

FOUNDATION COURSE

REVISION TEST PAPERS

MAY, 2026



BOARD OF STUDIES (ACADEMIC)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

New Delhi

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REVISION TEST PAPER, MAY 2026–OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I. Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (Academic) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS (A) whose significance and relevance from the examination perspective has stood the test of time.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To update them on the latest developments relevant for the forthcoming examination in select subjects;
- To enhance the confidence level of the students adequately.

Students must bear in mind that the RTP contains a variety of questions based on different topics of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials and Statutory Update, wherever applicable.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Live Virtual Classes by renowned subject experts conducted free of charge for the students of Foundation, Intermediate and Final levels provide the students much required support in preparing for their exams conveniently at home as these classes can be accessed live or viewed later as recorded lectures through hand-held devices such as smart phones, laptops, I-pads, tablets, etc. anytime and anywhere. Further,

students are advised to attempt the Multiple-Choice Questions (MCQs) at MCQ Paper Practice Portal which is a holistic platform for self-assessment within the stipulated timeframe.

Students are welcome to send their suggestions for fine tuning the RTP to the Joint Director, Board of Studies (Academic), The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201309 (Uttar Pradesh). RTP is also available on BOS Knowledge Portal at <https://boslive.icai.org> for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects available at the BoS Knowledge Portal. Get a good grasp of the concepts/ provisions/ amendments/ cases discussed therein.

After reading the Study Materials proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.

- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time. Keep sometime for checking the answers as well.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

III. Subject-wise Applicability

PAPER – 1 : ACCOUNTING

The August, 2024 (Reprint August 2025 and onwards) edition of the Study Material, comprising of two modules, is applicable for the students appearing for May, 2026 Examination. For understanding the coverage of syllabus, it is important to read the Study Material carefully.

You must read the study material thoroughly to attain conceptual clarity. The tables, diagrams and flow charts in study material have been extensively prepared to facilitate easy understanding of concepts. Likewise, examples, and illustrations given in the Study Material would enable you to grasp the application of theoretical concepts in real-world scenarios. After covering the concepts and illustrations, work out the test your knowledge questions at the end of each chapter and then compare your answers with the answers given to test your level of understanding. This will help you to maximize your speed and accuracy in solving Practical Questions in the Examination.

The RTP consists of eighteen questions together with their answers on different topics discussed in the study material. Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. Moreover, the answers have been presented in the same manner as expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the RTP. This will facilitate them to further strategise their preparation for scoring good marks in the examination.

PAPER – 2: BUSINESS LAWS

The August 2024 edition (Reprint August 2025 and onwards) of the Study Material is applicable for Paper 2: Business Laws, Foundation Course. The Study Material is based on the provisions of the Indian Contract Act, 1872, the Sale of Goods Act, 1930, the Indian Partnership Act, 1932, the Limited Liability Partnership Act, 2008, the Companies Act, 2013, and the Negotiable Instruments Act, 1881 as amended upto 30th June, 2025.

The students are advised to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples given in the Study Material would help the students to understand the application of concepts. Work out the exercise questions at the end of each chapter and then compare your answers with the answers given to test your level of understanding.

This RTP consists of twenty-three questions together with their answers on different topics discussed in the study material. Answers to the questions have been given in detail for easy understanding and comprehending the steps in solving the problems. Moreover, the answers have been presented in the same manner as expected from the students in the examination. The students are expected to solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

PAPER – 3: QUANTITATIVE APTITUDE

The August 2024 edition of the Study Material is applicable for May, 2026 Examination of Foundation Course Paper 3: Quantitative Aptitude. The Study material divided into three parts, the first part of the study material Business Mathematics (Chapters 1-8) covers basic mathematical techniques like ratio, proportion, indices, logarithms, equations and linear inequalities, mathematics of finance, permutations and combinations, sequence and series, sets, relations and basic applications of differential and integral calculus in economics and business. The second part of the study material (Chapters 9-12) covers logical reasoning and the third part (Chapters 13-18) of the basic principles of statistical techniques and measurement thereof.

Features of the Study Material:

- Simple, clear language for easy understanding.
- Illustrations and examples in each chapter to clarify concepts and techniques.
- A comprehensive MCQ's and Additional Question Bank at the end of chapters to practice and strengthen understanding.

Apart from the Study material, The Revision Test Paper (RTP) for Foundation Course Paper 3: Quantitative Aptitude is a valuable tool designed to help students prepare effectively for the CA Foundation examination.

About the Revision Test Paper (RTP)

- Contains 30 questions with answers.
- Covers diverse topics from the study material.
- Designed to test conceptual understanding and computational skills.
- Acts as a practice set before the main exam.

PAPER – 4: BUSINESS ECONOMICS

The August 2024 edition of the Study Material is applicable for May, 2026 Examination of Foundation Course Paper 4: Business Economics. The Study is having 10 Chapters which includes Microeconomics, Macro Economics, Public Finance, Money Market, International Trade and Indian Economy.

Features of the Study Material:

Simple, clear language for easy understanding

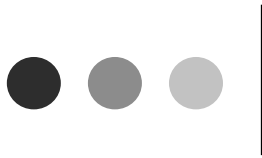
Illustrations and examples in each chapter to clarify concepts and techniques.

A comprehensive MCQ's and Summary at the end of chapters to practice and strengthen understanding.

Apart from the Study material, The Revision Test Paper (RTP) for Foundation Course Paper 4: Business Economics is a valuable tool designed to help students prepare effectively for the CA Foundation examination.

About the Revision Test Paper (RTP)

- Contains 25 questions with answers.
- Covers diverse topics from all of the study material.
- Designed to test conceptual understanding and computational skills.
- Acts as a practice set before the main exam.



PAPER – 1: ACCOUNTING



QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:
 - (a) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.
 - (b) Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.
 - (c) Bank reconciliation statement are prepared to arrive at the bank balance.
 - (d) The provision for bad debts is debited to sundry debtors account.
 - (e) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
 - (f) Discount at the time of retirement of a bill is a gain for the drawee.
 - (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
 - (h) The firm will receive surrender value of Joint Life Policy on the death of the partner.
 - (i) Fees received for Life Membership are a revenue receipt as it is of recurring nature.
 - (j) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are

appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.
- (b) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) You are required to pass necessary journal entries in the books of Batra:
 - (i) Employees had taken stock worth ₹ 25,000 (Cost price ₹ 22,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
 - (ii) Sold goods to Manik costing 20,000 at 25% above cost less trade discount of 10% plus CGST and SGST @6% each and cash discount of 5%.Manik did not avail cash discount.
 - (iii) Goods costing ₹ 6,000 (Sale price ₹ 8,000) distributed as free samples.
 - (iv) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.
 - (v) Purchased second hand machinery from Swayam industries for ₹ 4,00,000 plus CGST and SGST @ 4% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months.

Capital or Revenue Expenditure

- (b) Classify the following expenditures as capital or revenue expenditure:
 - (i) Travelling expenses of the directors for trips abroad for purchase of capital assets.
 - (ii) Drainage for new equipment.

- (iii) Amount paid for removal of stock to a new site.
- (iv) Cost of repairs on second-hand car purchased to bring it into working condition.
- (v) Carriage costs on a replacement part for a piece of machinery.
- (vi) Repainting of a delivery van

Subsidiary Books

4. (a) From the following information prepare the Purchase Book of M/s Victory & Company who deals in eye care business:
- (i) Purchased from Pink & Company on credit:
 10 pairs of black sun glasses @ ₹ 800 per Pair.
 5 pairs of brown sun glasses @ 900 per pair
 Less: Trade Discount @ 10%
 - (ii) Purchased Computer from M/s. Glory. Enterprises on credit for ₹ 20,000.
 - (iii) Purchased from Blue & Company in cash:
 5 pairs of black lens @ ₹ 700 per pair
 15 pairs of brown lens @ ₹ 100 per pair
 Less: Trade Discount @ 15%

Rectification of Errors

- (b) Pass the Journal entries in the books of Mr. Dhuria to rectify the following errors detected during preparation of the Trial Balance:
- (i) Wages paid for construction of office building debited to wages account ₹ 20,000.
 - (ii) A purchase of goods from Seema amounting to ₹ 10,000 has been wrongly entered through the sales book.
 - (iii) Sale of goods to Nikhil at the list price of ₹ 2,40,000/- less 10% trade discount. Out of the amount due 50% is received,

out of which three-fourth is received by cheque and the balance amount is received in cash. CGST and SGST applicable is 6% each.

- (iv) Goods (Cost being ₹ 15,000 and Sales price being ₹ 16,000) distributed as free samples amount prospective customers were not recorded anywhere.
- (V) A bill of Exchange (received from SS & Co.) for ₹ 10,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.
- (vi) A Bills Receivable for ₹ 2,500 was passed through Bills Payable Book. The Bill was given by Hans
- (vii) Sushil has been issued a credit note allowing rebate of ₹ 16,000/- as goods supplied to him was found defective. CGST and SGST charged @ 4% each.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement for Vibha Traders as on 31st March, 2025. The Cash Book of Vibha Traders shows a debit balance of ₹ 3,29,000 at Bank as on 31st March, 2025, but it does not agree with the balance as per the Bank Pass Book. After checking, the following differences were found:
- 1. On 12th March, 2025, the payment side of the Cash Book was undercast by ₹ 12,000.
 - 2. A cheque of ₹ 85,000 issued on 23rd March, 2025 was not taken in the bank column.
 - 3. On 22nd March, 2025, the debit balance of ₹ 18,500 as on the previous day was brought forward as a credit balance.
 - 4. Out of the total cheques amounting to 42,000 issued in the last week of March, 2025, cheques aggregating 28,500 were encashed in March, 2025.
 - 5. Dividends of 35,000 collected by the Bank and Fire Insurance Premium of 20,000 paid by the Bank were not recorded in the Cash Book.

6. One cheque issued to a creditor of ₹ 1,29,000 was recorded twice in the Cash Book.
7. A cheque from a customer for ₹ 12,000 was deposited in the Bank on 28th March, 2025 but was dishonoured and advice was received from the Bank on 5th April, 2025.
8. The Bank paid a credit card bill of ₹ 2,500 which was not recorded in the Cash Book.
9. The Bank wrongly credited a cheque of ₹ 25,000 of another customer in our account.
10. ₹ 500 discount received was wrongly entered in the bank column in the Cash Book.
11. A Debtor Mr, X deposited a cheque for ₹ 32,000 in the bank directly in the month of March 2025, without intimating to Rani traders and the same cheque was dishonoured by bank due to insufficient fund in the month of March itself

Valuation of Inventories

6. Lavender Ltd. prepared their accounts financial year ended on 31st March 2025. Due to unavoidable circumstances actual stock has been taken on 10th April 2025, when it was ascertained at ₹ 2,50,000. It has been found that;
 - (i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back. Purchases are entered in the Purchase Book on the day the Invoices are received.
 - (ii) Sales between 1st April 2025 to 9th April 2025 amounting to ₹ 60,000 as per Sales Day Book.
 - (iii) Free samples for business promotion issued during 1st April 2025 to 9th April 2025 amounting to ₹ 4,000 at cost.
 - (iv) Purchases during 1st April 2025 to 9th April 2025 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.

- (v) Invoices for goods purchased amounting to ₹ 55,000 were entered on 28th March 2025 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March 2025

Depreciation and Amortisation

7. A firm purchased a second-hand machinery on April 1, 2023 for ₹ 30,00,000, subsequent to which ₹ 4,00,000 were spent on its repairs and installation. On October 1, 2023, another machinery was purchased for ₹ 18,00,000 and the cost of installing the machine in a new plant was ₹ 40,000. The firm also shifted the machinery purchased on April 1, 2023 to the new plant and incurred freight of ₹ 20,000 and loading charges of ₹ 30,000.

They adopted a policy of charging depreciation @ 12% per annum on the diminishing balance method.

On April 1, 2025, it was decided to change the method and rate of depreciation to the straight line basis. On this date, the remaining useful life was assessed as 5 years for both the machines purchased, with no scrap value.

On October 1, 2025, the first machine became outdated and was sold for ₹ 5,00,000. On the same date, another machinery was purchased for ₹ 17,00,000. The estimated useful life of the machine is 10 years and the residual value is ₹ 60,000.

You are required to prepare the Machinery Account for the year ending March 31, 2026.

Bills of Exchange

8. On 1st January 2025, Tamal draws three bills of exchange for ₹ 16,000, ₹ 25,000 and ₹10,000.

The first bill of exchange for ₹ 16,000 is for two months while the second and third bill of exchange for ₹ 25,000 and ₹10,000 is for three months. These bills are accepted by Tapas. On 4th March, 2025, Tapas requests Tamal to renew the first bill with interest at 15% p.a. for a period of two months. Tamal agreed to this proposal. On 25th March, 2025, Tapas

retires the acceptance for the second bill of ₹ 25,000, the interest rebate i.e. discount being ₹ 250 and the third bill of 10,000, the interest rebate i.e. discount being ₹ 500. Before the due date of the renewed bill, Tapas becomes insolvent and only 30 paise in a rupee could be recovered from his estate.

Show the Journal Entries in the books of Tamal.

