CBSE Class 12 Accountancy Question Paper 2026 with Solution PDF-Set 67-1-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

(ii) This question paper is divided into **two** Parts : **Part – A** and **Part – B**.

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

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

(v) Questions number **1** to **16** (Part-A) and Questions number **27** to **30** (Part-B) are multiple choice questions. Each question carries **1** mark.

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

(vii) Questions number **21, 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. The books of Ashish and Vishesh showed that their capital employed on 31st March, 2025 was Rs 4,00,000. If the normal profits are Rs 60,000 and super profits are Rs 40,000, the normal rate of return is: [1 mark]

(A) 10%

(B) 25%

(C) 15%

(D) 4%

Correct Answer: (C) 15%

Solution:

Concept:

- Normal profit is the return expected on capital employed at the normal rate.
- Normal rate of return equals normal profit divided by capital employed, multiplied by 100.

Step 1: Identify the relevant profit Use normal profit of Rs 60,000 and capital employed of Rs 4,00,000. Super profit of Rs 40,000 is the excess of actual profit over normal profit; it is not the numerator when calculating the normal rate.

Step 2: Calculate and check the options

$$\text{Normal rate} = \frac{60,000}{4,00,000} \times 100 = 15\%.$$

Option (A), 10%, uses super profit instead. Option (B), 25%, uses actual profit of Rs 1,00,000. Option (D), 4%, does not follow the normal-profit formula.

Step 3: Conclusion The normal rate of return is 15%. Hence, the correct option is (C).

Quick Tip to Solve: Use normal profit, not super profit or their sum, in the numerator.

2. Sakshi Ltd. forfeited 500 equity shares of Rs 10 each, issued at a premium of Rs 2 per share for non-payment of second and final call of Rs 4 per share (including premium).

The maximum amount of discount at which these shares can be reissued is: [1 mark]

(A) Rs 1 per share

(B) Rs 6 per share

(C) Rs 8 per share

(D) Rs 5 per share

Correct Answer: (C) Rs 8 per share

Solution:

Concept:

- The discount on reissue cannot exceed the amount forfeited on the shares being reissued.
- Share forfeiture contains capital already received; unpaid securities premium is excluded from it.

Step 1: Separate capital from premium The unpaid final call is Rs 4 per share including premium of Rs 2. Thus unpaid share capital is Rs 2 per share, while capital received is Rs 10 - Rs 2 = Rs 8 per share.

Step 2: Apply the reissue limit The forfeited capital available is $500 \times 8 = \text{Rs } 4,000$. Therefore the maximum reissue discount per share is $4,000/500 = \text{Rs } 8$. Rs 1, Rs 6 and Rs 5 are all below the permissible maximum and hence do not answer the question.

Step 3: Conclusion The maximum discount is Rs 8 per share. Hence, the correct option is (C).

Quick Tip to Solve: Remove the unpaid premium from the call before finding unpaid capital.

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3. Lalita, Shivani and Madhuri were partners in a firm sharing profits and losses in the ratio of 3:2:1. Madhuri retired from the firm on 31st March, 2025. The balance in her capital account on the date of her retirement was Rs 1,80,000. Lalita and Shivani agreed to pay her Rs 2,25,000 in full settlement of her claim.

The goodwill of the firm on Madhuri's retirement was: [1 mark]

(A) Rs 1,80,000

(B) Rs 2,25,000

(C) Rs 45,000

(D) Rs 2,70,000

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

Solution:

Concept:

- Excess settlement over the retiring partner's capital balance represents that partner's share of goodwill.
- Total goodwill equals the retiring partner's goodwill share divided by her old profit share.

Step 1: Find Madhuri's goodwill share Madhuri receives Rs 2,25,000 against capital of Rs 1,80,000.

The excess is

$$2,25,000 - 1,80,000 = \text{Rs } 45,000.$$

This is her goodwill entitlement, not the goodwill of the entire firm.

Step 2: Gross up to the firm's goodwill Her old share is $1/(3+2+1) = 1/6$. Hence the firm's goodwill is

$$45,000 \div \frac{1}{6} = \text{Rs } 2,70,000.$$

Rs 1,80,000 is her capital, Rs 2,25,000 is the settlement, and Rs 45,000 is only her share of goodwill.

Step 3: Conclusion The goodwill of the firm is Rs 2,70,000. Hence, the correct option is (D).

Quick Tip to Solve: First find excess settlement, then divide by the retiring partner's old share.

4. Chaman and Vatika were partners in a firm sharing profits and losses in the ratio of 4:5. They admitted Mohan as a new partner for 1/5th share in the profits of the firm. Mohan acquired his share equally from Chaman and Vatika. The new profit sharing ratio of Chaman, Vatika and Mohan will be: [1 mark]

(A) 2:2:1

(B) 31:41:18

(C) 41:31:18

(D) 7:8:5

Correct Answer: (B) 31:41:18

Solution:

Concept:

- An incoming partner's share is deducted from the old partners in their sacrificing ratio.
- Equal acquisition means each old partner sacrifices half the incoming share, irrespective of their old ratio.

Step 1: Find each sacrifice Mohan receives $1/5$ of total profit equally from Chaman and Vatika. Each therefore sacrifices $(1/5)/2 = 1/10$. Their old shares are $4/9$ and $5/9$.

Step 2: Calculate the new shares

$$\text{Chaman} = \frac{4}{9} - \frac{1}{10} = \frac{31}{90},$$
$$\text{Vatika} = \frac{5}{9} - \frac{1}{10} = \frac{41}{90},$$
$$\text{Mohan} = \frac{1}{5} = \frac{18}{90}.$$

The shares total one. Option (C) reverses the old partners; (A) and (D) fail to deduct equal sacrifices from the stated old shares.

Step 3: Conclusion The new ratio is $31 : 41 : 18$. Hence, the correct option is (B).

Quick Tip to Solve: Subtract one-tenth from each old share; do not distribute the remainder in the old ratio.

5. Sidhi, Gyan and Gayatri were partners in a firm sharing profits and losses in the ratio of 3:2:2. On 31st March, 2025 their firm was dissolved. At the time of dissolution a debtor amounting to Rs 25,000 whose debt had been previously written off as bad debt paid 40% of the amount. The accounting treatment for the above transaction will be: [1 mark]

(A) Rs 10,000 will be credited to bad debts recovered account.

(B) Rs 10,000 will be credited to the debtor's personal account.

(C) Rs 10,000 will be credited to realisation account.

(D) Rs 10,000 will be credited to bad debts account.

Correct Answer: (C) Rs 10,000 will be credited to realisation account.

Solution:

Concept:

- A debt already written off is an unrecorded asset at dissolution.
- Cash recovered from an unrecorded asset is credited to Realisation Account when the firm is dissolved.

Step 1: Calculate cash recovered The debtor pays 40% of the debt previously written off. Thus the bank receives

$$25,000 \times \frac{40}{100} = \text{Rs } 10,000.$$

No existing debtor balance remains to be reduced.

Step 2: Identify the credit account The recovery forms part of the proceeds from realising the dissolved firm's assets, so Bank Account is debited and Realisation Account is credited by Rs 10,000. Bad Debts Recovered Account is used for an ordinary continuing-business recovery; the debtor's personal account has already been written off, and Bad Debts Account records losses rather than these dissolution proceeds.

Step 3: Conclusion Rs 10,000 will be credited to Realisation Account. Hence, the correct option is (C).

Quick Tip to Solve: At dissolution, send proceeds of a previously written-off debt to Realisation Account.

6. Nidhi and Kunal were partners in a firm sharing profits and losses in the ratio of 4:1. Their capitals were Rs 3,00,000 and Rs 2,00,000 respectively. They were entitled to interest on capital @ 6% p.a. The firm earned a profit of Rs 15,000 during the year.

Interest on partners' capitals will be: [1 mark]

(A) Nidhi Rs 18,000; Kunal Rs 12,000

(B) Nidhi Rs 7,500; Kunal Rs 7,500

(C) Nidhi Rs 9,000; Kunal Rs 6,000

(D) Nidhi Rs 12,000; Kunal Rs 3,000

Correct Answer: (C) Nidhi Rs 9,000; Kunal Rs 6,000

Solution:

Concept:

- Interest on capital is an appropriation of profit unless the agreement makes it a charge.
- If profit is insufficient, distribute available profit in the ratio of the partners' calculated interest entitlements.

Step 1: Compute full interest entitlements At 6% per annum, Nidhi's interest is $3,00,000 \times 6/100 =$ Rs $18,000$, and Kunal's is $2,00,000 \times 6/100 =$ Rs $12,000$. Total entitlement of Rs 30,000 exceeds profit of Rs 15,000.

Step 2: Restrict interest to available profit The interest ratio is $18,000 : 12,000 = 3 : 2$. Thus Nidhi receives $15,000 \times 3/5 =$ Rs $9,000$, and Kunal receives $15,000 \times 2/5 =$ Rs $6,000$. Option (A) exceeds profit; (B) assumes equal entitlements; (D) incorrectly uses the profit-sharing ratio of 4:1.

Step 3: Conclusion Interest on capital is Nidhi Rs 9,000 and Kunal Rs 6,000. Hence, the correct option is (C).

Quick Tip to Solve: When profit is short, apportion it in the interest-entitlement ratio, not the profit-sharing ratio.

7(a). Dharam, Karam and Raman were partners in a firm sharing profits and losses in the ratio of 7:8:5. On 31st March, 2025, Raman retired from the firm. Dharam and Karam decided to share profits in future in the ratio of 11:9. Their gaining ratio will be: [1 mark]

(A) 1:1

(B) 1:2

(C) 4:1

(D) 2:1

Correct Answer: (C) 4:1

Solution:

Concept:

- A continuing partner's gain equals his new profit share minus his old profit share.
- The gaining ratio compares these increases, not the partners' new profit shares themselves.

Step 1: Express old and new shares The old ratio $7 : 8 : 5$ totals 20, so Dharam and Karam have old

shares $7/20$ and $8/20$. Their new ratio $11 : 9$ also totals 20, giving new shares $11/20$ and $9/20$.

Step 2: Compare the gains Dharam gains $11/20 - 7/20 = 4/20$, while Karam gains $9/20 - 8/20 = 1/20$. Together they gain $5/20$, exactly Raman's retired share. Thus their gains are in the ratio $4 : 1$; ratios 1:1, 1:2 and 2:1 do not match these increases.

Step 3: Conclusion The gaining ratio is $4 : 1$. Hence, the correct option is (C).

Quick Tip to Solve: Subtract old shares from new shares separately before forming the gaining ratio.

OR

7(b). Deen, Raju and Hari were partners in a firm sharing profit and losses in the ratio of 7:6:7. On 31st March, 2025 Raju died. Deen and Hari decided to take over Raju's share equally. The new profit sharing ratio between Deen and Hari will be: [1 mark]

(A) 1:1

(B) 7:6

(C) 6:7

(D) 3:2

Correct Answer: (A) 1:1

Solution:

Concept:

- The deceased partner's share is added to the continuing partners' shares in the agreed gaining ratio.
- Equal takeover means each continuing partner gains half of the deceased partner's share.

Step 1: Determine the equal gains The old total is $7 + 6 + 7 = 20$, and Raju's share is $6/20$. Deen and Hari acquire this equally, so each gains $3/20$. Each already holds $7/20$ of the profits.

Step 2: Calculate and compare new shares Deen's new share is $7/20 + 3/20 = 10/20$, and Hari's is also $7/20 + 3/20 = 10/20$. Their combined share is one, and their new ratio is $10 : 10 = 1 : 1$. Options (B), (C) and (D) give unequal shares, inconsistent with equal starting shares and equal gains.

Step 3: Conclusion The new profit-sharing ratio is $1 : 1$. Hence, the correct option is (A).

Quick Tip to Solve: Equal old shares plus equal gains leave the continuing partners with equal new shares.

8. Surya Ltd. issued 50,000 equity shares of Rs 10 each. The amount was payable as follows:

on Application - Rs 3 per share

on Allotment - Rs 2 per share

on First and Final Call - the balance

Usha, to whom 700 shares were allotted, paid her entire share money on allotment. Raj, to whom 300 shares were allotted did not pay the first and final call. The amount to be debited to Bank Account for first and final call after it becomes due will be: [1 mark]

(A) Rs 2,50,000

(B) Rs 2,48,500

(C) Rs 2,45,000

(D) Rs 2,52,000

Correct Answer: (C) Rs 2,45,000

Solution:

Concept:

- Call money already received as calls in advance is adjusted when the call becomes due; it is not a fresh bank receipt.
- Actual bank receipt equals total call due less calls in advance adjusted and calls in arrears.

Step 1: Find the call amount The first and final call per share is $10 - 3 - 2 = \text{Rs } 5$. Total call due is therefore $50,000 \times 5 = \text{Rs } 2,50,000$. Usha has already paid $700 \times 5 = \text{Rs } 3,500$ with allotment.

Step 2: Deduct advance and unpaid amounts Raj does not pay $300 \times 5 = \text{Rs } 1,500$. Fresh bank receipt is

$$2,50,000 - 3,500 - 1,500 = \text{Rs } 2,45,000.$$

Option (A) ignores both deductions; (B) ignores Usha's advance; (D) exceeds the entire call due and cannot be the actual receipt.

Step 3: Conclusion The amount debited to Bank Account is Rs 2,45,000. Hence, the correct option is (C).

Quick Tip to Solve: Deduct both the advance already banked and the unpaid call from the total call due.

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

Assertion (A): Partnership Agreement becomes the basis of relationship among the partners.

Reason (R): Partnership is the result of an agreement between two or more persons to do business and share its profits and losses.

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

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

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

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

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

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

Solution:

Concept:

- Partnership arises from an agreement between persons who agree to carry on business and share its results.
- The agreement sets out the rights, duties and mutual relationship of the partners.

