provision for Doubtful Debts A/c			6,000
	To Stock A/c			40,000
	(Being provision created and stock reduced)			
	Revaluation A/c Dr.		56,000	
	To Promil's Capital A/c			28,000
	To Kamlesh's Capital A/c			16,800
	To Ritika's Capital A/c			11,200
	(Being revaluation profit distributed in old ratio)			

Step 4: Journalise goodwill Journal of the firm (1st April, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Ritika's Capital A/c Dr.		54,000	
	To Promil's Capital A/c			54,000
	(Being goodwill adjusted for change in profit shares)			

As a check, the resulting capital balances are: Promil $2,80,000 + 80,000 + 28,000 + 54,000 =$ Rs $4,42,000$; Kamlesh $2,20,000 + 48,000 + 16,800 =$ Rs $2,84,800$; Ritika $1,40,000 + 32,000 + 11,200 - 54,000 =$ Rs $1,29,200$.

Step 5: Conclusion Revaluation profit is Rs 56,000. Ritika's Capital Account is debited and Promil's Capital Account credited by Rs 54,000 for goodwill.

Quick Tip to Solve: First compare old and new shares partner by partner; Kamlesh has neither sacrifice nor gain and takes no part in the goodwill entry.

OR

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

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

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

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

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

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- Realisation Account is debited with non-cash assets at gross book value and credited with outside liabilities and related provisions. Bank and partners' capitals are not transferred.
- Assets taken by partners are credited to Realisation at agreed values. An outside liability assumed by a partner is debited to Realisation. The resulting profit or loss is transferred in the old ratio $3:2$.

Step 1: Work out the settlement amounts Mrs. Rinku is not a partner; her loan of Rs 20,000 is an outside liability. Pinky's husband's loan of Rs 30,000 is also an outside liability. Rinku assumes Mrs. Rinku's loan, so Realisation is debited and his Capital Account credited by Rs 20,000. Creditors receive $86,000 - 5,000 =$ Rs $81,000$. Pinky takes investments with book value $30,000/2 =$ Rs $15,000$ for $15,000 \times 90\% =$ Rs $13,500$. The other half sells for Rs 19,000. The unrecorded furniture is credited at its takeover value of Rs 18,000; there is no opening asset transfer for it.

Step 2: Prepare the Realisation Account Realisation Account

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

Step 3: Check the profit and exclusions Total credits are Rs 6,63,500. Debits before profit are $4,40,000 + 20,000 + 81,000 + 6,000 + 30,000 =$ Rs $5,77,000$. Hence profit is $6,63,500 - 5,77,000 =$ Rs $86,500$, allocated as $86,500 \times 3/5 =$ Rs $51,900$ to Rinku and $86,500 \times 2/5 =$ Rs $34,600$ to Pinky. General Reserve of Rs 30,000 goes directly to their capitals and does not enter Realisation. Opening bank balance also remains outside this account. All assets and liabilities are disposed of, so no balance is carried down.

Step 4: Conclusion Realisation profit is $\boxed{\text{Rs } 86,500}$, transferred to Rinku and Pinky as Rs 51,900 and Rs 34,600 respectively.

Quick Tip to Solve: Distinguish a partner's own loan from a relative's loan: the latter is an outside liability and passes through Realisation.

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

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

(A) Rs 1,00,00,000

(B) Rs 1,00,000

(C) Rs 50,00,000

(D) Rs 50,000

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

Solution:

Concept:

- Registered capital is the authorised capital stated in the memorandum of association.
- Its amount equals the authorised number of shares multiplied by their face value.

Step 1: Identify the authorised shares Diwan Ltd. is registered with 1,00,000 equity shares of Rs 100 each. This is the maximum capital authorised; the smaller number actually offered does not replace it.

Step 2: Calculate and compare

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

Option (B) gives the number of authorised shares, (C) gives issued capital, and (D) gives the number of shares offered, rather than registered capital.

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

Quick Tip to Solve: For registered capital, multiply authorised shares by face value, ignoring the issue size.

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

(A) Rs 1,00,00,000

(B) Rs 1,00,000

(C) Rs 50,00,000

(D) Rs 50,000

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

Solution:

Concept:

- Issued capital is the face value of shares offered by the company for subscription.
- Authorised capital is the permitted maximum and is distinct from issued capital.

Step 1: Select the shares offered Diwan Ltd. invited applications for 50,000 equity shares. Their face

value is Rs 100 each. Use this number rather than the 1,00,000 shares authorised by its memorandum.

Step 2: Calculate the issue amount

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

Option (A) is authorised capital; (B) is the authorised share count and (D) is the issued share count. The instalments and later forfeiture do not alter the original amount issued.

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

Quick Tip to Solve: For issued capital use the shares offered, each valued at its full face value.

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

(A) Rs 21,000

(B) Rs 70,000

(C) Nil

(D) Rs 49,000

Correct Answer: (C) Nil

Solution:

Concept:

- Calls in arrears represent called amounts outstanding on shares.
- On forfeiture, the unpaid call is cancelled by crediting Calls in Arrears Account against the debit to Share Capital Account.

