CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-1-2 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

(iii) Part **B** has two options – 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. How are general donations treated while preparing financial statements of a not-for-profit organisation ?

[1 mark]

Solution:

Concept:

- General donations have no donor-imposed restriction on their use and are normally revenue receipts.
- The Income and Expenditure Account records revenue income relating to the accounting year.

Step 1: Identify the nature of the donation A general donation is given for the general activities of the organisation rather than for a specified capital project or restricted fund. It is therefore treated as revenue income.

Step 2: Show its treatment Credit general donations to the Income and Expenditure Account for the relevant accounting year. Cash received is also recorded on the receipts side of the Receipts and Payments Account, which records cash movements.

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

Quick Tip to Solve: Distinguish a general donation from a donation earmarked for a specific purpose before deciding its treatment.

OR

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

Solution:

Concept:

- Life membership fee is a lump-sum subscription paid to obtain membership for the whole of a member's life.
- Unlike an annual subscription, it does not need to be paid again each year.

Step 1: Identify the payment An organisation may allow a person to become a member for life by paying a single lump-sum amount instead of recurring annual subscriptions.

Step 2: Explain its effect The payment secures membership for the lifetime of that member. The member is consequently exempt from paying the usual annual membership subscription in subsequent years.

Step 3: Conclusion Life membership fee is the lump-sum amount paid by a member for lifetime membership, in place of annual subscriptions.

Quick Tip to Solve: Remember the two defining features: a single lump-sum payment and exemption from future annual subscriptions.

2. 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:

- Partner salary must be calculated only for the period for which the firm existed.
- For commission at $r\%$ after charging commission, commission equals the eligible profit multiplied by $r/(100+r)$.

Step 1: Deduct Raj's salary From 1st July, 2018 to 31st March, 2019 there are nine months, or three quarters. Hence Raj's salary is Rs $2,500 \times 3 =$ Rs $7,500$. Profit after salary but before commission is Rs $2,27,500 -$ Rs $7,500 =$ Rs $2,20,000$.

Step 2: Calculate the commission after charging itself Let Seema's commission be C. Then $C = \frac{10}{100}(2,20,000 - C)$, giving $1.10C = 22,000$. Thus $C = 2,20,000 \times \frac{10}{110} =$ Rs $20,000$. After both appropriations, the balance is Rs 2,00,000, and its 10% is Rs 20,000, confirming the result.

Step 3: Conclusion Seema's commission is Rs 20,000.

Quick Tip to Solve: Count only three quarters of salary; use 10/110 because commission is calculated after charging itself.

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3. 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:

- The incoming partner's profit share is determined by agreement among the partners.
- The existing partners surrender part of their profit shares to admit the new partner.

Step 1: Identify the parties to the agreement At admission, the existing partners and the incoming partner mutually agree upon the fraction of the firm's future profits that the new partner will receive.

Step 2: State how it becomes effective The agreed share is incorporated in the reconstituted partnership arrangement. It is not automatically fixed by the incoming partner's capital contribution; the partners decide it by mutual consent.

Step 3: Conclusion The existing partners, in agreement with the incoming partner, decide the new partner's share of profit.

Quick Tip to Solve: Do not equate the incoming partner's capital proportion with the profit share unless the agreement explicitly does so.

OR

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

Solution:

Concept:

- Each continuing partner's new share equals the old share plus the share acquired from the retiring partner.
- The gaining ratio describes how the retiring partner's share is acquired by the continuing partners.

Step 1: Calculate each continuing partner's share Add the portion of the retiring partner's share acquired by each remaining partner to that partner's old share: New share = Old share+Share gained.

Step 2: Express the new ratio Convert these new shares to a common denominator and express their numerators in the simplest ratio. If no new arrangement or gaining information is given, the remaining partners continue to share profits in their old relative ratio.

Step 3: Conclusion New profit-sharing ratio is calculated from the continuing partners' old shares plus their respective gains from the retiring partner.

Quick Tip to Solve: Calculate individual new shares before simplifying the ratio; check that the continuing partners' shares sum to one.

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

Solution:

Concept:

- Oversubscription compares the number of shares applied for with the number offered for public subscription.
- It arises only when applications exceed the shares available for allotment.

Step 1: Compare applications and the offer Identify the total number of shares the company has offered and the number for which investors have submitted applications. The comparison concerns the number of shares, not their market price.

Step 2: Identify oversubscription If applications received are for more shares than those offered, the issue is oversubscribed. For example, applications for 12,000 shares against an offer of 10,000 shares represent oversubscription of 2,000 shares.

Step 3: Conclusion Oversubscription means receiving applications for a greater number of shares than the number offered for subscription.

Quick Tip to Solve: Compare shares applied for with shares offered; applications exceeding the offer indicate oversubscription.

OR

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

Solution:

Concept:

- Par value is the nominal or face value assigned to a share by the company.
- It is distinct from the issue price and the price at which the share trades in the market.

Step 1: Identify the stated value Every share has a nominal denomination stated by the company, traditionally printed on the share certificate. This denomination is called its face value or par value.

Step 2: Distinguish it from other prices For a share with face value Rs 10 issued at Rs 12, the par value remains Rs 10 and the excess Rs 2 is securities premium. Changes in market quotations also do not change its par value.

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

Quick Tip to Solve: Read the nominal denomination of the share; do not substitute its issue price or current market quotation.

5. 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 reserves and losses existing before a change in ratio belong to the old partners in their old ratio.
- Transfer the reserve by crediting partners' capital accounts and the debit balance of Profit and Loss Account by debiting their capital accounts.

Step 1: Allocate balances in the old ratio The old ratio is $5 : 4 : 3$, totalling 12. General Reserve of Rs 3,00,000 is allocated as A: Rs 1,25,000; B: Rs 1,00,000; C: Rs 75,000. The accumulated loss of Rs 4,80,000 is allocated as A: Rs 2,00,000; B: Rs 1,60,000; C: Rs 1,20,000. These balances arose before the new ratio took effect.

Step 2: Pass the journal entries 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 reserve distributed in the old ratio of 5:4:3)			
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 transferred in the old ratio of 5:4:3)			

Step 3: Conclusion The reserve and accumulated loss are transferred to A, B and C in the old ratio of 5:4:3 through the above entries.

Quick Tip to Solve: Use the old ratio for reserves and accumulated losses; the revised ratio applies to future profits.

6. Khan and Gupta were partners in a firm sharing profits and losses in the ratio of 1 : 3. Mrs. Khan gave a loan of Rs 1,00,000 to the firm. Gupta also gave a loan of Rs 1,50,000 to the firm besides his capital. On 1st April, 2019 the firm was dissolved and its assets realised Rs 1,40,000.

Assuming that there was no third party liability of the firm, state the order of payment of Mrs. Khan's loan and Gupta's loan. [1 mark]

Solution:

Concept:

- On dissolution, outside liabilities are paid before loans advanced by partners, which precede repayment of partners' capital.
- A loan from a partner's spouse is an outside liability; a loan from a partner is a partner's loan.

Step 1: Classify the two loans Mrs. Khan is not a partner in the firm. Her loan of Rs 1,00,000 is therefore an outside liability and must be settled before Gupta's loan. Gupta's advance of Rs 1,50,000, being separate from his capital, is a partner's loan.

Step 2: Apply the order to realised cash First pay Mrs. Khan Rs 1,00,000 in full. The cash remaining is Rs $1,40,000$ − Rs $1,00,000$ = Rs $40,000$. Next apply this Rs 40,000 towards Gupta's loan. The unpaid balance of his loan is Rs 1,10,000; it does not displace the priority of the outside liability.

Step 3: Conclusion First pay Mrs. Khan's loan of Rs 1,00,000; thereafter pay the remaining Rs 40,000 towards Gupta's loan.

Quick Tip to Solve: Determine whether the lender is a partner: a partner's spouse is an outside creditor and takes priority over partner loans.

7. 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:

- Specific donations and income earned on a specific fund are added to that fund; they are not unrestricted income of the club.
- Expenditure on an unfinished building is capital work-in-progress, an asset. As construction is incomplete, retain the accumulated Building Fund on the liabilities side.

Step 1: Calculate the closing Building Fund The donation is restricted to construction of the building, and the investment interest belongs to the same fund. Hence:

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

The interest received agrees with $10\% \times 4,80,000 = \text{Rs } 48,000$. The construction payment does not become a revenue expense.

Step 2: Present the Balance Sheet extract Balance Sheet of Queen's Club (extract) as at 31st March, 2019

Liabilities	Rs	Assets	Rs
Capital Fund	10,80,000	Building Fund Investments	4,80,000
Building Fund:		Building under construction	3,60,000
Opening balance	4,80,000	(Capital work-in-progress)	
Add: Building donation	6,00,000		
Add: Fund interest	48,000		
Closing Building Fund	11,28,000		

This is an extract showing the specified funds and fixed assets, so no overall Balance Sheet total is inferred. The Capital Fund remains unchanged by these restricted-fund transactions. The unfinished building and the fund investments are shown separately as assets.

Step 3: Conclusion Building Fund is Rs 11,28,000; Capital Fund is Rs 10,80,000. Assets include Building Fund Investments of Rs 4,80,000 and building under construction of Rs 3,60,000.

Quick Tip to Solve: When construction is still in progress, show its cost as capital work-in-progress and retain the accumulated specific fund.

8. 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:

- Average maintainable profit excludes abnormal losses: add back an abnormal expense already charged against the reported profit.
- Goodwill equals adjusted average annual profit multiplied by the agreed number of years of purchase. A loss year enters the average with a negative sign.

