CBSE Class 12 Accountancy Question Paper 2014 with Solution PDF-Set Set 1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper contains 25 questions. All questions are compulsory.

(ii) There is no overall choice. An internal choice is provided in 2 questions (Q17, Q18); attempt only one of the alternatives in such questions.

(iii) Questions 19 to 25 are given in two options, Option I and Option II; attempt only one of the options.

(iv) Marks for each question are indicated against it.

1. X, Y and Z were partners sharing profits in the ratio of 1/2, 3/10 and 1/5. X retired from the firm. Calculate the gaining ratio of the remaining partners. [1 mark]

Solution:

Concept:

- Gaining share equals new profit share minus old profit share.
- When no new ratio or acquisition arrangement is given, the continuing partners acquire the retiring partner's share in their old relative ratio.

Step 1: Find the continuing partners' ratio Y and Z previously held $3/10$ and $1/5$. Their relative ratio is

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

After X retires, their new shares are therefore $3/5$ and $2/5$.

Step 2: Calculate each gain Subtract the respective old share from the new share:

$$\text{Y's gain} = \frac{3}{5} - \frac{3}{10} = \frac{3}{10},$$
$$\text{Z's gain} = \frac{2}{5} - \frac{1}{5} = \frac{1}{5}.$$

Together these gains equal $1/2$, exactly X's former share.

Step 3: Conclusion The gaining ratio of Y and Z is $\boxed{3 : 2}$.

Quick Tip to Solve: With no new ratio specified on retirement, simplify only the old shares of the continuing partners.

2. State the rights acquired by a newly admitted partner. [1 mark]

Solution:

Concept:

- Admission gives a new partner rights under the reconstituted partnership agreement.
- The two principal accounting rights relate to the assets and future profits of the firm.

Step 1: Identify the right over assets A newly admitted partner acquires the right to share in the assets of the partnership firm. This is an interest in the partnership assets, according to the agreement, and does not mean exclusive ownership of any particular asset.

Step 2: Identify the right to profits The new partner also acquires the right to share in the future profits of the firm in the agreed profit-sharing ratio. The share acquired by the incoming partner reduces the future profit shares available to the existing partners.

Step 3: Conclusion The new partner acquires (i) a right to share in the assets of the firm and (ii) a right to share in its future profits.

Quick Tip to Solve: For rights on admission, recall the two keywords: assets and future profits; capital and goodwill are contributions.

3. Distinguish between 'Dissolution of partnership' and 'Dissolution of partnership firm' on the basis of Court's intervention. [1 mark]

Solution:

Concept:

- Dissolution of partnership means a change in the existing relationship among partners; the firm may continue.
- Dissolution of the firm means the end of the partnership business and its winding up.

Step 1: Consider dissolution of partnership For the requested textbook distinction, dissolution of partnership takes place without the intervention of the court. A change in the partners' relationship, such as retirement or a change in their profit-sharing ratio, can reconstitute the continuing firm.

Step 2: Consider dissolution of the firm Dissolution of a partnership firm may take place with the intervention of the court, which can order dissolution on the applicable grounds. It can also occur without court intervention, for example by agreement among the partners; a court order is therefore not compulsory in every case.

Step 3: Conclusion Dissolution of partnership: no court intervention. Dissolution of the firm: court intervention is possible, though it may also occur without it.

Quick Tip to Solve: On the court-intervention basis, use "may" for dissolution of the firm: not every dissolution requires a court order.

4. Give the meaning of 'Reconstitution of a partnership firm'. [1 mark]

Solution:

Concept:

- A partnership is based on an agreement between the partners.
- A change in that agreement affecting their relationship creates a reconstituted partnership while the firm continues.

Step 1: Identify the change in relationship Reconstitution occurs when the existing agreement among the partners changes, resulting in a change in their mutual relationship. It can involve a change in the partners themselves or a change in the terms on which they share profits and losses.

Step 2: Explain continuity of the firm For example, admission, retirement or death of a partner, or a change in the profit-sharing ratio of existing partners, can result in reconstitution. The old partnership relationship is replaced by a new one, but the business of the firm continues under the new arrangement.

Step 3: Conclusion Reconstitution of a partnership firm means a change in the existing agreement among partners that changes their relationship, while the firm continues its business.

Quick Tip to Solve: Link reconstitution to a changed partnership agreement and continuing business; do not describe it as winding up the firm.

5. D Ltd. invited applications for issuing 10,00,000 equity shares of Rs. 10 each. The public applied for 8,55,000 shares. Can the company proceed for the allotment of shares? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Under the minimum-subscription rule applicable to this question, at least 90% of the shares offered must be subscribed before allotment.
- Compare the number of shares subscribed with 90% of the number offered.

Step 1: Calculate the required subscription D Ltd. offered $10,00,000$ equity shares. The required minimum subscription is

$$10,00,000 \times \frac{90}{100} = 9,00,000 \text{ shares.}$$

At Rs 10 per share, this represents nominal share capital of Rs 90,00,000.

Step 2: Compare with applications received The public applied for only $8,55,000$ shares. Thus the subscription percentage is

$$\frac{8,55,000}{10,00,000} \times 100 = 85.5\%.$$

This is below 90%, and the number subscribed falls short of the minimum by $45,000$ shares.

Step 3: Conclusion No, D Ltd. cannot proceed with allotment because subscription is only 85.5%, below the required minimum of 90%.

Quick Tip to Solve: Compare 8,55,000 directly with 9,00,000 shares; the common face value does not change the subscription percentage.

6. A Ltd. forfeited 100 equity shares of Rs. 10 each issued at a premium of 20% for the non-payment of final call of Rs. 5 including premium. State the maximum amount of discount at which these shares can be re-issued. [1 mark]

Solution:

Concept:

- The maximum discount on reissue cannot exceed the amount forfeited on those shares, namely the share capital already received.
- Premium is excluded from share capital; separate it from an unpaid call stated to include premium.

Step 1: Separate premium from the final call The premium per share is

$$\text{Rs } 10 \times \frac{20}{100} = \text{Rs } 2.$$

Since the unpaid final call of Rs 5 includes this premium, its capital component is $5 - 2 = \text{Rs } 3$ per share.

Step 2: Find capital already received Out of face value Rs 10, only Rs 3 of capital remains unpaid.

Therefore capital received and forfeited per share is

$$10 - 3 = \text{Rs } 7.$$

For 100 shares the forfeited capital is $100 \times 7 = \text{Rs } 700$. This amount sets the ceiling for the reissue discount.

Step 3: Conclusion The maximum discount is $\boxed{\text{Rs } 7 \text{ per share}}$, or $\boxed{\text{Rs } 700}$ for all 100 shares.

Quick Tip to Solve: Remove the Rs 2 premium from the Rs 5 unpaid call before finding capital paid; the whole unpaid call is not capital.

7. What is meant by issue of debentures as collateral security? [1 mark]

Solution:

Concept:

- Collateral security is additional or secondary security for a borrowing.
- Debentures deposited as collateral support an existing loan; they do not by themselves bring in a separate receipt of cash.

Step 1: Identify the borrowing arrangement A company may obtain a loan from a bank or another lender against its primary security. If the lender requires additional protection, the company issues or deposits its debentures with the lender as collateral security for that loan.

Step 2: Explain how the security operates The lender holds these debentures as a safeguard against default. If the company repays the loan according to the agreement, the collateral debentures are released. If the company defaults, the lender may enforce the collateral according to the loan terms; it is not a second independent borrowing.

Step 3: Conclusion Issue of debentures as collateral security means providing debentures to a lender as additional security for a loan taken by the company.

Quick Tip to Solve: Remember "collateral = additional security": distinguish the loan proceeds from debentures merely deposited to secure that loan.

8. Hemant and Nishant were partners in a firm sharing profits in the ratio of 3 : 2. Their capitals were Rs. 1,60,000 and Rs. 1,00,000 respectively. They admitted Somesh on 1st April, 2013 as a new partner for 1/5 share in the future profits. Somesh brought Rs. 1,20,000 as his capital. Calculate the value of goodwill of the firm and record necessary journal entries for the above transactions on Somesh's admission. [3 marks]

Solution:

Concept:

- Hidden goodwill is the excess of the total capital implied by the incoming partner's investment over the actual combined capitals, including the incoming capital.

- The incoming partner compensates the sacrificing partners for his share of goodwill. If no premium is brought separately, debit his capital account and credit the sacrificing partners' capital accounts.

Step 1: Calculate hidden goodwill **Working Notes:** Somesh contributes Rs 1,20,000 for a $1/5$ share. Therefore,

$$\text{Implied total capital} = 1,20,000 \div \frac{1}{5} = \text{Rs } 6,00,000,$$

$$\text{Actual total capital} = 1,60,000 + 1,00,000 + 1,20,000$$

$$= \text{Rs } 3,80,000,$$

$$\text{Goodwill} = 6,00,000 - 3,80,000 = \text{Rs } 2,20,000.$$

The existing capitals are not used as a profit-sharing ratio: the agreement specifies $3 : 2$.

Step 2: Determine the goodwill adjustment In the absence of a different agreement, Hemant and Nishant sacrifice in their old ratio, $3 : 2$. Their retained shares are $\frac{3}{5} \times \frac{4}{5} = \frac{12}{25}$ and $\frac{2}{5} \times \frac{4}{5} = \frac{8}{25}$, respectively; Somesh has $\frac{5}{25}$. The new ratio is $12 : 8 : 5$.

$$\text{Somesh's goodwill share} = 2,20,000 \times \frac{1}{5} = \text{Rs } 44,000,$$

$$\text{Hemant's credit} = 44,000 \times \frac{3}{5} = \text{Rs } 26,400,$$

$$\text{Nishant's credit} = 44,000 \times \frac{2}{5} = \text{Rs } 17,600.$$

Somesh brings capital only, so the goodwill compensation is adjusted through capital accounts; no additional cash premium is assumed.

Step 3: Record the admission entries **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2013	Bank A/c Dr.		1,20,000	
	To Somesh's Capital A/c			1,20,000
	(Being capital brought in by Somesh)			
1 Apr 2013	Somesh's Capital A/c Dr.		44,000	
	To Hemant's Capital A/c			26,400
	To Nishant's Capital A/c			17,600
	(Being goodwill compensation adjusted in the sacrificing ratio of 3:2)			

Step 4: Conclusion The firm's goodwill is $\boxed{\text{Rs } 2,20,000}$. Somesh's goodwill share of Rs 44,000 is debited to his capital; Hemant and Nishant receive capital credits of Rs 26,400 and Rs 17,600 respectively.

Quick Tip to Solve: For hidden goodwill, include the new partner's capital in actual total capital before subtracting it from implied total capital.

9. Tata Ltd. issued 5,000, 10% Debentures of Rs. 100 each on 1st April, 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31st March and tax deducted at source is 10%.

Pass the necessary journal entries related to the debenture interest for the half-yearly ending on 31st March, 2013 and transfer of interest on debentures to Statement of Profit and Loss. [3 marks]

Solution:

Concept:

- Debenture interest is calculated on the face value outstanding for the relevant period. It is a finance cost, independent of the company's profit.
- Tax deducted at source (TDS) is withheld from gross interest. The debentureholders receive the net amount, while TDS becomes payable to the government; it does not reduce the interest expense.

