CUET UG 2026 Accountancy May 20 Shift 1 Question Paper with Solutions PDF

Question Paper with Solutions

Conducted by the National Testing Agency (NTA)

Time Allowed: 60 Minutes **Maximum Marks: 250**

General Instructions

(i) This is the Accountancy question paper of CUET (UG) 2026, conducted by the National Testing Agency (NTA) in Computer Based Test (CBT) mode.

(ii) The paper contains 55 multiple choice questions in three sections. Answer all 45 questions of Accountancy Core and all 5 questions of either Analysis of Financial Statements or Computerized Accounting Systems.

(iii) The duration of this test paper is 60 minutes. The maximum score is 250 marks.

(iv) Each question has four options. Select the one correct answer for each question.

(v) Marking scheme: $+5$ marks for a correct answer, -1 mark for an incorrect answer, and 0 marks for an unanswered question.

(vi) For questions based on a passage or table, read the given material carefully and answer the questions that follow.

Accountancy Core (225 marks)

Answer all 45 questions.

1. In case there is no partnership deed between the partners, then at what rate interest on capital will be provided? [5 marks]

(A) 8 % p.a

(B) 6% p.a

(C) 12% p.a

(D) No interest on capital will be provided.

Correct Answer: (D) No interest on capital will be provided.

Solution:

Concept:

- Interest on a partner's capital is an appropriation of profit permitted by an agreement between the partners. It is not an automatic return on every capital contribution.
- In the absence of a partnership deed or an agreement allowing it, partners are not entitled to interest on capital. Interest on a partner's loan is governed by a different rule.

Step 1: Identify the amount on which interest is asked The question concerns capital contributed by the partners, rather than a loan advanced by a partner to the firm. Capital represents the partner's investment in the partnership business. We must therefore apply the default rule for capital and must not import the default interest rate applicable to a partner's loan.

Step 2: Apply the rule in the absence of an agreement No partnership deed is given. Consequently, there is no agreement authorising interest on capital, and no such interest is provided. The rates of 8% and 12% in options (A) and (C) have no basis in the stated facts. The 6% rate in option (B) is a tempting distractor: that default relates to a partner's loan to the firm, not to the partner's capital balance. No numerical calculation is needed because the entitlement itself is absent.

Step 3: Conclusion No interest on capital will be provided when there is no agreement allowing it. Hence, the correct option is (D).

Quick Tip to Solve: First distinguish capital from a partner's loan: no agreement means no interest on capital; the familiar 6% default belongs to the loan rule.

2. If the capital of partners is fixed, then the salary provided to the partner is posted in which of the following account? [5 marks]

(A) Capital Account

(B) Current Account

(C) Profit and Loss Account

(D) Executor's Account

Correct Answer: (B) Current Account

Solution:

Concept:

- Under the fixed capital method, a partner has a capital account for permanent capital and a separate current account for routine partnership adjustments.
- Partner's salary, commission, interest on capital, drawings and the share of profit or loss are recorded in the current account. A salary allowed to a partner is an appropriation of profit.

Step 1: Identify the capital-account method The partners' capital is explicitly fixed. Their capital accounts therefore record original capital and subsequent permanent additions or withdrawals of capital. Routine amounts due to or from a partner do not alter the fixed capital balance. A salary allowed for a partner's services is one of these routine adjustments, rather than an additional permanent capital contribution.

Step 2: Locate the credit for the partner's salary The partner becomes entitled to the salary, so the partner's current account is credited and the Profit and Loss Appropriation Account bears the corresponding appropriation. Thus option (B) names the account in which the adjustment is posted for the partner. Option (A) would confuse fixed and fluctuating capital methods. Option (C), the ordinary Profit and Loss Account, is not the partner's personal account and is not the account used for this appropriation. Option (D) concerns settlement with the executor of a deceased partner and has no connection with the salary adjustment.

Step 3: Conclusion The salary provided to the partner is credited to the partner's Current Account under the fixed capital method. Hence, the correct option is (B).

Quick Tip to Solve: With fixed capitals, route recurring partner adjustments through current accounts; reserve capital accounts for permanent capital changes.

3. Radha and Rani are partners in a firm. Their capital accounts as on April 01, 2024 showed a balance of Rs. 2,00,000 and Rs. 3,00,000 respectively. On July 01, 2024, Radha introduced additional capital of Rs. 50,000. On October 01, Radha withdrew Rs. 30,000, from her capital. Interest is allowed @ 8% p.a. Calculate the interest payable to Radha on her capital during the financial year 2024-2025. [5 marks]

(A) Rs 16,000

(B) Rs 24,000

(C) Rs 17,800

(D) Rs 25,800

Correct Answer: (C) Rs 17,800

Solution:

Concept:

- Interest on capital is calculated for the period for which each amount remains invested: $I = C \times r \times t/12$, where t is the number of months.
- An addition earns interest from its introduction date, while a permanent withdrawal reduces interest from its withdrawal date. The financial year here runs from 1 April 2024 to 31 March 2025.

Step 1: Calculate interest on the opening capital Radha's opening capital of Rs 2,00,000 is the base amount for the full financial year. The additional capital and the later withdrawal can be accounted for as separate adjustments to this base. Rani's capital is not needed because only Radha's interest is requested.

$$I_{\text{opening}} = 2,00,000 \times \frac{8}{100} = \text{Rs } 16,000.$$

Step 2: Adjust for the dated capital changes The Rs 50,000 introduced on 1 July remains invested for nine months, July to March. The Rs 30,000 withdrawn on 1 October is unavailable to the firm for six months, October to March, so its interest is deducted.

$$I_{\text{addition}} = 50,000 \times \frac{8}{100} \times \frac{9}{12} = \text{Rs } 3,000,$$

$$I_{\text{withdrawal}} = 30,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs } 1,200,$$

$$I_{\text{Radha}} = 16,000 + 3,000 - 1,200 = \text{Rs } 17,800.$$

Option (A) ignores both changes. Options (B) and (D) exceed the interest justified by Radha's dated capital balances. As a check, using Rs 2,00,000 for three months, Rs 2,50,000 for three months and Rs 2,20,000 for six months gives the same result.

Step 3: Conclusion Interest payable on Radha's capital for 2024–2025 is Rs 17,800. Hence, the correct option is (C).

Quick Tip to Solve: Start with full-year interest on opening capital, add time-weighted interest on additions and subtract it on permanent withdrawals.

4. Ansh and Abhi are partners sharing profits and losses in the ratio of 3:2. Their capital accounts showed balances of Rs. 3,00,000 and Rs. 4,00,000 respectively on April 01, 2024. Calculate interest on Ansh's Capital for the year ending March 31, 2025, if the partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs. 14,000 during the year. [5 marks]

(A) Rs. 24,000

(B) Rs. 16,000

(C) Rs. 6,000

(D) Rs. 3,000

Correct Answer: (C) Rs. 6,000

Solution:

Concept:

- Unless the deed treats it as a charge, interest on capital is an appropriation of profit. When profit cannot cover the full interest, the available profit is distributed in the ratio of the calculated interest entitlements.
- Interest entitlement is capital multiplied by the agreed rate. The profit-sharing ratio is used for residual profit, and does not replace the ratio of interest entitlements when interest itself exhausts the available profit.

Step 1: Compute the full interest entitlements Both opening capitals remain unchanged throughout the year, so calculate interest at 8% for the full year.

$$I_{\text{Ansh}} = 3,00,000 \times \frac{8}{100} = \text{Rs } 24,000,$$
$$I_{\text{Abhi}} = 4,00,000 \times \frac{8}{100} = \text{Rs } 32,000,$$
$$I_{\text{total}} = 24,000 + 32,000 = \text{Rs } 56,000.$$

Available profit is only Rs 14,000, so these full amounts cannot be appropriated. Nothing in the wording makes interest a charge payable irrespective of profit.

Step 2: Apportion the available profit in the interest ratio The interest entitlements are in the ratio $24,000 : 32,000 = 3 : 4$. Allocate the Rs 14,000 in this ratio rather than the ordinary profit-sharing ratio of 3:2.

$$\text{Ansh's interest} = 14,000 \times \frac{3}{7} = \text{Rs } 6,000.$$

Abhi receives Rs 8,000, and the two amounts exactly exhaust Rs 14,000. Option (A) is Ansh's unrestricted entitlement, which ignores the shortage of profit. Option (B) exceeds the entire available profit. Option (D) does not reflect Ansh's three-sevenths share of the available interest appropriation.

Step 3: Conclusion Interest allowed on Ansh's capital is Rs 6,000 because the available profit is insufficient to pay the full interest. Hence, the correct option is (C).

Quick Tip to Solve: When capital interest exceeds profit, divide the profit in the interest-entitlement ratio, not in the normal profit-sharing ratio.

5. Select the essential features of partnership from the following: (A) Partnership is the result of an agreement between partners. (B) Co-ownership of a property between people amounts to partnership. (C) Sharing of profits and losses of a business. (D) Each partner carrying on the business is the principal as well as the agent for all the other partners. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B) and (C) only

(B) (A), (B) and (D) only

(C) (A), (B), (C) and (D)

(D) (A), (C) and (D) only

Correct Answer: (D) (A), (C) and (D) only

Solution:

Concept:

- Partnership arises from an agreement to carry on a business and share its profits. The business is carried on by all partners or by any one of them acting for all.
- Mutual agency distinguishes partnership from mere joint ownership: a partner can bind the firm and the other partners through acts in the ordinary course of its business.

Step 1: Test agreement and business sharing Statement (A) is correct because partnership is a contractual relationship, not one arising merely from status or ownership. Statement (C) is also correct in the accounting context: the partners share the results of the business, with the agreement determining their profit and loss shares. These features relate to an organised business relationship rather than simply possession of an asset.

Step 2: Distinguish co-ownership from mutual agency Statement (B) is incorrect. Two people can jointly own property without conducting any business as partners. Co-owners do not automatically have authority to act on behalf of one another. Statement (D) is correct: a partner conducting the business acts as an agent for the other partners, while being a principal in respect of acts done by them on behalf of the firm. This reciprocal agency is the decisive feature.

Step 3: Compare all four combinations The required set is therefore (A), (C) and (D), with (B) excluded. Options (A), (B) and (C) all contain the false co-ownership statement, so none can be accepted. Option (D) alone includes the three correct statements without treating joint property ownership as sufficient to create a partnership.

Step 4: Conclusion Agreement, sharing business results and mutual agency are essential; co-ownership alone is insufficient. Hence, the correct option is (D).

Quick Tip to Solve: To distinguish partnership from co-ownership, ask whether each person can act as an agent for the others in the business.

6. If nothing is specified as to how does the new partner acquire his share from the old partners; it may be assumed that he gets it from them: [5 marks]

(A) In their profit sharing ratio

(B) In their gaining ratio

(C) In their capital contribution ratio

(D) In equal ratio

Correct Answer: (A) In their profit sharing ratio

Solution:

Concept:

- Admission reduces the combined share available to the old partners. In the absence of a specific agreement, the new partner acquires that share from them in their old profit-sharing ratio.
- The sacrificing share of an old partner is old share minus new share. Capital contribution is a separate matter from the division of profits.

Step 1: Apply the default assumption The question does not state that either old partner gives up a specified fraction. We therefore distribute the new partner's share proportionately among the old partners using their existing profit-sharing ratio. This preserves the relative division of the balance between the old partners.

Step 2: Distinguish the alternatives For example, if the old ratio is $3 : 2$ and the new partner receives $1/5$, the sacrifices are $3/25$ and $2/25$, again $3 : 2$. A gaining ratio describes increases, rather than the sacrifice on admission. Capital contributions do not establish the default sacrifice, and equal sacrifice applies only when the old shares are equal or the agreement specifies it.

Step 3: Conclusion The new partner acquires the share from the old partners in their profit-sharing ratio. Hence, the correct option is (A).

Quick Tip to Solve: On admission, when the source of the new share is unspecified, take each old partner's sacrifice in the old profit-sharing ratio.

7. According to the Partnership Act 1932, a new partner can be admitted into the firm only with the consent of ....., unless otherwise agreed upon. [5 marks]

(A) Majority of the existing partners

(B) All existing partners

(C) The existing partner contributed maximum capital

(D) The existing partner with the largest share

Correct Answer: (B) All existing partners

Solution:

Concept:

- Partnership rests on a contractual relationship and mutual confidence between the partners. Admission changes the persons who share that relationship.

- Under the default rule of the Partnership Act, 1932, admission requires consent of all existing partners, unless their agreement provides otherwise.

Step 1: Identify the condition in the question The words "unless otherwise agreed upon" require us to apply the default rule, rather than invent a special clause in the partnership agreement. Under that rule, a person cannot be introduced as a partner merely by obtaining the support of a majority.

Step 2: Test each suggested authority All existing partners must consent, which is option (B). A majority alone, option (A), is insufficient under the default rule. The largest capital contribution in option (C) does not give its contributor a unilateral right to admit another partner. Nor does the largest profit share in option (D) give such a right. Capital, profit share and the right to approve admission are different matters.

Step 3: Conclusion Consent of all existing partners is required, unless otherwise agreed upon. Hence, the correct option is (B).

Quick Tip to Solve: For default admission questions, look for unanimous consent; a larger capital or profit share does not by itself confer admission authority.

8. In the absence of any information regarding the acquisition of share in profit of the retiring partner by the remaining partners, it is assumed that they will acquire his/her share in ..... [5 marks]

(A) Old Profit Sharing Ratio

(B) New Profit Sharing Ratio

(C) Equal Ratio

(D) Any Ratio which is profitable to them

Correct Answer: (A) Old Profit Sharing Ratio

Solution:

Concept:

- On retirement, the outgoing partner's share becomes available to the continuing partners. Their gaining ratio records how that share is acquired.
- When no acquisition arrangement is specified, the continuing partners acquire the retiring partner's share in their old profit-sharing ratio, relative to one another.