Step 1: Normalise the profit affected by fire The 2014–15 profit of Rs 40,000 was calculated after deducting the abnormal fire loss of Rs 10,000. Since this loss is non-recurring, add it back:

$$\text{Adjusted profit for 2014–15} = 40,000 + 10,000 = \text{Rs } 50,000.$$

No other abnormal adjustment is supplied. In particular, the loss of Rs 25,000 in 2016–17 must remain a loss; it cannot be ignored merely because it reduces the average.

Step 2: Calculate average profit and the firm's goodwill The five adjusted annual results are Rs 50,000, Rs 50,000, Rs 75,000, a loss of Rs 25,000, and Rs 50,000. Thus:

$$\begin{aligned}\text{Total adjusted profit} &= 50,000 + 50,000 + 75,000 - 25,000 + 50,000\\ &= \text{Rs } 2,00,000,\\ \text{Average profit} &= \frac{2,00,000}{5} = \text{Rs } 40,000,\\ \text{Goodwill of firm} &= 40,000 \times 3 = \text{Rs } 1,20,000.\end{aligned}$$

The five years determine the average, whereas the three years' purchase determine its multiplier. Shyam's one-fifth share is relevant to his share of goodwill, but the question asks for the goodwill of the whole firm, so that fraction is not applied to the firm's valuation.

Step 3: Conclusion The goodwill of the firm is Rs 1,20,000.

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

9. 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:

- An omitted appropriation is corrected by comparing each partner's correct entitlement with the profit already credited.
- Fixed capitals remain unchanged; adjustment for omitted interest and salary is passed through the partners' current accounts.

Step 1: Calculate correct entitlements Interest on capital is $9,00,000 \times 10\% = \text{Rs } 90,000$ for A and $4,00,000 \times 10\% = \text{Rs } 40,000$ for B. A's annual salary is Rs 50,000; B's is $3,000 \times 12 = \text{Rs } 36,000$.

$$\text{Residual profit} = 2,78,000 - 90,000 - 40,000 - 50,000 - 36,000 = \text{Rs } 62,000.$$

Distribute the residual profit in the ratio $7 : 3$: A gets Rs 43,400 and B gets Rs 18,600. Therefore, A's correct total credit is $90,000 + 50,000 + 43,400 = \text{Rs } 1,83,400$; B's is $40,000 + 36,000 + 18,600 = \text{Rs } 94,600$. These total Rs 2,78,000.

Step 2: Compare with the original distribution and rectify Originally A received $2,78,000 \times 7/10 = \text{Rs } 1,94,600$, and B received $2,78,000 \times 3/10 = \text{Rs } 83,400$. A was overcredited by $1,94,600 - 1,83,400 = \text{Rs } 11,200$, while B was undercredited by the same amount.

Adjustment Journal (31st March, 2019)

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

This transfers the excess credit from A to B without changing the total profit or the fixed capital balances.

Step 3: Conclusion Debit A's Current Account and credit B's Current Account by Rs 11,200.

Quick Tip to Solve: With fixed capitals, put the net past adjustment in current accounts: debit the overcredited partner and credit the undercredited partner.

OR

9. 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:

- If the profit-sharing ratio is not specified, partners share profit and loss equally, irrespective of their capital balances.
- Compare correct salary, interest and residual-profit credits with the profit already distributed; transfer only the net difference between partners.

Step 1: Determine each partner's proper credit A's annual salary is $5,000 \times 12 =$ Rs $60,000$. Interest at 10% on opening capitals gives A Rs 40,000, B Rs 30,000 and C Rs 20,000. Total omitted appropriations are therefore:

$$60,000 + 40,000 + 30,000 + 20,000 = \text{Rs } 1,50,000.$$

Residual profit is $3,00,000 - 1,50,000 =$ Rs $1,50,000$. Since no profit-sharing ratio is stated, divide this equally: each partner receives Rs 50,000 as residual profit. Capital proportions do not determine their profit shares.

Step 2: Compute the net adjustment and pass the entry The original profit distribution gave each partner $3,00,000/3 =$ Rs $1,00,000$. Correct credits and differences are:

Particulars (Rs)	A	B	C
Salary	60,000	–	–
Interest on capital	40,000	30,000	20,000
Residual profit	50,000	50,000	50,000
Correct total credit	1,50,000	80,000	70,000
Already credited	1,00,000	1,00,000	1,00,000
Net credit/(debit)	50,000	(20,000)	(30,000)

Adjustment Journal (31st March, 2019)

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

The combined debit of Rs 50,000 equals the credit to A, restoring all three entitlements without changing the firm's total capital.

Step 3: Conclusion Debit B's Capital Account Rs 20,000 and C's Capital Account Rs 30,000; credit A's Capital Account Rs 50,000.

Quick Tip to Solve: No profit ratio is given here: use equal shares, then compare each correct total credit with the original Rs 1,00,000 credit.

10. P, Q and R were partners in a firm sharing profits and losses equally. S was admitted as a new partner for 1/4th share in the profits. The total capital of the new firm as agreed between P, Q, R and S was Rs 2,00,000 and S brought in cash equivalent to 1/4th of this amount as his capital. The capitals of P, Q and R were also to be adjusted in their profit sharing ratio by bringing in or paying off cash as the case may be. The capitals of P, Q and R after doing adjustments related to revaluation of assets and reassessment of liabilities were Rs 40,000; Rs 50,000 and Rs 60,000 respectively.

Calculate the new capital of P, Q and R and pass necessary journal entries for the above transactions in the books of the firm. [3 marks]

Solution:

Concept:

- After admission, the old partners share the balance of profits in their existing ratio unless a different arrangement is given. Capitals proportional to the new profit shares are obtained from the agreed total capital.
- Compare each partner's required capital with the adjusted capital already standing in the books. A deficiency is introduced in cash; a surplus is repaid. Capital introduced is credited to the partner, whereas capital withdrawn is debited.

Step 1: Determine the new shares and required capitals S receives $1/4$ of profits, leaving $3/4$ for P, Q and R. They continue to divide this balance equally, so each receives $(3/4) \times (1/3) = 1/4$. Thus the new ratio is $P : Q : R : S = 1 : 1 : 1 : 1$.

$$\text{Required capital of each partner} = \text{Rs } 2,00,000 \times \frac{1}{4} = \text{Rs } 50,000.$$

P has Rs 40,000 and must bring Rs 10,000; Q already has Rs 50,000 and requires no adjustment; R has Rs 60,000 and receives Rs 10,000 back. S brings Rs 50,000 as stated.

Step 2: Record capital introduced and refunded Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. To S's Capital A/c (Being capital introduced by S on admission)		50,000	50,000
	Cash A/c Dr. To P's Capital A/c (Being deficiency in P's capital brought in cash)		10,000	10,000
	R's Capital A/c Dr. To Cash A/c (Being surplus capital returned to R)		10,000	10,000

Q needs no entry, since his adjusted capital equals the required amount. The final aggregate capital is Rs 2,00,000, confirming that the cash adjustments produce the agreed capital base.

Step 3: Conclusion The new capitals of P, Q and R are Rs 50,000 each. P brings in Rs 10,000, Q makes no cash adjustment and R withdraws Rs 10,000; S introduces Rs 50,000.

Quick Tip to Solve: Allocate the total capital using the new profit shares first, then subtract each adjusted old capital to find cash introduced or refunded.

11. Singh and Jain were partners in a firm sharing profits and losses in the ratio of 3 : 7. On 31st March, 2019 their firm was dissolved. On the date of dissolution the Balance Sheet showed stock of Rs 90,000 and creditors of Rs 1,00,000. After transferring the assets (other than cash in hand and cash at bank) and third party liabilities to realisation account the following transactions took place :

(i) Singh took over 50% of the total stock at 10% discount.

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

(iii) Remaining stock was sold for cash at 10% loss.

(iv) Remaining creditors were paid by cheque at a discount of 5%.

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

Solution:

Concept:

- After transfer of assets, credit Realisation Account for asset disposals. Debit a partner's capital for assets taken over at the agreed value.
- No entry is required when a creditor accepts an asset if both accounts were transferred to Realisation Account. Debit Realisation Account with actual cash paid to creditors.

Step 1: Calculate stock disposal values and the creditor payment (i) Singh takes stock with book value Rs $90,000 \times 50\% =$ Rs $45,000$. The agreed value after a 10% discount is Rs $45,000 \times 90\% =$ Rs $40,500$.

(ii) Creditors of Rs 20,000 accept stock of book value Rs $90,000 \times 20\% =$ Rs $18,000$ in full settlement. Both stock and creditors were already transferred, so no entry follows.

(iii) The remaining stock is $100\% - 50\% - 20\% = 30\%$, with book value Rs $90,000 \times 30\% =$ Rs $27,000$. Cash realised at a 10% loss is Rs $27,000 \times 90\% =$ Rs $24,300$.

(iv) Remaining creditors are Rs $1,00,000 -$ Rs $20,000 =$ Rs $80,000$. Cheque payment after a 5% discount is Rs $80,000 \times 95\% =$ Rs $76,000$.

