CBSE Class 12 Accountancy Question Paper 2017 with Solution PDF-Set 67-1-1 - Compartment

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 **two** parts **A** and **B**.

(ii) Part **A** is **compulsory** for all.

(iii) Part **B** has **two** options : Option – **I** Analysis of Financial Statements and Option – **II** Computerized Accounting.

(iv) Attempt only **one** option of Part **B**.

(v) All parts of a question should be attempted at one place.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. Why should a new partner contribute towards goodwill on his admission ? [1 mark]

Solution:

Concept:

- Goodwill represents the benefit of an established firm's reputation and its capacity to earn profits.
- On admission, the new partner obtains a share of future profits by taking over a part of the old partners' profit shares.

Step 1: Identify the benefit received The incoming partner begins to share profits generated with the help of the reputation and business connections built by the existing partners. This benefit was created before the new partner joined the firm.

Step 2: Identify the sacrifice made The existing partners surrender part of their future profit entitlement. The new partner's contribution towards goodwill compensates the sacrificing partners for this loss; it is credited to them in their sacrificing ratio.

Step 3: Conclusion A new partner contributes towards goodwill to compensate the old partners for the share of future profits they sacrifice in the new partner's favour.

Quick Tip to Solve: Link goodwill compensation to the old partners' sacrifice; distribute the premium in the sacrificing ratio.

2. X, Y and Z were partners sharing profits and losses in the ratio of 3 : 2 : 2. Z retired and the amount due to him was Rs 85,000. He was paid Rs 5,000 immediately. The balance was payable in three equal annual instalments carrying interest @ 6% p.a. Pass necessary journal entry for recording the same on the date of Z's retirement. [1 mark]

Solution:

Concept:

- On retirement, the amount immediately paid reduces the retiring partner's capital balance.
- The amount remaining payable is transferred to the retiring partner's loan account; interest is recorded when it accrues.

Step 1: Calculate the outstanding balance **Working Notes**

The total amount due to Z is Rs 85,000, of which Rs 5,000 is paid immediately. Therefore,

$$\text{Amount transferred to Z's Loan A/c} = 85,000 - 5,000 = \text{Rs } 80,000.$$

The instalment arrangement concerns repayment after retirement. No interest has accrued on the retirement date.

Step 2: Record the settlement on retirement **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Z's Capital A/c Dr. To Bank A/c To Z's Loan A/c (Being Rs 5,000 paid to Z and the balance transferred to his loan account, repayable in three equal annual instalments with interest at 6% p.a.)		85,000	 5,000 80,000

The debit closes Z's capital balance. The two credits distinguish the payment already made from the liability still payable; total credits equal Rs 85,000.

Step 3: Conclusion Debit Z's Capital A/c by Rs 85,000; credit Bank A/c by Rs 5,000 and Z's Loan A/c by Rs 80,000.

Quick Tip to Solve: At retirement, transfer only the unpaid principal to the loan account; record 6% interest when it accrues later.

3. State any one occasion for the dissolution of the firm on court's orders. [1 mark]

Solution:

Concept:

- A court may order dissolution when a legally recognised ground makes continuation of the partnership inappropriate.
- Permanent incapacity of a partner to perform duties is one such ground for court-ordered dissolution.

Step 1: State a recognised occasion One occasion is when a partner, other than the partner bringing the suit, becomes permanently incapable of performing duties as a partner.

Step 2: Explain the ground A partnership depends on partners carrying out their agreed duties. Permanent incapacity prevents the affected partner from fulfilling those obligations, so another partner may seek a court order dissolving the firm. The incapacity must be permanent, rather than a brief absence or temporary illness.

Step 3: Conclusion The court may order dissolution when a partner becomes permanently incapable of performing duties as a partner, on a suit by another partner.

Quick Tip to Solve: For this question, name one definite ground: permanent incapacity to perform partnership duties.

4. Change in Profit Sharing Ratio amounts to dissolution of partnership or partnership firm ? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Partnership is the contractual relationship among partners, including their agreed profit-sharing ratio.
- Dissolution of the firm ends the business relationship among all partners and normally involves winding up the business.

Step 1: Identify what the change affects Changing the profit-sharing ratio changes the existing agreement among partners. Their old relationship is replaced by a new agreement specifying different shares of future profits and losses.

Step 2: Check whether the business ends The firm continues to carry on its business under the revised agreement. Its assets need not be realised and its liabilities need not be settled merely because the ratio changes. This is reconstitution of the firm, involving dissolution of the old partnership relationship.

Step 3: Conclusion A change in the profit-sharing ratio amounts to dissolution of partnership, because the old agreement changes while the firm and its business continue.

Quick Tip to Solve: Ask whether the business continues: a changed ratio with continuing business indicates reconstitution.

5. In which ratio do the remaining partners acquire the share of profit of the retiring partner ? [1 mark]

Solution:

Concept:

- The gaining ratio compares the additional profit shares obtained by the continuing partners on retirement.
- For each continuing partner, gain in share equals new share minus old share.

Step 1: Determine each partner's gain Compare each remaining partner's share after retirement with that partner's earlier share. The difference, New share − Old share, is the share acquired from the retiring partner.

Step 2: Compare the acquired shares Express the individual gains in their simplest ratio. The resulting gaining ratio measures how the retiring partner's share is distributed among the remaining partners. It is not necessarily their old profit-sharing ratio; it depends on the additional share each acquires.

Step 3: Conclusion The remaining partners acquire the retiring partner's share of profit in their gaining ratio.

Quick Tip to Solve: Calculate new share minus old share for each remaining partner, then compare the positive differences.

6. What is meant by 'Employee Stock Option Plan' ? [1 mark]

Solution:

Concept:

- An employee stock option gives an employee a right to acquire shares in the employing company.
- The option specifies a predetermined exercise price and the period or date when the employee may exercise it.

Step 1: Identify the right granted Under an Employee Stock Option Plan, a company offers its employees the option to purchase or subscribe for its shares at a predetermined price, generally lower than the market price, subject to the terms of the plan.

Step 2: Explain how the plan operates Eligible employees may exercise the option at a future date or within the specified period. The grant itself is a right, rather than an obligation to buy shares. Such a plan links employee rewards with ownership in the company and encourages employee participation in its growth.

Step 3: Conclusion An Employee Stock Option Plan is a scheme granting employees the option to buy or subscribe for the company's shares at a predetermined price at a future date or within a specified period.

Quick Tip to Solve: Remember the defining elements: employees, an option to acquire company shares, a fixed price and an exercise period.

7. The total capital of the firm of Sakshi, Mehak and Megha is Rs 1,00,000 and the market rate of interest is 15%. The net profits for the last 3 years were Rs 30,000; Rs 36,000 and Rs 42,000. Goodwill is to be valued at 2 years purchase of the last 3 years' super profits. Calculate the goodwill of the firm. [3 marks]

Solution:

Concept:

- Normal profit is the return that the capital employed would earn at the normal market rate: Normal profit $=$ Capital employed $\times$ Normal rate$/100$.
- Super profit is the excess of average maintainable profit over normal profit. Goodwill equals super profit multiplied by the agreed number of years of purchase.

Step 1: Calculate the average profit All three years carry equal weight because no weights or adjustments to profits are specified. Hence, use the arithmetic mean of the three annual net profits:

$$\text{Average profit} = \frac{30,000 + 36,000 + 42,000}{3} = \frac{1,08,000}{3} = \text{Rs } 36,000.$$

This is the firm's average annual earning capacity for the valuation.

Step 2: Calculate normal profit and super profit The total capital employed is Rs 1,00,000 and the

market rate is 15% per annum. Therefore,

$$\text{Normal profit} = 1,00,000 \times \frac{15}{100} = \text{Rs } 15,000,$$
$$\text{Super profit} = 36,000 - 15,000 = \text{Rs } 21,000.$$

Only the earnings above the normal return are used under the super-profit method. As a check, the individual annual super profits are Rs 15,000, Rs 21,000 and Rs 27,000; their average is also Rs 21,000.

Step 3: Apply the years of purchase The valuation is at two years' purchase of the average super profit for the last three years. Thus,

$$\text{Goodwill} = \text{Average super profit} \times 2 = 21,000 \times 2 = \text{Rs } 42,000.$$

The three-year period is used to average earnings; the two-year multiplier is then used to value goodwill. They serve different purposes.

Step 4: Conclusion The goodwill of the firm of Sakshi, Mehak and Megha is $\boxed{\text{Rs } 42,000}$.

Quick Tip to Solve: Average the three profits first, subtract Rs 15,000 normal profit, and multiply the resulting super profit by 2, not by 3.

8. Madhur Ltd. took over the assets of Rs 3,90,000 and Liabilities of Rs 40,000 of Rasova Ltd. for a consideration of Rs 4,00,000. 20% was paid by a cheque and the balance by issue of fully paid equity shares of Rs 100 each at a premium of 60%. Show necessary journal entries for these transactions in the books of Madhur Ltd. [3 marks]

Solution:

Concept:

- When a business is acquired, agreed assets are debited and liabilities taken over are credited. Purchase consideration exceeding net assets represents goodwill.
- Shares issued to a vendor are credited to Share Capital at face value and to Securities Premium at the premium amount. The number of shares is based on the issue price, not face value.

Step 1: Calculate goodwill and the purchase consideration payable in shares Net assets acquired are Rs 3,90,000 less Rs 40,000, i.e. Rs 3,50,000. The consideration exceeds net assets, so goodwill must be recognised:

$$\text{Goodwill} = 4,00,000 - 3,50,000 = \text{Rs } 50,000,$$
$$\text{Cheque payment} = 4,00,000 \times 20\% = \text{Rs } 80,000,$$
$$\text{Share consideration} = 4,00,000 - 80,000 = \text{Rs } 3,20,000.$$

Each share is issued at Rs 100 plus 60% premium, or Rs 160. Hence, $3,20,000/160 = 2,000$ fully paid shares are issued. Their face value is Rs 2,00,000 and securities premium is Rs 1,20,000.

