CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-7-2 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

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

Assertion (A) : At the time of dissolution of partnership firm, Realisation Account is prepared.

Reason (R) : When the firm is dissolved, its books of accounts are to be closed and the profit or loss arising on realisation of its assets and discharge of its liabilities is to be computed.

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

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

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

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

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

Solution:

Concept:

- On dissolution, a Realisation Account records the disposal of assets and settlement of external liabilities.
- The balance of Realisation Account is the realisation profit or loss, transferred to partners in their profit-sharing ratio.

Step 1: Judge Assertion (A) Assertion (A) is true. A Realisation Account is prepared when the partnership firm is dissolved to summarise the realisation transactions.

Step 2: Judge Reason (R) Reason (R) is true. Dissolution requires closure of the books and computation of the profit or loss resulting from realisation of assets and discharge of liabilities.

Step 3: Check the explanatory link The need to compute that profit or loss is precisely why the Realisation Account is prepared. Thus the reason directly explains the assertion; option (B) misses this link, while (C) and (D) incorrectly call one statement false.

Step 4: Conclusion Both statements are true, and R correctly explains A. The correct option is (A).

Quick Tip to Solve: For an assertion-reason item, test the explanatory link after testing both statements.

2. Lily Ltd. forfeited 1,000 shares of Rs 100 each issued at a premium of 10% on which application money of Rs 40 per share had been paid. Out of these, 500 shares were reissued as fully paid up for Rs 80 per share. The amount transferred to the Capital Reserve Account was : [1 mark]

(A) Rs 40,000

(B) Rs 10,000

(C) Rs 30,000

(D) Nil

Correct Answer: (B) Rs 10,000

Solution:

Concept:

- Capital reserve equals the forfeited amount relating to shares reissued less the discount allowed on their reissue.
- Only the forfeiture balance attributable to reissued shares is transferred; the balance for unreissued shares remains in Share Forfeiture Account.

Step 1: Identify the forfeiture attributable to reissued shares The capital amount received is Rs 40 per share. For the 500 shares reissued, the available forfeiture is $500 \times 40 = \text{Rs } 20,000$. The issue premium does not increase this capital receipt.

Step 2: Deduct the reissue discount The fully paid value is Rs 100 and the reissue price is Rs 80. Hence discount is $500(100 - 80) = \text{Rs } 10,000$. The surplus is $20,000 - 10,000 = \text{Rs } 10,000$. Rs 40,000 uses all forfeited shares without allowing discount; Rs 30,000 also includes unreissued shares, and nil ignores the positive surplus.

Step 3: Conclusion Rs 10,000 is transferred to Capital Reserve Account. The correct option is (B).

Quick Tip to Solve: Match the forfeiture receipt and reissue discount to the same number of reissued shares.

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3. Roshni Ltd. issued 6,000, 8% Debentures of Rs 100 each at Rs 96 per debenture. On issue of these debentures, 8% Debentures Account was credited by : [1 mark]

(A) Rs 8,00,000

(B) Rs 6,00,000

(C) Rs 10,00,000

(D) Rs 9,60,000

Correct Answer: (B) Rs 6,00,000

Solution:

Concept:

- Debentures Account is credited with the nominal or face value of the debentures issued.
- The issue price determines the bank receipt; any shortfall below face value is discount on issue.

Step 1: Compute the nominal liability There are 6,000 debentures of Rs 100 each. Thus the credit to 8% Debentures Account is $6,000 \times 100 = \text{Rs } 6,00,000$. The coupon rate determines interest and does not alter the principal liability.

Step 2: Distinguish the cash proceeds Cash proceeds are $6,000 \times 96 = \text{Rs } 5,76,000$, with discount of $6,000 \times 4 = \text{Rs } 24,000$. These together equal the nominal liability. Rs 8,00,000, Rs 10,00,000 and Rs 9,60,000 therefore cannot represent the face value of the given issue.

Step 3: Conclusion The Debentures Account is credited by Rs 6,00,000. The correct option is (B).

Quick Tip to Solve: For the credit to Debentures Account, multiply quantity by face value, never by issue price.

4(a). Reema and Leena were partners in a firm, sharing profits and losses in the ratio of 4 : 1. On 1st April, 2024, Maya was admitted as a new partner for 1/4th share in the profits of the firm. Maya was guaranteed a minimum profit of Rs 1,20,000. Any deficiency on this account was be borne by Reema and Leena in the ratio of 3 : 2. During the year ended 31st March, 2025, the firm earned a net profit of Rs 4,00,000. The amount of deficiency borne by Leena will be : [1 mark]

(A) Rs 10,000

(B) Rs 8,000

(C) Rs 4,000

(D) Rs 12,000

Correct Answer: (B) Rs 8,000

Solution:

Concept:

- The guaranteed partner first receives the normal share of profit; any shortfall from the guarantee is a deficiency.
- The deficiency is borne in the specifically agreed ratio, even if that differs from the old profit-sharing ratio.

Step 1: Find Maya's deficiency Mayaś normal profit share is $4,00,000 \times \frac{1}{4} = \text{Rs } 1,00,000$. Her guaranteed minimum is Rs 1,20,000, so the deficiency is $1,20,000 - 1,00,000 = \text{Rs } 20,000$.

Step 2: Allocate the deficiency Reema and Leena bear this deficiency in the specified ratio $3 : 2$. Leena therefore bears $20,000 \times \frac{2}{5} = \text{Rs } 8,000$. Rs 4,000 incorrectly uses the old ratio; Rs 12,000 is Reemaś burden, and Rs 10,000 incorrectly splits the deficiency equally.

Step 3: Conclusion The deficiency borne by Leena is Rs 8,000. The correct option is (B).

Quick Tip to Solve: Use the special deficiency-bearing ratio only after finding the guaranteed partner's shortfall.

OR

4(b). Gautam and Sunita were partners in a firm, sharing profits and losses in the ratio of 3 : 1. Their capitals were Rs 5,00,000 and Rs 2,00,000 respectively. On 1st April, 2025, they admitted Namita as a new partner in the firm for 1/4th share in the future profits. Namita brought Rs 3,00,000 as her capital. The goodwill of the firm on Namita's admission was : [1 mark]

(A) Rs 2,00,000

(B) Rs 12,00,000

(C) Rs 50,000

(D) Rs 3,00,000

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

Solution:

Concept:

- Total capital implied by an incoming partner equals her capital divided by her share of future profits.
- Hidden goodwill is the excess of the implied total capital over the actual aggregate capitals after admission.

Step 1: Find the implied total capital Namita brings Rs 3,00,000 for a $\frac{1}{4}$ share. Hence the implied capital of the whole firm is $3,00,000 \div \frac{1}{4} = \text{Rs } 12,00,000$. This amount includes the implied goodwill value.

Step 2: Compare with actual aggregate capital Actual total capital after admission is $5,00,000 + 2,00,000 + 3,00,000 = \text{Rs } 10,00,000$. Hidden goodwill is $12,00,000 - 10,00,000 = \text{Rs } 2,00,000$. Rs 12,00,000 is the implied total capital, Rs 50,000 is only Namitaś share of goodwill, and Rs 3,00,000 is her capital contribution.

Step 3: Conclusion Goodwill of the firm is Rs 2,00,000. The correct option is (A).

Quick Tip to Solve: Subtract all partners' actual capitals, including the new partner's, from the implied total capital.

5. Kartik and Yogesh were partners in a firm, sharing profits and losses in the ratio of 2 : 1. Their capitals were Rs 6,00,000 and Rs 4,00,000 respectively. Interest on capital is allowed @ 8% p.a. The firm earned a profit of Rs 60,000 for the year ended 31st March, 2025. Interest on capital credited to the partners will be : [1 mark]

(A) Kartik Rs 36,000; and Yogesh Rs 24,000

(B) Kartik Rs 30,000; and Yogesh Rs 30,000

(C) Kartik Rs 40,000; and Yogesh Rs 20,000

(D) Kartik Rs 48,000; and Yogesh Rs 32,000

Correct Answer: (A) Kartik Rs 36,000; and Yogesh Rs 24,000

Solution:

Concept:

- Interest on capital is an appropriation of profit unless the agreement expressly makes it a charge.
- When profit is insufficient, available profit is distributed in the ratio of the interest on capital due.

Step 1: Calculate the interest due Kartiḱ s annual interest is $6,00,000 \times 8\% =$ Rs $48,000$, and Yogeshś is $4,00,000 \times 8\% =$ Rs $32,000$. Total interest is Rs 80,000, exceeding the available profit of Rs 60,000.

Step 2: Restrict the credit to available profit The interest ratio is $48,000 : 32,000 = 3 : 2$. Thus Kartik receives $60,000 \times \frac{3}{5} =$ Rs $36,000$ and Yogesh receives $60,000 \times \frac{2}{5} =$ Rs $24,000$. Equal division ignores capital; the 2:1 division uses the profit-sharing ratio, while Rs 48,000 and Rs 32,000 exceed available profit.

Step 3: Conclusion Kartik is credited Rs 36,000 and Yogesh Rs 24,000. The correct option is (A).

Quick Tip to Solve: When profit cannot cover interest, scale both interest entitlements by the same fraction.

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6. Hina, Sia and Anu were partners in a firm, sharing profits and losses in the ratio of 2 : 3 : 4. The firm was dissolved on 31st March, 2025. Hina was appointed to look after the dissolution work for which she was allowed a remuneration of Rs 30,000. Hina agreed to bear realisation expenses. Actual realisation expenses amounted to Rs 35,000, which were paid by Hina. For realisation expenses, the Realisation Account will be debited by : [1 mark]

(A) Rs 30,000

(B) Rs 5,000

(C) Rs 65,000

(D) Rs 35,000

Correct Answer: (A) Rs 30,000

Solution:

Concept:

- When a partner agrees to bear realisation expenses for an agreed remuneration, the firm debits Realisation Account with that remuneration.
- Actual expenses paid personally by that partner are not separately recorded in the firmś books.

Step 1: Identify the firm's obligation Hina is allowed remuneration of Rs 30,000 for carrying out dissolution and bearing the realisation expenses. Hence the firmś debit to Realisation Account is the agreed remuneration of Rs 30,000.

Step 2: Distinguish Hina's personal payment Hina actually pays Rs 35,000 herself, as she had agreed to bear these expenses. No separate entry for this payment is made in the firmś books. Rs 5,000 is her personal excess expense, Rs 65,000 double counts the expense and remuneration, and Rs 35,000 substitutes her actual payment for the agreed liability.

Step 3: Conclusion Realisation Account is debited by Rs 30,000. The correct option is (A).

Quick Tip to Solve: First identify who bears the expense; personal payment by the bearer creates no firm expense entry.

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7. The debentures which can be transferred by the way of delivery and the company does not keep any record of the debentures holders are called _____ debentures. [1 mark]

(A) Secured

(B) Redeemable

(C) Bearer

(D) Unsecured

Correct Answer: (C) Bearer

Solution:

Concept:

- Bearer debentures are transferable by delivery, and ownership rests with the person holding the instrument.
- The company does not maintain a register of the holders of bearer debentures.

Step 1: Identify the transfer characteristic Transfer by mere delivery is the defining feature of bearer debentures. A purchaser becomes entitled through possession of the instrument, so the company does not record each successive holder.

Step 2: Eliminate the other classifications Secured and unsecured classify debentures according to whether assets provide security; neither describes the method of transfer. Redeemable describes whether repayment is due on agreed terms. Therefore none of these three terms captures the two characteristics in the question, whereas bearer does.

Step 3: Conclusion These are bearer debentures. The correct option is (C).

Quick Tip to Solve: Associate delivery and absence of a holders' register with bearer debentures.

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8. Glow Ltd. forfeited 900 equity shares of Rs 100 each for non-payment of second and final call of Rs 20 per share. These shares were reissued as fully paid up at maximum permissible discount as per Companies Act, 2013. The amount transferred to the Capital Reserve Account was : [1 mark]

(A) Rs 90,000

(B) Rs 72,000

(C) Rs 18,000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- The discount on reissue of forfeited shares cannot exceed the amount forfeited on those shares.
- Only the unused forfeiture balance after reissue discount is transferred to Capital Reserve.

Step 1: Calculate the amount forfeited Only the second and final call of Rs 20 remains unpaid on each Rs 100 share. The capital already received is $100 - 20 = \text{Rs } 80$ per share, so the forfeited balance is $900 \times 80 = \text{Rs } 72,000$.

Step 2: Apply the maximum discount At the maximum permissible discount, the full Rs 80 per share forfeiture is used against reissue discount. Thus capital reserve is $72,000 - 72,000 = 0$. The shares can be reissued at Rs 20 each as fully paid. Rs 90,000 is nominal capital; Rs 72,000 is the forfeiture before discount, and Rs 18,000 is the reissue cash receipt.

Step 3: Conclusion The amount transferred to Capital Reserve Account is nil. The correct option is (D).

Quick Tip to Solve: Maximum permissible reissue discount exhausts the related forfeiture balance, leaving no capital reserve.

9. Aarti, Nikita and Sakshi were partners in a firm, sharing profits and losses in the ratio of 2 : 3 : 5. Nikita retired. Her share of profit was taken up by Aarti and Sakshi in the ratio of 2 : 1. The new profit sharing ratio between Aarti and Sakshi will be : [1 mark]

(A) 2 : 3

(B) 3 : 2

(C) 2 : 5

(D) 2 : 1

Correct Answer: (A) 2 : 3

Solution:

Concept:

- New share equals old share plus the share gained from the retiring partner.
- The gaining ratio distributes only the retiring partner's share; it is not automatically the new profit sharing ratio.

Step 1: Find the gains Nikita's old share is $3/10$. Aarti gains $\frac{3}{10} \times \frac{2}{3} = \frac{1}{5}$, while Sakshi gains $\frac{3}{10} \times \frac{1}{3} = \frac{1}{10}$.

