CBSE Class 12 Accountancy Question Paper 2017 with Solution PDF-Set 67-2 - 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. State the ratio in which the partners share the gain or loss on revaluation of assets and liabilities.

[1 mark]

Solution:

Concept:

- Revaluation records changes in the values of assets and liabilities at the time of reconstitution.
- The resulting gain or loss belongs to the partners who were entitled to profits before the change.

Step 1: Identify the period to which the adjustment belongs The increase or decrease in net assets arose while the old partnership arrangement was in force. It is therefore attributable to the old partners.

Step 2: Select the appropriate ratio Allocate this gain or loss among all the old partners using their profit-sharing ratio immediately before reconstitution. Neither the new ratio nor the sacrificing or gaining ratio is used for this allocation.

Step 3: Conclusion The partners share the gain or loss on revaluation in their old profit-sharing ratio.

Quick Tip to Solve: For revaluation, use the ratio before reconstitution; reserve sacrifice and gain ratios for goodwill adjustments.

2. What is meant by 'Private Placement of Shares' ?

[1 mark]

Solution:

Concept:

- A company can raise share capital by offering shares to investors.
- The identity of the persons to whom the offer is made distinguishes a private placement from a public issue.

Step 1: Identify the recipients In a private placement, the company identifies a selected group of persons or investors to whom it offers its shares. The offer is directed to those selected persons.

Step 2: Distinguish it from a public issue The shares are not offered to the general public for subscription. This limited, selected offer is the defining feature; it is not necessary that the issuing company itself be a private company.

Step 3: Conclusion Private placement of shares means an offer of shares by a company to a selected group of persons or investors, instead of to the general public.

Quick Tip to Solve: Remember the recipients: selected investors indicate private placement; an invitation to the public indicates a public issue.

3. What is meant by 'Hidden Goodwill' ? [1 mark]

Solution:

Concept:

- Goodwill is the value of the firm's reputation and other advantages that help it earn profits.
- At admission, the capital brought by a new partner for an agreed profit share can imply a value of the whole firm.

Step 1: Identify why goodwill is hidden Sometimes the value of goodwill is not expressly stated in the partnership agreement or the question. It must instead be inferred from the other information given.

Step 2: Explain how it is inferred For example, compare the total capital implied by an incoming partner's capital contribution and profit share with the actual aggregate adjusted capitals, including that contribution. The excess implied value represents goodwill that was not stated separately.

Step 3: Conclusion Hidden goodwill is goodwill whose value is not stated directly but is inferred from the capital and profit-sharing information given.

Quick Tip to Solve: When goodwill is unstated, compare the implied total capital with the actual adjusted total capital, using the same partner base.

4. Akash, Naveen and Zaid are partners sharing profits in the ratio of 3:2:2. Zaid died on 1st September, 2016. The total amount owed by the firm to his executors was Rs 60,000. The firm decided to pay him in three equal annual instalments carrying interest @6% p.a. beginning with 1st September, 2017. Pass the journal entry for recording the above transaction on the date of Zaid's death. [1 mark]

Solution:

Concept:

- The final amount due to a deceased partner is transferred out of that partner's Capital Account.
- When payment is deferred in instalments, the amount due is carried as a liability in the executor's Loan Account.

Step 1: Identify the liability on the date of death The final amount due to Zaid's executors is Rs 60,000 on 1 September 2016. Since payment will begin a year later, there is no bank payment on the date of death. Interest at 6% p.a. accrues for the subsequent period, so no future interest is included in this transfer.

Step 2: Record the transfer Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Sept. 2016	Zaid's Capital A/c Dr.		60,000	
	To Zaid's Executor's Loan A/c			60,000
	(Being the amount due to Zaid's executors transferred to their loan account, payable in three annual instalments with interest at 6% p.a.)			

Step 3: Conclusion Debit Zaid's Capital Account and credit Zaid's Executor's Loan Account by Rs 60,000 each on 1 September 2016.

Quick Tip to Solve: On the date of death, transfer the amount due to the executor's loan; record interest only for the period for which it accrues.

5. Differentiate between dissolution of partnership and dissolution of a partnership firm on the basis of 'continuity of business'. [1 mark]

Solution:

Concept:

- Dissolution of partnership means a change in the existing partnership relationship.
- Dissolution of the partnership firm means that the firm is wound up and its business is closed.

Step 1: Consider dissolution of partnership The business continues after the partnership relationship is reconstituted. For example, a change in the partners' profit-sharing arrangement changes their agreement while the business may carry on.

Step 2: Consider dissolution of the firm The firm's business ceases and its affairs are wound up. Assets are realised and liabilities settled; these winding-up activities do not mean that the ordinary business continues.

Step 3: Conclusion On dissolution of partnership, the business continues; on dissolution of the partnership firm, the business is discontinued.

Quick Tip to Solve: For the basis "continuity of business", state only the contrast: partnership reconstitution continues business; firm dissolution closes it.

6. Does the change in profit sharing ratio result into dissolution of the partnership firm ? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- A partnership agreement defines how partners share the profits and losses of the business.
- A change in that ratio reconstitutes the partnership by replacing the old sharing arrangement with a new one.

Step 1: Identify what changes When the profit-sharing ratio changes, the rights of the partners to future profits and losses change. Their previous agreement is replaced to that extent, even if the same partners remain.

Step 2: Examine continuity of the business The firm's business continues under the revised agreement. There is no requirement to realise all assets, discharge all liabilities and close the business merely because the ratio has changed. Thus the old partnership relationship is reconstituted, while the firm continues.

Step 3: Conclusion No. A change in the profit-sharing ratio reconstitutes the partnership; it does not dissolve the partnership firm because its business continues.

Quick Tip to Solve: Distinguish the agreement from the business: a new sharing ratio changes partners' rights but does not by itself close the firm.

7. Fidasa Ltd. offered 64,000 equity shares of Rs 100 each to the public at a premium of Rs 20 per share. The amount was payable as Rs 20 - on application; Rs 40 (including premium) - on allotment and the balance on first and final call. 60,000 shares were subscribed by the public.

All the money was duly received except from a shareholder holding 8,000 shares, who failed to pay the first and final call money. His shares were forfeited. Show 'Share Capital' in the Balance Sheet of Fidasa Ltd. Also, prepare 'Notes to Accounts'. [3 marks]

Solution:

Concept:

- Share capital excludes securities premium. Forfeiture cancels the capital relating to the forfeited shares.
- Capital originally received on forfeited shares is added under Share Capital as shares forfeited (amount originally paid up).

Step 1: Calculate the capital received on the forfeited shares **Working Notes**

Out of the allotment of Rs 40 per share, Rs 20 is securities premium and only Rs 20 is capital. Therefore, the first and final call per share is

$$\text{Rs } 100 - (20 + 20) = \text{Rs } 60.$$

Capital received on each forfeited share is Rs $20 + 20 = 40$. Hence,

$$\text{Shares forfeited balance} = 8,000 \times 40 = \text{Rs } 3,20,000.$$

The premium received remains in Securities Premium.

Step 2: Determine the fully paid shares remaining After forfeiture, $60,000 - 8,000 = 52,000$ shares remain fully paid, giving capital of $52,000 \times$ Rs $100 =$ Rs $52,00,000$. Issued capital refers to the 64,000 shares offered. Authorised capital is not given.

Step 3: Present the Balance Sheet extract and note **Fidasa Ltd. — Balance Sheet (Extract)**

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	55,20,000

Notes to Accounts — Note 1: Share Capital

Particulars	Amount (Rs)
Issued capital	
64,000 equity shares of Rs 100 each	64,00,000
Subscribed and fully paid-up capital	
52,000 equity shares of Rs 100 each	52,00,000
Add: 8,000 shares forfeited (amount originally paid up)	3,20,000
Total Share Capital	**55,20,000**

Step 4: Conclusion Share Capital under Shareholders' Funds is $\boxed{\text{Rs } 55,20,000}$, as detailed in Note 1.

Quick Tip to Solve: Remove the Rs 20 premium from allotment before finding forfeited capital: only Rs 40 per forfeited share belongs in the Share Capital note.

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8. Farhan, Hina and Dolly are partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 1st April, 2016 the capitals of the partners were : Rs 5,00,000; Rs 3,00,000 and Rs 2,00,000 respectively. The firm closes its books on 31st March every year. Dolly died on 5th April 2016.

On that date :

(a) Goodwill of the firm was valued at Rs 30,000, and

(b) Dolly's share of profit till the date of her death was calculated as Rs 200.

Prepare Dolly's Capital A/c to be rendered to her executors. [3 marks]

Solution:

Concept:

- A deceased partner's capital account is credited with the opening capital, the partner's share of goodwill, and profit earned up to the date of death. The final amount due is transferred to the executor's account.
- The deceased partner's goodwill is borne by the continuing partners in their gaining ratio. In the absence of a different arrangement, they acquire the deceased partner's share in their existing relative ratio.

Step 1: Work out Dolly's goodwill and its adjustment **Working Notes**

Dolly's profit share is $2/(5+3+2) = 2/10$. Her share in the firm's goodwill is therefore

$$\text{Rs } 30,000 \times \frac{2}{10} = \text{Rs } 6,000.$$

Farhan and Hina continue in their relative ratio $5 : 3$; hence they gain in this ratio. Farhan bears $6,000 \times 5/8 = \text{Rs } 3,750$, and Hina bears $6,000 \times 3/8 = \text{Rs } 2,250$. Their capital accounts are debited and Dolly's Capital Account is credited with these amounts. The goodwill adjustment compensates

Dolly without retaining a goodwill asset in the books.

Step 2: Include the profit already calculated up to death Dolly's opening capital on 1st April, 2016 is Rs 2,00,000. The question directly gives her share of profit up to 5th April, 2016 as Rs 200, so no further time apportionment or multiplication by her profit ratio is needed. Credit this amount to her capital through Profit and Loss Suspense Account, as the firm's annual accounts are not yet closed. No drawings, interest or other adjustments are specified.

