CBSE Class 12 Accountancy Question Paper 2017 with Solution PDF-Set 67-3 - 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. 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 changes the existing agreement among partners and may involve reconstitution of the firm.
- Dissolution of a firm ends the business relationship among all its partners and brings the business to a close.

Step 1: Consider dissolution of partnership When the existing partnership agreement ends but a new agreement takes its place, the firm continues its business. For example, a change in the profit-sharing ratio reconstitutes the partnership without closing its business.

Step 2: Consider dissolution of the firm When the partnership firm is dissolved, the business is discontinued and its affairs are wound up. The assets are realised and liabilities are settled as part of closing the firm.

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

Quick Tip to Solve: Focus on whether business continues: reconstitution permits continuity, whereas dissolution of the firm closes the business.

2. 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 change in the profit-sharing ratio changes the existing agreement among partners.
- Reconstitution permits the same firm to continue its business under the revised agreement.

Step 1: Identify what changes The partners replace their earlier profit-sharing arrangement with a new ratio. Their contractual relationship is therefore reconstituted, even though no closure of the business is required.

Step 2: Check whether the business ends The firm continues to operate and its assets and liabilities remain with the continuing business. A change in ratio alone does not require realisation of all assets and settlement of all liabilities as on dissolution of the firm.

Step 3: Conclusion No. A change in the profit-sharing ratio results in reconstitution of the partnership, not dissolution of the partnership firm, because the business continues.

Quick Tip to Solve: Distinguish a change in the partnership agreement from closing the firm: a revised ratio alone leaves the business continuing.

3. State the ratio in which the partners share the gain or loss on revaluation of assets and liabilities.

[1 mark]

Solution:

Concept:

- Revaluation identifies gains or losses on the assets and liabilities existing before reconstitution.
- Such gains or losses belong to the old partners in their old profit-sharing ratio.

Step 1: Identify the period to which the adjustment belongs The revaluation gain or loss arises from changes in the value of assets and liabilities held by the firm before the revised partnership arrangement takes effect. It therefore belongs to the partners who shared the earlier profits and losses.

Step 2: Apply the appropriate ratio Distribute a revaluation profit by crediting the old partners, and a revaluation loss by debiting them, in their old profit-sharing ratio. The new ratio relates to future profits and is not used for this adjustment.

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

Quick Tip to Solve: Associate revaluation with the period before reconstitution; use the old ratio, not the new, sacrificing or gaining ratio.

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

[1 mark]

Solution:

Concept:

- A company can raise share capital by offering shares to a selected group of investors.
- A private placement is distinguished by a selected group of offerees rather than an invitation to the public at large.

Step 1: Identify the persons approached Under private placement, the company offers its shares directly to selected persons or institutions, such as a chosen group of investors. The selection of the recipients is the essential feature of this method.

Step 2: Distinguish the offer from a public issue The offer is confined to that selected group. It is not a general invitation to the public to subscribe for the company's shares, and the word private describes the method of placing the shares.

Step 3: Conclusion Private placement of shares means an offer and issue of shares by a company to a selected group of persons or institutions instead of the public at large.

Quick Tip to Solve: In the definition, identify both features: shares go to selected investors and there is no offer to the public at large.

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

Solution:

Concept:

- Hidden goodwill is goodwill whose amount is not expressly stated but is inferred from the capital arrangement on admission.
- The incoming partner's capital and profit share can imply a total value of the firm exceeding its actual combined capital.

Step 1: Infer the total value indicated by the new partner Where capital is contributed proportionately to the incoming partner's profit share, divide that capital by the partner's fractional share to infer the total capitalised value of the firm.

Step 2: Identify the implied excess Compare the inferred total value with the aggregate actual capital of all partners, including the incoming partner. The positive excess represents goodwill that was implicit in the agreed capital contribution rather than explicitly stated.

Step 3: Conclusion Hidden goodwill is goodwill not stated directly in the question or agreement, but inferred from the new partner's capital contribution and share of profits.

Quick Tip to Solve: For proportionate capital, infer total value from incoming capital divided by profit share, then deduct combined actual capitals.

6. 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 amount due to a deceased partner is transferred from the deceased partner's capital account to the executor's loan account when payment is deferred.
- Interest on the outstanding loan is recognised for the period after the date of death; no such period has elapsed on that date.

Step 1: Identify the amount transferred The total amount due to Zaid's executors on 1 September 2016 is Rs 60,000. Since payment will begin only on 1 September 2017, transfer the full amount to the executor's loan account. The instalments and interest affect subsequent payments, not the transfer on death.

Step 2: Record the journal entry on the date of death 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 amount due to Zaid transferred to his executor's loan account, payable in three annual instalments with interest at 6% p.a.)			

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

Quick Tip to Solve: Use the date asked: transfer the full balance on death; record instalment payments and accrued interest only at the later relevant dates.

7. 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 the profit earned up to the date of death.
- The final amount due is transferred to the executor's account. In the absence of a changed profit-sharing arrangement, the continuing partners gain in their existing relative ratio.

Step 1: Calculate Dolly's goodwill entitlement **Working Notes**

Dolly's old profit share is $2/(5+3+2) = 2/10$. Therefore her share of the firm's goodwill is

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

Farhan and Hina continue in the ratio $5 : 3$, so they bear this compensation in that ratio: Farhan, $6,000 \times 5/8 = \text{Rs } 3,750$, and Hina, $6,000 \times 3/8 = \text{Rs } 2,250$. These amounts are credited to Dolly's capital account against the debits to their capital accounts.

Step 2: Prepare the capital account and transfer the amount due The profit share up to death is already given as Rs 200; it need not be recalculated for the number of days. Credit it through Profit and Loss Suspense A/c. No drawings or other adjustments are stated.

Dolly's Capital Account (up to 5th April, 2016)

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Dolly's Executor's A/c	2,06,200	By Balance b/d	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

Thus $2,00,000 + 3,750 + 2,250 + 200 = \text{Rs } 2,06,200$ is transferred on the debit side, closing Dolly's capital account. The executor's account is credited with the same liability; no cash payment is assumed.

Step 3: Conclusion The amount payable to Dolly's executors is $\boxed{\text{Rs } 2,06,200}$.

Quick Tip to Solve: Credit only Dolly's two-tenths share of goodwill, and use the given Rs 200 profit directly before transferring the final balance to her executor.

8. 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.
- An abnormal loss is non-recurring. Add it back to the reported profit of the affected year to estimate the normal earning capacity of the firm.

Step 1: Adjust the profits for the abnormal loss **Working Notes**

The Rs 3,000 abnormal loss has reduced the reported profit of 2014-15. Since such a loss is not expected to recur in normal operations, restore it when determining maintainable profit. The other two years require no adjustment.

Year	Reported profit (Rs)	Loss added back (Rs)	Adjusted profit (Rs)
2013-14	40,000	—	40,000
2014-15	46,000	3,000	49,000
2015-16	52,000	—	52,000
Total	1,38,000	3,000	1,41,000

Thus the adjustment increases the three-year total by Rs 3,000; it is made once, in the year of the loss, rather than in every year.

Step 2: Compute the average profit and apply years' purchase All three years carry equal weight

because the question specifies a simple average. Divide the total adjusted profit by three:

$$\text{Average profit} = \frac{40,000 + 49,000 + 52,000}{3} = \text{Rs } 47,000.$$

Goodwill is to be valued at two years' purchase, so

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

The stated capital of Rs 1,00,000 is not used in this method. It would be relevant to a capitalisation or super-profit calculation, but neither a normal rate of return nor that valuation method is specified here.

Step 3: Conclusion Goodwill of the firm is $\boxed{\text{Rs } 94,000}$, based on adjusted average annual profit of Rs 47,000.

Quick Tip to Solve: Add the Rs 3,000 abnormal loss to 2014-15 profit before averaging; then multiply the three-year average by two, not by three.