Step 1: Apply the unspecified-acquisition rule No new agreement or individual gain is given. The continuing partners therefore share the outgoing share in the same relative ratio in which they shared profits before retirement. We use their old shares, excluding the retiring partner, to form that ratio.

Step 2: Check the alternatives For example, if $A : B : C = 3 : 2 : 1$ and C retires, A and B acquire C's share in $3 : 2$. Their gains are $1/10$ and $1/15$, so their new shares become $3/5$ and $2/5$. Option (B) refers to a new ratio, which is normally the result to be determined. Equal acquisition in (C) is not the general rule. Option (D) requires an agreement and is not the default assumption.

Step 3: Conclusion The remaining partners acquire the retiring partner's share in their old profit-sharing ratio. Hence, the correct option is (A).

Quick Tip to Solve: Remove the retiring partner from the old ratio; the relative old shares of the continuing partners give the default gaining ratio.

9. The ratio in which the continuing partners have acquired the share from the deceased partner is known as ..... [5 marks]

(A) New Ratio

(B) Old Ratio

(C) Sacrificing Ratio

(D) Gaining Ratio

Correct Answer: (D) Gaining Ratio

Solution:

Concept:

- The deceased partner's profit share is acquired by the continuing partners. Their individual gains are measured by subtracting each continuing partner's old share from that partner's new share.
- The gaining ratio compares these increases: Gain $=$ New share $-$ Old share. It is used when the continuing partners compensate the deceased partner's estate for goodwill.

Step 1: Identify the change in entitlement The question asks specifically about the share acquired from the deceased partner, not the total share that a continuing partner will hold afterwards. A continuing partner's new entitlement contains both the old entitlement and the additional share acquired. Only the additional portions are compared to find the required ratio.

Step 2: Distinguish the four ratios The new ratio compares the partners' total profit shares after the death, whereas the old ratio compares their shares before the death. The sacrificing ratio compares decreases in shares, usually when a new partner is admitted. Here the continuing partners acquire additional shares, so the relevant comparison is their gains. For example, if two partners acquire $1/6$ and $1/12$, their gaining ratio is $(1/6) : (1/12) = 2 : 1$.

Step 3: Conclusion The ratio in which the continuing partners acquire the deceased partner's share is the gaining ratio. Hence, the correct option is (D).

Quick Tip to Solve: Link acquisition of a departing partner's share with gain; compare new share minus old share for each continuing partner.

10. At the time of retirement of a partner, accumulated Profits or Losses are available. To whom these accumulated profits or losses belong to? [5 marks]

(A) The retiring partner

(B) The remaining partners

(C) All the partners

(D) The partner who may be admitted in future

Correct Answer: (C) All the partners

Solution:

Concept:

- Accumulated profits and losses relate to the period before the partnership is reconstituted. They therefore belong to all partners who were partners during that period, including the retiring partner.
- Such balances are ordinarily transferred to the old partners' capital accounts in their old profit-sharing ratio. A profit increases their entitlements and a loss reduces them.

Step 1: Identify the period to which the balance relates Retirement changes the constitution of the firm from the retirement date onwards. It does not remove the retiring partner's rights in profits earned before that date or the obligation to bear earlier losses. The remaining partners also participated in that earlier period, so the accumulated balance cannot belong exclusively to the retiring partner.

Step 2: Apply the old partners' rights Distribute accumulated profits among all the old partners in the old ratio; allocate accumulated losses on the same basis. Thus both the retiring partner and the remaining partners participate. Option (A) omits the continuing partners and option (B) omits the retiring partner. Option (D) concerns a person who was not a partner when these balances arose and therefore has no entitlement to them. The inclusive expression in option (C) correctly covers every old partner.

Step 3: Conclusion Accumulated profits or losses belong to all the partners before retirement and are shared in their old profit-sharing ratio. Hence, the correct option is (C).

Quick Tip to Solve: For reserves or accumulated losses existing on retirement, first identify all old partners and use their old ratio.

11. Select the correct sequence of accounts prepared in case of death of a partner. (A) Prepare the deceased partner's executor's account. (B) Determine the gaining ratio and new profit sharing ratio among the remaining partners. (C) Prepare the deceased partner's capital account. (D) Prepare the Revaluation account, if required. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B), (C), (D)

(B) (A), (B), (D), (C)

(C) (B), (C), (D), (A)

(D) (B), (D), (C), (A)

Correct Answer: (D) (B), (D), (C), (A)

Solution:

Concept:

- On a partner's death, the firm first determines the continuing partners' shares and adjusts the outgoing partner's entitlement before settling it through the executor's account.
- Revaluation profit or loss and other adjustments must be reflected in the deceased partner's capital account before its final balance is transferred to the executor.

Step 1: Determine the ratios first Item (B) comes first: calculate the new profit-sharing ratio and gaining ratio of the remaining partners. These ratios identify how future profits are shared and how the remaining partners compensate the deceased partner for goodwill. The ratio calculation must precede the relevant capital adjustments; it is not a payment to the executor.

Step 2: Complete revaluation before capital settlement Item (D) follows. Prepare the Revaluation Account, if required, to recognise changes in assets and liabilities and determine the resulting profit or loss. The deceased partner is entitled to the appropriate old-ratio share of that result. Only after this and the other adjustments can item (C), preparation of the deceased partner's capital account, determine the final amount due.

Step 3: Transfer the final amount to the executor Item (A) is last. The capital account balance establishes the deceased partner's claim, which is transferred to the executor's account for settlement. Thus the sequence is (B), (D), (C), (A). Options (A) and (B) wrongly start with the executor before calculating the entitlement. Option (C) puts the capital account before revaluation, although the revaluation result is needed to complete that account.

Step 4: Conclusion First determine ratios, then revalue, complete the capital account and finally prepare the executor account. Hence, the correct option is (D).

Quick Tip to Solve: Remember the dependency: ratios, revaluation, final capital balance, then executor settlement.

12. From the following options, select the deductions to be made from the share of a partner at the time of his/her retirement. (A) Debit balance of his current account (B) Share of goodwill to be written off (C) Share of accumulated losses (D) Share of loss on revaluation of assets and liabilities. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B) and (C) only

(B) (A), (B) and (D) only

(C) (A), (B), (C) and (D)

(D) (A), (C) and (D) only

Correct Answer: (C) (A), (B), (C) and (D)

Solution:

Concept:

- The final sum payable to a retiring partner is found by adjusting the capital balance for all amounts belonging to, or recoverable from, that partner.
- A debit balance, a share of a loss, or goodwill that must be written off reduces the retiring partner's capital entitlement; the corresponding credits increase it.

Step 1: Check the personal debit and goodwill items Item (A), a debit balance of the current account, represents an amount recoverable from the partner and is deducted when the final claim is settled. Item (B), the partner's share of goodwill to be written off, is also a debit adjustment to capital. Writing off an existing goodwill balance allocates its reduction among the partners in the appropriate ratio; it is different from crediting compensation for the retiring partner's own share of goodwill.

Step 2: Check both kinds of loss Item (C), the partner's share of accumulated losses, reduces the amount payable because losses carried forward belong to the old partners and must be borne by them. Item (D), the partner's share of loss on revaluation of assets and liabilities, likewise debits capital. A retirement settlement must reflect the revised asset and liability values, so the retiring partner cannot be paid as though this loss had not occurred.

Step 3: Select the complete set All four items are deductions. Option (A) omits revaluation loss; option (B) omits accumulated losses; option (D) omits the goodwill write-off. Each of these incomplete combinations would overstate the retiring partner's entitlement by leaving out a valid debit adjustment. Option (C) includes every stated deduction.

Step 4: Conclusion All four listed debit adjustments reduce the retiring partner entitlement. Hence, the correct option is (C).

Quick Tip to Solve: Classify each retirement adjustment as a credit or debit to capital; all the debit adjustments reduce the final amount due.

13. At the time of retirement of a partner, arrange the following accounts in the correct sequence. (A) Partners' Current A/c (B) Revaluation A/c (C) Balance Sheet (D) Partners' Capital A/c. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B), (C), (D)

(B) (B), (A), (D), (C)

(C) (C), (B), (A), (D)

(D) (C), (B), (D), (A)

Correct Answer: (B) (B), (A), (D), (C)

Solution:

Concept:

- Retirement requires the firm to recognise changes in asset and liability values and settle the balances belonging to the old partners before presenting the reconstituted firm's financial position.
- Revaluation profit or loss is transferred in the old profit-sharing ratio. Under fixed capitals, adjustment balances appear in current accounts; the partners' capital accounts and final Balance Sheet follow the completed adjustments.

Step 1: Prepare the Revaluation Account first The Revaluation Account records increases or decreases in assets and liabilities and any unrecorded items. Its profit or loss belongs to the partners who were partners before retirement. Therefore account (B) must precede the partners' settlement accounts: those accounts cannot be finalised until this result is known.

Step 2: Update current accounts and capital accounts Next prepare the Partners' Current Accounts, account (A), bringing in the relevant adjustment balances where capitals are fixed. The Partners' Capital Accounts, account (D), can then reflect the balances after these adjustments and the retirement settlement. This order ensures that no unsettled revaluation result is carried into the final capital positions.

Step 3: Place the Balance Sheet last and test the choices The Balance Sheet, account (C), shows the assets, liabilities and continuing partners' balances after retirement. It is therefore prepared last. The required sequence is (B), (A), (D), (C). The first choice starts with current accounts before revaluation; the third and fourth choices start with the Balance Sheet before the adjustments have been completed. Those sequences reverse the necessary accounting dependence.

Step 4: Conclusion Prepare the Revaluation Account, then Partners' Current Accounts, Partners' Capital Accounts and finally the Balance Sheet. Hence, the correct option is (B).

Quick Tip to Solve: In a retirement sequence, put revaluation first and the reconstituted Balance Sheet last; then order current and capital balances between them.

14. **Match List-I with List-II**

List-I	List-II
(A) Gaining Ratio	(I) Average Profit X 100/Normal rate of return
(B) Value of Goodwill	(II) Old Ratio - New Ratio
(C) Sacrificing Ratio	(III) Super Profit X 100/Normal rate of return
(D) Capitalised Value of average profit	(IV) New Ratio - Old Ratio

Choose the correct answer from the options given below: [5 marks]

(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)

(B) (A) - (IV), (B) - (III), (C) - (II), (D) - (I)

(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)

(D) (A) - (IV), (B) - (III), (C) - (I), (D) - (II)

Correct Answer: (B) (A) - (IV), (B) - (III), (C) - (II), (D) - (I)

Solution:

Concept:

- Gaining ratio measures the increase in a partner's share, whereas sacrificing ratio measures the reduction in that share. Compare the same partner's new and old shares in the stated order.
- Under capitalisation, an annual profit is converted into a capital value by multiplying by 100 and dividing by the normal percentage rate of return. Capitalised super profit represents goodwill.

Step 1: Match the two ratio definitions Gaining ratio is New Ratio minus Old Ratio, so (A) matches (IV). Sacrificing ratio is Old Ratio minus New Ratio, so (C) matches (II). A partner gains when the new share exceeds the old share and sacrifices when the old share exceeds the new share. Reversing either subtraction would reverse its meaning.

Step 2: Match the two capitalisation formulae Capitalised value of average profit is Average Profit $\times$ $100/$Normal rate of return, so (D) matches (I). The value of goodwill by capitalisation of super profit is Super Profit $\times 100/$Normal rate of return, so (B) matches (III). Average profit capitalises the earning capacity of the entire business; super profit capitalises the excess earning capacity represented by goodwill.

Step 3: Compare the complete matching with the alternatives The combined matching is (A)-(IV), (B)-(III), (C)-(II), (D)-(I). Only the second alternative includes all four pairs. The first alternative assigns a profit-capitalisation expression to gaining ratio. The third also assigns that expression to gaining ratio and misidentifies sacrificing ratio. The fourth gets gaining ratio and goodwill right but interchanges the matches required for sacrificing ratio and capitalised average profit.

Step 4: Conclusion Gaining ratio matches IV, goodwill matches III, sacrificing ratio matches II, and capitalised average profit matches I. Hence, the correct option is (B).

Quick Tip to Solve: Check the two subtraction definitions first: gain is new minus old, sacrifice is old minus new. Then distinguish capitalised average profit from capitalised super profit.

15. Which Accounting Standard (AS) defines an intangible asset, as an identifiable, non-monetary, without physical existence and held for use in the production or supply of goods or services for rental to others or for administrative purposes? [5 marks]

(A) AS 26

(B) AS 27

(C) AS 28

(D) AS 29

Correct Answer: (A) AS 26

Solution:

Concept:

- An intangible asset is identifiable, non-monetary and without physical substance. Its identifiable nature distinguishes a separable asset or a contractual/legal right from a general business advantage.
- AS 26 deals with intangible assets. The other listed standards address interests in joint ventures, impairment of assets, and provisions or contingent items respectively.

Step 1: Recognise the definition in the question The decisive expressions are identifiable, non-monetary and without physical existence. The question also specifies the purposes for which the resource is held: production or supply of goods or services, rental to others, or administration. These features together identify an intangible asset rather than a monetary claim such as a receivable or a physical asset such as equipment.

Step 2: Identify the relevant standard Accounting Standard 26 is titled Intangible Assets. It provides the accounting framework for recognition and measurement of intangible assets and their subsequent treatment. The fact that an item lacks physical substance does not on its own mean that every expenditure on it is recognised as an asset; the applicable recognition requirements must also be considered. Here the question asks which standard contains the definition, so AS 26 is the direct match.

