CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-1-1 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions

(i) This question paper contains two parts – **A** and **B**.

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

(iii) Part **B** has two options – Analysis of Financial Statements and Computerised 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 Not-for-Profit Organizations, Partnership Firms and Companies)

1. What is meant by over subscription of shares ? [1 mark]

Solution:

Concept:

- Shares offered for public subscription are the shares a company invites the public to apply for.
- Over subscription compares the number of shares applied for with the number offered for subscription.

Step 1: Identify the quantities to compare Compare the total number of shares for which applications are received with the number the company has offered to the public.

Step 2: Apply the defining condition If applications are received for more shares than have been offered, demand exceeds the available shares. For example, applications for 12,000 shares against an offer of 10,000 shares constitute over subscription.

Step 3: Conclusion Over subscription of shares means that the number of shares applied for exceeds the number of shares offered for subscription.

Quick Tip to Solve: Compare share quantities, not the issue price: applications above the offer mean over subscription.

OR

1. What is meant by 'par value' of a share ? [1 mark]

Solution:

Concept:

- Each share has a fixed nominal or face value stated in the company's share-capital records.
- The nominal value is distinct from the issue price or the price at which the share trades in the market.

Step 1: Identify the stated value Read the denomination assigned to one share by the company, such as Rs 10 per share. This denomination is its nominal or face value.

Step 2: Distinguish it from a market price A share of face value Rs 10 can trade at another price. The trading price changes with market conditions, whereas the stated face value remains the basis for recording share capital.

Step 3: Conclusion The par value of a share is its nominal or face value as stated by the company.

Quick Tip to Solve: For par value, use the stated denomination of the share, not its current market quotation.

2. A, B and C were partners sharing profits in the ratio of 5 : 4 : 3. They decided to change their profit sharing ratio to 2 : 2 : 1 w.e.f. 1st April, 2019. On that date, there was a balance of Rs 3,00,000 in General Reserve and a debit balance of Rs 4,80,000 in the Profit and Loss Account.

Pass necessary journal entries for the above on account of change in the profit sharing ratio. [1 mark]

Solution:

Concept:

- Accumulated profits and reserves belong to the partners in their old profit-sharing ratio.
- Accumulated losses are also borne in the old ratio; here the old ratio is 5:4:3 and its total is 12.

Step 1: Distribute the General Reserve **Working Notes:** A, B and C receive Rs 3,00,000 in the ratio $5:4:3$, giving Rs 1,25,000, Rs 1,00,000 and Rs 75,000 respectively. The new ratio is not used for this past reserve.

Journal of the Firm (1st April, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	General Reserve A/c Dr.		3,00,000	
	To A's Capital A/c			1,25,000
	To B's Capital A/c			1,00,000
	To C's Capital A/c			75,000
	(Being General Reserve distributed in the old ratio of 5:4:3)			

Step 2: Write off the accumulated loss **Working Notes:** The debit balance of Profit and Loss Account is a loss. A, B and C bear Rs 4,80,000 in the ratio $5:4:3$: Rs 2,00,000, Rs 1,60,000 and Rs 1,20,000 respectively.

Journal of the Firm (1st April, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	A's Capital A/c Dr.		2,00,000	
	B's Capital A/c Dr.		1,60,000	
	C's Capital A/c Dr.		1,20,000	
	To Profit and Loss A/c			4,80,000
	(Being accumulated loss written off in the old ratio of 5:4:3)			

Step 3: Conclusion The reserve is credited and the accumulated loss debited to the partners in the old ratio 5:4:3. The net reductions in A's, B's and C's capitals are Rs 75,000, Rs 60,000 and Rs 45,000 respectively.

Quick Tip to Solve: On a ratio change, distribute past reserves and losses in the old ratio before using the new ratio for future profits.

3. Raj and Seema started a partnership firm on 1st July, 2018. They agreed that Seema was entitled to a commission of 10% of the net profit after charging Raj's salary of Rs 2,500 per quarter and Seema's commission.

The net profit before charging Raj's salary and Seema's commission for the year ended 31st March, 2019 was Rs 2,27,500. Calculate Seema's commission. [1 mark]

Solution:

Concept:

- For a partner's quarterly salary, count the quarters in the actual accounting period.
- Commission at $r\%$ of profit after charging that commission equals $P \times r/(100+r)$, where P is profit before commission but after other specified charges.

Step 1: Deduct salary for the actual period From 1st July, 2018 to 31st March, 2019 there are nine months, or three quarters. Hence Raj's salary is

$$\text{Salary} = \text{Rs } 2,500 \times 3 = \text{Rs } 7,500.$$

The profit after salary but before commission is

$$P = \text{Rs } 2,27,500 - \text{Rs } 7,500 = \text{Rs } 2,20,000.$$

Step 2: Calculate commission after charging itself Let Seema's commission be C rupees. Since it is 10% of profit after its own deduction,

$$C = \frac{10}{100}(2,20,000 - C).$$

Thus $110C = 22,00,000$, so

$$C = 2,20,000 \times \frac{10}{110} = 20,000.$$

As a check, the residual profit is Rs 2,00,000, and 10% of this is Rs 20,000.

Step 3: Conclusion Seema's commission for the year ended 31st March, 2019 is Rs 20,000.

Quick Tip to Solve: Count only three quarters of salary, then use 10/110 because the commission is charged on profit after commission.

4. How are general donations treated while preparing financial statements of a not-for-profit organisation ?

[1 mark]

Solution:

Concept:

- A general donation carries no restriction requiring it to be used for a specified purpose.
- Under the usual not-for-profit accounting treatment, general donations are revenue receipts and contribute to income for the period.

Step 1: Identify the nature of the donation The question refers to general donations, so the amount is available for the organisation's ordinary activities and is not earmarked for a building fund or another specific fund.

Step 2: Choose its financial-statement treatment Treat the general donation as revenue income. It is included on the income side of the Income and Expenditure Account for the relevant accounting period, where it contributes to the period's surplus or deficit.

Step 3: Conclusion General donations are treated as revenue receipts and credited to the Income and Expenditure Account.

Quick Tip to Solve: Look for a specified purpose: an unrestricted general donation goes to income, while an earmarked donation belongs to its fund.

OR

4. What is meant by 'life membership fee' ? [1 mark]

Solution:

Concept:

- A membership fee is paid to obtain membership rights in an organisation.
- A life membership fee provides membership for the member's lifetime in exchange for a single lump-sum payment.

Step 1: Identify the payment arrangement Instead of paying a recurring annual subscription, the person pays a lump-sum amount when taking life membership of the organisation.

Step 2: Identify the period covered The payment gives membership for the person's lifetime. The life member is therefore not required to pay the normal annual membership subscription again under that arrangement. Its essential feature is the lifetime coverage obtained by one payment.

Step 3: Conclusion Life membership fee is a lump-sum amount paid once by a member to obtain membership for life in place of recurring annual subscriptions.

Quick Tip to Solve: Remember both defining features: a single lump-sum payment and membership covering the member's lifetime.

5. At the time of admission of a partner, who decides the share of profit of the new partner out of the firm's profit ? [1 mark]

Solution:

Concept:

- Partnership rights and the profit-sharing ratio are governed by the partners' agreement.
- On admission, the incoming partner obtains an agreed share of future profits through sacrifice by the existing partners.

Step 1: Identify who controls the profit-sharing arrangement The existing partners have rights to the firm's profits under their current agreement. Admission requires them to agree to the share to be made available to the new partner.

Step 2: Apply mutual agreement at admission The old partners decide the incoming partner's profit share by mutual agreement with the new partner. This agreed share becomes part of the revised partnership arrangement; it is not fixed automatically by the amount of capital brought in.

Step 3: Conclusion The share of profit of the new partner is decided by mutual agreement between the existing partners and the incoming partner.

Quick Tip to Solve: Do not infer the new partner's profit share from capital alone; first look for the partners' agreed admission terms.

OR

5. At the time of retirement, how is the new profit sharing ratio among the remaining partners calculated ? [1 mark]

Solution:

Concept:

- A remaining partner's new share is the old share plus the share acquired from the retiring partner.
- The relative new shares of all remaining partners form their new profit-sharing ratio.

Step 1: Find each remaining partner's gain Determine how much of the retiring partner's share each remaining partner acquires under the retirement agreement. Add that gain to the corresponding partner's old share.

Step 2: Form and simplify the new ratio For each continuing partner,

$$\text{New share} = \text{Old share} + \text{Share acquired}.$$

Express these new fractions with a common denominator, compare their numerators and simplify to obtain the new profit-sharing ratio. If no different arrangement is stated, the remaining partners continue in their old relative ratio.

Step 3: Conclusion The new profit-sharing ratio is found by adding each remaining partner's acquired share to that partner's old share and taking the ratio of the resulting new shares.

Quick Tip to Solve: Use old share plus gain for each continuing partner; the gaining ratio and the new profit-sharing ratio are different concepts.

6. A and B are partners in a firm sharing profits in the ratio of 3 : 2. Mrs. B has given a loan of Rs 40,000 to the firm and A has also given a loan of Rs 80,000 to the firm. The firm was dissolved and its assets realised Rs 60,000.

State the order of payment of Mrs. B's loan and A's loan assuming that there was no other third party liability of the firm. [1 mark]

Solution:

Concept:

- On dissolution, outside creditors are paid before loans advanced by partners.
- A loan from a partner's spouse is an outside liability when the spouse is not a partner; a partner's own loan has a lower priority.

Step 1: Identify the outside creditor Mrs. B is not stated to be a partner. Her loan of Rs 40,000 is therefore an outside liability, whereas A's loan of Rs 80,000 is a partner's loan. The profit-sharing ratio 3:2 does not decide this payment priority.

Step 2: Apply the available proceeds in order Out of the Rs 60,000 realised, first pay Mrs. B's loan of Rs 40,000 in full. The balance available is

$$\text{Rs } 60,000 - \text{Rs } 40,000 = \text{Rs } 20,000.$$

Apply this remaining Rs 20,000 towards A's loan. Thus Rs 60,000 of A's loan remains unpaid from the stated realisation proceeds.

Step 3: Conclusion Pay Mrs. B's loan first: Rs 40,000 in full. Then pay Rs 20,000 towards A's loan out of the remaining proceeds.

Quick Tip to Solve: Classify the lender before allocating cash: a partner's spouse is an outside creditor, so her loan precedes the partner's own loan.

7. Hari and Krishan were partners sharing profits and losses in the ratio of 2 : 1. They admitted Shyam as a partner for 1/5th share in the profits. For this purpose the Goodwill of the firm was to be valued on the basis of three years' purchase of last five years average profits. The profits for the last five years were :

Year	2013 – 14	2014 – 15	2015 – 16	2016 – 17	2017 – 18
Profit (Rs)	50,000	40,000	75,000	(25,000)	50,000

Calculate Goodwill of the firm after adjusting the following :

The profit of 2014 – 15 was calculated after charging Rs 10,000 for abnormal loss of goods by fire. [3 marks]

Solution:

Concept:

- Goodwill equals maintainable average annual profit multiplied by the agreed number of years' purchase.

- Add back an abnormal loss already charged to profit, because it is not a normal recurring expense. A normal trading loss, however, remains a negative figure in the average.

Step 1: Adjust the abnormal fire loss **Working Notes**

The reported profit of 2014–15, Rs 40,000, is after charging the abnormal loss of goods by fire. Restore this loss to find the normal profit for that year:

$$\text{Adjusted profit} = 40,000 + 10,000 = \text{Rs } 50,000.$$

No abnormal item is specified for any other year. In particular, the bracketed Rs 25,000 for 2016–17 is a loss and must be subtracted, not added as a profit.

Step 2: Calculate the five-year average All five years receive equal weight under the average-profit method. Thus the adjusted aggregate and average are:

$$\begin{aligned} \text{Total profit} &= 50,000 + 50,000 + 75,000 - 25,000 + 50,000 \\ &= \text{Rs } 2,00,000, \\ \text{Average annual profit} &= \frac{2,00,000}{5} = \text{Rs } 40,000. \end{aligned}$$

The average is divided by five because five years' results are given, even though one year records a loss.

Step 3: Apply three years' purchase The agreement values the firm's goodwill at three times the adjusted average annual profit:

$$\text{Goodwill} = 40,000 \times 3 = \text{Rs } 1,20,000.$$

Shyam's one-fifth share would matter when calculating his share of goodwill. Here the question asks for the goodwill of the whole firm, so that fraction is not applied to this valuation.

Step 4: Conclusion The goodwill of the firm is $\boxed{\text{Rs } 1,20,000}$, based on an adjusted average annual profit of Rs 40,000.

Quick Tip to Solve: Add the fire loss back to 2014–15 only, retain the 2016–17 loss as negative, divide the five-year total by five, and then multiply by three.

8. A and B are partners in a firm sharing profits and losses in the ratio of 7 : 3. Their fixed capitals were : A Rs 9,00,000 and B Rs 4,00,000. The partnership deed provided the following :

(i) Interest on capital @ 10% p.a.

(ii) A's salary Rs 50,000 per year and B's salary Rs 3,000 per month.

Profit for the year ended 31st March, 2019 Rs 2,78,000 was distributed without providing for interest on capital and partners' salary.

Showing your working clearly, pass the necessary adjustment entry for the above omissions. [3 marks]

Solution:

Concept:

- Interest on capital and partners' salaries are appropriations of profit. The balance remaining after these appropriations is shared in the profit-sharing ratio.
- Compare the correct total entitlement with the amount already credited. Debit a partner who received too much and credit a partner who received too little. With fixed capitals, use current accounts.

Step 1: Calculate the omitted appropriations **Working Notes**

Interest on capital is allowed at 10% for the year. B's monthly salary must first be converted to an annual amount:

$$\text{A's interest} = 9,00,000 \times 10\% = \text{Rs } 90,000,$$

$$\text{B's interest} = 4,00,000 \times 10\% = \text{Rs } 40,000,$$

$$\text{A's annual salary} = \text{Rs } 50,000,$$

$$\text{B's annual salary} = 3,000 \times 12 = \text{Rs } 36,000.$$

Total omitted appropriations are Rs 2,16,000. Therefore the residual profit is Rs $2,78,000 - 2,16,000 = 62,000$, shared by A and B in the ratio $7 : 3$.

