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

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. Pass the necessary journal entry for treatment of Partner's loan appearing on the asset side of the Balance Sheet in case of dissolution of a partnership firm. [1 mark]

Solution:

Concept:

- A loan appearing on the asset side is an amount receivable from the partner, rather than an amount payable to the partner.
- On dissolution, the loan receivable is adjusted against the concerned partner's capital account; it is not transferred to Realisation Account.

Step 1: Identify the debtor The partner owes money to the firm. Therefore, the Partner's Loan Account has a debit balance which must be closed by crediting it.

Step 2: Record the adjustment Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Partner's Capital A/c Dr. To Partner's Loan A/c (Being partner's loan receivable adjusted against capital on dissolution)		X	 X

Here X denotes the outstanding amount of the loan; no amount is supplied in the question.

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

Quick Tip to Solve: Check the side of the balance sheet first: an asset-side partner's loan is receivable from that partner.

2. A new partner acquires two main rights in the partnership firm which he joins. State one of these rights. [1 mark]

Solution:

Concept:

- Admission gives a new partner rights in the assets of the firm and in its future profits.
- The profit-sharing right is exercised according to the agreement among the partners.

Step 1: Identify one main right A newly admitted partner becomes entitled to share in the future profits earned by the partnership firm.

Step 2: Relate the right to admission This entitlement is the agreed share of future profits, normally acquired by the new partner from the existing partners. Stating this one right is sufficient because the question asks for only one of the two main rights.

Step 3: Conclusion A new partner acquires the right to share in the future profits of the firm.

Quick Tip to Solve: For a question asking for one right, state the future-profit entitlement clearly in one sentence.

OR

2. How does 'Nature of business' affect the value of goodwill of a firm? [1 mark]

Solution:

Concept:

- Goodwill reflects the earning advantage of a business over comparable businesses.
- The nature of business affects the stability of demand and the possibility of earning higher profits.

Step 1: Identify the effect of the business activity A firm dealing in goods with steady demand, or enjoying a monopoly or other special advantage, generally has a greater capacity to earn profits.

Step 2: Link earning capacity to goodwill Such a favourable nature of business increases goodwill. A highly competitive or risky business with uncertain demand generally commands lower goodwill because its future earnings are less secure.

Step 3: Conclusion A business enjoying steady demand or a monopoly advantage generally has higher goodwill; a risky business with uncertain demand generally has lower goodwill.

Quick Tip to Solve: Link nature of business to stable future profits, then state its effect on goodwill.

3. State the main aim of a not-for-profit organisation. [1 mark]

Solution:

Concept:

- A not-for-profit organisation is established primarily to provide services to members or the community.
- Any surplus from its activities is used to further its objectives rather than distributed as profit to owners.

Step 1: Identify the principal objective The organisation aims to promote social welfare by providing services, such as education, healthcare, sports or charitable assistance.

Step 2: Explain the role of income Income supports these service activities. Although receipts may exceed expenditure, earning and distributing profits is not its main purpose; the surplus is retained for achieving the organisation's objectives.

Step 3: Conclusion The main aim is to provide services to its members or society and promote welfare, rather than earn profits.

Quick Tip to Solve: Use the word service as the central objective, with surplus treated as a means of supporting that objective.

OR

3. How is 'Life membership fee' treated while preparing the financial statements of a not-for-profit organisation? [1 mark]

Solution:

Concept:

- Life membership fee is a non-recurring receipt collected for membership extending over the member's lifetime.
- It is a capital receipt and is not treated as ordinary annual subscription income.

Step 1: Classify the receipt Since the fee provides membership for life and is not received every year from that member, it is treated as a capital receipt.

Step 2: Show its financial-statement treatment The amount is added to the Capital Fund on the liabilities side of the Balance Sheet. It is not credited as revenue income in the Income and Expenditure Account. Its actual cash receipt is also recorded on the receipts side of the Receipts and Payments Account.

Step 3: Conclusion Life membership fee is a capital receipt, added to the Capital Fund on the liabilities side of the Balance Sheet.

Quick Tip to Solve: Distinguish a one-time life membership fee from the recurring annual subscription before deciding its treatment.

4. Kiya and Leela are partners sharing profits in the ratio of 3 : 2. Kiran was admitted as a new partner with 1/5th share in the profits and brought in Rs 24,000 as her share of goodwill premium that was credited to the capital accounts of Kiya and Leela respectively with Rs 18,000 and Rs 6,000. Calculate the new profit sharing ratio of Kiya, Leela and Kiran. [1 mark]

Solution:

Concept:

- Goodwill premium is credited to the sacrificing partners in their sacrificing ratio.
- New share = old share minus the share sacrificed to the incoming partner.

Step 1: Find the sacrifices The sacrificing ratio of Kiya and Leela is $18,000 : 6,000 = 3 : 1$. Kiran acquires $1/5$ of the total profits, so Kiya sacrifices $\frac{3}{4} \times \frac{1}{5} = \frac{3}{20}$, while Leela sacrifices $\frac{1}{4} \times \frac{1}{5} = \frac{1}{20}$.

Step 2: Calculate the new shares Kiya's new share is $\frac{3}{5} - \frac{3}{20} = \frac{9}{20}$. Leela's new share is $\frac{2}{5} - \frac{1}{20} = \frac{7}{20}$. Kiran's share is $\frac{1}{5} = \frac{4}{20}$. The three shares add to $\frac{9+7+4}{20} = 1$, confirming full allocation of profits.

Step 3: Conclusion The new profit-sharing ratio of Kiya, Leela and Kiran is $\boxed{9 : 7 : 4}$.

Quick Tip to Solve: Use the premium credits to obtain the sacrificing ratio; do not assume sacrifice in the old ratio.

5. Dinkar, Navita and Vani were partners sharing profits and losses in the ratio of 3 : 2 : 1. Navita died on 30th June, 2017. Her share of profit for the intervening period was based on the sales during that period, which were Rs 6,00,000. The rate of profit during the past four years had been 10% on sales. The firm closes its books on 31st March every year.

Calculate Navita's share of profit. [1 mark]

Solution:

Concept:

- On a sales basis, estimated profit for the intervening period equals actual sales for that period multiplied by the historical profit rate.
- A deceased partner's share is the period's estimated profit multiplied by the partner's profit-sharing fraction.

Step 1: Estimate the period profit The sales of Rs 6,00,000 already relate to the intervening period up to 30th June, 2017. Thus estimated profit is $6,00,000 \times \frac{10}{100} = \text{Rs } 60,000$. No further time apportionment is required.

Step 2: Apply Navita's share Navita's profit-sharing fraction is $\frac{2}{3+2+1} = \frac{1}{3}$. Hence her share is $60,000 \times \frac{1}{3} = \text{Rs } 20,000$. The annual closing date identifies the intervening period but does not change the stated sales-based calculation.

Step 3: Conclusion Navita's share of profit is $\boxed{\text{Rs } 20,000}$.

Quick Tip to Solve: When actual intervening-period sales are given, apply the profit rate and partner fraction without another months/12 factor.

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

Solution:

Concept:

- Private placement is an issue of securities to a select group of identified persons.
- It differs from a public issue, in which an invitation is made to the public at large.

Step 1: Identify the selected subscribers Under private placement, the company identifies a particular group of persons or investors to whom it offers its shares.

Step 2: State the method of issue The shares are offered and allotted privately to these selected persons instead of being offered to the general public through a public invitation. The essential feature in the definition is therefore the restricted, identified group of subscribers.

Step 3: Conclusion Private placement of shares means issuing shares to a select group of identified persons rather than offering them to the public.

Quick Tip to Solve: Define private placement by naming the selected group of investors and the absence of a public offer.

OR

6. What is meant by 'Reserve Capital'? [1 mark]

Solution:

Concept:

- Reserve capital is a specified part of the uncalled share capital of a company.
- The company resolves by special resolution that this amount will be called only in the event of winding up.

Step 1: Identify the amount reserved Shares may have an unpaid amount that the company has not yet called from shareholders. A specified portion of this uncalled amount can be designated as reserve capital.

Step 2: State the restriction on calling it The company passes a special resolution to keep this portion uncalled during its normal existence. It can be called only if the company is wound up. It is therefore distinct from a capital reserve, which arises from capital profits.

Step 3: Conclusion Reserve capital is the portion of uncalled share capital that, by special resolution, can be called only in the event of winding up of the company.

Quick Tip to Solve: Remember that reserve capital is uncalled share capital; capital reserve is a reserve arising from capital profits.

7. Average profits of a firm during the last few years are Rs 80,000 and the normal rate of return in a similar business is 10%. If the goodwill of the firm is Rs 1,00,000 at 4 years' purchase of super profit, find the capital employed by the firm. [3 marks]

Solution:

Concept:

- Super profit is the excess of average maintainable profit over normal profit. Normal profit is the return expected on the capital employed at the normal rate of return.
- Under the super profit method, goodwill equals super profit multiplied by the number of years of purchase. Hence capital employed is normal profit divided by the normal rate, expressed as a fraction.

Step 1: Find annual super profit The goodwill of Rs 1,00,000 represents four years of the excess annual profit, rather than four years of the whole average profit. Therefore,

$$\text{Super profit} = \frac{\text{Goodwill}}{\text{Years of purchase}} = \frac{1,00,000}{4} = \text{Rs } 25,000.$$

Step 2: Determine normal profit Average profit contains both the normal return and the super profit. Deducting the excess gives

$$\text{Normal profit} = 80,000 - 25,000 = \text{Rs } 55,000.$$

Thus Rs 55,000 is the annual return that a similar business would normally earn on this firm's capital.

Step 3: Calculate and verify capital employed At a normal return of 10%, each Rs 100 of capital earns Rs 10 annually. Hence

$$\text{Capital employed} = \frac{55,000 \times 100}{10} = \text{Rs } 5,50,000.$$

As a check, $5,50,000 \times 10/100 = 55,000$; the excess of Rs 80,000 over this is Rs 25,000, whose four years' purchase is Rs 1,00,000, the stated goodwill.

Step 4: Conclusion The capital employed by the firm is $\boxed{\text{Rs } 5,50,000}$.

Quick Tip to Solve: First divide goodwill by four; subtract that annual super profit from average profit before capitalising at 10%.

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8. 'UZ Ltd.' purchased Plant and Machinery from Elk Machine Ltd. for Rs 6,90,000. Elk Ltd. was paid by accepting a draft of Rs 90,000 payable after three months and the balance by issue of 6% debentures of Rs 100 each at a discount of 20%.

Pass necessary journal entries for the above transactions in the books of 'UZ Ltd.' [3 marks]

Solution:

Concept:

- An asset purchased on credit is debited at its purchase price and the vendor is credited. Acceptance of a draft creates a Bills Payable liability.
- Debentures issued at a discount settle the vendor at their issue price. The difference between face value and issue price is debited to Discount on Issue of Debentures Account; the coupon rate does not determine their number.

Step 1: Work out the debenture consideration and number The plant costs Rs 6,90,000. Acceptance of the draft settles Rs 90,000, leaving $6,90,000 - 90,000 = \text{Rs } 6,00,000$ to be paid through debentures. Each Rs 100 debenture is issued at $100 - 20 = \text{Rs } 80$. Therefore,

$$\text{Number issued} = \frac{6,00,000}{80} = 7,500.$$

Their face value is $7,500 \times 100 = \text{Rs } 7,50,000$, and the discount is $7,500 \times 20 = \text{Rs } 1,50,000$.

Step 2: Record the purchase and settlement Journal of UZ Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Plant and Machinery A/c Dr. To Elk Machine Ltd. (Being plant and machinery purchased on credit)		6,90,000	6,90,000
	Elk Machine Ltd. Dr. To Bills Payable A/c (Being draft accepted, payable after three months)		90,000	90,000
	Elk Machine Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 6% Debentures A/c (Being 7,500 debentures of Rs 100 each issued at 20% discount to settle the balance)		6,00,000 1,50,000	7,50,000

The vendor's credit of Rs 6,90,000 is fully cancelled by debits of Rs 90,000 and Rs 6,00,000. The last entry also balances because its total debit equals the face value credited to debentures. No interest entry arises merely from issuing the debentures.

