CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-3-1

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. A, B and C were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. B retired and his share was taken over by A and C equally. Calculate the gaining ratio. [1 mark]

Solution:

Concept:

- A continuing partner's gain is the new profit share minus the old profit share.
- The gaining ratio compares only the additional shares acquired by the continuing partners, not their total new shares.

Step 1: Find the share acquired from B B's old share is $3/9$. As A and C take this share equally, each acquires $\frac{1}{2} \times \frac{3}{9} = \frac{1}{6}$.

Step 2: Compare the two gains A gains $1/6$ and C gains $1/6$. Their old shares, $4/9$ and $2/9$, differ, but this does not change the equal division of B's share. Thus compare the gains as $\frac{1}{6} : \frac{1}{6}$.

Step 3: Conclusion The gaining ratio of A and C is $\boxed{1:1}$.

Quick Tip to Solve: When the retiring partner's share is taken equally, the gaining ratio is equal even if the old shares differ.

2. In the absence of a partnership deed, in which ratio do the old partners sacrifice their share of profit in case of admission of a new partner? [1 mark]

Solution:

Concept:

- The sacrificing ratio compares the portions of profit given up by the old partners for the incoming partner.
- When no arrangement specifies how the new share is acquired, the old partners sacrifice in their old profit-sharing ratio.

Step 1: Identify the missing agreement The question gives no separate ratio in which the old partners must surrender their shares. Hence the usual rule for acquiring the incoming partner's share applies.

Step 2: Apply proportional sacrifice If the old shares are in the ratio $a : b$, and the incoming partner receives a share s, the old partners surrender $sa/(a+b)$ and $sb/(a+b)$. These surrendered shares are in the ratio $a : b$.

Step 3: Conclusion The old partners sacrifice in their old profit-sharing ratio.

Quick Tip to Solve: Use the old profit-sharing ratio when the mode of acquiring the new partner's share is not specified.

OR

2. Give any two circumstances in which sacrificing ratio may be applied. [1 mark]

Solution:

Concept:

- Sacrifice is the reduction in a partner's profit share: old share minus new share.
- The sacrificing ratio is used to allocate compensation, particularly goodwill, among partners giving up future profits.

Step 1: Apply it on admission On admission of a new partner, the old partners may surrender part of their profit shares. The incoming partner's goodwill premium is credited to the sacrificing partners in their sacrificing ratio.

Step 2: Apply it on a change in ratio When existing partners change their profit-sharing ratio, some partners may gain and others sacrifice. The gaining partners compensate the sacrificing partners for goodwill, with the compensation credited according to the shares sacrificed.

Step 3: Conclusion Two circumstances are admission of a new partner and a change in profit-sharing ratio among existing partners.

Quick Tip to Solve: Look for a reduction in future profit rights: sacrificing ratio decides who receives goodwill compensation.

3. Why are adjustments for outstanding and prepaid expenses not recorded in Receipts and Payments Account? [1 mark]

Solution:

Concept:

- A Receipts and Payments Account summarises actual cash and bank receipts and payments during the accounting period.
- Outstanding and prepaid adjustments allocate expenses to the correct period under the accrual basis.

Step 1: Consider outstanding expenses An outstanding expense has become due but remains unpaid. The adjustment involves no current cash or bank payment, so it cannot appear as a payment in the Receipts and Payments Account.

Step 2: Consider prepaid expenses A prepaid expense is paid before the period to which it relates. Its actual payment is included when cash is paid, but the adjustment separating the future-period portion involves no new cash movement. That adjustment belongs to accrual accounts.

Step 3: Conclusion These adjustments are excluded because the Receipts and Payments Account is prepared on the cash basis, not the accrual basis.

Quick Tip to Solve: Distinguish the actual prepaid payment, which is recorded, from the period-end prepaid adjustment, which is not.

OR

3. Distinguish between 'Receipts and Payments Account' and 'Income and Expenditure Account' on the basis of 'Depreciation'. [1 mark]

Solution:

Concept:

- Depreciation is a non-cash expense representing the allocation of a fixed asset's depreciable cost over its useful life.
- Receipts and Payments follows the cash basis, whereas Income and Expenditure follows the accrual basis.

Step 1: Check the Receipts and Payments Account Depreciation causes no cash or bank outflow when it is charged. Consequently, it is not recorded in the Receipts and Payments Account; the cash paid to purchase an asset is a separate transaction.

Step 2: Check the Income and Expenditure Account The Income and Expenditure Account includes revenue expenses belonging to the current period, whether or not cash is paid. Current-year depreciation is therefore debited as an expense and reduces the surplus or increases the deficit.

Step 3: Conclusion Depreciation is excluded from Receipts and Payments Account but debited to Income and Expenditure Account.

Quick Tip to Solve: Ask whether cash moves: depreciation does not move cash, but it is still an expense for calculating the annual surplus.

4. In the absence of provision in the partnership deed, in which ratio is the deficiency arising out of guarantee of profit to a partner borne by the other partners? [1 mark]

Solution:

Concept:

- A profit guarantee assures a partner a specified minimum share of profit.
- A deficiency is the excess of the guaranteed minimum over the guaranteed partner's actual share of profit.
- When no special deficiency-sharing provision exists, the other partners bear it in their profit-sharing ratio.

Step 1: Identify who bears the deficiency The shortfall is met by the other partners, so that the guaranteed partner receives the promised minimum. The guaranteed partner is not included when allocating the deficiency among those other partners.

Step 2: Use the ordinary sharing proportions As the deed specifies no separate ratio for bearing the shortfall, use the relative profit-sharing proportions of the other partners. If their respective shares are in the ratio $a : b$, divide the deficiency between them in that ratio.

Step 3: Conclusion The other partners bear the deficiency in their profit-sharing ratio, unless a different arrangement is agreed.

Quick Tip to Solve: Exclude the guaranteed partner and retain the relative profit-sharing proportions of the partners who bear the shortfall.

5. Varun and Arun are partners in a firm sharing profits and losses equally. On the date of dissolution of the partnership firm, Varun's wife's loan was Rs 45,000, whereas Arun's loan was Rs 65,000. Which loan will be paid first and why? [1 mark]

Solution:

Concept:

- On dissolution, amounts due to third parties are paid before amounts due to partners for loans or advances.
- A loan from a partner's relative remains an outside liability when the relative is not a partner.

Step 1: Classify the two loans Varun's wife is not stated to be a partner. Her loan of Rs 45,000 is therefore a third-party liability. Arun is a partner, so his loan of Rs 65,000 is a partner's loan, distinct from his capital.

Step 2: Apply the order of settlement The priority depends on the creditor's status, not on the amount of the loan or the partners' equal profit-sharing ratio. Third-party debts are settled first, followed by partners' loans and then partners' capitals.

Step 3: Conclusion Varun's wife's loan of Rs 45,000 will be paid first because it is an outside liability, which has priority over Arun's partner loan.

Quick Tip to Solve: Classify the lender before comparing loan amounts: a partner's spouse is an outside creditor unless also a partner.

6. Differentiate between 'Capital Reserve' and 'Reserve Capital'. [1 mark]

Solution:

Concept:

- Capital reserve is a reserve arising from capital profits; it is a component of reserves and surplus.
- Reserve capital is a specified part of uncalled share capital reserved for being called up only on winding up.

Step 1: Explain capital reserve Capital reserve is created from capital profits, for example the profit on reissue of forfeited shares. It represents a profit already earned and retained in the business, and is generally not available for ordinary dividend distribution.

Step 2: Explain reserve capital Reserve capital is not an accumulated profit or reserve fund. It is the part of subscribed but uncalled capital which the company has resolved to call only in the event of winding up. No money is received merely by designating it as reserve capital.

Step 3: Conclusion Capital reserve is created out of capital profits; reserve capital is uncalled share capital callable only on winding up.

Quick Tip to Solve: Read the final word: a capital reserve is a reserve from profits; reserve capital is part of share capital.

OR

6. What is meant by Preference Shares? [1 mark]

Solution:

Concept:

- Preference shares form a class of share capital carrying preferential rights over equity shares.
- The preference concerns both payment of dividend and repayment of share capital.

Step 1: State the dividend preference Preference shareholders have the preferential right to receive dividend at a fixed rate or a fixed amount before dividend is paid to equity shareholders. This describes the order of dividend payment, rather than making them lenders to the company.

Step 2: State the capital repayment preference On winding up, preference shareholders have the preferential right to repayment of their share capital before any repayment of equity share capital. This preference is over equity shareholders; it does not place preference shareholders ahead of outside creditors.

Step 3: Conclusion Preference shares carry preferential rights to a fixed dividend and to repayment of capital before equity shareholders on winding up.

Quick Tip to Solve: Remember both preferences: dividend during the company's life and repayment of capital on winding up.

7. A and B are partners in a firm sharing profits and losses in the ratio of 2 : 1. On 1st April, 2017 they decided to admit C into partnership for 1/5th share in the profits. For this purpose, goodwill was valued at 80% of the average annual profits of the previous four years. The profits of the last four years were :

Year Ending	Amount Rs
31.3.2014	1,67,000
31.3.2015	1,56,000
31.3.2016	1,92,000
31.3.2017	(10,000)

Calculate the value of goodwill of the firm and the amount of goodwill premium brought by C on his admission. [3 marks]

Solution:

Concept:

- Average annual profit equals the algebraic sum of the profits and losses of the given years divided by the number of years. A loss is deducted, but the loss-making year is still counted.
- The firm's goodwill is the specified percentage of average profit. The incoming partner's goodwill premium equals the firm's goodwill multiplied by that partner's share of future profits.

Step 1: Calculate the average annual profit **Working Notes**

The amount in brackets for the year ended 31.3.2017 represents a loss of Rs 10,000. Therefore it must reduce the total; it is neither added as a profit nor omitted from the average.

$$\begin{aligned}\text{Total profit} &= 1,67,000 + 1,56,000 + 1,92,000 - 10,000\\ &= \text{Rs } 5,05,000,\\ \text{Average annual profit} &= \frac{5,05,000}{4} = \text{Rs } 1,26,250.\end{aligned}$$

Step 2: Apply the agreed valuation and C's share Goodwill is valued at 80% of the average annual profit, so the agreed value is found by multiplying by $80/100$, not by multiplying by four years' purchase.

$$\text{Goodwill} = 1,26,250 \times \frac{80}{100} = \text{Rs } 1,01,000.$$

C acquires $1/5$ of the future profits and compensates the old partners through premium for that fraction of the firm's goodwill:

$$\text{C's premium} = 1,01,000 \times \frac{1}{5} = \text{Rs } 20,200.$$

A and B's old ratio of $2:1$ does not alter either the total goodwill or C's premium; it concerns the old partners' relative profit shares.

Step 3: Conclusion The goodwill of the firm is **Rs 1,01,000**, and the goodwill premium brought by C is **Rs 20,200**.

Quick Tip to Solve: Subtract the bracketed Rs 10,000 loss, divide by all four years, then apply 80% and C's one-fifth share in that order.

8. Vinod Limited has 30,000, 12% Debentures of Rs 100 each due for redemption on 31st March, 2018. Debenture Redemption Reserve has a balance of Rs 7,50,000 on 31st March, 2017 and the company had purchased the required investments on 30th April, 2017.

Pass necessary journal entries for redemption of debentures on 31st March, 2018. [3 marks]

Solution:

Concept:

- On redemption, the debenture liability is transferred to Debentureholders Account and payment clears that account. In the absence of a redemption premium, the amount payable is the face value.
- Under the treatment applicable to this question, Debenture Redemption Investment is 15% of the debentures maturing, and Debenture Redemption Reserve is 25%. After redemption the reserve is transferred to General Reserve.

Step 1: Determine the amounts required for redemption **Working Notes**

The face value to be repaid is $30,000 \times 100 = \text{Rs } 30,00,000$. The required reserve is $30,00,000 \times 25\% = \text{Rs } 7,50,000$, equal to the existing balance; hence no further appropriation is needed. Investments already purchased amount to $30,00,000 \times 15\% = \text{Rs } 4,50,000$. Since no sale price or investment income is specified, their realisation is recorded at book value. The entries requested relate to

redemption on 31st March, 2018; the earlier purchase of investments is not recorded again.

Step 2: Record realisation, redemption and reserve transfer **Journal of Vinod Limited**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2018	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investments realised at book value)		4,50,000	 4,50,000
31.3.2018	12% Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at par)		30,00,000	 30,00,000
31.3.2018	Debentureholders A/c Dr. To Bank A/c (Being redemption amount paid)		30,00,000	 30,00,000
31.3.2018	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being reserve transferred after redemption)		7,50,000	 7,50,000

The 12% is the coupon rate, not a premium on redemption. No separate interest transaction is specified in this redemption question. Each entry above has equal debits and credits.

Step 3: Conclusion Redeem debentures of **Rs 30,00,000**, realise investments of **Rs 4,50,000**, and transfer the existing **Rs 7,50,000** reserve to General Reserve after redemption.

Quick Tip to Solve: Check the existing DRR first: Rs 7,50,000 already equals 25% of Rs 30,00,000, so do not create the reserve a second time.