Step 2: Compare correct and actual credits

Particulars	A (Rs)	B (Rs)
Interest on capital	90,000	40,000
Salary	50,000	36,000
Share of residual profit: Rs 62,000 in 7:3	43,400	18,600
Correct total credit	1,83,400	94,600
Already credited: Rs 2,78,000 in 7:3	1,94,600	83,400
Adjustment required	11,200 Dr.	11,200 Cr.

A received Rs 11,200 more than his correct entitlement, while B received the same amount less. The correction redistributes profit and does not alter the firm's total profit or the partners' fixed capitals.

Step 3: Record the adjustment entry **Journal of A and B**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	A's Current A/c Dr.		11,200	
	To B's Current A/c			11,200
	(Being omitted interest on capital and partners' salaries adjusted through current accounts)			

Step 4: Conclusion Debit A's Current Account and credit B's Current Account by $\boxed{\text{Rs } 11,200}$ each.

Quick Tip to Solve: Convert B's Rs 3,000 monthly salary to Rs 36,000 annually before comparing correct entitlements. Fixed capitals require the adjustment through current accounts.

OR

8. A, B and C were partners in a firm. On 1st April, 2018, their capitals stood at Rs 4,00,000, Rs 3,00,000 and Rs 2,00,000 respectively. As per the provisions of the partnership deed

(i) A was entitled to a salary of Rs 5,000 per month.

(ii) Partners were entitled to interest on capital @10% p.a.

The net profit for the year ended 31st March, 2019, Rs 3,00,000 was divided among the partners without providing for the above items.

Showing your working clearly, pass an adjustment entry to rectify the above error. [3 marks]

Solution:

Concept:

- When no profit-sharing ratio is specified, partners share profits equally. Differences in their capital balances do not determine the profit-sharing ratio.
- Partners' salary and interest on capital are appropriations. After allowing these, divide the remaining profit equally and compare each correct entitlement with the amount already credited.

Step 1: Find the appropriations and residual profit **Working Notes**

The question does not state a profit-sharing ratio, so A, B and C share profits in $1 : 1 : 1$. A's salary for the year is Rs $5,000 \times 12 = 60,000$. Interest on the opening capital balances at 10% is:

$$\text{A} : 4,00,000 \times 10\% = \text{Rs } 40,000,$$
$$\text{B} : 3,00,000 \times 10\% = \text{Rs } 30,000,$$
$$\text{C} : 2,00,000 \times 10\% = \text{Rs } 20,000.$$

Total interest is Rs 90,000. The profit remaining after salary and interest is Rs $3,00,000 - 60,000 - 90,000 = 1,50,000$, or Rs 50,000 for each partner.

Step 2: Prepare the adjustment working

Particulars	A (Rs)	B (Rs)	C (Rs)
Salary	60,000	–	–
Interest on capital	40,000	30,000	20,000
Equal share of residual profit	50,000	50,000	50,000
Correct total credit	1,50,000	80,000	70,000
Already credited: Rs 3,00,000 equally	1,00,000	1,00,000	1,00,000
Adjustment required	50,000 Cr.	20,000 Dr.	30,000 Dr.

A was undercredited by Rs 50,000. B and C were overcredited by Rs 20,000 and Rs 30,000 respectively. Their combined debit therefore exactly offsets A's credit.

Step 3: Pass the rectifying entry No fixed-capital arrangement is stated, so record the correction through partners' capital accounts.

Journal of A, B and C

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	B's Capital A/c Dr. C's Capital A/c Dr. To A's Capital A/c (Being omitted salary and interest on capital adjusted by a single rectifying entry)		20,000 30,000	 50,000

Step 4: Conclusion Debit B's Capital Account by Rs 20,000 and C's Capital Account by Rs 30,000; credit A's Capital Account by Rs 50,000.

Quick Tip to Solve: Do not use the capital ratio 4:3:2 as the profit ratio. With no stated profit ratio, divide both the original profit and the residual profit equally.

9. Present the following items in the Balance Sheet of Queen's Club as at 31st March, 2019 :

Capital Fund (1st April, 2018)	**Rs 10,80,000**
Building Fund (1st April, 2018)	**Rs 4,80,000**
Donation received for Building	**Rs 6,00,000**
10% Building Fund Investments (1st April, 2018)	**Rs 4,80,000**
Interest received on Building Fund Investments	**Rs 48,000**

Expenditure on construction of building Rs 3,60,000. The construction work is in progress and has not yet been completed. [3 marks]

Solution:

Concept:

- A donation restricted to constructing a building is a capital receipt credited to the Building Fund. Income on investments belonging to that fund is also added to it, rather than to general income.
- Construction expenditure creates a capital asset. While construction remains incomplete, show it as Building under Construction on the assets side; keep the Building Fund separately on the liabilities side.

Step 1: Calculate the closing building fund **Working Notes**

The building donation is restricted to the building purpose, and the investment interest belongs to the same specific fund. Thus:

$$\begin{aligned}\text{Building Fund} &= 4,80,000 + 6,00,000 + 48,000\\ &= \text{Rs } 11,28,000.\end{aligned}$$

The interest received, Rs 48,000, agrees with $10\% \times$ Rs $4,80,000$. No additional interest receivable arises from the given figures. The donation and this interest are not credited to the Income and Expenditure Account.

Step 2: Classify the unfinished construction The Rs 3,60,000 spent on construction is capital expenditure, not a routine expense. Since the building is still in progress, it is shown as Building under Construction. The fund is retained separately while the project remains incomplete; no transfer from it to Capital Fund is required here. Therefore Capital Fund remains Rs 10,80,000, and the existing Building Fund Investments remain Rs 4,80,000, as no sale of investments is stated.

Step 3: Present the balance sheet extract

Queen's Club

Balance Sheet (extract) as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund	10,80,000	10% Building Fund Investments	4,80,000
Building Fund:		Building under Construction	3,60,000
Opening balance	4,80,000		
Add: Building donation	6,00,000		
Add: Investment interest	48,000		
Closing Building Fund	11,28,000		

This is an extract showing only the specified items. Other assets, liabilities and cash balances have not been supplied, so no balancing total or invented cash balance is inserted.

Step 4: Conclusion Show Capital Fund of Rs 10,80,000 and Building Fund of Rs 11,28,000 on the liabilities side; show Building Fund Investments of Rs 4,80,000 and Building under Construction of Rs 3,60,000 on the assets side.

Quick Tip to Solve: Keep the restricted donation and investment interest with Building Fund. The words "construction work is in progress" require a separate Building under Construction asset.

10. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 : 1. D was admitted into the firm with 1/4th share in profits, which he got 3/16th from A and 1/16th from B. The total capital of the firm as agreed upon was Rs 1,20,000 and D brought in cash equivalent to 1/4th of this amount as his capital. The capital of other partners also had to be adjusted in the ratio of their respective share in profits by bringing in or paying cash. The capitals of A, B and C after all adjustments related to revaluation of assets and reassessment of liabilities were Rs 40,000; Rs 35,000 and Rs 30,000 respectively.

Calculate the new capitals of A, B and C and record the necessary journal entries for the above transactions. [3 marks]

Solution:

Concept:

- A partner's new share equals the old share less the share sacrificed. C sacrifices nothing, so C retains the old share.
- Required capital equals agreed total capital multiplied by the partner's new profit share. Excess adjusted capital is refunded in cash; a deficiency is brought in cash.

Step 1: Calculate the new profit-sharing ratio **Working Notes:** A and B sacrifice the specified fractions of the firm's total profit, not fractions of their individual old shares. Thus,

$$A = \frac{3}{6} - \frac{3}{16} = \frac{15}{48},$$
$$B = \frac{2}{6} - \frac{1}{16} = \frac{13}{48},$$
$$C = \frac{1}{6} = \frac{8}{48}, \qquad D = \frac{1}{4} = \frac{12}{48}.$$

The new ratio is $15 : 13 : 8 : 12$; its fractions total one.

Step 2: Determine the required capitals and cash refunds Apply the new shares to total capital of Rs 1,20,000. The given old capitals already include all revaluation adjustments, so no further revaluation entry is needed.

Partner	Adjusted capital (Rs)	Required capital (Rs)	Refund (Rs)
A	40,000	$1,20,000 \times 15/48 = 37,500$	2,500
B	35,000	$1,20,000 \times 13/48 = 32,500$	2,500
C	30,000	$1,20,000 \times 8/48 = 20,000$	10,000

D brings $1,20,000 \times 1/4 =$ Rs $30,000$. Refunds total Rs 15,000. The check is Rs 1,05,000 existing capital plus Rs 30,000 introduced less Rs 15,000 refunded, giving Rs 1,20,000.

Step 3: Record the capital adjustments in the journal **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. To D's Capital A/c (Being capital brought in by D on admission)		30,000	 30,000
	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Cash A/c (Being excess capitals refunded to A, B and C in cash)		2,500 2,500 10,000	 15,000

Step 4: Conclusion The new capitals are A: Rs 37,500, B: Rs 32,500 and C: Rs 20,000; D's capital is Rs 30,000. A, B and C receive cash refunds of Rs 2,500, Rs 2,500 and Rs 10,000 respectively.

Quick Tip to Solve: First deduct the stated sacrifices using a common denominator of 48; then multiply each new fraction by Rs 1,20,000 before comparing with adjusted capitals.

11. Ravi and Mukesh were partners in a firm sharing profits and losses equally. On 31st March, 2019 their firm was dissolved. On the date of dissolution their Balance Sheet showed stock of Rs 60,000 and creditors of Rs 70,000. After transferring stock and creditors to realisation account the following transactions took place :

(i) Ravi took over 40% of total stock at 20% discount.

(ii) 30% of total stock was taken over by creditors of Rs 20,000 in full settlement.

(iii) Remaining stock was sold for cash at a profit of 25%.

(iv) Remaining creditors were paid in cash at a discount of 10%.

Pass necessary journal entries for the above transactions in the books of the firm. [4 marks]

Solution:

Concept:

- After assets and external liabilities have been transferred to Realisation Account, subsequent asset receipts credit Realisation and liability payments debit Realisation.
- An asset taken over by a partner debits the partner's capital at its agreed value. No further entry is passed when a creditor directly takes over an already transferred asset in settlement of an already transferred liability.

Step 1: Compute the stock values and settlement amounts **Working Notes:** Each percentage of stock is based on the original stock of Rs 60,000.

$$\begin{aligned}
\text{(i) Stock taken by Ravi at book value} &= 60,000 \times 40\% = \text{Rs } 24,000,\\
\text{Agreed takeover value} &= 24,000 \times 80\% = \text{Rs } 19,200.\\
\text{(ii) Stock taken by creditors} &= 60,000 \times 30\% = \text{Rs } 18,000.\\
\text{(iii) Remaining stock} &= 60,000 - 24,000 - 18,000 = \text{Rs } 18,000,\\
\text{Cash realised} &= 18,000 \times 125\% = \text{Rs } 22,500.\\
\text{(iv) Remaining creditors} &= 70,000 - 20,000 = \text{Rs } 50,000,\\
\text{Cash paid} &= 50,000 \times 90\% = \text{Rs } 45,000.
\end{aligned}$$

The creditors settled in (ii) have a liability value of Rs 20,000, although the stock they accept has a book value of Rs 18,000. Therefore the creditors remaining for cash settlement are Rs 50,000, not Rs 52,000.

Step 2: Record the transactions requiring journal entries **Journal of Ravi and Mukesh**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Ravi's Capital A/c Dr. To Realisation A/c (Being 40% of stock taken over by Ravi at 20% discount)		19,200	 19,200
31 Mar. 2019	Cash A/c Dr. To Realisation A/c (Being remaining stock sold for cash at 25% profit on book value)		22,500	 22,500
31 Mar. 2019	Realisation A/c Dr. To Cash A/c (Being remaining creditors of Rs 50,000 paid at 10% discount)		45,000	 45,000

Step 3: Explain the treatment of stock accepted by creditors For transaction (ii), **no journal entry is required**. Stock and creditors have already been transferred to Realisation Account. Direct acceptance of the stock in full settlement therefore requires neither a cash entry nor another transfer of the stock or the liability. The difference is automatically reflected in the balance of Realisation Account. Similarly, the Rs 5,000 discount on the remaining creditors is reflected through paying only Rs 45,000; it is not credited separately to Discount Received Account. The initial transfers must not be repeated because the question states that they have already been made.

Step 4: Conclusion Debit Ravi's Capital by Rs 19,200 and credit Realisation; pass no entry for (ii); debit Cash and credit Realisation by Rs 22,500 for (iii); debit Realisation and credit Cash by Rs 45,000 for (iv).

Quick Tip to Solve: Deduct the liability settled, Rs 20,000, from total creditors before applying the 10% discount. Do not deduct the book value of stock accepted by those creditors.

12. A, B and C were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. C died on 30th June, 2016. After all the necessary adjustments, his capital account showed a credit balance of Rs 70,600. C's executor was paid Rs 10,600 on 1st July, 2016 and the balance in three equal yearly instalments starting from 30th June, 2017 with interest @ 10% p.a. on the unpaid amount. The firm closes its books on 31st March every year.

Prepare C's Executor's Account till the amount is finally paid. [4 marks]

Solution:

Concept:

- Transfer the deceased partner's final capital balance to the executor's account. Payments debit this liability account; interest on the unpaid principal credits it.
- Equal annual instalments of principal are calculated after the immediate payment. Interest is

additional and is calculated on the principal outstanding, without compounding accrued interest.

- Since the books close on 31st March but instalments fall due on 30th June, split each year's interest into nine months and three months.

Step 1: Calculate the principal instalments and interest **Working Notes**

Principal remaining after the immediate payment is

$$\text{Rs } 70,600 - \text{Rs } 10,600 = \text{Rs } 60,000.$$

Each of the three yearly principal instalments is Rs $60,000/3 =$ Rs $20,000$. Interest for the first, second and third full years is respectively

$$60,000 \times 10\% = \text{Rs } 6,000,$$
$$40,000 \times 10\% = \text{Rs } 4,000,$$
$$20,000 \times 10\% = \text{Rs } 2,000.$$

Thus the instalment payments include principal plus the preceding year's interest: Rs 26,000, Rs 24,000 and Rs 22,000. The nine-month and three-month portions are Rs 4,500 and Rs 1,500 in the first year, Rs 3,000 and Rs 1,000 in the second, and Rs 1,500 and Rs 500 in the third. Closing balances below include accrued interest, but the next interest calculation uses only unpaid principal.

