CBSE Class 12 Accountancy Question Paper 2017 with Solution PDF-Set 67-1-2 - 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. In which ratio do the remaining partners acquire the share of profit of the retiring partner ?

[1 mark]

Solution:

Concept:

- The gaining ratio measures the increase in each continuing partner's share of future profits.
- For each continuing partner, gaining share = new share minus old share.

Step 1: Identify the acquired share On retirement, the retiring partner gives up the right to participate in future profits. The remaining partners acquire this right in the proportions agreed among them.

Step 2: Identify the relevant ratio Calculate each remaining partner's gain by subtracting the old share from the new share. The ratio of these gains identifies how the retiring partner's share is acquired; it need not equal the old profit-sharing ratio.

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

Quick Tip to Solve: Use new share minus old share for each continuing partner to obtain the gaining ratio.

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

Solution:

Concept:

- An employee stock option gives an eligible employee a right to buy shares of the employer company.
- The exercise price and exercise period are specified under the plan.

Step 1: Identify the benefit Under an Employee Stock Option Plan, a company grants eligible employees an option to purchase its shares at a predetermined price, generally lower than the market price, during a specified period.

Step 2: Explain the nature of the option The employee has a right, rather than an obligation, to exercise the option. Such a plan encourages employee ownership and helps link employees' interests with the growth and performance of the company.

Step 3: Conclusion An Employee Stock Option Plan gives eligible employees the right to purchase company shares at a predetermined price within a specified period.

Quick Tip to Solve: In an ESOP definition, include the right to buy shares, the fixed price and the specified period.

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

Solution:

Concept:

- Goodwill represents the benefit of the established reputation and earning capacity of a firm.
- Admission generally reduces the future profit shares of the existing partners.

Step 1: Identify the incoming partner's benefit A new partner receives a share of future profits of an already established business. The firm's goodwill, built by the existing partners, helps generate those profits.

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

Step 3: Conclusion A new partner contributes towards goodwill to compensate the existing partners for the sacrifice of their share in future profits.

Quick Tip to Solve: Connect goodwill compensation to the sacrificing partners, not automatically to the old profit ratio.

4. 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:

- The amount paid immediately reduces the retiring partner's capital balance.
- The unpaid amount is transferred to the retiring partner's loan account; interest accrues with time.

Step 1: Determine the unpaid balance The amount due to Z is Rs 85,000 and the immediate payment is Rs 5,000. Thus, the unpaid balance is $85,000 - 5,000 =$ Rs $80,000$. This becomes a loan payable to Z. Future interest at 6% p.a. is recorded when it accrues, not on the retirement date.

Step 2: Record settlement on retirement Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Z's Capital A/c Dr.		85,000	
	To Bank A/c			5,000
	To Z's Loan A/c			80,000
	(Being amount due to Z settled partly by bank and the balance transferred to his loan account)			

Step 3: Conclusion Debit Z's Capital Account with Rs 85,000; credit Bank Account with Rs 5,000 and Z's Loan Account with Rs 80,000.

Quick Tip to Solve: Transfer only the unpaid principal to the loan account; do not book future interest at retirement.

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

Solution:

Concept:

- A court may order dissolution on specified grounds affecting the continuation of the partnership.
- Permanent incapacity of a partner to perform duties is one such ground.

Step 1: State one occasion If a partner becomes permanently incapable of performing his or her duties as a partner, another partner may seek dissolution of the firm through the court.

Step 2: Explain its effect Permanent incapacity prevents the partner from carrying out the agreed responsibilities of the business. On a suit by a partner, the court may therefore order dissolution. Stating this single ground is sufficient; every possible ground need not be listed.

Step 3: Conclusion The court may order dissolution when a partner becomes permanently incapable of performing his or her duties as a partner.

Quick Tip to Solve: Give one clear court-ordered dissolution ground, such as a partner's permanent incapacity.

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

Solution:

Concept:

- Dissolution of partnership means a change in the existing relationship among partners.
- Dissolution of the firm means ending the partnership among all partners and winding up the business.

Step 1: Identify the change in relationship A change in the profit-sharing ratio ends the earlier agreement about the distribution of profits and replaces it with a new agreement. Hence, the existing partnership relationship is reconstituted.

Step 2: Check whether the business ends The partners continue the business under the revised ratio. The assets need not be realised and the liabilities need not be settled as on winding up. Therefore, the firm continues despite the change in the partnership agreement.

Step 3: Conclusion A change in the profit-sharing ratio amounts to dissolution of partnership, because the existing agreement changes; the partnership firm continues its business.

Quick Tip to Solve: Ask whether the business is wound up: a revised ratio alone reconstitutes the partnership.

7. Ronet Ltd. offered 44,000 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. 40,000 shares were subscribed by the public. All money due was received except from a shareholder holding 2,000 shares who failed to pay the first and final call. His shares were forfeited. Show 'Share Capital' in the Balance Sheet of Ronet Ltd. Also, prepare 'Notes to Accounts'. [3 marks]

Solution:

Concept:

- Share capital records the face value of shares; securities premium is excluded from share capital. Amounts received towards capital on forfeited shares are added separately to subscribed capital until their reissue.
- The subscribed fully paid share capital equals the number of surviving fully paid shares multiplied by their face value. The issued capital is the face value of shares offered to the public.

Step 1: Calculate the capital paid and the forfeited amount The total issue price per share is Rs $(100+20) =$ Rs 120. Application brings Rs 30 towards capital; allotment brings Rs 50, including Rs 20 premium, so its capital portion is Rs 30. Therefore the first and final call is $120 - 30 - 50 =$ Rs 40 per share.

The 2,000 defaulting shares are forfeited, leaving $40,000 - 2,000 = 38,000$ fully paid shares. Their paid-up face value is $38,000 \times 100 =$ Rs $38,00,000$. Capital received on forfeited shares is $2,000 \times (30+30) =$ Rs $1,20,000$. The premium received is not included in this forfeited capital amount.

Step 2: Present the Balance Sheet extract and Note 1 Balance Sheet of Ronet Ltd. (extract)

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	39,20,000

Notes to Accounts: Note 1 – Share Capital

Particulars	Amount (Rs)
Issued capital: 44,000 equity shares of Rs 100 each	44,00,000
Subscribed capital:	
Subscribed and fully paid-up:	
38,000 equity shares of Rs 100 each	38,00,000
Add: Forfeited shares (amount originally paid up)	1,20,000
Total Share Capital	39,20,000

The authorised capital has not been stated in the question. After forfeiture, the unpaid call on the cancelled shares is not deducted again from the remaining fully paid capital.

Step 3: Conclusion Share Capital in the Balance Sheet is $\boxed{\text{Rs } 39,20,000}$, comprising Rs 38,00,000 fully paid capital and Rs 1,20,000 on forfeited shares.

Quick Tip to Solve: On forfeiture, retain only the capital money actually received; exclude the premium from the forfeited-share addition.

8. 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:

- On the death of a partner, the deceased partner is credited with her share of goodwill; the continuing partners are debited in their gaining ratio.
- The deceased partner's estimated profit up to death is credited to her Capital Account by debiting Profit and Loss Suspense Account when the current period's actual profit has not yet been determined.