Step 2: Calculate the new shares Aarti's new share is $\frac{2}{10} + \frac{2}{10} = \frac{4}{10}$. Sakshi's new share is $\frac{5}{10} + \frac{1}{10} = \frac{6}{10}$. Thus the ratio is $4 : 6 = 2 : 3$. Option (B) reverses the partners; (C) ignores their gains, and (D) is merely the gaining ratio.

Step 3: Conclusion The new ratio of Aarti and Sakshi is $2 : 3$. Hence, the correct option is (A).

Quick Tip to Solve: Add each gain to the corresponding old share before simplifying the new ratio.

10(a). A portion of the uncalled capital reserved by a company to be called only in the event of winding up of the company, is called : [1 mark]

(A) Subscribed capital

(B) Reserve capital

(C) Called-up capital

(D) Unissued capital

Correct Answer: (B) Reserve capital

Solution:

Concept:

- Reserve capital is the portion of uncalled share capital that a company reserves to call only on winding up.
- Subscribed capital denotes capital subscribed by investors; called-up capital is the part already demanded by the company.

Step 1: Identify the defining condition The words "uncalled capital" and "only in the event of winding up" together describe reserve capital. This restriction on calling the amount is its distinguishing feature.

Step 2: Eliminate the other terms Subscribed capital, option (A), is not defined by a winding-up restriction. Called-up capital, option (C), has already been demanded and therefore is not the reserved uncalled portion. Unissued capital, option (D), has not been offered for subscription; it is different from uncalled capital on issued shares.

Step 3: Conclusion The portion described is reserve capital. Hence, the correct option is (B).

Quick Tip to Solve: Distinguish reserve capital (uncalled share capital) from capital reserve (a reserve from capital profits).

OR

10(b). Vani Ltd. purchased furniture of Rs 6,60,000 from Max Ltd. The payment was made by issue of 11% Debentures of Rs 100 each at a premium of 10%. The number of debentures issued in favour of Max Ltd. were : [1 mark]

(A) 60,000

(B) 6,600

(C) 6,000

(D) 1,000

Correct Answer: (C) 6,000

Solution:

Concept:

- Number of debentures equals purchase consideration divided by the issue price per debenture.
- Issue price equals face value plus premium; the coupon rate determines interest, not issue price.

Step 1: Determine the issue price Face value per debenture is Rs 100. A premium of 10% adds Rs 10, giving an issue price of $100 + 10 =$ Rs 110. The 11% rate describes annual interest on face value.

Step 2: Divide the consideration by the issue price

$$N = \frac{6,60,000}{110} = 6,000.$$

Check: $6,000 \times 110 = 6,60,000$. Option (B), 6,600, ignores the premium. Options (A), 60,000, and (D), 1,000, do not produce the purchase consideration at Rs 110 each.

Step 3: Conclusion Vani Ltd. issued $6,000$ debentures. Hence, the correct option is (C).

Quick Tip to Solve: For securities issued to a vendor, divide the amount payable by issue price, including premium.

11. Sara, Lalit and Divya were partners in a firm, sharing profits and losses in the ratio of 5 : 3 : 2. Sara's share of profit at the end of the year amounted to Rs 2,50,000. Divya's share in the profit was : [1 mark]

(A) Rs 1,00,000

(B) Rs 50,000

(C) Rs 25,000

(D) Rs 1,50,000

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

Solution:

Concept:

- Profit is distributed in the agreed profit sharing ratio.
- If one partner's share is known, another partner's share equals that amount multiplied by the ratio

of their respective ratio terms.

Step 1: Find profit per ratio unit The ratio $5 : 3 : 2$ has ten units. Sara's five units represent Rs 2,50,000, so one unit is $2,50,000/5 = \text{Rs } 50,000$.

Step 2: Find Divya's share and check Divya has two units, giving $2 \times 50,000 = \text{Rs } 1,00,000$. Total profit is Rs 5,00,000 and her fraction is $2/10$, confirming this amount. Option (B) is only one unit; (C) understates her entitlement, and (D) is Lalit's three-unit share.

Step 3: Conclusion Divya's share is Rs 1,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Use Divya's term divided by Sara's term directly: multiply the known profit share by 2/5.

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12. Prerna and Riya were partners in a firm, sharing profits and losses in the ratio of 4 : 3. Arun was admitted as a new partner for 1/5th share in the profits of the firm. Arun brought Rs 80,000 as his share for premium for goodwill and proportionate capital. The capitals of Prerna and Riya, after all adjustments, were Rs 2,50,000 and Rs 1,50,000 respectively. The capital brought in by Arun was : [1 mark]

(A) Rs 4,00,000

(B) Rs 1,00,000

(C) Rs 5,00,000

(D) Rs 80,000

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

Solution:

Concept:

- When capitals are proportionate, capital corresponds to each partner's new profit share.
- The old partners together retain $1 - 1/5 = 4/5$ of the profits; their adjusted capitals form the capital for that share.

Step 1: Identify the capital representing the remaining share Prerna and Riya's adjusted capitals total $2,50,000 + 1,50,000 = \text{Rs } 4,00,000$. This corresponds to their combined $4/5$ share after Arun's admission. The premium for goodwill is separate from capital.

Step 2: Calculate Arun's proportionate capital

$$\text{Total capital} = 4,00,000 \times \frac{5}{4} = \text{Rs } 5,00,000.$$

$$\text{Arun's capital} = 5,00,000 \times \frac{1}{5} = \text{Rs } 1,00,000.$$

Option (A) is the old partners' combined capital; (C) is total capital; (D) is the goodwill premium, not the proportionate capital.

Step 3: Conclusion Arun brings Rs 1,00,000 as capital. Hence, the correct option is (B).

Quick Tip to Solve: Treat adjusted old capitals as representing the remaining 4/5 share, then calculate the new partner's 1/5.

13. Farid, Madhur and Tarush were partners in a firm, sharing profits and losses in the ratio of 5 : 3 : 2. The firm closes its books on 31st March every year. Tarush died on 30th November, 2025. As per the partnership deed, the executors of the deceased partner are entitled to his share of the profits till the date of death, calculated on the basis of last year's profit. Profit for the year ended 31st March, 2025 was Rs 3,60,000. Tarush's share of profit was : [1 mark]

(A) Rs 2,40,000

(B) Rs 24,000

(C) Rs 48,000

(D) Rs 72,000

Correct Answer: (C) Rs 48,000

Solution:

Concept:

- Estimated profit up to death equals last year's annual profit multiplied by the elapsed fraction of the year.
- The deceased partner's entitlement is the estimated firm profit multiplied by his old profit share.

Step 1: Calculate the elapsed-period profit The period from 1st April, 2025 to 30th November, 2025 is eight months. Therefore, estimated firm profit is $3,60,000 \times \frac{8}{12} = \text{Rs } 2,40,000$.

Step 2: Apply Tarush's share Tarush's profit fraction is $2/(5+3+2) = 2/10$. His entitlement is $2,40,000 \times 2/10 = \text{Rs } 48,000$. Option (A) is the whole firm's interim profit; (D) is Tarush's full-year share. Option (B) uses only half the correct entitlement.

Step 3: Conclusion Tarush's share of profit is Rs 48,000. Hence, the correct option is (C).

Quick Tip to Solve: Count the months from the start of the accounting year, then apply the deceased partner's profit fraction.

14(a). Diksha, Madhav and Rohit were partners in a firm, sharing profits and losses in the ratio of 5 : 3 : 2. Rohit retired on 31st March, 2025. The balance in Rohit's capital account after making the necessary adjustments on account of reserves, revaluation of assets and reassessment of liabilities was Rs 4,30,000. Diksha and Madhav agreed to pay him Rs 5,00,000 in full settlement of his claim. Rohit's share of goodwill in the firm was : [1 mark]

(A) Rs 9,30,000

(B) Rs 70,000

(C) Rs 5,00,000

(D) Rs 3,50,000

Correct Answer: (B) Rs 70,000

Solution:

Concept:

- When the retiring partner receives more than his adjusted capital, the excess represents his share of goodwill.
- Use adjusted capital after reserves and revaluation, so those adjustments are not deducted again.

Step 1: Compare settlement with adjusted capital Rohit's adjusted capital is Rs 4,30,000. The partners agree to pay Rs 5,00,000 in full settlement. Since reserves and revaluation are already adjusted, the remaining excess is the goodwill entitlement.

Step 2: Calculate and distinguish the alternatives

$$\text{Rohit's goodwill share} = 5,00,000 - 4,30,000 = \text{Rs } 70,000.$$

Option (A) incorrectly adds the amounts; (C) is the total settlement. Dividing Rs 70,000 by his $2/10$ share yields Rs 3,50,000, option (D), which is the firm's goodwill rather than his share.

Step 3: Conclusion Rohit's share of goodwill is Rs 70,000. Hence, the correct option is (B).

Quick Tip to Solve: Subtract adjusted capital from the settlement first; divide by the retiring share only if firm goodwill is asked.

OR

14(b). Atul and Raj were partners in a firm, sharing profits and losses in the ratio of 4 : 3. Ira was admitted as a new partner for 1/4th share in the profits of the firm. Ira brought Rs 3,50,000 as her capital and Rs 1,00,000 as her share of goodwill premium. The value of firm's goodwill was : [1 mark]

(A) Rs 1,00,000

(B) Rs 4,50,000

(C) Rs 4,00,000

(D) Rs 25,000

Correct Answer: (C) Rs 4,00,000

Solution:

Concept:

- Premium brought by a new partner equals the firm's goodwill multiplied by the incoming partner's profit share.
- Capital introduced and goodwill premium are separate contributions; capital does not enter this calculation.

Step 1: Identify Ira's goodwill entitlement Ira pays Rs 1,00,000 as goodwill premium for a $1/4$ profit share. Thus Rs 1,00,000 represents one-quarter of the total goodwill. Her Rs 3,50,000 capital is not part of the goodwill premium.

Step 2: Gross up the premium

$$\text{Firm's goodwill} = \frac{1,00,000}{1/4} = \text{Rs } 4,00,000.$$

Option (A) is just Ira's premium; (B) incorrectly combines capital and premium. Option (D) multiplies by the new share instead of dividing, producing only a quarter of the premium.

Step 3: Conclusion The firm's goodwill is Rs 4,00,000. Hence, the correct option is (C).

Quick Tip to Solve: To recover whole-firm goodwill, divide the new partner's premium by the fraction of profit acquired.

15(a). **Avi and Gita were partners in a firm, sharing profits and losses in the ratio of 2 : 1. They admitted Suhaan as a new partner for 1/4th share in the profits of the firm. Suhaan acquired his share from Avi and Gita in the ratio of 1 : 2. The new profit sharing ratio between Avi, Gita and Suhaan will be :** [1 mark]

(A) 2 : 1 : 1

(B) 1 : 2 : 1

(C) 1 : 1 : 1

(D) 7 : 2 : 3

Correct Answer: (D) 7 : 2 : 3

Solution:

Concept:

- An incoming partner's share is deducted from the old partners in the specified sacrificing ratio.
- New share equals old share minus sacrifice; all new shares must total one.

Step 1: Calculate individual sacrifices Suhaan acquires $1/4$ in the ratio $1 : 2$. Avi sacrifices $\frac{1}{4} \times \frac{1}{3} = \frac{1}{12}$ and Gita sacrifices $\frac{1}{4} \times \frac{2}{3} = \frac{1}{6}$. This ratio applies to the acquired share, not to their original holdings.

Step 2: Calculate the retained shares Avi retains $\frac{2}{3} - \frac{1}{12} = \frac{7}{12}$; Gita retains $\frac{1}{3} - \frac{1}{6} = \frac{2}{12}$; Suhaan has $\frac{1}{4} = \frac{3}{12}$. Their sum is one. The new ratio is $7 : 2 : 3$. Options (A) and (B) do not match these sacrifices, and (C) would give Suhaan one-third instead of one-quarter.

Step 3: Conclusion The new ratio is $7 : 2 : 3$. Hence, the correct option is (D).

Quick Tip to Solve: First distribute the incoming 1/4 share in 1:2, then subtract each sacrifice from the respective old share.

OR

15(b). **Anya and Shiv were partners in a firm, sharing profits and losses in the ratio of 4 : 1. They admitted Girish as a new partner in the firm. Anya sacrificed 1/4th of her share and Shiv sacrificed 1/10th of his share in favour of Girish. The new profit sharing ratio between Anya, Shiv and Girish will be :** [1 mark]

(A) 4 : 1 : 5

(B) 4 : 3 : 3

(C) 6 : 1 : 3

(D) 30 : 9 : 11

Correct Answer: (D) 30 : 9 : 11

Solution:

Concept:

- New share equals old share less sacrifice; a fraction of a partner's own share must first be multiplied by that old share.
- The incoming partner receives the total sacrifice of the existing partners.

Step 1: Calculate the sacrifices Anya's sacrifice is $\frac{1}{4} \times \frac{4}{5} = \frac{1}{5} = \frac{10}{50}$. Shiv's sacrifice is $\frac{1}{10} \times \frac{1}{5} = \frac{1}{50}$. Hence Girish receives $\frac{11}{50}$.

Step 2: Calculate the new shares and compare options Anya retains $\frac{4}{5} - \frac{1}{5} = \frac{3}{5} = \frac{30}{50}$; Shiv retains $\frac{1}{5} - \frac{1}{50} = \frac{9}{50}$. Their shares, together with Girish's, sum to one. Options (A), (B) and (C) do not give these three fractions when normalised.

Step 3: Conclusion The new ratio is $30 : 9 : 11$. Hence, the correct option is (D).