Step 2: Pass the journal entries for the transactions Journal of Singh and Jain, 31st March, 2019

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Singh's Capital A/c Dr. To Realisation A/c (Being 50% of stock taken by Singh at 10% discount)		40,500	40,500
	Cash A/c Dr. To Realisation A/c (Being remaining 30% of stock sold at 10% loss)		24,300	24,300
	Realisation A/c Dr. To Bank A/c (Being remaining creditors paid by cheque at 5% discount)		76,000	76,000

Step 3: Conclusion Singh takes stock at Rs 40,500, the cash sale realises Rs 24,300 and the cheque payment is Rs 76,000. Transaction (ii) requires no entry.

Quick Tip to Solve: For stock accepted by creditors, check whether both asset and liability were already transferred to Realisation Account before making any fresh entry.

12. X, Y and Z were partners in a firm sharing profits in the ratio of 3 : 3 : 4. Z died on 31st March, 2016. The amount payable to Z's executor K was Rs 1,09,000. Rs 19,000 were paid to K immediately and the balance was paid in three equal yearly instalments starting from 31st March, 2017 with interest @ 12% p.a. The firm closes its books on 31st March every year.

Prepare K's account till he is finally paid. [4 marks]

Solution:

Concept:

- The deceased partner's amount due is transferred to the executor's account. Immediate payment reduces the principal; interest is charged only on the unpaid balance.
- For equal annual principal instalments, annual interest equals opening unpaid principal multiplied by $12/100$. Each bank payment includes the principal instalment and that year's interest.

Step 1: Calculate principal instalments and interest The amount due to K on 31st March, 2016 is Rs 1,09,000. After the immediate payment of Rs 19,000, the unpaid principal is

$$1,09,000 - 19,000 = 90,000, \qquad \text{annual principal instalment} = 90,000/3 = 30,000.$$

The three yearly opening principal balances are Rs 90,000, Rs 60,000 and Rs 30,000. Consequently, interest for the years ended 31st March, 2017, 2018 and 2019 is respectively

$$90,000 \times 12\% = 10,800, \quad 60,000 \times 12\% = 7,200, \quad 30,000 \times 12\% = 3,600.$$

Adding each interest charge to the corresponding principal instalment gives bank payments of Rs 40,800, Rs 37,200 and Rs 33,600. The profit-sharing ratio is not required because the amount payable on death has already been determined.

Step 2: Prepare the executor account K's Account (Amounts in Rs)

Dr. Particulars	Amount	Particulars Cr.	Amount
2016 Mar. 31 To Bank	19,000	2016 Mar. 31 By Z's Capital	1,09,000
To Balance c/d	90,000		
Total	1,09,000	Total	1,09,000
2017 Mar. 31 To Bank	40,800	2016 Apr. 1 By Balance b/d	90,000
To Balance c/d	60,000	2017 Mar. 31 By Interest	10,800
Total	1,00,800	Total	1,00,800
2018 Mar. 31 To Bank	37,200	2017 Apr. 1 By Balance b/d	60,000
To Balance c/d	30,000	2018 Mar. 31 By Interest	7,200
Total	67,200	Total	67,200
2019 Mar. 31 To Bank	33,600	2018 Apr. 1 By Balance b/d	30,000
		2019 Mar. 31 By Interest	3,600
Total	33,600	Total	33,600

Interest credits increase the firm's liability to K; bank debits reduce it. Each balance carried down excludes interest because that year's interest has been paid along with the instalment. No balance remains after the final payment.

Step 3: Conclusion K is finally paid on 31st March, 2019. The yearly payments are Rs 40,800, Rs 37,200 and Rs 33,600; total interest is Rs 21,600.

Quick Tip to Solve: Calculate interest on Rs 90,000, Rs 60,000 and Rs 30,000, not on the original Rs 1,09,000.

13. 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	Amount (Rs)	Cr Particulars	Amount (Rs)
To Interest on Capital : X's Current A/c ..... Y's Current A/c	.....	By Profit and Loss A/c Net Profit b/d	.....
To Salary Y's Current A/c	.....	By Interest on Drawings : X'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, salary, drawings and profit shares are recorded in current accounts; capital accounts remain unchanged.
- Interest on capital equals capital multiplied by the annual rate. When drawing dates are unspecified, interest on drawings is calculated for an average period of six months.
- The residual divisible profit is shared in the agreed ratio 3 : 2. Interest on drawings is credited to Profit and Loss Appropriation Account and debited to the respective current accounts.

Step 1: Find the missing amounts X's profit share is Rs 1,20,000 and represents three-fifths of divisible

profit. Thus

$$\text{Divisible profit} = 1,20,000 \times \frac{5}{3} = 2,00,000, \qquad \text{Y's share} = 2,00,000 \times \frac{2}{5} = 80,000.$$

Interest on capital is Rs 18,000 for X and Rs 24,000 for Y, so fixed capitals are respectively Rs 1,80,000 and Rs 2,40,000. Total capital interest is Rs 42,000. The debit total of the appropriation account is Rs 2,84,000; hence Y's salary is

$$2,84,000 - 42,000 - 2,00,000 = 42,000.$$

As no dates of drawings are specified, charge interest for six months:

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

The total credit includes Rs 1,140 interest on drawings, so the net profit brought into appropriation is Rs 2,84,000 minus Rs 1,140, namely Rs 2,82,860.

Step 2: Complete the appropriation account Profit and Loss Appropriation Account for the year ended 31st March, 2019 (Amounts in Rs)

Dr. Particulars	Amount	Particulars Cr.	Amount
To Interest on Capital:		By Profit and Loss A/c	2,82,860
X's Current A/c	18,000	By Interest on Drawings:	
Y's Current A/c	24,000	X's Current A/c	600
To Salary: 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 3: Complete capital and current accounts Partners' Capital Accounts (Amounts in Rs)

Dr. Particulars	X	Y	Particulars Cr.	X	Y
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

Partners' Current Accounts (Amounts in Rs)

Dr. Particulars	X	Y	Particulars Cr.	X	Y
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

The current accounts close with credit balances of Rs 2,05,400 for X and Rs 2,05,460 for Y. Each side balances at Rs 2,16,000 for X and Rs 2,15,000 for Y. Fixed capitals remain unchanged.

Step 4: Conclusion Net profit is Rs 2,82,860 and Y's salary is Rs 42,000. Closing fixed capitals are X Rs 1,80,000 and Y Rs 2,40,000; closing current-account credit balances are X Rs 2,05,400 and Y Rs 2,05,460.

Quick Tip to Solve: Use X's Rs 1,20,000 share first to recover total divisible profit, then obtain salary as the balancing appropriation.

OR

13. 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	Amount (Rs)	Cr Particulars	Amount (Rs)
To Interest on Capital : X's Current A/c ..... Y's Current A/c	.....	By Profit and Loss A/c Net Profit b/d	.....
To Salary X's Current A/c	.....	By Interest on Drawings : 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 fixed capital is an appropriation: capital multiplied by the agreed annual rate. Partners receive these amounts through their current accounts.
- Interest on drawings is credited to the Profit and Loss Appropriation Account. When only total annual drawings are given without dates, use an average period of six months.
- Interest on a partner's loan is a charge against profit, whereas salary, general reserve and partners' shares are appropriations of net profit.

Step 1: Recover net profit and calculate capital interest General Reserve is 5% of net profit. Thus the printed reserve determines the net profit brought down:

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

Interest on the fixed capitals for the full year is:

$$X = 5,00,000 \times 9\% = \text{Rs } 45,000,$$
$$Y = 3,00,000 \times 9\% = \text{Rs } 27,000.$$

Total interest on capital is Rs 72,000. X's annual salary is $4,000 \times 12 = \text{Rs } 48,000$. Since capitals are fixed, these appropriations are credited to current accounts, not added to fixed capital.

Step 2: Calculate drawing interest and divisible profit The dates of drawings are not specified, so apply the usual six-month average period:

$$X = 60,000 \times 12\% \times \frac{6}{12} = \text{Rs } 3,600,$$
$$Y = 72,000 \times 12\% \times \frac{6}{12} = \text{Rs } 4,320.$$

Interest on drawings adds Rs 7,920 to the credit side. Interest on Y's loan is $2,00,000 \times 6\% = \text{Rs } 12,000$; it belongs in the Profit and Loss Account before net profit is brought into appropriation. Therefore it is not deducted again from the net profit inferred from the reserve.

$$\text{Divisible profit} = 3,00,000 + 7,920 - 72,000 - 48,000 - 15,000 = \text{Rs } 1,72,920.$$

In the ratio $2:1$, X receives $1,72,920 \times 2/3 = \text{Rs } 1,15,280$ and Y receives Rs 57,640.

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

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
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	48,000	X's Current A/c	3,600
To General Reserve	15,000	Y's Current A/c	4,320
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 equal totals confirm that the entire available profit, including interest recovered on drawings, has been appropriated.

Step 4: Conclusion The completed account totals Rs 3,07,920 on each side; profit shares credited to X and Y are Rs 1,15,280 and Rs 57,640 respectively.

Quick Tip to Solve: First infer net profit from the reserve percentage; never charge partner loan interest a second time in appropriation.

14. 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 is settled at the issue price per debenture. Face value is credited to Debentures A/c and issue premium to Securities Premium Reserve.
- Redemption premium is provided on issue through Loss on Issue of Debentures A/c. Under the rules applicable to this question, minimum DRR is 25% and redemption investment is 15% of the nominal debentures due for redemption.
- Interest on the redemption investment is recognised gross; tax deducted at source is a separate recoverable asset. DRR is transferred to General Reserve after redemption.