Step 2: Record acquisition and settlement in the books of Madhur Ltd. **Journal of Madhur Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Rasova Ltd. A/c (Being assets and liabilities taken over for an agreed consideration of Rs 4,00,000)		3,90,000 50,000	 40,000 4,00,000
	Rasova Ltd. A/c Dr. To Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being consideration settled by cheque and 2,000 fully paid equity shares of Rs 100 each at 60% premium)		4,00,000	 80,000 2,00,000 1,20,000

The acquisition entry balances at Rs 4,40,000 on each side. The settlement entry balances at Rs 4,00,000 and clears the vendor's account completely.

Step 3: Conclusion Goodwill is Rs 50,000. Madhur Ltd. pays Rs 80,000 by cheque and issues 2,000 fully paid shares, crediting Share Capital by Rs 2,00,000 and Securities Premium by Rs 1,20,000.

Quick Tip to Solve: Divide the Rs 3,20,000 share consideration by the issue price of Rs 160; credit only Rs 100 per share to Share Capital.

9. Xansa Ltd. offered 22,000 equity shares of Rs 100 each to the public at a premium of Rs 20 per share. The amount per share was payable as Rs 30 on application; Rs 50 (including premium) on allotment; and the balance on first and final call. 20,000 shares were subscribed by the public. All calls were made. A shareholder holding 1,000 shares failed to pay the first and final call money. His shares were forfeited. Show 'Share Capital' in the Balance Sheet of Xansa Ltd. Also, prepare 'Notes to Accounts'. [3 marks]

Solution:

Concept:

- Share capital includes the face value of outstanding subscribed shares and the capital received on forfeited shares pending reissue.
- Forfeited shares are excluded from subscribed capital. Securities premium is shown separately under reserves and surplus.

Step 1: Determine the call amount and the capital received on forfeited shares The issue price is Rs 120, including premium of Rs 20. Application is Rs 30 and allotment Rs 50, including the full premium. Therefore,

$$\text{First and final call} = 120 - 30 - 50 = \text{Rs } 40 \text{ per share},$$
$$\text{Capital received per forfeited share} = 30 + (50 - 20) = \text{Rs } 60,$$
$$\text{Share forfeiture balance} = 1,000 \times 60 = \text{Rs } 60,000.$$

Premium received is not reversed. After forfeiture, $20,000 - 1,000 = 19,000$ fully paid shares remain, giving subscribed capital of Rs 19,00,000.

Step 2: Present the Balance Sheet extract and the supporting note **Xansa Ltd. — Balance Sheet (extract)**

Particulars	Note	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	19,60,000

Notes to Accounts — Note 1: Share Capital

Particulars	Amount (Rs)
Issued capital	
22,000 equity shares of Rs 100 each	22,00,000
Subscribed and fully paid-up capital	
19,000 equity shares of Rs 100 each	19,00,000
Add: Forfeited shares (amount originally paid on 1,000 shares)	60,000
Total share capital	**19,60,000**

Authorised capital is not given. The 2,000 unsubscribed shares are excluded from subscribed capital; Rs 4,00,000 securities premium is excluded from share capital.

Step 3: Conclusion Share Capital under Shareholders' funds is $19,00,000 + 60,000 = \boxed{\text{Rs } 19,60,000}$.

Quick Tip to Solve: Exclude the Rs 20 premium when finding capital paid on forfeited shares: Rs 30 application plus Rs 30 allotment capital gives Rs 60 per share.

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10. Anuj, Manoj and Disha were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 1st April, 2016, the capitals of the partners were : Rs 3,00,000; Rs 2,00,000 and Rs 1,00,000 respectively. The firm closes its books on 31st March every year. Disha died on 1st July, 2016.

(a) On Disha's death the goodwill of the firm was valued at Rs 30,000.

(b) Disha's share of profit till the date of her death was calculated at Rs 12,000.

Pass necessary journal entries in the books of the firm for the above on Disha's Death. [3 marks]

Solution:

Concept:

- A deceased partner's share of goodwill is credited to her capital account. The continuing partners bear this compensation in their gaining ratio.
- The deceased partner's profit up to the date of death is credited to her capital account by debiting Profit and Loss Suspense Account when the final profit has not yet been determined.

Step 1: Calculate the goodwill adjustment **Working Notes:** Disha's old share is $1/5$. Her share of the firm's goodwill is therefore

$$\text{Rs } 30,000 \times \frac{1}{5} = \text{Rs } 6,000.$$

No new ratio is given for Anuj and Manoj. They therefore continue in their relative old ratio,

$2 : 2 = 1 : 1$. Each new share is $1/2$, so each gains

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

Thus, the gaining ratio is $1 : 1$, and each continuing partner compensates Disha by Rs $6,000 \times 1/2 =$ Rs $3,000$. The opening capital balances do not determine this allocation: goodwill follows the gain in profit share.

Step 2: Record both adjustments on the date of death **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 July 2016	Anuj's Capital A/c Dr. Manoj's Capital A/c Dr. To Disha's Capital A/c (Being Disha's share of goodwill adjusted through the continuing partners' capital accounts in their gaining ratio of 1:1.)		3,000 3,000	 6,000
1 July 2016	Profit and Loss Suspense A/c Dr. To Disha's Capital A/c (Being Disha's share of profit up to the date of death credited to her capital account.)		12,000	 12,000

The Rs 12,000 given is already Disha's own share for the period up to 1 July 2016; it is not multiplied by either $1/5$ or $3/12$ again. The goodwill adjustment does not require opening a Goodwill Account.

Step 3: Conclusion Credit Disha's Capital Account with Rs 6,000 for goodwill and Rs 12,000 for profit, a total increase of Rs 18,000. Debit Anuj's and Manoj's Capital Accounts by Rs 3,000 each, and Profit and Loss Suspense Account by Rs 12,000.

Quick Tip to Solve: For death adjustments, use the gaining ratio for goodwill and credit the deceased partner's stated profit share directly; do not time-apportion a share already calculated to the date of death.

11. Tvisha and Divya were partners in a firm carrying on a tiffin service in Hyderabad. Divya noticed that a lot of food is left at the end of the day. To avoid wastage, she suggested that the same may be distributed among the needy. Tvisha wanted it to be mixed with the food to be served the next day. Tvisha then gave a proposal that if her share in the profit is increased, she will not mind free distribution of left over food. Divya happily agreed. So, they decided to change their profit sharing ratio to 3 : 2 with immediate effect. On the date of change in the profit-sharing ratio, the goodwill of the firm was valued at Rs 50,000.

(a) Pass the necessary adjustment entry for the treatment of goodwill.

(b) State any two values highlighted in the behavior of Tvisha and Divya. [4 marks]

Solution:

Concept:

- When the old profit-sharing ratio is not stated, partners are treated as sharing profits equally. Gain is new share minus old share; sacrifice is old share minus new share.
- On a change in the profit-sharing ratio, the gaining partner compensates the sacrificing partner for goodwill. The adjustment is made through their capital accounts without raising goodwill in the books.

Step 1: Determine the gain and sacrifice **Working Notes:** No earlier profit-sharing ratio is given, so Tvisha's and Divya's old shares are each $1/2$. The new ratio is $3 : 2$; hence Tvisha's new share is $3/5$ and Divya's new share is $2/5$.

$$\text{Tvisha's gain} = \frac{3}{5} - \frac{1}{2} = \frac{1}{10},$$
$$\text{Divya's sacrifice} = \frac{1}{2} - \frac{2}{5} = \frac{1}{10}.$$

Tvisha must compensate Divya for the additional share acquired. The required amount is

$$\text{Rs } 50,000 \times \frac{1}{10} = \text{Rs } 5,000.$$

The goodwill is not divided in the new ratio: only the change in their interests needs adjustment.

Step 2: Pass the goodwill adjustment entry **(a) Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Tvisha's Capital A/c Dr. To Divya's Capital A/c (Being goodwill adjusted on change of profit-sharing ratio, with Tvisha compensating Divya for her sacrifice of 1/10.)		5,000	 5,000

Tvisha's capital is debited because she gains a right to future profits; Divya's capital is credited because she gives up that right. The debit equals the credit and total partners' capital is unchanged by this transfer.

Step 3: Identify two values illustrated by the conduct **(b) Compassion and social responsibility:** Divya wishes to distribute surplus food among needy people. Her concern for their welfare gives a socially useful purpose to food that would otherwise be wasted.

Cooperation and willingness to sacrifice: Divya willingly accepts a smaller share of future profits to secure agreement for distributing food. She puts the charitable purpose above her personal monetary

interest.

Tvisha's demand for extra profit before agreeing shows self-interest and a lack of generosity. Her proposed reuse of leftover food also fails to show the concern for consumers that a food business should exercise; her conduct should not be described as selfless charity.

Step 4: Conclusion Debit Tvisha's Capital Account and credit Divya's Capital Account by Rs 5,000. Divya's behaviour highlights compassion and cooperative sacrifice, whereas Tvisha's conditional consent reflects self-interest.

Quick Tip to Solve: First establish the old ratio: where none is stated, take equal shares. Compare each old share with the new share, then transfer goodwill from the gaining partner to the sacrificing partner.

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12. Prayuj Ltd. forfeited 2,000 shares of Rs 10 each, fully called up, on which they had received only Rs 14,000. 50 of the forfeited shares were reissued for Rs 9 per share fully paid up.

Pass necessary journal entries for forfeiture and re-issue of shares. Also prepare share forfeited account. [4 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up amount; credit Share Forfeited with capital money already received and Calls in Arrears with the unpaid amount.
- Discount on reissue is debited to Share Forfeited. Only the surplus attributable to shares actually reissued is transferred to Capital Reserve; the balance for unreissued shares remains in Share Forfeited.

Step 1: Calculate forfeiture and reissue amounts **Working Notes**

The shares are fully called up, so the capital cancelled is $2,000 \times$ Rs $10 =$ Rs $20,000$. Capital received is Rs 14,000, giving unpaid calls of $20,000 - 14,000 =$ Rs $6,000$.

$$\text{Amount forfeited per share} = 14,000/2,000 = \text{Rs } 7,$$
$$\text{Bank receipt on reissue} = 50 \times 9 = \text{Rs } 450,$$
$$\text{Capital restored on reissue} = 50 \times 10 = \text{Rs } 500,$$
$$\text{Reissue discount} = 50 \times (10 - 9) = \text{Rs } 50.$$

The forfeited amount relating to the 50 reissued shares is $50 \times 7 =$ Rs 350. After meeting the reissue discount, the surplus eligible for transfer is $350 - 50 =$ Rs 300. The remaining 1,950 shares have not been reissued, so their forfeited amount is retained.

