CBSE Class 12 Accountancy Question Paper 2018 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. Aman, Yatin and Uma were partners and were sharing profits and losses in the ratio of 5 : 3 : 2. Uma retired and her share was taken over by Aman and Yatin 5 : 3 in ratio. Calculate the gaining ratio of Aman and Yatin. [1 mark]

Solution:

Concept:

- A partner's gain is the additional share of profit acquired from the retiring partner: gaining share = new share minus old share.
- The gaining ratio compares only these additional shares, in the order of the continuing partners named.

Step 1: Identify Uma's share The old profit-sharing ratio is $5 : 3 : 2$, so Uma's retiring share is $2/10$. This entire share is taken over by Aman and Yatin in the stated ratio $5 : 3$.

Step 2: Compare the shares acquired

$$\text{Aman's gain} = \frac{2}{10} \times \frac{5}{8} = \frac{1}{8},$$
$$\text{Yatin's gain} = \frac{2}{10} \times \frac{3}{8} = \frac{3}{40}.$$

The common factor $2/10$ cancels when comparing these gains; the ratio of shares acquired is therefore the ratio already specified in the question.

Step 3: Conclusion The gaining ratio of Aman and Yatin is $\boxed{5 : 3}$.

Quick Tip to Solve: When the ratio in which the retiring share is taken over is given, use it directly as the gaining ratio.

2. Give the journal entry for the treatment of partner's loan appearing on the asset side of the Balance Sheet, on dissolution of a partnership firm. [1 mark]

Solution:

Concept:

- A partner's loan shown on the asset side is money owed by that partner to the firm; it is a debit balance.
- On dissolution this balance is transferred to the concerned partner's Capital Account, rather than to the Realisation Account.

Step 1: Identify the accounts affected The loan asset must be closed by crediting the Partner's Loan Account. The amount recoverable from the partner reduces the amount payable on that partner's capital, so the concerned Partner's Capital Account is debited. Let the outstanding loan be Rs L, since the question gives no amount.

Step 2: Record the transfer entry **Journal of the partnership firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Partner's Capital A/c Dr. To Partner's Loan A/c (Being loan due from the partner transferred to the concerned partner's capital account on dissolution)		L	L

Step 3: Conclusion Debit the concerned Partner's Capital Account and credit that Partner's Loan Account with the outstanding loan amount.

Quick Tip to Solve: Check which side shows the loan: an asset-side partner's loan is due from the partner and is transferred to capital.

3. What is meant by 'Private Placement of Shares' ? [1 mark]

Solution:

Concept:

- A company may raise share capital by offering its shares to investors who agree to subscribe for them.
- Private placement is distinguished by an offer to a selected group of persons instead of an invitation to the general public.

Step 1: Identify the intended subscribers In a private placement, the company identifies a selected group of investors, such as financial institutions or other chosen persons, to whom it offers its shares. The offer is directed to those selected persons.

Step 2: State the method of issue Shares are offered and allotted through this private arrangement. An invitation to the public at large to subscribe would instead be a public issue, so the identity of the persons addressed is the key distinction.

Step 3: Conclusion Private placement of shares means the issue of shares by a company to a selected group of persons, rather than to the general public.

Quick Tip to Solve: In a definition of private placement, include both the selected group of investors and the absence of a public offer.

4. In which ratio do the remaining partners acquire the share of the deceased partner ? [1 mark]

Solution:

Concept:

- On a partner's death, the continuing partners acquire the deceased partner's share of future profits.
- For each continuing partner, gaining share = new profit share minus old profit share. The ratio of these increases is called the gaining ratio.

Step 1: Identify the share transferred The deceased partner ceases to participate in future profits. The

share formerly belonging to that partner is taken over by the remaining partners, thereby increasing their shares.

Step 2: Name the ratio of acquisition Compare the additional shares acquired by the remaining partners. This comparison is their gaining ratio. If they make no different arrangement and continue to share in their old relative proportion, their gaining ratio is that same relative proportion.

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

Quick Tip to Solve: Link acquisition of a retiring or deceased partner's share with gaining ratio; sacrifice concerns a share given up.

5. Give two items which may appear on the debit side of a Partner's Current Account. [1 mark]

Solution:

Concept:

- Under the fixed capital method, routine adjustments relating to a partner are recorded in a separate Current Account.
- Items that reduce the partner's balance, such as withdrawals and charges to that partner, are debited to the Current Account.

Step 1: Identify withdrawals by the partner **Drawings** are debited to the Partner's Current Account because cash or goods withdrawn for personal use reduce the amount due to the partner from the firm.

Step 2: Identify the charge on withdrawals **Interest on drawings** is also debited to the Partner's Current Account. It is a charge payable by the partner to the firm for using the firm's funds personally and therefore reduces that partner's balance further.

Step 3: Conclusion Two items on the debit side of a Partner's Current Account are **drawings** and **interest on drawings**.

Quick Tip to Solve: To choose debit items, look for amounts withdrawn by or charged to the partner; drawings and their interest both qualify.

6. Vinay and Naman are partners sharing profit in the ratio of 4:1. Their capitals were Rs 90,000 and Rs 70,000 respectively. They admitted Prateek for 1/3 share in the profits. Prateek brought Rs 1,00,000 as his capital. Calculate the value of firm's goodwill. [1 mark]

Solution:

Concept:

- When an incoming partner's capital and profit share are given, the total capital implied by that contribution equals the incoming capital divided by the incoming share.
- Hidden goodwill is the excess of this implied total capital over the aggregate actual capitals of all

partners after admission.

Step 1: Calculate the implied total capital **Working Notes:** Prateek contributes Rs 1,00,000 for a $1/3$ share. On this capital basis, the total capital represented by the whole firm is

$$\text{Implied total capital} = \frac{\text{Rs } 1,00,000}{1/3} = \text{Rs } 3,00,000.$$

Step 2: Compare with the actual combined capital Include Prateek's contribution along with the existing partners' capitals:

$$\begin{aligned}\text{Actual total capital} &= 90,000 + 70,000 + 1,00,000 \\ &= \text{Rs } 2,60,000.\end{aligned}$$

The difference between Rs 3,00,000 and Rs 2,60,000 represents the firm's hidden goodwill. The old ratio $4:1$ is not needed to value the total goodwill.

Step 3: Conclusion The firm's goodwill is $\text{Rs } 3,00,000 - \text{Rs } 2,60,000 = \boxed{\text{Rs } 40,000}$.

Quick Tip to Solve: In hidden-goodwill questions, include the incoming partner's capital in actual total capital before taking the difference.

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7. Navnirman Ltd. issued 4,00,000 equity shares of Rs 10 each at par. The amount per share was payable as follows :

Rs 3 on application; Rs 2 on allotment; Rs 2 on first call and Rs 3 on final call. The issue was fully subscribed and the shares were allotted fully to all the applicants. All calls were made. Mahi, a shareholder holding 6,000 shares paid the final call money along with the first call. Shrey holding 700 shares did not pay the first call on the due date. Shrey paid the first call along with the final call. The accountant of the company had correctly passed the entries till receipt of allotment money. After that the following entries were left incomplete by him. Complete these entries.

Journal of Navnirman Ltd.

Date	Particulars	F	Dr. (Rs)	Cr. (Rs)
	Equity Share first call A/c. Dr. To ..... (Being first call due on 4,00,000 shares @ Rs 2 per share)		8,00,000	8,00,000
	Bank A/c Dr. ..... Dr. To Equity Share first call A/c To ..... (.....)		....	....
	Equity Share second and final call A/c. Dr. To Equity Share Capital A/c (Being final call due on 4,00,000 shares @ Rs 3 per share)		.....	.....
	Bank A/c. Dr. ..... Dr. To Equity Share second and final call A/c. To ..... (.....)		....	....

[3 marks]

Solution:

Concept:

- A call becoming due is debited to the relevant Share Call Account and credited to Share Capital. Each call is calculated on all 4,00,000 allotted shares.
- Calls in Arrears records money due but unpaid. Calls in Advance records money received before the corresponding call is due; it is adjusted when that call is collected.

Step 1: Prepare the working notes for call receipts **Working Notes**

First call due is $4,00,000 \times \text{Rs } 2 = \text{Rs } 8,00,000$. Shrey's unpaid first call is $700 \times \text{Rs } 2 = \text{Rs } 1,400$, while Mahi pays $6,000 \times \text{Rs } 3 = \text{Rs } 18,000$ in advance for the final call. Thus the first-call bank receipt is

$$\text{Rs } 8,00,000 - \text{Rs } 1,400 + \text{Rs } 18,000 = \text{Rs } 8,16,600.$$

Final call due is $4,00,000 \times \text{Rs } 3 = \text{Rs } 12,00,000$. Mahi's advance is now adjusted, and Shrey's first-call arrears are collected. The final bank receipt is therefore

$$\text{Rs } 12,00,000 - \text{Rs } 18,000 + \text{Rs } 1,400 = \text{Rs } 11,83,400.$$

Step 2: Complete the first-call entries **Journal of Navnirman Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call due on 4,00,000 shares at Rs 2 per share)		8,00,000	 8,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call received except on Shrey's 700 shares, with final call on Mahi's 6,000 shares received in advance)		8,16,600 1,400	 8,00,000 18,000

Step 3: Complete the final-call entries **Journal of Navnirman Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Being final call due on 4,00,000 shares at Rs 3 per share)		12,00,000	 12,00,000
	Bank A/c Dr. Calls in Advance A/c Dr. To Equity Share Second and Final Call A/c To Calls in Arrears A/c (Being final call received after adjusting Mahi's advance and collecting Shrey's first-call arrears)		11,83,400 18,000	 12,00,000 1,400

Debits and credits in the first receipt entry each total Rs 8,18,000; those in the final receipt entry each total Rs 12,01,400. Both the advance and arrears balances are cleared.

Step 4: Conclusion The first-call and final-call bank receipts are Rs 8,16,600 and Rs 11,83,400

respectively. Calls in Arrears of Rs 1,400 and Calls in Advance of Rs 18,000 arise at the first call and are both cleared with the final call.

Quick Tip to Solve: For the first receipt, subtract arrears and add advances; at the final receipt, reverse these adjustments because the arrears are collected and the advance is used.

8. Ajay, Bhawna and Shreya were partners sharing profits in the ratio 2:2:1. On July 1, 2017 Shreya died. The books of accounts are closed on March 31 every year. Sales for the year 2016-17 amounted to Rs 5,00,000 and that from 1st April to 30th June 2017 were Rs 1,40,000. The rate of profit during the past three years had been 10% on sales. Since Shreya's legal representative was her only son, who is specially abled, it was decided that the profit for the purpose of settling Shreya's account is to be calculated as 20% on sales. [3 marks]

8(a). Calculate Shreya's share of profits till the date of her death and pass necessary a journal entry for the same.

Solution:

Concept:

- A deceased partner is entitled to the profit earned from the last accounting date up to death, calculated on the basis agreed by the partners.
- On the sales basis, estimated profit equals sales up to death multiplied by the agreed profit rate; the deceased partner receives her old profit-sharing fraction.

Step 1: Calculate the profit up to death The relevant sales are those from 1st April to 30th June 2017, Rs 1,40,000. Use the specially agreed rate of 20%, rather than the earlier rate of 10%. Thus, estimated profit for this period is

$$1,40,000 \times \frac{20}{100} = \text{Rs } 28,000.$$

Shreya's share in the ratio $2:2:1$ is $1/5$, giving

$$28,000 \times \frac{1}{5} = \text{Rs } 5,600.$$

No further time fraction is needed because the sales already relate to the period up to death.