Step 1: Determine goodwill, issue proceeds and redemption provisions Net assets acquired are $6,00,000 - 70,000 =$ Rs $5,30,000$. Since consideration is Rs 6,60,000, goodwill is $6,60,000 - 5,30,000 =$ Rs $1,30,000$. Each debenture is issued for $100 + 10 =$ Rs 110; hence $6,60,000/110 = 6,000$ debentures are issued. Their nominal value is Rs 6,00,000 and issue premium is Rs 60,000. Redemption premium is $6,00,000 \times 5\% =$ Rs $30,000$, making the amount payable Rs 6,30,000. Minimum DRR is $6,00,000 \times 25\% =$ Rs $1,50,000$. Required investment is $6,00,000 \times 15\% =$ Rs $90,000$. The investment earns $90,000 \times 10\% =$ Rs $9,000$ for the year; tax deducted is Rs 900 and net bank receipt is Rs 8,100.

Step 2: Record acquisition and issue on 1st April, 2016 **Journal of Ganesh Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2016	Sundry Assets A/c Dr.		6,00,000	
	Goodwill A/c Dr.		1,30,000	
	To Sundry Liabilities A/c			70,000
	To Sohan Ltd.			6,60,000
	(Being business acquired for agreed consideration)			
1-4-2016	Sohan Ltd. Dr.		6,60,000	
	Loss on Issue of Debentures A/c Dr.		30,000	
	To 12% Debentures A/c			6,00,000
	To Securities Premium Reserve A/c			60,000
	To Premium on Redemption of Debentures A/c			30,000
	(Being 6,000 debentures issued at 10% premium, redeemable at 5% premium)			

Step 3: Create reserve and invest the required amount **Journal of Ganesh Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being minimum DRR created at 25% of nominal value)		1,50,000	 1,50,000
1-4-2018	Debenture Redemption Investment A/c Dr. To Bank A/c (Being 15% of nominal value invested in Government securities)		90,000	 90,000

Step 4: Record interest, realise investment and redeem debentures **Journal of Ganesh Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Bank A/c Dr. Tax Deducted at Source A/c Dr. To Interest on Debenture Redemption Investment A/c (Being annual investment interest received after 10% tax deduction)		8,100 900	 9,000
31-3-2019	Interest on Debenture Redemption Investment A/c Dr. To Statement of Profit and Loss A/c (Being investment interest transferred to profit and loss)		9,000	 9,000
31-3-2019	Bank A/c Dr. To Debenture Redemption Investment A/c (Being Government securities realised at their book value)		90,000	 90,000
31-3-2019	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
31-3-2019	Debentureholders A/c Dr. To Bank A/c (Being amount due paid to debentureholders)		6,30,000	 6,30,000
31-3-2019	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred after full redemption)		1,50,000	 1,50,000

No sale price for the Government securities is specified, so realisation is recorded at the amount invested. The cash interest receipt is only Rs 8,100; the remaining Rs 900 is the tax credit, not a reduction of gross interest income.

Step 5: Conclusion Ganesh Ltd. issues 6,000 debentures, creates DRR of Rs 1,50,000, invests Rs 90,000 and redeems the debentures for Rs 6,30,000.

Quick Tip to Solve: Calculate DRR and investment on face value; calculate settlement on issue price and redemption payment on face value plus redemption premium.

15. Following is the Receipts and Payments Account of Bharti Club for the year ended 31st March, 2019.

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

Receipts	Amount (Rs)	Payments	Amount (Rs)
To Balance b/d	10,500	By Salaries	25,000
To Subscriptions	70,500	By Travelling Expenses	4,000
To Donations	5,000	By Stationery	3,000
To Life Membership Fees	10,000	By Rent	32,000
To Income from Investments	2,000	By Books	4,000
		By Balance c/d	30,000
	98,000		98,000

Additional Information :

Particulars	31.3.2018 (Rs)	31.3.2019 (Rs)
Advance Subscription	2,000	3,500
Outstanding Subscription	3,400	4,300
Books	8,000	12,000
9% Investments	25,000	25,000

Prepare Income and Expenditure Account of the Club for the year ended 31st March, 2019 and its Balance Sheet as at 31st March, 2019. [6 marks]

Solution:

Concept:

- Income and Expenditure Account records revenue income and revenue expenses on the accrual basis. Subscription outstanding is an asset; subscription received in advance is a liability.
- Life membership fees are a capital receipt. Books and investments are assets. Interest on investments is accrued at the stated annual rate.

Step 1: Calculate accrued income Subscription income is cash received plus closing outstanding less opening outstanding, plus opening advance less closing advance:

$$70,500 + 4,300 - 3,400 + 2,000 - 3,500 = \text{Rs } 69,900.$$

Annual investment income is $25,000 \times 9/100 = \text{Rs } 2,250$. Since Rs 2,000 was received, Rs 250 is accrued at the year end. The general donation of Rs 5,000 is revenue income. Life membership fees of Rs 10,000 are capitalised and are excluded from current income.

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

Expenditure (Dr.)	Rs	Income (Cr.)	Rs
To Salaries	25,000	By Subscriptions	69,900
To Travelling expenses	4,000	By Donations	5,000
To Stationery	3,000	By Investment income	2,250
To Rent	32,000		
To Surplus	13,150		
Total	77,150	Total	77,150

Books purchased are capital expenditure: opening books Rs 8,000 plus purchases Rs 4,000 equal closing books Rs 12,000. Thus no depreciation is implied by these figures. Total revenue expenditure is Rs 64,000 and the excess of income over expenditure is Rs 13,150.

Step 3: Find the opening capital fund Opening capital fund equals opening assets less opening outside liabilities:

$$\begin{aligned} \text{Opening assets} &= 10,500 + 3,400 + 8,000 + 25,000 \\ &= \text{Rs } 46,900, \\ \text{Capital fund on 1.4.2018} &= 46,900 - 2,000 = \text{Rs } 44,900. \end{aligned}$$

The opening subscription advance is deducted because it represents an obligation to supply membership benefits in the current year. Add the current surplus of Rs 13,150 to obtain the closing general capital fund of Rs 58,050.

Step 4: Prepare the closing Balance Sheet Bharti Club: Balance Sheet as at 31st March, 2019

Liabilities	Rs	Assets	Rs
Capital fund	58,050	Books	12,000
Life membership fees	10,000	9% Investments	25,000
Subscriptions in advance	3,500	Accrued interest	250
		Outstanding subscriptions	4,300
		Cash balance	30,000
Total	71,550	Total	71,550

The life membership fees may also be added to the capital fund, making that combined fund Rs 68,050; separate presentation above identifies the capital receipt clearly.

Step 5: Conclusion The surplus is $\boxed{\text{Rs } 13,150}$. The Balance Sheet totals $\boxed{\text{Rs } 71,550}$ on each side.

Quick Tip to Solve: Adjust subscriptions in both directions, accrue 9% investment interest, and keep books and life membership fees out of revenue expenditure and income respectively.

16. 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:

- Issue price is face value plus securities premium: Rs 10 + Rs 6 = Rs 16 per share. Application and allotment contains Rs 2 capital and Rs 4 premium; the call contains Rs 8 capital and Rs 2 premium.
- Excess application money is adjusted against the call. On forfeiture, debit called-up capital and unpaid premium, credit unpaid call money and capital already received. Reissue at a premium does not reduce share forfeiture.

Step 1: Calculate allotment and advances Category B receives one share for every two applied for; category C receives five shares for every eight applied for. Thus Ali receives $1,000 \times 50,000/1,00,000 = 500$ shares. His entire share liability is $500 \times 16 =$ Rs $8,000$, paid with application. This is Rs 2,000 more than his normal application payment of Rs 6,000. Total money received is therefore $1,90,000 \times 6 + 2,000 =$ Rs $11,42,000$.

Category A gets a refund of $10,000 \times 6 =$ Rs $60,000$. Application and allotment due on shares issued is Rs 6,00,000, leaving Rs 4,82,000 for adjustment against the call. This comprises category B's normal excess Rs 3,00,000, Ali's additional Rs 2,000, and category C's excess Rs 1,80,000. Ali's own call of Rs 5,000 is entirely covered by his advance.

Step 2: Record receipt, allotment and adjustment Journal of Rathee Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		11,42,000	
	To Share Application and Allotment A/c			11,42,000
	(Being application money received, including Ali's full payment)			
	Share Application and Allotment A/c Dr.		11,42,000	
	To Share Capital A/c			2,00,000
	To Securities Premium A/c			4,00,000
	To Bank A/c			60,000
	To Calls in Advance A/c			4,82,000
	(Being application and allotment transferred, rejected applications refunded and excess retained for the call)			

Step 3: Calculate the call and Bali default The call due is $1,00,000 \times (16-6) = \text{Rs } 10,00,000$, including premium Rs 2,00,000. Bali applied for $1,000 \times 8/5 = 1,600$ shares and paid Rs 9,600 with application. Of this, Rs 6,000 is application and allotment due and Rs 3,600 is excess available against his call of Rs 10,000. His unpaid call is therefore Rs 6,400. The amount received in cash on the call is

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

For Bali, Rs 2,000 capital was received at allotment. The advance Rs 3,600 covers call premium Rs 2,000 and Rs 1,600 call capital. Hence total capital received on his shares is Rs 3,600; all premium on these shares has been received, so no securities premium reversal is necessary.