Step 1: Calculate half-yearly interest and TDS **Working Notes:** The debentures were outstanding throughout the year from 1 April 2012 to 31 March 2013.

$$\begin{aligned}\text{Face value} &= 5,000 \times 100 = \text{Rs } 5,00,000,\\ \text{Interest for six months} &= 5,00,000 \times \frac{10}{100} \times \frac{6}{12}\\ &= \text{Rs } 25,000,\\ \text{TDS} &= 25,000 \times \frac{10}{100} = \text{Rs } 2,500,\\ \text{Net interest payable} &= 25,000 - 2,500 = \text{Rs } 22,500.\end{aligned}$$

Thus, the expense is Rs 25,000 even though only Rs 22,500 is paid directly to debentureholders.

Step 2: Record interest due, payment and remittance **Journal of Tata Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2013	Debenture Interest A/c Dr.		25,000	
	To Debentureholders A/c			22,500
	To TDS Payable A/c			2,500
	(Being half-yearly interest due after deducting TDS at 10%)			
31 Mar 2013	Debentureholders A/c Dr.		22,500	
	To Bank A/c			22,500
	(Being net interest paid)			
On remittance	TDS Payable A/c Dr.		2,500	
	To Bank A/c			2,500
	(Being tax deducted deposited with the government)			

The remittance entry is made when the tax is actually deposited; until then, TDS Payable remains a liability.

Step 3: Transfer the year's interest to profit and loss At the annual closing on 31 March, the Debenture Interest Account includes both half-years: Rs 25,000 for September and Rs 25,000 for March. Hence

the annual finance cost is $25,000 + 25,000 = \text{Rs } 50,000$.

Journal of Tata Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2013	Statement of Profit and Loss Dr.		50,000	
	To Debenture Interest A/c			50,000
	(Being total interest for the year transferred to profit and loss)			

Step 4: Conclusion March half-year interest is Rs 25,000, comprising Rs 22,500 payable to debentureholders and Rs 2,500 TDS. The full-year interest transferred to the Statement of Profit and Loss is Rs 50,000.

Quick Tip to Solve: Apply TDS to gross half-year interest, but transfer the gross interest for both half-years at the annual closing.

10. Pass necessary journal entries in the following cases:

(i) Sunrise Ltd. converted 500, 9% debentures of Rs. 100 each issued at a discount of 10% into equity shares of Rs. 100 each issued at a premium of 25%.

(ii) Britannia Ltd. redeemed 3,000, 12% debentures of Rs. 100 each which were issued at a discount of Rs. 10 per debenture by converting them into equity shares of Rs. 100 each, Rs. 90 paid up. [3 marks]

Solution:

Concept:

- On redemption by conversion, discharge the outstanding face-value debenture liability through the Debentureholders Account. The discount at original issue does not reduce the amount repayable at par.
- The consideration per new share determines the share entitlement. Credit Equity Share Capital with the amount paid up and Securities Premium Reserve with any premium on the new shares.

Step 1: Calculate Sunrise Ltd.'s share issue **Working Notes for (i):** The amount due on redemption is $500 \times 100 = \text{Rs } 50,000$. Each fully paid share has an issue price of $100 + 25 = \text{Rs } 125$.

$$\text{Number of shares} = 50,000 \div 125 = 400,$$
$$\text{Share capital} = 400 \times 100 = \text{Rs } 40,000,$$
$$\text{Securities premium} = 400 \times 25 = \text{Rs } 10,000.$$

The original 10% issue discount affected the proceeds when the debentures were issued; it does not change their Rs 50,000 face-value liability now.

Step 2: Journalise Sunrise Ltd.'s conversion **Journal of Sunrise Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	9% Debentures A/c Dr.		50,000	
	To Debentureholders A/c			50,000
	(Being 500 debentures due for redemption at par)			
	Debentureholders A/c Dr.		50,000	
	To Equity Share Capital A/c			40,000
	To Securities Premium Reserve A/c			10,000
	(Being 400 equity shares of Rs 100 issued at 25% premium in settlement)			

Step 3: Calculate Britannia Ltd.'s conversion entitlement **Working Notes for (ii):** The liability is $3,000 \times 100 = \text{Rs } 3,00,000$. The Rs 10 discount per debenture belongs to the original issue and does not reduce this liability to Rs 2,70,000. The new shares are Rs 90 paid up, so their aggregate paid-up capital must equal the amount settled.

$$\text{Share entitlement} = \frac{3,00,000}{90} = 3,333\frac{1}{3} \text{ shares.}$$

The figures therefore give a fractional share entitlement. The aggregate conversion entry below records the stated consideration; the question specifies no cash settlement or rounding arrangement for the fraction. Neither a cash payment nor a capital reserve is inferred. Only Rs 90 per share is paid up; the remaining Rs 10 nominal amount is uncalled and is not credited as paid-up capital.

Step 4: Journalise Britannia Ltd.'s conversion **Journal of Britannia Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	12% Debentures A/c Dr.		3,00,000	
	To Debentureholders A/c			3,00,000
	(Being 3,000 debentures due for redemption at par)			
	Debentureholders A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Being liability converted into equity share entitlement at Rs 90 paid up per share)			

Both conversion entries balance. No fresh entry for the original debenture discount is needed merely because conversion takes place; no outstanding unamortised discount is specified.

Step 5: Conclusion Sunrise Ltd. issues 400 shares, crediting share capital Rs 40,000 and securities premium Rs 10,000. Britannia Ltd.'s aggregate paid-up share capital on conversion is Rs 3,00,000, with the stated figures producing a $3,333\frac{1}{3}$-share entitlement.

Quick Tip to Solve: Divide the redemption liability by the new share's issue consideration; never deduct the old debenture issue discount from the debt being settled.

11. Singh and Gupta decided to start a partnership firm to manufacture low cost jute bags as plastic bags were creating many environmental problems. They contributed capitals of Rs. 1,00,000 and Rs. 50,000 on 1st April, 2012 for this. Singh expressed his willingness to admit Shakti as a partner without capital, who is specially abled but a very creative and intelligent friend of his. Gupta agreed to this. The terms of partnership were as follows:

(i) Singh, Gupta and Shakti will share profits in the ratio of 2 : 2 : 1.

(ii) Interest on capital will be provided @ 6% p.a.

Due to shortage of capital, Singh contributed Rs. 25,000 on 30 September, 2012 and Gupta contributed Rs. 10,000 on 1st January, 2013 as additional capital. The profit of the firm for the year ended 31st March, 2013 was Rs. 1,68,900.

(a) Identify any two values which the firm wants to communicate to the society.

(b) Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2013. [4 marks]

Solution:

Concept:

- Interest on capital is an appropriation of profit. Calculate it on each capital contribution for the period that amount remains invested in the business.
- After allowing interest on capital, distribute the remaining profit among Singh, Gupta and Shakti in their agreed ratio of $2:2:1$. A partner may receive profit even without contributing capital.

Step 1: Identify the two social values **(a) Environmental responsibility:** Manufacturing jute bags encourages the replacement of plastic bags and helps reduce pollution and environmental damage.

Inclusion and equal opportunity: Admitting Shakti without capital recognises his creativity and intelligence and gives a specially abled person an opportunity to participate in business with dignity.

Step 2: Calculate interest on each contribution **(b) Working Notes:** Original capitals remain invested for the full year. Singh's additional Rs 25,000, introduced on 30 September, earns interest for six months; Gupta's additional Rs 10,000, introduced on 1 January, earns interest for three months.

$$\begin{aligned}\text{Singh's interest} &= 1,00,000 \times \frac{6}{100} + 25,000 \times \frac{6}{100} \times \frac{6}{12} \\ &= 6,000 + 750 = \text{Rs } 6,750.\end{aligned}$$

$$\begin{aligned}\text{Gupta's interest} &= 50,000 \times \frac{6}{100} + 10,000 \times \frac{6}{100} \times \frac{3}{12} \\ &= 3,000 + 150 = \text{Rs } 3,150.\end{aligned}$$

Shakti has no capital contribution, so no interest on capital is payable to him. Total interest is Rs $6,750 + 3,150 = 9,900$.

Step 3: Distribute the balance of profit Deduct interest from the given profit before applying the

profit-sharing ratio:

$$\text{Divisible profit} = 1,68,900 - 9,900 = \text{Rs } 1,59,000,$$

$$\text{Singh's share} = 1,59,000 \times \frac{2}{5} = \text{Rs } 63,600,$$

$$\text{Gupta's share} = 1,59,000 \times \frac{2}{5} = \text{Rs } 63,600,$$

$$\text{Shakti's share} = 1,59,000 \times \frac{1}{5} = \text{Rs } 31,800.$$

Step 4: Prepare the appropriation account **Profit and Loss Appropriation Account**
For the year ended 31 March, 2013

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Interest on Capital:		By Profit and Loss A/c	1,68,900
Singh	6,750		
Gupta	3,150		
To Partners' Capital A/cs:			
Singh (profit share)	63,600		
Gupta (profit share)	63,600		
Shakti (profit share)	31,800		
Total	1,68,900	Total	1,68,900

The account closes after allocating the entire profit; no balance is carried forward. Capital accounts receive these amounts because no separate fixed-capital arrangement is specified.

Step 5: Conclusion The values are environmental responsibility and inclusion. Interest on capital is Rs 6,750 for Singh and Rs 3,150 for Gupta. Residual profit shares are Rs 63,600, Rs 63,600 and Rs 31,800 respectively, and both sides of the appropriation account total Rs 1,68,900.

Quick Tip to Solve: Split original and additional capital before calculating interest: use twelve months, six months and three months here, then divide only the residual profit in 2:2:1.

12. Monika, Sonika and Mansha were partners in a firm sharing profits in the ratio of 2 : 2 : 1 respectively. On 31st March, 2013 their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capitals: Monika 1,80,000 Sonika 1,50,000 Mansha 90,000	4,20,000	Fixed Assets	3,60,000
Reserve Fund	1,50,000	Stock	60,000
Creditors	2,40,000	Debtors	1,20,000
		Cash	2,70,000
	8,10,000		8,10,000

Sonika died on 30th June, 2013. It was agreed between her executors and the remaining partners that:

(a) Goodwill of the firm be valued at 3 years' purchase of average profits for the last four years. The average profits were Rs. 2,00,000.

(b) Interest on capital be provided at 12% p.a.

(c) Her share in the profits upto the date of death will be calculated on the basis of average profits for the last four years.

Prepare Sonika's Capital Account as on 30th June, 2013. [4 marks]

Solution:

Concept:

- A deceased partner's capital account is credited with the opening capital, share of accumulated reserves, goodwill compensation, interest on capital and profit earned up to death. The final amount is transferred to the executor's account.
- Use the old profit share, $2/5$, for Sonika's reserve, goodwill and estimated profit. Interest and current-year profit cover only three months, from 1 April to 30 June, 2013.
- With no revised ratio specified, Monika and Mansha continue in their relative old ratio of $2:1$. They compensate Sonika for goodwill in their gaining ratio, also $2:1$.

Step 1: Calculate reserve and goodwill entitlements **Working Notes:** Sonika's opening capital is Rs 1,50,000. The reserve belongs to all the existing partners in their old ratio; Sonika receives:

$$\text{Reserve share} = 1,50,000 \times \frac{2}{5} = \text{Rs } 60,000.$$

Goodwill is valued at three years' purchase of the given average annual profit:

$$\text{Firm's goodwill} = 2,00,000 \times 3 = \text{Rs } 6,00,000,$$
$$\text{Sonika's share} = 6,00,000 \times \frac{2}{5} = \text{Rs } 2,40,000.$$

Adjust this goodwill directly through the continuing partners' capitals. Monika bears Rs $2,40,000 \times 2/3 = 1,60,000$, and Mansha bears Rs $2,40,000 \times 1/3 = 80,000$. These amounts are credited to Sonika's Capital Account, without retaining a goodwill asset.