Step 2: Record the accrued share The share is credited to Shreya's Capital Account and debited to Profit and Loss Suspense Account, since the annual profit has not yet been ascertained.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2017 July 1	Profit and Loss Suspense A/c Dr. To Shreya's Capital A/c (Being Shreya's share of profit up to her death credited to her capital account)		5,600	5,600

Step 3: Conclusion Shreya's share of profit is $\boxed{\text{Rs } 5,600}$. Debit Profit and Loss Suspense A/c and credit Shreya's Capital A/c by Rs 5,600 each.

Quick Tip to Solve: Use the agreed 20% rate on the actual three-month sales; do not multiply the resulting profit by 3/12 again.

8(b). Also, state the value highlighted in the above para.

Solution:

Concept:

- A value-based answer should identify the ethical quality shown by the partners and connect it directly to their decision.
- Compassion and social responsibility mean responding sensitively to the needs of a dependent person, especially one facing additional challenges.

Step 1: Identify the partners' consideration Shreya's only legal representative is her son, who is specially abled. The surviving partners take his circumstances into account when deciding the basis for settling Shreya's account. Their decision shows concern for his welfare and a willingness to provide additional financial support.

Step 2: Connect the decision with the value The earlier profit rate was 10% of sales, but the partners agree to calculate the profit for settlement at 20%. This increases the amount credited to Shreya's account and ultimately benefits her legal representative. The voluntary generosity demonstrates compassion, empathy and social responsibility towards a specially abled person.

Step 3: Conclusion The value highlighted is **compassion and social responsibility towards specially abled persons**, shown through additional financial support for Shreya's son.

Quick Tip to Solve: Link the named value to the increase from 10% to 20% and its benefit to Shreya's specially abled son.

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9. Amit and Kartik are partners sharing profits and losses equally. They decided to admit Saurabh for an equal share in the profits. For this purpose the goodwill of the firm was to be valued at four years' purchase of super profits.
The Balance Sheet of the firm on Saurabh's admission was as follows :

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals :		Machinery	75,000
Amit 90,000		Furniture	15,000
Kartik 50,000	1,40,000	Stock	30,000
Reserve	20,000	Sundry Debtors	20,000
Loan	25,000	Cash	50,000
Sundry Creditors	5,000		
	1,90,000		1,90,000

The normal rate of return is 12% per annum. Average profit of the firm for the last four years was Rs 30,000. Calculate Saurabh's share of goodwill. [3 marks]

Solution:

Concept:

- Super profit is the excess of average maintainable profit over normal profit. Normal profit equals capital employed multiplied by the normal rate of return.

- Under the super-profits method, goodwill equals super profit multiplied by the agreed years' purchase. An incoming partner's share equals the firm's goodwill multiplied by that partner's new profit share.

Step 1: Determine the capital employed **Working Notes**

Capital employed is the net assets financed by the partners. The total assets are Rs 1,90,000. The loan of Rs 25,000 and sundry creditors of Rs 5,000 are outside liabilities, so deduct both:

$$\begin{aligned}\text{Capital employed} &= \text{Total assets} - \text{Outside liabilities}\\ &= \text{Rs } 1,90,000 - (\text{Rs } 25,000 + \text{Rs } 5,000)\\ &= \text{Rs } 1,60,000.\end{aligned}$$

This agrees with partners' capitals plus reserve: Rs 90,000 + Rs 50,000 + Rs 20,000 = Rs 1,60,000. Reserve belongs to the partners and is included, whereas the loan does not form part of their net capital employed.

Step 2: Compute normal profit and super profit Apply the normal rate of 12% to the capital employed, then deduct normal profit from the given average profit:

$$\begin{aligned}\text{Normal profit} &= \text{Rs } 1,60,000 \times \frac{12}{100} = \text{Rs } 19,200,\\ \text{Super profit} &= \text{Rs } 30,000 - \text{Rs } 19,200 = \text{Rs } 10,800.\end{aligned}$$

The four-year average profit is already given as Rs 30,000; it is not divided by four again. The separate four years' purchase factor is used to value goodwill.

Step 3: Value goodwill and apply Saurabh's share

$$\text{Firm's goodwill} = \text{Rs } 10,800 \times 4 = \text{Rs } 43,200.$$

After admission there are three partners, and Saurabh is admitted for an equal share. Therefore the new ratio is $1:1:1$, and Saurabh's fraction is $1/3$, not the old partners' fraction of $1/2$.

$$\text{Saurabh's share of goodwill} = \text{Rs } 43,200 \times \frac{1}{3}.$$

Step 4: Conclusion The firm's goodwill is Rs 43,200, and Saurabh's share of goodwill is $\boxed{\text{Rs } 14,400}$.

Quick Tip to Solve: Include the Rs 20,000 reserve in capital employed, exclude both outside liabilities, and use Saurabh's new one-third share only after valuing the whole firm's goodwill.

10. Janta Ltd. had an authorized capital of 2,00,000 equity shares of Rs 10 each. The company offered to the public for subscription 1,00,000 shares. Applications were received for 97,000 shares. The amount was payable as follows on application was Rs 2 per share, Rs 4 was payable each on allotment and first and final call. A shareholder holding 600 shares failed to pay the allotment money. His shares were forfeited. The company did not make the first and final call.

Present the share capital in the Balance Sheet of the company as per Schedule III of the Companies Act, 2013. Also prepare Notes to accounts. [3 marks]

Solution:

Concept:

- Authorised capital is the maximum nominal capital permitted, whereas issued capital is the nominal value of shares offered for subscription. These amounts are disclosed in the note to Share Capital.
- Subscribed capital includes only the shares remaining after forfeiture. Since the final call was not made, the subscribed shares are not fully paid; show the amount called and paid on them, and add the amount originally paid on forfeited shares.

Step 1: Calculate called-up capital and forfeited money **Working Notes**

The company offered 1,00,000 shares, but received applications for only 97,000 shares. Thus 97,000 shares were subscribed. The amount called up per share is application Rs 2 plus allotment Rs 4, or Rs 6. The uncalled Rs 4 is not included in paid-up capital.

$$\text{Shares remaining} = 97,000 - 600 = 96,400,$$

$$\text{Paid-up amount on these shares} = 96,400 \times 6 = \text{Rs } 5,78,400,$$

$$\text{Amount paid on forfeited shares} = 600 \times 2 = \text{Rs } 1,200.$$

The allotment arrears of Rs 2,400 relate to the forfeited shares. On forfeiture, both their called-up capital and these arrears are removed; no calls in arrears remain to be deducted for them.

Step 2: Present the Balance Sheet extract **Janta Ltd. – Balance Sheet (extract)**

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	5,79,600

Step 3: Prepare the note to Share Capital **Notes to Accounts – Note 1: Share Capital**

Particulars	Amount (Rs)
Authorised Capital	
2,00,000 equity shares of Rs 10 each	20,00,000
Issued Capital	
1,00,000 equity shares of Rs 10 each	10,00,000
Subscribed but not fully paid-up Capital	
96,400 equity shares of Rs 10 each, Rs 6 called-up and paid-up	5,78,400
Add: Forfeited shares (amount originally paid-up)	1,200
Total Share Capital	**5,79,600**

Step 4: Conclusion Janta Ltd. will show **Share Capital of Rs 5,79,600** under Shareholders' Funds, comprising Rs 5,78,400 on 96,400 subscribed shares and Rs 1,200 paid on the forfeited shares.

Quick Tip to Solve: Remove forfeited shares from the subscribed share count, but add their application money retained. Do not include the Rs 4 final call when it has not been made.

11. Rajiv and Sanjeev were partners in a firm. Their partnership deed provided that the profits shall be divided as follows :

First Rs 20,000 to Rajeev and the balance in the ratio of 4 : 1. The profits for the year ended 31st March, 2017 were Rs 60,000 which had been distributed among the partners. On 1-4-2016 their capitals were Rajeev Rs 90,000 and Sanjeev Rs 80,000. Interest on capital was to be provided @ 6% p.a. While preparing the profit and loss appropriation interest on capital was omitted.

Pass necessary rectifying entry for the same. Show your workings clearly. [4 marks]

Solution:

Concept:

- Interest on capital is an appropriation of profit. Compute it on the opening capitals for the full year at the agreed rate before dividing the remaining profit under the deed.
- A past adjustment transfers the excess credit from the over-credited partner to the under-credited partner. Compare each partner's correct total entitlement, including interest, with the profit already credited.

Step 1: Calculate the profit already distributed **Working Notes**

Rajiv (also spelt Rajeev in the question) is entitled to the first Rs 20,000. The remaining profit is shared in the ratio $4:1$. Because interest was omitted, the whole Rs 60,000 was divided under this rule:

$$\text{Balance after priority allocation} = 60,000 - 20,000 = \text{Rs } 40,000,$$

$$\text{Rajiv's original credit} = 20,000 + 40,000 \times \frac{4}{5} = \text{Rs } 52,000,$$

$$\text{Sanjeev's original credit} = 40,000 \times \frac{1}{5} = \text{Rs } 8,000.$$

Step 2: Recompute the correct entitlement with interest Both opening capitals earn interest for the year ended 31st March, 2017:

$$\text{Rajiv's interest} = 90,000 \times \frac{6}{100} = \text{Rs } 5,400,$$

$$\text{Sanjeev's interest} = 80,000 \times \frac{6}{100} = \text{Rs } 4,800,$$

$$\text{Profit after interest} = 60,000 - 5,400 - 4,800 = \text{Rs } 49,800,$$

$$\text{Residual profit for } 4:1 \text{ sharing} = 49,800 - 20,000 = \text{Rs } 29,800.$$

Rajiv's correct credit is interest plus his priority allocation plus four-fifths of the residual profit; Sanjeev receives interest plus one-fifth of that residual profit.

$$\text{Rajiv} = 5,400 + 20,000 + 29,800 \times \frac{4}{5} = \text{Rs } 49,240,$$

$$\text{Sanjeev} = 4,800 + 29,800 \times \frac{1}{5} = \text{Rs } 10,760.$$

The corrected total remains $49,240 + 10,760 = \text{Rs } 60,000$; the adjustment only changes its allocation between the partners.

Step 3: Identify the net adjustment and pass the entry **Adjustment Working**

Particulars	Rajiv (Rs)	Sanjeev (Rs)
Correct total entitlement	49,240	10,760
Amount already credited	52,000	8,000
Net adjustment	2,760 (Debit)	2,760 (Credit)

Rajiv has received Rs 2,760 too much, while Sanjeev has received Rs 2,760 too little. Therefore debit Rajiv's Capital Account and credit Sanjeev's Capital Account.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2017	Rajiv's Capital A/c Dr.		2,760	
	To Sanjeev's Capital A/c			2,760
	(Being adjustment for interest on capitals omitted from the appropriation of profit)			

If capitals are maintained under the fixed-capital method, the same adjustment is made through the partners' Current Accounts.

Step 4: Conclusion Debit **Rajiv's Capital Account by Rs 2,760** and credit **Sanjeev's Capital Account by Rs 2,760** to rectify the omitted interest on capital.

Quick Tip to Solve: The first Rs 20,000 to Rajiv is unchanged in both allocations. For a quick check, debit each partner's 4:1 share of total interest Rs 10,200 and credit their actual interest; the net transfer is Rs 2,760.

12. Venus Ltd., is a real estate company. To discharge its corporate Social Responsibility, it decided to construct a night shelter for the homeless. The company took over assets of Rs 10,00,000 and liabilities of Rs 1,80,000 of Cayns Ltd. for Rs 7,60,000. Venus Ltd.. issued 9% Debentures of Rs 100 each at a discount of 5% in full satisfaction of the purchase consideration in favour of Cayns Ltd.

Pass necessary journal entries in the books of Venus Ltd. for the above transactions. Also identify the value observed by Venus Ltd. [4 marks]

Solution:

Concept:

- Net assets taken over equal the agreed value of assets less liabilities assumed. When net assets exceed purchase consideration, the difference is credited to Capital Reserve.
- Debentures issued at a discount settle the vendor's claim at their issue price, while the Debentures Account is credited with their nominal value. The discount is separately debited.