9. Pico Ltd. took over the assets of Rs 2,40,000 and liabilities of Rs 40,000 of Rajware Ltd. for a consideration of Rs 1,60,000. Rs 10,000 were paid by an acceptance payable after 3 months and the balance by issue of fully paid Equity Shares of Rs 100 of a bill each at a premium of 50%. Show the necessary journal entries for the above transactions in the books of Pico Ltd. [3 marks]

Solution:

Concept:

- Record the assets acquired and liabilities assumed at their agreed values. If net assets exceed the purchase consideration, the difference is credited to Capital Reserve A/c.
- Shares issued to the vendor are valued at their issue price. Their face value is credited to Equity Share Capital A/c and the premium to Securities Premium Reserve A/c.

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

Net assets taken over are $2,40,000 - 40,000 = \text{Rs } 2,00,000$. The consideration is only Rs 1,60,000, so capital reserve is $2,00,000 - 1,60,000 = \text{Rs } 40,000$.

After the bill acceptance of Rs 10,000, the amount settled in shares is $1,60,000 - 10,000 = \text{Rs } 1,50,000$. A 50% premium on face value Rs 100 gives an issue price of $100 + 50 = \text{Rs } 150$ per share. Hence

$$\text{Number of shares} = \frac{1,50,000}{150} = 1,000.$$

The capital component is $1,000 \times 100 = \text{Rs } 1,00,000$ and securities premium is $1,000 \times 50 = \text{Rs } 50,000$.

Step 2: Record the acquisition and discharge of consideration **Journal of Pico Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Business Purchase A/c Dr.		1,60,000	
	To Rajware Ltd.			1,60,000
	(Being purchase consideration due to Rajware Ltd.)			

Sundry Assets A/c Dr.		2,40,000	
To Sundry Liabilities A/c			40,000
To Business Purchase A/c			1,60,000
To Capital Reserve A/c			40,000
(Being assets and liabilities taken over and surplus credited to capital reserve)			
Rajware Ltd. Dr.		1,60,000	
To Bills Payable A/c			10,000
To Equity Share Capital A/c			1,00,000
To Securities Premium Reserve A/c			50,000
(Being consideration discharged by a three-month bill acceptance and 1,000 fully paid equity shares of Rs 100 each at a 50% premium)			

Acceptance creates a bills-payable liability; no bank payment occurs at acceptance. The last entry clears Rajware Ltd.'s balance, since its credit and debit are both Rs 1,60,000. Each journal entry has equal total debits and credits.

Step 3: Conclusion Pico Ltd. records capital reserve of Rs $40,000$ and issues $1,000$ equity shares, with share capital Rs 1,00,000 and securities premium Rs 50,000, alongside the Rs 10,000 bill acceptance.

Quick Tip to Solve: Deduct the Rs 10,000 acceptance first and divide the remaining consideration by the Rs 150 issue price, not the Rs 100 face value.

10. Vivo Ltd. offered 16,000 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. 15,000 shares were subscribed by the public.

All the money was duly received, except from a shareholder holding 2,000 shares who failed to pay the first and final call money. His shares were forfeited. Show 'Share Capital' in the Balance Sheet of Vivo Ltd. Also prepare 'Notes to Accounts'. [3 marks]

Solution:

Concept:

- Share capital records the face value of shares; securities premium is shown separately under Reserves and Surplus and is not part of Share Capital.
- On forfeiture, the called-up face value of the forfeited shares is cancelled. The amount already received towards their face value is added to subscribed capital as Share Forfeiture until reissue.

Step 1: Calculate the call and the amount forfeited **Working Notes**

The total issue price is Rs $100 + 20 = 120$ per share. Application is Rs 20 and allotment is Rs 40, of which Rs 20 is premium. Thus the first and final call is

$$120 - 20 - 40 = \text{Rs } 60 \text{ per share.}$$

The capital received on each forfeited share is Rs $20 + (40 - 20) = 40$. Therefore, the Share Forfeiture

balance is

$$2,000 \times 40 = \text{Rs } 80,000.$$

Calls in arrears before forfeiture were Rs $2,000 \times 60 = 1,20,000$. As those shares have already been forfeited, their full face value is removed from subscribed capital; the unpaid call is not deducted again in the final presentation.

Step 2: Prepare the Balance Sheet extract After forfeiture, fully paid shares remaining are $15,000 - 2,000 = 13,000$, with face value Rs $13,000 \times 100 = 13,00,000$.

Vivo Ltd.

Balance Sheet (extract)

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	13,80,000

Step 3: Prepare the note on Share Capital **Notes to Accounts**

Note 1: Share Capital

Particulars	Amount (Rs)
Issued Capital	
16,000 equity shares of Rs 100 each	16,00,000
Subscribed and Fully Paid-up Capital	
13,000 equity shares of Rs 100 each	13,00,000
Add: Forfeited shares (amount originally paid on 2,000 shares)	80,000
Total Share Capital	**13,80,000**

Authorised capital is not specified, so no amount is invented for it. Premium already received on all 15,000 shares is Rs $15,000 \times 20 = 3,00,000$; it does not enter the above Share Capital total.

Step 4: Conclusion Share Capital is shown at **Rs 13,80,000**, comprising Rs 13,00,000 on 13,000 fully paid equity shares and Rs 80,000 received on forfeited shares.

Quick Tip to Solve: Remove forfeited shares at their full called-up face value, then add back only the capital received on them; exclude their premium from Share Forfeiture.

11. 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:

- In the absence of a stated agreement about the old profit-sharing ratio, partners share profits equally. A revaluation gain relating to the period before a change in ratio belongs to the partners in their old ratio.
- When the profit-sharing ratio changes, the gaining partner compensates the sacrificing partner for goodwill. The adjustment equals the firm's goodwill multiplied by the share of profit gained or sacrificed.

Step 1: Determine sacrifice, gain and goodwill compensation **(a) Working Notes**

No old profit-sharing ratio is stated, so Bhavya and Naman's old ratio is $1 : 1$, giving each a share of $1/2$. Their new ratio is $1 : 2$. Therefore,

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

Naman must compensate Bhavya for the additional right to future profits:

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

Accordingly, Naman's Capital Account is debited and Bhavya's Capital Account is credited. This adjusts goodwill directly through the partners' capital accounts without retaining a Goodwill Account in the books.

Step 2: Allocate the revaluation gain in the old ratio The Rs 18,000 gain arose from revaluing assets and reassessing liabilities at the date of change. It belongs to both partners in their old equal ratio, even though future profits will be shared in the new ratio. Each partner's share is

$$18,000 \times \frac{1}{2} = \text{Rs } 9,000.$$

The credit balance of Revaluation Account is transferred by debiting that account and crediting the two capital accounts. Individual asset and liability changes are not specified, so the required entry records the transfer of the stated net gain.

Step 3: Record the journal entries **Journal of Bhavya and Naman's Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Naman's Capital A/c Dr. To Bhavya's Capital A/c (Being goodwill adjusted for Naman's gain and Bhavya's sacrifice of one-sixth share)		20,000	 20,000
	Revaluation A/c Dr. To Bhavya's Capital A/c To Naman's Capital A/c (Being revaluation gain transferred to the partners in their old ratio of 1:1)		18,000	 9,000 9,000

Step 4: Identify the values shown by Bhavya **(b) Two values highlighted**

Compassion and social responsibility: Bhavya proposes distributing surplus food to needy people, addressing hunger through the firm's available resources.

Avoidance of wastage: She seeks to put leftover food to useful consumption instead of allowing it to be wasted. Her proposal links the responsible use of food with helping people in need.

Step 5: Conclusion Debit Naman's Capital Account and credit Bhavya's Capital Account by **Rs 20,000** for goodwill. Transfer the revaluation gain by crediting **Rs 9,000 to each partner**. The values include compassion towards the needy and avoidance of food wastage.

Quick Tip to Solve: Use the old ratio for the entire revaluation gain, but use only the change in each partner's share for goodwill compensation; Naman's one-sixth gain gives Rs 20,000.

12. 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 money already received.
- Premium already received is not reversed on forfeiture. Reissue discount is debited to Share Forfeiture and cannot exceed the forfeited amount on the shares reissued.
- Transfer to Capital Reserve only the surplus on shares actually reissued; retain the forfeiture balance on shares not yet reissued.