Step 1: Calculate Disha's goodwill and the gaining shares Disha's old share is $1/5$. Her share of goodwill is therefore

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

No revised ratio between Anuj and Manoj is specified, so they continue in their relative old ratio $2 : 2 = 1 : 1$. Each new share is $1/2$ and each gain is $1/2 - 2/5 = 1/10$. Thus they gain equally and bear Rs 3,000 each of Disha's goodwill. The partners' capital balances are not the basis for this adjustment; the profit-sharing and gaining ratios are used.

Step 2: Record both adjustments on 1st July, 2016 Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2016 July 1	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 capitals of the gaining partners equally)		3,000 3,000	 6,000
July 1	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)		12,000	 12,000

The Rs 12,000 in the question is already Disha's own share of profit up to death. It is therefore credited in full; it is neither multiplied by $1/5$ again nor apportioned for three months again. These entries record the two stated adjustments without raising a goodwill asset.

Step 3: Conclusion Debit Anuj and Manoj by Rs 3,000 each and credit Disha by Rs 6,000 for goodwill. Debit Profit and Loss Suspense and credit Disha by Rs 12,000 for her profit share.

Quick Tip to Solve: Check whether an interim profit figure is the firm's profit or already the deceased partner's share before applying the ratio.

9. 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 expected on the capital employed at the market rate: normal profit = capital employed multiplied by normal rate of return.
- Super profit is the excess of maintainable average profit over normal profit. Under the years' purchase method, goodwill = average annual super profit multiplied by the number of years' purchase.

Step 1: Find the average annual profit Each of the three years is given equal weight because no different weights or exceptional adjustments are specified. The total profit is

$$\text{Rs } (30,000 + 36,000 + 42,000) = \text{Rs } 1,08,000.$$

Hence the average annual profit earned by the firm is

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

The latest year's profit alone is not used, since the question expressly bases the valuation on the last three years.

Step 2: Calculate normal profit and average super profit The total capital of all three partners is Rs 1,00,000. Applying the market rate of 15 percent gives

$$\text{Normal annual profit} = \text{Rs } 1,00,000 \times \frac{15}{100} = \text{Rs } 15,000.$$

Thus the firm's average annual super profit is

$$\text{Rs } 36,000 - \text{Rs } 15,000 = \text{Rs } 21,000.$$

Equivalently, the annual super profits are Rs 15,000, Rs 21,000 and Rs 27,000; their average is also Rs 21,000. This confirms that normal return is deducted for each year, rather than deducted just once from the three-year total.

Step 3: Apply the two years' purchase multiplier The goodwill is valued at two years' purchase of the average annual super profit:

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

The three years specify the period over which earnings are averaged; two years specify the purchase multiplier. They serve different purposes and are not multiplied together. The result values the firm's excess earning capacity as a whole; no partner-wise allocation is required.

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

Quick Tip to Solve: Average the three years first, deduct the normal annual return, then multiply only the annual excess by two.

10. Hunam Ltd. took over the assets of Rs 6,80,000 and liabilities of Rs 80,000 of Ramtel Ltd. for a consideration of Rs 7,00,000. 20% was paid by a cheque and the balance by issue of fully paid equity shares of Rs 100 each at a premium of 40%. Pass the necessary journal entries in the books of Hunam Ltd. for these transactions. [3 marks]

Solution:

Concept:

- Purchase consideration is the amount payable to the vendor. Net assets equal assets taken over less liabilities assumed; any excess of consideration over net assets is goodwill.
- Shares issued at a premium discharge consideration at their issue price. Face value is credited to Equity Share Capital and the excess to Securities Premium Reserve.

Step 1: Calculate goodwill and the mode of payment Net assets acquired are Rs $6,80,000$ − Rs $80,000$ = Rs $6,00,000$. Therefore goodwill is Rs $7,00,000$ − Rs $6,00,000$ = Rs $1,00,000$. The cheque payment is 20% × Rs $7,00,000$ = Rs $1,40,000$, leaving Rs $5,60,000$ payable in shares. Each share is issued for Rs $100 + 40\%$ × Rs 100 = Rs 140. Thus $5,60,000/140 = 4,000$ shares are issued, with capital of Rs 4,00,000 and premium of Rs 1,60,000.

Step 2: Record the acquisition and settlement Journal of Hunam Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Business Purchase A/c Dr. To Ramtel Ltd. (Being purchase consideration payable for the business)		7,00,000	 7,00,000
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Business Purchase A/c (Being assets and liabilities taken over and goodwill recognised)		6,80,000 1,00,000	 80,000 7,00,000
	Ramtel Ltd. Dr. To Bank A/c To Equity Share Capital A/c To Securities Premium Reserve A/c (Being consideration settled by cheque and 4,000 fully paid shares issued at 40% premium)		7,00,000	 1,40,000 4,00,000 1,60,000

The vendor account is debited for the entire consideration upon settlement, so no amount remains payable to Ramtel Ltd.

Step 3: Conclusion Goodwill is Rs 1,00,000. Hunam Ltd. pays Rs 1,40,000 by cheque and issues 4,000 equity shares of Rs 100 each at Rs 140 per share.

Quick Tip to Solve: Divide the share-settled consideration by Rs 140, the issue price, before splitting it between capital and premium.

11. 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 unpaid calls and Share Forfeited with the amount already received towards capital.
- Reissue discount is debited to Share Forfeited. Only the surplus relating to shares actually reissued is transferred to Capital Reserve; the amount for unreissued shares remains in Share Forfeited.

Step 1: Determine forfeiture and reissue amounts Called-up capital on 2,000 shares is $2,000 \times$ Rs $10 =$ Rs $20,000$. The amount received is Rs 14,000, so calls in arrears are Rs $20,000 -$ Rs $14,000 =$ Rs $6,000$. The forfeited amount received per share is Rs $14,000/2,000 =$ Rs 7. For the 50 reissued shares, bank receives $50 \times$ Rs $9 =$ Rs 450, while fully paid capital restored is $50 \times$ Rs $10 =$ Rs 500. The reissue discount is Rs 50. The amount forfeited on these shares is $50 \times$ Rs $7 =$ Rs 350; hence the realised capital profit is Rs $350 -$ Rs $50 =$ Rs 300.

Step 2: Pass 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 fully called shares forfeited for non-payment of calls)			
	Bank A/c Dr.		450	
	Share Forfeited A/c Dr.		50	
	To Share Capital A/c			500
	(Being 50 forfeited shares reissued at Rs 9 each as fully paid)			
	Share Forfeited A/c Dr.		300	
	To Capital Reserve A/c			300
	(Being surplus relating to the 50 reissued shares transferred to capital reserve)			

Step 3: Prepare the Share Forfeited Account Share Forfeited Account in the books of Prayuj Ltd.

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

The remaining 1,950 shares have not been reissued. Their forfeited capital, $1,950 \times$ Rs $7 =$ Rs $13,650$, therefore stays as the credit balance and is not transferred to Capital Reserve.

Step 4: Conclusion The reissue discount is Rs 50, the transfer to Capital Reserve is Rs 300, and the closing credit balance of Share Forfeited Account is Rs 13,650.

Quick Tip to Solve: Apportion the forfeited receipt to the 50 reissued shares first: only Rs 350 is available for their discount and capital reserve.

12. 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 partnership deed does not specify an existing profit-sharing ratio, partners share profits equally. Therefore, the old shares of Tvisha and Divya are each $1/2$.
- On a change in profit-sharing ratio, the gaining partner compensates the sacrificing partner for goodwill: compensation equals goodwill of the firm multiplied by the share gained or sacrificed.