Step 3: Eliminate the remaining standards AS 27 concerns Financial Reporting of Interests in Joint Ventures. AS 28 concerns Impairment of Assets, that is whether an asset is carried above its recoverable amount. AS 29 concerns Provisions, Contingent Liabilities and Contingent Assets. Although impairment or provisions may affect financial reporting in related situations, neither standard is the one defining the class of assets described. Therefore none of the other three alternatives answers the question.

Step 4: Conclusion The standard that defines the intangible asset described is AS 26, Intangible Assets. Hence, the correct option is (A).

Quick Tip to Solve: Remember the sequence: AS 26 intangible assets, AS 27 joint ventures, AS 28 impairment, AS 29 provisions and contingencies.

16. The Goodwill of a firm is Rs 30,000, when it is valued at three years' purchase of the super profits of the business. Find the normal rate of return, if the firm's capital employed is Rs 5,00,000 and average profits of last five years were Rs 60,000. [5 marks]

(A) 5%

(B) 10%

(C) 15%

(D) 20%

Correct Answer: (B) 10%

Solution:

Concept:

- Goodwill under the super profit method equals super profit multiplied by the number of years' purchase. Super profit is the excess of average profit over normal profit.
- Normal profit equals capital employed multiplied by the normal rate of return divided by 100. Thus the required percentage is normal profit divided by capital employed, multiplied by 100.

Step 1: Recover the annual super profit The goodwill is Rs 30,000 and represents three years' purchase of super profit. Divide the capitalised goodwill by three to recover the annual excess profit:

$$\text{Super profit} = \frac{30,000}{3} = \text{Rs } 10,000.$$

The years' purchase is a multiplier of annual super profit; it is not the normal percentage rate.

Step 2: Deduct super profit from average profit Average annual profit is Rs 60,000. Since average profit consists of normal profit plus super profit,

$$\text{Normal profit} = 60,000 - 10,000 = \text{Rs } 50,000.$$

The five-year period has already been used to obtain the stated average. Do not divide Rs 60,000 by five again or multiply it by five.

Step 3: Calculate and verify the normal return Capital employed is Rs 5,00,000. Hence,

$$\text{Normal rate} = \frac{50,000}{5,00,000} \times 100 = 10\%.$$

At this rate normal profit is Rs 50,000, leaving super profit of Rs 10,000; three years' purchase reproduces goodwill of Rs 30,000. At 5%, normal profit would be Rs 25,000 and goodwill Rs 1,05,000. At 15% or 20%, normal profit exceeds average profit and yields negative super profit, inconsistent with the given positive goodwill.

Step 4: Conclusion The normal rate of return is 10%. Hence, the correct option is (B).

Quick Tip to Solve: Work backwards: goodwill divided by years' purchase gives super profit; average profit minus super profit gives normal profit, from which the percentage follows.

17. A, B and C were partners in a firm sharing profits and losses in the ratio of 5:4:1. B died on June 30, 2025. The profit for the previous three years was Rs 68,000 (For 2022-23), Rs 77,000 (For 2023-24), Rs 50,000 (2024-25) while the sales during the year 2024-25 were Rs. 4,00,000 and the sales from April 1, 2025 to June 30, 2025 were Rs. 75,000. Find the profits that the firm must have earned from the date of closing of last year's balance sheet till the date of death of B. [5 marks]

(A) Rs 65,000

(B) Rs 18,750

(C) Rs 9,375

(D) Rs 3,750

Correct Answer: (C) Rs 9,375

Solution:

Concept:

- When profit up to the date of death is estimated from sales, use the profit-to-sales ratio of the last completed accounting year.
- The estimated profit of the firm and the deceased partner's share are different amounts. Apply the old profit-sharing ratio only when the partner's share is required.

Step 1: Calculate the previous year's profit rate The relevant completed year is 2024–25, with profit of Rs 50,000 on sales of Rs 4,00,000. The sales method relates profit to turnover, rather than assuming that each month earns the same amount. Thus

$$\text{Profit rate} = \frac{50,000}{4,00,000} \times 100 = 12.5\%.$$

The older profits are not needed because the question supplies the latest year's profit and its corresponding sales.

Step 2: Apply the rate to sales up to death The firm sold goods worth Rs 75,000 between 1 April and 30 June 2025. Keeping the preceding year's profit margin gives

$$\text{Estimated firm profit} = 75,000 \times \frac{12.5}{100} = \text{Rs } 9,375.$$

These sales already cover the required three-month interval, so multiplying this result by another time fraction would count the interval twice.

Step 3: Distinguish the firm's profit from B's share B's old share is $4/(5+4+1) = 4/10$. His share of the estimated profit would therefore be $9,375 \times 4/10 = \text{Rs } 3,750$, which is option (D). The question instead asks what the firm earned. Option (A), Rs 65,000, is the three-year average profit and does not estimate this period using sales. Option (B), Rs 18,750, does not follow from the supplied 12.5% margin.

Step 4: Conclusion The firm's estimated profit from 1 April to 30 June 2025 is $\boxed{\text{Rs } 9,375}$. Hence, the correct option is (C).

Quick Tip to Solve: Under the sales method, first find firm profit from sales; multiply by the deceased partner's share only if that share is asked for.

18. Balance Sheet of A, B & C as on 31st March, 2025

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	11,000	Buildings	20,000
Reserve Fund	6,000	Machinery	30,000
A Capital 30,000 B Capital 25,000 C Capital 15,000	70,000	Stock	10,000
		Patents	11,000
		Debtors	8,000
		Cash	8,000
	87,000		87,000

C retires and following revaluations took place.

Patents be valued at Rs.8,000; Machinery at Rs.28,000; and Buildings at Rs.25,000.

Find Revaluation Profit/Loss [5 marks]

(A) Revaluation profit Rs 10,000

(B) Revaluation Loss Rs 10,000

(C) Revaluation profit Rs 4,000

(D) No Profit, No Loss on Revaluation

Correct Answer: (D) No Profit, No Loss on Revaluation

Solution:

Concept:

- Revaluation recognises only changes in the book values of assets and liabilities at reconstitution. An increase in an asset is a gain; a decrease is a loss.
- A reserve already appearing in the balance sheet is accumulated profit, not a revaluation gain. Capital balances and unchanged assets do not enter the revaluation calculation.

Step 1: Find each change in asset value Buildings rise from Rs 20,000 to Rs 25,000, giving a gain of Rs 5,000. Machinery falls from Rs 30,000 to Rs 28,000, giving a loss of Rs 2,000. Patents fall from Rs 11,000 to Rs 8,000, giving a loss of Rs 3,000. Use the differences, rather than adding the revised asset values.

Step 2: Compare total gains and losses

$$\begin{aligned} \text{Total gains} &= \text{Rs } 5,000, \\ \text{Total losses} &= 2,000 + 3,000 = \text{Rs } 5,000, \\ \text{Net revaluation result} &= 5,000 - 5,000 = 0. \end{aligned}$$

The building appreciation exactly offsets both asset write-downs. No adjustment to creditors, stock, debtors or cash is stated, so none is introduced.

Step 3: Check the alternative answers Option (A) adds favourable and adverse changes as if all were gains. Option (B) likewise fails to respect the direction of the building change. Option (C) cannot be obtained from the three stated differences. The reserve fund of Rs 6,000 is distributed separately to

the old partners when required; bringing it into revaluation would confuse accumulated profits with current valuation changes. Because the revaluation result is zero, no net revaluation profit or loss is available for transfer to the partners.

Step 4: Conclusion There is neither profit nor loss on revaluation. Hence, the correct option is (D).

Quick Tip to Solve: Write a plus sign against asset appreciation and a minus sign against depreciation before totalling the revaluation changes.

19. Harish and Munish are partners in a firm sharing profits and losses in the ratio of 3:2. Rakesh is admitted into partnership for 1/3 share in profits. He brings in Rs. 50,000 as capital, but not in a position to bring any amount for his share of goodwill which has been valued at Rs. 15,000. Give necessary journal entry for recording goodwill, when there is no goodwill appearing in the books of the firm. [5 marks]

(A)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Rakesh's Capital A/c Dr.		15,000	
	To Harish's Capital A/c			9,000
	To Munish's Capital A/c			6,000

(B)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Rakesh's Current A/c Dr.		15,000	
	To Harish's Capital A/c			9,000
	To Munish's Capital A/c			6,000

(C)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Bank A/c Dr.		65,000	
	To Rakesh's Capital A/c			50,000
	To Premium for Goodwill A/c			15,000

(D)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Bank A/c Dr.		50,000	
	Rakesh's Current A/c Dr.		15,000	
	To Rakesh's Capital A/c			65,000

Correct Answer: (B)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Rakesh's Current A/c Dr.		15,000	
	To Harish's Capital A/c			9,000
	To Munish's Capital A/c			6,000

Solution:

Concept:

- An incoming partner compensates the sacrificing partners for the share of goodwill acquired. When the premium is not brought in cash, an adjustment through the incoming partner's current account records the unpaid amount.
- The sacrificing ratio is the old ratio when no different source of the incoming partner's share is specified. A direct adjustment avoids raising goodwill as an asset.

Step 1: Identify the amount and the recipients The stated Rs 15,000 is the value of Rakesh's share of goodwill, so this amount must be compensated. Harish and Munish share profits in the ratio $3:2$; with no different sacrifice specified, credit them in this ratio:

$$\text{Harish} = 15,000 \times \frac{3}{5} = \text{Rs } 9,000,$$
$$\text{Munish} = 15,000 \times \frac{2}{5} = \text{Rs } 6,000.$$

Do not multiply Rs 15,000 by one-third again: it is already described as his share.

Step 2: Record the goodwill adjustment Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Rakesh's Current A/c Dr.		15,000	
	To Harish's Capital A/c			9,000
	To Munish's Capital A/c			6,000
(Being unpaid goodwill premium adjusted in sacrificing ratio.)				

The debit records Rakesh's obligation, while the two credits compensate the old partners. Debits and credits both total Rs 15,000.

Step 3: Compare the four entries Option (B) gives this current-account adjustment and the correct credits. Option (A) reduces the capital introduced instead of recording the unpaid premium separately in the current account. Option (C) claims a bank receipt of Rs 65,000, although only Rs 50,000 is brought. Option (D) credits Rakesh rather than the sacrificing partners and therefore does not compensate Harish and Munish. The capital receipt is separate from the goodwill adjustment asked for.

Step 4: Conclusion Debit Rakesh's Current A/c with Rs 15,000 and credit Harish's and Munish's Capital A/cs with Rs 9,000 and Rs 6,000 respectively. Hence, the correct option is (B).

Quick Tip to Solve: For an unpaid goodwill premium, identify the incoming partner's debit and ensure that the sacrificing partners receive the credits.

20. Which of the following is not accounted for in the books and shown as an asset? [5 marks]

(A) Purchased Goodwill

(B) Self generated Goodwill

(C) Purchased Assets

(D) Borrowed Assets

Correct Answer: (B) Self generated Goodwill

Solution:

Concept:

- Goodwill represents benefits such as reputation and customer loyalty that can enable a business to earn superior profits.
- Accounting distinguishes purchased goodwill, supported by an acquisition transaction, from internally generated goodwill. Internally generated goodwill is not recognised as an asset merely because the firm enjoys a good reputation.

Step 1: Apply the recognition rule Self-generated goodwill develops through the business's own operations. Its creation does not provide a separately identifiable acquisition cost that can be reliably isolated from the cost of running and developing the business as a whole. An estimated value based on expected profits does not by itself justify recording an asset. Therefore option (B) describes the goodwill excluded from recognition.

Step 2: Distinguish purchased goodwill and purchased assets Purchased goodwill arises when consideration paid on acquiring a business exceeds the relevant net assets acquired. It is supported by an actual transaction and may be recognised under the applicable accounting requirements. Purchased assets likewise have identifiable acquisition costs and are recorded when the recognition conditions are met. Thus neither option (A) nor option (C) states the standard prohibition tested here.

Step 3: Interpret the remaining alternative Option (D), borrowed assets, is not the category of goodwill to which this rule applies. Whether an arrangement involving another party's asset produces a recognised asset depends on the rights obtained and the applicable accounting treatment; merely using the word borrowed does not define the internally generated intangible addressed by this question. The decisive distinction among the goodwill alternatives is purchase versus internal generation, rather than the firm's own assessment of how valuable its reputation is.

Step 4: Conclusion Self-generated goodwill is not recorded and shown as an asset on the basis of its internally estimated value. Hence, the correct option is (B).

Quick Tip to Solve: When a goodwill question asks about recognition, look for an actual purchase transaction; reputation built internally is not booked as goodwill.

21. Match List-I with List-II.

List-I	List-II
(A) Intangible assets should be written off as early as possible but not exceeding its estimated life in ..... years	**(I) 4**
(B) AS .....deals with intangible assets	**(II) 10**
(C) In the absence of any agreement, Section ..... of the Indian Partnership Act 1932 is applicable, which states that the retiring partner has an option to receive either interest @ 6% p.a. till the date of payment or such share of profits which has been earned with his/her money (i.e., based on capital ratio).	**(III) 26**
(D) Section ..... of the Indian Partnership Act 1932 defines partnership.	**(IV) 37**

Choose the correct answer from the options given below: [5 marks]

(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)

(B) (A) - (II), (B) - (III), (C) - (IV), (D) - (I)

(C) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

(D) (A) - (IV), (B) - (I), (C) - (II), (D) - (III)

Correct Answer: (B) (A) - (II), (B) - (III), (C) - (IV), (D) - (I)

Solution:

Concept:

- AS 26 deals with intangible assets. Under the textbook rule tested here, the amortisation period is ordinarily taken not to exceed ten years.
- Section 4 of the Indian Partnership Act, 1932 defines partnership; Section 37 protects the outgoing partner when amounts due remain employed in the business.