9. Nano Ltd. purchased assets of Dow Ltd. for Rs 3,00,000. It also agreed to take over the liabilities of Dow Ltd. amounting to Rs 50,000 for a purchase consideration of Rs 2,75,000. The payment to Dow Ltd. was made by issue of 8% Debentures of Rs 50 each at a premium of 10%.

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

Solution:

Concept:

- Assets taken over are debited and liabilities assumed are credited. Purchase consideration exceeding the net assets acquired is debited to Goodwill Account.
- When debentures are issued at a premium, the vendor is credited with the issue price initially payable and then debited on settlement; Debentures Account is credited only with face value and the excess is credited to Securities Premium Reserve.

Step 1: Calculate goodwill and the number of debentures **Working Notes**

Net assets acquired equal assets less liabilities, $3,00,000 - 50,000 = \text{Rs } 2,50,000$. The consideration is Rs 2,75,000, giving goodwill of $2,75,000 - 2,50,000 = \text{Rs } 25,000$. It is goodwill because consideration

exceeds net assets, not a capital reserve.

$$\text{Issue price per debenture} = 50 + 10\% \text{ of } 50 = \text{Rs } 55,$$
$$\text{Number issued} = \frac{2,75,000}{55} = 5,000,$$
$$\text{Face value issued} = 5,000 \times 50 = \text{Rs } 2,50,000,$$
$$\text{Securities premium} = 5,000 \times 5 = \text{Rs } 25,000.$$

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		3,00,000	
	Goodwill A/c Dr.		25,000	
	To Sundry Liabilities A/c			50,000
	To Dow Ltd. A/c			2,75,000
	(Being assets and liabilities taken over for the agreed purchase consideration)			
	Dow Ltd. A/c Dr.		2,75,000	
	To 8% Debentures A/c			2,50,000
	To Securities Premium Reserve A/c			25,000
	(Being 5,000 debentures of Rs 50 each issued at 10% premium to settle the vendor's claim)			

The first entry balances at Rs 3,25,000 and the second at Rs 2,75,000. Dow Ltd.'s credit on purchase is cancelled by its debit on settlement, leaving no amount payable to the vendor. The 8% coupon rate does not enter the issue-price calculation.

Step 3: Conclusion Record **goodwill of Rs 25,000** and issue **5,000 debentures** with face value **Rs 2,50,000** and securities premium **Rs 25,000** to discharge Rs 2,75,000 due to Dow Ltd.

Quick Tip to Solve: Divide the purchase consideration by Rs 55, the issue price; using Rs 50 would ignore the 10% premium and overstate the number issued.

OR

9. On 1st April, 2014, a limited company issued Rs 4,00,000, 9% debentures at 93%, repayable by draw of lots in two equal instalments starting from 31st March, 2017.

Prepare Discount on Issue of Debentures Account from 1st April, 2014 to 31st March, 2016. [3 marks]

Solution:

Concept:

- Discount on issue is the difference between face value and issue proceeds. It is written off over the period for which the debentures remain outstanding.
- When debentures are redeemed in instalments, allocate discount in the ratio of the outstanding face values during the respective years. Redemption at a year-end reduces the amount outstanding for the next year.

Step 1: Compute the discount and its annual allocation **Working Notes**

The issue price is 93% of face value, so discount is $4,00,000 \times 7\% = \text{Rs } 28,000$. The two equal redemptions are Rs 2,00,000 on 31.3.2017 and Rs 2,00,000 on 31.3.2018. Thus Rs 4,00,000 remains outstanding during each of 2014–15, 2015–16 and 2016–17; only Rs 2,00,000 remains during 2017–18.

$$\begin{aligned}\text{Allocation ratio} &= 4,00,000 : 4,00,000 : 4,00,000 : 2,00,000\\ &= 2:2:2:1,\\ \text{Write-off in each of first three years} &= 28,000 \times \frac{2}{7} = \text{Rs } 8,000,\\ \text{Write-off in the final year} &= 28,000 \times \frac{1}{7} = \text{Rs } 4,000.\end{aligned}$$

Only the first two years' ledger entries are required, but the full repayment schedule is needed to calculate their correct write-off.

Step 2: Prepare the discount account for the requested period **Discount on Issue of Debentures Account**

Dr. Particulars	Rs	Particulars Cr.	Rs
1.4.2014: To 9% Debentures A/c	28,000	31.3.2015: By Statement of Profit and Loss	8,000
		31.3.2015: By Balance c/d	20,000
Total	28,000	Total	28,000
1.4.2015: To Balance b/d	20,000	31.3.2016: By Statement of Profit and Loss	8,000
		31.3.2016: By Balance c/d	12,000
Total	20,000	Total	20,000

The debit on issue records the total discount. Each annual credit charges that year's share to the Statement of Profit and Loss; the remaining debit balance is carried forward. The 9% coupon determines interest and is not the rate used to calculate issue discount.

Step 3: Conclusion Write off **Rs 8,000** in each of 2014–15 and 2015–16. The unamortised discount on 31st March, 2016 is **Rs 12,000**.

Quick Tip to Solve: A redemption on 31st March, 2017 leaves the full Rs 4,00,000 outstanding for all of 2016–17; reduce the allocation base only from 2017–18.

10. Calculate the amount of stationery to be posted to Income and Expenditure Account of Indian Cultural Society for the year ending 31st March, 2018 from the following information :

Particulars	1.4.2017 Rs	31.3.2018 Rs
Stock of stationery	21,000	18,000
Creditors for stationery	11,000	23,000

Stationery purchased during the year ended 31st March, 2018 was Rs 75,000.

Also, present the relevant items in the Balance Sheet of the society as at 31st March, 2018. [3 marks]

Solution:

Concept:

- Income and Expenditure Account records stationery consumed during the accounting year on the accrual basis, whether or not its purchase price has been paid.
- Stationery consumed equals opening stock plus purchases during the year less closing stock. Closing stock is an asset, while unpaid stationery creditors are liabilities.

Step 1: Calculate stationery consumed The question gives stationery *purchased*, Rs 75,000, rather than cash paid for stationery. Therefore, this amount already represents the year's purchases; no adjustment for opening and closing creditors is needed in computing consumption.

$$\begin{aligned}\text{Stationery consumed} &= \text{Opening stock} + \text{Purchases} - \text{Closing stock}\\ &= 21,000 + 75,000 - 18,000\\ &= \text{Rs } 78,000.\end{aligned}$$

Opening stock is added because it was available for use this year. Closing stock is deducted because it remains unused at the year end.

Step 2: Post the expense and present the closing balances Debit Income and Expenditure Account with Rs 78,000 as stationery consumed for the year ended 31st March, 2018. Neither the unused stock nor the creditor balance is itself an expense of consumption.

Indian Cultural Society
Balance Sheet (extract) as at 31st March, 2018

Particulars	Amount (Rs)
Liabilities	
Current liabilities: Creditors for stationery	23,000
Assets	
Current assets: Stock of stationery	18,000

These are only the relevant Balance Sheet items; a full Balance Sheet total cannot be prepared from the limited information supplied. The opening stock and opening creditors belong to 1st April, 2017 and are not repeated as closing balances.

Step 3: Conclusion Stationery expense debited to Income and Expenditure Account is **Rs 78,000**. The closing Balance Sheet shows stationery stock of **Rs 18,000** under assets and creditors for stationery of **Rs 23,000** under liabilities.

Quick Tip to Solve: Check whether the question gives purchases or cash paid: adjust creditors only when converting cash paid into purchases, never when purchases are already stated.

11. Mita, Gopal and Farhan were partners sharing profits and losses in the ratio 3 : 2 : 1. On 31st March, 2018 they decided to change the profit sharing ratio to 5 : 3 : 2. On this date, the Balance Sheet showed deferred advertisement expenditure Rs 30,000 and contingency reserve Rs 9,000. Goodwill was valued at Rs 4,80,000. Pass the necessary journal entries for the above transactions in the books of the firm on its reconstitution. [4 marks]

Solution:

Concept:

- Accumulated losses and fictitious assets are written off, and accumulated reserves are distributed, in the old profit-sharing ratio before reconstitution.
- For goodwill adjustment, sacrificing share equals old share minus new share. The gaining partner compensates the sacrificing partner through capital accounts; goodwill need not be raised as an asset.

Step 1: Prepare Working Notes for sacrifice and gain The old ratio is $3:2:1$, and the new ratio is $5:3:2$. Compare the fractions, rather than the ratio numerators:

$$\begin{aligned} \text{Mita: } & \frac{3}{6} - \frac{5}{10} = 0, \\ \text{Gopal: } & \frac{2}{6} - \frac{3}{10} = \frac{1}{30} \quad \text{(sacrifice)}, \\ \text{Farhan: } & \frac{1}{6} - \frac{2}{10} = -\frac{1}{30} \quad \text{(gain)}. \end{aligned}$$

Thus Farhan compensates Gopal by $4,80,000 \times \frac{1}{30} = \text{Rs } 16,000$. Mita's profit share remains one-half, so no goodwill adjustment is required in her capital account.

Step 2: Write off deferred advertisement expenditure Charge Rs 30,000 to Mita, Gopal and Farhan in the old ratio $3:2:1$: Rs 15,000, Rs 10,000 and Rs 5,000 respectively. This expense relates to the period before the change and must be cleared from the books.

Journal of the firm – 31st March, 2018

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2018	Mita's Capital A/c Dr.		15,000	
	Gopal's Capital A/c Dr.		10,000	
	Farhan's Capital A/c Dr.		5,000	
	To Deferred Advertisement Expenditure A/c			30,000
	(Being deferred advertisement expenditure written off in the old ratio of 3:2:1)			

Step 3: Distribute the contingency reserve No claim against this reserve is specified. Therefore, distribute the entire Rs 9,000 among the old partners in their old ratio: Mita Rs 4,500, Gopal Rs 3,000 and Farhan Rs 1,500.

Journal of the firm – 31st March, 2018 (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2018	Contingency Reserve A/c Dr.		9,000	
	To Mita's Capital A/c			4,500
	To Gopal's Capital A/c			3,000
	To Farhan's Capital A/c			1,500
	(Being contingency reserve distributed in the old ratio of 3:2:1)			

Step 4: Adjust goodwill through capital accounts Debit Farhan, the gaining partner, and credit Gopal, the sacrificing partner, with Rs 16,000. This transfers the compensation directly without recognising internally generated goodwill in the Balance Sheet.

Journal of the firm – 31st March, 2018 (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2018	Farhan's Capital A/c Dr.		16,000	
	To Gopal's Capital A/c			16,000
	(Being goodwill adjusted for Farhan's gain and Gopal's sacrifice on reconstitution)			

Step 5: Conclusion Deferred advertisement expenditure of Rs 30,000 is written off and contingency reserve of Rs 9,000 distributed in the old ratio $3:2:1$. For goodwill, **Farhan's Capital A/c is debited and Gopal's Capital A/c credited by Rs 16,000**; Mita has no goodwill adjustment.

Quick Tip to Solve: Convert old and new shares to a common denominator: Mita stays at one-half, while exactly one-thirtieth passes from Gopal to Farhan.

12. Shirish, Harit and Asha were partners in a firm sharing profits in the ratio of 5 : 4 : 1. Shirish died on 30th June, 2018. On this date their Balance Sheet was as follows :

Balance Sheet of Shirish, Harit and Asha as at 31st March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Capital :		**Plant and Machinery**	**5,60,000**
Shirish 1,00,000		**Stock**	**90,000**
Harit 2,00,000		**Debtors**	**10,000**
Asha 3,00,000	**6,00,000**	**Cash**	**40,000**
Profits for the year 2017 – 18	**80,000**		
Bills Payable	**20,000**		
	7,00,000		**7,00,000**

According to the partnership deed, in addition to deceased partner's capital, his executor is entitled to :

(i) Share in profits in the year of death on the basis of average of last two years' profit. Profit for the year 2016 – 17 was Rs 60,000.

(ii) Goodwill of the firm was to be valued at 2 years' purchase of average of last two years' profits.

Prepare Shirish's Capital Account to be presented to his executor. [4 marks]

Solution:

Concept:

- A deceased partner's capital account is credited with his existing capital, share of accumulated profits, profit up to death and goodwill entitlement. The balance is payable to his executor.
- Estimated profit up to death equals average annual profit multiplied by the elapsed fraction of the year and the deceased partner's profit-sharing fraction.
- Goodwill equals average profit multiplied by the agreed years' purchase. Continuing partners compensate the deceased partner in their gaining ratio when goodwill is adjusted through capital accounts.

Step 1: Calculate accumulated profit and profit up to death **Working Notes**

Shirish's old profit share is $5/10$. The Rs 80,000 profit for 2017–18 appears separately in the Balance Sheet and has not yet been credited to partners' capitals. His share of it is

$$80,000 \times \frac{5}{10} = \text{Rs } 40,000.$$

Average annual profit and the estimated share for 1 April to 30 June 2018 are

$$\text{Average profit} = \frac{60,000 + 80,000}{2} = \text{Rs } 70,000,$$

$$\text{Shirish's profit to death} = 70,000 \times \frac{3}{12} \times \frac{5}{10}$$

$$= \text{Rs } 8,750.$$

Credit the latter through Profit and Loss Suspense Account because actual current-year profit is not supplied. The previous year's accumulated profit and this three-month estimate are separate entitlements.