Step 1: Find the gain and sacrifice The new ratio of Tvisha and Divya is $3 : 2$. Compare the new shares with the equal old shares:

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

Thus, Tvisha must compensate Divya. The adjustment is Rs $50,000 \times 1/10 =$ Rs $5,000$. Goodwill is adjusted through the partners' capital accounts; no goodwill asset needs to be raised.

Step 2: Pass the adjustment entry for part (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 by the gaining partner compensating the sacrificing partner)		5,000	5,000

Tvisha's capital is debited because she acquires an additional share in future profits. Divya's capital is credited because she gives up that share.

Step 3: Identify two values for part (b) Divya's proposal highlights **social responsibility and compassion towards the needy**: distributing usable surplus food helps people who require it and avoids waste. Her willingness to accept a smaller profit share also reflects cooperation in securing this social purpose.

Tvisha's proposal to serve leftover food the next day and her demand for a larger profit share indicate **self-interest and inadequate concern for consumers' health**. The appropriate values to uphold are concern for food safety and placing social welfare above personal gain. Divya displays the positive values; Tvisha's conduct shows their absence.

Step 4: Conclusion Tvisha's Capital A/c is debited and Divya's Capital A/c is credited by Rs 5,000. Values: social responsibility and concern for consumers' health.

Quick Tip to Solve: When no old ratio is supplied, start from equal shares; compensate the partner whose new share falls.

13. 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 to Realisation Account, cash received or paid on their settlement is recorded through Realisation Account. An asset taken over by a partner is debited to that partner's capital account.
- An expense borne personally by a partner but paid by the firm is debited to that partner's capital account. The final realisation loss is transferred to the partners in their profit-sharing ratio of $2:1$.

Step 1: Record the dishonoured discounted bill: part (a) Derek's insolvency makes the firm liable to pay the bank for the discounted bill. The resulting loss is charged to Realisation Account, as the bill cannot be recovered from Derek.

Journal of Aman and Rajat (31st March, 2016)

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

Step 2: Record payment of bills payable: part (b) Bills payable have already been transferred to Realisation Account. Therefore, record only the actual payment of Rs 29,550. The difference of Rs 450 from their book value is automatically reflected as a gain in Realisation Account.

Journal of Aman and Rajat (31st March, 2016)

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

Step 3: Record settlement of creditors: part (c) Creditors accept stock at Rs $10,000 \times 90/100 =$ Rs $9,000$. The cash balance payable is Rs $30,000 -$ Rs $9,000 =$ 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.

Journal of Aman and Rajat (31st 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 taken over for Rs 9,000)		21,000	 21,000

Step 4: Record the unrecorded typewriter: part (d) The typewriter has no book value, so it is an unrecorded asset. Rajat takes it over for Rs $600 \times 75/100 =$ Rs 450. Debit Rajat's capital with the agreed value and credit Realisation Account.

Journal of Aman and Rajat (31st 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 at 25% below estimated value)		450	 450

Step 5: Record remuneration and expenses: part (e) The agreed remuneration of Rs 1,000 is a cost of realisation and is credited to Aman. Since Aman must bear all realisation expenses, the Rs 800 actually paid by the firm is recoverable from him. It is debited to his capital account, not charged again to Realisation Account.

Journal of Aman and Rajat (31st 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 for dissolution work)		1,000	 1,000
	Aman's Capital A/c Dr. To Bank A/c (Being realisation expenses payable by Aman paid by the firm on his behalf)		800	 800

Step 6: Transfer the loss: part (f) Distribute the given realisation loss in the old profit-sharing ratio:

$$\text{Aman} = 54,000 \times \frac{2}{3} = \text{Rs } 36,000, \qquad \text{Rajat} = 54,000 \times \frac{1}{3} = \text{Rs } 18,000.$$

Journal of Aman and Rajat (31st 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 to partners in the ratio 2:1)		36,000 18,000	 54,000

Step 7: Conclusion The cash settlements are Rs 10,000, Rs 29,550 and Rs 21,000; Rajat is charged Rs 450 for the typewriter. Aman receives Rs 1,000 remuneration and is charged Rs 800 expenses. The loss is borne by Aman, Rs 36,000, and Rajat, Rs 18,000.

Quick Tip to Solve: Once assets and liabilities are transferred, enter only settlement cash; charge a partner for expenses the partner agreed to bear.

14. Priya and Tina are partners in a firm sharing profits and losses in the ratio of 2 : 3. The following was the Balance Sheet of the firm as on 31-3-2016.

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Priya 1,60,000 Tina 80,000	2,40,000	Sundry Assets	2,40,000
	2,40,000		2,40,000

Profits Rs 60,000 for the year ended 31-3-2016 were divided between the partners without allowing interest on capital @ 12% p.a. and salary to Priya @ Rs 2,000 per month. During the year Priya withdrew Rs 16,000 and Tina Rs 8,000. Showing your working notes clearly, pass the necessary rectifying entry. [6 marks]

Solution:

Concept:

- Interest on capital is calculated on opening capital. When closing capital already includes profit and drawings, opening capital equals closing capital plus drawings minus the profit credited.
- Partners receive interest on capital and the agreed salary before the remaining profit is divided in the profit-sharing ratio. A single adjustment transfers the excess credit from one partner to the partner who received too little.

Step 1: Reconstruct opening capitals The stated capitals are the balances on 31-3-2016, after the year's profit was distributed. The profit originally credited to Priya and Tina was respectively

$$60,000 \times \frac{2}{5} = 24,000, \qquad 60,000 \times \frac{3}{5} = 36,000.$$

Add back drawings and deduct these profit credits to obtain the capital at the beginning of the year:

$$\text{Priya} = 1,60,000 + 16,000 - 24,000 = \text{Rs } 1,52,000,$$
$$\text{Tina} = 80,000 + 8,000 - 36,000 = \text{Rs } 52,000.$$

No fresh capital contribution or withdrawal of capital is stated. Drawings are used to reconstruct the opening balances; no interest on drawings is specified.

Step 2: Calculate the correct appropriation of profit Interest on capital for the full year is:

$$\text{Priya} = 1,52,000 \times 12\% = \text{Rs } 18,240,$$
$$\text{Tina} = 52,000 \times 12\% = \text{Rs } 6,240.$$

Priya's annual salary is $2,000 \times 12 = \text{Rs } 24,000$. The balance of profit available for division is therefore

$$60,000 - 18,240 - 6,240 - 24,000 = \text{Rs } 11,520.$$

This balance belongs to Priya and Tina in the ratio $2 : 3$, giving Rs 4,608 and Rs 6,912 respectively.

Step 3: Compare correct and actual credits The following working note identifies the net adjustment without reopening the closed profit and loss appropriation account.

Particulars	Priya (Rs)	Tina (Rs)
Interest on capital	18,240	6,240
Salary	24,000	–
Share of remaining profit	4,608	6,912
Correct total credit	46,848	13,152
Profit already credited	24,000	36,000
Short credit / (excess credit)	22,848	(22,848)

Thus Priya must receive an additional credit, while Tina must surrender the same amount. Equal and opposite adjustments preserve the combined capital of the firm.