Step 3: Conclusion UZ Ltd. issues $7,500$ 6% debentures, credits Debentures Account with Rs 7,50,000 and records discount of Rs 1,50,000.

Quick Tip to Solve: Divide the unpaid purchase consideration by Rs 80, the issue price, rather than by the Rs 100 face value.

OR

8. 'ZK Ltd.' issued Rs 4,00,000, 9% Debentures of Rs 100 each at a discount of 5% redeemable at a premium of 10%.

Pass necessary journal entries for the above transactions in the books of 'ZK Ltd.' [3 marks]

Solution:

Concept:

- Debentures Account is credited with the nominal amount issued. Cash received is the nominal amount less the issue discount.
- Loss on Issue of Debentures includes both the discount on issue and the premium payable on redemption. Premium on Redemption of Debentures Account is credited when the debentures are issued.

Step 1: Calculate proceeds and total loss on issue The nominal debenture capital is Rs 4,00,000, representing $4,00,000/100 = 4,000$ debentures. Discount at 5% is $4,00,000 \times 5/100 =$ Rs $20,000$, so the bank receives Rs 3,80,000. The redemption premium is $4,00,000 \times 10/100 =$ Rs $40,000$. Therefore, loss on issue is $20,000 + 40,000 =$ Rs $60,000$. The 9% coupon specifies interest; it does not alter the issue proceeds or redemption premium.

Step 2: Pass the issue entry Journal of ZK Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,80,000	
	Loss on Issue of Debentures A/c Dr.		60,000	
	To 9% Debentures A/c			4,00,000
	To Premium on Redemption of Debentures A/c			40,000
	(Being 4,000 debentures of Rs 100 each issued at 5% discount, redeemable at 10% premium)			

The total debit is Rs 4,40,000 and the total credit is also Rs 4,40,000. Although only Rs 3,80,000 is received, the company recognises both the nominal liability of Rs 4,00,000 and the additional redemption obligation of Rs 40,000. The question concerns issue; payment on redemption has not yet occurred.

Step 3: Conclusion Bank is debited with Rs 3,80,000 and Loss on Issue with Rs 60,000; 9% Debentures and Premium on Redemption are credited with Rs 4,00,000 and Rs 40,000 respectively.

Quick Tip to Solve: Add issue discount and redemption premium when finding loss on issue; calculate both on the nominal debenture amount.

9. Willow Ltd. was registered with an authorised capital of Rs 10,00,000 divided into 1,00,000 equity shares of Rs 10 each. The company offered 80,000 shares for subscription to the public, out of which 75,000 shares were subscribed. All amounts were received except the final call of Rs 2 per share on 3,000 shares. Fill in the missing figures in the Balance Sheet of Willow Ltd. as per the provisions of Schedule III, Part I of the Companies Act, 2013.

Balance Sheet as at 31st March, 2018 (An extract)

Particulars	Note No.	Rs
EQUITY AND LIABILITIES		
1. Shareholders Funds		
(a) Share Capital	1	.....
		.....

Note to Accounts

Note No.	Particulars		Rs
1	Share Capital		
	Authorised Capital		
	.....		.....
	Issued Capital		
	.....		.....
	Subscribed Capital		
	Subscribed and fully paid		
	..... shares of Rs 10 each		.....
	Subscribed but not fully paid		
	..... shares of Rs 10 each	.....	
	Less	.....	.....
			.....

[3 marks]

Solution:

Concept:

- Authorised capital is the maximum capital permitted by the memorandum; issued capital is the part offered for subscription. Subscribed capital includes only shares actually taken by applicants.
- Show fully paid and not fully paid subscribed shares separately. Deduct calls in arrears from the called-up amount of the latter to determine the capital actually paid.

Step 1: Calculate the share categories and calls in arrears Out of 75,000 subscribed shares, 3,000 have not paid the final call. Thus fully paid shares are $75,000 - 3,000 = 72,000$, with capital $72,000 \times 10 =$ Rs $7,20,000$. The remaining 3,000 shares have called-up capital of Rs 30,000 and calls in arrears of $3,000 \times 2 =$ Rs $6,000$, leaving Rs 24,000 paid. The 5,000 issued shares not subscribed do not contribute to subscribed capital.

Step 2: Complete the balance sheet extract Willow Ltd. – Balance Sheet as at 31st March, 2018 (An extract)

Particulars	Note No.	Rs
EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	7,44,000
Total		7,44,000

Step 3: Fill in Note 1 to Accounts Note 1: Share Capital

Particulars	Rs	Rs
Authorised Capital		
1,00,000 equity shares of Rs 10 each		10,00,000
Issued Capital		
80,000 equity shares of Rs 10 each		8,00,000
Subscribed Capital		
Subscribed and fully paid:		
72,000 equity shares of Rs 10 each		7,20,000
Subscribed but not fully paid:		
3,000 equity shares of Rs 10 each	30,000	
Less: Calls in arrears	6,000	24,000
Total subscribed and paid-up capital		7,44,000

The two categories reconcile to all 75,000 subscribed shares. Equivalently, subscribed called-up capital of Rs 7,50,000 less Rs 6,000 calls in arrears gives the same balance sheet amount.

Step 4: Conclusion The Share Capital figure in the balance sheet and total of Note 1 is $\boxed{\text{Rs } 7,44,000}$.

Quick Tip to Solve: Separate the 3,000 partly paid shares first; deduct the Rs 6,000 unpaid call only once from subscribed capital.

10. Janta Kalayan Club has 1250 members each paying an annual subscription of Rs 150. During the year ended 31st March, 2018 the club did not receive subscription from 45 members and received subscriptions in advance from 46 members for the year ending 31st March, 2019. On 31st March, 2017 the outstanding subscriptions were Rs 15,000 and subscriptions received in advance were Rs 3000.

Calculate the amount of subscription that will be debited to the 'Receipts and Payments Account' for the year ended 31st March, 2018. [3 marks]

Solution:

Concept:

- The Receipts and Payments Account records actual cash receipts and payments, irrespective of the year to which they relate. Subscription received is entered on its debit (receipts) side.
- Annual subscription income equals the number of members multiplied by the annual rate. Cash received is income plus opening outstanding and closing advance, less closing outstanding and opening advance.

Step 1: Calculate subscription belonging to the current year There are 1,250 members, each paying Rs 150 annually. Therefore the subscription income for the year ended 31st March, 2018 is

$$1,250 \times 150 = \text{Rs } 1,87,500.$$

This is the amount earned for the year; it is not automatically the cash received because some subscriptions remain unpaid and some cash belongs to a different year.

Step 2: Determine outstanding and advance subscriptions The subscription unpaid by 45 members at the end of the year is

$$45 \times 150 = \text{Rs } 6,750.$$

The subscription received from 46 members for the following year is

$$46 \times 150 = \text{Rs } 6,900.$$

Opening outstanding subscription of Rs 15,000 is added to find receipts during the year, whereas opening advance of Rs 3,000 is deducted because that cash was received in the preceding year. Closing outstanding is deducted because cash has not been received, and closing advance is added because cash has been received during the current year.

Step 3: Compute the cash subscription received The reconciliation is:

Particulars	Amount (Rs)
Subscription income for 2017–18	1,87,500
Add: Outstanding subscription on 31st March, 2017	15,000
Add: Subscription received in advance on 31st March, 2018	6,900
Less: Outstanding subscription on 31st March, 2018	(6,750)
Less: Subscription received in advance on 31st March, 2017	(3,000)
Subscription received during the year	1,99,650

The receipt includes cash for earlier and later years as well as the current year, since the Receipts and

Payments Account follows the cash basis.

Step 4: Conclusion The amount of subscription debited to the Receipts and Payments Account for the year ended 31st March, 2018 is $\boxed{\text{Rs } 1,99,650}$.

Quick Tip to Solve: For cash subscription, add opening arrears and closing advance to current income; subtract closing arrears and opening advance.

11. Hari, Kunal and Uma are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. From 1st April, 2018 they decided to share future profits and losses in the ratio of 2 : 5 : 3. Their Balance Sheet showed a balance of Rs 75,000 in the Profit and Loss Account and a balance of Rs 15,000 in Investment Fluctuation Fund. For this purpose, it was agreed that :

(i) Goodwill of the firm was valued at Rs 3,00,000.

(ii) That investments (having a book value of Rs 50,000) were valued at Rs 35,000.

(iii) That stock having a book value of Rs 50,000 be depreciated by 10%.

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

Solution:

Concept:

- Accumulated profits belong to the partners in their old profit-sharing ratio. A specific Investment Fluctuation Fund is first used against a fall in investments.
- On a change in profit-sharing ratio, gaining partners compensate sacrificing partners for goodwill. Gain or sacrifice is the difference between the new and old shares.
- Revaluation loss is borne by all existing partners in their old ratio, as it relates to assets held before the change.

Step 1: Calculate the goodwill adjustment The old ratio is $5:3:2$ and the new ratio is $2:5:3$. Thus Hari sacrifices $5/10-2/10=3/10$, Kunal gains $5/10-3/10=2/10$, and Uma gains $3/10-2/10=1/10$. Kunal and Uma compensate Hari in their gaining ratio of $2:1$:

$$\text{Kunal's compensation} = 3,00,000 \times 2/10 = \text{Rs } 60,000,$$
$$\text{Uma's compensation} = 3,00,000 \times 1/10 = \text{Rs } 30,000.$$

Hari is therefore credited with Rs 90,000. Goodwill need not be raised in the books; the adjustment is made directly through the partners' capital accounts.

Step 2: Distribute accumulated profit and determine asset adjustments The Profit and Loss Account balance of Rs 75,000 is distributed in the old ratio: Hari Rs 37,500, Kunal Rs 22,500 and Uma Rs 15,000. The fall in investments is $50,000 - 35,000 = \text{Rs } 15,000$, exactly equal to the Investment Fluctuation Fund. The fund is therefore fully used against this fall, with no residual fund or additional investment loss to distribute.

Stock depreciation is $50,000 \times 10\% = \text{Rs } 5,000$. This is debited to Revaluation Account and then transferred to the partners in the old ratio: Hari Rs 2,500, Kunal Rs 1,500 and Uma Rs 1,000. It must not be allocated in the new ratio because the reduction concerns assets held before the change.

Step 3: Record the journal entries Journal of the Firm (1st April, 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Profit and Loss A/c Dr.		75,000	
	To Hari's Capital A/c			37,500
	To Kunal's Capital A/c			22,500
	To Uma's Capital A/c			15,000
	(Being accumulated profit distributed in the old ratio of 5:3:2)			
	Kunal's Capital A/c Dr.		60,000	
	Uma's Capital A/c Dr.		30,000	
	To Hari's Capital A/c			90,000
	(Being goodwill adjusted through capital accounts for the change in profit-sharing ratio)			
	Investment Fluctuation Fund A/c Dr.		15,000	
	To Investments A/c			15,000
	(Being fall in investment value adjusted against the specific fund)			
	Revaluation A/c Dr.		5,000	
	To Stock A/c			5,000
	(Being stock depreciated by 10 percent)			
	Hari's Capital A/c Dr.		2,500	
	Kunal's Capital A/c Dr.		1,500	
	Uma's Capital A/c Dr.		1,000	
	To Revaluation A/c			5,000
	(Being revaluation loss transferred in the old ratio of 5:3:2)			

Every entry has equal debits and credits. Investments now stand at Rs 35,000 and stock at Rs 45,000; both the Investment Fluctuation Fund and Revaluation Account are closed after the adjustments.

Step 4: Conclusion The entries above distribute Rs 75,000 accumulated profit, credit Hari with Rs 90,000 goodwill compensation, use the Rs 15,000 fund against investments, and charge Rs 5,000 stock depreciation in the old ratio.

Quick Tip to Solve: Use the investment fund before charging revaluation loss; calculate goodwill compensation from each partnerś change in share.