Final Accounts

9. From the following schedule of balances extracted from the books of Mr. Manas, prepare Trading and Profit and Loss Account for the year ended 31 March, 2026 and the Balance Sheet as on that date after making the necessary adjustments:

Particulars	Dr. (₹)	Cr. (₹)
Capital Account		8,85,000
Stock on 1.4.2025	3,86,000	
Cash in hand	18,500	
Cash in Bank	73,500	
Investment (at 9%) as on 1.4.2025	50,000	
Deposits (at 20%) as on 1.10.2025	3,00,000	
Drawings	78,000	
Purchases	24,95,000	
Sales		29,86,000
Return Inwards	1,10,000	
Return outwards		1,38,000
Carriage inwards	1,26,000	
Rent	66,000	
Salaries	1,15,000	
Sundry Debtors	2,35,000	
Sunday Creditors		1,37,500
Bank Loan (at 12%) as on 1.10.2025		2,00,000

Furniture as on 1.4.2025	25,000	
Interest paid	12,500	
Interest received		28,500
Advertisement	40,300	
Printing & Stationery	32,200	
Electricity Charges	57,700	
Discount allowed	55,200	
Discount received		24,600
Bad debts	18,500	
General expenses	36,800	
Motor Car Expenses	8,500	
Insurance Premium	30,000	
Travelling Expenses	21,800	
Postage & Courier	8,100	
	43,99,600	43,99,600

Adjustments:

- (i) The value of stock as on 31st March, 2026 is ₹ 7,65,000. This includes goods returned by customers on 31st March, 2026 to the value of ₹ 25,000 for which no entry has been passed in the books.
- (ii) Purchases include one furniture item purchased on 1st January, 2026 for ₹ 10,000. Depreciation @ 10% p.a. is to be provided on furniture.
- (iii) One months' rent is outstanding and Insurance premium includes ₹ 18,000 paid towards proprietor's life insurance policy.
- (iv) Interest paid includes ₹ 9,000 paid against Bank loan and Interest received pertains to Investments and Deposits.
- (v) Provide for interest payable on Bank Loan and interest receivable on investments and deposits.

- (vi) Make provision for doubtful debts at 2.5% on the balance under sundry debtors.

Financial Statements of Not for Profit Organizations

10. The accountant of City Club gave the following information about the receipt and payment of the club for the year ended 31st March ,2025

Receipts	₹	Payments	₹
Subscriptions	62,130	Premises	30,000
Fair Receipts	7,200	Rent	2,400
Variety Show Receipts (Net)	12,810	Rates and Taxes	3,780
Interest	690	Printing and Stationery	1410
Restaurant Collections	22,350	Sundry Expenses	5,350
		Wages	2,520
		Fair Expenses	7,170
		Honorarium to Secretary	11,000
		Restaurant Purchases	17,310
		Repairs	960
		New Car (less proceeds of old car ₹ 9,000)	

The following additional information could be obtained:

Particulars	1-4-2024 (₹)	31-3-2025 (₹)
Cash in hand	450	Nil
Bank Balance as per Cash-book	24,420	10,350
Cheques issued for Sundry Expenses not presented to the bank (entry has been duly made in the Cash-book)	270	90
Subscriptions Due	3,600	2,940
Premises at Cost	87,000	1,17,000

Provision for Depreciation on Premises	56,400	—
Car at Cost	36,570	46,800
Accumulated Depreciation on Car	30,870	—
Restaurant Stock	2,130	2,610
Creditors for Restaurant	1,770	1,290

Annual Honorarium paid to Secretary is ₹ 12,000. Depreciation on Premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31-3-2025.

Accounts from Incomplete Records

11. Roshan Washing House is owned by Roshan. He keeps his books on single entry and provides you with the following information:

	1 st January, 2025 ₹	31 st December, 2025 ₹
Furniture and Fittings	50,000	60,000
Stock of Raw Materials	30,000	10,000
Sundry Debtors	60,000	70,000
Sundry Creditors	20,000	Nil
Prepaid Expenses	Nil	2,000
Outstanding Expenses	6,000	10,000
Cash in hand	11,000	3,000
Receipts from Debtors		2,10,000
Paid to Creditors		1,00,000
Cartage		20,000
Drawings		1,20,000
Sundry Expenses		1,60,000
Furniture purchased for Cash		10,000

Prepare Trading, Profit and Loss Account and Balance Sheet for the year ended 31 December 2025 after providing for bad debts at 10%. There was considerable amount of cash sales.

Partnership Accounts

Calculation of Goodwill

12. The profits and losses for the previous years are: 2022 Profit ₹ 5,000, 2023 Loss ₹ 8,500, 2024 Profit ₹ 25,000, 2025 Profit ₹ 38,500. The average Capital employed in the business is ₹ 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 3,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 2 years.

Dissolution of Partner

13. A, B and C who were sharing profits in the ratio of 3: 2:1 decided to dissolve the firm on 31st March, 2025 when their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,50,000
A 1,80,000		Machinery	90,000
B 1,35,000		Tools	12,000
C <u>90,000</u>	4,05,000	Car	18,000
Creditors	51,000	Debtors	93,000
		Stock	55,500
		Bank	37,500
	4,56,000		4,56,000

Following transactions took place at the time of dissolution:

Assets realized are :	₹
Tools	7,500
Machinery	1,23,000

Building	1,26,000
Car	37,500
Goodwill	90,000
Debtors	88,500

- (a) Creditors accepted stock in settlement of their dues.
- (b) There was an unrecorded asset valued at ₹ 4,500 which was taken by A for ₹3,000.
- (c) There was an old furniture which had been written off from the books. B agreed to take it at ₹ 12,000.
- (d) Firm had to pay ₹ 12,000 for outstanding salary which not provided earlier.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Issue and Redemption of Shares

14. (a) Give necessary journal entries for the forfeiture and re-issue of shares:
 - (i) A Ltd. forfeited 3,000 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Mahesh for ₹ 8 per share.
 - (ii) A Ltd. forfeited 2,000 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 1500 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.
 - (iii) A Ltd. forfeited 1,000 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 800 shares were re-issued to Isha at ₹ 8 per share and called up for ₹ 6 share.

- (b) Following is the extract of Balance Sheet of Laxmi Ltd. as at 31st March, 2025 :

	₹
Authorized capital:	
4,50,000 equity shares of ₹ 10 each	45,00,000
37,500, 10% preference shares of ₹ 10 each	3,75,000
	48,75,000
Issued and subscribed capital:	
4,05,000 equity shares of ₹ 10 each fully paid up	40,50,000
36,000, 10% preference shares of ₹ 10 each fully paid up	3,60,000
	44,10,000
Reserves and surplus:	
General reserve	5,40,000
Capital redemption reserve	1,80,000
Securities premium	1,12,500
Profit and loss account	9,00,000
	17,32,500

On 1st April, 2025, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

15. The following balances appeared in the Books of MCM Ltd. as on 31st December, 2025:

	Amount (₹)
40,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	30,00,000
1,00,000 Equity share of ₹ 100 each fully paid up	1,00,00,000

Securities Premium	3,25,000
Capital Redemption Reserve	21,00,000
General Reserve	42,50,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2026 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 30,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2026. The issue was fully subscribed and the allotment made on 1st March, 2026. The amount due on allotment was duly received by 25th March, 2026.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2026. Ignore date column in Journal.

Issue and Redemption of Debentures

16. On 1st April, 2025, the following balances appeared in the books of Globe Limited (an unlisted company other than AIFI, Banking Company, NBFC and HFC):
- 75,000 9% Debentures of ₹ 100 each issued at par
 - Balance of Debenture Redemption Reserve (DRR) ₹ 7,50,000.
 - Debenture Redemption Reserve (DRR) Investment ₹ 7,50,000 represented by 8.75% Secured Bonds of the Government of India of ₹ 100 each.

Interest on Debentures was paid half- yearly on 30th of September and 31st March every year.

The funds required for purchasing the aforesaid debentures were partly raised by selling off the DRR Investment.

On 31st March, 2026, the investments were realized at par and the Debentures were also redeemed at par.

You are required to prepare the following accounts for the year ended 31st March, 2026:

- (1) 9% Debentures Account.
 - (2) Debenture Redemption Reserve Account.
 - (3) Debenture Redemption Reserve Investment Account.
 - (4) Interest on Debentures Account.
17. FLK Ltd. issues 3,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2025. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.
- Calculate the amount of discount to be written-off in each of the 5 years.
18. Write short notes on the following:
- (i) Fundamental Accounting Assumptions.
 - (ii) Noting Charges.
 - (iii) Posting of journal entries into the Leger.
 - (iv) Machine Hour Rate method of calculating depreciation.
 - (v) Retirement of bills of exchange



SUGGESTED ANSWERS/HINTS

1. (a) **True:** Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.
- (b) **False:** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an

expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

- (c) **False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.
- (d) **False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.
- (e) **True:** Periodic inventory system is a method of ascertaining inventory by taking an actual physical count of all the inventory items on hand at a particular date on which inventory is valued.
- (f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (g) **False:** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.
- (h) **False:** The firm will receive full value of sum assured of Joint Life Policy on the death of Partner.
- (i) **False:** Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.
- (j) **True:** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.

2. (a) Distinction between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

- (b)** Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a) (i) In the books of Kewal

Journal entries

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	Salaries A/c Dr. To Purchase A/c (Being entry made for stock taken by employees)	22,500	22,500
(ii)	Manik's A/c (WN -1) Dr. To Sales A/c (WN- 2)	25,200	22,500

	To Output CGST A/c To Output SGST A/c (Being goods to manik at trade discount and CGST & SGST @ 6%.		1,350 1,350
(iii)	Sales promotion A/c Dr. To Purchases A/c (Being the goods distributes as free samples).	6,000	6,000
(iv)	Bank A/c Dr. To Commission A/c (Being commission received).	10,000	10,000
	Commission A/c Dr. Prepaid Commission A/c (Being commission received in advance adjusted).	5,000	5,000
(v)	Machinery A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c To Swayam Industries A/c (Being machinery purchased from Swayam and paid 1,00,000 immediately CGST and SGST @ 4% each)	4,00,000 16,000 16,000	1,00,000 3,32,000

Workings:

- Manik's Account will be debited (not Cash A/c) since Manik did not avail the cash discount.
- Value of Sales = Cost Price+ Profit – trade Discount = 20,000 + 5,000 - 2,500 = 22,500
 $20,000 \times 25/100 = 5,000$
 Trade Discount = $(20,000+5,000) \times 10/100 = 2,500$

- (b) (i) Capital Expenditure.
(ii) Capital Expenditure.
(iii) Revenue Expenditure.
(iv) Capital Expenditure.
(v) Revenue Expenditure
(vi) Revenue Expenditure

4. (a) Purchases Book

Date	Particulars	L.F.	Amount ₹
(i)	Pink & Co. 10 pair of black sun glasses @ ₹ 800 5 pair of Brown sun glasses @ ₹ 900 Less: 10% trade discount		8,000 <u>4,500</u> 12,500 <u>(1,250)</u> 11,250

Note:

- Purchases made in cash are entered in cash book not in purchase book.
- Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

(b) In the Books of Mr. Dhuria

Journal Entries

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Building A/c Dr. To Wages A/c (Wages paid for the construction of office building debited to wages A/c now rectified)		20,000	20,000

(ii)	Purchases A/c	Dr.	10,000	
	Sales A/c	Dr.	10,000	
	To Seema			20,000
	(Purchases from Seema wrongly entered in Sales Book now rectified)			
(iii)	Nikhil A/c	Dr.	2,41,920	
	To Sales			2,16,000
	To Output CGST			12,960
	To Output SGST			12,960
	(Being goods sold to Nikhil at 10% trade discount, CGST and SGST is applicable at 6% each.)			
	Bank A/c	Dr.	90,720	
	Cash A/c	Dr.	30,240	
	To Nikhil			1,20,960
	(Being 50% of the amount due is received from Nikhil, out of which 3/4rd is received by cheque and 1/4rd in cash)			
(iv)	Advertisement expenses A/c	Dr.	15,000	
	To Purchases A/c			15,000
	(Being entry of the goods distributed as free samples omitted from records)			
(v)	SS & Co A/c	Dr.	10,000	
	To Bills Receivable A/c			10,000
	(Bills of Exchange dishonoured and had credited to bank and debited to Bills receivable a/c now rectified)			
(vi)	Bills Receivable A/c	Dr.	2,500	
	Bills Payable A/c	Dr.	2,500	

	To Hans A/c (Bills receivable wrongly passed through Bills payable now rectified)			5,000
(vii)	Rebate A/c	Dr.	16,000	
	Output CGST	Dr.	640	
	Output SGST	Dr.	640	
	To Sushil (Being rebate allowed to Sushil for the goods supplied was found defective)			17,280

5. (i) Bank Reconciliation Statement of Vibha Traders as on 31st March, 2025

Particulars	Amount	Amount
Balance as per Cash Book		3,29,000
<i>Add:</i>		
Mistake in bringing forward ₹ 18,500/- debit balance as credit balance on 22 nd March	37,000	
Cheques issued but not presented Issued = ₹ 42,000 less cashed ₹ 28,500 = ₹ 13,500/-	13,500	
Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	
Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	2,40,000
<i>Less:</i> Wrong casting in cash book on 12 th March, 2025	12,000	

Cheque issued and not entered in the Bank Column	85,000	
Fire insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	12,000	
Credit card payment not recorded in cash book	2,500	(1,31,500)
Balance as per the Pass book		4,37,500

Note: No effects of cheque deposit directly and dishonored in the same month. Alternatively figure of ₹ 32,000/- can be added as well as deducted from balance as per cash book.