Step 4: Pass the rectifying journal entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2016	Tina's Capital A/c Dr. To Priya's Capital A/c (Being omitted interest on opening capitals and Priya's salary adjusted through partners' capital accounts)		22,848	22,848

The corrected closing capitals become Rs 1,82,848 for Priya and Rs 57,152 for Tina. Their sum remains Rs 2,40,000, confirming that this is a transfer between partners only.

Step 5: Conclusion Debit Tina's Capital A/c and credit Priya's Capital A/c by Rs 22,848.

Quick Tip to Solve: Reconstruct opening capital before applying 12 percent; the balance sheet gives year-end capitals after the original profit distribution.

15. (a) Journalise the following transaction for issue of 12% debentures :

Ketan Ltd. issued Rs 60,000, 12% debentures of Rs 100 each at a discount of 5% redeemable at 110%.

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

(i) M. Ltd. redeemed Rs 3,80,000, 13% debentures of Rs 100 each which were issued at par by converting them into equity shares of Rs 10 each issued at a premium of 25%.

(ii) Dalco Ltd. purchased its own 6,000, 10% debentures of Rs 100 each at Rs 97 per debenture for immediate cancellation.

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

[6 marks]

Solution:

Concept:

- On issue, the debenture account is credited with nominal value. Loss on issue includes both issue discount and any premium payable on redemption.
- On conversion, the liability is settled at the issue price of shares, with nominal value credited to share capital and the excess to securities premium. On cancellation of own debentures, the saving

is a capital profit.

Step 1: (a) Calculate proceeds and loss on issue Ketan Ltd. issues debentures of nominal value Rs 60,000. The issue discount is $60,000 \times 5\% =$ Rs $3,000$, so cash received is Rs 57,000. The premium payable on redemption is $60,000 \times 10\% =$ Rs $6,000$. Hence total loss on issue is $3,000 + 6,000 =$ Rs $9,000$. The 12% rate identifies the debentures; no interest entry is needed.
Journal of Ketan Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		57,000	
	Loss on Issue of Debentures A/c Dr.		9,000	
	To 12% Debentures A/c			60,000
	To Premium on Redemption of Debentures A/c			6,000
	(Being debentures issued at 5% discount, redeemable at 110%)			

Step 2: (b)(i) Calculate shares issued on conversion M. Ltd. settles a debenture liability of Rs 3,80,000. Each equity share is issued for

$$10 + 25\% \text{ of } 10 = \text{Rs } 12.50.$$

The number of shares is $3,80,000/12.50 = 30,400$. Share capital is $30,400 \times 10 =$ Rs $3,04,000$, and securities premium is $30,400 \times 2.50 =$ Rs $76,000$. The shares therefore discharge the entire amount due without any cash payment.
Journal of M. Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	13% Debentures A/c Dr.		3,80,000	
	To Debentureholders A/c			3,80,000
	(Being debentures due for redemption by conversion)			
	Debentureholders A/c Dr.		3,80,000	
	To Equity Share Capital A/c			3,04,000
	To Securities Premium Reserve A/c			76,000
	(Being 30,400 equity shares of Rs 10 issued at 25% premium to settle debentureholders)			

Step 3: (b)(ii) Record purchase and immediate cancellation Dalco Ltd. buys 6,000 own debentures with nominal value $6,000 \times 100 =$ Rs $6,00,000$. The purchase price is $6,000 \times 97 =$ Rs $5,82,000$. The saving on cancellation is thus Rs 18,000. This is a capital profit and is transferred to Capital Reserve, rather than treated as ordinary operating income.

Journal of Dalco Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Own Debentures A/c Dr. To Bank A/c (Being 6,000 own debentures purchased at Rs 97 each)		5,82,000	 5,82,000
	10% Debentures A/c Dr. To Own Debentures A/c To Profit on Cancellation of Debentures A/c (Being own debentures immediately cancelled)		6,00,000	 5,82,000 18,000
	Profit on Cancellation of Debentures A/c Dr. To Capital Reserve A/c (Being capital profit on cancellation transferred to Capital Reserve)		18,000	 18,000

The debenture liability is removed at face value, while the own-debenture asset is removed at cost. No entries for redemption reserve, redemption investments or interest are required, as directed.

Step 4: Conclusion Ketan: loss on issue Rs 9,000. M. Ltd.: 30,400 shares, share capital Rs 3,04,000 and securities premium Rs 76,000. Dalco: cancellation profit transferred to Capital Reserve Rs 18,000.

Quick Tip to Solve: For conversion divide the liability by Rs 12.50, not the Rs 10 face value; for cancellation compare face value with actual purchase cost.

16. 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 3,00,000Less : 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 in their old ratio $2:3$.
- Goodwill premium is credited in the sacrificing ratio; the incoming partner receives no share of pre-admission reserves or revaluation profit.

Step 1: Calculate sacrifice and goodwill The new shares are $2/10, 3/10, 5/10$. Madhu sacrifices $2/5 - 2/10 = 1/5$, and Vidhi sacrifices $3/5 - 3/10 = 3/10$. Therefore the sacrificing ratio is $2:3$. Gayatri brings goodwill premium $3,00,000 \times 5/10 =$ Rs $1,50,000$, credited as Rs 60,000 and Rs 90,000. Her capital contribution is separately Rs 4,00,000. General Reserve of Rs 30,000 is transferred as Rs 12,000 and Rs 18,000.

Step 2: Prepare Revaluation Account Required provision is $3,00,000 \times 5\% =$ Rs $15,000$. Since Rs 10,000 already exists, only the additional Rs 5,000 is a revaluation expense. The compensation claim creates a liability of Rs 6,000. Revaluation profit is $26,000 - 5,000 - 6,000 =$ Rs $15,000$, distributed Rs 6,000 and Rs 9,000.

Revaluation Account

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

Step 3: Prepare capital accounts Partners Capital Accounts (amounts in Rs)

Dr. Particulars	Madhu	Vidhi	Gayatri	Particulars	Madhu	Vidhi	Gayatri Cr.
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 Goodwill premium	60,000	90,000	—
				By Revaluation	6,000	9,000	—
				By Bank	—	—	4,00,000
Total	5,98,000	4,17,000	4,00,000	Total	5,98,000	4,17,000	4,00,000

The premium remains in the business because no withdrawal is specified. Gayatri is credited only with her own capital; her goodwill premium compensates the sacrificing old partners.

Step 4: Prepare the reconstituted balance sheet Bank becomes $50,000 + 4,00,000 + 1,50,000 =$ Rs $6,00,000$. Land and Building becomes Rs 3,26,000; machinery and stock remain unchanged. The general reserve has been fully transferred to the old partners, and the compensation claim appears as an outstanding liability.

Balance Sheet as at 1st April, 2016

Liabilities	Rs	Assets	Rs
Madhu capital	5,98,000	Land and Building	3,26,000
Vidhi capital	4,17,000	Machinery	2,80,000
Gayatri capital	4,00,000	Stock	80,000
Bills payable	1,50,000	Debtors	3,00,000
Workmen compensation payable	6,000	Less: Provision	(15,000)
		Net debtors	2,85,000
		Bank	6,00,000
Total	15,71,000	Total	15,71,000

Step 5: 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 Balance Sheet totals Rs 15,71,000.

Quick Tip to Solve: Increase only the existing doubtful-debt provision by Rs 5,000; credit the cash goodwill premium to the sacrificing partners.