Quick Tip to Solve: Convert each sacrifice into a fraction of total profits before subtracting it from the old share.

16(a). Kamya, Inaya and Lokesh were partners in a firm, sharing profits and losses in the ratio of 3 : 2 : 4. With effect from 1st April, 2025, they decided to share profits and losses in the ratio of 4 : 2 : 3. The goodwill of the firm was valued at Rs 9,00,000.

The necessary journal entry to show the effect of the above transaction will be : [1 mark]

(A) Kamya's Capital A/c ... Dr. 1,00,000

To Lokesh's Capital A/c 1,00,000

(B) Lokesh's Capital A/c ... Dr. 1,00,000

To Kamya's Capital A/c 1,00,000

(C) Kamya's Capital A/c ... Dr. 9,00,000

To Lokesh's Capital A/c 9,00,000

(D) Lokesh's Capital A/c ... Dr. 9,00,000

To Kamya's Capital A/c 9,00,000

Correct Answer: (A) Kamya's Capital A/c ... Dr. 1,00,000

To Lokesh's Capital A/c 1,00,000

Solution:

Concept:

- On a change in profit sharing ratio, gaining partners compensate sacrificing partners through their capital accounts.
- Compensation equals the goodwill of the firm multiplied by the share gained or sacrificed.

Step 1: Identify the gain and sacrifice Kamya gains $\frac{4}{9} - \frac{3}{9} = \frac{1}{9}$, Inaya's share remains $\frac{2}{9}$, and Lokesh sacrifices $\frac{4}{9} - \frac{3}{9} = \frac{1}{9}$. Compensation is Rs $9,00,000 \times \frac{1}{9} =$ Rs $1,00,000$.

Step 2: Record the adjustment Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2025	Kamya's Capital A/c Dr.		1,00,000	
	To Lokesh's Capital A/c			1,00,000
	(Being goodwill adjusted for change in ratio)			

Option (B) reverses the compensation; (C) and (D) use the whole goodwill instead of the one-ninth share.

Step 3: Conclusion Kamya's Capital Account is debited and Lokesh's Capital Account credited by Rs

1,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Compare each old share with its new share: debit the gainer and credit the sacrificer.

OR

16(b). Isha, Pallavi and Manoj were partners in a firm, sharing profits and losses in the ratio of 4 : 3 : 3. With effect from 1st April, 2025, they decided to share future profits in the ratio of 3 : 1 : 1. After revaluation of assets and reassessment of liabilities, revaluation account showed a loss of Rs 5,00,000. Isha's Capital Account will be debited by _____ due to the loss on revaluation. [1 mark]

(A) Rs 1,50,000

(B) Rs 2,00,000

(C) Rs 1,00,000

(D) Rs 5,00,000

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

Solution:

Concept:

- Revaluation profit or loss belongs to the partners in their old profit sharing ratio.
- A revaluation loss reduces capital and is therefore debited to the partners' capital accounts.

Step 1: Select the relevant ratio The loss arose from assets and liabilities existing before the change. Therefore use $4 : 3 : 3$, and not the future ratio $3 : 1 : 1$. Isha's old share is $\frac{4}{10}$.

Step 2: Calculate Isha's debit and check options Isha's debit is Rs $5,00,000 \times \frac{4}{10} =$ Rs $2,00,000$. Rs 1,50,000 is the share of each other partner; Rs 1,00,000 is not Isha's old-ratio share, while Rs 5,00,000 is the total loss of the firm.

Step 3: Conclusion Isha's Capital Account will be debited by Rs 2,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Use the old ratio for revaluation, even when a new future profit ratio is given.

17. The Capital Accounts of Nita and Ansh stood at Rs 4,00,000 and Rs 5,00,000 respectively, after the necessary adjustments in respect of drawings and net profits for the year ended 31st March, 2025. It was later discovered that interest on drawings @ 6% p.a. was not taken into account while calculating the net profit. The drawings of the partners had been : Nita Rs 20,000 drawn at the beginning of each quarter and Ansh Rs 8,000 drawn at the beginning of each half year. The profits for the year ended 31st March, 2025 amounted to Rs 2,00,000. The profit sharing ratio of Nita and Ansh was 1 : 1.

Pass the necessary adjustment entry. Show your working clearly. [3 marks]

Solution:

Concept:

- Interest on drawings is charged to the partner and increases the divisible profit of the firm.
- For equal drawings at the beginning of each quarter, average period is 7.5 months; at the beginning of each half year, it is 9 months.

Step 1: Compute omitted interest on drawings Nita withdrew Rs 20,000 on each of four occasions. The periods are 12, 9, 6 and 3 months, with an average of 7.5 months. Thus her charge is $80,000 \times \frac{6}{100} \times \frac{7.5}{12} = \text{Rs } 3,000$. Ansh withdrew Rs 8,000 twice, outstanding for 12 and 6 months. His charge is $16,000 \times \frac{6}{100} \times \frac{9}{12} = \text{Rs } 720$.

Step 2: Find the net capital adjustments Total omitted interest is $3,000 + 720 = \text{Rs } 3,720$. The additional divisible amount is credited equally: $3,720/2 = \text{Rs } 1,860$ each. Nita needs a debit of $3,000 - 1,860 = \text{Rs } 1,140$; Ansh needs a credit of $1,860 - 720 = \text{Rs } 1,140$. The Rs 2,00,000 profit has already been distributed, so only the net correction is required.

Step 3: Pass the adjustment entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2025	Nita's Capital A/c Dr.		1,140	
	To Ansh's Capital A/c			1,140
	(Being omitted interest on drawings adjusted through capitals)			

The corrected capital balances become Rs 3,98,860 and Rs 5,01,140 respectively; their combined capital remains unchanged.

Step 4: Conclusion Debit Nita's Capital Account and credit Ansh's Capital Account by Rs 1,140.

Quick Tip to Solve: Charge each partner with interest, credit both with their profit shares, then journalise only the net difference.

18. Madhur, Alok and Tushar were partners in a firm, sharing profits and losses in the ratio of 2 : 1 : 1. Alok died on 30th June, 2022. After all the necessary adjustments, his Capital Account showed a credit balance of Rs 9,70,000. Alok's executors were paid Rs 70,000 cash on 1st July, 2022 and the balance amount to be paid in three equal yearly instalments starting from 30th June, 2023 with interest @ 6% p.a. on the unpaid amount. The firm closes its books on 31st March every year.

Prepare Alok's Executor's Account till 31st March, 2024. [3 marks]

Solution:

Concept:

- After the immediate payment, the outstanding principal is repaid in three equal annual instalments; interest is additional.
- Interest is computed at 6% per annum on unpaid principal and accrued at each 31 March year end.

Step 1: Calculate principal and interest Principal remaining on 1 July 2022 is $9,70,000 - 70,000 =$ Rs $9,00,000$. Each annual principal instalment is $9,00,000/3 =$ Rs $3,00,000$. Interest to 31 March 2023 is $9,00,000 \times 6\% \times 9/12 =$ Rs $40,500$. The next three months add Rs 13,500, so the first annual payment is $3,00,000 + 54,000 =$ Rs $3,54,000$. Thereafter principal is Rs 6,00,000, whose nine-month interest to 31 March 2024 is Rs 27,000. Accrued interest is not treated as fresh principal.

Step 2: Prepare the account for 2022-23 Alok's Executor's Account (Dr. on left; Cr. on right)

Particulars	Amount (Rs)	Particulars	Amount (Rs)
1 Jul 2022 To Bank	70,000	1 Jul 2022 By Alok's Capital	9,70,000
31 Mar 2023 To Balance c/d	9,40,500	31 Mar 2023 By Interest	40,500
Total	10,10,500	Total	10,10,500

Step 3: Prepare the account for 2023-24 Alok's Executor's Account (Dr. on left; Cr. on right)

Particulars	Amount (Rs)	Particulars	Amount (Rs)
30 Jun 2023 To Bank	3,54,000	1 Apr 2023 By Balance b/d	9,40,500
31 Mar 2024 To Balance c/d	6,27,000	30 Jun 2023 By Interest	13,500
		31 Mar 2024 By Interest	27,000
Total	9,81,000	Total	9,81,000

The closing credit balance includes Rs 6,00,000 principal and Rs 27,000 interest accrued since the first instalment. The second instalment is due only on 30 June 2024, beyond the required date.

Step 4: Conclusion Alok's Executor's Account has a credit balance of Rs 6,27,000 on 31 March 2024.

Quick Tip to Solve: Split interest at each 31 March and each instalment date; reduce principal only when an instalment is paid.

19(a). Vidur and Kavita were partners in a firm. Their capitals were Rs 5,00,000 and Rs 4,00,000 respectively. The business earned average profits of Rs 1,20,000 during the last few years. The normal rate of return in a similar business is 10%. Calculate the value of goodwill of the firm by capitalisation of super-profits method. [3 marks]

Solution:

Concept:

- Normal profit equals capital employed multiplied by the normal rate of return.

- Super profit equals average profit less normal profit. Goodwill under capitalisation of super profits is super profit multiplied by 100 divided by the normal return percentage.

Step 1: Determine capital employed The partners' capitals represent the capital employed in the business. Therefore,

$$\text{Capital employed} = 5,00,000 + 4,00,000 = \text{Rs } 9,00,000.$$

These capitals are combined because the normal return is earned on the firm's total investment, rather than separately valuing goodwill for each partner.

Step 2: Calculate normal profit and super profit At a normal rate of 10%, the expected annual return is

$$\text{Normal profit} = 9,00,000 \times \frac{10}{100} = \text{Rs } 90,000.$$

Actual average annual profit is Rs 1,20,000. Thus

$$\text{Super profit} = 1,20,000 - 90,000 = \text{Rs } 30,000.$$

Only the excess over a normal return is capitalised as goodwill.

Step 3: Capitalise the super profit

$$\text{Goodwill} = \frac{\text{Super profit} \times 100}{\text{Normal rate (percent)}} = \frac{30,000 \times 100}{10} = \text{Rs } 3,00,000.$$

A capital amount of Rs 3,00,000 earns Rs 30,000 annually at 10%, which checks the calculation. Equivalently, capitalising total average profit gives Rs 12,00,000, and subtracting actual capital employed of Rs 9,00,000 produces the same value.

Step 4: Conclusion The goodwill of the firm by capitalisation of super profits is Rs 3,00,000.

Quick Tip to Solve: Calculate normal profit on both partners' combined capitals before capitalising only the excess profit.

OR

19(b). The books of partners Nitish and Anshul showed that their capital employed on 31st March, 2025 was Rs 5,00,000. The average profit of the last five years was Rs 60,000. The normal rate of return in a similar business is 10%. Calculate the value of goodwill of the firm on the basis of capitalisation of average profit method. [3 marks]

Solution:

Concept:

- Under the capitalisation of average profits method, the capitalised value of the business is the capital that would earn its average profit at the normal rate of return.
- Goodwill equals capitalised value less actual capital employed. The normal rate is converted into a fraction by dividing the percentage by 100.

Step 1: Identify the relevant profit and capital The average profit of the last five years is already given as Rs 60,000; it is not necessary to total or average the profits again. Actual capital employed on 31st March, 2025 is Rs 5,00,000, and the normal rate of return is 10%. Both partners together constitute the firm, so the supplied firm capital is used without any further allocation between Nitish and Anshul.

Step 2: Capitalise average profit

$$\begin{aligned}\text{Capitalised value} &= \frac{\text{Average profit} \times 100}{\text{Normal rate (\%)}} \\ &= \frac{60,000 \times 100}{10} = \text{Rs } 6,00,000.\end{aligned}$$

This is the capital required by a comparable business to earn Rs 60,000 at the normal return.

Step 3: Deduct actual capital employed

$$\text{Goodwill} = 6,00,000 - 5,00,000 = \text{Rs } 1,00,000.$$

As a check, actual capital earns normal profit of Rs 50,000, leaving super profit of Rs 10,000; capitalising that excess at 10% also gives Rs 1,00,000.

Step 4: Conclusion The value of goodwill of the firm is $\boxed{\text{Rs } 1,00,000}$.

Quick Tip to Solve: Capitalise the given average profit first; deduct actual capital only after finding the capitalised value.

20(a). Mallika Ltd. took over assets of Rs 40,00,000 and liabilities of Rs 4,00,000 of Pari Ltd. for a purchase consideration of Rs 45,00,000. The payment of the purchase consideration was made by issue of 11% Debentures of Rs 100 each at a discount of 10% to Pari Ltd..

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

Solution:

Concept:

- Goodwill on acquisition is purchase consideration less net identifiable assets acquired. Net assets equal assets taken over less liabilities assumed.
- Debentures settle the vendor at their issue price. Discount on issue is debited separately, while the Debentures Account is credited with the full nominal value.

Step 1: Calculate goodwill and debentures

$$\begin{aligned}\text{Net assets} &= 40,00,000 - 4,00,000 = \text{Rs } 36,00,000, \\ \text{Goodwill} &= 45,00,000 - 36,00,000 = \text{Rs } 9,00,000, \\ \text{Issue price per debenture} &= 100 - 10 = \text{Rs } 90, \\ \text{Number issued} &= 45,00,000/90 = 50,000.\end{aligned}$$

Thus the nominal debenture liability is Rs 50,00,000 and the discount is Rs 5,00,000. The 11% coupon does not determine the issue price.

Step 2: Record acquisition of the business Journal of Mallika Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Pari Ltd. (Being business acquired and purchase consideration payable to Pari Ltd.)		40,00,000 9,00,000	 4,00,000 45,00,000

Step 3: Settle the purchase consideration Journal of Mallika Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Pari Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 11% Debentures A/c (Being 50,000 debentures of Rs 100 each issued at a discount of 10% to discharge purchase consideration)		45,00,000 5,00,000	 50,00,000

The vendor is discharged by the issue proceeds, whereas the company recognises the contractual nominal amount as its debenture liability.