Step 3: Prepare Dolly's Capital Account **Dolly's Capital Account**

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Dolly's Executor's A/c (5-4-2016)	2,06,200	By Balance b/d (1-4-2016)	2,00,000
		By Farhan's Capital A/c	3,750
		By Hina's Capital A/c	2,250
		By Profit and Loss Suspense A/c	200
Total	**2,06,200**	**Total**	**2,06,200**

The balance due is transferred on 5th April, 2016 to Dolly's Executor's Account, thereby closing Dolly's Capital Account. This transfer records the liability to her executor; it does not assume that cash has already been paid.

Step 4: Conclusion The amount payable to Dolly's executor is $\boxed{\text{Rs } 2,06,200}$, consisting of capital Rs 2,00,000, goodwill Rs 6,000 and profit up to death Rs 200.

Quick Tip to Solve: The Rs 200 is already Dolly's own share of profit: credit it in full, and apply the 2/10 fraction only to the firm's Rs 30,000 goodwill.

9. The total capital of the firm of Saurabh, Mohit and Nikhil was Rs 1,00,000. The net profits for the last 3 years were : 2013-14 Rs 40,000; 2014-15 Rs 46,000 and 2015-16 Rs 52,000. There was an abnormal loss of Rs 3,000 in 2014-15. Goodwill of the firm was to be valued at 2 years purchase of the average profits of last three years. Calculate the goodwill of the firm. [3 marks]

Solution:

Concept:

- Under the average profit method, goodwill equals the adjusted average annual profit multiplied by the agreed number of years' purchase. The adjustment aims to measure normal recurring earnings.
- An abnormal loss included in a year's net profit is added back because it is not expected to recur. Average profit is the sum of adjusted profits divided by the number of years considered.

Step 1: Adjust the abnormal loss in 2014-15 **Working Notes**

The reported profit for 2014-15 is Rs 46,000 after the abnormal loss of Rs 3,000. To find that year's normal profit, reverse the loss by adding it back:

$$\text{Adjusted profit for 2014-15} = 46,000 + 3,000 = \text{Rs } 49,000.$$

The profits for 2013-14 and 2015-16 remain Rs 40,000 and Rs 52,000 respectively, since no abnormal items are given for those years. Subtracting the loss again would understate the normal earning

capacity.

Step 2: Find the three-year average normal profit Each year has equal weight because the question specifies the average profit method without any weights. Add the three adjusted annual profits:

$$\text{Total adjusted profit} = 40,000 + 49,000 + 52,000 = \text{Rs } 1,41,000.$$

Divide this total by three, the number of years:

$$\text{Average annual profit} = \frac{1,41,000}{3} = \text{Rs } 47,000.$$

The given capital of Rs 1,00,000 is not needed in this method. It would be relevant to a normal-return or super-profit calculation, but no normal rate of return is specified here.

Step 3: Apply two years' purchase Two years' purchase means the agreed goodwill valuation is twice one year's average normal profit. Therefore,

$$\text{Goodwill} = \text{Average annual profit} \times 2 = 47,000 \times 2 = \text{Rs } 94,000.$$

The abnormal loss has been adjusted only once, before averaging; the years' purchase is then applied to the resulting annual average, not to the total of three years' profits.

Step 4: Conclusion The goodwill of Saurabh, Mohit and Nikhil's firm is $\boxed{\text{Rs } 94,000}$, valued at two years' purchase of average adjusted profits of Rs 47,000.

Quick Tip to Solve: Add the Rs 3,000 abnormal loss back to the middle year's profit first, then divide the three-year total by 3 and multiply the average by 2.

10. Mico Ltd. took over the assets of Rs 9,60,000 and liabilities of Rs 1,60,000 of Aunora Ltd. for an agreed consideration of Rs 6,40,000. Rs 40,000 were paid by an acceptance payable after 4 months and the balance by issue of fully paid 8% Preference Shares of Rs 100 each at a premium of 50%. Show the necessary Journal Entries for the above transactions in the books of Mico Ltd. [3 marks]

Solution:

Concept:

- When assets and liabilities of a business are taken over, the excess of net assets acquired over purchase consideration is credited to Capital Reserve.
- Shares issued to the vendor are valued at their issue price. Face value is credited to Share Capital and the premium separately to Securities Premium Reserve.

Step 1: Calculate the reserve and the number of shares **Working Notes**

Net assets acquired are Rs $9,60,000 - 1,60,000 = 8,00,000$. Since the purchase consideration is Rs 6,40,000, the capital reserve is Rs $8,00,000 - 6,40,000 = 1,60,000$. The acceptance settles Rs 40,000 of the vendor's balance; the remaining consideration is Rs $6,40,000 - 40,000 = 6,00,000$.

Each preference share is issued at Rs $100 + 50 = 150$, so

$$\text{Number of shares} = \frac{6,00,000}{150} = 4,000.$$

Share capital is Rs $4,000 \times 100 = 4,00,000$, and securities premium is Rs $4,000 \times 50 = 2,00,000$. The 8% rate describes the preference dividend; it does not affect the issue price or purchase consideration.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		9,60,000	
	To Sundry Liabilities A/c			1,60,000
	To Aunora Ltd.			6,40,000
	To Capital Reserve A/c			1,60,000
	(Being assets and liabilities taken over and the excess of net assets over consideration credited to capital reserve)			
	Aunora Ltd. Dr.		6,40,000	
	To Bills Payable A/c			40,000
	To 8% Preference Share Capital A/c			4,00,000
	To Securities Premium Reserve A/c			2,00,000
	(Being consideration settled by a four-month acceptance and 4,000 fully paid preference shares of Rs 100 each issued at 50% premium)			

The acceptance creates a bills payable liability immediately. No Bank entry for its maturity is required because the question describes issuing the acceptance, not its later payment. Each entry has equal debit and credit totals.

Step 3: Conclusion Mico Ltd. records capital reserve of Rs 1,60,000 and issues 4,000 preference shares, crediting share capital Rs 4,00,000 and securities premium Rs 2,00,000; bills payable is Rs 40,000.

Quick Tip to Solve: Deduct the acceptance from consideration first, then divide the balance by Rs 150, the issue price, not by the Rs 100 face value.

11. Cemto Ltd. forfeited 6,000 shares of Rs 10 each issued at a premium of Rs 2 per share for the non-payment of final call of Rs 3 per share. 300 of the forfeited shares were reissued for Rs 8 per share as fully paid up.

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

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up face value, credit the unpaid call and credit Share Forfeiture with capital already received. Premium already received is not reversed.
- The discount on reissue is debited to Share Forfeiture. Only the surplus relating to shares actually reissued is transferred to Capital Reserve; the balance for unreissued shares stays in Share

Forfeiture.

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

All Rs 10 of face value has been called up, but Rs 3 per share remains unpaid. Thus capital received per share is Rs $10 - 3 = 7$; the Rs 2 premium has already been received because the only default specified is the final call. Therefore, on 6,000 shares, share capital cancelled is Rs $6,000 \times 10 = 60,000$, final call unpaid is Rs $6,000 \times 3 = 18,000$, and capital forfeited is Rs $6,000 \times 7 = 42,000$. For the 300 shares reissued fully paid at Rs 8, cash received is Rs $300 \times 8 = 2,400$ and the discount is Rs $300 \times (10 - 8) = 600$. Their original forfeiture credit is Rs $300 \times 7 = 2,100$. The realised capital profit is therefore Rs $2,100 - 600 = 1,500$. The remaining 5,700 shares retain a forfeiture balance of Rs $5,700 \times 7 = 39,900$.

Step 2: Pass the journal entries **Journal of Cemto Ltd.**

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

	Share Capital A/c Dr.
	  To Share Final Call A/c
	  To Share Forfeiture A/c
	(Being 6,000 shares forfeited for non-payment of the final call of Rs 3 per share)
			60,000	
				18,000
				42,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 300 forfeited shares reissued at Rs 8 each as fully paid shares of Rs 10 each)		2,400 600	 3,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on the 300 reissued shares transferred to capital reserve)		1,500	 1,500

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

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Capital A/c To Capital Reserve A/c To Balance c/d	600 1,500 39,900	By Share Capital A/c	42,000	
	Total	42,000	Total	42,000	
			By Balance b/d	39,900	

The credit balance relates entirely to the 5,700 shares not yet reissued. It cannot be transferred to Capital Reserve at this stage. The Rs 600 debit records the discount allowed on reissue, which is below the Rs 2,100 originally forfeited on those 300 shares.

Step 4: Conclusion Share forfeiture on cancellation is Rs 42,000. After reissue discount of Rs 600 and transfer of Rs 1,500 to Capital Reserve, Share Forfeiture retains a credit balance of Rs 39,900.

Quick Tip to Solve: For the reserve transfer, use only the 300 reissued shares: Rs 7 forfeited less Rs 2 discount per share gives Rs 1,500, not the entire forfeiture balance.

12. Bhavya and Naman were partners in a firm carrying on a tiffin service in Hyderabad. Bhavya noticed that a lot of food is left at the end of the day. To avoid wastage she suggested that it be distributed to the needy; Naman wanted that it should be mixed with the food being served the next day. Naman then gave a proposal that if his share in the profit is increased, he will not mind free distribution of left over food. Bhavya happily agreed. So, they decided to change their profit sharing ratio to 1 : 2 with immediate effect. On that date revaluation of assets and reassessment of liabilities was carried out that resulted into a gain of Rs 18,000. On that date the goodwill of the firm was valued at Rs 1,20,000.

(a) Pass necessary journal entries for the above in the books of the firm.

(b) State any two values highlighted in the above para. [4 marks]

Solution:

Concept:

- When no old profit sharing ratio is given, partners share profits equally. A revaluation gain arising before the change belongs to the partners in that old ratio.
- The gaining partner compensates the sacrificing partner for goodwill. Sacrifice equals old share minus new share; gain equals new share minus old share.