Step 2: Record the journal entries **Journal of Prayuj Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		20,000	
	To Calls in Arrears A/c			6,000
	To Share Forfeited A/c			14,000
	(Being 2,000 shares of Rs 10 each, fully called up, forfeited for non-payment of calls)			

	Bank A/c Dr. Share Forfeited A/c Dr. To Share Capital A/c (Being 50 forfeited shares reissued at Rs 9 each as fully paid shares of Rs 10 each)		450 50	 500
	Share Forfeited A/c Dr. To Capital Reserve A/c (Being surplus on the 50 reissued shares transferred to Capital Reserve)		300	 300

Step 3: Prepare the Share Forfeited Account **Share Forfeited Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Capital A/c To Capital Reserve A/c To Balance c/d	50 300 13,650	By Share Capital A/c	14,000	
	Total	14,000	Total	14,000	
			By Balance b/d	13,650	

The carried-forward credit balance also equals $1,950 \times$ Rs $7 =$ Rs $13,650$, independently checking that only the amount belonging to the reissued shares has been used or transferred.

Step 4: Conclusion The forfeiture credit is Rs 14,000. Of this, Rs 50 meets the reissue discount and Rs 300 is transferred to Capital Reserve. The Share Forfeited Account retains a credit balance of Rs 13,650 for the 1,950 unreissued shares.

Quick Tip to Solve: Allocate Rs 7 forfeiture money to each reissued share first: for 50 shares, Rs 350 less Rs 50 reissue discount gives Rs 300 Capital Reserve.

13. (a) Journalise the following transaction at the time of issue of 12% debentures ;

Nandan Ltd. issued Rs 90,000, 12% debentures of Rs 100 each at a discount of 5% redeemable at 110%.

(b) Journalise the following transactions on redemption of debentures :

(i) Kipter Ltd. redeemed Rs 1,90,000, 14% debentures of Rs 100 each issued at par by converting them into equity shares of Rs 10 each issued at a premium of 25%.

(ii) Rabtec Ltd. purchased its own 3,000, 12% Debentures of Rs 100 each at Rs 96 per debenture for immediate cancellation.

Ignore entries for Debenture Redemption Reserve, Debenture Redemption Investments and Interest.

[6 marks]

Solution:

Concept:

- On issue of debentures at a discount and redemption at a premium, Loss on Issue of Debentures equals the issue discount plus the redemption premium. The debenture liability is credited at face value.
- On conversion, the amount due to debentureholders is divided by the issue price per equity share. Share Capital records face value and Securities Premium Reserve records the excess over face

value.

- Own debentures bought for immediate cancellation are recorded at purchase cost. The difference between face value cancelled and purchase cost is a capital profit credited to Capital Reserve.

Step 1: Compute Nandan Ltd.'s issue proceeds and loss **(a) Working Notes**

The face value issued is Rs 90,000, representing $90,000/100 = 900$ debentures. Discount is calculated on face value, while the redemption liability includes the premium of 10%.

$$\begin{aligned}\text{Issue discount} &= 90,000 \times 5\% = \text{Rs } 4,500,\\ \text{Bank proceeds} &= 90,000 - 4,500 = \text{Rs } 85,500,\\ \text{Redemption premium} &= 90,000 \times 10\% = \text{Rs } 9,000,\\ \text{Loss on issue} &= 4,500 + 9,000 = \text{Rs } 13,500.\end{aligned}$$

The redemption premium is recognised when the debentures are issued even though it will be paid on redemption. The 12% rate describes interest and does not determine either issue proceeds or redemption premium.

Step 2: Journalise Nandan Ltd.'s issue **Journal of Nandan Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		85,500	
	Loss on Issue of Debentures A/c Dr.		13,500	
	To 12% Debentures A/c			90,000
	To Premium on Redemption of Debentures A/c			9,000
	(Being 900 debentures of Rs 100 each issued at 5% discount, redeemable at 110%)			

Total debit and total credit are each Rs 99,000. The credit of Rs 90,000 retains the face-value debenture liability separately from the premium payable.

Step 3: Record Kipter Ltd.'s conversion into shares **(b)(i) Working Notes**

The amount due on redemption is Rs 1,90,000. Each equity share has face value Rs 10 and an issue premium of $10 \times 25\% = \text{Rs } 2.50$; thus its issue price is Rs 12.50.

$$\begin{aligned}\text{Number of shares issued} &= 1,90,000/12.50 = 15,200,\\ \text{Share Capital} &= 15,200 \times 10 = \text{Rs } 1,52,000,\\ \text{Securities Premium Reserve} &= 15,200 \times 2.50 = \text{Rs } 38,000.\end{aligned}$$

Journal of Kipter Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	14% Debentures A/c Dr.		1,90,000	
	To Debentureholders A/c			1,90,000
	(Being the amount due to debentureholders on redemption transferred)			
	Debentureholders A/c Dr.		1,90,000	
	To Equity Share Capital A/c			1,52,000
	To Securities Premium Reserve A/c			38,000
	(Being debentures redeemed by issuing 15,200 equity shares of Rs 10 each at 25% premium)			

The credit total $1,52,000 + 38,000 =$ Rs $1,90,000$ exactly settles the debentureholders' claim. This conversion involves no cash payment.

Step 4: Record Rabtec Ltd.'s purchase and cancellation **(b)(ii) Working Notes**

Face value cancelled is $3,000 \times 100 =$ Rs $3,00,000$. The purchase cost is $3,000 \times 96 =$ Rs $2,88,000$. As cancellation removes a liability of Rs 3,00,000 for Rs 2,88,000, capital profit is $3,00,000 - 2,88,000 =$ Rs $12,000$.

Journal of Rabtec Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Own Debentures A/c Dr. To Bank A/c (Being 3,000 own 12% debentures purchased at Rs 96 each for immediate cancellation)		2,88,000	 2,88,000
	12% Debentures A/c Dr. To Own Debentures A/c To Capital Reserve A/c (Being own debentures cancelled and the profit on cancellation credited to Capital Reserve)		3,00,000	 2,88,000 12,000

Own Debentures Account is fully cleared by cancellation. Entries for Debenture Redemption Reserve, Debenture Redemption Investments and interest are omitted as instructed.

Step 5: Conclusion Nandan Ltd. records Rs 13,500 loss on issue and Rs 9,000 redemption premium. Kipter Ltd. issues 15,200 equity shares, crediting Rs 1,52,000 to Share Capital and Rs 38,000 to Securities Premium Reserve. Rabtec Ltd. pays Rs 2,88,000 and earns Rs 12,000 capital profit on cancellation.

Quick Tip to Solve: Use Rs 12.50, including premium, to find the conversion share count; for cancellation compare Rs 100 face value with Rs 96 cost per debenture.

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14. Give the necessary journal entries for the following transactions on dissolution of the firm of Aman and Rajat on 31st March, 2016, after the transfer of various assets (other than cash) and the third party liabilities to Realisation Account. They shared profits and losses in the ratio of 2 : 1.

(a) There was a bill of exchange of Rs 10,000 under discount. The bill was received from Derek who became insolvent.

(b) Bills payable of Rs 30,000 falling due on 30th April, 2016 were discharged at Rs 29,550.

(c) Creditors of Rs 30,000 took over stock of Rs 10,000 at 10% discount and the balance was paid to them in cash.

(d) There was an old typewriter which had been written off completely. It was estimated to realize Rs 600. It was taken away by Rajat at 25% less than the estimated price.

(e) Aman agreed to take over the responsibility of completing dissolution at an agreed remuneration of Rs 1,000 and to bear all realization expenses. Actual realisation expenses Rs 800 were paid by the firm.

(f) Loss on realization was Rs 54,000. [6 marks]

Solution:

Concept:

- After assets and outside liabilities have been transferred, cash paid to settle liabilities is debited to Realisation Account. Assets taken over by a partner are debited to that partner's Capital Account and credited to Realisation Account.
- Where a partner bears dissolution expenses for an agreed remuneration, charge the remuneration to Realisation Account; actual expenses paid by the firm on the partner's behalf are charged to that partner's Capital Account.
- The final realisation loss is transferred to partners' Capital Accounts in their profit-sharing ratio, here Aman : Rajat $= 2 : 1$.

Step 1: (a) Meet the liability on the discounted bill Derek's insolvency makes the firm liable to pay the bank Rs 10,000 on the discounted bill. Since no recovery from Derek is given, the amount is a realisation loss. The contingent liability was not included among the liabilities already transferred.

Journal of Aman and Rajat (31 March 2016)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being discounted bill met on Derek's insolvency)		10,000	 10,000

Step 2: (b) Discharge bills payable before maturity Bills payable of Rs 30,000 are settled for Rs 29,550. Since their full book value has already been credited to Realisation Account, debit only the amount actually paid. The difference of Rs 450 remains as a gain within Realisation Account; no separate discount entry is required.

Journal of Aman and Rajat (31 March 2016)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being bills payable discharged before maturity)		29,550	 29,550

Step 3: (c) Settle creditors partly with stock The creditors accept stock at $10,000 \times 90\% =$ Rs $9,000$. Hence cash paid is $30,000 - 9,000 =$ Rs $21,000$. No separate entry is passed for stock taken over by creditors because both stock and creditors have already been transferred to Realisation Account. Only the cash settlement is recorded.

Journal of Aman and Rajat (31 March 2016)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being balance paid to creditors after stock takeover)		21,000	 21,000

Step 4: (d) Record Rajat's takeover of the unrecorded typewriter The typewriter has nil book value, but its agreed takeover value is $600 \times 75\% =$ Rs 450. Rajat receives the asset, so his capital is debited and Realisation Account is credited with its realised value.