Step 2: Calculate interest and profit up to death Only three months of the new accounting year have elapsed. Interest is calculated on Sonika's opening capital:

$$\text{Interest} = 1,50,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 4,500.$$

Her current-year profit share is estimated on the stated average annual profit and credited through Profit and Loss Suspense Account:

$$\text{Profit share} = 2,00,000 \times \frac{3}{12} \times \frac{2}{5} = \text{Rs } 20,000.$$

Reserve and goodwill are separate entitlements; neither is included again when estimating this three-month profit.

Step 3: Prepare Sonika's Capital Account **Sonika's Capital Account as on 30 June, 2013**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Sonika's Executor's A/c	4,74,500	By Balance b/d	1,50,000
		By Reserve Fund A/c	60,000
		By Monika's Capital A/c	1,60,000
		By Mansha's Capital A/c	80,000
		By Interest on Capital A/c	4,500
		By Profit and Loss Suspense A/c	20,000
Total	4,74,500	Total	4,74,500

The entire credit balance is transferred to the executor's account, so Sonika's Capital Account closes. No cash payment is recorded because the question does not state that the amount has been paid.

Step 4: Conclusion Rs $1,50,000 + 60,000 + 2,40,000 + 4,500 + 20,000 = 4,74,500$ is due to Sonika's executor. Both sides of Sonika's Capital Account total Rs 4,74,500 after the transfer.

Quick Tip to Solve: Credit reserves and goodwill in full at Sonika's old share of 2/5; apply the three-month fraction only to interest and the estimated annual profit.

13. On 1st April, 2012, Vishwas Ltd. was formed with an authorised capital of Rs. 10,00,000 divided into 1,00,000 equity shares of Rs. 10 each. The company issued prospectus inviting applications for 90,000 equity shares. The company received applications for 85,000 equity shares. During the first year, Rs. 8 per share were called. Ram holding 1,000 shares and Shyam holding 2,000 shares did not pay the first call of Rs. 2 per share. Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were re-issued at Rs. 6 per share, Rs. 8 called up.

Show the following:

(a) Share Capital in the Balance Sheet of the company as per revised Schedule VI Part I of the Companies Act, 1956.

(b) Also prepare 'Notes to Accounts' for the same. [4 marks]

Solution:

Concept:

- Authorised capital is the maximum nominal capital permitted; issued capital is the nominal value offered for subscription. Neither is reduced by calls in arrears or forfeiture.
- Subscribed capital includes shares currently outstanding, at the amount called up. Deduct unpaid calls and add the amount originally received on forfeited shares that have not yet been reissued.

Step 1: Determine subscribed capital and unpaid calls The company originally allotted 85,000 shares. Shyam's 2,000 shares were forfeited and 1,500 of them were reissued, so the outstanding subscribed shares are

$$85,000 - 2,000 + 1,500 = 84,500 \text{ shares.}$$

Their nominal value is Rs 10 each, but only Rs 8 each has been called. Consequently, subscribed and called-up capital is $84,500 \times 8 = \text{Rs } 6,76,000$. These shares are classified as subscribed but not fully paid. Ram's unpaid call is $1,000 \times 2 = \text{Rs } 2,000$. Shyam's arrears are not separately deducted after forfeiture, because his forfeited shares have already been removed from subscribed capital.

Step 2: Find the balance on forfeited shares Shyam had paid $8 - 2 = \text{Rs } 6$ per share before forfeiture. Of his 2,000 forfeited shares, 500 remain unreissued. The amount received on these shares is $500 \times 6 = \text{Rs } 3,000$, which is added under share capital. For the 1,500 reissued shares, the reissue discount is $1,500 \times (8 - 6) = \text{Rs } 3,000$; it is covered by their forfeiture credit of Rs 9,000. The remaining Rs 6,000 is transferred to capital reserve and is not included in the share-capital note.

Step 3: Present the Balance Sheet extract and supporting note **Vishwas Ltd.**

Balance Sheet (extract) as at 31st March, 2013

Particulars	Note	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	6,77,000

Notes to Accounts: Note 1 — Share Capital

Particulars	Amount (Rs)
Authorised capital	
1,00,000 equity shares of Rs 10 each	10,00,000
Issued capital	
90,000 equity shares of Rs 10 each	9,00,000
Subscribed but not fully paid-up capital	
84,500 equity shares of Rs 10 each, Rs 8 called up	6,76,000
Less: Calls in arrears (Ram)	(2,000)
Subscribed and paid-up capital	6,74,000
Add: Forfeited shares (amount originally paid on 500 shares not yet reissued)	3,000
Total share capital	**6,77,000**

Step 4: Conclusion Share capital shown under Shareholders' funds is $\boxed{\text{Rs } 6,77,000}$, comprising Rs 6,74,000 subscribed and paid-up capital and Rs 3,000 received on unreissued forfeited shares. Authorised and issued capital are disclosed as Rs 10,00,000 and Rs 9,00,000 respectively.

Quick Tip to Solve: After a partial reissue, add only the forfeiture credit relating to shares still unreissued; the surplus on reissued shares belongs to capital reserve.

14. Pass necessary journal entries for the following transactions in the books of Gopal Ltd.:

(i) Purchased furniture for Rs. 2,50,000 from M/s Furniture Mart. The payment to M/s Furniture Mart was made by issuing equity shares of Rs. 10 each at a premium of 25%.

(ii) Purchased a running business from Aman Ltd. for a sum of Rs. 15,00,000. The payment of Rs. 12,00,000 was made by issue of fully paid equity shares of Rs. 10 each and balance by a bank draft. The assets and liabilities consisted of the following:

Plant Rs. 3,50,000; Stock Rs. 4,50,000; Land and Building Rs. 6,00,000; Sundry Creditors Rs. 1,00,000. [4 marks]

Solution:

Concept:

- Record the asset or business purchase first, creating an amount payable to the vendor. Settle that payable by crediting Share Capital at face value, Securities Premium at the premium amount, and Bank for any cash payment.
- Goodwill equals purchase consideration less the agreed value of net identifiable assets acquired. Net assets are total assets taken over less liabilities assumed.

Step 1: Calculate and record the furniture purchase The premium per share is $10 \times 25\% = \text{Rs } 2.50$, so the issue price is Rs 12.50. Therefore, the number of shares issued to Furniture Mart is $2,50,000 \div 12.50 = 20,000$. Share Capital is credited with $20,000 \times 10 = \text{Rs } 2,00,000$, while Securities Premium is credited with Rs 50,000.

Journal of Gopal Ltd. — Transaction (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Furniture A/c Dr.		2,50,000	
	To M/s Furniture Mart A/c			2,50,000
	(Being furniture purchased on credit)			
	M/s Furniture Mart A/c Dr.		2,50,000	
	To Equity Share Capital A/c			2,00,000
	To Securities Premium A/c			50,000
	(Being 20,000 equity shares of Rs 10 each issued at a premium of 25% to settle the vendor)			

Step 2: Determine goodwill and record the business purchase The identifiable assets total Rs 14,00,000: Plant Rs 3,50,000, Stock Rs 4,50,000, and Land and Building Rs 6,00,000. After deducting Sundry Creditors of Rs 1,00,000, net assets equal Rs 13,00,000. Hence,

$$\text{Goodwill} = 15,00,000 - 13,00,000 = \text{Rs } 2,00,000.$$

The debit side of the takeover entry includes all acquired assets and goodwill, totalling Rs 16,00,000; the credit side contains creditors of Rs 1,00,000 and the vendor payable of Rs 15,00,000.

Journal of Gopal Ltd. — Transaction (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Plant A/c Dr.		3,50,000	
	Stock A/c Dr.		4,50,000	
	Land and Building A/c Dr.		6,00,000	
	Goodwill A/c Dr.		2,00,000	
	To Sundry Creditors A/c			1,00,000
	To Aman Ltd. A/c			15,00,000
	(Being the running business of Aman Ltd. purchased, including assets and liabilities, with the excess consideration recognised as goodwill)			

Step 3: Settle the purchase consideration payable to Aman Ltd. No premium is stated for this transaction, so the fully paid shares are issued at their face value of Rs 10. Shares issued are $12,00,000 \div 10 = 1,20,000$; the bank draft is for $15,00,000 - 12,00,000 = \text{Rs } 3,00,000$.

Journal of Gopal Ltd. — Settlement of Transaction (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Aman Ltd. A/c Dr.		15,00,000	
	To Equity Share Capital A/c			12,00,000
	To Bank A/c			3,00,000
	(Being purchase consideration settled by issuing 1,20,000 fully paid equity shares of Rs 10 each and paying the balance by bank draft)			

Step 4: Conclusion Furniture Mart receives 20,000 shares, with Rs 2,00,000 credited to Share Capital and Rs 50,000 to Securities Premium. The business purchase creates goodwill of Rs 2,00,000; Aman Ltd. receives 1,20,000 shares and a bank draft for Rs 3,00,000.

Quick Tip to Solve: Divide the furniture price by Rs 12.50, but divide Aman's share consideration by Rs 10: the 25% premium applies only to transaction (i).

15. Seema, Tanuja and Tripti were partners in a firm trading in garments. They were sharing profits in the ratio of 5 : 3 : 2. Their capitals on 1st April, 2012 were Rs. 3,00,000, Rs. 4,00,000 and Rs. 8,00,000 respectively. After the flood in Uttarakhand, all partners decided to help the flood victims personally.

For this Seema withdrew Rs. 20,000 from the firm on 15th September, 2012. Tanuja instead of withdrawing cash from the firm took garments amounting to Rs. 24,000 from the firm and distributed those to the flood victims. On the other hand, Tripti withdrew Rs. 2,00,000 from her capital on 1st January, 2013 and provided a mobile medical van in the flood affected area.

The partnership deed provides for charging interest on drawings @ 6% p.a. After the final accounts were prepared it was discovered that interest on drawings had not been charged. Give the necessary adjusting journal entry and show the working notes clearly. Also state any two values which the partners wanted to communicate to the society. [6 marks]

Solution:

Concept:

- Interest on drawings is charged on amounts withdrawn for personal use: $I = D \times r \times t/12$, where D is the drawing, r the annual rate and t the number of months outstanding.
- When accounts have been closed, debit each partner with omitted interest and credit the total interest to all partners in their profit-sharing ratio. Record only the net adjustment.
- A permanent withdrawal of capital reduces capital; it is distinguished from ordinary drawings. When the date of an ordinary drawing is unspecified, the usual average period is six months.

Step 1: Working Notes: calculate the omitted interest The accounting year closes on 31st March, 2013. Seema's cash withdrawal is an ordinary personal drawing. From 15th September, 2012 to 31st March, 2013 the period is $6\frac{1}{2}$ months. Therefore,

$$I_S = 20,000 \times \frac{6}{100} \times \frac{6.5}{12} = \text{Rs } 650.$$

Garments taken by Tanuja for personal distribution are also drawings; their charitable use does not make them a business expense. Since no date is given for taking the garments, use the conventional average period of six months:

$$I_T = 24,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 720.$$

Tripti expressly withdrew Rs 2,00,000 *from her capital*. This is a permanent reduction of capital, rather than an ordinary drawing against profit. Hence no interest on drawings is charged on this capital withdrawal. Her opening capital must not be used as the base for charging interest on drawings. The total omitted interest is $650 + 720 = \text{Rs } 1,370$.

Step 2: Work out each partner's net adjustment Charging interest would increase the profit available for distribution by Rs 1,370. This benefit belongs to the partners in their agreed ratio of $5 : 3 : 2$. Thus Seema receives $1,370 \times 5/10 = 685$, Tanuja receives $1,370 \times 3/10 = 411$, and Tripti receives $1,370 \times 2/10 = 274$, all in Rs.