Step 2: Record the transfer, first payment and first year-end balance **C's Executor's Account: 2016–17**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
1 Jul 2016: To Bank	10,600	30 Jun 2016: By C's Capital	70,600
31 Mar 2017: To Balance c/d	64,500	31 Mar 2017: By Interest	4,500
Total	75,100	Total	75,100

Interest for July 2016 to March 2017 is $60,000 \times 10\% \times 9/12 =$ Rs $4,500$. The balance carried down is Rs 60,000 principal plus Rs 4,500 accrued interest.

Step 3: Record the first annual instalment and the next closing balance **C's Executor's Account: 2017–18**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
30 Jun 2017: To Bank	26,000	1 Apr 2017: By Balance b/d	64,500
31 Mar 2018: To Balance c/d	43,000	30 Jun 2017: By Interest	1,500
		31 Mar 2018: By Interest	3,000
Total	69,000	Total	69,000

Add interest of Rs 1,500 for April–June 2017 before paying Rs 26,000. Principal then falls to Rs 40,000; nine months' interest to March 2018 is $40,000 \times 10\% \times 9/12 =$ Rs $3,000$.

Step 4: Record the second annual instalment and the next closing balance **C's Executor's Account: 2018–19**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
30 Jun 2018: To Bank	24,000	1 Apr 2018: By Balance b/d	43,000
31 Mar 2019: To Balance c/d	21,500	30 Jun 2018: By Interest	1,000
		31 Mar 2019: By Interest	1,500
Total	45,500	Total	45,500

Interest for April–June 2018 is $40,000 \times 10\% \times 3/12 =$ Rs $1,000$. After the second payment, principal

is Rs 20,000, giving nine months' interest of Rs 1,500 to March 2019.

Step 5: Settle the executor's account with the final payment **C's Executor's Account: 2019–20**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
30 Jun 2019: To Bank	22,000	1 Apr 2019: By Balance b/d	21,500
		30 Jun 2019: By Interest	500
Total	22,000	Total	22,000

Final interest is $20,000 \times 10\% \times 3/12 = \text{Rs } 500$. The account is fully settled on 30th June 2019, so no balance remains to be carried forward.

Step 6: Conclusion C's executor receives Rs 10,600 immediately, followed by Rs 26,000, Rs 24,000 and Rs 22,000 on 30th June 2017, 2018 and 2019 respectively. Total interest is Rs 12,000; total payments of Rs 82,600 equal the original liability of Rs 70,600 plus this interest.

Quick Tip to Solve: At each 31st March, accrue nine months' interest; add the remaining three months before the June payment. Calculate interest on Rs 60,000, Rs 40,000 and Rs 20,000, not on balances containing accrued interest.

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13. On 1st April, 2016, Ganesh Ltd. acquired assets of Rs 6,00,000 and took over liabilities of Rs 70,000 of Sohan Ltd. at an agreed value of Rs 6,60,000. Ganesh Ltd. issued 12% Debentures of Rs 100 each at a premium of 10% in full satisfaction of purchase consideration. The debentures were redeemable after three years at a premium of 5%. The company decided to transfer the minimum required amount to Debenture Redemption Reserve on 31st March, 2018. It also made the required investment in Government securities earning interest @ 10% p.a. on 1st April, 2018. Tax was deducted on interest earned @ 10%.

Ignoring entries relating to writing off loss on issue of debentures and interest paid on debentures, pass the necessary journal entries to record the issue and redemption of debentures. [6 marks]

Solution:

Concept:

- Purchase consideration exceeding net assets acquired is goodwill. Debentures issued to the vendor discharge the purchase consideration at their issue price, including issue premium.
- Premium payable on redemption is recognised as a liability at issue, with a corresponding debit to Loss on Issue of Debentures Account.
- For this examination's applicable requirements, the minimum Debenture Redemption Reserve (DRR) is 25% of nominal debentures, and Debenture Redemption Investment (DRI) is 15% of nominal debentures maturing in the relevant year.
- Record investment interest at its gross amount. Tax deducted at source is an asset; only the net interest is received in Bank Account.

Step 1: Compute goodwill, debenture face value and redemption provisions **Working Notes**

Net assets acquired are $\text{Rs } 6,00,000 - \text{Rs } 70,000 = \text{Rs } 5,30,000$. Therefore goodwill is

$$\text{Rs } 6,60,000 - \text{Rs } 5,30,000 = \text{Rs } 1,30,000.$$

Each Rs 100 debenture is issued at Rs 110. Hence

$$\begin{aligned}\text{Number of debentures} &= 6,60,000/110 = 6,000,\\ \text{Nominal value} &= 6,000 \times 100 = \text{Rs } 6,00,000,\\ \text{Issue premium} &= 6,00,000 \times 10\% = \text{Rs } 60,000,\\ \text{Redemption premium} &= 6,00,000 \times 5\% = \text{Rs } 30,000.\end{aligned}$$

DRR is $6,00,000 \times 25\% = \text{Rs } 1,50,000$ and DRI is $6,00,000 \times 15\% = \text{Rs } 90,000$. Both are based on nominal value, not the issue proceeds or the redemption amount. Amount payable on redemption is Rs 6,30,000.

Step 2: Record the acquisition and issue of debentures **Journal of Ganesh Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr 2016	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Sohan Ltd. A/c (Being assets and liabilities taken over for agreed purchase consideration)		6,00,000 1,30,000	 70,000 6,60,000
1 Apr 2016	Sohan Ltd. A/c Dr. Loss on Issue of Debentures A/c Dr. To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being 6,000 debentures issued at 10% premium, redeemable at 5% premium, to settle the vendor)		6,60,000 30,000	 6,00,000 60,000 30,000

The vendor is credited with the agreed consideration and then debited when debentures discharge it. The loss recognised here is the redemption premium; its writing-off entry is omitted as instructed.

Step 3: Create DRR and make the statutory investment **Journal of Ganesh Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2018	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being minimum DRR created at 25% of nominal debentures)		1,50,000	 1,50,000
1 Apr 2018	Debenture Redemption Investment A/c Dr. To Bank A/c (Being government securities purchased equal to 15% of debentures to be redeemed)		90,000	 90,000

DRR is an appropriation of profits; DRI represents a separate investment of funds. Creating a reserve does not itself mean that cash has been invested.

Step 4: Record investment interest and realisation of securities The investment earns one year's gross interest of $90,000 \times 10\% = \text{Rs } 9,000$. TDS is $9,000 \times 10\% = \text{Rs } 900$, leaving Rs 8,100 received in bank. Securities are realised at their carrying amount because no gain or loss is specified.

Journal of Ganesh Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2019	Bank A/c Dr. Tax Deducted at Source A/c Dr. To Interest on Debenture Redemption Investment A/c (Being gross investment interest earned, with 10% tax deducted at source)		8,100 900	 9,000
31 Mar 2019	Interest on Debenture Redemption Investment A/c Dr. To Statement of Profit and Loss A/c (Being investment interest income transferred to profit and loss)		9,000	 9,000
31 Mar 2019	Bank A/c Dr. To Debenture Redemption Investment A/c (Being government securities realised at carrying amount)		90,000	 90,000

Step 5: Redeem the debentures and transfer the reserve The three-year term ends on 31st March 2019. Transfer the nominal debenture liability and the premium liability to Debentureholders Account, pay the combined amount, then transfer DRR to General Reserve.

Journal of Ganesh Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2019	12% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at 5% premium)		6,00,000 30,000	 6,30,000
31 Mar 2019	Debentureholders A/c Dr. To Bank A/c (Being debentureholders paid in full)		6,30,000	 6,30,000
31 Mar 2019	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred after completion of redemption)		1,50,000	 1,50,000

Each entry has equal debit and credit totals. Entries for debenture interest and for writing off the loss on issue have been omitted, as required.

Step 6: Conclusion Ganesh Ltd. issues 6,000 debentures of Rs 100 each to settle Rs 6,60,000. Goodwill is Rs 1,30,000, DRR is Rs 1,50,000 and DRI is Rs 90,000. Redemption payment is Rs 6,30,000; investment interest is Rs 9,000 gross, Rs 8,100 net of TDS.

Quick Tip to Solve: Divide the purchase consideration by Rs 110 to find the number issued. Apply DRR, DRI and redemption-premium percentages to the Rs 6,00,000 nominal value, and apply TDS only to investment interest.

14. X and Y are partners sharing profits in the ratio of 3 : 2. Their partnership deed provided for allowing interest on capital @ 10% p.a. and charging interest on drawings @ 12% p.a. The incomplete Profit and Loss Appropriation Account for the year ended 31st March, 2019, partners capital and current accounts are given below :

Profit and Loss Appropriation Account for the year ended 31st March, 2019

Dr. Particulars	Rs	Cr. Particulars	Rs
To Interest on Capital:		By Profit and Loss A/c	
X's Current A/c		Net Profit b/d	.....
Y's Current A/c	.....	By Interest on Drawings:	
To Salary		X's Current A/c	
Y's Current A/c	.....	Y's Current A/c	.....
To Profit transferred to:			
X's Current A/c 1,20,000			
Y's Current A/c	.....		
	2,84,000		2,84,000

Partners' Capital Accounts

Dr. Particulars	X (Rs)	Y (Rs)	Cr. Particulars	X (Rs)	Y (Rs)
To Balance c/d	.....	.....	By Balance b/d	.....	.....
	.....	.....		.....	.....

Partners' Current Accounts

Dr. Particulars	X (Rs)	Y (Rs)	Cr. Particulars	X (Rs)	Y (Rs)
To Bank (Drawing)	10,000	9,000	By Balance b/d	78,000	69,000
To	.....	.....	By Interest on Capital	18,000	24,000
To	.....	.....	By	.....	.....
			By	.....	.....
	.....	.....		.....	.....

Complete the Profit and Loss Appropriation Account for the year ended 31st March, 2019, Partners' Capital Accounts and Current Accounts. [6 marks]

Solution:

Concept:

- Under the fixed capital method, interest on capital, salary, drawings, interest on drawings and profit shares are recorded in partners' current accounts. Capital accounts change only for permanent capital additions or withdrawals.
- Interest on capital is capital multiplied by the annual rate. Residual profit is divided in the agreed ratio after interest on capital and partners' salary have been appropriated.
- Where the dates of annual drawings are not given, interest on drawings is calculated for an average period of six months. Interest on drawings is credited to the Profit and Loss Appropriation Account and debited to the partner's current account.

Step 1: Prepare the working notes **Working Notes**

The current accounts show interest on capital of Rs 18,000 for X and Rs 24,000 for Y. Since the annual rate is 10%, the fixed capitals are:

$$C_X = 18,000 \times \frac{100}{10} = \text{Rs } 1,80,000, \qquad C_Y = 24,000 \times \frac{100}{10} = \text{Rs } 2,40,000.$$

X's share of the residual profit is Rs 1,20,000. The profit-sharing ratio is $3:2$, so:

$$\text{Y's share} = 1,20,000 \times \frac{2}{3} = \text{Rs } 80,000, \qquad \text{total residual profit} = \text{Rs } 2,00,000.$$

The debit total of the Appropriation Account is Rs 2,84,000. Therefore Y's salary is the balancing appropriation:

$$\text{Y's salary} = 2,84,000 - 18,000 - 24,000 - 2,00,000 = \text{Rs } 42,000.$$

Step 2: Calculate interest on drawings and the net profit As no dates of drawings are stated, use the usual average period of six months:

$$I_X = 10,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 600, \qquad I_Y = 9,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 540.$$

The credit total comprises the net profit brought from the Profit and Loss Account plus interest on drawings. Consequently:

$$\text{Net profit} = 2,84,000 - (600 + 540) = \text{Rs } 2,82,860.$$

This net profit differs from the residual profit shared by the partners because the latter is determined after the other appropriations.

Step 3: Complete the Profit and Loss Appropriation Account **Profit and Loss Appropriation Account for the year ended 31st March, 2019**

Dr. Particulars	Rs	Cr. Particulars	Rs
To Interest on Capital:		By Profit and Loss A/c	2,82,860
X's Current A/c	18,000	(Net Profit b/d)	
Y's Current A/c	24,000	By Interest on Drawings:	
To Salary:		X's Current A/c	600
Y's Current A/c	42,000	Y's Current A/c	540
To Profit transferred to:			
X's Current A/c	1,20,000		
Y's Current A/c	80,000		
Total	2,84,000	Total	2,84,000

Step 4: Complete the partners' capital accounts No permanent addition or withdrawal of capital is given. Hence both opening capitals are carried forward unchanged. The drawings given in the question go to current accounts.

Partners' Capital Accounts

Dr. Particulars	X (Rs)	Y (Rs)	Cr. Particulars	X (Rs)	Y (Rs)
To Balance c/d	1,80,000	2,40,000	By Balance b/d	1,80,000	2,40,000
Total	1,80,000	2,40,000	Total	1,80,000	2,40,000

Step 5: Complete and balance the current accounts Credit opening balances, interest on capital, salary and profit shares. Debit drawings and interest on drawings, then carry down the closing credit balances:

$$X: 78,000 + 18,000 + 1,20,000 - 10,000 - 600 = \text{Rs } 2,05,400,$$

$$Y: 69,000 + 24,000 + 42,000 + 80,000 - 9,000 - 540 = \text{Rs } 2,05,460.$$

Partners' Current Accounts

Dr. Particulars	X (Rs)	Y (Rs)	Cr. Particulars	X (Rs)	Y (Rs)
To Bank (Drawings)	10,000	9,000	By Balance b/d	78,000	69,000
To Interest on Drawings	600	540	By Interest on Capital	18,000	24,000
To Balance c/d	2,05,400	2,05,460	By Salary	–	42,000
			By Profit and Loss Appropriation A/c	1,20,000	80,000
Total	2,16,000	2,15,000	Total	2,16,000	2,15,000

Step 6: Conclusion The completed accounts show net profit of Rs 2,82,860, Y's salary of Rs 42,000 and residual profit of Rs 2,00,000. X and Y have fixed capitals of Rs 1,80,000 and Rs 2,40,000, and closing current-account credit balances of Rs 2,05,400 and Rs 2,05,460 respectively.

