CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-7-1 - 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(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:

- The adjusted capital balance is the retiring partner's claim before the separately implied goodwill adjustment.
- The excess of the agreed settlement over adjusted capital represents the retiring partner's share of goodwill.

Step 1: Identify the two components Rohit's adjusted capital is Rs 4,30,000, after reserves and revaluation adjustments. The agreed payment of Rs 5,00,000 settles this capital claim together with his goodwill entitlement.

Step 2: Calculate and compare the amounts

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

Adding the two balances gives Rs 9,30,000 and has no basis. Rs 5,00,000 is the total settlement, whereas Rs 3,50,000 would be the whole firm's goodwill, found by dividing Rs 70,000 by Rohit's old share of $2/10$. The question asks only for Rohit's 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; divide by the old profit share only if the whole firm's goodwill is asked.

OR

1(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:

- The premium brought for goodwill equals the new partner's share of the firm's total goodwill.
- If P is the goodwill premium and s is the incoming partner's profit share, total goodwill is P/s. Capital contribution is separate.

Step 1: Separate premium from capital Ira brings Rs 1,00,000 specifically as goodwill premium for a $1/4$ share. Her Rs 3,50,000 capital contribution is not added to this premium to value goodwill.

Step 2: Gross up the premium

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

Rs 1,00,000 is only Ira's share. Rs 4,50,000 adds capital and premium without justification; Rs 25,000 wrongly multiplies the premium by one-fourth instead of dividing.

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

Quick Tip to Solve: When premium covers one-fourth of goodwill, multiply it by four; do not include the incoming partner's capital.

2(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 old partner's new share equals the old share less the share sacrificed in favour of the incoming partner.
- The ratio in which the incoming share is acquired is the sacrificing ratio, not necessarily the old profit-sharing ratio.

Step 1: Allocate Suhaan's share Suhaan receives $1/4$, acquired from Avi and Gita in $1 : 2$. Their respective sacrifices are $\frac{1}{4} \times \frac{1}{3} = \frac{1}{12}$ and $\frac{1}{4} \times \frac{2}{3} = \frac{1}{6}$.

Step 2: Subtract sacrifice from old shares

$$\text{Avi} = \frac{2}{3} - \frac{1}{12} = \frac{7}{12},$$
$$\text{Gita} = \frac{1}{3} - \frac{1}{6} = \frac{2}{12},$$
$$\text{Suhaan} = \frac{1}{4} = \frac{3}{12}.$$

These shares sum to one. Options (A) and (B) give Suhaan one-fourth but do not deduct sacrifice in the specified ratio. Option (C) gives him one-third, contrary to the question.

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

Quick Tip to Solve: First divide the new partner's share in the stated acquisition ratio, then deduct each sacrifice from the corresponding old share.

OR

2(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:

- A sacrifice stated as a fraction of a partner's own share must first be multiplied by that partner's old profit share.
- The incoming partner receives the total sacrifice; each old partner retains old share less sacrifice.

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

Step 2: Find the retained shares

$$\text{Anya} = \frac{4}{5} - \frac{1}{5} = \frac{3}{5} = \frac{30}{50},$$
$$\text{Shiv} = \frac{1}{5} - \frac{1}{50} = \frac{9}{50}.$$

The numerators $30 + 9 + 11 = 50$ confirm that the shares exhaust the whole profit. Options (A), (B) and (C) give Girish respectively one-half, three-tenths and three-tenths, none of which equals his actual acquired share of $11/50$.

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

Quick Tip to Solve: Underline "of her/his share": multiply by the old share before subtracting, and check that the new fractions total one.

3. Nitya Ltd. issued 9,000, 11% Debentures of Rs 100 each at Rs 97 per debenture. On issue of these debentures, 11% Debentures Account was credited by : [1 mark]

(A) Rs 11,00,000

(B) Rs 10,00,000

(C) Rs 9,00,000

(D) Rs 9,70,000

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

Solution:

Concept:

- Debentures Account is credited with the nominal or face value of the debentures issued.
- Issue proceeds equal the number issued times the issue price; any shortfall from face value is the discount on issue, recorded separately.

Step 1: Calculate nominal value The company issues 9,000 debentures, each with face value Rs 100. Thus the liability recorded is

$$9,000 \times 100 = \text{Rs } 9,00,000.$$

The 11% describes the interest rate and does not determine the amount credited on issue.

Step 2: Distinguish proceeds and discount Cash proceeds are $9,000 \times 97 = \text{Rs } 8,73,000$, and the discount is $9,000 \times 3 = \text{Rs } 27,000$. Their sum equals the nominal liability of Rs 9,00,000. Options (A), (B) and (D) do not equal the face value of the 9,000 debentures; using the issue price for the credit would confuse cash received with the debt recognised.

Step 3: Conclusion The 11% Debentures Account is credited by Rs 9,00,000. Hence, the correct option is (C).

Quick Tip to Solve: For the credit to Debentures Account, multiply quantity by face value; keep issue discount and cash proceeds separate.

4(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 :

Journal [1 mark]

(A)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Kamya's Capital A/c Dr.	1,00,000	
To Lokesh's Capital A/c		1,00,000

(B)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Lokesh's Capital A/c Dr.	1,00,000	
To Kamya's Capital A/c		1,00,000

(C)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Kamya's Capital A/c Dr.	9,00,000	
To Lokesh's Capital A/c		9,00,000

(D)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Lokesh's Capital A/c Dr.	9,00,000	
To Kamya's Capital A/c		9,00,000

Correct Answer: (A)

Particulars	Dr. Amount (Rs)	Cr. Amount (Rs)
Kamya's Capital A/c Dr.	1,00,000	
To Lokesh's Capital A/c		1,00,000

Solution:

Concept:

- When profit shares change, gaining partners compensate sacrificing partners for the goodwill attached to the share transferred.
- Debit the gaining partner's Capital Account and credit the sacrificing partner's Capital Account by goodwill multiplied by the share transferred.

Step 1: Find gain and sacrifice **Working Notes:** Kamya gains $4/9 - 3/9 = 1/9$; Inaya's share is unchanged at $2/9$; Lokesh sacrifices $4/9 - 3/9 = 1/9$. Compensation is $9,00,000 \times 1/9 = \text{Rs } 1,00,000$.

Step 2: Record the compensation Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Kamya's Capital A/c Dr.		1,00,000	
	To Lokesh's Capital A/c			1,00,000
	(Being goodwill compensation for Kamya's gain and Lokesh's sacrifice)			

Option (B) reverses the compensating accounts. Options (C) and (D) use the entire goodwill instead of the goodwill attached to the one-ninth share transferred.

Step 3: Conclusion Debit Kamya's Capital Account and credit Lokesh's Capital Account by Rs 1,00,000. Hence, the correct option is (A).

Quick Tip to Solve: Compare new share with old share partner by partner: the gainer pays the sacrificer only for the fraction transferred.

OR

4(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 relates to assets and liabilities held before the reconstitution and belongs to the partners in their old ratio.
- A revaluation loss reduces partners' capital balances and is debited to their Capital Accounts in the old profit-sharing ratio.

Step 1: Choose the applicable ratio The loss arose on revaluation at the change in profit-sharing ratio. It is therefore shared in the old ratio $4:3:3$, not the future ratio $3:1:1$. Isha's old share is $4/(4+3+3) = 4/10$.

Step 2: Allocate the loss to Isha

$$\text{Isha's share} = 5,00,000 \times \frac{4}{10} = \text{Rs } 2,00,000.$$

Rs 1,50,000 is the loss allocated to either Pallavi or Manoj. Rs 1,00,000 follows a wrong allocation, while Rs 5,00,000 would put the entire firm's loss on Isha alone. The loss reduces her capital, so her account is debited.

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: For revaluation at a ratio change, use the old profit-sharing ratio because the gain or loss arose before the new arrangement.

5. 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:

- Realisation Account is prepared on dissolution to ascertain the profit or loss from realising assets and settling external liabilities.
- The resulting realisation profit or loss is transferred to partners' Capital Accounts in their profit-sharing ratio as the books are closed.

Step 1: Assess the assertion Assertion (A) is true. On dissolution of the firm, Realisation Account records the relevant asset and liability transfers, proceeds, settlements and realisation expenses to determine the result of winding up.

Step 2: Assess the reason Reason (R) is also true. Dissolution ends the firm's business, so its books must be closed and the net profit or loss on realising assets and discharging liabilities must be determined.

Step 3: Connect the statements The reason states the accounting purpose for which Realisation Account is prepared and therefore directly explains the assertion. Option (B) wrongly denies that link, while (C) and (D) each incorrectly treat one of the two true statements as false.

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

Quick Tip to Solve: For this assertion-reason pair, connect preparation of Realisation Account with its specific purpose: measuring the result of winding up.

6. 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 receives the surplus of forfeiture relating only to the shares actually reissued, after deducting the discount allowed on their reissue.
- Forfeiture on shares not yet reissued remains in Share Forfeiture Account; the original issue premium is distinct from the capital amount received.

Step 1: Identify forfeiture attached to reissued shares The capital amount received on application was Rs 40 per share. Of the 1,000 forfeited shares, only 500 have been reissued, so the forfeiture amount available for these shares is

$$500 \times 40 = \text{Rs } 20,000.$$

The Rs 20,000 relating to the other 500 shares remains in Share Forfeiture Account.

Step 2: Deduct the reissue discount The shares are reissued as fully paid Rs 100 shares for Rs 80, giving a discount of Rs 20 each.

$$\text{Reissue discount} = 500 \times 20 = \text{Rs } 10,000,$$
$$\text{Transfer to Capital Reserve} = 20,000 - 10,000 = \text{Rs } 10,000.$$

Rs 40,000 includes forfeiture on all shares before discount. Rs 30,000 deducts discount from that full balance and wrongly transfers the un-reissued portion. Nil ignores the surplus remaining on the reissued shares.

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

Quick Tip to Solve: Restrict forfeiture to the 500 reissued shares first, then subtract their reissue discount; leave the other 500 shares' balance untouched.

7(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:

- Uncalled capital is the part of subscribed capital which the company has not yet demanded from its shareholders.
- Reserve capital is the portion of uncalled capital set aside to be called only in the event of winding up.

Step 1: Identify the restriction on the call The decisive words are "called only in the event of winding up". They describe a restriction on calling an unpaid part of share capital. Thus, the amount is a special part of uncalled capital, kept available for that event.

Step 2: Distinguish the other categories Subscribed capital is the capital taken up by shareholders, without this special restriction. Called-up capital has already been demanded, so it cannot describe an amount still reserved for a future call. Unissued capital has not been offered for subscription; it is not an unpaid amount on subscribed shares.

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

Quick Tip to Solve: Use "callable only on winding up" to identify reserve capital; do not confuse it with capital reserve.

OR

7(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:

- When debentures settle a purchase consideration, their number equals the amount payable divided by the issue price per debenture.

- The issue price includes premium; the coupon rate determines periodic interest, not the number issued.

Step 1: Find the issue price The face value is Rs 100 and the issue premium is 10% of face value. Hence the premium per debenture is Rs 10 and the issue price is

$$100 + 10 = \text{Rs } 110.$$

Step 2: Divide the consideration by the issue price The full furniture price is discharged through debentures. Therefore,

$$\text{Number issued} = \frac{6,60,000}{110} = 6,000.$$

Option (B), 6,600, incorrectly divides by face value alone. Options (A) and (D) would settle amounts of Rs 66,00,000 and Rs 1,10,000 respectively at the stated issue price, so neither matches the purchase consideration.

Step 3: Conclusion Vani Ltd. issues 6,000 debentures to Max Ltd. Hence, the correct option is (C).

Quick Tip to Solve: For debentures issued to a vendor, divide purchase consideration by face value plus issue premium; ignore the coupon rate.