Particulars (Rs)	Seema	Tanuja	Tripti
Interest to be charged (debit)	650	720	Nil
Share of interest (credit)	685	411	274
Net adjustment	35 Cr.	309 Dr.	274 Cr.

Seema was credited Rs 35 too little, Tanuja was credited Rs 309 too much, and Tripti was credited Rs 274 too little. The debit of Rs 309 equals the two credits, $35 + 274$.

Step 3: Pass the adjusting journal entry **Journal of the firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2013	Tanuja's Capital A/c Dr.		309	
	To Seema's Capital A/c			35
	To Tripti's Capital A/c			274
	(Being omitted interest on drawings and its distribution in the ratio of 5:3:2 adjusted through partners' capital accounts)			

The single net entry corrects the closed accounts without reopening the Profit and Loss Appropriation Account. Since separate current accounts or fixed capitals are not specified, the adjustment is made through the capital accounts.

Step 4: State the values communicated **Compassion and concern for people in distress:** the partners provided cash, clothing and medical help to flood victims. **Social responsibility and willingness to share resources:** they used their personal entitlement to the firm's resources to support relief work and community welfare.

Step 5: Conclusion Debit Tanuja's Capital Account by Rs 309; credit Seema's Capital Account by Rs 35 and Tripti's Capital Account by Rs 274. The partners communicate compassion and social responsibility.

Quick Tip to Solve: Separate permanent capital withdrawals from ordinary drawings first; then offset each partner's interest charge against their share of the total interest.

16. Hanif and Jubed were partners in a firm sharing profits in the ratio of their capitals. On 31st March, 2013 their Balance Sheet was as follows:

Liabilities	Amount	Assets	Amount
Creditors	1,50,000	Bank	2,00,000
Workmen's Compensation Fund	3,00,000	Debtors	3,40,000
General Reserve	75,000	Stock	1,50,000
Hanif's Current Account	25,000	Furniture	4,60,000
Capitals: Hanif 10,00,000 Jubed 5,00,000	15,00,000	Machinery	8,20,000
		Jubed's Current Account	80,000
	20,50,000		20,50,000

On the above date the firm was dissolved.

(i) Debtors were realised at a discount of 5%. 50% of the stock was taken over by Hanif at 10% less than the book value. Remaining stock was sold for Rs. 65,000.

(ii) Furniture was taken over by Jubed for Rs. 1,35,000. Machinery was sold as scrap for Rs. 74,000.

(iii) Creditors were paid in full.

(iv) Expenses on realisation Rs. 8,000 were paid by Hanif.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- On dissolution, transfer non-cash outside assets at book value to the debit of Realisation Account and outside liabilities to its credit. Cash receipts and assets taken over by partners appear on its credit side.
- Settlement of liabilities and realisation expenses are debited to Realisation Account. Expenses paid personally by a partner are credited to that partner's Capital Account.
- Transfer the profit or loss on realisation to the partners in their profit-sharing ratio. Bank, partners' current accounts and undistributed reserves are settled separately.

Step 1: Working Notes: determine the ratio and asset proceeds The partners share profits in the ratio of their capitals. Therefore Hanif's and Jubed's ratio is $10,00,000 : 5,00,000 = 2 : 1$. Debtors realise 95% of their book value, because the discount is 5%:

$$3,40,000 \times \frac{95}{100} = \text{Rs } 3,23,000.$$

Half the stock has a book value of $1,50,000 \times 50\% = 75,000$. Hanif takes it at 10% below book value, so his Capital Account is debited by $75,000 \times 90\% = \text{Rs } 67,500$. The remaining half realises Rs 65,000 through Bank. Jubed takes furniture for Rs 1,35,000, while machinery realises Rs 74,000 in cash. Total bank receipts from these assets are

$$3,23,000 + 65,000 + 74,000 = \text{Rs } 4,62,000.$$

The book values transferred must remain unchanged; the reduction in value emerges as part of the

realisation loss, rather than being deducted before transfer.

Step 2: Identify transfers and settlement entries The four outside assets total $3,40,000 + 1,50,000 + 4,60,000 + 8,20,000 =$ Rs $17,70,000$. Creditors of Rs 1,50,000 are transferred at book value and paid in full. The opening Bank balance of Rs 2,00,000 and both partners' current-account balances do not enter Realisation Account. No workmen's compensation claim is specified. Consequently the Workmen's Compensation Fund of Rs 3,00,000, like the General Reserve of Rs 75,000, is transferred directly to the partners' capital accounts in the ratio of 2:1. It is not an outside liability payable on dissolution. Realisation expenses of Rs 8,000 paid by Hanif debit Realisation and credit Hanif's Capital Account; they are not a payment from the firm's Bank Account.

Step 3: Prepare the Realisation Account **Realisation Account**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Debtors A/c	3,40,000	By Creditors A/c	1,50,000
To Stock A/c	1,50,000	By Bank A/c:	
To Furniture A/c	4,60,000	Debtors	3,23,000
To Machinery A/c	8,20,000	Stock	65,000
To Bank A/c (creditors)	1,50,000	Machinery	74,000
To Hanif's Capital A/c (expenses paid)	8,000	By Hanif's Capital A/c (stock taken over)	67,500
		By Jubed's Capital A/c (furniture taken over)	1,35,000
		By Loss transferred to:	
		Hanif's Capital A/c	7,42,333.33
		Jubed's Capital A/c	3,71,166.67
Total	19,28,000	Total	19,28,000

Realisation Account closes by transferring its loss to the partners' capital accounts. No balance is carried down because dissolution ends the account.

Step 4: Check and allocate the realisation loss The credit total before transferring the loss is

$$1,50,000 + 4,62,000 + 67,500 + 1,35,000 = \text{Rs } 8,14,500.$$

The debit total is $17,70,000 + 1,50,000 + 8,000 =$ Rs $19,28,000$. Hence the loss is $19,28,000 - 8,14,500 =$ Rs $11,13,500$. Creditors produce no gain or loss because the amount paid equals the liability. As a cross-check, the losses on debtors, stock, furniture and machinery are Rs 17,000, Rs 17,500, Rs 3,25,000 and Rs 7,46,000 respectively. Their sum, plus expenses of Rs 8,000, is again Rs 11,13,500. Hanif bears $11,13,500 \times 2/3 =$ Rs $7,42,333\frac{1}{3}$, and Jubed bears $11,13,500 \times 1/3 =$ Rs $3,71,166\frac{2}{3}$. The account presents these amounts rounded to paise; the two rounded amounts still total exactly Rs 11,13,500.

Step 5: Conclusion The realisation loss is Rs 11,13,500, shared by Hanif and Jubed in the ratio of 2:1: Rs 7,42,333.33 and Rs 3,71,166.67 respectively. Both sides of Realisation Account total Rs 19,28,000.

Quick Tip to Solve: Keep Bank, partners' current balances and unclaimed reserves out of Realisation; credit a partner for expenses paid but debit them for assets taken over.

17. X Ltd. invited applications for issuing 75,000 equity shares of Rs. 10 each at a premium of Rs. 5 per share. The amount was payable as follows:

On application and allotment - Rs. 9 per share (including premium)

On first and final call - the balance amount.

Applications for 3,00,000 shares were received. Applications for 2,00,000 shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Ravi. His shares were forfeited. The forfeited shares were re-issued at a discount of Rs. 4 per share.

Pass necessary journal entries for the above transactions in the books of X Ltd. [8 marks]

Solution:

Concept:

- Pro-rata allotment divides the shares available among the eligible applicants proportionately. Excess application and allotment money is adjusted towards the call.
- On forfeiture, debit Share Capital with the called-up face value and credit Share Forfeiture with capital money already received. Premium already received is not reversed.
- Discount allowed on reissue is debited to Share Forfeiture; the remaining forfeiture balance relating to the reissued shares is transferred to Capital Reserve.

Step 1: Working Notes: determine the allotment and call Eligible applications are $3,00,000 - 2,00,000 = 1,00,000$ shares. Thus the allotment ratio is $75,000 : 1,00,000 = 3 : 4$. The application and allotment instalment includes Rs 5 premium and Rs 4 capital; the call is $10 - 4 =$ Rs 6 per share.

$$\begin{aligned}
\text{Total receipt} &= 3,00,000 \times 9 = \text{Rs } 27,00,000,\\
\text{Rejected applications refund} &= 2,00,000 \times 9 = \text{Rs } 18,00,000,\\
\text{Excess on eligible applications} &= (1,00,000 - 75,000) \times 9\\
&= \text{Rs } 2,25,000,\\
\text{Call due} &= 75,000 \times 6 = \text{Rs } 4,50,000.
\end{aligned}$$

The excess is credited to Calls in Advance and subsequently adjusted against the call. No interest on this advance is recorded because no dates or interest terms are given.

Step 2: Working Notes: calculate Ravi's default and forfeiture Ravi applied for 1,500 shares; this is not the number allotted to him.

$$\begin{aligned}
\text{Shares allotted} &= 1,500 \times \frac{3}{4} = 1,125,\\
\text{Amount paid} &= 1,500 \times 9 = \text{Rs } 13,500,\\
\text{Application and allotment due} &= 1,125 \times 9 = \text{Rs } 10,125,\\
\text{Advance available} &= 13,500 - 10,125 = \text{Rs } 3,375,\\
\text{Unpaid call} &= 1,125 \times 6 - 3,375 = \text{Rs } 3,375,\\
\text{Capital received} &= 1,125 \times 4 + 3,375 = \text{Rs } 7,875.
\end{aligned}$$

The call receipt is $4,50,000 - 2,25,000 - 3,375 =$ Rs $2,21,625$. Ravi's premium of $1,125 \times 5 =$ Rs $5,625$

has already been received, so Securities Premium is unaffected by forfeiture.

Step 3: Record issue and call transactions **Journal of X Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application and allotment money received on 3,00,000 shares)		27,00,000	 27,00,000

	Share Application and Allotment A/c Dr.
	  To Bank A/c
	  To Share Capital A/c
	  To Securities Premium A/c
	  To Calls in Advance A/c
	(Being rejected applications refunded, 75,000 shares allotted and excess retained towards call)
			27,00,000	
				18,00,000
				3,00,000
				3,75,000
				2,25,000

	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call of Rs 6 per share made)		4,50,000	 4,50,000
	Calls in Advance A/c Dr. Bank A/c Dr. To Share First and Final Call A/c (Being advance adjusted and call money received except Ravi's balance of Rs 3,375)		2,25,000 2,21,625	 4,46,625

Step 4: Record forfeiture, reissue and capital profit The shares are reissued fully paid for $10-4=$ Rs 6 each. Therefore, the bank receipt is $1,125\times6=$ Rs $6,750$, and reissue discount is $1,125\times4=$ Rs $4,500$. The discount is within the forfeited capital of Rs 7,875.

Journal of X Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Share Capital A/c Dr.
	  To Share First and Final Call A/c
	  To Share Forfeiture A/c
	(Being Ravi's 1,125 shares forfeited for non-payment of the balance call)
			11,250	
				3,375
				7,875

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being forfeited shares reissued fully paid at Rs 6 per share)		6,750 4,500	 11,250
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue transferred to Capital Reserve)		3,375	 3,375

Step 5: Conclusion Ravi's 1,125 allotted shares are forfeited for an unpaid call of Rs 3,375. Reissue brings in Rs 6,750, and the capital profit transferred to Capital Reserve is $7,875-4,500=\boxed{\text{Rs } 3,375}$.