Quick Tip to Solve: Start with X's known profit share to recover total divisible profit; use the Appropriation Account's debit total to find Y's salary, and its credit total to find net profit.

OR

14. X and Y are partners in a firm sharing profits and losses in the ratio of 2 : 1. Their fixed capitals are Rs 5,00,000 and Rs 3,00,000 respectively. Interest on capital is allowed @ 9% p.a. while interest on drawings is charged @ 12% p.a. X is allowed a salary of Rs 4,000 per month. Interest on Y's loan of Rs 2,00,000 is to be provided @ 6% p.a. During the year ended 31st March, 2019, X's drawings were Rs 60,000 and Y's drawings were Rs 72,000. 5% of the Net Profit is to be transferred to General Reserve. Incomplete Profit and Loss Appropriation Account for the year ended 31st March, 2019 prepared by the firm is given below :

Incomplete Profit and Loss Appropriation Account for the year ended 31st March, 2019

Dr. Particulars	Rs	Cr. Particulars	Rs
To Interest on Capital:		By Profit and Loss A/c	
X's Current A/c		Net Profit b/d	.....
Y's Current A/c	.....	By Interest on Drawings:	
To Salary		X's Current A/c	
X's Current A/c	.....	Y's Current A/c	.....
To General Reserve	15,000		
To Profit transferred to:			
X's Current A/c			
Y's Current A/c	.....		
	.....		.....

Complete the Profit and Loss Appropriation A/c of X and Y for the year ended 31st March, 2019.

[6 marks]

Solution:

Concept:

- Interest on partners' capital, partners' salary and transfers to reserves are appropriations of net profit. Interest on drawings increases the amount available for appropriation.
- Interest on a partner's loan is a charge against profit, recorded in the Profit and Loss Account before

net profit is transferred to the Appropriation Account. It is not an appropriation.

- A given reserve transfer can be used to recover net profit: net profit equals reserve transfer divided by the transfer rate. The balance after all appropriations is shared in the agreed profit-sharing ratio.

Step 1: Determine net profit and distinguish loan interest **Working Notes**

General Reserve is 5% of net profit and the amount transferred is Rs 15,000. Thus:

$$\text{Net profit} = 15,000 \times \frac{100}{5} = \text{Rs } 3,00,000.$$

Interest on Y's loan is:

$$2,00,000 \times \frac{6}{100} = \text{Rs } 12,000.$$

Loan interest is a charge against profit and is accounted for in the Profit and Loss Account before arriving at net profit. Therefore the net profit brought down to the Appropriation Account is Rs 3,00,000; do not deduct the loan interest again in this account. The fixed capitals also remain separate from these annual appropriations, which are credited to current accounts.

Step 2: Calculate capital interest and X's salary Apply the agreed annual rate of 9% to each fixed capital:

$$\text{X's interest on capital} = 5,00,000 \times \frac{9}{100} = \text{Rs } 45,000,$$
$$\text{Y's interest on capital} = 3,00,000 \times \frac{9}{100} = \text{Rs } 27,000.$$

Total interest on capital is Rs 72,000. X receives Rs 4,000 per month, so the salary for twelve months is:

$$4,000 \times 12 = \text{Rs } 48,000.$$

Both interest on capital and X's salary are debited to the Appropriation Account and credited to the respective partners' current accounts.

Step 3: Calculate interest on drawings and divisible profit No withdrawal dates are given. Accordingly, interest on the annual drawings is calculated for the standard average period of six months:

$$\text{X's interest on drawings} = 60,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 3,600,$$
$$\text{Y's interest on drawings} = 72,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 4,320.$$

Add total interest on drawings of Rs 7,920 to net profit. Deduct capital interest, salary and reserve transfer to obtain the profit available for distribution:

$$\text{Available amount} = 3,00,000 + 7,920 = \text{Rs } 3,07,920,$$
$$\begin{aligned}\text{Divisible profit} &= 3,07,920 - 72,000 - 48,000 - 15,000 \\ &= \text{Rs } 1,72,920.\end{aligned}$$

Share this balance in the ratio $2:1$:

$$\text{X's share} = 1,72,920 \times \frac{2}{3} = \text{Rs } 1,15,280, \qquad \text{Y's share} = \text{Rs } 57,640.$$

Step 4: Complete the Profit and Loss Appropriation Account **Profit and Loss Appropriation Account of X and Y**
for the year ended 31st March, 2019

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Interest on Capital:		By Profit and Loss A/c	3,00,000
X's Current A/c	45,000	(Net Profit b/d)	
Y's Current A/c	27,000	By Interest on Drawings:	
To Salary:		X's Current A/c	3,600
X's Current A/c	48,000	Y's Current A/c	4,320
To General Reserve	15,000		
To Profit transferred to:			
X's Current A/c	1,15,280		
Y's Current A/c	57,640		
Total	3,07,920	Total	3,07,920

The debit entries total $45,000 + 27,000 + 48,000 + 15,000 + 1,15,280 + 57,640 = 3,07,920$, equal to the credit total. Drawings themselves do not enter this account; only the interest charged on drawings does.

Step 5: Conclusion Net profit is Rs 3,00,000 and the Appropriation Account balances at Rs 3,07,920. After capital interest of Rs 72,000, X's salary of Rs 48,000 and reserve transfer of Rs 15,000, divisible profit is Rs 1,72,920: X receives Rs 1,15,280 and Y receives Rs 57,640.

Quick Tip to Solve: Recover net profit from Rs 15,000 divided by 5% first. Keep Y's loan interest out of the Appropriation Account, then share only the residual profit in the ratio 2:1.

15. From the following Receipts and Payments Account and additional information of Modern Health Club, prepare Income and Expenditure Account for the year ended 31st March, 2019 and the Balance Sheet as at 31st March, 2019.

Receipts and Payments Account for the year ended 31st March, 2019

Receipts	Amount (Rs)	Payments	Amount (Rs)
To Balance b/d	17,000	By Salaries	30,000
To Subscriptions	60,000	By Rent	18,300
To Donations	2,000	By Repairs	4,700
To Furniture (Book Value Rs 6,000)	5,000	By Books	16,000
To Life Membership Fees	7,000	By Buildings	30,000
To Interest on Investment (@ 5% for full year)	9,000	By Balance c/d	1,000
	1,00,000		1,00,000

Additional Information :

	Particulars	31.03.2018 (Rs)	31.03.2019 (Rs)
(i)	Subscription received in advance	4,000	5,000
(ii)	Outstanding Subscription	3,000	4,000
(iii)	Books	12,500	26,500

[6 marks]

Solution:

Concept:

- The Income and Expenditure Account records revenue income and revenue expenses on the accrual basis. Capital receipts and capital payments belong in the Balance Sheet.
- Subscription income equals cash received plus closing outstanding and opening advance subscriptions, less opening outstanding and closing advance subscriptions.
- The opening capital fund is the excess of opening assets over opening liabilities. Life membership fees are capitalised; an unrestricted donation is treated as revenue income.

Step 1: Calculate subscription income and the non-cash expenses Subscription receipts must be adjusted for the periods to which they relate:

$$\begin{aligned}\text{Subscription income} &= 60,000 + 4,000 + 4,000 - 3,000 - 5,000 \\ &= \text{Rs } 60,000.\end{aligned}$$

Opening advance subscriptions become income of the current year; closing advance subscriptions are a liability for the next year. Opening outstanding subscriptions have already been recognised in the previous year, while closing outstanding subscriptions are income earned this year.

$$\begin{aligned}\text{Depreciation on books} &= 12,500 + 16,000 - 26,500 \\ &= \text{Rs } 2,000, \\ \text{Loss on furniture sold} &= 6,000 - 5,000 = \text{Rs } 1,000.\end{aligned}$$

The books purchase and building purchase are capital payments. Only the depreciation and the loss

on sale enter the Income and Expenditure Account. The furniture with book value Rs 6,000 has been sold and is therefore absent from the closing Balance Sheet.

Step 2: Prepare the Income and Expenditure Account **Modern Health Club**
Income and Expenditure Account for the year ended 31st March, 2019

Dr. Expenditure	Rs	Income	Rs (Cr.)
To Salaries	30,000	By Subscriptions	60,000
To Rent	18,300	By Donations	2,000
To Repairs	4,700	By Interest on investments	9,000
To Depreciation on books	2,000		
To Loss on sale of furniture	1,000		
To Surplus (capital fund)	15,000		
Total	71,000	Total	71,000

Revenue income is Rs 71,000 and revenue expenditure is Rs 56,000. The resulting surplus is added to the capital fund. The life membership receipt of Rs 7,000 is capitalised separately.

Step 3: Ascertain the opening and closing capital funds Since Rs 9,000 is interest at 5% for a full year, the investment principal is

$$\text{Investments} = 9,000 \times \frac{100}{5} = \text{Rs } 1,80,000.$$

There is no purchase or sale of investments in the Receipts and Payments Account, so this balance appears both at the beginning and at the end of the year.

$$\begin{aligned}
\text{Opening assets} &= 17,000 + 3,000 + 12,500 + 6,000 + 1,80,000 \\
&= \text{Rs } 2,18,500, \\
\text{Opening capital fund} &= 2,18,500 - 4,000 \\
&= \text{Rs } 2,14,500, \\
\text{Closing capital fund} &= 2,14,500 + 7,000 + 15,000 \\
&= \text{Rs } 2,36,500.
\end{aligned}$$

The opening furniture book value is included when finding the opening fund. The opening subscription advance is deducted as a liability; the outstanding subscription is included as an asset.

Step 4: Prepare the closing Balance Sheet **Balance Sheet of Modern Health Club as at 31st March, 2019**

Liabilities	Rs	Assets	Rs
Capital fund:		Investments	1,80,000
Opening fund	2,14,500	Building	30,000
Add: Life membership fees	7,000	Books	26,500
Add: Surplus	15,000	Outstanding subscriptions	4,000
Closing capital fund	2,36,500	Cash/Bank balance	1,000
Subscriptions in advance	5,000		
Total	2,41,500	Total	2,41,500

Only the closing capital fund subtotal, Rs 2,36,500, is included in the liabilities total; its three component amounts are the supporting working. The balance of cash/bank is the Rs 1,000 carried

down in the Receipts and Payments Account.

Step 5: Conclusion Modern Health Club earns a surplus of Rs $15,000$. Its closing capital fund is Rs $2,36,500$, and the Balance Sheet totals Rs $2,41,500$ on each side.

Quick Tip to Solve: Derive investments from the full-year interest first; include the furniture's book value in opening assets, but charge only its Rs 1,000 loss to expenditure.

16. Lisa, Monika and Nisha were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2019, their Balance Sheet was as follows :

Balance Sheet of Lisa, Monika and Nisha as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Trade Creditors	1,60,000	Land and Building	10,00,000
Bills Payable	2,44,000	Machinery	12,00,000
Employees Provident Fund	76,000	Stock	10,00,000
Capitals : Lisa 14,00,000 Monika 14,00,000 Nisha 3,60,000	31,60,000	Sundry Debtors	4,00,000
		Bank	40,000
	36,40,000		36,40,000

On 31st March, 2019, Monika retired from the firm and the remaining partners decided to carry on the business. It was agreed that :

(i) Land and building be appreciated by Rs 2,40,000 and machinery be depreciated by 10%.

(ii) 50% of the stock was taken over by the retiring partner at book value.

(iii) Provision for doubtful debts was to be made at 5% on debtors.

(iv) Goodwill of the firm be valued at Rs 3,00,000 and Monika's share of goodwill be adjusted in the accounts of Lisa and Nisha.

(v) The total capital of the new firm be fixed at Rs 27,00,000 which will be in the proportion of the new profit sharing ratio of Lisa and Nisha. For this purpose, current accounts of the partners were to be opened.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm on Monika's retirement. [8 marks]

Solution:

Concept:

- Revaluation profit or loss belongs to all partners in their old profit-sharing ratio. An asset taken over at its book value does not create a revaluation gain or loss.
- Continuing partners compensate a retiring partner for goodwill in their gaining ratio. In the absence of a different agreement, they continue in their relative old ratio.
- When capitals are fixed at an agreed total and adjustments are made through current accounts, a

shortfall in adjusted capital becomes a debit current-account balance, without changing the bank balance.

Step 1: Determine the new ratio and goodwill adjustment Lisa and Nisha continue in the ratio of their existing shares, $2:1$. Their gains are

$$\text{Lisa's gain} = \frac{2}{3} - \frac{2}{5} = \frac{4}{15},$$
$$\text{Nisha's gain} = \frac{1}{3} - \frac{1}{5} = \frac{2}{15}.$$

Thus, the gaining ratio is also $2:1$. Monika's share of goodwill is

$$3,00,000 \times \frac{2}{5} = \text{Rs } 1,20,000.$$

Debit Lisa's Capital Account by Rs 80,000 and Nisha's Capital Account by Rs 40,000, and credit Monika's Capital Account by Rs 1,20,000. This directly adjusts goodwill through capital accounts; no goodwill asset is raised.

Step 2: Prepare the Revaluation Account Machinery depreciation is $12,00,000 \times 10\% = \text{Rs } 1,20,000$, and the provision for doubtful debts is $4,00,000 \times 5\% = \text{Rs } 20,000$. Therefore,

$$\text{Revaluation profit} = 2,40,000 - 1,20,000 - 20,000 = \text{Rs } 1,00,000.$$

It is shared by Lisa, Monika and Nisha in $2:2:1$, giving Rs 40,000, Rs 40,000 and Rs 20,000 respectively.

Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Machinery	1,20,000	By Land and building	2,40,000
To Provision for doubtful debts	20,000		
To Lisa's capital (profit)	40,000		
To Monika's capital (profit)	40,000		
To Nisha's capital (profit)	20,000		
Total	2,40,000	Total	2,40,000

Monika takes stock of $10,00,000 \times 50\% = \text{Rs } 5,00,000$ at book value. Debit her capital and credit stock by this amount; it does not enter Revaluation Account.