Step 1: Assess the assertion The assertion is correct. The partnership agreement governs matters such as profit sharing, capital, drawings and the duties of partners, and therefore forms the basis of their relationship.

Step 2: Assess the reason The reason is also correct: partnership is created by agreement between two or more persons to conduct business and share its profits and losses.

Step 3: Connect the statements Because the partnership itself originates in an agreement, that agreement supplies the terms governing the relationship. Thus the reason explains the assertion. Option (B) wrongly denies this explanatory link; (C) and (D) wrongly reject a true statement.

Step 4: Conclusion Both statements are correct and the reason correctly explains the assertion. Correct option: (A).

Quick Tip to Solve: For assertion-reason questions, test each statement first and then test whether the reason explains the assertion.

10(a). **If 600 shares of Rs 10 each, issued at a premium of Rs 1 per share are forfeited on which Rs 8 per share (including premium) have been called and Rs 6 per share (including premium) have been paid, then 'Share Forfeiture Account' will be ____ by ____.** [1 mark]

(A) credited, Rs 3,000

(B) debited, Rs 3,000

(C) debited, Rs 3,600

(D) credited, Rs 3,600

Correct Answer: (A) credited, Rs 3,000

Solution:

Concept:

- Share Forfeiture Account is credited with the capital amount already received on the forfeited shares.
- Premium received is excluded from the amount transferred to Share Forfeiture Account.

Step 1: Separate capital from premium The Rs 6 paid per share includes the Rs 1 premium. Capital received per share is therefore $6 - 1 = \text{Rs } 5$. The Rs 8 called includes Rs 1 premium, so called-up share capital is Rs 7 per share.

Step 2: Calculate the forfeiture credit The capital received on 600 shares is $600 \times 5 = \text{Rs } 3,000$. This amount is credited to Share Forfeiture Account. Options (B) and (C) have the wrong debit direction. Option (D) includes the premium in forfeiture; premium already received remains in Securities Premium Account.

Step 3: Conclusion Share Forfeiture Account will be credited by Rs 3,000. Correct option: (A).

Quick Tip to Solve: Deduct premium already received from the amount paid before calculating the credit to Share Forfeiture Account.

OR

10(b). **T.D. Ltd. issued Rs 10,00,000, 9% debentures at a discount of 10% redeemable at a certain rate of premium. On issue of these 9% debentures, the premium on redemption of debentures account was credited by Rs 1,00,000. The amount of 'loss on issue of debentures' was:** [1 mark]

(A) Rs 1,00,000

(B) Rs 2,00,000

(C) Rs 3,00,000

(D) Nil

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

Solution:

Concept:

- Loss on issue equals discount on issue plus premium payable on redemption.
- The coupon interest rate is used for periodic interest, not for determining loss on issue.

Step 1: Find the discount Discount on issue is Rs $10,00,000 \times 10\% =$ Rs $1,00,000$. This is the shortfall of issue proceeds below the nominal value.

Step 2: Add the redemption obligation The credit to Premium on Redemption of Debentures Account is Rs 1,00,000, representing the additional amount payable on redemption. Thus total loss on issue is $1,00,000 + 1,00,000 =$ Rs $2,00,000$. Option (A) counts only one component; (C) adds an unsupported extra amount; (D) ignores both costs.

Step 3: Conclusion Loss on issue of debentures is Rs 2,00,000. Correct option: (B).

Quick Tip to Solve: Add both issue discount and redemption premium; the debenture coupon rate does not enter this calculation.

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11. On 1st April, 2024, Rajat Ltd. issued 6,000, 10% debentures of Rs 100 each at a discount of 8%. The total amount of interest due on debentures for the year ended 31st March, 2025 will be: [1 mark]

(A) Rs 60,000

(B) Rs 48,000

(C) Rs 36,000

(D) Rs 30,000

Correct Answer: (A) Rs 60,000

Solution:

Concept:

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

Step 1: Find nominal debenture capital Rajat Ltd. issued 6,000 debentures of Rs 100 each, so nominal capital is $6,000 \times 100 =$ Rs $6,00,000$. The 8% issue discount affects the cash received, not the contractual interest base.

Step 2: Apply the annual coupon The debentures are outstanding from 1st April, 2024 to 31st March, 2025, a full year. Interest due is $6,00,000 \times 10/100 =$ Rs $60,000$. Options (B) and (C) do not apply the stated 10% rate to nominal capital; option (D) represents only half of the full-year interest.

Step 3: Conclusion Total interest due is Rs 60,000. Correct option: (A).

Quick Tip to Solve: Always calculate debenture interest on face value; use the issue discount only when calculating issue proceeds.

12(a). Tarun and Tej were partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April 2024, Tej had given a loan of Rs 50,000 to the firm. The net profit of the firm before charging interest on loan was Rs 3,75,000. The firm closes its books on 31st March every year. The amount of profit transferred from Profit and Loss Account to Profit and Loss Appropriation Account will be: [1 mark]

(A) Rs 3,75,000

(B) Rs 3,72,000

(C) Rs 4,25,000

(D) Rs 3,78,000

Correct Answer: (B) Rs 3,72,000

Solution:

Concept:

- In the absence of an agreed rate, interest on a partner's loan is allowed at 6% per annum.
- Interest on a partner's loan is a charge against profit and is deducted before transferring net profit to Profit and Loss Appropriation Account.

Step 1: Calculate loan interest Tej advanced Rs 50,000 on 1st April, 2024. The loan remains for the full accounting year ending 31st March, 2025. With no rate specified, interest is $50,000 \times 6/100 =$ Rs $3,000$.

Step 2: Determine transferable profit Profit after charging loan interest is $3,75,000 - 3,000 =$ Rs $3,72,000$. The ratio 3:2 affects the later division of profit, not this charge. Option (A) omits interest, (C) adds the loan principal, and (D) adds interest instead of deducting it.

Step 3: Conclusion Profit transferred to Profit and Loss Appropriation Account is Rs 3,72,000. Correct option: (B).

Quick Tip to Solve: Deduct interest on a partner's loan before appropriating profits; without an agreed rate, use 6% per annum.

OR

12(b). Ashok and Vasu were partners in a firm sharing profits and losses in the ratio of 4:3. Their capitals on 31st March, 2025 were Rs 3,00,000 and Rs 3,75,000 respectively. During the year ended 31st March, 2025 Vasu withdrew Rs 40,000 for his personal use and introduced Rs 1,50,000 as additional capital in the business. Profit of the firm for the year ended 31st March, 2025 was Rs 1,40,000. Vasu's capital in the beginning of the year was: [1 mark]

(A) Rs 2,75,000

(B) Rs 4,25,000

(C) Rs 2,05,000

(D) Rs 3,45,000

Correct Answer: (C) Rs 2,05,000

Solution:

Concept:

- Closing capital equals opening capital plus additional capital and profit share, less drawings.
- Reverse the capital movements to recover opening capital from the closing balance.

Step 1: Find Vasu's profit share The sharing ratio of Ashok and Vasu is 4:3. Vasu receives $1,40,000 \times 3/7 = \text{Rs } 60,000$. This profit increases his capital.

Step 2: Reverse all capital movements Opening capital is closing capital plus drawings, less additional capital and profit:

$$3,75,000 + 40,000 - 1,50,000 - 60,000 = \text{Rs } 2,05,000.$$

Check: Rs 2,05,000 plus Rs 1,50,000 plus Rs 60,000 less Rs 40,000 gives Rs 3,75,000. Hence (A), (B) and (D) fail the capital reconciliation.

Step 3: Conclusion Vasu's opening capital was Rs 2,05,000. Correct option: (C).

Quick Tip to Solve: Work backwards from closing capital: add drawings and subtract additional capital and the partner's profit share.

13. Soni and Kush were partners in a firm sharing profits and losses in the ratio of 4:5. Hitesh was admitted as a new partner for 1/5th share in the profits of the firm. After all adjustments regarding general reserve, goodwill, and gain on revaluation of assets and reassessment of liabilities, the balances in capital accounts of Soni and Kush were Rs 7,00,000 and Rs 13,00,000 respectively. Hitesh brought in proportionate capital for his 1/5th share in the profits of the firm. The amount of proportionate capital brought in by Hitesh was: [1 mark]

(A) Rs 25,00,000

(B) Rs 20,00,000

(C) Rs 5,00,000

(D) Rs 10,00,000

Correct Answer: (C) Rs 5,00,000

Solution:

Concept:

- When capital is proportionate to profit share, total capital is inferred using the share represented by the existing capital.
- The old partners together retain one minus the new partner's share.

Step 1: Identify the capital and share of old partners Adjusted capital of Soni and Kush together is $7,00,000 + 13,00,000 =$ Rs $20,00,000$. Together they hold $1 - 1/5 = 4/5$ of the profits after Hitesh's admission.

Step 2: Calculate Hitesh's capital Implied total capital is $20,00,000 \div (4/5) =$ Rs $25,00,000$. Hitesh brings $25,00,000 \times 1/5 =$ Rs $5,00,000$. Option (A) gives total capital and (B) gives the old partners' combined capital; neither is Hitesh's contribution. Option (D) does not match his one-fifth share.

Step 3: Conclusion Hitesh brings proportionate capital of Rs 5,00,000. Correct option: (C).

Quick Tip to Solve: Treat the old partners' adjusted capital as their remaining share, then multiply by new share divided by remaining share.

14(a). Which of the following is not correct about collateral security? [1 mark]

(A) It is a primary security.

(B) It is an additional security.

(C) It is a subsidiary security.

(D) It is a secondary security.

Correct Answer: (A) It is a primary security.

Solution:

Concept:

- Collateral security is an additional or subsidiary security provided for a loan.
- The primary security is the main security; collateral supports it if the primary security is insufficient.

Step 1: Apply the meaning of collateral Collateral security supplements the security primarily given

to a lender. For example, debentures issued as collateral support a borrowing; their purpose is to give the lender additional protection.

Step 2: Check each printed description Option (A), calling collateral a primary security, is incorrect because collateral is supplementary. Option (B), additional security, correctly describes it. Option (C), subsidiary security, and option (D), secondary security, are also correct descriptions. Since the question asks for the statement that is not correct, select the primary-security description.

Step 3: Conclusion The incorrect statement is that collateral is a primary security. Correct option: (A).

Quick Tip to Solve: For a negative MCQ, first define collateral as additional security, then identify the option contradicting that definition.

OR

14(b). 'A company is formed according to the provisions of Company Law' indicates which of the following characteristics of a company? [1 mark]

(A) Common Seal

(B) Perpetual Succession

(C) Body Corporate

(D) Limited Liability

Correct Answer: (C) Body Corporate

Solution:

Concept:

- A company is a body corporate created through incorporation under company law.
- Other company characteristics describe continuity, members' liability or authentication rather than legal formation.

Step 1: Identify the formation characteristic The statement says the company is formed according to the provisions of Company Law. This refers to its incorporation and status as a body corporate, possessing a legal identity distinct from its members.

Step 2: Distinguish the other options Common Seal concerns the company's official seal and does not describe its legal formation. Perpetual Succession means continuity despite changes in membership. Limited Liability concerns the extent of members' financial responsibility. These do not match the statement about formation under law, so options (A), (B) and (D) are unsuitable.

Step 3: Conclusion The characteristic is Body Corporate. Correct option: (C).

Quick Tip to Solve: Match formation under company law with body corporate; match continuity with perpetual succession.

15(a). Chandan, Ravi and Mahesh were partners in a firm sharing profits and losses in the ratio of 5:4:1. From 1st April, 2025 they decided to share the future profits in the ratio of 3:2:1. On that date there existed a general reserve of Rs 7,00,000 in the books of the firm which they decided to distribute among themselves.

In which ratio will the general reserve be distributed among the partners? [1 mark]

(A) New profit sharing ratio

(B) Old profit sharing ratio

(C) Sacrificing / Gaining ratio

(D) Equally

Correct Answer: (B) Old profit sharing ratio

Solution:

Concept:

- General reserve represents accumulated profits earned before reconstitution. It belongs to the old partners in their old profit-sharing ratio.
- A change in the future profit-sharing ratio does not alter rights to profits already accumulated.

Step 1: Identify the applicable ratio The reserve of Rs 7,00,000 arose when Chandan, Ravi and Mahesh shared profits in the ratio $5:4:1$. It is therefore distributed in that old ratio, irrespective of the new ratio $3:2:1$.

Step 2: Check the allocation and options Chandan receives $7,00,000 \times 5/10 =$ Rs $3,50,000$, Ravi receives Rs 2,80,000 and Mahesh receives Rs 70,000. These total Rs 7,00,000. The new ratio applies to future profits; sacrificing or gaining ratios determine compensation for changed rights, and equal distribution ignores the agreed old shares.

Step 3: Conclusion The reserve is distributed in the old profit-sharing ratio, $5:4:1$. Hence, the correct option is (B).

Quick Tip to Solve: For a reserve existing before a ratio change, use the old ratio before considering future profit shares.

OR

15(b). Suman and Tanya were partners in a firm sharing profits and losses in the ratio of 2:1. With effect from 1st April, 2025, they decided to share the profits equally. On that date furniture was appearing in the books of the firm at Rs 4,50,000. At the time of change in the profit sharing ratio, it was found to be undervalued by 10%. In the new balance sheet, furniture will be shown at: [1 mark]

(A) Rs 4,05,000

(B) Rs 4,50,000

(C) Rs 4,95,000

(D) Rs 5,00,000

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

Solution:

Concept:

- When an asset is undervalued by 10 percent, its recorded amount represents 90 percent of its correct value.
- The correct value is found by dividing book value by 0.90; the difference is a gain credited to Revaluation Account.