Quick Tip to Solve: Convert Ravi's shares applied for into shares allotted first; then deduct his excess application money from his call before calculating forfeiture.

OR

17. Y Ltd. invited applications for issuing 80,000 equity shares of Rs. 10 each at a discount of 10%. The amount was payable as follows:

On application and allotment - Rs. 6 per share

On first and final call - the balance amount.

Applications for 2,00,000 shares were received. Applications for 40,000 shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. All money was received except on 1,600 shares applied by Rohan. His shares were forfeited. The forfeited shares were re-issued at the maximum discount permissible under the law.

Pass necessary journal entries for the above transactions in the books of Y Ltd. [8 marks]

Solution:

Concept:

- An issue discount of 10% on a Rs 10 share is Rs 1; the issue price is Rs 9. Debit Discount on Issue of Shares and credit Share Capital with the face value.
- A forfeiture entry reverses the original discount on the forfeited shares. Share Forfeiture represents the capital cash actually received on those shares.
- On reissue of shares originally issued at discount, the maximum total discount equals the original issue discount plus the forfeited amount per share. Only the additional discount is charged against Share Forfeiture.

Step 1: Working Notes: calculate allotment and identify the excess refund After rejecting applications for 40,000 shares, eligible applications are $2,00,000 - 40,000 = 1,60,000$. Allotment is therefore in the ratio $80,000 : 1,60,000 = 1 : 2$. The call is $10 - 1 - 6 =$ Rs 3 per share.

$$\begin{aligned}
\text{Total application receipt} &= 2,00,000 \times 6 = \text{Rs } 12,00,000,\\
\text{Rejected applications refund} &= 40,000 \times 6 = \text{Rs } 2,40,000,\\
\text{Pro-rata excess} &= (1,60,000 - 80,000) \times 6\\
&= \text{Rs } 4,80,000,\\
\text{Application and allotment retained} &= 80,000 \times 6 = \text{Rs } 4,80,000,\\
\text{First and final call due} &= 80,000 \times 3 = \text{Rs } 2,40,000.
\end{aligned}$$

Treatment of excess money: the question states that a later call remains unpaid by Rohan but does not direct adjustment of excess application money towards that call. To give effect to this stated default, the whole pro-rata excess of Rs 4,80,000 is refunded. If it were retained and adjusted instead, it would cover the entire Rs 2,40,000 call, and Rohan could not be a defaulter. The entries below explicitly use the refund treatment.

Step 2: Working Notes: calculate Rohan's shares and maximum reissue discount Rohan applied for 1,600 shares, so he receives $1,600 \times \frac{1}{2} = 800$ shares. Of his payment of $1,600 \times 6 =$ Rs $9,600$, Rs 4,800

is refunded and Rs 4,800 is retained on his allotted shares. His unpaid call is $800 \times 3 = \text{Rs } 2,400$.

$$\begin{aligned}
\text{Capital cancelled} &= 800 \times 10 = \text{Rs } 8,000,\\
\text{Original discount reversed} &= 800 \times 1 = \text{Rs } 800,\\
\text{Amount forfeited} &= 800 \times 6 = \text{Rs } 4,800,\\
\text{Maximum discount per reissued share} &= 1 + 6 = \text{Rs } 7,\\
\text{Minimum reissue price} &= 10 - 7 = \text{Rs } 3,\\
\text{Reissue cash received} &= 800 \times 3 = \text{Rs } 2,400.
\end{aligned}$$

The total reissue discount is Rs 5,600: Rs 800 restores the original issue discount, while Rs 4,800 is charged against Share Forfeiture. Thus the entire forfeiture balance is used and no capital profit remains.

Step 3: Record application, allotment and call entries **Journal of Y Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application and allotment money received on 2,00,000 shares)		12,00,000	12,00,000
	Share Application and Allotment A/c Dr. To Bank A/c (Being Rs 2,40,000 refunded on rejected applications and Rs 4,80,000 pro-rata excess refunded)		7,20,000	7,20,000
	Share Application and Allotment A/c Dr. Discount on Issue of Shares A/c Dr. To Share Capital A/c (Being application and allotment transferred and original discount of Rs 1 per share recorded)		4,80,000 80,000	5,60,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call of Rs 3 per share due)		2,40,000	2,40,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call received except Rs 2,400 on Rohan's 800 allotted shares)		2,37,600	2,37,600

Step 4: Record forfeiture and reissue at the maximum discount The debit to Share Capital is its full called-up value. Its three credits below separate unpaid cash, original discount, and cash already received. On reissue the original discount is restored separately from the additional discount funded by forfeiture.

Journal of Y Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share First and Final Call A/c To Discount on Issue of Shares A/c To Share Forfeiture A/c (Being Rohan's 800 shares forfeited for non-payment of the call)		8,000	 2,400 800 4,800
	Bank A/c Dr. Discount on Issue of Shares A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 800 forfeited shares reissued fully paid at Rs 3 per share, the maximum permissible discount)		2,400 800 4,800	 8,000

No entry transferring a balance to Capital Reserve is required, because Share Forfeiture has been fully utilised.

Step 5: Conclusion With the pro-rata excess refunded, Rohan's 800 shares are forfeited for a call default of Rs 2,400. Maximum reissue discount is Rs 7 per share; the reissue receipt is Rs 2,400 and the capital reserve is nil.

Quick Tip to Solve: Check whether excess application money would extinguish the call before treating someone as a defaulter. Here the stated default requires refunding that excess; add the original Rs 1 discount to the Rs 6 forfeited per share for the reissue limit.

18. Shikhar and Rohit were partners in a firm sharing profits in the ratio of 7 : 3. On 1st April, 2013 they admitted Kavi as a new partner for 1/4 share in profits of the firm. Kavi brought Rs. 4,30,000 as his capital and Rs. 25,000 for his share of goodwill premium. The Balance Sheet of Shikhar and Rohit as on 1st April, 2013 was as follows:

Liabilities	Amount	Assets	Amount
Capitals: Shikhar 8,00,000 Rohit 3,50,000	11,50,000	Land and Building	3,50,000
General Reserve	1,00,000	Machinery	4,50,000
Workmen's Compensation Fund	1,00,000	Debtors 2,20,000 Less Provision 20,000	2,00,000
Creditors	1,50,000	Stock	3,50,000
		Cash	1,50,000
	15,00,000		15,00,000

It was agreed that:

(i) the value of Land and Building will be appreciated by 20%.

(ii) the value of Machinery will be depreciated by 10%.

(iii) the liabilities of Workmen's Compensation Fund was determined at Rs. 50,000.

(iv) capitals of Shikhar and Rohit will be adjusted on the basis of Kavi's capital and actual cash to be brought in or to be paid off as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

[8 marks]

Solution:

Concept:

- On admission, accumulated reserves and revaluation profit belong to the old partners in their old profit-sharing ratio. Retain the actual workmen's compensation liability and distribute only the surplus fund.
- Goodwill premium compensates sacrificing partners. If the incoming partner takes his share in the old ratio, the old partners retain their relative ratio and sacrifice in that ratio.
- Total agreed capital equals the new partner's capital divided by his profit share. Compare each old partner's adjusted capital with his required capital to determine cash introduced or withdrawn.

Step 1: Working Notes: determine ratios and distribute past profits Kavi receives $1/4$, leaving $3/4$ for Shikhar and Rohit. In the absence of a different arrangement, they continue to share this balance in $7:3$:

$$S = \frac{7}{10} \times \frac{3}{4} = \frac{21}{40}, \quad R = \frac{3}{10} \times \frac{3}{4} = \frac{9}{40}, \quad K = \frac{10}{40}.$$

The new ratio is $21:9:10$. Their sacrifices are $7/40$ and $3/40$, so the Rs 25,000 goodwill premium is credited to Shikhar, Rs 17,500, and Rohit, Rs 7,500. The Rs 1,00,000 general reserve is distributed as Rs 70,000 and Rs 30,000. Of the Rs 1,00,000 workmen's compensation fund, Rs 50,000 remains as a liability; its surplus of Rs 50,000 is credited as Rs 35,000 and Rs 15,000. The retained liability is not a revaluation loss because the existing fund covers it.

Step 2: Prepare the Revaluation Account Land and building increase by $3,50,000 \times 20\% =$ Rs $70,000$, while machinery decreases by $4,50,000 \times 10\% =$ Rs $45,000$. Thus revaluation profit is Rs 25,000, shared as Rs 17,500 and Rs 7,500.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Machinery	45,000	By Land and Building	70,000
To Shikhar's Capital	17,500		
To Rohit's Capital	7,500		
Total	70,000	Total	70,000

Step 3: Calculate required capitals and cash adjustments Using Kavi's capital as the base,

$$\text{Total capital} = 4,30,000 \div \frac{1}{4} = \text{Rs } 17,20,000.$$

Therefore Shikhar requires $17,20,000 \times 21/40 =$ Rs $9,03,000$, and Rohit requires $17,20,000 \times 9/40 =$ Rs $3,87,000$.

$$\begin{aligned} S\text{'s adjusted capital} &= 8,00,000 + 70,000 + 35,000 + 17,500 + 17,500 \\ &= \text{Rs } 9,40,000, \\ R\text{'s adjusted capital} &= 3,50,000 + 30,000 + 15,000 + 7,500 + 7,500 \\ &= \text{Rs } 4,10,000. \end{aligned}$$

Hence Shikhar is paid $9,40,000 - 9,03,000 =$ Rs $37,000$, and Rohit is paid $4,10,000 - 3,87,000 =$ Rs $23,000$. These are cash withdrawals, not current-account transfers.

Step 4: Prepare Partners' Capital Accounts All figures in the following accounts are in Rs; a dash denotes no entry.

Partners' Capital Accounts

Dr.							Cr.
Particulars	Shikhar	Rohit	Kavi	Particulars	Shikhar	Rohit	Kavi
To Cash	37,000	23,000	—	By Balance b/d	8,00,000	3,50,000	—
To Balance c/d	9,03,000	3,87,000	4,30,000	By General Reserve	70,000	30,000	—
				By W.C. Fund	35,000	15,000	—
				By Revaluation	17,500	7,500	—
				By Goodwill Premium	17,500	7,500	—
				By Cash	—	—	4,30,000
Total	9,40,000	4,10,000	4,30,000	Total	9,40,000	4,10,000	4,30,000

W.C. Fund denotes Workmen's Compensation Fund; only its Rs 50,000 surplus is distributed.

Step 5: Prepare the new firm's Balance Sheet Cash after admission and capital adjustments is

$$1,50,000 + 4,30,000 + 25,000 - 37,000 - 23,000 = \text{Rs } 5,45,000.$$

No goodwill asset is raised: the premium is credited directly to the sacrificing partners. The existing debtors' provision remains unchanged.

Balance Sheet of Shikhar, Rohit and Kavi as at 1 April 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Partners' capitals:		Land and Building	4,20,000
Shikhar	9,03,000	Machinery	4,05,000
Rohit	3,87,000	Debtors (2,20,000 less 20,000)	2,00,000
Kavi	4,30,000	Stock	3,50,000
Total capitals	17,20,000	Cash	5,45,000
Workmen's compensation liability	50,000		
Creditors	1,50,000		
Total	19,20,000	Total	19,20,000

Step 6: Conclusion Revaluation profit is Rs 25,000. Closing capitals of Shikhar, Rohit and Kavi are Rs 9,03,000, Rs 3,87,000 and Rs 4,30,000 respectively. Shikhar withdraws Rs 37,000 and Rohit Rs 23,000; the new Balance Sheet totals Rs 19,20,000.

