

ACCOUNTANCY SEMESTER – III (2025)

1. Correct answer : (a)

Explanation :

Definition of Reserve Capital : It is that portion of uncalled share capital which a company decides will be called only in case of winding up (closure) of the company. It is kept as a safety for creditors.

(i) Reserve capital is a part of authorised capital of a joint stock company. — **TRUE**.

Reason : Reserve capital comes from the uncalled portion of authorised capital, so it is part of authorised capital.

(ii) In running condition of a company, liabilities and losses can be met through reserve capital. — **FALSE**.

Reason : Reserve capital cannot be used during normal business operations. It can be used only at the time of winding up, not to meet regular losses or liabilities.

(iii) Reserve capital is not included in the books of account. — **TRUE**

Reason : Since reserve capital is not actually called or received, no accounting entry is made. So, it does not appear in the books.

(iv) Reserve capital is created out of capital profit. — **FALSE**

Reason : Reserve capital is not created from profits. It is created by a special resolution out of uncalled share capital, not from any profit.

2. Correct answer : (a)

Explanation :

Given : A Ltd. takes over from B Ltd. Assets taken over = ₹ 50,00,000; Liabilities (creditors) taken over = ₹ 5,00,000.

Solution : Net Purchase Consideration = Assets taken over – Liabilities taken over

= ₹ (50,00,000 – 5,00,000) = ₹ 45,00,000

Debentures issued as purchase consideration and Face value of each Debenture = ₹ 100, Issued at 25% premium.

So, Issue price per Debenture = ₹ (100 + 25% of 100) = ₹ 125

Number of 8% Debentures issued = $\frac{\text{Net Purchase Consideration}}{\text{Issue price per Debenture}} = \frac{\text{₹ } 45,00,000}{125} = 36,000$.

3. Correct answer : (c)

Explanation :

Assertion : Discount loss on issue of debentures is written off in the same year in which debentures are issued.

This is **FALSE**. Because Discount or loss on issue of debentures is a capital loss, and it is written off over the life of the debentures, not fully in the year of issue (unless the debentures are very short-term).

Reason : Discount or loss on issue of debentures is written off first from Securities Premium (if it exists) and thereafter from Statement of Profit or Loss.

This is **TRUE**. As per accounting practice :

(i) First adjust discount/loss from Securities Premium (because it is a capital reserve), and

(ii) If still any balance remains, write it off from Profit & Loss Account over the period of the debentures.

4. Correct answer : (d)

Explanation :

(A) Net Assets > Purchase Consideration → Capital Reserve (i)

When the value of net assets taken over is **more than** what is paid, the extra benefit is a **capital gain**, called **Capital Reserve**.

(B) Net Assets < Purchase Consideration → Goodwill (iii)

When the buyer pays more than the value of net assets, the extra payment is called **Goodwill**.

(C) Bearer Debenture → Un-registered debentures (iv)

Bearer debentures are transferred by mere delivery and **are not registered** in the company's books.

(D) Naked Debenture → No charge on assets (ii)

Naked (or unsecured) debentures have **no security** and hence **no charge on assets**.

5. Correct answer : (b)

Explanation :

What is Common Size Analysis?: In Common Size Analysis, every item in the financial statement is shown as a percentage of a common base:

In the Income Statement → each item is shown as a % of Sales

In the Balance Sheet → each item is shown as a % of Total Assets or Total Liabilities

So, the result is only in percentages, not in rupees. Therefore, only Common Size Analysis expresses all data only in percentages.

Why other options are wrong?

(a) **Ratio analysis** : Ratios are expressed in forms like 2:1, 1.5 times, etc., not only in percentages.

(c) **Trend analysis** : Trend analysis shows changes over years using index numbers (like 100, 120, 150), not only percentages.

(d) **Comparative analysis** : Comparative statements show figures of different years side-by-side, mainly in rupees and sometimes percentage change, not only percentages.

6. Correct answer : (b)

Explanation : Super profit = $\frac{\text{Goodwill}}{\text{Number of years purchase}} = \frac{₹ 60,000}{3} = ₹ 20,000.$

7. Correct answer : (a)

Explanation :

Assertion : If the partnership deed provides for it, then salary is paid to a partner.

