CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-3-2

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. S, T and U were partners in a firm. They admitted V as a new partner. S and T sacrificed 1/3rd and 1/4th of their share respectively in favour of V. Calculate the new profit sharing ratio of S, T, U and V. [1 mark]

Solution:

Concept:

- When the old profit-sharing ratio is not stated, the existing partners share profits equally.
- New share equals old share less the share sacrificed; the incoming partner receives the total sacrifice.

Step 1: Determine old shares and sacrifices The old shares of S, T and U are each $1/3$. S sacrifices $(1/3)(1/3) = 1/9$, while T sacrifices $(1/3)(1/4) = 1/12$. U makes no sacrifice.

Step 2: Calculate the new shares S retains $1/3 - 1/9 = 2/9 = 8/36$; T retains $1/3 - 1/12 = 1/4 = 9/36$; U retains $1/3 = 12/36$. V receives $1/9 + 1/12 = 7/36$. These shares add to $36/36 = 1$.

Step 3: Conclusion The new profit-sharing ratio of S, T, U and V is $\boxed{8 : 9 : 12 : 7}$.

Quick Tip to Solve: Multiply each stated fraction by that partner's old share before subtracting it.

2. 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:

- At dissolution, debts due to outsiders are settled before loans or advances due to partners.
- A loan from a partner's wife is an external liability, since she is not herself a partner.

Step 1: Classify the two lenders Varun's wife is an outside creditor of the firm for Rs 45,000. Her relationship with Varun does not turn her loan into a partner's loan. Arun, on the other hand, is a partner, so his Rs 65,000 loan is an advance from a partner.

Step 2: Apply the settlement order The firm must first discharge liabilities to third parties. Only after those claims are met are partners' loans settled, before the return of partners' capital. The larger amount of Arun's loan does not give it priority.

Step 3: Conclusion Varun's wife's loan of Rs 45,000 will be paid first because outside creditors have priority over partners' loans.

Quick Tip to Solve: Classify the lender as an outsider or partner before comparing the loan amounts.

3. 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 guaranteed partner must receive the minimum profit promised under the guarantee.
- In the absence of a separate agreed deficiency-sharing ratio, the other partners bear the deficiency in their profit-sharing ratio.

Step 1: Identify the deficiency If the guaranteed partner's ordinary share of profit is below the guaranteed minimum, the difference is the deficiency. This difference must be made good by the other partners under the guarantee.

Step 2: Determine the ratio When the deed gives no special ratio for bearing this deficiency, use the existing profit-sharing ratio of the other partners among themselves. Do not include the guaranteed partner when allocating the amount that the others must provide.

Step 3: Conclusion The other partners bear the deficiency in their profit-sharing ratio, in the absence of a specific provision.

Quick Tip to Solve: Exclude the guaranteed partner and apply the remaining partners' mutual profit-sharing ratio.

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

Solution:

Concept:

- Capital reserve is a reserve created out of capital profits, such as profit on reissue of forfeited shares.
- Reserve capital is the portion of uncalled subscribed share capital reserved for calling up only on winding up.

Step 1: Explain capital reserve Capital reserve arises from capital profits that have already been earned and transferred to a reserve. It is generally unavailable for distribution as dividend and appears under reserves and surplus in the balance sheet.

Step 2: Explain reserve capital Reserve capital is not an accumulated profit or a reserve fund. It is uncalled share capital which the company resolves to call only in the event of winding up. Thus it concerns a possible future call from shareholders, rather than profits already earned.

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

Quick Tip to Solve: Associate capital reserve with capital profits, and reserve capital with an unpaid future call.

OR

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

Solution:

Concept:

- Preference shares carry preferential rights over equity shares in payment of dividend.
- They also carry priority in repayment of share capital when the company is wound up.

Step 1: State the dividend preference Preference shareholders are entitled to dividend at a fixed amount or fixed rate before any dividend is paid to equity shareholders, subject to the applicable terms. The preference concerns the order of payment and does not make them lenders.

Step 2: State the capital preference On winding up, preference shareholders have the right to repayment of their paid-up share capital before equity shareholders receive repayment of their capital. This preference operates among shareholders, after the claims of creditors have been settled.

Step 3: Conclusion Preference shares are shares having preferential rights as to payment of dividend and repayment of capital on winding up.

Quick Tip to Solve: A complete definition names both preferences: dividend and repayment of share capital.

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

Solution:

Concept:

- The Receipts and Payments Account is a summary of actual cash and bank receipts and payments.
- Outstanding and prepaid adjustments belong to accrual accounting, which matches expenses to the accounting period.

Step 1: Apply the cash basis The Receipts and Payments Account records an amount when cash is actually received or paid, irrespective of the period to which it relates. It is therefore not adjusted to measure only the current year's income or expenses.

Step 2: Explain the adjustments An outstanding expense has not yet been paid, so there is no cash payment to record. A prepaid expense has already been included in the cash payment made; separating its future-period portion is a non-cash adjustment. Such adjustments are made in preparing the Income and Expenditure Account and balance sheet.

Step 3: Conclusion These adjustments are not recorded because the Receipts and Payments Account is prepared on the cash basis and records only actual cash or bank transactions.

Quick Tip to Solve: Record the full cash paid in Receipts and Payments; adjust its period only in Income and Expenditure.

OR

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

Solution:

Concept:

- Depreciation is the systematic allocation of the depreciable amount of a fixed asset over its useful life.
- It is a non-cash expense: recording it involves no cash or bank payment during the year.

Step 1: Treatment in Receipts and Payments Account Depreciation is not recorded in the Receipts and Payments Account because this account records actual cash and bank transactions only. Buying the asset may be a cash payment, but the subsequent depreciation charge is not another payment.

Step 2: Treatment in Income and Expenditure Account Depreciation relating to the accounting year is debited to the Income and Expenditure Account as a revenue expense. This account uses the accrual basis to determine the year's surplus or deficit, so it includes expenses even when they do not involve a current cash outflow.