Step 1: Calculate the forfeited capital and reissue surplus **Working Notes**

The shares have a face value of Rs 10 each and the only unpaid amount is the final call of Rs 3. Therefore, Rs 7 per share has been received towards capital. The issue premium of Rs 2 per share has

already been received and remains in Securities Premium.

$$\text{Called-up capital forfeited} = 6,000 \times 10 = \text{Rs } 60,000,$$
$$\text{Unpaid final call} = 6,000 \times 3 = \text{Rs } 18,000,$$
$$\text{Capital received} = 6,000 \times 7 = \text{Rs } 42,000.$$

Only 300 shares are reissued. Their forfeited capital is $300 \times 7 = \text{Rs } 2,100$, and their reissue discount is $300 \times (10 - 8) = \text{Rs } 600$. Thus the surplus available for transfer is $2,100 - 600 = \text{Rs } 1,500$. The discount is within the forfeited capital on these shares.

Step 2: Record forfeiture, reissue and the capital reserve transfer **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 belongs to the $6,000 - 300 = 5,700$ shares still awaiting reissue: $5,700 \times 7 = \text{Rs } 39,900$. It cannot yet be transferred to Capital Reserve.

Step 4: Conclusion Share Forfeiture is credited with Rs 42,000 on forfeiture, debited with Rs 600 for reissue discount and Rs 1,500 for the capital reserve transfer, leaving a credit balance of Rs 39,900.

Quick Tip to Solve: Separate the 300 reissued shares from the 5,700 unreissued shares: only Rs 2,100 of forfeited capital can be used to calculate the reissue surplus.

13. Shrey and Kavya are partners in a firm sharing profits in the ratio 2 : 3. Their capital accounts as on April 1, 2015 showed balances of Rs 35,000 and Rs 30,000 respectively. The drawings of Shrey and Kavya during the year 2015-2016 were Rs 8,000 and Rs 6,000 respectively. Both amounts were withdrawn on 1st January 2016. It was subsequently found that the following items had been omitted while preparing the final accounts of the year ended 31st March 2016.

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

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

(c) Shrey was entitled to a commission of Rs 2,000 for the whole year.

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

Solution:

Concept:

- A past adjustment corrects omissions by comparing each partner's entitlement with the profit share already credited. One net entry transfers the excess credit from one partner to the other.
- Interest on opening capital is calculated for the full year. Interest on a dated drawing is calculated only for the period from the withdrawal date to the year-end.
- Interest on capital and a partner's commission reduce divisible profit, while interest on drawings increases it. The net change in divisible profit is shared in the agreed ratio of $2 : 3$.

Step 1: Calculate the omitted interest and commission **Working Notes**

The given capital balances are opening balances on 1 April 2015, so no reconstruction of opening capital is needed. Interest on capital for the year ended 31 March 2016 is:

$$\text{Shrey} = 35,000 \times \frac{6}{100} = \text{Rs } 2,100,$$
$$\text{Kavya} = 30,000 \times \frac{6}{100} = \text{Rs } 1,800.$$

Both partners withdrew their drawings on 1 January 2016. The period to 31 March 2016 is three months, rather than the average period used for regular monthly drawings. Interest on drawings is therefore:

$$\text{Shrey} = 8,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 120,$$
$$\text{Kavya} = 6,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 90.$$

Shrey must also receive his commission of Rs 2,000 for the whole year. The total omitted credits to the partners are $2,100 + 1,800 + 2,000 = \text{Rs } 5,900$, and total interest on drawings chargeable is $120 + 90 = \text{Rs } 210$.

Step 2: Determine the excess profit already distributed After including all omitted appropriations, divisible profit decreases by:

$$\text{Rs } 5,900 - \text{Rs } 210 = \text{Rs } 5,690.$$

Since the final accounts were prepared without these items, the partners have already received this

excess amount as profit. It must be withdrawn from their accounts in their profit-sharing ratio $2:3$:

$$\text{Shrey's excess profit} = 5,690 \times \frac{2}{5} = \text{Rs } 2,276,$$
$$\text{Kavya's excess profit} = 5,690 \times \frac{3}{5} = \text{Rs } 3,414.$$

No amount of total annual profit is needed: only the effect of the omitted items changes the partners' balances.

Step 3: Compare each partner's total debits and credits **Adjustment Working Table**

Particulars	Shrey (Rs)	Kavya (Rs)
Interest on capital to be credited	2,100	1,800
Commission to be credited	2,000	–
Total credits	4,100	1,800
Interest on drawings to be debited	120	90
Excess profit share to be debited	2,276	3,414
Total debits	2,396	3,504
Net adjustment	1,704 Cr.	1,704 Dr.

Shrey's short credit is $4,100 - 2,396 = \text{Rs } 1,704$; Kavya's excess credit is $3,504 - 1,800 = \text{Rs } 1,704$. The equal opposite adjustments show that the correction only redistributes the partners' balances and does not require a cash transaction.

Step 4: Pass the single rectifying journal entry **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 March 2016	Kavya's Capital A/c Dr.		1,704	
	To Shrey's Capital A/c			1,704
	(Being adjustment for omitted interest on capital, interest on drawings and Shrey's commission for 2015–2016)			

The question does not specify fixed capitals, so the correction is recorded through the partners' capital accounts.

Step 5: Conclusion Debit Kavya's Capital Account and credit Shrey's Capital Account by Rs 1,704 each to rectify all three omissions through one entry.

Quick Tip to Solve: For the 1 January drawings, use three months. Then deduct net omitted appropriations of Rs 5,690 from the profit already shared in the ratio 2:3.

14. (a) Journalise the following transaction on issue of 12% debentures :

Mona Ltd. issued 40,000, 12% debentures of Rs 100 each at a premium of 10% redeemable at a premium of 5%.

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

(i) Girid Ltd. redeemed Rs 4,00,000, 11% debentures of Rs 100 each at 110% by converting them into equity shares of Rs 50 each issued at a premium of 10%.

(ii) Uniner Ltd. purchased its own 210, 13% Debentures of Rs 1,000 each at Rs 1,009 per debenture for immediate cancellation.

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

[6 marks]

Solution:

Concept:

- Debentures are credited at face value. The excess issue price is credited to Securities Premium Reserve; the premium payable on redemption is a separate liability and creates a loss on issue.
- On conversion, the amount due to debentureholders is settled by shares at their issue price. Share capital records only the nominal value and the balance is securities premium.
- Own debentures bought for cancellation extinguish the face-value liability. Purchase cost above face value is a loss on cancellation, transferred to the Statement of Profit and Loss.

Step 1: (a) Record Mona Ltd.'s issue of debentures **Working Notes:** Face value $= 40,000 \times 100 =$ Rs $40,00,000$. Issue premium $= 40,00,000 \times 10\% =$ Rs $4,00,000$, so bank receives Rs 44,00,000. Redemption premium $= 40,00,000 \times 5\% =$ Rs $2,00,000$. The issue premium and redemption premium must be recorded separately; the former is a capital reserve and the latter is the contractual additional redemption liability.

Journal of Mona Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		44,00,000	
	Loss on Issue of Debentures A/c Dr.		2,00,000	
	To 12% Debentures A/c			40,00,000
	To Securities Premium Reserve A/c			4,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(Being 40,000 debentures issued at 10% premium, redeemable at 5% premium)			

Step 2: (b)(i) Calculate the conversion terms and record Girid Ltd.'s redemption **Working Notes:** Amount due $= 4,00,000 \times 110/100 =$ Rs $4,40,000$. Each share is issued for $50 + 10\% \times 50 =$ Rs 55. Thus $4,40,000/55 = 8,000$ shares are issued. Their nominal capital is $8,000 \times 50 =$ Rs $4,00,000$, and securities premium is

$8,000 \times 5 = \text{Rs } 40,000$. First make the redemption amount due; then discharge it through the share issue.