Step 4: Conclusion Goodwill is Rs 9,00,000; issue 50,000 debentures with nominal value Rs 50,00,000 and discount Rs 5,00,000.

Quick Tip to Solve: Divide the vendor balance by Rs 90, the issue price; Rs 100 is used only for the nominal liability.

OR

20(b). Utsav Ltd. issued Rs 50,00,000, 9% Debentures of Rs 100 each on 1st April, 2024 at a premium of 10%. Give necessary journal entries in the books of Utsav Ltd. relating to debenture interest for the year ending 31st March, 2025, assuming that the interest was paid half-yearly on 30th September and 31st March every year. [3 marks]

Solution:

Concept:

- Debenture interest is calculated on nominal value at the stated coupon rate, irrespective of the premium received on issue.
- Interest is an expense: debit Debenture Interest when due, credit the debentureholders, and debit their account when payment is made. Transfer the annual expense to Statement of Profit and Loss.

Step 1: Compute each half-yearly payment

$$\text{Annual interest} = 50,00,000 \times \frac{9}{100} = \text{Rs } 4,50,000,$$
$$\text{Half-yearly interest} = 4,50,000 \times \frac{6}{12} = \text{Rs } 2,25,000.$$

The debentures were issued on 1st April, 2024, so both periods cover six complete months. The 10% premium affects issue proceeds but does not increase the amount on which coupon interest is calculated. The question gives no tax deduction requirement.

Step 2: Record interest due and paid Journal of Utsav Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-9-2024	Debenture Interest A/c Dr.		2,25,000	
	To Debentureholders A/c			2,25,000
	(Being half-yearly interest due)			
30-9-2024	Debentureholders A/c Dr.		2,25,000	
	To Bank A/c			2,25,000
	(Being half-yearly interest paid)			
31-3-2025	Debenture Interest A/c Dr.		2,25,000	
	To Debentureholders A/c			2,25,000
	(Being half-yearly interest due)			
31-3-2025	Debentureholders A/c Dr.		2,25,000	
	To Bank A/c			2,25,000
	(Being half-yearly interest paid)			

Step 3: Transfer the annual expense Journal of Utsav Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2025	Statement of Profit and Loss Dr.		4,50,000	
	To Debenture Interest A/c			4,50,000
	(Being annual debenture interest transferred to Statement of Profit and Loss)			

The transfer closes the expense account. Both half-yearly liabilities have been discharged, leaving no interest payable at year-end.

Step 4: Conclusion Interest of Rs 2,25,000 is due and paid on each of 30th September, 2024 and 31st March, 2025; total expense is Rs 4,50,000.

Quick Tip to Solve: Ignore the premium when calculating coupon interest; take half of the annual interest for each six-month period.

21. Pass necessary journal entries in the books of Style Ltd. for the issue of debentures in the following cases :

(i) Issued 3,000, 9% Debentures of Rs 100 each at a discount of 5%, redeemable at a premium of 5% after 6 years.

(ii) Issued 5,000, 8% Debentures of Rs 100 each at a premium of 5%, redeemable at a premium of 10% after 6 years. [4 marks]

Solution:

Concept:

- Debentures are credited with their face value. Bank is debited with the actual issue proceeds; an issue premium is credited to Securities Premium Account.
- Loss on Issue of Debentures includes the discount allowed on issue and the premium payable on redemption. Premium on Redemption of Debentures Account is credited when the debentures are issued.

Step 1: (i) Issue at discount, redeemable at premium Face value is $3,000 \times 100 = \text{Rs } 3,00,000$. Issue discount is $3,00,000 \times 5\% = \text{Rs } 15,000$, so cash received is Rs 2,85,000. Redemption premium is also Rs 15,000. Thus the total loss on issue is $15,000 + 15,000 = \text{Rs } 30,000$.

Journal of Style Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,85,000	
	Loss on Issue of Debentures A/c Dr.		30,000	
	To 9% Debentures A/c			3,00,000
	To Premium on Redemption of Debentures A/c			15,000
	(Being 3,000 debentures issued at 5% discount, redeemable at 5% premium after six years)			

Step 2: (ii) Issue at premium, redeemable at premium Face value is $5,000 \times 100 = \text{Rs } 5,00,000$. Issue premium is $5,00,000 \times 5\% = \text{Rs } 25,000$, so cash received is Rs 5,25,000. Redemption premium is $5,00,000 \times 10\% = \text{Rs } 50,000$. This future premium is recorded as loss on issue at the date of issue.

Journal of Style Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		5,25,000	
	Loss on Issue of Debentures A/c Dr.		50,000	
	To 8% Debentures A/c			5,00,000
	To Securities Premium A/c			25,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being 5,000 debentures issued at 5% premium, redeemable at 10% premium after six years)			

Step 3: Conclusion Issue proceeds are Rs 2,85,000 and Rs 5,25,000 respectively; the losses on issue are Rs 30,000 and Rs 50,000.

Quick Tip to Solve: Compute issue proceeds and redemption premium separately on face value before balancing each journal entry.

22. Pass necessary journal entries for the following transactions on the dissolution of the firm of Sanya and Manya after various assets (other than cash) and external liabilities have been transferred to Realisation Account :

(i) Machinery of the book value of Rs 90,000 was sold for Rs 1,00,000 through a broker who charged 4% commission.

(ii) Stock was worth Rs 52,000 out of which stock worth Rs 42,000 was taken over by Sanya at Rs 45,000 and the balance of the stock was sold for Rs 11,000.

(iii) Debtors of Rs 23,000 were sold to a debt collection agency who charged commission of Rs 1,500.

(iv) Furniture of Rs 49,000 was accepted by Manya against settlement of her loan of Rs 55,000.

[4 marks]

Solution:

Concept:

- Once assets have been transferred to Realisation Account, their sale proceeds or agreed takeover values are credited to Realisation; their book values are not credited again.
- Realisation expenses are debited to Realisation Account. A partner taking an asset is debited in her Capital Account; a loan settled by an asset is debited in the Loan Account.

Step 1: (i) Machinery sale and brokerage Commission is $1,00,000 \times 4\% = \text{Rs } 4,000$. Record the sale and the broker expense separately; the net increase in bank is Rs 96,000.

Journal of Sanya and Manya

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being machinery sold through broker)		1,00,000	 1,00,000
	Realisation A/c Dr. To Bank A/c (Being brokerage paid at 4% on sale)		4,000	 4,000

Step 2: (ii) Stock taken over and sold Sanya is charged the agreed value of Rs 45,000, rather than the book value of Rs 42,000. The balance stock has a book value of Rs 10,000 but is realised at Rs 11,000; only the proceeds are now recorded.

Journal of Sanya and Manya

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sanya's Capital A/c Dr. Bank A/c Dr. To Realisation A/c (Being stock taken over by Sanya and remaining stock sold)		45,000 11,000	 56,000

Step 3: (iii) Collection agency proceeds The agency retains Rs 1,500 from debtors of Rs 23,000, leaving net bank proceeds of Rs 21,500. Record gross realisation and the commission separately in a compound entry.

Journal of Sanya and Manya

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Realisation A/c Dr. To Realisation A/c (Being debtors realised through agency after commission)		21,500 1,500	 23,000

Step 4: (iv) Furniture in full settlement of loan Manya accepts the furniture against settlement of her entire Rs 55,000 loan. The asset is therefore realised at the agreed settlement value of Rs 55,000, irrespective of its book value of Rs 49,000. The loan is a partner loan and is settled through its own account.

Journal of Sanya and Manya

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Manya's Loan A/c Dr. To Realisation A/c (Being furniture accepted in full settlement of Manya's loan)		55,000	 55,000

Step 5: Conclusion Realisation is credited with gross asset proceeds and agreed takeover values, while brokerage and agency commission are debited to it; Manya's loan is fully discharged.

Quick Tip to Solve: After transfer to Realisation, use the sale or agreed settlement value, never repeat the original asset transfer.

23. Narmada Ltd. was registered with a capital of Rs 5,00,00,000 divided into 50,00,000 equity shares of Rs 10 each. On 1st April, 2025, the company offered to the public for subscription, 6,00,000 shares. Applications for 5,94,000 shares were received and allotment was made in full to all the applicants. A shareholder holding 8,000 shares failed to pay the second and final call of Rs 2 per share.

Answer the following questions on the basis of the above information : [6 marks]

23(i). The Issued Capital of Narmada Ltd. is : [1 mark]

(A) Rs 60,00,000

(B) Rs 5,00,00,000

(C) Rs 59,40,000

(D) Rs 6,00,000

Correct Answer: (A) Rs 60,00,000

Solution:

Concept:

- Issued capital is the face value of shares offered for subscription to the public.
- Authorised capital is the registered ceiling; subscribed capital relates only to the shares actually taken up.

Step 1: Identify the shares issued The company offered 6,00,000 shares at a face value of Rs 10 each. Hence issued capital is $6,00,000 \times 10 = \text{Rs } 60,00,000$.

Step 2: Check the other options Rs 5,00,00,000 is authorised capital, so (B) is not issued capital. Rs

59,40,000 equals the face value of 5,94,000 subscribed shares, so (C) measures subscribed capital. Rs 6,00,000 in (D) confuses the number of shares with their monetary face value. The later unpaid call does not change the number of shares issued.

Step 3: Conclusion Issued capital is Rs 60,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Multiply the number of shares offered, rather than shares applied for, by their face value.

23(ii). The amount of calls in arrears is : [1 mark]

(A) Rs 64,000

(B) Rs 80,000

(C) Rs 16,000

(D) Nil

Correct Answer: (C) Rs 16,000

Solution:

Concept:

- Calls in arrears are amounts called by the company but unpaid by shareholders.
- Use the defaulting shares multiplied by the unpaid amount per share, rather than their total face value.

Step 1: Calculate the unpaid call The shareholder defaults on 8,000 shares and owes Rs 2 on each. Therefore calls in arrears are $8,000 \times 2 = \text{Rs } 16,000$.

Step 2: Eliminate the alternatives Rs 80,000 in (B) is the face value of the defaulting shares, not the unpaid call. Rs 64,000 in (A) is the amount already paid on these shares at Rs 8 each. Nil in (D) is inconsistent with the explicit failure to pay the final call. Only the Rs 2 per share outstanding belongs in calls in arrears.

Step 3: Conclusion Calls in arrears amount to Rs 16,000. Hence, the correct option is (C).

Quick Tip to Solve: For call default, multiply the unpaid call per share by only the shares held by the defaulter.

23(iii). 'Subscribed and fully paid up capital' of Narmada Ltd. is : [1 mark]

(A) Rs 50,00,000

(B) Rs 58,60,000

(C) Rs 59,24,000

(D) Rs 59,40,000

Correct Answer: (B) Rs 58,60,000

Solution:

Concept:

- Subscribed and fully paid capital covers shares for which the whole called face value has been paid.

- Shares with unpaid calls are shown separately as subscribed but not fully paid; exclude those shares entirely when calculating the fully paid category.

Step 1: Count fully paid shares Of 5,94,000 allotted shares, 8,000 carry unpaid final calls. Fully paid shares therefore number $5,94,000 - 8,000 = 5,86,000$. At Rs 10 each their capital is $5,86,000 \times 10 =$ Rs $58,60,000$.

Step 2: Check the alternatives Rs 59,40,000 in (D) includes all subscribed shares at face value, including the defaulting shares. Rs 59,24,000 in (C) is total paid-up capital after deducting Rs 16,000 arrears from subscribed capital; it includes money paid on partly paid shares. Rs 50,00,000 in (A) does not equal the face value of the fully paid shares. Thus only (B) describes this category.

Step 3: Conclusion Subscribed and fully paid capital is Rs 58,60,000. Hence, the correct option is (B).

Quick Tip to Solve: Exclude the entire face value of defaulting shares from the fully paid category, not merely their arrears.

23(iv). 'Subscribed but not fully paid up capital' of Narmada Ltd. is : [1 mark]

(A) Rs 58,60,000

(B) Rs 64,000

(C) Rs 59,24,000

(D) Rs 16,000

Correct Answer: (B) Rs 64,000

Solution:

Concept:

- Subscribed but not fully paid-up capital is the amount actually paid on subscribed shares whose full face value remains unpaid.
- Calls in arrears represent the unpaid amount; they are distinct from the paid-up amount on the defaulting shares.

Step 1: Identify the partly paid shares The shareholder holding 8,000 shares has not paid the final call of Rs 2 per share. Each share has face value Rs 10, so the amount already paid on each of these shares is $10 - 2 =$ Rs 8.

Step 2: Calculate and compare the options The paid-up amount on these shares is $8,000 \times 8 =$ Rs $64,000$. Rs 16,000 is the unpaid call, Rs 58,60,000 belongs to the fully paid shares, and Rs 59,24,000 is the total paid-up share capital; none represents the requested category.

Step 3: Conclusion Subscribed but not fully paid-up capital is $\boxed{\text{Rs } 64,000}$. Hence, the correct option is (B).

Quick Tip to Solve: For partly paid shares, multiply their number by the amount actually received per share.

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

(A) Rs 58,60,000

(B) Rs 60,00,000

(C) Rs 59,24,000

(D) Rs 50,00,000

Correct Answer: (C) Rs 59,24,000

Solution:

Concept:

- The share capital amount presented in the Balance Sheet is subscribed called-up capital less calls in arrears.
- Authorised capital and issued capital provide disclosure limits; they do not replace the amount actually paid up.

Step 1: Find called-up capital and arrears All 5,94,000 subscribed shares have been called up to their full face value of Rs 10. Thus called-up capital is $5,94,000 \times 10 =$ Rs $59,40,000$. The unpaid final call is $8,000 \times 2 =$ Rs $16,000$.