Step 1: (a) Calculate the sacrifice, gain and revaluation shares **Working Notes:** Bhavya and Naman's old shares are each $1/2$, since the question specifies no different old ratio. Their new shares are $1/3$ and $2/3$, respectively.

$$\text{Bhavya's sacrifice} = \frac{1}{2} - \frac{1}{3} = \frac{1}{6},$$

$$\text{Naman's gain} = \frac{2}{3} - \frac{1}{2} = \frac{1}{6},$$

$$\text{Goodwill compensation} = \text{Rs } 1,20,000 \times \frac{1}{6} = \text{Rs } 20,000.$$

Thus Naman's capital is debited and Bhavya's capital is credited. The revaluation gain belongs to the period before the change, so each receives Rs $18,000 \times 1/2 =$ Rs $9,000$, rather than an allocation in the new ratio.

Step 2: (a) Record the journal entries **Journal of Bhavya and Naman**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr. To Bhavya's Capital A/c To Naman's Capital A/c (Being revaluation gain transferred to partners in their old equal ratio)		18,000	 9,000 9,000
	Naman's Capital A/c Dr. To Bhavya's Capital A/c (Being goodwill adjusted through capital accounts for Naman's gain of one-sixth)		20,000	 20,000

The goodwill is adjusted directly between the partners; a new goodwill asset is not raised in the books. The question gives the net revaluation gain, so the transfer of this gain is recorded without inventing individual asset or liability changes.

Step 3: (b) Identify two values shown by Bhavya **Compassion and social responsibility:** distributing the surplus food to needy people helps meet their basic needs.

Avoidance of wastage and responsible use of resources: giving away usable surplus food prevents waste. Bhavya's willingness to sacrifice part of her profit share makes the proposed distribution possible.

Step 4: Conclusion Credit each partner with Rs 9,000 for revaluation gain. Debit Naman's capital and credit Bhavya's capital by Rs 20,000 for goodwill. Compassion towards the needy and avoidance of food wastage are the two values highlighted.

Quick Tip to Solve: Use the old equal shares for the Rs 18,000 revaluation gain, then use only Naman's one-sixth gain for goodwill compensation.

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13. Give the necessary journal entries for the following transactions on dissolution of the firm of Anita and Ravi on 31st March 2016, after the various assets (other than cash) and the third party liabilities have been transferred to Realisation Account. They shared profits and losses in the ratio 3 : 2.

(a) Ravi was to get a remuneration of Rs 23,000 for completing the dissolution process. He also agreed to bear realization expenses. Realisation expenses of Rs 10,000 were paid by Ravi from the firm's cash.

(b) Amitesh, an old customer whose account for Rs 60,000 was written off as bad debt in the previous year, paid 90%.

(c) Creditors of Rs 40,000, accepted furniture valued at Rs 38,000 in full settlement of their claim.

(d) Land and Building was sold for Rs 3,00,000 through a broker who charged 2% commission.

(e) There were 500 shares of Rs 40 each in Vision Ltd., acquired at a cost of Rs 22,000 and had been written off completely from the books. These shares are now valued at Rs 50 each and divided among the partners in their profit sharing ratio.

(f) Profit on realization was Rs 45,000. [6 marks]

Solution:

Concept:

- Assets and outside liabilities have already been transferred to Realisation Account. Subsequent proceeds and recoveries are credited to Realisation; a partner taking an unrecorded asset is debited at its agreed value.
- A partner's remuneration for dissolution is debited to Realisation. Expenses that the partner has agreed to bear, but which the firm pays, are debited to that partner's capital.
- When a creditor accepts an asset already transferred to Realisation in full settlement, no further journal entry is required. Realisation profit is distributed in the old profit sharing ratio.

Step 1: (a) Record Ravi's remuneration and the expenses paid by the firm Ravi earns Rs 23,000 for conducting dissolution. The Rs 10,000 expenses are his responsibility, but payment uses the firm's cash. Hence the firm recovers that amount by debiting his capital; it does not charge the same expenses to Realisation as well.

Journal of Anita and Ravi — 31 March 2016

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Ravi's Capital A/c (Being remuneration due to Ravi for completing dissolution)		23,000	 23,000
	Ravi's Capital A/c Dr. To Cash A/c (Being expenses payable by Ravi paid out of the firm's cash)		10,000	 10,000

Step 2: (b) Record recovery of the debt previously written off **Working Note:** Recovery from Amitesh is

$$\text{Rs } 60,000 \times \frac{90}{100} = \text{Rs } 54,000.$$

His debt has already been written off, so there is no recorded debtor balance to credit. The recovery is credited to Realisation as proceeds of an unrecorded asset; the unpaid Rs 6,000 needs no fresh write-off.

Journal — 31 March 2016

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. To Realisation A/c (Being 90% of Amitesh's previously written-off debt recovered)		54,000	 54,000

Step 3: (c) Apply the rule for settlement by transfer of an asset **No journal entry is required.** Both the creditors of Rs 40,000 and the furniture valued at Rs 38,000 have already been transferred to Realisation Account. Acceptance of the furniture in full settlement involves no cash payment and no partner's account. The difference is already reflected through the amounts transferred to Realisation, so a separate entry for Rs 2,000 would duplicate its effect.

Step 4: (d) Record the property sale and the broker's commission **Working Note:** Commission is

$$\text{Rs } 3,00,000 \times \frac{2}{100} = \text{Rs } 6,000.$$

Gross sale proceeds are credited to Realisation. Since Ravi agreed to bear realisation expenses, the broker's commission is charged to his capital when paid from the sale proceeds. Net cash received is Rs 2,94,000. The following compound entry records the gross sale and the deduction together.

Journal — 31 March 2016

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. Ravi's Capital A/c Dr. To Realisation A/c (Being land and building sold through broker, after deducting commission borne by Ravi)		2,94,000 6,000	 3,00,000

Step 5: (e) Record the unrecorded shares taken over by the partners **Working Notes:** The shares have no book balance because they were completely written off. Their takeover value is based on the

present Rs 50 per share, not the original cost or face value.

$$\text{Value of shares} = 500 \times \text{Rs } 50 = \text{Rs } 25,000,$$
$$\text{Anita's share} = \text{Rs } 25,000 \times \frac{3}{5} = \text{Rs } 15,000,$$
$$\text{Ravi's share} = \text{Rs } 25,000 \times \frac{2}{5} = \text{Rs } 10,000.$$

Anita takes 300 shares and Ravi takes 200 shares. Their capital accounts are debited because they receive assets in settlement of their claims.

Journal — 31 March 2016

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Anita's Capital A/c Dr.		15,000	
	Ravi's Capital A/c Dr.		10,000	
	To Realisation A/c			25,000
	(Being unrecorded Vision Ltd. shares taken over by partners in their profit sharing ratio)			

Step 6: (f) Distribute the given realisation profit **Working Note:** The given profit of Rs 45,000 is distributed in the old ratio $3:2$: Anita receives Rs $45,000 \times 3/5 =$ Rs $27,000$, and Ravi receives Rs $45,000 \times 2/5 =$ Rs $18,000$. Debit Realisation to close its credit balance and credit the partners' capitals.

Journal — 31 March 2016

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		45,000	
	To Anita's Capital A/c			27,000
	To Ravi's Capital A/c			18,000
	(Being realisation profit transferred in the ratio 3:2)			

Step 7: Conclusion The entries record remuneration of Rs 23,000, expenses borne by Ravi, recovery of Rs 54,000, property proceeds of Rs 3,00,000 less Rs 6,000 brokerage, and shares taken over for Rs 25,000. No entry is needed for the creditor's acceptance of furniture. The Rs 45,000 profit is credited to Anita and Ravi as Rs 27,000 and Rs 18,000.

Quick Tip to Solve: First distinguish who bears each expense from who pays it. For unrecorded shares use the current takeover value, and do not repeat entries for assets accepted by creditors.

14. Mita and Usha are partners in a firm sharing profits in the ratio 2 : 3. Their capital accounts as on April 1, 2015 showed balances of Rs 1,40,000 and Rs 1,20,000 respectively. The drawings of Mita and Usha during the year 2015-16 were Rs 32,000 and Rs 24,000 respectively. Both the amounts were withdrawn on 1st January 2016. It was subsequently found that the following items had been omitted while preparing the final accounts for the year ended 31st March, 2016.

(a) Interest on capitals @ 6% p.a.;

(b) Interest on drawings @ 6% p.a.;

(c) Mita was entitled to a commission of Rs 8,000 for the whole year.

Showing your workings clearly pass a rectifying entry in the books of the firm. [6 marks]

Solution:

Concept:

- Interest on capital and a partner's commission are appropriations of profit: they credit the partner concerned and reduce the profit available for division in the agreed ratio.
- Interest on drawings debits the partner concerned and increases the divisible profit. For a single withdrawal, use the actual period from the withdrawal date to the year-end.
- A past adjustment compares each partner's net entitlement with the profit already credited. Only the resulting difference is transferred between partners' capital accounts.

Step 1: Calculate interest on capital and the omitted commission The balances are opening capitals on 1st April, 2015, so interest is allowed for the whole year. The later drawings are dealt with separately through interest on drawings.

$$\text{Mita's interest on capital} = 1,40,000 \times \frac{6}{100} = \text{Rs } 8,400,$$
$$\text{Usha's interest on capital} = 1,20,000 \times \frac{6}{100} = \text{Rs } 7,200.$$

Mita is also entitled to the stated annual commission of Rs 8,000. Thus the omitted appropriations are Rs 23,600 in total, of which Rs 16,400 belongs to Mita and Rs 7,200 to Usha.

Step 2: Calculate interest on drawings for three months Both withdrawals were made on 1st January, 2016. Interest is therefore charged for January to March, a period of three months; an average six-month period would be inappropriate for these dated withdrawals.

$$\text{Mita's interest on drawings} = 32,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 480,$$
$$\text{Usha's interest on drawings} = 24,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 360.$$

The firm gains Rs 840 through these charges. Consequently the net reduction in distributable profit is Rs $23,600 - 840 = 22,760$.