Step 2: Determine the goodwill adjustment The deed values goodwill at two years' purchase of average profit:

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

$$\text{Shirish's share} = 1,40,000 \times \frac{5}{10} = \text{Rs } 70,000.$$

No new ratio is stated, so Harit and Asha continue in their relative old ratio $4 : 1$. Their gains are $4/5 - 4/10 = 4/10$ and $1/5 - 1/10 = 1/10$, respectively. They bear Rs 56,000 and Rs 14,000 of Shirish's goodwill share. No goodwill asset needs to be retained in the books.

Step 3: Prepare Shirish's Capital Account **Shirish's Capital Account as at 30 June 2018**

Dr. Particulars	Rs	Cr. Particulars	Rs
To Shirish's Executor's A/c	2,18,750	By Balance b/d	1,00,000
		By Profit and Loss A/c	40,000
		By Harit's Capital A/c	56,000
		By Asha's Capital A/c	14,000
		By Profit and Loss Suspense A/c	8,750
Total	**2,18,750**	**Total**	**2,18,750**

Before transfer, the credit balance c/d is Rs 2,18,750. It is closed by the debit transfer to the executor's account shown above; this records a liability to the executor, not an immediate cash payment. No

drawings or other deductions are given.

Step 4: Conclusion Shirish's executor is entitled to $1,00,000+40,000+70,000+8,750 =$ **Rs 2,18,750.**

Quick Tip to Solve: Separate the Rs 80,000 accumulated profit from the three-month profit estimate; credit Shirish with his share of both before transferring the capital balance to his executor.

13. Namanjyot Society showed the following position :

Balance Sheet as at 31st March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Capital Fund	72,000	Furniture	40,000
Subscriptions received in advance	6,000	Cash at Bank	30,000
		Cash in Hand	8,000
	78,000		78,000

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

Receipts	Amount Rs	Payments	Amount Rs
To Balance b/d		By Computers (1.10.2018)	1,00,000
Cash at Bank 30,000		By Office Expenses	29,000
Cash in Hand 24,000	54,000	By Electric Charges	15,000
To Sale proceeds of old newspapers	900	By Postage and Stationery	9,000
To Locker's Rent	7,000	By 10% Investments (on 1.12.2017)	60,000
To Interest on Investments	1,600	By Balance c/d	
To Entrance Fees	50,000	Cash at Bank 80,000	
To Life Membership Fees	1,00,000	Cash in Hand 35,500	1,15,500
To Membership subscriptions	98,000		
To Subscriptions for relief fund	17,000		
	3,28,500		3,28,500

Additional Information :

(i) Computers were to be depreciated @ 60% p.a. and furniture @ 10% p.a.

(ii) Membership subscription included Rs 20,000 received in advance.

(iii) Electric charges outstanding Rs 10,000.

Prepare Income and Expenditure Account for the year ending 31st March, 2018. [6 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue incomes and expenses belonging to the accounting year on the accrual basis. Opening and closing cash balances are not income or expenditure.

- Subscription income equals cash received plus opening advance relating to this year, less closing advance, with adjustments for outstanding subscriptions if given.
- Asset purchases, investments, life membership fees and receipts for a specific relief fund are capital or restricted-fund transactions. Depreciation and investment interest are revenue items; entrance fees are treated as revenue in the absence of an instruction to capitalise them.

Step 1: Identify the conflicting dates before making adjustments The question prints the Balance Sheet date as 31 March 2018 and asks for an account for the year ending on that same date. It also includes a computer purchase dated 1 October 2018, which is after the requested year end. Thus the Rs 6,000 advance is not unambiguously an opening advance, and six months' computer depreciation cannot follow from the literal purchase date. The opening cash figure in the Receipts and Payments Account also differs from the Balance Sheet figure. Cash balances do not affect the income computation, but these data cannot all describe a consistent single period.

Accordingly, a unique numerical surplus cannot be asserted from all the printed dates. The account below makes the commonly intended period interpretation explicit: the supplied Balance Sheet is used as the opening position, and the computers are treated as acquired on 1 October within the accounting year ending 31 March 2018. These are conditional assumptions, not changes to the question. The effect of retaining the literal dates is explained separately below.

Step 2: Calculate the revenue adjustments under the stated interpretation **Working Notes**

Taking Rs 6,000 as opening advance for current-year membership and Rs 20,000 as closing advance gives

$$\text{Subscription income} = 98,000 + 6,000 - 20,000 = \text{Rs } 84,000.$$

Investments purchased on 1 December 2017 earn four months' interest to 31 March 2018:

$$\text{Interest earned} = 60,000 \times \frac{10}{100} \times \frac{4}{12} = \text{Rs } 2,000,$$
$$\text{Accrued interest} = 2,000 - 1,600 = \text{Rs } 400.$$

Electricity expense is $15,000 + 10,000 = \text{Rs } 25,000$. Furniture depreciation for the year is $40,000 \times 10\% = \text{Rs } 4,000$. On the explicitly stated six-month computer-use interpretation, computer depreciation is

$$1,00,000 \times \frac{60}{100} \times \frac{6}{12} = \text{Rs } 30,000.$$

Step 3: Exclude capital and restricted receipts and payments The Rs 1,00,000 computer purchase and Rs 60,000 investment purchase create assets; their purchase prices are not revenue expenses. Life membership fees of Rs 1,00,000 are capital receipts, and Rs 17,000 subscribed for the relief fund belongs to that specific fund. Neither is general income. Sale of old newspapers, locker rent, investment interest, ordinary membership subscriptions and entrance fees are included as revenue. Cash and bank balances are excluded on both sides.

Step 4: Prepare the account on the explicit period interpretation **Namanjyot Society**
Income and Expenditure Account for the year ended 31 March 2018
Conditional on the period interpretation stated in Step 1

Dr. Expenditure	Rs	Cr. Income	Rs
To Office expenses	29,000	By Sale of old newspapers	900
To Electric charges	25,000	By Locker's rent	7,000
To Postage and stationery	9,000	By Interest on investments	2,000
To Depreciation: furniture	4,000	By Entrance fees	50,000
To Depreciation: computers	30,000	By Membership subscriptions	84,000
To Surplus (transferred to Capital Fund)	46,900		
Total	**1,43,900**	**Total**	**1,43,900**

Revenue expenditure before surplus is Rs 97,000. Revenue income is Rs 1,43,900, so the conditional surplus is Rs 46,900.

Step 5: Distinguish the literal-date result If 1 October 2018 is retained as the actual acquisition date, these computers attract no depreciation in the year ending 31 March 2018. Further, a liability at 31 March 2018 cannot automatically be added as an advance at 1 April 2017. Let a be opening subscription advances earned this year. Retaining the other revenue adjustments above, subscriptions would be Rs $(78,000+a)$, income Rs $(1,37,900+a)$, expenditure Rs 67,000 and surplus Rs $(70,900+a)$. The printed data do not establish a, and the two closing-advance figures require reconciliation. Therefore this is not a second definite numerical answer. In particular, neither adding Rs 6,000 as opening income nor charging Rs 30,000 depreciation is justified by the literal dates alone.

Step 6: Conclusion Under the explicit opening-balance and six-month-use interpretation, the Income and Expenditure Account shows a **surplus of Rs 46,900**. The conflicting printed dates prevent an unconditional numerical answer without those assumptions.

Quick Tip to Solve: Before adding opening advance subscriptions or prorating depreciation, align each date with the requested accounting year; a purchase after the year end cannot carry depreciation for that earlier year.

14. Adiraj and Karan were partners in a firm sharing profits and losses in the ratio 3 : 2. On 31st March, 2018 the firm was dissolved. After the transfer of assets (other than cash in hand and at bank) and third party liabilities to the Realization Account, the following information was provided :

(i) Furniture of Rs 70,000 was sold for Rs 68,000 by auction and auctioneer's commission amounted to Rs 2,000.

(ii) Adiraj's loan amounting to Rs 35,000 was paid.

(iii) Out of the stock of Rs 80,000, Karan took over 50% of the stock at a discount of 20% while the remaining stock was sold off at a profit of 30% on cost.

(iv) A bills receivable of Rs 3,000 under discount was dishonoured as the acceptor had become insolvent and hence the bill had to be met by the firm.

(v) Profit and Loss Account showed a debit balance of Rs 56,000.

(vi) Realization expenses amounted to Rs 2,000 which were paid by Adiraj.

Pass the necessary journal entries for the above transactions on the dissolution of the firm. [6 marks]

Solution:

Concept:

- After assets and outside liabilities have been transferred, their sale proceeds, settlement differences and dissolution expenses are recorded through Realisation Account.
- A partner taking over an asset is debited in the capital account at the agreed value. A partner paying a firm's expense is credited in the capital account.
- A partner's loan is settled separately from Realisation Account. Accumulated losses are transferred to partners' capital accounts in the old profit-sharing ratio, here $3 : 2$.

Step 1: Work out stock values and the accumulated loss **Working Notes.** Karan takes half the stock, whose book value is Rs $80,000 \times 50\% =$ Rs $40,000$. The agreed takeover value, after a discount of 20%, is

$$40,000 \times \frac{80}{100} = \text{Rs } 32,000.$$

The remaining stock costs Rs 40,000 and is sold at a profit of 30% on cost:

$$40,000 \times \frac{130}{100} = \text{Rs } 52,000.$$

The debit balance of Profit and Loss Account represents an accumulated loss. Adiraj's share is $56,000 \times 3/5 =$ Rs $33,600$, and Karan's share is $56,000 \times 2/5 =$ Rs $22,400$. It is closed directly to capital accounts, not transferred to Realisation Account.

Step 2: Record the furniture sale, commission and partner's loan The furniture's book value of Rs 70,000 has already been transferred, so it is not credited again. Record the gross auction receipt and auctioneer's commission separately. Adiraj's loan is a distinct liability to a partner, so its payment debits his Loan Account.

Journal of Adiraj and Karan (31st March, 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being furniture sold by auction)		68,000	68,000
	Realisation A/c Dr. To Bank A/c (Being auctioneer's commission paid)		2,000	2,000
	Adiraj's Loan A/c Dr. To Bank A/c (Being partner's loan repaid)		35,000	35,000

Step 3: Record stock disposal and the dishonoured bill Karan's takeover reduces the amount payable to him and therefore debits his capital. The discounted bill creates a payment obligation when dishonoured. Since the acceptor is insolvent, the firm bears Rs 3,000 as a realisation loss; no recoverable asset is retained.

Journal of Adiraj and Karan (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Karan's Capital A/c Dr. To Realisation A/c (Being half the stock taken over by Karan at a discount of 20%)		32,000	32,000
	Bank A/c Dr. To Realisation A/c (Being the remaining stock sold at 30% profit on cost)		52,000	52,000
	Realisation A/c Dr. To Bank A/c (Being discounted bill dishonoured and paid by the firm, acceptor being insolvent)		3,000	3,000

Step 4: Transfer the accumulated loss and record expenses paid by Adiraj Debit both partners for their shares of the accumulated loss. For expenses actually paid by Adiraj, credit his Capital Account because the firm owes him reimbursement; the firm's Bank Account is not affected by this payment.

Journal of Adiraj and Karan (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Adiraj's Capital A/c Dr. Karan's Capital A/c Dr. To Profit and Loss A/c (Being accumulated loss transferred in the ratio 3:2)		33,600 22,400	56,000
	Realisation A/c Dr. To Adiraj's Capital A/c (Being realisation expenses paid by Adiraj on behalf of the firm)		2,000	2,000

Step 5: Conclusion The journal entries record all six transactions. Stock is realised at Rs 32,000 from Karan and Rs 52,000 in cash; the Rs 56,000 accumulated loss is borne by Adiraj and Karan as Rs 33,600 and Rs 22,400 respectively.

Quick Tip to Solve: Separate a partner's loan, capital adjustments and realisation expenses: only the actual asset-disposal and dissolution transactions pass through Realisation Account.

15. Shreya and Vivek were partners in a firm sharing profits in the ratio 3 : 2. The balances in their capital and current accounts as on 1st April, 2017 were as under :

	Sherya (Rs)	Vivek (Rs)
Capital accounts	3,00,000	2,00,000
Current accounts	1,00,000 (Cr.)	28,000 (Dr.)

The partnership deed provided that Shreya was to be paid a salary of Rs 5,000 p.m. whereas Vivek was to get a commission of Rs 30,000 for the year.

Interest on capital was to be allowed @ 8% p.a. whereas interest on drawings was to be charged @ 6% p.a. The drawings of Shreya were Rs 3,000 at the beginning of each quarter while Vivek withdrew Rs 30,000 on 1st September, 2017. The net profit of the firm for the year before making the above adjustments was Rs 1,20,000.