Journal of Girid Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	11% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at 110%)		4,00,000 40,000	 4,40,000
	Debentureholders A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 8,000 equity shares of Rs 50 issued at 10% premium in settlement)		4,40,000	 4,00,000 40,000

Step 3: (b)(ii) Record Uniner Ltd.'s purchase and immediate cancellation **Working Notes:** Purchase cost $= 210 \times 1,009 = \text{Rs } 2,11,890$, whereas the liability extinguished is $210 \times 1,000 = \text{Rs } 2,10,000$. The excess cost is
$210 \times 9 = \text{Rs } 1,890$, a loss. No interest is separated because the question expressly excludes interest entries.

Journal of Uniner Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Own Debentures A/c Dr. To Bank A/c (Being 210 own debentures purchased at Rs 1,009 each)		2,11,890	 2,11,890
	13% Debentures A/c Dr. Loss on Cancellation of Debentures A/c Dr. To Own Debentures A/c (Being own debentures immediately cancelled at a loss)		2,10,000 1,890	 2,11,890
	Statement of Profit and Loss A/c Dr. To Loss on Cancellation of Debentures A/c (Being loss on cancellation transferred to the Statement of Profit and Loss)		1,890	 1,890

Step 4: Conclusion Mona Ltd. receives Rs 44,00,000 and records Rs 2,00,000 as redemption premium and loss on issue. Girid Ltd. issues 8,000 equity shares to settle Rs 4,40,000. Uniner Ltd. pays Rs 2,11,890 and incurs a cancellation loss of Rs 1,890.

Quick Tip to Solve: For conversion, divide the full redemption liability by the share issue price, including its premium. For cancellation, compare purchase cost with debenture face value.

15. 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:

- After assets and third-party liabilities are transferred, realisation receipts credit Realisation A/c and realisation expenses debit it. A recorded asset taken by a recorded creditor requires no further entry.
- Remuneration allowed to a partner is credited to the partner's capital. Expenses which that partner must bear, but which are paid from firm funds, are debited to that partner's capital.
- Recovery of a written-off debt and takeover of an unrecorded asset credit Realisation A/c. Realisation profit is distributed to partners in their profit-sharing ratio, here $3 : 2$.

Step 1: (a) Record Ravi's remuneration and the firm's payment on his behalf The agreed remuneration is the firm's realisation expense. Ravi bears the Rs 10,000 expenses specified here, but used firm funds. Debit his capital for that payment; Realisation must not be charged for expenses borne by him.

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 allowed to Ravi for dissolution work)		23,000	23,000
	Ravi's Capital A/c Dr. To Cash A/c (Being expenses borne by Ravi paid out of the firm's cash)		10,000	10,000

Step 2: (b) Record recovery from Amitesh **Working Note:** Recovery $= 60,000 \times 90\% =$ Rs $54,000$.

The debtor was written off, so no debtor balance remains. Credit the recovery directly to Realisation A/c.

Journal of Anita and Ravi

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

Step 3: (c) Explain the creditor's acceptance of furniture **No journal entry is required.** The furniture and creditors were already transferred to Realisation A/c. Their direct settlement involves no cash movement. Do not re-enter either balance or separately recognise their Rs 2,000 difference; the original transfers already include the effect in Realisation.

Step 4: (d) Record the sale through the broker **Working Notes:** Brokerage $= 3,00,000 \times 2\% =$ Rs $6,000$, leaving net sale proceeds of Rs 2,94,000. The gross entries show the sale and commission separately. A single Bank debit and Realisation credit of Rs 2,94,000 has the same net effect.

Journal of Anita and Ravi

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being land and building sold through a broker)		3,00,000	 3,00,000
	Realisation A/c Dr. To Bank A/c (Being commission at 2% paid to the broker)		6,000	 6,000

Step 5: (e) Record the partners' takeover of the written-off shares **Working Notes:** These shares are unrecorded assets because their entire cost was written off. Use their present agreed value, not their old cost or nominal value:

$$500 \times 50 = \text{Rs } 25,000.$$

Anita receives $500 \times 3/5 = 300$ shares worth Rs 15,000, and Ravi receives $500 \times 2/5 = 200$ shares worth Rs 10,000. Debit the partners' capital accounts because assets taken over reduce their cash entitlement on dissolution.

Journal of Anita and Ravi

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Anita's Capital A/c Dr. Ravi's Capital A/c Dr. To Realisation A/c (Being 500 unrecorded Vision Ltd. shares taken by the partners in the ratio 3:2 at Rs 50 each)		15,000 10,000	 25,000

Step 6: (f) Distribute the stated realisation profit **Working Notes:** Anita's share $= 45,000 \times 3/5 =$ Rs $27,000$, and Ravi's share $= 45,000 \times 2/5 =$ Rs $18,000$. Distribute the stated final profit without adding earlier receipts again. Debit Realisation to close its credit balance and credit partners' capitals.

Journal of Anita and Ravi

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 to partners in the ratio 3:2)			

Step 7: Conclusion Ravi is credited Rs 23,000 for remuneration and debited Rs 10,000 for expenses paid on his behalf. Debt recovery is Rs 54,000; settlement with furniture needs no entry; net property-sale proceeds are Rs 2,94,000. Shares taken over are Rs 15,000 by Anita and Rs 10,000 by Ravi. Profit credited is Rs 27,000 and Rs 18,000 respectively.

Quick Tip to Solve: Check whether each asset still exists in the books: written-off recoveries credit Realisation, whereas a recorded asset passed directly to a recorded creditor needs no fresh entry.

16. 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:

- On pro-rata allotment, excess application money is adjusted against allotment. Share capital includes only face value; securities premium is recorded separately.
- At forfeiture, debit the called-up share capital and reverse any premium due but unpaid. Credit Share Forfeiture with the amount received towards capital, excluding premium.
- On reissue, any excess over face value is securities premium. Transfer to Capital Reserve only the forfeiture balance relating to shares actually reissued.

Step 1: Prepare Working Notes for allotment and arrears The accepted applicants applied for $1,40,000 - 10,000 = 1,30,000$ shares and received $1,20,000$ shares. The application-to-allotment ratio is $13 : 12$.

$$\text{Application received} = 1,40,000 \times 3 = \text{Rs } 4,20,000,$$
$$\text{Refund} = 10,000 \times 3 = \text{Rs } 30,000,$$
$$\text{Excess adjusted} = (1,30,000 - 1,20,000) \times 3 = \text{Rs } 30,000.$$

Sharvi's application covered $6,000 \times 13/12 = 6,500$ shares. Hence Rs $500 \times 3 = 1,500$ of her application money is adjusted against allotment. Her allotment arrears are Rs $6,000 \times 3 - 1,500 = 16,500$, and her call arrears are Rs $6,000 \times 6 = 36,000$.

$$\text{Allotment cash} = 3,60,000 - 30,000 - 16,500 = \text{Rs } 3,13,500,$$
$$\text{Call cash} = 7,20,000 - 36,000 = \text{Rs } 6,84,000.$$

Step 2: Record application receipt and its disposal 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)		4,20,000	 4,20,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium 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

Step 3: Record allotment and the first and final call Journal of Benolac Paints Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment of Rs 3 per share due on 1,20,000 shares)		3,60,000	 3,60,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after adjustment of excess application money, except Sharvi's arrears)		3,13,500	 3,13,500
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium A/c (Being call due, including premium of Rs 1 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 on 6,000 shares)		6,84,000	 6,84,000

Step 4: Calculate forfeiture and the reserve transfer Capital received on Sharvi's 6,000 shares comprises Rs $6,000 \times 2 = 12,000$ through application and Rs 1,500 adjusted against allotment. Thus Share Forfeiture is credited with Rs 13,500. The Rs 6,000 application premium was received and is

retained; only the unpaid call premium of Rs $6,000 \times 1 = 6,000$ is reversed.

$$\begin{aligned}\text{Forfeiture credit} &= 60,000 + 6,000 - 16,500 - 36,000\\ &= \text{Rs } 13,500,\\ \text{Shares reissued} &= 6,000/2 = 3,000,\\ \text{Reissue premium} &= 33,000 - (3,000 \times 10) = \text{Rs } 3,000,\\ \text{Reserve transfer} &= 13,500 \times 3,000/6,000 = \text{Rs } 6,750.\end{aligned}$$

No discount arises on reissue. The forfeiture balance for the other 3,000 shares is retained until those shares are reissued.