6. Statement of Valuation of Physical Stock as on 31st March, 2025

	₹	₹
Value of stock as on 10 th April, 2025		2,50,000
<i>Add:</i> Cost of sales during the intervening period		
Sales made between 1.4.2025 and 9.4.2025	60,000	
<i>Less:</i> Gross profit @20% on sales	<u>(12,000)</u>	48,000
Free sample		<u>4,000</u>
		3,02,000
<i>Less:</i> Purchases actually received during the intervening period:		
Purchases from 1.4.2025 to 9.4.2025	10,000	
<i>Less:</i> Goods not received upto 9.4.2025	<u>(2,000)</u>	<u>(8,000)</u>
		2,94,000
<i>Add:</i> Purchases during March, 2025 but not recorded in stock		<u>55,000</u>
Value of physical stock as on 31.3.2025		<u>3,49,000</u>

7. Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2025 April 1	To Bal b/d-		2025 Oct. 1	By Depreciation- on	2,63,296
	Machine 1 26,32,960			machinery 1 sold	
	Machine 2 <u>15,22,048</u>	41,55,008	Oct. 1	By Bank – machinery	5,00,000
Oct. 1	To Bank A/c (Machine 3)	17,00,000	Oct. 1	1 sold	
				By Profit & Loss–	18,69,664
			2024 Mar. 31	Loss on Sale of	
				machinery (WN. 1)	
				By Depreciation	
				(WN. 2)	
			Mar. 31	Machine 2 3,04,410	
				Machine 3 <u>82,000</u>	3,86,410
				By bal c/d	28,35,638
		58,55,008			58,55,008

Working Note:

1. Calculation of depreciation and Profit/loss on sale:

	Machine 1 purchased on April 1, 2023 (₹)	Machine 2 purchased on Oct 1, 2023 (₹)	Total (₹)
Cost of Purchase	30,00,000	18,00,000	
	<u>4,00,000</u>	<u>40,000</u>	
Total Cost	34,00,000	18,40,000	
Less: Depreciation @ 12%			
Machine 1 (12 months)	(4,08,000)		
Machine 2 (6 months)		(1,10,400)	5,18,400
W.D.V. on 31-3-2024	29,92,000	17,29,600	
Less: Depreciation @ 12%	(3,59,040)	(2,07,552)	5,66,592
W.D.V. on 31-3-2025	26,32,960	15,22,048	

Less: Depreciation on SLM Basis (WN. 2)	(2,63,296)	(3,04,410)	5,67,706
	23,69,664	12,17,638	
Less: Sale proceeds on 1-10-2025	(5,00,000)		
Loss on sale of machinery	18,69,664		

2. Calculation of Depreciation on the basis of Straight-line method with effect from April 1,2023

- Machine 1 (purchased on 1st April,2023) = $34,00,000 - 4,08,000 - 3,59,040 = 26,32,960 / 5 = 5,26,592 / 2 = ₹ 2,63,296$
- Machine 2 (purchased on 1st Oct,2023) = $18,40,000 - 1,10,400 - 2,07,552 = 15,22,048 / 5 = ₹ 3,04,410$
- Machine 3 (purchased on 1st Oct, 2025) = $(17,00,000 - 60,000) \div 10 = 1,64,000 / 2 = ₹ 82,000$

Note: Freight and loading charges incurred on Machinery purchased on 1st April,2025 is to be excluded from the cost of machinery since this cost is incurred only for shifting the machinery to the new plant and does not increase the operating capacity of the machinery

8. Journal Entries in the books of Tamal

2025	Particulars		Dr (₹).	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	Bills receivable (No. 3) A/c	Dr.	10,000	
	To Tapas A/c			51,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2025 and bills receivable No. 2 and 3 due for maturity on 4.4.2025)			

March 4	Tapas 's A/c To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on renewal)	Dr.	16,000	16,000
March 4	Bills receivable (No. 4) A/c To Interest A/c To Tapas 's A/c (Being the drawing of bill of exchange no. 4 due for maturity on 7.5.2025 together with interest at 15%p.a. in lieu of the original acceptance of Tapas)	Dr.	16,400	400 16,000
March 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c To Bills receivable (No. 3) A/c (Being the amount received on retirement of bills No.2 and bills No.3 before the due date)	Dr. Dr.	34,250 750	25,000 10,000
May 7	Tapas's A/c To Bills receivable (No. 4) A/c (Being the amount due from Tapas on dishonour of his acceptance on presentation on the due date)	Dr.	16,400	16,400
May 7	Bank A/c To Tapas's A/c (Being the amount received from official assignee of Tapas at 30 paise per rupee against dishonoured bill)	Dr.	4,920	4,920

May 7	Bad debts A/c To Tapas's A/c (Being the balance 70% debt in Tapas's Account arising out of dishonoured bill written off as bad debts)	Dr.	11,480	11,480
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9. In the books of Mr. Manas
Trading and Profit & Loss Account for the year ended
31st March, 2026

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		3,86,000	By Sales	29,86,000	
To Purchases	24,95,000		Less: Returns	(135,000)	28,51,000
Less: Transfer to furniture A/c	(10,000)		By closing stock		7,65,000
	24,85,000				
Less: Returns	(1,38,000)	23,47,000			
To Carriage inwards		1,26,000			
To Gross profit c/d		7,57,000			
		36,16,000			36,16,000
To Salaries		1,15,000	By Gross profit b/d		7,57,000
To Rent	66,000		By Interest		34,500
Add: Outstanding	<u>6,000</u>	72,000	By Discount received		24,600
To Advertisement		40,300			
To Printing & stationery		32,200			
To Electricity charges		57,700			
To Interest (₹ 12,500 + 3000)		15,500			
To Discount allowed		55,200			

To Bad Debts	18,500				
Add: Provision for Doubtful Debts	<u>5,250</u>	23,750			
To General expenses		36,800			
To Motor Car expenses		8,500			
To Insurance premium	30,000				
Less: Drawings	<u>18,000</u>	12,000			
To Travelling expenses		21,800			
To Postage & courier		8,100			
To Depreciation on furniture (WN 4)		2,750			
To Capital A/c (Net profit transferred)		3,14,500			
		<u>8,16,100</u>			<u>8,16,100</u>

Balance Sheet as at 31st March,2026

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital account:			Furniture	25,000	
Balance on 1 st April,2025	8,85,000		Additions during the year	10,000	
Add: Net profit	3,14,500			35,000	
	<u>11,99,500</u>		Less: Depreciation	(2,750)	32,250
Less: Drawings	(78,000)		9% Investments		50,000
Less: Insurance premium	(18,000)	11,03,500			
12% Bank Loan		2,00,000	10% Deposits		3,00,000
Interest accrued on bank loan (W.N.2)		3,000	Interest accrued on investment & deposits (W N. 3)		6,000
Sundry creditors		1,37,500	Stock in trade		7,65,000
Outstanding Rent		6,000	Sundry debtors (W N. 1)		2,04,750
			Cash in hand		18,500
			Cash at Bank		73,500
		<u>14,50,000</u>			<u>14,50,000</u>

Working Notes:

1. Calculation of sundry debtors at the end	Amount (₹)
Sundry debtors as per trial balance	2,35,000
Less: Sales returns not recorded	(25,000)
Adjusted balance of sundry debtors	2,10,000
Provision for doubtful debts @ 2.5%	(5,250)
	<u>2,04,750</u>
2. Interest Payable on bank loan:	
Annual interest @12% for 6 months on ₹ 2,00,000	12,000
Less: Interest paid	(9,000)
Unpaid interest	<u>3,000</u>
3. Interest accrued on investments and deposits:	
Annual interest on investments @ 9%	4,500
Annual interest on deposits @ 20% for half year	<u>30,000</u>
	34,500
Less: Interest received on investments and deposits	<u>(28,500)</u>
Accrued interest	<u>6,000</u>

4. Depreciation on Furniture:	
Depreciation @ 10% p.a. on Opening Balance ₹ 25000	2,500
On new purchase of ₹ 10,000 for 3 months (Jan to March)	<u>250</u>
Depreciation to be charged	<u>2,750</u>

**10. Receipts and Payments Account
for the year ended 31st March, 2025**

Receipts (Dr.)	₹	Payments (Cr.)	₹
To Opening Balances:		By Premises	30,000
Cash in Hand	450	By Rent	2,400

Bank Balance	24,420	By Rates and Taxes	3,780
To Subscriptions	62,130	By Printing and Stationery	1,410
To Fair Receipts	7,200	By Sundry Expenses	5,350
To Variety Show Receipts (Net)	12,810	By Wages	2,520
To Interest	690	By Fair Expenses	7,170
To Restaurant Collections	22,350	By Honorarium to Secretary	11,000
To Sale Proceeds of Old Car	9,000	By Restaurant Purchases (Payments)	17,310
		By Repairs	960
		By purchase of new Car	46,800
		By Closing Balances:	
		Cash in Hand	Nil
		Bank Balance	10,350
	1,39,050		1,39,050

**Income and Expenditure Account
for the year ended 31st March, 2025**

Expenditure	₹ (Dr.)	Income	₹ (Cr.)
To Rent	2,400	By Subscriptions	62,130
To Rates and Taxes	3,780	Add: Due as on 31-3-25	<u>2,940</u>
			65,070
To Printing and Stationery	1,410	Less: Due as on 31-3-24	<u>3,600</u>
To Wages	2,520	By Surplus from Fair	
To Honorarium to Secretary	12,000	Fair Receipts	7,200
		Less: Fair Expenses	<u>7,170</u>
To Sundry Expenses (5,350-270+90)	5,170	By Surplus from Variety Show	12,810
To Repairs	960	By Interest	690

To Depreciation on Premises (5%) (W.N. 4)	3,030	By Profit from Restaurant (W.N.2)	6,000
To Depreciation on Car (20%)	9,360	By Profit on Sale of Car (W.N.3)	3,300
To Excess of Income over Expenditure transferred to Capital Fund	<u>43,670</u>		
	84,300		<u>84,300</u>

Working Notes
(1) Calculation of Restaurant Purchases
Restaurant Creditors Account

Dr.	₹	Cr.	₹
To Bank A/c	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Restaurant Purchases (Balancing Figure)	16,830
	<u>18,600</u>		<u>18,600</u>

(2) Calculation of Profit from Restaurant Trading Account

	₹ Dr.		₹ Cr.
To Opening Stock	2,130	By Restaurant Collections	22,350
To Purchases	16,830	By Closing Stock	2,610
To Profit from Restaurant	6,000		
	<u>24,960</u>		<u>24,960</u>

(3) Calculation of Profit on Sale of old Car

Sale proceeds of old car: ₹ 9,000

Less: Written down value of old car (₹ 36,570 – ₹ 30,870): ₹ 5,700

Profit on sale of old car: ₹ 3,300

(4) Depreciation on Premises

Premises purchased during the year (1,17,000-87,000)	30,000
Old premises- acc depreciation (87,000-56,400)	<u>30,600</u>
Total	<u>60,600</u>
Depreciation @ 5%	3,030

11. Trading Account for the Year ending 31 December,2025

Particulars	Amount ₹	Particulars		Amount ₹
Opening Stock	30,000	Sales:		
Purchases	80,000	Cash	1,92,000	
Cartage	20,000	Credit	2,20,000	4,12,000
Gross Profit c/d	2,92,000	Stock at the end		10,000
	<u>4,22,000</u>			<u>4,22,000</u>

Profit and Loss Account for the year ending 31 December,2025

Particulars		Amount	Particulars	Amount
Sundry Expenses	1,60,000		Gross Profit b/d	2,92,000
Add Outstanding as on 31 st Dec, 2025	10,000			
Less: Outstanding as on 31 st Dec 2024	(6,000)			
Less: Prepaid as on 31 st Dec, 2025	(2,000)	1,62,000		
Provision for Bad Debts		7,000		
Net Profit transferred to Capital Account		1,23,000		
		<u>2,92,000</u>		<u>2,92,000</u>

Balance Sheet as at 31 December 2025

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital account: Balance on 1 st Jan, 2025	1,25,000	1,28,000	Cash in hand		3,000
Add: Net profit	1,23,000		Stock		10,000
	2,48,000		Sundry Debtors	70,000	
Less: Drawings	(1,20,000)		Less: Provision	7,000	63,000
		10,000	Prepaid Expenses		2,000
Outstanding Expenses			Furniture and Fittings		60,000
		1,38,000			1,38,000

Balance Sheet as on 1st January, 2025

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash in hand	11,000
Outstanding Expenses	6,000	Sundry Debtors	60,000
Capital (Balancing Figure)	1,25,000	Stock	30,000
		Furniture and Fitting	50,000
	1,51,000		1,51,000