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

Quick Tip to Solve: Distinguish an asset's cash purchase from the annual non-cash depreciation charge.

6. 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:

- Sacrificing ratio compares the shares of profit surrendered by old partners in favour of an incoming partner.
- Where there is no agreement to the contrary, old partners share profits equally.

Step 1: Identify the old profit-sharing basis In the absence of a partnership deed specifying a different arrangement, the old partners share profits equally. The question supplies no separate arrangement for the incoming partner to acquire shares from particular old partners.

Step 2: Apply that basis to sacrifice The incoming partner's share is taken from the old partners in their old profit-sharing ratio when no other sacrifice arrangement is given. Since that ratio is equal here, the old partners sacrifice equally; the amount of each capital balance does not change this rule.

Step 3: Conclusion The old partners sacrifice in their old profit-sharing ratio, which is equal in the absence of a partnership deed.

Quick Tip to Solve: With no agreed ratio or special sacrifice arrangement, use equal old shares and equal sacrifice.

OR

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

Solution:

Concept:

- Sacrificing ratio is the ratio of shares of profit given up by partners: old share minus new share.
- It determines how compensation for a loss of future profit share, such as goodwill, is distributed among sacrificing partners.

Step 1: Admission of a new partner On admission, the old partners surrender a part of their profit shares to the incoming partner. The goodwill premium brought by the new partner is credited to the sacrificing partners in the sacrificing ratio.

Step 2: Change in profit-sharing ratio When existing partners agree to change their profit-sharing ratio, some may sacrifice and others may gain. The gaining partners compensate the sacrificing partners for goodwill; the sacrificing ratio identifies how that compensation is divided among those giving up profit shares.

Step 3: Conclusion Sacrificing ratio is applied on admission of a partner and on a change in the profit-sharing ratio among existing partners.

Quick Tip to Solve: Use old share minus new share to identify who sacrifices before allocating goodwill compensation.

7. Ranjan and Vishal were partners in a firm and their books showed that on 31st March, 2018 their capital employed was Rs 3,00,000. The normal rate of return on capital employed is 15%. During the year ended 31st March, 2018 the firm earned a profit of Rs 58,000. Calculate goodwill on the basis of 3 years' purchase of super profits. [3 marks]

Solution:

Concept:

- Normal profit is the return expected on the capital employed at the normal rate of return: Normal profit $=$ Capital employed $\times$ Normal rate$/100$.
- Super profit is the excess of actual maintainable profit over normal profit. Goodwill under the super profit method equals super profit multiplied by the agreed number of years' purchase.

Step 1: Calculate normal profit The capital employed is Rs 3,00,000 and the normal rate of return is 15%. Therefore, the profit expected from an ordinary firm using the same capital is

$$\text{Normal profit} = 3,00,000 \times \frac{15}{100} = \text{Rs } 45,000.$$

The rate is applied to capital employed, not to the profit earned during the year.

Step 2: Find the annual super profit The actual profit for the year ended 31st March, 2018 is Rs 58,000. No abnormal item or adjustment to this profit is given. Thus it is used directly as the

maintainable annual profit.

$$\text{Super profit} = 58,000 - 45,000 = \text{Rs } 13,000.$$

This represents the annual earning advantage of the firm over the normal return.

Step 3: Value goodwill at three years' purchase The prescribed multiplier applies to the super profit alone. Hence

$$\text{Goodwill} = 13,000 \times 3 = \text{Rs } 39,000.$$

Multiplying the entire actual profit by three would incorrectly include the normal return already earned by capital employed.

Step 4: Conclusion The goodwill of Ranjan and Vishal's firm is $\boxed{\text{Rs } 39,000}$.

Quick Tip to Solve: First subtract the normal return from actual profit; multiply only the surplus by three.

8. JK Limited had 20,000, 12% Debentures of Rs 100 each outstanding on 1st April, 2017. These debentures were redeemable on 31st March, 2018. Debenture Redemption Reserve had a balance of Rs 6,00,000 on 31st March, 2017. The company purchased the required investments on 30th April, 2017.

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

Solution:

Concept:

- The redemption amount is the number of debentures multiplied by their face value when redemption is at par. DRR is an appropriation of profits, whereas debenture redemption investment is an asset.
- For this redemption, the required DRR is 25% of the debentures and the required investment is 15% of the amount maturing, purchased by 30th April of the financial year.

Step 1: Calculate the reserve and investment requirements

$$\text{Debentures due} = 20,000 \times 100 = \text{Rs } 20,00,000,$$
$$\text{Required DRR} = 20,00,000 \times 25\% = \text{Rs } 5,00,000,$$
$$\text{Required investment} = 20,00,000 \times 15\% = \text{Rs } 3,00,000.$$

Existing DRR is Rs 6,00,000, exceeding the requirement; no further transfer from surplus to DRR is needed. The 12% rate relates to interest and does not alter principal repayable.

Step 2: Record investment and redemption Journal of JK Limited

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30.4.2017	Debenture Redemption Investment A/c Dr. To Bank A/c (Being required investment purchased)		3,00,000	 3,00,000
31.3.2018	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investments realised at book value)		3,00,000	 3,00,000
31.3.2018	12% Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at par)		20,00,000	 20,00,000
31.3.2018	Debentureholders A/c Dr. To Bank A/c (Being principal paid to debentureholders)		20,00,000	 20,00,000
31.3.2018	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred after full redemption)		6,00,000	 6,00,000

No gain, loss or investment income is specified, so the investment realisation is recorded at its stated carrying amount. The whole existing DRR is released after all debentures have been redeemed.

Step 3: Conclusion JK Limited redeems principal of Rs 20,00,000, realises investments of Rs 3,00,000 and transfers the existing Rs 6,00,000 DRR to General Reserve.

Quick Tip to Solve: Compare the existing DRR with the required reserve before recording any fresh appropriation.

9. From the following information calculate the amount of medicines to be posted to Income and Expenditure Account of Sargam Hospital for the year ending 31st March, 2018 :

Particulars	1.4.2017 Rs	31.3.2018 Rs
Stock of medicines	25,000	20,000
Creditors for medicines	15,000	28,000

Medicines purchased during the year ended 31st March, 2018 was Rs 1,00,000.