Step 3: Prepare the net adjustment working The profit already distributed was excessive by Rs 22,760. Reverse that excess in the old profit-sharing ratio of $2 : 3$: Mita bears $22,760 \times 2/5 = \text{Rs } 9,104$, and Usha bears $22,760 \times 3/5 = \text{Rs } 13,656$.

Adjustment working (Rs)

Particulars	Mita	Usha
Interest on capital: credit	8,400	7,200
Commission: credit	8,000	–
Interest on drawings: debit	(480)	(360)
Net entitlement before profit adjustment	15,920	6,840
Excess profit already credited: debit	(9,104)	(13,656)
Final adjustment	6,816 Cr.	6,816 Dr.

The equal and opposite differences provide a check: no cash moves, and the combined capitals are unchanged by the rectifying transfer.

Step 4: Record the rectifying entry on 31st March, 2016 **Journal of the firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2016	Usha's Capital A/c Dr.		6,816	
	To Mita's Capital A/c			6,816
	(Being omitted interest on capitals, interest on drawings and Mita's commission adjusted through partners' capital accounts)			

Usha's earlier credit exceeded her corrected entitlement, whereas Mita received too little. The entry removes precisely this difference without reopening all the original appropriation entries.

Step 5: Conclusion Debit Usha's Capital Account by Rs 6,816 and credit Mita's Capital Account by Rs 6,816 to rectify the omitted appropriations and interest on drawings.

Quick Tip to Solve: For withdrawals dated 1st January, charge only three months' interest; then redistribute the net omitted appropriation in the 2:3 ratio before finding the transfer.

15. (a) Journalise the following transaction on the issue of 11% debentures :

Kina Ltd. issued Rs 1,60,000, 11% debentures of Rs 100 each at a premium of 5% redeemable at a premium of 10%.

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

(i) Herdec Ltd. redeemed Rs 2,00,000, 12% debentures of Rs 100 each at 110% by converting them into equity shares of Rs 50 each issued at a premium of 10%.

(ii) Zenith Ltd. purchased its own 840, 11% Debentures of Rs 1,000 each at Rs 1,004 per debenture for immediate cancellation.

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

[6 marks]

Solution:

Concept:

- Debentures are credited at their nominal value. A premium received on issue is credited to Securities Premium Reserve; the premium payable on redemption is recognised as a liability when the debentures are issued, with a corresponding debit to Loss on Issue of Debentures.
- On conversion, the amount due to debentureholders is divided by the issue price of each share.

Share capital is credited only with the shares' face value, and the remaining amount is securities premium.

- Own debentures purchased for immediate cancellation are cancelled against the original liability at nominal value. Purchase price above nominal value produces a loss on cancellation.

Step 1: Part (a): Work out Kina Ltd.'s issue amounts The nominal issue is Rs 1,60,000, comprising $1,60,000/100 = 1,600$ debentures. Issue premium and redemption premium are both calculated on this nominal value.

$$\text{Issue premium} = 1,60,000 \times 5\% = \text{Rs } 8,000,$$
$$\text{Bank receipt} = 1,60,000 + 8,000 = \text{Rs } 1,68,000,$$
$$\text{Redemption premium} = 1,60,000 \times 10\% = \text{Rs } 16,000.$$

The future redemption premium is recognised now as loss on issue. It is not deducted from Securities Premium Reserve in the issue entry.

Journal of Kina Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,68,000	
	Loss on Issue of Debentures A/c Dr.		16,000	
	To 11% Debentures A/c			1,60,000
	To Securities Premium Reserve A/c			8,000
	To Premium on Redemption of Debentures A/c			16,000
	(Being 1,600 debentures of Rs 100 each issued at a premium of 5%, redeemable at a premium of 10%)			

Both sides total Rs 1,84,000. The 11% rate identifies the debenture account; no interest entry is required.

Step 2: Part (b)(i): Calculate Herdec Ltd.'s shares on conversion Redemption at 110% means the debentureholders are entitled to their principal plus a 10% premium. The shares are also issued at a premium, so divide by Rs 55 per share, not by their face value of Rs 50.

$$\text{Amount due} = 2,00,000 \times 110\% = \text{Rs } 2,20,000,$$
$$\text{Share issue price} = 50 + 50 \times 10\% = \text{Rs } 55,$$
$$\text{Number of shares} = 2,20,000/55 = 4,000,$$
$$\text{Equity share capital} = 4,000 \times 50 = \text{Rs } 2,00,000,$$
$$\text{Securities premium} = 4,000 \times 5 = \text{Rs } 20,000.$$

Journal of Herdec Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	12% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c (Being amount due on redemption of debentures at 110%)		2,00,000 20,000	 2,20,000
	Debentureholders A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being amount due settled by issue of 4,000 equity shares of Rs 50 each at a premium of 10%)		2,20,000	 2,00,000 20,000

The first entry makes the redemption amount payable; the second clears that liability by conversion. There is no bank payment in this conversion.

Step 3: Part (b)(ii): Record Zenith Ltd.'s purchase and immediate cancellation The 840 debentures have a nominal value of $840 \times 1,000 =$ Rs $8,40,000$. Their purchase price is $840 \times 1,004 =$ Rs $8,43,360$. Thus the loss on cancellation is $840 \times (1,004 - 1,000) =$ Rs $3,360$.

Journal of Zenith Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Own Debentures A/c Dr. To Bank A/c (Being 840 own debentures purchased at Rs 1,004 each for immediate cancellation)		8,43,360	 8,43,360
	11% Debentures A/c Dr. Loss on Cancellation of Debentures A/c Dr. To Own Debentures A/c (Being own debentures immediately cancelled and excess cost over nominal value recognised as loss)		8,40,000 3,360	 8,43,360

Own Debentures Account is fully cleared on cancellation. The liability falls by its face value of Rs 8,40,000; the extra Rs 3,360 paid is the loss. As instructed, no Debenture Redemption Reserve, Debenture Redemption Investment or interest entries are passed.

Step 4: Conclusion Kina Ltd. receives Rs 1,68,000 and recognises Rs 16,000 as loss on issue and redemption premium liability. Herdec Ltd. settles Rs 2,20,000 by issuing 4,000 equity shares. Zenith Ltd. cancels Rs 8,40,000 nominal debentures purchased for Rs 8,43,360, incurring a loss of Rs 3,360.

Quick Tip to Solve: Keep nominal value, redemption value and share issue price separate: Herdec's share count is Rs 2,20,000 divided by Rs 55, while Zenith's loss is 840 times Rs 4.

16. Qadir and Rishab are partners sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2016 is given below :

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Qadir's Capital	11,40,000	Land & Building	5,60,000
Rishab's Capital	7,00,000	Plant & Machinery	6,00,000
Workmen's Compensation Reserve	60,000	Stock	1,60,000
Creditors	1,00,000	Debtors 6,00,000 Less Provision 20,000	5,80,000
		Bank	1,00,000
	20,00,000		20,00,000

Qadir and Rishab decides to admit Sapna as a new partner from 1st April, 2016. Their new profit sharing ratio was 3 : 2 : 5. Sapna brought in Rs 6,00,000 as her capital and her share of goodwill premium in cash.

(a) Sapna's share of goodwill premium was valued at Rs 30,000.

(b) Plant and Machinery be valued at 125%.

(c) Creditors were unrecorded to the extent of Rs 30,000.

(d) Claim on account of workmen compensation was Rs 40,000.

Prepare Revaluation A/c., Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. [8 marks]

Solution:

Concept:

- Revaluation profit belongs to the old partners and is credited in their old profit-sharing ratio, here $3:2$.
- Goodwill premium is credited to the sacrificing partners in their sacrificing ratio. Sacrifice equals old share minus new share.
- An existing workmen's compensation reserve first covers the actual claim; only its surplus is distributed to the old partners. The claim remains a liability until paid.

Step 1: Working Notes: calculate sacrifice and capital adjustments The old shares are $3/5$ and $2/5$; the new shares of Qadir, Rishab and Sapna are $3/10, 2/10, 5/10$. Therefore,

$$\text{Qadir's sacrifice} = 3/5 - 3/10 = 3/10,$$
$$\text{Rishab's sacrifice} = 2/5 - 2/10 = 2/10.$$

The sacrificing ratio is $3:2$. Sapna's premium of Rs 30,000 is credited as Rs 18,000 to Qadir and Rs 12,000 to Rishab. Her capital contribution is separately credited as Rs 6,00,000.

The compensation reserve of Rs 60,000 covers the claim of Rs 40,000. Its surplus of Rs 20,000 is credited to Qadir and Rishab as Rs 12,000 and Rs 8,000 respectively. The Rs 40,000 claim is shown as a liability; it is not charged again to Revaluation Account.

Machinery is revalued to $6,00,000 \times 125/100 = \text{Rs } 7,50,000$, an increase of Rs 1,50,000. Unrecorded

creditors increase liabilities by Rs 30,000, giving a revaluation profit of Rs 1,20,000. Qadir receives Rs 72,000 and Rishab Rs 48,000.

Step 2: Prepare the Revaluation Account **Revaluation Account as at 1st April, 2016**

Dr. Particulars	Rs	Cr. Particulars	Rs
To Creditors	30,000	By Plant and Machinery	1,50,000
To Qadir's Capital (profit)	72,000		
To Rishab's Capital (profit)	48,000		
Total	**1,50,000**	**Total**	**1,50,000**

The profit is fully transferred to the old partners, so the Revaluation Account closes without a balance.

Step 3: Prepare the Partners' Capital Accounts **Partners' Capital Accounts (all amounts in Rs)**

Dr.	Qadir	Rishab	Sapna	Cr.	Qadir	Rishab	Sapna
To Balance c/d	12,42,000	7,68,000	6,00,000	By Balance b/d	11,40,000	7,00,000	—
				By Revaluation	72,000	48,000	—
				By Compensation Reserve	12,000	8,000	—
				By Goodwill Premium	18,000	12,000	—
				By Bank (capital)	—	—	6,00,000
Total	**12,42,000**	**7,68,000**	**6,00,000**	**Total**	**12,42,000**	**7,68,000**	**6,00,000**

There is no instruction to withdraw the premium or to make the partners' capitals proportionate to their new profit shares. Accordingly, the adjusted balances are carried forward.