Total Debtors Account

	₹		₹
To balance b/d	60,000	By cash received from Debtors	2,10,000
To Credit Sales A/c (Balancing Figure)	2,20,000	Balance c/d	70,000
	2,80,000		2,80,000

Total Creditors Account

	₹		₹
To Cash A/c	1,00,000	By Balance b/d	20,000
To balance c/d	-	By Purchase A/c (Balancing figure)	80,000
	1,00,000		1,00,000

Cash and Bank Account

	₹		₹
To Balance b/d	11,000	By amount paid	1,00,000
To amount received from Sundry Debtors	2,10,000	Sundry Creditors	
To Cash Sales	1,92,000	By Drawings	1,20,000
(Balancing Figure)		By Sundry Expenses	1,60,000
		By Cartage	20,000
		By Furniture	10,000
		By Balance c/d	3,000
	4,13,000		4,13,000

12. Total Profit for 4 years = ₹ 5000 + ₹ (8,500) + ₹ 25,000 + ₹ 38,500
= ₹ 60,000.

$$\text{Average profits} = \frac{\text{Total Profit}}{\text{No. of years}} = \frac{6000}{4} = ₹ 15,000$$

$$\begin{aligned} \text{Average Profits for Goodwill} &= ₹ 15,000 - \text{Proprietor Remuneration} \\ &= ₹ 15,000 - ₹ 3,000 = ₹ 12,000 \end{aligned}$$

$$\begin{aligned} \text{Normal Profit} &= \text{Interest on Capital employed} \\ &= ₹ 10,000 \text{ (i.e. ₹ 1,00,000} \times 10/100) = ₹ 10,000 \end{aligned}$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit} = ₹ 12,000 - ₹ 10,000 = ₹ 2,000$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No of years purchases} = ₹ 2,000 \times 2 = ₹ 4,000$$

13.
Realisation Account

Particulars			Particulars		
To Sundry Assets – Transfer:			By Creditors		51,000
Debtors	93,000		By bank A/c – Assets Realised:		
Stock	55,500		Machinery	1,23,000	
Tools	12,000		Car	37,500	
Car	18,000		Debtors	88,500	
Machinery	90,000		Tools	7,500	
Building	<u>1,50,000</u>	4,18,500	Building	1,26,000	
To bank A/c (outstanding Salary)		12,000	Goodwill	<u>90,000</u>	4,72,500
To gain (Profit) on realization transferred to A's Capital A/c	54,000		By B's Capital A/c (Old Furniture)		12,000
B's Capital A/c	36,000		By A's Capital A/c Unrecorded Asset		3,000
C's Capital A/c	18,000	1,08,000			
		<u>5,38,500</u>			<u>5,38,500</u>

Partners Capital Accounts

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Realisation A/c	3,000	12,000		By Balance b/d	1,80,000	1,35,000	90,000
To Bank A/c	2,31,000	1,59,000	1,08,000	By Realisation A/c (Gain)	54,000	36,000	18,000
	<u>2,34,000</u>	<u>1,71,000</u>	<u>1,08,000</u>		<u>2,34,000</u>	<u>1,71,000</u>	<u>1,08,000</u>

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	37,500	By Realisation A/c (Outstanding Salary)	12,000
To Realisation A/c	4,72,500	By A Capital A/c	2,31,000
Assets Realised	-	By B Capital A/c	1,59,000
	-	By C Capital A/c	1,08,000
	5,10,000		5,10,000

Note: Since the stock is taken over by creditors, no entry is passed for such payment.

14. (a) (i) Journal Entries in the books of A Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (3,000 x ₹ 3) To Equity Share Final Call A/c (3,000 x ₹ 4) To Forfeited Shares A/c (3,000 x ₹ 3) (Being the forfeiture of 3,000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No.....dated.....)	Dr.	30,000	9,000 12,000 9,000
(b)	Bank Account (3000 x 8) Forfeited Shares Account (3,000x 2) To Equity Share Capital A/c (Being the re-issue of 3,000 forfeited shares @ ₹ 8 each as fully paid up to Mahesh as per Board's resolution No.....dated.....)	Dr. Dr.	24,000 6,000	30,000
(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	3,000	3,000

(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (2000 x ₹ 7) To Equity Share First Call A/c (2000 x ₹ 2) To Forfeited Shares A/c (2000 x ₹ 5) (Being the forfeiture of 2000 equity shares of ₹ 10 (₹7 called up) for non-payment of first call @ ₹ 2 per share as per Board Resolution No.... dated.....)	Dr.	14,000	4000 10,000
(b)	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being the re-issue of 1500 forfeited shares as fully paid up as per Board's resolution No..... dated.....)	Dr. Dr.	9000 6000	15,000
(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	1500	1500

Working Note:

Balance in forfeited shares account on forfeiture of

1,500 shares (1,500 x 5) ₹ 7,500

Less: Forfeiture of 1500 shares (₹ 6,000)

Profit on re-issue of shares ₹ 1,500

(iii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (1000 x ₹ 6)	Dr.	6000	
	To Equity Share Final Call A/c (100 x ₹ 3)			3000
	To Discount on issue of shares (1000 x ₹ 1)			1000
	To Forfeited Shares A/c (1000 x ₹ 2)			2000
	(Being the forfeiture of 1000 equity shares issued at a discount as per Board's resolution No.....dated.....)			
(b)	Bank Account (800 x ₹ 6)	Dr.	4800	
	Discount on issue of shares (800 x ₹ 1)	Dr.	800	
	Forfeited Shares A/c (800 x ₹ 1)	Dr.	800	
	To Equity Share Capital Account (800 x ₹ 8)			6400
	(Being the re-issue of 800 shares fully paid up as per Board's Resolution No.....dated.....)			
(c)	Forfeited Shares A/c		800	
	To Capital Reserve A/c			800
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares	
(1000 x 2)	₹ 2000
Forfeited shares balance for 800 shares	₹ 1600
Less: Forfeiture of 800 shares	<u>(₹ 800)</u>
Profit on re-issue of shares	<u>₹ 800.</u>

(b)

Laxmi Ltd.

Journal Entries

			Dr.	Cr.
April 1	Capital Redemption Reserve A/c	Dr.	1,80,000	
	Securities Premium A/c	Dr.	1,12,500	
	General Reserve A/c	Dr.	5,40,000	
	Profit and Loss A/c (b.f.)	Dr.	7,87,500	
	To Bonus to Equity Shareholders A/c			16,20,000
	(Bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	16,20,000	
	To Equity Share Capital A/c			16,20,000
	(Issue of bonus shares)			

Balance Sheet (Extract) as on 1st April, 2025 (after bonus issue)

		Particulars	Notes	Amount (₹)
1		Equity and Liabilities		
		Shareholders' funds		
	a	Share capital	1	60,30,000
	b	Reserves and Surplus	2	1,12,500

Notes to Accounts

		(₹)
1	Share Capital	
	Authorized share capital:	
	5,67,000* Equity shares of ₹ 10 each	56,70,000*
	37,500 10% Preference shares of ₹ 10 each	3,75,000
	Total	60,45,000

	Issued, subscribed and fully paid share capital:		
	5,67,000 Equity shares of ₹ 10 each, fully paid (Out of above, 1,62,000 equity shares @ ₹ 10 each were issued by way of bonus)		56,70,000
	36,000 10% Preference shares of ₹ 10 each		3,60,000
	Total		60,30,000
2	Reserves and Surplus		
	Capital Redemption Reserve	1,80,000	Nil
	Less: Utilized	<u>1,80,000</u>	
	Securities Premium	1,12,500	
	Less: Utilised for bonus issue	<u>(1,12,500)</u>	Nil
	General reserve	5,40,000	
	Less: Utilised for bonus issue	<u>(5,40,000)</u>	Nil
	Profit & Loss Account	9,00,000	
	Less: Utilised for bonus issue	<u>(7,87,500)</u>	1,12,500
	Total		<u>1,12,500</u>

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 11,70,000 (56,70,000 – 45,00,000) in the above solution

15. Journal Entries In the books of MCM Ltd.

		Amount (₹)	Amount (₹)
10% Preference Share Final Call A/c To 10% Preference Share Capital A/c (Being final call made on preference shares @ ₹ 25 each to make them fully paid up)	Dr.	10,00,000	10,00,000
Bank A/c To 10% Preference Share Final Call A/c (Being receipt of final call money on preference shares)	Dr.	10,00,000	10,00,000

10% Preference Share Capital A/c	Dr.	40,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	2,00,000	
To Preference Shareholders A/c			42,00,000
(Being amount payable to preference shareholders on redemption at 5% premium)			
Bank A/c	Dr.	7,50,000	
To Equity Share Application A/c			7,50,000
(Being receipt of application money on 30,000 equity shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	7,50,000	
To Equity Share Capital A/c			7,50,000
(Being capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	13,50,000	
To Equity Share Capital A/c			10,50,000
To Securities Premium A/c			3,00,000
(Being allotment money due on 30,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)			
Bank A/c	Dr.	13,50,000	
To Equity Share Allotment A/c			13,50,000
(Being receipt of allotment money on equity shares)			
General Reserve A/c (WN 1)	Dr.	22,00,000	
To Capital Redemption Reserve A/c			22,00,000
(Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 40,00,000 - 7,50,000 - 10,50,000)			

Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	42,00,000	42,00,000
General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)	Dr.	2,00,000	2,00,000

Notes to Accounts:

		₹
1 Share Capital:		
Equity Share Capital		
Issued, Subscribed & Paid Up:		
1,00,000 Equity Shares of ₹ 100 each fully paid up	1,00,00,000	
30,000 Equity Shares of ₹100 each, ₹ 60 called up & paid up	<u>18,00,000</u>	1,18,00,000
2 Reserves and Surplus:		
Securities Premium	3,25,000	
Add: Amount received @ - 10 per share on 30,000 Equity Shares	<u>3,00,000</u>	6,25,000
Capital Redemption Reserve	21,00,000	
Add: Transferred on Redemption(WN-1)	<u>22,00,000</u>	43,00,000
General Reserve	42,50,000	
Less: Transferred to Capital Redemption Reserve	(22,00,000)	
Less: Adjustment of Premium payable on Redemption	<u>(2,00,000)</u>	18,50,000
		<u>67,75,000</u>

Working Note 1

Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 40,000 Preference Shares Redeemed	40,00,000
Less: Proceeds of 30,000 Equity Shares issued, - 60 called up & paid up	<u>18,00,000</u>
Transfer to Capital Redemption Reserve	<u>22,00,000</u>

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

16.

In the book of Globe Ltd.

9% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31.3.26	To Bank	75,00,000	1.4.25	By Bal b/d	75,00,000
		75,00,000			75,00,000

Debenture Redemption Reserve Account

Date	Particulars	₹	Date	Particulars	₹
31.3.26	To General reserve	7,50,000	1.4.25	By Bal b/d	7,50,000
		7,50,000			7,50,000

Debenture Redemption Reserve Investment Account

Date	Particulars	₹	Date	Particulars	₹
1.4.25	To Bal b/d	7,50,000	31.3.26	By Bank A/c (75,000 x 100 x 15%)	11,25,000

1.4.25	To Bank A/c	3,75,000			
		11,25,000			11,25,000

Interest on Debentures Account

Date	Particulars	₹	Date	Particulars	₹
30.9.25	To Bank A/c (75,000 x 100 x 9% x 6/12)	3,37,500	31.3.26	By P&L A/c	6,75,000
31.3.26	To Bank A/c (75,000 x 100 x 9% x 6/12)	3,37,500			
		6,75,000			6,75,000

Working Note:

Additional Investment in Debenture Redemption Reserve Investment

DRR Investment required = 15% of ₹ 75,00,000 = ₹ 11,25,000

DRR Investment existing on 1/04/25 = 7,50,000

Additional DRR Investment required = ₹ 11,25,000 - ₹ 7,50,000
= ₹ 3,75,000

- 17.** Total amount of discount comes to ₹ 1,80,000 (₹ 0.6 X 3,00,000). The amount of discount to be written-off in each year is calculated as under:

1 st	₹ 30,00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
2 nd	₹ 30,00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
3 rd	₹ 30,00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
4 th	₹ 30,00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
5 th	₹ 30,00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000

18. (i) **Fundamental Accounting Assumptions:** Fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:
- (i) *Going Concern:* The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
 - (ii) *Consistency:* It is assumed that accounting policies are consistent from one period to another.
 - (iii) *Accrual:* Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.
- (ii) **Noting Charges:** It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(iii) Rules regarding posting of journal entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(iv) **Machine Hour Rate method of calculating depreciation:** Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹ 10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total Cost of Machine}}{\text{Estimated Life of Machine}}$$

$$\begin{aligned} &= \frac{\text{₹ } 10,00,000}{50,000 \text{ Hours}} \\ &= \text{₹ } 20 \text{ per hour} \end{aligned}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours $\times$ ₹ 20 = ₹ 40,000.

- (v) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.



PAPER – 2: BUSINESS LAWS



QUESTIONS

Indian Regulatory Framework

1. What is the Insolvency and Bankruptcy Board of India (IBBI)? Discuss its establishment, powers, functions and the categories of persons and entities covered under the Insolvency and Bankruptcy Code, 2016.

