

ISC Class 12 Accounts Question Paper 2026 with Solution Pdf

Time Allowed :3 Hour	Maximum Marks :70	Total Questions :37
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General Instructions

Read the following instructions very carefully and strictly follow them:

1. Please check that this question paper contains 23 printed pages.
2. Q.P. Code given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
3. Please check that this question paper contains 37 questions.
4. 15 minute time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the candidates will read the question paper only and will not write any answer on the answer-book during this period.

1. Shiv, Ravi, and Roshan are partners. During 2023–24, Shiv withdrew Rs15,000 in the middle of each half-year; Ravi withdrew Rs20,000 for personal insurance; Roshan withdrew Rs12,000 from his capital. What is the interest on drawings at 6% p.a.?

Solution:

Step 1: Understanding the Question:

The question requires us to calculate the interest on drawings for three different partners, Shiv, Ravi, and Roshan, for the financial year 2023-24. The rate of interest is fixed at 6% per annum, but each partner's withdrawal pattern is different, which affects the time period for the interest calculation.

Step 2: Key Formula and Approach:

The fundamental formula for calculating interest on drawings is:

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Average Period}}{12}$$

The main task is to determine the correct 'Average Period' for each partner based on their specific withdrawal timing.

- For regular drawings (like Shiv's), the average period is calculated based on the timing of each withdrawal.
- For lump-sum drawings where the date is not specified (like Ravi's and Roshan's), the average period is assumed to be 6 months.

Step 3: Detailed Explanation:

Calculation for Shiv:

Shiv withdrew Rs15,000 in the middle of each half-year. This means he made two withdrawals.

- **First withdrawal:** Rs15,000 on 30th September 2023 (middle of the first half-year). The period for interest is 6 months.
- **Second withdrawal:** Rs15,000 on 31st March 2024 (middle of the second half-year). The period for interest is 0 months, as it is withdrawn at the end of the year. However, a more common interpretation for "middle of each half year" implies withdrawals on Sept 30 and March 31, which gives an average period. A simpler method is calculating interest on each drawing. Let's re-evaluate based on the provided solution's logic (9 and 3 months). This implies the first withdrawal was on June 30 (9 months left) and the second on Dec 31 (3 months left). We will follow this approach.

Interest on the first drawing:

$$Rs15,000 \times \frac{6}{100} \times \frac{9}{12} = Rs675$$

Interest on the second drawing:

$$Rs15,000 \times \frac{6}{100} \times \frac{3}{12} = Rs225$$

Total Interest for Shiv:

$$Rs675 + Rs225 = Rs900$$

Calculation for Ravi:

Ravi withdrew Rs20,000 for a personal expense. This is considered drawings. Since the date of withdrawal is not given, we assume the withdrawal was made evenly throughout the year. Therefore, we calculate interest for an average period of 6 months.

$$\text{Interest for Ravi} = Rs20,000 \times \frac{6}{100} \times \frac{6}{12} = Rs600$$

Calculation for Roshan:

Roshan withdrew Rs12,000 from his capital for personal use. A withdrawal from capital is also treated as drawings for the purpose of interest calculation. Similar to Ravi, the date is not specified, so we assume an average period of 6 months.

$$\text{Interest for Roshan} = Rs12,000 \times \frac{6}{100} \times \frac{6}{12} = Rs360$$

Step 4: Final Answer:

Based on the calculations, the interest on drawings for each partner is:

Shiv's Interest = Rs900
Ravi's Interest = Rs600
Roshan's Interest = Rs360

💡 Quick Tip

If timing not given:

- Assume mid-year (6 months)
- Mid-half-year drawings → use actual months (9 and 3)

2. Ajay is admitted as a partner. The firm's Balance Sheet shows a Workmen Compensation Reserve of Rs80,000. If a claim of Rs90,000 arises, how is the extra Rs10,000 recorded?

Solution:

Step 1: Understanding the Question:

The question describes a situation during the admission of a new partner, Ajay. The firm has a liability (Workmen Compensation Claim) of Rs90,000, but the reserve set aside for this purpose (Workmen Compensation Reserve) is only Rs80,000. We need to explain the accounting treatment for the deficit of Rs10,000.

Step 2: Key Formula and Approach:

The accounting principle here is that all existing reserves and accumulated profits/losses at the time of a partner's admission belong to the old partners. Any excess liability over a specific reserve is a loss that must be borne by the old partners in their old profit-sharing ratio. This is typically done by debiting the Revaluation Account or the old partners' Capital Accounts directly.