Journal of Aman and Rajat (31 March 2016)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Rajat's Capital A/c Dr. To Realisation A/c (Being unrecorded typewriter taken over by Rajat)		450	 450

Step 5: (e) Record remuneration and expenses paid for Aman The agreed remuneration of Rs 1,000 is the firm's realisation expense. Aman must bear actual expenses; therefore the firm's payment of Rs 800 reduces his capital entitlement, rather than creating another realisation expense.

Journal of Aman and Rajat (31 March 2016)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Aman's Capital A/c (Being agreed remuneration allowed to Aman)		1,000	 1,000
	Aman's Capital A/c Dr. To Bank A/c (Being expenses payable by Aman paid by the firm)		800	 800

Step 6: (f) Transfer the final realisation loss Allocate the given final loss of Rs 54,000 in the ratio $2:1$: Aman's share is $54,000 \times 2/3 = \text{Rs } 36,000$, and Rajat's share is $54,000 \times 1/3 = \text{Rs } 18,000$. Debit their capitals and credit Realisation Account to close its debit balance.

Journal of Aman and Rajat (31 March 2016)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Aman's Capital A/c Dr. Rajat's Capital A/c Dr. To Realisation A/c (Being realisation loss transferred in the ratio 2:1)		36,000 18,000	 54,000

Step 7: Conclusion The required entries are recorded above. Cash paid to creditors is Rs 21,000, Rajat's typewriter takeover is Rs 450, and the final realisation loss is borne by Aman and Rajat as Rs 36,000 and Rs 18,000 respectively.

Quick Tip to Solve: For creditors taking over stock, subtract the agreed stock value from their dues and record only the cash balance; do not transfer assets or liabilities a second time.

15. Piya and Bina are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following was the Balance Sheet of the firm as on 31-3-2016.

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Piya 80,000 Bina 40,000	**1,20,000**	**Sundry Assets**	**1,20,000**
	1,20,000		**1,20,000**

The profits Rs 30,000 for the year ended 31-3-2016 were divided between the partners without allowing interest on capital @ 12% p.a. and salary to Piya @ Rs 1,000 per month. During the year Piya withdrew Rs 8,000 and Bina withdrew Rs 4,000. Showing your working notes clearly, pass the necessary rectifying entry. [6 marks]

Solution:

Concept:

- Interest on capital is calculated on opening capital. When closing capitals include the profit already credited and drawings deducted, opening capital equals closing capital plus drawings minus the profit credited.

- Correct appropriations consist of interest on capital, the agreed partner's salary and the residual profit shared in the profit-sharing ratio. A single rectifying entry transfers the excess credit of one partner to the under-credited partner.

Step 1: Reconstruct opening capitals Profit of Rs 30,000 was already shared in the ratio $3:2$. Thus Piya received $30,000 \times 3/5 = \text{Rs } 18,000$, and Bina received $30,000 \times 2/5 = \text{Rs } 12,000$. The balance sheet shows capitals at the end of the year, after these credits and the year's drawings. Reverse both movements to obtain the amounts on which interest is due.

$$\begin{aligned}\text{Piya's opening capital} &= 80,000 + 8,000 - 18,000\\ &= \text{Rs } 70,000,\\ \text{Bina's opening capital} &= 40,000 + 4,000 - 12,000\\ &= \text{Rs } 32,000.\end{aligned}$$

Check: $70,000 + 18,000 - 8,000 = 80,000$ and $32,000 + 12,000 - 4,000 = 40,000$, matching the closing capitals.

Step 2: Calculate interest, salary and residual profit Interest on opening capitals at 12% per annum and salary to Piya for twelve months are:

$$\begin{aligned}\text{Piya's interest} &= 70,000 \times 12\% = \text{Rs } 8,400,\\ \text{Bina's interest} &= 32,000 \times 12\% = \text{Rs } 3,840,\\ \text{Piya's salary} &= 1,000 \times 12 = \text{Rs } 12,000.\end{aligned}$$

Total prior appropriations are $8,400 + 3,840 + 12,000 = \text{Rs } 24,240$. The profit remaining for division in the ratio $3:2$ is $30,000 - 24,240 = \text{Rs } 5,760$. Hence Piya's residual share is $5,760 \times 3/5 = \text{Rs } 3,456$, and Bina's is $5,760 \times 2/5 = \text{Rs } 2,304$. No interest on drawings is charged because the question specifies none.

Step 3: Compare the correct credits with those already made Working note: correction of profit distribution (amounts in Rs)

Particulars	Piya	Bina
Interest on capital	8,400	3,840
Partner's salary	12,000	—
Share of residual profit	3,456	2,304
Correct total credit	23,856	6,144
Profit already credited	18,000	12,000
Adjustment required	5,856 Cr.	5,856 Dr.

The correct credits still total Rs 30,000. Piya was under-credited by Rs 5,856, while Bina was over-credited by the same amount. The correction therefore changes only their relative capital balances; it does not change total capital or reopen the nominal profit accounts.

Step 4: Pass the single rectifying entry Journal of Piya and Bina

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2016	Bina's Capital A/c Dr.		5,856	
	To Piya's Capital A/c			5,856
	(Being omitted interest on capital and Piya's salary adjusted through partners' capitals)			

After posting, Piya's capital becomes $80,000+5,856 =$ Rs $85,856$, and Bina's becomes $40,000-5,856 =$ Rs $34,144$. Their combined capital remains Rs 1,20,000, providing a check on the entry.

Step 5: Conclusion Debit Bina's Capital Account and credit Piya's Capital Account by Rs 5,856 each to rectify the omitted interest on capital and Piya's salary.

Quick Tip to Solve: Start with opening capitals: add drawings to the closing balance and remove the old profit credit before applying the 12% interest rate.

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16. Nitro Paints Ltd. invited application for issuing 1,60,000 equity shares of Rs 10 each at a premium of Rs 3 per share. The amount was payable as follows :

On application - Rs 6 per share (including premium Rs 1)

On allotment - Rs 3 per share (including premium Rs 1) and

the balance - on first and final call.

Application for 1,80,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Over payment received on application was adjusted towards sums due on allotment. All calls were made and were duly received except allotment and final call from Aditya who was allotted 3,200 shares. His shares were forfeited. Half of the forfeited shares were re-issued for Rs 43,000 as fully paid up.

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

Solution:

Concept:

- Excess application money is adjusted against allotment; application premium is separated from share capital.
- Forfeiture cancels called-up capital, reverses unpaid premium and credits capital already received to Share Forfeiture.
- On reissue, proceeds above face value are securities premium. Forfeiture profit relating only to shares reissued goes to Capital Reserve.

Step 1: Calculate the pro-rata adjustment **Working Notes**

The company issues 1,60,000 shares for Rs 13 each. Application includes Rs 5 capital and Rs 1 premium; allotment includes Rs 2 capital and Rs 1 premium. The first and final call is therefore Rs 4, comprising Rs 3 capital and Rs 1 premium. Applications for 10,000 shares are rejected, leaving 1,70,000 applications against 1,60,000 shares. Thus applied shares : allotted shares is $17 : 16$.

$$\text{Application received} = 1,80,000 \times 6 = \text{Rs } 10,80,000,$$
$$\text{Refund} = 10,000 \times 6 = \text{Rs } 60,000,$$
$$\text{Excess adjusted} = (1,70,000 - 1,60,000) \times 6 = \text{Rs } 60,000.$$

Aditya applied for $3,200 \times 17/16 = 3,400$ shares. His excess application money is $(3,400-3,200) \times 6 =$ Rs $1,200$, so unpaid allotment is $3,200 \times 3 - 1,200 =$ Rs $8,400$. His unpaid final call is $3,200 \times 4 =$ Rs $12,800$.

Step 2: Record application and allotment Journal of Nitro Paints Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,80,000 shares)		10,80,000	 10,80,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c To Share Allotment A/c To Bank A/c (Being application transferred, excess adjusted and rejected applications refunded)		10,80,000	 8,00,000 1,60,000 60,000 60,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being allotment due on 1,60,000 shares)		4,80,000	 3,20,000 1,60,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after adjustment of Rs 60,000 and default of Rs 8,400)		4,11,600	 4,11,600

Step 3: Record the final call Journal of Nitro Paints Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being first and final call due, including premium of Rs 1 per share)		6,40,000	 4,80,000 1,60,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call received except Rs 12,800 from Aditya)		6,27,200	 6,27,200

Step 4: Calculate the amount forfeited **Working Notes**

Excess application money is adjusted first against the capital component of allotment. Aditya's excess of Rs 1,200 is less than allotment capital of $3,200 \times 2 = \text{Rs } 6,400$, so the allotment premium remains unpaid. The premium received with application is retained; only the unpaid premium credited on allotment and final call is reversed.

$$\text{Unpaid premium} = 3,200 \times (1+1) = \text{Rs } 6,400,$$
$$\text{Capital received} = 3,200 \times 5 + 1,200 = \text{Rs } 17,200.$$

Of the 3,200 forfeited shares, 1,600 are reissued. Their face value is Rs 16,000, but proceeds are Rs 43,000; consequently reissue premium is Rs 27,000 and there is no reissue discount. Only the forfeiture balance on these reissued shares, $17,200 \times 1,600/3,200 = \text{Rs } 8,600$, is transferred to Capital Reserve.

Step 5: Record forfeiture and reissue Journal of Nitro Paints Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		32,000	
	Securities Premium Reserve A/c Dr.		6,400	
	To Share Allotment A/c			8,400
	To Share First and Final Call A/c			12,800
	To Share Forfeiture A/c			17,200
	(Being 3,200 shares forfeited and unpaid premium reversed)			
	Bank A/c Dr.		43,000	
	To Share Capital A/c			16,000
	To Securities Premium Reserve A/c			27,000
	(Being 1,600 forfeited shares reissued as fully paid at a premium)			
	Share Forfeiture A/c Dr.		8,600	
	To Capital Reserve A/c			8,600
	(Being profit on the reissued shares transferred to capital reserve)			

Step 6: Conclusion The journal entries record forfeiture of 3,200 shares and reissue of 1,600 shares. Capital Reserve is credited with Rs 8,600; the remaining Rs 8,600 stays in Share Forfeiture for shares not yet reissued.

Quick Tip to Solve: Split every instalment into capital and premium first. For Aditya, adjust the Rs 1,200 excess against allotment capital, then transfer only half the forfeiture balance on half reissue.