The Indian Contract Act, 1872

2. Mr. Sharma, a trader, wrote to Mr. Verma offering to sell him 100 barrels of "oil" at ₹ 5,000 per barrel. The letter reached Verma on 1st June. On 2nd June, Sharma posted another letter revoking the offer. However, before receiving the revocation, Verma posted a letter of acceptance on 3rd June. Sharma's letter of revocation reached Verma on 4th June. When Verma later demanded delivery, Sharma refused, stating that the contract was void since he had not specified which kind of oil was being offered (mustard, groundnut, or refined), and further claimed that he had no oil stock at all. Verma sued for breach of contract, insisting that valid acceptance had already been communicated. Sharma defended himself by stating that the contract was void for uncertainty and impossibility.

Examine the relevant provisions of the Indian Contract Act, 1872, and decide whether a binding contract was created between Sharma and Verma and whether Sharma is liable for damages.

3. Mr. Das, a landowner, transferred his property to his daughter, Geeta, on the condition that she would pay ₹ 20,000 annually to her maternal uncle, Mr. Gopal. Geeta accepted the property but later failed to pay the annuity. Mr. Gopal sued Geeta for recovery. Geeta argued that since

Gopal was not a party to the agreement, he had no right to sue. Gopal contended that the consideration had moved from Das on his behalf and that he was entitled to enforce the promise.

Examine whether Mr. Gopal can recover the annuity under the Indian Contract Act, 1872.

4. Mr. Sen, an elderly widower, executed a gift deed transferring his valuable house to his nephew, Kashish. Subsequently, it was discovered that Kashish had threatened Mr. Sen that, unless the property was gifted to him, he would file a false criminal complaint of harassment against him. Further, Kashish, being Mr. Sen's sole caretaker, emotionally influenced him into believing that transferring the property would guarantee him lifelong care and affection.

Mr. Sen now seeks to set aside the transaction. Examine whether the gift deed is valid under the Indian Contract Act, 1872.

5. Mr. Rohan entered into a contract with Mr. Sohan to deliver 1,000 bags of cement to his construction site on or before 15th August. The payment was to be made immediately upon delivery. However, Rohan failed to deliver the cement by the stipulated date. On 25th August, Rohan offered to deliver the goods, but by that time, the delay had caused disruption to the construction schedule, resulting in Sohan losing a contract with a government department.

Sohan refused to accept the delayed delivery and filed a suit for damages. Rohan contended that the delay was minor and argued that Sohan was obligated to accept the goods. Examine the rights and liabilities of the parties under the Indian Contract Act, 1872.

6. Mr. Ramesh delivered his gold ornaments to a jeweller, Mr. Arun, for polishing. Arun kept the ornaments in the locker of his shop and locked the premises before leaving. Unfortunately, during the night, thieves broke into the shop and stole the ornaments. When Ramesh asked for the return of his ornaments, Arun expressed his inability to do so and stated that he had taken as much care of the goods as he would have taken of his own property. Ramesh, however, claimed compensation for the loss on the ground that the ornaments had been delivered under a contract of bailment and that the bailee was bound to return them.

Decide, under the Indian Contract Act, 1872, whether Arun is liable to compensate Ramesh.

7. Mr. VG and Mr. PG were trading in unlisted shares for the last seven years. They used to borrow funds from each other whenever required for any trade. Within a week's time, they used to refund the money to each other as per circumstances of the case. They were following this practice for the last five years. On 25th January 2025, Mr. PG wants to buy 20,000 shares of an unlisted company @ ₹ 500/- each. But due to insufficiency of funds, he asked Mr. VG for ₹ 40 lakhs. Mr. VG transferred ₹ 40 lakhs to Mr. PG. After about three months, Mr. VG reminded that Mr. PG had not refunded ₹ 40 lakhs to him till then. He asked him to pay back his money. Mr. PG told him that he was trying very hard to sell the shares at a reasonable price of 10% more than the price at which he bought these shares but was unable to do so due to market conditions. He asked Mr. VG to sell his shares on his behalf and authorised him to appropriate the amount of loan of ₹ 40 lakhs with interest out of the sale proceeds. Mr. VG agreed to do so.

After about 15 days, when market started recovering Mr. PG denied and revoked the authorization by saying that he would sell his shares himself.

With reference to provisions of the Indian Contract Act, 1872, whether the revocation of said agency by Mr. PG was lawful?

8. "Distinguish between a Contract of Indemnity and a Contract of Guarantee. Explain the points of distinction with reference to the Indian Contract Act, 1872."
9. Wagering agreements are void under Section 30 of the Indian Contract Act, 1872. However, certain transactions resemble wagering transactions but are valid in the eyes of law. Discuss such transactions.

The Sale of Goods Act, 1930

10. Mr. Rohit, a trader, entered into a contract with Mr. Mohan for the purchase of 100 chairs for a total consideration of ₹ 1,00,000. The agreement expressly provided that ownership of the goods would pass to Rohit immediately, while the price was to be paid in two equal

instalments within 30 days. The goods were duly delivered in accordance with the contract.

However, when the second instalment became due, Rohit defaulted in payment and contended that since a part of the price remained unpaid, the transaction amounted only to an agreement to sell and not a completed sale. On this basis, he refused to pay the balance amount. Examine the legal validity of Rohit's contention with reference to the Sale of Goods Act, 1930.

11. Mr. Sameer, a retail shopkeeper, purchased 10 cartons of packaged fruit juice bottles from Fresh Foods Ltd., a reputed beverage dealer. The cartons were sealed and appeared to be in good condition, and therefore Sameer accepted them without objection. Subsequently, when the bottles were sold to customers, it was discovered that several of them were contaminated with fungus. A few customers even fell ill after consuming the juice, compelling Sameer to issue refunds and causing significant reputational damage to his business.

When Sameer demanded a refund and compensation from Fresh Foods Ltd., the seller refused, contending that the goods had been sealed and were accepted by him at the time of delivery. Examine whether Sameer can succeed in his claim under the Sale of Goods Act, 1930.

12. A government department conducted an auction of used vehicles. Mr. Suresh bid for a truck at ₹5,00,000. Before the auctioneer's hammer fell, Suresh tried to withdraw his bid, but the auctioneer refused. Later, the auctioneer also bid through his agent without prior notice to the bidders. Another bidder, Mr. Akash, complained that the auction was not fairly conducted. Decide, with reference to the Sale of Goods Act, 1930, whether the auction sale is valid.
13. What is meant by Reservation of Right of Disposal? Explain the circumstances under which the seller is deemed to have reserved this right under the Sale of Goods Act, 1930.
14. "What is meant by the doctrine of Caveat Emptor? State the conditions for its applicability and discuss the exceptions to this doctrine under the Sale of Goods Act, 1930."

The Indian Partnership Act, 1932

15. A, B and C are partners in an unregistered partnership firm named M/s ABC & Associates. Is the suit maintainable in the following cases as per the provisions of the Indian Partnership Act, 1932? Give justification also.
- (i) A filed a suit against B who had stolen the goods of the firm.
 - (ii) A filed a suit against M/s ABC & Associates for claiming shares of the assets on its dissolution.
 - (iii) M filed a suit against the firm M/s ABC & Associates for the recovery of ₹ 10,000/- dues from the firm. M also owed ₹ 4,000/- to the firm. The firm claimed a set off of ₹ 4,000/-.
16. M/s LMP & Associates, a partnership firm engaged in carpet manufacturing and exporting, was initially managed by senior partners L, M, and P. On 25th August, 2022, the firm admitted Mr. G, an expert in carpet manufacturing, as a partner. However, on 10th January, 2024, Mr. G was accused of unauthorized activities and subsequently expelled from the partnership with the unanimous approval of the remaining partners.
- With reference to the provisions of the Indian Partnership Act, 1932, answer each of the following:
- (i) Examine whether action by the partners was justified or not?
 - (ii) What are the factors which should be kept in mind prior to expelling a partner from the firm by other partners?
17. Describe the following kinds of partnership with reference to the Indian Partnership Act, 1932:
- (a) Partnership at will
 - (b) Partnership for a fixed period
 - (c) Particular partnership
 - (d) General partnership.

The Limited Liability Partnership Act, 2008

18. Explain the following features of a Limited Liability Partnership under the LLP Act, 2008:
- (a) Artificial legal person
 - (b) Common seal.

The Companies Act, 2013

19. Mr. Ramesh Saluja incorporated a private limited company under the name Saluja & Sons Pvt. Ltd., with himself, his wife, and his children as shareholders. The newly formed company took over his existing leather business and continued its operations.

Subsequently, the company went into liquidation. The creditors contended that the company was merely a façade or alter ego of Mr. Saluja and that it lacked an independent existence. On this basis, they argued that the corporate veil should be lifted and Mr. Saluja should be held personally liable for the company's debts. With reference to the relevant case law on lifting of the corporate veil, examine whether Mr. Saluja can be held personally liable.

20. A company, ABC limited as on 31.03.2025 had a paid-up capital of ₹ 1 lakh (10,000 equity shares of ₹ 10 each). In June 2025, ABC limited had issued additional 10,000 equity shares of ₹ 10 each which was fully subscribed. Out of 10,000 shares, 5,000 of these shares were issued to XYZ private limited company. XYZ is a holding company of PQR private limited by having control over the composition of its board of directors.

Now, PQR private limited claims the status of being a subsidiary of ABC limited as being a subsidiary of its subsidiary i.e. XYZ private limited. Examine the validity of the claim of PQR private limited.

State the relationship if any, between ABC limited & XYZ private limited as per the provisions of the Companies Act, 2013.

21. Do you agree that a company is an artificial person? Elucidate. Also explain how the authorization by Beeta Limited, a company incorporated under the Companies Act, 2013 can be made in case it does not have a common seal.

The Negotiable Instruments Act, 1881

22. Referring to the provisions of the Negotiable Instruments Act, 1881, answer the following in the given scenario:
- (i) Aman drew the bill of exchange (the bill) on Baban, who accepted it, payable to Magan or order. Magan indorsed the bill to Gagan. Gagan indorsed the bill to Akash to be delivered to him on the next day. However, on the death of Gagan on the same day, his only son Ankit delivered the bill to Akash on the next day as intended by his deceased father. On presenting the bill on the due date, Baban refused to pay. Explaining the importance of delivery in negotiation, decide, whether Akash can enforce the payment of the bill against Baban or the previous parties.
 - (ii) Reliable Limited, an Indian company, is a global leader in Petrochemical products. For payment of the sale price of machinery imported from Alex Manufacturing Limited, a USA based company (the exporter), the Indian company drew a bill of exchange on Manish, a resident of Mumbai (India) who accepted the bill at Mumbai payable to the exporter in Los Angeles, USA. Decide, whether the bill of exchange is an inland instrument or a foreign instrument. Assume that the bill of exchange was signed by the authorised person for the drawer company.
23. A promissory note, payable at a certain period after sight, must be presented to the maker thereof for payment. Under which scenarios presentment for payment is not necessary and the instrument is dishonoured at the due date for presentment according to the provisions of the Negotiable Instruments Act, 1881?

**SUGGESTED ANSWERS/HINTS**

- 1. Insolvency and Bankruptcy Board of India (IBBI):** IBBI is the regulator for overseeing insolvency proceedings and entities like Insolvency Professional Agencies (IPA), Insolvency Professionals (IP) and Information Utilities (IU) in India.

It was established on 1 October 2016 and given statutory powers through the Insolvency and Bankruptcy Code, which was passed by Lok Sabha on 5th May 2016.

It covers Individuals, Companies, Limited Liability, Partnerships and Partnership firms. The new code will speed up the resolution process for stressed assets in the country.

It attempts to simplify the process of insolvency and bankruptcy proceedings.

It handles the cases using two tribunals like NCLT (National Company Law Tribunal) and Debt recovery tribunal.

- 2. Section 4 of the Indian Contract Act, 1872 lays down the rules of communication of acceptance and revocation:**

- The communication of acceptance is complete, as against the proposer, when it is put in the course of transmission to him, so as to be out of the power of the acceptor.
- The communication of revocation is complete, as against the person who makes it, when it is put into transmission; and, as against the person to whom it is made, when it comes to his knowledge.
- Therefore, revocation is valid only if it reaches the offeree before he posts his acceptance.

Further, Section 10 provides the essentials of a valid contract. Among them, the agreement must be certain and capable of being performed. If the meaning of the agreement is uncertain, or if it is incapable of performance, it cannot be enforced. Section 56 declares that agreements

to do an impossible act are void. If a contract becomes impossible to perform after it is made, it becomes void when the act becomes impossible.

In the instant case, Mr. Sharma offered to sell "oil" to Mr. Verma and later posted a revocation. Before receiving the revocation, Verma posted his acceptance. Sharma then refused delivery, claiming the contract was void due to the unspecified "oil" and his lack of stock.

On the basis of the provisions of law and the facts of the case, it can be concluded that although acceptance was validly communicated before revocation, the agreement was void because (a) it was uncertain (the type of oil was not specified), and (b) performance was impossible (Sharma had no oil stock). Hence, no enforceable contract exists and Verma cannot claim damages.