Step 1: Relate book value to correct value Let the correct value of furniture be V. Since the furniture is undervalued by 10%, the recorded value is 90% of V. Therefore

$$0.90V = 4,50,000.$$

The percentage understatement is measured against the correct value, so merely adding 10 percent of book value does not remove it.

Step 2: Calculate and check the revised value

$$V = \frac{4,50,000 \times 100}{90} = \text{Rs } 5,00,000.$$

The increase is Rs 50,000, which is 10 percent of Rs 5,00,000. Rs 4,05,000 wrongly decreases the asset; Rs 4,50,000 leaves the undervaluation unchanged. Rs 4,95,000 adds 10 percent of the recorded amount, using the wrong percentage base. The revised value, rather than the original book value, appears in the new balance sheet.

Step 3: Conclusion Furniture will be shown at Rs 5,00,000. Hence, the correct option is (D).

Quick Tip to Solve: For an asset undervalued by 10 percent, divide book value by 90 and multiply by 100.

16. Tula, Ram and Madhvi were partners in a firm. The partnership deed provided for interest on partners drawings @ 12% p.a. The firm closes its books on 31st March every year. Starting from 31st December, 2025 Madhvi withdrew Rs 40,000 at the end of every month for her personal use. Interest on Madhvi's drawings will be: [1 mark]

(A) Rs 19,200

(B) Rs 4,800

(C) Rs 2,400

(D) Rs 1,600

Correct Answer: (C) Rs 2,400

Solution:

Concept:

- Interest on drawings is calculated for the period from each withdrawal date to the accounting year end.
- For each drawing, interest equals amount multiplied by the annual rate multiplied by the time in years.

Step 1: List the periods The first withdrawal is on 31 December 2025 and the books close on 31 March 2026. There are four withdrawals of Rs 40,000: on 31 December, 31 January, 28 February and 31 March. Their interest periods are respectively 3, 2, 1 and 0 months. The final withdrawal carries no interest for the current year.

Step 2: Calculate interest and check the choices

$$I = 40,000 \times \frac{12}{100} \times \frac{3+2+1+0}{12} = \text{Rs } 2,400.$$

Equivalently, total drawings are Rs 1,60,000 and the average period is 1.5 months. Rs 19,200 charges a full year on all four drawings; Rs 4,800 uses too long a period, and Rs 1,600 does not match the four actual withdrawal dates.

Step 3: Conclusion Interest on Madhvi's drawings is Rs 2,400. Hence, the correct option is (C).

Quick Tip to Solve: Include the December and March withdrawals, but assign the year-end March drawing zero months of interest.

17. Average profit of a firm during the last few years is Rs 4,00,000. In similar business, the normal rate of return is 10% of the capital employed. Assets of the business were Rs 50,00,000 and its external liabilities were Rs 20,00,000.

Calculate the value of goodwill by:

(i) Capitalisation of super profits method

(ii) Super profits method if the goodwill is valued at three years purchase of super profits. [3 marks]

Solution:

Concept:

- Capital employed equals total business assets less external liabilities. Normal profit is capital employed multiplied by the normal rate of return.
- Super profit is average profit less normal profit. Capitalised super profit is super profit divided by the normal rate expressed as a fraction.
- Under the years purchase method, goodwill equals super profit multiplied by the agreed number of years purchase.

Step 1: Calculate capital employed and normal profit Deduct external liabilities from assets:

$$\begin{aligned}\text{Capital employed} &= 50,00,000 - 20,00,000\\ &= \text{Rs } 30,00,000.\\ \text{Normal profit} &= 30,00,000 \times \frac{10}{100}\\ &= \text{Rs } 3,00,000.\end{aligned}$$

This is the normal return on the same capital.

Step 2: Find the annual super profit The excess of average over normal profit is

$$\text{Super profit} = 4,00,000 - 3,00,000 = \text{Rs } 1,00,000.$$

Use this annual excess, rather than the entire average profit, in both methods requested.

Step 3: Apply both valuation methods (i) Capitalisation of super profits:

$$\text{Goodwill} = \frac{1,00,000 \times 100}{10} = \text{Rs } 10,00,000.$$

This capital generates Rs 1,00,000 at 10 percent. (ii) Three years purchase of super profits:

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

As a check on part (i), capitalised average profits are Rs 40,00,000; deducting actual capital employed of Rs 30,00,000 again gives Rs 10,00,000.

Step 4: Conclusion Goodwill is (i) Rs 10,00,000 by capitalisation of super profits and (ii) Rs 3,00,000 by three years purchase of super profits.

Quick Tip to Solve: Compute capital employed and the annual super profit once, then apply the two different valuation multipliers.

18(a). **Raunak Cotton Ltd. purchased machinery of Rs 6,80,000 from Heavy Machines Ltd. The Payment to Heavy Machines Ltd. was made by issuing 10,500 equity shares of Rs 50 each at a premium of 20% and the balance through a cheque.**

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

Solution:

Concept:

- An asset bought from a vendor is recorded at its purchase price, with the vendor credited for the liability.
- Shares issued at a premium credit Share Capital with face value and Securities Premium with the excess; any remaining vendor balance is paid through Bank.

Step 1: Calculate the settlement amounts Premium per share is $50 \times 20/100 = \text{Rs } 10$, so the issue price is Rs 60. The value of 10,500 shares issued is $10,500 \times 60 = \text{Rs } 6,30,000$. Share Capital is credited with $10,500 \times 50 = \text{Rs } 5,25,000$, and Securities Premium with Rs 1,05,000. The balance payable by cheque is $6,80,000 - 6,30,000 = \text{Rs } 50,000$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Machinery A/c Dr. To Heavy Machines Ltd. (Being machinery purchased on credit)		6,80,000	 6,80,000
	Heavy Machines Ltd. Dr. To Equity Share Capital A/c To Securities Premium A/c To Bank A/c (Being 10,500 equity shares of Rs 50 issued at 20 percent premium and balance paid by cheque)		6,80,000	 5,25,000 1,05,000 50,000

The vendor liability is fully discharged: credits of Rs 5,25,000, Rs 1,05,000 and Rs 50,000 total Rs 6,80,000. The machinery cost is independent of the split between share capital, premium and cash.

Step 3: Conclusion Machinery is recorded at Rs 6,80,000; settlement comprises share capital Rs 5,25,000, securities premium Rs 1,05,000 and bank payment Rs 50,000.

Quick Tip to Solve: Value the shares at their issue price to find the cheque, then split that issue value into capital and premium.

OR

18(b). Neo Ltd. took over assets of Rs 25,00,000 and liabilities of Rs 12,00,000 of Madura Ltd. for a purchase consideration of Rs 18,00,000. Neo Ltd. issued 11% debentures of Rs 100 each at a discount of 10% in full satisfaction of the purchase consideration.

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

Solution:

Concept:

- Purchase consideration is compared with net identifiable assets; an excess consideration over net assets is goodwill.
- Debentures issued at discount settle the vendor at their issue proceeds, while Debentures Account is credited with nominal value and the discount is separately debited.

Step 1: Determine goodwill and number of debentures Net assets taken over are $25,00,000 - 12,00,000 =$ Rs $13,00,000$. Since purchase consideration is Rs 18,00,000, goodwill is $18,00,000 - 13,00,000 =$ Rs $5,00,000$. Each Rs 100 debenture is issued at $100 - 10 =$ Rs 90. Therefore

$$\text{Number of debentures} = \frac{18,00,000}{90} = 20,000.$$

Their nominal value is Rs 20,00,000 and the issue discount is Rs 2,00,000. The 11 percent rate is the coupon rate, not the issue discount.

Step 2: Pass the takeover and settlement entries Journal of Neo Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Madura Ltd. (Being business taken over at the agreed purchase consideration)		25,00,000 5,00,000	 12,00,000 18,00,000
	Madura Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 11% Debentures A/c (Being 20,000 debentures of Rs 100 issued at 10 percent discount in full settlement)		18,00,000 2,00,000	 20,00,000

The first entry balances at Rs 30,00,000 on each side. In the settlement entry, the Rs 18,00,000 vendor debit plus Rs 2,00,000 discount equals the nominal debenture credit of Rs 20,00,000.

Step 3: Conclusion Goodwill is Rs 5,00,000; 20,000 debentures of Rs 100 are issued, with nominal value Rs 20,00,000 and issue discount Rs 2,00,000.

Quick Tip to Solve: Divide the purchase consideration by Rs 90 issue price, and credit debentures at the full Rs 100 face value.

19(a). **Sultan, Singh and Tulsi were partners in a firm sharing profits and losses in the ratio of 9:7:4. Their fixed capitals were Rs 6,00,000, Rs 5,00,000 and Rs 4,00,000. The partnership deed provided that interest on partners capital accounts will be allowed at 10% per annum. After the final accounts for the year were prepared, it was found that interest on capital was allowed @ 12% per annum. Pass the necessary adjusting journal entry.** [3 marks]

Solution:

Concept:

- Interest on capital is an appropriation of profit. Correct interest equals fixed capital multiplied by the agreed rate of 10% per annum.
- When excess interest has already been allowed, reverse the excess credited to each partner and restore the resulting increase in divisible profit in the profit-sharing ratio $9 : 7 : 4$.
- With fixed capitals, adjustments for interest and profit are recorded through partners' current accounts; fixed capital balances remain unchanged.

Step 1: Calculate excess interest credited The rate wrongly allowed exceeds the agreed rate by $12\% - 10\% = 2\%$. Therefore:

$$\text{Sultan: } 6,00,000 \times 2/100 = \text{Rs } 12,000,$$
$$\text{Singh: } 5,00,000 \times 2/100 = \text{Rs } 10,000,$$
$$\text{Tulsi: } 4,00,000 \times 2/100 = \text{Rs } 8,000.$$

Total excess interest is Rs 30,000. Its reversal increases the profit available for distribution by the same amount.

Step 2: Determine each partner's net adjustment Distribute Rs 30,000 in the ratio $9 : 7 : 4$, whose total is 20. Sultan is entitled to Rs 13,500, Singh to Rs 10,500 and Tulsi to Rs 6,000 of the restored profit. After deducting the excess interest already received, Sultan requires a credit of $13,500 - 12,000 = \text{Rs } 1,500$, Singh a credit of $10,500 - 10,000 = \text{Rs } 500$, and Tulsi a debit of $8,000 - 6,000 = \text{Rs } 2,000$. Total debit equals total credits.

Step 3: Pass the adjusting entry Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Tulsi's Current A/c Dr.		2,000	
	To Sultan's Current A/c			1,500
	To Singh's Current A/c			500
	(Being excess interest on capital adjusted through current accounts)			

Step 4: Conclusion Debit Tulsi's Current Account by Rs 2,000; credit Sultan's Current Account by Rs 1,500 and Singh's Current Account by Rs 500.

Quick Tip to Solve: For a past adjustment, compare each partner's restored profit share with the excess interest already credited.

OR

19(b). Sameer and Manveer were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st April, 2024, they admitted Sandeep as a new partner for 1/5th share in the profits with a guaranteed minimum amount of Rs 80,000. Sameer and Manveer continue to share profits as before but agreed to bear any deficiency on account of guarantee to Sandeep in the ratio of 3:5. The net profit of the firm for the year ended 31st March, 2025 was Rs 3,20,000.

Prepare Profit and Loss Appropriation Account of Sameer, Manveer and Sandeep for the year ended 31st March, 2025. [3 marks]

Solution:

Concept:

- An incoming partner's normal profit share is calculated first; the remaining share is divided among the old partners in their continuing ratio.
- A guaranteed partner receives the guaranteed minimum when the normal share is lower. The deficiency is borne by the guarantors in their agreed deficiency-bearing ratio.

Step 1: Calculate normal profit shares Sandeep receives $1/5$, leaving $4/5$ for Sameer and Manveer. Their shares are $(4/5)(5/8) = 1/2$ and $(4/5)(3/8) = 3/10$, respectively. Hence the new profit-sharing ratio is $5 : 3 : 2$.

$$\text{Sameer} = 3,20,000 \times 5/10 = \text{Rs } 1,60,000,$$
$$\text{Manveer} = 3,20,000 \times 3/10 = \text{Rs } 96,000,$$
$$\text{Sandeep} = 3,20,000 \times 2/10 = \text{Rs } 64,000.$$

Step 2: Apply the guarantee Sandeep's guaranteed minimum is Rs 80,000. His deficiency is $80,000 - 64,000 = \text{Rs } 16,000$. Sameer bears $16,000 \times 3/8 = \text{Rs } 6,000$; Manveer bears $16,000 \times 5/8 = \text{Rs } 10,000$. Thus their final shares are Rs 1,54,000 and Rs 86,000, respectively, while Sandeep receives Rs 80,000. These total Rs 3,20,000, exactly the firm's profit.

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

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Sameer's Capital A/c	1,54,000	By Profit and Loss A/c	3,20,000	
	To Manveer's Capital A/c	86,000	(Net profit)		
	To Sandeep's Capital A/c	80,000			
	Total	3,20,000	Total	3,20,000	

The entire profit has been appropriated; this nominal account has no balance carried down.

Step 4: Conclusion Final profit shares: Sameer Rs 1,54,000; Manveer Rs 86,000; Sandeep Rs 80,000.

Quick Tip to Solve: Use 5:3 to allocate the old partners' normal profit, but use 3:5 only to allocate Sandeep's deficiency.

20. Sudhir and Rajeev were partners in a firm sharing profits and losses in the ratio of 4:3. Their partnership deed provided that Sudhir will be allowed a commission of 7% of the net profit.

The net profit of the firm for the year ended 31st March, 2025 was Rs 1,00,000.