Quick Tip to Solve: First retain Rs 50,000 of the compensation fund, then distribute its surplus. Use Kavi's Rs 4,30,000 for a one-fourth share to set total capital before calculating either old partner's cash withdrawal.

OR

18. L, M and N were partners in a firm sharing profits in the ratio of 2 : 1 : 1. On 1st April, 2013 their Balance Sheet was as follows:

Liabilities	Amount	Assets	Amount
Capitals: L 6,00,000 M 4,80,000 N 4,80,000	15,60,000	Land	8,00,000
General Reserve	4,40,000	Building	6,00,000
Workmen's Compensation Fund	3,60,000	Furniture	2,40,000
Creditors	2,40,000	Debtors 4,00,000 Less Provision 20,000	3,80,000
		Stock	4,40,000
		Cash	1,40,000
	26,00,000		26,00,000

On the above date N retired. The following were agreed:

(i) Goodwill of the firm was valued at Rs. 6,00,000.

(ii) Land was to be appreciated by 40% and Building was to be depreciated by Rs. 1,00,000.

(iii) Furniture was to be depreciated by Rs. 30,000.

(iv) The liabilities for Workmen's Compensation Fund was determined at Rs. 1,60,000.

(v) Amount payable to N was transferred to his loan account.

(vi) Capitals of L and M were to be adjusted in their new profit sharing ratio and for this purpose current accounts of the partners will be opened.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

[8 marks]

Solution:

Concept:

- Revaluation profit and accumulated reserves are credited to all old partners in their old profit-sharing ratio. Only the compensation fund surplus over the actual liability is distributed.
- The retiring partner's goodwill share is borne by continuing partners in their gaining ratio. His final capital balance is transferred to his loan account when immediate payment is not required.
- If continuing partners adjust capitals through current accounts, preserve their combined adjusted capital, allocate it in the new ratio, and transfer individual differences to current accounts without changing cash.

Step 1: Working Notes: find the gaining ratio and goodwill adjustment The old ratio is $L : M : N = 2 : 1 : 1$. Since no different new ratio is given, L and M continue in their relative ratio $2 : 1$. Their gains are

$$L : \frac{2}{3} - \frac{2}{4} = \frac{1}{6}, \qquad M : \frac{1}{3} - \frac{1}{4} = \frac{1}{12}.$$

Thus the gaining ratio is $2:1$. N's goodwill share is $6,00,000 \times 1/4 = \text{Rs } 1,50,000$. Debit L's Capital by Rs 1,00,000 and M's Capital by Rs 50,000, and credit N's Capital by Rs 1,50,000. Goodwill is adjusted between partners without raising a goodwill asset. Distribute General Reserve, Rs 4,40,000, in $2:1:1$: L Rs 2,20,000, M Rs 1,10,000 and N Rs 1,10,000. The compensation fund surplus is $3,60,000 - 1,60,000 = \text{Rs } 2,00,000$, distributed as Rs 1,00,000, Rs 50,000 and Rs 50,000. Retain Rs 1,60,000 as the compensation liability.

Step 2: Prepare the Revaluation Account Land appreciates by $8,00,000 \times 40\% = \text{Rs } 3,20,000$. Building and furniture decrease by Rs 1,00,000 and Rs 30,000 respectively. Revaluation profit is therefore

$$3,20,000 - 1,00,000 - 30,000 = \text{Rs } 1,90,000.$$

This belongs to L, M and N in $2:1:1$: Rs 95,000, Rs 47,500 and Rs 47,500.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Building	1,00,000	By Land	3,20,000
To Furniture	30,000		
To L's Capital	95,000		
To M's Capital	47,500		
To N's Capital	47,500		
Total	3,20,000	Total	3,20,000

Step 3: Work out N's settlement and the revised capitals After reserves, revaluation and goodwill, the adjusted capital balances are

$$\begin{aligned} L &= 6,00,000 + 2,20,000 + 1,00,000 + 95,000 - 1,00,000 \\ &= \text{Rs } 9,15,000, \\ M &= 4,80,000 + 1,10,000 + 50,000 + 47,500 - 50,000 \\ &= \text{Rs } 6,37,500, \\ N &= 4,80,000 + 1,10,000 + 50,000 + 47,500 + 1,50,000 \\ &= \text{Rs } 8,37,500. \end{aligned}$$

Transfer N's full Rs 8,37,500 to his Loan Account. L and M's combined adjusted capital is $9,15,000 + 6,37,500 = \text{Rs } 15,52,500$. No new total capital is specified, so retain this total and divide it in $2:1$:

$$L = 15,52,500 \times \frac{2}{3} = \text{Rs } 10,35,000, \qquad M = 15,52,500 \times \frac{1}{3} = \text{Rs } 5,17,500.$$

L's capital needs Rs 1,20,000 more: debit his Current Account and credit his Capital Account. M's capital has Rs 1,20,000 surplus: debit his Capital Account and credit his Current Account. No cash is introduced or paid for these adjustments.

Step 4: Prepare Partners' Capital Accounts All amounts below are in Rs; a dash denotes no entry.

Partners' Capital Accounts

Dr.				Cr.			
Particulars	L	M	N	Particulars	L	M	N
To N's Capital (goodwill)	1,00,000	50,000	—	By Balance b/d	6,00,000	4,80,000	4,80,000
To N's Loan	—	—	8,37,500	By General Reserve	2,20,000	1,10,000	1,10,000
To M's Current	—	1,20,000	—	By W.C. Fund	1,00,000	50,000	50,000
To Balance c/d	10,35,000	5,17,500	—	By Revaluation	95,000	47,500	47,500
				By L's Capital (goodwill)	—	—	1,00,000
				By M's Capital (goodwill)	—	—	50,000
				By L's Current	1,20,000	—	—
Total	11,35,000	6,87,500	8,37,500	Total	11,35,000	6,87,500	8,37,500

W.C. Fund denotes Workmen's Compensation Fund.

Step 5: Open the continuing partners' Current Accounts L's debit current balance is shown on the asset side of the new Balance Sheet; M's credit current balance appears on the liabilities side.

L's Current Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To L's Capital	1,20,000	By Balance c/d	1,20,000
Total	1,20,000	Total	1,20,000

M's Current Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance c/d	1,20,000	By M's Capital	1,20,000
Total	1,20,000	Total	1,20,000

Step 6: Prepare the new firm's Balance Sheet The new asset values are land Rs 11,20,000, building Rs 5,00,000 and furniture Rs 2,10,000. Cash remains Rs 1,40,000 because N's settlement is a loan and capital adjustments use current accounts. Debtors and their existing provision also remain unchanged.

Balance Sheet of L and M as at 1 April 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Partners' capitals:		Land	11,20,000
L	10,35,000	Building	5,00,000
M	5,17,500	Furniture	2,10,000
Total capitals	15,52,500	Debtors (4,00,000 less 20,000)	3,80,000
M's Current Account	1,20,000	Stock	4,40,000
N's Loan	8,37,500	Cash	1,40,000
Workmen's compensation liability	1,60,000	L's Current Account	1,20,000
Creditors	2,40,000		
Total	29,10,000	Total	29,10,000

Step 7: Conclusion Revaluation profit is Rs 1,90,000 and N's Loan Account is credited with Rs

8,37,500. L and M's fixed capitals become Rs 10,35,000 and Rs 5,17,500. Their current balances are Rs 1,20,000 debit and Rs 1,20,000 credit respectively, and the Balance Sheet totals Rs 29,10,000.

Quick Tip to Solve: Calculate N's complete entitlement before setting the continuing partners' capitals. Current-account adjustments change neither cash nor the combined capital; place L's debit current balance among assets and M's credit balance among liabilities.

19. What is meant by 'Cash Flow Statement'? [1 mark]

Solution:

Concept:

- Cash flows are inflows and outflows of cash and cash equivalents during an accounting period.
- A cash flow statement classifies these flows into operating, investing and financing activities.

Step 1: Identify what the statement records The statement records the cash received and cash paid by an enterprise during a specified period. Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Step 2: Explain the change in cash The net cash flows from the three classes of activities explain the change between opening and closing cash and cash equivalents. Thus, the statement concerns cash movements during the period; it does not merely list the closing cash balance.

Step 3: Conclusion A Cash Flow Statement is a statement showing the inflows and outflows of cash and cash equivalents during a particular period, classified into operating, investing and financing activities.

Quick Tip to Solve: In the definition, include both cash and cash equivalents, the period, and all three activity classifications.

20. Why is separate disclosure of cash flow from investing activities important while preparing Cash Flow Statement? [1 mark]

Solution:

Concept:

- Investing activities concern the acquisition and disposal of long-term assets and investments other than cash equivalents.
- Investment in such resources supports the enterprise's future income and cash-generating capacity.

Step 1: Identify the nature of investing cash flows Payments to acquire fixed assets or long-term investments represent expenditure on resources expected to benefit future periods. Receipts from disposing of these resources are also classified as investing cash flows.

Step 2: Explain why the flows are shown separately Separate disclosure enables users to see the extent of expenditure made on resources intended to generate future income and cash flows. Combining these amounts with operating or financing flows would conceal this investment information.

Step 3: Conclusion Separate disclosure of investing cash flows is important because it shows the extent to which expenditure has been made on resources intended to generate future income and cash flows.

Quick Tip to Solve: Link the importance of investing disclosure specifically to resources that will generate future income and cash flows.

21. State any one objective of financial statements analysis. [1 mark]

Solution:

Concept:

- Financial statements analysis interprets relationships among accounting figures to assess an enterprise's performance and financial position.
- Profitability means the enterprise's capacity to earn profits from its operations and the resources employed.

Step 1: Select one objective One objective is to assess the profitability or earning capacity of the enterprise. This helps users judge whether the business is earning satisfactory returns.

Step 2: Explain how analysis serves this objective Profit figures are related to revenue or capital employed, and may be compared over different periods. These relationships make the profit amount meaningful and indicate whether the enterprise's earning performance is improving or deteriorating.

Step 3: Conclusion One objective of financial statements analysis is to assess the profitability or earning capacity of the enterprise.

Quick Tip to Solve: When asked for any one objective, name a definite aim, such as assessing profitability, rather than merely saying that statements are analysed.

22. Under which sub-headings will the following items be placed in the Balance Sheet of a company as per revised Schedule VI Part I of the Companies Act, 1956:

(i) Capital Reserves

(ii) Bonds

(iii) Loans repayable on demand

(iv) Vehicles

(v) Goodwill

(vi) Loose tools [3 marks]

Solution:

Concept:

- Revised Schedule VI, Part I, groups a company's balance sheet into Equity and Liabilities and Assets, with prescribed sub-headings.
- Reserves are part of shareholders' funds, whereas borrowings are liabilities. Assets are classified by

their nature and by whether they are current or non-current.

Step 1: Classify the equity and liability items Capital reserves form part of the company's accumulated reserves and are therefore shown under Reserves and Surplus. Bonds issued by the company represent long-term debt and are shown under Long-term Borrowings. Loans repayable on demand can be called for repayment immediately and therefore belong to Short-term Borrowings, under Current Liabilities.

Item	Main heading	Sub-heading
(i) Capital Reserves	Shareholders' Funds	Reserves and Surplus
(ii) Bonds	Non-current Liabilities	Long-term Borrowings
(iii) Loans repayable on demand	Current Liabilities	Short-term Borrowings

Step 2: Classify the asset items Vehicles have a physical form and are held for use in the business, so they are tangible fixed assets. Goodwill has no physical form and is an intangible fixed asset. Loose tools are classified as inventories under Current Assets; their description as tools does not make them a separate fixed-asset class in this classification question.