3. Under Section 2(d) of the Indian Contract Act, 1872, consideration may move from the promisee or any other person. However, under the doctrine of privity of contract, only parties to a contract can sue upon it. An exception was recognized in *Chinnayya vs. Ramayya*, where an agreement made between two parties for the benefit of a third party was held enforceable, even though the third party was not directly a part of the agreement.

In the present case, Mr. Das transferred his property to his daughter, Geeta, on the condition that she would pay ₹20,000 annually to her maternal uncle, Mr. Gopal. Geeta accepted the property but failed to fulfil her obligation. Although Gopal was not a party to the original contract, the promise was clearly intended for his benefit, and consideration had moved from Das to Geeta on his behalf.

Although the general rule is that a stranger to a contract cannot sue, Gopal falls within the recognized exception. Since consideration moved from Das and the contract was made expressly for Gopal's benefit, he is entitled to enforce the promise. Hence, Geeta is legally bound to pay the annuity to Gopal.

4. Section 15 of the Indian Contract Act, 1872 defines coercion as committing or threatening to commit any act forbidden by the Indian Penal Code, or unlawfully detaining property, with the intention of compelling a person to enter into an agreement.

Section 16 defines undue influence as a situation where one party, being in a position to dominate the will of another, uses that position to obtain an unfair advantage. Under Sections 19 and 19A, contracts induced by coercion or undue influence are voidable at the option of the aggrieved party.

In the present case, Kashish forced Mr. Sen to execute a gift deed by threatening to lodge false criminal proceedings, which constitutes coercion. Further, as Mr. Sen's caretaker and close relative, Kashish held a fiduciary position and emotionally manipulated him into believing that the transfer would secure lifelong care. This amounts to undue influence, since Kashish used his position to dominate Mr. Sen's will and obtain an unconscionable advantage.

Here, the gift deed suffers from two vitiating factors—coercion and undue influence. Therefore, it is voidable at the option of Mr. Sen. He can approach the court to have the deed set aside, and he is not bound to transfer his property under such unfair circumstances.

5. As per section 52 of the Indian Contract Act, 1872, when the order of performance of reciprocal promises is expressly fixed, they must be performed in that order. While section 53 provides, if the promisor prevents the promisee from performing his promise, the promisee is entitled to compensation. Further, section 55 provides if time is expressly of the essence, and promisor fails, contract becomes voidable at the option of the promisee. If not of essence, contract continues but damages can be claimed for delay.

In the instant case, Rohan promised to deliver 1,000 bags of cement by 15th August, which was crucial for Sohan's construction project. Rohan failed to deliver on the stipulated date and instead offered the goods after 10 days. Because of this delay, Sohan's project was disrupted, and he lost a government contract.

In commercial contracts such as supply of materials for construction projects, time is usually regarded as the essence of the contract. Since Rohan failed to deliver the cement by the stipulated date, the contract became voidable at the option of Sohan. He was justified in refusing the delayed performance. Furthermore, under Section 53, Rohan's failure prevented Sohan from performing his reciprocal obligation with the government department, resulting in financial loss. Therefore, Sohan is entitled to reject the goods and claim damages from Rohan for the actual loss suffered. Rohan's defense of a "minor delay" is not valid under the law.

6. According to Section 148 of the Indian Contract Act, 1872, bailment is the delivery of goods from one person to another for a specific purpose, upon a contract that the goods shall be returned once the purpose is completed.

Section 151 provides that the bailee is bound to take as much care of the goods bailed as a man of ordinary prudence would take of his own goods. Further, Section 152 states that if the bailee has taken such reasonable care, he is not responsible for loss, destruction or deterioration of the goods.

In the present case, Ramesh entrusted his ornaments to Arun, the jeweller, for polishing. Arun locked them securely in his shop's locker. A theft occurred at night, and the ornaments were stolen despite the precautions taken. Ramesh demanded compensation, but Arun refused, claiming he exercised ordinary care.

On the basis of the law provisions and facts of the case concerned, it is clear that Arun has taken reasonable precautions by locking the ornaments in the locker and securing the shop. The theft was beyond his control and does not amount to negligence. Therefore, Arun cannot be held liable to compensate Ramesh for the stolen ornaments.

7. According to Section 202 of the Indian Contract Act, 1872 an agency becomes irrevocable where the agent has himself an interest in the property which forms the subject-matter of the agency and such an agency cannot, in the absence of an express provision in the contract, be terminated to the prejudice of such interest.

The rule of agency coupled with interest applies and does not come to an end even on death, insanity or the insolvency of the principal.

In the instant case, Mr. PG appointed Mr. VG to sell his shares on his behalf and authorized him to appropriate the amount of loan of ₹ 40 lakh with interest out of the sale proceeds.

Since, interest was created in favour of Mr. VG, thus the revocation of the said agency is not lawful.

8. Distinction between a Contract of Indemnity and a Contract of Guarantee

Point of distinction	Contract of Indemnity	Contract of Guarantee
Number of party/ parties to the contract	There are only two parties namely the indemnifier [promisor] and the indemnified [promisee]	There are three parties- creditor, principal debtor and surety.
Nature of liability	The liability of the indemnifier is primary and unconditional.	The liability of the surety is secondary and conditional as the primary liability is that of the principal debtor.
Time of liability	The liability of the indemnifier arises only on the happening of a contingency.	The liability arises only on the non-performance of an existing promise or non-payment of an existing debt.
Time to Act	The indemnifier need not act at the request of indemnity holder.	The surety acts at the request of principal debtor.
Right to sue third party	Indemnifier cannot sue a third party for	Surety can proceed against principal

	loss in his own name as there is no privity of contract. Such a right would arise only if there is an assignment in his favour.	debtor in his own right because he gets all the right of a creditor after discharging the debts.
Purpose	Reimbursement of loss	For the security of the creditor
Competency to contract	All parties must be competent to contract.	In the case of a contract of guarantee, where a minor is a principal debtor, the contract is still valid.

9. Wagering agreements are void under Section 30 of the Indian Contract Act, 1872. However, certain transactions resemble wagering transactions but are valid in the eyes of law which are following:
- Chit fund:** Chit fund does not come within the scope of wager (Section 30). In case of a chit fund, a certain number of persons decide to contribute a fixed sum for a specified period and at the end of a month, the amount so contributed is paid to the lucky winner of the lucky draw.
 - Commercial transactions or share market transactions:** In these transactions in which delivery of goods or shares is intended to be given or taken, do not amount to wagers.
 - Games of skill and Athletic Competition:** Crossword puzzles, picture competitions and athletic competitions where prizes are awarded on the basis of skill and intelligence are the games of skill and hence such competition are valid. According to the Prize Competition Act, 1955 prize competition in games of skill are not wagers provided the prize money does not exceed ₹ 1,000.
 - A contract of insurance:** A contract of insurance is a type of contingent contract and is valid under law and these contracts are different from wagering agreements.

- 10.** Section 4 of the Sale of Goods Act, 1930, defines a contract of sale of goods as a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price. If the property in goods is transferred at the time of the contract, it is a sale. If the transfer is to take place in the future or subject to some conditions, it is an agreement to sell. Thus, the distinction lies in the passing of ownership, not in the time of payment or delivery. Once ownership is transferred, the buyer becomes owner and must pay the agreed consideration.

In the present case, Mohan delivered 100 chairs to Rohit and ownership was intended to pass immediately as per their agreement. However, Rohit failed to pay the second installment and contended that the contract was incomplete and only an agreement to sell.

Since the ownership of chairs had already passed to Rohit at the time of delivery, the contract was a completed sale under Section 4 of the Act. Rohit's contention that it was only an agreement to sell is legally unsustainable. He is bound to pay the balance of the price to Mohan, and his refusal amounts to a breach of contract.

- 11.** As per Section 16(2) of the Sale of Goods Act, 1930, when goods are bought by description from a seller who deals in goods of that description, there is an implied condition that the goods shall be of merchantable quality. In addition, in case of eatables and consumable goods, there is an implied condition as to wholesomeness, i.e., the goods must be fit for human consumption. Where such goods are harmful or dangerous to health, the buyer is entitled to reject them and also claim damages.

In this case, Sameer purchased fruit juice bottles from Fresh Foods Ltd. The cartons were sealed and appeared proper from outside. However, when consumed, they were found contaminated, making them harmful for human health. Customers who consumed them became sick, and Sameer suffered both financial and reputational loss. Fresh Foods Ltd. denied liability citing that the cartons were sealed and accepted.

On the basis of the above provisions and facts, the juice bottles were not of merchantable quality and also failed the implied condition of wholesomeness. It was the duty of the seller to ensure that food products supplied were fit for human consumption. Hence, Sameer is

entitled to reject the goods, recover the price, and also claim damages for the loss suffered. The seller cannot escape liability merely because the cartons were sealed.

- 12.** Section 64 of the Sale of Goods Act, 1930 deals with auction sales. A sale is complete when the auctioneer announces its completion by the fall of the hammer or in other customary manner. Until then, a bidder may withdraw his bid. The seller has the right to reserve bidding, but if he intends to bid himself or through an agent, such right must be expressly notified. If the seller bids without such notice, the sale may be treated as fraudulent and voidable.

Here, Suresh made a bid of ₹5,00,000 for a truck but attempted to withdraw it before the fall of the hammer. Legally, he was entitled to do so. The auctioneer's refusal to permit withdrawal was incorrect. Further, the seller also bid through his agent without notifying bidders of such right, which amounts to fraudulent conduct under Section 64.

Therefore, on the basis of the above provisions, the auctioneer's refusal to allow Suresh to withdraw his bid was invalid, as a bid can be withdrawn before completion of sale. Further, the seller's secret bidding through an agent without notice made the auction unfair and voidable at the option of buyers. Hence, the auction was not validly conducted.

- 13. Reservation of right of disposal (Section 25 of the Sale of Goods Act, 1930)**

This section preserves the right of disposal of goods to secure that the price is paid before the property in goods passes to the buyer.

Where there is contract of sale of specific goods or where the goods have been subsequently appropriated to the contract, the seller may, by the terms of the contract or appropriation, as the case may be, reserve the right to dispose of the goods, until certain conditions have been fulfilled. In such a case in spite of the fact that the goods have already been delivered to the buyer or to a carrier or other bailee for the purpose of transmitting the same to the buyer, the property therein will not pass to the buyer till the condition imposed, if any, by the seller has been fulfilled. (sub-section1)

Circumstances under which the right to disposal may be reserved: In the following circumstances, seller is presumed to have reserved the right of disposal:

- (1) If the goods are shipped or delivered to a railway administration for carriage and by the bill of lading or railway receipt, as the case may be, the goods are deliverable to the order of the seller or his agent, then the seller will be prima facie deemed to have reserved to the right of disposal. (sub-section 2)
- (2) Where the seller draws a bill on the buyer for the price and sends to him the bill of exchange together with the bill of lading or (as the case may be) the railway receipt to secure acceptance or payment thereof, the buyer must return the bill of lading, if he does not accept or pay the bill.

And if he wrongfully retains the bill of lading or the railway receipt, the property in the goods does not pass to him. (sub-section 3)

14. Caveat Emptor

In case of sale of goods, the doctrine 'Caveat Emptor' means 'let the buyer beware'. When sellers display their goods in the open market, it is for the buyers to make a proper selection or choice of the goods. If the goods turn out to be defective, he cannot hold the seller liable. The seller is in no way responsible for the bad selection of the buyer. The seller is not bound to disclose the defects in the goods which he is selling.

It is the duty of the buyer to satisfy himself before buying the goods that the goods will serve the purpose for which they are being bought. If the goods turn out to be defective or do not serve his purpose or if he depends on his own skill or judgment, the buyer cannot hold the seller responsible.

The rule of Caveat Emptor is laid down in the Section 16, which states that, "subject to the provisions of this Act or of any other law for the time being in force, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract of sale".

Following are the conditions to be satisfied:

- if the buyer had made known to the seller the purpose of his purchase, and
- the buyer relied on the seller's skill and judgement, and
- seller's business to supply goods of that description

Exceptions: The doctrine of Caveat Emptor is, however, subject to the following exceptions:

1. **Fitness as to quality or use:** Where the buyer makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill or judgment and the goods are of a description which is in the course of seller's business to supply, it is the duty of the seller to supply such goods as are reasonably fit for that purpose [Section 16 (1)].
2. **Goods purchased under patent or brand name:** In case where the goods are purchased under its patent name or brand name, there is no implied condition that the goods shall be fit for any particular purpose [Section 16(1)]. Here, the buyer is relying on the particular brand name.
3. **Goods sold by description:** Where the goods are sold by description there is an implied condition that the goods shall correspond with the description [Section 15]. If it is not so, then seller is responsible.
4. **Goods of Merchantable Quality:** Where the goods are bought by description from a seller who deals in goods of that description there is an implied condition that the goods shall be of merchantable quality. The rule of Caveat Emptor is not applicable for latent defects. But where the buyer has examined the goods, this rule shall apply if the defects were such which ought to have not been revealed by ordinary examination [Section 16(2)].
5. **Sale by sample:** Where the goods are bought by sample, this rule of Caveat Emptor does not apply if the bulk does not correspond with the sample [Section 17].