True because a partner is paid salary only if the partnership deed allows it. Otherwise, no partner can claim salary.

Reason : Partner's salary is a charge against profit.

True because Partner's salary is treated as a charge on profits, meaning it is deducted from profit before the remaining profit is shared among partners.

Conclusion : The Reason explain the Assertion correctly because partner's salary reduces (charges) the profit of the firm, it must be allowed only when the partnership deed specifically permits it. So, the reason correctly explains why salary is paid only when the deed provides for it.

8. Correct answer : (a)**Explanation :**

Given : A, B, and C are the partners. Their Profit-sharing ratio is 5 : 3 : 2 and respective Capitals are A = ₹ 3,00,000; B = ₹ 2,00,000; C = ₹ 1,00,000. Interest on capital credited at 10% instead of 8%.

Solution : Correct rate of interest is 8% p.a. :

Interest of A = ₹ 3,00,000 × 8% = ₹ 24,000

Interest of B = ₹ 2,00,000 × 8% = ₹ 16,000

Interest of C = ₹ 1,00,000 × 8% = ₹ 8,000

Interest wrongly credited @ 10% p.a. to Partners' Current Accounts

Interest wrongly credited to the Current Account of A = ₹ 3,00,000 × 10% = ₹ 30,000

Interest wrongly credited to the Current Account of B = ₹ 2,00,000 × 10% = ₹ 20,000

Interest wrongly credited to the Current Account of C = ₹ 1,00,000 × 10% = ₹ 10,000

Excess interest credited to the Current Accounts of :

A = ₹ (30,000 – 24,000) = ₹ 6,000

B = ₹ (20,000 – 16,000) = ₹ 4,000

C = ₹ (10,000 – 8,000) = ₹ 2,000

∴ Total excess interest credited to the Partners' Current Accounts

= ₹ (6,000 + 4,000 + 2,000) = ₹ 12,000.

The profits of the partners are reduced by the same amount of ₹ 12,000.

Share of profit of A is reduced by ₹ 12,000 × $\frac{5}{10}$ = ₹ 6,000.

Share of profit of B is reduced by ₹ 12,000 × $\frac{3}{10}$ = ₹ 3,600.

Share of profit of C is reduced by ₹ 12,000 × $\frac{2}{10}$ = ₹ 2,400.

Since A has received an excess interest of ₹ 6,000 and his share of profit is also reduced by the same amount, so, he will not receive or pay any amount.

Since B has received an excess interest of ₹ 4,000 and his share of profit is reduced by ₹ 3,600, so, his Current Account is debited by ₹ 400.

Since C has received an excess interest of ₹ 2,000 and his share of profit is reduced by ₹ 2,400, so, his Current Account is credited by ₹ 400.

Hence the final adjustment entry :

B's Current A/c	Dr. ₹ 400	
To C's Current A/c		₹ 400

9. Correct answer : (a)

Explanation : Capitalized Value of the Business = $\frac{\text{Actual Profit}}{\text{Normal rate of Return}} = \frac{\text{₹ 1,80,000}}{10\%} = ₹ 18,00,000$

Goodwill (under Capitalization Method) = Capitalized Value – Capital Employed = ₹ 10,00,000

Or, ₹ 18,00,000 - Capital Employed = ₹ 10,00,000

Or, Capital Employed = ₹ (18,00,000 - 10,00,000) = ₹ 8,00,000.

10. Correct answer : (b)**Explanation :**

Assertion : Preparation of Memorandum of Association is compulsory.

True because every company must prepare and register a Memorandum of Association (MOA) at the time of incorporation. Without it, a company cannot be legally formed.

Reason : Memorandum of Association(MOA) is the charter or constitution of the company.

True because MOA defines the company's name, objectives, capital, liability, and scope of activities. It tells what a company can and cannot do.

Conclusion : The **Reason explain the Assertion correctly** because MOA is the basic legal document and the constitution of the company, it is essential and compulsory to prepare it before the company can come into existence.

11. Correct answer : (a)

Explanation : The maximum number of partners in a banking firm in India is 10 as per the Partnership Act 1932; otherwise, it becomes an illegal association.