OR

16. 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:

- Revaluation profit and accumulated losses are allocated to all partners in the old ratio $5 : 3 : 2$. Advertisement expenditure is a deferred loss and must be written off.
- The retiring partner receives his share of goodwill from the gaining partners. In the absence of a

stated new ratio, Meha and Nupur continue in their old relative ratio $3:2$.

Step 1: Calculate goodwill and gaining ratio Average annual profit is $(55,000+65,000+60,000)/3 =$ Rs $60,000$. Goodwill at two years purchase is Rs 1,20,000. Ativ is entitled to $1,20,000 \times 5/10 =$ Rs $60,000$. Meha gains $3/5 - 3/10 = 3/10$, and Nupur gains $2/5 - 2/10 = 2/10$; their gaining ratio is $3:2$. Debit their capitals by Rs 36,000 and Rs 24,000 respectively and credit Ativ capital by Rs 60,000. No goodwill asset is retained.

Step 2: Prepare Revaluation Account Fixed assets appreciate by Rs 25,000, while stock must be reduced by Rs 5,000. The resulting profit of Rs 20,000 is credited in the old ratio: Ativ Rs 10,000, Meha Rs 6,000 and Nupur Rs 4,000.

Revaluation Account

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

Step 3: Write off advertisement expenditure and settle Ativ The advertisement expenditure of Rs 10,000 is debited to Ativ, Meha and Nupur as Rs 5,000, Rs 3,000 and Rs 2,000. Ativ amount due is $1,00,000+10,000+60,000-5,000 =$ Rs $1,65,000$. After immediate payment of Rs 20,000, Rs 1,45,000 is transferred to his loan account. Meha capital is $50,000 + 6,000 - 3,000 - 36,000 =$ Rs $17,000$, and Nupur capital is $40,000 + 4,000 - 2,000 - 24,000 =$ Rs $18,000$.

Partners Capital Accounts (amounts in Rs)

Dr. Particulars	Ativ	Meha	Nupur	Particulars	Ativ	Meha	Nupur Cr.
To Advertisement	5,000	3,000	2,000	By Balance b/d	1,00,000	50,000	40,000
To Ativ (goodwill)	—	36,000	24,000	By Revaluation	10,000	6,000	4,000
To Bank	20,000	—	—	By Meha (goodwill)	36,000	—	—
To Ativ loan	1,45,000	—	—	By Nupur (goodwill)	24,000	—	—
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 4: Prepare balance sheet Bank is reduced from Rs 25,000 to Rs 5,000 by the immediate payment. Fixed assets become Rs 1,45,000 and stock becomes Rs 50,000. Advertisement expenditure is eliminated. Trade creditors and the Employees Provident Fund remain outside liabilities; the provident fund is not a distributable reserve.

Balance Sheet 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 loan	1,45,000	Stock	50,000
Meha capital	17,000	Fixed assets	1,45,000
Nupur capital	18,000		
Total	2,30,000	Total	2,30,000

Step 5: Conclusion Revaluation profit is Rs 20,000. Ativ receives Rs 20,000 cash and Rs 1,45,000 as loan; Meha and Nupur capitals are Rs 17,000 and Rs 18,000. Balance Sheet total: Rs 2,30,000.

Quick Tip to Solve: Write off advertisement expenditure in the old ratio before settling the retiring partner; preserve the provident fund as a liability.

17. 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:

- Application and allotment receipts are apportioned between share capital and securities premium according to their stated components.
- On forfeiture, debit called-up capital and unpaid premium; credit unpaid instalments and capital already received to Share Forfeiture.

Step 1: Calculate pro-rata adjustment and arrears The accepted applications are $1,80,000 - 10,000 = 1,70,000$ shares, against 1,60,000 shares allotted, giving an application-to-allotment ratio of $17 : 16$. Excess application money is $10,000 \times 6 =$ Rs $60,000$, transferred to allotment. Aditya applied for $3,200 \times 17/16 = 3,400$ shares and paid Rs 20,400 on application. His excess is Rs 1,200. His allotment arrears are $3,200 \times 3 - 1,200 =$ Rs $8,400$. The final call is $13 - 6 - 3 =$ Rs 4, comprising Rs 3 capital and Rs 1 premium, so his call arrears are Rs 12,800. The excess application money first adjusts capital due on allotment; unpaid premium is therefore Rs 3,200 on allotment plus Rs 3,200 on call.

Step 2: Record application and allotment Journal of Nitro Paints Ltd. (continued in the next step)

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

Step 3: Record call, forfeiture and reissue Journal of Nitro Paints Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr.		6,40,000	
	To Share Capital A/c			4,80,000
	To Securities Premium Reserve A/c			1,60,000
	(Being first and final call of Rs 4 per share due)			
	Bank A/c Dr.		6,27,200	
	To Share First and Final Call A/c			6,27,200
	(Being call received except on Aditya shares)			
	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 cancelled)			
	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)			
	Share Forfeiture A/c Dr.		8,600	
	To Capital Reserve A/c			8,600
	(Being profit on reissued half of forfeited shares transferred)			

Step 4: Verify forfeiture profit Aditya paid capital of $3,200 \times 5 + 1,200 = \text{Rs } 17,200$. His forfeiture entry balances: debit Rs 38,400 equals credits Rs 8,400, Rs 12,800 and Rs 17,200. Reissue proceeds of Rs 43,000 exceed the face value Rs 16,000 by Rs 27,000, credited as premium. Since exactly half the forfeited shares are reissued and there is no reissue discount, half the forfeiture balance, Rs 8,600, becomes capital reserve; the other Rs 8,600 remains in Share Forfeiture A/c.

Step 5: Conclusion The above journal records all transactions. Capital reserve is Rs 8,600; the balance remaining in Share Forfeiture A/c is Rs 8,600.

Quick Tip to Solve: Separate the Rs 1 premium in each instalment before calculating forfeiture; transfer only the reissued shares' share of forfeiture to capital reserve.

OR

17. 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:

- Excess application money is first adjusted against allotment and then carried as Calls in Advance until the call becomes due.
- Calls in Arrears records unpaid called money. Capital Reserve receives forfeiture profit relating to shares actually reissued.

Step 1: Determine category-wise adjustments Full allotment is 7,000 shares; the remaining 33,000 applications receive 20,000 shares. Thus the pro-rata application-to-allotment ratio is $33 : 20$. Application receipts total Rs 20,00,000, of which capital on 27,000 allotted shares is Rs 13,50,000. Excess Rs 6,50,000 is split into allotment Rs 2,00,000 and call advance Rs 4,50,000. Allotment due totals Rs 2,70,000, leaving Rs 70,000 payable by the full-allotment group. Asha pays $600 \times 40 =$ Rs $24,000$ additionally in advance; bank receipts at allotment are therefore Rs 94,000.

Step 2: Work out Ankur call arrears Ankur applied for $200 \times 33/20 = 330$ shares and paid $330 \times 50 =$ Rs $16,500$. Of this, Rs 10,000 is application capital, Rs 2,000 covers his entire allotment and Rs 4,500 is call advance. His call due is $200 \times 40 =$ Rs $8,000$, leaving arrears Rs 3,500. Total call advances are $4,50,000 + 24,000 =$ Rs $4,74,000$. Thus cash collected on the call is $10,80,000 - 4,74,000 - 3,500 =$ Rs $6,02,500$. No allotment arrears arise because application excess fully covers Ankur allotment.