6. **Goods by sample as well as description:** Where the goods are bought by sample as well as description, the rule of Caveat Emptor is not applicable in case the goods do not correspond with both the sample and description or either of the condition [Section 15].
 7. **Trade Usage:** An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade and if the seller deviates from that, this rule of Caveat Emptor is not applicable [Section 16(3)].
 8. **Seller actively conceals a defect or is guilty of fraud:** Where the seller sells the goods by making some misrepresentation or fraud and the buyer relies on it or when the seller actively conceals some defect in the goods so that the same could not be discovered by the buyer on a reasonable examination, then the rule of Caveat Emptor will not apply. In such a case the buyer has a right to avoid the contract and claim damages.
15. (i) **A filed a suit against B who had stolen the goods of the firm:**
- The said suit by A is Maintainable.
- Justification:** According to Section 69(1) of the Indian Partnership Act, 1932, a partner of an unregistered firm cannot file a suit in any court against the firm or any partner to enforce a right arising from a contract, unless the firm is registered. Section 69 only bars civil suits to enforce contractual rights. It does not prevent criminal action. But, in this case, A had filed a suit against B for stealing the goods of the firm which is a criminal offense.
- Hence the suit filed against B for the theft of the goods of the firm, is maintainable.
- (ii) **A filed a suit against M/s. ABC & Associates for claiming share of the assets on its dissolution**
- The said suit by A is Maintainable.
- Justification:** According to Section 69(3) of the Indian Partnership Act, 1932, a partner of an unregistered firm is precluded from bringing legal action against the firm. But such a person may sue for realization of his share in the firm's property where the firm is

dissolved. Here, A's claim is valid as the shares are the assets of the dissolved firm and A can claim it even if the firm is unregistered.

- (iii) **M filed a suit against the firm for recovery of ₹10,000/- dues. M also owed ₹ 4,000/-. The firm claimed a set-off.**

The said suit by M is Maintainable

Justification: According to Section 69(2) of the Indian Partnership Act, 1932, in case of an unregistered firm, an action can be brought against the firm by a third party. If an action is brought against the firm by a third party, then neither the firm nor the partner can claim any set-off, if the suit be valued for more than ₹ 100 or pursue other proceedings to enforce the rights arising from any contract.

Here, M filed a suit against the firm for the recovery of ₹ 10,000 dues from the firm. M also owed ₹ 4,000/- to the firm.

The firm cannot set-off the claim of ₹4,000/- as it is more than ₹ 100/. Nevertheless, M is entitled for recovery of ₹ 10,000 from firm.

16. (i) Whether action by the Partners was Justified?

Expulsion of a Partner (Section 33 of the Indian Partnership Act, 1932): A partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners.

The test of good faith as required under Section 33(1) includes three things:

- The expulsion must be in the interest of the partnership.
- The partner to be expelled is served with a notice.
- He is given an opportunity of being heard.

If a partner is otherwise expelled, the expulsion is null and void.

Action by the partners of M/s LMP & Associates, a partnership firm to expel Mr. G from the partnership was justified as he was expelled by unanimous approval of the partners exercised in good

faith to protect the interest of the partnership against the unauthorized activities charged against Mr. G. Provided, a proper notice and opportunity of being heard has been given to Mr. G.

(ii) Factors to be kept in mind before expelling a Partner

The following are the factors to be kept in mind prior expelling a partner from the firm by other partners:

- (a) the power of expulsion must have existed in a contract between the partners;
- (b) the power has been exercised by a majority of the partners; and
- (c) it has been exercised in good faith.

17. The various kinds of partnership are as follows:

(a) Partnership at will according to Section 7 of the Act, partnership at will is a partnership when:

- 1. no fixed period has been agreed upon for the duration of the partnership; and
- 2. there is no provision made as to the determination of the partnership.

These two conditions must be satisfied before a partnership can be regarded as a partnership at will. But, where there is an agreement between the partners either for the duration of the partnership or for the determination of the partnership, the partnership is not partnership at will.

Where a partnership entered into for a fixed term is continued after the expiry of such term, it is to be treated as having become a partnership at will.

A partnership at will may be dissolved by any partner by giving notice in writing to all the other partners of his intention to dissolve the same.

(b) **Partnership for a fixed period:** Where a provision is made by a contract for the duration of the partnership, the partnership is called 'partnership for a fixed period'. It is a partnership created for a particular period of time. Such a partnership comes to an end on the expiry of the fixed period.

(c) **Particular partnership:** A partnership may be organized for the prosecution of a single adventure as well as for the conduct of a continuous business. Where a person becomes a partner with another person in any particular adventure or undertaking the partnership is called 'particular partnership'.

A partnership, constituted for a single adventure or undertaking is, subject to any agreement, dissolved by the completion of the adventure or undertaking.

(d) **General partnership:** Where a partnership is constituted with respect to the business in general, it is called a general partnership. A general partnership is different from a particular partnership. In the case of a particular partnership, the liability of the partners extends only to that particular adventure or undertaking, but it is not so in the case of general partnership. General partnership is different from limited liability partnership.

18. Artificial Legal Person: A LLP is an artificial legal person because it is created by a legal process and is clothed with all rights of an individual. It can do everything which any natural person can do, except of course that, it cannot be sent to jail, cannot take an oath, cannot marry or get divorce nor can it practice a learned profession like CA or Medicine. A LLP is invisible, intangible, immortal (it can be dissolved by law alone) but not fictitious because it really exists.

Common Seal: A LLP being an artificial person can act through its partners and designated partners. LLP may have a common seal, if it decides to have one [Section 14(c)]. Thus, it is not mandatory for a LLP to have a common seal. It shall remain under the custody of some responsible official and it shall be affixed in the presence of at least 2 designated partners of the LLP.

19. Under the Companies Act, 2013, a company on incorporation becomes a distinct legal person, separate from its members. The principle was established in the landmark case of *Salomon v. Salomon & Co. Ltd.*, where it was held that even if one person holds substantially the entire shareholding, the company is not his agent or trustee. Creditors can proceed only against the company, and not against its members, unless the corporate veil is lifted in exceptional cases.

In this case, the creditors contended that *Saluja & Sons Pvt. Ltd.* was in reality the business of Mr. Ramesh Saluja and that he should be personally liable for the company's debts. However, the company was duly incorporated with separate legal existence and had complied with statutory requirements.

Applying the principle in *Salomon v. Salomon & Co. Ltd.*, the company is a separate legal entity. The creditors cannot make Mr. Saluja personally liable merely because he held almost all the shares. Thus, the veil cannot be lifted in this case, and liability rests with the company alone.

20. As per Section 2(46) of the Companies Act, 2013, holding company in relation to one or more other companies, means a company of which such companies are subsidiary companies.

Section 2(87) defines "subsidiary company" in relation to any other company (that is to say the holding company), means a company in which the holding company—

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

In the instant case, as on 31.03.2025, ABC Limited had a paid-up capital of ₹ 1 lakh (10,000 equity shares of ₹ 10 each). In June 2025, ABC Limited issued additional 10,000 equity shares, which was fully subscribed. Post-issue, the total paid-up capital of ABC Limited is ₹ 2 lakhs (20,000 equity shares of ₹ 10 each).

Out of these, 5,000 shares were issued to XYZ Private Limited. Since XYZ Private Limited holds only 25% of the shares in ABC Limited, it does

not have control of more than one-half of the total voting power of ABC Limited. Hence, XYZ Private Limited cannot be considered as a subsidiary company of ABC Limited in terms of the second criteria stated above, that of controlling of voting power.

XYZ Private Limited is the holding company of PQR Private Limited by having control over the composition of its Board of Directors. But since XYZ Private Limited cannot be termed as a subsidiary company of ABC Limited, PQR Private Limited cannot claim the status of being a subsidiary of ABC Limited in terms of the first criteria, that of controlling of the composition of directors.

As per section 2(6) of the Act, Associate Company in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

The expression "significant influence" means control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement.

In terms of the above provision, the relationship between ABC Limited and XYZ Private Limited can be of an Associate Company.

Since XYZ Private Limited holds more than 20 percent of voting power in ABC Limited, it can be considered as an Associate Company of ABC Limited.

21. Do you agree that a Company is an artificial person?

Yes, I agree that a company is an Artificial Person:

A Company incorporated under the provisions of the Companies Act, 2013 is an artificial person as it is created by a process other than natural birth. It is legal or judicial as it is created by law.

Further, the Company being a separate legal entity can own property, have banking account, raise loans, incur liabilities and enter into contracts. Even members can contract with company, acquire right against it or incur liability to it. It can sue and be sued in its own name. It can do everything which any natural person can do except be sent to

jail, take an oath, marry or practice a learned profession. Hence, it is a legal person in its own sense.

As the Company is an artificial person, it can act only through some human agency, viz., directors. The directors can control affairs of the company but they are not the "agents" of the members of the company. The directors can either on their own or through the common seal, if any, (of the company) can authenticate its formal acts.

Further, the Company being an artificial person has perpetual succession and it continues to exist until it is legally dissolved. The members of a company may come and go but the company will go on forever.

However, the Company being an artificial person cannot have citizenship, lack of physical action and corporate veil can be lifted.

Thus, a company is an artificial legal person.

Authorization by a Company not having a Common Seal:

In case a company does not have a common seal, the authorization shall be made by two directors or by a director and the Company Secretary, wherever the Company has appointed a Company Secretary.

Hence, Beeta Limited can do the authorization as mentioned in the above manner.

22. (i) Importance of Delivery in Negotiation [Section 46 of the Negotiable Instruments Act, 1881]

Delivery of an instrument is essential whether the instrument is payable to bearer or order for effecting the negotiation. The delivery must be voluntary, and the object of delivery should be to pass the property in the instrument to the person to whom it is delivered. The delivery can be, actual or constructive. Actual delivery takes place when the instrument changes hand physically. Constructive delivery takes place when the instrument is delivered to the agent, clerk or servant of the indorsee on his behalf or when the indorser, after indorsement, holds the instrument as an agent of the indorsee.

Section 46 also lays down that when an instrument is conditionally or for a special purpose only, the property in it does not pass to the transferee, even though it is indorsed to him, unless the instrument is negotiated to a holder in due course.

The contract on a negotiable instrument until delivery remains incomplete and revocable. Delivery is essential not only at the time of negotiation but also at the time of making or drawing of negotiable instrument. The rights in the instrument are not transferred to the indorsee unless after the indorsement the same has been delivered. If a person makes the indorsement of instrument but before the same could be delivered to the indorsee, the indorser dies, the legal representatives of the deceased person cannot negotiate the same by mere delivery thereof. (Section 57).

In the instant case, Ankit the only son of Gagan delivered the bill to Akash on the next day as intended by his deceased father (Gagan) which is not valid.

Hence, Akash cannot enforce the payment of the bill against Baban or the previous parties.

- (ii) As per section 11 of the Negotiable Instruments Act, 1881, a promissory note, bill of exchange or cheque drawn or made in India and made payable in, or drawn upon any person resident in India shall be deemed to be an inland instrument.

In the instant case, the bill of exchange was:

- Drawn in India (since it was drawn by Reliable Limited, an Indian company).
- Accepted in India (Manish, a resident of Mumbai, accepted the bill in Mumbai).
- Payable outside India, in Los Angeles, USA.

The bill of exchange in this case is an inland instrument because it was drawn in India and accepted by a person resident in India, even though it is payable outside India (Los Angeles, USA).

- 23.** As per Section 76 of the Negotiable Instruments Act, 1881, no presentment for payment is necessary, and the instrument is dishonoured at the due date for presentment, in any of the following cases:
- (a)
 - (i) If the maker, drawee or acceptor intentionally prevents the presentment of the instrument, or
 - (ii) if the instrument being payable at his place of business, he closes such place on a business day during the usual business hours, or
 - (iii) if the instrument being payable at some other specified place, neither he nor any person authorised to pay it attends at such place during the usual business hours, or
 - (iv) if the instrument not being payable at any specified place, he cannot after due search be found;
 - (b) as against any party sought to be charged therewith, if he has engaged to pay notwithstanding non-presentment;
 - (c) as against any party if, after maturity, with knowledge that the instrument has not been presented—
 - he makes a part payment on account of the amount due on the instrument,
 - or promises to pay the amount due thereon in whole or in part,
 - or otherwise waives his right to take advantage of any default in presentment for payment;
 - (d) as against the drawer, if the drawer could not suffer damage from the want of such presentment.