Step 4: Prepare the reconstituted Balance Sheet Bank becomes $1,00,000 + 6,00,000 + 30,000 =$ Rs $7,30,000$. Creditors become Rs 1,30,000. The provision for doubtful debts remains Rs 20,000 because no adjustment to it is given.

Balance Sheet of Qadir, Rishab and Sapna as at 1st April, 2016

Liabilities	Rs	Assets	Rs
Partners' capitals:		Land and Building	5,60,000
Qadir	12,42,000	Plant and Machinery	7,50,000
Rishab	7,68,000	Stock	1,60,000
Sapna	6,00,000	Debtors: 6,00,000	
Creditors	1,30,000	Less: Provision: 20,000	5,80,000
Workmen's compensation claim	40,000	Bank	7,30,000
Total	**27,80,000**	**Total**	**27,80,000**

Step 5: Conclusion Revaluation profit is Rs 1,20,000. The closing capitals of Qadir, Rishab and Sapna are Rs 12,42,000, Rs 7,68,000 and Rs 6,00,000 respectively. The reconstituted Balance Sheet totals Rs 27,80,000 on each side.

Quick Tip to Solve: Reserve Rs 40,000 out of the compensation reserve for the claim, and distribute only Rs 20,000. Add both Sapna's capital and her premium to Bank, but credit only the capital to her own Capital Account.

OR

16. Kanika, Disha and Kabir were partners sharing profits in the ratio of 2 : 1 : 1. On 31-3-2016, their Balance Sheet was as under :

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Trade creditors	53,000	Bank	60,000
Employees' Provident Fund	47,000	Debtors	60,000
Kanika's capital	2,00,000	Stock	1,00,000
Disha's capital	1,00,000	Fixed assets	2,40,000
Kabir's capital	80,000	Profit & Loss A/c.	20,000
	4,80,000		4,80,000

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

(a) Goodwill of the firm was valued at 2 years' purchase of average profits of three completed years preceding the date of retirement. The profits for the year : 2013-14 were Rs 1,00,000 and for 2014-15 were Rs 1,30,000.

(b) Fixed assets were to be increased to Rs 3,00,000.

(c) Stock was to be valued at 120%.

(d) The amount payable to Kanika was transferred to her loan account.

Prepare Revaluation Account, Capital Accounts of the partners and the Balance Sheet of the reconstituted firm.

[8 marks]

Solution:

Concept:

- On retirement, accumulated losses and revaluation profit are allocated to all old partners in their old ratio, here $2:1:1$.
- The retiring partner's goodwill share is borne by continuing partners in their gaining ratio. In the absence of a changed ratio, the continuing partners retain their relative profit shares.
- The debit balance of Profit and Loss Account represents a loss. For average-profit goodwill, this loss is deducted, rather than added, while calculating the three-year total.

Step 1: Working Notes: calculate goodwill and the gaining ratio The Balance Sheet at 31st March, 2016 shows a debit Profit and Loss balance of Rs 20,000. This is the loss for the third completed year, 2015–16, in calculating the stated three-year average. Thus,

$$\text{Total profit} = 1,00,000 + 1,30,000 - 20,000 = \text{Rs } 2,10,000,$$
$$\text{Average profit} = 2,10,000/3 = \text{Rs } 70,000,$$
$$\text{Goodwill} = 70,000 \times 2 = \text{Rs } 1,40,000.$$

Kanika's goodwill share is $1,40,000 \times 2/4 = \text{Rs } 70,000$. Disha and Kabir continue in their existing relative ratio $1:1$. Each gains $1/2 - 1/4 = 1/4$; hence their gaining ratio is also $1:1$. Debit their Capital Accounts by Rs 35,000 each and credit Kanika's Capital Account by Rs 70,000. No goodwill asset is raised.

Write off the Rs 20,000 Profit and Loss debit balance against the old capitals in $2:1:1$: Kanika Rs 10,000, Disha Rs 5,000 and Kabir Rs 5,000. Using the loss in goodwill valuation and writing off its existing balance are separate necessary adjustments.

Step 2: Prepare the Revaluation Account Fixed assets increase by $3,00,000 - 2,40,000 =$ Rs $60,000$. Stock rises to $1,00,000 \times 120/100 =$ Rs $1,20,000$, giving a further gain of Rs 20,000. Total revaluation profit is Rs 80,000, shared as Rs 40,000, Rs 20,000 and Rs 20,000 in the old ratio.

Revaluation Account as at 1st April, 2016

Dr. Particulars	Rs	Cr. Particulars	Rs
To Kanika's Capital (profit)	40,000	By Fixed Assets	60,000
To Disha's Capital (profit)	20,000	By Stock	20,000
To Kabir's Capital (profit)	20,000		
Total	**80,000**	**Total**	**80,000**

Transferring the entire profit closes this account; there is no balance to carry down.

Step 3: Prepare the Partners' Capital Accounts **Partners' Capital Accounts (all amounts in Rs)**

Dr.	Kanika	Disha	Kabir	Cr.	Kanika	Disha	Kabir
To Profit and Loss	10,000	5,000	5,000	By Balance b/d	2,00,000	1,00,000	80,000
To Kanika's Capital (goodwill)	—	35,000	35,000	By Revaluation	40,000	20,000	20,000
To Kanika's Loan	3,00,000	—	—	By Disha's Capital (goodwill)	35,000	—	—
To Balance c/d	—	80,000	60,000	By Kabir's Capital (goodwill)	35,000	—	—
Total	**3,10,000**	**1,20,000**	**1,00,000**	**Total**	**3,10,000**	**1,20,000**	**1,00,000**

Kanika's amount due is $2,00,000 - 10,000 + 40,000 + 70,000 =$ Rs $3,00,000$. Transfer this full amount to her Loan Account as directed, closing her Capital Account. Disha's capital is $1,00,000 - 5,000 + 20,000 - 35,000 =$ Rs $80,000$; Kabir's capital is $80,000 - 5,000 + 20,000 - 35,000 =$ Rs $60,000$.

Step 4: Prepare the reconstituted Balance Sheet No cash payment to Kanika is made, so Bank remains Rs 60,000. Employees' Provident Fund is a liability due to employees and stays in the Balance Sheet; it is not an accumulated profit for distribution. The Profit and Loss debit balance has been written off and therefore no longer appears as an asset.

Balance Sheet of Disha and Kabir as at 1st April, 2016

Liabilities	Rs	Assets	Rs
Trade creditors	53,000	Bank	60,000
Employees' Provident Fund	47,000	Debtors	60,000
Kanika's Loan	3,00,000	Stock	1,20,000
Partners' capitals:		Fixed assets	3,00,000
Disha	80,000		
Kabir	60,000		
Total	**5,40,000**	**Total**	**5,40,000**

Step 5: Conclusion Goodwill is Rs 1,40,000 and revaluation profit is Rs 80,000. Kanika's loan is Rs 3,00,000; Disha's and Kabir's closing capitals are Rs 80,000 and Rs 60,000. The reconstituted Balance Sheet totals Rs 5,40,000 on each side.

Quick Tip to Solve: Treat the Profit and Loss debit balance as a loss in the three-year average and write it off against old capitals. Transfer Kanika's final balance to her loan without reducing Bank.

17. Benolac Paints Ltd. invited application for issuing 1,20,000 equity shares of Rs 10 each at a premium of Rs 2 per share. The amount was payable as follows :

On application - Rs 3 per share (including premium Rs 1)

On allotment - Rs 3 per share.

On first and final call - Rs 6 per share (including premium Rs 1)

Applications for 1,40,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Over payments on application were adjusted towards sums due on allotment. All calls were made and were duly received except allotment and final call on 6,000 shares allotted to Sharvi. These shares were forfeited. Afterwards, half of the forfeited shares were re-issued for Rs 33,000 as fully paid up.

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

Solution:

Concept:

- Pro-rata allotment apportions available shares among accepted applicants. Excess application money is adjusted against allotment due.
- On forfeiture, debit called-up share capital and any premium due but unpaid; credit unpaid instalments and capital money actually received to Share Forfeiture.
- On re-issue, credit nominal value to Share Capital and any excess receipt to Securities Premium Reserve. Transfer only the forfeiture gain relating to shares re-issued to Capital Reserve.

Step 1: Compute pro-rata allotment and Sharvi's arrears **Working Notes**

Accepted applications are $1,40,000 - 10,000 = 1,30,000$ shares. The ratio of shares applied for to shares allotted is $1,30,000 : 1,20,000 = 13 : 12$. The rejected application money is $10,000 \times 3 =$ Rs $30,000$. The excess from accepted applicants is $(1,30,000 - 1,20,000) \times 3 =$ Rs $30,000$, adjustable against allotment. Sharvi applied for $6,000 \times 13/12 = 6,500$ shares and paid Rs 19,500. Of this, Rs 18,000 is application money on her allotted shares and Rs 1,500 is adjusted against allotment.

$$\text{Sharvi's unpaid allotment} = 6,000 \times 3 - 1,500 = \text{Rs } 16,500,$$
$$\text{Sharvi's unpaid call} = 6,000 \times 6 = \text{Rs } 36,000.$$

Consequently, allotment cash is Rs $3,60,000 - 30,000 - 16,500 = 3,13,500$, and call cash is Rs $7,20,000 - 36,000 = 6,84,000$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,40,000 shares at Rs 3 each)		4,20,000	4,20,000

	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 money transferred, excess adjusted and rejected applications refunded)
			4,20,000	
				2,40,000
				1,20,000
				30,000
				30,000

	Share Allotment A/c Dr. To Share Capital A/c (Being allotment money due on 1,20,000 shares at Rs 3 each)		3,60,000	 3,60,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after excess adjustment, except Rs 16,500 from Sharvi)		3,13,500	 3,13,500

Step 3: Record the call and forfeiture The application premium of Rs 6,000 on Sharvi's shares has already been received and is retained. Only the unpaid call premium of Rs 6,000 is reversed. Capital money received is $6,000 \times 2 + 1,500 =$ Rs $13,500$; this is credited to Share Forfeiture.