Step 2: Determine the Balance Sheet amount Paid-up share capital is $59,40,000 - 16,000 =$ Rs $59,24,000$. Rs 60,00,000 is issued capital, Rs 58,60,000 excludes the paid amount on partly paid shares, and Rs 50,00,000 is not supported by the subscribed shares.

Step 3: Conclusion Share Capital in the Balance Sheet is $\boxed{\text{Rs } 59,24,000}$. Hence, the correct option is (C).

Quick Tip to Solve: Subtract only unpaid calls from called-up capital; do not remove the whole defaulting shareholding.

23(vi). If the shares of the defaulting shareholders are forfeited, 'Share Forfeiture Account' will be shown in the 'Notes to Accounts' at : [1 mark]

(A) Rs 8,000

(B) Rs 80,000

(C) Rs 16,000

(D) Rs 64,000

Correct Answer: (D) Rs 64,000

Solution:

Concept:

- On forfeiture, Share Forfeiture Account is credited with the amount already received towards share capital on the forfeited shares.
- Unpaid calls are cancelled separately; the face value of forfeited shares is not the forfeiture credit.

Step 1: Find the amount received per share The defaulting shareholder holds 8,000 equity shares of Rs 10 each and has not paid the final call of Rs 2. Amount received towards capital per share is

therefore $10 - 2 = \text{Rs } 8$.

Step 2: Compute the forfeiture balance The credit to Share Forfeiture Account is $8,000 \times 8 = \text{Rs } 64,000$. Rs 8,000 is only the number of shares, Rs 80,000 is their face value, and Rs 16,000 represents calls in arrears. None of these other figures is the amount received and forfeited.

Step 3: Conclusion Share Forfeiture Account will appear at $\boxed{\text{Rs } 64,000}$. Hence, the correct option is (D).

Quick Tip to Solve: For a forfeiture credit, take capital already received, excluding unpaid calls and any securities premium.

24(a). Rajat and Vidhi were partners in a firm, sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2025 was as follows :

Balance Sheet of Rajat and Vidhi as at 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Plant and Machinery	5,70,000
Rajat: 5,00,000		Furniture	3,30,000
Vidhi: 4,00,000	9,00,000	Debtors: 80,000	
General Reserve	50,000	Less: Provision for Doubtful Debts: 1,000	79,000
Bank Loan	70,000	Stock	49,000
Creditors	36,000	Cash	28,000
Total	10,56,000	Total	10,56,000

Nitin was admitted as a partner into the firm on 1st April, 2025 on the following terms :

(i) Nitin brought Rs 3,20,000 as his capital and Rs 1,00,000 as his share of goodwill premium, for 1/4th share in the profits of the firm. Rajat and Vidhi withdrew 50% of their share of goodwill.

(ii) Plant and Machinery was revalued at Rs 6,27,000.

(iii) Furniture was found overvalued by 10%.

(iv) A provision for doubtful debts was created @ 5% on debtors.

(v) Creditors were valued at Rs 40,000, as one bill for goods purchased was omitted from the books.

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

Solution:

Concept:

- Revaluation gains and losses, and accumulated reserves, belong to the old partners in their old profit-sharing ratio of $3 : 2$.
- In the absence of a different sacrifice arrangement, goodwill premium is credited to the old partners in their old ratio. Withdrawal reduces their capital balances.

Step 1: Calculate the revaluation adjustments Plant and Machinery appreciates by $6,27,000 - 5,70,000 = \text{Rs } 57,000$. Furniture decreases by $3,30,000 \times 10\% = \text{Rs } 33,000$. The required doubtful-debt provision is $80,000 \times 5\% = \text{Rs } 4,000$, so the additional expense is $4,000 - 1,000 = \text{Rs } 3,000$. Creditors increase by $40,000 - 36,000 = \text{Rs } 4,000$. The omitted purchase is charged through revalua-

tion; there is no separate instruction to increase closing stock.

Step 2: Prepare Revaluation Account Revaluation Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Furniture	33,000	By Plant and Machinery	57,000	
	To Provision for Doubtful Debts	3,000			
	To Creditors	4,000			
	To Rajat's Capital (profit)	10,200			
	To Vidhi's Capital (profit)	6,800			
	Total	57,000	Total	57,000	

The revaluation profit is $57,000 - 33,000 - 3,000 - 4,000 =$ Rs $17,000$, shared as $17,000 \times 3/5 =$ Rs $10,200$ to Rajat and $17,000 \times 2/5 =$ Rs $6,800$ to Vidhi. The account closes by transferring this profit to their capitals.

Step 3: Distribute reserve and goodwill premium General Reserve of Rs 50,000 is credited as Rs 30,000 to Rajat and Rs 20,000 to Vidhi. Nitin brings Rs 3,20,000 as capital and Rs 1,00,000 as goodwill premium. The premium is credited as Rs 60,000 and Rs 40,000 to Rajat and Vidhi respectively. Their withdrawals of 50% are Rs 30,000 and Rs 20,000. Nitin acquires $1/4$; the old partners retain $3/4$ in their old ratio, giving the new ratio $9 : 6 : 5$.

Step 4: Prepare Partners' Capital Accounts Partners' Capital Accounts (all amounts in Rs)

Rajat's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Cash	30,000	By Balance b/d	5,00,000	
	To Balance c/d	5,70,200	By General Reserve	30,000	
			By Revaluation	10,200	
			By Goodwill Premium	60,000	
	Total	6,00,200	Total	6,00,200	

Vidhi's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Cash	20,000	By Balance b/d	4,00,000	
	To Balance c/d	4,46,800	By General Reserve	20,000	
			By Revaluation	6,800	
			By Goodwill Premium	40,000	
	Total	4,66,800	Total	4,66,800	

Nitin's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Balance c/d	3,20,000	By Cash	3,20,000	
	Total	3,20,000	Total	3,20,000	

Rajat's capital is $5,00,000 + 30,000 + 10,200 + 60,000 - 30,000 =$ Rs $5,70,200$. Vidhi's capital is $4,00,000 + 20,000 + 6,800 + 40,000 - 20,000 =$ Rs $4,46,800$. Nitin's goodwill contribution belongs to the old partners, so his capital remains Rs 3,20,000.

Step 5: Conclusion Revaluation profit is $\boxed{\text{Rs } 17,000}$. Closing capitals are Rajat: $\boxed{\text{Rs } 5,70,200}$, Vidhi: $\boxed{\text{Rs } 4,46,800}$, and Nitin: $\boxed{\text{Rs } 3,20,000}$.

Quick Tip to Solve: Charge only the increase in doubtful-debt provision, then distribute reserve and revaluation profit before goodwill withdrawals.

OR

24(b). Abha, Binita and Rita were partners in a firm, sharing profits and losses in the ratio of 3 : 3 : 4. Their Balance Sheet as at 31st March, 2025 was as follows :

Balance Sheet of Abha, Binita and Rita as at 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals : Abha 5,00,000 Binita 4,00,000 Rita 3,00,000	12,00,000	Land and Building Plant and Machinery Stock	7,50,000 3,50,000 1,64,000
General Reserve	1,00,000	Debtors 90,000 Less : Provision for Doubtful Debts 2,000	88,000
Outstanding Expenses	80,000	Cash	48,000
Creditors	20,000		
	14,00,000		14,00,000

Rita retired on the above date and the following adjustments were agreed upon :

(i) Goodwill of the firm was valued at Rs 2,00,000.

(ii) Valued of stock was reduced by Rs 10,000.

(iii) Provision for doubtful debts was created @ 5% on debtors.

(iv) Provision for legal charges was made at Rs 7,500.

(v) Capital of the new firm was fixed at Rs 10,00,000. The continuing partners decided to keep their capitals in the new profit sharing ratio. For this, necessary cash was paid off or brought in, as the case may be.

(vi) Balance in Rita's capital account was transferred to her loan account.

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

Solution:

Concept:

- Revaluation gains and losses and accumulated reserves belong to all old partners in their old ratio, here $3:3:4$. Only the additional doubtful-debt provision is charged to revaluation.
- With no different agreement, the continuing partners share future profits in their old relative ratio, $3:3=1:1$. Their gains are $1/2-3/10=1/5$ each, so they compensate Rita equally for her goodwill share.

Step 1: Calculate revaluation loss Required provision on debtors $=90,000\times 5\%=$ Rs $4,500$. Existing provision is Rs 2,000, so the additional charge is Rs 2,500. Stock falls by Rs 10,000 and the new legal-charges liability is Rs 7,500.

$$\text{Revaluation loss}=10,000+2,500+7,500=\text{Rs } 20,000.$$

The loss is debited to Abha, Binita and Rita in the ratio $3:3:4$: Rs 6,000, Rs 6,000 and Rs 8,000,

respectively.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Stock	10,000	By Abha's Capital	6,000
To Provision for doubtful debts	2,500	By Binita's Capital	6,000
To Provision for legal charges	7,500	By Rita's Capital	8,000
Total	20,000	Total	20,000

Step 2: Adjust reserve and goodwill General reserve of Rs 1,00,000 is credited to the old partners in $3:3:4$: Abha Rs 30,000, Binita Rs 30,000 and Rita Rs 40,000. Rita's goodwill entitlement is

$$2,00,000 \times \frac{4}{10} = \text{Rs } 80,000.$$

Abha and Binita each gain $1/5$, so each capital account is debited by Rs 40,000 and Rita's capital is credited by Rs 80,000. Goodwill is adjusted through capitals; no goodwill asset is raised.

Step 3: Determine cash adjustments and Rita loan After these adjustments, Abha's capital is $5,00,000 + 30,000 - 6,000 - 40,000 =$ Rs $4,84,000$; Binita's is $4,00,000 + 30,000 - 6,000 - 40,000 =$ Rs $3,84,000$. The new total capital, Rs 10,00,000, is divided equally, so each must retain Rs 5,00,000. Abha brings in Rs 16,000 and Binita Rs 1,16,000. Rita's balance is $3,00,000 + 40,000 + 80,000 - 8,000 =$ Rs $4,12,000$, transferred to her loan account.

Step 4: Prepare the capital accounts Abha's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	6,000	By Balance b/d	5,00,000
To Rita's Capital	40,000	By General Reserve	30,000
To Balance c/d	5,00,000	By Cash	16,000
Total	5,46,000	Total	5,46,000

Binita's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	6,000	By Balance b/d	4,00,000
To Rita's Capital	40,000	By General Reserve	30,000
To Balance c/d	5,00,000	By Cash	1,16,000
Total	5,46,000	Total	5,46,000

Rita's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	8,000	By Balance b/d	3,00,000
To Rita's Loan	4,12,000	By General Reserve	40,000
		By Abha's Capital	40,000
		By Binita's Capital	40,000
Total	4,20,000	Total	4,20,000

Step 5: Conclusion Revaluation loss is Rs 20,000. Abha and Binita bring Rs 16,000 and Rs 1,16,000 respectively, leaving capitals of Rs 5,00,000 each. Rita receives a loan credit of Rs 4,12,000.

Quick Tip to Solve: Charge only the increase in doubtful-debt provision, then adjust goodwill before comparing continuing capitals with the new required capitals.

25. Dhruv, Ravi and Saurabh were partners in a firm, sharing profits and losses in the ratio of 2 : 3 : 3. With effect from 1st April, 2025, they decided to share future profits and losses in the ratio of 3 : 3 : 2. Their Balance Sheet as at 31st March, 2025 was as follows :

Balance Sheet of Dhruv, Ravi and Saurabh as at 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	3,00,000	Cash at Bank	60,000
Bank Loan	1,40,000	Sundry Debtors	1,20,000
General Reserve	1,60,000	Stock	1,40,000
Capitals :		Plant and Machinery	2,20,000
Dhruv 2,00,000 Ravi 1,60,000 Saurabh 1,40,000	5,00,000	Land and Building	5,60,000
	11,00,000		11,00,000

The following terms were agreed upon :

(i) The value of stock be reduced to Rs 1,30,000.

(ii) Land and Building were found undervalued by Rs 96,000.

(iii) A provision of 5% on sundry debtors was to be made for doubtful debts.

(iv) The goodwill of the firm was valued at two years purchase of average net profits of last four years. The profits of last four years were Rs 46,000, Rs 35,000, Rs 39,000 and Rs 40,000, respectively.

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

Solution:

Concept:

- On a change in profit-sharing ratio, accumulated reserve and revaluation profit are distributed in the old ratio $2:3:3$. Goodwill compensation is borne by a gaining partner and credited to a sacrificing partner.
- Average-profit goodwill equals average net profit multiplied by years of purchase. Only the change in a partnerś share determines goodwill compensation; the full goodwill is not distributed among every partner.

Step 1: Calculate goodwill and change in shares The average of the four annual profits is

$$\frac{46,000 + 35,000 + 39,000 + 40,000}{4} = \text{Rs } 40,000.$$

Goodwill $= 40,000 \times 2 = \text{Rs } 80,000$. Dhruv gains $3/8 - 2/8 = 1/8$, Ravi's share remains $3/8$, and Saurabh sacrifices $3/8 - 2/8 = 1/8$. Therefore Dhruv compensates Saurabh by $80,000 \times 1/8 = \text{Rs } 10,000$. Ravi receives and pays nothing for goodwill.

Step 2: Calculate revaluation and reserve shares Stock decreases by $1,40,000 - 1,30,000 = \text{Rs } 10,000$. Land and building increase by Rs 96,000. The new doubtful-debt provision is $1,20,000 \times 5\% =$

Rs $6,000$.

$$\text{Revaluation profit} = 96,000 - 10,000 - 6,000 = \text{Rs } 80,000.$$

Distributed in $2:3:3$, the profit credits are Rs 20,000, Rs 30,000 and Rs 30,000. The general reserve of Rs 1,60,000 is distributed in the same old ratio: Rs 40,000, Rs 60,000 and Rs 60,000. Both arose before the new sharing arrangement, so the new ratio must not be used for these distributions.