Step 1: Find the unpaid call before forfeiture The final call per share is $100 - 30 - 40 = \text{Rs } 30$. Nawal originally owes $700 \times 30 = \text{Rs } 21,000$. This is the arrear before his shares are forfeited.

Step 2: Apply the stated forfeiture The stem states that his shares were forfeited. The outstanding Rs 21,000 is consequently cancelled, so no calls in arrears remain. Option (A) is the pre-forfeiture arrear; (B) is the face value of the forfeited shares and (D) is their amount already received.

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

Quick Tip to Solve: Read the final event: forfeiture cancels the unpaid call balance on those shares.

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

(A) Rs 21,000

(B) Rs 70,000

(C) Nil

(D) Rs 49,000

Correct Answer: (D) Rs 49,000

Solution:

Concept:

- Share Forfeiture Account is credited with capital money already received on the forfeited shares.
- Until reissue, this amount is disclosed with share capital in the notes to accounts.

Step 1: Find the amount received per share Nawal paid application and allotment of Rs 30 and the first call of Rs 40 per share. Thus, capital received per forfeited share is $30 + 40 = \text{Rs } 70$. The unpaid final call is not included.

Step 2: Calculate the forfeiture balance

$$\text{Share Forfeiture Account} = 700 \times 70 = \text{Rs } 49,000.$$

Rs 21,000 is the unpaid call, Rs 70,000 is the full face value cancelled, and Nil would disregard the money already retained by the company.

Step 3: Conclusion Share Forfeiture Account appears at Rs 49,000. Hence, the correct option is (D).

Quick Tip to Solve: For forfeiture credit, count amounts received on capital, excluding the unpaid call.

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

(A) Rs 49,30,000

(B) Rs 50,00,000

(C) Rs 49,79,000

(D) Rs 49,49,000

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

Solution:

Concept:

- After forfeiture, paid-up share capital excludes the face value of forfeited shares.
- The amount originally paid on forfeited shares is added in the share capital note until their reissue.

Step 1: Calculate capital on continuing shares The remaining fully paid shares number $50,000 - 700 = 49,300$. Their paid-up capital is $49,300 \times 100 = \text{Rs } 49,30,000$. This alone is option (A), but does not include the retained forfeiture amount.

Step 2: Include the forfeiture balance Amount paid on forfeited shares is $700 \times (30 + 40) = \text{Rs } 49,000$.

Therefore, the balance sheet share capital amount is

$$49,30,000 + 49,000 = \text{Rs } 49,79,000.$$

Rs 50,00,000 ignores the unpaid call; Rs 49,49,000 does not follow the share capital reconciliation.

Step 3: Conclusion Share Capital presented is Rs 49,79,000. Hence, the correct option is (C).

Quick Tip to Solve: Add money retained on forfeited shares to the paid-up capital of continuing shareholders.

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

(A) Rs 49,000

(B) Rs 70,000

(C) Rs 21,000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- On reissue as fully paid, the difference between face value and reissue price is a discount debited to Share Forfeiture Account.
- Only the remaining forfeiture balance relating to the reissued shares transfers to Capital Reserve.

Step 1: Find discount on reissue For each Rs 100 fully paid share reissued at Rs 30, discount is $100 - 30 = \text{Rs } 70$. For 700 shares the total discount is $700 \times 70 = \text{Rs } 49,000$.

Step 2: Calculate the surplus The forfeiture balance is $700 \times (30 + 40) = \text{Rs } 49,000$. Thus,

$$\text{Capital Reserve} = 49,000 - 49,000 = 0.$$

Option (A) is the entire forfeiture balance before using it for discount; (B) is face value and (C) is the cash received on reissue. None is a remaining capital profit.

Step 3: Conclusion The amount transferred to Capital Reserve is Nil. Hence, the correct option is (D).

Quick Tip to Solve: Subtract reissue discount from the forfeiture balance belonging to the shares reissued.

Part B (20 marks)

Option I (Analysis of Financial Statements)

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

[1 mark]

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

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

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

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

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

Solution:

Concept:

- Dividend paid is a cash outflow from financing activities.
- Under the indirect method, interim dividend deducted in arriving at the given net profit is added back to determine operating cash flow.

Step 1: Classify the payment The Rs 50,00,000 interim dividend is a distribution to shareholders, so its payment is shown as an outflow under financing activities, rather than an operating expense or an investing payment.

Step 2: Restore profit for operating cash flow In the usual CBSE calculation from the profit balance after appropriations, interim dividend paid during the year is added back to net profit. Option (B) incorrectly deducts it again. Option (C) omits this adjustment to profit, while (D) omits the financing cash outflow. Both treatments specified in option (A) are required.

Step 3: Conclusion Add back Rs 50,00,000 to net profit and show it as financing cash outflow. Hence, the correct option is (A).

Quick Tip to Solve: Separate the dividend payment classification from its adjustment when reconciling profit.