Step 4: Record call due and receipt Journal of Rathee Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr.		10,00,000	
	To Share Capital A/c			8,00,000
	To Securities Premium A/c			2,00,000
	(Being first and final call of Rs 10 per share made due)			
	Bank A/c Dr.		5,11,600	
	Calls in Advance A/c Dr.		4,82,000	
	To Share First and Final Call A/c			9,93,600
	(Being call money received and advances adjusted, except Bali's unpaid balance Rs 6,400)			

Step 5: Record forfeiture, reissue and capital reserve Journal of Rathee Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		10,000	
	To Share First and Final Call A/c			6,400
	To Share Forfeiture A/c			3,600
	(Being Bali's 1,000 shares forfeited for non-payment of the remaining call money)			
	Bank A/c Dr.		15,000	
	To Share Capital A/c			10,000
	To Securities Premium A/c			5,000
	(Being forfeited shares reissued fully paid at Rs 15 per share)			
	Share Forfeiture A/c Dr.		3,600	
	To Capital Reserve A/c			3,600
	(Being profit on reissue transferred to capital reserve)			

All forfeited shares have been reissued without any discount, so the whole forfeiture balance is a

capital profit. Securities premium after these transactions is Rs 6,05,000.

Step 6: Conclusion Bali's unpaid call is $\boxed{\text{Rs } 6,400}$; share forfeiture and capital reserve are each $\boxed{\text{Rs } 3,600}$. The above journal entries record all transactions.

Quick Tip to Solve: For a pro-rata defaulter, first subtract the excess application money from the call due; separate premium already received before calculating the forfeiture credit.

OR

16. '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 directiors 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:

- Only issued shares create share capital; authorised capital is a ceiling and needs no journal entry.
- Unpaid amounts remain debits in the respective allotment/call accounts until paid or forfeited. Forfeiture credits only capital money actually received.

Step 1: Calculate receipts and arrears The vendor receives $70,000 \times 10 = \text{Rs } 7,00,000$ in shares. Public application receipts are $2,00,000 \times 3 = \text{Rs } 6,00,000$. Allotment receipts are $1,90,000 \times 2 = \text{Rs } 3,80,000$. First-call receipts are $1,60,000 \times 2 = \text{Rs } 3,20,000$, and final-call receipts are $1,00,000 \times 3 = \text{Rs } 3,00,000$. The Rs 7 and Rs 5 groups have paid cumulatively through the first call and allotment respectively; these are not calls in advance.

Step 2: Record purchase, application and allotment Journal of Venus Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Building A/c Dr.		7,00,000	
	To M/s. Star Ltd. A/c			7,00,000
	(Being building purchased)			
	M/s. Star Ltd. A/c Dr.		7,00,000	
	To Equity Share Capital A/c			7,00,000
	(Being 70,000 fully paid shares issued to vendor)			
	Bank A/c Dr.		6,00,000	
	To Share Application A/c			6,00,000
	(Being application money received)			
	Share Application A/c Dr.		6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being application money transferred)			
	Share Allotment A/c Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being allotment due on 2,00,000 shares)			
	Bank A/c Dr.		3,80,000	
	To Share Allotment A/c			3,80,000
	(Being allotment received except on 10,000 shares)			

Step 3: Record both calls Journal of Venus Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being first call due)			
	Bank A/c Dr.		3,20,000	
	To Share First Call A/c			3,20,000
	(Being first call received on 1,60,000 shares)			
	Share Second and Final Call A/c Dr.		6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being final call due)			
	Bank A/c Dr.		3,00,000	
	To Share Second and Final Call A/c			3,00,000
	(Being final call received on 1,00,000 shares)			

Step 4: Record forfeiture, reissue and reserve The forfeited shares carry unpaid allotment Rs 20,000, first call Rs 20,000 and final call Rs 30,000. Capital received is Rs 30,000. Reissue at Rs 12 gives a fresh premium of Rs 20,000; no forfeiture balance is used as discount.

Journal of Venus Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Equity Share Capital A/c Dr.		1,00,000	
	To Share Allotment A/c			20,000
	To Share First Call A/c			20,000
	To Share Second and Final Call A/c			30,000
	To Share Forfeiture A/c			30,000
	(Being 10,000 shares forfeited for unpaid calls)			
	Bank A/c Dr.		1,20,000	
	To Equity Share Capital A/c			1,00,000
	To Securities Premium Reserve A/c			20,000
	(Being forfeited shares reissued fully paid at Rs 12)			
	Share Forfeiture A/c Dr.		30,000	
	To Capital Reserve A/c			30,000
	(Being profit on all forfeited shares transferred)			

Step 5: Conclusion Capital Reserve is credited with Rs 30,000 and Securities Premium Reserve with Rs 20,000. Remaining calls in arrears are Rs 3,30,000: first call Rs 60,000 and final call Rs 2,70,000.

Quick Tip to Solve: Treat the stated Rs 7, Rs 5 and Rs 3 as cumulative receipts per share; allocate them chronologically to application, allotment and calls.

17. 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 belongs to all old partners in the old ratio $2:2:1$. Stock taken at book value transfers directly to the retiring partner without a revaluation gain or loss.
- The continuing partners retain their relative ratio $2:1$; goodwill compensation is borne in the gaining ratio. Fixed capitals are obtained by transferring differences to current accounts, without changing bank.

Step 1: Find ratios and goodwill adjustment Lisa and Nisha share future profits in $2:1$. Their gains are $2/3 - 2/5 = 4/15$ and $1/3 - 1/5 = 2/15$, respectively, so the gaining ratio is $2:1$. Monika receives goodwill compensation of $3,00,000 \times 2/5 =$ Rs $1,20,000$, debited to Lisa Rs 80,000 and Nisha Rs 40,000. No goodwill asset is raised.

Step 2: Prepare Revaluation Account Machinery depreciation is $12,00,000 \times 10\% =$ Rs $1,20,000$, and provision is $4,00,000 \times 5\% =$ Rs $20,000$. Net profit is $2,40,000 - 1,20,000 - 20,000 =$ Rs $1,00,000$, shared as Rs 40,000, Rs 40,000 and Rs 20,000.

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	40,000			
	To Monika's Capital	40,000			
	To Nisha's Capital	20,000			
	Total	2,40,000	Total	2,40,000	

Step 3: Adjust and fix partners capital accounts Monika takes stock of $10,00,000 \times 50\% =$ Rs $5,00,000$. Her balance payable is $14,00,000 + 40,000 + 1,20,000 - 5,00,000 =$ Rs $10,60,000$, transferred to her loan account since immediate payment is not specified. Lisa and Nisha have adjusted capitals Rs 13,60,000 and Rs 3,40,000. Required capitals are $27,00,000 \times 2/3 =$ Rs $18,00,000$ and Rs 9,00,000. The shortages Rs 4,40,000 and Rs 5,60,000 are debited to their current accounts and credited to capitals.

Partners' Capital Accounts (all amounts in Rs)

Dr.	Particulars	Lisa	Monika	Nisha	Particulars	Lisa	Monika	Nisha	Cr.
	To Monika (goodwill)	80,000	–	40,000	By Balance b/d	14,00,000	14,00,000	3,60,000	
	To Stock	–	5,00,000	–	By Revaluation	40,000	40,000	20,000	
	To Monika's Loan	–	10,60,000	–	By Lisa (goodwill)	–	80,000	–	
	To Balance c/d	18,00,000	–	9,00,000	By Nisha (goodwill)	–	40,000	–	
					By Current A/c	4,40,000	–	5,60,000	
	Total	18,80,000	15,60,000	9,40,000	Total	18,80,000	15,60,000	9,40,000	

Step 4: Prepare the reconstituted balance sheet The current accounts have debit balances because the fixed capitals exceed the adjusted capital balances. They appear as assets; no cash introduction is required. Existing external liabilities remain payable at their book amounts.

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

Liabilities	Amount (Rs)	Assets	Amount (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	Debtors: 4,00,000	
Capitals:		Less: Provision 20,000	3,80,000
Lisa: 18,00,000		Bank	40,000
Nisha: 9,00,000	27,00,000	Current A/cs (debit):	
		Lisa: 4,40,000	
		Nisha: 5,60,000	10,00,000
Total	42,40,000	Total	42,40,000

Step 5: Conclusion Revaluation profit is Rs 1,00,000; Monika's loan is Rs 10,60,000. Fixed capitals are Lisa Rs 18,00,000 and Nisha Rs 9,00,000; the Balance Sheet totals Rs 42,40,000.

Quick Tip to Solve: When capital adjustment must use current accounts, transfer each shortage to the debit of the current account; do not invent fresh cash contributions.

OR

17. 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	(5,000)
Capitals:		Net debtors	60,000
Madan	60,000	Stock	33,000
Mohan	40,000	Patents	57,000
Total	1,60,000	Total	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 ratio, Madan : Mohan $= 3 : 2$.
- Only Mohan sacrifices for Gopal, so the whole goodwill premium is credited to Mohan. The new ratio is $3 : 1 : 1$.
- A stock figure stated to be 10% above market value is divided by 1.10, not reduced by 10% of its book value.

Step 1: Calculate revaluation adjustments Stock at market value is $33,000 \times 100/110 =$ Rs $30,000$; the reduction is Rs 3,000. Patents increase by Rs 2,000 to Rs 59,000. The recovered bad debt of Rs 2,000 is a gain; it does not reduce current debtors, since it had already been written off. The compensation claim creates a liability of Rs 5,000. Thus the revaluation loss is $5,000 + 3,000 - 2,000 - 2,000 =$ Rs $4,000$, borne by Madan Rs 2,400 and Mohan Rs 1,600.