Step 1: Match the accounting-standard statements The period sought in (A) is 10 years, which is entry (II). The standard number in (B) is 26, which is entry (III). Therefore the first two matches are (A)–(II) and (B)–(III). The ten-year rule is the conventional textbook presumption used in this question, rather than a statement that every intangible asset always has the same life.

Step 2: Match the Partnership Act sections The right described in (C), namely an outgoing partner choosing between interest at 6% per annum and the attributable share of subsequent profits, belongs to Section 37: match (C) with (IV). The definition of partnership in (D) is in Section 4: match (D) with (I). These provisions deal with different matters, so their section numbers cannot be interchanged.

Step 3: Check the offered combinations The complete mapping is A with II, B with III, C with IV and D with I. Option (B) contains all four matches. Option (A) wrongly gives 4 years for amortisation and AS 10 for intangible assets. Option (C) wrongly gives 26 years and AS 37. Option (D) wrongly gives 37 years and AS 4. Thus the other combinations fail before considering their remaining pairs.

Step 4: Conclusion The entries, in List-I order, match II, III, IV and I respectively. Hence, the correct option is (B).

Quick Tip to Solve: Fix the two easy anchors first: AS 26 concerns intangible assets and Section 4 defines partnership. Then check the complete combination.

22. X and Y are partners in a firm sharing profits in the ratio of 3:2. They admitted Z as a new partner for 1/4 share. The new profit sharing ratio between X and Y will be 2:1. Calculate their sacrificing ratio. [5 marks]

(A) 2:3

(B) 3:2

(C) 1:2

(D) 2:1

Correct Answer: (A) 2:3

Solution:

Concept:

- Sacrificing share equals old profit share minus new profit share. Only the shares surrendered by the old partners enter the sacrificing ratio.
- The incoming partner receives $1/4$, leaving $3/4$ for X and Y together; their stated new ratio divides this remainder.

Step 1: Find the actual new shares Originally, X has $3/5$ and Y has $2/5$. Z receives $1/4$, so the remaining profit is $1 - 1/4 = 3/4$. Divide this balance in the new ratio $2 : 1$:

$$X_{\text{new}} = \frac{2}{3} \times \frac{3}{4} = \frac{1}{2}, \qquad Y_{\text{new}} = \frac{1}{3} \times \frac{3}{4} = \frac{1}{4}.$$

The shares sum to one after adding Z's quarter.

Step 2: Calculate each sacrifice and compare X surrenders

$$\frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}.$$

Y surrenders

$$\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}.$$

Consequently,

$$X_{\text{sac}} : Y_{\text{sac}} = \frac{1}{10} : \frac{3}{20} = 2 : 3.$$

Their total sacrifice is $2/20 + 3/20 = 1/4$, exactly the share acquired by Z. This verifies both the fractions and the ratio. Option (B), 3:2, simply repeats the old ratio; option (D), 2:1, repeats the new ratio between X and Y. Option (C), 1:2, does not equal the calculated sacrifices.

Step 3: Conclusion X sacrifices $1/10$ and Y sacrifices $3/20$; their sacrificing ratio is $2 : 3$. Hence, the correct option is (A).

Quick Tip to Solve: Convert the new ratio of the old partners into shares of the remaining profit before subtracting it from their old shares.

23. The capital of the firm of M and N is Rs. 1,00,000 and the market rate of interest is 15%. The annual salary to partners is Rs. 6,000 each. The profits for the last 3 years were Rs. 30,000 (for 2022); Rs. 36,000 (for 2023) and Rs. 42,000 (for 2024). Goodwill is to be valued at 2 years' purchase of the last 3 years' average super profits or 3 years' purchase of the last 2 years' average super profits, whichever is less. Calculate the goodwill of the firm. [5 marks]

(A) Rs. 36,000

(B) Rs. 30,000

(C) Rs. 24,000

(D) Rs. 18,000

Correct Answer: (D) Rs. 18,000

Solution:

Concept:

- Normal profit is capital employed multiplied by the normal market return. Super profit is maintainable profit after partner remuneration minus normal profit.
- Goodwill equals average super profit multiplied by years of purchase. Where two valuation bases are offered with a lower-of condition, calculate both independently.

Step 1: Determine annual adjustments The annual normal profit on capital is

$$\text{Normal profit} = 1,00,000 \times \frac{15}{100} = \text{Rs } 15,000.$$

M and N each receive an annual salary of Rs 6,000, so total partner remuneration is $2 \times 6,000 = \text{Rs } 12,000$. Deduct that remuneration when obtaining maintainable profit for comparison with normal profit.

Step 2: Value goodwill on the three-year basis The average profit for 2022–2024 is

$$\frac{30,000 + 36,000 + 42,000}{3} = \text{Rs } 36,000.$$

After salaries, maintainable profit is $36,000 - 12,000 = \text{Rs } 24,000$, and average super profit is $24,000 - 15,000 = \text{Rs } 9,000$. At two years of purchase,

$$G_1 = 9,000 \times 2 = \text{Rs } 18,000.$$

Step 3: Calculate the alternative and select the lower value For the last two years, 2023 and 2024, average profit is $(36,000 + 42,000)/2 = \text{Rs } 39,000$. After salaries and normal profit, average super profit is $39,000 - 12,000 - 15,000 = \text{Rs } 12,000$. Thus

$$G_2 = 12,000 \times 3 = \text{Rs } 36,000.$$

The lower of Rs 18,000 and Rs 36,000 is Rs 18,000. Option (A) is the higher alternative, not the lower one. Options (B) and (C) are neither of the correctly calculated final valuations.

Step 4: Conclusion Goodwill is valued at Rs 18,000 under the stipulated lower-of-two-valuations rule. Hence, the correct option is (D).

Quick Tip to Solve: Deduct both partners' annual salaries before finding super profit, and apply the lower-of condition only after computing both goodwill values.

24. In case of death of a partner, for deceased partner's share of profits for the intervening period (from the closing of last year account till the date of death) in the books of accounts, the following journal entry is recorded:

Profit and Loss Suspense A/c Dr.

To Deceased Partner's Capital A/c

Which of the following entry is to be made later to close the Profit and Loss Suspense Account?

[5 marks]

(A) Profit and Loss Suspense A/c Dr.

To Gaining Partners Capital A/c

(B) Gaining Partners Capital A/c Dr.

To Profit and Loss Suspense A/c

(C) Deceased Partner's Capital A/c Dr.

To Profit and Loss Suspense A/c

(D) Profit and Loss Suspense A/c Dr.

To Deceased Partner's Capital A/c

Correct Answer: (B) Gaining Partners Capital A/c Dr.

To Profit and Loss Suspense A/c

Solution:

Concept:

- The deceased partner is credited with the estimated profit earned up to the date of death. The temporary debit to Profit and Loss Suspense records the corresponding adjustment.
- To close an account with a debit balance, credit that account. The compensating debit is borne by the continuing partners who gain the deceased partner's profit share.

Step 1: Identify which account must be credited The original entry debits Profit and Loss Suspense and credits the deceased partner's Capital Account. Therefore the suspense account has a debit balance for the estimated profit allowed to the deceased partner. Closing it requires an equal credit. Options (A) and (D) debit suspense again, increasing that balance, so neither can close it.

Step 2: Charge the gaining partners and record the closing entry The continuing partners bear the adjustment in their gaining ratio. Let the amount already credited to the deceased partner be Rs P. The closing entry is:

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Gaining Partners'Capital A/cs Dr. To Profit and Loss Suspense A/c (Being the profit adjustment transferred to gaining partners in their gaining ratio.)		P	 P

The credit removes the suspense debit without withdrawing the deceased partner's legitimate entitlement. Option (C) would reverse the credit already given to the deceased partner instead of placing the adjustment on the continuing partners. Option (B) identifies the correct debit and credit.

Step 3: Conclusion The gaining partners'Capital Accounts are debited and Profit and Loss Suspense Account is credited. Hence, the correct option is (B).

Quick Tip to Solve: First inspect the suspense account balance: its original debit must be closed by a credit, with the debit transferred to gaining partners.

25. At the time of admission of a new partner, if Profit and Loss Account debit balance exist in the books, then which of the following entry will be done in order to distribute it? [5 marks]

(A) Profits and Loss A/c Dr.

To Old Partners' Capital A/c

(B) Profit and Loss A/c Dr.

To All Partners' Capital A/c (including new)

(C) Old Partners' Capital A/c Dr.

To Profit and Loss A/c

(D) All Partners' Capital A/c (including new) Dr.

To Profit and Loss A/c

Correct Answer: (C) Old Partners' Capital A/c Dr.

To Profit and Loss A/c

Solution:

Concept:

- A debit balance in the Profit and Loss Account represents an accumulated loss, which belongs to the old partners before admission.
- To eliminate a debit balance, credit the Profit and Loss Account and debit the old partners' capital accounts in their old profit-sharing ratio.

Step 1: Identify the balance to be distributed The Profit and Loss Account has a debit balance. This is an unabsorbed loss, not a reserve or accumulated profit. It reduces the existing owners' claims on the firm. The incoming partner must not bear losses belonging to the period before admission; consequently, the distribution is restricted to the old partners.

Step 2: Apply the debit and credit rule The loss is charged to the old partners by debiting their capital accounts. The Profit and Loss Account is credited to close its debit balance. If the loss is L and the old ratio is $a : b$, their capital debits are $La/(a+b)$ and $Lb/(a+b)$, respectively.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Old Partners' Capital A/cs Dr.		L	
	To Profit and Loss A/c			L
	(Being accumulated loss distributed in the old ratio)			

Step 3: Eliminate the other entries Options (A) and (B) debit the Profit and Loss Account, which would increase the existing debit balance instead of closing it. Option (D) includes the new partner in a loss incurred before admission. Only option (C) combines the correct accounts, the correct direction and the correct group of partners.

Step 4: Conclusion The old partners' capital accounts are debited and the Profit and Loss Account is credited. Hence, the correct option is (C).

Quick Tip to Solve: First decide whether the balance is a profit or a loss: an accumulated loss debits old capitals, whereas an accumulated profit credits them.

26. "Members may come and go, but the company continues. Even an atom bomb can't end a company". Which feature of a company is highlighted in the above statement? [5 marks]

(A) Body Corporate

(B) Separate Legal Entity

(C) Transferability of Shares

(D) Perpetual Succession

Correct Answer: (D) Perpetual Succession

Solution:

Concept:

- A company has continuous legal existence independent of changes in its membership.
- Perpetual succession means that a member's death, insolvency, retirement or transfer of shares does not by itself bring the company to an end.

Step 1: Identify the emphasis of the statement The decisive words are "Members may come and go, but the company continues. They describe continuity through successive generations of members. The company remains the same legal organisation even when its shareholders change. Membership changes do not require a new company to be incorporated.

Step 2: Connect continuity with the named feature This continuing existence is called perpetual succession. The dramatic reference to an atom bomb emphasises the distinction between physical persons or property and the legal existence of the company. Destruction of assets or the loss of members does not, by itself, constitute the prescribed legal process for ending the company. Perpetual does not mean that a company can never be dissolved; it means its existence is not limited by the lives of its members.

Step 3: Distinguish the alternative features A body corporate is an organisation incorporated under law; the expression describes its corporate status rather than specifically naming continuity of existence. Separate legal entity means that the company has rights and obligations distinct from its members. Transferability of shares concerns a member's ability to transfer ownership interests. Although separate personality and share transfers help explain how continuity operates, the particular feature directly described in the statement is perpetual succession.

Step 4: Conclusion The statement highlights the company's continuous existence despite changes in members, called perpetual succession. Hence, the correct option is (D).

Quick Tip to Solve: When a question says members change but the company continues, select perpetual succession; when it separates company debts from members, identify separate legal entity.

27. For one person company, Rule 3 of the Companies (Incorporation) Rules, 2014 provides that its average annual turnover of three years does not exceed ..... [5 marks]

(A) Rs. 2 Crores

(B) Rs. 3 Crores

(C) Rs. 4 Crores

(D) Rs. 5 Crores

Correct Answer: (A) Rs. 2 Crores

Solution:

Concept:

- A One Person Company is a company with a single member; the question tests the numerical turnover criterion attributed to the stated 2014 rules.
- Turnover is the value of business sales or revenue, and is distinct from paid-up share capital. The period stated here is an average over three years.

Step 1: Identify exactly which ceiling is being asked The question specifies average annual turnover over three years and asks for the associated rupee ceiling. It is therefore a direct recall question about the criterion in the stated rule, rather than a calculation of profit, assets or paid-up capital. The reference to three years identifies an average, not the sum of three annual turnovers.

Step 2: Recall the figure in the question's framework Under the criterion referred to in the question, the average annual turnover must not exceed Rs. 2 crores. If three annual turnovers were supplied, the relevant average would be their total divided by three, compared with Rs. 2 crores. No turnover figures are supplied here, so there is nothing to add or average numerically. The answer is the stated ceiling itself.

Step 3: Compare the four choices Option (A) gives Rs. 2 crores and matches the turnover limit being tested. Options (B), (C) and (D), giving Rs. 3 crores, Rs. 4 crores and Rs. 5 crores, respectively, do not match that criterion. The wording anchors the response to the provision described in the question; it should not be confused with a different company classification or a paid-up-capital test.

Step 4: Conclusion The average annual turnover ceiling referred to in the question is Rs. 2 crores. Hence, the correct option is (A).

Quick Tip to Solve: For this recall item, pair the three-year average-turnover criterion with Rs. 2 crores, and keep turnover separate from paid-up capital.