Step 3: Record the necessary journal entries Journal of Dhruv, Ravi and Saurabh

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Revaluation A/c Dr. To Stock A/c (Being stock reduced to Rs 1,30,000)		10,000	 10,000
1-4-2025	Land and Building A/c Dr. To Revaluation A/c (Being undervaluation of land and building corrected)		96,000	 96,000
1-4-2025	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (Being provision created at 5% of sundry debtors)		6,000	 6,000
1-4-2025	Revaluation A/c Dr. To Dhruv's Capital A/c To Ravi's Capital A/c To Saurabh's Capital A/c (Being revaluation profit distributed in old ratio 2:3:3)		80,000	 20,000 30,000 30,000
1-4-2025	General Reserve A/c Dr. To Dhruv's Capital A/c To Ravi's Capital A/c To Saurabh's Capital A/c (Being accumulated reserve distributed in old ratio)		1,60,000	 40,000 60,000 60,000
1-4-2025	Dhruv's Capital A/c Dr. To Saurabh's Capital A/c (Being goodwill compensation for a 1/8 gain and sacrifice)		10,000	 10,000

The goodwill adjustment transfers value directly between the gaining and sacrificing partners; it neither creates a goodwill asset nor affects the Revaluation Account.

Step 4: Conclusion Goodwill is Rs 80,000 and revaluation profit is Rs 80,000. Dhruv pays Rs 10,000 through capital adjustment to Saurabh; Ravi has no goodwill adjustment. Reserve and revaluation profit are credited in the old ratio 2:3:3.

Quick Tip to Solve: Write old and new fractions side by side: only Dhruv gains and Saurabh sacrifices, so Ravi must be absent from the goodwill entry.

26(a). Alpha Ltd. invited applications for issuing 90,000 equity shares of Rs 100 each at a premium of 10%. The amount was payable as follows :

On Application - Rs 20 per share

On Allotment - Rs 30 per share

On First and Final Call - Balance (including premium)

Applications for 1,20,000 shares were received. Applications for 10,000 shares were rejected and the application money was refunded. Shares were allotted on pro-rata basis to the remaining applicants. Excess money received on application was adjusted towards the amount due on allotment. Anant, who had applied for 1,100 shares failed to pay the allotment and the first and final call money. Mehak, to whom 900 shares were allotted failed to pay the first and final call. Anant's shares were forfeited.

Pass necessary journal entries for the above transactions in the books of Alpha Ltd.. Open 'Calls in Arrears Account', wherever necessary. [6 marks]

Solution:

Concept:

- Application money is transferred to share capital for allotted shares; excess application money is adjusted against allotment. The pro-rata ratio is allotted shares to eligible applications.
- On forfeiture, debit called-up share capital and any unpaid premium previously credited; credit unpaid calls and the capital amount already received to Share Forfeiture.

Step 1: Calculate allotment and defaults Eligible applications are $1,20,000 - 10,000 = 1,10,000$. The allotment ratio is $90,000 : 1,10,000 = 9 : 11$. Anant receives $1,100 \times 9/11 = 900$ shares. His application payment is Rs 22,000, of which Rs 18,000 is application capital and Rs 4,000 is adjusted against allotment. His unpaid allotment is $900 \times 30 - 4,000 =$ Rs $23,000$. Total excess application is $1,10,000 \times 20 - 90,000 \times 20 =$ Rs $4,00,000$. The call is $110 - 20 - 30 =$ Rs 60 per share, including Rs 10 premium. Anant and Mehak each owe Rs 54,000 on the call.

Step 2: Record application and allotment due Journal of Alpha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,20,000 shares)		24,00,000	 24,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Being applications adjusted and rejected applications refunded)		24,00,000	 18,00,000 4,00,000 2,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment money due on 90,000 shares)		27,00,000	 27,00,000

Step 3: Record receipts and the final call Journal of Alpha Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share Allotment A/c (Being balance allotment received except from Anant)		22,77,000 23,000	 23,00,000
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium A/c (Being call of Rs 60 due, including Rs 10 premium)		54,00,000	 45,00,000 9,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being call received except on 1,800 shares)		52,92,000 1,08,000	 54,00,000

Step 4: Forfeit shares and check remaining arrears Journal of Alpha Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being Anant's 900 shares forfeited for non-payment)		90,000 9,000	 77,000 22,000

Anant owes Rs $23,000 + 54,000 = 77,000$. Capital received on his shares is Rs 22,000 because all money actually received was towards capital; premium was due only on the final call. After forfeiture, Calls in Arrears retains only Mehak's unpaid call of Rs 54,000.

Step 5: Conclusion Anant's 900 shares are forfeited: Share Capital is debited Rs 90,000, Securities Premium Rs 9,000, Calls in Arrears credited Rs 77,000 and Share Forfeiture Rs 22,000. Remaining calls in arrears are Rs 54,000.

Quick Tip to Solve: Use the 9:11 allotment ratio first, then deduct Anant's Rs 4,000 excess application from his allotment default.

OR

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

(i) Dharma Ltd. forfeited 600 shares of Rs 100 each, Rs 80 per share called up, issued at 10% premium (to be paid at the time of allotment) for non-payment of first call of Rs 20 per share. Out of these, 300 shares were reissued as Rs 80 paid up for Rs 60 per share.

(ii) Vikram Ltd. forfeited 1,000 shares of Rs 10 each issued at a premium of Rs 2 per share for non-payment of allotment money of Rs 4 per share (including premium) and first call of Rs 3 per share. The second and final call of Rs 1 per share was not made. The forfeited shares were reissued at Rs 7 per share fully paid up. [6 marks]

Solution:

Concept:

- Forfeiture cancels the called-up capital, reverses unpaid premium where credited, and transfers capital already received to Share Forfeiture.
- Reissue discount is debited to Share Forfeiture and cannot exceed the forfeited capital of the shares reissued. Only their remaining surplus goes to Capital Reserve.

Step 1: Case (i): compute amounts Dharma Ltd. has called capital of $600 \times 80 = \text{Rs } 48,000$. Unpaid first call is $600 \times 20 = \text{Rs } 12,000$, so capital received is Rs 36,000, or Rs 60 per share. Premium was payable on allotment and has been received; it is therefore not reversed. For 300 reissued shares, the paid-up capital credited is $300 \times 80 = \text{Rs } 24,000$; bank receives Rs 18,000 and reissue discount is Rs 6,000. The forfeiture attributable to them is $300 \times 60 = \text{Rs } 18,000$, giving capital reserve Rs 12,000.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c (Being 600 shares forfeited for unpaid first call)		48,000	 12,000 36,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 300 shares reissued as Rs 80 paid at Rs 60)		18,000 6,000	 24,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissued shares transferred to reserve)		12,000	 12,000

Step 3: Case (ii): compute amounts Vikram Ltd. has called only Rs 9 capital per share, since the last Rs 1 call was never made. Allotment of Rs 4 includes Rs 2 premium and Rs 2 capital. With first call Rs 3 unpaid, capital received is $9 - 2 - 3 = \text{Rs } 4$ per share. Hence capital cancelled is Rs 9,000 and forfeiture is Rs 4,000. The unpaid premium of Rs 2,000 is reversed. Reissue as fully paid requires crediting Rs 10,000 share capital; Rs 7,000 cash and Rs 3,000 forfeiture discount provide that amount. Reserve is $4,000 - 3,000 = \text{Rs } 1,000$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share First Call A/c To Share Forfeiture A/c (Being 1,000 shares forfeited for unpaid allotment and call)		9,000 2,000	 4,000 3,000 4,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 1,000 shares reissued fully paid at Rs 7)		7,000 3,000	 10,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue transferred to capital reserve)		1,000	 1,000

Step 5: Conclusion Dharma Ltd. transfers Rs 12,000 to Capital Reserve and retains Rs 18,000 forfeiture relating to 300 unreissued shares. Vikram Ltd. transfers Rs 1,000 to Capital Reserve.

Quick Tip to Solve: Distinguish capital called at forfeiture from capital credited on reissue: Vikram cancels Rs 9 but reissues as Rs 10 fully paid.

Part B (20 marks)

Option I

(Analysis of Financial Statements)

27. The Quick Ratio of Seerat Ltd. is 2 : 1. Which of the following transactions will reduce the quick ratio ? [1 mark]

(A) Payment of Outstanding Salaries

(B) Purchase of Goods for Cash

(C) Sale of Goods (at a loss) for Cash

(D) Cash Received from Trade Receivables

Correct Answer: (B) Purchase of Goods for Cash

Solution:

Concept:

- Quick ratio equals quick assets divided by current liabilities. Inventory is excluded from quick assets; cash and trade receivables are included.
- Test the effect on both numerator and denominator rather than treating all cash payments alike.

Step 1: Identify the reducing transaction Purchasing goods for cash reduces cash, a quick asset, and increases inventory, which is not a quick asset. Current liabilities do not change. Thus the numerator

falls while the denominator stays fixed, reducing the ratio below $2:1$.

Step 2: Check the other choices Payment of outstanding salaries reduces quick assets and current liabilities equally. With quick assets $2L$, paying x gives $(2L-x)/(L-x) > 2$, so (A) increases the ratio. Cash sale of inventory, even at a loss, increases cash without changing current liabilities; the inventory removed was already excluded, so (C) increases the ratio. Collection from receivables replaces one quick asset with another; (D) leaves the ratio unchanged.

Step 3: Conclusion The correct option is (B): Purchase of Goods for Cash.

Quick Tip to Solve: Exclude inventory first: exchanging cash for stock reduces quick assets without reducing current liabilities.

28. Statement I : Separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise.

Statement II : Financing transactions that do not require the use of cash or cash equivalents should be included in a cash flow statement.

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

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

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

(C) Both the Statements are true.

(D) Both the Statements are false.

Correct Answer: (A) Statement I is true and Statement II is false.

Solution:

Concept:

- Financing activities change owners' capital or borrowings. Their separate cash-flow disclosure helps users assess future claims by providers of funds.
- A cash flow statement reports movements of cash and cash equivalents; non-cash financing and investing transactions are disclosed separately.

Step 1: Evaluate Statement I Statement I is true. Capital providers may claim future dividends and lenders may claim interest and repayment. Showing financing cash flows separately helps readers assess funding raised or repaid and anticipate such future claims on the enterprise's cash resources.

Step 2: Evaluate Statement II and compare options Statement II is false. A financing transaction with no use of cash or cash equivalents does not enter the cash flow statement; for example, converting debt into equity changes financing balances but produces no cash flow. Such transactions are disclosed elsewhere in the financial statements. Therefore (B), which reverses the truth values, is wrong; (C) wrongly accepts Statement II and (D) wrongly rejects Statement I.

Step 3: Conclusion Statement I is true and Statement II is false. The correct option is (A).

Quick Tip to Solve: Ask whether cash or cash equivalents moved before including any financing transaction in the cash flow statement.

29(a). Which of the following is a financing activity for the purpose of preparing a cash flow statement ? [1 mark]

(A) Cash purchases

(B) Receipt of rent

(C) Interest paid on long-term borrowings

(D) Income tax paid

Correct Answer: (C) Interest paid on long-term borrowings

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings.
- For a non-financial enterprise, interest paid on borrowings is a financing cash outflow.

Step 1: Identify the financing payment Interest paid on long-term borrowings is the cost of obtaining borrowed finance. Accordingly, the actual cash payment is classified under financing activities in the cash flow statement.

Step 2: Check the other choices Cash purchases of goods are operating payments. Receipt of rent is generally an investing receipt for a non-financial enterprise. Income tax paid is normally an operating outflow unless specifically identified with an investing or financing transaction; no such identification is given here.

Step 3: Conclusion Interest paid on long-term borrowings is a financing activity. Hence, the correct option is (C).

Quick Tip to Solve: Link interest on borrowed capital with financing before comparing the other cash payments.

OR

29(b). Which of the following transactions will result in the cash flows from operating activities ? [1 mark]

(A) Interim dividend paid on equity shares

(B) Employee benefit expenses paid

(C) Proceeds from sale of patents

(D) Redemption of preference shares

Correct Answer: (B) Employee benefit expenses paid

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Cash payments to employees arise from the ordinary operations of the business.

Step 1: Identify the operating outflow Employee benefit expenses paid are cash payments for

employees' services used in running the business. They are therefore cash outflows from operating activities.

Step 2: Eliminate the other choices Interim dividend paid on equity shares is a financing outflow. Proceeds from the sale of patents are an investing inflow because patents are non-current intangible assets. Redemption of preference shares reduces share capital and is a financing outflow. None of these is a cash flow from operating activities.

Step 3: Conclusion Employee benefit expenses paid result in cash flows from operating activities. Hence, the correct option is (B).

Quick Tip to Solve: Payments for employees belong to normal operations; dividends and redemption concern finance.

30(a). The tool of analysis of financial statements which indicates the trend and direction of financial position and operating results is : [1 mark]

(A) Ratio Analysis

(B) Cash Flow Analysis

(C) Common Size Statement

(D) Comparative Statement

Correct Answer: (D) Comparative Statement

Solution:

Concept:

- Comparative statements place financial figures for different periods side by side.
- They disclose absolute changes and percentage changes, showing the direction of performance and financial position.

Step 1: Match the description with the tool A comparative statement compares corresponding items of financial statements for two or more periods. Increases and decreases in amounts and percentages indicate the trend and direction of the enterprise's financial position and operating results.

Step 2: Distinguish the remaining tools Ratio analysis studies relationships between selected figures. Cash flow analysis explains cash inflows and outflows by activity. A common size statement expresses items as percentages of a common base and primarily shows their relative composition.