OR

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

(A) Interest received

(B) Dividend received

(C) Royalties received

(D) Interest paid on debentures

Correct Answer: (D) Interest paid on debentures

Solution:

Concept:

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

Step 1: Identify the financing payment Debentures are borrowed funds. Interest paid on debentures is the cost of this financing and is classified as a financing activity for the cash flow statement of a non-financial enterprise.

Step 2: Test the other receipts Interest received and dividend received are returns on investments, classified as investing activities. Royalties received arise from revenue-generating operations and are operating cash receipts. Thus, none of options (A), (B) or (C) is the financing activity asked for.

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

Quick Tip to Solve: Classify a debenture interest payment with financing, and investment returns with investing.

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

Working capital - Rs 4,00,000

Trade Payables - Rs 50,000

Other Current liabilities - Rs 1,00,000

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

(A) Rs 2,50,000

(B) Rs 4,50,000

(C) Rs 5,00,000

(D) Rs 5,50,000

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

Solution:

Concept:

- Working capital equals current assets minus current liabilities.

- Current liabilities include both trade payables and other current liabilities given in the question.

Step 1: Total current liabilities

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

Both categories must be included; using only one category understates the liabilities.

Step 2: Rearrange the working capital formula

$$\begin{aligned}\text{Current assets} &= \text{Working capital} + \text{Current liabilities} \\ &= 4,00,000 + 1,50,000 = \text{Rs } 5,50,000.\end{aligned}$$

Option (A) subtracts liabilities instead of adding them. Options (B) and (C) add only one of the two liability categories and omit the other.

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

Quick Tip to Solve: Recover current assets by adding every current liability to working capital.

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

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

(A) 20:17

(B) 1:1

(C) 18:17

(D) 19:17

Correct Answer: (B) 1:1

Solution:

Concept:

- Quick ratio measures the ability to meet current liabilities from readily realisable current assets.
- Quick assets = Current assets - Inventory - Prepaid expenses; quick ratio = Quick assets / Current liabilities.

Step 1: Identify quick assets Stock cannot be treated as immediately available cash and prepaid expenses do not generate cash for settling liabilities. Thus both must be excluded:

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

Step 2: Calculate and compare the options

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

Option (A), $20:17$, uses all current assets; (C), $18:17$, excludes stock alone; and (D), $19:17$,

excludes prepaid expenses alone. Each of these retains an asset that is not a quick asset.

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

Quick Tip to Solve: Deduct both stock and prepaid expenses before dividing by current liabilities.

OR

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

(A) Labour unions

(B) Trade payables

(C) Finance manager

(D) Lenders

Correct Answer: (D) Lenders

Solution:

Concept:

- Different users analyse financial statements for different decisions, such as wages, short-term credit and long-term lending.
- Long-term solvency refers to the ability to service long-term debt and repay it when due.

Step 1: Identify the concern of lenders Lenders commit funds for a longer period and need assurance that the company can continue operating, pay interest regularly and repay principal on maturity. They therefore examine long-term solvency and survival.

Step 2: Distinguish the other users Labour unions mainly examine profitability and the ability to pay wages and benefits. Trade payables focus on short-term liquidity because their dues mature shortly. A finance manager uses analysis for overall financial planning and management; the specific external user associated with long-term solvency in these options is the lender.

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

Quick Tip to Solve: Match long-term repayment capacity with lenders; match immediate payment capacity with trade creditors.

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

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

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

(A) Both the statements are true.

(B) Both the statements are false.

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

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

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

Solution:

Concept:

- Cash flows are classified according to the nature of the activity and, for interest, whether the enterprise is financial or non-financial.
- For a non-financial enterprise, interest paid and dividends paid are financing cash outflows.

Step 1: Judge Statement I For a non-financial enterprise, interest paid is the cost of obtaining borrowed finance and dividends paid are a return to shareholders who provide equity finance. Both payments are classified under financing activities. Statement I is therefore true.

Step 2: Judge Statement II and select the combination For a financial enterprise, interest paid is an operating cash flow because lending and borrowing form part of its principal revenue-producing operations. Dividends paid continue to be financing cash flows. Consequently, the claim that both payments are investing activities is false. Options (A) and (B) incorrectly give both statements the same truth value; option (D) reverses their actual truth values.

Step 3: Conclusion Statement I is true and Statement II is false. Hence, the correct option is (C).

Quick Tip to Solve: For a financial enterprise, interest paid is operating; dividends paid remain financing.

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

(i) Demand deposits with banks

(ii) Long-term loans

(iii) Livestock [3 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities into current and non-current categories, followed by the appropriate sub-head.
- Cash available on demand belongs to cash and cash equivalents; long-term borrowings are non-current liabilities; livestock is a tangible fixed asset.

Step 1: Classify demand deposits with banks Demand deposits can be withdrawn whenever required and are therefore cash balances available for use. Present them on the assets side under Current assets, with the sub-head Cash and cash equivalents.