Item	Main heading	Sub-heading
(iv) Vehicles	Non-current Assets	Fixed Assets: Tangible Assets
(v) Goodwill	Non-current Assets	Fixed Assets: Intangible Assets
(vi) Loose tools	Current Assets	Inventories

Step 3: Conclusion The required sub-headings, in order, are: (i) Reserves and Surplus; (ii) Long-term Borrowings; (iii) Short-term Borrowings; (iv) Tangible Assets under Fixed Assets; (v) Intangible Assets under Fixed Assets; and (vi) Inventories.

Quick Tip to Solve: For this classification, remember that demand loans are short-term borrowings and loose tools appear in inventories; vehicles and goodwill are tangible and intangible fixed assets respectively.

23. From the following Statement of Profit and Loss of Fenox Ltd. for the year ended 31st March, 2013, prepare a Comparative Statement of Profit and Loss:

Particulars	Note No.	2012-13	2011-12
Revenue from operations		8,00,000	6,00,000
Other Incomes		1,00,000	50,000
Expenses		5,00,000	4,00,000

Rate of income tax was 40%. [4 marks]

Solution:

Concept:

- A comparative statement shows the previous year's amount, the current year's amount, the absolute change and the percentage change for each head of income, expense and profit.
- Absolute change equals current year minus previous year. To find percentage change, divide this change by the previous year's amount and multiply by 100. The earlier year, 2011–12, is the base year here.
- Total revenue comprises revenue from operations and other income. Profit before tax equals total

revenue less expenses; profit after tax equals profit before tax less income tax.

Step 1: Compute revenue, profit and tax for both years For 2011–12, total revenue is Rs $6,00,000 + 50,000 = 6,50,000$. Subtracting expenses of Rs 4,00,000 gives profit before tax of Rs 2,50,000. Income tax is Rs $2,50,000 \times 40\% = 1,00,000$, so profit after tax is Rs 1,50,000.

For 2012–13, total revenue is Rs $8,00,000 + 1,00,000 = 9,00,000$. Profit before tax is Rs $9,00,000 - 5,00,000 = 4,00,000$. Income tax is Rs $4,00,000 \times 40\% = 1,60,000$, leaving profit after tax of Rs 2,40,000.

Step 2: Prepare the comparative statement **Fenox Ltd.**
Comparative Statement of Profit and Loss
For the years ended 31st March, 2012 and 2013

Particulars	2011–12 (Rs)	2012–13 (Rs)	Increase (Rs)	Change (%)
I. Revenue from operations	6,00,000	8,00,000	2,00,000	33.33
II. Other income	50,000	1,00,000	50,000	100.00
III. Total revenue (I + II)	6,50,000	9,00,000	2,50,000	38.46
IV. Expenses	4,00,000	5,00,000	1,00,000	25.00
V. Profit before tax (III - IV)	2,50,000	4,00,000	1,50,000	60.00
VI. Tax expense (40%)	1,00,000	1,60,000	60,000	60.00
VII. Profit after tax (V - VI)	1,50,000	2,40,000	90,000	60.00

For example, total revenue increases by $\dfrac{2,50,000}{6,50,000} \times 100 = 38.46\%$, while profit after tax increases by $\dfrac{90,000}{1,50,000} \times 100 = 60\%$. Percentages in the statement are rounded to two decimal places.

Step 3: Conclusion Fenox Ltd.'s profit after tax increased from Rs 1,50,000 to Rs 2,40,000, an increase of Rs 90,000 or 60%. Total revenue increased by 38.46%, whereas expenses increased by 25%.

Quick Tip to Solve: Keep 2011–12 as the denominator for every percentage change, and apply the 40% tax rate to profit before tax, not to revenue.

24. (a) The quick ratio of a company is 1.5 : 1. State with reason which of the following transactions would (i) increase; (ii) decrease or (iii) not change the ratio:

(1) Paid rent Rs. 3,000 in advance.

(2) Trade receivables included a debtor Shri Ashok who paid his entire amount due Rs. 9,700.

(b) From the following information compute 'Proprietary Ratio':

Long Term Borrowings Rs. 2,00,000

Long Term Provisions Rs. 1,00,000

Current Liabilities Rs. 50,000

Non-Current Assets Rs. 3,60,000

Current Assets Rs. 90,000 [4 marks]

Solution:

Concept:

- Quick ratio is $\dfrac{\text{Quick assets}}{\text{Current liabilities}}$. Quick assets equal current assets less inventory and prepaid expenses; cash, bank balances and trade receivables are quick assets.
- A transaction affects a ratio through its effect on the numerator and denominator. A transfer between two quick assets leaves total quick assets unchanged.
- Proprietary ratio is $\dfrac{\text{Shareholders' funds}}{\text{Total assets}}$. Shareholders' funds equal total assets less all outside liabilities, including long-term provisions.

Step 1: (a)(1) Analyse the advance payment of rent Paying Rs 3,000 rent in advance reduces cash or bank by Rs 3,000 and creates prepaid rent of the same amount. Cash is a quick asset but prepaid rent is excluded from quick assets. Thus, total current assets remain unchanged, while quick assets fall by Rs 3,000. Current liabilities are unaffected.

Let current liabilities before payment be Rs L. The original quick assets are Rs $1.5L$, and the new quick ratio is

$$\frac{1.5L - 3,000}{L} = 1.5 - \frac{3,000}{L}.$$

As the numerator decreases while the denominator stays fixed, the ratio decreases below $1.5 : 1$. An exact new numerical ratio cannot be calculated from the original ratio alone.

Step 2: (a)(2) Analyse collection from Shri Ashok Collection of the entire Rs 9,700 due increases cash or bank by Rs 9,700 and reduces trade receivables by Rs 9,700. Both are included in quick assets, so their equal and opposite changes cancel. No discount or loss is involved, since the entire amount due is received.

Total quick assets and current liabilities are therefore unchanged. The quick ratio remains $1.5 : 1$.

Step 3: (b) Derive total assets and shareholders' funds Add both categories of assets to determine total assets:

$$\text{Total assets} = 3,60,000 + 90,000 = \text{Rs } 4,50,000.$$

Outside liabilities include long-term borrowings, long-term provisions and current liabilities:

$$\text{Outside liabilities} = 2,00,000 + 1,00,000 + 50,000 = \text{Rs } 3,50,000.$$

Hence, shareholders' funds are

$$\text{Shareholders' funds} = 4,50,000 - 3,50,000 = \text{Rs } 1,00,000.$$

Step 4: (b) Calculate the proprietary ratio Substitute shareholders' funds and total assets in the ratio:

$$\text{Proprietary ratio} = \frac{1,00,000}{4,50,000} = \frac{2}{9} \approx 0.2222 : 1.$$

In percentage form, shareholders finance approximately 22.22% of total assets. The denominator is total assets, so outside liabilities are subtracted only in deriving shareholders' funds, not from the denominator again.

Step 5: Conclusion (a)(1) Advance rent decreases the quick ratio. (a)(2) Collection from Shri Ashok does not change it; it remains $1.5 : 1$. (b) The proprietary ratio is $2 : 9$, or approximately $0.2222 : 1$ (22.22%).

Quick Tip to Solve: Exclude advance rent from quick assets, but retain both cash and debtors. For proprietary ratio, deduct all outside liabilities, including long-term provisions, to find shareholders' funds.

25. Prepare a Cash Flow Statement on the basis of the information given in the Balance Sheet of Simco Ltd. as at 31.3.2013 and 31.3.2012:

Particulars	Note No.	31.3.2013	31.3.2012
I - Equity and Liabilities			
1. Shareholder's Funds: (a) Share Capital		2,00,000	1,50,000
(b) Reserves and Surplus	1	90,000	75,000
2. Non-Current Liabilities: Long Term Borrowings		87,500	87,500
3. Current Liabilities: Trade Payables		10,000	76,000
Total		3,87,500	3,88,500
II - Assets:			
1. Non-Current Assets: (a) Fixed Assets (i) Tangible Assets		1,87,500	1,40,000
(b) Non-Current Investments		1,05,500	1,02,500
2. Current Assets: (a) Current Investments (Marketable)		12,500	33,500
(b) Inventories		4,000	5,500
(c) Trade Receivables		9,500	23,000
(d) Cash and Cash Equivalents		68,500	84,000
Total		3,87,500	3,88,500

Notes to Accounts: Note 1: Reserves and Surplus - Surplus (Balance in Statement of Profit & Loss): 2013 Rs. 90,000; 2012 Rs. 75,000. [6 marks]

Solution:

Concept:

- Under the indirect method, cash from operating activities is found by adjusting the change in the Statement of Profit and Loss balance for non-cash items and changes in operating working capital.
- Purchases of tangible fixed assets and non-current investments are investing outflows; proceeds from issue of share capital are financing inflows.
- For this question, current marketable investments are treated as cash equivalents. Their movement is therefore included in the reconciliation of cash and cash equivalents, rather than operating working capital.

Step 1: Calculate profit and the working-capital adjustments The surplus in the Statement of Profit and Loss rises from Rs 75,000 to Rs 90,000. No dividend, transfer to reserve, tax adjustment or depreciation is supplied, so the increase of Rs 15,000 is used as the profit for the year without inventing additional adjustments.

$$\begin{aligned} \text{Profit} &= 90,000 - 75,000 = \text{Rs } 15,000, \\ \text{Decrease in inventories} &= 5,500 - 4,000 = \text{Rs } 1,500, \\ \text{Decrease in receivables} &= 23,000 - 9,500 = \text{Rs } 13,500, \\ \text{Decrease in payables} &= 76,000 - 10,000 = \text{Rs } 66,000. \end{aligned}$$

The reductions in inventories and receivables release cash and are added to profit. The reduction in trade payables uses cash and is deducted. Thus the operating cash flow is $15,000 + 1,500 + 13,500 - 66,000 = \text{Rs } (36,000)$.

Step 2: Determine investing and financing cash flows With no disposal, depreciation or non-cash acquisition information given, the increase in tangible assets represents cash purchases: $1,87,500 - 1,40,000 = \text{Rs } 47,500$. The increase in non-current investments is another cash purchase of $1,05,500 - 1,02,500 = \text{Rs } 3,000$. Hence cash used in investing activities is Rs 50,500.

The increase in share capital gives a cash inflow of $2,00,000 - 1,50,000 = \text{Rs } 50,000$. Long-term borrowings remain Rs 87,500, so they give no net financing cash flow. No separate interest payment is supplied.

Step 3: Prepare the cash flow statement and reconcile the closing balance **Simco Ltd.**

Cash Flow Statement for the year ended 31 March 2013

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Profit before adjustments	15,000
Add: Decrease in inventories	1,500
Add: Decrease in trade receivables	13,500
Less: Decrease in trade payables	(66,000)
Net cash used in operating activities (A)	**(36,000)**
B. Cash flows from investing activities	
Purchase of tangible fixed assets	(47,500)
Purchase of non-current investments	(3,000)
Net cash used in investing activities (B)	**(50,500)**
C. Cash flows from financing activities	

Proceeds from issue of share capital	50,000
Net cash from financing activities (C)	**50,000**
Net decrease in cash and cash equivalents (A+B+C)	**(36,500)**
Add: Opening cash and cash equivalents	1,17,500
Closing cash and cash equivalents	**81,000**

Opening cash and cash equivalents are $84,000 + 33,500 =$ Rs $1,17,500$; closing cash and cash equivalents are $68,500 + 12,500 =$ Rs $81,000$. Their difference is Rs 36,500, agreeing with the cash flow statement. The marketable investments must not also be counted as an investing inflow, because that would count their movement twice under the cash-equivalent treatment used here.