OR

16. Midee Ltd. invited applications for issuing 27,000 shares of Rs 100 each payable as follows :

Rs 50 - per share on application

Rs 10 - per share on allotment

Balance - on first and final call.

Applications were received for 40,000 shares. Full allotment was made to the applicants of 7,000 shares. The remaining applicants were allotted 20,000 shares on pro-rata basis. Excess money received on application was adjusted towards allotment and call.

Asha, holding 600 shares was belonged to the category of applicants to whom full allotment was made, paid the call money at the time of allotment. Ankur, who belonged to the category of applicants to whom shares were allotted on pro-rata basis did not pay anything after application on his 200 shares. Ankur's shares were forfeited after the first and final call. These shares were later reissued at Rs 105 per share as fully paid up.

Pass necessary journal entries in the books of Midee Ltd. for the above transactions, by opening calls in arrears and calls in advance accounts wherever necessary. [8 marks]

Solution:

Concept:

- For pro-rata allotment, apply excess application money to allotment and then credit any remaining amount to Calls in Advance.
- Calls in Advance is adjusted when the call becomes due; any unpaid balance is separately recorded in Calls in Arrears.
- Forfeiture credits the capital received to Share Forfeiture. On reissue above par, record the premium separately and transfer the related forfeiture profit to Capital Reserve.

Step 1: Calculate application adjustments and calls in advance **Working Notes**

Of 40,000 applications, 7,000 receive full allotment and 33,000 applications receive 20,000 shares. The pro-rata ratio of applied shares to allotted shares is therefore $33 : 20$. The final call is $100-50-10 =$ Rs 40 per share.

$$\text{Application received} = 40,000 \times 50 = \text{Rs } 20,00,000,$$

$$\text{Application capital} = 27,000 \times 50 = \text{Rs } 13,50,000,$$

$$\text{Excess application} = 13,000 \times 50 = \text{Rs } 6,50,000.$$

Only the pro-rata group has excess application money. Of its Rs 6,50,000 excess, Rs 2,00,000 covers allotment on its 20,000 shares; the remaining Rs 4,50,000 is credited to Calls in Advance for the final call. Applicants allotted 7,000 shares in full still owe Rs 70,000 on allotment. Asha additionally pays $600 \times 40 =$ Rs $24,000$ towards the call in advance, making bank receipt at allotment Rs 94,000.

Step 2: Record receipt and adjustment of application money Journal of Midee Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 40,000 shares)		20,00,000	 20,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Calls in Advance A/c (Being application capital transferred and excess adjusted towards allotment and future call)		20,00,000	 13,50,000 2,00,000 4,50,000

Step 3: Record allotment and the advance paid by Asha Journal of Midee Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment of Rs 10 per share due on 27,000 shares)		2,70,000	 2,70,000
	Bank A/c Dr. To Share Allotment A/c To Calls in Advance A/c (Being balance allotment received with Asha's final call paid in advance)		94,000	 70,000 24,000

Step 4: Calculate Ankur's arrears and call receipts **Working Notes**

Ankur's 200 allotted shares correspond to $200 \times 33/20 = 330$ applications. He paid $330 \times 50 = \text{Rs } 16,500$ on application. Against this, application capital is Rs 10,000 and allotment is Rs 2,000. The balance of Rs 4,500 is his advance towards the final call. Thus his failure to pay after application creates no allotment arrears.

$$\begin{aligned}
\text{Ankur's final call due} &= 200 \times 40 = \text{Rs } 8,000,\\
\text{His call arrears} &= 8,000 - 4,500 = \text{Rs } 3,500,\\
\text{Total final call due} &= 27,000 \times 40 = \text{Rs } 10,80,000,\\
\text{Calls in Advance applied} &= 4,50,000 + 24,000 = \text{Rs } 4,74,000,\\
\text{Call money received} &= 10,80,000 - 4,74,000 - 3,500\\
&= \text{Rs } 6,02,500.
\end{aligned}$$

Calls in Advance is a liability until the call becomes due. It is then debited and the call account is credited; Ankur's remaining unpaid amount is separately debited to Calls in Arrears.

Step 5: Record the final call and its settlement Journal of Midee Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call of Rs 40 per share made on 27,000 shares)		10,80,000	 10,80,000
	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being final call settled by bank receipt and advance adjustment, with Ankur's default recorded)		6,02,500 4,74,000 3,500	 10,80,000

Step 6: Record forfeiture, reissue and transfer of profit Ankur's fully called capital is $200 \times 100 = \text{Rs } 20,000$. All Rs 16,500 he paid now represents capital received, while Rs 3,500 is unpaid. All 200 forfeited shares are reissued at Rs 105 each, so cash received is Rs 21,000 and reissue premium is Rs 1,000. No forfeiture balance is used for a discount; the entire Rs 16,500 is transferred to Capital Reserve.

Journal of Midee Ltd. (continued)

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

	Share Capital A/c Dr.
	  To Calls in Arrears A/c
	  To Share Forfeiture A/c
	(Being Ankur's 200 fully called shares forfeited for non-payment of the call balance)
			20,000	
				3,500
				16,500

	Bank A/c Dr.
	  To Share Capital A/c
	  To Securities Premium Reserve A/c
	(Being 200 forfeited shares reissued at Rs 105 each as fully paid)
			21,000	
				20,000
				1,000

	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on all reissued shares transferred to capital reserve)		16,500	16,500

Step 7: Conclusion Ankur's call arrears are Rs 3,500 and the amount forfeited is Rs 16,500. Reissue produces securities premium of Rs 1,000, and Rs 16,500 is transferred to Capital Reserve. Calls in Advance and Calls in Arrears are both cleared by the entries above.

Quick Tip to Solve: For Ankur, convert 200 allotted shares to 330 applications first. His Rs 6,500 excess covers Rs 2,000 allotment and Rs 4,500 call, so only Rs 3,500 remains unpaid.

17. The Balance Sheet of Madhu and Vidhi who are sharing profits in the ratio of 2 : 3 as at 31st March, 2016 is given below :

Liabilities	Amount	Assets	Amount
Madhu's Capital	5,20,000	Land & Building	3,00,000
Vidhi's Capital	3,00,000	Machinery	2,80,000
General Reserve	30,000	Stock	80,000
Bills payable	1,50,000	Debtors 3,00,000 Less : Provision 10,000	2,90,000
		Bank	50,000
	10,00,000		10,00,000

Madhu and Vidhi decided to admit Gayatri as a new partner from 1st April, 2016 and their new profit sharing ratio will be 2 : 3 : 5. Gayatri brought Rs 4,00,000 as her capital and her share of goodwill premium in cash.

(a) Goodwill of the firm was valued at Rs 3,00,000.

(b) Land and Building was found undervalued by Rs 26,000.

(c) Provision for doubtful debts was to be made equal to 5% of the debtors.

(d) There was a claim of Rs 6,000 on account of workmen compensation.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of the reconstituted firm. [8 marks]

Solution:

Concept:

- On admission, accumulated reserves and revaluation profit belong to the old partners and are divided in their old profit-sharing ratio.
- The incoming partner's goodwill premium compensates the sacrificing partners. Sacrifice equals old share minus new share.
- An increase in an asset is credited to Revaluation Account; an additional provision and an unrecorded liability are debited. Only the change in an existing provision affects revaluation.

Step 1: Calculate the sacrifice and goodwill premium **Working Notes**

Madhu and Vidhi's old ratio is $2:3$, while the new ratio of Madhu, Vidhi and Gayatri is $2:3:5$.

$$\text{Madhu's sacrifice} = \frac{2}{5} - \frac{2}{10} = \frac{2}{10},$$
$$\text{Vidhi's sacrifice} = \frac{3}{5} - \frac{3}{10} = \frac{3}{10}.$$

Thus, the sacrificing ratio is $2:3$. Gayatri's share is $5/10$, so her cash premium is Rs $3,00,000 \times 5/10 =$ Rs $1,50,000$. Credit Madhu with Rs 60,000 and Vidhi with Rs 90,000. The premium remains in the business because no withdrawal is specified. Goodwill is not shown as an asset since the premium has been brought in cash and credited to the sacrificing partners.

Step 2: Calculate the reserve and revaluation adjustments General Reserve of Rs 30,000 is transferred to Madhu and Vidhi in $2:3$: Rs 12,000 and Rs 18,000 respectively. Gayatri has no share in this pre-admission reserve.

Land and Building increases by Rs 26,000, to Rs 3,26,000. The required provision for doubtful debts is $3,00,000 \times 5\% =$ Rs $15,000$. Since Rs 10,000 already exists, only Rs 5,000 is charged to revaluation. Recognise the workmen compensation claim of Rs 6,000 as a liability. Hence revaluation profit is $26,000 - 5,000 - 6,000 =$ Rs $15,000$, shared as Rs 6,000 and Rs 9,000.

Step 3: Prepare the Revaluation Account **Revaluation Account**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Provision for doubtful debts	5,000	By Land and Building	26,000
To Workmen compensation claim	6,000		
To Madhu's Capital (profit)	6,000		
To Vidhi's Capital (profit)	9,000		
Total	**26,000**	**Total**	**26,000**

Step 4: Prepare the Partners' Capital Accounts **Partners' Capital Accounts (amounts in Rs)**

Dr.	Madhu	Vidhi	Gayatri	Cr.	Madhu	Vidhi	Gayatri
To Balance c/d	5,98,000	4,17,000	4,00,000	By Balance b/d	5,20,000	3,00,000	–
				By General Reserve	12,000	18,000	–
				By Premium for Goodwill	60,000	90,000	–
				By Revaluation	6,000	9,000	–
				By Bank (capital)	–	–	4,00,000
Total	**5,98,000**	**4,17,000**	**4,00,000**	**Total**	**5,98,000**	**4,17,000**	**4,00,000**

Step 5: Prepare the reconstituted firm's Balance Sheet

Bank balance becomes $50,000 + 4,00,000 + 1,50,000 =$ Rs $6,00,000$. Net debtors are $3,00,000 - 15,000 =$ Rs $2,85,000$.