Step 1: Calculate net assets and capital reserve Venus Ltd. acquires assets and also assumes the liabilities of Cayns Ltd. The net assets acquired are therefore

$$\text{Net assets} = \text{Rs } 10,00,000 - \text{Rs } 1,80,000 = \text{Rs } 8,20,000.$$

The purchase consideration is Rs 7,60,000. Since the net assets acquired exceed the amount payable

to the vendor, the excess is a capital profit:

$$\text{Capital reserve} = \text{Rs } 8,20,000 - \text{Rs } 7,60,000 = \text{Rs } 60,000.$$

There is no goodwill because consideration is lower than net assets.

Step 2: Determine the number and nominal value of debentures Each debenture has a face value of Rs 100, but is issued at a discount of 5%. Its issue price is therefore Rs 95. The number needed to discharge the entire vendor's claim is

$$\text{Number of debentures} = \frac{7,60,000}{95} = 8,000.$$

Their nominal value is $8,000 \times 100 = \text{Rs } 8,00,000$, and the total discount is $8,000 \times 5 = \text{Rs } 40,000$. The 9% coupon determines interest on the nominal value; it does not determine the issue price or number issued. No interest entry is required for these purchase transactions.

Step 3: Record the acquisition and settlement

Journal of Venus Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		10,00,000	
	To Sundry Liabilities A/c			1,80,000
	To Cayns Ltd. A/c			7,60,000
	To Capital Reserve A/c			60,000
	(Being assets and liabilities taken over and capital profit credited to Capital Reserve)			
	Cayns Ltd. A/c Dr.		7,60,000	
	Discount on Issue of Debentures A/c Dr.		40,000	
	To 9% Debentures A/c			8,00,000
	(Being 8,000 debentures of Rs 100 each issued at 5% discount in full settlement of purchase consideration)			

Step 4: Identify the value observed By constructing a night shelter for homeless people, Venus Ltd. demonstrates social responsibility and concern for the welfare of disadvantaged people. The action provides shelter and supports human dignity rather than merely pursuing the company's commercial interests.

Step 5: Conclusion Venus Ltd. records capital reserve of Rs 60,000 and issues 8,000 debentures, with nominal value Rs 8,00,000 and discount Rs 40,000. The value observed is social responsibility and compassion towards homeless people.

Quick Tip to Solve: Divide the purchase consideration by Rs 95, the issue price, rather than Rs 100, the face value; use the excess of net assets over consideration for Capital Reserve.

13. Girija and Ganesh were partners in a firm sharing, profits and losses in the ratio of 2 : 3. On 31st March, 2017 their Balance Sheet was as follows :

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	80,000	Cash at Bank	20,000
Bank Overdraft	50,000	Debtors 55,000	
Girija's Brother's loan	77,000	Less: Provision for doubtful debts 2,000	53,000
Ganesh's loan	28,000	Stock	78,000
Investment Fluctuation Fund	15,000	Investments	89,000
Capitals :		Buildings	2,50,000
Girija 1,50,000		Profit and Loss A/c.	10,000
Ganesh 1,00,000	2,50,000		
	5,00,000		5,00,000

On the above date the firm was dissolved. The assets were realized and the liabilities were paid off as follows :

(a) Debtors of Rs 6,000 were proved bad.

(b) Girija agreed to pay off her brother's Loan.

(c) One of the creditors for Rs 10,000 was paid only Rs 3,000 in full settlement of his account.

(d) Buildings were auctioned for Rs 1,80,000 and the auctioneer's commission amounted to Rs 8,000.

(e) Ganesh took over part of stock at Rs 4,000 (being 20% less than the book value). Balance of the Stock was handed over to the remaining creditors in full settlement of their account.

(f) Investments realized Rs 9,000 less.

(g) Realisation expenses amounted to Rs 17,000 and were paid by Ganesh.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account. [6 marks]

Solution:

Concept:

- On dissolution, non-cash assets are transferred to the debit of Realisation Account at their gross book values. External liabilities and related asset provisions or funds are transferred to its credit. A partner's loan is settled separately.
- Assets taken over by a partner debit that partner's capital and credit Realisation. A liability assumed, or realisation expenses paid, by a partner debits Realisation and credits that partner's capital.
- Realisation profit or loss and the existing Profit and Loss Account balance are shared in the agreed ratio, here Girija : Ganesh $= 2 : 3$. Final capital balances are settled through Bank Account.

Step 1: Work out the realisations and non-cash settlements Debtors realise $55,000 - 6,000 =$ Rs $49,000$. Transfer gross debtors of Rs 55,000 to Realisation and transfer the provision of Rs 2,000 separately to its credit; otherwise the provision would be counted twice.

Buildings realise Rs 1,80,000 and the auctioneer's commission is separately paid, Rs 8,000. Investments realise $89,000 - 9,000 =$ Rs $80,000$; the Investment Fluctuation Fund of Rs 15,000 is credited to Realisation with the related investment asset transferred at book value.

The stock taken over by Ganesh for Rs 4,000 has book value $4,000/0.80 =$ Rs $5,000$. The balance stock,

with book value $78,000 - 5,000 =$ Rs $73,000$, settles the remaining creditors of $80,000 - 10,000 =$ Rs $70,000$. No additional entry is passed for this direct settlement after stock and creditors have both been transferred to Realisation. The Rs 10,000 creditor settled for Rs 3,000 requires only the actual cash payment in Realisation.

Girija's assumption of her brother's loan credits her capital by Rs 77,000. Ganesh's payment of realisation expenses credits his capital by Rs 17,000. His own loan of Rs 28,000 is paid separately, before the final capital balances. Bank overdraft is an external liability and is transferred to Realisation and paid off.

Step 2: Prepare Realisation Account

Dr. **Realisation Account** **Cr.**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Debtors	55,000	By Creditors	80,000
To Stock	78,000	By Bank Overdraft	50,000
To Investments	89,000	By Girija's Brother's Loan	77,000
To Buildings	2,50,000	By Provision for Doubtful Debts	2,000
To Girija's Capital (brother's loan)	77,000	By Investment Fluctuation Fund	15,000
To Bank (creditor)	3,000	By Bank (debtors)	49,000
To Bank (overdraft)	50,000	By Bank (buildings)	1,80,000
To Bank (commission)	8,000	By Bank (investments)	80,000
To Ganesh's Capital (expenses)	17,000	By Ganesh's Capital (stock)	4,000
		By Loss transferred to:	
		Girija's Capital	36,000
		Ganesh's Capital	54,000
Total	**6,27,000**	**Total**	**6,27,000**

Before transferring the loss, debit entries total Rs 6,27,000 and credit entries total Rs 5,37,000. Thus realisation loss is Rs 90,000, shared as

$$\text{Girija} = 90,000 \times \frac{2}{5} = \text{Rs } 36,000, \qquad \text{Ganesh} = 90,000 \times \frac{3}{5} = \text{Rs } 54,000.$$

Realisation Account is closed by transferring its loss, so it has no balance carried down.

Step 3: Prepare the partners' capital accounts The debit balance of Profit and Loss Account is an accumulated loss. It is charged separately to Girija, $10,000 \times 2/5 =$ Rs $4,000$, and Ganesh, $10,000 \times 3/5 =$ Rs $6,000$; it is not a realisable asset.

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Girija Rs	Ganesh Rs	Particulars	Girija Rs	Ganesh Rs
To Profit and Loss	4,000	6,000	By Balance b/d	1,50,000	1,00,000
To Realisation (loss)	36,000	54,000	By Realisation (brother's loan)	77,000	–
To Realisation (stock)	–	4,000	By Realisation (expenses)	–	17,000
To Bank (final settlement)	1,87,000	53,000			
Total	**2,27,000**	**1,17,000**	**Total**	**2,27,000**	**1,17,000**

The balances payable before final settlement are Rs 1,87,000 to Girija and Rs 53,000 to Ganesh. After these payments both capital accounts close with nil balances; no balance is carried forward after dissolution.

Step 4: Prepare Bank Account and verify closure

Dr. **Bank Account** **Cr.**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance b/d	20,000	By Realisation (creditor)	3,000
To Realisation (debtors)	49,000	By Realisation (overdraft)	50,000
To Realisation (buildings)	1,80,000	By Realisation (commission)	8,000
To Realisation (investments)	80,000	By Ganesh's Loan	28,000
		By Girija's Capital	1,87,000
		By Ganesh's Capital	53,000
Total	**3,29,000**	**Total**	**3,29,000**

The bank receipts including the opening balance are Rs 3,29,000. Payments before capital settlement are Rs 89,000, leaving Rs 2,40,000, exactly equal to the combined final capital payments of Rs 1,87,000 and Rs 53,000. The closing bank balance is nil.

Step 5: Conclusion Realisation loss is Rs 90,000, borne by Girija Rs 36,000 and Ganesh Rs 54,000. Final capital payments are Rs 1,87,000 to Girija and Rs 53,000 to Ganesh, in addition to repayment of Ganesh's loan of Rs 28,000. Bank Account closes with nil balance.

Quick Tip to Solve: Do not record the stock-for-creditors settlement twice. Keep Ganesh's loan outside Realisation, and credit the partners for the brother's loan assumed and expenses paid personally.

14. Parth, Raman and Zaisha are partners in a firm manufacturing furniture. They have been sharing profits and losses in the ratio of 5 : 3 : 2. From 1st April, 2017 they decided to share future profits and losses in the ratio of 2 : 5 : 3. Their Balance Sheet showed a debit balance of Rs 4,000 in Profit & Loss Account; balance of Rs 36,000 in General Reserve and a Balance of Rs 12,000 in Workmen's Compensation Reserve. It was agreed that :

(i) The goodwill of the firm be valued at Rs 76,000.

(ii) The Stock (book value of Rs 40,000) was to be depreciated by 8%.

(iii) Creditors amounting to Rs 900 were not likely to be claimed.

(iv) Claim on account of Workmen's Compensation amounted to Rs 20,000.

(v) Investments (book value Rs 38,000) were revalued at Rs 40,000.

The firm manufactures comfortable rocking chairs for donating to 'Kareforyou' an Old Age Home every year. Taking cognizance of the rising pollution levels in the country, the firm has decided to transfer 10% of the profits every year to 'Green Fund' primarily used for environment friendly activities starting from the year 2017-18.

(a) Pass necessary Journal entries for the above.

(b) Also state any two values highlighted in the above case. [6 marks]

Solution:

Concept:

- On a change in profit-sharing ratio, accumulated reserves and losses belong to the old partners in their old ratio, here $5:3:2$. Revaluation profit or loss is also transferred in that ratio.
- Goodwill is adjusted through capital accounts: gaining partners compensate the sacrificing partner by goodwill multiplied by their respective gains. The new ratio is $2:5:3$.
- A specific reserve first meets its related claim. Any excess of the claim over the Workmen's Compensation Reserve is a revaluation loss.

Step 1: Working Notes: determine sacrifice and gain Compare each partner's old and new share:

$$\text{Parth's sacrifice} = \frac{5}{10} - \frac{2}{10} = \frac{3}{10},$$
$$\text{Raman's gain} = \frac{5}{10} - \frac{3}{10} = \frac{2}{10},$$
$$\text{Zaisha's gain} = \frac{3}{10} - \frac{2}{10} = \frac{1}{10}.$$

Raman therefore compensates Parth by Rs $76,000 \times 2/10 = 15,200$, and Zaisha compensates him by Rs $76,000 \times 1/10 = 7,600$. The total credit to Parth is Rs 22,800. No goodwill asset is retained in the books; the adjustment is made directly between partners' capital accounts.