Also, present the relevant items in the Balance Sheet of Sargam Hospital as at 31st March, 2018.

[3 marks]

Solution:

Concept:

- Income and Expenditure Account records medicines consumed on the accrual basis: opening stock plus purchases less closing stock.

- Creditors adjust cash payments into purchases only when cash paid is supplied. When purchases themselves are given, adjusting them again for creditors would double count the unpaid purchases.

Step 1: Calculate medicines consumed The question explicitly gives medicines purchased during the year as Rs 1,00,000. This is the purchase amount, not cash paid to suppliers. Therefore

$$\begin{aligned}\text{Medicines consumed} &= \text{Opening stock} + \text{Purchases} - \text{Closing stock}\\ &= 25,000 + 1,00,000 - 20,000\\ &= \text{Rs } 1,05,000.\end{aligned}$$

The Rs 5,000 reduction in stock means consumption exceeds current-year purchases by Rs 5,000. Debit medicines consumed to the Income and Expenditure Account for the year ended 31st March, 2018.

Step 2: Present the closing asset and liability Balance Sheet of Sargam Hospital as at 31st March, 2018 (extract)

Particulars	Amount (Rs)
Liabilities	
Current liabilities: Creditors for medicines	28,000
Assets	
Current assets: Stock of medicines	20,000

The closing creditors are the unpaid liability at the reporting date; closing stock is the unused asset carried forward. The opening balances do not appear in this closing Balance Sheet. For a cross-check, cash paid would be purchases plus opening creditors less closing creditors, namely Rs 87,000; reversing that adjustment restores purchases of Rs 1,00,000. It does not change the consumption figure.

Step 3: Conclusion Medicines charged to Income and Expenditure Account: $\boxed{\text{Rs } 1,05,000}$. Closing Balance Sheet: stock of medicines Rs 20,000 under current assets and creditors for medicines Rs 28,000 under current liabilities.

Quick Tip to Solve: Read whether the given amount is purchases or payment; adjust creditors only for a cash-payment figure.

10. 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:

- Goodwill equals purchase consideration less net assets acquired. Net assets are the assets taken over minus the liabilities assumed.
- Debentures issued at a premium discharge the vendor at their issue price. The face value is credited to Debentures Account and the premium to Securities Premium Reserve.

Step 1: Determine goodwill and number of debentures

$$\begin{aligned}\text{Net assets} &= 3,00,000 - 50,000 = \text{Rs } 2,50,000,\\ \text{Goodwill} &= 2,75,000 - 2,50,000 = \text{Rs } 25,000,\\ \text{Issue price per debenture} &= 50 + 10\% \times 50 = \text{Rs } 55,\\ \text{Number issued} &= 2,75,000 \div 55 = 5,000.\end{aligned}$$

Accordingly, the face value issued is Rs 2,50,000 and securities premium is Rs 25,000. The 8% rate determines future interest, not the amount payable to the vendor.

Step 2: Record acquisition and settlement Journal of Nano Ltd.

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

The first entry balances at Rs 3,25,000 on each side. The second entry clears the vendor's claim of Rs 2,75,000; its credits separately identify the debenture principal and the premium received on issue.

Step 3: Conclusion Goodwill is Rs 25,000. Nano Ltd. issues 5,000 debentures, crediting 8% Debentures with Rs 2,50,000 and Securities Premium Reserve with Rs 25,000.

Quick Tip to Solve: Divide the purchase consideration by Rs 55, the issue price, rather than by the Rs 50 face value.

OR

10. 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 excess of face value over issue proceeds. Here the issue price is 93% of face value, so the discount is 7%.
- When debentures are redeemed in instalments, discount is written off in the ratio of debentures outstanding during each accounting year. The discount relates to the period for which the funds

remain available.

Step 1: Calculate the discount and redemption schedule The debentures were issued on 1st April, 2014. Their face value is Rs 4,00,000 and the issue proceeds are $4,00,000 \times 93/100 = \text{Rs } 3,72,000$. Thus discount on issue is

$$4,00,000 - 3,72,000 = \text{Rs } 28,000.$$

The first instalment of Rs 2,00,000 falls due on 31st March, 2017 and the second on 31st March, 2018. Hence Rs 4,00,000 remains outstanding throughout each of the first three financial years; only Rs 2,00,000 remains outstanding throughout the fourth year. The write-off ratio is therefore

$$4,00,000 : 4,00,000 : 4,00,000 : 2,00,000 = 2 : 2 : 2 : 1.$$

The 9% coupon determines interest, not the amount of discount written off.

Step 2: Write off discount and prepare the account For each of the years ended 31st March, 2015 and 31st March, 2016, discount transferred to the Statement of Profit and Loss is $28,000 \times 2/7 = \text{Rs } 8,000$. The balance after the first write-off is Rs 20,000; after the second it is Rs 12,000.

Discount on Issue of Debentures Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
1-4-2014: To 9% Debentures A/c	28,000	31-3-2015: By Statement of P&L 31-3-2015: By Balance c/d	8,000 20,000
Total	28,000	Total	28,000
1-4-2015: To Balance b/d	20,000	31-3-2016: By Statement of P&L 31-3-2016: By Balance c/d	8,000 12,000
Total	20,000	Total	20,000

Step 3: Conclusion The discount written off is Rs 8,000 in each of the first two years, leaving a debit balance of Rs 12,000 on 31st March, 2016.

Quick Tip to Solve: Count full years before the first redemption: the first instalment is repaid only at the end of the third year.

11. Babita, Kavita and Dinesh were partners in a firm. From 1st April, 2018 they decided to share the profits in the ratio of 2 : 3 : 5. On this date the Balance Sheet of the firm showed a balance of Rs 60,000 in General Reserve and debit balance of Rs 1,20,000 in Profit and Loss Account. The Goodwill of the firm was valued at Rs 3,60,000.