8(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:

- A guaranteed partner first receives the normal share of profit; any shortfall from the guaranteed minimum is the deficiency.
- The guaranteeing partners bear that deficiency in the specifically agreed ratio, which may differ from their profit-sharing ratio.

Step 1: Calculate the deficiency Maya's normal share is $\frac{1}{4}$ of the firm's profit:

$$4,00,000 \times \frac{1}{4} = \text{Rs } 1,00,000.$$

Her guaranteed amount is Rs 1,20,000, giving a deficiency of $1,20,000 - 1,00,000 = \text{Rs } 20,000$.

Step 2: Apply the guarantee ratio Leena bears 2 parts out of the total 5 parts in the agreed ratio $3:2$:

$$20,000 \times \frac{2}{5} = \text{Rs } 8,000.$$

Rs 12,000 is Reema's share, Rs 10,000 would assume equal bearing, and Rs 4,000 would wrongly apply the old profit-sharing ratio of $4:1$.

Step 3: Conclusion Leena bears a deficiency of Rs 8,000. Hence, the correct option is (B).

Quick Tip to Solve: Calculate the guarantee shortfall first, then use the deficiency-bearing ratio of 3:2, not the old profit ratio of 4:1.

OR

8(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:

- An incoming partner's capital and agreed profit share can imply the total capitalised value of the firm.
- Hidden goodwill equals that implied total value less the actual combined capitals of all partners, including the incoming partner.

Step 1: Infer the value of the whole firm Namita brings Rs 3,00,000 for a $\frac{1}{4}$ share. Thus the implied value for the whole firm is

$$3,00,000 \div \frac{1}{4} = \text{Rs } 12,00,000.$$

This is the capitalised value, not the goodwill itself.

Step 2: Deduct the actual combined capital Total actual capital after admission is

$$5,00,000 + 2,00,000 + 3,00,000 = \text{Rs } 10,00,000.$$

Hidden goodwill is therefore $12,00,000 - 10,00,000 = \text{Rs } 2,00,000$. Option (B) is the entire implied value; Rs 50,000 is only Namita's one-fourth share of goodwill; Rs 3,00,000 is her capital contribution.

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

Quick Tip to Solve: Include the new partner's capital when subtracting actual capitals from the value implied by her share.

9. 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 makes it a charge against profit.
- When available profit is less than the interest due, distribute the available profit in the ratio of the calculated interest entitlements.

Step 1: Calculate the full interest entitlements At 8% per annum, Kartik's interest is $6,00,000 \times \frac{8}{100} =$ Rs $48,000$, and Yogesh's is $4,00,000 \times \frac{8}{100} =$ Rs $32,000$. The total Rs 80,000 exceeds the available Rs 60,000. Their entitlement ratio is $48,000 : 32,000 = 3 : 2$.

Step 2: Allocate the available profit Apply the interest ratio to the profit:

$$\text{Kartik} = 60,000 \times \frac{3}{5} = \text{Rs } 36,000,$$
$$\text{Yogesh} = 60,000 \times \frac{2}{5} = \text{Rs } 24,000.$$

Equal division in (B) ignores unequal entitlements. Option (C) wrongly uses the profit-sharing ratio, while (D) allows the full Rs 80,000 despite insufficient profit.

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

Quick Tip to Solve: When profits cannot cover interest, scale down both interest entitlements proportionately; do not use the profit-sharing ratio.

10. 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:

- When the deed uses last year's profit, estimate current profit up to death by applying the elapsed fraction of the accounting year.
- The deceased partner's entitlement is that estimated interim profit multiplied by the deceased partner's profit share.

Step 1: Identify the elapsed period and share The current accounting year starts on 1st April, 2025. From that date to 30th November, 2025 is eight months. Tarush's share in the ratio $5 : 3 : 2$ is $\frac{2}{5+3+2} = \frac{2}{10}$.

Step 2: Estimate and apportion the interim profit The estimated firm profit for eight months is $3,60,000 \times \frac{8}{12} = \text{Rs } 2,40,000$. Tarush's share is

$$3,60,000 \times \frac{8}{12} \times \frac{2}{10} = \text{Rs } 48,000.$$

Option (A) is the whole firm's interim profit. Rs 24,000 uses four months instead of eight; Rs 72,000 is his full-year share and ignores the date of death.

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

Quick Tip to Solve: Count months from the last balance-sheet date to death, then multiply the estimated period profit by the deceased partner's share.

11. Adish, Bina and Chand were partners in a firm, sharing profits and losses in the ratio of 4 : 2 : 1. Bina's share of profit at the end of the year amounted to Rs 1,40,000. Adish's share in the profit was : [1 mark]

(A) Rs 70,000

(B) Rs 2,10,000

(C) Rs 2,80,000

(D) Rs 1,40,000

Correct Answer: (C) Rs 2,80,000

Solution:

Concept:

- Partners' profit amounts are proportional to their profit-sharing ratio when the stated amount is a share of distributable profit.
- Given one partner's share, find the value of one ratio part and multiply by the required partner's parts.

Step 1: Find the value of one ratio part Bina receives two parts in the ratio $4 : 2 : 1$, and these two parts amount to Rs 1,40,000. Therefore,

$$\text{One part} = \frac{1,40,000}{2} = \text{Rs } 70,000.$$

Step 2: Calculate Adish's four parts Adish is entitled to four parts, so his share is

$$70,000 \times 4 = \text{Rs } 2,80,000.$$

This is twice Bina's amount because $4 : 2 = 2 : 1$. Rs 70,000 is Chand's one-part share, Rs 2,10,000 represents three parts, and Rs 1,40,000 repeats Bina's share rather than Adish's.

Step 3: Conclusion Adish's share of profit is Rs 2,80,000. Hence, the correct option is (C).

Quick Tip to Solve: Compare only the two relevant ratio terms: Adish receives 4/2 times Bina's profit.

12. 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 amount already received on forfeited shares is credited to Share Forfeiture Account.
- Reissue discount cannot exceed the forfeited amount on the shares reissued; only the residual forfeiture balance is transferred to Capital Reserve.

Step 1: Calculate the amount forfeited Each Rs 100 share has an unpaid final call of Rs 20. The amount already received is therefore $100 - 20 = \text{Rs } 80$ per share. For 900 shares, the forfeited amount is

$$900 \times 80 = \text{Rs } 72,000.$$

Step 2: Deduct the maximum reissue discount At the maximum permissible discount, all Rs 80 forfeited per share is used to meet the reissue discount. The total discount is therefore Rs 72,000, leaving

$$\text{Capital Reserve} = 72,000 - 72,000 = \text{Rs } 0.$$

Rs 90,000 is face value, Rs 72,000 is forfeiture before discount, and Rs 18,000 is both the unpaid call amount and the reissue cash at this maximum discount; none is the remaining capital profit.

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

Quick Tip to Solve: At maximum reissue discount, the forfeited amount on all the reissued shares is exhausted, so no capital reserve remains.

13. 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 mere delivery; the company does not maintain a register of their holders.
- Debenture classifications distinguish transferability from security and from repayment terms.

Step 1: Identify the transfer feature The question specifies transfer by delivery and the absence of a company record of holders. Both are defining characteristics of bearer debentures: possession provides the basis for holding and transferring them.

Step 2: Eliminate the other classifications Secured debentures are backed by a charge on assets, while unsecured debentures lack such security. These labels describe protection for lenders, not how title is transferred. Redeemable debentures are repayable on the agreed terms or date; that feature also does not explain transfer by delivery or the absence of a holder register.

Step 3: Conclusion These are bearer debentures. Hence, the correct option is (C).

Quick Tip to Solve: Link "delivery" and "no record of holders" to bearer debentures; security and redemption describe different features.

14. 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 undertakes dissolution work for an agreed remuneration, the firm debits Realisation Account with that remuneration.

- If the same partner agrees to bear and personally pays the realisation expenses, those actual expenses are not separately charged to the firm.

Step 1: Identify the firm's obligation Hina is entitled to Rs 30,000 for undertaking the dissolution work and bearing the expenses. Therefore, Realisation Account bears the agreed remuneration of Rs 30,000, with a corresponding credit to Hina's Capital Account.

Step 2: Separate the actual expenditure The Rs 35,000 was paid by Hina under her own obligation to bear expenses. It is not an additional expense of the firm. The excess Rs 5,000 is borne personally by Hina; it is not the debit to Realisation Account. Thus, neither the actual payment of Rs 35,000 nor the combined amount of Rs 65,000 is charged to that account.

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

Quick Tip to Solve: First identify who bears the expenses: if Hina bears and pays them, charge only her agreed remuneration to Realisation Account.

15. 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:

- A continuing partner's new share equals the old share plus the share acquired from the retiring partner.
- The ratio in which the retiring partner's share is acquired is the gaining ratio; it need not equal the new profit-sharing ratio.

Step 1: Allocate Nikita's retiring share Nikita's old share is $3/10$. Aarti and Sakshi acquire it in the ratio $2:1$. Hence Aarti gains $(3/10)(2/3) = 2/10$, while Sakshi gains $(3/10)(1/3) = 1/10$.

Step 2: Add the gains to the old shares

$$\text{Aarti's new share} = \frac{2}{10} + \frac{2}{10} = \frac{4}{10},$$
$$\text{Sakshi's new share} = \frac{5}{10} + \frac{1}{10} = \frac{6}{10}.$$

Their shares total one. Option (B) reverses their shares; option (C) merely retains their old relative shares; option (D) gives the gaining ratio instead of the new ratio.

Step 3: Conclusion The new profit-sharing ratio of Aarti and Sakshi is $4 : 6 = 2 : 3$. Hence, the correct

option is (A).

Quick Tip to Solve: Add each partner's gain to their old share; never use the 2:1 gaining ratio directly as the new profit-sharing ratio.

16. 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:

- Proportionate capital is computed from the adjusted capitals and the profit shares represented by those capitals.
- Premium for goodwill is separate from the new partner's capital contribution; do not include the premium when finding proportionate capital.

Step 1: Find the capital for the continuing share The adjusted capitals of Prerna and Riya total Rs $2,50,000 + 1,50,000 = 4,00,000$. Arun receives $1/5$, so the continuing partners together hold $4/5$. Their combined capital therefore represents four-fifths of the firm's total proportionate capital.

Step 2: Calculate Arun's proportionate contribution

$$\text{Total capital} = 4,00,000 \times \frac{5}{4} = \text{Rs } 5,00,000,$$
$$\text{Arun's capital} = 5,00,000 \times \frac{1}{5} = \text{Rs } 1,00,000.$$

Rs 4,00,000 is the old partners' adjusted capital, Rs 5,00,000 is the total firm capital, and Rs 80,000 is the goodwill premium, not Arun's proportionate capital.

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

Quick Tip to Solve: Use the shortcut: Arun's capital = Rs 4,00,000 multiplied by (1/5)/(4/5); keep his goodwill premium separate.

17. The Capital Accounts of Mala and Vaibhav stood at Rs 3,00,000 and Rs 2,00,000 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 were : Mala Rs 10,000 drawn at the beginning of each quarter and Vaibhav Rs 10,000 drawn at the end of each half year. The profits for the year ended 31st March, 2025 amounted to Rs 3,00,000. The profit sharing ratio of Mala and Vaibhav was 3 : 2.

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

Solution:

Concept:

- Interest on drawings is charged to the withdrawing partner and added to the profit available for appropriation among all partners.
- For equal periodic drawings, interest equals total drawings multiplied by the annual rate and the average period outstanding. A past adjustment transfers only the net difference between partners.