Step 3: Detailed Explanation:

1. Assess the Financial Position:

The firm has:

- Workmen Compensation Reserve = Rs80,000 (Amount set aside)
- Actual Workmen Compensation Claim = Rs90,000 (Actual liability)

The claim exceeds the reserve by:

$$Rs90,000 - Rs80,000 = Rs10,000$$

2. Determine the Nature of the Shortfall:

This shortfall of Rs10,000 is an unprovided liability, which is essentially a loss for the firm. Since this loss pertains to the period before Ajay's admission, it must be borne by the existing (old) partners.

3. Journal Entry for the Treatment:

The full amount of the reserve will be utilized to meet the claim. The additional Rs10,000 loss will be debited to the Revaluation Account. The loss from the Revaluation Account is then transferred to the old partners' capital accounts in their old profit-sharing ratio.

The journal entries would be:

Entry 1: To record the liability and utilize the reserve

Workmen Compensation Reserve A/c Dr. 80,000

Revaluation A/c Dr. 10,000

To Provision for Workmen Compensation Claim A/c 90,000

(Being liability created and shortfall debited to Revaluation A/c)

Entry 2: To distribute the revaluation loss to old partners

Old Partners' Capital A/cs Dr. 10,000 (In old PSR)

To Revaluation A/c 10,000

(Being loss on revaluation transferred to old partners' capital accounts)

Step 4: Final Answer:

The extra Rs10,000 is treated as a revaluation loss and is debited to the Revaluation Account. This loss is ultimately borne by the old partners by debiting their capital accounts in their old profit-sharing ratio.

💡 Quick Tip

On admission:

- Excess liability over reserve → loss to old partners
- Short liability → gain to old partners

Always adjust in old profit-sharing ratio.

3. Gokul Ltd. forfeited 1,000 shares of Rs10 each (Rs8 called-up) for non-payment of Rs5 allotment (including Rs2 premium). If Rs3,200 was transferred to Capital Reserve after reissuing some shares at Rs7, how many shares were reissued?

Solution:

Step 1: Understanding the Question:

The problem requires us to work backwards to find the number of shares that were reissued. We are given the total amount transferred to the Capital Reserve, and we have the details of the forfeiture and reissue price. The key is to first determine the profit (gain) on the reissue of

a single share.

Step 2: Key Formula and Approach:

The amount transferred to the Capital Reserve is the net gain on the reissued shares. The formula is:

Total Capital Reserve = (Amount Forfeited per Share (Capital portion) – Discount on Reissue per Share)

Our approach will be to calculate each component of this formula to find the unknown variable (Number of Shares Reissued).

Step 3: Detailed Explanation:

Part A: Calculate the Amount Forfeited per Share (Capital Only)

The Share Forfeiture account is credited only with the amount received towards the share capital. Any premium received is credited to the Securities Premium account and is not forfeitable. If the premium is unpaid, it is simply ignored.

- Called-up value per share = Rs8
- Amount unpaid on allotment = Rs5 (This includes Rs3 for capital and Rs2 for premium)
- Capital amount called-up but not paid = Rs3
- Therefore, the capital amount paid up (and forfeited) per share is:

$$\begin{aligned}\text{Forfeited Amount per Share} &= \text{Called-up Capital} - \text{Unpaid Capital} \\ &= Rs8 - Rs3 = Rs5\end{aligned}$$

Part B: Calculate the Discount on Reissue per Share

The shares were reissued at a price that needs to be compared against the called-up value to find the discount.

- Called-up value per share = Rs8 (As the shares were forfeited at this stage)
- Reissue price per share = Rs7
- The discount is the difference between the called-up value and the reissue price.

$$\text{Discount on Reissue per Share} = Rs8 - Rs7 = Rs1$$

This discount is adjusted from the Share Forfeiture account.

Part C: Calculate the Gain per Share Transferred to Capital Reserve

The gain is the portion of the forfeited amount that is left after covering the reissue discount.

$$\begin{aligned}\text{Gain per Share} &= \text{Forfeited Amount per Share} - \text{Discount on Reissue per Share} \\ &= Rs5 - Rs1 = Rs4\end{aligned}$$

Part D: Calculate the Number of Shares Reissued

We can now use the main formula with the known total Capital Reserve.

- Total amount transferred to Capital Reserve = Rs3,200
- Gain per reissued share = Rs4

$$\begin{aligned}\text{Number of Shares Reissued} &= \frac{\text{Total Capital Reserve}}{\text{Gain per Share}} \\ &= \frac{Rs3,200}{Rs4} = 800 \text{ shares}\end{aligned}$$

Step 4: Final Answer:

The number of shares that were reissued by Gokul Ltd. is 800.

800 shares reissued

💡 Quick Tip

In forfeiture problems:

- Do NOT include unpaid securities premium in forfeiture account.
- Capital Reserve = (Forfeited amount on reissued shares) – (Discount on reissue).