Pass necessary journal entries for the above transactions in the books of the firm. Also show your workings clearly. [4 marks]

Solution:

Concept:

- In the absence of an agreed old ratio, partners share profits equally. Accumulated reserves and losses belong to partners in their old ratio.
- A gaining partner compensates a sacrificing partner for goodwill: compensation equals firm

goodwill multiplied by the partner's gain or sacrifice. Goodwill need not be raised in the books.

Step 1: Determine the old ratio and allocate accumulated balances No old profit-sharing ratio is specified, so Babita, Kavita and Dinesh share equally, $1 : 1 : 1$. General Reserve of Rs 60,000 is credited to their capital accounts at Rs 20,000 each. The debit balance of Profit and Loss Account is an accumulated loss: Rs 1,20,000 is debited to their capital accounts at Rs 40,000 each. These balances relate to profits and losses before the change, so the new ratio $2 : 3 : 5$ is not used to distribute them.

Step 2: Calculate sacrifice, gain and goodwill adjustment Using a common denominator of 30, the old shares are $10/30$ each and the new shares are $6/30, 9/30, 15/30$.

$$\text{Babita's sacrifice} = \frac{1}{3} - \frac{2}{10} = \frac{4}{30},$$
$$\text{Kavita's sacrifice} = \frac{1}{3} - \frac{3}{10} = \frac{1}{30},$$
$$\text{Dinesh's gain} = \frac{5}{10} - \frac{1}{3} = \frac{5}{30}.$$

Thus Babita and Kavita sacrifice in the ratio $4 : 1$, while Dinesh alone gains. On goodwill of Rs 3,60,000, Babita receives $3,60,000 \times 4/30 =$ Rs $48,000$, Kavita receives $3,60,000 \times 1/30 =$ Rs $12,000$, and Dinesh pays $3,60,000 \times 5/30 =$ Rs $60,000$. Total compensation received equals total compensation paid.

Step 3: Pass the journal entries Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2018	General Reserve A/c Dr.		60,000	
	To Babita's Capital A/c			20,000
	To Kavita's Capital A/c			20,000
	To Dinesh's Capital A/c			20,000
	(Being general reserve distributed in the old equal ratio)			
1-4-2018	Babita's Capital A/c Dr.		40,000	
	Kavita's Capital A/c Dr.		40,000	
	Dinesh's Capital A/c Dr.		40,000	
	To Profit and Loss A/c			1,20,000
	(Being accumulated loss transferred in the old equal ratio)			
1-4-2018	Dinesh's Capital A/c Dr.		60,000	
	To Babita's Capital A/c			48,000
	To Kavita's Capital A/c			12,000
	(Being goodwill adjusted through capital accounts on change in profit-sharing ratio)			

Step 4: Conclusion Reserve and accumulated loss are distributed equally. Dinesh is debited Rs 60,000 for goodwill, while Babita and Kavita are credited Rs 48,000 and Rs 12,000 respectively.

Quick Tip to Solve: Write old share minus new share for every partner: positive means sacrifice and a goodwill credit; negative means gain and a debit.

12. Satish, Harish and Ashish were partners in a firm sharing profits in ratio of 3 : 2 : 5. The Balance Sheet of the firm on 31st March, 2018 was as follows :

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

Liabilities	Amount Rs	Assets	Amount Rs
Capital :		Plant and Machinery	6,60,000
Satish 2,00,000		Stock	1,20,000
Harish 2,00,000		Debtors	30,000
Ashish 3,00,000	7,00,000	Cash	90,000
Profits for the year 2017 – 18	1,50,000		
Creditors	50,000		
	9,00,000		9,00,000

Harish died on 30th June, 2018. According to the partnership deed, in addition to the 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 1,00,000.

(ii) Goodwill of the firm was to be valued at 3 years' purchase of average of last two years' profits.

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

Solution:

Concept:

- A deceased partner's capital is credited with his share of accumulated profits, goodwill and profit up to the date of death. Harish's profit share is $2/10$.
- The estimated annual profit is the average of the preceding two annual profits. Goodwill is three times this average; profit to death is apportioned for three months.

Step 1: Calculate accumulated profit and profit to death The balance sheet shows the profit for 2017–18 separately from capital. Therefore Harish must receive his share of that undistributed profit in addition to the opening capital:

$$1,50,000 \times \frac{2}{10} = \text{Rs } 30,000.$$

The average annual profit of the last two years is

$$\frac{1,00,000 + 1,50,000}{2} = \text{Rs } 1,25,000.$$

From 1 April to 30 June is three months. Thus the profit credited to Harish for the year of death is

$$1,25,000 \times \frac{3}{12} \times \frac{2}{10} = \text{Rs } 6,250.$$

This estimated current-year profit is credited through Profit and Loss Suspense Account; it is distinct from the preceding year's accumulated profit.

Step 2: Calculate goodwill entitlement The firm's goodwill is $1,25,000 \times 3 = \text{Rs } 3,75,000$. Harish's

share is

$$3,75,000 \times \frac{2}{10} = \text{Rs } 75,000.$$

As no new ratio is stated, Satish and Ashish continue in their relative ratio $3:5$, which is also their gaining ratio. They compensate Harish through their capital accounts: Satish bears $75,000 \times 3/8 = \text{Rs } 28,125$ and Ashish bears $75,000 \times 5/8 = \text{Rs } 46,875$. No goodwill asset needs to remain in the books.

Step 3: Prepare the capital account **Harish's Capital Account as at 30 June, 2018**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Executor's A/c	3,11,250	By Balance b/d	2,00,000
		By Profit and Loss A/c	30,000
		By Satish's Capital A/c	28,125
		By Ashish's Capital A/c	46,875
		By P&L Suspense A/c	6,250
Total	3,11,250	Total	3,11,250

The entire amount is transferred to Harish's Executor's Account; no payment is presumed because the question does not state that cash was paid.

Step 4: Conclusion Harish's executor is entitled to $\boxed{\text{Rs } 3,11,250}$.