Step 3: Calculate final capitals, current accounts and the retiring partner's balance Adjusted capital balances after revaluation, goodwill and stock takeover are

$$\begin{aligned}\text{Lisa} &= 14,00,000 + 40,000 - 80,000 = \text{Rs } 13,60,000,\\ \text{Monika} &= 14,00,000 + 40,000 + 1,20,000 - 5,00,000\\ &= \text{Rs } 10,60,000,\\ \text{Nisha} &= 3,60,000 + 20,000 - 40,000 = \text{Rs } 3,40,000.\end{aligned}$$

No immediate cash settlement is specified, so Monika's amount due is transferred to her Loan Account.

The agreed fixed capitals of the continuing partners are

$$\text{Lisa} = 27,00,000 \times \frac{2}{3} = \text{Rs } 18,00,000,$$
$$\text{Nisha} = 27,00,000 \times \frac{1}{3} = \text{Rs } 9,00,000.$$

Lisa's capital shortfall is $18,00,000 - 13,60,000 = \text{Rs } 4,40,000$, and Nisha's is $9,00,000 - 3,40,000 = \text{Rs } 5,60,000$. Debit their respective current accounts and credit their capital accounts for these differences. The debit current-account balances are shown on the assets side of the Balance Sheet, and bank remains Rs 40,000.

Step 4: Prepare the Partners' Capital Accounts The following two-sided accounts show the goodwill transfers, stock takeover, loan transfer and current-account adjustments explicitly.

Lisa's Capital Account

Dr. Particulars	Rs	Particulars	Rs (Cr.)
To Monika's capital (goodwill)	80,000	By Balance b/d	14,00,000
To Balance c/d	18,00,000	By Revaluation	40,000
		By Lisa's current	4,40,000
Total	18,80,000	Total	18,80,000

Monika's Capital Account

Dr. Particulars	Rs	Particulars	Rs (Cr.)
To Stock	5,00,000	By Balance b/d	14,00,000
To Monika's loan	10,60,000	By Revaluation	40,000
		By Lisa's capital (goodwill)	80,000
		By Nisha's capital (goodwill)	40,000
Total	15,60,000	Total	15,60,000

Nisha's Capital Account

Dr. Particulars	Rs	Particulars	Rs (Cr.)
To Monika's capital (goodwill)	40,000	By Balance b/d	3,60,000
To Balance c/d	9,00,000	By Revaluation	20,000
		By Nisha's current	5,60,000
Total	9,40,000	Total	9,40,000

Step 5: Prepare the Balance Sheet of the reconstituted firm Land and building becomes Rs 12,40,000; machinery becomes Rs 10,80,000; stock remaining is Rs 5,00,000. Net debtors are $4,00,000 - 20,000 = \text{Rs } 3,80,000$. Existing outside liabilities, including the Employees Provident Fund, remain payable and are carried forward.

Balance Sheet of Lisa and Nisha as at 31st March, 2019

Liabilities	Rs	Assets	Rs
Trade creditors	1,60,000	Land and building	12,40,000
Bills payable	2,44,000	Machinery	10,80,000
Employees Provident Fund	76,000	Stock	5,00,000
Monika's loan	10,60,000	Sundry debtors	4,00,000
Fixed capitals:		Less: Provision	(20,000)
Lisa	18,00,000	Net debtors	3,80,000
Nisha	9,00,000	Bank	40,000
		Debit current accounts:	
		Lisa	4,40,000
		Nisha	5,60,000
Total	42,40,000	Total	42,40,000

The debtors and provision lines support the net debtors subtotal; only Rs 3,80,000 is included in total assets. The capital accounts are fixed in the new ratio, while their current-account debits preserve the partners' actual adjusted interests in the firm.

Step 6: Conclusion Revaluation profit is Rs $1,00,000$; Monika's loan is Rs $10,60,000$. Lisa's and Nisha's fixed capitals are Rs $18,00,000$ and Rs $9,00,000$, with debit current balances of Rs $4,40,000$ and Rs $5,60,000$. The Balance Sheet totals Rs $42,40,000$.

Quick Tip to Solve: Take Monika's stock directly through her capital account; use current-account debits, not cash receipts, to raise Lisa's and Nisha's adjusted capitals to the agreed fixed amounts.

OR

16. On 31st March, 2019 the Balance Sheet of Madan and Mohan who share profits and losses in the ratio of 3 : 2 was as follows :

Balance Sheet of Madan and Mohan as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	28,000	Cash at Bank	10,000
General Reserve	10,000	Debtors 65,000	
Employees Provident Fund	22,000	Less: Provision for Doubtful debts	60,000
		5,000	
Capitals:		Stock	33,000
Madan 60,000		Patents	57,000
Mohan 40,000	1,00,000		
	1,60,000		1,60,000

They decided to admit Gopal on 1st April, 2019 for 1/5th share which Gopal acquired wholly from Mohan on the following terms :

(i) Gopal shall bring Rs 10,000 as his share of premium for Goodwill.

(ii) A debtor whose dues of Rs 3,000 were written off as bad debt paid Rs 2,000 in full settlement.

(iii) A claim of Rs 5,000 on account of workmen's compensation was to be provided for.

(iv) Patents were undervalued by Rs 2,000. Stock in the books was valued 10% more than its market value.

(v) Gopal was to bring in capital equal to 20% of the combined capitals of Madan and Mohan after all adjustments.

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

Solution:

Concept:

- Revaluation profit or loss and accumulated reserves belong to the old partners in their old profit-sharing ratio, here $3:2$.
- Goodwill premium compensates the sacrificing partner. Since Gopal acquires his entire share from Mohan, only Mohan receives the premium.
- A previously written-off debt recovered increases Bank and is credited to Revaluation. An existing employees' provident fund is an outside liability, not a divisible reserve.

Step 1: Calculate the ratios and adjustments **Working Notes**

Madan retains $3/5$, Mohan retains $2/5 - 1/5 = 1/5$, and Gopal receives $1/5$. Hence the new ratio is $3:1:1$, and Mohan alone sacrifices $1/5$. Credit the full goodwill premium of Rs 10,000 to Mohan's Capital Account. Distribute General Reserve of Rs 10,000 as Rs 6,000 to Madan and Rs 4,000 to Mohan. Stock's book value is 110% of market value, so

$$\text{Revised stock} = 33,000 \times \frac{100}{110} = \text{Rs } 30,000.$$

The reduction is Rs 3,000, not 10% of Rs 33,000. Increase patents by Rs 2,000 to Rs 59,000 and create a workmen's compensation liability of Rs 5,000. The recovered Rs 2,000 goes directly to Bank; it does not restore the old debtor or alter the existing doubtful-debt provision.

Step 2: Prepare the Revaluation Account **Revaluation Account**

Dr.		Cr.	
Particulars	Rs	Particulars	Rs
To Stock A/c	3,000	By Bank A/c (bad debts recovered)	2,000
To Workmen's Compensation Claim A/c	5,000	By Patents A/c	2,000
		By Madan's Capital A/c (loss)	2,400
		By Mohan's Capital A/c (loss)	1,600
Total	8,000	Total	8,000

Revaluation loss is $3,000 + 5,000 - 2,000 - 2,000 = \text{Rs } 4,000$. Debit Madan and Mohan in the old ratio: Rs 2,400 and Rs 1,600 respectively. The Revaluation Account is thereby closed.

Step 3: Determine Gopal's capital and prepare capital accounts Adjusted capital of Madan is $60,000 + 6,000 - 2,400 = \text{Rs } 63,600$; that of Mohan is $40,000 + 4,000 + 10,000 - 1,600 = \text{Rs } 52,400$.

$$\text{Gopal's capital} = 20\% \times (63,600 + 52,400) = \text{Rs } 23,200.$$

The question expressly specifies 20% of the combined adjusted old capitals; do not substitute one-fourth of their total merely because his profit share is one-fifth.

Partners' Capital Accounts (amounts in Rs)

Dr.				Cr.			
Particulars	Madan	Mohan	Gopal	Particulars	Madan	Mohan	Gopal
To Revaluation A/c	2,400	1,600	–	By Balance b/d	60,000	40,000	–
To Balance c/d	63,600	52,400	23,200	By General Reserve A/c	6,000	4,000	–
				By Premium for Goodwill A/c	–	10,000	–
				By Bank A/c	–	–	23,200
Total	66,000	54,000	23,200	Total	66,000	54,000	23,200

Step 4: Prepare the opening balance sheet of the new firm Bank balance is $10,000 + 2,000 + 10,000 + 23,200 =$ Rs $45,200$. No withdrawal of goodwill premium is stated. Debtors remain Rs 65,000 less the existing Rs 5,000 provision, or Rs 60,000 net.

Balance Sheet of Madan, Mohan and Gopal as at 1st April, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	28,000	Cash at Bank	45,200
Employees' Provident Fund	22,000	Debtors	65,000
Workmen's Compensation Claim	5,000	Less: Provision for Doubtful Debts	(5,000)
Partners' Capitals:		Net Debtors	60,000
Madan	63,600	Stock	30,000
Mohan	52,400	Patents	59,000
Gopal	23,200		
Total capitals	1,39,200		
Total	1,94,200	Total	1,94,200

Step 5: Conclusion Revaluation loss is Rs 4,000. The closing capitals are Madan Rs 63,600, Mohan Rs 52,400 and Gopal Rs 23,200. The new ratio is $3 : 1 : 1$, and the Balance Sheet totals Rs 1,94,200 on each side.

Quick Tip to Solve: When stock is stated at 10% above market value, divide its book value by 1.10. Calculate Gopal's capital only after reserve, goodwill and revaluation adjustments.

17. Rathee Ltd. invited applications for issuing 1,00,000 equity shares of Rs 10 each. The shares were issued at a premium of 60%. The amount was payable as follows :

On Application and Allotment – Rs 6 per share (including premium Rs 4)

On First and Final Call – Balance including premium

Applications for 1,90,000 shares were received. The allotment was made as follows :

Category A – Applications for 10,000 shares were rejected.

Category B – Applications for 1,00,000 shares were allotted 50,000 shares.

Category C – Applications for 80,000 shares were allotted 50,000 shares.

Excess money received on application and allotment was adjusted towards sums due on first and final call.

Ali, who belonged to Category B, and had applied for 1,000 shares, paid the entire amount of his share money with application.

Bali, who belonged to Category C, was allotted 1,000 shares, failed to pay the first and final call money. His shares were forfeited and re-issued at Rs 15 per share fully paid up.

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

Solution:

Concept:

- Share Capital records face value; Securities Premium Reserve records the excess of issue price over face value. Excess application money on pro-rata allotment is carried forward against the call.
- Calls in Advance represents money received before the call becomes due. Transfer it to the Call Account when the call is made; do not collect that amount a second time.
- On forfeiture, debit called-up capital and any called but unpaid premium, credit the unpaid call and credit Share Forfeiture with the capital actually received. A premium on reissue is credited to Securities Premium Reserve.

Step 1: Work out allotment, advance and default **Working Notes**

Issue price is $10 + 60\% \times 10 =$ Rs 16. Application and allotment of Rs 6 consists of Rs 2 capital and Rs 4 premium; the first and final call of Rs 10 consists of Rs 8 capital and Rs 2 premium. Category B receives one share for every two applied for, so Ali receives $1,000 \times 50,000/1,00,000 = 500$ shares. With application he pays the full price of the 1,000 shares applied for: $1,000 \times 16 =$ Rs $16,000$. His ultimate liability on 500 allotted shares is Rs 8,000, so refund the surplus Rs 8,000. Initial receipts are $(1,90,000 - 1,000) \times 6 + 16,000 =$ Rs $11,50,000$.

Excess for Category B is $(1,00,000 - 50,000) \times 6 =$ Rs $3,00,000$; excess for Category C is $(80,000 - 50,000) \times 6 =$ Rs $1,80,000$. After refunding Ali's Rs 8,000 surplus, he retains an additional Rs 2,000 beyond his normal Rs 6,000 application payment. Thus calls in advance total Rs 4,82,000. Ali's Rs 5,000 call is fully covered by his Rs 3,000 pro-rata excess and additional Rs 2,000.

Bali applied for $1,000 \times 80,000/50,000 = 1,600$ shares. He paid Rs 9,600, of which Rs 6,000 is due on application and allotment and Rs 3,600 is adjusted against the call. His unpaid call is $1,000 \times 10 - 3,600 =$ Rs $6,400$. Adjusting the excess against call capital leaves capital arrears Rs 4,400 and unpaid call premium Rs 2,000. Capital received is $2,000 + 3,600 =$ Rs $5,600$; the Rs 4,000 premium already received is not forfeited.

Step 2: Record receipts and application-allotment adjustment **Journal of Rathee Ltd. (amounts in Rs)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received, including Ali's full share money)		11,50,000	 11,50,000

	Share Application and Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium Reserve A/c
	  To Bank A/c
	  To Calls in Advance A/c
	(Being 1,00,000 shares allotted, rejected applications and Ali's surplus refunded, and remaining excess carried forward)
			11,50,000	
				2,00,000
				4,00,000
				68,000
				4,82,000

Rejected applications receive $10,000 \times 6 = \text{Rs } 60,000$. Including Ali's Rs 8,000 surplus, total refund is Rs 68,000. The application-allotment amount due on the shares actually issued is Rs 6,00,000, split into Rs 2,00,000 capital and Rs 4,00,000 premium.

Step 3: Record the first and final call Total call due is $1,00,000 \times 10 = \text{Rs } 10,00,000$. After crediting advances of Rs 4,82,000 and allowing for Bali's default of Rs 6,400, cash received is

$$10,00,000 - 4,82,000 - 6,400 = \text{Rs } 5,11,600.$$

Journal of Rathee Ltd. (continued)

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

	Share First and Final Call A/c Dr.
	  To Share Capital A/c
	  To Securities Premium Reserve A/c
	(Being first and final call due, including remaining premium)
			10,00,000	
				8,00,000
				2,00,000

	Calls in Advance A/c Dr. To Share First and Final Call A/c (Being advance money adjusted against the call now due)		4,82,000	 4,82,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call money received except Rs 6,400 due from Bali)		5,11,600	 5,11,600

Step 4: Record forfeiture, reissue and capital profit Cancel the full face value of Bali's 1,000 shares and reverse only the unpaid premium of Rs 2,000. Reissue at Rs 15 per share creates a fresh premium of Rs 5,000. There is no reissue discount, so the whole forfeited capital of Rs 5,600 becomes Capital Reserve once all these shares are reissued.