Prepare Profit and Loss Appropriation Account and Partners' Capital and Current Accounts. [6 marks]

Solution:

Concept:

- Under the fixed capital method, capital accounts remain unchanged unless capital is introduced or withdrawn permanently. Salary, commission, interest, drawings and shares of profit or loss pass through current accounts.
- Profit and Loss Appropriation Account is credited with net profit and interest on drawings and debited with partners' salary, commission and interest on capital. The residual profit or deficiency is shared in the agreed ratio.
- Interest on drawings equals amount multiplied by annual rate and time in years. For equal quarterly drawings made at the beginning of each quarter, the average period is 7.5 months.

Step 1: Calculate interest, salary and commission **Working Notes (year ended 31st March, 2018).** Shreya's annual salary is $5,000 \times 12 = \text{Rs } 60,000$; Vivek's annual commission is Rs 30,000. Interest on the fixed capitals is:

$$\text{Shreya: } 3,00,000 \times 8\% = \text{Rs } 24,000,$$
$$\text{Vivek: } 2,00,000 \times 8\% = \text{Rs } 16,000.$$

Shreya withdraws Rs 3,000 on 1st April, 1st July, 1st October and 1st January. These amounts remain withdrawn for 12, 9, 6 and 3 months respectively. Her total drawings and interest are:

$$\text{Drawings} = 3,000 \times 4 = \text{Rs } 12,000,$$
$$\text{Interest} = 3,000 \times \frac{6}{100} \times \frac{12+9+6+3}{12} = \text{Rs } 450.$$

Vivek's withdrawal on 1st September is outstanding for seven months to 31st March:

$$30,000 \times \frac{6}{100} \times \frac{7}{12} = \text{Rs } 1,050.$$

No interest is allowed on the opening current-account balances because the deed provides interest on capital only.

Step 2: Determine the appropriation deficiency Total credit available in Profit and Loss Appropriation

Account is

$$1,20,000 + 450 + 1,050 = \text{Rs } 1,21,500.$$

The agreed appropriations total $60,000+30,000+24,000+16,000 = \text{Rs } 1,30,000$. Thus, the deficiency is Rs 8,500, allocated to the partners in their profit-sharing ratio of $3:2$:

$$\text{Shreya's share} = 8,500 \times \frac{3}{5} = \text{Rs } 5,100,$$
$$\text{Vivek's share} = 8,500 \times \frac{2}{5} = \text{Rs } 3,400.$$

Salary and commission total Rs 90,000, while interest on capital is Rs 40,000. There is sufficient net profit to allow the stated interest on capital; the residual deficiency after all agreed appropriations is charged to current accounts.

Step 3: Prepare the Profit and Loss Appropriation Account The deficiency appears on the credit side to balance the account and is debited to the partners' current accounts. Amounts in both amount columns are in Rs.

Profit and Loss Appropriation Account for the year ended 31st March, 2018

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Interest on Capital:		By Profit and Loss A/c	1,20,000
Shreya	24,000	By Interest on Drawings:	
Vivek	16,000	Shreya	450
To Shreya's Current A/c (Salary)	60,000	Vivek	1,050
To Vivek's Current A/c (Commission)	30,000	By Deficiency transferred to:	
		Shreya's Current A/c	5,100
		Vivek's Current A/c	3,400
Total	1,30,000	Total	1,30,000

Step 4: Prepare the fixed capital accounts There is no additional capital or permanent withdrawal of capital. Therefore, both opening capital balances are carried forward unchanged. The routine drawings are charged to current accounts.

Partners' Capital Accounts for the year ended 31st March, 2018

Dr. Particulars	Shreya Rs	Vivek Rs	Particulars	Shreya Rs	Vivek Cr. Rs
To Balance c/d	3,00,000	2,00,000	By Balance b/d	3,00,000	2,00,000
Total	3,00,000	2,00,000	Total	3,00,000	2,00,000

Step 5: Prepare the current accounts and balance them Shreya opens with a credit balance of Rs 1,00,000, whereas Vivek opens with a debit balance of Rs 28,000. Credit their entitlements and debit their drawings, interest on drawings and shares of deficiency. The balance carried down for Shreya is placed on the debit side, showing a closing credit balance. Vivek's balance carried down is placed on the credit side, showing a closing debit balance.

Partners' Current Accounts for the year ended 31st March, 2018

Dr. Particulars	Shreya Rs	Vivek Rs	Particulars	Shreya Rs	Vivek Cr. Rs
To Balance b/d	–	28,000	By Balance b/d	1,00,000	–
To Drawings	12,000	30,000	By Interest on Capital	24,000	16,000
To Interest on Drawings	450	1,050	By Salary	60,000	–
To P&L Appropriation A/c	5,100	3,400	By Commission	–	30,000
To Balance c/d	1,66,450	–	By Balance c/d	–	16,450
Total	1,84,000	62,450	Total	1,84,000	62,450

The current-account balances reconcile as follows:

$$\begin{aligned} \text{Shreya (Cr.)} &= 1,00,000 + 24,000 + 60,000 - 12,000 - 450 - 5,100 \\ &= \text{Rs } 1,66,450, \\ \text{Vivek (Dr.)} &= 28,000 + 30,000 + 1,050 + 3,400 - 16,000 - 30,000 \\ &= \text{Rs } 16,450. \end{aligned}$$

Step 6: Conclusion The appropriation deficiency is Rs 8,500, shared by Shreya and Vivek as Rs 5,100 and Rs 3,400. Their fixed capitals remain Rs 3,00,000 and Rs 2,00,000. Closing current balances are Shreya Rs 1,66,450 (Cr.) and Vivek Rs 16,450 (Dr.).

Quick Tip to Solve: Beginning-of-quarter drawings use 7.5 months on average. Keep the opening debit balance of Vivek on the debit side, and post every appropriation to current accounts when capitals are fixed.

OR

15. Ramesh, Mahesh and Suresh were partners in a firm sharing profits in the ratio of 3 : 3 : 2. Their respective fixed capitals were : Ramesh Rs 5,00,000; Mahesh Rs 4,00,000 and Suresh Rs 3,00,000. They admitted Govind as a new partner for 1/5th share in the profits. Govind brought Rs 4,00,000 as his capital and the necessary amount for goodwill premium. Their new profit sharing ratio will be 2 : 1 : 1 : 1.

Calculate the value of goodwill of the firm, showing your workings clearly. Pass necessary journal entries for the above transactions on Govind's admission. [6 marks]

Solution:

Concept:

- Hidden goodwill equals the total capital implied by the new partner's capital and profit share minus the actual combined capital after admission, excluding goodwill premium.
- Sacrifice equals old share minus new share. A negative sacrifice is a gain, for which the gaining partner compensates the sacrificing partners.
- With fixed capitals, goodwill adjustments between existing partners are made through their current accounts; the new partner's capital contribution is credited to his capital account.

Step 1: Working Notes: infer the firm's goodwill Govind contributes Rs 4,00,000 for a $1/5$ profit

share. The total capital implied by this contribution is

$$\text{Implied capital} = 4,00,000 \div \frac{1}{5} = \text{Rs } 20,00,000.$$

The actual total capital after admission, excluding the separately paid goodwill premium, is

$$5,00,000 + 4,00,000 + 3,00,000 + 4,00,000 = \text{Rs } 16,00,000.$$

Thus hidden goodwill is $20,00,000 - 16,00,000 = \text{Rs } 4,00,000$. Govind must bring goodwill premium of $4,00,000 \times 1/5 = \text{Rs } 80,000$, in addition to his capital.

Step 2: Working Notes: calculate sacrifice and compensation Compare the old ratio $3:3:2$ with the new ratio $2:1:1:1$, using denominator 40:

$$\text{Ramesh's sacrifice} = \frac{3}{8} - \frac{2}{5} = -\frac{1}{40},$$
$$\text{Mahesh's sacrifice} = \frac{3}{8} - \frac{1}{5} = \frac{7}{40},$$
$$\text{Suresh's sacrifice} = \frac{2}{8} - \frac{1}{5} = \frac{2}{40}.$$

Ramesh gains $1/40$, so he must compensate the others by $4,00,000 \times 1/40 = \text{Rs } 10,000$. Mahesh is entitled to $4,00,000 \times 7/40 = \text{Rs } 70,000$, and Suresh to $4,00,000 \times 2/40 = \text{Rs } 20,000$. Their combined compensation, Rs 90,000, is met by Govind's premium of Rs 80,000 and Ramesh's current-account debit of Rs 10,000. Hence the premium must not simply be distributed among all three old partners in the old ratio.

Step 3: Record admission and goodwill adjustments Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,80,000	
	To Govind's Capital A/c			4,00,000
	To Premium for Goodwill A/c			80,000
	(Being capital and goodwill premium brought in by Govind)			
	Premium for Goodwill A/c Dr.		80,000	
	Ramesh's Current A/c Dr.		10,000	
	To Mahesh's Current A/c			70,000
	To Suresh's Current A/c			20,000
	(Being goodwill adjusted for the admission and Ramesh's gain)			

The old partners' fixed capital accounts remain unchanged. The goodwill premium is distributed through current accounts, and no goodwill asset is raised in the books. Each entry has equal debit and credit totals.

Step 4: Conclusion Goodwill of the firm is Rs 4,00,000. Govind brings capital Rs 4,00,000 and goodwill premium Rs 80,000. Ramesh's Current Account is debited by Rs 10,000; Mahesh's and Suresh's Current Accounts are credited by Rs 70,000 and Rs 20,000 respectively.

Quick Tip to Solve: Check every old partner's old share minus new share: Ramesh gains despite being an existing partner, so his Rs 10,000 compensation must supplement Govind's premium.

16. Sunstar Ltd. invited applications for issuing 2,00,000 equity shares of Rs 50 each. The amount was payable as follows :

On Application – Rs 15 per share

On Allotment – Rs 10 per share

On First and Final Call – Rs 25 per share

Applications for 3,00,000 shares were received. Allotment was made to the applicants as follows :

Category	No. of Shares Applied	No. of Shares Allotted
I	2,00,000	1,50,000
II	1,00,000	50,000

Excess money received with applications was adjusted towards sums due on allotment and calls. Namita, a shareholder of Category I, holding 3,000 shares failed to pay the allotment money. Her shares were forfeited immediately after allotment. Manav, a shareholder of Category II, who had applied for 1,000 shares failed to pay the first and final call. His shares were also forfeited. All the forfeited shares were reissued at Rs 60 per share fully paid up.

Pass necessary journal entries and prepare Cash Book for the above transactions in the books of Sunstar Ltd. [8 marks]

Solution:

Concept:

- Under pro-rata allotment, application money on shares not allotted is first adjusted against allotment; any further excess is credited to Calls in Advance and subsequently adjusted against the call.
- On forfeiture, debit Share Capital with the called-up amount, credit unpaid instalments, and credit Share Forfeiture with the capital money already received.
- Reissue above face value creates Securities Premium. Forfeiture relating to reissued shares, after any reissue discount, is transferred to Capital Reserve.

Step 1: Working Notes: allocate application money Category I receives $1,50,000/2,00,000 = 3/4$ of the shares applied for. Category II receives $50,000/1,00,000 = 1/2$. Application money received is $3,00,000 \times 15 =$ Rs $45,00,000$, of which $2,00,000 \times 15 =$ Rs $30,00,000$ belongs to Share Capital.

Particulars (Rs)	Category I	Category II
Application money received	30,00,000	15,00,000
Application money on allotted shares	22,50,000	7,50,000
Excess application money	7,50,000	7,50,000
Allotment due	15,00,000	5,00,000
Excess adjusted to allotment	7,50,000	5,00,000
Calls in advance	Nil	2,50,000

Thus Rs 12,50,000 is adjusted against allotment and Rs 2,50,000 against the later call. The further allotment money collectible before default is Rs 7,50,000.

Step 2: Working Notes: identify the two defaults Namita holds 3,000 shares and therefore applied for $3,000 \times 4/3 = 4,000$. She paid Rs 60,000 on application. Of this, Rs 45,000 represents application on allotted shares and Rs 15,000 is adjusted against allotment. Her unpaid allotment is $3,000 \times 10 - 15,000 =$ Rs $15,000$. Since her shares are forfeited before the call, the capital cancelled is

$3,000 \times 25 =$ Rs $75,000$, and forfeiture credited is Rs 60,000.

Manav applied for 1,000 shares and receives 500 shares. His Rs 15,000 application payment is allocated as Rs 7,500 to application, Rs 5,000 to allotment and Rs 2,500 to calls in advance. His unpaid call is $500 \times 25 - 2,500 =$ Rs $10,000$. The fully called-up capital cancelled is Rs 25,000 and the forfeiture credit is Rs 15,000, including his advance already adjusted to the call.

Step 3: Record application, allotment and Namita's forfeiture Journal of Sunstar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received)		45,00,000	 45,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 2,00,000 shares)		20,00,000	 20,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Calls in Advance A/c (Being application money transferred and excess adjusted)		45,00,000	 30,00,000 12,50,000 2,50,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received except Namita's Rs 15,000)		7,35,000	 7,35,000
	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Namita's 3,000 shares forfeited, Rs 25 called up)		75,000	 15,000 60,000

Step 4: Record the call and Manav's forfeiture The call is made only on $2,00,000 - 3,000 = 1,97,000$ shares, since Namita's shares have already been forfeited. It is $1,97,000 \times 25 =$ Rs $49,25,000$. After adjusting advances and Manav's default, bank receives $49,25,000 - 2,50,000 - 10,000 =$ Rs $46,65,000$.