Step 5: Record forfeiture, reissue and transfer to reserve Journal of Benolac Paints Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		60,000	
	Securities Premium A/c Dr.		6,000	
	To Share Allotment A/c			16,500
	To Share First and Final Call A/c			36,000
	To Share Forfeiture A/c			13,500
	(Being Sharvi's 6,000 shares forfeited and unpaid call premium reversed)			
	Bank A/c Dr.		33,000	
	To Share Capital A/c			30,000
	To Securities Premium A/c			3,000
	(Being 3,000 forfeited shares reissued as fully paid at Rs 11 each)			
	Share Forfeiture A/c Dr.		6,750	
	To Capital Reserve A/c			6,750
	(Being forfeiture surplus on the reissued shares transferred to capital reserve)			

Step 6: Conclusion The required entries are recorded above. Capital Reserve is credited with Rs 6,750, while Rs 6,750 remains in Share Forfeiture for the 3,000 unreissued shares.

Quick Tip to Solve: For Sharvi, adjust the Rs 1,500 excess application first. Reverse only her unpaid Rs 6,000 call premium; transfer only half the forfeiture surplus to Capital Reserve.

OR

16. 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 first settles allotment and then becomes Calls in Advance until the relevant call is made. Calls in Arrears records amounts due but not received.
- For forfeiture of fully called shares, debit Share Capital with face value and credit Calls in Arrears with the unpaid amount; the difference is Share Forfeiture.
- Premium received on reissue is credited to Securities Premium. Once all forfeited shares are reissued without discount, the entire forfeiture balance becomes Capital Reserve.

Step 1: Prepare Working Notes for the two allotment categories Allotment is full for 14,000 shares. The remaining $80,000 - 14,000 = 66,000$ applications receive 40,000 shares, giving an application-to-allotment ratio of $33 : 20$.

$$\begin{aligned}
\text{Application received} &= 80,000 \times 50 = \text{Rs } 40,00,000,\\
\text{Application capital} &= 54,000 \times 50 = \text{Rs } 27,00,000,\\
\text{Pro-rata excess} &= (66,000 - 40,000) \times 50 = \text{Rs } 13,00,000,\\
\text{Allotment adjustment} &= 40,000 \times 10 = \text{Rs } 4,00,000,\\
\text{Advance for call} &= 13,00,000 - 4,00,000 = \text{Rs } 9,00,000.
\end{aligned}$$

The full-allotment category pays Rs $14,000 \times 10 = 1,40,000$ on allotment. Vibhor also pays his call of Rs $1,200 \times 40 = 48,000$ early, so bank receives Rs 1,88,000 and total Calls in Advance becomes Rs 9,48,000.

Step 2: 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)		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 capital transferred and excess allocated to allotment and 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 balance received along with Vibhor's advance call)
			1,88,000	
				1,40,000
				48,000

Step 3: Determine Vidur's arrears and collect the call Vidur was allotted 400 shares, so he applied for $400 \times 33/20 = 660$ shares and paid Rs $660 \times 50 = 33,000$. Of this, Rs 20,000 is application capital, Rs 4,000 settles allotment, and Rs 9,000 is available for the call. Therefore his allotment is fully paid despite no further cash payment.

$$\begin{aligned}\text{Vidur's call due} &= 400 \times 40 = \text{Rs } 16,000,\\ \text{Vidur's call arrears} &= 16,000 - 9,000 = \text{Rs } 7,000,\\ \text{Total call due} &= 54,000 \times 40 = \text{Rs } 21,60,000,\\ \text{Call cash} &= 21,60,000 - 9,48,000 - 7,000\\ &= \text{Rs } 12,05,000.\end{aligned}$$

All the advances are applied when the call becomes due. The only unpaid balance transferred to Calls in Arrears is Vidur's Rs 7,000. 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 first and final call of Rs 40 per share due)		21,60,000	 21,60,000
	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being call settled by cash and advances, with Vidur's unpaid balance transferred to arrears)		12,05,000 9,48,000 7,000	 21,60,000

Step 4: Record forfeiture and reissue Vidur's called-up capital is Rs $400 \times 100 = 40,000$. All Rs 33,000 received from him has now been applied towards capital, so this is the forfeiture credit. The shares

are reissued for Rs $400 \times 110 = 44,000$, including premium of Rs 4,000. Since all 400 shares are reissued without discount, the full forfeiture surplus is transferred to Capital Reserve.

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 shares forfeited for unpaid call money)		40,000	 7,000 33,000
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (Being 400 forfeited shares reissued 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 surplus transferred to capital reserve)		33,000	 33,000

Step 5: Conclusion The entries above close Calls in Advance and Calls in Arrears after adjustment and forfeiture. Capital Reserve is Rs 33,000 and the reissue premium is Rs 4,000.

Quick Tip to Solve: Vidur paid Rs 33,000 on application: allocate it as Rs 20,000 application, Rs 4,000 allotment and Rs 9,000 call. Only Rs 7,000 remains in arrears.

17. 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 in their old profit-sharing ratio. An increase in an asset is credited and an increase in a liability is debited to Revaluation Account.
- Goodwill premium is credited to the sacrificing partners in their sacrificing ratio. Only the excess of Workmen's Compensation Reserve over the actual claim is distributed to the old partners.
- The new balance sheet includes revised assets, the actual compensation liability and the closing capital balances. Cash brought in increases Bank.

Step 1: Working Notes: calculate sacrifice and admission adjustments Old shares of Qadir and Rishab are $3/5$ and $2/5$; their new shares are $3/10$ and $2/10$. Therefore,

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

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. Sapna also brings Rs 6,00,000 capital, so Bank becomes Rs $1,00,000 + 6,00,000 + 30,000 = 7,30,000$.

Revised plant and machinery is Rs $6,00,000 \times 125/100 = 7,50,000$; the appreciation is Rs 1,50,000. Unrecorded creditors increase liabilities by Rs 30,000. The compensation reserve of Rs 60,000 covers the Rs 40,000 claim; its surplus of Rs 20,000 is credited to Qadir and Rishab as Rs 12,000 and Rs 8,000. The claim is retained as a liability, since payment is not specified.

Step 2: Prepare Revaluation Account The net gain is Rs $1,50,000 - 30,000 = 1,20,000$, shared as Rs 72,000 and Rs 48,000. The compensation claim does not create a revaluation loss because it is fully covered by the reserve.

Revaluation Account

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

Step 3: Prepare the partners' Capital Accounts The opening capitals receive their respective shares of goodwill premium, reserve surplus and revaluation profit. Sapna has no share in these pre-admission gains. No withdrawal of goodwill is stated, so it remains in the firm.

Partners' Capital Accounts (all amounts in Rs)

Dr.				Cr.			
Particulars	Qadir	Rishab	Sapna	Particulars	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 Bank	–	–	6,00,000
				By Premium for Goodwill	18,000	12,000	–
				By Workmen's Compensation Reserve	12,000	8,000	–
				By Revaluation	72,000	48,000	–
Total	12,42,000	7,68,000	6,00,000	Total	12,42,000	7,68,000	6,00,000

Step 4: Prepare the reconstituted firm's Balance Sheet Creditors are Rs $1,00,000 + 30,000 = 1,30,000$. Debtors remain at their net book value of Rs 5,80,000; neither the gross debtors nor their existing provision changes.

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

Liabilities	Amount (Rs)	Assets	Amount (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	
Total capital	26,10,000	Less: Provision 20,000	5,80,000
Creditors	1,30,000	Bank	7,30,000
Workmen's Compensation Claim	40,000		
Total	27,80,000	Total	27,80,000

The capital subtotal is a summary of the three balances, not an additional liability.

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

Quick Tip to Solve: Split the compensation reserve first: retain Rs 40,000 for the claim and distribute only Rs 20,000. Allocate goodwill by sacrifice, while revaluation and reserve use the old ratio.