28. Who are entitled to share the distributable profits of the company after satisfying the dividend rights of the preference shareholders? [5 marks]

(A) Debenture holders

(B) Bond holders

(C) Equity shareholders

(D) Any policy holders

Correct Answer: (C) Equity shareholders

Solution:

Concept:

- Preference shareholders have a preferential right to dividend at the stipulated rate, subject to the applicable conditions.
- Equity shareholders are the residual owners: they share distributable profits remaining after preference dividend rights have been satisfied.

Step 1: Identify the claim already satisfied The question expressly says that the dividend rights of preference shareholders have been satisfied. Their preferential claim is therefore dealt with before deciding the entitlement asked about. We must now identify the class of owners with the residual right to distributable profits, rather than a lender with a contractual interest claim.

Step 2: Apply the residual-ownership principle Equity shareholders provide ownership capital without a fixed preferential dividend entitlement. The dividend available to them depends on distributable profits remaining after prior dividend rights and on the dividend declared in accordance with the applicable requirements. Their dividend can vary with the fortunes and policy of the company. This residual claim explains both the greater risk and the potential reward of equity ownership.

Step 3: Reject the other claimants Debenture holders and bond holders are creditors, not the residual owners of a company. They receive interest according to their terms; interest is not a distribution of residual profits as dividend. Policy holders are parties to insurance contracts and are not entitled to a company's residual distributable profits merely because they hold policies. Equity shareholders alone fit the ownership entitlement described by the question.

Step 4: Conclusion Equity shareholders are entitled to the residual distributable profits after satisfying the dividend rights of preference shareholders. Hence, the correct option is (C).

Quick Tip to Solve: Classify the claimant first: debenture and bond holders are lenders, preference shareholders have priority, and equity shareholders have the residual dividend claim.

29. Minimum subscription of capital cannot be less than ..... amount according to SEBI (Disclosure and Investor Protection) Guidelines, 2000. [5 marks]

(A) 60% of the issued

(B) 70% of the issued

(C) 80% of the issued

(D) 90% of the issued

Correct Answer: (D) 90% of the issued

Solution:

Concept:

- Minimum subscription is the minimum proportion of the issued capital that must be subscribed before an issue can proceed to allotment.
- Under the SEBI (Disclosure and Investor Protection) Guidelines, 2000 referred to in the question, the required minimum subscription is 90% of the issue.

Step 1: Identify the specified threshold The question asks for the minimum subscription under the named Guidelines, rather than the fraction of capital already paid by each applicant. The prescribed threshold is 90% of the issued amount. Thus, for an issue of Rs 10,00,000, the minimum subscription would be Rs 9,00,000.

Step 2: Compare all four percentages Options (A), (B) and (C) give 60%, 70% and 80%, respectively. Each is below the prescribed 90% threshold and therefore cannot complete the statement. Option (D) supplies exactly the required proportion of issued capital.

Step 3: Conclusion Minimum subscription cannot be less than 90% of the issued amount under the Guidelines stated in the question. Hence, the correct option is (D).

Quick Tip to Solve: Link minimum subscription to the issued amount and remember the 90% threshold; do not confuse it with the application money per share.

30. Which of the following is a written instrument acknowledging a debt under the common seal of the company? [5 marks]

(A) Debenture

(B) Equity Share

(C) Preference share

(D) Bank Draft

Correct Answer: (A) Debenture

Solution:

Concept:

- A debenture is a written acknowledgement of a company's debt; its holder is a creditor of the company.
- Equity and preference shares represent share capital, whereas a debenture represents borrowed

capital.

Step 1: Recognise the debt instrument The key words are "written instrument acknowledging a debt" and "under the common seal of the company". These describe the traditional textbook definition of a debenture. The company acknowledges the money borrowed and the terms governing interest and repayment in this instrument.

Step 2: Distinguish the remaining instruments An equity share gives an ownership interest and does not acknowledge a borrowing. A preference share is also part of share capital, although it carries preferential rights regarding dividend and repayment of capital. A bank draft is a bank-issued payment instrument, rather than the company's written acknowledgement of its own debt. These distinctions eliminate (B), (C) and (D).

Step 3: Conclusion The written instrument acknowledging a company's debt in the terms given is a debenture. Hence, the correct option is (A).

Quick Tip to Solve: Classify the holder first: a shareholder supplies owned capital, while a debenture holder lends money and is a creditor.

31. On Bearer debentures, Interest is paid to a person who produces the ..... attached to such debentures? [5 marks]

(A) Registered Deed

(B) Ownership Papers

(C) Interest Coupon

(D) Interest Certificate

Correct Answer: (C) Interest Coupon

Solution:

Concept:

- Bearer debentures are transferable by delivery, and the company does not maintain a register naming their holders in the manner used for registered debentures.
- Interest coupons attached to bearer debentures are presented by the holder to claim the corresponding interest payment.

Step 1: Identify the document presented for interest The blank concerns payment of periodic interest on a bearer debenture. The holder presents the interest coupon attached to the debenture for the relevant interest period. Presentation of that coupon is the method described in the question.

Step 2: Eliminate documents serving other purposes A registered deed is not the detachable claim used to receive this interest. Ownership papers likewise do not identify the attached coupon for an interest period. An interest certificate may describe or certify interest but is not the standard attached instrument presented for payment. Therefore registered deed, ownership papers and interest certificate do not fit the stated procedure; interest coupon does.

Step 3: Conclusion Interest on bearer debentures is paid to the person presenting the attached interest coupon. Hence, the correct option is (C).

Quick Tip to Solve: Associate bearer debentures with delivery and detachable interest coupons; associate registered debentures with the company's register of holders.

32. Match List-I with List-II

List-I	List-II
(A) Debentures issued for consideration other than cash	(I) A company issues debentures at a price lower than their face value.
(B) Debentures issued as Collateral Security	(II) A company purchases assets from vendors and make payment by debentures
(C) Debentures issued for cash	(III) The company may issue its own debentures to the lenders in addition to some other assets already pledged
(D) Debentures issued at discount	(IV) A company invite the public to apply for debentures by issue of prospectus

Choose the correct answer from the options given below: [5 marks]

(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)

(B) (A) - (IV), (B) - (II), (C) - (III), (D) - (I)

(C) (A) - (II), (B) - (III), (C) - (IV), (D) - (I)

(D) (A) - (III), (B) - (IV), (C) - (II), (D) - (I)

Correct Answer: (C) (A) - (II), (B) - (III), (C) - (IV), (D) - (I)

Solution:

Concept:

- Debentures can be issued for cash, to settle the purchase price of assets, or as additional security for a loan. These describe the purpose or consideration for the issue.
- An issue at discount describes pricing: the issue price is lower than the debenture's face value. It should not be confused with the consideration received.

Step 1: Match the purchase and security cases Item A means that the company receives an asset or another non-cash consideration instead of money from subscribers. Paying vendors for purchased assets by issuing debentures is therefore description II. Item B concerns collateral security: debentures are provided to lenders as additional security alongside assets already pledged. It matches description III; the debentures support repayment of the loan rather than create an ordinary public cash issue.

Step 2: Match the cash and discount cases Item C describes an ordinary cash issue. The company invites the public to subscribe through a prospectus and receives application money, so C matches IV. Item D is an issue at discount: subscribers pay less than face value. Description I states exactly that pricing condition, so D matches I. The distinction between a cash issue and a discount issue is that one concerns consideration and the other concerns issue price.

Step 3: Eliminate incorrect combinations The mapping is A-II, B-III, C-IV, D-I. Option (A) incorrectly assigns below-face-value pricing to a non-cash issue. Option (B) assigns the public subscription description to non-cash consideration. Option (D) assigns additional lender security to a vendor purchase and public subscription to collateral security. Option (C) alone preserves all four definitions.

Step 4: Conclusion The mapping is A-II, B-III, C-IV, D-I. Hence, the correct option is (C).

Quick Tip to Solve: Match distinctive words first: vendors means non-cash consideration; lenders and additional security means collateral.

33. In addition to the purchase of own shares by a company and to issue fully paid bonus shares, for which of the following purposes security premium account balance could be used? (A) To write-off preliminary expenses of the company. (B) To pay premium on the redemption of preference shares or debentures of the company. (C) To write-off the expenses of, or commission paid, or discount allowed on any securities of the company (D) To pay the issue price of debentures. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B) and (C) only

(B) (A), (B) and (D) only

(C) (A), (B), (C) and (D)

(D) (B), (C) and (D) only

Correct Answer: (A) (A), (B) and (C) only

Solution:

Concept:

- Securities premium is a restricted capital reserve: it cannot be used as freely as ordinary revenue profit. Its specified uses include certain capital-related write-offs and redemption premiums.
- The question asks which stated uses are allowed in addition to buy-back and fully paid bonus shares; distinguish payment of a redemption premium from payment of an issue price.

Step 1: Check the listed capital-related uses Item A, writing off preliminary expenses, is a permitted use of securities premium. Item B, providing for the premium payable on redemption of preference shares or debentures, is also permitted. This is the additional amount payable above the redemption principal, not a general payment for the original issue. Item C, writing off expenses, commission or discount on an issue of securities, is another specified use.

Step 2: Reject the issue-price statement Item D says to pay the issue price of debentures. The issue price is the amount received from subscribers when debentures are issued; it is not a specified expenditure that may be financed by applying securities premium. Debenture redemption premium and debenture issue price refer to different stages and different amounts. The presence of the word debentures in both statements does not make both uses permissible.

Step 3: Choose the combination excluding D The allowed items are A, B and C only. Option (A) gives precisely these. Option (B) wrongly includes D and omits the valid issue-expense write-off C. Option (C) includes all four and so includes the invalid D. Option (D) also includes D and omits the valid preliminary-expense use A. Therefore only the first combination satisfies the restriction.

Step 4: Conclusion Only statements A, B and C identify permitted uses. Hence, the correct option is (A).

Quick Tip to Solve: For securities premium, distinguish redemption premium from principal or issue price; only the specified capital uses qualify.

34. Arrange the following in a sequence related to the issue and redemption of shares. (A) Forfeiture of shares (B) Reissue of shares (C) Calls in arrears (D) Transfer of share forfeited account balance to capital reserve A/c. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B), (C), (D)

(B) (B), (A), (C), (D)

(C) (C), (A), (B), (D)

(D) (D), (B), (C), (A)

Correct Answer: (C) (C), (A), (B), (D)

Solution:

Concept:

- Calls in arrears arise when shareholders do not pay an amount called by the company. After the required notice and procedure, the company may forfeit the defaulting shares.
- After forfeited shares are reissued, any remaining forfeiture surplus attributable to those shares is transferred to capital reserve. It is a capital profit, not an ordinary dividend source.

Step 1: Start with the default that causes forfeiture Item C, calls in arrears, is the first event. An unpaid call creates the default; it is not created by the later reissue. Item A follows: forfeiture cancels the defaulting shareholder's interest after the required procedure. The accounting entry reverses called-up capital and recognises the amounts unpaid and the amount previously received, as appropriate.

Step 2: Place reissue before capital profit determination Item B comes next, since only shares that have already been forfeited can be reissued. The reissue price determines whether part of the forfeited amount must absorb a reissue discount. Item D follows reissue: the remaining balance attributable to the reissued shares is then a realised capital profit and is transferred to Capital Reserve. If only part is reissued, only the related surplus is transferred.

Step 3: Compare the four orders The required order is C, A, B, D. Option (A) puts calls in arrears after forfeiture and reissue. Option (B) begins with reissue before the shares have been forfeited. Option (D) starts with a capital reserve transfer before any reissue surplus has been established. Option (C) alone follows cause, forfeiture, reissue and final transfer.

Step 4: Conclusion The sequence is C, A, B, D. Hence, the correct option is (C).

Quick Tip to Solve: Use the causal chain: unpaid call, forfeiture, reissue, then transfer the remaining related capital profit.

35. Raj Ltd. purchased machine from Anuj Tech Ltd. for Rs.1,90,000. As per purchase agreement, Rs. 10,000 were paid in cash and balance by issue of shares of Rs.100 each. Find the number of shares issued to Anuj Tech Ltd., if the shares issued at 20% premium. [5 marks]

(A) 3,000

(B) 2,000

(C) 1,500

(D) 1,000

Correct Answer: (C) 1,500

Solution:

Concept:

- When shares are issued to a vendor, the amount still payable to the vendor is settled at the issue price of each share, not merely its face value.
- An issue at a premium means that issue price equals face value plus securities premium. Here the premium is 20% of the face value of Rs 100, so each share settles Rs 120 of the liability.

Step 1: Find the balance payable in shares The machinery costs Rs 1,90,000, but Raj Ltd. has already paid Rs 10,000 in cash. Deduct that cash payment before calculating the number of shares:

$$\text{Balance due to Anuj Tech Ltd.} = 1,90,000 - 10,000 = \text{Rs } 1,80,000.$$

The shares must discharge this balance; the cash portion must not be included again.

Step 2: Calculate the issue price and number of shares The premium per share is $100 \times 20/100 = \text{Rs } 20$. Therefore:

$$\text{Issue price} = 100 + 20 = \text{Rs } 120, \qquad \text{Shares issued} = \frac{1,80,000}{120} = 1,500.$$

Check: face value of 1,500 shares is Rs 1,50,000 and securities premium is Rs 30,000. Together they settle Rs 1,80,000; adding cash of Rs 10,000 reconciles exactly with the machinery cost.

Step 3: Eliminate the other choices At Rs 120 per share, 3,000 shares would settle Rs 3,60,000 and 2,000 shares would settle Rs 2,40,000, both exceeding the balance due. Only 1,000 shares would settle Rs 1,20,000 and leave Rs 60,000 unpaid. Thus none of those alternatives satisfies the purchase agreement.

Step 4: Conclusion Raj Ltd. issues 1,500 shares to Anuj Tech Ltd. Hence, the correct option is (C).