Step 2: Record reserves, accumulated loss and goodwill Journal of Parth, Raman and Zaisha (1 April 2017)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2017	General Reserve A/c Dr.		36,000	
	To Parth's Capital A/c			18,000
	To Raman's Capital A/c			10,800
	To Zaisha's Capital A/c			7,200
	(Being general reserve distributed in the old ratio of $5:3:2$)			
	Parth's Capital A/c Dr.		2,000	
	Raman's Capital A/c Dr.		1,200	
	Zaisha's Capital A/c Dr.		800	
	To Profit and Loss A/c			4,000
	(Being accumulated loss written off in the old ratio)			
	Raman's Capital A/c Dr.		15,200	
	Zaisha's Capital A/c Dr.		7,600	
	To Parth's Capital A/c			22,800
	(Being goodwill adjusted for the gains of Raman and Zaisha and the sacrifice of Parth)			

Step 3: Working Notes: calculate the revaluation loss Stock falls by Rs $40,000 \times 8/100 = 3,200$, leaving Rs 36,800. The unclaimed creditors give a gain of Rs 900, and investments increase by Rs $40,000 - 38,000 = 2,000$. The compensation claim exceeds its reserve by Rs $20,000 - 12,000 = 8,000$.

$$\text{Revaluation loss} = (3,200 + 8,000) - (900 + 2,000)$$
$$= \text{Rs } 8,300.$$

The loss is borne by Parth, Raman and Zaisha in $5:3:2$: Rs 4,150, Rs 2,490 and Rs 1,660 respectively. The entire compensation reserve is used against the claim, so none of that reserve is distributed to partners.

Step 4: Record revaluation and transfer its loss Journal of Parth, Raman and Zaisha (continued; 1 April 2017)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2017	Revaluation A/c Dr. To Stock A/c (Being stock depreciated by 8%)		3,200	 3,200
	Creditors A/c Dr. To Revaluation A/c (Being unclaimed creditors written back)		900	 900
	Workmen's Compensation Reserve A/c Dr. Revaluation A/c Dr. To Workmen's Compensation Claim A/c (Being claim provided using the reserve, with the excess charged to revaluation)		12,000 8,000	 20,000
	Investments A/c Dr. To Revaluation A/c (Being investments increased to Rs 40,000)		2,000	 2,000

Step 5: Transfer the revaluation loss to partners Journal of Parth, Raman and Zaisha (continued; 1 April 2017)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Parth's Capital A/c Dr. Raman's Capital A/c Dr. Zaisha's Capital A/c Dr. To Revaluation A/c (Being revaluation loss transferred in the old ratio)		4,150 2,490 1,660	 8,300

Step 6: Explain the Green Fund decision and the two values The decision to transfer 10% of annual profits to Green Fund is a future appropriation from 2017–18 onwards. No monetary entry for it can be made on 1 April 2017 because that year's profit has not yet arisen or been specified. When annual profit P is determined, debit Profit and Loss Appropriation A/c and credit Green Fund A/c by $0.10P$. The donation of rocking chairs is likewise background information; no cost or donation amount is supplied for an entry here.

Two values highlighted are: (1) compassion and care for elderly people, shown by donating comfortable chairs to the old age home; and (2) environmental responsibility, shown by setting aside part of annual profits for environment-friendly activities.

Step 7: Conclusion Parth receives a goodwill adjustment of Rs 22,800; Raman and Zaisha are debited Rs 15,200 and Rs 7,600. The revaluation loss of Rs 8,300 is borne in $5:3:2$. The two highlighted values are care for the elderly and environmental responsibility.

Quick Tip to Solve: Use the old ratio for reserves, accumulated losses and revaluation, but compare old and new shares for goodwill. Apply the compensation reserve against its claim before calculating the revaluation loss.

15. Boots Ltd. issued Rs 6,00,000, 8% Debentures at a discount of 6%. The debentures were redeemable in four equal annual instalments. Pass necessary journal entries for issue of debentures and prepare 'Discount on issue of debentures Account' for four years. Show your workings clearly.

[6 marks]

Solution:

Concept:

- Debentures issued at a discount are credited at their face value. Bank is debited with the cash received and Discount on Issue of Debentures A/c with the difference.
- When debentures are redeemed in equal annual instalments, the benefit of the issue diminishes with the amount outstanding. Write off discount in the ratio of debentures outstanding during each year.

Step 1: Calculate the discount and issue proceeds The face value is Rs 6,00,000 and the discount rate is 6%. Thus,

$$\text{Discount} = 6,00,000 \times \frac{6}{100} = \text{Rs } 36,000,$$

$$\text{Cash received} = 6,00,000 - 36,000 = \text{Rs } 5,64,000.$$

The 8% rate is the interest rate on the debentures. It does not determine either the issue discount or its annual write-off. The question asks for the issue entries and the discount account, so interest and redemption entries are not required.

Step 2: Pass the journal entry for the issue Journal of Boots Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
Issue	Bank A/c Dr.		5,64,000	
	Discount on Issue of Debentures A/c Dr.		36,000	
	To 8% Debentures A/c			6,00,000
	(Being Rs 6,00,000 debentures issued at a discount of 6%)			

The combined entry records both the money received and the discount. Its debit total, Rs $5,64,000 + 36,000 = 6,00,000$, equals the face value credited to the debentures account.

Step 3: Working Notes: allocate discount over four years Each annual redemption instalment is Rs $6,00,000/4 = 1,50,000$. Treating the annual instalments as payable at each year-end, the amounts outstanding during Years 1 to 4 are Rs 6,00,000, Rs 4,50,000, Rs 3,00,000 and Rs 1,50,000 respectively. Their ratio is $4 : 3 : 2 : 1$, with total weight 10.

Year	Outstanding (Rs)	Share of discount	Write-off (Rs)
1	6,00,000	$4/10$	14,400
2	4,50,000	$3/10$	10,800
3	3,00,000	$2/10$	7,200
4	1,50,000	$1/10$	3,600
Total			36,000

For example, the first year's write-off is Rs $36,000 \times 4/10 = 14,400$. Each year, Statement of Profit and Loss A/c is debited and Discount on Issue of Debentures A/c is credited with that year's write-off.

Step 4: Prepare the discount account for all four years Discount on Issue of Debentures Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	Year 1		**Year 1**		
	To 8% Debentures A/c	36,000	By Statement of Profit and Loss A/c	14,400	
			By Balance c/d	21,600	
	Total	**36,000**	**Total**	**36,000**	
	Year 2		**Year 2**		
	To Balance b/d	21,600	By Statement of Profit and Loss A/c	10,800	
			By Balance c/d	10,800	
	Total	**21,600**	**Total**	**21,600**	
	Year 3		**Year 3**		
	To Balance b/d	10,800	By Statement of Profit and Loss A/c	7,200	
			By Balance c/d	3,600	
	Total	**10,800**	**Total**	**10,800**	
	Year 4		**Year 4**		
	To Balance b/d	3,600	By Statement of Profit and Loss A/c	3,600	
	Total	**3,600**	**Total**	**3,600**	

The debit balances carried forward represent the discount still to be written off. The balance becomes nil after Year 4, and the four charges together exhaust the original Rs 36,000 discount.

Step 5: Conclusion The issue brings Rs 5,64,000 into Bank and creates discount of Rs 36,000. The discount is written off over four years as Rs 14,400, Rs 10,800, Rs 7,200 and Rs 3,600 respectively, in the ratio $4 : 3 : 2 : 1$.

Quick Tip to Solve: For equal year-end redemptions over four years, use the outstanding-principal weights 4, 3, 2 and 1. Do not divide the discount equally when the debentures outstanding decline each year.

16. X Ltd. invited applications for issuing 5,00,000 equity shares of Rs 10 each at par. The amount per share was payable as follows :

On Application Rs 1 per share

On Allotment Rs 2 per share

On First call Rs 3 per share

On Second and Final call - Balance.

Applications for 8,00,000 shares were received. Applications for 1,00,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Excess money received with applications was adjusted towards sums due on allotment. All calls were made. Ashok a shareholder holding 5000 shares failed to pay the allotment and the call money. Mohan, a shareholder who had applied for 7000 shares, failed to pay the first and second and final call. Shares of Ashok and Mohan were forfeited after the second and final call. Of the forfeited shares 8000 shares were re-issued at Rs 12 per share fully paid up. The re-issued shares included all the forfeited shares of Ashok.

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

Solution:

Concept:

- On pro-rata allotment, excess application money is adjusted against the instalment specified; it reduces the defaulting shareholder's unpaid allotment.
- Forfeiture debits Share Capital with called-up capital and credits unpaid instalments and the capital already received to Share Forfeiture.
- Reissue above face value creates securities premium. Forfeiture surplus is transferred to Capital Reserve only for the shares actually reissued.

Step 1: Calculate the pro-rata adjustment and the defaults The final call is Rs $10 - 1 - 2 - 3 = 4$ per share. After rejecting applications for 1,00,000 shares, 5,00,000 shares are allotted against applications for 7,00,000 shares. Thus, allotted shares are $5/7$ of shares applied for. Application money received is Rs 8,00,000; Rs 1,00,000 is refunded, Rs 5,00,000 becomes share capital and Rs 2,00,000 is adjusted against allotment.

Ashok holds 5,000 shares, so he applied for $5,000 \times 7/5 = 7,000$ shares. His application payment is Rs 7,000, of which Rs 5,000 is application capital and Rs 2,000 pays part of allotment. Therefore, his unpaid allotment is Rs $10,000 - 2,000 = 8,000$, first call Rs 15,000 and final call Rs 20,000. His total unpaid capital is Rs 43,000.

Mohan applied for 7,000 shares and receives $7,000 \times 5/7 = 5,000$ shares. He pays allotment, including its adjusted application excess. His total capital paid is Rs $5,000 \times 3 = 15,000$; his first and final call arrears are Rs 15,000 and Rs 20,000. The forfeiture credit for Ashok is Rs 7,000 and for Mohan Rs 15,000.

Step 2: Record application and allotment **Journal of X Ltd. (application and allotment)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		8,00,000	
	To Share Application A/c			8,00,000
	(Being application money received on 8,00,000 shares)			
	Share Application A/c Dr.		8,00,000	
	To Share Capital A/c			5,00,000
	To Share Allotment A/c			2,00,000
	To Bank A/c			1,00,000
	(Being application money transferred, excess adjusted and rejected applications refunded)			
	Share Allotment A/c Dr.		10,00,000	
	To Share Capital A/c			10,00,000
	(Being allotment of Rs 2 per share due on 5,00,000 shares)			
	Bank A/c Dr.		7,92,000	
	To Share Allotment A/c			7,92,000
	(Being allotment received after adjustment of Rs 2,00,000 and Ashok's arrears of Rs 8,000)			

Step 3: Record the two calls Call receipts exclude both defaulters. First-call cash is Rs $15,00,000 - 30,000 = 14,70,000$, and final-call cash is Rs $20,00,000 - 40,000 = 19,60,000$. Arrears are retained in the respective instalment accounts until forfeiture.

Journal of X Ltd. (calls)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		15,00,000	
	To Share Capital A/c			15,00,000
	(Being first call of Rs 3 per share due)			
	Bank A/c Dr.		14,70,000	
	To Share First Call A/c			14,70,000
	(Being first call received except Rs 30,000 on 10,000 shares)			
	Share Second and Final Call A/c Dr.		20,00,000	
	To Share Capital A/c			20,00,000
	(Being final call of Rs 4 per share due)			
	Bank A/c Dr.		19,60,000	
	To Share Second and Final Call A/c			19,60,000
	(Being final call received except Rs 40,000 on 10,000 shares)			

Step 4: Record forfeiture and reissue Both holdings total 10,000 fully called shares, so Share Capital is debited with Rs 1,00,000. Unpaid instalments total Rs $8,000 + 30,000 + 40,000 = 78,000$; the difference, Rs 22,000, is credited to Share Forfeiture. The reissue price exceeds face value by Rs 2 per share, so the Rs 16,000 excess is securities premium.