Step 1: Calculate the omitted interest on drawings **Working Notes**

Mala draws Rs 10,000 at the beginning of each quarter. The four drawings remain outstanding for 12, 9, 6 and 3 months, so the average period is $(12+9+6+3)/4 = 7.5$ months.

$$\text{Mala's interest} = 40,000 \times \frac{6}{100} \times \frac{7.5}{12} = \text{Rs } 1,500.$$

Vaibhav draws Rs 10,000 at the end of each half year. These drawings remain outstanding for 6 and 0 months; the average period is 3 months.

$$\text{Vaibhav's interest} = 20,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 300.$$

Step 2: Determine each partner's net adjustment Total omitted interest is Rs $1,500 + 300 = 1,800$. This increases divisible profit and is credited in the profit-sharing ratio $3 : 2$: Mala receives Rs $1,800 \times 3/5 = 1,080$, and Vaibhav receives Rs $1,800 \times 2/5 = 720$. Mala must therefore be debited by Rs $1,500 - 1,080 = 420$, while Vaibhav must be credited by Rs $720 - 300 = 420$. The previously recorded profit and drawings need not be reversed; the adjustment transfers the net excess from Mala to Vaibhav.

Step 3: Pass the adjusting entry **Journal**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2025	Mala's Capital A/c Dr. To Vaibhav's Capital A/c (Being omitted interest on drawings and the related profit distribution adjusted through capital accounts)		420	 420

Step 4: Conclusion Debit Mala's Capital Account and credit Vaibhav's Capital Account by Rs 420 each. Their corrected capital balances are Rs 2,99,580 and Rs 2,00,420 respectively.

Quick Tip to Solve: For beginning-of-quarter drawings use 7.5 months; for end-of-half-year drawings use 3 months, then distribute the total interest in the 3:2 ratio.

18. Aadi, Priya and Vicky were partners in a firm, sharing profits and losses in the ratio of 3 : 1 : 1. Priya died on 30th June, 2022. After all the necessary adjustments, her Capital to Account showed a credit balance of Rs 6,90,000. Priya's executors were paid Rs 90,000 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 Priya's Executor's Account till 31st March, 2024. [3 marks]

Solution:

Concept:

- The amount due to a deceased partner is transferred to the executor's account; payments reduce this liability and interest increases it.
- Interest is calculated on the unpaid principal for the relevant period. Equal yearly principal instalments are paid together with interest accrued up to the payment date.

Step 1: Calculate the principal instalment and interest **Working Notes**

After the immediate payment, unpaid principal is Rs $6,90,000 - 90,000 = 6,00,000$. Each of the three yearly principal instalments is Rs $6,00,000/3 = 2,00,000$. The firm closes accounts on 31st March, so split interest at that date:

$$\text{July 2022–March 2023} = 6,00,000 \times 6\% \times 9/12 = \text{Rs } 27,000,$$
$$\text{April–June 2023} = 6,00,000 \times 6\% \times 3/12 = \text{Rs } 9,000.$$

The first yearly payment on 30th June, 2023 is Rs $2,00,000 + 27,000 + 9,000 = 2,36,000$. Thereafter principal outstanding is Rs 4,00,000. Interest for July 2023 to March 2024 is Rs $4,00,000 \times 6\% \times 9/12 = 18,000$. Interest is not compounded on the accrued interest.

Step 2: Prepare the account for 2022–23 **Priya's Executor's Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	1-7-2022: To Bank	90,000	30-6-2022: By Priya's Capital	6,90,000	
	31-3-2023: To Balance c/d	6,27,000	31-3-2023: By Interest	27,000	
	Total	7,17,000	Total	7,17,000	

The closing balance consists of Rs 6,00,000 principal and Rs 27,000 accrued interest.

Step 3: Prepare the account for 2023–24 **Priya's Executor's Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	30-6-2023: To Bank	2,36,000	1-4-2023: By Balance b/d	6,27,000	
	31-3-2024: To Balance c/d	4,18,000	30-6-2023: By Interest	9,000	
			31-3-2024: By Interest	18,000	
	Total	6,54,000	Total	6,54,000	

The second instalment falls due on 30th June, 2024, after the closing date requested; it is therefore not paid in this account period.

Step 4: Conclusion Priya's Executor's Account has a credit balance of Rs 4,18,000 on 31st March, 2024, comprising Rs 4,00,000 principal and Rs 18,000 accrued interest.

Quick Tip to Solve: Split interest at both 31st March and the June instalment date; reduce principal only when the Rs 2,00,000 principal instalment is paid.

19(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:

- When a business is purchased, identifiable assets are debited, liabilities taken over are credited, and purchase consideration is credited to the vendor.
- Purchase consideration exceeding net assets is goodwill. Debentures issued at discount settle the vendor at their issue price; the discount is separately debited.

Step 1: Calculate goodwill and the debenture issue **Working Notes**

The net identifiable assets acquired are Rs $40,00,000 - 4,00,000 = 36,00,000$. Since purchase consideration is Rs 45,00,000, goodwill is Rs $45,00,000 - 36,00,000 = 9,00,000$. Each Rs 100 debenture is issued at a discount of 10%, so its issue price is Rs 90.

$$\text{Number of debentures} = 45,00,000/90 = 50,000,$$
$$\text{Face value issued} = 50,000 \times 100 = \text{Rs } 50,00,000,$$
$$\text{Discount on issue} = 50,000 \times 10 = \text{Rs } 5,00,000.$$

The 11% rate determines future interest; it does not change the purchase consideration or the number issued.

Step 2: Record the business purchase **Journal of Mallika Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		40,00,000	
	Goodwill A/c Dr.		9,00,000	
	To Sundry Liabilities A/c			4,00,000
	To Pari Ltd.			45,00,000
	(Being assets and liabilities taken over from Pari Ltd. for the agreed purchase consideration)			

Both sides of this entry equal Rs 49,00,000. Goodwill represents the excess paid over net assets, not over gross assets.

Step 3: Discharge the vendor by issuing debentures **Journal of Mallika Ltd. (continued)**

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

The vendor account is fully settled by the issue value of Rs 45,00,000, while the debenture liability is recorded at its face value of Rs 50,00,000.

Step 4: Conclusion Goodwill is Rs 9,00,000. Mallika Ltd. issues 50,000 debentures with a face value of Rs 50,00,000 and records discount of Rs 5,00,000.

Quick Tip to Solve: Divide purchase consideration by the Rs 90 issue price, then record the debenture liability at Rs 100 per debenture.

OR

19(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 the nominal value of the debentures, irrespective of the premium received on issue.
- Interest for a period equals nominal value multiplied by the annual rate and the fraction of the year. Interest is a charge against profit and is transferred to the Statement of Profit and Loss at year end.

Step 1: Calculate the half-yearly interest **Working Notes:** The debentures were issued on 1st April, 2024 and remain outstanding throughout the year. Therefore each payment covers six months. The issue premium is not part of the principal on which interest is calculated.

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

First record interest becoming due, creating a liability to debentureholders; then record payment through Bank. The same amount is due on each of the two payment dates.

Step 2: Record the interest and its transfer to profit and loss **Journal of Utsav Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30 Sep 2024	Debenture Interest A/c Dr. To Debentureholders A/c (Being interest due for the half-year ended 30th September, 2024)		2,25,000	 2,25,000
30 Sep 2024	Debentureholders A/c Dr. To Bank A/c (Being half-yearly debenture interest paid)		2,25,000	 2,25,000
31 Mar 2025	Debenture Interest A/c Dr. To Debentureholders A/c (Being interest due for the half-year ended 31st March, 2025)		2,25,000	 2,25,000
31 Mar 2025	Debentureholders A/c Dr. To Bank A/c (Being half-yearly debenture interest paid)		2,25,000	 2,25,000
31 Mar 2025	Statement of Profit and Loss Dr. To Debenture Interest A/c (Being annual debenture interest transferred to Statement of Profit and Loss)		4,50,000	 4,50,000

Step 3: Conclusion Utsav Ltd. pays Rs 2,25,000 on each of 30th September, 2024 and 31st March, 2025. Total interest charged to the Statement of Profit and Loss is Rs 4,50,000.

Quick Tip to Solve: Apply 9% to the face value of Rs 50,00,000, not the premium-inclusive proceeds; divide the annual interest by two for each half-year.

20(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 is the return that a similar business would earn on the capital employed: Normal profit $=$ Capital employed $\times$ Normal rate$/100$.
- Super profit is the excess of average profit over normal profit. Under capitalisation of super profits, Goodwill $=$ Super profit $\times$ $100/$Normal rate.

Step 1: Calculate capital employed and normal profit **Working Notes:** Add the capitals of both partners to obtain the capital employed in the firm. The normal return applies to the firm's combined

capital, not separately to only one partner's balance.

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

A comparable business is expected to earn 10% on this investment. Thus the profit required merely to provide a normal return is

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

Step 2: Determine the annual super profit The actual average profit is Rs 1,20,000. Deduct the normal profit to isolate the additional annual earnings attributable to the firm's goodwill:

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

Only this excess is capitalised in the method asked for. Capitalising the entire average profit would instead give the value of the whole business.

Step 3: Capitalise the super profit at the normal rate Find the capital sum which, at 10% per annum, would earn the super profit of Rs 30,000:

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

As a check, 10% of Rs 3,00,000 is Rs 30,000, exactly the annual excess profit calculated above.

Step 4: Conclusion The value of goodwill of Vidur and Kavita's firm by capitalisation of super profits is $\boxed{\text{Rs } 3,00,000}$.

Quick Tip to Solve: At a normal return of 10%, capitalising super profit means multiplying it by 10; first deduct the normal profit of Rs 90,000.

OR

20(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:

- Capitalised value of the business is the amount of capital which, at the normal rate of return, would earn the given average annual profit: Capitalised value = Average profit $\times$ 100/Normal rate.
- Under the capitalisation of average profit method, goodwill is the excess of the capitalised value of the business over the actual capital employed.

Step 1: Identify average profit and capital employed **Working Notes:** The given average profit of

the last five years is already an annual average, Rs 60,000. It must not be divided by five again. The normal rate of return is 10%, and the firm's actual capital employed on 31st March, 2025 is Rs 5,00,000. The method values the business by asking how much capital would normally be needed to earn Rs 60,000 each year at a return of 10%.

Step 2: Capitalise the average annual profit Substitute the average profit and normal return in the capitalisation formula:

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

This is the total value supported by the firm's earnings. It includes the value of the capital already employed, so the entire Rs 6,00,000 is not goodwill.

Step 3: Deduct the actual capital employed The extra value arising from the firm's earning capacity is found by deducting its actual capital employed:

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

To verify, normal profit on Rs 5,00,000 is Rs 50,000. The excess annual profit is Rs 10,000, which equals a 10% return on the goodwill of Rs 1,00,000.

Step 4: Conclusion Goodwill of Nitish and Anshul's firm by the capitalisation of average profit method is $\boxed{\text{Rs } 1,00,000}$.

Quick Tip to Solve: Capitalise the given Rs 60,000 directly at 10%, then subtract Rs 5,00,000; the five-year average is already calculated.

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

(i) Issued 7,000, 10% Debentures of Rs 100 each at a discount of 5%, redeemable at a premium of 10% after 6 years.

(ii) Issued 8,000, 11% Debentures of Rs 100 each at a premium of 10%, redeemable at a premium of 5% after 6 years. [4 marks]

Solution:

Concept:

- Debentures are credited at their face value. Bank is debited with the actual issue proceeds; any issue premium is credited to Securities Premium Account.
- Loss on Issue of Debentures equals discount on issue plus premium payable on redemption. Premium on Redemption of Debentures Account records the additional redemption liability.

Step 1: Calculate the amounts for case (i) Working Notes: Face value is $7,000 \times \text{Rs } 100 = \text{Rs } 7,00,000$.

The issue discount is $5\% \times$ Rs $7,00,000 =$ Rs $35,000$, so proceeds are Rs 6,65,000. Redemption premium is $10\% \times$ Rs $7,00,000 =$ Rs $70,000$. Thus total loss on issue is Rs 1,05,000. The 10% coupon rate determines interest, not the issue discount.