Quick Tip to Solve: Deduct any cash payment first, then divide the balance by face value plus premium per share. Verify the result by adding share capital, premium and cash.

36. H Ltd. purchased machinery worth Rs.99,000 from P Ltd. The payment was made by issue of 12% debentures of Rs.100 each. Pass the necessary journal entries for the issue of debentures when debentures are issued at 10% discount in the books of H Ltd. [5 marks]

(A)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	P Ltd. Dr.		1,10,000	
	To 12% Debentures A/c			1,10,000

(B)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	P Ltd. Dr.		99,000	
	Discount on Issue of Debentures A/c Dr.		11,000	
	To 12% Debentures A/c			1,10,000

(C)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	12% Debentures A/c		1,10,000	
	To P Ltd.			99,000
	To Discount on Issue of Debentures A/c			11,000

(D)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	12% Debentures A/c		1,10,000	
	To P Ltd.			1,10,000

Correct Answer: (B)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	P Ltd. Dr.		99,000	
	Discount on Issue of Debentures A/c Dr.		11,000	
	To 12% Debentures A/c			1,10,000

Solution:

Concept:

- Debentures issued to a vendor settle the amount payable at their issue price. Debentures Account is credited with their nominal value; discount on issue is debited separately.
- The rate of interest, 12%, identifies the debentures but does not determine how many are issued. The 10% issue discount makes the issue price Rs 90 for each Rs 100 debenture.

Step 1: Determine the nominal value issued The machinery vendor must receive consideration worth Rs 99,000. Each debenture settles only Rs 90 because it is issued at a discount:

$$\text{Number of debentures} = \frac{99,000}{90} = 1,100.$$

Their nominal value is $1,100 \times 100 = \text{Rs } 1,10,000$, and discount on issue is $1,100 \times 10 = \text{Rs } 11,000$. The vendor account must be debited with its actual outstanding balance, Rs 99,000.

Step 2: Record the purchase and settlement The purchase creates the liability, and the issue of debentures subsequently settles it. The entries in the books of H Ltd. are:

Journal of H Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Machinery A/c Dr. To P Ltd. (Being machinery purchased on credit)		99,000	 99,000
	P Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 12% Debentures A/c (Being 1,100 debentures of Rs 100 issued at 10% discount to settle the vendor)		99,000 11,000	 1,10,000

The settlement entry balances because total debits are Rs 1,10,000, equal to the nominal debenture credit.

Step 3: Compare the alternatives Option (B) has the correct debit to P Ltd., debit for the discount, and credit for the nominal value. Option (A) incorrectly debits the vendor with Rs 1,10,000 and omits the discount. Option (C) reverses the required debenture and vendor entries and credits the discount. Option (D) also reverses the settlement and overstates the vendor balance.

Step 4: Conclusion Debit P Ltd. with Rs 99,000 and Discount on Issue of Debentures Account with Rs 11,000; credit 12% Debentures Account with Rs 1,10,000. Hence, the correct option is (B).

Quick Tip to Solve: For debentures issued at a discount to a vendor, divide the vendor balance by the issue price, then credit debentures at face value and debit the difference as discount.

37. A Limited issued 5000, 10% debentures of Rs. 100 each, at a premium of Rs. 10 per debenture payable as follows:

On application Rs. 25, On allotment Rs. 45 (including premium), On first and final call Rs. 40.

The debentures were fully subscribed and all money was duly received.

Select the correct journal entries related to the above case from the following.

(A)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	10% Debenture Allotment A/c Dr.		2,25,000	
	To 10% Debentures A/c			1,75,000
	To Securities Premium Reserve A/c			50,000

(B)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Bank A/c Dr.		1,25,000	
	To 10% Debenture Application A/c			1,25,000

(C)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Bank A/c Dr.		2,00,000	
	To 10% Debenture First & Final Call A/c			2,00,000

(D)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Bank A/c Dr.		**2,20,000**	
	To 10% Debenture Allotment A/c			**2,20,000**

Choose the correct answer from the options given below: [5 marks]

(A) (A), (B) and (C) only

(B) (A), (B) and (D) only

(C) (A), (B), (C) and (D)

(D) (B), (C) and (D) only

Correct Answer: (A) (A), (B) and (C) only

Solution:

Concept:

- For 5,000 debentures, each instalment is multiplied by 5,000. Securities premium is credited when the premium becomes due, while nominal debenture capital totals face value.
- The allotment instalment of Rs 45 includes Rs 10 premium. Thus only Rs 35 per debenture belongs to nominal capital at allotment; cash receipts must equal amounts due.

Step 1: Check allotment becoming due The allotment debit is 5,000 times Rs 45 = Rs 2,25,000. Its capital component is 5,000 times Rs 35 = Rs 1,75,000, and its premium component is 5,000 times Rs 10 = Rs 50,000. Entry A correctly debits Debenture Allotment and credits Debentures and Securities Premium Reserve by these amounts. The credits total Rs 2,25,000, balancing the debit.

Step 2: Check application and final-call receipts Application cash is 5,000 times Rs 25 = Rs 1,25,000. Entry B correctly debits Bank and credits Debenture Application by this amount. The first and final call cash is 5,000 times Rs 40 = Rs 2,00,000. Entry C correctly debits Bank and credits Debenture First and Final Call. All amounts were received, so neither receipt should show an arrear.

Step 3: Identify the incorrect receipt and combination Allotment cash must be Rs 2,25,000, the full amount due, but entry D shows Rs 2,20,000. It understates the receipt by Rs 5,000 and is incorrect. The correct entries are A, B and C only. Option (A) selects exactly these. Options (B), (C) and (D) each include incorrect entry D; the first and last of those also omit a correct entry.

Step 4: Conclusion Entries A, B and C are correct; entry D has the wrong allotment receipt. Hence, the correct option is (A).

Quick Tip to Solve: Separate allotment premium from face value, then check every receipt using number of debentures times the full instalment.

38. In case debentures were issued as collateral security for taking loan from ABC Bank. Choose the correct journal entry for cancellation of debentures as collateral security on repayment of bank loan. [5 marks]

(A) % Debentures A/c Dr.

To Bank A/c

(B) Debenture Suspense A/c Dr.

To % Debentures A/c

(C) % Debentures A/c Dr.

To Debenture Suspense A/c

(D) Bank A/c Dr.

To % Debentures A/c

Correct Answer: (C) % Debentures A/c Dr.

To Debenture Suspense A/c

Solution:

Concept:

- Collateral security is an additional security for a loan; the bank loan is the primary liability, while the debentures secure its repayment.
- Under the journal-entry method, issue of collateral debentures debits Debenture Suspense Account and credits Debentures Account. Cancellation reverses that entry.

Step 1: Recall the entry made when security was given The original collateral entry creates equal balances: a debit in Debenture Suspense Account and a credit in Debentures Account. No cash is received for these collateral debentures themselves. The bank advance is recorded separately as a loan, so it must not be confused with an ordinary cash issue of debentures.

Step 2: Reverse the collateral entry after repayment Repayment ends the need for additional security. Debit Debentures Account to cancel its credit balance and credit Debenture Suspense Account to cancel its debit balance. For collateral debentures of face value Rs X, the cancellation entry is:

Journal: Cancellation of collateral debentures

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Debentures A/c Dr.		X	
	To Debenture Suspense A/c			X
	(Being collateral debentures cancelled after loan repayment.)			

Step 3: Eliminate the other entries Option (B) repeats the original issue entry instead of reversing it. Options (A) and (D) use Bank Account, although cancelling the collateral debentures produces no cash movement. Any bank payment belongs to repayment of the loan itself, a separate transaction.

Step 4: Conclusion Debit % Debentures Account and credit Debenture Suspense Account. Hence, the correct option is (C).

Quick Tip to Solve: Write the collateral issue entry first, then reverse its debit and credit when the security is cancelled.

39. Nominal share capital is? [5 marks]

(A) That part of the authorised capital which is actually issued to the public by the company.

(B) The amount of capital which is actually applied for by the prospective shareholders.

(C) The maximum amount of share capital which a company is authorised to issue.

(D) The amount actually paid by the shareholders.

Correct Answer: (C) The maximum amount of share capital which a company is authorised to issue.

Solution:

Concept:

- Nominal, authorised and registered capital refer to the maximum share capital a company is authorised to issue under its Memorandum of Association.
- Issued, subscribed and paid-up capital describe successive stages in raising capital; they need not equal the authorised ceiling.

Step 1: Identify what nominal capital measures The question asks for the permitted limit of share capital, rather than the amount already offered, applied for, or received. The capital clause of the Memorandum of Association specifies this ceiling. A company may issue a smaller amount initially and issue further shares within the limit, subject to the applicable requirements.

Step 2: Distinguish the alternatives Option (A) defines issued capital: the portion offered to the public for subscription. Option (B) describes subscribed capital: the portion investors apply for and take up. Option (D) concerns paid-up capital: the amount actually paid by shareholders on the shares allotted to them. None of these is the maximum permissible capital.

Step 3: Select the definition of the ceiling Option (C) expressly identifies the maximum amount of share capital which the company is authorised to issue. That is exactly nominal capital. For example, a company authorised to issue capital of Rs 10,00,000 may issue only Rs 6,00,000; nominal capital remains Rs 10,00,000 until formally altered.

Step 4: Conclusion Nominal share capital is the maximum amount of share capital which a company is authorised to issue. Hence, the correct option is (C).

Quick Tip to Solve: Associate authorised or nominal capital with the permitted ceiling; issued, subscribed and paid-up capital describe amounts below that ceiling.

40. 200 shares of Rs.100 each issued at a premium of Rs.10 were forfeited for the non-payment of allotment money of Rs.60 per share including premium. The first and final call of Rs.20 per share on these shares were not made. The forfeited shares were reissued at Rs.70 per share as fully paid-up. Find the amount of capital reserve. [5 marks]

(A) Rs 4000

(B) Rs 6000

(C) Rs 14000

(D) Nil

Correct Answer: (D) Nil

Solution:

Concept:

- Only the amount already received towards share capital is credited to Share Forfeiture Account; unpaid securities premium is not a capital receipt.
- On reissue, the discount is adjusted against the forfeiture amount relating to the reissued shares. The balance is transferred to Capital Reserve.

Step 1: Find the capital amount already received The total issue price is Rs $100 + 10 = 110$ per share. Allotment of Rs 60 includes premium of Rs 10, so the capital portion of allotment is Rs 50. The first and final call of Rs 20 was never made. Thus application money already received was:

$$110 - 60 - 20 = 30 \text{ rupees per share.}$$

The called-up capital is Rs $100 - 20 = 80$ per share; Rs 50 of this is unpaid. Therefore capital received is again Rs $80 - 50 = 30$ per share, and forfeiture credit for 200 shares is Rs $200 \times 30 = 6,000$.

Step 2: Adjust the discount allowed on reissue All 200 shares are reissued as fully paid at Rs 70 against face value Rs 100. The reissue discount is therefore:

$$200(100 - 70) = \text{Rs } 6,000.$$

This discount uses the entire Rs 6,000 standing in Share Forfeiture Account for these shares. The capital reserve is the surplus remaining after this adjustment, not the cash collected on reissue.

Step 3: Compute the transferable balance and reject the distractors The amount transferable is:

$$\text{Capital Reserve} = 6,000 - 6,000 = \text{Rs } 0.$$

Rs 6,000 is the forfeiture balance before adjustment, while Rs 14,000 is reissue proceeds (200×70). Rs 4,000 does not follow from the capital receipt and discount figures. Since there is no surplus, none of these amounts is the capital reserve.

Step 4: Conclusion The amount of capital reserve is nil. Hence, the correct option is (D).

Quick Tip to Solve: Exclude unpaid premium and uncalled capital when finding the forfeiture credit, then subtract the discount on the shares reissued.

41. A, B and C constituted a partnership to carry out a venture to build offices for Zakash Office Sites Ltd. On the completion of venture under which way the dissolution of a firm will take place? [5 marks]

(A) On the happening of certain contingencies

(B) Dissolution by Court

(C) Dissolution by Notice

(D) Compulsory Dissolution

Correct Answer: (A) On the happening of certain contingencies

Solution:

Concept:

- A partnership may be formed for one specified adventure or undertaking rather than for an indefinite continuing business.
- Subject to the agreement between the partners, completion of that undertaking is a contingency that dissolves the firm. The purpose for which the particular partnership was formed has then been fulfilled.

Step 1: Identify the limited purpose of the partnership A, B and C came together specifically to build offices for Zakash Office Sites Ltd. The question describes a particular venture, so the relevant event is the completion of those offices. It does not describe a partnership at will being ended by one partner's written notice, or a continuing business being stopped for an unrelated reason.

Step 2: Classify the event that ends the firm When the stated venture is completed, dissolution follows on the happening of the specified contingency, unless the partners have agreed otherwise. A court order is unnecessary: no judicial ground or petition is mentioned. Dissolution by notice concerns a partnership at will, whereas here the agreed undertaking itself is finished. Compulsory dissolution concerns events such as all partners, or all but one, becoming insolvent or the business becoming unlawful; neither event is stated. Therefore the completion of the venture fits the first option alone.

Step 3: Conclusion The firm is dissolved on the happening of a certain contingency, namely completion of the venture for which it was formed. Hence, the correct option is (A).

Quick Tip to Solve: Match a partnership formed for a single project with completion of that project: this is dissolution on a contingency, rather than dissolution by notice or by court.