Step 2: Classify long-term loans Long-term loans represent funds borrowed for repayment beyond the normal short-term period. Present them on the equity and liabilities side under Non-current liabilities, with the sub-head Long-term borrowings. They are a source of finance, so they are not classified as loans and advances given by the company.

Step 3: Classify livestock and present the classification Livestock has physical existence and, when held for continuing use in the business, is a tangible fixed asset. The classification is:

Item	Major head	Sub-head
Demand deposits with banks	Current assets	Cash and cash equivalents
Long-term loans	Non-current liabilities	Long-term borrowings
Livestock	Non-current assets	Fixed assets: Tangible assets (Property, plant and equipment)

Step 4: Conclusion Demand deposits: Current assets–Cash and cash equivalents; long-term loans: Non-current liabilities–Long-term borrowings; livestock: Non-current assets–Tangible fixed assets.

Quick Tip to Solve: Decide first whether an item is an asset or liability, then its term, and finally its precise sub-head.

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

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

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

Solution:

Concept:

- Absolute change = Current-year amount - Previous-year amount.
- Percentage change = Absolute change / Previous-year amount $\times 100$. Use 2023–24 as the base year.

Step 1: Calculate total expenses and profit For 2023–24, total expenses are Rs $16,00,000 + 4,00,000 = 20,00,000$, so profit before tax is Rs $32,00,000 - 20,00,000 = 12,00,000$. For 2024–25, total expenses are Rs $20,00,000 + 2,00,000 = 22,00,000$, so profit before tax is Rs $40,00,000 - 22,00,000 = 18,00,000$. Tax at 50% is Rs 6,00,000 and Rs 9,00,000 respectively; profit after tax is consequently Rs 6,00,000 and Rs 9,00,000.

Step 2: Prepare the comparative statement **Chaman Ltd.**
Comparative Statement of Profit and Loss for the years ended 31st March, 2024 and 2025
(Amounts in Rs)

Particulars	2023–24	2024–25	Change	Change (%)
Revenue from operations	32,00,000	40,00,000	8,00,000	25
Employee benefit expenses	16,00,000	20,00,000	4,00,000	25
Other expenses	4,00,000	2,00,000	(2,00,000)	(50)
Total expenses	20,00,000	22,00,000	2,00,000	10
Profit before tax	12,00,000	18,00,000	6,00,000	50
Less: Tax expense (50%)	6,00,000	9,00,000	3,00,000	50
Profit after tax	6,00,000	9,00,000	3,00,000	50

Parentheses denote a decrease. For example, the decrease in other expenses is $(2,00,000/4,00,000) \times 100 = 50\%$, while the increase in profit after tax is $(3,00,000/6,00,000) \times 100 = 50\%$.

Step 3: Conclusion Revenue increased by 25%, total expenses by 10%, and profit after tax increased from Rs 6,00,000 to Rs 9,00,000, a rise of 50%.

Quick Tip to Solve: Always divide the change by the previous-year amount; a fall in an expense appears as a negative change.

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

(i) Cash sales Rs 3,00,000

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

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

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

Solution:

Concept:

- Net Asset Turnover Ratio measures the efficiency of net assets in generating sales: Ratio $= \dfrac{\text{Revenue from Operations}}{\text{Net Assets}}$.
- Net assets equal total assets less current liabilities, or shareholders' funds plus non-current liabilities. An equal increase in current assets and current liabilities leaves net assets unchanged.

Step 1: Establish the comparison Let original net assets be N. Since the existing ratio is 2 times, revenue from operations is $2N$. Consider each transaction independently. Raising long-term funds increases net assets, whereas a purchase on short-term credit increases both current assets and current liabilities.

Step 2: (i) Cash sales of Rs 3,00,000 The ratio increases. Revenue from operations increases by Rs 3,00,000. Cash sales convert inventory into cash, so net assets are unchanged under the usual transaction-effect convention where no separate profit element is specified. With the denominator unchanged and the numerator increased, the revised ratio exceeds 2 times.

Step 3: (ii) Issue of equity shares of Rs 10,00,000 The ratio decreases. The proceeds increase cash

and shareholders' funds by Rs 10,00,000. Thus net assets increase while revenue from operations stays unchanged. The ratio becomes $\frac{2N}{N+10,00,000} < 2$. A financing receipt is not a sale and cannot be added to revenue.

Step 4: (iii) Issue of 9 per cent debentures of Rs 5,00,000 The ratio decreases. Cash and non-current borrowings increase by Rs 5,00,000. Non-current borrowings are included in capital employed, so net assets increase by the same amount. Revenue is unchanged; $\frac{2N}{N+5,00,000} < 2$. The interest rate does not alter revenue from operations at the date of issue.

Step 5: (iv) Credit purchase of goods of Rs 50,000 The ratio is unaffected. Inventory, a current asset, increases by Rs 50,000, and trade payables, a current liability, also increase by Rs 50,000. Their effects cancel in total assets less current liabilities. Purchases do not themselves generate revenue from operations. Hence both numerator and denominator remain unchanged and the ratio stays at 2 times.