12. Correct answer : (b)

Explanation : Here, commission is calculated on profit after commission, we assume ₹ 100 as profit after commission, commission becomes ₹ 10, so profit before commission is ₹ 110. Hence the portion is 10/110.

13. Correct answer : (a)**Explanation :**

$$\text{Share of P in General Reserve} = ₹ 20,000 \times \frac{5}{10} = ₹ 10,000.$$

$$\text{Share of Q in General Reserve} = ₹ 20,000 \times \frac{3}{10} = ₹ 6,000.$$

$$\text{Share of R in General Reserve} = ₹ 20,000 \times \frac{2}{10} = ₹ 4,000.$$

$$\text{Share of Reserve of Q and R together} = ₹ (6,000 + 4,000) = ₹ 10,000.$$

∴ Share of Reserve of Q and R together is equal to P.

14. Correct answer : (b)

Explanation : Under the fixed capital method, partners' capital remains unchanged and all adjustments are made through current accounts. Since capital represents the firm's liability to partners, it always shows a credit balance.

15. Correct answer : (c)

$$\text{Explanation : Capitalized Value of the Business} = \frac{\text{Actual Profit}}{\text{Normal rate of Return}} = \frac{₹ 3,00,000}{12\%} = ₹ 25,00,000$$

Goodwill (under Capitalization Method) = Capitalized Value – Capital Employed

$$= ₹ (25,00,000 - 22,00,000) = ₹ 3,00,000.$$

16. Correct answer : (b)

Explanation : Cumulative preference shareholders have the right to receive unpaid or arrear dividends of past years from future profits. Hence, they can claim both current and accumulated dividends when profits are available.

17. Correct answer : (c)

Explanation : A joint stock company comes into legal existence only after registration under the Companies Act. Therefore, registration of a joint stock company is compulsory.

18. Correct answer : (a)

Explanation : Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{3}{1}$ or, Current Assets = 3 Current Liabilities.

Again, Working Capital = Current Assets – Current Liabilities = ₹ 1,20,000

Or, 3 Current Liabilities - Current Liabilities = ₹ 1,20,000 [\because Current Assets = 3 Current Liabilities]

Or, 2 Current Liabilities = ₹ 1,20,000.

Or, Current Liabilities = $\frac{\text{₹ 1,20,000}}{2} = \text{₹ 60,000}$.

Liquid Liability = Current Liabilities – Bank Overdraft = ₹ (60,000 – 10,000) = ₹ 50,000.

19. Correct answer : (c)

Explanation : Average Payment Period = $\frac{12 \text{ months}}{\text{Creditors Turnover Ratio}} = \frac{12 \text{ months}}{8} = 1\frac{1}{2}$ months.

20. Correct answer : (b)

Explanation :

Given :

Solution : Sales = ₹ 4,00,000; Gross Profit = 25% of Sales and Average Stock = ₹ 50,000

Here, Gross Profit = ₹ 4,00,000 × 25% = ₹ 1,00,000

Cost of Goods Sold = Sales – Gross Profit = ₹ (4,00,000 – 1,00,000) = ₹ 3,00,000.

Stock Turnover Ratio = $\frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = \frac{\text{₹ 3,00,000}}{\text{₹ 50,000}} = 6$ times.

21. Correct answer : (d)

Explanation :

Given : Total Sales = ₹ 6,00,000; Cash Sales = ₹ 40,000 and Average Debtors = ₹ 1,40,000

Credit Sales = Total Sales – Cash Sales = ₹ (6,00,000 – 40,000) = ₹ 5,60,000

Debtors Turnover Ratio = $\frac{\text{Credit Sales}}{\text{Average Debtors}} = \frac{\text{₹ 5,60,000}}{\text{₹ 1,40,000}} = 4$ times.

22. Correct answer : (a)

Explanation :

Assertion : Financial statements are influenced by the personal judgement of the accountant.

True because Accountants use estimates, assumptions, and judgment (like depreciation method, provision for bad debts) which affect financial statements.

Reason : Financial statements are prepared as per accounting concepts and conventions.

True because Accounting concepts (like going concern, accrual) and conventions (like consistency, prudence) guide preparation of financial statements.