Journal of Benolac 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 call due, comprising Rs 5 capital and Rs 1 premium per share)
			7,20,000	
				6,00,000
				1,20,000

	Bank A/c Dr. To Share First and Final Call A/c (Being call received except Rs 36,000 due on Sharvi's shares)		6,84,000	 6,84,000

	Share Capital A/c Dr.
	Securities Premium Reserve A/c Dr.
	  To Share Allotment A/c
	  To Share First and Final Call A/c
	  To Share Forfeiture A/c
	(Being 6,000 shares forfeited and unpaid call premium cancelled)
			60,000
			6,000
				
				16,500
				36,000
				13,500

Step 4: Record re-issue and transfer the realised gain Half of 6,000 shares means 3,000 shares are re-issued. Their nominal value is Rs 30,000, so the Rs 33,000 receipt includes Rs 3,000 re-issue premium. No forfeiture money is used as discount. The transferable forfeiture gain is $13,500 \times 3,000/6,000 =$ Rs $6,750$.

Journal of Benolac Paints Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being 3,000 forfeited shares re-issued as fully paid at Rs 11 each)		33,000	 30,000 3,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture gain on 3,000 re-issued shares transferred to capital reserve)		6,750	 6,750

Step 5: Conclusion The required transactions are recorded above. Capital Reserve is credited with $\boxed{\text{Rs } 6,750}$, and Rs 6,750 remains in Share Forfeiture for the 3,000 shares not yet re-issued.

Quick Tip to Solve: For Sharvi, first deduct the Rs 1,500 excess application from allotment arrears; reverse only unpaid premium, and transfer forfeiture gain for only half the shares.

OR

17. Bayson Ltd. invited applications for issuing 54,000 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 80,000 shares. Full allotment was made to the applicants of 14,000 shares. The remaining applicants were allotted 40,000 shares on pro-rata basis. Excess money received with application was adjusted towards sums due on allotment and call.

Vibhor, holding 1,200 shares, who belonged to the category of applicants to whom full allotment was made, paid the call money at the time of allotment. Vidur, who belonged to the category of applicants to whom shares were allotted on pro-rata basis did not pay anything after application on his 400 shares. Vidur's shares were forfeited after the first and final call. All the forfeited shares were later on re-issued at Rs 110 per share as fully paid up.

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

Solution:

Concept:

- Excess application money is first adjusted to allotment and the remaining excess is credited to Calls in Advance until the call becomes due.
- Calls in Arrears records amounts due but unpaid. Calls in Advance is a liability until transferred to the relevant call account.
- Forfeiture removes called-up capital and unpaid calls; capital already received is credited to Share Forfeiture. A re-issue premium goes to Securities Premium Reserve.

Step 1: Work out category-wise allotment and advance payments **Working Notes**

The first group receives its full 14,000 shares. The pro-rata group applied for $80,000 - 14,000 = 66,000$ shares and receives 40,000 shares; its applied-to-allotted ratio is $66 : 40 = 33 : 20$. Total application cash is $80,000 \times 50 =$ Rs $40,00,000$. The amount required on allotted shares is $54,000 \times 50 =$ Rs $27,00,000$. The entire excess of Rs 13,00,000 belongs to the pro-rata group. Its allotment due is $40,000 \times 10 =$ Rs $4,00,000$; the remaining Rs 9,00,000 is call money received in advance. The full-allotment group pays allotment of $14,000 \times 10 =$ Rs $1,40,000$. Vibhor additionally pays $1,200 \times 40 =$ Rs $48,000$ in advance. Thus the allotment-stage bank receipt is Rs 1,88,000 and total Calls in Advance is Rs 9,48,000.

Step 2: Calculate Vidur's unpaid balance Vidur applied for $400 \times 33/20 = 660$ shares and paid $660 \times 50 =$ Rs $33,000$. Application money required on his 400 allotted shares is Rs 20,000, leaving excess of Rs 13,000. Of this, Rs 4,000 satisfies allotment, and Rs 9,000 is adjusted against the first and final call.

$$\begin{aligned} \text{Vidur's call due} &= 400 \times 40 = \text{Rs } 16,000, \\ \text{Vidur's call arrears} &= 16,000 - 9,000 = \text{Rs } 7,000, \\ \text{Total call cash} &= 21,60,000 - 9,48,000 - 7,000 \\ &= \text{Rs } 12,05,000. \end{aligned}$$

Vidur has no allotment arrears: the excess application covers allotment completely. All Rs 33,000 received from him is capital money and becomes forfeiture gain on cancellation.

Step 3: Record application and allotment **Journal of Bayson Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 80,000 shares at Rs 50 each)		40,00,000	 40,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Calls in Advance A/c (Being application money transferred and excess adjusted to allotment and future call)		40,00,000	 27,00,000 4,00,000 9,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 54,000 shares at Rs 10 each)		5,40,000	 5,40,000
	Bank A/c Dr. To Share Allotment A/c To Calls in Advance A/c (Being allotment collected with Vibhor's advance call payment)		1,88,000	 1,40,000 48,000

Step 4: Record the call, advance adjustment and arrears **Journal of Bayson Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being call due on 54,000 shares at Rs 40 each)		21,60,000	 21,60,000
	Calls in Advance A/c Dr. To Share First and Final Call A/c (Being application excess and Vibhor's advance adjusted against the call)		9,48,000	 9,48,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being balance call collected except Rs 7,000 due from Vidur)		12,05,000 7,000	 12,12,000

Step 5: Record forfeiture, re-issue and capital reserve The called-up value of Vidur's shares is $400 \times 100 = \text{Rs } 40,000$. Re-issue proceeds of $400 \times 110 = \text{Rs } 44,000$ contain a premium of Rs 4,000. Since all forfeited shares are re-issued without discount, the entire Rs 33,000 forfeiture balance is transferred.

Journal of Bayson 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 Vidur's 400 fully called shares forfeited for call arrears)		40,000	 7,000 33,000
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being 400 forfeited shares re-issued at Rs 110 each as fully paid)		44,000	 40,000 4,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being entire forfeiture gain transferred after re-issue of all forfeited shares)		33,000	 33,000

Step 6: Conclusion The journal entries above record calls in advance and calls in arrears separately. Vidur's arrears are $\boxed{\text{Rs } 7,000}$; the re-issue premium is Rs 4,000 and the Capital Reserve transfer is $\boxed{\text{Rs } 33,000}$.

Quick Tip to Solve: Keep the two allotment groups separate. For Vidur, deduct both allotment and the call advance from his Rs 13,000 excess before finding the unpaid call.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

18. Give any one example of an activity, which is an investing activity for every type of enterprise.

[1 mark]

Solution:

Concept:

- Investing activities are the acquisition and disposal of long-term assets and other investments that are not cash equivalents.
- The purchase of an asset for long-term use is distinguished from the purchase of goods for resale in the ordinary course of business.

Step 1: Identify a long-term asset transaction Consider a cash payment to purchase machinery for use in the enterprise's own operations. The machinery is held to provide benefits over several accounting periods, rather than being purchased as trading inventory.

Step 2: Classify the cash payment This payment acquires a fixed asset. Hence it is shown as an outflow under investing activities in the cash flow statement, irrespective of whether the enterprise is financial or non-financial.

Step 3: Conclusion Cash purchase of machinery for use as a fixed asset is an investing activity for every type of enterprise.

Quick Tip to Solve: Choose the cash purchase of a fixed asset for own use; interest and dividends can be classified differently for financial enterprises.

19. What is meant by 'Cash Equivalents' ?

[1 mark]

Solution:

Concept:

- Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments.
- An investment qualifies only if it can be readily converted into a known amount of cash and has an insignificant risk of changes in value.

Step 1: Explain liquidity and certainty The investment must be readily convertible into cash, and the amount to be received must be known. Merely being saleable in a market is not sufficient if its value can fluctuate significantly.

Step 2: Explain the short maturity A cash equivalent normally has a maturity of three months or less from the date of acquisition. Its purpose is to meet short-term cash needs rather than to earn a long-term investment return.

Step 3: Conclusion Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Quick Tip to Solve: Include both a known cash amount and insignificant value risk; measure the usual three-month maturity from the acquisition date.

20. (a) The net profit after interest and tax of a company was Rs 1,20,000; Rate of income tax is 40%. The company has 10% debentures of Rs 1,00,000. Calculate interest coverage ratio.

(b) From the following information related to a company calculate inventory turnover ratio : Opening inventory Rs 20,000; Closing inventory Rs 22,000; Purchases Rs 80,000; Wages Rs 9,000; Carriage outwards Rs 2,000; Returns outwards Rs 1,000; Revenue from operations Rs 80,000; Carriage inwards Rs 4,000; Rent Rs 5,000. [4 marks]

Solution:

Concept:

- Interest coverage ratio measures the number of times profit before interest and tax covers interest on debt: Interest coverage ratio $= \dfrac{\text{Profit before interest and tax}}{\text{Interest on debt}}$.
- Profit after tax equals profit before tax multiplied by $(1 - \text{tax rate})$; interest must then be added back to obtain profit before interest and tax.
- Inventory turnover ratio equals cost of revenue from operations divided by average inventory. Include direct costs in cost of goods sold, and exclude selling and indirect expenses.