Step 6: Conclusion (i) Increases; (ii) decreases; (iii) decreases; (iv) no effect.

Quick Tip to Solve: For credit purchases, subtract the matching increase in payables before deciding whether net assets change.

OR

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

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

[4 marks]

Solution:

Concept:

- Proprietary Ratio compares shareholders' funds with total assets: $\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$.
- Debt-to-Equity Ratio compares long-term debt with shareholders' funds. Preference share capital forms part of shareholders' funds, not long-term borrowings.

Step 1: Calculate shareholders' funds Both equity and preference shareholders are owners for these ratios. Add reserves and surplus to their capital:

$$\text{Shareholders' Funds} = 3,00,000 + 1,00,000 + 1,00,000$$
$$= \text{Rs } 5,00,000.$$

The denominator for the debt-to-equity calculation therefore includes preference capital as well as equity capital.

Step 2: Calculate total assets Include both non-current and current assets. Non-current investments remain assets even though they are not plant and machinery.

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

Do not deduct borrowings from total assets for the proprietary ratio: it compares the owners' claim with the total asset base.

Step 3: Calculate Proprietary Ratio Substitute the owners' funds and total assets:

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

Thus approximately 76.92 per cent of the total assets is financed by shareholders' funds. Expressed as a ratio of funds to assets it is $10 : 13$.

Step 4: Calculate Debt-to-Equity Ratio Long-term borrowings of Rs 1,50,000 are the debt used in this ratio.

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

There is Rs 0.30 of long-term debt for each rupee of shareholders' funds. The balance-sheet figures also reconcile: Rs 5,00,000 of owners' funds plus Rs 1,50,000 of long-term borrowings equals Rs 6,50,000 of total assets.

Step 5: Conclusion Proprietary Ratio $= 10 : 13$, or approximately 0.7692 (76.92 per cent); Debt-to-Equity Ratio $= 0.30 : 1$.

Quick Tip to Solve: Add preference share capital and reserves to equity capital before calculating either ownership-based ratio.

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

Net Profit for the year ended 31st March, 2025 after charging depreciation of Rs 80,000 and after writing off goodwill Rs 10,500 was Rs 4,90,000.

Additional Information:

Particulars	31.3.2024 (Rs)	31.3.2025 (Rs)
Inventories	1,00,000	1,50,000
Trade receivables	2,00,000	2,25,000
Prepaid insurance	20,000	15,000
Accrued interest	40,000	30,000
Other current assets	90,000	1,40,000
Trade payables	2,00,000	1,70,000
Outstanding expenses	12,000	8,500
Rent received in advance	-	10,000

[6 marks]

Solution:

Concept:

- Under the indirect method, cash from operations equals net profit adjusted for non-cash charges and changes in operating current assets and liabilities.
- Depreciation and goodwill written off reduce accounting profit without a current cash outflow and are therefore added back.
- An increase in an operating current asset or a decrease in an operating current liability is deducted; the reverse changes are added.

Step 1: Calculate operating profit before working capital changes The reported net profit already includes the two non-cash charges. Reverse them once to obtain the amount available before adjustments for working capital.

$$\begin{aligned}\text{Operating profit before working capital changes} &= 4,90,000 + 80,000 + 10,500 \\ &= \text{Rs } 5,80,500.\end{aligned}$$

Depreciation does not involve paying cash in this year, and writing off goodwill is also a book adjustment. Neither is deducted a second time.

Step 2: Work out the changes in operating working capital Inventories rise by Rs 50,000, trade receivables by Rs 25,000 and other current assets by Rs 50,000. These increases absorb cash. Prepaid insurance falls by Rs 5,000 and accrued interest falls by Rs 10,000, releasing amounts previously included in current assets. Trade payables fall by Rs 30,000 and outstanding expenses fall by Rs 3,500; payments exceed the related expenses recognised during the year. Rent received in advance increases from nil to Rs 10,000 and is added because cash received exceeds the rent recognised for that portion.

Step 3: Prepare the statement of cash from operations Ajanta Ltd. – Calculation of Cash from Operations for the year ended 31st March, 2025

Particulars	Amount (Rs)
Net profit for the year	4,90,000
Add: Depreciation	80,000
Add: Goodwill written off	10,500
Operating profit before working capital changes	5,80,500
Less: Increase in inventories	(50,000)
Less: Increase in trade receivables	(25,000)
Add: Decrease in prepaid insurance	5,000
Add: Decrease in accrued interest	10,000
Less: Increase in other current assets	(50,000)
Less: Decrease in trade payables	(30,000)
Less: Decrease in outstanding expenses	(3,500)
Add: Increase in rent received in advance	10,000
Cash from operations	4,47,000

The net working capital adjustment is a deduction of Rs 1,33,500. Subtracting it from Rs 5,80,500 gives the cash generated by operations. No tax payment or separate investing or financing cash flow is supplied for further adjustment.