Journal of Sunstar Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being call due on 1,97,000 shares)		49,25,000	 49,25,000
	Calls in Advance A/c Dr. To Share First and Final Call A/c (Being advance adjusted against call due)		2,50,000	 2,50,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call received except Manav's balance of Rs 10,000)		46,65,000	 46,65,000
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being Manav's 500 fully called-up shares forfeited)		25,000	 10,000 15,000

Step 5: Record reissue and transfer the forfeiture surplus All $3,000 + 500 = 3,500$ forfeited shares

are reissued at Rs 60 fully paid. Bank receives Rs 2,10,000; face value credited is Rs 1,75,000; and the premium is Rs 35,000. Since there is no reissue discount, the entire forfeiture balance $60,000 + 15,000 =$ Rs $75,000$ is capital profit.

Journal of Sunstar Ltd. (continued)

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

	Bank A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being 3,500 shares reissued at Rs 60 fully paid)
			2,10,000	
				1,75,000
				35,000

	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture surplus on all reissued shares transferred)		75,000	 75,000

Step 6: Prepare and balance the Cash Book The following bank-column Cash Book collects the cash transactions shown in the journal. Excess application adjustments and forfeitures are non-cash transactions, so they do not appear again as cash receipts or payments. No refund is payable because all application money is utilised.

Cash Book of Sunstar Ltd. (Bank column)

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Application To Share Allotment To Share First and Final Call To Share Capital (reissue) To Securities Premium (reissue)	45,00,000 7,35,000 46,65,000 1,75,000 35,000	By Balance c/d	1,01,10,000	
	Total	1,01,10,000	Total	1,01,10,000	
	To Balance b/d	1,01,10,000			

Check: the closing bank balance equals final share capital Rs 1,00,00,000 plus Securities Premium Rs 35,000 plus Capital Reserve Rs 75,000, totalling Rs 1,01,10,000.

Step 7: Conclusion Namita's and Manav's forfeiture credits are Rs 60,000 and Rs 15,000. Reissue creates Securities Premium of Rs 35,000; Rs 75,000 is transferred to Capital Reserve. The Cash Book closes with a bank balance of Rs 1,01,10,000.

Quick Tip to Solve: Exclude Namita's 3,000 shares before calculating the call. For Manav, use 500 allotted shares and deduct his Rs 2,500 advance before finding the unpaid call.

OR

16. Megha Ltd. invited applications for issuing 90,000 equity shares of Rs 100 each at a premium of Rs 60 per share. The amount was payable as follows :

On Application – Rs 30 per share (including premium Rs 10)

On Allotment – Rs 70 per share (including premium Rs 50)

On First and Final Call – Balance amount

Applications for 1,00,000 shares were received. Shares were allotted on pro-rata basis to all the applicants. Excess money received with application was adjusted towards sums due on allotment. Sudha, a shareholder holding 4,500 shares, failed to pay the allotment money. Her shares were forfeited immediately after allotment. Afterwards the first and final call was made. Rajat, a holder of 3,600 shares, failed to pay the first and final call. His shares were also forfeited. All the forfeited shares were re-issued for Rs 90 per share fully paid up.

Pass necessary journal entries and prepare Cash Book for the above transactions in the books of Megha Ltd. [8 marks]

Solution:

Concept:

- Pro-rata allotment is in the ratio $90,000 : 1,00,000 = 9 : 10$. Excess application money is transferred to allotment; it is not refunded.
- Share Capital is credited only with nominal capital. On forfeiture, debit the nominal amount called up and reverse the securities premium that was due but not received. Share Forfeiture contains only capital already received.
- On reissue, discount is debited to Share Forfeiture. After all forfeited shares have been reissued, the remaining forfeiture balance is transferred to Capital Reserve.

Step 1: Working Notes: calculate application adjustments and defaults The first and final call is $160-30-70 =$ Rs 60 per share, entirely capital. Application receipts are $1,00,000 \times 30 =$ Rs $30,00,000$. Of this, Rs 18,00,000 is capital, Rs 9,00,000 is premium and Rs 3,00,000 is excess transferred to allotment.

Sudha applied for $4,500 \times 10/9 = 5,000$ shares. Her application payment is Rs 1,50,000, giving excess $(5,000-4,500) \times 30 =$ Rs $15,000$. Her net allotment default is $4,500 \times 70 - 15,000 =$ Rs $3,00,000$. The excess is adjusted against the capital component of allotment; therefore the premium of $4,500 \times 50 =$ Rs $2,25,000$ remains unpaid. Capital received is $4,500 \times 20 + 15,000 =$ Rs $1,05,000$; capital called up is $4,500 \times 40 =$ Rs $1,80,000$.

The call is made on $90,000 - 4,500 = 85,500$ shares: Rs 51,30,000. Rajat defaults on $3,600 \times 60 =$ Rs $2,16,000$. His capital already paid is $3,600 \times 40 =$ Rs $1,44,000$.

Step 2: Record application, allotment and Sudha's forfeiture **Journal of Megha Ltd. (first part)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received)		30,00,000	 30,00,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c To Share Allotment A/c (Being application money adjusted)		30,00,000	 18,00,000 9,00,000 3,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being allotment due on 90,000 shares)		63,00,000	 18,00,000 45,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after excess adjustment, excluding Sudha's default)		57,00,000	 57,00,000
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Sudha's 4,500 shares forfeited for unpaid allotment)		1,80,000 2,25,000	 3,00,000 1,05,000

Allotment cash equals Rs 63,00,000 less Rs 3,00,000 excess application money and Rs 3,00,000 unpaid allotment.

Step 3: Record the call, Rajat's forfeiture and reissue **Journal of Megha Ltd. (second part)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being call due on 85,500 shares)		51,30,000	 51,30,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call received except Rajat's Rs 2,16,000)		49,14,000	 49,14,000
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being Rajat's 3,600 shares forfeited)		3,60,000	 2,16,000 1,44,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 8,100 shares reissued at Rs 90 fully paid, at a discount of Rs 10 each)		7,29,000 81,000	 8,10,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on all reissued shares transferred to Capital Reserve)		1,68,000	 1,68,000

The reissue discount is $8,100 \times 10 =$ Rs $81,000$. The forfeiture balance available is Rs $1,05,000 +$

$1,44,000 = 2,49,000$, leaving Rs 1,68,000. Both groups individually have enough forfeiture credit to cover their reissue discount.

Step 4: Prepare the cash book **Cash Book of Megha Ltd. (Bank column)**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Application	30,00,000	By Balance c/d	1,43,43,000	
	To Share Allotment	57,00,000			
	To Share First and Final Call	49,14,000			
	To Share Capital (reissue)	7,29,000			
	Total	1,43,43,000	Total	1,43,43,000	
	To Balance b/d	1,43,43,000			

Application adjustments, forfeitures and the transfer to Capital Reserve are non-cash entries and therefore do not appear in this cash book. The bank receipts agree with closing Share Capital of Rs 90,00,000, Securities Premium Reserve of Rs 51,75,000 and Capital Reserve of Rs 1,68,000.

Step 5: Conclusion The Cash Book closes with a bank balance of $\boxed{\text{Rs } 1,43,43,000}$. All 8,100 forfeited shares are reissued and $\boxed{\text{Rs } 1,68,000}$ is transferred to Capital Reserve.

Quick Tip to Solve: For Sudha, subtract Rs 15,000 excess application money from the allotment default and add it to capital received. Exclude her 4,500 forfeited shares when calculating the later call.

17. Raman and Rohit were partners in a firm sharing profits and losses in the ratio of 2 : 1. On 31st March, 2018, their Balance Sheet was as follows :

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

Liabilities	Amount Rs	Assets	Amount Rs
Capital :		Plant and Machinery	1,75,000
Raman 1,40,000		Furniture and Fixtures	65,000
Rohit 1,00,000	2,40,000	Stock	47,000
Workmen Compensation Fund	40,000	Debtors 1,10,000	
Creditors	1,60,000	Less : Provision for doubtful debts 7,000	1,03,000
		Bank Balance	50,000
	4,40,000		4,40,000

On the above date, Saloni was admitted in the partnership firm. Raman surrendered 2/5th of his share and Rohit surrendered 1/5th of his share in favour of Saloni. It was agreed that :

(i) Plant and machinery will be reduced by Rs 35,000 and furniture and fixtures will be reduced to Rs 58,500.

(ii) Provision for bad and doubtful debts will be increased by Rs 3,000.

(iii) A claim for Rs 16,000 for workmen's compensation was admitted.

(iv) A liability of Rs 2,500 included in creditors is not likely to arise.

(v) Saloni will bring Rs 42,000 as her share of goodwill premium and proportionate capital.

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

Solution:

Concept:

- Goodwill premium compensates old partners in their sacrificing ratio; sacrifice equals the fraction surrendered multiplied by the old share.
- Revaluation and surplus reserves belong to old partners in the old ratio.
- New capital is proportional to the adjusted combined capital of the old partners.

Step 1: Working Notes: determine ratios and goodwill Raman's sacrifice is $\frac{2}{5} \times \frac{2}{3} = \frac{4}{15}$, and Rohit's sacrifice is $\frac{1}{5} \times \frac{1}{3} = \frac{1}{15}$. Thus the sacrificing ratio is $4 : 1$, and Saloni receives $\frac{5}{15} = \frac{1}{3}$.

$$\text{Raman's new share} = \frac{2}{3} - \frac{4}{15} = \frac{6}{15},$$
$$\text{Rohit's new share} = \frac{1}{3} - \frac{1}{15} = \frac{4}{15}.$$

The new profit-sharing ratio is $6 : 4 : 5$. Saloni's goodwill premium of Rs 42,000 is credited to Raman, $42,000 \times 4/5 = \text{Rs } 33,600$, and Rohit, $42,000 \times 1/5 = \text{Rs } 8,400$.

The workmen compensation fund of Rs 40,000 covers the admitted claim of Rs 16,000. Its surplus of Rs 24,000 is credited to Raman and Rohit in their old ratio $2 : 1$: Rs 16,000 and Rs 8,000 respectively. The claim is retained as a liability; it is not an additional revaluation loss.

Step 2: Prepare Revaluation Account Furniture is reduced by $65,000 - 58,500 = \text{Rs } 6,500$; the provision is increased from Rs 7,000 to Rs 10,000. Cancellation of the Rs 2,500 creditor liability is a gain.

Revaluation Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Plant and Machinery	35,000	By Creditors	2,500	
	To Furniture and Fixtures	6,500	By Raman's Capital (loss)	28,000	
	To Provision for Doubtful Debts	3,000	By Rohit's Capital (loss)	14,000	
	Total	44,500	Total	44,500	

The loss is $35,000 + 6,500 + 3,000 - 2,500 = \text{Rs } 42,000$, debited to the old partners in $2 : 1$. Revaluation Account closes through this transfer and has no balance carried forward.

Step 3: Calculate proportionate capital and prepare capital accounts After revaluation, reserve and goodwill adjustments, Raman's capital is $1,40,000 - 28,000 + 16,000 + 33,600 = \text{Rs } 1,61,600$, and Rohit's capital is $1,00,000 - 14,000 + 8,000 + 8,400 = \text{Rs } 1,02,400$. Their combined capital of Rs 2,64,000 represents $10/15$ of the firm's capital. Hence Saloni brings

$$\text{Capital} = 2,64,000 \times \frac{5}{10} = \text{Rs } 1,32,000.$$

She brings a total of $1,32,000 + 42,000 = \text{Rs } 1,74,000$ into the bank.

Partners' Capital Accounts (amounts in Rs)

Dr. Particulars	Raman	Rohit	Saloni	Cr. Particulars	Raman	Rohit	Saloni
To Revaluation	28,000	14,000	–	By Balance b/d	1,40,000	1,00,000	–
To Balance c/d	1,61,600	1,02,400	1,32,000	By Workmen Compensation Fund	16,000	8,000	–
				By Premium for Goodwill	33,600	8,400	–
				By Bank	–	–	1,32,000
Total	1,89,600	1,16,400	1,32,000	Total	1,89,600	1,16,400	1,32,000

Step 4: Prepare the balance sheet of the reconstituted firm Bank becomes $50,000 + 1,74,000 =$ Rs $2,24,000$. Creditors become $1,60,000 - 2,500 =$ Rs $1,57,500$, and net debtors are $1,10,000 - 10,000 =$ Rs $1,00,000$.

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

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Partners' capitals:		Plant and Machinery	1,40,000
Raman	1,61,600	Furniture and Fixtures	58,500
Rohit	1,02,400	Stock	47,000
Saloni	1,32,000	Debtors: Rs 1,10,000	
Total capital	3,96,000	Less: Provision Rs 10,000	1,00,000
Creditors	1,57,500	Bank	2,24,000
Workmen Compensation Claim	16,000		
Total	5,69,500	Total	5,69,500

The capital subtotal is counted only once in total liabilities.