Step 2: Record the issue in case (i) **Journal of Elegant Ltd. — Case (i)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		6,65,000	
	Loss on Issue of Debentures A/c Dr.		1,05,000	
	To 10% Debentures A/c			7,00,000
	To Premium on Redemption of Debentures A/c			70,000
	(Being 7,000 debentures issued at 5% discount, redeemable after six years at 10% premium)			

Step 3: Calculate the amounts for case (ii) Working Notes: Face value is $8,000 \times$ Rs $100 =$ Rs $8,00,000$. Issue premium is $10\% \times$ Rs $8,00,000 =$ Rs $80,000$, giving bank receipts of Rs 8,80,000. Redemption premium is $5\% \times$ Rs $8,00,000 =$ Rs $40,000$. Since there is no issue discount, the loss recorded on issue is Rs 40,000; issue premium is separately credited to Securities Premium Account.

Step 4: Record the issue in case (ii) **Journal of Elegant Ltd. — Case (ii)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		8,80,000	
	Loss on Issue of Debentures A/c Dr.		40,000	
	To 11% Debentures A/c			8,00,000
	To Securities Premium A/c			80,000
	To Premium on Redemption of Debentures A/c			40,000
	(Being 8,000 debentures issued at 10% premium, redeemable after six years at 5% premium)			

Step 5: Conclusion The issue entries balance at Rs 7,70,000 in case (i) and Rs 9,20,000 in case (ii). The respective losses on issue are Rs 1,05,000 and Rs 40,000.

Quick Tip to Solve: Compute issue proceeds and redemption premium separately; the coupon rates of 10% and 11% do not determine the issue proceeds.

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 an asset is transferred to Realisation Account, its sale or takeover is credited to Realisation Account at the amount realised or agreed, rather than credited to the asset account again.
- Realisation expenses are debited to Realisation Account. A partner taking an asset is debited through Capital Account, but an asset accepted against a partner loan is debited to that Loan Account.

Step 1: Record machinery sale and brokerage Working Notes: Broker's commission is $4\% \times$ Rs $1,00,000$ = Rs $4,000$. Record the gross sale and the commission separately; the net increase in bank is Rs 96,000. The book value of Rs 90,000 was already transferred and is not recorded again.

Journal of Sanya and Manya — (i)

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

Step 2: Record the two disposals of stock Sanya is charged the agreed takeover value of Rs 45,000, not the book value of Rs 42,000. The remaining stock has book value Rs 10,000 but is sold for Rs 11,000. Both amounts are credited to Realisation Account.

Journal — (ii)

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

Step 3: Record debtors realised through the agency The agency deducts commission of Rs 1,500 from Rs 23,000, leaving Rs 21,500 receivable in bank. A combined entry shows the gross realisation and the expense separately.

Journal — (iii)

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 deduction of commission)		21,500 1,500	 23,000

Step 4: Settle Manya's loan with furniture The furniture is accepted in full settlement of the Rs 55,000 loan. A partner's loan is not an external liability transferred to Realisation Account, so debit Manya's Loan Account to close it. The agreed realisation is the debt discharged, Rs 55,000; the book value of Rs 49,000 was already transferred.

Journal — (iv)

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

Step 5: Conclusion The entries record net machinery receipts of Rs 96,000, stock disposal of Rs 56,000, net debtors receipts of Rs 21,500 and full settlement of Manya's Rs 55,000 loan.

Quick Tip to Solve: After transfer to Realisation, credit Realisation for every asset disposal. For furniture settling a partner loan, debit the loan, not the capital account.

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23. Brahma Ltd. was registered with a capital of Rs 4,00,00,000 divided into 40,00,000 equity shares of Rs 10 each. On 1st April, 2025, the company offered to the public for subscription 5,00,000 shares. Applications for 4,95,000 shares were received and allotment was made in full to all the applicants. A shareholder holding 10,000 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 Brahma Ltd. is : [1 mark]

(A) Rs 40,00,000

(B) Rs 4,00,00,000

(C) Rs 49,50,000

(D) Rs 50,00,000

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

Solution:

Concept:

- Issued capital is the nominal value of shares offered for subscription by the company.
- Authorised capital is the registered ceiling; subscribed capital relates to shares actually taken up by applicants.

Step 1: Identify the shares issued Brahma Ltd. offers 5,00,000 shares of Rs 10 each to the public. Therefore, issued capital is $5,00,000 \times \text{Rs } 10 = \text{Rs } 50,00,000$. The smaller number of applications

does not change the offer.

Step 2: Distinguish the other amounts Rs 4,00,00,000 in option (B) is authorised capital, while Rs 49,50,000 in option (C) is the nominal subscribed capital from 4,95,000 shares. Rs 40,00,000 in option (A) does not equal the nominal value offered. Calls in arrears affect paid-up capital, not issued capital.

Step 3: Conclusion The issued capital is Rs 50,00,000. Hence, the correct option is (D).

Quick Tip to Solve: For issued capital, multiply the number offered, 5,00,000, by face value; ignore applications and unpaid calls.

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

(A) Rs 1,00,000

(B) Rs 80,000

(C) Rs 20,000

(D) Nil

Correct Answer: (C) Rs 20,000

Solution:

Concept:

- Calls in arrears means the amount called up on subscribed shares that shareholders have failed to pay.
- Arrears equal the number of defaulting shares multiplied by the unpaid call per share.

Step 1: Calculate the unpaid call The shareholder holds 10,000 shares and defaults only on the second and final call of Rs 2 per share. Thus, calls in arrears are $10,000 \times \text{Rs } 2 = \text{Rs } 20,000$.

Step 2: Check the alternatives Option (A), Rs 1,00,000, is the face value of the 10,000 shares, not their unpaid amount. Option (B), Rs 80,000, is the amount already paid on those shares at Rs 8 per share. Option (D), Nil, contradicts the stated default. Only option (C) measures the unpaid call.

Step 3: Conclusion Calls in arrears are Rs 20,000. Hence, the correct option is (C).

Quick Tip to Solve: Use only the unpaid Rs 2 call on 10,000 defaulting shares; the Rs 10 face value is not the amount overdue.

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

(A) Rs 40,00,000

(B) Rs 50,00,000

(C) Rs 48,50,000

(D) Rs 49,50,000

Correct Answer: (C) Rs 48,50,000

Solution:

Concept:

- Subscribed and fully paid-up capital includes only subscribed shares on which the entire face value has been paid.
- Shares with an unpaid call are classified separately as subscribed but not fully paid-up shares.

Step 1: Count the fully paid shares All 4,95,000 applications are allotted in full. Of these shares, 10,000 have an unpaid final call, leaving $4,95,000 - 10,000 = 4,85,000$ fully paid shares.

Step 2: Value this category and compare options The fully paid category is $4,85,000 \times$ Rs $10 =$ Rs $48,50,000$. Option (D), Rs 49,50,000, includes the nominal value of the defaulting shares. Option (B), Rs 50,00,000, is issued capital, and option (A), Rs 40,00,000, is not the value of the fully paid shares. Deducting just the arrears from total subscribed capital gives total paid-up capital, a different figure.

Step 3: Conclusion Subscribed and fully paid-up capital is Rs 48,50,000. Hence, the correct option is (C).

Quick Tip to Solve: First remove all 10,000 partly paid shares from 4,95,000; then multiply the remaining shares by Rs 10.

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

(A) Rs 49,50,000

(B) Rs 80,000

(C) Rs 48,50,000

(D) Rs 20,000

Correct Answer: (B) Rs 80,000

Solution:

Concept:

- Subscribed but not fully paid-up capital relates to subscribed shares on which some called-up amount remains unpaid.
- The balance-sheet amount for these shares is their called-up capital less calls in arrears. Fully paid-up shares are shown separately.

Step 1: Identify the partly paid shares The shareholder holding 10,000 shares did not pay the final call of Rs 2 per share. These shares have a called-up value of Rs 10 each, but the amount received is only $10 - 2 =$ Rs 8 per share.

Step 2: Calculate their paid-up amount

$$\text{Subscribed but not fully paid-up capital} = 10,000 \times 8 = \text{Rs } 80,000.$$

Rs 49,50,000 is the total subscribed capital before deducting arrears; Rs 48,50,000 belongs to the fully paid shares. Rs 20,000 is the unpaid call, rather than the capital received on the partly paid shares.

Step 3: Conclusion The amount is Rs 80,000. Hence, the correct option is (B).

Quick Tip to Solve: For the 10,000 defaulting shares, subtract the unpaid Rs 2 from Rs 10 before multiplying.

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

(A) Rs 49,30,000

(B) Rs 49,50,000

(C) Rs 50,00,000

(D) Rs 40,00,000

Correct Answer: (A) Rs 49,30,000

Solution:

Concept:

- The Share Capital balance in the balance sheet is subscribed called-up capital less calls in arrears.
- Authorised capital and issued capital are disclosed separately; they are not the paid-up amount received from shareholders.

Step 1: Calculate subscribed capital and arrears All 4,95,000 applications were allotted shares, and the final call makes the full face value of Rs 10 due. Thus called-up capital is $4,95,000 \times 10 = \text{Rs } 49,50,000$. Unpaid calls are $10,000 \times 2 = \text{Rs } 20,000$.

Step 2: Deduct unpaid calls

$$\text{Share Capital} = 49,50,000 - 20,000 = \text{Rs } 49,30,000.$$

Option (B) omits the unpaid call deduction. Option (C) is the amount offered to the public, including shares never subscribed. Option (D) does not equal the paid-up capital calculated from the allotted shares.

Step 3: Conclusion Share Capital is presented at Rs 49,30,000. Hence, the correct option is (A).

Quick Tip to Solve: Check the total as fully paid shares of Rs 48,50,000 plus partly paid shares of Rs 80,000.

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

(A) Rs 20,000

(B) Rs 1,00,000

(C) Rs 80,000

(D) Rs 50,000

Correct Answer: (C) Rs 80,000

Solution:

Concept:

- On forfeiture, Share Forfeiture Account is credited with the capital amount already received on the forfeited shares.
- Unpaid calls are cancelled separately; they are not credited to Share Forfeiture Account.

Step 1: Find capital received on the defaulting shares The defaulting shareholder holds 10,000 shares of Rs 10 each and has not paid Rs 2 per share. Capital already received per share is therefore $10 - 2 = \text{Rs } 8$.

Step 2: Calculate the forfeiture credit

$$\text{Share Forfeiture Account} = 10,000 \times 8 = \text{Rs } 80,000.$$

As a check, called-up capital cancelled is Rs 1,00,000, comprising unpaid calls of Rs 20,000 and capital received of Rs 80,000. Thus options (A) and (B) confuse arrears and called-up capital with forfeited receipts, while Rs 50,000 in (D) has no basis in the stated amounts. No reissue is stated, so the forfeited amount remains disclosed in the notes.

Step 3: Conclusion Share Forfeiture Account will be shown at Rs 80,000. Hence, the correct option is (C).

Quick Tip to Solve: Forfeiture retains money already received: multiply the 10,000 shares by Rs 8 paid, not Rs 2 unpaid.

24. 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		Land and Building	5,60,000
Ravi 1,60,000			
Saurabh 1,40,000	5,00,000		
	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:

- Revaluation profit and accumulated reserves belong to the existing partners in their old profit-sharing ratio, $2:3:3$.
- Goodwill is adjusted through capital accounts: the gaining partner compensates the sacrificing partner for the share of goodwill acquired.
- Increase in an asset is credited to Revaluation Account; a decrease in an asset or creation of a provision is debited to it.

Step 1: Working Notes: compute revaluation and reserve shares The stock decreases by $1,40,000 - 1,30,000 = \text{Rs } 10,000$. Land and Building increases by Rs 96,000. The provision required on debtors is $1,20,000 \times 5\% = \text{Rs } 6,000$.