PAPER – 3: QUANTITATIVE APTITUDE



QUESTIONS

- 4 tables and 3 chairs together cost ₹ 2,250 and 3 tables and 4 chairs cost ₹ 1950. Find the cost of 2 chairs and 1 table.
(A) ₹ 550
(B) ₹ 1050
(C) ₹ 750
(D) None of these
- One root of the equation: $x^2 - 2(5 + m) + 3(7 + m) = 0$ is reciprocal of the other. Find the value of m.
(A) $-20/3$
(B) 7
(C) $1/7$
(D) 117
- Sangeeta leaves from her home. She first walk 30 metres in North-West direction, and then 30m in South-West direction, next she walks 30 metres in South-East direction. Finally she turns towards her house. In which direction is she moving?
(A) North-West
(B) North-East
(C) South-East

- (D) South-West
4. If a simple interest on a sum of money at 6% p.a. for 7 years is equal to twice of simple interest on another sum for 9 years at 5% p.a. The ratio will be:
- (A) 2:15
(B) 7:15
(C) 15:7
(D) 1:7
5. The Scarap value of machine valued at Rs,10,00,000 after 15 years of depreciation is 10% per annum.
- (A) ₹ 215891.13
(B) ₹ 205891.13
(C) ₹ 225891.13
(D) None
6. If the difference between the compound interest compounded annually and simple interest on a certain amount at 10% per annum for two years is ₹ 372, then the principal amount is.
- (A) ₹ 37,000
(B) ₹ 37,200
(C) ₹ 37,500
(D) None of the above
7. Find the present value of an annuity of ₹ 1,000 payable at the end of each year for 10 years. If rate of interest is 6% compounding per annum. (given $(1.06)^{-10} = 0.5584$):
- (A) ₹ 7,360
(B) ₹ 8,360

- (C) ₹ 12,000
- (D) None of these.
8. What will be the population after 3 years, when present population is 1,00,000 and the population increases at 3% in year 1st year, at 4% in second year and 5% in third year.
- (A) 1,12,476
- (B) 1,15,476
- (C) 1,20,576
- (D) 1,25,600
9. Find the present value of an annuity which pays 200 at the end of each 3 months for 10 years assuming money to be worth 5% converted quarterly?
- (A) ₹ 3473.86
- (B) ₹ 3108.60
- (C) ₹ 6265.38
- (D) None of these
10. The value of furniture depreciates by 10% a year, if the present value of the furniture in an office is ₹ 21870, calculate the value of furniture 3 years ago:
- (A) ₹ 30,000
- (B) ₹ 40,000
- (C) ₹ 35,000
- (D) ₹ 50,000
11. The letters of the word VIOLENT are arranged so that the vowels occupy even place only. The number of permutations is:
- (A) 144

- (B) 120
(C) 24
(D) 72
12. If the p th term of an A.P. is 'q' and the q th term is 'p', then its r th term is:
(A) $p + q + r$
(B) $p + q - r$
(C) $p - q - r$
(D) $p + q$
13. Find the sum of all natural numbers between 250 and 1,000 which are exactly divisible by 3:
(A) 1,56,375
(B) 1,56,357
(C) 1,65,375
(D) 1,65,357
14. Let R is the set of real numbers, such that the function $f: R \rightarrow R$ and $g: R \rightarrow R$ are defined by $f(x) = x^2 + 3x + 1$ and $g(x) = 2x - 3$. Find (fog) :
(A) $4x^2 + 6x + 1$
(B) $x^2 + 6x + 1$
(C) $4x^2 - 6x + 1$
(D) $x^2 - 6x + 1$
15. Find the positive value of k for which the equations: $x^2 + kx + 64 = 0$ and $x^2 - 8x + k = 0$ will have real roots:
(A) 12
(B) 16
(C) 18

- (D) 22
16. Praveen is facing west. He turns 45° in the clockwise direction and then again another turns with 180° in the same direction i.e. clockwise direction, after that he turns 270° in the anti-clockwise direction. Which direction is he facing now?
- (A) North-West
(B) West
(C) South-West
(D) South
17. If $\log_4(x^2 + x) - \log_4(x + 1) = 2$ then the value of x is
- (A) 2
(B) 3
(C) 16
(D) 8
18. If HEALTH is written as GSKZDG, then how will NORTH be written in that code?
- (A) OPSUI
(B) GSQNM
(C) FRPML
(D) IUSPO
19. In a certain code, TEACHER is written as VGCEJGT. How is CHILDREN written in that code?
- (A) EJKNEGTP
(B) EGKNEITP
(C) EJKNFGTO
(D) EJKNFTGP

20. The covariance between two variables X and Y is 8.4 and their variances are 25 and 36 respectively. Calculate Karl Pearson's coefficient of correlation between them.
- (A) 0.82
(B) 0.28
(C) 0.01
(D) 0.09
21. If two variables x and y are related by $2X + 3Y - 7 = 0$ and the mean and mean deviation about mean of X are 1 and 0.3 respectively, then the coefficient of mean deviation of Y about mean is.
- (A) -5
(B) 4
(C) 12
(D) 50
22. The mean salary for a group of 40 female workers is ₹ 5200 per month and that for a group of 60 male workers is ₹ 6800 per month. What is the combined salary?
- (A) ₹ 6160
(B) ₹ 6280
(C) ₹ 6890
(D) ₹ 6920
23. The average age of 15 students is 15 years. Out of these the average age of 5 students is 14 years and that of other 9 students is 16 years, then the age of 15th student is ____
- (A) 11 years
(B) 14 years
(C) 15 years

- (D) None of these
24. The standard deviation of 25, 32, 43, 53, 62, 59, 48, 31, 24, 33 is
- (A) 13.23
- (B) 12.33
- (C) 11.33
- (D) none of these
25. If the range of x is 2, what would be the range of $-3x + 50$?
- (A) 2
- (B) 6
- (C) -6
- (D) 44
26. The Standard deviation is independent of change of
- (A) Origin
- (B) Scale
- (C) Both
- (D) none
27. In _____ distribution, mean = variance.
- (A) Normal
- (B) Binomial
- (C) Poisson
- (D) none of these
28. The pair of averages whose value can be determined graphically.
- (A) Mean and Median
- (B) Mode and Mean

- (C) Mode and Median
(D) None of these
29. The tests of shifting bases are called _____
(A) Unit test
(B) Time reversal test
(C) Circular test
(D) None
30. Purchasing power of money is stated as _____ price index?
(A) Equal to
(B) Reciprocal of
(C) Unequal to
(D) None


SUGGESTED ANSWERS/HINTS

1.	(C)	2.	(A)	3.	(B)	4.	(C)	5.	(B)
6.	(B)	7.	(A)	8.	(A)	9.	(C)	10.	(A)
11.	(A)	12.	(B)	13.	(A)	14.	(C)	15.	(B)
16.	(C)	17.	(C)	18.	(B)	19.	(D)	20.	(B)
21.	(C)	22.	(A)	23.	(A)	24.	(A)	25.	(B)
26.	(A)	27.	(C)	28.	(C)	29.	(C)	30.	(B)



PAPER – 4: BUSINESS ECONOMICS



QUESTIONS

1. Business Economics bridges the gap between:
 - (A) Economics and Sociology
 - (B) Theory and Practice
 - (C) Micro and Macro Economics
 - (D) Business and Law
2. The concern regarding changing health consciousness of consumers highlights which limitation of economic theory in real-world decision making?
 - (A) Static nature of demand analysis
 - (B) Excessive reliance on normative assumptions
 - (C) Unrealistic ceteris paribus assumption
 - (D) Absence of marginal analysis
3. The concept of 'Consumer Sovereignty' means that:
 - (A) Government controls what consumers can buy
 - (B) Consumers ultimately determine which goods will be produced through their purchases
 - (C) Producers decide what consumers should buy
 - (D) Only wealthy consumers have purchasing power

4. Arc elasticity of demand is used when:
- (A) Price change is infinitesimal
 - (B) Price change is large
 - (C) Demand curve is vertical
 - (D) Demand is perfectly elastic
5. Which of the following is an example of circulating capital?
- (A) Machinery
 - (B) Factory building
 - (C) Raw material
 - (D) Tools
6. Match the Pairs

Column A	Column B
a. Implicit Cost	1. Cost already incurred
b. Sunk Cost	2. Foregone alternative
c. Opportunity Cost	3. Cost of self-owned factors
d. Explicit Cost	4. Cash payment

- (A) a-3, b-1, c-2, d-4
 - (B) a-2, b-1, c-3, d-4
 - (C) a-1, b-2, c-3, d-4
 - (D) a-4, b-1, c-2, d-3
7. Exchange value of a commodity refers to:
- (A) Its usefulness
 - (B) Its sentimental worth
 - (C) Its command over other goods
 - (D) Cost of production

8. Which market structure is characterized by extreme product differentiation?
- (A) Perfect competition
 - (B) Monopolistic competition
 - (C) Oligopoly
 - (D) Monopoly
9. Which of the following situations would definitely result in a stable equilibrium being achieved through market mechanism alone?
- (A) Price ceiling below equilibrium price
 - (B) Price floor above equilibrium price
 - (C) Initial price above equilibrium with no external intervention
 - (D) Government-fixed procurement price
10. A phase where unemployment is mainly frictional and structural is known as:
- (A) Trough
 - (B) Peak
 - (C) Expansion
 - (D) Contraction
11. The concept of 'deflationary gap' in Keynesian economics specifically refers to:
- (A) The excess of actual output over potential GDP at full employment
 - (B) The shortfall in aggregate demand required to achieve full employment equilibrium
 - (C) The reduction in price levels due to contractionary monetary policy
 - (D) The difference between actual inflation and target inflation rates
12. The Net Divisible Pool (NDP) consists of:
- (A) Gross tax revenue including cesses

- (B) Only direct taxes
 - (C) All union taxes excluding cesses and surcharges
 - (D) Only GST revenues
13. Which situation best illustrates adverse selection?
- (A) Insured driver drives rashly
 - (B) Seller hides product defects before sale
 - (C) Consumer overuses subsidized healthcare
 - (D) Government fixes minimum prices
14. Which of the following expenditures is not subject to voting by Parliament?
- (A) Defense expenditure
 - (B) Interest on public debt
 - (C) Education expenditure
 - (D) Health expenditure
15. Credit multiplier differs from money multiplier mainly because credit multiplier assumes:
- (A) No time deposits
 - (B) No excess reserves and no currency leakages
 - (C) Perfect capital mobility
 - (D) Fixed interest rates
16. The Heckscher–Ohlin theory fails to explain extensive intra-industry trade primarily because it:
- (A) Ignores opportunity costs
 - (B) Assumes constant returns to scale
 - (C) Relies on factor price equalization
 - (D) Treats products as homogeneous

17. A tariff-rate quota (TRQ) combines:
- (A) Export subsidy with import licensing
 - (B) Import quota with ad valorem tariff
 - (C) Preferential tariff with MFN tariff
 - (D) Quantity restriction with differential tariff rates
18. Under a managed floating exchange rate regime, central bank intervention is most effective when it primarily influences:
- (A) Trade volumes directly
 - (B) Inflation expectations alone
 - (C) Market expectations about future exchange rate movements
 - (D) Long-term capital formation
19. What was the primary reason for the "Crisis of Confidence" in 1991 that triggered the New Economic Policy?
- (A) Failure of the monsoon for three consecutive years.
 - (B) Foreign exchange reserves falling to \$1.2 billion, sufficient for only two weeks of imports.
 - (C) A total collapse of the banking sector due to high NPAs.
 - (D) The sudden withdrawal of all US food aid under PL 480.
20. Which specific NITI Aayog initiative is aimed at reducing India's oil import bill and converting coal reserves into cleaner fuel?
- (A) Shoonya
 - (B) E-Amrit
 - (C) Methanol Economy
 - (D) Life
21. The "Hindu growth rate," referring to the modest 3.5% average annual GDP growth, occurred during which period?
- (A) 1947–1964
 - (B) 1950–1980

- (C) 1965–1981
 - (D) 1981–1991
22. Under the Monetary Policy Framework Agreement, RBI is deemed to have failed if inflation:
- (A) Deviates from target even once
 - (B) Breaches tolerance limits for two consecutive quarters
 - (C) Exceeds upper or lower tolerance limits for three consecutive quarters
 - (D) Deviates from WPI targets
23. Which of the following limits the effectiveness of fiscal policy?
- (A) Flexible prices
 - (B) Time lags in implementation
 - (C) High tax compliance
 - (D) Balanced budget
24. Consumer surplus can be graphically represented as:
- (A) The area above the demand curve and below the price line
 - (B) The triangular area below the demand curve and above the price line
 - (C) The total area under the demand curve
 - (D) The rectangular area formed by price and quantity
25. The 'bandwagon effect' on consumer behavior leads to:
- (A) Decrease in demand when others start consuming the product
 - (B) No change in demand pattern
 - (C) Increase in demand because others are also consuming the same commodity
 - (D) Perfectly inelastic demand


SUGGESTED ANSWERS/HINTS

1.	(B)	2.	(C)	3.	(B)	4.	(B)	5.	(C)
6.	(A)	7.	(C)	8.	(D)	9.	(C)	10.	(C)
11.	(B)	12.	(C)	13.	(B)	14.	(B)	15.	(B)
16.	(B)	17.	(D)	18.	(C)	19.	(B)	20.	(C)
21.	(B)	22.	(C)	23.	(B)	24.	(B)	25.	(C)

**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for
May 2026 Examination**

Foundation Level

Paper 2: Business Laws

The provisions of the Companies Act, 2013 and the Limited Liability Partnership Act, 2008 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs up to 31.10.25 are applicable for May, 2026 examination.