Revaluation Account

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

Step 2: Determine capital contributions Distribute General Reserve: Madan $10,000 \times 3/5 =$ Rs $6,000$, Mohan $10,000 \times 2/5 =$ Rs $4,000$. Mohan's old share is $2/5$; he gives $1/5$ to Gopal, leaving $1/5$. Madan retains $3/5$, giving the new ratio $3 : 1 : 1$. Gopal's Rs 10,000 goodwill premium belongs entirely to Mohan.

Adjusted capitals are Madan $60,000+6,000-2,400 =$ Rs $63,600$ and Mohan $40,000+4,000+10,000-1,600 =$ Rs $52,400$. Combined capital is Rs 1,16,000, so Gopal brings $20\% \times 1,16,000 =$ Rs $23,200$ as capital. This is 20% of the old partners' adjusted combined capital, exactly as required, not 20% of the final total capital.

Step 3: Prepare the partners capital accounts Madan's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	2,400	By Balance b/d	60,000
To Balance c/d	63,600	By General Reserve	6,000
Total	66,000	Total	66,000

Mohan's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	1,600	By Balance b/d	40,000
To Balance c/d	52,400	By General Reserve	4,000
		By Premium for goodwill	10,000
Total	54,000	Total	54,000

Gopal's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance c/d	23,200	By Bank	23,200
Total	23,200	Total	23,200

Step 4: Prepare the new balance sheet Bank becomes $10,000 + 2,000 + 10,000 + 23,200 =$ Rs $45,200$. Debtors remain Rs 65,000 less the existing provision of Rs 5,000, giving Rs 60,000 net. Employees Provident Fund remains a liability; the compensation claim is separately provided for.

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
Compensation claim	5,000	Less: Provision	(5,000)
Partners' capitals:		Net debtors	60,000
Madan	63,600	Stock	30,000
Mohan	52,400	Patents	59,000
Gopal	23,200		
Total	1,94,200	Total	1,94,200

Step 5: Conclusion Revaluation loss is Rs 4,000. Closing capitals are Madan Rs 63,600, Mohan Rs 52,400 and Gopal Rs 23,200; the new Balance Sheet totals Rs 1,94,200.

Quick Tip to Solve: Divide Rs 33,000 by 1.10 for stock, and credit the entire goodwill premium to the sole sacrificing partner, Mohan.

Part B (20 marks)

OPTION I (Analysis of Financial Statements)

18. What is meant by investing activities for preparing Cash Flow Statement ? [1 mark]

Solution:

Concept:

- Investing activities concern long-term assets and investments that are not included in cash equivalents.
- Cash equivalents are excluded because movement between cash and cash equivalents is part of cash management.

Step 1: Identify the nature of the activity The classification depends on acquiring or disposing of resources held to generate future income and cash flows, rather than on the ordinary revenue-producing operations of the enterprise.

Step 2: State what is included Cash paid to purchase machinery or investments and cash received on their sale illustrate investing cash flows. The purchase and disposal must involve cash to appear in the Cash Flow Statement; a wholly non-cash acquisition is excluded from its cash-flow totals.

Step 3: Conclusion Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Quick Tip to Solve: Remember both acquisition and disposal, and exclude investments that qualify as cash equivalents.

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

Solution:

Concept:

- A Cash Flow Statement reports cash inflows and outflows during an accounting period.
- Cash flows are classified into operating, investing and financing activities.

Step 1: Identify the information required Profit alone does not explain the change in cash because income and expenses are recognised on the accrual basis. Cash may also change through acquiring assets, borrowing funds or repaying capital.

Step 2: Explain the primary objective The statement provides information about cash receipts and cash payments during the period, classified by their activities. It explains the movement from opening cash and cash equivalents to the closing balance and thus helps users understand the enterprise's cash position.

Step 3: Conclusion The primary objective is to provide information about cash inflows and outflows during a period and explain the resulting change in cash and cash equivalents.

Quick Tip to Solve: State cash inflows and outflows for a period; do not substitute the calculation of accounting profit.

20. 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:

- A common-size statement expresses each income, expense and profit as a percentage of revenue from operations for that same year: Percentage $= \frac{\text{Individual item}}{\text{Revenue from operations}} \times 100$.
- Total income equals revenue from operations plus other income. Profit before tax equals total income less total expenses; tax is 50% of profit before tax.

Step 1: Calculate income, expenses and profits For 2018–19, total income is $20,00,000 + 60,000 =$ Rs $20,60,000$. Total expenses are $7,70,000 + 1,20,000 + 52,000 =$ Rs $9,42,000$. Hence profit before tax is $20,60,000 - 9,42,000 =$ Rs $11,18,000$. Tax and profit after tax are each Rs 5,59,000.

For 2017–18, total income is $10,00,000 + 50,000 =$ Rs $10,50,000$. Total expenses are $4,20,000 +$

$80,000 + 30,000 =$ Rs $5,30,000$. Profit before tax is Rs 5,20,000; tax and profit after tax are each Rs 2,60,000. Changes in inventories are added as an expense because the printed amount is positive.

Step 2: Prepare the common-size statement Hari Darshan Ltd.
Common-size Statement of Profit and Loss for the years ended 31st March, 2019 and 2018

Particulars	2018–19 Rs	2017–18 Rs	2018–19 %	2017–18 %
Revenue from operations	20,00,000	10,00,000	100.00	100.00
Other income	60,000	50,000	3.00	5.00
Total income	20,60,000	10,50,000	103.00	105.00
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
Profit before tax	11,18,000	5,20,000	55.90	52.00
Tax at 50%	5,59,000	2,60,000	27.95	26.00
Profit after tax	5,59,000	2,60,000	27.95	26.00

For example, purchases in 2018–19 are $7,70,000/20,00,000 \times 100 = 38.50\%$; profit after tax is $5,59,000/20,00,000 \times 100 = 27.95\%$. Each year's own revenue is used throughout.

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

Quick Tip to Solve: Use revenue from operations as 100% in each year; other income makes total income exceed 100%.

OR

20. 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:

- Absolute change is current-year amount minus previous-year amount. Percentage change is $\frac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$.
- Profit before tax is revenue less employee benefit expenses, depreciation and other expenses. Profit

after tax is profit before tax less tax at the given rate.

Step 1: Compute the annual profits For 2018–19, total expenses are $30,00,000 + 7,50,000 + 15,50,000 =$ Rs $53,00,000$. Profit before tax is $60,00,000 - 53,00,000 =$ Rs $7,00,000$. Tax at 50% is Rs 3,50,000, leaving profit after tax of Rs 3,50,000.

For 2017–18, total expenses are $22,50,000 + 6,00,000 + 10,00,000 =$ Rs $38,50,000$. Profit before tax is $45,00,000 - 38,50,000 =$ Rs $6,50,000$. Tax at 50% and profit after tax are each Rs 3,25,000. There is no other income specified, so total income equals revenue from operations.

Step 2: Prepare the comparative statement Delko Ltd.

Comparative Statement of Profit and Loss for the years ended 31st March, 2019 and 2018

Particulars	2017–18 Rs	2018–19 Rs	Increase Rs	Increase %
Revenue from operations	45,00,000	60,00,000	15,00,000	33.33
Total income	45,00,000	60,00,000	15,00,000	33.33
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
Profit before tax	6,50,000	7,00,000	50,000	7.69
Tax at 50%	3,25,000	3,50,000	25,000	7.69
Profit after tax	3,25,000	3,50,000	25,000	7.69

All changes are increases. For example, the increase in total expenses is $53,00,000 - 38,50,000 =$ Rs $14,50,000$, or $14,50,000/38,50,000 \times 100 = 37.66\%$. Profit after tax increases by $25,000/3,25,000 \times 100 = 7.69\%$. Percentages are rounded to two decimal places.

Step 3: Conclusion Revenue increased by Rs 15,00,000 (33.33%), while profit after tax increased by Rs 25,000 (7.69%), from Rs 3,25,000 to Rs 3,50,000.

Quick Tip to Solve: Always divide each increase by its 2017–18 amount; the current-year figure is not the base.

21. 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 operating cost as a percentage of revenue from operations: Operating ratio $= \frac{\text{Cost of revenue from operations+Operating expenses}}{\text{Revenue from operations}} \times 100$.
- Inventory turnover ratio compares cost of revenue from operations with average inventory: Inventory turnover ratio $= \frac{\text{Cost of revenue from operations}}{\text{Average inventory}}$, where average inventory is half the sum of opening and closing inventory.

Step 1: Calculate total revenue and cost of revenue from operations Credit revenue is 120% of cash revenue, rather than 120% of total revenue. Therefore,

$$\text{Credit revenue} = 10,00,000 \times \frac{120}{100} = \text{Rs } 12,00,000,$$
$$\text{Total revenue} = 10,00,000 + 12,00,000 = \text{Rs } 22,00,000.$$

Gross profit is 40% of revenue, so cost of revenue is the remaining 60%:

$$\text{Cost of revenue} = 22,00,000 \times \frac{60}{100} = \text{Rs } 13,20,000.$$

Step 2: Calculate the operating ratio Operating expenses are 10% of total revenue from operations:

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

Adding these expenses to cost of revenue gives operating cost of Rs 15,40,000. Hence,

$$\text{Operating ratio} = \frac{13,20,000 + 2,20,000}{22,00,000} \times 100 = 70\%.$$

This also agrees with the direct check: operating cost is $60\% + 10\% = 70\%$ of revenue.

Step 3: Calculate average inventory and inventory turnover Closing inventory exceeds opening

inventory by Rs 20,000:

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

Use cost of revenue, excluding operating expenses, as the numerator:

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

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

Quick Tip to Solve: Convert the gross profit rate to the cost rate first; inventory turnover uses cost of revenue, while operating ratio adds operating expenses.