OR

17. 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:

- Revaluation profit and accumulated losses are transferred to all partners in the old profit-sharing ratio, because they relate to the period before retirement.
- The retiring partner's share of goodwill is borne by the continuing partners in their gaining ratio. Goodwill is adjusted through capital accounts without raising a goodwill asset.
- The final amount due to a retiring partner is transferred from the capital account to a loan account when immediate payment is not required.

Step 1: Working Notes: determine goodwill and gaining ratio The debit balance of Profit and Loss Account, Rs 20,000, represents the loss for 2015–16, the third completed year preceding retirement. Hence average profit and goodwill are:

$$\text{Average profit} = \frac{1,00,000 + 1,30,000 - 20,000}{3} = \text{Rs } 70,000,$$

$$\text{Firm's goodwill} = 70,000 \times 2 = \text{Rs } 1,40,000,$$

$$\text{Kanika's share} = 1,40,000 \times \frac{2}{4} = \text{Rs } 70,000.$$

No new ratio is specified, so Disha and Kabir continue in their existing relative ratio, $1 : 1$. Each gains $1/2 - 1/4 = 1/4$; the gaining ratio is $1 : 1$. Debit their capitals by Rs 35,000 each and credit Kanika's capital by Rs 70,000.

Write off the debit Profit and Loss balance in the old ratio $2:1:1$: Kanika Rs 10,000, Disha Rs 5,000 and Kabir Rs 5,000. It cannot remain as an asset of the reconstituted firm. Employees' Provident Fund is an outside liability and is retained in full, rather than distributed as a reserve.

Step 2: Prepare Revaluation Account Fixed assets rise by Rs $3,00,000 - 2,40,000 = 60,000$. Revised stock is Rs $1,00,000 \times 120/100 = 1,20,000$, an increase of Rs 20,000. Thus the total revaluation profit is Rs 80,000, shared in $2:1:1$.

Revaluation Account

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

Step 3: Prepare partners' Capital Accounts and transfer Kanika's dues Kanika's final entitlement is Rs $2,00,000 + 40,000 + 70,000 - 10,000 = 3,00,000$. Debit her capital and credit her loan account for this amount. No bank payment occurs. Disha's capital is Rs $1,00,000 + 20,000 - 5,000 - 35,000 = 80,000$; Kabir's is Rs $80,000 + 20,000 - 5,000 - 35,000 = 60,000$.

Partners' Capital Accounts (all amounts in Rs)

Dr.				Cr.			
Particulars	Kanika	Disha	Kabir	Particulars	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

Step 4: Prepare the Balance Sheet after retirement Carry forward revised fixed assets and stock, unchanged bank and debtors, outside liabilities, Kanika's loan and the continuing partners' closing capitals. Goodwill is not shown because its adjustment has already been completed through capitals.

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

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

The capital subtotal is a summary of Disha's and Kabir's balances and is counted only once.

Step 5: Conclusion Revaluation profit is Rs 80,000 and goodwill of the firm is Rs 1,40,000. Kanika's loan is Rs 3,00,000. Disha's and Kabir's closing capitals are Rs 80,000 and Rs 60,000; the Balance Sheet totals Rs 5,40,000.

Quick Tip to Solve: Include the Rs 20,000 debit Profit and Loss balance as a loss in the three-year average, and also write it off against old partners' capitals. These are two different uses of the same loss.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

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

Solution:

Concept:

- Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash.
- Such investments must be subject to an insignificant risk of changes in value and be held to meet short-term cash commitments.

Step 1: Identify the liquidity requirement An investment is a cash equivalent only if it can be converted readily into a known cash amount. Merely being saleable is insufficient, since the amount realised must also be sufficiently certain.

Step 2: Apply the short-term and risk conditions Its value must carry insignificant risk of change. An investment normally qualifies when its maturity is three months or less from the date of acquisition; the short maturity helps preserve the certainty of the cash amount.

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: Recall three tests together: short maturity, ready conversion into known cash, and insignificant value risk.

19. Give any one example of an activity, which is an investing activity for every type of enterprise. [1 mark]

Solution:

Concept:

- Investing activities include cash paid to acquire long-term assets and cash received from their disposal.
- A fixed asset used by an enterprise provides benefits over several periods, so acquiring it is distinct from its ordinary revenue-producing operations.

Step 1: Choose an acquisition of a fixed asset Consider the cash purchase of machinery for the enterprise's own use. The payment acquires a long-term productive asset rather than goods bought for resale.

Step 2: Classify the cash payment The payment is an investing cash outflow for every type of enterprise because it represents acquisition of a fixed asset. Specifying machinery for own use avoids confusing the purchase with machinery held as trading inventory.

Step 3: Conclusion Cash payment to purchase machinery for the enterprise's own use is an example of an investing activity for every type of enterprise.

Quick Tip to Solve: For an example valid for every enterprise, select a cash purchase of a fixed asset for its own use.

20. 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. Revenue from operations is taken as 100%.
- Common size percentage $= \dfrac{\text{Amount of the item}}{\text{Revenue from operations}} \times 100$. Income tax is first computed on profit before tax, not on revenue.

Step 1: Calculate total revenue and profit before tax **Working Notes:** Add other income to revenue from operations, then deduct expenses to obtain profit before tax (PBT). All amounts below are in Rs.

$$\begin{aligned} \text{2015–16 total revenue} &= 30,00,000 + 3,60,000 = 33,60,000, \\ \text{2015–16 PBT} &= 33,60,000 - 12,00,000 = 21,60,000, \\ \text{2014–15 total revenue} &= 20,00,000 + 4,00,000 = 24,00,000, \\ \text{2014–15 PBT} &= 24,00,000 - 10,00,000 = 14,00,000. \end{aligned}$$

Step 2: Determine tax expense and profit after tax Apply the printed tax rate to each year's PBT. Profit after tax (PAT) is PBT less the resulting tax expense.

$$\begin{aligned} \text{2015–16 tax} &= 21,60,000 \times 50\% = 10,80,000, \\ \text{2015–16 PAT} &= 21,60,000 - 10,80,000 = 10,80,000, \\ \text{2014–15 tax} &= 14,00,000 \times 40\% = 5,60,000, \\ \text{2014–15 PAT} &= 14,00,000 - 5,60,000 = 8,40,000. \end{aligned}$$

Step 3: Express every item on the revenue base Divide 2015–16 amounts by Rs 30,00,000 and 2014–15 amounts by Rs 20,00,000. For example, other income is $3,60,000/30,00,000 \times 100 = 12\%$ and $4,00,000/20,00,000 \times 100 = 20\%$, respectively. The tax percentages in this statement are 36% and 28% of revenue from operations; they differ from the given tax rates on PBT.

Sun Ltd.

Common Size Statement of Profit and Loss
for the years ended 31st March, 2016 and 2015

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

Step 4: Conclusion With revenue from operations as 100%, profit before tax is 72% in 2015–16 and 70% in 2014–15. Profit after tax is Rs 10,80,000 (36%) and Rs 8,40,000 (42%), respectively, as shown in the common size statement.

Quick Tip to Solve: Calculate income tax on PBT first, then convert the tax amount to a percentage of revenue from operations for the common size column.

21. (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 under major heads and sub-heads. The nature of an item determines its classification; receipt of cash alone does not establish that income has been earned.
- Income received before it is earned is an obligation, whereas a capital advance is an amount paid towards acquiring a capital asset.
- Financial statement analysis interprets recorded financial information. Its usefulness is limited by the measurement basis of the statements and by information that accounting does not record.

Step 1: (a) Classify the two items The required classification in the company's Balance Sheet is as follows:

Item	Major head	Sub-head
Income received in advance	Current Liabilities	Other Current Liabilities
Capital Advances	Non-current Assets	Long-term Loans and Advances

Income received in advance remains a liability because the related service or benefit is still to be provided. Capital advances relate to the acquisition of long-term assets and therefore belong to non-current assets under the prescribed sub-head.