12. Meera, Sarthak and Rohit were partners sharing profits in the ratio of 2 : 2 : 1. On 31 March, 2018, their Balance Sheet was as follows :

Balance Sheet of Meera, Sarthak and Rohit as at 31 March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	3,00,000	Fixed Assets	7,00,000
Contingency Reserve	1,00,000	Stock	2,00,000
Capital :		Debtors	1,50,000
Meera	4,00,000	Cash at bank	3,50,000
Sarthak	3,50,000		
Rohit	2,50,000		
	14,00,000		14,00,000

Sarthak died on 15th June, 2018. According to the partnership deed, his executors were entitled to :

(i) Balance in his Capital Account.

(ii) His share of goodwill will be calculated on the basis of thrice the average of the past 4 years' profits.

(iii) His share in profits up to the date of death on the basis of average profits of the last two years. The time period for which he survived in the year of death will be calculated in months.

(iv) Interest on capital @ 12% p.a. up to the date of his death.

The firm's profits for the last four years were :

2014 – 15 Rs 1,20,000, 2015 – 16 Rs 2,00,000, 2016 – 17 Rs 2,60,000 and 2017 – 18 Rs 2,20,000.

Sarthak's executors were paid the amount due immediately. Prepare Sarthak's Capital Account to be presented to his executors. [4 marks]

Solution:

Concept:

- A deceased partner is entitled to his existing capital, share of accumulated reserves, goodwill, profit up to death and interest on capital as provided by the deed.
- Sarthak's share is $2/5$. With no claim against the contingency reserve stated, the entire reserve is distributed in the old profit-sharing ratio. The period from 1 April to 15 June is $2\frac{1}{2}$ months.

Step 1: Calculate reserve and goodwill Sarthak's share of contingency reserve is Rs $1,00,000 \times 2/5 =$ Rs $40,000$. The average annual profit for the four completed years is

$$\frac{1,20,000 + 2,00,000 + 2,60,000 + 2,20,000}{4} = \text{Rs } 2,00,000.$$

Hence the firm's goodwill is Rs $2,00,000 \times 3 =$ Rs $6,00,000$, and Sarthak's share is Rs $6,00,000 \times 2/5 =$ Rs $2,40,000$. In the absence of a new ratio, the surviving partners gain in their old relative ratio, Meera : Rohit $= 2 : 1$. They bear goodwill of Rs 1,60,000 and Rs 80,000 respectively through their capital accounts; goodwill is not raised as an asset.

Step 2: Calculate profit up to death and interest Average profit of the last two years is

$$\frac{2,60,000 + 2,20,000}{2} = \text{Rs } 2,40,000.$$

The share of profit for the period survived is

$$2,40,000 \times \frac{2.5}{12} \times \frac{2}{5} = \text{Rs } 20,000.$$

Interest on the opening capital, without adding subsequent adjustments to its base, is

$$3,50,000 \times \frac{12}{100} \times \frac{2.5}{12} = \text{Rs } 8,750.$$

The estimated interim profit is credited through Profit and Loss Suspense Account. Both calculations use the same period of two and a half months, as the deed specifies months rather than days.

Step 3: Prepare the capital account

Sarthak's Capital Account (up to 15 June, 2018)

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Bank A/c	6,58,750	By Balance b/d	3,50,000
		By Contingency Reserve A/c	40,000
		By Meera's Capital A/c	1,60,000
		By Rohit's Capital A/c	80,000
		By P&L Suspense A/c	20,000
		By Interest on Capital A/c	8,750
Total	6,58,750	Total	6,58,750

The payment to the executors immediately settles the capital balance. Therefore no amount remains carried down; the bank debit is the final settlement of all the credits shown.

Step 4: Conclusion Sarthak's executors receive $\boxed{\text{Rs } 6,58,750}$, and his Capital Account closes.

Quick Tip to Solve: Use four years for goodwill, two years for interim profit, and 2.5 months for both profit and interest.

13. From the following information of Gems Club, prepare Income and Expenditure Account for the year ended 31st March, 2018.

Receipts and Payments Account of Gems Club for the year ending 31st March, 2018

Receipts	Amount Rs	Payments	Amount Rs
To Balance b/d	50,000	By Furniture	1,30,000
To Interest on Investments	2,400	By Salaries	64,500
To Donations	17,000	By Miscellaneous Expenses	52,000
To Subscriptions	3,00,000	By Telephone Charges	12,000
To Rent Received	70,000	By Fax Machine	6,000
To Sale of old newspapers	600	By 6% Investments (on 01.08.2017)	1,00,000
		By Printing and Stationery	19,000
		By Balance c/d	56,500
	4,40,000		4,40,000

Additional Information :

Subscriptions received included Rs 15,000 for 2018 – 19. The amount of subscriptions outstanding on 31st March, 2018 were Rs 20,000. Salaries unpaid on 31st March, 2018 were Rs 8,000 and Rent receivable was Rs 2,000. Opening stock of printing and stationery was Rs 12,000, whereas Closing stock was Rs 15,000. [6 marks]

Solution:

Concept:

- The Income and Expenditure Account records revenue income earned and revenue expenses incurred during the accounting year on the accrual basis.
- Exclude opening and closing cash balances, furniture, fax machine and the purchase of investments: these are balance-sheet items. General donations, with no specific restriction stated, are revenue income.

Step 1: Adjust the revenue income Subscriptions for the current year are cash subscriptions less next year's advance, plus the current year's amount outstanding:

$$3,00,000 - 15,000 + 20,000 = \text{Rs } 3,05,000.$$

The advance Rs 15,000 is a liability, while subscriptions outstanding Rs 20,000 are an asset. Rent income is cash rent plus rent receivable:

$$70,000 + 2,000 = \text{Rs } 72,000.$$

The investments were purchased on 1 August, 2017, and earn interest for eight months to 31 March, 2018:

$$1,00,000 \times \frac{6}{100} \times \frac{8}{12} = \text{Rs } 4,000.$$

Of this, Rs 2,400 has been received, leaving accrued interest of Rs 1,600. Record total interest earned of Rs 4,000 in income, rather than merely the cash receipt. General donations Rs 17,000 and old newspaper proceeds Rs 600 are also current revenue income.

Step 2: Adjust the revenue expenditure Salary expense includes the unpaid amount for the year:

$$64,500 + 8,000 = \text{Rs } 72,500.$$

Printing and stationery consumed equal opening stock plus purchases less closing stock:

$$12,000 + 19,000 - 15,000 = \text{Rs } 16,000.$$

Miscellaneous expenses Rs 52,000 and telephone charges Rs 12,000 require no adjustment. Furniture Rs 1,30,000, fax machine Rs 6,000 and investments Rs 1,00,000 create assets and are excluded from revenue expenses. No depreciation rate or amount is given, so no depreciation charge is introduced. The opening cash of Rs 50,000 and closing cash of Rs 56,500 do not measure income or expenditure for the year.

Step 3: Prepare the Income and Expenditure Account

Gems Club

Income and Expenditure Account for the year ended 31 March, 2018

Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
To Salaries	72,500	By Subscriptions	3,05,000
To Miscellaneous Expenses	52,000	By Interest on Investments	4,000
To Telephone Charges	12,000	By Donations	17,000
To Printing and Stationery	16,000	By Rent	72,000
To Surplus (transferred to Capital Fund)	2,46,100	By Sale of old newspapers	600
Total	3,98,600	Total	3,98,600

Revenue expenditure totals Rs 1,52,500 and revenue income totals Rs 3,98,600. The difference is the surplus transferred to the Capital Fund; it appears on the debit side solely to balance this account.

Step 4: Conclusion The club earns a surplus of $\boxed{\text{Rs } 2,46,100}$ for the year ended 31 March, 2018.

Quick Tip to Solve: Compute eight months of investment interest before comparing it with the receipt; only Rs 1,600 remains accrued.

14. Ashish and Kanav were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2018 their Balance Sheet was as follows :

Balance Sheet of Ashish and Kanav as at 31st March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Trade Creditors	42,000	Bank	35,000
Employees' Provident Fund	60,000	Stock	24,000
Mrs. Ashish's Loan	9,000	Debtors	19,000
Kanav's Loan	35,000	Furniture	40,000
Workmen's Compensation Fund	20,000	Plant	2,10,000
Investment Fluctuation Reserve	4,000	Investments	32,000
Capital : Ashish 1,20,000 Kanav 80,000	2,00,000	Profit and Loss Account	10,000
	3,70,000		3,70,000

On the above date they decided to dissolve the firm.

(i) Ashish agreed to take over furniture at Rs 38,000 and pay off Mrs. Ashish's loan.

(ii) Debtors realised Rs 18,500 and plant realised 10% more.

(iii) Kanav took over 40% of the stock at 20% less than the book value. Remaining stock was sold at a gain of 10%.

(iv) Trade creditors took over investments in full settlement.

(v) Kanav agreed to take over the responsibility of completing dissolution at an agreed remuneration of Rs 12,000 and to bear realization expenses. Actual expenses of realization amounted to Rs 8,000.

Prepare Revaluation Account. [6 marks]

Solution:

Concept:

- On dissolution, non-cash assets, provisions against assets and outside liabilities pass to the Realisation Account. Bank, partner loans, accumulated losses and general undistributed reserves do not pass to it. Investment Fluctuation Reserve is transferred to its credit as a provision against investments.
- An asset taken by a partner credits Realisation and debits that partner. A liability discharged by a partner debits Realisation and credits that partner. Realisation profit is shared in the old ratio, here $3 : 2$.

Step 1: Work out the realisation amounts The printed demand says Revaluation Account; since the firm is dissolved, the appropriate account for the stated transactions is the Realisation Account.

$$\text{Plant proceeds} = 2,10,000 \times 110\% = \text{Rs } 2,31,000,$$
$$\text{Stock taken by Kanav} = 24,000 \times 40\% \times 80\% = \text{Rs } 7,680,$$
$$\text{Remaining stock proceeds} = 24,000 \times 60\% \times 110\% = \text{Rs } 15,840.$$

Furniture taken by Ashish is credited at Rs 38,000; debtors yield Rs 18,500. Trade creditors and investments are transferred at their respective book values. Their settlement against each other needs

no further entry in Realisation.

Step 2: Prepare the account and distribute the profit Realisation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Stock	24,000	By Trade Creditors	42,000
To Debtors	19,000	By Employees' P.F.	60,000
To Furniture	40,000	By Mrs. Ashish's Loan	9,000
To Plant	2,10,000	By Ashish's Capital	38,000
To Investments	32,000	By Bank (Debtors)	18,500
To Bank (Employees' P.F.)	60,000	By Bank (Plant)	2,31,000
To Ashish's Capital	9,000	By Kanav's Capital	7,680
To Kanav's Capital	12,000	By Bank (Stock)	15,840
To Ashish's Capital (Profit)	12,012	By Investment Fluctuation Reserve	4,000
To Kanav's Capital (Profit)	8,008		
Total	4,26,020	Total	4,26,020

Before distributing the gain, credit entries total Rs 4,26,020 and debit entries total Rs 4,06,000. Thus the gain is Rs 20,020, divided as $20,020 \times 3/5 = 12,012$ and $20,020 \times 2/5 = 8,008$. Realisation is closed by these transfers, so there is no balance carried down.

Kanav's agreed remuneration of Rs 12,000 is charged to Realisation. The actual Rs 8,000 expenses are borne by him personally, so no additional entry is made in the firm's books. Kanav's loan is settled separately. With no compensation claim stated, Workmen's Compensation Fund passes to capitals, while the debit Profit and Loss balance is also adjusted through capitals.

Step 3: Conclusion The Realisation Account closes with a profit of $\boxed{\text{Rs } 20,020}$, credited to Ashish and Kanav in amounts of Rs 12,012 and Rs 8,008 respectively.

Quick Tip to Solve: When a creditor accepts a recorded asset in full settlement, transfer both book values to Realisation but do not record a second settlement entry.