42. Under which of the following cases, the Court can order the dissolution of a partnership firm? (A) When a partner persistently commits breach of partnership agreement. (B) When a partner has transferred the whole of his interest in the firm to a third party. (C) By the death of a partner. (D) When the business of the firm cannot be carried on except at a loss. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B) and (C) only

(B) (A), (B) and (D) only

(C) (A), (B), (C) and (D)

(D) (A), (C) and (D) only

Correct Answer: (B) (A), (B) and (D) only

Solution:

Concept:

- Court-ordered dissolution is distinguished from dissolution on the occurrence of a contingency. Misconduct or circumstances making continued business impracticable can justify intervention by the court.
- The stated grounds include persistent breach of the agreement, transfer of a partner's whole interest, and a business that can only be carried on at a loss. Death is treated as a contingency, subject to the partnership agreement.

Step 1: Check breach and transfer of interest Statement A is a ground for court intervention: a partner who persistently breaches the partnership agreement may make it unreasonable for the other partners to carry on with that person. Statement B is also a stated ground: transfer of the whole interest to a third party can justify an application for dissolution. Neither requires the firm to have already completed dissolution automatically before the court acts.

Step 2: Distinguish death from continuing losses Statement C concerns death of a partner. This belongs to dissolution on the happening of a contingency, subject to a contract between the partners, rather than the particular list of grounds for dissolution by court being tested. Statement D is a court ground: when the business cannot be carried on except at a loss, the court may order dissolution because continued operation defeats the business purpose.

Step 3: Select the correct grounds The required statements are A, B and D only. Option (A) wrongly includes C and omits D. Option (C) wrongly includes all four, mixing the contingency with the court grounds. Option (D) again includes C and omits the valid transfer-of-interest ground B. Option (B) alone groups the three relevant grounds without the contingency.

Step 4: Conclusion Persistent breach, transfer of the whole interest and unavoidable continuing losses are the relevant court grounds. Hence, the correct option is (B).

Quick Tip to Solve: Classify the mode of dissolution first: a contingency such as death is different from a ground on which a court may intervene.

43. At the time of dissolution of a partnership firm in which X, Y and Z were partners sharing profit in 2:2:1 ratio, the following information was made available. Arrange them in the sequence in which they will be paid. (A) A's Loan to the firm Rs 50,000 (B) Creditors Rs 2,00,000 (C) A's Capital Rs 2,50,000, B's Capital Rs 2,00,000 and C's Capital Rs 1,00,000 (D) Balance available after settlement of all the stakeholders. Choose the correct answer from the options given below: [5 marks]

(A) (A), (B), (C), (D)

(B) (A), (B), (D), (C)

(C) (B), (A), (C), (D)

(D) (B), (C), (A), (D)

Correct Answer: (C) (B), (A), (C), (D)

Solution:

Concept:

- On dissolution, available assets are applied first to debts due to outsiders, then to advances from partners distinct from capital, then to partners' capital, and finally to the remaining surplus.
- The profit-sharing ratio governs the final surplus; it does not reverse the priority of outside debts, partner loans and capital. A loan from a partner is a separate claim from capital.

Step 1: Pay outside creditors before partner claims Item B, creditors of Rs 2,00,000, is paid first. These are external liabilities, which rank ahead of claims by partners in the settlement of accounts. The stated 2:2:1 profit-sharing ratio does not make outside creditors wait until partners have recovered their capital. Item A, the loan of Rs 50,000, follows as a partner's advance distinct from capital in the question's intended classification.

Step 2: Settle capital and then distribute the residue Item C lists the partners' capital claims. Capital is settled only after outside debts and partner advances have been paid. Item D, the balance available after settlement of all stakeholders, is last and is distributed among partners in their profit-sharing ratio. The differing letters used for partner names in the printed data do not change the priority of the categories being arranged.

Step 3: Compare the alternative sequences The order is B, A, C, D. Option (A) places a partner loan ahead of outside creditors. Option (B) also starts with the loan and puts residue before capital. Option (D) puts capital before the partner loan, although partner advances rank ahead of capital. Option (C) alone follows the prescribed settlement order for the categories supplied.

Step 4: Conclusion Pay outside creditors, partner loans, capital and finally the residue. Hence, the correct option is (C).

Quick Tip to Solve: For dissolution priority, remember outsiders, partner advances, capital, then surplus; apply the profit ratio only to the final residue.

44. **Match List-I with List-II**

List-I (Cases for payment of realization expenses)	List-II (Journal entry)
(A) When realisation expenses are incurred and paid by the firm	(I) Realisation A/c Dr. To Partner's Capital A/c
(B) When realisation expenses are paid by a partner on behalf of the firm:	(II) No entry is required
(C) When a partner has agreed to bear the realisation expenses and the realisation expenses are paid by the firm	(III) Realisation A/c Dr. To Bank A/c
(D) When a partner has agreed to bear the realisation expenses and the partner himself pays the realisation expenses.	(IV) Partner's Capital A/c Dr. To Bank A/c

Choose the correct answer from the options given below: [5 marks]

(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)

(B) (A) - (III), (B) - (I), (C) - (IV), (D) - (II)

(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)

(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Correct Answer: (B) (A) - (III), (B) - (I), (C) - (IV), (D) - (II)

Solution:

Concept:

- Realisation expenses reduce the firm's realisation result when the firm bears them. If a partner bears the expenses personally, they are not a charge against the firm's realisation result.
- The credit identifies who provided the payment: Bank when the firm pays, or Partner's Capital when the partner pays an expense chargeable to the firm. A payment on behalf of a partner is debited to that partner.

Step 1: Match expenses borne by the firm For A, the firm incurs and pays its own realisation expenses. Debit Realisation and credit Bank, giving entry III. For B, a partner pays an expense on behalf of the firm. The firm still bears the cost, so debit Realisation, but credit the partner's capital account to recognise the reimbursement due. This is entry I; there is no reduction in the firm's bank balance when the partner makes that payment.

Step 2: Match expenses borne by a partner For C, the partner has agreed to bear the expenses but the firm pays them. Debit the partner's capital account and credit Bank, entry IV: the payment reduces the sum due to that partner rather than becoming a cost of the firm. For D, the partner both bears and pays the expenses. This is the partner's personal responsibility, so the firm records no entry, matching II.

Step 3: Check the complete mapping The result is A-III, B-I, C-IV, D-II. Option (A) wrongly makes the firm's own cash payment a credit to partner capital. Option (C) repeats that error and treats the personally paid cost as a firm cash payment. Option (D) credits Bank when the partner pays on behalf of the firm. Option (B) alone matches responsibility and payment correctly in every case.

Step 4: Conclusion The correct mapping is A-III, B-I, C-IV, D-II. Hence, the correct option is (B).

Quick Tip to Solve: Ask two separate questions: who must bear the expense, and who actually paid? Those answers determine the debit and credit.

45. At the time of dissolution of a partnership firm, the stock appeared in the books was Rs 35,000. One of the partner took over 50% of the stock at 10% less than its book value, and the remaining stock was sold at a gain of 15%. Find the total amount realized from the stock in cash. [5 marks]

(A) Rs 15,750

(B) Rs 17,500

(C) Rs 20,125

(D) Rs 35,875

Correct Answer: (C) Rs 20,125

Solution:

Concept:

- On dissolution, an asset sold to an outsider produces cash, whereas an asset taken over by a partner is settled through the partner's capital account.
- The carrying amount allocated to each portion is its percentage of the total book value. A gain increases the sale proceeds above that portion's book value.

Step 1: Separate the stock into two equal portions The total book value is Rs 35,000. The partner takes half, leaving the other half for outside sale. Thus the book value of each portion is

$$35,000 \times \frac{50}{100} = \text{Rs } 17,500.$$

The phrase "in cash" requires us to count only the amount actually received from the outside buyer; taking over stock is not itself a cash receipt.

Step 2: Compute the outside sale proceeds The remaining stock is sold at a gain of 15% on its book value. Therefore,

$$\text{Cash realised} = 17,500\left(1+\frac{15}{100}\right) = \text{Rs } 20,125.$$

For comparison, the partner's take-over value is $17,500 \times 0.90 = \text{Rs } 15,750$. That amount is debited to the partner's capital account rather than added to cash realised.

Step 3: Check the competing amounts Rs 15,750 is the non-cash take-over value, so option (A) is excluded. Rs 17,500 in option (B) is only the book value of the portion sold and ignores its gain. Rs 35,875 in option (D) adds the partner's take-over value to the outside proceeds: $15,750 + 20,125 = 35,875$. It is a combined realisation value, not the cash received. Only option (C) isolates the required cash component.

Step 4: Conclusion The amount realised from stock in cash is $\boxed{\text{Rs } 20,125}$. Hence, the correct option is (C).

Quick Tip to Solve: Separate partner take-over from outside sale first: only the outside-sale proceeds enter cash realised.

Analysis of Financial Statements (25 marks)

Optional section. Attempt either this section or Computerized Accounting Systems; answer all 5 questions of the chosen section.

46. Match List-I with List-II

List-I	List-II
(A) Receipt from royalties, fees, commission and other revenue	**(I) Investing Activity**
(B) Receipt from Interest and dividends	**(II) Operating Activity**
(C) Proceeds from issue of preference or equity shares	**(III) Cash and Cash equivalent**
(D) Current Investment	**(IV) Financing Activity**

Choose the correct answer from the options given below: [5 marks]

(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)

(B) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)

(C) (A) - (II), (B) - (I), (C) - (IV), (D) - (III)

(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Correct Answer: (C) (A) - (II), (B) - (I), (C) - (IV), (D) - (III)

Solution:

Concept:

- Operating cash flows arise from the principal revenue-producing activities of an enterprise. Investing cash flows concern investment assets and returns from those investments for a non-financial enterprise.
- Financing cash flows change owners' capital or borrowings. Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments.

Step 1: Classify revenue receipts and investment returns Royalties, fees, commission and other revenue receipts are generated by ordinary revenue-producing activities. Therefore (A) matches Operating Activity, or (II). Interest and dividends received by a non-financial enterprise are returns on investments, so (B) matches Investing Activity, or (I). This distinction concerns the source of the receipt, not merely the fact that cash comes in.

Step 2: Classify share proceeds and the short-term investment category Cash from issuing preference or equity shares increases share capital; it is therefore a financing inflow. Hence (C) matches (IV). In the classification offered in this question, current investment is placed with Cash and Cash equivalent, so (D) matches (III). Strictly, an investment qualifies as a cash equivalent only when it is short-term, highly liquid, readily convertible into a known cash amount and exposed to insignificant value risk; being called a current investment alone does not guarantee this classification.

Step 3: Select the matching combination The resulting combination is

$$(A)-(II), \quad (B)-(I), \quad (C)-(IV), \quad (D)-(III).$$

Option (A) incorrectly treats revenue receipts as investing and share proceeds as cash equivalents.

Option (B) correctly places the last two entries but reverses the first two. Option (D) puts revenue receipts under cash equivalents and share proceeds under investing. Only option (C) gives the required classifications throughout.

Step 4: Conclusion Revenue receipts are operating, investment returns are investing, share proceeds are financing, and the last item is paired with cash equivalents as presented. Hence, the correct option is (C).

Quick Tip to Solve: Identify share issue as financing and ordinary fee receipts as operating first; these two matches quickly isolate the answer.

47. **Arrange the following items related to the Statement of Profit and Loss in a sequence: (A) Profit before extraordinary items and tax (B) Profit before tax (C) Cost of materials consumed (D) Revenue from operations. Choose the correct answer from the options given below:** [5 marks]

(A) (A), (B), (C), (D)

(B) (B), (A), (C), (D)

(C) (C), (D), (A), (B)

(D) (D), (C), (A), (B)

Correct Answer: (D) (D), (C), (A), (B)

Solution:

Concept:

- The Statement of Profit and Loss begins with income, then deducts expenses to arrive at profit subtotals. Revenue from operations is reported before the operating costs incurred to earn it.
- In the format using extraordinary items, profit before extraordinary items and tax is calculated before adjusting extraordinary items to arrive at profit before tax.

Step 1: Place revenue before the related expense Item (D), Revenue from operations, appears at the beginning of the income section. Other income may then be added to obtain total revenue. Item (C), Cost of materials consumed, belongs to the expenses section and is deducted along with other applicable expenses. Consequently, among the four given items, (D) must precede (C). Starting with cost or with an already calculated profit subtotal reverses the statement's calculation order.

Step 2: Order the two profit subtotals After deducting the relevant expenses and making the preceding adjustments in the statement, we reach item (A), Profit before extraordinary items and tax. Extraordinary items are then taken into account, where applicable, to obtain item (B), Profit before tax. Thus (A) precedes (B); the two labels are successive calculation stages, even if their amounts happen to be equal when there is no extraordinary item.

Step 3: Compare the option sequences The required sequence is therefore

$$(D) \longrightarrow (C) \longrightarrow (A) \longrightarrow (B).$$

Option (A) starts with profit subtotals and leaves revenue last, so it cannot follow the statement's presentation. Option (B) also puts profit before both income and cost and reverses the two subtotals.

Option (C) correctly ends with (A), (B), but puts materials cost before revenue. Option (D) alone preserves both the income-to-expense order and the earlier-to-later profit-subtotal order.

Step 4: Conclusion The sequence is revenue from operations, cost of materials consumed, profit before extraordinary items and tax, and profit before tax. Hence, the correct option is (D).

Quick Tip to Solve: Read the statement from income to expenses to profit; a subtotal before an adjustment must appear before the subtotal after that adjustment.

48. The current ratio of a firm is 2 : 1. If the firm purchased goods on credit, then how will it affect its current ratio? [5 marks]

(A) Improve

(B) Reduce

(C) No change

(D) The ratio will increase for some time and reach its highest point.

Correct Answer: (B) Reduce

Solution:

Concept:

- The current ratio is current assets divided by current liabilities. A credit purchase of goods increases inventory, a current asset, and trade payables, a current liability, by the same amount.
- When the initial ratio is greater than one, adding an equal positive amount to its numerator and denominator reduces the ratio towards one.