Step 2: (b) Explain the historical-cost limitation **Ignores changes in the price level.** Financial statements generally record transactions at historical cost and do not adjust all amounts for changes

in purchasing power. Consequently, comparisons across years may combine amounts measured at different price levels. An increase in reported sales or profit may partly reflect inflation instead of a real improvement in performance.

Step 3: (b) Explain the qualitative-information limitation **Ignores qualitative aspects.** Analysis is mainly based on information expressed in monetary terms. Important influences such as employee skill, management efficiency, customer loyalty and product quality are not fully captured in financial statements. Thus, numerical results alone cannot give a complete assessment of the company's strengths and future prospects.

Step 4: Conclusion (a) Income received in advance: **Current Liabilities—Other Current Liabilities**; Capital Advances: **Non-current Assets—Long-term Loans and Advances**. (b) Two limitations are that analysis **ignores price-level changes** and **does not capture qualitative factors fully**.

Quick Tip to Solve: Ask whether an advance is received or paid: unearned income received creates a liability, while an advance paid for a capital asset is a non-current asset.

22. (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 ability to meet interest charges: Interest coverage ratio = Profit before interest and tax/Interest on debt.
- If t is the income-tax rate as a decimal, profit after tax equals profit before tax multiplied by $(1-t)$. Add interest to profit before tax to obtain profit before interest and tax.
- Inventory turnover ratio equals cost of revenue from operations divided by average inventory. Average inventory is half the sum of opening and closing inventories; cost includes direct expenses but excludes indirect selling and office expenses.

Step 1: (a) Recover profit before tax and calculate interest Profit after interest and tax is Rs 1,20,000. Since income tax is 40%, this profit 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 10% debentures is

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

The profit before tax still has interest deducted. Therefore, add it back to obtain the earnings available

to cover interest.

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

Step 2: (a) Apply the interest coverage formula

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

Thus, earnings before interest and tax cover the annual interest charge twenty-one times. Using profit after tax directly in the numerator would understate the coverage.

Step 3: (b) Calculate cost of revenue from operations Returns outwards are purchase returns and reduce purchases. Wages and carriage inwards are direct expenses associated with bringing goods into saleable condition.

$$\text{Net purchases} = 80,000 - 1,000 = \text{Rs } 79,000.$$

$$\begin{aligned}\text{Cost of revenue from operations} &= \text{Opening inventory} + \text{Net purchases} \\ &\quad + \text{Direct expenses} - \text{Closing inventory} \\ &= 20,000 + 79,000 + 9,000 + 4,000 - 22,000 \\ &= \text{Rs } 90,000.\end{aligned}$$

Carriage outwards of Rs 2,000 is a selling expense. Rent of Rs 5,000, with no factory designation, is treated as an indirect expense. Neither is included in this cost calculation. Revenue from operations of Rs 80,000 is the selling value and is not the numerator of this ratio; the stated figures imply a gross loss, which does not change the formula.

Step 4: (b) Find average inventory and its turnover

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

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

The average inventory is used because the cost of goods sold relates to the entire accounting period, whereas closing inventory is only an end-of-period balance.

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

Quick Tip to Solve: First divide after-tax profit by 0.60, then add interest. For inventory turnover, deduct purchase returns and include carriage inwards, but exclude carriage outwards.

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

Particulars	31st March 2015 (Rs)	31st March 2014 (Rs)
Investments in Shares of Janex Ltd.	15,00,000	5,00,000
9% Long term Investments	1,50,000	5,00,000
Plant and Machinery	4,00,000	3,00,000
Goodwill	4,20,000	2,40,000

Additional information :

(i) 9% dividend was received from Janex Ltd.

(ii) A machine costing Rs 30,000 (depreciation provided thereon Rs 5,000) was sold for Rs 40,000. Depreciation charged during the year was Rs 5,000. [6 marks]

Solution:

Concept:

- Investing activities comprise the acquisition and disposal of long-term assets and investments. Purchases are cash outflows and sale proceeds are cash inflows.
- For a non-financial enterprise, interest and dividends received are investing inflows. Depreciation is a non-cash expense and must not appear as an investing payment.
- Reconstruct machinery purchases from opening and closing carrying amounts, the carrying amount of the asset sold and the current year's depreciation; the sale proceeds are reported separately.

Step 1: Prepare working notes for investments and goodwill **Working Notes** The increase in shares of Janex Ltd. represents the cash purchase of additional shares, as no sale or non-cash acquisition is stated:

$$\text{Shares purchased} = 15,00,000 - 5,00,000 = \text{Rs } 10,00,000.$$

The decrease in long-term investments represents proceeds from their sale at book value, since no profit or loss on sale is given:

$$\text{Investments sold} = 5,00,000 - 1,50,000 = \text{Rs } 3,50,000.$$

Similarly, the increase in goodwill is a purchase and therefore a cash outflow:

$$\text{Goodwill purchased} = 4,20,000 - 2,40,000 = \text{Rs } 1,80,000.$$

Step 2: Calculate machinery purchases and sale proceeds The machine sold had a carrying amount of Rs $30,000 - 5,000 = 25,000$. Its sale proceeds are Rs 40,000, giving a profit of Rs 15,000. The whole proceeds, rather than just this profit, form the investing inflow. Let P be the cash purchase of machinery. The carrying-amount reconciliation is:

$$\begin{aligned} 4,00,000 &= 3,00,000 + P - 25,000 - 5,000, \\ P &= 4,00,000 - 3,00,000 + 25,000 + 5,000 \\ &= \text{Rs } 1,30,000. \end{aligned}$$

The Rs 5,000 accumulated depreciation on the disposed machine reduces its cost to its carrying

amount. The separate Rs 5,000 depreciation charged during the year reduces the remaining carrying amount; it is not a cash payment.

Step 3: Calculate the investment income received In the absence of transaction dates, use the opening investment balances for the annual income calculation:

$$\text{Dividend received} = 5,00,000 \times \frac{9}{100} = \text{Rs } 45,000,$$
$$\text{Interest received} = 5,00,000 \times \frac{9}{100} = \text{Rs } 45,000.$$

No outstanding interest is given, so the annual interest on the 9% long-term investments is treated as received. Both receipts are classified under investing activities.

Step 4: Prepare the cash flow statement extract **Cash Flow Statement (Extract)**
For the year ended 31st March, 2015

Particulars	Amount (Rs)
Cash flows from investing activities	
Sale of 9% long-term investments	3,50,000
Sale of plant and machinery	40,000
Dividend received	45,000
Interest received	45,000
Total investing cash inflows	4,80,000
Purchase of shares of Janex Ltd.	(10,00,000)
Purchase of plant and machinery	(1,30,000)
Purchase of goodwill	(1,80,000)
Total investing cash outflows	(13,10,000)
Net cash used in investing activities	**(8,30,000)**

Parentheses indicate cash outflows. The net cash flow equals total inflows less total outflows; the machinery-sale profit is not added again because it is already included in the Rs 40,000 proceeds.

Step 5: Conclusion Net cash flow from investing activities is $\boxed{\text{Rs } (8,30,000)}$, i.e. a net cash outflow of Rs 8,30,000.

Quick Tip to Solve: Reconstruct machinery purchases using the sold asset's carrying amount of Rs 25,000; show its full Rs 40,000 sale proceeds separately as an inflow.

Option – II (Computerized Accounting)

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

Solution:

Concept:

- A database stores related records in tables; users often need only selected information from those records.
- A query specifies the fields and selection criteria needed to retrieve that information.

Step 1: Identify the information requested The user specifies which fields to display and which conditions the records must satisfy. For example, a query can request the names and balances of

debtors whose balances exceed Rs 10,000.

Step 2: State the facility provided The query retrieves the required information from one or more database tables and presents the matching records. It avoids the need to examine every stored record manually.

Step 3: Conclusion A query provides the facility to retrieve specific information from a database according to stated criteria.

Quick Tip to Solve: Link "query" with a specific request: choose fields, set criteria and retrieve the matching records.