Step 3: Record application and allotment Journal of Midee Ltd. (continued in the next step)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		20,00,000	
	To Share Application A/c			20,00,000
	(Being application money received on 40,000 shares)			
	Share Application A/c Dr.		20,00,000	
	To Share Capital A/c			13,50,000
	To Share Allotment A/c			2,00,000
	To Calls in Advance A/c			4,50,000
	(Being application adjusted to capital, allotment and future call)			
	Share Allotment A/c Dr.		2,70,000	
	To Share Capital A/c			2,70,000
	(Being allotment due on 27,000 shares)			
	Bank A/c Dr.		94,000	
	To Share Allotment A/c			70,000
	To Calls in Advance A/c			24,000
	(Being full-allotment category paid allotment and Asha paid her call in advance)			

Step 4: Record call, forfeiture and reissue Journal of Midee Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr.		10,80,000	
	To Share Capital A/c			10,80,000
	(Being final call due at Rs 40 per share)			
	Calls in Advance A/c Dr.		4,74,000	
	Bank A/c Dr.		6,02,500	
	Calls in Arrears A/c Dr.		3,500	
	To Share First and Final Call A/c			10,80,000
	(Being advances adjusted and call collected except Ankur arrears)			
	Share Capital A/c Dr.		20,000	
	To Calls in Arrears A/c			3,500
	To Share Forfeiture A/c			16,500
	(Being Ankur 200 shares forfeited for unpaid call)			
	Bank A/c Dr.		21,000	
	To Share Capital A/c			20,000
	To Securities Premium Reserve A/c			1,000
	(Being 200 shares reissued at Rs 105 fully paid)			
	Share Forfeiture A/c Dr.		16,500	
	To Capital Reserve A/c			16,500
	(Being entire forfeiture profit transferred after reissue)			

Step 5: Check the reissue profit The called capital on Ankur 200 shares is Rs 20,000. Capital already received is Rs 16,500, and unpaid capital is Rs 3,500, so the forfeiture entry balances. Reissue produces $200 \times 105 = \text{Rs } 21,000$, comprising Rs 20,000 capital and Rs 1,000 securities premium. There is no reissue discount. All forfeited shares have been reissued, so the whole forfeiture credit of Rs 16,500 is transferred to capital reserve. The calls-in-advance and calls-in-arrears balances have both been cleared through the entries.

Step 6: Conclusion Calls in arrears are Rs 3,500 before forfeiture; capital reserve on reissue is Rs 16,500 and securities premium on reissue is Rs 1,000.

Quick Tip to Solve: For a pro-rata defaulter, convert allotted shares back to applications before calculating excess; that excess can pay both allotment and part of the call.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

18. 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.
- Raising a loan brings cash into the enterprise and increases its borrowings.

Step 1: Identify a universal financing transaction Consider cash received by raising a long-term loan. The transaction supplies finance to the enterprise and creates an obligation to repay the lender.

Step 2: Apply the classification The receipt changes the amount of borrowed capital. Hence it is a cash inflow from financing activities, whether the enterprise is a financial enterprise or a non-financial enterprise.

Step 3: Conclusion Cash received from raising a long-term loan is an example of a financing activity for every type of enterprise.

Quick Tip to Solve: Choose raising or repaying loan principal; interest classifications can depend on the type of enterprise.

19. 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 comprises cash on hand and demand deposits with banks.
- A demand deposit is withdrawable on demand; the definition concerns readily available money rather than all bank deposits.

Step 1: Identify cash on hand Cash on hand means the currency notes and coins held by the enterprise and available for use.

Step 2: Include bank balances withdrawable on demand Demand deposits with banks form the other component of cash, such as balances in current accounts. Cash equivalents are a separately defined category and need not be added to the meaning of cash asked here.

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

Quick Tip to Solve: State both components: cash on hand and bank deposits withdrawable on demand.

20. (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 (ROI) measures profit before interest and tax (PBIT) as a percentage of capital employed: $\text{ROI} = \frac{\text{PBIT}}{\text{Capital employed}} \times 100$.
- Capital employed equals fixed assets plus current assets less current liabilities. Working capital equals current assets less current liabilities.
- Working Capital Turnover Ratio equals revenue from operations divided by working capital. A gross profit rate on cost uses cost of revenue from operations as its base.

Step 1: Part (a): recover profit before tax Net profit after interest and tax is Rs 1,00,000. Since tax is 20% of profit before tax, the given net profit represents 80% of profit before tax:

$$\text{Profit before tax} = \frac{1,00,000}{1-0.20} = \text{Rs } 1,25,000.$$

This amount is still after charging interest.

Step 2: Part (a): calculate PBIT and capital employed Interest on the long-term debt is

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

Add it back to profit before tax:

$$\text{PBIT} = 1,25,000 + 40,000 = \text{Rs } 1,65,000.$$

Capital employed is the net amount of assets financed by long-term sources:

$$\begin{aligned}\text{Capital employed} &= 6,00,000 + 4,00,000 - 2,00,000 \\ &= \text{Rs } 8,00,000.\end{aligned}$$

Therefore,

$$\text{ROI} = \frac{1,65,000}{8,00,000} \times 100 = 20.625\%.$$

Step 3: Part (b): determine revenue from operations Gross profit is 25% of cost, rather than 25% of

revenue. Therefore:

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

Step 4: Part (b): compute working capital turnover The working capital available from the given current balances is

$$\text{Working capital} = 10,00,000 - 3,00,000 = \text{Rs } 7,00,000.$$

Hence,

$$\text{Working Capital Turnover Ratio} = \frac{25,00,000}{7,00,000} = \frac{25}{7} \text{ times} \approx 3.57 \text{ times}.$$

Shareholders' funds are not required here because current assets and current liabilities directly give working capital.

Step 5: Conclusion (a) Return on Investment $= 20.625\%$. (b) Working Capital Turnover Ratio $= 25/7$, or approximately 3.57 times.

Quick Tip to Solve: First remove tax, then add interest for ROI; when gross profit is on cost, add it to cost to find revenue.

21. 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:

- A common size statement expresses each expense and profit as a percentage of revenue from operations for the same year. Revenue from operations is taken as 100% separately in each year.
- The percentage of an item is $\dfrac{\text{Amount of the item}}{\text{Revenue from operations}} \times 100$. Profit before tax equals revenue less expenses; tax is 40% of profit before tax.

Step 1: Calculate expenses, profit and tax For 2015-16, total expenses are Rs $10,00,000 + 2,00,000 = 12,00,000$. Profit before tax is Rs $25,00,000 - 12,00,000 = 13,00,000$. Tax is Rs $13,00,000 \times 40\% = 5,20,000$, leaving profit after tax of Rs $7,80,000$.

For 2014-15, total expenses are Rs $7,00,000 + 3,00,000 = 10,00,000$. Profit before tax is Rs $20,00,000 - 10,00,000 = 10,00,000$. Tax is Rs $4,00,000$, leaving profit after tax of Rs $6,00,000$. The tax rate applies to profit before tax, rather than to sales.