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

Distribute this profit in the old ratio of $2:3:3$: Dhruv Rs 20,000, Ravi Rs 30,000 and Saurabh Rs 30,000. The existing General Reserve of Rs 1,60,000 is also distributed in the old ratio: Dhruv Rs 40,000, Ravi Rs 60,000 and Saurabh Rs 60,000. These amounts accrued before the ratio change, so the new ratio is not used.

Step 2: Working Notes: value goodwill and identify the gain The total profits for four years are

$46,000 + 35,000 + 39,000 + 40,000 = \text{Rs } 1,60,000.$

$$\text{Average profit} = 1,60,000/4 = \text{Rs } 40,000,$$
$$\text{Goodwill} = 40,000 \times 2 = \text{Rs } 80,000.$$

Compare old and new shares:

$$\text{Dhruv's gain} = 3/8 - 2/8 = 1/8,$$
$$\text{Ravi's change} = 3/8 - 3/8 = 0,$$
$$\text{Saurabh's sacrifice} = 3/8 - 2/8 = 1/8.$$

Dhruv therefore compensates Saurabh by $80,000 \times 1/8 = \text{Rs } 10,000$. Ravi neither gains nor sacrifices and has no goodwill adjustment. Goodwill is adjusted directly without creating a Goodwill Account.

Step 3: Journalise the asset revaluation

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 from Rs 1,40,000 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% on debtors of Rs 1,20,000)		6,000	 6,000

Step 4: Journalise the distributions and goodwill adjustment

Journal of Dhruv, Ravi and Saurabh (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
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 the old ratio of 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 the old ratio of 2:3:3)		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 adjusted for Dhruv's gain and Saurabh's sacrifice of 1/8)		10,000	 10,000

Each entry has equal debits and credits. Revaluation Account closes after the Rs 80,000 profit transfer; the entire General Reserve is distributed. As no fixed-capital arrangement is specified, the adjustments are recorded in the partners' capital accounts.

Step 5: Conclusion Revaluation profit is Rs 80,000 and General Reserve is Rs 1,60,000, both distributed in the old ratio of 2:3:3. Goodwill is Rs 80,000, for which Dhruv is debited and Saurabh credited Rs 10,000.

Quick Tip to Solve: Use the old 2:3:3 ratio for past gains and reserves; only Dhruv and Saurabh enter the goodwill adjustment because Ravi has no change in share.

25(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:

- Pro-rata allotment distributes the available shares among valid applicants in a fixed ratio. Excess application money is credited to Share Allotment Account before calculating the amount still payable.
- Calls in Arrears Account records amounts due but unpaid. On forfeiture, Share Capital Account is debited with called-up capital; unpaid premium already credited is reversed, and only capital actually received is credited to Share Forfeiture Account.

Step 1: Calculate the allotment ratio and Anant's arrears Valid applications are $1,20,000 - 10,000 = 1,10,000$ shares. Hence the ratio of shares allotted to shares applied for 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 relates to application on allotted shares and Rs 4,000 is adjusted towards allotment. Therefore, his unpaid allotment is $900 \times 30 - 4,000 =$ Rs $23,000$.

The total issue price is Rs 110 per share. The first and final call is $110 - 20 - 30 =$ Rs 60, comprising Rs 50 capital and Rs 10 premium. Anant and Mehak each default on $900 \times 60 =$ Rs $54,000$. Total call arrears are Rs 1,08,000.

Step 2: Record application and allotment Application receipts are $1,20,000 \times 20 =$ Rs $24,00,000$. The refund is Rs 2,00,000, capital transferred is Rs 18,00,000 and excess application adjusted is Rs

4,00,000. Allotment cash received is $27,00,000 - 4,00,000 - 23,000 =$ Rs $22,77,000$.

Journal of Alpha Ltd. (application and allotment)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received)		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 due on 90,000 shares at Rs 30 each)		27,00,000	 27,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share Allotment A/c (Being allotment received after application adjustment, except Anant's unpaid balance)		22,77,000 23,000	 23,00,000

Step 3: Record the call and forfeiture Call money due is $90,000 \times 60 =$ Rs $54,00,000$, and cash received is $54,00,000 - 1,08,000 =$ Rs $52,92,000$. Anant's arrears total $23,000 + 54,000 =$ Rs $77,000$. His unpaid premium is Rs 9,000. Capital received from him is the entire application payment of Rs 22,000, including Rs 4,000 adjusted to allotment.

Journal of Alpha Ltd. (call and forfeiture)

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

	Share First and Final Call A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being call due, including premium of Rs 10 per share)
			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 900 shares each held by Anant and Mehak)		52,92,000 1,08,000	 54,00,000

	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 and unpaid premium reversed)
			90,000
			9,000
				
				77,000
				22,000

Step 4: Balance the Calls in Arrears Account Only Anant's arrears are cancelled on forfeiture. Mehak's unpaid first and final call remains receivable because her shares have not been forfeited.

Calls in Arrears Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Allotment	23,000	By Share Capital / Securities Premium (forfeiture)	77,000	
	To Share First and Final Call	1,08,000	By Balance c/d	54,000	
	Total	1,31,000	Total	1,31,000	
	To Balance b/d	54,000			

Step 5: Conclusion Anant's 900 shares are forfeited with Rs 22,000 credited to Share Forfeiture Account and Rs 9,000 unpaid premium reversed. Calls in Arrears Account closes with a debit balance of Rs 54,000 relating to Mehak.

Quick Tip to Solve: Convert Anant's 1,100 applied shares into 900 allotted shares first; adjust his excess application money before finding allotment arrears.

OR

25(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:

- On forfeiture, debit Share Capital Account with the capital called up, cancel unpaid instalments and credit Share Forfeiture Account with capital already received. Reverse securities premium only when it was due and remains unpaid.
- Reissue discount is debited to Share Forfeiture Account. Capital Reserve receives the forfeiture balance relating only to the shares actually reissued, after deducting their reissue discount.

Step 1: Case (i): calculate Dharma Ltd.'s forfeiture and reissue amounts Called-up capital on the 600 forfeited shares is $600 \times 80 = \text{Rs } 48,000$. The unpaid first call is $600 \times 20 = \text{Rs } 12,000$, so capital received and forfeited is $48,000 - 12,000 = \text{Rs } 36,000$. The premium was payable on allotment and has already been received; therefore, it is not reversed.

For the 300 reissued shares, bank receives $300 \times 60 = \text{Rs } 18,000$, while capital credited is $300 \times 80 = \text{Rs } 24,000$. The difference of Rs 6,000 is the reissue discount. Forfeiture attributable to these shares is $36,000 \times 300/600 = \text{Rs } 18,000$, leaving $18,000 - 6,000 = \text{Rs } 12,000$ transferable to Capital Reserve.

The remaining Rs 18,000 stays in Share Forfeiture Account for the 300 shares not yet reissued.

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

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

Step 3: Case (ii): calculate Vikram Ltd.'s forfeiture and reissue amounts The final call of Rs 1 per share was not made; therefore, called-up capital is $10 - 1 = \text{Rs } 9$ per share. Unpaid allotment is Rs 4 per share, comprising Rs 2 capital and Rs 2 premium. The unpaid first call is Rs 3 capital per share. Capital received is thus $9 - 2 - 3 = \text{Rs } 4$ per share, or Rs 4,000 in total.

Since the premium due on allotment was not received, debit Securities Premium Account by Rs 2,000 on forfeiture. The forfeiture entry balances: debits $9,000 + 2,000 = \text{Rs } 11,000$, and credits $4,000 + 3,000 + 4,000 = \text{Rs } 11,000$.

Reissue is expressly fully paid up, so Share Capital is credited with $1,000 \times 10 = \text{Rs } 10,000$, even though only Rs 9 per share had been called before forfeiture. Cash is Rs 7,000 and reissue discount is Rs 3,000. As all shares are reissued, Capital Reserve receives $4,000 - 3,000 = \text{Rs } 1,000$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		9,000	
	Securities Premium A/c Dr.		2,000	
	To Share Allotment A/c			4,000
	To Share First Call A/c			3,000
	To Share Forfeiture A/c			4,000
	(Being 1,000 shares forfeited for unpaid allotment and first call, with unpaid premium reversed)			
	Bank A/c Dr.		7,000	
	Share Forfeiture A/c Dr.		3,000	
	To Share Capital A/c			10,000
	(Being 1,000 forfeited shares reissued at Rs 7 each as fully paid up)			
	Share Forfeiture A/c Dr.		1,000	
	To Capital Reserve A/c			1,000
	(Being profit on all reissued shares transferred to Capital Reserve)			

Step 5: Conclusion Dharma Ltd. transfers Rs 12,000 to Capital Reserve and retains Rs 18,000 in Share Forfeiture Account. Vikram Ltd. transfers Rs 1,000 to Capital Reserve after reissuing all its forfeited shares.

Quick Tip to Solve: Separate unpaid premium from unpaid capital; for Vikram, use Rs 9 on forfeiture but Rs 10 on reissue because the shares are reissued fully paid up.

26(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
	10,56,000		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 records changes in assets and liabilities; its profit or loss belongs to the old partners in their old profit-sharing ratio.
- Accumulated reserves belong to the old partners. Goodwill premium compensates their sacrifice; the new partner's capital is credited separately.
- Only the increase over an existing provision is charged to Revaluation Account. Withdrawal of goodwill reduces the old partners' capital balances.

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

Rajat and Vidhi's old ratio is $3:2$. Since no different sacrifice is specified, Nitin acquires his $1/4$ share from them in that ratio. Their new shares are $(3/5)(3/4) = 9/20$ and $(2/5)(3/4) = 6/20$, while Nitin's share is $5/20$. Thus, the new ratio is $9:6:5$ and the sacrificing ratio is $3:2$.

$$\begin{aligned}\text{Plant appreciation} &= 6,27,000 - 5,70,000 = \text{Rs } 57,000,\\ \text{Furniture reduction} &= 3,30,000 \times 10\% = \text{Rs } 33,000,\\ \text{Required debt provision} &= 80,000 \times 5\% = \text{Rs } 4,000,\\ \text{Additional debt provision} &= 4,000 - 1,000 = \text{Rs } 3,000,\\ \text{Increase in creditors} &= 40,000 - 36,000 = \text{Rs } 4,000.\end{aligned}$$

The existing provision of Rs 1,000 is already recorded, so charging the full Rs 4,000 would duplicate that amount. Revaluation profit is $57,000 - 33,000 - 3,000 - 4,000 = \text{Rs } 17,000$, divided as Rs 10,200 to Rajat and Rs 6,800 to Vidhi.

Step 2: Prepare Revaluation Account **Revaluation Account**

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

The profit is transferred to the old partners' capitals, closing the Revaluation Account; Nitin receives no share of this pre-admission profit.

Step 3: Allocate reserve and goodwill premium The general reserve of Rs 50,000 is credited to Rajat and Vidhi as Rs 30,000 and Rs 20,000. The goodwill premium of Rs 1,00,000 is credited to them in the sacrificing ratio $3:2$, giving Rs 60,000 and Rs 40,000. They withdraw half their respective shares: Rajat Rs 30,000 and Vidhi Rs 20,000. Nitin's separate capital contribution is Rs 3,20,000; his goodwill premium is not included in his capital balance. The retained premium remains in the old partners' capitals.

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

Dr.							Cr.
Particulars	Rajat	Vidhi	Nitin	Particulars	Rajat	Vidhi	Nitin
To Cash A/c	30,000	20,000	–	By Balance b/d	5,00,000	4,00,000	–
To Balance c/d	5,70,200	4,46,800	3,20,000	By General Reserve	30,000	20,000	–
				By Revaluation A/c	10,200	6,800	–
				By Premium for Goodwill A/c	60,000	40,000	–
				By Cash A/c	–	–	3,20,000
Total	6,00,200	4,66,800	3,20,000	Total	6,00,200	4,66,800	3,20,000

For example, Rajat's closing capital is $5,00,000 + 30,000 + 10,200 + 60,000 - 30,000 = \text{Rs } 5,70,200$. Each partner's debit and credit totals agree independently.