Pass necessary journal entries for allowing commission to Sudhir and transferring the same to Profit and Loss Appropriation Account. [3 marks]

Solution:

Concept:

- A commission allowed to a partner is an appropriation of profit and is charged to the Profit and Loss Appropriation Account.
- The stated commission is 7% of net profit. Since the question does not specify profit after charging commission, apply $7/100$ directly to the given net profit.

Step 1: Calculate Sudhir's commission The net profit for the year ended 31st March, 2025 is Rs 1,00,000. Under the partnership deed:

$$\text{Sudhir's commission} = \text{Net profit} \times \frac{7}{100} = 1,00,000 \times \frac{7}{100} = \text{Rs } 7,000.$$

The ratio $4:3$ governs the residual profit distribution; it does not divide or reduce the commission specifically allowed to Sudhir. No after-commission adjustment to the percentage base is required.

Step 2: Record the allowance and transfer Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-03-2025	Commission to Sudhir A/c Dr. To Sudhir's Capital A/c (Being commission at 7% of net profit allowed to Sudhir)		7,000	7,000
31-03-2025	Profit and Loss Appropriation A/c Dr. To Commission to Sudhir A/c (Being Sudhir's commission transferred to Profit and Loss Appropriation Account)		7,000	7,000

The first entry recognises the commission due to Sudhir. The second closes the commission account by transferring its debit to the appropriation account. Consequently the commission account has no remaining balance, Sudhir's capital is credited by Rs 7,000, and divisible profit is reduced by Rs 7,000. If fixed capitals are maintained, Sudhir's Current Account is credited instead of his Capital Account.

Step 3: Conclusion Sudhir's commission is Rs 7,000. Allow it by crediting his Capital Account, then transfer the commission to the debit of Profit and Loss Appropriation Account.

Quick Tip to Solve: Keep the two entries separate when both allowance and transfer are requested; the commission account closes in the second entry.

21. On 1st April 2024, Yash Ltd. invited applications for issuing 20,000, 9% debentures of Rs 100 each at a discount of 6%. These debentures were repayable at a premium of 10% after five years. The issue was fully subscribed and the debentures were allotted in full to all the applicants. On 31st March, 2025 the company had a balance of Rs 1,80,000 in its Securities Premium Account.

Pass necessary journal entries for the issue of 9% Debentures and writing off Loss on issue of Debentures. Also prepare 'Loss on Issue of Debentures Account'. [4 marks]

Solution:

Concept:

- The amount credited to Debentures Account is the face value. Discount on issue and premium payable on redemption together constitute loss on issue of debentures.
- Loss on issue is written off against the available Securities Premium first; the remaining amount is charged to the Statement of Profit and Loss.

Step 1: Calculate issue proceeds and total loss The face value of the issue is $20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000$. Discount is $6\% \times \text{Rs } 20,00,000 = \text{Rs } 1,20,000$, so each debenture brings in Rs 94 and the total cash received is Rs 18,80,000.

$$\text{Premium on redemption} = 20,00,000 \times 10\% = \text{Rs } 2,00,000,$$
$$\text{Loss on issue} = 1,20,000 + 2,00,000 = \text{Rs } 3,20,000,$$
$$\text{Balance charged to profit and loss} = 3,20,000 - 1,80,000 = \text{Rs } 1,40,000.$$

The 9% rate describes interest and does not affect the issue proceeds or the loss. The five-year redemption period does not change the amount of premium provided at issue.

Step 2: Record the issue and write-off Journal of Yash Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2024	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 20,000 debentures at Rs 94 each)		18,80,000	 18,80,000
1 Apr 2024	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Being debentures allotted at 6% discount, redeemable at 10% premium)		18,80,000 3,20,000	 20,00,000 2,00,000
31 Mar 2025	Securities Premium A/c Dr. Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (Being loss on issue written off against securities premium and the balance against profit and loss)		1,80,000 1,40,000	 3,20,000

Step 3: Prepare the loss account Loss on Issue of Debentures Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To 9% Debentures A/c (discount)	1,20,000	By Securities Premium A/c	1,80,000	
	To Premium on Redemption of Debentures A/c	2,00,000	By Statement of Profit and Loss	1,40,000	
	Total	3,20,000	Total	3,20,000	

Both sides total Rs 3,20,000. The entire loss has been written off, so the closing balance is nil and no balance is carried down.

Step 4: Conclusion Loss on issue is Rs 3,20,000: Rs 1,80,000 is written off against Securities Premium and Rs 1,40,000 against the Statement of Profit and Loss. The loss account closes with a nil balance.

Quick Tip to Solve: Add issue discount and redemption premium before using Securities Premium; calculate both percentages on face value.

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22. Kiran, Raveena and Hina 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. As per the terms of the partnership deed, on the death of any partner, the goodwill of the firm will be calculated on the basis of four times the average profits of the last three years. Hina died on 1st July 2025. The Profits for the last three years were:

2022-23 Rs 4,75,000

2023-24 Rs 4,05,000

2024-25 Rs 3,20,000

Hina's share of profit upto the date of death was to be calculated on the basis of previous year's profit.

(i) Calculate goodwill of the firm and Hina's share of goodwill.

(ii) Calculate Hina's share in the profits of the firm till the date of her death.

(iii) Pass necessary journal entries for the treatment of goodwill without opening goodwill account and for Hina's share of profit at the time of her death. [4 marks]

Solution:

Concept:

- Goodwill under the deed equals four times the average profits of the last three years. The deceased partner receives goodwill in her old profit-sharing fraction.
- When goodwill is not opened, debit gaining partners' capital accounts and credit the deceased partner's capital account. Profit to the date of death is credited through Profit and Loss Suspense Account.

Step 1: Calculate goodwill and Hina's entitlement The total profits for the three years are

$$\text{Rs}\ (4,75,000 + 4,05,000 + 3,20,000) = \text{Rs}\ 12,00,000.$$

Therefore average annual profit is Rs $12,00,000/3 =$ Rs $4,00,000$. Applying the deed,

$$\text{Goodwill of the firm} = 4 \times 4,00,000 = \text{Rs } 16,00,000,$$
$$\text{Hina's share of goodwill} = 16,00,000 \times \frac{2}{10} = \text{Rs } 3,20,000.$$

In the absence of a changed ratio, Kiran and Raveena continue in their existing relative ratio of $5:3$. Their gains are $5/8 - 5/10 = 1/8$ and $3/8 - 3/10 = 3/40$, respectively, hence their gaining ratio is $5:3$. They bear Hina's goodwill as Rs 2,00,000 and Rs 1,20,000 respectively.

Step 2: Calculate profit up to the date of death The accounting year began on 1st April 2025. Hina died on 1st July 2025, so the relevant period is three months, from April to June. The prescribed basis is the immediately preceding year's profit, Rs 3,20,000; the three-year average used for goodwill is not used here.

$$\text{Estimated firm profit for three months} = 3,20,000 \times \frac{3}{12} = \text{Rs } 80,000,$$
$$\text{Hina's share} = 80,000 \times \frac{2}{10} = \text{Rs } 16,000.$$

This amount is credited to Hina's Capital Account, since it accrued during her membership of the firm. Profit and Loss Suspense is debited because the final annual profit has not yet been determined.

Step 3: Pass the required journal entries Journal of the Firm (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Jul 2025	Kiran's Capital A/c Dr. Raveena's Capital A/c Dr. To Hina's Capital A/c (Being Hina's share of goodwill adjusted through the gaining partners' capital accounts in the ratio 5:3)		2,00,000 1,20,000	 3,20,000
1 Jul 2025	Profit and Loss Suspense A/c Dr. To Hina's Capital A/c (Being Hina's share of profit for three months up to death, based on the preceding year's profit)		16,000	 16,000

The goodwill adjustment does not create a Goodwill Account. Together, these two entries credit Rs 3,36,000 to Hina's Capital Account, in addition to any other capital adjustments not asked for here.

Step 4: Conclusion Firm goodwill is Rs 16,00,000; Hina's goodwill share is Rs 3,20,000 and her profit share to death is Rs 16,000. Kiran and Raveena bear goodwill in the ratio 5:3.

Quick Tip to Solve: Use the three-year average only for goodwill; use the last year's profit and three months for Hina's interim profit.

23. Suvan and Shivam were partners in a firm sharing profits and losses in the ratio of 3:7. On 31st March, 2025, their Balance Sheet was as follows:

Balance Sheet of Suvan and Shivam as on 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	5,00,000	Cash at Bank	2,00,000
Capitals:		Stock	1,75,000
Suvan 4,00,000		Debtors	1,25,000
Shivam 5,00,000	9,00,000	Plant & Machinery	9,00,000
	14,00,000		14,00,000

On the above date the firm was dissolved. Stock realised Rs 1,30,000 and debtors realised Rs 1,15,000. Plant and Machinery was taken over by Shivam for Rs 3,40,000. Expenses of realisation amounting to Rs 3,000 were paid by Suvan.

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

Solution:

Concept:

- On dissolution, transfer all non-cash assets to the debit of Realisation Account at book values and outside liabilities to its credit. Cash at bank is retained in Bank Account.
- Record assets realised through bank, assets taken over by a partner through that partner's capital, and realisation expenses paid personally by a partner as a credit to that partner's capital. Distribute the final realisation loss in the old ratio $3:7$.

Step 1: Calculate the loss on realisation Assets transferred are stock Rs 1,75,000, debtors Rs 1,25,000 and plant and machinery Rs 9,00,000, totalling Rs 12,00,000. Since no settlement concession is stated, creditors are paid their book amount of Rs 5,00,000. Stock and debtors yield Rs $1,30,000 + 1,15,000 = 2,45,000$. Plant taken over by Shivam counts as realisation of Rs 3,40,000, although no cash is received.

$$\text{Loss} = 12,00,000 - 2,45,000 - 3,40,000 + 3,000$$
$$= \text{Rs } 6,18,000.$$
$$\text{Suvan's share} = 6,18,000 \times 3/10 = \text{Rs } 1,85,400,$$
$$\text{Shivam's share} = 6,18,000 \times 7/10 = \text{Rs } 4,32,600.$$

Step 2: Prepare Realisation Account Realisation Account

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Stock	1,75,000	By Creditors	5,00,000
To Debtors	1,25,000	By Bank (stock)	1,30,000
To Plant and Machinery	9,00,000	By Bank (debtors)	1,15,000
To Bank (creditors)	5,00,000	By Shivam's Capital	3,40,000
To Suvan's Capital (expenses)	3,000	By Loss transferred to:	
		Suvan's Capital	1,85,400
		Shivam's Capital	4,32,600
Total	17,03,000	Total	17,03,000

The loss is credited here to close Realisation Account and debited to partners' capital accounts. Suvan

receives credit for personally paying the firm's expenses.

Step 3: Prepare partners capital accounts and settle balances Partners' Capital Accounts

Dr.					Cr.
Particulars	Suvan (Rs)	Shivam (Rs)	Particulars	Suvan (Rs)	Shivam (Rs)
To Realisation	1,85,400	4,32,600	By Balance b/d	4,00,000	5,00,000
To Realisation (plant)	–	3,40,000	By Realisation (expenses)	3,000	–
To Bank	2,17,600	–	By Bank	–	2,72,600
Total	4,03,000	7,72,600	Total	4,03,000	7,72,600

Suvan's balance payable is Rs $4,00,000 + 3,000 - 1,85,400 = 2,17,600$. Shivam's capital has a debit deficiency of Rs $4,32,600 + 3,40,000 - 5,00,000 = 2,72,600$, which he brings into bank. Bank then has Rs $2,00,000 + 2,45,000 + 2,72,600 - 5,00,000 = 2,17,600$, exactly enough to pay Suvan. Both capital accounts close without a balance carried down because the firm has been dissolved.

Step 4: Conclusion Realisation loss is Rs 6,18,000. Shivam brings in Rs 2,72,600 and Suvan receives Rs 2,17,600.

Quick Tip to Solve: Credit Suvan for expenses paid personally, but debit Shivam for the machinery he takes over; these have opposite effects on capital.

24(a). Sanjay and Vijay were partners in a firm sharing profits and losses in the ratio of 4:3. On 1st April, 2025 they admitted Babul as a new partner for 2/5th share in the profits of the firm. On Babul's admission, the following was agreed upon:

(i) The new profit sharing ratio of Sanjay, Vijay and Babul will be 3:3:4.

(ii) The goodwill of the firm will be valued at four years purchase of the average profits of the last three years. The profits of the previous three years were:

Year	Profit (Rs)
2022-23	16,500
2023-24	17,500
2024-25	18,500

(iii) Babul will bring his share of goodwill premium in cash, half of which will be withdrawn by Sanjay and Vijay.

(iv) On Babul's admission, revaluation of assets and reassessment of liabilities resulted in a loss of Rs 70,000.

(v) At the time of Babul's admission, the firm had a General Reserve of Rs 28,000.

(vi) After making necessary adjustments relating to goodwill, loss on revaluation and general reserve, the capital accounts of Sanjay and Vijay showed balances of Rs 3,50,000 and Rs 2,50,000 respectively. Babul brought proportionate capital for his 2/5th share in the profits of the firm.

Showing your workings clearly pass necessary journal entries for the above transactions in the books of the firm on Babul's admission. [6 marks]

Solution:

Concept:

- Goodwill premium compensates sacrificing partners in their sacrificing ratio, calculated as old share minus new share. General reserve and revaluation loss belong to old partners in their old profit-sharing ratio.
- Proportionate capital is calculated from the combined adjusted capital of the old partners and their combined new share. The premium for goodwill is separate from the incoming partner's capital contribution.