OR

21. (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 $= \frac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100$. Capital employed is total assets less current liabilities; long-term debt forms part of the investment financed by long-term funds.
- Working capital turnover ratio $= \frac{\text{Revenue from operations}}{\text{Working capital}}$. Working capital equals current assets less current liabilities, or long-term funds less non-current assets.

Step 1: (A) Derive profit before interest and tax Net profit after tax of Rs 1,00,000 is 50% of profit before tax because the tax rate is 50%. Thus,

$$\text{Profit before tax} = \frac{1,00,000}{1 - 0.50} = \text{Rs } 2,00,000.$$

Interest on long-term debt is $4,00,000 \times 10\% = \text{Rs } 40,000$. Since profit before tax is already after charging interest, add back that interest:

$$\text{Profit before interest and tax} = 2,00,000 + 40,000 = \text{Rs } 2,40,000.$$

Step 2: (A) Calculate capital employed and return on investment Deduct current liabilities from total

assets to find the capital employed:

$$\text{Capital employed} = 10,00,000 - 2,00,000 = \text{Rs } 8,00,000.$$

Long-term debt is not deducted because the return is calculated on all long-term capital. Therefore,

$$\text{Return on investment} = \frac{2,40,000}{8,00,000} \times 100 = 30\%.$$

Step 3: (B) Derive revenue from operations Gross profit of Rs 5,00,000 is 25% of revenue from operations. Reversing that percentage gives

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

This is revenue, rather than cost of revenue: the stated gross profit rate is expressly based on revenue from operations.

Step 4: (B) Determine working capital and its turnover Long-term funds comprise shareholders' funds and non-current liabilities. The excess of these funds over non-current assets finances working capital:

$$\text{Long-term funds} = 25,00,000 + 8,00,000 = \text{Rs } 33,00,000,$$

$$\text{Working capital} = 33,00,000 - 23,00,000 = \text{Rs } 10,00,000.$$

Hence,

$$\text{Working capital turnover ratio} = \frac{20,00,000}{10,00,000} = 2 \text{ times}.$$

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

Quick Tip to Solve: Reverse tax before adding interest for ROI; find working capital as long-term funds minus non-current assets when current balances are not given.

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

(i) Patents

(ii) Unpaid Dividend

(iii) Calls-in-advance

(iv) Cheques-in-hand

(v) Bills Payable

(vi) Office Equipments

(vii) General Reserve

(viii) Public Deposits [4 marks]

Solution:

Concept:

- Schedule III groups assets according to their nature and liabilities according to their nature and maturity. A sub-heading is more specific than the broad heading of assets or liabilities.
- Reserves belong to shareholders' funds. An advance received against calls and an unpaid dividend are obligations; neither is added to paid-up share capital.

Step 1: Classify all eight items The required sub-headings are shown below. The fixed-asset terminology follows that used in the question paper.

Balance Sheet classification under Schedule III

Item	Sub-heading
(i) Patents	Intangible Assets (under Fixed Assets)
(ii) Unpaid Dividend	Other Current Liabilities
(iii) Calls-in-advance	Other Current Liabilities
(iv) Cheques-in-hand	Cash and Cash Equivalents
(v) Bills Payable	Trade Payables
(vi) Office Equipments	Tangible Assets (under Fixed Assets)
(vii) General Reserve	Reserves and Surplus
(viii) Public Deposits	Long-term Borrowings

Step 2: Explain the classification Patents are identifiable non-physical rights, whereas office equipment is a physical asset. Cheques held for deposit form part of cash and cash equivalents. Bills payable arise from purchases in the ordinary course of business and therefore belong to trade payables. Unpaid dividend remains payable to shareholders, and calls-in-advance is money received before a call becomes due; both are other current liabilities. General reserve is an appropriation of profit, so it appears within reserves and surplus. Public deposits are classified under long-term borrowings in the usual classification where no short-term maturity is specified.

Step 3: Conclusion Thus the eight items are classified under the specific Schedule III sub-headings given in the table.

Quick Tip to Solve: Distinguish calls-in-advance from share capital, and bills payable from other current liabilities.

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, profit is adjusted for non-cash expenses, non-operating items and changes in operating working capital. Tax paid is deducted from operating cash flow.
- Purchase and sale of machinery and investments are investing activities. Issue of shares and debentures, repayment of bank overdraft and interest paid are financing activities for this non-financial company.

Step 1: Calculate profit, depreciation and machinery cash flows The increase in surplus is profit after tax:

$$6,00,000 - 3,00,000 = \text{Rs } 3,00,000.$$

With no separate tax adjustment given, current-year tax provision is Rs 2,00,000 and the opening

provision of Rs 1,65,000 is taken as tax paid. Hence profit before tax is Rs 5,00,000.

$$\begin{aligned}\text{Depreciation} &= 2,00,000 - 1,00,000 + 40,000\\ &= \text{Rs } 1,40,000.\\ \text{Sale proceeds} &= 80,000 - 40,000 + 10,000\\ &= \text{Rs } 50,000.\\ \text{Machinery purchased} &= 26,00,000 - 20,00,000 + 80,000\\ &= \text{Rs } 6,80,000.\end{aligned}$$

The cost of machinery sold is added back when reconstructing purchases; its accumulated depreciation is added back when calculating the year's depreciation. Goodwill written off is Rs 1,00,000. All debentures, including the issue on 1 April 2017, bear interest for the full year, giving interest of Rs $5,00,000 \times 12\% = 60,000$.

Step 2: Prepare operating activities **X Ltd.: Cash Flow Statement for the year ended 31 March 2018**

A. Cash flow from operating activities

Particulars	Amount (Rs)
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

Inventories increased from Rs 1,30,000 to Rs 2,60,000, absorbing Rs 1,30,000 of operating cash. The change in tax provision is dealt with through tax expense and tax paid, rather than as an ordinary working capital adjustment.

Step 3: Prepare investing and financing activities and reconcile cash **B. Cash flow from investing activities**

Particulars	Amount (Rs)
Purchase of machinery	(6,80,000)
Proceeds from sale of machinery	50,000
Purchase of non-current investments	(1,00,000)
Sale of current investments	30,000
Net cash used in investing activities (B)	(7,00,000)

Current investments are treated as investing assets since the information does not identify them as cash equivalents.

C. Cash flow from financing activities

Particulars	Amount (Rs)
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 increase in cash and cash equivalents (A+B+C)	30,000
Add: Opening cash and cash equivalents	40,000
Closing cash and cash equivalents	70,000

Bank overdraft is treated as a financing borrowing; its decrease from Rs 1,75,000 to Rs 1,70,000 is a repayment of Rs 5,000. The reconciliation agrees with the cash and cash equivalents separately given in the balance sheet.

Step 4: Conclusion Operating activities generate Rs 4,95,000, investing activities use Rs 7,00,000 and financing activities generate Rs 2,35,000. The net increase is Rs 30,000, giving closing cash and cash equivalents of Rs 70,000.

Quick Tip to Solve: For machinery, reconstruct cost and accumulated depreciation separately before calculating purchase, depreciation and sale proceeds.

OPTION II (Computerised Accounting)

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

Solution:

Concept:

- A database table stores records in rows and fields in columns. A primary key identifies a record uniquely.
- The selected key must have a distinct value for every record and cannot contain a null value.

Step 1: Identify the purpose A primary key is a field, or a combination of fields, selected to uniquely identify each record in a table. It prevents two rows from having the same identifying key.

Step 2: Apply it to an accounting database For example, AccountCode can be the primary key of an Accounts table if every account has its own unique code. Names are unsuitable when two accounts can have the same name. Every record must have a non-null key value.

Step 3: Conclusion A primary key is a field or combination of fields that uniquely identifies each record in a table; its values are unique and non-null.

Quick Tip to Solve: Check both conditions before choosing a key: no repeated values and no missing values.

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

Solution:

Concept:

- A data element is an individually named, basic unit of data recorded in an information system.
- An accounting transaction is represented by separate fields so that the software can classify and process it.

Step 1: Identify the transaction fields The four data elements of an accounting transaction are the name of the account, the accounting code, the date of the transaction and the amount.

Step 2: Relate each field to its purpose The account name identifies the account affected, while its accounting code provides its coded identity. The date places the transaction in its accounting period and the amount records its monetary value. Together, these fields supply the basic transaction data processed by accounting software.

Step 3: Conclusion The data elements are account name, accounting code, date of transaction and amount.

Quick Tip to Solve: Recall the four fields together: account name, code, date and amount.

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

Solution:

Concept:

- Accounting data must be protected from access or use by people who do not have authority.
- Password security controls access; a data vault adds protection by encrypting the stored data.

Step 1: Explain password security Password security is the use of a secret password or code to permit an authorised user to enter the computerised accounting system and access its data. The password acts as a key to the system. A user must supply the valid password before the system grants the permitted access. Keeping the password confidential therefore helps restrict unauthorised access to accounting records.

Step 2: Explain user access rights The accounting system can define rights for different users according to the organisation's policy. For example, a voucher-entry operator may be allowed to enter transactions but may not be allowed to change security settings or view confidential salary information. Password-based user access therefore supports controlled use of particular records and functions.

Step 3: Explain a data vault A data vault is an additional security facility in accounting software that protects company data through encryption. Encryption converts the normal, readable data into a coded form. The data must be decrypted using the appropriate authorised key or vault password before it can be understood and used normally. Thus, merely obtaining the encrypted data does not reveal its readable accounting contents.