15. Naveen, Qadir and Rajesh were partners doing an electronic goods business in Uttarakhand. After the accounts of partnership were drawn up and closed, it was discovered that interest on capital has been allowed to partners @ 6% p.a. for the years ending 31st March, 2017 and 2018, although there is no provision for interest on capital in the partnership deed. On the other hand, Naveen and Qadir were entitled to a salary of Rs 3,500 and Rs 4,000 per quarter respectively, which has not been taken into consideration. Their fixed capitals were Rs 4,00,000, Rs 3,60,000 and Rs 2,40,000 respectively. During the last two years they had shared the profits and losses as follows :

Year Ended	Ratio
31st March, 2017	3:2:1
31st March, 2018	5:3:2

Pass necessary adjusting entry for the above adjustments in the books of the firm on 1st April, 2018. Show your workings clearly. [6 marks]

Solution:

Concept:

- Interest on capital is allowed only when the partnership deed provides for it. Reverse the incorrect interest, credit the omitted salaries, and redistribute the resulting change in divisible profit in each year's own ratio.
- With fixed capitals, past adjustments are recorded in partners' Current Accounts. A net credit is an amount due to the partner; a net debit is recoverable from the partner.

Step 1: Calculate the annual corrections For each of the two years, the incorrect interest was:

$$N = 4,00,000 \times 6\% = \text{Rs } 24,000,$$
$$Q = 3,60,000 \times 6\% = \text{Rs } 21,600,$$
$$R = 2,40,000 \times 6\% = \text{Rs } 14,400.$$

Total interest reversed is Rs 60,000 per year. The omitted annual salaries are $3,500 \times 4 = \text{Rs } 14,000$ for Naveen and $4,000 \times 4 = \text{Rs } 16,000$ for Qadir. After charging total salaries of Rs 30,000, the divisible profit increases by $60,000 - 30,000 = \text{Rs } 30,000$ in each year. Redistribute this increase using the ratio applicable to that year; using one ratio for both years would misallocate the adjustment.

Step 2: Find each partner's net adjustment Working note: Cr. means credit and Dr. means debit to the partner.

Particulars (Rs)	Naveen	Qadir	Rajesh
2017: Reverse interest (Dr.)	24,000	21,600	14,400
2017: Allow salary (Cr.)	14,000	16,000	–
2017: Extra profit, 3:2:1 (Cr.)	15,000	10,000	5,000
Net for 2017	5,000 Cr.	4,400 Cr.	9,400 Dr.
2018: Reverse interest (Dr.)	24,000	21,600	14,400
2018: Allow salary (Cr.)	14,000	16,000	–
2018: Extra profit, 5:3:2 (Cr.)	15,000	9,000	6,000
Net for 2018	5,000 Cr.	3,400 Cr.	8,400 Dr.
Combined adjustment	10,000 Cr.	7,800 Cr.	17,800 Dr.

For example, Qadir's 2018 net correction is $-21,600+16,000+9,000 = \text{Rs } 3,400$ credit. The combined

credits total Rs 17,800, exactly equal to Rajesh's debit; therefore a single adjusting entry suffices.

Step 3: Record the adjusting entry on 1st April, 2018 Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 2018	Rajesh's Current A/c Dr.		17,800	
	To Naveen's Current A/c			10,000
	To Qadir's Current A/c			7,800
	(Being past errors in interest on capital and omitted salaries adjusted for both years)			

The fixed Capital Accounts remain unchanged: the entry corrects the partners' current balances after the already-closed profit distributions.

Step 4: Conclusion Debit Rajesh's Current Account by $\boxed{\text{Rs } 17,800}$; credit Naveen's Current Account by Rs 10,000 and Qadir's Current Account by Rs 7,800.

Quick Tip to Solve: Reverse interest and allow annual salaries first; distribute the Rs 30,000 profit increase separately in 3:2:1 and 5:3:2 before combining the years.

OR

15. On 31st March, 2018 the balance in the Capital Accounts of Abhir, Bobby and Vineet, after making adjustments for profits and drawings were Rs 8,00,000, Rs 6,00,000 and Rs 4,00,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 10% p.a. and were to be charged interest on drawings @ 6% p.a. The drawings during the year were : Abhir Rs 20,000 drawn at the end of each month, Bobby Rs 50,000 drawn at the beginning of every half year and Vineet Rs 1,10,000 withdrawn on 31st October, 2017. The net profit for the year ended 31st March, 2018 was Rs 1,50,000. The profit sharing ratio was 2 : 2 : 1.

Pass necessary adjusting entry for the above adjustments in the books of the firm. Also, show your workings clearly. [6 marks]

Solution:

Concept:

- Opening capital equals closing capital plus drawings less the profit already credited. Interest on capital is calculated on the capital employed at the beginning of the year.
- An omitted interest adjustment changes each partner's entitlement and also changes the divisible profit. The final entry records only the net debit or credit to each partner.

Step 1: Reconstruct opening capitals The profit of Rs 1,50,000 was already credited in the ratio 2 : 2 : 1, giving Abhir Rs 60,000, Bobby Rs 60,000 and Vineet Rs 30,000. Annual drawings were Rs

2,40,000, Rs 1,00,000 and Rs 1,10,000 respectively.

$$C_A = 8,00,000 + 2,40,000 - 60,000 = 9,80,000,$$
$$C_B = 6,00,000 + 1,00,000 - 60,000 = 6,40,000,$$
$$C_V = 4,00,000 + 1,10,000 - 30,000 = 4,80,000.$$

Interest on these opening capitals at 10% is Rs 98,000, Rs 64,000 and Rs 48,000 respectively; total Rs 2,10,000. Closing balances cannot be used directly because they already contain the year's profit and exclude drawings.

Step 2: Calculate interest on drawings Abhir draws equal amounts at each month-end. The average period is $(11+0)/2 = 5.5$ months. Bobby's two drawings on 1 April and 1 October remain outstanding for 12 and 6 months, averaging 9 months. Vineet's withdrawal on 31 October remains outstanding for five months.

$$I_A = 2,40,000 \times 6\% \times 5.5/12 = 6,600,$$
$$I_B = 1,00,000 \times 6\% \times 9/12 = 4,500,$$
$$I_V = 1,10,000 \times 6\% \times 5/12 = 2,750.$$

Total interest on drawings is Rs 13,850. It increases the profit available for appropriation, whereas interest on capital reduces that amount.

Step 3: Determine each net adjustment The reduction in divisible profit is $2,10,000 - 13,850 =$ Rs $1,96,150$. The partners therefore bear Rs 78,460, Rs 78,460 and Rs 39,230 in their profit-sharing ratio.

Particulars (Rs)	Abhir	Bobby	Vineet
Interest on capital: credit	98,000	64,000	48,000
Interest on drawings: debit	6,600	4,500	2,750
Reduction in profit share: debit	78,460	78,460	39,230
Net credit/(debit)	12,940	(18,960)	6,020

The net credits total Rs 18,960 and equal the net debit, so the adjustment preserves the firm's total capital.

Step 4: Pass the adjusting journal entry Journal of the firm (31 March, 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bobby's Capital A/c Dr.		18,960	
	To Abhir's Capital A/c			12,940
	To Vineet's Capital A/c			6,020
	(Being omitted interest on capital and drawings adjusted)			

Step 5: Conclusion Debit Bobby's Capital Account Rs 18,960; credit Abhir's Capital Account Rs 12,940 and Vineet's Capital Account Rs 6,020.

Quick Tip to Solve: First reverse the profit and drawings included in closing capital; then net each interest entitlement against the resulting change in profit share.

16. Denspar Ltd. invited applications for issuing 2,00,000 equity shares of Rs 10 each at a premium of Rs 20 per share. The amount was payable as follows :

On Application – Rs 2 per share

On Allotment – Rs 13 per share (including Rs 10 premium)

On First Call – Rs 7 per share (including Rs 5 premium)

On Final Call – Rs 8 per share (including Rs 5 premium)

Applications for 1,80,000 shares were received. Shares were allotted to all the applicants. Yogesh, a shareholder holding 5,000 shares paid his entire share money along with the allotment money. Vishesh, a holder of 7,000 shares, failed to pay the allotment money. Afterwards the first call was made. Vishesh paid the allotment money along with the first call money. Samyesh, holding 2,000 shares did not pay the final call. Samyesh's shares were forfeited immediately after the final call. Out of the forfeited shares, 1,500 shares were reissued at Rs 8 per share fully paid up.

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

Solution:

Concept:

- Each instalment is split between nominal share capital and securities premium. Future call money received before the call is due is credited to Calls in Advance.
- On forfeiture, debit called-up capital and unpaid premium already credited; credit unpaid instalments and the capital actually received to Share Forfeiture. Only surplus belonging to reissued shares goes to Capital Reserve.

Step 1: Receive and transfer application money Only 1,80,000 shares were subscribed and allotted. Application money is $1,80,000 \times 2 = \text{Rs } 3,60,000$; the full amount belongs to share capital.

Journal of Denspar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,60,000	
	To Share Application A/c			3,60,000
	(Being application money received on 1,80,000 shares)			
	Share Application A/c Dr.		3,60,000	
	To Share Capital A/c			3,60,000
	(Being application money transferred to capital)			

Step 2: Record allotment and advance calls Allotment is $1,80,000 \times 13 = \text{Rs } 23,40,000$. Vishesh owes $7,000 \times 13 = \text{Rs } 91,000$. Yogesh pays future calls of $5,000 \times (7+8) = \text{Rs } 75,000$. Hence bank receives $23,40,000 - 91,000 + 75,000 = \text{Rs } 23,24,000$.

Journal of Denspar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Allotment A/c Dr.		23,40,000	
	To Share Capital A/c			5,40,000
	To Securities Premium Reserve A/c			18,00,000
	(Being allotment due, including Rs 10 premium per share)			
	Bank A/c Dr.		23,24,000	
	To Share Allotment A/c			22,49,000
	To Calls in Advance A/c			75,000
	(Being allotment received except Vishesh and future calls from Yogesh)			

Step 3: Record the first call and receipt The first call is Rs 12,60,000. Yogesh's Rs 35,000 advance is adjusted and Vishesh pays his Rs 91,000 allotment arrears. Cash received is $12,60,000 - 35,000 + 91,000 =$ Rs $13,16,000$.

Journal of Denspar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		12,60,000	
	To Share Capital A/c			3,60,000
	To Securities Premium Reserve A/c			9,00,000
	(Being first call due at Rs 7 including Rs 5 premium)			
	Bank A/c Dr.		13,16,000	
	Calls in Advance A/c Dr.		35,000	
	To Share First Call A/c			12,60,000
	To Share Allotment A/c			91,000
	(Being first call received, advance adjusted and Vishesh arrears collected)			

Step 4: Record the final call and receipt The final call is Rs 14,40,000. Adjust Yogesh's remaining Rs 40,000 advance. Samyesh owes $2,000 \times 8 =$ Rs $16,000$. Bank receives $14,40,000 - 40,000 - 16,000 =$ Rs $13,84,000$.

Journal of Denspar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Final Call A/c Dr.		14,40,000	
	To Share Capital A/c			5,40,000
	To Securities Premium Reserve A/c			9,00,000
	(Being final call due at Rs 8 including Rs 5 premium)			
	Bank A/c Dr.		13,84,000	
	Calls in Advance A/c Dr.		40,000	
	To Share Final Call A/c			14,24,000
	(Being final call received except Samyesh and advance adjusted)			

Step 5: Forfeit the defaulting shares Capital called up is Rs 10 per share. Samyesh paid capital of $2 + 3 + 2 =$ Rs 7 per share, giving forfeiture Rs 14,000. The unpaid final premium of Rs 10,000 is cancelled; premium received earlier remains in securities premium reserve.