Step 1: Compute sacrifice and goodwill premium Sanjay's sacrifice is $4/7 - 3/10 = 19/70$; Vijay's sacrifice is $3/7 - 3/10 = 9/70$. Thus the sacrificing ratio is $19 : 9$, and their combined sacrifice $28/70 = 2/5$ equals Babul's share.

$$\begin{aligned}\text{Average profit} &= (16,500 + 17,500 + 18,500)/3 = \text{Rs } 17,500,\\ \text{Firm's goodwill} &= 17,500 \times 4 = \text{Rs } 70,000,\\ \text{Babul's premium} &= 70,000 \times 2/5 = \text{Rs } 28,000.\end{aligned}$$

Sanjay receives Rs $28,000 \times 19/28 = 19,000$ and Vijay receives Rs 9,000. Half is withdrawn, so their withdrawals are Rs 9,500 and Rs 4,500 respectively.

Step 2: Calculate other adjustments and proportionate capital General reserve of Rs 28,000 is distributed in the old ratio $4 : 3$: Sanjay receives Rs 16,000 and Vijay Rs 12,000. Revaluation loss of Rs 70,000 is also charged in $4 : 3$: Sanjay Rs 40,000 and Vijay Rs 30,000.

The given adjusted capitals of Rs 3,50,000 and Rs 2,50,000 are already adjusted balances; these adjustments must not be deducted again. Their combined capital of Rs 6,00,000 represents their combined new share of $3/10 + 3/10 = 3/5$.

$$\begin{aligned}\text{Total proportionate capital} &= 6,00,000 \times \frac{5}{3} = \text{Rs } 10,00,000,\\ \text{Babul's capital} &= 10,00,000 \times \frac{2}{5} = \text{Rs } 4,00,000.\end{aligned}$$

Step 3: Record goodwill and withdrawal entries Journal of the Firm (1st April, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	Bank A/c Dr. To Premium for Goodwill A/c (Being Babul's share of goodwill received in cash)		28,000	 28,000
	Premium for Goodwill A/c Dr. To Sanjay's Capital A/c To Vijay's Capital A/c (Being premium distributed in sacrificing ratio 19:9)		28,000	 19,000 9,000

	Sanjay's Capital A/c Dr. Vijay's Capital A/c Dr. To Bank A/c (Being half the goodwill premium withdrawn by old partners)		9,500 4,500	 14,000

Step 4: Record reserve, revaluation loss and capital contribution Journal of the Firm (continued; 1st April, 2025)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2025	General Reserve A/c Dr. To Sanjay's Capital A/c To Vijay's Capital A/c (Being accumulated reserve distributed in old ratio 4:3)		28,000	 16,000 12,000
	Sanjay's Capital A/c Dr. Vijay's Capital A/c Dr. To Revaluation A/c (Being revaluation loss transferred in old ratio 4:3)		40,000 30,000	 70,000
	Bank A/c Dr. To Babul's Capital A/c (Being proportionate capital brought in by Babul)		4,00,000	 4,00,000

These entries account separately for the goodwill premium, withdrawal, reserve, revaluation loss and capital. No goodwill asset is raised, since the incoming partner brings his premium in cash.

Step 5: Conclusion The sacrificing ratio is 19:9, goodwill premium is Rs 28,000 and Babul brings capital of Rs 4,00,000.

Quick Tip to Solve: Use 19:9 for goodwill, 4:3 for reserve and revaluation, and the old partners combined new share 3/5 to calculate Babul capital.

OR

24(b). Anuj, Divij and Shilpa were partners in a firm sharing profits and losses in the ratio of 2:1:2. Their Balance Sheet as at 31st March, 2023 was as follows:

Balance Sheet of Anuj, Divij and Shilpa as at 31st March, 2023

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Land & Building	8,00,000
Anuj 3,00,000		Furniture	2,40,000
Divij 4,00,000		Stock	1,20,000
Shilpa 5,00,000	12,00,000	Debtors	1,70,000
Bills Payable	60,000	Cash	50,000
Creditors	1,20,000		
	13,80,000		13,80,000

Anuj retired on the above date on the following terms:

(i) Anuj's share of goodwill was valued at Rs 90,000 and the same was to be treated without opening goodwill account.

(ii) Revaluation of assets and reassessment of liabilities resulted in a gain of Rs 25,000.

(iii) Amount due to Anuj was transferred to his loan account, to be paid in two equal yearly instalments plus interest @ 12% p.a. on the unpaid balance starting from 31st March, 2024.

Prepare Partners' Capital Accounts and Anuj's Loan Account till it is fully discharged. [6 marks]

Solution:

Concept:

- Revaluation profit is credited to all old partners in the old ratio, 2:1:2. Goodwill compensation is borne by continuing partners in their gaining ratio.
- When no new ratio is specified, Divij and Shilpa retain their relative shares, 1:2. Interest on the retiring partnerś loan is charged on the opening unpaid principal at 12% per annum.

Step 1: Allocate revaluation and goodwill Revaluation profit of Rs 25,000 is credited to Anuj, Divij and Shilpa as Rs 10,000, Rs 5,000 and Rs 10,000 respectively. Divij and Shilpa continue in the ratio 1:2. Their gains are $1/3 - 1/5 = 2/15$ and $2/3 - 2/5 = 4/15$, also 1:2. Therefore they compensate Anuj's goodwill of Rs 90,000 by debits of Rs 30,000 and Rs 60,000. No goodwill asset is opened.

Step 2: Prepare the capital accounts Partners' Capital Accounts as at 31st March, 2023 (Rs)

Dr. Particulars	Anuj	Divij	Shilpa	Particulars Cr.	Anuj	Divij	Shilpa
To Anuj (goodwill)	–	30,000	60,000	By Balance b/d	3,00,000	4,00,000	5,00,000
To Anuj's Loan	4,00,000	–	–	By Revaluation	10,000	5,000	10,000
To Balance c/d	–	3,75,000	4,50,000	By Divij (goodwill)	30,000	–	–
				By Shilpa (goodwill)	60,000	–	–
Total	4,00,000	4,05,000	5,10,000	Total	4,00,000	4,05,000	5,10,000

Thus Anuj's capital is settled by transferring Rs 4,00,000 to his loan. Divij's closing capital is $4,00,000 + 5,000 - 30,000 =$ Rs $3,75,000$; Shilpa's is $5,00,000 + 10,000 - 60,000 =$ Rs $4,50,000$.

Step 3: Calculate principal instalments and interest Each equal yearly principal instalment is $4,00,000/2 =$ Rs $2,00,000$. Interest for the year ending 31st March, 2024 is $4,00,000 \times 12\% =$

Rs $48,000$, making the first payment Rs 2,48,000. The unpaid principal then becomes Rs 2,00,000. Interest for the next year is $2,00,000 \times 12\% =$ Rs $24,000$, making the final payment Rs 2,24,000. The wording requires equal principal instalments plus interest, so the total cash payments differ.

Step 4: Prepare the loan account Anuj's Loan Account (Rs)

Dr. Particulars	Amount	Particulars Cr.	Amount
31-03-2024 To Bank	2,48,000	31-03-2023 By Capital	4,00,000
31-03-2024 To Balance c/d	2,00,000	31-03-2024 By Interest	48,000
Total	4,48,000	Total	4,48,000
31-03-2025 To Bank	2,24,000	01-04-2024 By Balance b/d	2,00,000
		31-03-2025 By Interest	24,000
Total	2,24,000	Total	2,24,000

The final bank payment extinguishes the liability; no balance remains to carry down after 31st March, 2025.

Step 5: Conclusion Anuj receives Rs 2,48,000 on 31st March, 2024 and Rs 2,24,000 on 31st March, 2025. Continuing capital balances are Divij Rs 3,75,000 and Shilpa Rs 4,50,000.

Quick Tip to Solve: Split the principal equally first; compute each year's interest only on the unpaid opening principal.

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25. Dharma Ltd. was registered with an authorised capital of Rs 30,00,000 divided into 3,00,000 equity shares of Rs 10 each. The amount was payable as follows: On Application - Rs 2 per share; On Allotment - Rs 5 per share; On First and Final Call - Balance. The company offered 90,000 shares for public subscription. All the shares were subscribed and the company received all the money due, except allotment and call money on 4,000 shares held by Aditi and call money on 3,000 shares held by Rohit. The directors forfeited shares of Aditi and Rohit. [6 marks]

25(i). The nominal capital of Dharma Ltd. is: [1 mark]

(A) Rs 30,00,000

(B) Rs 3,00,000

(C) Rs 9,00,000

(D) Rs 33,00,000

Correct Answer: (A) Rs 30,00,000

Solution:

Concept:

- Nominal capital is the authorised maximum; issued capital is the face value of shares offered for subscription.
- Forfeited shares cease to be subscribed capital. Amounts already received on them remain in Share Forfeiture Account until reissue.

Step 1: Identify the relevant capital category Nominal capital means the capital authorised by the memorandum of association. Dharma Ltd. is registered with 3,00,000 equity shares of Rs 10 each.

Step 2: Compute and test the options

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

Rs 3,00,000 is the number of authorised shares, not their monetary value. Rs 9,00,000 is the issued capital, and Rs 33,00,000 has no basis in the stated authorisation.

Step 3: Conclusion The answer is Rs 30,00,000, option (A).

Quick Tip to Solve: Multiply the authorised share count by face value; subscription and forfeiture do not alter nominal capital.

25(ii). The issued capital of the company is: [1 mark]

(A) Rs 3,00,000

(B) Rs 30,00,000

(C) Rs 9,00,000

(D) Rs 33,00,000

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

Solution:

Concept:

- Nominal capital is the authorised maximum; issued capital is the face value of shares offered for subscription.
- Forfeited shares cease to be subscribed capital. Amounts already received on them remain in Share Forfeiture Account until reissue.

Step 1: Identify the relevant capital category Issued capital is the face value of shares offered to the public. The company offered 90,000 shares, each with face value Rs 10.

Step 2: Compute and test the options

$$90,000 \times 10 = \text{Rs } 9,00,000.$$

The authorised Rs 30,00,000 is only the maximum permitted issue. Rs 3,00,000 confuses an authorised share count with rupees; Rs 33,00,000 is unrelated. Subsequent forfeiture does not change the historical issued capital.

Step 3: Conclusion The answer is Rs 9,00,000, option (C).

Quick Tip to Solve: Use only the shares offered to the public times face value when finding issued capital.

25(iii). Subscribed and fully paid capital of Dharma Ltd. will be: [1 mark]

(A) Rs 9,00,000

(B) Rs 8,30,000

(C) Rs 8,56,000

(D) Nil

Correct Answer: (B) Rs 8,30,000

Solution:

Concept:

- Nominal capital is the authorised maximum; issued capital is the face value of shares offered for subscription.
- Forfeited shares cease to be subscribed capital. Amounts already received on them remain in Share Forfeiture Account until reissue.

Step 1: Identify the relevant capital category All 90,000 shares were subscribed, but 4,000 shares of Aditi and 3,000 shares of Rohit were forfeited. These 7,000 shares no longer form subscribed capital.

Step 2: Compute and test the options

$$\text{Fully paid shares} = 90,000 - 4,000 - 3,000 = 83,000,$$
$$\text{Fully paid capital} = 83,000 \times 10 = \text{Rs } 8,30,000.$$

Rs 9,00,000 includes forfeited shares; Rs 8,56,000 does not represent the face value of the surviving fully paid shares. Nil is incorrect because 83,000 shares remain fully paid.

Step 3: Conclusion The answer is Rs 8,30,000, option (B).

Quick Tip to Solve: First remove every forfeited share before classifying the remaining subscribed capital.

25(iv). The amount of 'Share Capital' presented in the Balance Sheet of Dharma Ltd. under 'Shareholders Funds' will be:

[1 mark]

(A) Rs 8,30,000

(B) Rs 8,59,000

(C) Rs 9,00,000

(D) Rs 30,00,000

Correct Answer: (B) Rs 8,59,000

Solution:

Concept:

- Nominal capital is the authorised maximum; issued capital is the face value of shares offered for subscription.
- Forfeited shares cease to be subscribed capital. Amounts already received on them remain in Share Forfeiture Account until reissue.

Step 1: Identify the relevant capital category The 83,000 surviving fully paid shares give subscribed capital of Rs 8,30,000. Add the amounts already received on forfeited shares: Aditi paid Rs 2 per share; Rohit paid Rs 7 per share.

Step 2: Compute and test the options

$$\text{Share forfeiture} = 4,000(2) + 3,000(7) = \text{Rs } 29,000,$$
$$\text{Share Capital presented} = 8,30,000 + 29,000 = \text{Rs } 8,59,000.$$

Rs 8,30,000 omits forfeiture; Rs 9,00,000 is issued capital; Rs 30,00,000 is authorised capital.

Step 3: Conclusion The answer is Rs 8,59,000, option (B).

Quick Tip to Solve: First remove every forfeited share before classifying the remaining subscribed capital.

25(v). In the Notes to Accounts, the amount to be shown under 'Share Forfeiture Account' will be: [1 mark]

(A) Rs 32,000

(B) Rs 12,000

(C) Rs 44,000

(D) Rs 29,000

Correct Answer: (D) Rs 29,000

Solution:

Concept:

- Nominal capital is the authorised maximum; issued capital is the face value of shares offered for subscription.
- Forfeited shares cease to be subscribed capital. Amounts already received on them remain in Share Forfeiture Account until reissue.

Step 1: Identify the relevant capital category Share Forfeiture Account is credited with capital money actually received on forfeited shares. Aditi paid application money only, Rs 2 per share. Rohit paid application and allotment, Rs 2 + Rs 5 = Rs 7 per share.

Step 2: Compute and test the options

$$\text{Aditi} = 4,000 \times 2 = \text{Rs } 8,000,$$
$$\text{Rohit} = 3,000 \times 7 = \text{Rs } 21,000,$$
$$\text{Total} = 8,000 + 21,000 = \text{Rs } 29,000.$$

The other amounts, Rs 32,000, Rs 12,000 and Rs 44,000, do not total the capital receipts retained on these 7,000 shares.