Step 4: Conclusion Cash from Operations of Ajanta Ltd. is $\boxed{\text{Rs } 4,47,000}$.

Quick Tip to Solve: First add both non-cash charges; then put each working capital change on an add or deduct list before totalling.

Option II (Computerised Accounting)

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

(A) Syntax error in the formula

(B) Missing data in the worksheet

(C) Formula referring to a protected call

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

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

Solution:

Concept:

- The #NAME? error means that Excel does not recognise text used in a formula, such as a misspelled function or an undefined name.
- Choose the option that states the specific function or characteristic asked for, checking each alternative against that meaning.

Step 1: Identify the error A formula containing an unrecognised function name or range name cannot be interpreted correctly. Excel reports #NAME? for this name-recognition problem.

Step 2: Compare the choices Option (D) states the precise meaning. A syntax error in (A) is too general: many formula errors are unrelated to names. Missing worksheet data in (B) is not the definition of this error, while referencing a protected cell in (C) does not by itself generate a name-recognition error.

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

Quick Tip to Solve: On seeing #NAME?, check the spelling of function names and whether any named range has actually been defined.

OR

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

(A) It helps in data analysis and reporting.

(B) It is used to maintain audit trails.

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

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

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

Solution:

Concept:

- A data vault protects stored accounting data by controlling access and safeguarding confidentiality and integrity.
- Choose the option that states the specific function or characteristic asked for, checking each alternative against that meaning.

Step 1: Identify the main purpose Accounting records may contain confidential financial information. A data vault limits access to authorised users, reducing unauthorised viewing or alteration of these records.

Step 2: Eliminate unrelated functions Option (C) identifies this protective role directly. Data analysis and reporting in (A) concern using the records; maintaining an audit trail in (B) records activities. Automatic backup of deleted vouchers in (D) is a specific recovery function and does not describe the main purpose of a data vault.

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

Quick Tip to Solve: Associate a vault with restricted access and protection; distinguish this from reporting, audit logs and backup.

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

(A) Calculate the total interest on a loan.

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

(C) Calculate the future value of an investment.

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

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

Solution:

Concept:

- The PMT function calculates a constant periodic payment using a constant interest rate and a specified number of payment periods.
- Choose the option that states the specific function or characteristic asked for, checking each alternative against that meaning.

Step 1: Identify the quantity calculated For a loan repaid in equal instalments, PMT determines the payment each period from the rate, number of periods and present loan amount. The instalment normally includes both principal repayment and interest.

Step 2: Compare with the alternatives Option (B) describes the periodic payment. Total interest in (A) is not the direct output of PMT. A future value as in (C) is calculated using FV, while a present value as in (D) is calculated using PV. These are distinct financial quantities, even though they may use similar inputs.

Step 3: Conclusion The PMT function calculates the periodic payment for a loan or investment. Hence, the correct option is (B).

Quick Tip to Solve: Remember PMT as payment per period; use the same time unit for the interest rate and number of periods.

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

(A) END + Down arrow (↓)

(B) HOME + Page down

(C) HOME + Down arrow (↓)

(D) CTRL + Down arrow (↓) successively

Correct Answer: (D) CTRL + Down arrow (↓) successively

Solution:

Concept:

- Ctrl with an arrow key moves the active cell to the edge of a data region in that direction, avoiding cell-by-cell movement.
- Choose the option that states the specific function or characteristic asked for, checking each alternative against that meaning.

Step 1: Choose the downward navigation shortcut In a column of contiguous entries, holding Ctrl and pressing the Down arrow moves from the first occupied cell to the last occupied cell of the current data cluster. Repeat the shortcut to move through successive regions if needed.

Step 2: Check the listed combinations Option (D) gives this shortcut. HOME relates to the beginning of a row and does not supply the required vertical jump in (B) or (C). END in (A) is associated with End mode; the usual direct shortcut asked for here is Ctrl plus Down arrow. The question specifically seeks movement over intermediate cells.

Step 3: Conclusion Use CTRL + Down arrow successively. Hence, the correct option is (D).

Quick Tip to Solve: For a continuous column, Ctrl plus Down arrow jumps to its lower edge; blank cells can create separate regions.

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

(A) Designed specially for large enterprises

(B) Requires minimal or no support from system

(C) Requires special training before use

(D) Needs technical installation efforts

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

Solution:

Concept:

- Tailored accounting software is developed for the specific requirements of an organisation and normally requires technical support, installation and user training.
- Choose the option that states the specific function or characteristic asked for, checking each alternative against that meaning.

Step 1: Recall the expected characteristics Large enterprises may need software designed around their particular workflows, reporting needs and controls. Such a tailored system generally requires technical installation and staff training to use its specialised features correctly.

Step 2: Identify the statement that does not fit Options (A), (C) and (D) fit these characteristics: specialised design, special training and technical installation efforts. Option (B) says that minimal or no system support is required. A complex tailored package normally needs continuing support and maintenance, so this statement is the exception.