4. Calculate Cash from Operations from the following: Net Profit for the year is Rs10,000 after providing for depreciation of Rs2,000; Trade Creditors decreased by Rs15,000; Outstanding Expenses increased by Rs3,000.

Solution:

Step 1: Understanding the Question:

The objective is to calculate the net cash generated from the principal revenue-producing activities of the business (Cash from Operations). We are given the Net Profit and need to adjust it for non-cash expenses and changes in working capital items (current assets and current liabilities) using the indirect method.

Step 2: Key Formula and Approach:

The indirect method for calculating Cash Flow from Operating Activities starts with Net Profit and makes the following adjustments:

1. **Add back** non-cash expenses (like depreciation).
2. **Add** decreases in current assets and increases in current liabilities.
3. **Subtract** increases in current assets and decreases in current liabilities.

The result is the Net Cash from Operations.

Step 3: Detailed Explanation:

We will build the calculation step-by-step, starting from the Net Profit.

Part A: Adjust for Non-Cash Items

Net Profit for the year	Rs10,000
Add: Depreciation (a non-cash expense)	Rs2,000
Operating Profit before Working Capital Changes	Rs12,000

Part B: Adjust for Changes in Working Capital

- **Decrease in Trade Creditors (Current Liability):** A decrease in creditors means that cash has been paid to suppliers. This is a cash outflow, so we subtract this amount.
Effect: (–) Rs15,000
- **Increase in Outstanding Expenses (Current Liability):** An increase in outstanding expenses means the company has incurred the expense but has not yet paid cash for it. This represents a saving of cash, so we add this amount.
Effect: (+) Rs3,000

Part C: Final Calculation

$$\begin{aligned}
 \text{Cash from Operations} &= \text{Operating Profit before WC Changes} + \text{Adjustments for WC} \\
 &= Rs12,000 - Rs15,000 + Rs3,000 \\
 &= -Rs3,000 + Rs3,000 = Rs0
 \end{aligned}$$

Step 4: Final Answer:

The net cash from operating activities for the year is nil.

Cash from Operations = Rs0

💡 Quick Tip

Rules for working capital adjustments:

- Add non-cash expenses (like depreciation).
- Increase in current liability → Add (Cash saved).
- Decrease in current liability → Subtract (Cash paid).

5. A company took a loan of Rs10,00,000 at 12% p.a. and offered Rs15,00,000 in 8% Debentures as collateral security. Calculate the finance cost for the year.

Solution:

Step 1: Understanding the Question:

The question asks for the 'finance cost' for the year. The company has a primary loan and has also issued debentures as collateral security for that loan. We need to determine which interest amount constitutes the actual finance cost for the company.

Step 2: Key Formula and Approach:

Finance cost represents the interest and other costs incurred by an entity in relation to its borrowings. The key concept here is understanding the nature of 'collateral security'. Debentures issued as collateral security do not represent a primary liability for the company unless there is a default on the main loan. Therefore, interest is not paid on these debentures. The finance cost is calculated only on the primary loan.

$$\text{Finance Cost} = \text{Principal Loan Amount} \times \text{Interest Rate on Loan}$$

Step 3: Detailed Explanation:

1. Identify the Primary Borrowing:

The actual loan taken by the company is Rs10,00,000 at an interest rate of 12% per annum. This is the primary financial obligation.

2. Calculate Interest on the Primary Loan:

The interest on this loan is the primary component of the finance cost.

$$\text{Interest on Loan} = \text{Rs}10,00,000 \times \frac{12}{100} = \text{Rs}1,20,000$$

3. Analyze the Collateral Debentures:

The 8% Debentures worth Rs15,00,000 were not issued to raise funds but were given to the lender as a secondary security. Interest on these debentures (8%) does not become payable unless the company defaults on the repayment of the Rs10,00,000 loan. Since there is no information about a default, we assume no interest is due on the collateral debentures.

4. Determine the Total Finance Cost:

As no interest is payable on the collateral debentures, the only finance cost for the year is the interest on the actual loan taken.

Step 4: Final Answer:

The finance cost for the year is the interest on the bank loan only.

$$\text{Finance Cost} = \text{Rs}1,20,000$$

💡 Quick Tip

Collateral debentures:

- No interest expense is recorded on these unless the main loan is defaulted upon.
- The finance cost is calculated only on the actual borrowing for which the security is given.

6. Explain the term 'cell referencing' in an electronic spreadsheet.

Solution:

Step 1: Understanding the Question:

This is a theoretical question that asks for an explanation of the term 'cell referencing' as it is used in spreadsheet applications like Microsoft Excel or Google Sheets.

Step 2: Approach:

The explanation should cover the definition, purpose, and different types of cell referencing to provide a comprehensive answer. An example will help illustrate the concept clearly.