Step 3: Conclusion The answer is Rs 29,000, option (D).

Quick Tip to Solve: Count only capital money actually received on forfeited shares: Rs 2 for Aditi and Rs 7 for Rohit.

25(vi). Subscribed and not fully paid capital of Dharma Ltd. will be: [1 mark]

(A) Rs 9,00,000

(B) Rs 8,30,000

(C) Rs 8,56,000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- Nominal capital is the authorised maximum; issued capital is the face value of shares offered for subscription.
- Forfeited shares cease to be subscribed capital. Amounts already received on them remain in Share Forfeiture Account until reissue.

Step 1: Identify the relevant capital category The only shareholders who failed to pay were Aditi and Rohit. Their entire holdings of 4,000 and 3,000 shares were forfeited by the directors, so these shares cease to be subscribed shares.

Step 2: Compute and test the options The remaining 83,000 shares are fully paid. Hence there are no subscribed shares on which calls remain unpaid after forfeiture. Rs 9,00,000 is issued capital; Rs 8,30,000 is subscribed and fully paid capital; Rs 8,56,000 cannot be the subscribed and not fully paid amount after both defaulting holdings have been forfeited.

Step 3: Conclusion Subscribed and not fully paid capital is Nil, option (D).

Quick Tip to Solve: First remove every forfeited share before classifying the remaining subscribed capital.

26(a). Generic Pharma Ltd. invited applications for using 3,00,000 equity shares of Rs 10 each at a premium of Rs 6 per share. The amount was payable as follows:

on Application and Allotment - Rs 4 per share (including premium of Rs 2 per share)

on First and Final Call - Balance

Applications for 4,00,000 shares were received. Applications for 40,000 shares were rejected and the application money was refunded. Shares were allotted on pro-rata basis to the remaining applicants. Excess money received on applications was adjusted towards sums due on first and final call. Jain, an applicant for 3,600 shares failed to pay the first and final call. His shares were forfeited.

Pass necessary journal entries in the books of Generic Pharma Ltd. for the above transactions. Open 'calls in arrears account' and 'calls in advance account', wherever necessary. [6 marks]

Solution:

Concept:

- Application and allotment of Rs 4 comprises capital Rs 2 and premium Rs 2. The remaining call is Rs 12, comprising capital Rs 8 and premium Rs 4.
- Excess application money is transferred to Calls in Advance and adjusted when the call becomes

due. On forfeiture, unpaid premium already credited must be reversed.

Step 1: Calculate pro-rata allotment and call arrears Valid applications are $4,00,000 - 40,000 = 3,60,000$; the allotment ratio is $3,00,000 : 3,60,000 = 5 : 6$. Jain receives $3,600 \times 5/6 = 3,000$ shares. His application payment is Rs 14,400; application and allotment due is Rs 12,000, leaving Rs 2,400 in advance. Total advance is $60,000 \times 4 =$ Rs $2,40,000$. Jain's call is $3,000 \times 12 =$ Rs $36,000$, so arrears are Rs 33,600. Total call due is Rs 36,00,000 and cash received is $36,00,000 - 2,40,000 - 33,600 =$ Rs $33,26,400$.

Step 2: Record application receipt, refund and allotment Journal of Generic Pharma Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received on 4,00,000 shares)		16,00,000	 16,00,000
	Share Application and Allotment A/c Dr. To Bank A/c (Being money refunded on 40,000 rejected shares)		1,60,000	 1,60,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Application and Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c To Calls in Advance A/c (Being allotment made and excess adjusted)		14,40,000	 6,00,000 6,00,000 2,40,000

Step 3: Record call due and receipt Journal of Generic Pharma Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium A/c (Being first and final call made due)		36,00,000	 24,00,000 12,00,000
	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being call received and advance adjusted)		33,26,400 2,40,000 33,600	 36,00,000

Step 4: Forfeit Jain shares Jain has paid capital of Rs 6,000 on allotment and a further Rs 2,400 through advance; hence Rs 8,400 is forfeited. Unpaid premium is $3,000 \times 4 =$ Rs $12,000$.
Journal of Generic Pharma Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being Jain's 3,000 shares forfeited)		30,000 12,000	 33,600 8,400

Step 5: Conclusion Jain is allotted 3,000 shares; calls in arrears are Rs 33,600 and Share Forfeiture is credited with Rs 8,400. Calls in Advance and Calls in Arrears are cleared by adjustment and forfeiture respectively.

Quick Tip to Solve: Split each instalment into capital and premium before calculating the forfeiture credit; first deduct excess application cash from the defaulting shareholder call.

OR

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

(i) Diksha Ltd. forfeited 3,000 shares of Rs 10 each for non-payment of final call of Rs 2 per share. Out of these, 600 shares were reissued as fully paid up in such a way that Rs 4,200 was transferred to capital reserve.

(ii) Ashoka Ltd. forfeited 2,000 equity shares of Rs 100 each issued at a premium of 10% for non-payment of allotment money of Rs 60 per share (including premium). The first and final call of Rs 20 per share was not yet made. The forfeited shares were re-issued at Rs 70 per share fully paid up. [6 marks]

Solution:

Concept:

- On forfeiture debit called-up capital, reverse unpaid premium, credit unpaid instalments and credit capital received to Share Forfeiture.
- Reissue discount is debited to Share Forfeiture. Only surplus relating to shares actually reissued is transferred to Capital Reserve.

Step 1: Diksha Ltd.: derive reissue price Capital received on each forfeited share is $10 - 2 = \text{Rs } 8$. Total forfeiture credit is $3,000 \times 8 = \text{Rs } 24,000$. For 600 reissued shares, the available forfeiture is Rs 4,800. Since Capital Reserve is Rs 4,200, reissue discount is $4,800 - 4,200 = \text{Rs } 600$. Thus bank receipt is $6,000 - 600 = \text{Rs } 5,400$, or Rs 9 per share. The remaining Rs 19,200 in Share Forfeiture relates to 2,400 shares not reissued.

Step 2: Diksha Ltd.: journal entries Journal of Diksha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		30,000	
	To Share Final Call A/c			6,000
	To Share Forfeiture A/c			24,000
	(Being 3,000 shares forfeited for unpaid call)			
	Bank A/c Dr.		5,400	
	Share Forfeiture A/c Dr.		600	
	To Share Capital A/c			6,000
	(Being 600 shares reissued fully paid at Rs 9)			
	Share Forfeiture A/c Dr.		4,200	
	To Capital Reserve A/c			4,200
	(Being surplus on reissued shares transferred)			

Step 3: Ashoka Ltd.: calculate capital and premium Premium per share is Rs 10. Allotment Rs 60 includes capital Rs 50 and premium Rs 10. As the Rs 20 capital call was never made, called-up capital is Rs 80 per share. Application capital already received is $80 - 50 = \text{Rs } 30$ per share. Therefore debit capital Rs 1,60,000 and premium Rs 20,000, credit allotment Rs 1,20,000 and forfeiture Rs 60,000. Reissue fully paid at Rs 70 creates discount $2,000 \times 30 = \text{Rs } 60,000$, exhausting the forfeiture credit.

Step 4: Ashoka Ltd.: journal entries Journal of Ashoka Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		1,60,000	
	Securities Premium A/c Dr.		20,000	
	To Share Allotment A/c			1,20,000
	To Share Forfeiture A/c			60,000
	(Being 2,000 shares forfeited for unpaid allotment)			
	Bank A/c Dr.		1,40,000	
	Share Forfeiture A/c Dr.		60,000	
	To Share Capital A/c			2,00,000
	(Being shares reissued at Rs 70 fully paid)			

No entry is passed for the unmade call. Reissue makes the shares fully paid, so Share Capital is credited at their full face value.

Step 5: Conclusion Diksha Ltd.: reissue price Rs 9 per share and Capital Reserve Rs 4,200. Ashoka Ltd.: forfeiture credit Rs 60,000 is fully used as reissue discount; no transfer to Capital Reserve arises.

Quick Tip to Solve: For an uncalled instalment, debit only called-up capital on forfeiture; on a fully paid reissue credit the full face value.

Part B (20 marks)

Option – I

(Analysis of Financial Statements)

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

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

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

(A) Both the Statements are true.

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

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

(D) Both the Statements are false.

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

Solution:

Concept:

- For a non-financial enterprise, interest and dividends received are investing cash inflows, being returns on investments.
- For a financial enterprise, receipts of interest and dividends form part of operating activities because they arise from its principal revenue-producing business.

Step 1: Assess Statement I Statement I is false. Interest and dividends received by a non-financial enterprise are investing activities. Financing activities concern changes in owners capital and borrowings;

these investment receipts do not represent raising finance.

Step 2: Assess Statement II and all options Statement II is also false. For a financial enterprise, these receipts are operating activities, not investing activities. Thus (A) wrongly accepts both statements, (B) wrongly accepts Statement I, and (C) wrongly accepts Statement II. Only (D) correctly rejects both statements.

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

Quick Tip to Solve: Identify the enterprise first: investment income is investing for a non-financial enterprise and operating for a financial enterprise.

28(a). Purchase of marketable securities or short term investments are not considered for the preparation of cash flow statement because: [1 mark]

(A) These are current assets

(B) These constitute cash equivalents

(C) These are intangible assets

(D) These are tangible assets

Correct Answer: (B) These constitute cash equivalents

Solution:

Concept:

- Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value.
- A movement between cash and cash equivalents changes their composition without changing their combined balance.

Step 1: Identify the nature of the purchase In the context of this question, the marketable securities or short-term investments constitute cash equivalents. Buying them exchanges cash for another component of cash and cash equivalents.

Step 2: Test the alternatives Therefore this purchase is excluded from the cash flow statement. Merely being a current asset, as in (A), does not justify exclusion: inventories and trade receivables can produce operating cash flows. Options (C) and (D) incorrectly classify these financial investments as intangible or tangible assets.

Step 3: Conclusion The correct option is (B): These constitute cash equivalents.

Quick Tip to Solve: Check whether a transaction changes total cash and cash equivalents or only exchanges their components.

OR

28(b). Which of the following will not amount to cash outflow from operating activities? [1 mark]

(A) Purchase of marketable securities

(B) Cash payment to suppliers of goods

(C) Payment of employee benefit expenses

(D) Payment of insurance premium

Correct Answer: (A) Purchase of marketable securities

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of the enterprise and other activities that are neither investing nor financing.
- Cash payments to suppliers, employees and for routine operating expenses are operating outflows.

Step 1: Identify the non-operating transaction Purchase of marketable securities is not a payment for the ordinary operations listed here. Where the securities qualify as cash equivalents, the purchase is an internal movement within cash and cash equivalents; otherwise an investment purchase is generally an investing outflow.

Step 2: Check the remaining options Cash payments to suppliers of goods (B) and employee benefit expenses (C) are operating outflows. Insurance premium (D), being a routine operating expense in this context, is also an operating outflow. Thus none of (B), (C) or (D) satisfies the negative wording of the question.

Step 3: Conclusion The correct option is (A): Purchase of marketable securities.

Quick Tip to Solve: For a negative cash-flow MCQ, classify every payment by activity before selecting the exception.

29. Which of the following transaction will affect the 'Gross Profit Ratio' of a company:

(i) Revenue from operations Rs 1,00,000

(ii) Purchased goods worth Rs 70,000.

(iii) Goods costing Rs 15,000 withdrawn for personal use.

(iv) Goods costing Rs 50,000 sold for Rs 60,000. [1 mark]

(A) (iv)

(B) (i) and (ii)

(C) (ii) and (iii)

(D) (i) and (iii)

Correct Answer: (A) (iv)

Solution:

Concept:

- Gross profit ratio $= \dfrac{\text{Gross profit}}{\text{Revenue from operations}} \times 100$.
- Gross profit is revenue from sale of goods less the cost of the goods sold; purchase of unsold stock does not itself create a trading profit.

Step 1: Identify the transaction producing a trading margin In (iv), goods costing Rs 50,000 are sold for Rs 60,000. This records revenue and a gross profit of $60,000 - 50,000 = \text{Rs } 10,000$, directly entering the gross profit ratio.

Step 2: Check the other statements Statement (i) states the revenue figure alone, while (ii) records a purchase without specifying a sale; neither is the identified margin-producing transaction. In (iii), goods withdrawn for personal use are removed from purchases at cost and treated as drawings, without earning gross profit. The combinations in (B), (C) and (D) therefore do not identify the transaction asked for.

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

Quick Tip to Solve: Locate the sale with both selling price and cost; it explicitly determines the trading margin.

30(a). The process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of Balance Sheet and the Statement of Profit and Loss is called: [1 mark]

(A) Comparative Statement Analysis

(B) Cash Flow Analysis

(C) Financial Analysis

(D) Common Size Analysis

Correct Answer: (C) Financial Analysis

Solution:

Concept:

- Financial analysis evaluates financial strengths and weaknesses by establishing meaningful relationships among financial statement items.
- Comparative statements, common-size statements and cash flow analysis are specific tools used within the wider process of financial analysis.

Step 1: Match the definition The question describes the broad process of relating Balance Sheet and Statement of Profit and Loss items to judge the financial position and performance of a firm. This is the definition of financial analysis.

Step 2: Distinguish the other choices Comparative statement analysis (A) compares amounts across periods. Cash flow analysis (B) examines movements in cash and cash equivalents. Common-size analysis (D) expresses items as percentages of a common base. Each has a narrower purpose than the comprehensive process described.

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

Quick Tip to Solve: Match broad definitions to the umbrella process; specific statement techniques are its tools.

OR

30(b). Ratios calculated to measure the ability of the business to pay the amount due to stakeholders as and when it is due are known as: [1 mark]

(A) Solvency ratios

(B) Liquidity ratios

(C) Activity ratios

(D) Profitability ratios

Correct Answer: (B) Liquidity ratios

Solution:

Concept:

- Liquidity ratios measure the ability of a business to meet its short-term obligations as they become due.