Step 1: Express the initial position algebraically Let current liabilities be Rs L, with $L > 0$. Since the given current ratio is $2 : 1$, current assets must be Rs $2L$. Suppose goods worth Rs x, where $x > 0$, are purchased on credit. Inventory rises by x and the amount payable to the supplier also rises by x. There is no immediate cash payment.

Step 2: Calculate and compare the revised ratio The new current ratio is

$$\frac{2L + x}{L + x} = 1 + \frac{L}{L + x}.$$

Because $L + x > L$, the fraction $L/(L + x)$ is less than one and greater than zero. The new ratio therefore lies strictly between 1 and 2. It has fallen from its original value of two, although it remains above one. For example, assets of Rs 2,00,000 and liabilities of Rs 1,00,000 become Rs 2,50,000 and Rs 1,50,000 after a Rs 50,000 credit purchase, giving $5 : 3$.

Step 3: Eliminate the other descriptions Option (A), Improve, would require an increase in the ratio, whereas the calculation shows a reduction. Option (C), No change, overlooks that equal absolute increases are unequal proportional increases: liabilities rise by a larger proportion. Option (D) claims a rise followed by a highest point, but this single credit purchase gives a direct decrease. Option (B) alone describes the result. If the opening ratio were exactly one, an equal increase would leave it unchanged; that special case is excluded by the given $2 : 1$.

Step 4: Conclusion The current ratio reduces from $2:1$ towards $1:1$. Hence, the correct option is (B).

Quick Tip to Solve: For an equal increase in current assets and liabilities, a ratio above one moves down towards one; compare proportions rather than absolute changes.

49. From the following details, calculate interest coverage ratio: Net Profit after tax Rs. 1,20,000; 15% Long-term debt 20,00,000; and Tax rate 40%. [5 marks]

(A) 1.67 times

(B) 1.75 times

(C) 1.89 times

(D) 1.95 times

Correct Answer: (A) 1.67 times

Solution:

Concept:

- Interest coverage ratio measures the ability of earnings before interest and tax (EBIT) to cover the interest on long-term debt. The numerator must therefore be profit before both financing cost and income tax.
- When the tax rate is t, profit after tax equals $\text{PBT}(1-t)$. Interest is the stated debt amount multiplied by its annual interest rate.

Step 1: Calculate the annual interest The long-term debt is Rs. 20,00,000 and its interest rate is 15%. Thus the annual financing cost is

$$\text{Interest} = 20,00,000 \times \frac{15}{100} = \text{Rs. } 3,00,000.$$

This is the denominator of the coverage ratio; the debt principal itself is not the denominator.

Step 2: Recover profit before tax Net profit after tax is Rs. 1,20,000. Since tax takes 40% of profit before tax, the remaining 60% is the given after-tax profit. Hence

$$\text{PBT} = \frac{1,20,000}{0.60} = \text{Rs. } 2,00,000.$$

Adding 40% of the after-tax profit would be incorrect because the tax rate applies to the before-tax amount.

Step 3: Add back interest and calculate coverage Interest has already been deducted in arriving at PBT. Add it back to obtain earnings available before servicing the debt:

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

$$\text{Interest coverage ratio} = \frac{5,00,000}{3,00,000} = 1.666\ldots \approx 1.67 \text{ times}.$$

The other proposed ratios, 1.75, 1.89 and 1.95, do not follow from the given profit, tax rate and

interest cost.

Step 4: Conclusion The interest coverage ratio is $\boxed{1.67 \text{ times}}$. Hence, the correct option is (A).

Quick Tip to Solve: Start with after-tax profit, divide by the after-tax fraction, and only then add back interest to find EBIT.

50. Which financial analysis is also known as 'horizontal analysis'? [5 marks]

(A) Cash Flow Analysis

(B) Ratio Analysis

(C) Comparative Statements

(D) Common Size Statements

Correct Answer: (C) Comparative Statements

Solution:

Concept:

- Horizontal analysis compares financial statement figures across two or more accounting periods. It focuses on change over time, using an earlier period as the basis of comparison.
- Comparative statements place corresponding figures for successive periods side by side and show their absolute and percentage changes.

Step 1: Identify what horizontal analysis compares The word horizontal describes reading the same financial item across the columns for different years. For example, sales in the current year are compared with sales in the previous year to determine how much sales have increased or decreased. The focus is the direction and extent of change over time, rather than the composition of a single period.

Step 2: Connect this comparison with the correct tool A comparative statement shows the earlier-year amount, the current-year amount, the increase or decrease, and usually the percentage change. Its calculations are

$$\text{Change} = \text{Current amount} - \text{Previous amount},$$

$$\text{Percentage change} = \frac{\text{Change}}{\text{Previous amount}} \times 100.$$

This is precisely the time-based comparison called horizontal analysis.

Step 3: Eliminate the other methods Cash flow analysis examines changes in cash and cash equivalents through operating, investing and financing activities. Ratio analysis examines relationships between selected financial figures; it is not the name of this statement-comparison technique. Common size statements express each item as a percentage of a common base, such as revenue or total assets, and are associated with vertical analysis. Therefore none of these three names is the required synonym.

Step 4: Conclusion Comparative Statements are also known as horizontal analysis. Hence, the correct option is (C).

Quick Tip to Solve: Associate horizontal analysis with years shown side by side; associate vertical analysis with percentages of a common base within a statement.

Computerized Accounting Systems (25 marks)

Alternative optional section to Analysis of Financial Statements; answer all 5 questions if choosing this section.

51. Which of the following is not the advantage of Computerised Accounting System (CAS)? [5 marks]

(A) Timely generation of reports and information in desired format.

(B) Efficient record keeping.

(C) Ensures effective control over the system.

(D) Economy in the processing of accounting data is minimised.

Correct Answer: (D) Economy in the processing of accounting data is minimised.

Solution:

Concept:

- A computerised accounting system processes accounting data using software and produces records and reports from stored transactions. Its benefits include speed, organised records and timely information.
- The question asks for the statement that is not an advantage. Read the direction of the claim carefully: minimising economy means reducing cost efficiency, which is contrary to the expected benefit.

Step 1: Check the reporting and record-keeping claims Option (A) describes timely generation of reports in the desired format. Once data are entered and processed, software can quickly produce statements and customised reports, so this is an advantage. Option (B) describes efficient record keeping: systematic electronic storage makes records easier to retrieve, update and process. This too is an advantage.

Step 2: Assess the control claim Option (C) refers to effective control over the system. Authorised access, input checks and organised processing can support control in a computerised environment. Although proper procedures and safeguards are still needed, the statement identifies an intended benefit of a well-designed system, rather than a reason to reject computerisation.

Step 3: Identify the reversed statement Option (D) states that economy in processing accounting data is minimised. Economy means cost efficiency: reducing repetitive manual work and processing large volumes of transactions should improve economy, not minimise it. The statement reverses the direction of the normal advantage. Costs of implementation or training do not turn this reversed claim into an advantage. Thus (D) is the exception, while (A), (B) and (C) describe benefits.

Step 4: Conclusion Economy in the processing of accounting data being minimised is not an advantage of CAS. Hence, the correct option is (D).

Quick Tip to Solve: For a negative MCQ, test each statement as written; a word such as minimised can reverse an otherwise familiar benefit.

52. Match List-I with List-II.

List-I	List-II
(A) Ranges	(I) Holds either row or column constant when the formula or function is copied to another location
(B) Mixed reference	(II) Used when we want a cell reference to stay fixed on specific cell
(C) Absolute reference	(III) As a formula or function is copied and pasted to other cells, the cell references in the formula or function change to reflect the new location
(D) Default reference	(IV) Identified by cell references of the cells from the upper left to lower right

Choose the correct answer from the options given below: [5 marks]

(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)

(B) (A) - (IV), (B) - (I), (C) - (II), (D) - (III)

(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)

(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Correct Answer: (B) (A) - (IV), (B) - (I), (C) - (II), (D) - (III)

Solution:

Concept:

- A spreadsheet range identifies a block of cells by its upper-left and lower-right references. Cell reference types determine what changes when a formula is copied.
- A mixed reference fixes either the row or the column; an absolute reference fixes both. The default relative reference adjusts its row and column position to the new formula location.

Step 1: Identify ranges and mixed references A range such as A1:C5 identifies a rectangular set of cells from the upper-left cell to the lower-right cell, so A matches IV. A mixed reference holds either the row or column constant when copied, matching B with I. For example, a fixed column can be combined with a changing row, or a fixed row with a changing column; the purpose is to retain only one dimension.

Step 2: Identify absolute and default references An absolute reference remains fixed on the specified cell when the formula is copied elsewhere, so C matches II. Both dimensions are held constant rather than merely one. A default reference is relative: its position changes to reflect the new location of a copied formula. Thus D matches III. This permits the same calculation to be repeated for corresponding cells in successive rows or columns.

Step 3: Compare the combinations The mapping is A-IV, B-I, C-II, D-III. Option (A) incorrectly describes a range as a mixed reference and makes an absolute reference change on copying. Option (C) also misidentifies ranges and mixed references and assigns a range description to absolute references. Option (D) calls ranges relative references and mixed references ranges. Option (B) alone preserves all four definitions.

Step 4: Conclusion The mapping is A-IV, B-I, C-II, D-III. Hence, the correct option is (B).

Quick Tip to Solve: Separate the object from the copying rule: a range is a block of cells; relative, mixed and absolute describe how a reference moves.

53. Arrange the following steps related to freezing the formula using paste special command in logical sequence (A) Click on Home Tab and select Copy symbol (B) In the Paste Special box, under paste select the radio button next to Values and click OK (C) Select the cell (s) that contains the formula (D) Click on Paste tab and select Paste Special. Choose the correct sequence from the options given below: [5 marks]

(A) (C), (A), (D), (B)

(B) (B), (A), (C), (D)

(C) (A), (D), (C), (B)

(D) (D), (B), (C), (A)

Correct Answer: (A) (C), (A), (D), (B)

Solution:

Concept:

- An Excel formula normally recalculates when its referenced inputs change. To freeze its current result, replace the formula with its calculated value.
- Paste Special with Values copies the result of a formula instead of the formula expression. The source cell must first be selected and copied.

Step 1: Select and copy the formula cell First select the cell or cells containing the formula: this is step (C). Then click the Home tab and select the Copy symbol: step (A). Selecting must precede copying so that Excel knows which formula results are to be placed on the clipboard. Merely copying does not yet remove or freeze the formulas.

Step 2: Paste the calculated values Next use the Paste tab and choose Paste Special, step (D). In the Paste Special box choose the Values radio button and click OK, step (B). Pasting these values over the selected formula cells leaves their current results as constants. The required order is therefore (C), (A), (D), (B).

Step 3: Eliminate the other sequences Option (B) starts with confirmation in a Paste Special box before either selecting or copying the source. Option (C) attempts to copy before the cell selection and puts Paste Special before that selection. Option (D) begins with Paste Special and ends with copying. None follows the necessary select, copy, paste-special, values sequence.

Step 4: Conclusion Select the formula cells, copy them, open Paste Special, and paste Values. Hence, the correct option is (A).

Quick Tip to Solve: Remember the dependency chain: select the source, copy it, open Paste Special, then choose Values. Values freezes the result; ordinary Paste can retain the formula.

54. Which of the following arguments in a financial function represents the total number of payments?

[5 marks]

(A) FV

(B) PV

(C) Nper

(D) Rate

Correct Answer: (C) Nper

Solution:

Concept:

- Excel financial functions describe a series of payments through separate arguments for the amount, interest rate and number of payment periods.
- Nper means the total number of periods in an investment or loan. For regular payments made once per period, this is the total number of payments.

Step 1: Identify the requested quantity The question asks for a count of payments, rather than a monetary value or an interest percentage. The argument Nper supplies this count. For example, if instalments are monthly over five years, the number of payment periods is 5 multiplied by 12, giving Nper equal to 60. Using just 5 would incorrectly treat the loan as having only five monthly payments.

Step 2: Distinguish all four arguments FV is the future value, namely the amount at the end of the series; it is not a count. PV is the present value at the beginning of the series, such as the loan principal. Rate is the interest rate per payment period, not the number of such periods. Nper alone represents the total payment-period count, so option (C) directly matches the demand.

Step 3: Conclusion Nper represents the total number of payments or payment periods in the financial function. Hence, the correct option is (C).

Quick Tip to Solve: Match the units before entering a financial function: monthly payments require a monthly Rate and the total number of months as Nper.

55. A graph has at least how many axes

[5 marks]

(A) Two axes

(B) Three axes

(C) One axes

(D) Four axes

Correct Answer: (A) Two axes

Solution:

Concept:

- An ordinary Cartesian graph displays the relationship between two quantities using a pair of reference axes.
- The horizontal axis is the X-axis and the vertical axis is the Y-axis. Their scales locate a point

through its horizontal and vertical coordinates.

Step 1: Identify the basic graph structure In the usual two-dimensional graph used to present accounting data, the horizontal axis commonly shows categories or time, while the vertical axis shows numerical amounts. A point or plotted value is interpreted by reference to both axes. Thus the basic graph has two axes, even before an additional scale or a third dimension is introduced.

Step 2: Compare the offered counts Two axes, option (A), supplies the horizontal and vertical reference directions. Three axes describe a three-dimensional coordinate arrangement and are not the minimum for the ordinary graph asked here. One axis does not provide both reference directions for a two-dimensional plot. Four axes are likewise not required for its basic structure. Therefore neither three nor four gives the minimum, and one omits an essential reference direction.

Step 3: Conclusion A conventional two-dimensional graph has at least two axes: the X-axis and the Y-axis. Hence, the correct option is (A).

Quick Tip to Solve: For a standard graph, identify the horizontal X-axis and vertical Y-axis first. A third axis is added only for a three-dimensional representation.