Journal of Denspar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		20,000	
	Securities Premium Reserve A/c Dr.		10,000	
	To Share Final Call A/c			16,000
	To Share Forfeiture A/c			14,000
	(Being Samyesh's 2,000 shares forfeited for final call default)			

Step 6: Reissue shares and transfer the realised surplus Reissue discount is $1,500 \times 2 = \text{Rs } 3,000$. Forfeiture attributable to reissued shares is $14,000 \times 1,500/2,000 = \text{Rs } 10,500$. Capital reserve is $10,500 - 3,000 = \text{Rs } 7,500$. Rs 3,500 remains in share forfeiture for the 500 shares not yet reissued.

Journal of Denspar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		12,000	
	Share Forfeiture A/c Dr.		3,000	
	To Share Capital A/c			15,000
	(Being 1,500 forfeited shares reissued fully paid at Rs 8)			
	Share Forfeiture A/c Dr.		7,500	
	To Capital Reserve A/c			7,500
	(Being surplus on the reissued shares transferred to capital reserve)			

Step 7: Conclusion The journal entries record 1,80,000 allotted shares, forfeiture of 2,000 shares and reissue of 1,500 shares. Capital Reserve is credited with Rs 7,500; Share Forfeiture retains Rs 3,500.

Quick Tip to Solve: Split every instalment into capital and premium first; on forfeiture cancel only unpaid premium and transfer only the reissued shares' surplus.

OR

16. 'KLN Ltd.' invited applications for issuing 1,00,000 shares of Rs 10 each at a premium of Rs 2 per share. The amount was payable as follows :

On Application – Rs 3 per share (including premium Rs 1)

On Allotment – Rs 4 per share (including premium Rs 1)

On First call – Rs 3 per share

On Second and Final Call – Balance amount

Application for 1,90,000 shares were received. Allotment was made to the applicants as follows :

Category	No. of Shares Applied	No. of Shares Allotted
I	50,000	40,000
II	1,00,000	60,000

Remaining applications were rejected.

Rajat, a shareholder belonging to Category I who had applied for 2,500 shares, failed to pay the amount due on allotment and first call. His shares were immediately forfeited.

Reema, a shareholder belonging to Category II who was holding 3,000 shares failed to pay the first call and second call money. Her shares were also forfeited. Afterwards 4,000 shares were reissued @ Rs 8 per share fully paid up. These included all the forfeited shares of Reema.

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

Solution:

Concept:

- Application excess is adjusted against allotment separately for each category. Share capital excludes securities premium.
- Forfeiture debits only called-up capital; unpaid premium already credited is reversed. Reissue discount is debited to forfeiture, and only the surplus relating to reissued shares becomes capital reserve.

Step 1: Calculate allotment and defaults Category I allotment ratio is $40,000/50,000 = 4/5$; Category II ratio is $60,000/1,00,000 = 3/5$. Thus excess application is Rs 30,000 and Rs 1,20,000 respectively. Rejected applications are $1,90,000 - 1,50,000 = 40,000$, refunded at Rs 3 each. Rajat receives $2,500 \times 4/5 = 2,000$ shares; his excess is $500 \times 3 =$ Rs $1,500$, so unpaid allotment is $8,000 - 1,500 =$ Rs $6,500$. Reema applied for $3,000 \times 5/3 = 5,000$ shares; her excess Rs 6,000 clears part of allotment. Her first-call default is Rs 9,000. Final call per share is $12 - 3 - 4 - 3 =$ Rs 2.

Step 2: Record application and allotment Journal of KLN Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		5,70,000	
	To Share Application A/c			5,70,000
	(Being application money received on 1,90,000 shares)			
	Share Application A/c Dr.		5,70,000	
	To Share Capital A/c			2,00,000
	To Securities Premium Reserve A/c			1,00,000
	To Share Allotment A/c			1,50,000
	To Bank A/c			1,20,000
	(Being application money adjusted and rejected applications refunded)			
	Share Allotment A/c Dr.		4,00,000	
	To Share Capital A/c			3,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being allotment money due)			
	Bank A/c Dr.		2,43,500	
	To Share Allotment A/c			2,43,500
	(Being allotment received except Rajat after excess adjustment)			

Step 3: Record first call and Rajat forfeiture First-call receipt is $3,00,000 - 6,000 - 9,000 =$ Rs $2,85,000$. Rajat's called-up capital is Rs 8 per share. The Rs 2,000 premium included in his unpaid allotment is reversed. His capital receipts are $7,500 - 2,000 =$ Rs $5,500$, including the application excess adjusted on allotment.

Journal of KLN Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		3,00,000	
	To Share Capital A/c			3,00,000
	(Being first call due on 1,00,000 shares)			
	Bank A/c Dr.		2,85,000	
	To Share First Call A/c			2,85,000
	(Being first call received except Rajat and Reema)			
	Share Capital A/c Dr.		16,000	
	Securities Premium Reserve A/c Dr.		2,000	
	To Share Allotment A/c			6,500
	To Share First Call A/c			6,000
	To Share Forfeiture A/c			5,500
	(Being Rajat's 2,000 shares forfeited after first call)			

Step 4: Record final call and Reema forfeiture Journal of KLN Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Second and Final Call A/c Dr.		1,96,000	
	To Share Capital A/c			1,96,000
	(Being final call of Rs 2 due on 98,000 shares)			
	Bank A/c Dr.		1,90,000	
	To Share Second and Final Call A/c			1,90,000
	(Being final call received except Reema)			
	Share Capital A/c Dr.		30,000	
	To Share First Call A/c			9,000
	To Share Second and Final Call A/c			6,000
	To Share Forfeiture A/c			15,000
	(Being Reema's 3,000 shares forfeited)			

Step 5: Record reissue and reserve transfer The 4,000 reissued shares comprise all 3,000 of Reema and 1,000 of Rajat. Their forfeiture credit is $15,000 + 5,500 \times 1,000/2,000 =$ Rs $17,750$. Discount is $4,000 \times 2 =$ Rs $8,000$, leaving Rs 9,750 for capital reserve. Rajat's unreissued 1,000 shares retain Rs 2,750 in Share Forfeiture Account.

Journal of KLN Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		32,000	
	Share Forfeiture A/c Dr.		8,000	
	To Share Capital A/c			40,000
	(Being 4,000 shares reissued at Rs 8 fully paid)			
	Share Forfeiture A/c Dr.		9,750	
	To Capital Reserve A/c			9,750
	(Being profit on reissued forfeited shares transferred)			

Step 6: Conclusion The journal records both defaults, forfeitures and reissue; Capital Reserve is Rs 9,750 and the remaining Share Forfeiture balance is Rs 2,750.

Quick Tip to Solve: Keep the two pro-rata categories separate, and transfer forfeiture surplus only for the shares actually reissued.

17. Mohan, Vinay and Nitya were partners in a firm sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. On 31st March, 2018, their Balance Sheet was as follows :

Balance Sheet of Mohan, Vinay and Nitya as at 31st March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	48,000	Cash at Bank	31,000
Employees' Provident Fund	1,70,000	Bills Receivable	54,000
Contingency Reserve	30,000	Book Debts 63,000 Less : Provision for doubtful debts 2,000	61,000
Capital : Mohan 1,20,000 Vinay 1,00,000 Nitya 90,000	3,10,000	Plant and Machinery Land and Building	1,20,000 2,92,000
	5,58,000		5,58,000

Mohan retired on the above date and it was agreed that :

(i) Plant and machinery will be depreciated by 5%.

(ii) An old computer previously written off was sold for Rs 4,000.

(iii) Bad debts amounting to Rs 3,000 will be written off and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(iv) Goodwill of the firm was valued at Rs 1,80,000 and Mohan's share of the same was credited in his account by debiting Vinay's and Nitya's accounts.

(v) The capital of the new firm was to be fixed at Rs 90,000 and necessary adjustments were to be made by bringing in or paying off cash as the case may be.

(vi) Vinay and Nitya will share future profits in the ratio of 3 : 2.

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

Solution:

Concept:

- Revaluation gains and losses and accumulated reserves belong to all old partners in their old ratio $1/2 : 1/3 : 1/6 = 3 : 2 : 1$.
- The retiring partner receives his share of goodwill from continuing partners in their gaining ratio. New capitals are fixed in the future profit-sharing ratio.

Step 1: Determine revaluation adjustments Depreciation is $1,20,000 \times 5\% =$ Rs $6,000$. The previously written-off computer yields a gain of Rs 4,000. After writing off Rs 3,000, debtors are $63,000 - 3,000 =$ Rs $60,000$; required provision is $60,000 \times 5\% =$ Rs $3,000$. As Rs 2,000 already exists, the additional provision is Rs 1,000. Hence revaluation loss is $6,000 + 3,000 + 1,000 - 4,000 =$ Rs $6,000$, allocated to Mohan Rs 3,000, Vinay Rs 2,000 and Nitya Rs 1,000. The revaluation account is closed by transferring this loss to capitals; it carries no balance forward.

Step 2: Prepare Revaluation Account Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Plant and Machinery	6,000	By Bank (old computer)	4,000
To Debtors (bad debts)	3,000	By Partners' Capital:	
To Provision for Doubtful Debts	1,000	Mohan	3,000
		Vinay	2,000
		Nitya	1,000
Total	10,000	Total	10,000

Step 3: Adjust goodwill and accumulated reserve Vinay's gain is $3/5 - 1/3 = 4/15 = 8/30$, while Nitya's gain is $2/5 - 1/6 = 7/30$. Thus the gaining ratio is $8 : 7$. Mohan's goodwill share is $1,80,000 \times 1/2 =$ Rs $90,000$; debit Vinay $90,000 \times 8/15 =$ Rs $48,000$ and Nitya $90,000 \times 7/15 =$ Rs $42,000$, crediting Mohan. Distribute the Rs 30,000 contingency reserve in $3 : 2 : 1$: Rs 15,000, Rs 10,000 and Rs 5,000. Employees' Provident Fund is an outside liability, so it remains payable and is not distributed.

Step 4: Fix capitals and settle excess Adjusted capital balances are: Mohan $1,20,000 + 15,000 + 90,000 - 3,000 =$ Rs $2,22,000$; Vinay $1,00,000 + 10,000 - 48,000 - 2,000 =$ Rs $60,000$; Nitya $90,000 + 5,000 - 42,000 - 1,000 =$ Rs $52,000$. The new total capital Rs 90,000 is divided $3 : 2$, giving Vinay Rs 54,000 and Nitya Rs 36,000. Therefore pay off their excess capitals of Rs 6,000 and Rs 16,000. No immediate payment terms for Mohan are specified, so the amount due to him is transferred to his loan account. Bank becomes $31,000 + 4,000 - 6,000 - 16,000 =$ Rs $13,000$.

Step 5: Prepare Partners Capital Accounts Partners' Capital Accounts (amounts in Rs)

Dr. Particulars	Mohan	Vinay	Nitya	Particulars	Mohan	Vinay	Nitya Cr.
To Revaluation	3,000	2,000	1,000	By Balance b/d	1,20,000	1,00,000	90,000
To Mohan (goodwill)	–	48,000	42,000	By Contingency Reserve	15,000	10,000	5,000
To Bank	–	6,000	16,000	By Vinay and Nitya (goodwill)	90,000	–	–
To Mohan's Loan	2,22,000	–	–				
To Balance c/d	–	54,000	36,000				
Total	2,25,000	1,10,000	95,000	Total	2,25,000	1,10,000	95,000

Step 6: Prepare the reconstituted Balance Sheet Balance Sheet of Vinay and Nitya as at 31st March, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	48,000	Cash at Bank	13,000
Employees' Provident Fund	1,70,000	Bills Receivable	54,000
Mohan's Loan	2,22,000	Book Debts: 60,000	
Partners' Capital:		Less: Provision: 3,000	57,000
Vinay: 54,000		Plant and Machinery	1,14,000
Nitya: 36,000	90,000	Land and Building	2,92,000
Total	5,30,000	Total	5,30,000

Step 7: Conclusion Revaluation loss is Rs 6,000. Closing capitals are Vinay Rs 54,000 and Nitya Rs 36,000; Mohan's Loan is Rs 2,22,000. The Balance Sheet totals Rs 5,30,000.