Journal of X Ltd. (forfeiture and reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		1,00,000	
	To Share Allotment A/c			8,000
	To Share First Call A/c			30,000
	To Share Second and Final Call A/c			40,000
	To Share Forfeiture A/c			22,000
	(Being 10,000 shares of Ashok and Mohan forfeited for non-payment of instalments)			
	Bank A/c Dr.		96,000	
	To Share Capital A/c			80,000
	To Securities Premium Reserve A/c			16,000
	(Being 8,000 forfeited shares reissued at Rs 12 each fully paid)			

Step 5: Transfer only the realised forfeiture surplus The 8,000 shares reissued comprise all 5,000 of Ashok's shares and 3,000 of Mohan's shares. Ashok's forfeited amount per share is Rs $7,000/5,000 = 1.40$, whereas Mohan's is Rs $15,000/5,000 = 3$. Their different paid amounts must therefore be tracked separately.

$$\text{Surplus on shares reissued} = 7,000 + 3,000 \times 3$$
$$= \text{Rs } 16,000.$$

There is no reissue discount to deduct. The forfeiture balance relating to Mohan's 2,000 unreissued shares is Rs $2,000 \times 3 = 6,000$, which stays in Share Forfeiture Account.

Journal of X Ltd. (capital reserve)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Forfeiture A/c Dr.		16,000	
	To Capital Reserve A/c			16,000
	(Being profit on 8,000 reissued shares transferred to capital reserve)			

Step 6: Conclusion The entries above record all transactions. Capital Reserve is credited with Rs 16,000; the reissue creates Securities Premium Reserve of Rs 16,000, and Rs 6,000 remains in Share Forfeiture Account for 2,000 unreissued shares.

Quick Tip to Solve: Apply the 7:5 application-to-allotment ratio first. Track Ashok and Mohan separately: their forfeiture credits per share are different.

OR

16. Manvet Ltd. invited applications for issuing 10,00,000 equity shares of Rs 10 each payable as follows :

On application and allotment Rs 4 per share (including premium Rs 1)

On first call Rs 4 per share,

On second and final call Rs 3 per share.

Applications for 15,00,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money was adjusted on the sums due on calls. A shareholder who had applied for 6,000 shares did not pay the first, and the second and final call. His shares were forfeited. 90% of the forfeited shares were reissued at Rs 8 per share fully paid up.

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

Solution:

Concept:

- Combined application and allotment includes both capital and premium; separate these before calculating capital received on forfeiture.
- Excess application money adjusts the earliest call due, so a shareholder who pays no fresh cash can still have part of that call paid.
- Reissue discount is debited to Share Forfeiture. Only the net surplus attributable to reissued shares is transferred to Capital Reserve.

Step 1: Find the allotment and call adjustments Allotment is in the ratio $10,00,000 : 15,00,000 = 2 : 3$. Application and allotment money received is Rs $15,00,000 \times 4 = 60,00,000$. For the 10,00,000 allotted shares, Rs 30,00,000 is share capital and Rs 10,00,000 is securities premium. The excess Rs 20,00,000 is adjusted towards the first call, the earliest call payable.

The defaulting applicant receives $6,000 \times 2/3 = 4,000$ shares. Of his Rs $6,000 \times 4 = 24,000$ payment, Rs 16,000 is application and allotment due (capital Rs 12,000 plus premium Rs 4,000), while Rs 8,000 pays part of the first call. His first-call arrears are therefore Rs $4,000 \times 4 - 8,000 = 8,000$. His final-call arrears are Rs $4,000 \times 3 = 12,000$.

Although he sends no further cash, the advance already received pays Rs 8,000 of his first call. Thus capital received on his shares is Rs $12,000 + 8,000 = 20,000$, excluding the premium. This is the amount credited on forfeiture.

Step 2: Record combined application and allotment **Journal of Manvet Ltd. (application and allotment)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		60,00,000	
	To Share Application and Allotment A/c			60,00,000
	(Being combined application and allotment money received)			
	Share Application and Allotment A/c Dr.		60,00,000	
	To Share Capital A/c			30,00,000
	To Securities Premium Reserve A/c			10,00,000
	To Share First Call A/c			20,00,000
	(Being capital and premium recognised on shares allotted and excess adjusted towards first call)			

Step 3: Record calls due and received First call due is Rs $10,00,000 \times 4 = 40,00,000$. After adjusting excess application money and the remaining default, cash received is Rs $40,00,000 - 20,00,000 - 8,000 = 19,92,000$. Final call due is Rs 30,00,000 and cash received is Rs $30,00,000 - 12,000 = 29,88,000$.

Journal of Manvet Ltd. (calls)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		40,00,000	
	To Share Capital A/c			40,00,000
	(Being first call of Rs 4 per share due)			
	Bank A/c Dr.		19,92,000	
	To Share First Call A/c			19,92,000
	(Being first call received after excess-money adjustment and Rs 8,000 arrears)			
	Share Second and Final Call A/c Dr.		30,00,000	
	To Share Capital A/c			30,00,000
	(Being final call of Rs 3 per share due)			
	Bank A/c Dr.		29,88,000	
	To Share Second and Final Call A/c			29,88,000
	(Being final call received except Rs 12,000 on 4,000 shares)			

Step 4: Record forfeiture and reissue of the shares The forfeited shares have fully called-up face capital of Rs $4,000 \times 10 = 40,000$. Premium was received in full and is not reversed on forfeiture. Reissued shares are $4,000 \times 90\% = 3,600$; cash received is Rs $3,600 \times 8 = 28,800$. The reissue discount is Rs $3,600 \times 2 = 7,200$, charged against Share Forfeiture.

Journal of Manvet Ltd. (forfeiture and reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		40,000	
	To Share First Call A/c			8,000
	To Share Second and Final Call A/c			12,000
	To Share Forfeiture A/c			20,000
	(Being 4,000 shares forfeited; capital received retained and unpaid calls cancelled)			
	Bank A/c Dr.		28,800	
	Share Forfeiture A/c Dr.		7,200	
	To Share Capital A/c			36,000
	(Being 3,600 forfeited shares reissued at Rs 8 each as fully paid)			

Step 5: Determine the transferable forfeiture profit Capital received per forfeited share is Rs $20,000/4,000 = 5$. Therefore, the forfeiture amount attributable to 3,600 reissued shares is Rs 18,000. The discount of Rs 2 per share is within this Rs 5 per share available balance.

$$\text{Capital Reserve} = 18,000 - 7,200 = \text{Rs } 10,800,$$
$$\text{Forfeiture balance retained} = 400 \times 5 = \text{Rs } 2,000.$$

Only the profit relating to reissued shares is realised; the amount attributable to the 400 unreissued shares remains in Share Forfeiture Account. The reserve transfer is recorded below.

Journal of Manvet Ltd. (capital reserve)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Forfeiture A/c Dr.		10,800	
	To Capital Reserve A/c			10,800
	(Being net profit on 3,600 reissued shares transferred to capital reserve)			

Step 6: Conclusion Capital Reserve is Rs 10,800 after reissuing 3,600 shares. Share Forfeiture retains Rs 2,000 for the remaining 400 shares. Securities Premium Reserve of Rs 10,00,000 remains intact because the premium was fully received.

Quick Tip to Solve: For the defaulter, first split Rs 24,000 into premium Rs 4,000 and capital Rs 20,000; apply the 90 percent reissue fraction before deducting discount.

17. Kavya, Manya and Navita were partners sharing profits as 50%, 30% and 20% respectively. On march 31, 2016, their Balance Sheet stood as follows :
Balance Sheet of Kavya, Manya and Navita as at March 31, 2016.

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	1,40,000	Fixed Assets	8,90,000
General Reserve	1,00,000	Investments	2,00,000
Capitals :		Stock	1,30,000
Kavya 6,00,000		Debtors 4,00,000	
Manya 5,00,000		Less - Provision for bad debts 30,000	3,70,000
Navita 4,00,000	15,00,000	Bank	1,50,000
	17,40,000		17,40,000

On the above date, Kavya retired and Manya and Navita agreed to continue the business on the following terms :

(a) Firm's goodwill was valued at Rs 60,000 and it was decided to adjust Kavya's share of goodwill in the capital accounts of continuing partners.

(b) There was a claim for workmen's compensation to the extent of Rs 4,000.

(c) Investments were revalued at Rs 2,13,000.

(d) Fixed Assets were to be depreciated by 10%.

(e) Kavya was to be paid Rs 20,000 through a bank draft and the balance was transferred to her loan account which will be paid in two equal annual instalments together with interest @ 10% p.a.

Prepare Revaluation A/c, Partner's Capital accounts and Kavya's Loan Account till it is finally paid.

[8 marks]

Solution:

Concept:

- Revaluation gains and losses and accumulated reserves belong to all old partners in their old profit-sharing ratio, here $5 : 3 : 2$.
- The continuing partners compensate the retiring partner for her share of goodwill in their gaining ratio, without raising a goodwill asset.
- The unpaid retirement entitlement becomes a loan. Equal annual principal instalments are supplemented by interest on the opening unpaid principal.

Step 1: Calculate the goodwill adjustment and revaluation loss **Working Notes.** No change in the

relative profit shares of Manya and Navita is specified, so their new ratio is $3:2$. Their gains are

$$\frac{3}{5}-\frac{3}{10}=\frac{3}{10}, \qquad \frac{2}{5}-\frac{2}{10}=\frac{2}{10}.$$

Hence the gaining ratio is $3:2$. Kavya's goodwill entitlement is Rs $60,000 \times 50\% =$ Rs $30,000$. Debit Manya's capital by Rs 18,000 and Navita's capital by Rs 12,000, and credit Kavya's capital by Rs 30,000. Investments appreciate by Rs 13,000. Fixed assets depreciate by Rs $8,90,000 \times 10\% =$ Rs $89,000$, and the workmen's compensation claim creates a liability of Rs 4,000. Thus the net revaluation loss is

$$\text{Rs } (89,000+4,000-13,000) = \text{Rs } 80,000.$$

Allocate this loss to Kavya, Manya and Navita as Rs 40,000, Rs 24,000 and Rs 16,000 respectively. Distribute the Rs 1,00,000 general reserve as Rs 50,000, Rs 30,000 and Rs 20,000 in the same old ratio.

Step 2: Prepare the Revaluation Account **Revaluation Account as at 31 March 2016**

Dr. Particulars	**Rs**	**Cr. Particulars**	**Rs**
To Workmen's Compensation Claim	4,000	By Investments	13,000
To Fixed Assets	89,000	By Kavya's Capital (loss)	40,000
		By Manya's Capital (loss)	24,000
		By Navita's Capital (loss)	16,000
Total	**93,000**	**Total**	**93,000**

The loss is credited to Revaluation Account and debited to the partners' capital accounts, closing Revaluation Account with equal totals.

Step 3: Prepare the partners' capital accounts **Partners' Capital Accounts as at 31 March 2016 (amounts in Rs)**

Dr.	Kavya	Manya	Navita	**Cr.**	Kavya	Manya	Navita
To Revaluation	40,000	24,000	16,000	By Balance b/d	6,00,000	5,00,000	4,00,000
To Kavya's Capital	–	18,000	12,000	By General Reserve	50,000	30,000	20,000
To Bank	20,000	–	–	By Manya's Capital	18,000	–	–
To Kavya's Loan	6,20,000	–	–	By Navita's Capital	12,000	–	–
To Balance c/d	–	4,88,000	3,92,000				
Total	6,80,000	5,30,000	4,20,000	**Total**	6,80,000	5,30,000	4,20,000

Kavya's total amount due is $6,00,000+50,000+30,000-40,000 =$ Rs $6,40,000$. After paying Rs 20,000 through bank, Rs 6,20,000 remains payable as her loan. Manya and Navita carry forward capitals of Rs 4,88,000 and Rs 3,92,000 respectively.