Step 3: Conclusion The required tool is the Comparative Statement. Hence, the correct option is (D).

Quick Tip to Solve: Use comparative statements for changes across years and common size statements for proportions.

OR

30(b). The statement which expresses all items of a financial statement as a percentage of some common base is : [1 mark]

(A) Statement of Profit and Loss

(B) Position Statement

(C) Common Size Statement

(D) Comparative Statement

Correct Answer: (C) Common Size Statement

Solution:

Concept:

- A common size statement expresses each item as a percentage of a common base.
- The base is normally revenue from operations for profit and loss, and total assets or total equity and liabilities for the balance sheet.

Step 1: Apply the definition In a common size statement, each amount is divided by the chosen common base and multiplied by 100. The common base is shown as 100%, allowing the relative size of every item to be compared.

Step 2: Rule out the other statements A Statement of Profit and Loss reports income, expenses and profit in monetary amounts. A Position Statement is a balance sheet showing assets, equity and liabilities. A Comparative Statement focuses on changes between periods. These titles do not by themselves mean that every item is expressed as a percentage of a common base.

Step 3: Conclusion The statement is a Common Size Statement. Hence, the correct option is (C).

Quick Tip to Solve: The words percentage of a common base identify common size analysis immediately.

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

(i) Unclaimed dividend

(ii) Vehicles

(iii) Prepaid insurance [3 marks]

Solution:

Concept:

- Classification depends on the nature of the item and its expected settlement or use.
- A current liability is an obligation payable in the normal operating cycle or within the current period; a non-current asset provides continuing use.

Step 1: Classify unclaimed dividend Unclaimed dividend is a dividend already payable to shareholders but not yet collected. It remains a company obligation. Show it under the major head Current Liabilities and the sub-head Other Current Liabilities. It is not a reserve because it is no longer an

undistributed profit available to the company.

Step 2: Classify vehicles Vehicles used in the business are physical assets held for continuing use rather than sale in the ordinary course. Show them under Non-current Assets, within Property, Plant and Equipment (the tangible fixed assets category). Vehicles are depreciable assets; their nature, rather than the timing of their original purchase, determines this classification.

Step 3: Classify prepaid insurance Prepaid insurance represents an insurance payment for coverage relating to a future accounting period. The unexpired portion is an asset because the company will receive future insurance service. Show it under Current Assets and the sub-head Other Current Assets; it is not an expense of the current period to the extent it remains prepaid.

Step 4: Conclusion Unclaimed dividend: Current Liabilities – Other Current Liabilities. Vehicles: Non-current Assets – Property, Plant and Equipment (Tangible Assets). Prepaid insurance: Current Assets – Other Current Assets.

Quick Tip to Solve: Ask whether the item is an unpaid obligation, a durable physical asset, or a prepaid service.

32. From the following Statement of Profit and Loss of Horizon Ltd., for the year ended 31st March, 2025, prepare a Common Size Statement of Profit and Loss :

Particulars	Note No.	2024 - 25	2023 - 24
Revenue from operations		Rs 20,00,000	Rs 10,00,000
Cost of materials consumed		Rs 10,00,000	Rs 5,00,000
Employee benefit expenses		Rs 5,00,000	Rs 2,50,000
Income Tax Rate		40%	30%

[3 marks]

Solution:

Concept:

- For each year, common size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$.
- Profit before tax equals revenue less expenses; tax is calculated on profit before tax, not directly on revenue.

Step 1: Calculate profit and tax For 2024–25, total expenses are Rs 10,00,000 + Rs 5,00,000 = Rs 15,00,000. Profit before tax is Rs 20,00,000 - Rs 15,00,000 = Rs 5,00,000. Tax is $40\% \times 5,00,000 =$ Rs $2,00,000$, leaving profit after tax of Rs 3,00,000.

For 2023–24, total expenses are Rs 5,00,000 + Rs 2,50,000 = Rs 7,50,000. Profit before tax is Rs 10,00,000 - Rs 7,50,000 = Rs 2,50,000. Tax is $30\% \times 2,50,000 =$ Rs $75,000$, leaving profit after tax of Rs 1,75,000.

Step 2: Prepare the common size statement Horizon Ltd. – Common Size Statement of Profit and Loss for the year ended 31st March, 2025

Particulars	2024–25 Rs	2023–24 Rs	2024–25 %	2023–24 %
Revenue from operations	20,00,000	10,00,000	100	100
Total revenue	20,00,000	10,00,000	100	100
Expenses:				
Cost of materials consumed	10,00,000	5,00,000	50	50
Employee benefit expenses	5,00,000	2,50,000	25	25
Total expenses	15,00,000	7,50,000	75	75
Profit before tax	5,00,000	2,50,000	25	25
Less: Tax expense	2,00,000	75,000	10	7.5
Profit after tax	3,00,000	1,75,000	15	17.5

For example, the current-year tax percentage is $2,00,000/20,00,000 \times 100 = 10\%$. The previous-year tax percentage is $75,000/10,00,000 \times 100 = 7.5\%$.

Step 3: Conclusion Profit before tax is 25% of revenue in both years. Profit after tax is 15% in 2024–25 and 17.5% in 2023–24.

Quick Tip to Solve: Calculate the rupee tax on profit first; then divide that tax amount by revenue to find its common size percentage.

33(a). From the following information, calculate 'Return on Investment (ROI)' :

Net Profit after Interest and Tax Rs 7,00,000; Current Assets Rs 6,00,000; Current Liabilities Rs 2,00,000; Tax Rate 30%; Non-Current Assets Rs 21,00,000; and 10% Long-term Debt Rs 20,00,000.

[4 marks]

Solution:

Concept:

- Return on investment measures profit before interest and tax relative to capital employed: $\text{ROI} = \dfrac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100$.
- Capital employed is non-current assets plus working capital. Interest is added back because ROI measures the return available to all long-term providers of funds.

Step 1: Recover profit before tax The given net profit of Rs 7,00,000 is after both interest and tax. With a tax rate of 30%, this is 70% of profit before tax:

$$\text{Profit before tax} = \frac{7,00,000 \times 100}{70} = \text{Rs } 10,00,000.$$

Tax is therefore Rs 3,00,000. Dividing by the retained percentage reverses the tax deduction; adding 30% of the after-tax profit would not recover pre-tax profit.

Step 2: Find profit before interest and tax Annual interest on the long-term debt is:

$$\text{Interest} = 20,00,000 \times \frac{10}{100} = \text{Rs } 2,00,000.$$

This expense has already reduced profit before tax, so add it back:

$$\text{PBIT} = 10,00,000 + 2,00,000 = \text{Rs } 12,00,000.$$

Profit before interest and tax is the appropriate numerator because capital employed includes both owners' funds and long-term borrowings.

Step 3: Determine capital employed and calculate ROI Working capital is $6,00,000 - 2,00,000 =$ Rs $4,00,000$. Therefore:

$$\begin{aligned}\text{Capital employed} &= 21,00,000 + 4,00,000\\ &= \text{Rs } 25,00,000,\\ \text{ROI} &= \frac{12,00,000}{25,00,000} \times 100 = 48\%.\end{aligned}$$

Current liabilities are deducted because they provide short-term finance, while ROI relates operating profit to long-term capital employed. No further deduction of long-term debt is required from this asset-based measure.

Step 4: Conclusion Return on Investment is $\boxed{48\%}$.

Quick Tip to Solve: Divide after-tax profit by 0.70, add debt interest, and divide by non-current assets plus net current assets.

OR

33(b). From the following information calculate :

(i) Debt Equity Ratio

(ii) Debt to Capital Employed Ratio

Equity Share Capital Rs 8,00,000; Preference Share Capital Rs 2,50,000; General Reserve Rs 90,000; Surplus i.e. Balance in Statement of Profit and Loss Rs 60,000; Non-Current Liabilities Rs 6,00,000; Current Liabilities Rs 2,00,000; and Current Assets Rs 4,00,000. [4 marks]

Solution:

Concept:

- Debt equity ratio is $\frac{\text{Long-term debt}}{\text{Shareholders' funds}}$. Debt to capital employed ratio is $\frac{\text{Long-term debt}}{\text{Capital employed}}$.
- Shareholders' funds include equity capital, preference capital and reserves and surplus. Capital employed equals shareholders' funds plus non-current liabilities; current liabilities are excluded from long-term debt for these ratios.

Step 1: Calculate shareholders' funds Both equity and preference share capital are owners' funds.

General reserve and the surplus in the Statement of Profit and Loss are also included:

$$\begin{aligned}\text{Shareholders' funds} &= 8,00,000 + 2,50,000 \\ &\quad + 90,000 + 60,000 \\ &= \text{Rs } 12,00,000.\end{aligned}$$

Preference share capital remains part of shareholders' funds despite its fixed dividend rate.

Step 2: Calculate debt equity ratio Long-term debt equals the given non-current liabilities, Rs 6,00,000. Current liabilities of Rs 2,00,000 are not included in this numerator:

$$\text{Debt equity ratio} = \frac{6,00,000}{12,00,000} = 0.5 : 1.$$

Each rupee of shareholders' funds supports fifty paise of long-term debt. Current assets are unnecessary here.

Step 3: Calculate capital employed and the second ratio Add long-term debt to shareholders' funds:

$$\begin{aligned}\text{Capital employed} &= 12,00,000 + 6,00,000 \\ &= \text{Rs } 18,00,000, \\ \text{Debt to capital employed ratio} &= \frac{6,00,000}{18,00,000} \\ &= \frac{1}{3} = 0.333\ldots : 1.\end{aligned}$$

The denominator includes debt and shareholders' funds. This ratio shows the fraction of long-term capital financed by debt.

Step 4: Conclusion (i) Debt Equity Ratio is $\boxed{0.5 : 1}$. (ii) Debt to Capital Employed Ratio is $\boxed{1 : 3}$, or approximately $0.33 : 1$.

Quick Tip to Solve: Include preference capital and both reserves in owners' funds; add long-term debt only when forming capital employed.

34. From the following particulars of Prateek Ltd., calculate the 'Cash Flows from Investing Activities'. Show your working clearly :

Particulars	31.03.2025 (Rs)	31.03.2024 (Rs)
Machinery (At Cost)	5,80,000	4,00,000
Accumulated Depreciation	68,000	56,000
Investments	1,20,000	1,00,000
Goodwill	2,30,000	2,40,000

Additional information :

(i) A machine having a book value of Rs 1,80,000 was sold for Rs 1,65,000.

(ii) Depreciation charged on the machine during the year was Rs 50,000.

(iii) Investments costing Rs 80,000 were purchased and some investments were sold at a profit of Rs 6,000.

(iv) Interest received on investments was Rs 10,000. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire machinery and investments and cash received from their sale. For a non-financial company, interest received on investments is also an investing inflow.
- Original cost of a machine sold equals its book value plus the accumulated depreciation attached to it. Depreciation, loss on disposal and goodwill written off are non-cash items.

Step 1: Determine depreciation on the machine sold The accumulated depreciation balance changes because depreciation is charged during the year and the depreciation relating to the disposed machine is removed. Hence:

$$\begin{aligned}\text{Depreciation on machine sold} &= 56,000 + 50,000 - 68,000 \\ &= \text{Rs } 38,000.\end{aligned}$$

The Rs 50,000 given is the depreciation charge for the year. The closing accumulated depreciation is not itself the annual charge.

Step 2: Calculate machinery purchased The machine's book value is Rs 1,80,000, so its original cost includes the accumulated depreciation removed on disposal:

$$\begin{aligned}\text{Cost of machine sold} &= 1,80,000 + 38,000 \\ &= \text{Rs } 2,18,000. \\ \text{Machinery purchased} &= 5,80,000 - 4,00,000 + 2,18,000 \\ &= \text{Rs } 3,98,000.\end{aligned}$$

The cash sale proceeds are Rs 1,65,000. The loss of Rs 15,000, being book value less proceeds, is not a separate investing cash flow.

Step 3: Calculate investment sale proceeds and consider goodwill Investments purchased cost Rs

80,000. Using opening and closing investment balances:

$$\begin{aligned}\text{Cost of investments sold} &= 1,00,000 + 80,000 - 1,20,000\\ &= \text{Rs } 60,000.\\ \text{Sale proceeds} &= 60,000 + 6,000\\ &= \text{Rs } 66,000.\end{aligned}$$

Add the profit to the cost to obtain the cash received. Interest received, Rs 10,000, is an investing receipt. The decrease in goodwill from Rs 2,40,000 to Rs 2,30,000 represents goodwill written off, with no cash receipt or payment stated, and is excluded from investing cash flows.

Step 4: Prepare the investing section Cash Flows from Investing Activities of Prateek Ltd. for the year ended 31 March 2025

Particulars	Amount (Rs)
Proceeds from sale of machinery	1,65,000
Proceeds from sale of investments	66,000
Interest received on investments	10,000
Total cash inflows	2,41,000
Purchase of machinery	(3,98,000)
Purchase of investments	(80,000)
Total cash outflows	(4,78,000)
Net cash used in investing activities	(2,37,000)

The inflows aggregate to Rs 2,41,000 and the outflows aggregate to Rs 4,78,000. Parentheses indicate payments or net cash used.

Step 5: Conclusion Net cash used in investing activities is Rs 2,37,000 (negative cash flow).

Quick Tip to Solve: Reconstruct the cost of machinery sold from its book value and removed depreciation before finding purchases.

Option II (Computerised Accounting)

27(a). From the following, identify the chart that displays data in rings, where each ring represents a data series : [1 mark]

(A) Doughnut chart

(B) Radar chart

(C) Pie chart

(D) Both (B) and (C)

Correct Answer: (A) Doughnut chart

Solution:

Concept:

- A doughnut chart displays data as rings; each ring represents one data series.
- A pie chart represents a single series as sectors, whereas a radar chart uses radial axes.