Balance Sheet of Madhu, Vidhi and Gayatri as at 1st April, 2016

Liabilities	Rs	Assets	Rs
Partners' capitals:		Land and Building	3,26,000
Madhu	5,98,000	Machinery	2,80,000
Vidhi	4,17,000	Stock	80,000
Gayatri	4,00,000	Debtors: 3,00,000	
Total capitals	*14,15,000*	Less: Provision: 15,000	2,85,000
Bills payable	1,50,000	Bank	6,00,000
Workmen compensation claim	6,000		
Total	**15,71,000**	**Total**	**15,71,000**

Step 6: Conclusion Revaluation profit is Rs 15,000. Closing capitals are Madhu Rs 5,98,000, Vidhi Rs 4,17,000 and Gayatri Rs 4,00,000. The reconstituted Balance Sheet balances at Rs 15,71,000.

Quick Tip to Solve: Charge only the Rs 5,000 increase in the debtors' provision to revaluation. Credit reserve and revaluation profit in the old ratio, but credit the cash goodwill premium in the sacrificing ratio.

OR

17. Ativ, Meha and Nupur were partners sharing profits and losses in the ratio of 5 : 3 : 2. On 31-3-2016, their Balance Sheet was as under :

Liabilities	Amount	Assets	Amount
Trade creditors	26,500	Bank	25,000
Employees' Provident Fund	23,500	Debtors	30,000
Ativ's capital	1,00,000	Stock	55,000
Meha's capital	50,000	Fixed assets	1,20,000
Nupur's capital	40,000	Advertisement expenditure	10,000
	2,40,000		2,40,000

Ativ retired on 1-4-2016. For this purpose, the following adjustments were agreed upon :

(a) Goodwill of the firm was to be valued at 2 years' purchase of the average profits of 3 completed years preceding the date of retirement. The profits for previous years were : 2013-14 Rs 55,000; 2014-15 Rs 65,000; 2015-16 Rs 60,000.

(b) Fixed assets were to be increased by Rs 25,000.

(c) Stock was overvalued by Rs 5,000.

(d) Rs 20,000 were immediately paid to Ativ and the balance was transferred to his loan account.

Prepare Revaluation account, Partners Capital Accounts and the Balance Sheet of the reconstituted firm. [8 marks]

Solution:

Concept:

- The retiring partner is entitled to his share of goodwill, revaluation profit and accumulated profits. Accumulated losses are charged to all old partners in their old ratio.
- Goodwill equals average profit multiplied by years' purchase. Continuing partners compensate the retiring partner in their gaining ratio, without raising a goodwill asset.
- The retiring partner's capital is settled by the specified cash payment; the unpaid balance becomes a loan liability of the reconstituted firm.

Step 1: Determine goodwill and the gaining ratio **Working Notes**

Average annual profit and the firm's goodwill are:

$$\text{Average profit} = \frac{55,000 + 65,000 + 60,000}{3} = \text{Rs } 60,000,$$

$$\text{Goodwill} = 60,000 \times 2 = \text{Rs } 1,20,000,$$

$$\text{Ativ's goodwill share} = 1,20,000 \times \frac{5}{10} = \text{Rs } 60,000.$$

Since no new ratio is specified, Meha and Nupur continue in $3:2$. Meha gains $3/5 - 3/10 = 3/10$, and Nupur gains $2/5 - 2/10 = 2/10$. Thus the gaining ratio is $3:2$. Debit Meha's Capital by Rs 36,000 and Nupur's Capital by Rs 24,000, and credit Ativ's Capital by Rs 60,000.

Step 2: Write off advertisement expenditure and revalue assets Write off advertisement expenditure of Rs 10,000 against Ativ, Meha and Nupur's capitals in $5:3:2$: Rs 5,000, Rs 3,000 and Rs 2,000. This accumulated loss is removed from the Balance Sheet.

Increase fixed assets from Rs 1,20,000 to Rs 1,45,000 and reduce stock from Rs 55,000 to Rs 50,000. Revaluation profit is $25,000 - 5,000 = \text{Rs } 20,000$. Credit this profit in the old ratio: Ativ Rs 10,000, Meha Rs 6,000 and Nupur Rs 4,000.

Step 3: Prepare the Revaluation Account **Revaluation Account**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Stock	5,000	By Fixed assets	25,000
To Ativ's Capital (profit)	10,000		
To Meha's Capital (profit)	6,000		
To Nupur's Capital (profit)	4,000		
Total	**25,000**	**Total**	**25,000**

Step 4: Settle Ativ's capital and prepare the Capital Accounts Ativ's adjusted entitlement is $1,00,000 + 60,000 + 10,000 - 5,000 = \text{Rs } 1,65,000$. After paying Rs 20,000 immediately, transfer Rs 1,45,000 to Ativ's Loan Account. Meha's closing capital is $50,000 + 6,000 - 3,000 - 36,000 = \text{Rs } 17,000$. Nupur's closing capital is $40,000 + 4,000 - 2,000 - 24,000 = \text{Rs } 18,000$.

Partners' Capital Accounts (amounts in Rs)

Dr.	Ativ	Meha	Nupur	Cr.	Ativ	Meha	Nupur
To Advertisement expenditure	5,000	3,000	2,000	By Balance b/d	1,00,000	50,000	40,000
To Ativ's Capital (goodwill)	–	36,000	24,000	By Meha's Capital (goodwill)	36,000	–	–
To Bank	20,000	–	–	By Nupur's Capital (goodwill)	24,000	–	–
To Ativ's Loan	1,45,000	–	–	By Revaluation	10,000	6,000	4,000
To Balance c/d	–	17,000	18,000				
Total	**1,70,000**	**56,000**	**44,000**	**Total**	**1,70,000**	**56,000**	**44,000**

Step 5: Prepare the reconstituted firm's Balance Sheet Bank becomes $25,000 - 20,000 = \text{Rs } 5,000$. Employees' Provident Fund remains a liability; debtors and creditors are unchanged.

Balance Sheet of Meha and Nupur as at 1st April, 2016

Liabilities	Rs	Assets	Rs
Trade creditors	26,500	Bank	5,000
Employees' Provident Fund	23,500	Debtors	30,000
Ativ's Loan	1,45,000	Stock	50,000
Partners' capitals:		Fixed assets	1,45,000
Meha	17,000		
Nupur	18,000		
Total capitals	*35,000*		
Total	**2,30,000**	**Total**	**2,30,000**

Step 6: Conclusion Revaluation profit is Rs 20,000; Ativ's loan is Rs 1,45,000. Closing capitals: Meha Rs 17,000 and Nupur Rs 18,000. The Balance Sheet totals Rs 2,30,000.

Quick Tip to Solve: Charge advertisement expenditure in the old ratio and Ativ's goodwill in the gaining ratio. Employees' Provident Fund remains a liability.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

18. Cash Flow Statement shows inflows and outflows of 'Cash' and 'Cash Equivalents' from various activities of an enterprise during a particular period. Give the meaning of 'cash' for the purpose of preparing Cash Flow Statement. [1 mark]

Solution:

Concept:

- For a cash flow statement, cash means cash on hand and demand deposits with banks.
- Demand deposits are bank balances that the enterprise can withdraw on demand; cash equivalents form a separate category.

Step 1: Identify cash held by the enterprise Cash on hand includes currency notes and coins held by the enterprise, including petty cash. These amounts are immediately available for making payments.

Step 2: Include bank balances available on demand Add demand deposits with banks, since these

balances can be withdrawn when required. Do not describe all investments or all bank deposits as cash: the question asks specifically for cash, rather than cash equivalents.

Step 3: Conclusion Cash comprises **cash on hand and demand deposits with banks**.

Quick Tip to Solve: Recall the two components together: cash in hand plus bank deposits withdrawable on demand.

19. Give an example of an activity, which is a financing activity for every type of enterprise. [1 mark]

Solution:

Concept:

- Financing activities change the size or composition of the owners' capital and borrowings of an enterprise.
- A dividend paid to owners is a distribution relating to their capital and is a financing cash outflow for both financial and non-financial enterprises.

Step 1: Choose a payment to the owners Consider payment of dividend. It distributes profits to the shareholders who have supplied equity finance, so it relates to the enterprise's financing arrangements.

Step 2: Check that the classification is universal Dividend paid is classified as a financing activity whether the enterprise is financial or non-financial. This makes it a suitable example; interest paid is unsuitable because a financial enterprise classifies interest paid as an operating activity.

Step 3: Conclusion **Payment of dividend** is a financing activity for every type of enterprise.

Quick Tip to Solve: For an example common to financial and non-financial enterprises, select dividend paid rather than interest paid.

20. (a) Classify the following items under Major Head and Sub-Head (if any) in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013.

(i) Capital Work in progress; and

(ii) Provision for warranties.

(b) State any two objectives of 'Analysis of Financial Statements'. [4 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities under prescribed major heads and sub-heads. The nature of an item determines its classification.
- Capital work in progress is expenditure on a fixed asset that is still under construction and is not yet ready for use.
- Analysis of financial statements interprets accounting information to assess profitability and financial position for decision-making.

Step 1: Classify capital work in progress in part (a) The expenditure creates an asset for use over more

than one accounting period. As construction is incomplete, it is shown separately from completed fixed assets. Under the Schedule III classification applicable to this paper, its major head is Non-current Assets, its sub-head is Fixed Assets, and its specific item is Capital Work in Progress.

Step 2: Classify provision for warranties in part (a) A warranty provision represents an estimated obligation to meet warranty claims; it is a liability, not a reserve or an asset. The standard classification of the unqualified item in this question is Non-current Liabilities under Long-term Provisions. A portion specifically due within the operating cycle or twelve months would instead be a short-term provision under Current Liabilities.

Schedule III classification

Item	Major head	Sub-head
Capital work in progress	Non-current Assets	Fixed Assets
Provision for warranties	Non-current Liabilities	Long-term Provisions

Step 3: State two objectives in part (b) **1. Assess profitability and earning capacity.** Analysis helps determine whether the enterprise earns satisfactory profits from its sales and resources. Comparisons over time or with other enterprises indicate changes in performance and help evaluate operating efficiency.