Step 1: (a) Calculate profit before tax and debenture interest Net profit after interest and tax is Rs 1,20,000. Since the tax rate is 40%, this represents 60% of profit before tax.

$$\text{Profit before tax} = \frac{1,20,000}{1 - 0.40} = \text{Rs } 2,00,000.$$

Annual interest on the debentures is

$$\text{Interest} = 1,00,000 \times \frac{10}{100} = \text{Rs } 10,000.$$

Step 2: (a) Add back interest and compute coverage Profit before tax still contains the deduction for interest. Add it back to obtain earnings available to cover interest:

$$\text{Profit before interest and tax} = 2,00,000 + 10,000 = \text{Rs } 2,10,000.$$

Dividing these earnings by the annual interest gives

$$\text{Interest coverage ratio} = \frac{2,10,000}{10,000} = 21 \text{ times}.$$

Step 3: (b) Calculate the cost of revenue from operations Returns outwards reduce purchases; wages and carriage inwards are direct costs. Carriage outwards is a selling expense, while the unspecified rent is an indirect expense; neither enters the cost used here.

$$\begin{aligned} \text{Net purchases} &= 80,000 - 1,000 = \text{Rs } 79,000, \\ \text{Direct expenses} &= 9,000 + 4,000 = \text{Rs } 13,000, \\ \text{Cost of goods sold} &= 20,000 + 79,000 + 13,000 - 22,000 \\ &= \text{Rs } 90,000. \end{aligned}$$

Revenue from operations of Rs 80,000 is not the numerator of the inventory turnover ratio; the

numerator must be the cost of the goods sold.

Step 4: (b) Find average inventory and its turnover Use the mean of opening and closing inventory, rather than either balance alone:

$$\text{Average inventory} = \frac{20,000 + 22,000}{2} = \text{Rs } 21,000.$$

Hence the inventory turnover calculation is

$$\text{Inventory turnover ratio} = \frac{90,000}{21,000} = \frac{30}{7} \approx 4.29 \text{ times}.$$

Step 5: Conclusion (a) Interest coverage ratio is 21 times. (b) Inventory turnover ratio is approximately 4.29 times.

Quick Tip to Solve: Reverse tax before adding back interest; for inventory turnover use cost of goods sold, including carriage inwards but excluding carriage outwards.

21. From the following Statement of Profit and Loss of Sun Ltd., for the years ended 31st March, 2015 and 2016, prepare a Common Size Statement :

Particulars	Note No.	2015-16 Amount (Rs)	2014-15 Amount (Rs)
Revenue from operations		30,00,000	20,00,000
Expenses		12,00,000	10,00,000
Other incomes		3,60,000	4,00,000
Income Tax		50%	40%

[4 marks]

Solution:

Concept:

- A common size Statement of Profit and Loss expresses each item as a percentage of revenue from operations for the same year. Thus, revenue from operations is the base, equal to 100%.
- Total revenue equals revenue from operations plus other income. Profit before tax equals total revenue less expenses; income tax is calculated on this profit at the given rate.

Step 1: Calculate profit and income tax for both years **Working Notes (amounts in Rs).** For 2015–16, total revenue is $30,00,000 + 3,60,000 = 33,60,000$. Hence,

$$\text{Profit before tax} = 33,60,000 - 12,00,000 = 21,60,000,$$
$$\text{Tax at } 50\% = 21,60,000 \times 50/100 = 10,80,000,$$
$$\text{Profit after tax} = 21,60,000 - 10,80,000 = 10,80,000.$$

For 2014–15, total revenue is $20,00,000 + 4,00,000 = 24,00,000$. Therefore,

$$\text{Profit before tax} = 24,00,000 - 10,00,000 = 14,00,000,$$
$$\text{Tax at } 40\% = 14,00,000 \times 40/100 = 5,60,000,$$
$$\text{Profit after tax} = 14,00,000 - 5,60,000 = 8,40,000.$$

Step 2: Convert each amount to a percentage of operations revenue Use Common size percentage = Item amount/Revenue from operations $\times$ 100. The denominator is Rs 30,00,000 for 2015–16 and Rs 20,00,000 for 2014–15. For example, the 2015–16 expense percentage is $12,00,000/30,00,000 \times 100 = 40\%$, and the 2014–15 tax percentage is $5,60,000/20,00,000 \times 100 = 28\%$. The tax rates in the question apply to profit before tax; they are not the common size percentages.

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

Common Size Statement of Profit and Loss

for the years ended 31st March, 2016 and 2015

Particulars	Amount (Rs)		Percentage	
	2015–16	2014–15	2015–16	2014–15
Revenue from operations	30,00,000	20,00,000	100	100
Add: Other income	3,60,000	4,00,000	12	20
Total revenue	33,60,000	24,00,000	112	120
Less: Expenses	12,00,000	10,00,000	40	50
Profit before tax	21,60,000	14,00,000	72	70
Less: Income tax	10,80,000	5,60,000	36	28
Profit after tax	10,80,000	8,40,000	36	42

Step 4: Conclusion Profit after tax is Rs 10,80,000 (36% of revenue from operations) in 2015–16 and Rs 8,40,000 (42%) in 2014–15. Thus, the absolute profit increased while the net profit percentage declined.

Quick Tip to Solve: Calculate the actual tax amount from profit before tax first; then divide that amount by revenue from operations to obtain its common size percentage.

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) Income received in advance; and

(ii) Capital Advances.

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

Solution:

Concept:

- Schedule III groups liabilities and assets into current and non-current categories, with specified sub-heads. Classification depends on the nature of the amount, not merely on whether cash has been received or paid.
- Financial statement analysis interprets accounting information, so its usefulness is limited by the historical monetary data and the accounting policies underlying that information.

Step 1: Classify the two items in part (a) **Balance Sheet classification under Schedule III**

Item	Major head	Sub-head
(i) Income received in advance	Current liabilities	Other current liabilities
(ii) Capital advances	Non-current assets	Long-term loans and advances

Income received in advance relates to income not yet earned. The company still owes the corresponding service or performance, so the amount is a liability rather than current-period income. It is shown under other current liabilities within current liabilities. Capital advances are payments towards acquisition of capital assets. They are classified under long-term loans and advances within non-current assets in the Schedule III format applicable to this question. They are not charged as a revenue expense merely because cash has been paid.

Step 2: State two limitations for part (b) **1. Ignores changes in price levels.** Financial statements are generally based on historical costs and do not fully reflect changes in the purchasing power of money. Comparing amounts for different years can therefore give a misleading impression of growth or performance. For instance, higher sales revenue may partly reflect higher prices instead of a higher quantity sold.

2. Ignores qualitative factors. Financial statements primarily record transactions and events that can be measured in money. Important factors such as employees' skills, quality of management, customer satisfaction and reputation are not fully reflected. Consequently, analysis of the recorded figures alone cannot give a complete assessment of the company's performance or future prospects.

Step 3: Conclusion Income received in advance belongs to current liabilities under other current liabilities; capital advances belong to non-current assets under long-term loans and advances. Two limitations of financial statement analysis are that it ignores price-level changes and qualitative factors.

Quick Tip to Solve: Treat unearned income as an obligation and a capital advance as an asset; for limitations, explain how historical prices or unrecorded qualitative factors can distort interpretation.

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

Particulars	31st March 2015 (Rs)	31st March 2014 (Rs)
Investments in Shares of Delko Ltd.	26,00,000	16,00,000
11% Long term Investments	3,00,000	10,00,000
Plant and Machinery	12,00,000	9,00,000
Goodwill	4,00,000	1,40,000

Additional information :

(i) 10% dividend was received from Delko Ltd.

(ii) A machine costing Rs 70,000 (depreciation provided thereon Rs 10,000) was sold for Rs 60,000. Depreciation charged during the year was Rs 50,000. [6 marks]

Solution:

Concept:

- Investing activities comprise cash spent on and received from long-term assets and investments. Purchases are outflows; sale proceeds are inflows. For a non-financial enterprise, interest and dividends received are also investing inflows.
- An asset's carrying amount equals its cost less accumulated depreciation. To find cash purchases from net asset balances, add the carrying amount disposed of and the year's depreciation to the increase in the balance.
- Depreciation itself is a non-cash charge. It helps reconstruct asset purchases but is not shown as a separate cash payment in the investing section.

Step 1: Prepare working notes for investments and goodwill **Working Notes**

No gain or loss on disposal of investments, non-cash acquisition or goodwill write-off is given. Accordingly, the changes in these balances represent cash purchases or sales.

$$\begin{aligned} \text{Shares purchased} &= 26,00,000 - 16,00,000 \\ &= \text{Rs } 10,00,000, \\ \text{Long-term investments sold} &= 10,00,000 - 3,00,000 \\ &= \text{Rs } 7,00,000, \\ \text{Goodwill purchased} &= 4,00,000 - 1,40,000 \\ &= \text{Rs } 2,60,000. \end{aligned}$$

Thus the increase in shares and goodwill causes cash outflows, whereas the reduction in long-term investments produces a cash inflow.

Step 2: Reconstruct the purchase of plant and machinery The carrying amount of the machine sold is its original cost less the depreciation already provided on it:

$$\text{Carrying amount sold} = 70,000 - 10,000 = \text{Rs } 60,000.$$

The sale proceeds are also Rs 60,000, so there is no profit or loss on this disposal. The plant and machinery balances are treated as net carrying amounts; therefore the year's depreciation of Rs 50,000

must also be allowed for when deriving purchases.

$$\begin{aligned}\text{Closing balance} &= \text{Opening balance} + \text{Purchases}\\ &\quad - \text{Carrying amount sold} - \text{Depreciation},\\ \text{Purchases} &= 12,00,000 - 9,00,000 + 60,000 + 50,000\\ &= \text{Rs } 4,10,000.\end{aligned}$$

Check: $9,00,000 + 4,10,000 - 60,000 - 50,000 = 12,00,000$. Show the purchase payment and the sale receipt separately in the cash flow statement.

Step 3: Calculate the investment income received In the absence of transaction dates or outstanding income, use the opening investment balances for the year's dividend and interest, following the usual treatment for this question.

$$\begin{aligned}\text{Dividend received} &= 16,00,000 \times \frac{10}{100}\\ &= \text{Rs } 1,60,000,\\ \text{Interest received} &= 10,00,000 \times \frac{11}{100}\\ &= \text{Rs } 1,10,000.\end{aligned}$$

Both receipts are investment returns. They are added to investing cash inflows, separately from the principal received on selling investments.