Quick Tip to Solve: Check whether the balance sheet carries undistributed profit separately: it must be added before transferring the deceased partner capital balance.

13. 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; drawings, interest, salary, commission and the share of residual profit or loss go to current accounts.
- Interest on drawings is credited to Profit and Loss Appropriation Account. Salary, commission and interest on capital are debited there; the residual balance is shared in the agreed ratio $3:2$.

Step 1: Compute interest and appropriations Shreya's annual salary is $5,000 \times 12 =$ Rs $60,000$, while Vivek's commission is Rs 30,000. Interest on their fixed capitals is respectively $3,00,000 \times 8\% =$ Rs $24,000$ and $2,00,000 \times 8\% =$ Rs $16,000$. Shreya withdraws Rs 3,000 on 1 April, 1 July, 1 October and 1 January. The respective periods are 12, 9, 6 and 3 months; hence

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

Vivek's withdrawal on 1 September remains outstanding for seven months:

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

Total appropriations are Rs 1,30,000, whereas net profit plus interest on drawings is Rs 1,21,500. The resulting deficiency of Rs 8,500 is shared as Rs 5,100 by Shreya and Rs 3,400 by Vivek. These are debits to their current accounts.

Step 2: Prepare the appropriation account **Profit and Loss Appropriation Account for the year ended 31 March, 2018**

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Interest on Capital:		By P&L A/c (net profit)	1,20,000
Shreya	24,000	By Interest on Drawings:	
Vivek	16,000	Shreya	450
To Shreya's Salary	60,000	Vivek	1,050
To Vivek's Commission	30,000	By Loss 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 3: Prepare fixed capital accounts **Partners' Capital Accounts**

Dr.			Cr.		
Particulars	Shreya Rs	Vivek Rs	Particulars	Shreya Rs	Vivek 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

The fixed capitals are carried forward at their opening amounts because there is no introduction or permanent withdrawal of capital.

Step 4: Prepare current accounts **Partners' Current Accounts for the year ended 31 March, 2018**

Dr.			Cr.		
Particulars	Shreya Rs	Vivek Rs	Particulars	Shreya Rs	Vivek 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

Shreya's credit balance is carried down on the debit side; Vivek's debit balance is carried down on the credit side. On 1 April, 2018 they reappear on their natural sides as credit Rs 1,66,450 and debit Rs

16,450 respectively.

Step 5: Conclusion The appropriation deficiency is Rs 8,500. Closing fixed capitals are Rs 3,00,000 and Rs 2,00,000; current balances are Shreya Rs 1,66,450 (Cr.) and Vivek Rs 16,450 (Dr.).

Quick Tip to Solve: For beginning-of-quarter drawings use an average period of 7.5 months; keep a debit opening current balance on the debit side throughout.

OR

13. 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:

- The incoming partner's capital divided by his profit share gives the implied total capital of the firm. Hidden goodwill equals this implied capital less the total actual capitals, including the incoming partner's capital.
- Sacrifice equals old profit share minus new profit share. A negative sacrifice is a gain; a gaining old partner must compensate the sacrificing partners for his gain in goodwill.
- Since the capitals are fixed, goodwill adjustments between the old partners are recorded through their current accounts, while Govind's capital is credited to his capital account.

Step 1: Calculate the implied goodwill Govind brings Rs 4,00,000 as capital for a $1/5$ share. Therefore,

$$\begin{aligned}\text{Implied total capital} &= 4,00,000 \div \frac{1}{5} = \text{Rs } 20,00,000,\\ \text{Actual total capitals} &= 5,00,000 + 4,00,000 + 3,00,000 + 4,00,000\\ &= \text{Rs } 16,00,000,\\ \text{Goodwill} &= 20,00,000 - 16,00,000 = \text{Rs } 4,00,000.\end{aligned}$$

Govind's share of goodwill premium is $4,00,000 \times 1/5 = \text{Rs } 80,000$. The premium is additional to his capital and is not included again in the actual capital used to identify hidden goodwill.

Step 2: Identify sacrificing and gaining partners The old shares are $3/8, 3/8, 2/8$; the new shares of

Ramesh, Mahesh and Suresh are $2/5, 1/5, 1/5$, respectively.

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

Thus, Ramesh gains $1/40$ and must contribute $4,00,000/40 = \text{Rs } 10,000$. Mahesh and Suresh receive Rs 70,000 and Rs 20,000, respectively. Their total compensation of Rs 90,000 is funded by Govind's Rs 80,000 premium and Ramesh's Rs 10,000 adjustment. The sacrificing ratio between Mahesh and Suresh is $7 : 2$.

Step 3: Record capital, premium and its adjustment Journal of the Firm

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

Step 4: Conclusion Goodwill of the firm is Rs 4,00,000. Govind brings Rs 80,000 as goodwill premium; Ramesh is debited Rs 10,000, while Mahesh and Suresh are credited Rs 70,000 and Rs 20,000 in their current accounts.

Quick Tip to Solve: Calculate every old partner's sacrifice separately: Ramesh gains here, so distributing only Govind's premium in the old ratio would be incorrect.

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, proceeds of assets are credited to Realization Account and realization expenses are debited to it. Do not record the original transfer of assets again.
- A partner taking an asset is debited through his capital account at the agreed value. A partner's loan is settled separately from his capital account.
- The debit balance of Profit and Loss Account is an accumulated loss, shared by partners in their profit-sharing ratio of $3:2$. An expense paid personally by a partner is credited to his capital account.

Step 1: Work out the amounts to be recorded Furniture produces Rs 68,000, and the auctioneer's Rs 2,000 commission is an expense of realization. Adiraj's loan settlement is Rs 35,000.

Karan takes half the stock, whose cost is $80,000 \times 50\% =$ Rs $40,000$, at a 20% discount. His capital is therefore debited $40,000 \times 80\% =$ Rs $32,000$. The remaining stock has the same cost of Rs 40,000 and is sold at 30% profit on cost, yielding $40,000 \times 130\% =$ Rs $52,000$.