Conclusion : Reason is **NOT the correct explanation** of Assertion because the influence of personal judgment is due to estimates and choices within the accounting rules, not just because concepts and conventions exist. Concepts/conventions guide preparation, but judgment causes variations.

23. Correct answer : (c)**Explanation :**

Given : A, B and C are the partners. Their Profit sharing ratio is 6 : 4 : 1. Guaranteed profit to C by A = ₹ 1,00,000 and Net profit earned = ₹ 2,20,000

Solution :

$$\text{Share of Profit of A} = ₹ 2,20,000 \times \frac{6}{11} = ₹ 1,20,000$$

$$\text{Share of Profit of C} = ₹ 2,20,000 \times \frac{1}{11} = ₹ 20,000$$

Guaranteed profit to C by A as given is ₹ 1,00,000.

$$\text{Shortfall for C} = ₹ (1,00,000 - 20,000) = ₹ 80,000$$

This shortfall is borne by A because only A is guaranteeing C.

$$\therefore \text{A's final share} = ₹ (1,20,000 - 80,000) = ₹ 40,000.$$

24. Correct answer : (a)**Explanation :**

Statement (A) : Partners' Capital Accounts are maintained under either fixed method or fluctuating method.

True because there are only two methods of maintaining capital accounts (i) Fixed Capital Method and (ii) Fluctuating Capital Method.

Statement (B) : No current account is maintained under fixed capital method.

False because under the fixed capital method, capital accounts are kept fixed and separate current accounts ARE maintained for adjustments like drawings, interest, salary, etc.

25. Correct answer : (b)**Explanation :**

Given : Average Profit = ₹ 13,500; Normal Rate of Return = 10%; Goodwill = ₹ 24,000 and Goodwill is valued at 4 years' purchase of super profit

Solution : Goodwill = Super Profit × Number of Years' of Purchase

$$\text{Super profit} = \frac{\text{Goodwill}}{\text{Number of Years' of Purchase}} = \frac{₹ 24,000}{4} = ₹ 6,000.$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit} = ₹ 6,000$$

$$\text{Or, } ₹ 13,500 - \text{Normal Profit} = ₹ 6,000$$

$$\text{Or, Normal Profit} = ₹ (13,500 - 6,000) = ₹ 7,500$$

$$\therefore \text{Capital Employed} = \frac{\text{Normal Profit}}{\text{Normal Rate of Return}} = \frac{₹ 7,500}{10\%} = ₹ 75,000.$$

26. Correct answer : (c)

Explanation : A joint stock company is formed under the Companies Act and works according to legal rules and procedures. It has a formal structure, separate legal identity, and regulated management, so it is an organized form of business.

27. Correct answer : (b)

Explanation : Equity share capital is permanent capital and cannot be refunded during the life of the company. It is returned to shareholders only at the time of liquidation of the company.

28. Correct answer : (c)

Explanation : Loss on issue of debentures is a capital loss, but it is shown on the asset side of the balance sheet and written off over time. Since it is not a real asset, it is called a fictitious asset.

29. Correct answer : (a)

Explanation : Unclaimed dividend is the amount payable to shareholders and is expected to be paid in the near future. Therefore, it is treated as a current liability in the balance sheet.

30. Correct answer : (b)

Explanation : Trade payables are amounts payable for purchase of goods or services in the normal course of business. Creditors arise from credit purchases, so they are treated as trade payables.

31. Correct answer : (c)

Explanation : Share application money pending allotment is a temporary liability until shares are actually allotted. It does not form part of shareholders' funds, unlike share capital, reserves, and share warrants.

32. Correct answer : (d)

Explanation :

Given : Net profit after interest and tax = ₹ 12,00,000; 12% Debentures = ₹ 30,00,000; Provision for tax = ₹ 2,40,000.

Interest on Debentures = ₹ 30,00,000 × 12% = ₹ 3,60,000.