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

Solution:

Concept:

- Coding assigns a short identifier to an account or other accounting item for systematic recording and retrieval.
- Under block coding, a separate range of consecutive code numbers is reserved for each broad category.

Step 1: Identify the category block A block of numbers is allotted to a main group of accounts. For example, codes 100–199 may be reserved for assets and codes 200–299 for liabilities.

Step 2: Assign a code within the block Each individual account receives a number within its category's reserved range. Thus cash might receive code 101 and bank code 102, both within the asset block. The range helps identify the account's broad classification.

Step 3: Conclusion A block code is a coding system in which a range or block of consecutive numbers is reserved for a category and individual items are assigned codes within that block.

Quick Tip to Solve: Remember the two levels: reserve a number range for the group, then allot a number from that range to each item.

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

Solution:

Concept:

- Sourcing accounting software means selecting and obtaining a package suited to the accounting requirements of the organisation.
- Generic considerations are broad factors used to evaluate a package before acquisition. Two such factors are flexibility and the cost of installation and maintenance.

Step 1: Explain flexibility **Flexibility:** The software should permit changes according to the needs of the business and its users. For example, it should allow a suitable chart of accounts to be created, accounting heads to be added and reports to be adapted to management's information needs. It should

also accommodate growth in the volume of transactions and changes in business requirements. A package that is too rigid may force the organisation to change its accounting procedures unnecessarily or replace the software as the business expands. Therefore, the buyer should check whether the package can be adapted conveniently while retaining proper accounting controls.

Step 2: Explain installation and maintenance cost **Cost of installation and maintenance:** The organisation should consider the total expenditure required to acquire, put into use and maintain the software. The initial cost includes the software price and, where necessary, compatible hardware, installation, data conversion and training of employees. Recurring costs can include technical support, updates and maintenance. A low purchase price alone does not make a package economical if implementation or continuing support is expensive. The expected benefits, such as faster processing and timely reports, should therefore justify the total cost within the organisation's resources.

Step 3: Conclusion Two generic considerations are **flexibility**, so that the package can meet changing accounting needs, and **cost of installation and maintenance**, so that its total cost is justified by the benefits and is affordable.

Quick Tip to Solve: For each consideration, give its name, explain what the buyer should check and connect it to a business need; do not merely list software features.

21. 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 define, create, store, retrieve and manage data in a database.
- A DBMS provides organised control over shared data. Its advantages include reduced redundancy, improved consistency and controlled sharing of data.

Step 1: Name two DBMS software packages Two commonly available DBMS software packages are **Microsoft Access** and **Oracle Database**. Each provides facilities to maintain related data in a database and retrieve the required information through queries.

Step 2: Explain reduced data redundancy **Reduced data redundancy:** In separate file systems, the same fact may be stored repeatedly in different files. A DBMS allows related applications to use a common database, thereby controlling unnecessary duplication. For example, a customer's address can be maintained in the customer record and referred to when preparing invoices, instead of being separately entered in every application's customer file. This saves storage and reduces repeated data entry.

Step 3: Explain improved data consistency **Improved data consistency:** When multiple copies of the same fact are maintained independently, one may be updated while another remains unchanged. By controlling redundancy and updating the common record, a DBMS reduces such contradictions. For example, correcting a customer's address in the shared customer record makes the updated address available to applications using that record. Reports based on the common data are consequently more

consistent.

Step 4: Explain data sharing **Data sharing:** Authorised users and applications can access the same database according to their requirements and access permissions. For example, the sales department can use customer details to prepare an invoice while the accounts department uses the related information to monitor receivables. The DBMS controls access and concurrent operations so that shared data can be used in a coordinated manner without maintaining a separate database for each department.

Step 5: Conclusion **Microsoft Access and Oracle Database** are two DBMS packages. Three advantages of a DBMS are **reduced data redundancy, improved data consistency and data sharing**.

Quick Tip to Solve: Keep the three advantages distinct: redundancy concerns duplicate storage, consistency concerns agreement of values, and sharing concerns authorised access to common data.

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

Solution:

Concept:

- A computerised accounting system records and processes accounting data using accounting software and a computer database.
- Its advantages arise from rapid, consistent processing; its limitations arise from the cost of operating the system and dependence on electronic records and equipment.

Step 1: State the advantage of speed A computerised accounting system processes a large number of transactions quickly. Once a transaction is entered, the software can post it to the relevant accounts, update balances and generate reports without repeating the same manual work. Trial balances and financial statements can therefore be prepared promptly when required.

Step 2: State the advantage of accuracy Calculations such as additions, ledger totals and balances are performed automatically according to the programmed instructions. This reduces arithmetic and posting errors associated with repeated manual processing. Accuracy nevertheless depends on entering correct data and using appropriate accounting rules: the computer does not make an incorrect input correct merely by processing it.

Step 3: State the limitation of cost Installing and operating the system involves expenditure on computers, accounting software, maintenance and upgrades. Employees also need training to use the software correctly. These initial and recurring costs may be substantial, especially for a small organisation with limited resources.

Step 4: State the limitation of data vulnerability Electronic accounting records can be lost or damaged through hardware failure, viruses or accidental deletion, and may be accessed or altered by unauthorised persons. Such incidents can interrupt accounting work and compromise the reliability or confidentiality of records. Regular backups, access controls and security measures are therefore necessary.

Step 5: Conclusion The two advantages are speed and accuracy. The two limitations are installation and operating cost, and vulnerability of electronic accounting data.

Quick Tip to Solve: Give two distinct benefits and two distinct limitations; qualify accuracy by linking it to correct input and suitable programmed rules.

23. Identify the error which appears when there are invalid numeric values in a formula for function. How this error can be removed ? [6 marks]

Solution:

Concept:

- A spreadsheet displays an error value when a formula cannot produce a valid result. The error code identifies the kind of problem to investigate.
- The `#NUM!` error indicates an invalid numeric argument or a numerical result that the spreadsheet cannot calculate or represent.
- A function's arguments must satisfy its mathematical requirements. Correcting an error means correcting the data, argument or calculation that causes it.

Step 1: Identify the numeric error The error described in the question is `#NUM!`. It appears when a formula or function contains an invalid numeric value, or when the attempted numerical calculation cannot produce an acceptable result. A number can be entered correctly as a number and still be unsuitable for the particular function: its sign, size or value may violate that function's requirements.

Step 2: Check the function's numerical arguments Inspect the formula and its referenced cells. Check that each numerical argument is within the range permitted by the function, that its sign is appropriate and that the arguments have been entered in the correct positions. Correct the erroneous source value or use a function appropriate to the intended calculation. Do not change a valid business figure solely to suppress the error.

For example, `=SQRT(-9)` produces `#NUM!` because the ordinary square-root function does not return the square root of a negative number as a real value. If the intended input was positive nine and the minus sign was entered accidentally, correcting the formula to `=SQRT(9)` gives 3. This removes the error by correcting its actual cause.

Step 3: Check the size of the calculated result The same error may occur when a calculation produces a number outside the spreadsheet's supported numerical range. Check large powers, products and any incorrect magnitude or unit in the input cells. Correct the formula or the input values as required. If the intended calculation genuinely involves extreme magnitudes, reformulate or scale the calculation consistently so that its intermediate values and result stay within the supported range.

Step 4: Check convergence in an iterative function Some functions, such as `IRR` and `RATE`, search repeatedly for a numerical result and may return `#NUM!` when they cannot find one. Check the underlying data and supply a more suitable initial guess where the function permits it. For example, an `IRR` calculation requires at least one positive and one negative cash flow. Where applicable, suitable iteration settings can also be used, but increasing the number of iterations cannot correct invalid data or create a solution that does not exist. Recalculate after correcting the cause and check whether the result is reasonable.

Step 5: Conclusion The error is `#NUM!`. Remove it by correcting invalid numerical arguments, keeping calculations within the supported numeric range, and correcting data or convergence conditions where an iterative function is involved.

Quick Tip to Solve: For `#NUM!`, first check the number's allowed sign and range. A wrong type of argument, such as unsuitable text where a number is required, generally points instead to `#VALUE!`.