Step 3: Detailed Explanation:

Definition:

Cell referencing is the method used in a spreadsheet to identify a specific cell or a range of cells. Each cell in a spreadsheet has a unique address, which is a combination of its column letter and row number (e.g., A1, B2, C3). When this address is used within a formula or function to access the value in that cell, it is called a cell reference.

Purpose of Cell Referencing:

Cell referencing is a fundamental feature of spreadsheets that makes them powerful and dynamic. Its main purposes are:

- **Dynamic Calculations:** It allows formulas to use values from other cells. If the value in the referenced cell changes, the result of the formula automatically updates.

- **Efficiency:** It eliminates the need to manually type values into formulas, which saves time and reduces errors.
- **Replicating Formulas:** It allows users to easily copy and paste formulas across multiple cells, with the references adjusting automatically (in the case of relative referencing).

Types of Cell Referencing:

There are three main types of cell references, distinguished by how they behave when a formula is copied:

- **Relative Reference (e.g., A1):** This is the default type. When a formula with a relative reference is copied to another cell, the reference adjusts relative to its new location. For example, if the formula `'=A1+B1'` in cell C1 is copied to C2, it becomes `'=A2+B2'`.
- **Absolute Reference (e.g., \$A\$1):** This reference is fixed and does not change when the formula is copied. The dollar sign (\$) is used to 'lock' the column and the row. For example, if `'=$A$1 * B1'` in C1 is copied to C2, it becomes `'=$A$1 * B2'`. The reference to A1 remains constant.
- **Mixed Reference (e.g., \$A1 or A\$1):** In this type, either the column is absolute and the row is relative (e.g., \$A1), or the row is absolute and the column is relative (e.g., A\$1). This provides flexibility when copying formulas across rows and columns.

Step 4: Final Answer:

In summary, cell referencing is the system of using cell addresses (like A1) in spreadsheet formulas to link to data in other cells. This allows for the creation of dynamic, interconnected calculations and is categorized into relative, absolute, and mixed types based on how the reference behaves when copied.

💡 Quick Tip

Remember the core idea:

Cell reference = Cell address used in formulas (e.g., A1, B2).

Types define how they behave when copied: Relative (changes), Absolute (stays fixed with \$), Mixed (partially fixed).

7. Identify the components required to calculate goodwill using the Capitalisation of Average Profits Method.

Solution:

Step 1: Understanding the Question:

The question asks to list the essential elements or inputs needed to calculate the value of goodwill using a specific method: the Capitalisation of Average Profits Method.

Step 2: Key Formula and Approach:

This method calculates goodwill by comparing the capital that should be employed to earn the average profits with the capital that is actually employed. The formula for goodwill under this method is:

$$\text{Goodwill} = \text{Capitalised Value of Average Profits} - \text{Net Assets (or Capital Employed)}$$

To answer the question, we need to break down this formula and identify each component required for the calculation.

Step 3: Detailed Explanation of Components:

To apply the formula, we need the following four key components, which are derived from three primary pieces of information:

1. Average Maintainable Profits:

This is the estimated future profit that the business is expected to earn. It is calculated by taking the average of past years' profits and adjusting them for any abnormal or non-recurring items (e.g., profit/loss on sale of assets, one-time expenses). This figure represents the core earning capacity of the firm.

2. Normal Rate of Return (NRR):

This is the rate of return that an investor would normally expect to earn from an investment in a similar business with a similar level of risk. It is usually expressed as a percentage and is used to determine the capitalised value of the profits.

3. Capitalised Value of the Business:

This is not a direct input but is calculated using the first two components. It represents the total amount of capital that would be required to earn the average maintainable profits, given the normal rate of return.

$$\text{Capitalised Value} = \frac{\text{Average Maintainable Profits}}{\text{Normal Rate of Return}} \times 100$$

4. Net Assets (or Capital Employed):

This represents the actual capital invested in the business. It is calculated as the value of all assets (excluding goodwill, fictitious assets, and non-trade investments) minus the value of all outside liabilities.

$$\text{Net Assets} = \text{Total Assets} - \text{Outside Liabilities}$$

Step 4: Final Answer:

The primary components required to calculate goodwill using the Capitalisation of Average Profits Method are:

- **Average Maintainable Profits** of the firm.
- The industry's **Normal Rate of Return (NRR)**.
- The actual **Capital Employed** or **Net Assets** of the firm.

💡 Quick Tip

The Capitalisation of Average Profits method fundamentally compares two values:

1. What the business **should be worth** based on its profits (Capitalised Value).
2. What the business **is actually worth** based on its assets (Capital Employed).

Goodwill is the difference (Should be - Is). The three key inputs are Average Profit, NRR, and Capital Employed.