Journal of Rathee Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being Bali's 1,000 shares forfeited for non-payment of the call balance)		10,000 2,000	 6,400 5,600
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being 1,000 forfeited shares reissued at Rs 15 each fully paid)		15,000	 10,000 5,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture profit on all reissued shares transferred to Capital Reserve)		5,600	 5,600

Step 5: Conclusion Calls in advance total Rs 4,82,000; the call receipt is Rs 5,11,600 and Bali's unpaid call is Rs 6,400. Forfeiture credits Rs 5,600, all transferred to Capital Reserve. Reissue adds Rs 5,000 to Securities Premium Reserve.

Quick Tip to Solve: Find applied and allotted shares separately for each defaulter. Split the call into capital and premium before forfeiture; premium already received never enters Share Forfeiture.

OR

17. 'Venus Ltd' was registered with an authorised capital of Rs 40,00,000 divided into 4,00,000 equity shares of 10 each. 70,000 of these shares were issued as fully paid to 'M/s. Star Ltd.' for building purchased from them. 2,00,000 shares were issued to the public and the amounts were payable as follows :

On Application – Rs 3 per share

On Allotment – Rs 2 per share

On First Call – Rs 2 per share

On Second and Final Call – Rs 3 per share

The amounts received on these shares were as follows :

On 1,00,000 shares – Full amount called

On 60,000 shares – Rs 7 per share

On 30,000 shares – Rs 5 per share

On 10,000 shares – Rs 3 per share

The directors forfeited 10,000 shares on which only Rs 3 per share were received. These shares were reissued at Rs 12 per share fully paid. Pass necessary journal entries for the above transactions in the books of 'Venus Ltd'. [8 marks]

Solution:

Concept:

- Shares issued to a vendor for an asset are credited to Share Capital at their face value; authorised capital alone requires no journal entry.
- Each instalment is credited to Share Capital when due. Unpaid amounts are debited to Calls in Arrears when recording receipts.
- On forfeiture, debit the called-up capital, credit unpaid instalments and credit Share Forfeiture with capital already received. After full reissue, transfer the unused forfeiture balance to Capital Reserve.

Step 1: Calculate the amounts received and unpaid **Working Notes.** The 70,000 shares given to the vendor have a face value of $70,000 \times$ Rs $10 =$ Rs $7,00,000$. The public issue is 2,00,000 shares. All applicants paid Rs 3, so application money received is Rs 6,00,000. The amounts paid by each group are cumulative: Rs 7 includes application, allotment and first call; Rs 5 includes application and allotment only.

Instalment	Due (Rs)	Received (Rs)	Arrears (Rs)
Application	6,00,000	6,00,000	–
Allotment	4,00,000	3,80,000	20,000
First call	4,00,000	3,20,000	80,000
Final call	6,00,000	3,00,000	3,00,000
Total	20,00,000	16,00,000	4,00,000

Allotment arrears are $10,000 \times$ Rs 2. First-call arrears are $(30,000 + 10,000) \times$ Rs 2. Final-call arrears are $(60,000 + 30,000 + 10,000) \times$ Rs 3. There is no calls-in-advance transaction in the given facts.

Step 2: Record the building acquired for shares **Journal of Venus Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Building A/c Dr. To M/s. Star Ltd. (Being building purchased from M/s. Star Ltd.)		7,00,000	7,00,000
	M/s. Star Ltd. Dr. To Equity Share Capital A/c (Being 70,000 equity shares of Rs 10 each issued fully paid to the vendor)		7,00,000	7,00,000

Registration with authorised capital of Rs 40,00,000 does not itself bring an asset or create issued share capital; hence no journal entry is passed for registration alone.

Step 3: Record application and allotment **Journal of Venus Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Equity Share Application A/c (Being application money received on 2,00,000 shares at Rs 3 each)		6,00,000	6,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital on allotment)		6,00,000	6,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment money due at Rs 2 per share)		4,00,000	4,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c (Being allotment money received except on 10,000 shares)		3,80,000 20,000	4,00,000

Step 4: Record the two calls **Journal of Venus Ltd. (continued)**

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 at Rs 2 per share)		4,00,000	4,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First Call A/c (Being first call received on 1,60,000 shares and unpaid on 40,000 shares)		3,20,000 80,000	4,00,000
	Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Being second and final call due at Rs 3 per share)		6,00,000	6,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Second and Final Call A/c (Being final call received on 1,00,000 shares and unpaid on 1,00,000 shares)		3,00,000 3,00,000	6,00,000

Step 5: Record forfeiture, reissue and the capital profit The forfeited shares were fully called at Rs 10 but only Rs 3 per share had been received. Thus, capital cancelled is Rs 1,00,000, arrears cancelled are Rs 70,000 and forfeiture credited is Rs 30,000. Reissue at Rs 12 produces Rs 2 per share securities premium; it uses none of the forfeited amount as discount.

Journal of Venus Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Equity Share Capital A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being 10,000 shares forfeited for non-payment of allotment and both calls)		1,00,000	 70,000 30,000
	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being forfeited shares reissued at Rs 12 each, fully paid)		1,20,000	 1,00,000 20,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on all reissued shares transferred to capital reserve)		30,000	 30,000

Step 6: Conclusion The entries record the building at Rs 7,00,000 and public subscriptions received of Rs 16,00,000. Reissue receipts are Rs 1,20,000, including securities premium of Rs 20,000. Capital Reserve is Rs 30,000, and Calls in Arrears remaining after forfeiture are Rs $4,00,000$ − Rs $70,000$ = Rs $3,30,000$.

Quick Tip to Solve: Treat Rs 3, Rs 5 and Rs 7 as cumulative receipts. For the forfeited group, separate Rs 3 received from Rs 7 unpaid before recording forfeiture.

Part B (20 marks)

OPTION I (Analysis of Financial Statements)

18. Give any two examples of cash flows from operating activities. [1 mark]

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Cash flows from these activities include cash collected from customers and cash paid for the goods or services used in ordinary business.

Step 1: Identify an operating cash receipt Cash receipts from the sale of goods and rendering of services are operating inflows because they arise from the enterprise's normal revenue-producing business.

Step 2: Identify an operating cash payment Cash payments to suppliers for goods and services are operating outflows because these purchases support the ordinary business operations.

Step 3: Conclusion Two examples are (i) cash receipts from sale of goods and rendering of services and (ii) cash payments to suppliers for goods and services.

Quick Tip to Solve: Give one receipt and one payment arising from everyday trading operations; both are valid examples of operating cash flows.

19. What is meant by 'Financing Activities' for preparing Cash Flow Statement ? [1 mark]

Solution:

Concept:

- Financing activities concern the funds provided by owners and lenders to finance the enterprise.
- They change the size and composition of owners' capital, including preference share capital, and the enterprise's borrowings.

Step 1: Identify the defining change In preparing a Cash Flow Statement, classify as financing those activities that alter the size or composition of owners' capital or borrowings. The definition includes both raising these funds and returning them.

Step 2: Relate the definition to transactions For example, a cash issue of shares increases owners' capital, while repayment of a loan reduces borrowings. Their cash effects are therefore financing cash flows.

Step 3: Conclusion Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital) and borrowings of the enterprise.

Quick Tip to Solve: For financing, check whether the transaction changes owners' capital or borrowings; issuing shares and repaying loans are clear examples.

20. From the given information, calculate the following ratios :

(i) Operating Ratio

(ii) Inventory Turnover Ratio

Information :

Cash Revenue from Operations	**: Rs 10,00,000**
Credit Revenue from Operations	**: 120% of Cash Revenue from Operations**
Operating Expenses	**: 10% of Total Revenue from Operations**
Rate of Gross Profit	**: 40%**
Opening Inventory	**: Rs 1,50,000**
Closing Inventory	**: Rs 20,000 more than Opening Inventory**

[4 marks]

Solution:

Concept:

- Operating ratio measures the percentage of revenue from operations absorbed by cost of revenue from operations and operating expenses. Writing these amounts as C, E and R, respectively, Operating ratio $= \dfrac{C+E}{R} \times 100$.
- Inventory turnover ratio measures how many times the average inventory is sold during the period. It equals cost of revenue from operations divided by average inventory, where average inventory is half the sum of opening and closing inventory.
- Gross profit ratio is gross profit as a percentage of revenue from operations. Therefore a gross profit rate of 40% implies that cost of revenue from operations is 60% of revenue from operations.

Step 1: Calculate total revenue from operations and cost Credit revenue is 120% of cash revenue; it is additional to cash revenue, not the total revenue. Therefore,

$$\text{Credit revenue} = 10,00,000 \times \frac{120}{100} = \text{Rs } 12,00,000,$$
$$\text{Total revenue} = 10,00,000 + 12,00,000 = \text{Rs } 22,00,000,$$
$$\text{Gross profit} = 22,00,000 \times \frac{40}{100} = \text{Rs } 8,80,000,$$
$$\text{Cost of revenue} = 22,00,000 - 8,80,000 = \text{Rs } 13,20,000.$$

Step 2: (i) Determine operating expenses and operating ratio Operating expenses are calculated on total revenue from operations, including both cash and credit sales:

$$\text{Operating expenses} = 22,00,000 \times \frac{10}{100} = \text{Rs } 2,20,000.$$

Hence the total operating cost is $13,20,000 + 2,20,000 = \text{Rs } 15,40,000$. Substitution in the ratio gives

$$\text{Operating ratio} = \frac{15,40,000}{22,00,000} \times 100 = 70\%.$$

This means Rs 70 out of every Rs 100 of revenue is absorbed by the cost of goods sold and operating expenses.

Step 3: (ii) Calculate average inventory and inventory turnover Closing inventory is Rs 20,000 more than opening inventory, so

$$\text{Closing inventory} = 1,50,000 + 20,000 = \text{Rs } 1,70,000,$$
$$\text{Average inventory} = \frac{1,50,000 + 1,70,000}{2} = \text{Rs } 1,60,000.$$

The numerator is cost of revenue from operations, excluding operating expenses; this keeps the numerator and inventory denominator on the same cost basis.

$$\text{Inventory turnover ratio} = \frac{13,20,000}{1,60,000} = 8.25 \text{ times}.$$

Step 4: Conclusion (i) Operating Ratio $= \boxed{70\%}$.
(ii) Inventory Turnover Ratio $= \boxed{8.25 \text{ times}}$.

Quick Tip to Solve: Check the operating ratio immediately as $100\% - 40\% + 10\% = 70\%$; use only the 60% cost component, not total operating cost, for inventory turnover.

OR

20. (A) Net profit after interest and tax of M Ltd. was Rs 1,00,000. Its Current Assets were Rs 4,00,000 and Current Liabilities were Rs 2,00,000. Tax rate was 50%. Its Total Assets were Rs 10,00,000 and 10% Long term debt was Rs 4,00,000.

Calculate Return on Investment.

(B) Rate of Gross profit on Revenue from operations of a company is 25%. Its Gross profit is Rs 5,00,000. Its Shareholders' Funds are Rs 25,00,000; Non-current Liabilities are Rs 8,00,000 and Non-current Assets are Rs 23,00,000.

Calculate its Working Capital Turnover Ratio. [4 marks]

Solution:

Concept:

- Return on investment is $\dfrac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$. Capital employed is total assets less current liabilities, or shareholders' funds plus non-current liabilities.
- Profit after tax equals profit before tax multiplied by $1 -$ tax rate. Interest on long-term debt must then be added to profit before tax to find profit before interest and tax.
- Working capital turnover ratio is $\dfrac{\text{Revenue from operations}}{\text{Working capital}}$, where working capital equals current assets less current liabilities. Equivalently, working capital equals capital employed less non-current assets.

Step 1: (A) Recover profit before tax and add back interest The given Rs 1,00,000 is profit after both interest and tax. Since the tax rate is 50%, this profit represents 50% of profit before tax:

$$\begin{aligned}\text{Profit before tax} &= \frac{1,00,000 \times 100}{100 - 50} = \text{Rs } 2,00,000,\\ \text{Interest on debt} &= 4,00,000 \times \frac{10}{100} = \text{Rs } 40,000,\\ \text{Profit before interest and tax} &= 2,00,000 + 40,000\\ &= \text{Rs } 2,40,000.\end{aligned}$$

Tax is reversed before interest is added back because income tax applies to the profit remaining after the interest deduction.

Step 2: (A) Find capital employed and return on investment Capital employed includes the funds provided by shareholders and long-term lenders. Current liabilities are deducted from total assets, whereas long-term debt remains included:

$$\begin{aligned}\text{Capital employed} &= 10,00,000 - 2,00,000 = \text{Rs } 8,00,000,\\ \text{Return on investment} &= \frac{2,40,000}{8,00,000} \times 100 = 30\%.\end{aligned}$$

As a check, non-current assets are $10,00,000 - 4,00,000 =$ Rs $6,00,000$ and working capital is $4,00,000 - 2,00,000 =$ Rs $2,00,000$; their sum again gives capital employed of Rs 8,00,000.

Step 3: (B) Obtain revenue from the gross profit rate Gross profit is 25% of revenue from operations.

Therefore the revenue is found by dividing gross profit by this rate:

$$\text{Revenue from operations} = \frac{5,00,000 \times 100}{25} = \text{Rs } 20,00,000.$$

The turnover ratio uses this revenue amount, rather than gross profit or cost of revenue from operations, in its numerator.

Step 4: (B) Derive working capital from long-term funds Shareholders' funds and non-current liabilities together finance non-current assets and net current assets. Thus the portion left after financing non-current assets is working capital:

$$\begin{aligned}\text{Capital employed} &= 25,00,000 + 8,00,000 = \text{Rs } 33,00,000,\\ \text{Working capital} &= 33,00,000 - 23,00,000 = \text{Rs } 10,00,000,\\ \text{Working capital turnover ratio} &= \frac{20,00,000}{10,00,000} = 2 \text{ times}.\end{aligned}$$

Step 5: Conclusion (A) Return on Investment $= \boxed{30\%}$.
(B) Working Capital Turnover Ratio $= \boxed{2 \text{ times}}$.