The dishonoured discounted bill creates a payment of Rs 3,000 by the firm; since the acceptor is insolvent, this is charged to Realization Account. The accumulated loss of Rs 56,000 is allocated as follows:

$$\text{Adiraj} = 56,000 \times \frac{3}{5} = \text{Rs } 33,600, \qquad \text{Karan} = 56,000 \times \frac{2}{5} = \text{Rs } 22,400.$$

Realization expenses of Rs 2,000 paid by Adiraj increase the amount due to him and are credited to his capital account, without a credit to the firm's bank account.

Step 2: Record furniture, commission, loan and stock transactions Journal of the Firm (i)–(iii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Bank A/c Dr. To Realization A/c (Being furniture sold by auction)		68,000	 68,000
	Realization 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
	Karan's Capital A/c Dr. To Realization A/c (Being half the stock taken by Karan at a 20% discount)		32,000	 32,000
	Bank A/c Dr. To Realization A/c (Being remaining stock sold at 30% profit on cost)		52,000	 52,000

Step 3: Record bill dishonour, accumulated loss and expenses Journal of the Firm (iv)–(vi)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Realization A/c Dr. To Bank A/c (Being discounted bill dishonoured and met by the firm, acceptor being insolvent)		3,000	 3,000
	Adiraj's Capital A/c Dr. Karan's Capital A/c Dr. To Profit and Loss A/c (Being accumulated debit balance transferred to partners in the ratio 3:2)		33,600 22,400	 56,000
	Realization A/c Dr. To Adiraj's Capital A/c (Being realization expenses paid personally by Adiraj)		2,000	 2,000

Step 4: Conclusion The entries above record all six dissolution transactions. Karan takes stock for Rs 32,000; the remaining stock realizes Rs 52,000; the accumulated loss is charged Rs 33,600 to Adiraj and Rs 22,400 to Karan.

Quick Tip to Solve: Apply the stock discount and profit to the cost of each half separately; credit Adiraj's capital, rather than Bank, for expenses he pays personally.

15. **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 income and revenue expenditure on the accrual basis. Capital receipts, specific-purpose funds and asset purchases are excluded.
- Subscription income equals receipts plus opening advance less closing advance. Add unpaid expenses to the cash paid and recognise investment interest for the period earned.

Step 1: Adjust membership subscription and interest The Balance Sheet is dated 31st March, 2018, the same date as the requested year end. Thus its Rs 6,000 advance is not explicitly an opening balance. The following worked account is conditional on treating the supplied advance and furniture as opening balances. Under that interpretation, closing advance included in receipts is Rs 20,000 and membership subscription income is

$$98,000 + 6,000 - 20,000 = 84,000.$$

Investments of Rs 60,000 were purchased on 1st December, 2017. Interest for four months to 31st March, 2018 is

$$60,000 \times \frac{10}{100} \times \frac{4}{12} = 2,000.$$

Of this, Rs 1,600 was received and Rs 400 is accrued. The account therefore credits the full Rs 2,000.

Step 2: Classify receipts and calculate expenses Entrance fees of Rs 50,000 are treated as revenue because no direction to capitalise them is given. Life membership fees of Rs 1,00,000 are capital receipts. The relief-fund subscription of Rs 17,000 is restricted to that specific fund. Neither is ordinary income. Sale of old newspapers, Rs 900, and locker rent, Rs 7,000, are revenue receipts.

Electricity expense is $15,000 + 10,000 = 25,000$. Furniture depreciation is $40,000 \times 10\% = 4,000$. Computer purchases and investments are capital payments. Opening and closing cash or bank balances are excluded from this revenue account.

Step 3: Apply the printed computer date The paper prints the accounting year ending 31st March, 2018 but dates the computer purchase 1st October, 2018. This purchase date lies after that year end. The Balance Sheet also carries the year-end date rather than the preceding year-end date, so the opening subscription balance and opening furniture value are not established by the literal chronology. A unique literal surplus cannot therefore be determined from the printed dates alone. On those literal dates, no computer depreciation belongs to the year ending 31st March, 2018. The inconsistent opening cash figures do not affect the revenue account. No unprinted earlier purchase date is substituted.

If the intended purchase date were 1st October, 2017, six months' depreciation would instead be $1,00,000 \times 60\% \times 6/12 = 30,000$, reducing the surplus below by Rs 30,000. This is a conditional calculation, not an alteration of the printed data.

Step 4: Prepare the Income and Expenditure Account Conditional worked account, treating the supplied Balance Sheet values as opening balances.

Namanjyot Society

Income and Expenditure Account for the year ending 31st March, 2018

Dr. Expenditure	Amount (Rs)	Income Cr.	Amount (Rs)
To Office expenses	29,000	By Membership subscriptions	84,000
To Electric charges	25,000	By Sale of old newspapers	900
To Postage and stationery	9,000	By Locker rent	7,000
To Furniture depreciation	4,000	By Interest on investments	2,000
To Surplus	76,900	By Entrance fees	50,000
Total	1,43,900	Total	1,43,900

On the stated opening-balance interpretation, revenue income totals Rs 1,43,900 and revenue expenses total Rs 67,000, excluding computer depreciation because its printed purchase date falls after the year end. The excess is transferred to the Capital Fund; restricted receipts and life membership fees are kept outside this account.

Step 5: Conclusion The printed dates do not establish a unique literal surplus. Conditional on treating the supplied Balance Sheet advance and furniture as opening balances, the surplus is Rs 76,900; if the computer purchase date is additionally read as 1st October, 2017, it becomes Rs 46,900.

Quick Tip to Solve: Check both the Balance Sheet date and computer purchase date before treating balances as opening figures or charging depreciation.

16. 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:

- On admission, revaluation profit or loss and the surplus of an existing reserve belong to the old partners in their old ratio, here $2 : 1$.
- Goodwill premium compensates the sacrificing partners in their sacrificing ratio. The incoming partner brings capital proportionate to the adjusted combined capital of the continuing partners.