Step 3: Conclusion Requiring minimal or no support from system is not a feature of tailored accounting software. Hence, the correct option is (B).

Quick Tip to Solve: For a negative question about tailored software, look for a claim denying its usual training or technical support needs.

OR

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

(A) Horizontal value

(B) Vertical value

(C) Derived value

(D) Basic value

Correct Answer: (C) Derived value

Solution:

Concept:

- A basic value is entered as input; a derived value is calculated from inputs by executing an expression or function.
- The result of an arithmetic operation is an output derived from the operands supplied.

Step 1: Identify the nature of the result When an arithmetic expression or function is executed, it processes the supplied values and produces a calculated result. For example, executing $20 + 5$ gives 25, which is derived from the two inputs.

Step 2: Check the alternatives Horizontal and vertical describe directions or arrangements, so options (A) and (B) do not name a calculated result. A basic value is an original input, so option (D) is also unsuitable. Derived value is the correct term for the calculated output.

Step 3: Conclusion The value produced is a derived value. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish data entered directly (basic values) from results calculated using that data (derived values).

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

Solution:

Concept:

- A computerised accounting system uses computer hardware and accounting software to record and process transactions.
- Its speed and accuracy depend on suitable resources, trained people and controls over data.

Step 1: High cost of installation and training Installing a computerised accounting system involves expenditure on computers, accounting software, networking and related facilities. Employees must also be trained to operate the system correctly. These initial and continuing costs can be a significant burden, especially for a small business with limited resources.

Step 2: Dependence on trained personnel and resistance to change The system requires employees who understand both accounting and the software being used. Staff accustomed to manual procedures may resist the change or find the new system difficult to learn. Lack of competent personnel, inadequate training or frequent staff changes can therefore disrupt its effective operation.

Step 3: Risk of data loss and security breaches Accounting records stored electronically may be lost or damaged because of hardware failure, software malfunction or computer viruses. Unauthorised access can also lead to theft or alteration of confidential financial data. Regular backups, access passwords and security controls are needed to reduce these risks; computerisation by itself does not remove them.

Step 4: Conclusion Three limitations are high installation and training costs, dependence on trained personnel with possible resistance to change, and risks to data security and availability.

Quick Tip to Solve: State each limitation as a heading, then explain its specific effect on accounting records or system operation.

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

Solution:

Concept:

- Codification assigns a systematic code to an item, account or group so that it can be uniquely identified and classified.
- Mnemonic codes use letters or abbreviations associated with the name of the item, making the code easy to remember.

Step 1: Explain codification Codification is the process of assigning numbers, letters or a combination of both to accounts and other items according to a systematic plan. Instead of repeatedly writing a long account name, the system uses its code to identify it. A well-designed code is unique within the coding scheme and helps classify, record, store and retrieve accounting data accurately. For example, a business may assign a particular code to its Cash Account and another to its Bank Account.

Step 2: Explain mnemonic codes Mnemonic codes are codes formed from letters or abbreviations that suggest the name or description of the item they represent. The letters have an association with the account name, so the user can remember and recognise the account more readily than an arbitrary numerical code. These codes are particularly useful when familiar account names need short, meaningful identifiers.

Step 3: Illustrate with an example For example, the code CASH may be used for Cash Account, BANK for Bank Account and PUR for Purchases Account. In each case, the letters recall the corresponding name. Thus, PUR is a mnemonic code because it suggests Purchases, whereas an arbitrary number with no name association would not illustrate the mnemonic principle.

Step 4: Conclusion Codification means systematically assigning identifiers to accounts or items. Mnemonic codes are memorable name-based letter codes, such as PUR for Purchases Account.

Quick Tip to Solve: Use an abbreviation that clearly recalls the account name when giving an example of a mnemonic code.

33(a). Give the meaning of the following:

(i) Cell reference

(ii) Relative cell reference

(iii) Absolute cell reference

(iv) Mixed cell reference [4 marks]

Solution:

Concept:

- A spreadsheet identifies a cell by its column letter and row number; formulas use such references to obtain values.
- Relative components change when a formula is copied, while an absolute component is fixed by a dollar sign.

Step 1: (i) Cell reference A cell reference is the address that identifies a cell in a worksheet. It consists of the column letter followed by the row number. For example, A1 identifies the cell at the intersection of column A and row 1. A formula such as $= A1 + B1$ uses the references to obtain the values stored in those cells; if an input value changes, the formula can recalculate its result.

Step 2: (ii) Relative cell reference A relative cell reference identifies a cell in relation to the position of the formula. Both its row and column references adjust when the formula is copied to another location. For example, A1 is a relative reference. If $= A1$ in C1 is copied one row down to C2, it becomes $= A2$; copying it one column right to D1 instead gives $= B1$. The displacement from the formula cell is preserved.

Step 3: (iii) Absolute cell reference An absolute cell reference keeps both the column and row fixed when a formula is copied. A dollar sign is placed before both the column letter and row number, as in \$A\$1. Thus, a formula referring to \$A\$1 continues to refer to cell A1 wherever it is copied. This is useful for a fixed input such as a tax rate or a common percentage used in several calculations.