Step 5: Conclusion The new ratio is $\boxed{6:4:5}$, revaluation loss is $\boxed{\text{Rs } 42,000}$, and Saloni brings capital of $\boxed{\text{Rs } 1,32,000}$ plus goodwill premium of Rs 42,000. The reconstituted Balance Sheet totals $\boxed{\text{Rs } 5,69,500}$.

Quick Tip to Solve: Find sacrifices from the old shares first. Distribute only Rs 24,000 of the compensation fund, and include goodwill credits before calculating Saloni's proportionate capital.

OR

17. Sushma, Gautam and Kanika were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2018, their Balance Sheet was as follows :

Balance Sheet of Sushma, Gautam and Kanika as at 31st March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	60,000	Cash at Bank	1,40,000
Employees' Provident Fund	40,000	Sundry Debtors	1,60,000
Profit and Loss Account	1,00,000	Stock	2,40,000
Capital :		Investments	2,00,000
Sushma 3,00,000		Fixed Assets	3,60,000
Gautam 2,50,000			
Kanika 3,50,000	9,00,000		
	11,00,000		11,00,000

On the above date, Sushma retired and it was agreed that :

(i) Fixed Assets will be reduced to Rs 2,90,000.

(ii) A provision of 5% on debtors for bad and doubtful debts will be created.

(iii) Stock was to be valued at Rs 2,18,000. Sushma took over the stock at this value.

(iv) Goodwill of the firm on Sushma's retirement was valued at Rs 8,00,000. Sushma's share of goodwill was treated by debiting Gautam and Kanika's Capital Accounts.

(v) Sushma was paid cash brought by Gautam and Kanika in such a way that their capitals became in profit sharing ratio and a balance of Rs 58,000 was left in the bank.

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

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

Solution:

Concept:

- Revaluation loss and accumulated profits are transferred to all partners in the old profit-sharing ratio, $5:3:2$.
- The retiring partner's goodwill share is borne by the continuing partners in their gaining ratio. No goodwill asset is raised when the adjustment is through capital accounts.
- An asset taken over by a partner is debited to that partner's capital at its agreed value. Remaining capital is settled through bank, and continuing capitals are adjusted to the new ratio.

Step 1: Determine the goodwill adjustment **Working Notes.** Gautam and Kanika's new shares are $2/5$ and $3/5$. Their gains are

$$\text{Gautam's gain} = \frac{2}{5} - \frac{3}{10} = \frac{1}{10},$$
$$\text{Kanika's gain} = \frac{3}{5} - \frac{2}{10} = \frac{4}{10}.$$

Hence the gaining ratio is $1:4$. Sushma's goodwill share is Rs $8,00,000 \times 5/10 =$ Rs $4,00,000$. Credit Sushma's capital with Rs 4,00,000 and debit Gautam's and Kanika's capitals with Rs 80,000 and Rs

3,20,000 respectively. Distribute the existing Profit and Loss balance of Rs 1,00,000 as Rs 50,000, Rs 30,000 and Rs 20,000 respectively. The Employees' Provident Fund remains a liability; it is not a distributable reserve.

Step 2: Prepare the Revaluation Account Fixed assets fall by $3,60,000 - 2,90,000 = \text{Rs } 70,000$; the new provision is $1,60,000 \times 5\% = \text{Rs } 8,000$; and stock falls by $2,40,000 - 2,18,000 = \text{Rs } 22,000$. The total loss of Rs 1,00,000 is allocated in $5 : 3 : 2$.

Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Fixed Assets	70,000	By Sushma's Capital	50,000
To Provision for Doubtful Debts	8,000	By Gautam's Capital	30,000
To Stock	22,000	By Kanika's Capital	20,000
Total	1,00,000	Total	1,00,000

Step 3: Calculate the cash settlement and new capitals The accumulated-profit credit and revaluation-loss debit cancel for each partner. After goodwill, Sushma's capital is Rs 7,00,000. Stock taken over reduces her cash entitlement to

$$7,00,000 - 2,18,000 = \text{Rs } 4,82,000.$$

After settling her claim, the continuing partners must leave Rs 58,000 in bank. Total cash to be introduced is therefore

$$4,82,000 + 58,000 - 1,40,000 = \text{Rs } 4,00,000.$$

Gautam's and Kanika's capitals after goodwill but before fresh cash are Rs 1,70,000 and Rs 30,000. Their combined final capital is $1,70,000 + 30,000 + 4,00,000 = \text{Rs } 6,00,000$. Dividing this in $2 : 3$, the required capitals are Rs 2,40,000 and Rs 3,60,000. Consequently, Gautam brings $2,40,000 - 1,70,000 = \text{Rs } 70,000$ and Kanika brings $3,60,000 - 30,000 = \text{Rs } 3,30,000$.

Step 4: Close Sushma's Capital Account The stock takeover and bank payment discharge Sushma's entire claim. Her capital has no closing balance.

Sushma's Capital Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Revaluation	50,000	By Balance b/d	3,00,000
To Stock	2,18,000	By Profit and Loss	50,000
To Bank	4,82,000	By Gautam's Capital	80,000
		By Kanika's Capital	3,20,000
Total	7,50,000	Total	7,50,000

Step 5: Prepare Gautam's Capital Account Credit the fresh bank contribution and carry forward the required new capital of Rs 2,40,000.

Gautam's Capital Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Revaluation	30,000	By Balance b/d	2,50,000
To Sushma's Capital	80,000	By Profit and Loss	30,000
To Balance c/d	2,40,000	By Bank	70,000
Total	3,50,000	Total	3,50,000

Step 6: Prepare Kanika's Capital Account Kanika contributes Rs 3,30,000 and retains capital of Rs 3,60,000, giving the required $2:3$ ratio with Gautam's capital.

Kanika's Capital Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Revaluation	20,000	By Balance b/d	3,50,000
To Sushma's Capital	3,20,000	By Profit and Loss	20,000
To Balance c/d	3,60,000	By Bank	3,30,000
Total	7,00,000	Total	7,00,000

Step 7: Prepare the reconstituted firm's Balance Sheet Stock is absent because Sushma has taken it over. Debtors are shown net of the provision, and no goodwill asset is created. Bank is $1,40,000 + 70,000 + 3,30,000 - 4,82,000 =$ Rs $58,000$.

Balance Sheet of Gautam and Kanika as at 31st March, 2018 (after retirement)

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	60,000	Cash at Bank	58,000
Employees' Provident Fund	40,000	Sundry Debtors	1,60,000
Partners' Capitals:		Less: Provision	(8,000)
Gautam	2,40,000	Net Sundry Debtors	1,52,000
Kanika	3,60,000	Investments	2,00,000
		Fixed Assets	2,90,000
Total	7,00,000	Total	7,00,000

Step 8: Conclusion Revaluation loss is **Rs 1,00,000**. Sushma receives stock of **Rs 2,18,000** and cash of **Rs 4,82,000**. Gautam brings **Rs 70,000** and Kanika **Rs 3,30,000**; their final capitals are **Rs 2,40,000** and **Rs 3,60,000**. The reconstituted Balance Sheet totals **Rs 7,00,000** on each side.

Quick Tip to Solve: Use the gaining ratio 1:4 for goodwill, then use the new ratio 2:3 for final capitals; deduct Sushma's stock takeover before computing her cash payment.

Part B (20 marks)

Option 1 (Analysis of Financial Statements)

18. State with reason whether 'cash deposited in bank' will result in inflow, outflow or no flow of cash while preparing Cash Flow Statement. [1 mark]

Solution:

Concept:

- A cash flow changes the total of cash and cash equivalents of the enterprise.
- Cash includes cash in hand and demand deposits with banks; transfers between these components do not change their combined balance.

Step 1: Identify the two balances affected When cash is deposited in the bank, cash in hand decreases and the bank demand-deposit balance increases by exactly the same amount.

Step 2: Check the combined cash balance The decrease in one cash component is offset by the increase in the other. Therefore, total cash and cash equivalents remain unchanged. This internal

transfer is excluded from operating, investing and financing cash flows.

Step 3: Conclusion Cash deposited in bank results in **no flow of cash**, because it is only a transfer from cash in hand to cash at bank.

Quick Tip to Solve: Add cash in hand and the bank balance before and after a deposit: an unchanged total means no cash flow.

19. What is meant by 'cash flows from investing activities'? [1 mark]

Solution:

Concept:

- Investing activities concern the acquisition and disposal of long-term assets and other investments that are not included in cash equivalents.
- Cash flows are actual receipts and payments of cash and cash equivalents arising from these activities.

Step 1: Identify investing payments Cash paid to acquire a long-term asset, such as machinery or land, or to purchase an investment not qualifying as a cash equivalent, is an investing cash outflow.

Step 2: Identify investing receipts Cash received from selling such assets or investments is an investing cash inflow. A purchase or disposal without any cash movement is not itself a cash flow and is excluded from the cash flow statement.

Step 3: Conclusion **Cash flows from investing activities** are cash receipts and cash payments arising from acquiring and disposing of long-term assets and other investments not included in cash equivalents.

Quick Tip to Solve: For an asset transaction, first check that cash actually moves, then distinguish long-term assets from ordinary inventory.

20. Explain briefly any four objectives of 'Financial Statement Analysis'. [4 marks]

Solution:

Concept:

- Financial statement analysis examines relationships between accounting figures to interpret the financial performance and financial position of a business.
- Ratios, comparisons and trends convert the figures in the Balance Sheet and Statement of Profit and Loss into information useful to owners, management, lenders and other users.

Step 1: Assess profitability and earning capacity One objective is to determine whether the business earns adequate profits in relation to its sales and the funds invested in it. Analysis of gross profit, net profit and returns helps users judge the firm's earning capacity. Comparing these measures over time also reveals whether profitability is improving or deteriorating, which is useful to owners and prospective investors.

Step 2: Assess short-term liquidity A second objective is to examine the firm's ability to meet its short-term obligations when they fall due. The relationship between current assets and current liabilities, and the availability of liquid assets, help assess this ability. Trade creditors and other short-term lenders use this information to judge the likelihood of timely payment.

Step 3: Assess long-term solvency A third objective is to evaluate whether the business can repay its long-term borrowings and regularly meet the associated interest obligations. Analysis of debt in relation to shareholders' funds and of the earnings available to cover interest indicates financial stability and the risk borne by long-term lenders.

Step 4: Evaluate operating efficiency A fourth objective is to judge how efficiently management uses the resources of the business. For example, inventory turnover and trade receivables turnover indicate how effectively stock and credit sales are managed. Comparisons with previous periods or suitable standards help identify inefficient use of assets and areas requiring corrective action.

Step 5: Conclusion Four objectives are to assess profitability, short-term liquidity, long-term solvency and operating efficiency. Together they help users judge both the results of operations and the financial strength of the business.

Quick Tip to Solve: Organise the four objectives around profit, short-term payment, long-term repayment and efficient use of assets; explain the decision each one supports.

OR

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) Balance of the Statement of Profit and Loss

(ii) Interest accrued on investments

(iii) Livestock

(iv) Licenses and Franchise

(v) Securities Premium Reserve

(vi) Trade Marks

(vii) Work in Progress

(viii) 9% Debentures repayable during the current year [4 marks]

Solution:

Concept:

- Schedule III groups Balance Sheet items according to their nature and whether they are current or non-current. Owners' accumulated balances are shown within shareholders' funds.
- Tangible fixed assets have physical substance; intangible fixed assets represent identifiable rights without physical substance. Inventories and accrued income are classified separately from fixed assets.

Step 1: Classify the equity and liability items The balance of the Statement of Profit and Loss and

Securities Premium Reserve belong to reserves and surplus. Debentures repayable during the current year are current maturities of long-term debt and are therefore disclosed within other current liabilities in the prescribed classification.

Schedule III classification: Equity and Liabilities

Item	Major heading	Subheading / detail
(i) Balance of the Statement of Profit and Loss	Shareholders' funds	Reserves and surplus: surplus, i.e. balance in the Statement of Profit and Loss
(v) Securities Premium Reserve	Shareholders' funds	Reserves and surplus: Securities Premium Reserve
(viii) 9% Debentures repayable during the current year	Current liabilities	Other current liabilities: current maturities of long-term debt

Step 2: Classify the asset items Interest accrued on investments is income earned but still receivable; it is shown separately from the principal investment. Livestock is a tangible fixed asset, while licences, franchise rights and trade marks are intangible fixed assets. Work in progress represents partly completed goods held in the production process and is an inventory.

Schedule III classification: Assets

Item	Major heading	Subheading / detail
(ii) Interest accrued on investments	Current assets	Other current assets
(iii) Livestock	Non-current assets	Fixed assets: Tangible assets
(iv) Licenses and Franchise	Non-current assets	Fixed assets: Intangible assets
(vi) Trade Marks	Non-current assets	Fixed assets: Intangible assets
(vii) Work in Progress	Current assets	Inventories

Step 3: Conclusion The eight items are presented under the major headings and subheadings shown above. In particular, the debentures due during the current year fall under other current liabilities, while accrued investment interest falls under other current assets.