Step 1: Calculate the new ratio and goodwill allocation Raman sacrifices $\frac{2}{5} \times \frac{2}{3} = \frac{4}{15}$, and Rohit sacrifices $\frac{1}{5} \times \frac{1}{3} = \frac{1}{15}$. Hence Saloni's share is $\frac{5}{15} = \frac{1}{3}$. The remaining shares are Raman $\frac{6}{15}$ and Rohit $\frac{4}{15}$; the new ratio is $6 : 4 : 5$. The sacrificing ratio is $4 : 1$, so the premium of Rs 42,000 is credited as Raman Rs 33,600 and Rohit Rs 8,400. The premium is retained in the business, since withdrawal is not specified.

Step 2: Prepare the Revaluation Account Furniture falls by $65,000 - 58,500 = 6,500$. The old provision increases from Rs 7,000 to Rs 10,000; only the additional Rs 3,000 is a revaluation loss. The Rs 16,000 compensation claim is met against the existing fund, leaving Rs 24,000 for the old partners, Rs 16,000 and Rs 8,000 respectively. It is not charged again to revaluation.

Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
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

Net loss is $35,000 + 6,500 + 3,000 - 2,500 = 42,000$, divided in the old ratio $2 : 1$.

Step 3: Determine Saloni's capital Adjusted Raman's capital is $1,40,000 + 16,000 + 33,600 - 28,000 = 1,61,600$. Adjusted Rohit's capital is $1,00,000 + 8,000 + 8,400 - 14,000 = 1,02,400$. Their combined Rs 2,64,000 represents $\frac{2}{3}$ of the firm's capital. Therefore,

$$\text{Saloni's capital} = 2,64,000 \times \frac{1/3}{2/3} = 1,32,000.$$

She brings cash of Rs $1,32,000 + 42,000 = 1,74,000$.

Step 4: Prepare Partners'Capital Accounts Partners' Capital Accounts

Dr. Particulars	Raman Rs	Rohit Rs	Saloni Rs	Cr. Particulars	Raman Rs	Rohit Rs	Saloni Rs
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 Compensation fund	16,000	8,000	–
				By Premium	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 5: Prepare the reconstituted Balance Sheet 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	1,10,000
Capital subtotal	3,96,000	Less: provision	(10,000)
Creditors	1,57,500	Net debtors	1,00,000
Workmen's compensation claim	16,000	Bank	2,24,000
Total	5,69,500	Total	5,69,500

Bank is $50,000 + 42,000 + 1,32,000 = 2,24,000$. The admitted claim remains a liability because payment is not stated; creditors reduce by Rs 2,500.

Step 6: Conclusion New ratio $6 : 4 : 5$; revaluation loss Rs 42,000; Saloni brings capital Rs 1,32,000 and goodwill Rs 42,000. The Balance Sheet totals Rs 5,69,500.

Quick Tip to Solve: Use the old ratio for reserve and revaluation, the sacrificing ratio for goodwill, and the incoming share for capital.

OR

16. 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 profit or loss and accumulated profits belong to all partners in the old ratio $5:3:2$. Taking over stock is a settlement of capital after revaluation.
- The retiring partner's goodwill is borne by continuing partners in their gaining ratio. Cash introduced is calculated after fixing their final capitals in the new ratio $2:3$.

Step 1: Determine revaluation loss Fixed assets decrease by Rs 70,000, stock by Rs 22,000 and the new provision is $1,60,000 \times 5\% =$ Rs $8,000$. Total loss is Rs 1,00,000, shared as Rs 50,000, Rs 30,000 and Rs 20,000.

Revaluation Account

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

Step 2: Adjust accumulated profits, goodwill and cash The credit balance of Profit and Loss Account

is distributed as Rs 50,000, Rs 30,000 and Rs 20,000. These credits exactly offset the revaluation loss.

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

Thus the gaining ratio is $1:4$. Sushma's goodwill share is $8,00,000 \times 5/10 = \text{Rs } 4,00,000$, debited to Gautam Rs 80,000 and Kanika Rs 3,20,000. Their adjusted capitals are Rs 1,70,000 and Rs 30,000. Sushma's entitlement is Rs 7,00,000; after taking stock worth Rs 2,18,000, she receives Rs 4,82,000 through bank.

Required new cash is $4,82,000 + 58,000 - 1,40,000 = \text{Rs } 4,00,000$. Final total capital is therefore Rs 6,00,000, divided into Rs 2,40,000 and Rs 3,60,000. Gautam brings Rs 70,000 and Kanika Rs 3,30,000.

Step 3: Prepare the capital accounts

Partners' Capital Accounts

Dr. Particulars	Sushma Rs	Gautam Rs	Kanika Rs	Cr. Particulars	Sushma Rs	Gautam Rs	Kanika Rs
To Revaluation	50,000	30,000	20,000	By Balance b/d	3,00,000	2,50,000	3,50,000
To Sushma (goodwill)	–	80,000	3,20,000	By P&L	50,000	30,000	20,000
To Stock	2,18,000	–	–	By Gautam (goodwill)	80,000	–	–
To Bank	4,82,000	–	–	By Kanika (goodwill)	3,20,000	–	–
To Balance c/d	–	2,40,000	3,60,000	By Bank	–	70,000	3,30,000
Total	7,50,000	3,50,000	7,00,000	Total	7,50,000	3,50,000	7,00,000

Step 4: Prepare the reconstituted balance sheet Stock is absent because Sushma takes it over. Goodwill is adjusted through capitals, so no goodwill asset remains.

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

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	60,000	Cash at Bank	58,000
Employees' Provident Fund	40,000	Sundry Debtors	1,60,000
Capitals:		Less: Provision	(8,000)
Gautam	2,40,000	Net 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

Bank reconciles as $1,40,000 + 70,000 + 3,30,000 - 4,82,000 = \text{Rs } 58,000$.

Step 5: Conclusion Revaluation loss is Rs 1,00,000; Sushma receives stock Rs 2,18,000 and cash Rs 4,82,000. Final capitals are Gautam Rs 2,40,000 and Kanika Rs 3,60,000; the Balance Sheet totals Rs 7,00,000.