Step 4: Calculate the two loan repayments Each principal instalment is Rs $6,20,000/2 =$ Rs $3,10,000$. Interest is additional to this principal, not included in it. In the first year, interest is Rs $6,20,000 \times 10\% =$ Rs $62,000$, making the payment Rs 3,72,000. The unpaid principal then becomes Rs 3,10,000. Second-year interest is Rs $3,10,000 \times 10\% =$ Rs $31,000$, making the final payment Rs 3,41,000.

Step 5: Prepare Kavya's Loan Account until settlement **Kavya's Loan Account (amounts in Rs)**

Dr. Particulars	Rs	Cr. Particulars	Rs
31 Mar 2017: To Bank	3,72,000	31 Mar 2016: By Kavya's Capital	6,20,000
31 Mar 2017: To Balance c/d	3,10,000	31 Mar 2017: By Interest	62,000
Total	**6,82,000**	**Total**	**6,82,000**
31 Mar 2018: To Bank	3,41,000	1 Apr 2017: By Balance b/d	3,10,000
		31 Mar 2018: By Interest	31,000
Total	**3,41,000**	**Total**	**3,41,000**

The second payment clears both the remaining principal and its year's interest; no loan balance remains.

Step 6: Conclusion Revaluation loss is Rs 80,000. Manya's and Navita's closing capitals are Rs 4,88,000 and Rs 3,92,000. Kavya's loan of Rs 6,20,000 is fully discharged by payments of Rs 3,72,000 on 31 March 2017 and Rs 3,41,000 on 31 March 2018.

Quick Tip to Solve: First divide Kavya's loan principal into two equal parts; calculate each year's interest separately on the principal still outstanding.

OR

17. On 31st March 2017, the Balance Sheet of Abhir and Divya, who were sharing profits in the ratio of 3 : 1 was as follows :
Balance Sheet of Abhir and Divya as on 31st March 2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	2,20,000	Cash at Bank	1,40,000
Employees' Provident Fund	1,00,000	Debtors 6,50,000	
Investment Fluctuation Fund	1,00,000	Less Provision for bad debts 50,000	6,00,000
General Reserve	1,20,000	Stock	3,00,000
Capitals :		Investments (market value Rs 4,40,000)	5,00,000
Abhir : 6,00,000			
Divya : 4,00,000	10,00,000		
	15,40,000		15,40,000

They decided to admit Vibhor on April 1, 2017 for 1/5th share.

(a) Vibhor shall bring Rs 80,000 as his share of goodwill premium.

(b) Stock was overvalued by Rs 20,000.

(c) A debtors whose dues of Rs 5,000 were written off as bad debts, paid Rs 4,000 in full settlement.

(d) Two months salary @ Rs 6,000 per month was outstanding.

(e) Vibhor was to bring in Capital to the extent of 1/5th of the total capital of the new firm.

Prepare Revaluation A/c, Partners' Capital A/c and the Balance Sheet of the reconstituted firm.

[8 marks]

Solution:

Concept:

- Revaluation profit or loss and accumulated reserves are transferred only to the old partners in their old ratio, here $3:1$.
- An investment fluctuation fund first meets the fall in investment value; only its excess belongs to the old partners. Employees' Provident Fund remains an outside liability.
- Premium for goodwill compensates the sacrificing partners. In the absence of another arrangement, the new partner acquires his share from them in their old ratio.
- If the incoming partner's capital is one-fifth of the new firm's total capital, the adjusted combined capitals of the old partners represent the remaining four-fifths.

Step 1: Determine the ratios and reserve adjustments **Working Notes.** Vibhor acquires $1/5$, leaving $4/5$ for Abhir and Divya. Their new shares are $(4/5)(3/4) = 3/5$ and $(4/5)(1/4) = 1/5$. Thus the new ratio is $3:1:1$, while the sacrificing ratio is $3:1$. Credit Vibhor's Rs 80,000 goodwill premium to Abhir and Divya as Rs 60,000 and Rs 20,000.

Investments fall from Rs 5,00,000 to Rs 4,40,000, a decrease of Rs 60,000. Debit Investment Fluctuation Fund and credit Investments by Rs 60,000. Transfer the remaining fund of $1,00,000 - 60,000 =$ Rs $40,000$ to Abhir and Divya in the amounts Rs 30,000 and Rs 10,000. The loss on investments is thereby fully absorbed and is not charged again to Revaluation Account.

Distribute the general reserve of Rs 1,20,000 as Rs 90,000 and Rs 30,000. Retain Employees' Provident Fund of Rs 1,00,000 as a liability; it is not a distributable reserve.

Step 2: Prepare the Revaluation Account Stock decreases by Rs 20,000. The Rs 4,000 recovered from a debt already written off is a gain and increases bank, not current debtors. Outstanding salary is $2 \times$ Rs $6,000 =$ Rs $12,000$. Therefore the revaluation loss is $20,000 + 12,000 - 4,000 =$ Rs $28,000$, shared by Abhir and Divya as Rs 21,000 and Rs 7,000.

Revaluation Account as at 1 April 2017

Dr. Particulars	Rs	Cr. Particulars	Rs
To Stock	20,000	By Bank (bad debts recovered)	4,000
To Outstanding Salary	12,000	By Abhir's Capital (loss)	21,000
		By Divya's Capital (loss)	7,000
Total	**32,000**	**Total**	**32,000**

Step 3: Calculate Vibhor's required capital After the reserve, goodwill and revaluation adjustments, the old partners' capitals are

$$\begin{aligned} \text{Abhir} &: 6,00,000 + 90,000 + 30,000 + 60,000 - 21,000 \\ &= \text{Rs } 7,59,000, \\ \text{Divya} &: 4,00,000 + 30,000 + 10,000 + 20,000 - 7,000 \\ &= \text{Rs } 4,53,000. \end{aligned}$$

Together they hold Rs 12,12,000, representing $4/5$ of the new firm's total capital. Hence

$$\text{Total capital} = 12,12,000 \times \frac{5}{4} = \text{Rs } 15,15,000,$$

$$\text{Vibhor's capital} = 15,15,000 \times \frac{1}{5} = \text{Rs } 3,03,000.$$

The goodwill premium is separate from this capital contribution. The question does not require the old partners' capitals to be adjusted to the new profit-sharing ratio.

Step 4: Prepare the partners' capital accounts **Partners' Capital Accounts as at 1 April 2017 (amounts in Rs)**

Dr.	Abhir	Divya	Vibhor	Cr.	Abhir	Divya	Vibhor
To Revaluation	21,000	7,000	–	By Balance b/d	6,00,000	4,00,000	–
To Balance c/d	7,59,000	4,53,000	3,03,000	By General Reserve	90,000	30,000	–
				By Investment Fluctuation Fund	30,000	10,000	–
				By Premium for Goodwill	60,000	20,000	–
				By Bank	–	–	3,03,000
Total	7,80,000	4,60,000	3,03,000	**Total**	7,80,000	4,60,000	3,03,000

The closing credit balances are carried forward as the capitals of the reconstituted firm. All three accounts balance individually.

Step 5: Prepare the reconstituted firm's Balance Sheet Bank after the transactions equals

$$1,40,000 + 4,000 + 80,000 + 3,03,000 = \text{Rs } 5,27,000.$$

The existing debtors and their provision remain unchanged, giving net debtors of Rs 6,00,000. Stock becomes Rs 2,80,000 and investments Rs 4,40,000.

Balance Sheet of Abhir, Divya and Vibhor as at 1 April 2017

Liabilities	Rs	Assets	Rs
Creditors	2,20,000	Cash at Bank	5,27,000
Employees' Provident Fund	1,00,000	Debtors: Rs 6,50,000	
Outstanding Salary	12,000	Less: Provision Rs 50,000	6,00,000
Partners' Capitals:		Stock	2,80,000
Abhir	7,59,000	Investments	4,40,000
Divya	4,53,000		
Vibhor	3,03,000		
Total	**18,47,000**	**Total**	**18,47,000**

The investment fluctuation fund and general reserve have been fully dealt with; neither appears as a separate balance in the new Balance Sheet. No goodwill asset is raised because premium is adjusted through the old partners' capitals.

Step 6: Conclusion Revaluation loss is Rs 28,000. Abhir's, Divya's and Vibhor's capitals are Rs 7,59,000, Rs 4,53,000 and Rs 3,03,000 respectively. The reconstituted Balance Sheet totals Rs 18,47,000 on each side.

Quick Tip to Solve: Use the investment fluctuation fund against the Rs 60,000 fall first, then divide the adjusted old partners' total capital by four to find Vibhor's capital.

Part B (20 marks)

OPTION – I

Analysis of Financial Statements

18. 'Loans and advances granted' by a company will be considered, as which type of activity while preparing Cash Flow Statement. [1 mark]

Solution:

Concept:

- Investing activities include acquisition and disposal of long-term assets and investments, as well as loans and advances made to third parties by a non-financial company.
- The activity is identified from the nature of the transaction, while the payment or receipt determines whether it is an outflow or inflow.

Step 1: Identify the nature of the payment When the company grants a loan or advance to another party, it places funds outside its normal operations and creates a financial asset. It is lending funds, not raising finance for itself.

Step 2: Classify the cash flow The cash paid for the loan or advance is therefore an outflow from investing activities. This is the usual classification for the company in this question. For a financial enterprise whose ordinary business is lending, such advances belong to operating activities.

Step 3: Conclusion Loans and advances granted are an **investing activity** (cash outflow).

Quick Tip to Solve: Distinguish loans granted from loans taken: lending is normally investing, whereas borrowing is financing.

19. State the primary objective of preparing the Cash Flow Statement. [1 mark]

Solution:

Concept:

- A Cash Flow Statement reports actual inflows and outflows of cash and cash equivalents during an accounting period.
- Cash flows are classified into operating, investing and financing activities to explain the change in the cash position.

Step 1: Identify the information required The statement shows where cash and cash equivalents came from and how they were used during the period. Cash receipts and payments are the focus, rather than accrual-based revenue and expenses alone.

Step 2: Relate cash movements to the balances By grouping these movements under operating, investing and financing activities, the statement explains the change between opening and closing cash and cash equivalents. It therefore helps users understand the enterprise's cash generation and utilisation.

Step 3: Conclusion The primary objective is to provide information about cash inflows and outflows

during the period, classified into operating, investing and financing activities, and thereby explain the change in cash and cash equivalents.

Quick Tip to Solve: State both the information provided (cash inflows and outflows) and its three activity classifications; do not describe the objective as finding profit.

20(a). A company earns Gross profit of 25% on cost. For the year ended 31st March, 2017 its Gross Profit was Rs 5,00,000; Equity Share Capital of the company was Rs 10,00,000; Reserves and Surplus Rs 2,00,000; Long Term Loan Rs 3,00,000 and Non Current Assets were Rs 10,00,000.

Compute the 'Working capital turnover ratio' of the company. [4 marks total]

Solution:

Concept:

- Working capital turnover ratio equals revenue from operations divided by working capital. Working capital is current assets less current liabilities.
- Working capital can also be found as shareholders' funds plus long-term debt less non-current assets. Gross profit expressed on cost must first be converted into cost of revenue.

Step 1: Find revenue from operations Gross profit is 25% of cost, so

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

Therefore, revenue from operations is cost plus gross profit:

$$20,00,000 + 5,00,000 = \text{Rs } 25,00,000.$$

Dividing gross profit by 25% gives cost, not sales, because the percentage is stated on cost.

Step 2: Calculate working capital and the ratio Long-term funds comprise equity share capital, reserves and surplus, and long-term loan. Thus,

$$\begin{aligned}\text{Working capital} &= 10,00,000 + 2,00,000 + 3,00,000 \\ &\quad - 10,00,000 \\ &= \text{Rs } 5,00,000.\end{aligned}$$

Applying the ratio,

$$\text{Working capital turnover ratio} = \frac{25,00,000}{5,00,000} = 5 \text{ times}.$$

Each rupee of working capital supports five rupees of revenue from operations.