Step 4: State the purpose of the two controls Password security helps determine who may access the system and what access is permitted. The data vault protects the confidentiality of the stored

accounting information by keeping it encrypted. For example, a company may restrict entry to its accounts through user passwords and also encrypt the company data with the vault facility.

Step 5: Conclusion Password security uses a secret code and user rights to control access to the accounting system. A data vault provides additional security by encrypting the accounting data.

Quick Tip to Solve: Use the words access control for password security and encryption for a data vault; explain each separately.

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

Solution:

Concept:

- Codification assigns a short, unique identifier to an account, document or other data item.
- A sequential code follows a serial order; a mnemonic code uses letters or symbols that suggest the item's name.

Step 1: Explain sequential codes Sequential codes assign consecutive numbers to items in a predetermined order. As a new item is added, it receives the next available number in the sequence. The numbers identify the items, but the code itself need not describe their nature. This method is simple to create and makes it convenient to arrange records in the same serial order.

Step 2: Give an accounting example of sequential coding For example, successive receipt vouchers may be numbered 001, 002, 003 and 004. The next receipt voucher is given code 005. Each code identifies a different document. A gap in an otherwise consecutive series can alert the user to a document that needs checking, although the gap alone does not establish why the document is absent.

Step 3: Explain mnemonic codes Mnemonic codes use letters, abbreviations or other meaningful symbols derived from the name or description of the item being coded. The association between the code and its meaning helps the user recall and recognise the item. The codes must be assigned consistently and must distinguish the items for which they are used.

Step 4: Give an accounting example and distinguish the methods For example, CASH can denote the Cash Account, BANK the Bank Account and PUR the Purchases Account. These codes suggest the accounts they identify and are therefore easier to remember than arbitrary serial numbers. In sequential coding the organising principle is consecutive order; in mnemonic coding it is the meaningful association between the code and the item name.

Step 5: Conclusion Sequential codes identify items by consecutive numbers, such as voucher numbers 001, 002 and 003. Mnemonic codes identify items through meaningful abbreviations, such as CASH for Cash Account and PUR for Purchases Account.

Quick Tip to Solve: Check whether a code follows a number sequence or recalls the item name; this distinguishes the two coding methods.

OR

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

[4 marks]

Solution:

Concept:

- Earnings are the salary, wages and allowances earned by an employee for the current payroll period, before deductions.
- Gross earnings are calculated from the employee's pay structure and attendance or work records. Net pay is obtained only after deductions from gross earnings.

Step 1: Basic pay and dearness allowance Basic pay is the principal component of earnings. It is calculated at the employee's agreed monthly salary or wage rate, taking account of the period actually payable. Dearness allowance (DA) is added where applicable; it compensates employees for changes in the cost of living and is commonly calculated as a specified percentage of basic pay.

Step 2: House rent and transport allowances House rent allowance (HRA), where provided, is included according to the employee's entitlement, either as a fixed amount or as a percentage of basic pay. Transport or conveyance allowance is also included if payable under the employer's pay rules. Other regular allowances, such as medical or special allowance, are included when they form part of that employee's salary structure.

Step 3: Variable earnings for the period Overtime pay is calculated from the overtime hours approved for the current period and the applicable overtime rate. Bonus, incentives, commission or salary arrears payable in this period are also included when applicable. Thus the payroll uses both fixed salary components and amounts that vary with attendance, extra work or the employer's approved payment rules.

Step 4: Calculate gross earnings before deductions Add the basic pay, applicable allowances and other earnings payable for the period. Provident fund contributions deducted from salary, income tax and loan recoveries are deductions; they reduce net pay and are not earnings components.

$$\text{Net pay} = \text{Gross earnings} - \text{Total deductions}.$$

Step 5: Conclusion The elements considered are basic pay, dearness allowance, house rent allowance, transport or other applicable allowances, and overtime, bonus or other variable earnings payable for the current payroll period.

Quick Tip to Solve: List salary components under earnings first; keep provident fund, tax and loan recoveries separately under deductions.

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

Solution:

Concept:

- Good accounting software records transactions accurately, processes them consistently and produces useful accounting reports.
- Its suitability depends on the organisation's accounting needs, volume of transactions, users and available resources.

Step 1: Ease of use and flexibility The software should have clear menus, simple data-entry screens and understandable instructions so that accounting staff can operate it efficiently. It should permit configuration of the chart of accounts, vouchers and reports to suit the organisation's requirements. Flexibility enables it to accommodate changes in accounting needs without unnecessary duplication of work.

Step 2: Accuracy, reliability and useful reporting It should process entered data accurately and consistently, with suitable checks against invalid or incomplete entries. It should generate ledgers, trial balances, financial statements and other relevant reports promptly. Reliable processing and timely reports help management use accounting information for control and decision-making.

Step 3: Security and data protection Access should be restricted through passwords and user permissions so that only authorised persons can enter, alter or view relevant information. An audit trail should help trace transactions and changes. Backup and recovery facilities should protect accounting records against accidental deletion, system failure or other loss of data.

Step 4: Scalability, integration and support The software should support growth in transaction volume and users, and allow exchange of data with relevant applications, such as inventory and payroll. Its purchase, operation and maintenance costs should be reasonable in relation to its benefits. Clear documentation, training, dependable vendor support and appropriate updates make it easier to install, maintain and use over time.

Step 5: Conclusion Good accounting software should be easy to use, flexible, accurate and reliable, secure, capable of timely reporting, scalable and compatible with related systems, with reasonable cost and dependable support.

Quick Tip to Solve: Organise software features around the user's work: enter easily, process accurately, report promptly and protect the records.

OR

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

Solution:

Concept:

- Installation of a computerised accounting system means putting the necessary hardware, software, accounting data and operating procedures in place so that the organisation can process its transactions reliably.
- The installation must suit the size of the business, the volume of its transactions and its reporting needs. Merely copying an accounting program onto a computer does not complete the process.

Step 1: Plan the system and arrange hardware and software Assess the organisation's accounting and information requirements, including the number of users, transaction volume and reports required. Select suitable accounting software and acquire or upgrade compatible computers, storage devices, printers and other necessary equipment. Install the software and configure it for the organisation's accounting period and other requirements.

Step 2: Set up the accounting structure and enter data Create the company, define the chart of accounts, account groups and ledger accounts, and set up the required vouchers and accounting rules. Enter opening balances and the necessary master data, such as customers, suppliers and inventory items. Transfer relevant existing records carefully, and check the entered balances against the old records so that the system begins with correct data.

Step 3: Train users and test the system Train the accounting staff to enter transactions, retrieve reports, correct authorised errors and take backups. Test the system using sample transactions and compare the resulting ledgers, trial balance and reports with expected results. A parallel run with the existing system helps identify errors before full conversion.

Step 4: Implement and maintain the system After correcting errors and validating the results, put the computerised system into regular use. Establish user access rights, passwords, backup arrangements and recovery procedures. Review its working and arrange software updates and maintenance so that accounting records remain reliable and available.

Step 5: Conclusion The installation process comprises planning and selection of resources, installation and accounting setup, data entry and conversion, staff training and testing, followed by implementation with appropriate controls and maintenance.

Quick Tip to Solve: Present installation in sequence: resources, accounting setup and data, training and testing, then implementation and controls.

23. What is meant by 'conditional formatting' ? State any two situations when conditional formatting is applied. Also, state any three benefits of using this formatting. [6 marks]

Solution:

Concept:

- Conditional formatting is a spreadsheet feature that automatically applies specified formatting to cells when their values satisfy a stated condition or rule.
- A rule can depend on a cell value or a formula. The formatting changes the appearance of the information, such as its font, colour or shading; it does not itself change the underlying value.

Step 1: Explain the meaning of conditional formatting Conditional formatting highlights selected cells according to criteria set by the user. For example, a rule may display an outstanding balance above a specified limit with a red fill. Cells meeting the rule receive that format automatically, while the others retain their ordinary appearance. If the values are subsequently changed, the formatting is recalculated according to the same rule. Thus the spreadsheet draws attention to significant data without the user manually formatting each qualifying cell.

Step 2: State two situations in which it is applied (i) Identifying expenses that exceed a budget: apply a rule to highlight an actual expense when it is greater than the corresponding budgeted amount. This makes an adverse variance immediately visible in an expenditure statement.

(ii) Identifying overdue receivables: highlight an unpaid customer's account when its due date is earlier than the current date. The rule should identify unpaid balances so that an already settled invoice is not treated as outstanding. This helps the accounts staff locate amounts requiring collection action.

Step 3: State three benefits (i) Easier interpretation of data: colour, shading or other visual differences make important figures stand out in a large worksheet, improving readability and helping the user understand the data quickly.

(ii) Quick identification of exceptions and patterns: unusually high expenses, overdue balances or other values satisfying the selected criteria can be located promptly. This supports analysis, comparison and timely attention to problem areas.

(iii) Time saving and consistent updating: the same rule formats all qualifying cells consistently. When the underlying values change, the relevant formatting updates automatically, reducing repetitive manual work and the risk of overlooking a cell.

Step 4: Conclusion Conditional formatting automatically changes cell appearance according to specified conditions. It can flag expenses above budget and overdue unpaid receivables, making data easier to read, exceptions easier to detect and formatting quicker to maintain.

Quick Tip to Solve: Organise this answer as meaning, two practical situations and three distinct benefits; show the condition that triggers each example.