Quick Tip to Solve: Separate accrued interest from the investment itself, and check the repayment date of debentures before deciding whether the liability remains non-current.

21. Calculate opening and closing trade receivables from the following information :

Trade Receivable turnover ratio 4 times; Cost of Revenue from Operations Rs 3,20,000; Gross profit ratio 20%; Closing trade receivables were Rs 15,000 more than opening trade receivables; cash revenue from operations being 33 1/3% of credit revenue from operations. [4 marks]

Solution:

Concept:

- Gross profit ratio is gross profit divided by revenue from operations, multiplied by 100. Thus, when gross profit is 20% of revenue, cost of revenue is 80% of revenue.
- Trade receivables turnover ratio equals net credit revenue from operations divided by average trade receivables. Average trade receivables are the arithmetic mean of their opening and closing balances.

Step 1: Calculate total revenue from operations Let total revenue from operations be R. The gross

profit ratio is based on revenue, so the given cost of Rs 3,20,000 represents $100\% - 20\% = 80\%$ of R.

$$R = \frac{3,20,000 \times 100}{80} = \text{Rs } 4,00,000.$$

Step 2: Separate credit revenue from cash revenue Let credit revenue be C. Cash revenue is $33\frac{1}{3}\%$ of credit revenue, so it equals $C/3$. The percentage is applied to credit revenue, not to total revenue.

$$C + \frac{C}{3} = 4,00,000,$$
$$C = 4,00,000 \times \frac{3}{4} = \text{Rs } 3,00,000.$$

Only credit revenue enters the turnover calculation.

Step 3: Determine average trade receivables Using the turnover ratio of 4 times gives:

$$\text{Average trade receivables} = \frac{3,00,000}{4} = \text{Rs } 75,000.$$

Opening and closing balances therefore total Rs 1,50,000.

Step 4: Use the difference between closing and opening balances Let opening trade receivables be O. Closing trade receivables are $O + 15,000$, because the closing balance is greater by Rs 15,000.

$$O + (O + 15,000) = 1,50,000,$$
$$2O = 1,35,000,$$
$$O = \text{Rs } 67,500,$$
$$O + 15,000 = \text{Rs } 82,500.$$

The average of these balances is Rs 75,000, as required.

Step 5: Conclusion Opening trade receivables are $\boxed{\text{Rs } 67,500}$, and closing trade receivables are $\boxed{\text{Rs } 82,500}$.

Quick Tip to Solve: Credit revenue is three-fourths of total revenue. From the average receivables, subtract or add half the Rs 15,000 difference to obtain the two balances.

OR

21. The Quick Ratio of a company is 1.5 : 1. State, giving reasons, which of the following transactions will improve, reduce or not change the quick ratio :

(i) Purchase of goods for cash

(ii) Bills payable paid at maturity

(iii) Sale of goods costing Rs 18,000 for Rs 16,000

(iv) Cash collected from debtors [4 marks]

Solution:

Concept:

- Quick ratio equals quick assets divided by current liabilities. Quick assets comprise readily liquid current assets such as cash, bank balances and trade receivables; inventory and prepaid expenses are excluded.
- Consider each transaction independently from the initial ratio $1.5 : 1$. If current liabilities are L, quick assets are $1.5L$.

Step 1: (i) Examine purchase of goods for cash Cash is a quick asset, but the goods purchased become inventory, which is excluded from quick assets. Therefore quick assets fall by the purchase amount, while current liabilities remain unchanged. Hence the quick ratio reduces.

Step 2: (ii) Examine payment of bills payable at maturity Payment reduces cash or bank, a quick asset, and also reduces bills payable, a current liability, by the same amount. Since the original quick ratio exceeds $1 : 1$, this equal reduction increases the ratio. For a payment of x, with current liabilities remaining positive,

$$\frac{1.5L - x}{L - x} = 1.5 + \frac{0.5x}{L - x} > 1.5.$$

Thus the quick ratio improves: the same payment is a greater proportion of the smaller denominator.

Step 3: (iii) Examine sale of goods costing Rs 18,000 for Rs 16,000 Inventory falls by Rs 18,000, but inventory was already excluded from quick assets. The sale creates cash or a trade receivable of Rs 16,000; either is a quick asset. Current liabilities are unchanged. Thus the quick ratio improves despite the Rs 2,000 loss, because excluded inventory is converted into a quick asset.

Step 4: (iv) Examine cash collected from debtors Cash increases by the amount collected and debtors decrease by the same amount. Both are quick assets, so total quick assets do not change. Current liabilities also remain unchanged. Consequently the quick ratio does not change and remains $1.5 : 1$.

Step 5: Conclusion The effects on the quick ratio are: **(i) reduces; (ii) improves; (iii) improves; (iv) no change.**

Quick Tip to Solve: Exclude inventory before judging quick assets. A sale at a loss can still improve the ratio: the sale proceeds become cash or debtors.

22. From the information extracted from the Statement of Profit and Loss of K Ltd. for the years ended 31st March, 2017 and 31st March, 2018, prepare a Common Size Statement of Profit and Loss.

Particulars	Note No.	2017 – 18	2016 – 17
Revenue from operations		Rs 4,00,000	Rs 5,00,000
Cost of materials consumed		Rs 2,40,000	Rs 3,50,000
Other expenses		Rs 1,10,000	Rs 1,30,000
Tax rate		50%	50%

[4 marks]

Solution:

Concept:

- A common size statement expresses each item as a percentage of revenue from operations for the same year. Revenue is taken as 100% in each column.
- Common size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Profit before tax equals revenue less total expenses; profit after tax equals profit before tax less tax.

Step 1: Calculate expenses, profit and tax for each year **Working Notes**

For 2017–18, total expenses are Rs $2,40,000 + 1,10,000 = 3,50,000$. Thus profit before tax is Rs $4,00,000 - 3,50,000 = 50,000$. Tax at 50% is Rs 25,000, leaving profit after tax of Rs 25,000. For 2016–17, total expenses are Rs $3,50,000 + 1,30,000 = 4,80,000$. Profit before tax is Rs $5,00,000 - 4,80,000 = 20,000$. Tax at 50% is Rs 10,000, leaving profit after tax of Rs 10,000.

Step 2: Convert each amount to a percentage of its year's revenue For 2017–18, cost of materials is $2,40,000/4,00,000 \times 100 = 60\%$, while other expenses are 27.5%. For 2016–17, the corresponding percentages are 70% and 26%. Tax is calculated at half the profit before tax; its common size percentage is then found against revenue, so the tax-rate figure itself is not entered as a revenue percentage.

Step 3: Prepare the common size statement **K Ltd.**

Common Size Statement of Profit and Loss

For the years ended 31st March, 2018 and 2017

Particulars	2017–18 Rs	2016–17 Rs	2017–18 %	2016–17 %
Revenue from operations	4,00,000	5,00,000	100	100
Expenses:				
Cost of materials consumed	2,40,000	3,50,000	60	70
Other expenses	1,10,000	1,30,000	27.5	26
Total expenses	3,50,000	4,80,000	87.5	96
Profit before tax	50,000	20,000	12.5	4
Less: Tax expense	25,000	10,000	6.25	2
Profit after tax	25,000	10,000	6.25	2

Step 4: Conclusion Profit after tax is Rs 25,000, or 6.25% of revenue, in 2017–18, compared with Rs 10,000, or 2%, in 2016–17. The profit margin improves by 4.25 percentage points.

Quick Tip to Solve: Divide every amount by that year's revenue; apply the 50% tax rate to profit before tax first, then convert the tax amount to a revenue percentage.

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

Mayur 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	20,00,000
(b) Reserves and Surplus	1	3,00,000	4,00,000
2. Non-Current Liabilities :			
Long-term Borrowings	2	4,00,000	3,00,000
3. Current Liabilities :			
(a) Trade Payables		1,70,000	2,50,000
(b) Short-term Provisions	3	76,000	64,000
Total		39,46,000	30,14,000
II – Assets :			
1. Non-Current Assets :			
Fixed Assets :			
(i) Tangible	4	29,00,000	23,00,000
(ii) Intangible	5	2,70,000	1,60,000
2. Current Assets :			
(a) Inventories		2,20,000	2,30,000
(b) Trade Receivables		1,10,000	1,30,000
(c) Cash and Cash Equivalents		4,46,000	1,94,000
Total		39,46,000	30,14,000

Notes to Accounts :

Note No.	Particulars	31.3.2018 Rs	31.3.2017 Rs
1.	Reserves and Surplus :		
	Surplus (Balance in Statement of Profit and Loss)	3,00,000	4,00,000
		3,00,000	4,00,000
2.	Long-term Borrowings :		
	9% Debentures	4,00,000	3,00,000
		4,00,000	3,00,000
3.	Short-term Provisions :		
	Provision for Tax	76,000	64,000
		76,000	64,000
4.	Tangible Assets :		
	Machinery	36,00,000	28,00,000
	Accumulated Depreciation	(7,00,000)	(5,00,000)
		29,00,000	23,00,000
5.	Intangible Assets :		
	Goodwill	2,70,000	1,60,000
		2,70,000	1,60,000

Additional Information :

(i) During the year, a piece of machinery costing Rs 4,00,000 on which accumulated depreciation was Rs 73,000 was sold for Rs 3,10,000.

(ii) 9% Debentures of Rs 1,00,000 were issued on 31st March, 2018. [6 marks]

Solution:

Concept:

- Under the indirect method, operating cash flow starts with profit before tax, adjusts non-cash and non-operating items, then adjusts operating working capital and deducts tax paid.
- Purchases and sales of fixed assets are investing activities. Share and debenture issues are financing activities; for a non-financial enterprise, interest paid is a financing outflow.
- The change in cash and cash equivalents must equal the sum of operating, investing and financing cash flows. Asset purchases and depreciation are reconstructed using opening and closing balances and the disposal details.

Step 1: Reconstruct machinery purchases and depreciation **Working Notes**

Machinery sold has book value Rs $4,00,000 - 73,000 = 3,27,000$. Sale proceeds are Rs 3,10,000, so the loss on sale is Rs $3,27,000 - 3,10,000 = 17,000$. This loss is added back when calculating operating cash flow, and the actual proceeds are shown under investing activities.

$$\begin{aligned}\text{Machinery purchases} &= 36,00,000 - 28,00,000 + 4,00,000\\ &= \text{Rs } 12,00,000,\\ \text{Depreciation for the year} &= 7,00,000 - 5,00,000 + 73,000\\ &= \text{Rs } 2,73,000.\end{aligned}$$

The Rs 73,000 accumulated depreciation on the machinery sold is removed from the depreciation balance; it must therefore be added when reconstructing the year's depreciation expense. Goodwill purchased is Rs $2,70,000 - 1,60,000 = 1,10,000$.

Step 2: Determine profit before tax, interest and tax paid The surplus falls from Rs 4,00,000 to Rs 3,00,000. With no dividend or other appropriation specified, this gives a loss after tax of Rs 1,00,000. Using the opening provision as tax paid and the closing provision as the current year's tax provision:

$$\text{Loss before tax} = -1,00,000 + 76,000 = -\text{Rs } 24,000.$$

Tax paid is Rs 64,000. The additional debentures were issued on the last day of the year, so the year's interest is calculated on the opening debentures only:

$$\text{Interest paid} = 3,00,000 \times 9\% = \text{Rs } 27,000.$$

There is no interest outstanding specified. Cash received from share capital is Rs 10,00,000 and from debentures is Rs 1,00,000. No non-cash issue or acquisition is stated.

Step 3: Prepare cash flow from operating activities **Mayur Ltd. – Cash Flow Statement**

For the year ended 31st March, 2018

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net loss before tax	(24,000)
Add: Depreciation	2,73,000
Add: Loss on sale of machinery	17,000
Add: Debenture interest	27,000
Operating profit before working capital changes	2,93,000
Add: Decrease in inventories	10,000
Add: Decrease in trade receivables	20,000
Less: Decrease in trade payables	(80,000)
Cash generated from operations	2,43,000
Less: Income tax paid	(64,000)
Net cash from operating activities (A)	**1,79,000**

A decrease in inventories and receivables releases operating funds, whereas the reduction in trade payables uses funds. Provision for tax is handled separately through tax expense and tax paid, so it is not also included as a working capital adjustment.

Step 4: Complete investing, financing and cash reconciliation **Mayur Ltd. – Cash Flow Statement (continued)**

For the year ended 31st March, 2018

Particulars	Amount (Rs)
B. Cash flow from investing activities	
Proceeds from sale of machinery	3,10,000
Purchase of machinery	(12,00,000)
Purchase of goodwill	(1,10,000)
Net cash used in investing activities (B)	**(10,00,000)**
C. Cash flow from financing activities	
Proceeds from issue of share capital	10,00,000
Proceeds from issue of debentures	1,00,000
Interest paid on debentures	(27,000)
Net cash from financing activities (C)	**10,73,000**
Net increase in cash and cash equivalents (A+B+C)	2,52,000
Add: Opening cash and cash equivalents	1,94,000
Closing cash and cash equivalents	**4,46,000**

Step 5: Conclusion Net operating cash inflow is Rs 1,79,000, net investing cash outflow is Rs 10,00,000 and net financing cash inflow is Rs 10,73,000. The resulting increase of Rs 2,52,000 reconciles opening cash of Rs 1,94,000 with closing cash of Rs 4,46,000.