Quick Tip to Solve: Compute each continuing partner's gain separately before goodwill adjustment; fix the revised capitals only after all retirement adjustments.

OR

17. Leena and Rohit are partners in a firm sharing profits in the ratio of 3 : 2. On 31st March, 2018, their Balance Sheet was as follows :

Balance Sheet of Leena and Rohit as at 31st March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	80,000	Cash	42,000
Bills Payable	38,000	Debtors 1,32,000 Less : Provision for doubtful debts 2,000	1,30,000
General Reserve	50,000	Stock	1,46,000
Capital : Leena 1,60,000 Rohit 1,40,000	3,00,000	Plant and Machinery	1,50,000
	4,68,000		4,68,000

On the above date Manoj was admitted as a new partner for 1/5th share in the profits of the firm on the following terms :

(i) Manoj brought proportionate capital. He also brought his share of goodwill premium of Rs 80,000 in cash.

(ii) 10% of the general reserve was to be transferred to provision for doubtful debts.

(iii) Claim on account of workmen's compensation amounted to Rs 40,000.

(iv) Stock was overvalued by Rs 16,000.

(v) Leena, Rohit and Manoj will share future profits in the ratio of 5 : 3 : 2.

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

Solution:

Concept:

- Accumulated reserves and revaluation gains or losses belong to the old partners in their old ratio, $3:2$.
- Goodwill premium is credited in the sacrificing ratio: old share minus new share.
- Proportionate capital is based on the adjusted capitals of the old partners and their combined new share of $4/5$.

Step 1: Distribute the reserve and goodwill Transfer to provision for doubtful debts $= 50,000 \times 10\% =$ Rs $5,000$. The remaining general reserve of Rs 45,000 is credited to Leena and Rohit in $3:2$: Rs 27,000 and Rs 18,000 respectively. The new provision is Rs 7,000; the Rs 5,000 transfer is charged against reserve directly and is not charged again to revaluation.

$$\text{Leena's sacrifice} = \frac{3}{5} - \frac{5}{10} = \frac{1}{10}, \qquad \text{Rohit's sacrifice} = \frac{2}{5} - \frac{3}{10} = \frac{1}{10}.$$

Thus goodwill premium of Rs 80,000 brought by Manoj is shared equally: Rs 40,000 each. The premium is retained in the business.

Step 2: Prepare the Revaluation Account There is no workmen's compensation reserve in the opening balance sheet. Therefore the entire claim of Rs 40,000 is a revaluation loss and a liability. Stock falls to $1,46,000 - 16,000 =$ Rs $1,30,000$. Total revaluation loss is Rs 56,000, borne by Leena and Rohit as Rs 33,600 and Rs 22,400.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Workmen's compensation claim	40,000	By Leena's Capital A/c	33,600
To Stock A/c	16,000	By Rohit's Capital A/c	22,400
Total	56,000	Total	56,000

Step 3: Calculate the proportionate capital After reserve, goodwill and revaluation adjustments:

$$\text{Leena} = 1,60,000 + 27,000 + 40,000 - 33,600 = 1,93,400,$$
$$\text{Rohit} = 1,40,000 + 18,000 + 40,000 - 22,400 = 1,75,600.$$

Their combined adjusted capital is Rs 3,69,000, representing $4/5$ of total capital. Hence

$$\text{Manoj's capital} = 3,69,000 \times \frac{1/5}{4/5} = \text{Rs } 92,250.$$

Only Manoj is required to bring proportionate capital; the old partners' capitals need not themselves be realigned to the future ratio.

Step 4: Prepare the capital accounts **Leena's Capital Account**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	33,600	By Balance b/d	1,60,000
To Balance c/d	1,93,400	By General Reserve	27,000
		By Goodwill Premium	40,000
Total	2,27,000	Total	2,27,000

Rohit's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	22,400	By Balance b/d	1,40,000
To Balance c/d	1,75,600	By General Reserve	18,000
		By Goodwill Premium	40,000
Total	1,98,000	Total	1,98,000

Manoj's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance c/d	92,250	By Cash	92,250
Total	92,250	Total	92,250

Step 5: Prepare the reconstituted balance sheet Cash after admission $= 42,000 + 80,000 + 92,250 =$ Rs $2,14,250$. Debtors net of the revised provision are $1,32,000 - 7,000 =$ Rs $1,25,000$.

Balance Sheet of Leena, Rohit and Manoj as at 31st March, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Sundry Creditors	80,000	Cash	2,14,250
Bills Payable	38,000	Debtors	1,32,000
Workmen's compensation claim	40,000	Less: Provision	(7,000)
Capital accounts:		Net debtors	1,25,000
Leena	1,93,400	Stock	1,30,000
Rohit	1,75,600	Plant and Machinery	1,50,000
Manoj	92,250		
Total	6,19,250	Total	6,19,250

Step 6: Conclusion Revaluation loss is Rs 56,000. Closing capitals: Leena Rs 1,93,400; Rohit Rs 1,75,600; Manoj Rs 92,250. The Balance Sheet totals Rs 6,19,250.

Quick Tip to Solve: Transfer the specified Rs 5,000 directly from reserve to provision; do not charge it again to revaluation.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

18. Under which type of activity will you classify 'Cash advances and loans made to third party' while preparing Cash Flow Statement? [1 mark]

Solution:

Concept:

- Investing activities include acquisition and disposal of long-term assets and investments other than cash equivalents.
- Cash advanced as a loan to an outside party creates a receivable for the lending enterprise.

Step 1: Identify the transaction The enterprise pays cash to a third party as an advance or loan. This is the investment of funds in a recoverable financial asset, rather than a payment for its ordinary goods or services.

Step 2: Classify the cash movement The amount advanced is an outflow from investing activities. It is not a financing outflow: financing concerns changes in the enterprise's own capital and borrowings, whereas here the enterprise is the lender.

Step 3: Conclusion Cash advances and loans made to a third party are classified as investing activities (cash outflow).

Quick Tip to Solve: Check who lends: a loan given to another party is an investing outflow.

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

Solution:

Concept:

- A Cash Flow Statement reports movements in cash and cash equivalents during an accounting period.
- Cash flows are grouped into operating, investing and financing activities.

Step 1: Identify the information required The primary objective is to provide information about cash receipts and cash payments during a particular period. This identifies where cash came from and how it was used.

Step 2: Explain the change in cash By classifying these inflows and outflows into operating, investing and financing activities, the statement explains the change between opening and closing cash and cash equivalents. It therefore reports actual cash movements rather than merely the accrual profit for the period.

Step 3: Conclusion The primary objective is to show the inflows and outflows of cash and cash equivalents during a period, explaining the change in their balance.

Quick Tip to Solve: State receipts and payments of cash during the period, rather than determination of net profit.

20. Under which major headings and subheadings will the following items be presented in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013?

(i) Interest accrued and due on debentures

(ii) Loose tools

(iii) Accrued interest on calls in advance

(iv) Interest due on calls in arrears

(v) Trademarks

(vi) Premium on redemption of debentures

(vii) Plant and Machinery

(viii) Patents [4 marks]

Solution:

Concept:

- Schedule III groups liabilities and assets into current and non-current categories. Classification depends on the nature of the item and when it is payable or realisable.
- An amount payable by the company is a liability; an amount receivable is an asset. Physical assets used in business are tangible fixed assets, while identifiable rights such as patents are intangible fixed assets.

Step 1: Identify amounts payable and receivable Interest accrued and due on debentures and accrued interest on calls in advance are obligations already accrued and belong to other current liabilities.

Interest due on calls in arrears is receivable by the company, so it belongs to other current assets. Premium on redemption is an obligation additional to the principal of debentures and is shown under other long-term liabilities.

Step 2: Present the classifications under Schedule III Classification in the Company's Balance Sheet

Item	Major heading	Subheading / further classification
(i) Interest accrued and due on debentures	Current liabilities	Other current liabilities
(ii) Loose tools	Current assets	Inventories
(iii) Accrued interest on calls in advance	Current liabilities	Other current liabilities
(iv) Interest due on calls in arrears	Current assets	Other current assets
(v) Trademarks	Non-current assets	Fixed assets: intangible assets
(vi) Premium on redemption of debentures	Non-current liabilities	Other long-term liabilities
(vii) Plant and Machinery	Non-current assets	Fixed assets: tangible assets
(viii) Patents	Non-current assets	Fixed assets: intangible assets

Loose tools form part of inventories. Plant and Machinery has physical substance and is used in operations; trademarks and patents represent identifiable non-physical rights. Hence their fixed-asset classifications differ.

Step 3: Conclusion The eight items are presented under the major headings and subheadings set out in the table above. In particular, interest receivable on calls in arrears is an asset, whereas accrued interest payable is a liability.

Quick Tip to Solve: First ask whether the company must pay or receive the amount; then distinguish inventory, physical operating assets and non-physical rights.

OR

20. Explain briefly any four limitations of 'Analysis of Financial Statements.' [4 marks]

Solution:

Concept:

- Financial statement analysis examines relationships and trends in reported figures to assess profitability and financial position.
- Its conclusions depend on the quality, comparability and scope of the underlying financial statements. Quantitative results therefore require interpretation in their business context.

Step 1: Historical information and changing prices **1. Historical analysis:** Financial statements mainly report completed transactions and past performance. Their analysis explains what happened, but past results alone cannot establish future profitability, liquidity or efficiency. Changes in competition, technology or business conditions may make past trends unreliable for prediction.

2. Ignores price-level changes: Figures recorded at historical cost do not fully reflect changes in purchasing power. Assets bought in different years may appear at costs relating to different price levels. Consequently, comparisons of profits, asset values and returns across periods can be misleading

during inflation or deflation.

Step 2: Accounting policies and qualitative information **3. Affected by accounting policies and personal judgement:** Companies may adopt different permitted methods of depreciation or inventory valuation. Estimates of useful life, provisions and doubtful debts also involve judgement. Thus, differences in reported profit or financial position may arise from accounting choices, reducing comparability between companies or periods.

4. Ignores qualitative factors: Financial statements primarily express information in monetary terms. Important influences such as employees' skill, management competence, customer loyalty and labour relations are not adequately measured in those figures. An analysis confined to reported numbers can therefore give an incomplete picture of the business's strengths, risks and prospects.

Step 3: Conclusion Four limitations are its historical nature, failure to adjust for price-level changes, dependence on accounting policies and judgements, and inadequate coverage of qualitative factors. Conclusions should be interpreted in the light of these limitations.

Quick Tip to Solve: Remember one limitation each about time, prices, accounting choices and non-monetary information; explain how each affects the conclusion.

21. (i) From the following information calculate Interest Coverage Ratio : Net profit after interest and tax Rs 1,20,000; Rate of income tax 40%; 15% debentures Rs 1,00,000; 12% Mortgage loan Rs 1,00,000.

(ii) A company had Current Assets Rs 3,00,000 and Current Liabilities Rs 1,40,000. Afterwards, it purchased goods worth Rs 20,000 on credit. Calculate the Current Ratio after the purchase of goods. [4 marks]

Solution:

Concept:

- Interest Coverage Ratio measures how many times profit before interest and tax (EBIT) covers interest on borrowed funds: Interest Coverage Ratio $=$ EBIT/Interest.
- Profit after tax equals profit before tax multiplied by $1 -$ tax rate. Add interest back to profit before tax to obtain EBIT.
- Current Ratio equals current assets divided by current liabilities. Credit purchases increase inventory and creditors by equal amounts.

Step 1: (i) Calculate annual interest Both the debentures and mortgage loan incur interest, so both must be included:

$$\begin{aligned} \text{Debenture interest} &= 1,00,000 \times 15\% = \text{Rs } 15,000, \\ \text{Mortgage-loan interest} &= 1,00,000 \times 12\% = \text{Rs } 12,000, \\ \text{Total interest} &= 15,000 + 12,000 = \text{Rs } 27,000. \end{aligned}$$

This total finance cost is the denominator of the coverage ratio.