Step 5: Conclusion Revaluation profit is Rs 17,000. The closing capitals are Rajat Rs 5,70,200, Vidhi Rs 4,46,800 and Nitin Rs 3,20,000. Goodwill withdrawals total Rs 50,000.

Quick Tip to Solve: Charge only Rs 3,000 extra provision to revaluation; then credit the full goodwill premium before debiting the 50% withdrawals.

OR

26(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:		Land and Building	7,50,000
Abha 5,00,000		Plant and Machinery	3,50,000
Binita 4,00,000		Stock	1,64,000
Rita 3,00,000	12,00,000	Debtors 90,000	
General Reserve	1,00,000	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 profit or loss and accumulated reserves are shared by all partners in their old ratio, including the retiring partner.
- The retiring partner's goodwill entitlement is borne by the continuing partners in their gaining ratio without opening a goodwill asset account.
- Continuing partners adjust cash after all capital adjustments so their final capitals equal the agreed total capital multiplied by their new shares.

Step 1: Determine the ratios and goodwill adjustment **Working Notes**

Abha, Binita and Rita's old ratio is $3:3:4$. No different arrangement is given for Abha and Binita, so they continue in their relative old ratio $3:3=1:1$. Each increases her share from $3/10$ to $1/2$, gaining $1/5$; hence the gaining ratio is also $1:1$.

$$\text{Rita's goodwill share} = 2,00,000 \times \frac{4}{10} = \text{Rs } 80,000.$$

Debit Abha's and Binita's capitals by Rs 40,000 each and credit Rita's capital by Rs 80,000. The general reserve of Rs 1,00,000 is credited to the three capitals as Rs 30,000, Rs 30,000 and Rs 40,000 respectively. Both adjustments precede the cash adjustment of continuing partners' capitals.

Step 2: Calculate the revaluation loss Stock decreases by Rs 10,000. The required provision for doubtful debts is $90,000 \times 5\% = \text{Rs } 4,500$. Since Rs 2,000 already exists, the additional charge is only Rs 2,500. The new legal-charges provision of Rs 7,500 also reduces the partners' net assets.

$$\begin{aligned}
\text{Revaluation loss} &= 10,000 + 2,500 + 7,500 = \text{Rs } 20,000,\\
\text{Abha's share} &= 20,000 \times 3/10 = \text{Rs } 6,000,\\
\text{Binita's share} &= 20,000 \times 3/10 = \text{Rs } 6,000,\\
\text{Rita's share} &= 20,000 \times 4/10 = \text{Rs } 8,000.
\end{aligned}$$

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Stock A/c	10,000	By Abha's Capital A/c	6,000
To Provision for Doubtful Debts A/c	2,500	By Binita's Capital A/c	6,000
To Provision for Legal Charges A/c	7,500	By Rita's Capital A/c	8,000
Total	20,000	Total	20,000

Transferring the loss to the partners closes the Revaluation Account.

Step 3: Find the cash adjustments and retiring balance After reserve, goodwill and revaluation, the capital balances are:

$$\begin{aligned}
\text{Abha} &= 5,00,000 + 30,000 - 40,000 - 6,000 = \text{Rs } 4,84,000,\\
\text{Binita} &= 4,00,000 + 30,000 - 40,000 - 6,000 = \text{Rs } 3,84,000,\\
\text{Rita} &= 3,00,000 + 40,000 + 80,000 - 8,000 = \text{Rs } 4,12,000.
\end{aligned}$$

The new firm's total capital is Rs 10,00,000. At $1:1$, each continuing partner must have Rs 5,00,000. Abha therefore brings $5,00,000 - 4,84,000 =$ Rs $16,000$, and Binita brings $5,00,000 - 3,84,000 =$ Rs $1,16,000$. Rita is not paid cash: her entire Rs 4,12,000 balance becomes a loan payable by the firm.

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

Dr.							Cr.
Particulars	Abha	Binita	Rita	Particulars	Abha	Binita	Rita
To Revaluation A/c	6,000	6,000	8,000	By Balance b/d	5,00,000	4,00,000	3,00,000
To Rita's Capital A/c	40,000	40,000	–	By General Reserve	30,000	30,000	40,000
To Rita's Loan A/c	–	–	4,12,000	By Abha's Capital A/c	–	–	40,000
To Balance c/d	5,00,000	5,00,000	–	By Binita's Capital A/c	–	–	40,000
				By Cash A/c	16,000	1,16,000	–
Total	5,46,000	5,46,000	4,20,000	Total	5,46,000	5,46,000	4,20,000

The two continuing capitals now total Rs 10,00,000. Rita's capital account closes completely because the amount due to her has been transferred to her loan account.

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's loan is Rs 4,12,000.

Quick Tip to Solve: Adjust reserve, goodwill and revaluation before comparing each continuing capital with Rs 5,00,000; transfer Rita's final balance to loan, not cash.

Part B (20 marks)

Option I (Analysis of Financial Statements)

27(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 relate to owners' capital and borrowings. Interest paid is the cash cost of borrowed finance.
- In the standard cash flow classification for a non-financial enterprise, interest paid is a financing outflow, while normal trading payments are operating outflows.

Step 1: Identify the cost of borrowing Interest paid on long-term borrowings arises from funds borrowed to finance the enterprise. Under the classification used here, this interest payment is reported under financing activities. Its payment reduces cash, so it is a financing cash outflow.

Step 2: Check the other activities Cash purchases of goods form part of normal trading operations. Receipt of rent is not a financing receipt; ordinarily it is an investing receipt under the non-financial enterprise classification. Income tax paid is normally an operating outflow unless specifically attributable to an investing or financing transaction, and no such attribution is stated here. Thus options (A), (B) and (D) do not describe the financing payment asked for.

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 borrowings to the cost of finance; distinguish it from purchases and normal income tax payments, which are operating cash flows.

OR

27(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 and the related day-to-day payments of an enterprise.
- Payments to employees for services are operating cash outflows. Acquisition or disposal of non-current assets is investing, while transactions with providers of capital are financing.

Step 1: Identify the routine operating payment Employee benefit expenses paid include cash paid for the employees' services in running the business. These payments arise from normal operations and reduce cash. They therefore appear as cash outflows from operating activities.

Step 2: Classify the remaining transactions Interim dividend paid on equity shares is a distribution to owners and is a financing outflow. Proceeds from selling patents arise from disposal of an intangible non-current asset, so they are an investing inflow. Redemption of preference shares returns capital to shareholders and is a financing outflow. None of these three transactions is a routine payment for the enterprise's 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: Classify cash paid to employees as operating, a patent sale as investing, and dividend or capital repayments to shareholders as financing.

28(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 two or more accounting periods side by side.
- They show absolute changes and percentage changes, allowing the direction of change in performance and financial position to be identified.

Step 1: Identify the purpose of comparison A comparative balance sheet reveals changes in financial position, while a comparative statement of profit and loss reveals changes in operating results. Comparing successive periods shows whether relevant items have increased or decreased and thus indicates their trend and direction.

Step 2: Distinguish the other tools Ratio analysis examines relationships between financial items; cash flow analysis explains changes in cash and cash equivalents. A common size statement expresses each item as a percentage of a common base. The question specifically describes the period-to-period comparison provided by comparative statements.

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

Quick Tip to Solve: Look for changes between periods: absolute and percentage increases or decreases point to a comparative statement.

OR

28(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 financial-statement item as a percentage of a common base.

- For each item, Common size percentage $= \dfrac{\text{Item amount}}{\text{Common base amount}} \times 100$.

Step 1: Identify the common-base approach In a common size statement of profit and loss, revenue from operations is taken as 100%. In a common size balance sheet, the total of assets or the total of equity and liabilities is taken as 100%. This expresses the relative size of each item.

Step 2: Eliminate the other statements An ordinary statement of profit and loss reports income, expenses and profit in monetary amounts. A position statement reports assets, equity and liabilities. A comparative statement emphasises changes between periods. None of these names specifically denotes expressing every item as a percentage of a common base.

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

Quick Tip to Solve: An item divided by one common total indicates common size analysis; changes between years indicate comparative analysis.

29. 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 $= \dfrac{\text{Quick assets}}{\text{Current liabilities}}$; quick assets exclude inventories and prepaid expenses.
- Cash and trade receivables are quick assets. Buying inventory for cash reduces quick assets without changing current liabilities.

Step 1: Test payment and purchase transactions Let current liabilities be L, so quick assets are $2L$. Paying outstanding salaries of x, where $0 < x < L$, gives $\dfrac{2L-x}{L-x} = 2 + \dfrac{x}{L-x} > 2$; therefore (A) increases the ratio. Purchasing goods for cash of x gives $\dfrac{2L-x}{L} = 2 - \dfrac{x}{L} < 2$, because the inventory received is not a quick asset.

Step 2: Test the remaining transactions A cash sale of goods adds cash to quick assets, even if the goods are sold at a loss: inventory was already excluded from quick assets. Thus (C) increases the quick ratio. Cash received from trade receivables merely exchanges one quick asset for another, leaving total quick assets and the ratio unchanged; hence (D) does not reduce it.

Step 3: Conclusion Purchase of Goods for Cash reduces the quick ratio. Hence, the correct option is (B).

Quick Tip to Solve: For quick ratio questions, exclude stock first: a cash purchase converts a quick asset into an excluded asset.

30. 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 the size or composition of owners' capital and borrowings.
- Only transactions involving cash or cash equivalents enter the cash flow statement; non-cash financing transactions are disclosed separately elsewhere in the financial statements.

Step 1: Evaluate Statement I Separate disclosure of financing cash flows helps users identify funds obtained from owners and lenders and payments made to them. This information helps predict future claims such as repayments and distributions by these providers of funds. Statement I is therefore true.

Step 2: Evaluate Statement II A financing transaction without any movement of cash or cash equivalents does not generate a cash flow. For example, converting debentures into equity shares changes the financing structure but involves no receipt or payment of cash. Such a transaction is excluded from the cash flow statement, so Statement II is false.

Step 3: Match the combination The required combination is true for Statement I and false for Statement II. Option (B) reverses these judgments, while (C) and (D) incorrectly give both statements the same truth value.

Step 4: Conclusion Statement I is true and Statement II is false. Hence, the correct option is (A).

Quick Tip to Solve: Check for actual cash movement before classifying an activity: non-cash financing changes never enter the cash flow statement.

31. 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:

- In a common size statement of profit and loss, revenue from operations for each year is the base, taken as 100%.
- Item percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations of that year}} \times 100$.
- Tax is calculated on profit before tax; its common size percentage is then calculated on revenue from operations.

Step 1: Calculate expenses, profit and tax **Working Notes**

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

For 2023–24, total expenses are Rs $5,00,000 + 2,50,000 = 7,50,000$. Profit before tax is Rs $10,00,000 - 7,50,000 = 2,50,000$. Tax is Rs $2,50,000 \times 30\% = 75,000$, 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 (%)
I. Revenue from operations	20,00,000	10,00,000	100	100
II. Total revenue	20,00,000	10,00,000	100	100
III. 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
IV. Profit before tax	5,00,000	2,50,000	25	25
V. Tax expense	2,00,000	75,000	10	7.5
VI. Profit after tax	3,00,000	1,75,000	15	17.5

For example, the tax percentage in 2024–25 is $\frac{2,00,000}{20,00,000} \times 100 = 10\%$, whereas in 2023–24 it is $\frac{75,000}{10,00,000} \times 100 = 7.5\%$. The stated tax rates of 40% and 30% apply to profit before tax, not to revenue.