- Examples are the current ratio and quick ratio, which relate available current resources to current liabilities.

Step 1: Identify the ability being measured The wording emphasises paying amounts when they fall due. The immediate capacity to discharge such obligations is liquidity, so the relevant group is liquidity ratios.

Step 2: Eliminate the other groups Solvency ratios (A) assess the longer-term financial position and ability to service long-term debt. Activity ratios (C) measure efficiency in using resources, while profitability ratios (D) measure earning capacity. These do not directly measure the short-term payment ability tested here.

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

Quick Tip to Solve: Use payment ability when due to identify liquidity; distinguish it from long-term solvency.

31. From the following Balance sheets of Royal Sugar Mills Ltd. as at 31st March, 2024 and 2025, prepare a Comparative Balance Sheet:

Particulars	Note No.	31-3-2025 (Rs)	31-3-2024 (Rs)
I. Equity and Liabilities:			
1. Shareholders' Funds			
Share Capital		24,00,000	20,00,000
2. Non-current Liabilities			
Long term borrowings		12,00,000	10,00,000
3. Current liabilities			
Trade Payables		6,00,000	5,00,000
Total		42,00,000	35,00,000
II. Assets:			
1. Non-Current Assets			
Property, plant and equipment and intangible assets		30,00,000	25,00,000
2. Current Assets			
(a) Inventories		2,00,000	4,00,000
(b) Cash & Cash equivalents		10,00,000	6,00,000
Total		42,00,000	35,00,000

[3 marks]

Solution:

Concept:

- A comparative balance sheet shows each item for two dates, its absolute change and its percentage change using the earlier year as the base.
- Absolute change $=$ 2025 amount $-$ 2024 amount; percentage change $= \dfrac{\text{Absolute change}}{\text{2024 amount}} \times 100$. A negative change indicates a decrease.

Step 1: Calculate changes using 2024 as the base Share capital increases by Rs 4,00,000, long-term borrowings by Rs 2,00,000 and trade payables by Rs 1,00,000; each increase is 20% of its corresponding 2024 amount. Non-current assets increase by Rs 5,00,000, or 20%. Inventories decrease by Rs 2,00,000, giving $(-2,00,000/4,00,000) \times 100 = -50\%$. Cash and cash equivalents increase by Rs 4,00,000, giving $(4,00,000/6,00,000) \times 100 = 66.67\%$, rounded to two decimals.

Step 2: Prepare the comparative statement

Comparative Balance Sheet of Royal Sugar Mills Ltd. as at 31st March, 2024 and 2025

Particulars	2024 (Rs)	2025 (Rs)	Change (Rs)	Change (%)
I. Equity and Liabilities				
1. Shareholders' Funds				
Share capital	20,00,000	24,00,000	4,00,000	20
2. Non-current Liabilities				
Long-term borrowings	10,00,000	12,00,000	2,00,000	20
3. Current Liabilities				
Trade payables	5,00,000	6,00,000	1,00,000	20
Total	35,00,000	42,00,000	7,00,000	20
II. Assets				
1. Non-current Assets				
Property, plant and equipment and intangible assets	25,00,000	30,00,000	5,00,000	20
2. Current Assets				
(a) Inventories	4,00,000	2,00,000	$-2,00,000$	-50
(b) Cash and cash equivalents	6,00,000	10,00,000	4,00,000	66.67
Total	35,00,000	42,00,000	7,00,000	20

Both sides increase by Rs 7,00,000. The asset changes also reconcile: Rs 5,00,000 less Rs 2,00,000 plus Rs 4,00,000 equals Rs 7,00,000.

Step 3: Conclusion Total assets and total equity and liabilities each rise from Rs 35,00,000 to Rs 42,00,000, an increase of 20%. Inventories fall by 50%, while cash and cash equivalents rise by 66.67%.

Quick Tip to Solve: Always divide the change by the earlier year amount, and show decreases with a negative sign.

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

(i) Stores and Spare parts

(ii) Livestock

(iii) Public Deposits [3 marks]

Solution:

Concept:

- Balance Sheet items are classified by their nature and by whether they are current or non-current. The major head and the relevant sub-head should both be shown.
- Stores and spares are inventory held for consumption; livestock is a tangible asset used in the

business; public deposits represent borrowed funds.

Step 1: Classify the three items in the Balance Sheet Balance Sheet classification under Schedule III, Part I

Item	Major head	Sub-head
(i) Stores and spare parts	Current Assets	Inventories
(ii) Livestock	Non-current Assets	Property, plant and equipment (Tangible assets)
(iii) Public deposits	Non-current Liabilities	Long-term borrowings

Step 2: Explain the basis of classification Stores and spare parts are supplies held for use in production or maintenance and therefore form part of inventories. Livestock has physical existence and, when held for continuing use in the business as in this classification question, is shown as a tangible non-current asset. Public deposits are amounts borrowed from the public rather than owners' capital; in the usual long-term classification they are included under long-term borrowings. If a specific deposit were stated to be repayable within twelve months, its maturity would require current classification, but no such short-term condition is given here.

Step 3: Conclusion Stores and spare parts: Current Assets–Inventories; livestock: Non-current Assets–Property, plant and equipment (Tangible assets); public deposits: Non-current Liabilities–Long-term borrowings.

Quick Tip to Solve: For classification questions, give both the broad head and the precise sub-head for every item.

33(a). From the following information, calculate:

(i) Current ratio and

(ii) Debt to capital employed ratio

Information	Rs
Total Assets	**6,00,000**
Non-Current Liabilities	**1,40,000**
Shareholders' Funds	**4,20,000**
Non-current Assets	**5,20,000**

[4 marks]

Solution:

Concept:

- Current ratio measures short-term liquidity: Current Ratio $=$ Current Assets/Current Liabilities. Current assets are obtained by deducting non-current assets from total assets.
- Debt means non-current liabilities. Capital employed is the sum of shareholders' funds and non-current liabilities, or total assets less current liabilities. The debt to capital employed ratio measures the proportion of long-term funds provided by debt.

Step 1: Determine current assets and current liabilities Total assets comprise non-current assets and

current assets. Therefore,

$$\text{Current Assets} = 6,00,000 - 5,20,000 = \text{Rs } 80,000.$$

Using the accounting equation, total assets equal shareholders' funds plus non-current liabilities plus current liabilities. Hence,

$$\begin{aligned}\text{Current Liabilities} &= 6,00,000 - 4,20,000 - 1,40,000 \\ &= \text{Rs } 40,000.\end{aligned}$$

Both missing current balances must be derived before calculating the liquidity ratio.

Step 2: Calculate (i) current ratio Substitute the current assets and current liabilities:

$$\text{Current Ratio} = \frac{80,000}{40,000} = 2:1.$$

The business has Rs 2 of current assets for every Rs 1 of current liabilities. Non-current assets are excluded from the numerator because this ratio compares short-term resources with short-term obligations.

Step 3: Calculate (ii) debt to capital employed ratio Debt is the given non-current liabilities, Rs 1,40,000. Capital employed includes both owners' long-term funds and non-current liabilities:

$$\begin{aligned}\text{Capital Employed} &= 4,20,000 + 1,40,000 \\ &= \text{Rs } 5,60,000, \\ \text{Debt to Capital Employed Ratio} &= \frac{1,40,000}{5,60,000} \\ &= 0.25:1.\end{aligned}$$

As a check, total assets less current liabilities also give Rs 6,00,000 minus Rs 40,000, or Rs 5,60,000. Thus debt finances 25% of capital employed.

Step 4: Conclusion (i) Current ratio is $2:1$. (ii) Debt to capital employed ratio is $0.25:1$, equivalently $1:4$ or 25%.

Quick Tip to Solve: First derive both current balances from total assets; use Rs 5,60,000, not shareholders' funds alone, as capital employed.

OR

33(b). From the following information, calculate:

(i) Debt-Equity Ratio and

(ii) Total Assets to Debt ratio

Information	Rs
Long-term borrowings	8,00,000
Other long-term liabilities	80,000
Long term provisions	1,20,000
Share capital	24,00,000
Reserves and Surplus	6,00,000
Non-current Assets	36,00,000
Current Assets	14,00,000
Current Liabilities	10,00,000

[4 marks]

Solution:

Concept:

- Debt-equity ratio compares long-term debt with shareholders' funds: Debt-equity Ratio = Long-term Debt/Shareholders' Funds. Debt includes long-term borrowings, other long-term liabilities and long-term provisions.
- Total assets to debt ratio is Total Assets/Long-term Debt. Total assets include current and non-current assets; current liabilities are excluded from long-term debt.

Step 1: Compute long-term debt and shareholders' funds Add all three components of non-current liabilities:

$$\begin{aligned}\text{Long-term Debt} &= 8,00,000 + 80,000 + 1,20,000\\ &= \text{Rs } 10,00,000.\end{aligned}$$

Other long-term liabilities and long-term provisions form part of debt for these ratios; restricting debt to borrowings would omit two specified components. Shareholders' funds comprise share capital and reserves and surplus:

$$\begin{aligned}\text{Shareholders' Funds} &= 24,00,000 + 6,00,000\\ &= \text{Rs } 30,00,000.\end{aligned}$$

Step 2: Calculate (i) debt-equity ratio Compare long-term debt with the owners' funds computed above:

$$\text{Debt-equity Ratio} = \frac{10,00,000}{30,00,000} = 1:3.$$

This can also be written as approximately $0.33 : 1$. It means that for every Rs 3 provided by shareholders, Rs 1 is financed through long-term debt. Current liabilities of Rs 10,00,000 do not enter this numerator because the ratio uses long-term debt.

Step 3: Calculate (ii) total assets to debt ratio First find total assets by adding both asset categories:

$$\begin{aligned} \text{Total Assets} &= 36,00,000 + 14,00,000 \\ &= \text{Rs } 50,00,000, \\ \text{Total Assets to Debt Ratio} &= \frac{50,00,000}{10,00,000} \\ &= 5:1. \end{aligned}$$

Current assets remain in total assets; do not deduct current liabilities from this numerator. As an independent check, shareholders' funds of Rs 30,00,000 plus long-term debt of Rs 10,00,000 plus current liabilities of Rs 10,00,000 equal the same total assets of Rs 50,00,000.

Step 4: Conclusion (i) Debt-equity ratio is $1:3$ (approximately $0.33:1$). (ii) Total assets to debt ratio is $5:1$.

Quick Tip to Solve: Include Rs 80,000 and Rs 1,20,000 in long-term debt, but exclude current liabilities; use all assets for the second ratio.

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34. For the year ending 31st March, 2025 Gavi Ltd. made a profit of Rs 8,00,000 after charging depreciation of Rs 50,000 on fixed assets and transferring Rs 1,15,000 to general reserve.

Goodwill written off during the year was Rs 75,000. During the year the company sold machinery of the book value of Rs 2,00,000 at a gain of Rs 30,000. During the year, the trade receivables decreased by Rs 20,000 and trade payables increased by Rs 25,000. Prepaid expenses decreased by Rs 1,000 and outstanding rent increased by Rs 5,000.

Calculate Cash flows from operating activities. [6 marks]

Solution:

Concept:

- Under the indirect method, adjust the reported profit for appropriations, non-cash expenses and non-operating gains before adjusting working capital.
- A decrease in an operating current asset increases operating cash flow; an increase in an operating current liability also increases it.
- Depreciation and goodwill written off do not use current cash. Profit on sale of machinery belongs to investing activity and is removed from operating profit.

Step 1: Restore profit before the reserve transfer The stated profit of Rs 8,00,000 is after transferring Rs 1,15,000 to general reserve. This transfer is an appropriation of profit, not an operating expense or a cash outflow. Therefore restore it:

$$8,00,000 + 1,15,000 = 9,15,000 \text{ Rs}.$$

No income tax payment or provision adjustment is supplied in the question.

Step 2: Adjust non-cash and investing-related items Add depreciation of Rs 50,000 and goodwill written off of Rs 75,000, since both reduced profit without a current cash outflow. Deduct the

machinery-sale gain of Rs 30,000 because it is included in profit but is not operating income. The sale proceeds are Rs $2,00,000 + 30,000 = 2,30,000$, an investing inflow, and are not added to operating cash flow.

Step 3: Prepare the operating cash flow statement Gavi Ltd.: Cash Flow from Operating Activities for the year ended 31st March, 2025

Particulars	Amount (Rs)
Reported profit after reserve transfer	8,00,000
Add: Transfer to general reserve	1,15,000
Profit before appropriation	9,15,000
Add: Depreciation	50,000
Add: Goodwill written off	75,000
Less: Gain on sale of machinery	(30,000)
Operating profit before working capital changes	**10,10,000**
Add: Decrease in trade receivables	20,000
Add: Increase in trade payables	25,000
Add: Decrease in prepaid expenses	1,000
Add: Increase in outstanding rent	5,000
Cash generated from operations	**10,61,000**
Net cash flow from operating activities	**10,61,000**

The working capital adjustment is Rs $20,000 + 25,000 + 1,000 + 5,000 = 51,000$. Lower receivables release cash, lower prepaid expenses reduce cash tied up, and higher payables and outstanding rent defer cash payments. All four changes therefore increase operating cash flow. No tax outflow is given to deduct from cash generated from operations.

Step 4: Conclusion Net cash inflow from operating activities is Rs 10,61,000.

Quick Tip to Solve: Restore the reserve transfer first; add non-cash charges, remove the sale gain, then add all four working capital changes here.

Option - II (Computerised Accounting)

27(a). What is the outcome of an arithmetic expression or function called? [1 mark]

(A) Horizontal value

(B) Derived value

(C) Basic value

(D) Vertical value

Correct Answer: (B) Derived value

Solution:

Concept:

- A basic value is entered directly; a derived value is calculated from other values.
- An arithmetic expression or function processes its inputs to produce a calculated result.