Step 2: (i) Recover profit before tax and EBIT Net profit of Rs 1,20,000 is after interest and income

tax. With income tax at 40%, it represents 60% of profit before tax:

$$\text{Profit before tax} = \frac{1,20,000}{1-0.40} = \text{Rs } 2,00,000,$$
$$\text{EBIT} = 2,00,000 + 27,000 = \text{Rs } 2,27,000,$$
$$\text{Interest Coverage Ratio} = \frac{2,27,000}{27,000} = 8.4074 \text{ times}.$$

First reverse the tax deduction, then add back interest, because tax was charged on profit after interest.

Step 3: (ii) Update the current ratio Goods bought on credit increase inventory by Rs 20,000 and create an equal creditor. There is no cash payment at the time of purchase.

$$\text{Revised current assets} = 3,00,000 + 20,000 = \text{Rs } 3,20,000,$$
$$\text{Revised current liabilities} = 1,40,000 + 20,000 = \text{Rs } 1,60,000,$$
$$\text{Current Ratio} = \frac{3,20,000}{1,60,000} = 2:1.$$

Adding the same positive amount to numerator and denominator reduces an initial ratio above one towards one.

Step 4: Conclusion (i) Interest Coverage Ratio is approximately 8.41 times. (ii) Current Ratio after purchase is $2:1$.

Quick Tip to Solve: Reverse tax by dividing PAT by 60%, then add both interest charges; a credit purchase increases both current assets and liabilities.

OR

21. Quick ratio of a company is 1 : 1. State, with reason, whether the following transactions will increase, decrease or not change the ratio :

(i) Paid insurance premium in advance Rs 10,000.

(ii) Purchased goods on credit Rs 8,000.

(iii) Issued fully paid equity shares of Rs 1,00,000.

(iv) Issued 9% debentures of Rs 5,00,000 to the vendor for machinery purchased. [4 marks]

Solution:

Concept:

- Quick Ratio is Quick Assets/Current Liabilities. Quick assets exclude inventories and prepaid expenses from current assets.
- An initial quick ratio of $1:1$ means quick assets equal current liabilities. Assess each transaction independently from this original position.
- Only a change in quick assets or current liabilities affects the ratio; non-current assets and long-term financing are outside it.

Step 1: (i) Insurance premium paid in advance Payment of Rs 10,000 reduces cash or bank, which is

a quick asset. It creates prepaid insurance, which is excluded from quick assets because it cannot be readily used to pay current liabilities. Thus quick assets fall by Rs 10,000, while current liabilities remain unchanged. If the original quick assets and current liabilities each equal Q, the new ratio is $(Q - 10,000)/Q$, below one.

Step 2: (ii) Goods purchased on credit The Rs 8,000 purchase increases inventory and trade creditors. Inventory is not a quick asset, so quick assets remain unchanged. Trade creditors are current liabilities and rise by Rs 8,000. The new quick ratio is $Q/(Q + 8,000)$, below one. The increase in stock cannot offset the increase in the denominator of the quick ratio, even though both belong to the calculation of current ratio.

Step 3: (iii) Fully paid equity shares issued Issue of fully paid equity shares of Rs 1,00,000 brings cash into the company. Cash is a quick asset, so quick assets increase by Rs 1,00,000. Equity share capital is shareholders' funds, not a current liability. Current liabilities therefore stay unchanged. The new ratio becomes $(Q + 1,00,000)/Q$, above one. The receipt improves immediate liquidity.

Step 4: (iv) Debentures issued to the machinery vendor The vendor receives 9% debentures of Rs 5,00,000 directly in consideration for machinery. Machinery is a non-current tangible asset, and debentures are long-term borrowings. This transaction neither changes quick assets nor creates a current liability; it does not bring cash into the business. The coupon rate does not alter the classification of the principal. Therefore both numerator and denominator remain Q.

Step 5: Conclusion The quick ratio (i) decreases, (ii) decreases, (iii) increases, and (iv) remains unchanged at $1 : 1$.

Quick Tip to Solve: Exclude both stock and prepaid insurance from quick assets; debentures given directly for machinery create no cash receipt.

22. From the information extracted from the Statement of Profit and Loss for the years ended 31st March, 2017 and 31st March, 2018, prepare a Comparative Statement of Profit and Loss :

Particulars	2017 – 18	2016 – 17
Revenue from operations	300% of cost of material consumed	200% of cost of material consumed
Cost of materials consumed	Rs 2,40,000	Rs 2,00,000
Other expenses	20% of cost of material consumed	10% of cost of material consumed
Tax rate	50%	50%

[4 marks]

Solution:

Concept:

- A comparative statement shows the previous year, current year, absolute change and percentage change for each item.
- Absolute change = current year amount minus previous year amount; percentage change = absolute change divided by previous year amount, multiplied by 100.

Step 1: Calculate revenue and other expenses For 2016–17, revenue from operations is $200\% \times 2,00,000 =$ Rs $4,00,000$, and other expenses are $10\% \times 2,00,000 =$ Rs $20,000$.

For 2017–18, revenue is $300\% \times 2,40,000 =$ Rs $7,20,000$, and other expenses are $20\% \times 2,40,000 =$ Rs $48,000$. These percentages are applied to materials consumed, not to revenue.

Step 2: Determine profit and tax Profit before tax for 2016–17 is $4,00,000 - 2,00,000 - 20,000 =$ Rs $1,80,000$. Tax at 50% is Rs 90,000, leaving profit after tax of Rs 90,000.

For 2017–18, profit before tax is $7,20,000 - 2,40,000 - 48,000 =$ Rs $4,32,000$. Tax is Rs 2,16,000, leaving profit after tax of Rs 2,16,000.

Step 3: Prepare the comparative statement Comparative Statement of Profit and Loss for the years ended 31st March, 2017 and 2018

Particulars	2016–17 Rs	2017–18 Rs	Change Rs	Change (%)
Revenue from operations	4,00,000	7,20,000	3,20,000	80
Expenses:				
Cost of materials consumed	2,00,000	2,40,000	40,000	20
Other expenses	20,000	48,000	28,000	140
Total expenses	2,20,000	2,88,000	68,000	30.91
Profit before tax	1,80,000	4,32,000	2,52,000	140
Less: Tax	90,000	2,16,000	1,26,000	140
Profit after tax	90,000	2,16,000	1,26,000	140

The percentage increase in total expenses is $68,000/2,20,000 \times 100 = 30.91\%$, rounded to two decimal places. All other percentage changes are exact.

Step 4: Conclusion Revenue increased by 80%, while profit after tax increased by 140%, from Rs 90,000 to Rs 2,16,000.

Quick Tip to Solve: Use the earlier year as the denominator; calculate revenue from materials cost before preparing comparison columns.

23. From the following Balance Sheet of DCX Ltd. and the additional information as at 31st March, 2018 prepare a Cash Flow Statement :

DCX 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		30,00,000	21,00,000
(b) Reserves and Surplus	1	4,00,000	5,00,000
2. Non-Current Liabilities :			
Long-term Borrowings	2	8,00,000	5,00,000
3. Current Liabilities :			
(a) Trade Payables		1,50,000	1,00,000
(b) Short-term Provisions	3	76,000	56,000
Total		44,26,000	32,56,000
II – Assets :			
1. Non-Current Assets :			
Fixed Assets :			
(i) Tangible Assets	4	27,00,000	20,00,000
(ii) Intangible Assets		8,00,000	7,00,000
2. Current Assets :			
(a) Current Investments		89,000	78,000
(b) Inventories		8,00,000	4,00,000
(c) Cash and cash equivalents		37,000	78,000
Total		44,26,000	32,56,000

Notes to Accounts :

Note No.	Particulars	31.3.2018 Rs	31.3.2017 Rs
1.	Reserves and Surplus :		
	(Surplus i.e. Balance in the Statement of Profit and Loss)	4,00,000	5,00,000
		4,00,000	5,00,000
2.	Long-term Borrowings :		
	8% Debentures	8,00,000	5,00,000
		8,00,000	5,00,000
3.	Short-term Provisions :		
	Provision for Tax	76,000	56,000
		76,000	56,000
4.	Tangible Asset :		
	Machinery	33,00,000	25,00,000
	Less : Accumulated Depreciation	(6,00,000)	(5,00,000)
		27,00,000	20,00,000

Additional Information :

(i) During the year a machinery costing Rs 8,00,000 on which accumulated depreciation was Rs 3,20,000 was sold for Rs 6,40,000.

(ii) Debentures were issued on 1st April, 2017. [6 marks]

Solution:

Concept:

- Under the indirect method, adjust profit before tax for non-cash and non-operating items, then for operating working capital and tax paid.
- Purchases and sales of fixed assets and investments are investing flows; share and debenture issues and interest paid are financing flows.

Step 1: Calculate depreciation, machinery purchases and sale profit Machinery sold had book value $8,00,000 - 3,20,000 =$ Rs $4,80,000$. Sale proceeds were Rs 6,40,000, so profit on sale is Rs 1,60,000.

Depreciation for the year is $6,00,000 + 3,20,000 - 5,00,000 =$ Rs $4,20,000$: closing accumulated depreciation equals opening balance plus current depreciation less depreciation on machinery sold.

Machinery purchased at cost is $33,00,000 + 8,00,000 - 25,00,000 =$ Rs $16,00,000$. Intangible assets increased by Rs 1,00,000 and current investments by Rs 11,000; these represent purchases.

Step 2: Calculate profit, interest and tax The balance in the Statement of Profit and Loss fell from Rs 5,00,000 to Rs 4,00,000. With no dividend or other appropriation given, loss after tax is Rs 1,00,000. Adding the current provision for tax of Rs 76,000 gives loss before tax of Rs 24,000.

Debentures of Rs 3,00,000 were issued on 1st April, 2017, so the full closing debenture balance of Rs 8,00,000 carries interest for the whole year: $8,00,000 \times 8\% =$ Rs $64,000$.

The opening provision for tax, Rs 56,000, is paid during the year; the closing provision of Rs 76,000 relates to the current year. Interest is added back in operating activities and shown as paid in financing activities.

Step 3: Prepare the cash flow statement DCX Ltd. — Cash Flow Statement for the year ended 31st March, 2018

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net loss before tax	(24,000)
Add: Depreciation	4,20,000
Add: Interest on debentures	64,000
Less: Profit on sale of machinery	(1,60,000)
Operating profit before working capital changes	3,00,000
Less: Increase in inventories	(4,00,000)
Add: Increase in trade payables	50,000
Cash used in operations	(50,000)
Less: Income tax paid	(56,000)
Net cash used in operating activities (A)	(1,06,000)
B. Cash flows from investing activities	
Purchase of machinery	(16,00,000)
Sale of machinery	6,40,000
Purchase of intangible assets	(1,00,000)
Purchase of current investments	(11,000)
Net cash used in investing activities (B)	(10,71,000)
C. Cash flows from financing activities	
Proceeds from issue of share capital	9,00,000
Proceeds from issue of debentures	3,00,000
Interest paid on debentures	(64,000)
Net cash from financing activities (C)	11,36,000
Net decrease in cash and cash equivalents (A+B+C)	(41,000)
Add: Opening cash and cash equivalents	78,000
Closing cash and cash equivalents	37,000

Step 4: Reconcile the closing cash balance The three activity totals give $-1,06,000 - 10,71,000 + 11,36,000 = -$Rs $41,000$. Adding this decrease to opening cash of Rs 78,000 gives Rs 37,000, exactly matching the closing balance sheet. Current investments are shown separately from cash and cash equivalents in the question, so their increase is treated as an investing outflow.

Step 5: Conclusion Net cash flows are: operating (Rs 1,06,000), investing (Rs 10,71,000), and financing Rs 11,36,000. Cash decreases by Rs 41,000 to Rs 37,000.

Quick Tip to Solve: Add back accumulated depreciation removed on sale when finding annual depreciation; use full-year interest for the 1 April debenture issue.