Step 1: Identify the stated display The decisive clues are rings and one data series per ring. In a

doughnut chart, a series is divided into segments within a ring, and further series can be shown in additional rings.

Step 2: Check the alternatives A radar chart plots values along axes radiating from a centre and does not use concentric data rings. A pie chart uses slices of a filled circle. Hence neither (B) nor (C), and therefore not their combination (D), describes the stated chart.

Step 3: Conclusion The correct option is (A): Doughnut chart.

Quick Tip to Solve: Associate multiple concentric rings with multiple series in a doughnut chart.

OR

27(b). 'LABELS' in MS Excel means : [1 mark]

(A) Information which can be treated mathematically

(B) A text or special character

(C) It is used for descriptive information of rows or columns

(D) Both (B) and (C)

Correct Answer: (D) Both (B) and (C)

Solution:

Concept:

- Labels are textual entries, including text or special characters, used to describe spreadsheet data.
- Row and column headings are common examples of labels; numerical values are used in mathematical calculations.

Step 1: Identify what a label contains A label is a text entry or a special character rather than a numerical value intended for arithmetic. Thus statement (B) describes the nature of a label.

Step 2: Identify its purpose and compare options Labels describe information, such as the names of rows or columns: Sales, Expenses or Month are examples. Therefore (C) is also correct. Option (A) describes data treated mathematically, not labels. Since both (B) and (C) apply, their combined option must be selected.

Step 3: Conclusion The correct option is (D): both the text-entry and descriptive-information statements.

Quick Tip to Solve: Check both the content and the descriptive purpose before choosing a combined option.

28. Which window will be used to change the system period on the screen in Tally from the following ? [1 mark]

(A) Alt + F1
(B) Alt + F2
(C) Alt + F4
(D) Alt + F6

Correct Answer: (B) Alt + F2

Solution:

Concept:

- Tally uses a period setting to specify the date range for reports and accounting information.
- The keyboard shortcut for changing the period is Alt + F2.

Step 1: Identify the requested command The question asks for changing the system period, meaning the start and end dates of the period displayed. This calls for the Change Period command, rather than a voucher-entry or company-selection command.

Step 2: Match the keyboard shortcut Alt + F2 opens the period-changing facility in Tally. The other combinations, Alt + F1, Alt + F4 and Alt + F6, do not represent the Change Period shortcut. Consequently the second listed option matches the requested function.

Step 3: Conclusion The correct option is (B): Alt + F2.

Quick Tip to Solve: Remember F2 for date and Alt + F2 for the reporting period in Tally.

29. Name the voucher which does not affect the accounts of the user. [1 mark]

(A) Post-Dated Voucher
(B) User-Defined Voucher
(C) Memo Voucher
(D) Contra Voucher

Correct Answer: (C) Memo Voucher

Solution:

Concept:

- A memo voucher records a provisional or memorandum transaction without affecting the books of accounts.
- A regular accounting voucher posts the relevant debit and credit effects to ledger accounts.

Step 1: Recognise the non-posting voucher A memo voucher is used to retain details of a transaction for reference or later confirmation. While it remains a memo voucher, it does not create an accounting effect in the user's books.

Step 2: Check the other choices A contra voucher records transfers between cash and bank accounts and therefore affects those accounts. User-defined vouchers may record accounting transactions, so they are not inherently non-posting. A post-dated voucher concerns the effective date of a transaction.

The voucher specifically characterised by having no accounting effect is the memo voucher.

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

Quick Tip to Solve: Use the clue no effect on accounts to identify the memorandum or memo voucher.

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

(A) Software is modified to meet user-specific needs

(B) Higher maintenance

(C) Increased data privacy and security

(D) No training required to use the software

Correct Answer: (D) No training required to use the software

Solution:

Concept:

- Customised accounting software is modified to suit an organisation's particular accounting requirements.
- Users need training to operate its specific functions and workflows correctly.

Step 1: Check the genuine features Modification to meet user-specific needs is the central feature of customised software, so (A) is a feature. Such software can require higher maintenance for its adaptations and can provide greater control over privacy and security, making (B) and (C) features as well.

Step 2: Identify the incorrect claim A customised package contains organisation-specific settings, procedures and reports. Staff must learn how to use these functions and enter data correctly. Therefore the claim that no training is required is not a feature. The negative wording of the question requires selecting this incorrect claim.

Step 3: Conclusion The correct option is (D): No training required to use the software.

Quick Tip to Solve: Underline not, then eliminate the genuine features of a customised package.

OR

30(b). How many auto-formatting styles are available in MS Excel 2007 to give a spreadsheet a professional look ? [1 mark]

(A) 17

(B) 34

(C) 7

(D) 119

Correct Answer: (A) 17

Solution:

Concept:

- AutoFormat applies a predefined combination of number formats, fonts, borders, alignment and shading to a selected range.
- The textbook AutoFormat facility provides 17 preset styles for giving worksheet data a consistent professional appearance.

Step 1: Recall the number of preset formats The AutoFormat facility referred to in this question contains 17 predefined formatting styles. Choosing one applies its coordinated appearance to the selected worksheet range without formatting each individual cell separately.

Step 2: Compare the printed options The count 17 is listed in option (A). The other printed counts, 34, 7 and 119, do not give the number of AutoFormat styles specified for this facility.

Step 3: Conclusion There are 17 auto-formatting styles. Hence, the correct option is (A).

Quick Tip to Solve: Remember the AutoFormat count as 17; distinguish it from other Excel style galleries.

31. Explain any three advantages of conditional formatting in Computerised Accounting System. [3 marks]

Solution:

Concept:

- Conditional formatting changes a cell's appearance automatically when its value satisfies a specified rule.
- Rules can use limits, comparisons or formulae to highlight accounting information without changing the underlying figures.

Step 1: Identifies exceptions quickly It draws attention to unusual or important accounting values by applying a distinct colour, font or border. For example, overdue receivables or expenses exceeding a budget can be highlighted automatically. The accountant can identify the records requiring attention without checking every row manually.

Step 2: Makes comparison and analysis easier Different formats, colour scales or data bars help users distinguish high and low figures and recognise patterns. For example, a sales report can show branches performing above or below a target. This makes a large accounting statement easier to

interpret and supports timely managerial decisions.

Step 3: Updates the display automatically Once a rule has been set, the software evaluates it again when the relevant data changes. If an outstanding balance crosses a specified credit limit, its highlight changes accordingly. This reduces repetitive manual formatting, saves time and helps the displayed warnings remain consistent with the latest data.

Step 4: Conclusion Three advantages are quick identification of exceptions, easier comparison and analysis, and automatic updating of the visual presentation.

Quick Tip to Solve: State each advantage with an accounting example, such as overdue debtors or a budget limit.

32. Explain 'Chart of Accounts' in accounting software. [3 marks]

Solution:

Concept:

- A Chart of Accounts is the organised list of ledger accounts available in an accounting system.
- Accounts are classified under suitable groups so that transactions can be recorded consistently and financial statements can be prepared.

Step 1: Explain its meaning and contents The Chart of Accounts is the master list of accounts maintained by a business in its accounting software. Each ledger generally has an account name and a unique code or identifier. This permits the system to identify the correct account when a voucher or other transaction is entered. The list is designed to suit the nature and reporting requirements of the business.

Step 2: Explain the classification The accounts are arranged in appropriate categories such as assets, liabilities, capital or equity, income and expenses. Within these categories, subgroups may be created: for example, cash and bank under current assets, trade payables under current liabilities, and sales under revenue. Individual ledger accounts are placed within the relevant groups.

Step 3: Explain its use in processing and reporting The classification links detailed transaction recording with summarised reports. For example, a purchase of office stationery is posted to the stationery expense ledger rather than to an asset account. The software uses the account groups to compile the trial balance and the appropriate financial statements. A well-designed chart therefore promotes uniform recording and meaningful classification of financial information.

Step 4: Conclusion A Chart of Accounts is a systematically coded and grouped list of ledger accounts that forms the foundation for recording transactions and preparing accounting reports.

Quick Tip to Solve: Link the definition to account codes, account groups and the preparation of financial statements.

33(a). A business' data needs to be guarded from its competitors. Explain any two features of Computerised Accounting System that help a business to maintain its secrecy. [4 marks]

Solution:

Concept:

- Data secrecy means preventing unauthorised persons from viewing or obtaining confidential business information.
- Accounting software can protect confidential information through access restrictions and encryption.

Step 1: Password protection and controlled access A Computerised Accounting System can require a valid user name and password before a person is allowed to open company data. Separate user accounts and access rights can restrict each employee to the information needed for the assigned work. For example, a data-entry operator may be permitted to enter vouchers but denied access to confidential profit reports or payroll records. Keeping passwords confidential and restricting permissions prevents unauthorised employees or outsiders from easily obtaining commercially sensitive accounting information. Thus a competitor cannot simply open the company records without the required credentials.

Step 2: Data encryption Encryption converts readable accounting data into a coded form using an encryption method and a key. The protected data can be restored to readable form only by an authorised person with the appropriate key or password. Consequently, even if someone obtains a copy of an encrypted data file or intercepts it during transfer, the contents cannot readily be understood without decryption. This is useful for confidential information such as customer details, pricing, salaries and business results. The decryption key must itself be kept secure so that this protection remains effective.

Step 3: Conclusion Password-based access control restricts who can open or use the records, while encryption protects the readability of the confidential data. Together these features help maintain business secrecy.

Quick Tip to Solve: Explain how each feature prevents disclosure: passwords control access; encryption conceals the data.

OR

33(b). Internal margins are the distance between the text and the border of a chart element. Discuss various options available to increase or decrease these margins. [4 marks]

Solution:

Concept:

- Internal margins are the spaces inside a chart element between its text and its border. They control the room around the text without changing the accounting data represented by the chart.
- The four margins are Left, Right, Top and Bottom. Each can be adjusted separately through the text-box settings of the selected chart element.

Step 1: Open the internal-margin settings Select the chart element containing the text, such as a chart title or an axis title. Right-click it and open its Format dialogue or pane. Under the text-box settings (usually Text Options, Text Box), locate the Internal margins controls. Select the intended element before making changes so that another chart label is not affected.

Step 2: Adjust the horizontal margins **Left margin:** This specifies the distance between the left border and the text. Increase its value to move the text farther from the left border; decrease it to bring the text closer to that border.

Right margin: This specifies the distance between the text and the right border. Increase its value to leave more empty space on the right; decrease it to allow the text to extend closer to the right border. Increasing either horizontal margin reduces the width available for text within a fixed-size element and may cause text to wrap.

Step 3: Adjust the vertical margins **Top margin:** This sets the space between the top border and the text. Increasing it leaves more space above the text; decreasing it brings the text closer to the top border.

Bottom margin: This sets the space between the text and the bottom border. Increasing it leaves more space below the text; decreasing it brings the text closer to the bottom border. Use the increment/decrement arrows or enter a value directly, then check that the entire text remains visible and readable.

Step 4: Conclusion The Left, Right, Top and Bottom internal-margin options independently increase or decrease the space between the text and the corresponding border of the selected chart element.

Quick Tip to Solve: Name all four borders and explain the effect of increasing and decreasing each corresponding margin.

34. When does RATE function return #NUM! error ? Explain its syntax and significance. [6 marks]

Solution:

Concept:

- RATE determines the interest rate per payment period for an annuity: equal payments made at regular intervals. It uses the number of periods, periodic payment and present value, together with optional future-value and timing information.
- RATE uses successive numerical estimates. Failure of these estimates to converge produces the #NUM! error. The cash-flow signs and the time units must be consistent.

Step 1: State when the numerical error occurs RATE returns `#NUM!` when its successive results do not converge to within 0.0000001 after 20 iterations. The function starts from an estimated rate and repeatedly refines it; unsuitable cash-flow inputs or a poor initial guess may prevent convergence. Check the inputs and, if necessary, try another reasonable value for the guess argument.

Step 2: Write the syntax and explain the main arguments The syntax is:

```
=RATE(nper, pmt, pv, [fv], [type], [guess])
```

Square brackets indicate optional arguments; they are not typed in the formula.

nper: The total number of payment periods. For a loan repaid monthly over two years, it is 24.

pmt: The fixed payment made each period, normally comprising principal and interest. It remains constant throughout the annuity. If payment is omitted, future value must be supplied.

pv: The present value, or the current lump-sum value of the series of future payments; for a borrower, it is the loan amount received.

Step 3: Explain the optional arguments **fv:** The future value or balance required after the last payment. If omitted, it is taken as zero, as for a loan fully repaid at maturity.

type: The timing of payments. Use 0, or omit it, for payments at the end of each period; use 1 for payments at the beginning of each period.

guess: The initial estimate of the interest rate. If omitted, the default is 10%. Changing this estimate can help the iterative calculation converge.

Step 4: Explain its significance and correct interpretation RATE helps determine an unknown borrowing cost or investment return when the loan amount, instalments and repayment duration are known. It is useful for comparing financing arrangements on a common periodic basis. Amounts received and amounts paid must have opposite signs: for example, a borrower records the loan received as positive pv and the instalments paid as negative pmt.

The returned rate relates to one payment period. Thus monthly payments and nper measured in months produce a monthly interest rate. Multiplying that rate by 12 gives the nominal annual rate; the effective annual rate is $(1 + r)^{12} - 1$, where r is the monthly rate. Consistent time units prevent misinterpretation of the result.

Step 5: Conclusion RATE finds the periodic interest rate of an annuity from its payment and value information. It returns `#NUM!` if convergence to within 0.0000001 is not achieved after 20 iterations.

Quick Tip to Solve: Keep loan receipts and repayments opposite in sign, and identify the payment period before interpreting RATE's result.