Quick Tip to Solve: For ROI, first reverse tax and then add interest. When current assets and current liabilities are absent, find working capital as shareholders' funds plus non-current liabilities minus non-current assets.

21. Under which sub-headings will the following items be placed in the Balance Sheet of a company as per Schedule-III, Part-I of the Companies Act, 2013 ?

(i) Prepaid Expenses

(ii) Loose Tools

(iii) Loans Repayable on Demand

(iv) Provision for Employees Benefit

(v) Negative Balance in the Statement of Profit and Loss

(vi) Bank Overdraft

(vii) Bills Receivables

(viii) Trade Marks [4 marks]

Solution:

Concept:

- Schedule III groups items by their nature and current/non-current status. Identify the sub-heading as well as the broader main heading.
- Demand borrowings are current liabilities; accumulated losses reduce shareholders' funds.

Step 1: Classify the four asset items The asset classifications are as follows:

Item	Main heading	Sub-heading
(i) Prepaid Expenses	Current Assets	Other Current Assets
(ii) Loose Tools	Current Assets	Inventories
(vii) Bills Receivables	Current Assets	Trade Receivables
(viii) Trade Marks	Non-current Assets	Fixed Assets: Intangible Assets

Prepayments represent unconsumed benefits; loose tools form part of inventories. Trading bills are trade receivables, while a trade mark is a non-physical, intangible asset.

Step 2: Classify liabilities and the accumulated loss

Item	Main heading	Sub-heading
(iii) Loans Repayable on Demand	Current Liabilities	Short-term Borrowings
(iv) Provision for Employees Benefit	Non-current Liabilities or Current Liabilities	Long-term Provisions or Short-term Provisions, according to settlement period
(v) Negative Balance in the Statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus, as a negative figure
(vi) Bank Overdraft	Current Liabilities	Short-term Borrowings

Demand loans and overdraft are short-term borrowings. Employee-benefit provisions may be long-term or short-term according to settlement timing, which is not given. A debit balance of profit and loss is negative surplus, even when total Reserves and Surplus becomes negative.

Step 3: Conclusion In order (i)–(viii), the sub-headings are: Other Current Assets; Inventories; Short-term Borrowings; Long-term/Short-term Provisions; Reserves and Surplus (negative); Short-term Borrowings; Trade Receivables; and Intangible Assets under Fixed Assets.

Quick Tip to Solve: First identify the nature of the item: loose tools are inventory, a trade mark is intangible, and a loss reduces Reserves and Surplus. Then apply the current/non-current test.

22. Prepare a Common-Size Statement of Profit and Loss of 'Hari Darshan Ltd.' from the following information :

Particulars	Note No.	2018 – 19 (Rs)	2017 – 18 (Rs)
Revenue from Operations		20,00,000	10,00,000
Purchase of Stock in Trade		7,70,000	4,20,000
Changes in Inventories		1,20,000	80,000
Other Expenses		52,000	30,000
Other Incomes		60,000	50,000
Tax Rate 50%			

[4 marks]

Solution:

Concept:

- In a common-size Statement of Profit and Loss, revenue from operations is taken as 100 for each year. Each item is expressed as a percentage of that year's revenue from operations.

- Common-size percentage $= \dfrac{\text{Amount of item}}{\text{Revenue from operations}} \times 100$. Profit before tax equals total income less total expenses, and tax is 50% of profit before tax.

Step 1: Calculate income, expenses and profit for each year For 2018–19, all amounts below are in Rs:

$$\text{Total income} = 20,00,000 + 60,000 = 20,60,000,$$
$$\text{Total expenses} = 7,70,000 + 1,20,000 + 52,000 = 9,42,000,$$
$$\text{Profit before tax} = 20,60,000 - 9,42,000 = 11,18,000,$$
$$\text{Tax} = 11,18,000 \times 50\% = 5,59,000,$$
$$\text{Profit after tax} = 11,18,000 - 5,59,000 = 5,59,000.$$

For 2017–18:

$$\text{Total income} = 10,00,000 + 50,000 = 10,50,000,$$
$$\text{Total expenses} = 4,20,000 + 80,000 + 30,000 = 5,30,000,$$
$$\text{Profit before tax} = 10,50,000 - 5,30,000 = 5,20,000,$$
$$\text{Tax} = 5,20,000 \times 50\% = 2,60,000,$$
$$\text{Profit after tax} = 5,20,000 - 2,60,000 = 2,60,000.$$

The positive changes in inventories are included in expenses as presented in the question.

Step 2: Prepare the common-size statement Divide each 2018–19 amount by Rs 20,00,000 and each 2017–18 amount by Rs 10,00,000, then multiply by 100. For example, purchases in 2018–19 are $7,70,000/20,00,000 \times 100 = 38.50\%$, while profit after tax is $5,59,000/20,00,000 \times 100 = 27.95\%$.

Hari Darshan Ltd.

Common-Size Statement of Profit and Loss

Particulars	2018–19 (Rs)	2017–18 (Rs)	2018–19 (%)	2017–18 (%)
I. Revenue from Operations	20,00,000	10,00,000	100.00	100.00
II. Other Income	60,000	50,000	3.00	5.00
III. Total Income (I + II)	20,60,000	10,50,000	103.00	105.00
IV. Expenses:				
Purchases of Stock-in-Trade	7,70,000	4,20,000	38.50	42.00
Changes in Inventories	1,20,000	80,000	6.00	8.00
Other Expenses	52,000	30,000	2.60	3.00
Total Expenses	9,42,000	5,30,000	47.10	53.00
V. Profit before Tax (III - IV)	11,18,000	5,20,000	55.90	52.00
VI. Tax Expense (50%)	5,59,000	2,60,000	27.95	26.00
VII. Profit after Tax (V - VI)	5,59,000	2,60,000	27.95	26.00

Step 3: Conclusion Profit after tax is Rs 5,59,000 (27.95% of revenue from operations) in 2018–19 and Rs 2,60,000 (26.00%) in 2017–18. The profit-after-tax margin has increased by 1.95 percentage points.

Quick Tip to Solve: Use revenue from operations as the 100% base separately for each year; including other income makes total income 103% and 105%, not 100%.

OR

22. Following information is extracted from the Statement of Profit and Loss of Delko Ltd. for the year ended 31st March, 2019 :

Particulars	2018 – 19 (Rs)	2017 – 18 (Rs)
Revenue from Operations	60,00,000	45,00,000
Employee Benefit Expenses	30,00,000	22,50,000
Depreciation	7,50,000	6,00,000
Other Expenses	15,50,000	10,00,000
Tax Rate 50%		

Prepare Comparative Statement of Profit and Loss. [4 marks]

Solution:

Concept:

- A comparative statement shows each amount for both years, its absolute change and its percentage change, taking the earlier year as the base.
- Change $=$ Current year $-$ Previous year, and Percentage change $=$ Change/Previous year $\times$ 100. Profit before tax equals revenue less total expenses; tax is 50% of that profit.

Step 1: Calculate expenses and profit for each year **Working Notes.** All amounts are in Rs. For 2017–18, total expenses are

$$22,50,000 + 6,00,000 + 10,00,000 = 38,50,000.$$

Thus profit before tax is $45,00,000 - 38,50,000 = 6,50,000$, tax is $6,50,000 \times 50\% = 3,25,000$, and profit after tax is Rs 3,25,000. For 2018–19, total expenses are

$$30,00,000 + 7,50,000 + 15,50,000 = 53,00,000.$$

Profit before tax is $60,00,000 - 53,00,000 = 7,00,000$, tax is Rs 3,50,000 and profit after tax is Rs 3,50,000.

Step 2: Prepare the comparative statement **Delko Ltd.**

Comparative Statement of Profit and Loss

For the years ended 31st March, 2018 and 2019

Particulars	2017–18 Rs	2018–19 Rs	Increase Rs	Increase %
I. Revenue from operations	45,00,000	60,00,000	15,00,000	33.33
II. Total revenue	45,00,000	60,00,000	15,00,000	33.33
III. Expenses:				
Employee benefit expenses	22,50,000	30,00,000	7,50,000	33.33
Depreciation	6,00,000	7,50,000	1,50,000	25.00
Other expenses	10,00,000	15,50,000	5,50,000	55.00
Total expenses	38,50,000	53,00,000	14,50,000	37.66
IV. Profit before tax	6,50,000	7,00,000	50,000	7.69
V. Tax expense (50%)	3,25,000	3,50,000	25,000	7.69
VI. Profit after tax	3,25,000	3,50,000	25,000	7.69

Percentages are rounded to two decimal places. For example, total expenses increased by $14,50,000/38,50,000 \times 100 = 37.66\%$, while profit after tax increased by $25,000/3,25,000 \times 100 = 7.69\%$. Each percentage uses its own earlier-year amount, not revenue, as the denominator.

Step 3: Conclusion Revenue increased by Rs 15,00,000 (33.33%), but expenses increased by 37.66%. Profit after tax therefore increased by only Rs 25,000 (7.69%), from Rs 3,25,000 to Rs 3,50,000.

Quick Tip to Solve: Put 2017–18 first as the base year, even though the question prints 2018–19 first; divide each increase by that row's 2017–18 amount.

23. Following is the Balance Sheet of X Ltd. as at 31st March, 2018 :

X Ltd.

Balance Sheet as at 31st March, 2018

Particulars	Note No.	31.3.2018 Rs	31.3.2017 Rs
I – Equity and Liabilities :			
1. Shareholder's Funds :			
(a) Share Capital		19,00,000	17,00,000
(b) Reserves and Surplus	1	6,00,000	3,00,000
2. Non-Current Liabilities :			
Long-term Borrowings	2	5,00,000	4,00,000
3. Current Liabilities :			
(a) Short-term Borrowings	3	1,70,000	1,75,000
(b) Short-term Provisions	4	2,00,000	1,65,000
Total		33,70,000	27,40,000
II – Assets :			
1. Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets	5	24,00,000	19,00,000
(ii) Intangible Assets	6	2,00,000	3,00,000
(b) Non-Current Investments :		3,00,000	2,00,000
2. Current Assets :			
(a) Current Investments		1,40,000	1,70,000
(b) Inventories		2,60,000	1,30,000
(c) Cash and cash equivalents		70,000	40,000
Total		33,70,000	27,40,000

Notes to Accounts :

Note No.	Particulars	31.3.2018 Rs	31.3.2017 Rs
1.	Reserves and Surplus : (Surplus i.e. Balance in Statement of Profit and Loss)	6,00,000	3,00,000
		6,00,000	3,00,000
2.	Long-term Borrowings : 12% Debentures	5,00,000	4,00,000
		5,00,000	4,00,000
3.	Short-term Borrowings : Bank Overdraft	1,70,000	1,75,000
		1,70,000	1,75,000
4.	Short-term Provisions : Provision for Tax	2,00,000	1,65,000
		2,00,000	1,65,000
5.	Tangible Assets : Machinery Less : Accumulated Depreciation	26,00,000 (2,00,000)	20,00,000 (1,00,000)
		24,00,000	19,00,000
6.	Intangible Assets : Goodwill	2,00,000	3,00,000
		2,00,000	3,00,000

Additional Information :

(i) Rs 1,00,000, 12% Debentures were issued on 1 April, 2017.

(ii) During the year, a piece of machinery costing Rs 80,000 on which accumulated depreciation was Rs 40,000 was sold at a gain of Rs 10,000.

Prepare a Cash Flow Statement. [6 marks]

Solution:

Concept:

- Under the indirect method, adjust profit before tax for non-cash items, non-operating items and changes in operating working capital; deduct tax paid to obtain operating cash flow.
- Purchases and sales of fixed assets and non-current investments are investing activities. Share and debenture issues, repayment of bank overdraft and interest paid are financing activities for this non-financial company.
- Following the usual treatment in this question, current investments are taken as marketable securities forming cash equivalents. Their movement is therefore included in the reconciliation of cash and cash equivalents, not in investing cash flow.

Step 1: Work out machinery purchases and depreciation **Working Notes.** Amounts are in Rs. Machinery is shown at its original cost in Note 5. Add back the cost of the machinery sold when

calculating purchases:

$$\text{Purchases} = 26,00,000 - 20,00,000 + 80,000 = 6,80,000.$$

Accumulated depreciation on the sold machine must be removed from the accumulated depreciation balance. Hence depreciation charged for the year is

$$2,00,000 - 1,00,000 + 40,000 = 1,40,000.$$

The carrying amount of machinery sold was $80,000 - 40,000 = 40,000$. Its sale proceeds were $40,000 + 10,000 = 50,000$. The gain is deducted from operating profit because the full sale receipt appears under investing activities.

Step 2: Calculate profit, tax and interest adjustments The increase in the Statement of Profit and Loss balance gives net profit after tax:

$$6,00,000 - 3,00,000 = 3,00,000.$$

No separate tax payment or tax provision adjustment is given. Accordingly, the opening provision of Rs 1,65,000 is taken as tax paid during the year, and the closing provision of Rs 2,00,000 as the current year's tax charge. Profit before tax is therefore $3,00,000 + 2,00,000 = 5,00,000$. Goodwill written off is $3,00,000 - 2,00,000 = 1,00,000$. The additional debentures were issued on the first day of the year, so interest for a full year is

$$(4,00,000 + 1,00,000) \times 12\% = 60,000.$$

This interest is added back in operating activities and shown as paid in financing activities. Inventories increased by Rs 1,30,000, an operating cash outflow. The bank overdraft decreased by Rs 5,000, a financing outflow.