Step 2: 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	2015-16 Rs	2014-15 Rs	2015-16 %	2014-15 %
Revenue from operations	25,00,000	20,00,000	100	100
Expenses:				
Employee benefit expenses	10,00,000	7,00,000	40	35
Other expenses	2,00,000	3,00,000	8	15
Total expenses	12,00,000	10,00,000	48	50
Profit before tax	13,00,000	10,00,000	52	50
Less: Tax	5,20,000	4,00,000	20.8	20
Profit after tax	7,80,000	6,00,000	31.2	30

For example, employee benefit expenses for 2015-16 are $10,00,000/25,00,000 \times 100 = 40\%$, whereas those for 2014-15 are $7,00,000/20,00,000 \times 100 = 35\%$. Each column therefore uses its own year's revenue as its denominator.

Step 3: Conclusion Profit after tax is 31.2% of revenue in 2015-16 and 30% in 2014-15. Total expenses have fallen from 50% to 48% of revenue, improving the profit margin.

Quick Tip to Solve: Take each year's revenue as 100%; first calculate profit before tax, then apply the 40% tax rate to that profit.

22. (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. Capital work in progress represents expenditure on fixed assets which are still being constructed and are not yet ready for use.
- A provision recognises an estimated obligation. Financial statement analysis examines relationships among statement figures to assess earning capacity and financial strength and to support decisions.

Step 1: (a) Classify the two items Balance Sheet Classification under Schedule III

Item	Major head	Sub-head
Capital work in progress	Non-current assets	Fixed assets: Capital work in progress
Provision for warranties	Non-current liabilities	Long-term provisions

Capital work in progress is shown separately within fixed assets because the asset is still under construction. It is not an expense of the current period merely because construction is incomplete.

Provision for warranties is a provision for an obligation relating to warranty claims, rather than a reserve created by appropriation of profit; it is classified under long-term provisions in the prescribed classification for this item.

Step 2: (b) State two objectives of analysis **1. Assess profitability and earning capacity.** Analysis helps determine the enterprise's ability to earn profits from its operations and the efficiency with which it uses its resources. Relationships between revenue, expenses and profit reveal whether earning performance has improved or deteriorated over time and assist owners and management in judging business performance.

2. Assess financial position and solvency. Analysis helps evaluate the enterprise's ability to meet its financial commitments. It examines the relationship between assets, liabilities and owners' funds to judge financial strength, including the capacity to meet short-term dues and long-term obligations. This information is useful to lenders, creditors and management when assessing financial risk and planning finance.

Step 3: Conclusion Capital work in progress is classified under Non-current assets—Fixed assets; provision for warranties is classified under Non-current liabilities—Long-term provisions. Two objectives of analysis are assessing profitability and assessing financial position and solvency.

Quick Tip to Solve: Separate the major head from its sub-head, and state each objective with the business ability that analysis helps assess.

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

Particulars	31st March, 2015 (Rs)	31st March, 2014 (Rs)
Investments in Land	22,00,000	12,00,000
10% Long term Investments	5,00,000	8,00,000
Plant and Machinery	6,00,000	4,00,000
Goodwill	1,60,000	30,000

Additional Information :

A machine costing Rs 80,000 (depreciation provided thereon Rs 24,000) was sold for Rs 75,000. Depreciation charged during the year was Rs 90,000. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire long-term assets and cash received from their disposal. For a non-financial enterprise, interest received on investments is also an investing inflow.
- Depreciation is a non-cash charge. The carrying amount of an asset sold equals its original cost less depreciation provided on that asset. Use carrying amounts consistently when reconstructing asset purchases.

Step 1: Calculate purchases of land and goodwill The increase in land investment represents cash

paid for land, since no disposal or non-cash acquisition is stated:

$$\text{Land purchased} = 22,00,000 - 12,00,000 = \text{Rs } 10,00,000.$$

Similarly, the acquisition of goodwill is:

$$\text{Goodwill purchased} = 1,60,000 - 30,000 = \text{Rs } 1,30,000.$$

Both are investing cash outflows.

Step 2: Calculate the purchase of plant and machinery The machine sold had a carrying amount of

$$80,000 - 24,000 = \text{Rs } 56,000.$$

Let cash purchases of plant and machinery be P. The opening carrying amount, additions, carrying amount disposed of and depreciation reconcile as follows:

$$\begin{aligned} 4,00,000 + P - 56,000 - 90,000 &= 6,00,000, \\ P &= 6,00,000 - 4,00,000 + 56,000 + 90,000 \\ &= \text{Rs } 3,46,000. \end{aligned}$$

The sale produces an actual cash inflow of Rs 75,000. Its profit is $75,000 - 56,000 = \text{Rs } 19,000$; this profit is not an additional investing receipt because it is already included in the sale proceeds.

Step 3: Determine cash from investments The reduction in long-term investments gives sale proceeds of

$$8,00,000 - 5,00,000 = \text{Rs } 3,00,000.$$

No gain or loss on disposal is given. Interest received at 10% on the opening investment is

$$8,00,000 \times \frac{10}{100} = \text{Rs } 80,000.$$

In the absence of a specified disposal date, interest is calculated on the opening investments; there is no basis for imposing a mid-year sale.

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

Particulars	**Amount (Rs)**
Cash flows from investing activities	
Sale of long-term investments	3,00,000
Interest received on long-term investments	80,000
Sale of machinery	75,000
Total cash inflows	4,55,000
Purchase of land	(10,00,000)
Purchase of plant and machinery	(3,46,000)
Purchase of goodwill	(1,30,000)
Total cash outflows	(14,76,000)
Net cash used in investing activities	**(10,21,000)**

The net amount is $4,55,000 - 14,76,000 = -10,21,000$. Depreciation of Rs 90,000 helps reconstruct

the purchase of machinery but does not itself appear as an investing payment.

Step 5: Conclusion Net cash flow from investing activities is $\boxed{-\text{Rs } 10,21,000}$, i.e. cash used of Rs 10,21,000.

Quick Tip to Solve: Use the carrying amount of the machine sold to find purchases, but use actual sale proceeds in the cash flow statement.

Option – II (Computerized Accounting)

18. What is meant by 'Database' ? [1 mark]

Solution:

Concept:

- A database is an organised collection of logically related data maintained for a common purpose.
- Related data can be stored in tables so that records can be accessed and updated systematically.

Step 1: Identify what is collected A database contains related data rather than an unrelated collection of facts. For example, an accounting database may contain customer, invoice and receipt records.

Step 2: Explain its purpose The data are organised so that users can store, retrieve, update and use them efficiently. Thus, a database is the organised data collection used by an information system.

Step 3: Conclusion A database is an organised collection of logically related data, stored for efficient access, management and updating.

Quick Tip to Solve: Define both the related nature of the data and its organised storage.

19. Name any two software tools for organizing, processing and querying data in flexible manner. [1 mark]

Solution:

Concept:

- Database management software organises data and provides facilities for processing and querying it.
- A query retrieves selected records or calculated information according to specified conditions.

Step 1: Name the first tool Microsoft Access is a database management tool. It supports tables, forms, queries and reports for organising and using related data.

Step 2: Name the second tool LibreOffice Base is another database management tool. It provides facilities to organise records and query a database to retrieve the required information. Both examples belong to the software category requested.

Step 3: Conclusion Two such software tools are Microsoft Access and LibreOffice Base.

Quick Tip to Solve: Name two database management tools; avoid naming hardware or an operating system.