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 11% long-term investments	7,00,000
Sale of plant and machinery	60,000
Dividend received	1,60,000
Interest received	1,10,000
Total cash inflows	**10,30,000**
Purchase of shares of Delko Ltd.	(10,00,000)
Purchase of plant and machinery	(4,10,000)
Purchase of goodwill	(2,60,000)
Total cash outflows	**(16,70,000)**
Net cash used in investing activities	**(6,40,000)**

Parentheses denote cash outflows. The net is total receipts of Rs 10,30,000 less total payments of Rs 16,70,000.

Step 5: Conclusion Net cash flow from investing activities is $\boxed{-\text{Rs } 6,40,000}$, i.e. cash used in investing activities amounts to Rs 6,40,000.

Quick Tip to Solve: When machinery balances are net of depreciation, add the sold machine's carrying amount and the year's depreciation to the increase in machinery to find purchases.

Option – II (Computerized Accounting)

18. What facility is provided by a 'Query' ? [1 mark]

Solution:

Concept:

- A database stores related records in tables. A query specifies what information is required from those records.
- Selection criteria identify the records to retrieve, while the selected fields determine which details appear in the result.

Step 1: Identify the facility A query provides the facility to retrieve and display selected information from one or more database tables according to specified conditions.

Step 2: Relate the facility to accounting data For example, a query can retrieve the names and balances of debtors whose outstanding balances exceed a specified amount. It selects the relevant records from the stored data and presents the requested fields as a useful result.

Step 3: Conclusion A query enables the retrieval of specific information from a database according to given criteria.

Quick Tip to Solve: Link the word query with a specific request: which records satisfy the condition, and which fields should be displayed?

19. What is meant by 'Block Code' ? [1 mark]

Solution:

Concept:

- Codes give accounts concise and systematic identifiers, making classification and retrieval easier in a computerised accounting system.
- A block code reserves a separate range of numbers for each class of items or accounts; individual members receive codes within that range.

Step 1: Define the coding method Under block coding, a whole block or range of consecutive numbers is assigned to a particular category. Individual items belonging to that category are then allotted numbers within the reserved block.

Step 2: Illustrate the reserved ranges For example, codes 100–199 may be reserved for assets and 200–299 for liabilities. Within the assets block, cash may receive code 101 and bank code 102. The range of the code identifies the broad category, while the complete code identifies the particular account.

Step 3: Conclusion A block code is a coding method in which a specified block of numbers is reserved for each category, with individual codes allotted to its members.

Quick Tip to Solve: Remember block coding as category-wise number ranges; give two separate ranges to make the distinction clear.

20. Give the names of two commonly available DBMS software and explain any three advantages of DBMS. [4 marks]

Solution:

Concept:

- A Database Management System (DBMS) is software used to create, store, retrieve and manage data in a database. It provides an organised way to maintain related records.
- Its advantages arise from managing data centrally, controlling unnecessary duplication and regulating how users access and change the stored information.

Step 1: Name two DBMS packages Two commonly available DBMS software packages are **Microsoft Access** and **Oracle**. Both provide facilities for maintaining databases and retrieving information from stored records.

Step 2: Explain reduced data redundancy **Reduction in data redundancy:** A DBMS helps minimise unnecessary duplication of the same data in different files. For example, a customer's name and address can be stored in one customer record and linked to the customer's transactions, instead of being entered repeatedly in separate files. This saves storage space and reduces repeated data-entry work.

Step 3: Explain improved data consistency **Improved data consistency:** When the same information is kept in several independent files, updating one copy while leaving another unchanged creates conflicting values. By maintaining common records and controlling updates, a DBMS helps different users and reports draw on the same current information. For example, an authorised change to a customer's address can be reflected wherever that customer record is used.

Step 4: Explain better data security **Better data security:** A DBMS can restrict access through user accounts, passwords and permissions. Different users may be allowed to view, enter or alter only the data needed for their work. For example, an employee may be permitted to view an account while only an authorised supervisor can modify it. Such controls help protect confidential information and prevent unauthorised changes.

Step 5: Conclusion Microsoft Access and Oracle are two DBMS packages. Three advantages are reduced data redundancy, improved data consistency and better data security through controlled access.

Quick Tip to Solve: Give the two software names first, then explain each advantage separately: duplication concerns repeated data, consistency concerns agreement, and security concerns access.

21. State any two advantages and any two limitations of computerized accounting system. [4 marks]

Solution:

Concept:

- A computerised accounting system uses computers and accounting software to record and process transactions and prepare accounting reports.
- Its processing advantages depend on correct data and suitable procedures. It also involves

expenditure on technology and on people who can operate the system properly.

Step 1: State the first advantage: speed **High speed:** A computerised accounting system processes a large volume of transactions quickly. Once transaction data are entered, posting, calculation of balances and preparation of reports can be performed much faster than by manual methods. This saves time and makes up-to-date financial information available promptly to management.

Step 2: State the second advantage: accuracy **Accuracy:** The computer performs programmed arithmetic calculations and routine processing accurately, reducing errors in addition, subtraction and carrying forward balances. The accuracy of the final accounts still depends on correct input data and correctly designed software: entering a wrong amount or choosing a wrong account is not automatically cured by computerisation.

Step 3: State the first limitation: installation cost **High installation cost:** Introducing a computerised system requires expenditure on computers and related equipment, accounting software and the initial setup of the system. These costs can be substantial for a small organisation and must be considered before adopting or replacing a system.

Step 4: State the second limitation: training needs **Training cost and dependence on skilled personnel:** Employees need training to enter transactions correctly, use the software and generate suitable reports. Such training requires time and money, and further training may be needed when the software changes. Until users are adequately trained, incorrect operation can reduce the benefits of the system and disrupt routine accounting work.

Step 5: Conclusion Two advantages are high processing speed and accuracy. Two limitations are the high cost of installation and the time and cost involved in training competent users.

Quick Tip to Solve: Keep the two benefits and two limitations distinct. When stating accuracy, qualify it with correct input and software; computers do not correct every accounting error.

22. Explain any two generic considerations before sourcing an accounting software. [4 marks]

Solution:

Concept:

- Sourcing accounting software means selecting a suitable package for recording transactions, processing accounting data and producing the reports required by the organisation.
- Generic considerations are broad factors used to compare available packages. The choice should suit both the organisation's accounting requirements and the people who will operate the system.

Step 1: Examine flexibility **Flexibility** is the software's ability to adapt to changes in the organisation's requirements. Before selecting a package, the organisation should check whether it permits changes in account codes, the chart of accounts, report formats and the volume of transactions handled. It should also consider whether the software can accommodate more users or additional business activities as the organisation grows.

For example, if a business opens another branch, the package should be capable of recording branch transactions and generating the required reports without replacing the entire accounting system. A

flexible package therefore remains useful when the size, structure or reporting needs of the business change.

Step 2: Examine the cost of installation and maintenance **Cost of installation and maintenance** refers to the total expenditure required to acquire, implement and continue using the software. The organisation should compare the purchase or licence price along with expenditure on suitable hardware, installation, staff training and conversion of existing data. It must also consider recurring charges for support, maintenance and upgrades.

A package with a low purchase price may become expensive if it requires substantial additional equipment or frequent paid maintenance. The expected benefits, such as faster processing and useful reports, should justify the total cost over its period of use. The final choice should therefore be affordable as well as suitable for the organisation's needs.

Step 3: Conclusion Two generic considerations are **flexibility** and **cost of installation and maintenance**. The software should accommodate changing business requirements at a total cost justified by its expected benefits.

Quick Tip to Solve: For each consideration, name the factor, explain what the buyer must check and connect it to a practical business need; do not merely list package features.

23. Name the table which is an interactive way to quickly summarize large amounts of data. Also state its five advantages. [6 marks]

Solution:

Concept:

- A Pivot Table is an interactive spreadsheet table used to quickly summarise large amounts of data and analyse relationships among data categories.
- It arranges selected fields into rows, columns, values and filters. The same source records can therefore be examined from different viewpoints without manually rewriting the underlying data.

Step 1: Identify the table The table is a **Pivot Table**. For example, a large list of sales transactions containing dates, products, regions and amounts can be summarised by product or by region. The user chooses the fields and the required summary operation, and the table organises the information accordingly. Its five advantages are explained below.

Step 2: Summarise large quantities of data quickly **Advantage 1: Quick summarisation.** A Pivot Table can calculate sums, counts, averages and other summaries for large numbers of records. For example, it can total the sales amount for each product without the user separately adding every transaction or preparing a separate formula for every product. This saves time and makes a long transaction list easier to understand.

Step 3: Compare categories through subtotals and totals **Advantage 2: Meaningful comparisons.** It displays subtotals and grand totals for selected categories, making differences and patterns easier to identify. A product-wise and region-wise sales summary allows the user to compare the contribution of each product and each region in one report instead of examining the original records individually.

Step 4: Rearrange the report interactively **Advantage 3: Flexible presentation.** Rows and columns

can be interchanged, or pivoted, to obtain a different view of the same data. For example, products may first appear as rows and regions as columns; these positions can then be reversed. The user can answer a different analytical question without rebuilding or changing the source list.

Step 5: Filter, sort and group the information **Advantage 4: Focused analysis.** The user can filter out irrelevant categories, sort the results and group related items to concentrate on useful information. For example, dates may be grouped by month, or the report may be filtered to show one selected region. This helps locate trends and examine a manageable portion of a large data set.

Step 6: Move between summary and detail **Advantage 5: Access to supporting details.** Levels of grouped information can be expanded or collapsed, allowing the user to move between an overall summary and more detailed results. Supporting source records for a value can also be examined when required. Thus, an unusually high total can be investigated while the main report remains concise.

Step 7: Conclusion The table is a **Pivot Table**. Its five advantages are quick summarisation, easy category comparisons, flexible rearrangement, focused analysis through filtering/sorting/grouping, and access to supporting details.

Quick Tip to Solve: Remember five distinct benefits: summarise, compare, rearrange, filter/group and inspect details. Explain how each helps analyse the same source data.