Step 3: Conclusion The working capital turnover ratio is $\boxed{5 \text{ times}}$.

Quick Tip to Solve: For 25% gross profit on cost, sales equal 125% of cost; add gross profit after finding the cost.

20(b). Y Ltd's profits after interest and tax was Rs 1,00,000. Its Current Assets were Rs 4,00,000; Current Liabilities Rs 2,00,000; Fixed Assets Rs 6,00,000 and 10% Long term debt Rs 4,00,000. The rate of tax was 20%.

Calculate 'Return on Investment' of Y Ltd.

Solution:

Concept:

- Return on investment equals profit before interest and tax divided by capital employed, multiplied by 100.
- Capital employed equals fixed assets plus current assets less current liabilities. Recover profit before tax by dividing profit after tax by one minus the tax rate, and then add interest.

Step 1: Recover profit before interest and tax The reported Rs 1,00,000 is after both interest and tax. At a 20% tax rate, it represents 80% of profit before tax:

$$\text{Profit before tax} = 1,00,000 \times \frac{100}{80} = \text{Rs } 1,25,000.$$

Interest on the long-term debt is

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

Therefore, profit before interest and tax is

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

Interest is added after reversing the tax deduction.

Step 2: Find capital employed and calculate the return Capital employed is the total assets financed by long-term funds, calculated as

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

The long-term debt is already included in the funding of these net assets, so it is not added again. Hence,

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

Step 3: Conclusion Y Ltd.'s return on investment is $\boxed{20.625\%}$, or approximately 20.63%.

Quick Tip to Solve: Reverse tax first by dividing Rs 1,00,000 by 0.80, then add Rs 40,000 interest to obtain the ROI numerator.

21. From the following information, prepare a Comparative Statement of Profit and Loss :

Particulars	31st March, 2017	31st March, 2016
Revenue from operations	Rs 24,00,000	Rs 18,00,000
Other incomes (% of revenue from operations)	15%	25%
Expenses (% of revenue from operations)	60%	50%
Tax rate	40%	40%

[4 marks]

Solution:

Concept:

- A comparative statement presents the previous year's and current year's figures, the absolute change and the percentage change. The previous year, 2015–16, is the base year.
- Absolute change = current-year amount minus previous-year amount; percentage change = absolute change divided by previous-year amount, multiplied by 100. A negative change denotes a decrease.
- Other income and expenses are calculated on revenue from operations as specified. Tax is calculated on profit before tax, not on revenue from operations.

Step 1: Calculate income and expenses for each year For the year ended 31st March, 2016:

$$\text{Other income} = \text{Rs } 18,00,000 \times 25\% = \text{Rs } 4,50,000,$$
$$\text{Expenses} = \text{Rs } 18,00,000 \times 50\% = \text{Rs } 9,00,000.$$

For the year ended 31st March, 2017:

$$\text{Other income} = \text{Rs } 24,00,000 \times 15\% = \text{Rs } 3,60,000,$$
$$\text{Expenses} = \text{Rs } 24,00,000 \times 60\% = \text{Rs } 14,40,000.$$

Total revenue is revenue from operations plus other income. Deducting expenses gives profit before tax. Thus, the two profits before tax are Rs 13,50,000 and Rs 13,20,000 respectively. Applying the 40% tax rate gives tax of Rs 5,40,000 and Rs 5,28,000 respectively.

Step 2: Prepare the comparative statement **Comparative Statement of Profit and Loss**

For the years ended 31st March, 2016 and 31st March, 2017

Particulars	2016 (Rs)	2017 (Rs)	Change (Rs)	Change %
Revenue from operations	18,00,000	24,00,000	6,00,000	33.33
Other income	4,50,000	3,60,000	-90,000	-20.00
Total revenue	**22,50,000**	**27,60,000**	**5,10,000**	**22.67**
Less: Expenses	9,00,000	14,40,000	5,40,000	60.00
Profit before tax	**13,50,000**	**13,20,000**	**-30,000**	**-2.22**
Less: Tax at 40%	5,40,000	5,28,000	-12,000	-2.22
Profit after tax	**8,10,000**	**7,92,000**	**-18,000**	**-2.22**

Percentages are rounded to two decimal places. For example, the total-revenue change is $5,10,000/22,50,000 \times 100 = 22.67\%$, while the profit-after-tax change is $-18,000/8,10,000 \times 100 = -2.22\%$. A minus sign in the change columns means a decrease; the tax amounts themselves remain positive expenses.

Step 3: Conclusion Profit after tax decreased from Rs 8,10,000 in 2015–16 to Rs 7,92,000 in 2016–17, a fall of Rs 18,000 or 2.22%. Although total revenue increased by 22.67%, expenses increased by 60%, causing the decline in profit.

Quick Tip to Solve: Use 2016 as the denominator for every change percentage; compute other income and expenses on operating revenue, but tax on profit before tax.

22. (a) Under which major headings and sub-heading will the following items be shown in the Balance Sheet of a company as per Schedule III of Companies Act, 2013?

(i) Provision for employee benefits.

(ii) Calls in advance.

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

Solution:

Concept:

- Schedule III groups liabilities under the major headings Non-current liabilities and Current liabilities, with prescribed sub-headings. The expected settlement period determines the classification of a provision.
- Calls in advance represent share money received before it is called up. Until the call becomes due, the money is a liability and is not part of paid-up share capital.
- Financial statement analysis interprets accounting figures, but its conclusions are affected by the basis on which those figures were prepared and by information omitted from financial statements.

Step 1: (a) Classify the two balance-sheet items **Balance Sheet classification under Schedule III**

Item	Major heading	Sub-heading
Provision for employee benefits	Non-current liabilities	Long-term provisions
Calls in advance	Current liabilities	Other current liabilities

Provision for employee benefits includes estimated obligations such as gratuity and other retirement benefits. The long-term provision is shown under Non-current liabilities. Any portion due for settlement within the current period is instead classified under Current liabilities–Short-term provisions; the question does not specify such a short-term portion.

Calls in advance must be distinguished from calls in arrears. Advance money is received before a call is made and therefore remains a liability; it is neither added to called-up share capital nor treated as revenue. Calls in arrears, by contrast, are unpaid amounts already called and are deducted when determining paid-up capital.

Step 2: (b) State two limitations of analysis **1. It ignores changes in the price level.** Financial statements generally record transactions at historical amounts. Analysis based on these figures does not automatically adjust for changes in the purchasing power of money. Therefore, an increase in sales or profit between years may partly reflect rising prices rather than a corresponding improvement in operating performance. Comparisons across periods may consequently be misleading.

2. It ignores qualitative factors. Analysis mainly uses information that can be expressed in monetary terms. Important factors such as the quality of management, employee morale, product quality and

customer loyalty are not adequately captured by the figures. Thus, favourable accounting ratios alone cannot provide a complete assessment of the company's performance or future prospects.

Step 3: Conclusion Provision for employee benefits is shown under Non-current liabilities–Long-term provisions for its long-term portion; calls in advance are shown under Current liabilities–Other current liabilities. Two limitations are the neglect of price-level changes and the omission of qualitative factors.

Quick Tip to Solve: Do not add calls in advance to paid-up capital: the amount is still uncalled. For a provision, first identify when the obligation is expected to be settled.

23. Following is the Balance Sheet of Mevanca Limited as at 31st March, 2017

Mevanca Ltd.

Balance Sheet as at 31st March, 2017

Particulars	Note No.	31st March, 2017 (Rs)	31st March, 2016 (Rs)
I Equity and Liabilities			
1. Shareholder's Funds			
(a) Share Capital		3,00,000	1,00,000
(b) Reserves and Surplus	1	25,000	1,20,000
2. Non-Current Liabilities Long-term Borrowings	2	80,000	60,000
3. Current Liabilities			
(a) Trade Payables		6,000	20,000
(b) Short-term Provisions	3	68,000	70,000
Total :		4,79,000	3,70,000
II. Assets			
1. Non-Current Assets Fixed Assets	4	3,36,000	1,92,000
2. Current Assets			
(a) Inventories		67,000	60,000
(b) Trade Receivables		51,000	65,000
(c) Cash and Cash Equivalents		25,000	49,000
(d) Other Current Assets		-	4,000
Total :		4,79,000	3,70,000

Notes to Accounts

Particulars	31 March, 2017 (Rs)	31 March, 2016 (Rs)
1. Reserves and Surplus Surplus i.e., Balance in Statement of Profit & Loss	25,000	1,20,000
	25,000	1,20,000
2. Long-term Borrowings 10% Long term Loan	80,000	60,000
	80,000	60,000
3. Short-term Provisions Provision for Tax	68,000	70,000
	68,000	70,000
4. Fixed Assets Machinery	3,84,000	2,15,000
Accumulated Depreciation	(48,000)	(23,000)
	3,36,000	1,92,000

Additional Information :

(i) Additional loan was taken on 1st July, 2016.

(ii) Tax of Rs 53,000 was paid during the year.

Prepare Cash Flow Statement. [6 marks]

Solution:

Concept:

- Under the indirect method, adjust net profit before tax for non-cash expenses and non-operating items, then adjust changes in operating working capital and deduct income tax paid.
- Purchase of machinery is an investing outflow. Share capital and loan proceeds are financing inflows; interest paid by this non-financial company is a financing outflow.
- Cash flows must reconcile opening cash and cash equivalents with the closing balance. Parentheses in the statement denote cash outflows or losses.

Step 1: Calculate tax expense and net loss before tax **Working Notes**

The tax provision increases by the current year's tax expense and decreases by tax paid. Hence:

$$\begin{aligned}\text{Tax expense} &= 68,000 + 53,000 - 70,000 \\ &= \text{Rs } 51,000.\end{aligned}$$

With no dividend or transfer reported, the decrease in the Statement of Profit and Loss balance is the loss after tax:

$$\text{Loss after tax} = 1,20,000 - 25,000 = \text{Rs } 95,000,$$

$$\text{Net loss before tax} = 95,000 - 51,000 = \text{Rs } 44,000.$$

The provision is used to find tax expense; the actual Rs 53,000 paid is deducted separately from operating cash flow.

Step 2: Calculate interest, depreciation and asset purchases The opening loan of Rs 60,000 was outstanding for the full year. The additional loan of Rs 20,000 was taken on 1st July, 2016 and bears

interest for nine months up to 31st March, 2017:

$$\text{Interest} = 60,000 \times \frac{10}{100} + 20,000 \times \frac{10}{100} \times \frac{9}{12}$$
$$= 6,000 + 1,500 = \text{Rs } 7,500.$$

No unpaid interest is shown, so this amount is treated as paid. With no disposal reported, the increase in accumulated depreciation is the depreciation charge:

$$\text{Depreciation} = 48,000 - 23,000 = \text{Rs } 25,000.$$

Machinery purchases are found from gross cost, not from the net carrying amount:

$$\text{Machinery purchased} = 3,84,000 - 2,15,000 = \text{Rs } 1,69,000.$$

The share capital increase of Rs 2,00,000 and loan increase of Rs 20,000 are treated as cash receipts since no non-cash issue or acquisition is stated.