Quick Tip to Solve: Restore both the original cost and accumulated depreciation of the machinery sold when finding purchases and depreciation; charge interest only on the opening debentures here.

Option 2 (Computerised Accounting)

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

Solution:

Concept:

- A data element is an individual item of information stored in a field of a transaction record.
- An accounting transaction is recorded through its date, account code, amount and description; together these identify and explain the transaction.

Step 1: Identify the individual fields The date records when the transaction occurred, the account code identifies the account involved, the amount records its monetary value, and the description explains its nature.

Step 2: Distinguish an element from the complete transaction Each separate field is a data element. For example, the amount is one element; the complete transaction record combines this amount with its date, account code and description.

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

Quick Tip to Solve: Recall the transaction fields by asking: when, which account, how much, and what happened?

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

Solution:

Concept:

- A database table stores records in rows and their attributes in fields or columns.
- A primary key identifies each record uniquely; its value must be unique and cannot be null.

Step 1: Define the primary key A primary key is a field, or a combination of fields, selected to uniquely identify every record in a database table. No two records may have the same primary-key value, and every record must have a value for it.

Step 2: Illustrate unique identification In an Employees table, Employee ID may be the primary key because each employee has a different ID. Employee Name is unsuitable if two employees have the same name. A unique ID lets the system retrieve the intended employee's record without confusion.

Step 3: Conclusion A primary key is the field or combination of fields that uniquely identifies each record in a table and does not accept duplicate or null values.

Quick Tip to Solve: Test a proposed primary key by asking whether two records could share its value or whether it could be left blank; neither is allowed.

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

Solution:

Concept:

- A desktop database is generally intended for an individual or a small workgroup, while a server database supports centrally managed access for larger multi-user applications.
- The choice must be based on the organisation's present and expected database requirements and the investment needed to meet them.

Step 1: Assess the number of users Determine how many people will use the database, especially how many will access and update it simultaneously. A single user or a small workgroup may be served by a desktop database. Many concurrent users generally require a server database with stronger control over simultaneous transactions.

Step 2: Estimate the volume and growth of data Estimate the records to be stored now, the transactions to be processed and the likely growth in these volumes. Limited data and a light workload may suit a desktop database. A large, rapidly growing database with frequent updates needs greater storage, processing capacity and scalability.

Step 3: Identify application and security requirements Consider the complexity of the application and the need for shared or remote access, access permissions, dependable operation and backup and recovery. A simple local application may need only desktop facilities. An organisation-wide accounting application with sensitive records and demanding availability requirements generally needs stronger central administration and server facilities.

Step 4: Evaluate investment and running costs Compare the available budget with the total cost of software licences, suitable hardware, network facilities, installation, staff training and continuing maintenance. Include the cost of skilled database administration where necessary. The system should meet the required capacity and reliability at a cost the organisation can sustain.

Step 5: Conclusion Four requirements to consider are the number of simultaneous users, the volume and growth of data, application and security needs, and the budget for acquisition and continuing operation.

Quick Tip to Solve: Organise the four requirements as users, data, application needs and cost; relate each to the organisation's expected use before choosing a database.

21. What is meant by a 'Form'? How is 'Split Form' different from 'Simple Form'? [4 marks]

Solution:

Concept:

- A form is a database object that provides a convenient interface for entering, displaying and editing data stored in an underlying table or query.
- A simple form presents data through a form view; a split form combines a form view with a synchronised datasheet view of the same source.

Step 1: Explain the meaning of a form A form arranges fields and controls, such as text boxes and labels, in a convenient screen layout so that a user can view, enter or modify records. For example, an employee form can show Employee ID, Name and Department in labelled boxes. The form is the interface to the data; the records themselves are stored in the underlying table.

Step 2: Describe a simple form A simple form normally displays the fields of one record at a time in a single form view. The user enters or edits the displayed record and uses record-navigation controls to move to another record. It is useful when attention is required on the details of an individual record, without showing a simultaneous datasheet of several records.

Step 3: Describe a split form A split form displays two views of the same data at the same time: a form view in one portion and a datasheet view in the other. The datasheet shows records in rows and fields in columns, making it convenient to locate a record, while the form portion displays that record's details clearly.

Step 4: Explain the synchronised views The two portions of a split form are connected to the same data source and remain synchronised. Selecting a record in the datasheet selects the same record in the form view. An allowed change made through either portion is reflected in the other. Thus, a split form combines the convenience of browsing several records with the clarity of displaying one record's fields in a form.

Step 5: Conclusion A form is a user-friendly database interface for viewing, entering and editing records. A simple form gives a single form view, whereas a split form simultaneously provides synchronised form and datasheet views of the same data.

Quick Tip to Solve: Remember that a split form has two linked views of one data source; it does not store two separate copies of the records.

OR

21. Why is it necessary to have safety features in accounting software? Explain any two tools which provide data security. [4 marks]

Solution:

Concept:

- Accounting data contains confidential financial information. Security safeguards its confidentiality, accuracy and availability to authorised users.
- Access controls prevent unauthorised use of data, while encryption protects the contents of data from being understood without the appropriate key.

Step 1: Need for safety features Accounting software stores transactions, balances, customer and supplier details, and other sensitive records. Safety features are necessary to prevent unauthorised access, disclosure, alteration or deletion of these records. Without protection, a person could change an amount, remove a transaction or obtain confidential information, making the accounts unreliable and exposing the business to loss or fraud. Security therefore helps preserve the integrity and confidentiality of accounting data. Backup and recovery arrangements also help make records

available after accidental loss or a system failure.

Step 2: Tool 1: Password security A password authenticates a user before access to the accounting software or its data is permitted. Each authorised user can be given a separate user identity and password. Access rights can then restrict that user to the functions required for the job; for example, a data-entry operator may enter vouchers but may not alter the security settings. A confidential password, changed periodically and not shared with others, helps prevent outsiders and unauthorised employees from using the system. Password protection is effective only when users keep their credentials secure.

Step 3: Tool 2: Data encryption Encryption converts readable accounting data into a coded, unreadable form using an encryption process and key. An authorised person with the appropriate decryption key can convert it back into its original form. Thus, even if someone obtains a copy of an encrypted file or intercepts it during transfer, the contents cannot ordinarily be understood without the key. Encryption protects confidential financial information both when stored and when transmitted; the keys must themselves be kept secure.

Step 4: Conclusion Safety features protect accounting records against unauthorised use, disclosure and changes, helping keep financial information reliable. Two tools providing data security are password security and data encryption.

Quick Tip to Solve: Distinguish the tools clearly: a password controls access; encryption makes the stored or transmitted contents unreadable without a key.

22. Explain different types of vouchers. [4 marks]

Solution:

Concept:

- A voucher records the particulars of a business transaction and provides the basis for recording it in the books. In accounting software, the voucher type determines the transaction-entry format.
- The appropriate voucher is selected according to the nature of the transaction, such as a receipt, payment, transfer, purchase, sale or adjustment.

Step 1: Vouchers for cash and bank transactions **Receipt voucher:** Records money received in cash or through a bank, such as a receipt from a debtor or receipt of commission. The cash or bank account is debited and the relevant account is credited.

Payment voucher: Records money paid in cash or through a bank, such as payment of rent or payment to a creditor. The relevant account is debited and cash or bank is credited.

Contra voucher: Records transfers involving the business's own cash and bank accounts, such as depositing cash into the bank, withdrawing cash from the bank for office use, or transferring money between bank accounts. Both aspects affect cash or bank balances; the transfer is not an income or expense.

Step 2: Vouchers for purchases and sales **Purchase voucher:** Records purchases, particularly credit purchases of goods. For example, goods purchased on credit are entered by debiting Purchases and crediting the supplier's account.

Sales voucher: Records sales, particularly credit sales of goods. For example, a credit sale is entered by debiting the customer's account and crediting Sales.

These vouchers permit the relevant supplier or customer, invoice and amount to be entered together. Where inventory is integrated with accounting, item details can also be recorded.

Step 3: Vouchers for returns and adjustments **Debit note voucher:** Records a debit to another party's account, commonly for purchase returns. When goods are returned to a supplier, the supplier's account is debited and Purchase Returns is credited, reducing the amount payable.

Credit note voucher: Records a credit to another party's account, commonly for sales returns. When a customer returns goods, Sales Returns is debited and the customer's account is credited, reducing the amount receivable.

Journal voucher: Records non-cash adjustments and entries not covered by the other specialised vouchers, such as depreciation, outstanding expenses and transfers between ledger accounts. For example, depreciation is recorded by debiting Depreciation and crediting the asset or accumulated depreciation account, as applicable.

Step 4: Conclusion The main accounting vouchers are receipt, payment, contra, purchase, sales, debit note, credit note and journal vouchers. Each records a particular class of transaction and directs it to the appropriate accounts.

Quick Tip to Solve: For returns, remember whose account changes: purchase returns debit the supplier; sales returns credit the customer. Use contra for transfers within the business's cash and bank accounts.

OR

22. What is meant by a Graph? Explain its any three advantages. [4 marks]

Solution:

Concept:

- A graph is a visual or pictorial representation of numerical data. It presents values through bars, lines, points or other suitable shapes so that the information can be understood readily.
- Graphs convert the data in a worksheet or table into a visual display. The title, labels and scale identify what the graph represents and enable meaningful interpretation.

Step 1: Define a graph A graph presents numerical information visually instead of leaving it only as rows and columns of figures. For example, monthly sales may be represented by a line graph in which the months are shown along the horizontal axis and sales along the vertical axis. The graph makes the relationship between the period and the sales figures visible.

Step 2: Explain easy understanding A graph condenses a large quantity of numerical data into an easily understood picture. A reader can grasp the main features at a glance without examining every figure separately. This is useful when accounting information has to be communicated to people who find lengthy numerical tables difficult to interpret.

Step 3: Explain convenient comparison Graphs make comparisons between different groups, products or periods easier. For example, adjacent bars representing sales of different products show which

product has higher or lower sales. Differences in the heights of the bars help the reader compare relative performance quickly.

Step 4: Explain identification of trends A graph helps reveal the direction and pattern of change over time, such as rising sales, falling expenses or seasonal fluctuations. A line graph of monthly sales makes such movements clear. Recognising these trends helps management review performance and prepare plans for subsequent periods.

Step 5: Conclusion A graph is a visual representation of numerical data. Its three advantages are easy understanding of information, convenient comparison and clear identification of trends for planning and decision-making.

Quick Tip to Solve: Link each advantage to a purpose: understand a large table, compare products, and track changes over time. Give a short accounting example for each.

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23. List the functionality and availability of the following key combinations in Tally software :

(i) F6

(ii) F7

(iii) F8

(iv) CTRL + F8

(v) F9

(vi) CTRL + F9 [6 marks]

Solution:

Concept:

- Tally uses function keys to select the voucher appropriate to a transaction. Functionality means the action performed by a key, while availability means the screen on which that key can be used.
- A receipt, journal, sale, credit note, purchase and debit note are distinct voucher types. Adding Ctrl to a function key selects a different voucher; it does not merely repeat the action of the unmodified key.

Step 1: List the functionality and availability The required key combinations have the following functions in Tally:

Key	Functionality	Availability
(i) F6	Opens the Receipt voucher.	Accounting / Inventory Voucher creation and alteration screen.
(ii) F7	Opens the Journal voucher.	Accounting / Inventory Voucher creation and alteration screen.
(iii) F8	Opens the Sales voucher.	Accounting / Inventory Voucher creation and alteration screen.
(iv) Ctrl + F8	Opens the Credit Note voucher.	Accounting / Inventory Voucher creation and alteration screen.
(v) F9	Opens the Purchase voucher.	Accounting / Inventory Voucher creation and alteration screen.
(vi) Ctrl + F9	Opens the Debit Note voucher.	Accounting / Inventory Voucher creation and alteration screen.

Step 2: Distinguish the transaction types F6 selects a Receipt voucher for money received, such as a receipt from a customer. F7 selects a Journal voucher for adjustments such as depreciation. F8 selects a Sales voucher for recording a sale, whereas Ctrl + F8 selects a Credit Note voucher, commonly used for sales returns. F9 selects a Purchase voucher for recording a purchase, whereas Ctrl + F9 selects a Debit Note voucher, commonly used for purchase returns. Thus, the Ctrl combinations must not be confused with the ordinary sales and purchase keys.

Step 3: Conclusion F6, F7, F8, Ctrl + F8, F9 and Ctrl + F9 select Receipt, Journal, Sales, Credit Note, Purchase and Debit Note vouchers respectively. Their common availability is the Accounting / Inventory Voucher creation and alteration screen.

Quick Tip to Solve: Remember F6–F9 as Receipt, Journal, Sales and Purchase. Pair Ctrl + F8 with sales returns (Credit Note) and Ctrl + F9 with purchase returns (Debit Note).