Step 3: Conclusion Expenses are 75% and profit before tax is 25% of revenue in both years. Profit after tax is 15% in 2024–25 and 17.5% in 2023–24, reflecting the different tax rates.

Quick Tip to Solve: Apply the tax rate to profit before tax first; divide the resulting tax amount by revenue to obtain the common size tax percentage.

32. 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:

- Schedule III classifies balance-sheet items under major heads and appropriate sub-heads according to their nature.
- A liability is an obligation to pay; an asset represents a future economic benefit. The operating cycle or expected settlement or use determines current versus non-current classification.

Step 1: Classify unclaimed dividend Unclaimed dividend is a dividend already payable to shareholders but not yet collected by them. The company continues to owe this amount, so it is a liability rather than a reserve or an expense. It is shown under the major head Current liabilities and the sub-head Other current liabilities.

Step 2: Classify vehicles Vehicles used in the company's business are physical assets held for continuing use rather than for sale in the ordinary course of business. They are classified under Non-current assets, within Property, plant and equipment (tangible fixed assets). They are not inventory merely because they could eventually be sold.

Step 3: Classify prepaid insurance and summarise Prepaid insurance is the portion of an insurance payment relating to a future coverage period. It gives a future benefit rather than a refund claim against a trade debtor. In the normal current-period classification used here, it is shown under Current assets and Other current assets.

Balance Sheet Classification (Schedule III)

Item	Major head	Sub-head
(i) Unclaimed dividend	Current liabilities	Other current liabilities
(ii) Vehicles	Non-current assets	Property, plant and equipment (tangible fixed assets)
(iii) Prepaid insurance	Current assets	Other current assets

Step 4: Conclusion Unclaimed dividend is an other current liability; vehicles are non-current tangible fixed assets; prepaid insurance is an other current asset.

Quick Tip to Solve: Trace the nature of the item: dividend still owed is a liability, a vehicle used in business is a fixed asset, and advance insurance is a future benefit.

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 the profit earned before interest and tax in relation to the long-term funds employed: $\text{ROI} = \dfrac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$.
- Capital employed equals non-current assets plus working capital, where working capital is current assets less current liabilities.
- Net profit after tax is the profit remaining after tax on profit before tax. Therefore, $\text{Profit before Tax} = \dfrac{\text{Profit after Tax}}{1 - \text{Tax Rate}}$. Interest is added back after reversing tax.

Step 1: Recover profit before tax The given Rs 7,00,000 is after both interest and tax. At a tax rate of 30%, it represents 70% of profit before tax, so divide by 0.70; simply adding 30% of the after-tax profit would not reverse the deduction correctly.

$$\text{Profit before Tax} = \frac{7,00,000}{0.70} = \text{Rs } 10,00,000.$$

The implied tax is Rs 3,00,000, leaving the given after-tax profit of Rs 7,00,000.

Step 2: Add back the interest on long-term debt ROI relates the return to all long-term funds, including borrowed funds, so interest charged on that debt must be restored to the numerator.

$$\begin{aligned} \text{Interest} &= 20,00,000 \times \frac{10}{100} = \text{Rs } 2,00,000, \\ \text{Profit before Interest and Tax} &= 10,00,000 + 2,00,000 \\ &= \text{Rs } 12,00,000. \end{aligned}$$

Step 3: Calculate capital employed and the return Deduct current liabilities from current assets to find the working capital financed by long-term funds. Add this to non-current assets.

$$\begin{aligned} \text{Working Capital} &= 6,00,000 - 2,00,000 = \text{Rs } 4,00,000, \\ \text{Capital Employed} &= 21,00,000 + 4,00,000 = \text{Rs } 25,00,000, \\ \text{ROI} &= \frac{12,00,000}{25,00,000} \times 100 = 48\%. \end{aligned}$$

Long-term debt is already a source of capital employed; adding it again to this asset-based denominator would count the same financing twice.

Step 4: Conclusion Return on Investment is $\boxed{48\%}$, using profit before interest and tax of Rs 12,00,000 and capital employed of Rs 25,00,000.

Quick Tip to Solve: Reverse tax first by dividing Rs 7,00,000 by 0.70, then add interest; use non-current assets plus net working capital for the denominator.

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 compares long-term debt with shareholders' funds: $\text{Debt Equity Ratio} = \dfrac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$.
- Shareholders' funds include equity share capital, preference share capital and reserves and surplus. Preference capital remains owners' funds even though its dividend rate may be fixed.
- Debt to Capital Employed Ratio compares long-term debt with total long-term funds: $\dfrac{\text{Long-term Debt}}{\text{Capital Employed}}$, where capital employed is shareholders' funds plus non-current liabilities.

Step 1: Determine shareholders' funds and long-term debt Add both classes of share capital and both reserves and surplus balances. The surplus in the Statement of Profit and Loss is retained profit belonging to shareholders, so it is included with general reserve.

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

The given non-current liabilities of Rs 6,00,000 constitute long-term debt. Current liabilities of Rs 2,00,000 are excluded from debt for these long-term solvency ratios.

Step 2: Calculate the Debt Equity Ratio Use the same long-term debt figure in the numerator and the shareholders' funds just calculated in the denominator.

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

Thus, for each Re 1 of shareholders' funds, the company has Rs 0.50 of long-term debt. Treating preference share capital as debt would incorrectly reduce equity and increase debt.

Step 3: Calculate capital employed and the second ratio Capital employed includes funds provided by both shareholders and long-term lenders.

$$\begin{aligned}\text{Capital Employed} &= 12,00,000 + 6,00,000\\ &= \text{Rs } 18,00,000,\\ \text{Debt to Capital Employed Ratio} &= \frac{6,00,000}{18,00,000}\\ &= 1 : 3 \quad \text{or approximately } 0.33 : 1.\end{aligned}$$

Current assets need not be used because capital employed can be found directly from its financing sources. Adding current assets to these sources would double count assets financed by them; current liabilities are not added to long-term capital employed.

Step 4: Conclusion (i) Debt Equity Ratio is $\boxed{0.5:1}$.

(ii) Debt to Capital Employed Ratio is $\boxed{1:3}$, or approximately $\boxed{0.33:1}$.

Quick Tip to Solve: Keep long-term debt at Rs 6,00,000 in both numerators; change the denominator from shareholders' funds of Rs 12,00,000 to total long-term funds of Rs 18,00,000.

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

Particulars	31.03.2025 (Rs)	31.03.2024 (Rs)
Machinery (At Cost)	3,80,000	3,00,000
Accumulated Depreciation	62,000	45,000
Investments	1,00,000	80,000
Goodwill	1,80,000	2,00,000

Additional Information :

(i) A machine having a book value of Rs 1,40,000 was sold for Rs 1,10,000.

(ii) Depreciation charged on the machine during the year was Rs 40,000.

(iii) Investments costing Rs 90,000 were purchased and some investments were sold at a profit of Rs 8,000.

(iv) Interest received on investments was Rs 8,000. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire fixed assets and investments, and cash received on their disposal. For a non-financial company, interest received on investments is also an investing inflow.
- Machinery is given at cost. Its disposal must therefore be removed at original cost, obtained by adding the depreciation accumulated on the disposed asset to its book value.
- Depreciation, loss on sale and goodwill written off are non-cash charges. They are not separate investing payments; actual purchase and sale proceeds determine investing cash flows.

Step 1: Find the original cost of the machinery sold **Working Notes**

The opening accumulated depreciation, together with the year's charge, is reduced by the depreciation relating to machinery sold to arrive at the closing balance. Therefore,

$$\begin{aligned}\text{Depreciation on machinery sold} &= 45,000 + 40,000 - 62,000 \\ &= \text{Rs } 23,000.\end{aligned}$$

The question gives book value, not original cost, of the disposed machinery. Add back its accumulated

depreciation:

$$\text{Original cost sold} = 1,40,000 + 23,000 = \text{Rs } 1,63,000.$$

Its cash proceeds are Rs 1,10,000. The difference of Rs 30,000 between book value and proceeds is a loss on disposal; it is not an additional cash payment.

Step 2: Calculate the purchase of machinery Reconcile machinery at cost using opening cost plus purchases less original cost sold equals closing cost. Thus,

$$\begin{aligned}\text{Purchases} &= \text{Closing cost} - \text{Opening cost} + \text{Cost sold}\\ &= 3,80,000 - 3,00,000 + 1,63,000\\ &= \text{Rs } 2,43,000.\end{aligned}$$

This is an investing outflow. As a check, Rs 3,00,000 plus Rs 2,43,000 less Rs 1,63,000 equals the closing machinery cost of Rs 3,80,000. Using the sold machine's book value here would mix net value with cost and understate purchases.

Step 3: Calculate investment sale proceeds The investment balances are reconciled at cost; the profit is then added to the cost of investments sold to find the cash receipt:

$$\begin{aligned}\text{Cost of investments sold} &= 80,000 + 90,000 - 1,00,000\\ &= \text{Rs } 70,000,\\ \text{Sale proceeds} &= 70,000 + 8,000 = \text{Rs } 78,000.\end{aligned}$$

Purchases of investments, Rs 90,000, are an outflow. Interest received, Rs 8,000, is a separate investing inflow; it must not be confused with the Rs 8,000 profit included in the sale proceeds. The Rs 20,000 fall in goodwill represents goodwill written off, as no disposal is stated, and gives no investing cash flow.

Step 4: Prepare the investing activities extract **Nishant Ltd.**
Cash Flow Statement (Extract)
For the year ended 31 March 2025

Particulars	Amount (Rs)
B. Cash Flows from Investing Activities	
Sale of machinery	1,10,000
Sale of investments	78,000
Interest received on investments	8,000
Total investing cash inflows	1,96,000
Purchase of machinery	(2,43,000)
Purchase of investments	(90,000)
Total investing cash outflows	(3,33,000)
Net cash used in investing activities	**(1,37,000)**

Parentheses show cash outflows. The net amount follows from total cash receipts of Rs 1,96,000 less total cash payments of Rs 3,33,000.

Step 5: Conclusion Cash flows from investing activities are $\boxed{\text{Rs } (1,37,000)}$, i.e. a net cash outflow of Rs 1,37,000.

Quick Tip to Solve: When machinery is shown at cost, first reconstruct the depreciation removed on disposal; add it to book value before balancing the cost account for purchases.

Option II (Computerised Accounting)

27(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 software is an existing accounting package modified to meet a particular user's requirements.
- Specialised features and changes require user training, maintenance and suitable access controls.

Step 1: Identify the false feature The question asks which statement is not a feature. Customisation changes screens, procedures or reports for the organisation, so users need training to operate the modified system correctly. A claim that no training is required is therefore unsuitable.

Step 2: Check the other alternatives Option (A) defines customisation. Option (B) reflects the maintenance needed for the modified package. Option (C) is consistent with access restrictions and security designed for the user. These are recognised features; the claim in (D) is the exception.

Step 3: Conclusion No training required to use the software is not a feature of customised accounting software. Hence, the correct option is (D).

Quick Tip to Solve: For a negative question, distinguish genuine customisation benefits from the false claim that a modified system needs no training.

OR

27(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 formatting choices to a selected table or cell range.
- The traditional AutoFormat gallery referred to in this question contains 17 predefined styles.

Step 1: Recall the AutoFormat count The question refers to the predefined AutoFormat styles used to

give spreadsheet data a professional appearance. The prescribed count is 17 styles. A style coordinates formatting features such as fonts, borders, alignment and number appearance.

Step 2: Match the count to the options The number 17 appears in option (A). The alternatives 34, 7 and 119 do not give the number of predefined AutoFormat styles. Do not confuse this gallery with other collections of table designs or cell-formatting choices.

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

Quick Tip to Solve: Remember the specific AutoFormat count as 17; counts for other Excel formatting galleries do not answer this question.