Step 3: Prepare the operating activities section **X Ltd. — Cash Flow Statement**
For the year ended 31st March, 2018

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net profit before tax	5,00,000
Add: Depreciation	1,40,000
Add: Goodwill written off	1,00,000
Add: Interest on debentures	60,000
Less: Gain on sale of machinery	(10,000)
Operating profit before working capital changes	7,90,000
Less: Increase in inventories	(1,30,000)
Cash generated from operations	6,60,000
Less: Income tax paid	(1,65,000)
Net cash from operating activities (A)	**4,95,000**

Step 4: Complete investing, financing and the reconciliation **X Ltd. — Cash Flow Statement (continued)**

For the year ended 31st March, 2018

Particulars	Amount (Rs)
B. Cash flow from investing activities	
Purchase of machinery	(6,80,000)
Proceeds from sale of machinery	50,000
Purchase of non-current investments	(1,00,000)
Net cash used in investing activities (B)	**(7,30,000)**
C. Cash flow from financing activities	
Proceeds from issue of share capital	2,00,000
Proceeds from issue of debentures	1,00,000
Repayment of bank overdraft	(5,000)
Interest paid on debentures	(60,000)
Net cash from financing activities (C)	**2,35,000**
Net change in cash and cash equivalents (A+B+C)	Nil
Add: Opening cash and cash equivalents	2,10,000
Closing cash and cash equivalents	**2,10,000**

Opening cash and cash equivalents comprise Rs 40,000 cash and cash equivalents shown separately plus Rs 1,70,000 current investments. Closing cash and cash equivalents comprise Rs 70,000 plus Rs 1,40,000 current investments. Both total Rs 2,10,000, verifying that $4,95,000 - 7,30,000 + 2,35,000 = 0$.

Step 5: Conclusion Net cash from operating activities is Rs 4,95,000; net cash used in investing activities is Rs 7,30,000; net cash from financing activities is Rs 2,35,000. Cash and cash equivalents, including current investments, remain Rs 2,10,000.

Quick Tip to Solve: Add the sold machine's cost and accumulated depreciation back in their respective working notes; use the full year's Rs 5,00,000 debenture balance for interest because the issue was on 1 April.

OPTION II (Computerised Accounting)

18. Name the data element in accounting transaction. [1 mark]

Solution:

Concept:

- A data element is a single basic fact or field stored in an accounting record.
- An accounting transaction contains the date, the accounts identified by their names or codes, and the monetary amount.

Step 1: Identify the basic transaction fields The date records when the transaction occurred, the account name or code identifies the account affected, and the amount records its monetary value. Each is a separate data element.

Step 2: Relate the elements to an accounting entry For example, in a cash purchase, the record contains the transaction date, the Purchases and Cash account codes, and the amount paid. These individual fields together describe the transaction for processing in the accounting system.

Step 3: Conclusion The data elements are **date, account name/code and amount**.

Quick Tip to Solve: Recall the basic facts needed to enter a transaction: when it occurred, which accounts it affects, and how much it is worth.

19. What is meant by 'Primary Key' ? [1 mark]

Solution:

Concept:

- A database table stores data in records (rows) and fields (columns).
- A primary key identifies each record uniquely; its value cannot be duplicated or left null.

Step 1: Identify the purpose of the key A primary key is the field, or combination of fields, selected to uniquely identify every record in a table. It lets the system distinguish one record from all others.

Step 2: Relate the definition to an example In an employee table, Employee ID can be the primary key because each employee has a distinct ID. Employee Name is unsuitable if two employees can have the same name.

Step 3: Conclusion A primary key is a field or a combination of fields that uniquely identifies each record in a database table, with no duplicate or null key values.

Quick Tip to Solve: Test a proposed primary key by asking whether its value can repeat or be blank; either possibility disqualifies it.

20. Explain 'Sequential' and 'Mnemonic' codes. [4 marks]

Solution:

Concept:

- A code is a short identifier used for an account, document or other data item in a computerised accounting system.
- Sequential coding identifies items by their order, while mnemonic coding uses recognisable abbreviations associated with their names.

Step 1: Explain sequential codes Sequential codes assign consecutive numbers or letters to items in the order in which they are created or entered. Each new item receives the next available code. For example, successive cash receipts may be numbered 001, 002, 003 and 004, or invoices may be numbered 1001, 1002 and 1003. The code identifies an item by its position in the sequence; it need not describe the nature of that item.

Step 2: State the use of sequential coding This method is simple to generate and useful for numbering accounting documents and tracking their completeness. A break in a document-number sequence alerts the user to check whether a document is missing or has been cancelled. However, the number alone generally does not tell the user what the underlying account or transaction represents.

Step 3: Explain mnemonic codes Mnemonic codes use letters, abbreviations or combinations of

letters and numbers that suggest the name or description of the item being coded. For example, SAL may identify Salaries, RENT may identify Rent and PNB may identify Punjab National Bank. These codes are designed to be easily remembered and to make the item recognisable to the user.

Step 4: Distinguish their organising principles In sequential coding, the next item receives the next identifier in a series. In mnemonic coding, the identifier is chosen for its association with the item's name. Mnemonic codes must still be unique within the relevant list; two different accounts should not accidentally receive the same abbreviation.

Step 5: Conclusion Sequential codes are consecutive identifiers, such as invoice numbers 1001 and 1002. Mnemonic codes are meaningful, easily remembered identifiers, such as SAL for Salaries.

Quick Tip to Solve: Remember sequential as a series and mnemonic as a memory aid; give one suitable accounting example of each.

OR

20. State the element which is considered while calculating 'earning' for current payroll period.

[4 marks]

Solution:

Concept:

- Earnings for a payroll period are the salary or wages and admissible allowances earned by an employee during that period, before deductions.
- The usual earnings components are basic pay, dearness allowance, house rent allowance and transport allowance. Attendance and applicable pay rates determine the amounts payable.

Step 1: State basic pay Basic pay is the employee's principal remuneration, fixed under the applicable pay scale or employment terms. The current-period amount is calculated for the payable service period, taking account of paid days or hours and any unpaid absence. It is the base used for calculating allowances that are specified as a percentage of basic pay.

Step 2: State dearness allowance Dearness allowance (DA) compensates employees for changes in the cost of living. Where it is prescribed as a percentage of basic pay, it is calculated by multiplying the applicable basic pay by the DA rate. The allowance earned for the current period is added to basic pay.

Step 3: State house rent allowance House rent allowance (HRA) is paid towards the employee's housing or rental expenses. Its amount is determined by the employer's applicable rules, often as a percentage of basic pay. The admissible HRA is an earnings component and is added when calculating gross earnings.

Step 4: State transport allowance and other admissible earnings Transport allowance (TA) is paid towards travel between the employee's residence and workplace, according to the applicable employment rules. Add any other earnings actually due for the current period, such as authorised overtime pay or a payable incentive. Overtime depends on the eligible overtime hours and the applicable overtime rate; it is not automatically payable to every employee.

Step 5: Separate earnings from deductions For a payroll consisting of the four usual components,

$$\text{Gross earnings} = \text{Basic pay} + \text{DA} + \text{HRA} + \text{TA}.$$

Add other admissible earnings where applicable. Provident fund contributions deducted from employees, income tax deductions and loan recoveries are dealt with subsequently to calculate net pay; they are not earnings.

Step 6: Conclusion The principal elements are basic pay, dearness allowance, house rent allowance and transport allowance, together with any other admissible earnings for the current payroll period, calculated using the applicable pay rates and attendance.

Quick Tip to Solve: First add basic pay and admissible allowances to find gross earnings; subtract deductions only when finding net pay.

21. State the features of a good accounting software. [4 marks]

Solution:

Concept:

- Accounting software records and processes transactions and produces accounting reports from the stored data.
- Good software combines ease of use and reliable processing with flexibility, capacity and protection of accounting information.

Step 1: State the features relating to use and processing **1. Simplicity:** The software should be easy to learn and operate, with clear menus, understandable instructions and convenient voucher-entry screens. Users should be able to obtain reports without complicated procedures.

2. Speed and accuracy: It should process a large number of transactions quickly and perform calculations accurately. Input checks should help detect invalid entries; however, users must still enter correct data.

3. Power and completeness: It should handle the organisation's transaction volume and provide the necessary accounting functions, such as ledgers, trial balance and financial statements. Integrated processing should update related records without repeated entry of the same information.

Step 2: State the features relating to changing needs and data protection **4. Flexibility:** The software should permit changes in account heads, voucher types and report formats to suit the needs of the business.

5. Scalability: It should support growth in transaction volume, number of users and business operations without requiring immediate replacement of the entire system.

6. Security and reliability: Passwords and user-access controls should protect records from unauthorised viewing or alteration. The software should operate consistently and preserve the integrity of accounting data.

7. Backup and restoration: It should provide facilities for taking regular backups and restoring records after accidental deletion, hardware failure or other data loss.

Step 3: Conclusion Good accounting software is simple, fast, accurate, complete, flexible and scalable, and provides security together with reliable backup and restoration facilities.

Quick Tip to Solve: Recall the features in three groups: ease of use, processing capacity and adaptability, and protection of records; explain what each feature enables the business to do.

OR

21. State the steps involved in installation of 'Computerised accounting system'. [4 marks]

Solution:

Concept:

- Installation of a computerised accounting system involves selecting suitable resources, setting up the accounting database and preparing users to operate it.
- Hardware, software, accounting procedures and trained personnel must work together so that transactions are recorded correctly and useful reports are produced.

Step 1: Analyse requirements and select the resources **1. Assess the accounting requirements:** Identify the nature and size of the business, the volume of transactions, the required reports, the number of users and the funds available. This determines the capacity and facilities needed.

2. Select suitable hardware and software: Choose compatible computers, storage, printers and network facilities. Select an accounting package suited to the business requirements, considering ease of use, cost, security, flexibility and vendor support.

Step 2: Install and configure the accounting system **3. Install the hardware and accounting software:** Set up the equipment and operating environment and install the selected package. Configure user access and the backup arrangements.

4. Create the company and accounting masters: Enter the organisation's name and other particulars, specify the financial year and accounting period, and prepare the chart of accounts. Create the required groups and ledgers with suitable account codes. Enter verified opening balances and other necessary master data.

Step 3: Train users, test the system and begin operation **5. Train the personnel:** Teach the staff how to enter vouchers, check and correct entries, generate reports and take backups. Assign responsibilities and access rights to the appropriate users.

6. Test and implement the system: Process sample transactions and compare the resulting ledgers, trial balance and reports with the expected results. Check the opening balances and correct setup errors before regular operation. A trial or parallel run with existing records helps verify that the system works correctly; thereafter, begin routine transaction processing with regular backups and review.

Step 4: Conclusion The installation sequence is requirement analysis, selection and installation of suitable hardware and software, creation of company and account masters, entry of opening data, staff training, testing and commencement of regular operation.

Quick Tip to Solve: Write the installation steps in time order: assess needs, choose and install resources, create accounts and opening balances, train users, test and start operation.

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

Solution:

Concept:

- Computerised accounting data must be protected against unauthorised access and misuse because it contains confidential financial information.
- Password security controls access by authenticating a user, whereas a data vault protects stored data through encryption.

Step 1: Explain password security **Password security** means restricting access to a computerised accounting system or its data by requiring a secret password. An authorised user enters the correct password, usually with a user name, before the system permits access. A person who does not know the password is prevented from opening the protected system or file through the normal login process.

The administrator can assign user names, passwords and access rights to different users according to their responsibilities. For example, a clerk may be permitted to enter vouchers while a manager can also view confidential reports. Keeping passwords secret, avoiding easily guessed passwords and changing them periodically help maintain this security. The password therefore acts as an access-control check; it identifies an authorised user before the user's permitted functions become available.

Step 2: Explain a data vault A **data vault** is a facility that provides additional security by encrypting the accounting data stored by the system. Encryption converts readable data into an unintelligible or coded form, so that an unauthorised person cannot interpret it merely by obtaining the stored data file. An authorised user supplies the required password or key to make the data readable for use.

For example, the TallyVault facility protects company data by encrypting it with a vault password. Thus, while ordinary password security guards entry to the system, the vault protects the contents of the stored accounting data itself. This is particularly useful for confidential records such as salaries, financial statements and business transactions.

Step 3: Conclusion Password security restricts access to authorised users through a secret password. A data vault safeguards stored accounting information by encryption and permits readable access only with the required authorisation.

Quick Tip to Solve: Remember the distinction: a password checks who may enter; a data vault encrypts what is stored. Explain both the mechanism and the purpose of each term.

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

Solution:

Concept:

- A PivotTable is an interactive table that quickly summarises, analyses and presents large amounts of data from a source list or table.
- The same source records can be viewed in different arrangements by selecting fields for rows,

columns, values and filters. This helps reveal comparisons and patterns without changing the original records.

Step 1: Identify the table The required table is a **PivotTable**. For example, a list containing many sales transactions can be summarised to show total sales by product, by region or by month. The user chooses the fields and summary calculation needed for the report. Its interactive nature allows the user to change the view and examine the data from different perspectives quickly.

Step 2: State advantage 1 – summarising large datasets A PivotTable can query large amounts of data in a user-friendly way and quickly produce useful summaries. Instead of examining thousands of transaction rows individually, a user can see a compact report, such as total sales for each branch. This makes a large source list easier to understand and analyse.

Step 3: State advantage 2 – calculating subtotals and aggregates It can subtotal and aggregate numerical data, using calculations such as sum, count and average, and display totals and subtotals for categories and subcategories. For example, it can show sales for each product within each region together with regional totals and a grand total. This supports meaningful numerical comparisons.

Step 4: State advantage 3 – examining different levels of detail It allows levels of detail to be expanded or collapsed. The user can view a broad summary first and then examine more detailed categories when required; supporting records can also be inspected for a value of interest. For example, a yearly total can be examined through its quarterly or monthly components.

Step 5: State advantage 4 – rearranging the report It allows rows to be moved to columns and columns to rows, or fields to be rearranged, to obtain different summaries of the same source data. This is called pivoting. A report with products in rows and regions in columns can be rearranged to put regions in rows, making a different comparison easier to read.

Step 6: State advantage 5 – focusing on relevant information It provides filtering, sorting and grouping facilities to focus attention on useful subsets of data. A user may filter the report for a particular region, sort sales from highest to lowest, or group dates into months. These operations help identify trends and exceptions without manually reorganising all the underlying records.

Step 7: Conclusion The table is a **PivotTable**. Its five advantages are quick summarisation of large datasets, calculation of subtotals and aggregates, expansion or collapse of detail, rearrangement of rows and columns, and focused analysis through filtering, sorting and grouping.

Quick Tip to Solve: Name PivotTable first, then give five distinct capabilities: summarise, aggregate, expand detail, pivot fields, and filter or group. Add a short sales-data example to make each capability clear.