Step 3: Prepare the cash flow statement **Mevanca Ltd.**

Cash Flow Statement for the year ended 31st March, 2017

Particulars	**Amount (Rs)**
A. Cash flows from operating activities	
Net loss before tax	(44,000)
Add: Depreciation	25,000
Add: Interest on long-term loan	7,500
Operating loss before working capital changes	(11,500)
Increase in inventories	(7,000)
Decrease in trade receivables	14,000
Decrease in other current assets	4,000
Decrease in trade payables	(14,000)
Cash used in operations	(14,500)
Less: Income tax paid	(53,000)
Net cash used in operating activities (A)	**(67,500)**
B. Cash flows from investing activities	
Purchase of machinery	(1,69,000)
Net cash used in investing activities (B)	**(1,69,000)**
C. Cash flows from financing activities	
Proceeds from issue of share capital	2,00,000
Proceeds from additional long-term loan	20,000
Interest paid on long-term loan	(7,500)
Net cash from financing activities (C)	**2,12,500**
Net decrease in cash and cash equivalents (A+B+C)	**(24,000)**
Add: Opening cash and cash equivalents	49,000
Closing cash and cash equivalents	**25,000**

Step 4: Verify the working capital adjustments and cash reconciliation Inventories rose by Rs 7,000, using cash; receivables fell by Rs 14,000 and other current assets fell by Rs 4,000, releasing cash. Trade payables fell by Rs 14,000, using cash. The tax provision is excluded from these adjustments

because tax expense and tax paid have already been dealt with separately.

$$\begin{aligned}\text{Net cash change} &= -67,500 - 1,69,000 + 2,12,500\\ &= -\text{Rs } 24,000,\\ \text{Closing cash} &= 49,000 - 24,000 = \text{Rs } 25,000.\end{aligned}$$

This agrees with the closing cash and cash equivalents given in the Balance Sheet.

Step 5: Conclusion Cash used in operating activities is Rs $67,500$, cash used in investing activities is Rs $1,69,000$, and cash generated from financing activities is Rs $2,12,500$. The net cash decrease is Rs $24,000$, giving closing cash and cash equivalents of Rs $25,000$.

Quick Tip to Solve: Calculate tax expense from the tax provision first, charge the new loan's interest for nine months, and use gross machinery cost to find purchases.

OPTION – II
Computerised Accounting

18. What is meant by the term 'Front End' database ? [1 mark]

Solution:

Concept:

- A database application has a user-facing interface through which a person works with stored data.
- The front end provides facilities for entering, viewing and retrieving information; the back end holds the underlying data tables.

Step 1: Identify the user-facing component The front end is the part of a database application with which the user interacts directly. Its forms, menus and screens make it possible to work with records without manipulating the stored tables directly.

Step 2: Relate the interface to accounting work For example, an accountant may enter a voucher through an input form or select a report from a menu. These facilities belong to the front end, while the accounting records are stored in the back-end database.

Step 3: Conclusion A front-end database is the user-interface part of a database application that enables users to enter, access and present data stored in the back end.

Quick Tip to Solve: Associate the front end with the forms and screens the user sees, and the back end with the tables storing records.

19. Why is 'Report Wizard' a favourable tool for designers using MS Access ? [1 mark]

Solution:

Concept:

- A report presents selected database information in an organised, readable and printable form.

- The Report Wizard guides the designer through report creation using a sequence of choices.

Step 1: Identify the guided design process In MS Access, the designer selects the source table or query, the required fields, and choices such as grouping, sorting and layout through the Report Wizard.

Step 2: Explain the benefit to the designer Access automatically produces the report from these choices. This saves design time and makes report creation simple, even without manually arranging every control; the resulting report can be modified further if needed.

Step 3: Conclusion Report Wizard is favourable because it provides a quick, easy, step-by-step method of creating a report and automatically formats it according to the designer's selections.

Quick Tip to Solve: Link the word "Wizard" to guided choices and automatic report creation; explain the saving in design time.

20. State any four requirements which should be considered before making an investing decision to choose between 'Desktop database' or 'Server database'. [4 marks]

Solution:

Concept:

- A desktop database generally serves an individual or a small workgroup, whereas a server database provides centrally managed data services to many users over a network.
- The investment decision should match the organisation's present requirements and expected growth with the capacity, controls and cost of the database system.

Step 1: Assess the number of users Determine how many people will use the database, particularly how many will access or update it at the same time. A desktop database may be sufficient for a single user or a small group. A large number of simultaneous users generally requires a server database with suitable controls over concurrent access.

Step 2: Estimate data volume and processing requirements Consider the amount of accounting data to be stored, the number of transactions to be processed and the expected increase in these amounts. A small database with simple processing may be handled on a desktop. Large volumes, frequent updates and demanding queries favour a server database with greater capacity and performance.

Step 3: Examine security and reliability requirements Identify the required restrictions on access to confidential records and the need for backup and recovery. Where different users need different permissions and accounting information must remain reliably available, centrally administered security and recovery facilities become important in choosing a server database.

Step 4: Compare the total cost with the available budget Consider the cost of software licences, hardware, networking, maintenance and trained personnel. Desktop databases usually require a smaller investment and simpler administration. A server system should be selected when its additional capacity and control justify its higher installation and operating costs.

Step 5: Conclusion Four requirements to consider are the number of concurrent users, data and processing volume, security and reliability, and the total cost within the available budget.

Quick Tip to Solve: Organise the four points as users, workload, protection and cost; link each point to the organisation's needs before choosing a desktop or server database.

21. Explain the terms 'Password Security' and 'Data Vault'. [4 marks]

Solution:

Concept:

- Computerised accounting records must be protected against unauthorised access, disclosure and alteration.
- Password security controls entry to the system, while a data vault protects the stored information by encryption.

Step 1: Explain password security Password security is a method of restricting access to a computerised accounting system or its data to authorised users. A user must supply the correct password, normally along with a user name, before access is permitted. The software checks these credentials and rejects an unauthorised attempt.

Different users can be given different access rights according to their responsibilities. For example, an employee may be permitted to enter vouchers but not to alter the system's security settings. Passwords should be kept confidential and changed periodically; otherwise another person could use the authorised user's credentials to obtain access.

Step 2: Explain a data vault A data vault is a security facility that encrypts the accounting data, converting it from a readable form into a scrambled or coded form. The protected information is restored to a readable form through decryption using the appropriate password or key.

Thus, possession of the stored data file alone does not allow an unauthorised person to read its contents. The vault protects the confidentiality of the records themselves, providing protection beyond the password used merely to enter the application. The vault password or key must be safeguarded, since it is needed to retrieve the information in a usable form.

Step 3: Conclusion Password security verifies a user's authority to enter and use the accounting system. A data vault safeguards the stored accounting data through encryption and permits its readable recovery only with the appropriate password or key.

Quick Tip to Solve: Remember the distinction: a login password controls access to the software; a data vault encrypts the records so the stored information is not directly readable.

22. What is meant by composite attribute ? How is it different from simple attribute ? [4 marks]

Solution:

Concept:

- An attribute is a property or characteristic used to describe an entity in a database, such as an employee's name, address or employee number.
- Attributes are classified as simple or composite according to whether they can be divided into smaller meaningful attributes for the database's purpose.

Step 1: Define a composite attribute A **composite attribute** is an attribute that can be subdivided into two or more meaningful component attributes. These components together describe the original attribute, but each component also has a distinct meaning and can be stored or used separately.

For example, an employee's **Address** can be divided into House Number, Street, City, State and PIN Code. A query can then use City alone to identify employees living in a particular city, without having to search the entire address as an undivided value.

Step 2: Define a simple attribute A **simple attribute**, also called an atomic attribute, cannot be divided further into meaningful component attributes in the database model. It represents one indivisible item of information for the intended use.

For example, an Employee Number used as a single identifier is a simple attribute. Although its characters can physically be separated, those characters are not treated as separate meaningful properties in this model. Similarly, the City component of Address can itself be treated as a simple attribute.

Step 3: State the difference The difference is **meaningful divisibility**: a composite attribute has a group of component attributes, whereas a simple attribute has no further meaningful components. Thus Address is composite because City, State and PIN Code can be represented separately; an Employee Number treated as an indivisible identifier is simple.

This distinction concerns the internal structure of the attribute. It does not depend merely on the number of characters in its value. A long identifier may still be simple, while an address is composite when its components have separate uses in the database.

Step 4: Conclusion A composite attribute can be subdivided into meaningful component attributes, such as Address into City, State and PIN Code. A simple attribute is atomic in the database model and cannot be subdivided meaningfully, such as an Employee Number used as one identifier.

Quick Tip to Solve: Ask whether the proposed parts have separate meanings in the database: Address has City and State; splitting an identifier into individual characters does not by itself make it composite.

23. Yamaha industries purchased an embossing machine for Rs 4,35,000. They paid Rs 45,000 as installation and transport expenses. Assuming that the salvage value of machine at the end of 5 years is Rs 2,00,000, calculate depreciation by Straight Line Method & its Rate, using formulas in MS excel. [6 marks]

Solution:

Concept:

- The cost of a fixed asset includes its purchase price and the expenses necessary to bring it to its location and working condition. Installation and transport expenses are therefore added to the machine's purchase price.
- Straight Line Method charges an equal amount each year: $D = (C - S)/n$, where D is annual depreciation, C is total cost, S is salvage value and n is useful life in years.
- The annual depreciation rate on original cost is $r = (D/C) \times 100$. Excel's `SLN(cost,salvage,life)` returns straight-line depreciation for one period of the specified life.

Step 1: Calculate the capitalised cost Yamaha industries must include the installation and transport expenditure in the machine's cost because these expenses are incurred to make the asset ready for

use.

$$C = \text{Rs } 4,35,000 + \text{Rs } 45,000 = \text{Rs } 4,80,000.$$

The salvage value is Rs 2,00,000 and the useful life is 5 years. Salvage value is the amount expected to remain at the end of that life; it is not an additional purchase expense.

Step 2: Calculate annual depreciation and its rate Deduct the salvage value from the capitalised cost to find the amount to be depreciated, and spread that amount equally over the useful life:

$$\begin{aligned} C - S &= \text{Rs } 4,80,000 - \text{Rs } 2,00,000 \\ &= \text{Rs } 2,80,000, \\ D &= \frac{2,80,000}{5} = \text{Rs } 56,000 \text{ per year.} \end{aligned}$$

The percentage rate is calculated on the **original capitalised cost**, not on the depreciable amount:

$$r = \frac{56,000}{4,80,000} \times 100 = 11\frac{2}{3}\% \approx 11.67\% \text{ per year.}$$

Step 3: Enter the data and formulas in MS Excel Set up the worksheet as follows. Enter the inputs as numeric values without typing `Rs` in the cells; use number formatting to display the amounts in Indian grouping.

Cell	Description	Value or Excel formula
B2	Purchase price (Rs)	4,35,000
B3	Installation and transport (Rs)	45,000
B4	Total cost (Rs)	`=B2+B3`
B5	Salvage value (Rs)	2,00,000
B6	Useful life (years)	5
B7	Annual depreciation (Rs)	`=SLN(B4,B5,B6)`
B8	Annual rate, percentage format	`=B7/B4`

Cell B4 gives Rs 4,80,000 and B7 gives Rs 56,000. The arithmetic formula `=(B4-B5)/B6` can be used instead of `SLN` and gives the same result. Format B8 as Percentage with two decimal places to display 11.67%. If the percentage number itself is required in a General-format cell, use `=B7/B4*100`, which displays approximately 11.6667; do not also apply Percentage format to that multiplied result.

Step 4: Verify the depreciation over the useful life Five equal annual charges should reduce the total cost exactly to the given salvage value:

$$\text{Rs } 4,80,000 - 5(\text{Rs } 56,000) = \text{Rs } 2,00,000.$$

This confirms that the annual charge allocates only the depreciable amount. Retain the exact calculation in Excel; the displayed rate is rounded for presentation, while the annual depreciation remains Rs 56,000.

Step 5: Conclusion Annual straight-line depreciation is **Rs 56,000**, and its rate on original cost is $\boxed{11\frac{2}{3}\% \approx 11.67\%}$ per year. In Excel, use `=SLN(B4,B5,B6)` for depreciation and `=B7/B4`, formatted as Percentage, for the rate.

Quick Tip to Solve: Add installation and transport to the asset's cost before using SLN. For the rate, divide annual depreciation by that total cost and apply Percentage format without multiplying by 100 again.