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

Solution:

Concept:

- Computerised accounting software records and processes accounting transactions electronically and generates reports from the stored data.
- Its advantages arise from fast processing, consistent application of accounting rules, automatic updating and ready access to financial information.

Step 1: 1. Speed A computer processes a large volume of accounting transactions much faster than manual accounting. Once transaction data is entered, calculations, posting to the ledger and preparation of reports can be performed quickly. For example, an organisation can obtain a trial balance promptly without manually adding all ledger balances. This saves time and makes financial information available when management needs it.

Step 2: 2. Accuracy Accounting software performs calculations and postings according to programmed rules. This reduces arithmetical errors and errors arising from repeated manual copying of figures. For example, the software calculates totals and updates the related ledger accounts automatically. Accuracy nevertheless depends on correct input data and appropriate software settings; an incorrectly entered transaction is not made correct merely by computer processing.

Step 3: 3. Reliability and consistency The software applies the same accounting procedures and calculations consistently to similar transactions. It does not become tired while processing repetitive work, so reports can be prepared using uniform methods even when the volume of transactions increases. With proper controls and correct data, this makes accounting output dependable and facilitates comparison between periods.

Step 4: 4. Up-to-date information and reports When a transaction is recorded, the related balances and reports can be updated automatically. A business can therefore obtain current information about cash, debtors, creditors and other accounts without separately rewriting each statement. Timely financial reports help management monitor operations, control expenditure and take decisions on the basis of recent accounting information.

Step 5: Conclusion Four advantages of computerised accounting software are speed, accuracy, reliability and consistency, and ready availability of up-to-date accounting information.

Quick Tip to Solve: Give four distinct advantages and explain how each improves accounting work; do not simply list their names.

21. 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, displaying and editing data stored in a table or obtained through a query.
- A simple form presents record fields in a form view. A split form presents a form view and a

datasheet view of the same data together, with both views synchronised.

Step 1: Meaning and purpose of a form A form provides an organised screen through which a user works with database records. It displays fields using controls such as text boxes, labels and selection boxes, so the user need not work directly in the underlying table. For example, an accounting database may use a customer form to enter a customer's code, name and address. Subject to the database's permissions and design, a form may be used to add new records, view existing records and edit their contents.

Step 2: Simple form A simple form displays data in a single form view, normally showing the fields of one record at a time in a convenient layout. The user can enter or edit the selected record and use navigation controls to move to another record. It is useful when attention is on the details of an individual record. It does not simultaneously provide the linked datasheet pane that is the defining feature of a split form.

Step 3: Split form A split form displays two views of the same data at the same time: a form view and a datasheet view. The form view provides the details of a record, while the datasheet view displays records in rows and fields in columns. The two views are connected to the same data source and remain synchronised. Selecting a record in the datasheet makes that record available in the form view; an allowed edit made in either view is reflected in the other.

Step 4: Practical difference Thus, in a simple form the user works through the form view alone. In a split form the user can locate or compare records conveniently in the datasheet pane and then inspect or edit a selected record in the form pane. For example, a clerk can find a customer in the datasheet and immediately see that customer's full details in the linked form, without changing to a separate database view.

Step 5: Conclusion A form is an interface for working with database records. A simple form supplies a single form view, whereas a split form supplies synchronised form and datasheet views of the same records simultaneously.

Quick Tip to Solve: Remember the defining feature of a split form: two simultaneous, synchronised views of the same data.

22. 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 must match the size, complexity and information requirements of the business. The principal categories are ready-to-use, customised and tailored software.
- Tailored accounting software is developed specifically for an organisation whose operations require a specialised accounting information system.

Step 1: Identify the suitable software The suitable type is **tailored accounting software**. A large organisation with several users and branches at different locations needs a system designed around

its particular structure and accounting procedures. A standard package with only minor changes may not adequately meet these requirements.

Step 2: Explain its organisation-specific design Tailored software is designed and developed to satisfy the specific needs of the enterprise. Its input forms, account codes, transaction processing, internal checks and output reports can be built around the business. It can integrate information from departments and branches and provide management with the reports needed to control a large organisation.

Step 3: Explain multi-user and multi-location operation The system supports several authorised users working on the accounting system and accommodates operations at geographically scattered locations. Suitable user permissions restrict each person to the work and information relevant to that role. Transactions from different locations can be processed within an integrated system, allowing consolidated information to be made available to management.

Step 4: State the implementation implications This close fit involves substantial development and maintenance cost. The organisation needs interaction between accounting personnel and software developers, along with testing, employee training and continuing support. These requirements are justified when the scale and specialised needs of the business exceed the capabilities of ordinary accounting packages.

Step 5: Conclusion **Tailored accounting software** meets the requirements of large business organisations with multiple users and geographically scattered locations because it is developed specifically for their complex and integrated accounting needs.

Quick Tip to Solve: When the question combines a large organisation, many users and scattered locations, identify tailored software and link its features to those requirements.

23. Explain in brief the steps to be followed to change 'Conditional Formatting. [6 marks]

Solution:

Concept:

- Conditional formatting changes the appearance of a spreadsheet cell automatically when its value or a formula satisfies a specified condition.
- Changing a conditional-formatting rule changes its condition or its display format; it does not change the underlying values entered in the cells.

Step 1: Select the cells containing the existing rule Open the worksheet and select the cell or range whose conditional formatting is to be changed. Selecting the relevant range ensures that the existing rules for those cells can be located and edited. For example, select the amount column if its values are currently highlighted when they exceed a specified limit.

Step 2: Open the conditional-formatting rules On the **Home** tab, in the **Styles** group, click **Conditional Formatting**, and then choose **Manage Rules**. The Conditional Formatting Rules Manager displays the rules. In the **Show formatting rules for** list, select the current selection, or choose the worksheet when the required rule is not visible for the selected cells.

Step 3: Select and edit the required rule Click the rule that is to be changed and choose **Edit Rule**. In the Edit Formatting Rule dialog box, change the condition as required. This may involve choosing a different comparison, changing a limiting value or revising the formula. For instance, a rule highlighting amounts greater than Rs 10,000 may be changed to highlight amounts greater than Rs 15,000.

Step 4: Change the appearance if required To modify how qualifying cells appear, click **Format**. In the Format Cells dialog box, choose the required font, font colour, border or fill. Click **OK** to return to the rule-editing dialog. The format preview helps check that the intended appearance has been selected.

Step 5: Confirm the range and apply the change Click **OK** to save the edited rule and return to the Rules Manager. Check the **Applies to** range so that the revised rule affects the intended cells. Where several rules exist, check their order and any Stop If True setting, since these can influence the final appearance. Click **Apply**, followed by **OK**, to apply the revised conditional formatting.

Step 6: Check the result in the worksheet Inspect cells that satisfy the revised condition and cells that do not. Qualifying cells should display the selected format while the stored data remain unchanged. In older menu-based Excel versions, the corresponding route is **Format > Conditional Formatting**: select the existing condition, alter its criteria or use Format to change its appearance, and confirm with OK.

Step 7: Conclusion To change conditional formatting, select the cells, open the existing rule, edit its condition and/or format, check the affected range, and confirm the changes. The worksheet then displays the revised formatting wherever the edited condition is satisfied.

Quick Tip to Solve: Edit the existing rule rather than adding a duplicate, and always check both the condition and the Applies to range before confirming.