2. Assess financial position and ability to meet obligations. Analysis evaluates liquidity and solvency, showing whether the enterprise can meet short-term dues and longer-term financial commitments. This assists lenders, investors and management in making informed decisions.

Step 4: Conclusion Capital work in progress belongs to **Non-current Assets: Fixed Assets**; provision for warranties belongs to **Non-current Liabilities: Long-term Provisions**. Two objectives of analysis are to assess **profitability** and **financial position, including liquidity and solvency**.

Quick Tip to Solve: Separate the major head from its sub-head: construction expenditure is an asset, while a warranty provision is an estimated liability.

21. (a) Net profit after interest and tax Rs 1,00,000; Current assets Rs 4,00,000; Current liabilities Rs 2,00,000; Tax rate 20%; Fixed assets Rs 6,00,000; 10% Long term debt Rs 4,00,000.

Calculate Return on Investment.

(b) Rate of Gross profit on cost of a company is 25%. Its Gross profit is Rs 5,00,000. Its shareholders' Funds are Rs 12,00,000; Current liabilities are Rs 3,00,000 and Current Assets are Rs 10,00,000.

Calculate its Working Capital Turnover ratio. [4 marks]

Solution:

Concept:

- Return on investment measures profit before interest and tax (PBIT) as a percentage of capital employed: $\text{ROI} = \dfrac{\text{PBIT}}{\text{Capital employed}} \times 100$.
- Capital employed is total assets less current liabilities. Working capital is current assets less current liabilities; working capital turnover equals revenue from operations divided by working capital.
- A gross profit rate on cost uses cost of revenue from operations as its base, so sales equal cost plus gross profit.

Step 1: (a) Restore profit before tax and interest Net profit after tax is 80% of profit before tax because the tax rate is 20%. Therefore, divide by 80%, rather than adding 20% to the given after-tax profit.

$$\text{Profit before tax} = \frac{1,00,000}{0.80} = \text{Rs } 1,25,000.$$

Interest on the long-term debt is an expense already deducted in arriving at this profit. Add it back to obtain the return earned on all long-term funds:

$$\text{Interest} = 4,00,000 \times \frac{10}{100} = \text{Rs } 40,000,$$
$$\text{PBIT} = 1,25,000 + 40,000 = \text{Rs } 1,65,000.$$

Step 2: (a) Determine capital employed and the return Fixed assets plus current assets give total assets. Deduct only current liabilities to find capital employed; the long-term debt remains part of the funds employed.

$$\begin{aligned}\text{Capital employed} &= 6,00,000 + 4,00,000 - 2,00,000\\ &= \text{Rs } 8,00,000,\\ \text{ROI} &= \frac{1,65,000}{8,00,000} \times 100 = 20.625\%.\end{aligned}$$

Step 3: (b) Calculate revenue from operations Gross profit of Rs 5,00,000 represents 25% of cost. It is not 25% of sales. Thus:

$$\begin{aligned}\text{Cost of revenue from operations} &= 5,00,000 \times \frac{100}{25}\\ &= \text{Rs } 20,00,000,\\ \text{Revenue from operations} &= 20,00,000 + 5,00,000\\ &= \text{Rs } 25,00,000.\end{aligned}$$

Step 4: (b) Calculate working capital turnover Use the current assets and current liabilities of part (b), independently of part (a). Shareholders' funds do not enter this ratio because its denominator is working capital.

$$\text{Working capital} = 10,00,000 - 3,00,000 = \text{Rs } 7,00,000,$$
$$\begin{aligned}\text{Working capital turnover} &= \frac{25,00,000}{7,00,000}\\ &= \frac{25}{7} \text{ times} \approx 3.57 \text{ times}.\end{aligned}$$

Step 5: Conclusion (a) Return on investment is 20.625%, or approximately 20.63%. (b) Working capital turnover ratio is approximately 3.57 times.

Quick Tip to Solve: First gross up after-tax profit by dividing by $1 -$ tax rate, then add interest. For part (b), a 25% profit on cost means sales are 125% of cost.

22. From the following statement of Profit and Loss of Star Ltd., for the years ended 31st March, 2015 and 2016, prepare a common size statement.

Particulars	Note No.	2015-16 (Rs)	2014-15 (Rs)
Revenue from operations		25,00,000	20,00,000
Employee benefit expenses		10,00,000	7,00,000
Other expenses		2,00,000	3,00,000
Tax rate 40%			

[4 marks]

Solution:

Concept:

- In a common size statement of profit and loss, revenue from operations is taken as 100% for each year. Every other item is expressed as a percentage of that year's revenue from operations.
- Profit before tax equals revenue less total expenses. Income tax is 40% of profit before tax, and profit after tax is the balance after deducting this tax.

Step 1: Calculate profit and tax for each year **Working Notes**

For 2015–16, total expenses are Rs 10,00,000 + Rs 2,00,000 = Rs 12,00,000. Therefore:

$$\begin{aligned}\text{Profit before tax} &= 25,00,000 - 12,00,000 = \text{Rs } 13,00,000,\\ \text{Tax expense} &= 13,00,000 \times 40\% = \text{Rs } 5,20,000,\\ \text{Profit after tax} &= 13,00,000 - 5,20,000 = \text{Rs } 7,80,000.\end{aligned}$$

For 2014–15, total expenses are Rs 7,00,000 + Rs 3,00,000 = Rs 10,00,000. Therefore:

$$\begin{aligned}\text{Profit before tax} &= 20,00,000 - 10,00,000 = \text{Rs } 10,00,000,\\ \text{Tax expense} &= 10,00,000 \times 40\% = \text{Rs } 4,00,000,\\ \text{Profit after tax} &= 10,00,000 - 4,00,000 = \text{Rs } 6,00,000.\end{aligned}$$

Step 2: Convert each amount to its common size percentage Apply the same formula separately to each year's figures:

$$\text{Common size percentage} = \frac{\text{Amount of the item}}{\text{Revenue from operations}} \times 100.$$

For example, employee benefit expenses for 2015–16 are $10,00,000/25,00,000 \times 100 = 40\%$; for 2014–15 they are $7,00,000/20,00,000 \times 100 = 35\%$. Tax as a percentage of revenue is $5,20,000/25,00,000 \times 100 = 20.8\%$ in 2015–16 and $4,00,000/20,00,000 \times 100 = 20\%$ in 2014–15. The stated 40% tax rate applies to profit before tax, not directly to revenue.

Step 3: Prepare the common size statement **Star Ltd.**

Common Size Statement of Profit and Loss

For the years ended 31st March, 2016 and 31st March, 2015

Particulars	Amount (Rs)		Percentage	
	2015–16	2014–15	2015–16	2014–15
I. Revenue from operations	25,00,000	20,00,000	100.0	100.0
II. Total revenue	25,00,000	20,00,000	100.0	100.0
III. Expenses:				
Employee benefit expenses	10,00,000	7,00,000	40.0	35.0
Other expenses	2,00,000	3,00,000	8.0	15.0
Total expenses	12,00,000	10,00,000	48.0	50.0
IV. Profit before tax (II–III)	13,00,000	10,00,000	52.0	50.0
V. Tax expense	5,20,000	4,00,000	20.8	20.0
VI. Profit after tax (IV–V)	7,80,000	6,00,000	31.2	30.0

Step 4: Conclusion The common size statement shows profit after tax at 31.2% of revenue in 2015–16 and 30% in 2014–15. Total expenses represent 48% and 50% of revenue respectively.

Quick Tip to Solve: Use each year's own revenue as the 100% base. Calculate tax on profit before tax first, then convert the tax amount to a percentage of revenue.

23. Calculate Cash Flows from Investing Activities from the following information :

Particulars	31st March, 2015 (Rs)	31st March, 2014 (Rs)
Investments in Land	16,00,000	6,00,000
10% Long term Investments	2,50,000	4,00,000
Plant and Machinery	3,00,000	2,00,000
Goodwill	80,000	15,000

Additional Information :

A machine costing Rs 40,000 (depreciation provided thereon Rs 12,000) was sold for Rs 35,000. Depreciation charged during the year was Rs 60,000. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire fixed assets and long-term investments, cash received on their sale, and interest received on investments for a non-financial enterprise.
- Depreciation is a non-cash charge. When the plant balance is its carrying amount, purchases are found by adding depreciation and the carrying amount of the asset sold to the increase in the balance.

Step 1: Calculate cash paid for land and goodwill In the absence of any other adjustment, increases in these balances represent cash purchases:

$$\text{Land purchased} = 16,00,000 - 6,00,000 = \text{Rs } 10,00,000,$$

$$\text{Goodwill purchased} = 80,000 - 15,000 = \text{Rs } 65,000.$$

Both are investing cash outflows. Goodwill is an intangible asset; its purchase is therefore included even though it has no physical form.

Step 2: Work out purchases of plant and machinery The machine sold had a carrying amount of $40,000 - 12,000 =$ Rs $28,000$. Its sale proceeds were Rs 35,000, giving a profit of Rs 7,000. The full proceeds, rather than just this profit, enter investing cash flows.

$$\begin{aligned} \text{Closing plant} &= \text{Opening plant} + \text{Purchases} \\ &\quad - \text{Depreciation} - \text{Carrying amount sold}, \\ \text{Purchases} &= 3,00,000 - 2,00,000 + 60,000 + 28,000 \\ &= \text{Rs } 1,88,000. \end{aligned}$$

Thus, purchases of plant cause a cash outflow of Rs 1,88,000 and the machine sale gives a separate cash inflow of Rs 35,000. The Rs 12,000 accumulated depreciation is already deducted in arriving at the carrying amount sold; it is not added to the year's Rs 60,000 charge again.

Step 3: Calculate investment sale proceeds and interest The reduction in long-term investments represents a sale at carrying amount, as no purchase, profit or loss on sale is given:

$$\text{Sale of investments} = 4,00,000 - 2,50,000 = \text{Rs } 1,50,000.$$

With no sale date or interest accrual specified, use the usual examination convention of calculating the year's interest on the opening investments:

$$\text{Interest received} = 4,00,000 \times \frac{10}{100} = \text{Rs } 40,000.$$

Both amounts are investing cash inflows. The closing investment balance is not itself a cash receipt.