Step 4: Conclusion Cash used in operating activities is Rs 36,000; cash used in investing activities is Rs 50,500; and cash from financing activities is Rs 50,000. Cash and cash equivalents decrease by Rs 36,500 to Rs 81,000, including current marketable investments.

Quick Tip to Solve: Include marketable investments in both opening and closing cash equivalents consistently; then check that the three activity totals equal the change in that combined balance.

Option - II

19. What is meant by 'data' as a component of Computerised Accounting System? [1 mark]

Solution:

Concept:

- Data are raw facts and figures supplied to a system for processing.
- In accounting, transaction data are processed according to accounting rules to produce useful financial information.

Step 1: Identify the input to the accounting system A Computerised Accounting System receives details of business transactions, such as the date, account names, amount and voucher number. These unprocessed facts constitute its data component.

Step 2: Distinguish data from the resulting information For example, the date and amount entered from a sales invoice are data. After classification and processing, the system can use those details to produce a sales report; that meaningful output is information.

Step 3: Conclusion Data, as a component of a Computerised Accounting System, mean the raw facts and figures about business transactions that are entered into the system for processing into accounting information.

Quick Tip to Solve: Define data as raw input and illustrate it with a transaction's date or amount, rather than naming a finished financial report.

20. What is relational database? [1 mark]

Solution:

Concept:

- A database is an organised collection of related data.
- In the relational model, data are organised in tables called relations; rows are records and columns are fields.

Step 1: State how the data are organised A relational database stores data in one or more tables. Each row describes an individual record, while each column stores a particular attribute, such as an account code or account name.

Step 2: Explain how the tables are related Tables can be linked through common fields or keys. For example, an account code in a transaction table can identify the corresponding account in an accounts table, allowing the related information to be retrieved together.

Step 3: Conclusion A relational database is a database that organises data into tables of rows and columns, with relationships between tables established through common fields or keys.

Quick Tip to Solve: Remember the three defining features: tables, rows and columns, and links between tables through common keys.

21. What is requirement analysis? [1 mark]

Solution:

Concept:

- A computerised accounting system should be designed or selected to meet the organisation's accounting and information needs.
- Requirement analysis identifies and documents those needs before development or implementation.

Step 1: Identify what the users and organisation need Requirement analysis involves studying the organisation's accounting work and determining what information users require. This includes the transactions to be recorded and the reports to be produced.

Step 2: Specify the system requirements The identified needs are translated into a clear statement of the required inputs, processing, outputs and controls. This statement guides the selection or development of a suitable computerised accounting system.

Step 3: Conclusion Requirement analysis is the process of identifying, analysing and documenting an organisation's needs and the functions that its proposed computerised accounting system must perform.

Quick Tip to Solve: Link requirement analysis to identifying users' needs before choosing or designing the accounting system.

22. Explain any two advantages and one limitation of Computerised Accounting System. [3 marks]

Solution:

Concept:

- A Computerised Accounting System (CAS) uses computer hardware and accounting software to record, classify, process and report financial transactions.
- Computerisation improves processing speed and arithmetic accuracy, but the reliability of the resulting reports still depends on correct input, appropriate software and suitable controls.

Step 1: Advantage 1: Speed of processing A CAS processes a large volume of transactions much faster than a manual system. Once a transaction is entered correctly, the software can update the relevant ledger accounts and prepare the trial balance and financial reports quickly. For example, recording a credit sale can update both the customer's balance and the sales account without manually posting the same transaction again. This saves time and makes current accounting information available promptly for decisions.

Step 2: Advantage 2: Accuracy of calculations The software performs calculations and applies programmed posting rules consistently. It reduces errors such as incorrect addition, subtraction, account totalling and carrying forward of balances that can occur in manual accounting. However, this advantage concerns processing accuracy: an incorrect amount or an incorrect account entered by a user may still produce an incorrect report. Thus, accurate input and correctly configured software remain necessary.

Step 3: Limitation: Dependence on computer facilities The accounting work depends on functioning hardware, software and power supply. A computer failure, software malfunction or interruption of power can temporarily stop entry and processing of transactions and prevent access to reports. Damage to storage may also cause loss of records if adequate backups are absent. Regular backups and maintenance reduce this risk, but they do not remove the system's dependence on computer facilities.

Step 4: Conclusion Two advantages of a Computerised Accounting System are rapid processing and improved arithmetic accuracy. One limitation is its dependence on reliable computer hardware, software and power supply.

Quick Tip to Solve: Explain speed through automatic updating and accuracy through calculations; do not claim that software can correct every wrong input.

23. What is meant by data validation? Give two examples when cell will give error if the values are not meeting the conditions. [4 marks]

Solution:

Concept:

- Data validation is the facility for defining conditions that govern the data a user may enter into a spreadsheet cell or range of cells.
- A validation rule may restrict the data type, permitted numerical range, dates, text length or entries

from a specified list. It helps prevent unsuitable data from entering the worksheet.

Step 1: Meaning and operation of data validation Data validation checks a proposed cell entry against criteria specified for that cell. If the entry meets the criteria, it is accepted. If it does not, the spreadsheet can display an error alert. For the following examples, the validation rule is accompanied by a Stop error alert, so a directly typed invalid entry is rejected and the user must correct it or cancel the entry. This supports consistent and reliable data entry, although passing a validation rule does not by itself prove that a value agrees with the original source document.

Step 2: Example 1: Restrict a cell to whole numbers within a range Suppose cell B2 records marks out of 100. Set its validation condition to allow only whole numbers between 0 and 100, inclusive. The entry 75 is valid because it is a whole number within the permitted range. If the user types 105, the cell produces an error alert because the value exceeds the upper limit of 100. An entry such as 72.5 also fails this particular rule because a whole number is required. The rule checks both the type of number and its permissible limits.

Step 3: Example 2: Restrict the length of a text entry Suppose cell C2 stores a six-character employee code. Set its validation condition to Text length equal to 6. The entry EMP123 is valid because it contains exactly six characters. If the user types EMP12, an error alert appears because that entry has only five characters and fails the specified condition. Similarly, EMP1234 has seven characters and is invalid. This rule controls length only; additional rules would be needed to check any required pattern of letters and digits.

Step 4: Conclusion Data validation sets conditions for acceptable cell entries. For example, entering 105 in a cell restricted to whole numbers from 0 to 100, or EMP12 in a cell requiring exactly six text characters, triggers an error alert under the stated rules.

Quick Tip to Solve: For each example, state the validation condition, an invalid entry and the exact reason that entry fails the condition.

24. Differentiate between 'Desktop database' and 'Server database' on any four basis. [4 marks]

Solution:

Concept:

- A desktop database is designed primarily for personal or small workgroup use on a desktop computer. Its database software and user interface are commonly available on the same machine.
- A server database is managed by a database server that receives requests from client computers over a network. It is designed to manage shared organisational data and many concurrent users.

Step 1: Compare users and capacity The first two bases distinguish the scale of use. A desktop database is suitable for a small accounting application, whereas a server database supports a larger shared accounting system.

Basis	Desktop database	Server database
1. Users and access	Mainly intended for an individual or a small number of users; concurrent access is limited.	Intended for many users accessing shared data simultaneously through client computers.
2. Data volume and scalability	Suitable for relatively small data volumes and lighter workloads; expansion is limited.	Suitable for large data volumes and heavy transaction workloads; capacity can expand with organisational needs.

Step 2: Compare administration and control The next two bases concern the resources needed to run the database and the safeguards used to manage shared records. Desktop databases may have security features, but server databases normally offer more extensive central administration and control.

Basis	Desktop database	Server database
3. Cost and administration	Generally inexpensive, easy to install and operate, and requires less specialised administration.	Generally requires greater infrastructure and administration resources, including skilled database management.
4. Security and reliability	Offers comparatively simpler user permissions, backup and recovery arrangements.	Offers centralised permissions, stronger concurrency controls, and more extensive backup and recovery facilities.

Step 3: Conclusion Thus, desktop and server databases differ on four bases: number of users, data capacity and scalability, cost and administration, and security and reliability. Desktop systems suit personal or small workgroup accounting; server systems suit larger shared accounting operations.

Quick Tip to Solve: Compare the same basis on both sides: users, capacity, administration, and security. Do not claim that a desktop database can never support more than one user.

25. Calculate the formulae from the following information on Excel for computing the amounts of:

(a) Travelling Allowance, Basic Pay upto Rs. 18,000 at 10% and above it at 15%.

(b) Loan Payable, Basic Pay upto Rs. 18,000 at 20% and 25% above that.

(c) Net Salary, adding Travelling Allowance and deducting Loan Payable from Basic Pay. [6 marks]

Solution:

Concept:

- Excel's `IF` function selects one of two results. Its three arguments are the logical test, the result when true, and the result when false, in that order. The test determines which percentage applies to the employee's basic pay.
- Travelling allowance is added to basic pay and loan payable is deducted: Net Salary $=$ Basic Pay $+$ Travelling Allowance $-$ Loan Payable. "Upto Rs 18,000" includes Rs 18,000 itself.

Step 1: Assign cells for the salary data Since no cell addresses are specified, take row 1 for headings and row 2 for the first employee. Enter numeric basic pay in B2, calculate travelling allowance in C2, loan payable in D2 and net salary in E2. These cell references define one valid worksheet arrangement.

Cell	Contents
B2	Basic pay entered as a number
C2	Travelling allowance formula
D2	Loan payable formula
E2	Net salary formula

Step 2: Calculate travelling allowance in C2 **(a)** Test whether basic pay is less than or equal to Rs 18,000. If this condition is true, multiply the whole basic pay by 10%; otherwise multiply it by 15%. Enter in C2:

```
=IF(B2<=18000,B2*10%,B2*15%)
```

The condition includes the equality sign because an employee earning exactly Rs 18,000 belongs to the lower rate category. The higher rate applies to basic pay when it exceeds the limit; this is a rate selection, not a calculation on separate portions of salary.

Step 3: Calculate loan payable in D2 **(b)** Use the same basic-pay test, but apply the loan payable rates: 20% for basic pay up to Rs 18,000 and 25% for basic pay above Rs 18,000. Enter in D2:

```
=IF(B2<=18000,B2*20%,B2*25%)
```

Both loan payable and travelling allowance are calculated on B2, the basic pay. Loan payable is not calculated on basic pay plus travelling allowance.

Step 4: Calculate net salary in E2 and check the formulae **(c)** Add the allowance calculated in C2 to basic pay in B2, then subtract the loan payable calculated in D2. Enter in E2:

```
=B2+C2-D2
```

A boundary check at basic pay of Rs 18,000 gives travelling allowance of Rs 1,800 and loan payable of Rs 3,600. Thus net salary is

$$\text{Rs } 18,000 + \text{Rs } 1,800 - \text{Rs } 3,600 = \text{Rs } 16,200.$$

For a test basic pay of Rs 20,000, the higher rates give allowance of Rs 3,000 and loan payable of Rs 5,000. Net salary is then Rs 18,000. These are checks of the formulae, not additional input values supplied by the question. To process more employees, copy C2:E2 down; the relative row references automatically change to B3, C3, D3 and so on.

Step 5: Conclusion With basic pay in B2, the required formulae are:

Travelling allowance (C2):	`=IF(B2<=18000,B2*10%,B2*15%)`
Loan payable (D2):	`=IF(B2<=18000,B2*20%,B2*25%)`
Net salary (E2):	`=B2+C2-D2`

Quick Tip to Solve: Use <=18000 in both IF tests, apply both percentages to the basic-pay cell, and subtract the loan cell when computing net salary.