OPTION 2 (Computerised Accounting)

18. What is meant by attributes? [1 mark]

Solution:

Concept:

- An entity is a distinguishable object about which a database stores information.
- An attribute is a property or characteristic that describes an entity; its values are stored in a field or column.

Step 1: State the meaning Attributes are the properties or characteristics of an entity that are recorded in a database. Each attribute represents one kind of information about that entity, such as its name, identifying code or address.

Step 2: Illustrate with an accounting entity For an Employee entity, Employee ID, Employee Name and Salary are attributes. A particular employee is represented by a record, while that employee's salary is the value of the Salary attribute. Thus the attribute is the descriptive characteristic itself, rather than the entire record.

Step 3: Conclusion Attributes are the properties or characteristics used to describe an entity in a database.

Quick Tip to Solve: Identify the entity first, then name its descriptive fields: Employee has ID, Name and Salary.

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

Solution:

Concept:

- Hardware means the physical, tangible components of a computer system that can be seen and touched.
- Hardware performs input, processing, storage and output operations under the instructions supplied by software.

Step 1: State the meaning Hardware is the collection of physical equipment used in a computer system. In a computerised accounting system, this equipment enables accounting data to be entered, processed, stored and presented.

Step 2: Identify examples The keyboard and mouse are input hardware; the processor carries out processing; a hard disk stores data; and the monitor and printer provide output. These physical devices are hardware, whereas programs and instructions are software.

Step 3: Conclusion Hardware refers to the physical components of a computer system, such as its keyboard, processor, monitor and printer.

Quick Tip to Solve: Use the test "can it be physically touched?" to distinguish hardware from programs and instructions.

20. Give four limitations of computerised accounting system. [4 marks]

Solution:

Concept:

- A computerised accounting system processes accounting transactions through computers and accounting software.
- Its limitations concern the cost of operating the system, dependence on trained users and the

security and continuity of electronic records.

Step 1: Cost of installation and operation The business must spend money on computers, accounting software, installation and related equipment. Maintenance, software upgrades and replacement of obsolete equipment create recurring expenses. For a small concern, these costs may be substantial in relation to the volume of accounting work.

Step 2: Need for trained personnel Employees require training to operate the accounting software correctly and understand its procedures. Recruiting qualified staff or training existing employees involves expenditure and time. Incorrect operation by an inadequately trained user can also produce incorrect accounting information.

Step 3: Risk of system failure and loss of data Hardware breakdown, software faults, power failure or computer viruses may interrupt accounting work. Electronic records may be damaged or lost if the system fails. Regular backups and arrangements for recovery are therefore necessary to preserve records and resume processing.

Step 4: Risk of unauthorised access and misuse Accounting data stored electronically may be accessed, altered or copied by an unauthorised person if access controls are weak. This threatens the confidentiality and reliability of financial information. Passwords, restricted user rights and other security measures are needed, but managing them adds responsibility and cost.

Step 5: Conclusion Four limitations are high installation and running costs, the need for trained personnel, the risk of system failure and data loss, and the risk of unauthorised access or misuse.

Quick Tip to Solve: Explain each limitation with its effect on accounting work; merely naming a computer problem is less complete.

21. Explain any two sub-systems of accounting information system. [4 marks]

Solution:

Concept:

- An accounting information system comprises related sub-systems that collect transaction data, process it and supply useful accounting information.
- Each sub-system deals with a particular area of business activity, while passing relevant information to the general accounting records.

Step 1: Cash and bank sub-system This sub-system records transactions involving cash and bank accounts, including cash received from customers, payments to suppliers, deposits, withdrawals and other receipts or payments. It processes receipt and payment documents and maintains up-to-date cash and bank balances. It also supplies information for cash and bank books and helps compare bank records with the bank statement. Management can use its reports to monitor available funds and plan payments. Thus, it supports control over receipts, payments and the liquidity of the business.

Step 2: Payroll accounting sub-system This sub-system collects employee details and information about attendance, time worked, wages or salary rates, allowances and authorised deductions. It calculates gross earnings, deducts items such as provident fund contributions, tax deducted at source

and recoveries of employee advances, and arrives at the net amount payable to each employee. It prepares payroll statements and payslips and provides the accounting information needed to record salary expense and liabilities for deductions. Thus, it ensures systematic calculation, recording and payment of employee remuneration.

Step 3: Conclusion The cash and bank sub-system deals with monetary receipts, payments and balances; the payroll accounting sub-system deals with calculating, recording and paying employee remuneration.

Quick Tip to Solve: For each sub-system, explain the data it collects, the processing it performs and the information or records it produces.

OR

21. List the elements to be considered while calculating deductions for current payroll for a given period. [4 marks]

Solution:

Concept:

- Payroll deductions are amounts withheld from an employee's earnings for the current pay period under law, the employment terms or the employee's authorisation.
- Net salary payable equals gross salary for the period less the total applicable employee deductions. Employer contributions are accounted for separately from employee deductions.

Step 1: Identify statutory deductions The elements include the employee's contribution to provident fund, the employee's contribution to Employees' State Insurance where applicable, income tax deducted at source and professional tax where applicable. Use the employee's eligible earnings, applicable rates and prescribed limits for the current payroll period. Income-tax deduction depends on the employee's taxable salary and relevant declarations; it is not a uniform deduction for every employee.

Step 2: Identify recoveries and authorised deductions Include instalments of loans and salary advances recoverable in the period, insurance premiums recoverable through payroll, and authorised payments such as union subscriptions, welfare-fund contributions or other agreed deductions. The outstanding loan or advance balance and the agreed recovery instalment must be checked so that the recovery does not exceed the amount due.

Step 3: Account for attendance and total the deductions Consider unpaid leave or unauthorised absence and any other permissible adjustment relating to the current period. Where absence has already reduced gross earnings, do not deduct it again. Add only deductions applicable to that employee and period, distinguish employee contributions from the employer's own expense, and subtract the total once from gross pay to obtain net pay.

Step 4: Conclusion Thus, current payroll deductions cover statutory contributions and taxes, loan and advance recoveries, insurance and other authorised subscriptions, and applicable unpaid-absence adjustments.

Quick Tip to Solve: Group deductions under statutory items, recoveries and authorised subscriptions; check that unpaid absence has not already reduced gross pay.

22. State the steps to construct Bank Reconciliation Statements in Tally. [4 marks]

Solution:

Concept:

- A bank reconciliation compares the bank ledger maintained in Tally with the bank statement for the same period and identifies transactions whose recording or clearance dates differ.
- In the reconciliation screen, the bank date is the date on which a transaction appears in the bank statement. Items without a bank date remain unreconciled until they clear.

Step 1: Open the bank ledger Select the required company in Tally and ensure that its bank receipts and payments have been entered. From Gateway of Tally, choose Display, then Account Books, then Cash/Bank Book(s). Select the required bank account and open its ledger vouchers for the relevant period.

Step 2: Open the reconciliation screen and set the period Press F5 (Reconcile) to display the Bank Reconciliation screen for the selected bank ledger. Set the required reconciliation period using F2 (Period). Keep the bank statement for the same account and period available for comparison. The comparison must relate to the same closing date, otherwise timing differences cannot be identified correctly.

Step 3: Match entries and enter bank dates Compare the receipt and payment entries with the bank statement, using the amount and cheque or transaction reference. For each matched entry, enter in the Bank Date column the date on which it was cleared or recorded by the bank. Leave the bank date blank for cheques issued but not yet presented and deposits not yet credited. Do not enter an artificial clearance date merely to eliminate a difference.

Step 4: Review and save the statement Review the unreconciled receipts and payments and the balance shown in the reconciliation statement. Investigate bank charges, interest, direct credits or other bank entries missing from the books, record the necessary vouchers and reconcile them. Accept and save the reconciliation details; display or print the completed Bank Reconciliation Statement as required.

Step 5: Conclusion The sequence is to open the bank ledger, select Reconcile, set the period, enter bank dates against matched transactions, review outstanding differences and save or print the Bank Reconciliation Statement.

Quick Tip to Solve: Enter the bank statement's clearance date in Bank Date; leave genuinely outstanding cheques and deposits unreconciled.

OR

22. Explain composite vs atomic attributes and stored vs derived attributes. [4 marks]

Solution:

Concept:

- An attribute is a property of an entity, such as an employee name or date of birth. Attributes are classified according to whether they can be subdivided and whether their values are held directly or calculated.
- The composite/atomic distinction concerns the structure of an attribute; the stored/derived distinction concerns how its value is obtained. These are separate bases of classification.

Step 1: Composite and atomic attributes A composite attribute can be divided into smaller meaningful components. For example, an employee's Name can be split into First Name, Middle Name and Last Name. Similarly, an Address can be divided into house number, street, city, state and PIN code. The components help a database retrieve or arrange a particular part separately.

An atomic, or simple, attribute cannot be divided further into meaningful smaller attributes for the purpose of that database. For example, an Employee Code or a Roll Number is normally treated as one complete value. Although a code contains individual characters, splitting those characters does not necessarily produce separate meaningful attributes. Thus, the distinction depends on the information the system needs to represent.

Step 2: Stored and derived attributes A stored attribute has its value entered and maintained directly in the database. For example, an employee's Date of Birth is recorded as a fact. Quantity and Rate in an invoice may also be stored values.

A derived attribute has its value obtained from one or more other attributes by calculation or processing. For example, Age is calculated from Date of Birth and the current date. Similarly, an invoice line amount can be derived as Quantity $\times$ Rate. It need not be entered independently each time because the system can compute it from the underlying stored data.

When a stored input changes, the corresponding derived value must be recalculated. Using Date of Birth to derive Age prevents the need to manually update an age field on every birthday.

Step 3: Conclusion Composite attributes contain meaningful component attributes, whereas atomic attributes are indivisible for the database purpose. Stored attributes are recorded directly, whereas derived attributes are calculated from other data.

Quick Tip to Solve: Use Name versus Employee Code for structure, and Date of Birth versus Age for the stored/derived distinction.

23. What is meant by conditional formatting? Give its two uses and three benefits. [6 marks]

Solution:

Concept:

- Conditional formatting is a spreadsheet feature that automatically applies a specified format to cells when their values satisfy a defined rule or condition.

- The rule tests the data and controls its appearance, such as font colour, cell shading or a visual indicator. The underlying value and the formula in the cell are unaffected.

Step 1: Meaning of conditional formatting In conditional formatting, the user selects a cell or range, specifies a condition and chooses the format to apply when that condition is true. For example, the condition may be that a debtor balance exceeds Rs 50,000, with a red fill applied to qualifying cells. As the values change, the spreadsheet evaluates the rule again and updates the formatting automatically. This makes the format responsive to the data and avoids manually colouring each qualifying cell.

Step 2: Two uses (i) Identifying exceptions in accounting data: overdue receivables or balances above a specified credit limit can be highlighted. For example, a rule can shade outstanding amounts above Rs 50,000 so that the accountant can identify accounts requiring follow-up.

(ii) Comparing performance with a target or standard: sales below a budgeted figure, expenses exceeding a limit, or a negative profit can be displayed in a distinct format. For example, a rule can colour an expense cell when actual expenditure exceeds its budget. This makes favourable and unfavourable results easier to distinguish.

Step 3: Three benefits (i) Quick identification of important information: exceptional figures stand out immediately in a large worksheet. The user can locate overdue items, unusually high balances or losses without inspecting every amount individually.

(ii) Clearer analysis and presentation: colours, shading and other visual cues reveal differences and patterns in the data. Reports become easier to read and interpret, enabling managers to compare results and direct attention to significant variations.

(iii) Time saving with consistent, automatic updates: one rule can be applied to an entire range instead of formatting cells individually. When a cell value changes, its appearance is updated according to the same rule. This reduces repeated manual work and the chance of inconsistent highlighting.

Step 4: Conclusion Conditional formatting automatically formats cells according to rules. It can flag accounting exceptions and compare performance with standards, while improving visibility, analysis and the speed and consistency of reporting.

Quick Tip to Solve: State a rule and its visual result first, then keep the two applications separate from the three benefits.