28. 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 memorandum or provisional transaction without posting it to the regular accounts.
- An accounting voucher affects ledger balances when it is posted; a memo remains a non-accounting record until converted into an accounting voucher.

Step 1: Identify the non-accounting record A memo voucher stores information for reference or later confirmation. Its entry is excluded from the regular books, so it does not change the user's account balances in its memo form. This matches the defining condition in the question.

Step 2: Eliminate the other vouchers A post-dated voucher is intended to become effective on its specified date; it is not inherently a memorandum record. A user-defined voucher is a customised voucher type and need not be non-accounting. A contra voucher records transfers involving cash and bank accounts, so it affects those accounts.

Step 3: Conclusion The voucher is a Memo Voucher. Hence, the correct option is (C).

Quick Tip to Solve: Link the word memo with a memorandum kept outside regular ledger postings; a future date alone does not make a voucher a memo.

29. 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 distinguishes the current working date from the accounting or reporting period.
- The keyboard shortcut Alt + F2 opens the change-period facility for setting the relevant date range.

Step 1: Identify the requested function The question asks for changing the system period, which involves the beginning and ending dates of the period used on screen. In Tally, Alt + F2 invokes the Change Period facility. The plain F2 key is associated with changing the current date, a different action.

Step 2: Select the matching shortcut Option (B) gives Alt + F2 exactly. Alt + F1, Alt + F4 and Alt + F6 are not the shortcut for changing the period. Match the requested period function to its specific key combination rather than choosing a shortcut merely because it contains Alt.

Step 3: Conclusion Use Alt + F2 to change the period. Hence, the correct option is (B).

Quick Tip to Solve: Keep the pair distinct: F2 changes the date, while Alt + F2 changes the period.

30(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 shows data in circular rings divided into segments.
- Each ring represents a data series, while its segments show the contributions of the data points within that series.

Step 1: Recognise the ring structure The decisive phrase is that each ring represents a data series. A doughnut chart supports this arrangement: multiple series can appear as concentric rings, and each ring is divided into sectors for its component values.

Step 2: Compare the remaining chart types A radar chart plots values along axes radiating from a central point, rather than as separate data rings. A pie chart uses sectors of a filled circle and normally represents a single series. Therefore neither the radar chart nor the pie chart, nor their combination in option (D), matches the stated structure.

Step 3: Conclusion The chart is a Doughnut chart. Hence, the correct option is (A).

Quick Tip to Solve: Use the visual clue: concentric data rings mean doughnut; a single filled circle divided into sectors means pie.

OR

30(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:

- A label is a text entry, which may contain letters or special characters, used to identify or describe spreadsheet information.
- Labels provide headings and descriptions; numerical values are the entries normally used in arithmetic calculations.

Step 1: Identify the nature and purpose of labels A cell containing a heading such as Sales or Account Name contains a label. Thus, a label can be text or a special character, as stated in (B), and can describe a row or column, as stated in (C). These statements describe its content and its use, respectively.

Step 2: Compare all the options Option (A) describes numerical values that can be treated mathematically, rather than labels. Options (B) and (C) are individually true, so selecting only either one would omit another correct statement. Option (D) combines both correct descriptions.

Step 3: Conclusion Labels are text or special characters used for descriptive information in rows or columns. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish a column heading such as Sales from the numerical sales amounts entered below it: the heading is a label.

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

Solution:

Concept:

- A chart of accounts is the organised list of ledger accounts used by an entity in its accounting system.
- Account names, identification codes and groups provide a consistent basis for classifying transactions and preparing financial reports.

Step 1: Explain the meaning and contents The chart of accounts is the framework of accounts maintained in accounting software. It lists the accounts needed to record the business's transactions, normally with a unique account code and an account name. For example, Cash, Bank, Purchases, Sales and Capital are separate accounts. A unique code identifies an account without confusion even where account names are similar.

Step 2: Explain the grouping of accounts Accounts are arranged systematically under suitable heads, such as assets, liabilities, equity or capital, income and expenses. Each head may contain subgroups and individual ledger accounts. For example, Cash and Bank may be grouped under current assets, while Salaries is grouped under expenses. This hierarchy establishes the nature and reporting position of each account.

Step 3: State its use in accounting software While entering a transaction, the user selects the appropriate accounts from this organised list. The software posts the transaction to those ledgers and uses their groupings to compile the trial balance and financial statements. A properly designed chart therefore promotes consistent recording, facilitates retrieval and summarisation, and reduces classification errors. It can be tailored to the nature and reporting needs of the business.

Step 4: Conclusion A chart of accounts is a systematically coded and grouped list of ledger accounts that forms the basic classification framework for recording transactions and generating accounting reports.

Quick Tip to Solve: Explain a chart of accounts through three linked ideas: the account list, its codes and groups, and its role in recording and reporting.

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

Solution:

Concept:

- Conditional formatting automatically changes a cell's appearance when its value satisfies a specified rule or condition.
- It changes presentation, such as colour, font or visual indicators; it does not change the underlying accounting data.

Step 1: Explain quick identification of exceptions Conditional formatting highlights important or unusual entries in a large set of accounting records. For example, a rule can display overdue

receivables in red or highlight expenses exceeding a budget limit. The accountant can then identify accounts requiring attention without examining every entry individually, saving review time and helping prompt follow-up.

Step 2: Explain easier comparison and analysis Colour scales, data bars and similar formats make differences between values easy to see. For example, sales figures for several months can be compared visually, and unusually low or high values can be identified quickly. This makes trends and relative performance clearer and assists management in analysing accounting information and making decisions.

Step 3: Explain automatic and consistent updating Once a rule is applied to a selected range, the formatting responds automatically when values change. For example, if a debtor's outstanding balance falls below the specified threshold, the highlighting changes accordingly. The same condition is applied consistently to all cells in the range, avoiding repeated manual formatting and reducing the chance of overlooking an entry that now needs attention.

Step 4: Conclusion Three advantages are rapid identification of exceptions, easier visual comparison and analysis, and automatic, consistent updating of the presentation when accounting data changes.

Quick Tip to Solve: For each advantage, give one accounting example and explain how the highlighting helps; do not describe formatting as changing the actual values.

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 confidentiality means protecting business information from disclosure to unauthorised persons, including competitors.
- A computerised accounting system can preserve secrecy by controlling access and by making stored or transmitted information unreadable without authorisation.

Step 1: Explain password security Password security requires a user to provide valid credentials before the software allows access to the accounting data. A secret password therefore acts as an access control and prevents persons who do not have authorised credentials from opening the protected system or data. User accounts can also be assigned access rights, so that an employee sees or operates only the records relevant to that employee's duties. For example, a billing clerk may enter invoices while confidential financial reports are accessible only to the manager. Strong, confidential passwords and appropriate user permissions help prevent competitors or other unauthorised persons from obtaining sensitive records.

Step 2: Explain data encryption Encryption converts readable accounting information into a coded form by using an encryption method and a key. To recover the original information, an authorised user needs the appropriate decryption key. Thus, merely obtaining a copy of an encrypted file does not make its contents readily understandable to an outsider. For example, customer details, pricing records and financial data can be protected in encrypted storage or during electronic transmission.

The decryption key must be kept secure so that unauthorised persons cannot decode the information.

Step 3: Conclusion Password security restricts entry to the system and its records, while data encryption protects the readability of the information. These two features help a business maintain the secrecy of its accounting data.

Quick Tip to Solve: Link each feature to its purpose: passwords control who can access records; encryption controls who can read the protected 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:

- An internal margin is the blank space between the text inside a chart element and the corresponding border of that element.
- The Left, Right, Top and Bottom margin options control the four sides independently; increasing a margin adds space on that side, while decreasing it removes space.

Step 1: Locate the internal-margin settings Select the chart element containing the text, such as a chart title or a text box. Open its Format dialog box and select the Text Box settings. Under Internal margin, change the required margin value using its value box or the increase/decrease controls. These settings change the space inside the selected element, rather than the margins of the worksheet page.

Step 2: Adjust the left and right margins **Left:** This option specifies the distance between the text and the left border of the chart element. Increasing it creates more blank space on the left; decreasing it brings the text area closer to the left border.

Right: This option specifies the distance between the text and the right border. Increasing it creates more blank space on the right; decreasing it allows the text area to extend nearer the right border. With the element's width unchanged, larger left or right margins leave less width for the text and may cause wrapping.

Step 3: Adjust the top and bottom margins **Top:** This option specifies the distance between the text and the top border. Increasing it adds space above the text, while decreasing it reduces the space above the text.

Bottom: This option specifies the distance between the text and the bottom border. Increasing it adds blank space below the text; decreasing it brings the text area closer to the bottom border. These two options control vertical internal spacing. Check the appearance after making changes so that the text remains comfortably readable within the element.

Step 4: Conclusion The four internal-margin options are Left, Right, Top and Bottom. Raise or lower the appropriate value in the Text Box settings to increase or decrease the text-to-border distance on that side.

Quick Tip to Solve: Match each margin name to the border on the same side; increasing a margin always increases the blank space inside that border.

34. Explain the use of the PV (Present Value) function in Computerised Accounting. How is it applied in MS Excel to calculate the present value of future payments ? Write the formula to calculate present value of Rs 20,000 paid annually for the repayment of a loan for 10 years at an interest rate of 9%. [6 marks]

Solution:

Concept:

- Present value is the amount today equivalent to future cash payments, after discounting them at the given interest rate. Money payable in the future has a lower present value when the discount rate is positive.
- Excel's PV function calculates present value using a constant interest rate and equal periodic payments. It helps determine the current amount of a loan or the present worth of a stream of payments.
- The interest rate and the number of periods must use the same time unit. Cash received and cash paid must have opposite signs in Excel's financial functions.

Step 1: State the syntax and its arguments The Excel syntax is `=PV(rate,nper,pmt,[fv],[type])`. `rate` is the interest rate per payment period; `nper` is the total number of payment periods; and `pmt` is the equal payment made each period. The optional `fv` argument is the balance desired after the final payment; it is zero for a completely repaid loan and defaults to zero if omitted. The optional `type` argument is 0 for payments at the end of each period and 1 for payments at the beginning. When omitted, `type` defaults to 0.

Step 2: Identify the inputs for annual repayments The repayment is Rs 20,000 each year for 10 years at an annual interest rate of 9%. Since the payments are annual, use `rate` = 9%, `nper` = 10 and `pmt` = -20000. The negative payment represents cash paid out by the borrower; the present loan proceeds are consequently positive. Set `fv` = 0 because no balance remains after repayment. Since beginning-of-year payments are not specified, take payments at the end of each year and use `type` = 0.

Step 3: Enter the Excel formula In a worksheet cell, enter `=PV(9%,10,-20000,0,0)` and press Enter. The shorter formula `=PV(9%,10,-20000)` gives the same result because both omitted arguments default to zero. The returned positive amount is the loan principal that can be repaid by the given annual instalments at the stated rate.

Step 4: Check the present value by discounting For equal payments at the end of each year, the ordinary-annuity formula is

$$PV = A\frac{1-(1+r)^{-n}}{r},$$

where A is the annual repayment, r the annual interest rate and n the number of years. Substituting,

$$\begin{aligned} PV &= 20,000\frac{1-(1.09)^{-10}}{0.09} \\ &= 20,000 \times 6.417657701 \\ &\approx \text{Rs } 1,28,353.15. \end{aligned}$$

If `pmt` were entered as positive 20000, Excel would return the same present-value magnitude with a

negative sign, because it requires opposite signs for the two cash-flow directions.

Step 5: Conclusion PV converts the future repayments into their equivalent value today. With year-end payments, use `=PV(9%,10,-20000,0,0)`; the present value of the loan is approximately Rs 1,28,353.15.

Quick Tip to Solve: Annual repayments need the annual rate and 10 periods; enter repayments as negative to obtain a positive loan value, and use type 0 for year-end payments.