Step 1: Identify the nature of the output An expression such as $5 + 3$ produces 8. The output is obtained by calculation, rather than entered as an original data value, so it is a derived value.

Step 2: Compare the alternatives Horizontal and vertical describe the direction of rows and columns; they do not describe the result of calculation. A basic value is an input. Thus only derived value matches the outcome of an arithmetic expression or function.

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

Quick Tip to Solve: Distinguish directly entered basic data from the result derived by a formula.

OR

27(b). What value of range look up in VLOOKUP() and HLOOKUP() is used for returning only exact value? [1 mark]

(A) False

(B) True

(C) Blank

(D) Zero

Correct Answer: (A) False

Solution:

Concept:

- The range lookup argument controls exact or approximate matching in VLOOKUP and HLOOKUP.
- The logical value FALSE requests an exact match; TRUE or an omitted argument normally allows approximate matching.

Step 1: Select the logical setting Set range lookup to FALSE to return a result only when the required lookup value is matched exactly. If no exact match exists, the function returns an error rather than an approximate value.

Step 2: Check the offered values TRUE and a blank or omitted argument are unsuitable for demanding exact matching. The intended logical answer is FALSE. Numerically, zero is also interpreted as FALSE in this argument, so option (D) is an equivalent numeric setting; option (A) states the logical value directly.

Step 3: Conclusion The intended correct option is (A): False.

Quick Tip to Solve: Use FALSE for exact lookup; remember that numeric 0 has the same logical effect.

28(a). The encryption of data facilitates: [1 mark]

(A) Easy processing of data and keeping records.

(B) Securing the accounting reports.

(C) Generation of mnemonic codes.

(D) Codification

Correct Answer: (B) Securing the accounting reports.

Solution:

Concept:

- Encryption transforms readable data into an encoded form using a key.
- Its purpose is confidentiality: authorised users with the necessary key can recover the information.

Step 1: Apply encryption to accounting information When accounting reports are encrypted, an unauthorised person cannot read the original figures merely by accessing the encoded data. This protects confidential financial information.

Step 2: Eliminate unrelated purposes Easy processing and record keeping are general benefits of computerisation. Mnemonic codes identify accounts using memorable letters, while codification assigns codes. Neither function is the specific security purpose of encryption. Securing accounting reports is therefore the matching choice.

Step 3: Conclusion The correct option is (B): Securing the accounting reports.

Quick Tip to Solve: Associate encryption with protecting information from unauthorised reading, not with account codes.

OR

28(b). How many columns exist on Excel 2006 worksheet? [1 mark]

(A) 2056

(B) 256

(C) 275

(D) 26

Correct Answer: (B) 256

Solution:

Concept:

- The older Excel worksheet format has 256 columns, labelled from A through IV.
- Column capacity depends on the Excel version and worksheet format; later worksheets have a different limit.

Step 1: Identify the intended worksheet capacity The question prints Excel 2006. There is no standard Excel release named Excel 2006; among the supplied choices the intended older-format worksheet capacity is 256 columns, ending at IV.

Step 2: Compare all choices The number 26 covers only the single-letter column labels A to Z and ignores subsequent labels such as AA. Neither 275 nor 2056 is the older worksheet column limit. Therefore 256 is the defensible intended answer from the choices; the printed version designation should not be confused with the capacity of modern Excel worksheets.

Step 3: Conclusion The intended correct option is (B): 256 columns (older Excel worksheet format).

Quick Tip to Solve: For the older worksheet format remember A to IV = 256 columns; do not stop counting at Z.

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29. Which of the following is not contained on formula tab on Excel ribbon? [1 mark]

(A) Defined names

(B) Page layout

(C) Function library

(D) Calculation

Correct Answer: (B) Page layout

Solution:

Concept:

- The Formulas tab groups tools for entering, naming, checking and calculating formulas.
- Function Library, Defined Names and Calculation are groups associated with the Formulas tab.

Step 1: Locate the formula-related groups Function Library helps insert functions. Defined Names manages names for cells and ranges. Calculation controls when formulas are recalculated. These three choices therefore belong with the Formulas tab.

Step 2: Identify the separate tab Page Layout is a separate ribbon tab used for page setup, themes, margins and related printing arrangements. It is not a group contained on the Formulas tab. Since the question asks which is not contained there, select Page layout.

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

Quick Tip to Solve: For a negative ribbon question, identify the three formula groups first; the separate tab is the answer.

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30. What will be displayed on the screen when Excel does not recognise the text or formula? [1 mark]

(A) Correct a # DIV/0! Error

(B) Correct a # N/A Error

(C) Correct a # Name Error

(D) Correct a # Null! Error

Correct Answer: (C) Correct a # Name Error

Solution:

Concept:

- Excel displays an error code when it cannot evaluate a formula. The code identifies the kind of problem, helping the user correct the formula.
- The #NAME? error indicates unrecognised text, such as a misspelled function name or an undefined range name.

Step 1: Identify the error If a formula contains a name Excel does not recognise, Excel displays #NAME?. For example, an undefined name used in a calculation cannot be resolved to a valid value or cell range.

Step 2: Check the other alternatives Option (A), #DIV/0!, refers to division by zero or an empty denominator. Option (B), #N/A, means a required value is unavailable. Option (D), #NULL!, refers to an invalid intersection of ranges. None describes unrecognised text in a formula.

Step 3: Conclusion The screen displays the name error, conventionally written #NAME?. Hence, the correct option is (C), Correct a # Name Error.

Quick Tip to Solve: For unrecognised names, inspect function spellings and defined range names first.

31. What are 'Radar Charts'? What purpose do they serve? [3 marks]

Solution:

Concept:

- A radar chart is a graphical comparison of several variables, represented on axes radiating from a common centre.
- Each category has its own radial axis; values of a data series are plotted on the respective axes and joined to form a polygon.

Step 1: Meaning of radar charts Radar charts display a series of numerical values for several categories around a common central point. Each spoke represents one category or attribute, and the distance of a plotted point from the centre indicates the value of that attribute. Joining the points gives a closed shape, allowing the overall pattern to be seen.

Step 2: Purpose: compare several attributes They serve to compare the performance or characteristics of one or more items across multiple variables at the same time. Different data series can be shown as separate polygons. For example, the performance of two departments can be compared across sales achievement, cost control, productivity and customer service, using suitable common scales.

Step 3: Purpose: identify patterns and relative strengths The chart makes differences in the profiles visible. A point farther out along an axis indicates a larger value on that attribute, while differences between the polygons reveal relative strengths, weaknesses or uneven performance. Thus, radar charts help users interpret multidimensional information and support comparisons for decision-making.

Step 4: Conclusion Radar charts show multiple variables on radial axes and help compare overall performance profiles, revealing similarities, differences, strengths and weaknesses.

Quick Tip to Solve: Describe the spokes, plotted values and joined polygon before stating the comparison purpose.

32. State any three advantages and three limitations of Computerised Accounting System. [3 marks]

Solution:

Concept:

- A Computerised Accounting System (CAS) processes accounting data through software and produces accounting information and reports.
- Its benefits arise from fast, consistent processing; its limitations arise from costs, dependence on technology and risks to electronic data.

Step 1: Three advantages 1. Speed: Once transactions are entered, the system rapidly posts them, performs calculations and prepares reports, saving time in handling large volumes of transactions.

2. Accuracy: Automatic calculations and consistent processing reduce routine arithmetic and posting errors, provided the input data and accounting configuration are correct.

3. Timely information: Updated balances and reports can be generated promptly, enabling management to obtain current information for control and decision-making.

Step 2: Three limitations 1. Cost: Hardware, accounting software, installation, maintenance and upgrades involve expenditure. Staff training also requires resources.

2. Dependence on technology: Power failure, hardware breakdown or software malfunction can interrupt accounting work. Skilled personnel and technical support may be needed to restore operations.

3. Security and data-loss risk: Unauthorised access, malware or accidental deletion may compromise confidential records or destroy data. Access controls and regular backups are therefore necessary.

Step 3: Conclusion Three advantages are speed, accuracy and timely information. Three limitations are cost, dependence on technology, and security or data-loss risk.

Quick Tip to Solve: Give three distinct benefits and three distinct limitations, with a brief explanation of each.

33(a). Explain any two ways in which Computerized Accounting System safeguards the secrecy of business data. [4 marks]

Solution:

Concept:

- Secrecy means protecting confidential accounting information against unauthorised access or disclosure.
- A CAS safeguards secrecy through authentication and restricted access rights, so users can obtain only the information they are authorised to use.

Step 1: Password protection and user authentication A Computerised Accounting System can require each authorised user to enter a user name and password before accessing the accounting software or protected company data. Authentication checks the identity of the person attempting to log in and prevents outsiders or unauthorised employees from freely opening confidential records. Strong passwords, confidential credentials and periodic password changes strengthen this protection. For example, a person without valid login credentials cannot open the protected accounting database merely because the computer is available.

Step 2: User permissions and access restrictions The system can assign different access rights to different users according to their duties. An administrator determines which records, modules or reports each user may view and which operations the user may perform. Sensitive information can therefore be restricted to authorised personnel. For example, an employee allowed to enter sales vouchers need not be allowed to view payroll details or confidential management reports. Limiting access to the information needed for a job reduces unnecessary disclosure within the organisation as well as exposure to unauthorised users.

Step 3: Conclusion Password-based authentication safeguards entry into the system, while user permissions restrict access to confidential business information according to authorised responsibilities.

Quick Tip to Solve: Separate the two controls clearly: passwords verify identity; permissions determine accessible data and actions.

OR

33(b). Name the table which is an interactive way to quickly summarise large amounts of data. State any three reasons why this table is designed. [4 marks]

Solution:

Concept:

- A Pivot Table is an interactive table used to quickly summarise and analyse a large volume of source data without changing the source records.
- Fields can be arranged as rows, columns, values and filters; changing their positions gives different useful views of the same data.

Step 1: Identify the table The table described is a Pivot Table. For example, a detailed list of sales transactions can be converted into a compact summary showing the total sales of each product or

region. The summary can be rearranged interactively when the user needs a different comparison.

Step 2: Reason 1: Summarise and calculate large amounts of data A Pivot Table is designed to query large quantities of data in a user-friendly manner and produce concise summaries. It can subtotal or aggregate numerical data using operations such as Sum, Count and Average, and can group records into meaningful categories. For example, it can show total sales for each department instead of requiring the user to inspect every individual sales entry.

Step 3: Reason 2: Rearrange data for different comparisons It is designed to move rows to columns or columns to rows, that is, to pivot the data. This lets the user examine different summaries of the same source records. For example, a product-wise sales summary can be rearranged into a region-wise comparison, helping the user identify relationships and trends without manually rewriting the underlying data.

Step 4: Reason 3: Focus on the required information It is designed to filter, sort and group information so that the user can concentrate on selected results. A summary can also be expanded or collapsed to show different levels of detail. For example, the user can display the sales of one region, sort products by their totals and then examine the details behind a selected total. This makes a large dataset easier to analyse and present.

Step 5: Conclusion The table is a Pivot Table. It is designed to summarise large amounts of data, rearrange data for different comparisons, and filter or group information to focus on relevant results.

Quick Tip to Solve: Name Pivot Table first, then explain three distinct purposes: summarise, rearrange and focus on selected information.

34. How will you combine multiple cells into one in MS-Excel? What steps will you follow to reverse the process? Explain. [6 marks]

Solution:

Concept:

- Merging combines a selected rectangular range of adjacent cells into one larger cell, usually for a heading that spans several columns.
- Unmerging restores the individual cells in the merged area. It does not recover contents discarded when the cells were merged.

Step 1: Select the cells to be combined Open the worksheet in MS-Excel and select the adjacent cells that are to become one cell. For example, select A1 to D1 to place a report heading across four columns. Before merging, check the contents of the selected cells. In a left-to-right worksheet, Excel retains only the contents of the upper-left cell of the selected range; contents in the other selected cells are discarded after the warning is accepted. Therefore, first move or copy any information that must be preserved to a safe location.

Step 2: Use the merge command On the Home tab, locate the Alignment group. Click the drop-down arrow beside Merge & Center. Choose Merge & Center if the contents should be centred across the merged area, or choose Merge Cells if only the combination is required without centring. If Excel displays a warning about the contents of other cells, proceed only after preserving any required data.

The selected range now appears as one larger cell; for example, A1:D1 becomes a single merged area containing the heading originally in A1.

Step 3: Reverse the process using Unmerge Cells Select the merged cell that is to be separated. Return to the Home tab and the Alignment group, open the Merge & Center drop-down menu and choose Unmerge Cells. Excel separates the merged area back into its original individual cells. Thus, the merged area A1:D1 again becomes A1, B1, C1 and D1. When a selected area is currently merged, clicking the active Merge & Center button also removes the merge.

Step 4: Check the contents after unmerging The retained heading or value remains in the upper-left cell of the former merged range, while the other cells are empty. Unmerge Cells restores the cell structure, but does not distribute the retained text across the separate cells and does not bring back values discarded during merging. If the discarded entries are needed, restore them from the copy made before merging; immediately after an accidental merge, Undo can instead reverse that action. Adjust the separate cells' alignment or widths if required.

Step 5: Conclusion To combine adjacent cells, select the range and use Home, Alignment, Merge & Center (or Merge Cells). To reverse the merge, select the merged cell and choose Home, Alignment, Merge & Center drop-down, Unmerge Cells. The retained content stays in the upper-left cell.

Quick Tip to Solve: Preserve data outside the upper-left cell before merging; Unmerge Cells restores the grid but cannot recover discarded entries.