Step 4: Prepare the investing activities section Cash Flow Statement (Extract) for the year ended 31st March, 2015

Particulars	**Amount (Rs)**
Cash flows from investing activities	
Sale of long-term investments	1,50,000
Sale of machine	35,000
Interest received on investments	40,000
Total cash inflows	2,25,000
Purchase of land	(10,00,000)
Purchase of plant and machinery	(1,88,000)
Purchase of goodwill	(65,000)
Total cash outflows	(12,53,000)
Net cash used in investing activities	**(10,28,000)**

Parentheses indicate cash outflows. Depreciation and profit on sale are not separate cash flows in this section.

Step 5: Conclusion Net cash flow from investing activities is $-$Rs $10,28,000$; that is, net cash used in investing activities is Rs 10,28,000.

Quick Tip to Solve: For plant shown at carrying amount, add depreciation and the sold machine's book value to the increase in plant; show actual sale proceeds separately.

Option – II (Computerized Accounting)

18. Name any two software tools for organizing, processing and querying data in flexible manner.

[1 mark]

Solution:

Concept:

- Software tools can arrange data in a structured form, perform operations on it, and retrieve selected information according to the user's requirements.
- Spreadsheet software and database management software are two common tools used for these purposes in computerised accounting.

Step 1: Identify a spreadsheet tool Microsoft Excel organises data into rows and columns. It processes data with formulas and functions, while sorting and filtering help locate the information required.

Step 2: Identify a database tool Microsoft Access stores related data in tables and provides queries to retrieve selected records. Its forms and reports also help users enter and present accounting information.

Step 3: Conclusion Two software tools are Microsoft Excel and Microsoft Access.

Quick Tip to Solve: Give one spreadsheet example, Excel, and one database example, Access, to name two suitable tools directly.

19. What is meant by 'Database' ?

[1 mark]

Solution:

Concept:

- A database is an organised collection of logically related data, stored so that users can access, manage and update it efficiently.
- The related data represents a common activity or organisation; its structure makes it possible to retrieve useful information.

Step 1: Explain the organised collection Data in a database is arranged systematically rather than kept as unrelated facts. For example, a business may store customer details and sales transactions in related tables.

Step 2: Explain its purpose This organisation enables authorised users or applications to search for records, make updates and obtain information when required. The database is the collection of data; database management software is the tool used to manage it.

Step 3: Conclusion A database is an organised collection of logically related data that can be efficiently accessed, managed and updated.

Quick Tip to Solve: Include both key ideas in the definition: an organised collection and a logical relationship among the data.

20. What is meant by a "Form" ? How 'Split Form' is different from 'Simple Form' ? [4 marks]

Solution:

Concept:

- A form is a database object that provides a convenient user interface for entering, editing and displaying data stored in a table or obtained through a query.
- A form's layout determines how records are presented to the user; the data continue to be stored in the underlying database tables.

Step 1: Explain the meaning and purpose of a form A form presents fields with suitable labels and controls, such as text boxes, so that the user can work with records easily. For example, a customer form may display Customer ID, Name and Address together. The user can enter a new customer's details or view and edit an existing customer's details without working directly in the table's grid. Thus, a form makes data entry and viewing more convenient and organised.

Step 2: Describe a simple form A simple form normally displays the fields of one record at a time in Form view. The user moves to another record with the record navigation controls. For example, the details of one customer are displayed, and the next customer's details replace them when the user navigates to the next record. It does not simultaneously provide a datasheet pane showing the list of records.

Step 3: Distinguish a split form A split form gives two views of the same data at the same time: a Form view and a Datasheet view. The datasheet displays records in rows and fields in columns, while the form displays the selected record in a convenient layout. Both panes are synchronised: selecting a record in the datasheet displays that record in the form, and an edit made in either editable view is reflected in the other. The user can therefore locate a record quickly in the list and then enter or edit its details in the form pane.

Step 4: Conclusion A form is a user-friendly interface for database records. A simple form presents one record in Form view, whereas a split form simultaneously presents synchronised Form and Datasheet views of the same data.

Quick Tip to Solve: Remember the key distinction: split form means two synchronised views of the same records, not two separate sets of data.

21. Name and explain the type of software which meets the requirements of large business organizations with multi-users and scattered locations.

[4 marks]

Solution:

Concept:

- Accounting software may be ready-to-use, customised or tailored, depending on how closely it is designed around an organisation's requirements.
- Tailored software is developed specifically for an organisation after studying its accounting needs, operations and reporting requirements.

Step 1: Identify the appropriate software The appropriate type is **tailored accounting software**. It is specially designed for large business organisations whose requirements cannot be adequately met by a standard package. Its development begins with a detailed study of the organisation's activities, transaction volume, internal procedures and information needs. The resulting system is built to suit that organisation.

Step 2: Explain support for many users and locations A large organisation may have offices, branches and departments at geographically scattered locations, with several employees using the accounting system. Tailored software can be designed to support these users and locations through a common database or an integrated networked system. Authorised users can enter and access the information relevant to their work, while access controls restrict functions according to their responsibilities. Information from different branches can be brought together for organisation-wide accounts and reports.

Step 3: Explain its suitability and development requirements The software can incorporate the organisation's own chart of accounts, transaction-processing procedures, controls and management reports. It can also integrate accounting information with other business functions such as purchases, sales, inventory and payroll. This flexibility makes it suitable for complex operations. However, a detailed requirements study, specialist development, testing, user training and continuing maintenance are required, so it generally takes more time and costs more than purchasing a ready-to-use package. Unlike merely modifying an existing package, the tailored system is developed around the organisation's specific needs.

Step 4: Conclusion Tailored accounting software meets the requirements of large organisations with multiple users and scattered locations because it is specially developed to integrate their operations, controls and reporting needs.

Quick Tip to Solve: Use the clues "large organisation", "multiple users" and "scattered locations" to identify tailored software, then explain its organisation-specific design.

22. Explain any four advantages of computerized accounting software. [4 marks]

Solution:

Concept:

- Computerised accounting software records and processes transactions according to programmed accounting rules and produces accounting information and reports.
- Its benefits arise from automatic processing, consistent calculations and the ability to store and retrieve a large volume of records. Correct input and proper configuration remain necessary.

Step 1: Explain speed of processing Accounting software processes a large number of transactions much faster than manual accounting. Once a transaction is entered, the related ledger balances and reports can be updated automatically. For example, recording a credit sale can update the customer's account and sales records without separately posting the same information by hand. This saves time in routine bookkeeping.

Step 2: Explain accuracy of calculations The software performs additions, calculations and account

balancing according to its programmed rules. This reduces arithmetic errors and errors caused by repeatedly copying amounts from one record to another. For example, an invoice total can be calculated automatically from quantities, prices and the applicable tax rate. This advantage depends on entering correct data and using correct settings; software cannot make a wrongly entered amount correct by itself.

Step 3: Explain timely information and reporting Updated ledger balances and accounting reports can be generated whenever required, without waiting for lengthy manual compilation. For example, the business can obtain a trial balance or a statement of outstanding customer balances promptly. Timely information helps management monitor receivables, plan payments and take decisions on the basis of current records.

Step 4: Explain storage and retrieval of records A large volume of accounting data can be stored electronically in relatively little physical space. Records can be searched and retrieved by date, account or voucher number. For example, an earlier supplier invoice can be located quickly when checking a payment. This makes maintaining and referring to past accounting records more convenient than searching through numerous paper registers.

Step 5: Conclusion Four advantages are faster processing, greater accuracy in calculations, timely accounting information and convenient storage and retrieval of records.

Quick Tip to Solve: State each advantage and then explain its accounting effect; use a concrete example such as automatic ledger updating or quick retrieval of an invoice.

23. Explain the following formatting tools with example :

(i) Number formatting

(ii) Currency

(iii) Percentage

(iv) Dates [6 marks]

Solution:

Concept:

- Cell formatting determines how a spreadsheet displays a stored value, such as an ordinary number, a monetary amount, a percentage or a date.
- Applying a format ordinarily changes the display rather than the underlying numerical value. Calculations continue to use the stored value, even when fewer decimal places are displayed.

Step 1: Explain number formatting with an example Number formatting controls the appearance of numerical data. It allows the user to choose the number of decimal places, digit-group separators and the display of negative values. For example, a cell containing 1250.756 can be displayed as 1,250.76 when a number format with a grouping separator and two decimal places is applied. The display is rounded, but calculations still use the original value 1250.756.

Step 2: Explain currency formatting with an example Currency formatting displays numerical values as monetary amounts using a selected currency symbol or label, usually with a specified number of

decimal places. For example, the number 125000 can be displayed as Rs 1,25,000.00 using a rupee currency format with Indian digit grouping and two decimal places. This format identifies sales, purchases and account balances as money. Applying the format does not convert the amount into a different currency.

Step 3: Explain percentage formatting with an example Percentage formatting displays a stored numerical fraction as a percentage: the displayed number is the stored value multiplied by 100, followed by the percent sign. For example, 0.25 is displayed as 25%, or as 25.00% if two decimal places are selected. If profit is Rs 20,000 and sales are Rs 80,000, a formula dividing profit by sales returns 0.25; applying percentage formatting displays the profit-to-sales ratio as 25%. The stored value remains 0.25; an already stored value of 25 would display as $2,500\%$.

Step 4: Explain date formatting with an example Date formatting displays a recognised spreadsheet date in a selected day, month and year arrangement. For example, a cell containing the date 15 July 2017 can be displayed as 15/07/2017 with the format dd/mm/yyyy, or as 15-Jul-2017 with the format dd-mmm-yyyy. Recognised dates are stored as numerical serial values, allowing sorting and date calculations. Formatting unrecognised text does not necessarily convert it into a valid date.

Step 5: Conclusion Number formatting controls numerical presentation; currency formatting identifies monetary amounts; percentage formatting displays fractions per hundred; and date formatting controls how a stored date appears. Examples are 1,250.76, Rs 1,25,000.00, 25% and 15-Jul-2017, respectively.

Quick Tip to Solve: Give both the stored value and its formatted display. For a percentage, use 0.25 to show 25%; for dates, show two formats of the same calendar date.