∴ Profit before Interest and Tax (PBIT)

= Net profit after interest and tax + Interest on Debentures + Provision for tax

= ₹ (12,00,000 + 3,60,000 + 2,40,000) = ₹ 18,00,000

∴ Interest Coverage Ratio = $\frac{\text{Profit before Interest and Tax (PBIT)}}{\text{Interest on Debentures}} = \frac{\text{₹ 18,00,000}}{\text{₹ 3,60,000}} = 5 \text{ times.}$

33. Correct answer : (a)

Explanation :

Given : Cost of Goods Sold = ₹ 7,20,000; Total Sales = ₹ 10,00,000; Return Inward = ₹ 40,000 (sales return) and Return Outward = ₹ 12,000 (purchase return)

Solution : Net Sales = Total Sales - Return Inward = ₹ (10,00,000 - 40,000) = ₹ 9,60,000.

Adjusted Cost of Goods Sold = Cost of Goods Sold - Return Outward = ₹ (7,20,000 - 12,000) = ₹ 7,08,000.

Gross Profit = Net Sales - Adjusted COGS = ₹ (9,60,000 - 7,08,000) = ₹ 2,52,000

∴ Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{\text{₹ 2,52,000}}{\text{₹ 9,60,000}} \times 100 = 26.25\%.$

34. Correct answer : (c)

Explanation :

Given : Average Stock = ₹ 75,000; Stock Turnover Ratio (on COGS) = 12 times and Profit is 20% of Sales.

Solution : Here, Stock Turnover Ratio = $\frac{\text{Cost of Goods Sold (COGS)}}{\text{Average Stock}}$

Or, 12 = $\frac{\text{Cost of Goods Sold (COGS)}}{\text{₹ 75,000}}$

Or, Cost of Goods Sold (COGS) = ₹ 75,000 × 12 = ₹ 9,00,000

Since, Profit is 20% of sales, So, COGS is 80% of sales.

∴ COGS = 80% of Sales

$$\text{Or. Sales} = \frac{\text{₹ } 9,00,000}{80\%} = \text{₹ } 11,25,000.$$

∴ Profit = Sales × 20% = ₹ 11,25,000 × 20% = ₹ 2,25,000.

35. Correct answer : (c)

Explanation : The ideal current ratio is 2:1, liquid ratio is 1:1, proprietary ratio should be more than 0.5 and net profit ratio is around 10%.

36. Correct answer : (a)

Explanation : Net Profit Ratio shows profit per rupee of sales and Capital Turnover Ratio shows sales per rupee of capital. Their product gives profit per rupee of capital, which is called Return on Capital Employed.

37. Correct answer : (b)

Explanation :

Given : Average Stock = ₹ 1,60,000; Stock Turnover Ratio = 6 times and Gross Profit = ₹ 1,20,000.

$$\text{Solution : Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold (COGS)}}{\text{Average Stock}}$$

Or, Cost of Goods Sold = Average Stock × Stock Turnover Ratio = ₹ 1,60,000 × 6 = ₹ 9,60,000.

Sales = Cost of Goods Sold + Gross Profit = ₹ (9,60,000 + 1,20,000) = ₹ 10,80,000.

38. Correct answer : (b)

Explanation : Under the fixed capital method, the capital account remains unchanged. So, all adjustments like share of profit, drawings, interest, etc. are recorded in the Current Account of partners.

39. Correct answer : (b)

Explanation : When equal drawings are made at the end of each month, average period = 5.5 months.

$$\text{Interest on drawings} = \text{Total Drawings} \times \text{Rate} \times \text{Time} = \text{₹ } (1,500 \times 12) \times 6\% \times \frac{5.5}{12} = \text{₹ } 465.$$

40. Correct answer : (d)

Explanation : In the absence of partnership deed, no interest on capital is allowed as per the Partnership Act.

So even though capital was introduced, **no interest is payable.**

ANSWERS

1. (a)	2. (a)	3. (c)	4. (d)	5. (b)	6. (b)	7. (a)	8. (a)	9. (a)	10. (b)
11. (a)	12. (b)	13. (a)	14. (b)	15. (c)	16. (b)	17. (c)	18. (a)	19. (c)	20. (b)
21. (d)	22. (a)	23. (c)	24. (a)	25. (b)	26. (c)	27. (b)	28. (c)	29. (a)	30. (b)
31. (c)	32. (d)	33. (a)	34. (c)	35. (c)	36. (a)	37. (b)	38. (b)	39. (b)	40. (d)