Step 4: (iv) Mixed cell reference A mixed cell reference has one absolute component and one relative component. In \$A1, column A is fixed but the row may change; copying it one row down gives \$A2. In A\$1, row 1 is fixed but the column may change; copying it one column right gives B\$1. The dollar sign fixes only the component immediately following it, allowing a formula to retain a common row or column while adjusting the other.

Step 5: Conclusion A cell reference is a cell address. Relative references adjust both components; absolute references fix both; mixed references fix either the row or the column.

Quick Tip to Solve: Read each dollar sign as fixing the column letter or row number immediately after it before copying a formula.

OR

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

Solution:

Concept:

- An array is a range containing rows and columns of related data. The array form of LOOKUP searches one edge of this range and returns the corresponding value from its opposite edge.
- Syntax: LOOKUP(lookup_value, array). The lookup value is the number, text or cell reference to be searched; array is the range containing both the search values and the results.

Step 1: Explain the direction of search The arrangement of the array determines the search direction. If the array has more columns than rows, LOOKUP searches its first row and returns the value in the same column of the last row. If the array has an equal number of rows and columns, or more rows than columns, it searches the first column and returns the value in the same row of the last column. Thus no separate result-vector argument is supplied in this form.

Step 2: State the matching rules The search row or column must be arranged in ascending order. LOOKUP locates an exact match when one exists; otherwise it uses the largest search value less than or equal to the lookup value. It then returns the corresponding result, rather than the search value itself. If the lookup value is smaller than the smallest search value, the function returns the error `#N/A`. Unsorted search values may produce an incorrect result.

Step 3: Illustrate the array form Suppose cells A1:A3 contain employee codes 101, 102 and 103 in ascending order, while B1:B3 contain the corresponding salaries Rs 20,000, Rs 25,000 and Rs 30,000. The formula `=LOOKUP(102,A1:B3)` searches the first column because this array has three rows and two columns. It finds code 102 in row 2 and returns 25,000 from B2, the same row in the last column. The complete range A1:B3 supplies both sets of information.

Step 4: Conclusion The array form of LOOKUP uses two arguments to search the first row or first column of an ascending array and return the corresponding entry from its last row or last column.

Quick Tip to Solve: Count the array's rows and columns first: a wider array searches across, while a square or taller array searches down.

34. Explain various options available to a user to change the shape outline of a chart element to improve its visual appearance. [6 marks]

Solution:

Concept:

- Shape Outline controls the border or line of a selected chart element, such as the chart area, plot area, legend or a data series. Formatting outlines helps distinguish elements and makes the chart clearer.
- Select the required chart element, open Chart Tools, choose the Format tab and use Shape Outline in the Shape Styles group. The chosen setting applies to the selected element.

Step 1: Outline colour Theme Colours and Standard Colours offer a palette for changing the selected outline's colour. A theme colour coordinates the border with the workbook's overall colour scheme, while a standard colour allows a direct choice such as red or blue. For example, a darker outline can make a plotted series easier to distinguish against a light background. Automatic uses the default outline colour.

Step 2: More Outline Colours If the required colour is absent from the displayed palette, choose More Outline Colours. This opens a colour dialog from which additional standard colours or a custom colour may be selected. It allows the user to match an outline to a particular presentation or report colour. The selected colour changes the border of the element; its interior is controlled separately by Shape Fill.

Step 3: No Outline No Outline removes the selected element's border or line. For example, removing the outer border of the chart area can give a cleaner appearance when the chart is placed on a worksheet or report. It removes the outline formatting rather than deleting the selected chart element or its underlying data.

Step 4: Weight Weight changes the thickness of the line or border. The user can select a thin outline for a less prominent element or a thicker outline to emphasise an important series or boundary. More Lines provides additional line-formatting controls when the preset widths are insufficient. A suitable weight keeps the chart legible without allowing the border to dominate the data.

Step 5: Dashes Dashes changes the line pattern, for example to a solid, dotted, dashed or dash-dot style. Different patterns help distinguish chart lines even in a black-and-white printout. The user selects the pattern from the submenu; additional settings can be accessed through More Lines. For example, a dashed reference line can be distinguished from a solid actual-data line.

Step 6: Arrows, where applicable Arrows allows an appropriate line element to have an arrowhead style at its beginning or end, where that element supports arrows. More Arrows gives further controls over the arrowhead type and size. Arrowheads can indicate direction on an eligible line, but are not available as a meaningful border setting for every closed chart element. The user should first select the intended line and then choose the required arrow style.

Step 7: Conclusion The Shape Outline options include outline colours, More Outline Colours, No Outline, Weight, Dashes and, for eligible line elements, Arrows. Their careful use improves contrast, emphasis and readability of the chart.

Quick Tip to Solve: Select the exact chart element first, then choose its outline colour, thickness and line pattern from Shape Outline.