Quick Tip to Solve: Compute the gaining ratio before charging goodwill; then use the required bank balance to determine total fresh capital.

17. 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:

- Excess application money is first adjusted against allotment and then held as calls in advance. Calls are made only on shares that remain outstanding.
- Forfeiture debits Share Capital with called-up capital and credits unpaid instalments and the capital already received. Reissue premium goes to Securities Premium; forfeiture surplus goes to Capital Reserve.

Step 1: Calculate category adjustments and defaults Category I has application money Rs 30,00,000: Rs 22,50,000 is capital and Rs 7,50,000 adjusts allotment. Category II has Rs 15,00,000: Rs 7,50,000 is capital, Rs 5,00,000 adjusts allotment and Rs 2,50,000 is calls in advance. Thus application money totals Rs 45,00,000 and allotment adjustment totals Rs 12,50,000.

Namita applied for $3,000 \times 2,00,000/1,50,000 = 4,000$ shares and paid Rs 60,000. Her excess application of Rs 15,000 adjusts allotment of Rs 30,000, leaving Rs 15,000 unpaid. Capital called up on her shares is Rs 75,000 and forfeiture credit is Rs 60,000.

Manav receives $1,000 \times 50,000/1,00,000 = 500$ shares. His Rs 15,000 application money covers Rs 7,500 application, Rs 5,000 allotment and Rs 2,500 call advance. His call due is Rs 12,500, of which Rs 10,000 remains unpaid. Capital forfeited is Rs 25,000 and forfeiture credit Rs 15,000.

Step 2: Record application and allotment

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 Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Calls in Advance A/c (Being application adjusted and excess carried forward)		45,00,000	 30,00,000 12,50,000 2,50,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 2,00,000 shares)		20,00,000	 20,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after adjustment and default)		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 after allotment)		75,000	 15,000 60,000

Step 3: Record the call and Manav forfeiture The call is made on $2,00,000 - 3,000 = 1,97,000$ shares, giving Rs 49,25,000. After adjusting Rs 2,50,000 advance and Manav's unpaid Rs 10,000, bank receives 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)		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)		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 shares forfeited)		25,000	 10,000 15,000

Step 4: Record reissue and capital reserve All 3,500 forfeited shares are reissued. Bank receives $3,500 \times 60 =$ Rs $2,10,000$; fully paid capital is Rs 1,75,000 and premium is Rs 35,000. There is no

reissue discount, so the entire forfeiture balance of $60,000 + 15,000 =$ 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 profit on all forfeited shares reissued transferred)		75,000	 75,000

Step 5: Prepare the bank-column cash book

Cash Book of Sunstar Ltd. (Bank column)

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Share Application	45,00,000	By Balance c/d	1,01,10,000
To Share Allotment	7,35,000		
To Share First and Final Call	46,65,000		
To Share Capital (reissue)	2,10,000		
Total	1,01,10,000	Total	1,01,10,000
To Balance b/d	1,01,10,000		

The closing bank balance also equals final share capital Rs 1,00,00,000 plus Securities Premium Rs 35,000 and Capital Reserve Rs 75,000, confirming the entries.

Step 6: Conclusion Closing bank balance is Rs 1,01,10,000; Securities Premium is Rs 35,000 and Capital Reserve is Rs 75,000. All 2,00,000 shares stand fully paid after reissue.

Quick Tip to Solve: For each category, distribute excess application separately: Category II has a call advance, and Namita is excluded from the later call.

OR

17. 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 gives each applicant 9 shares for every 10 applied for; excess application money reduces allotment payable.
- On forfeiture, debit called-up share capital and any unpaid premium; credit unpaid instalments and the capital amount already received.
- On reissue, discount is charged to Share Forfeiture; the remaining forfeiture balance relating to reissued shares is transferred to Capital Reserve.

Step 1: Determine pro-rata adjustment and unpaid amounts The allotment ratio is $90,000 : 1,00,000 = 9 : 10$. Total excess application money is $10,000 \times 30 =$ Rs $3,00,000$. The call is $160 - 30 - 70 =$ Rs 60 per share. Sudha applied for $4,500 \times 10/9 = 5,000$ shares, so her excess application money is $500 \times 30 =$ Rs $15,000$. Her unpaid allotment is $4,500 \times 70 - 15,000 =$ Rs $3,00,000$. Her called-up capital is $4,500 \times 40 =$ Rs $1,80,000$; premium due on allotment, $4,500 \times 50 =$ Rs $2,25,000$, is reversed. The forfeited capital receipt is $4,500 \times 20 + 15,000 =$ Rs $1,05,000$.

Step 2: Record journal entries 1 to 2 Journal of Megha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank Dr. To Share Application (Being application money received on 1,00,000 shares)		30,00,000	 30,00,000
	Share Application Dr. To Share Capital To Securities Premium To Share Allotment (Being application money transferred and excess adjusted)		30,00,000	 18,00,000 9,00,000 3,00,000

Step 3: Record journal entries 3 to 4 Journal of Megha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Allotment Dr. To Share Capital To Securities Premium (Being allotment money due on 90,000 shares)		63,00,000	 18,00,000 45,00,000
	Bank Dr. To Share Allotment (Being allotment received except Sudha, after adjustment)		57,00,000	 57,00,000

Step 4: Record journal entries 5 to 6 Journal of Megha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital Dr. Securities Premium Dr. To Share Allotment To Share Forfeiture (Being 4,500 shares forfeited for unpaid allotment)		1,80,000 2,25,000	 3,00,000 1,05,000
	Share First and Final Call Dr. To Share Capital (Being call of Rs 60 due on 85,500 shares)		51,30,000	 51,30,000

Step 5: Record journal entries 7 to 8 Journal of Megha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank Dr. To Share First and Final Call (Being call received except on Rajat's 3,600 shares)		49,14,000	 49,14,000
	Share Capital Dr. To Share First and Final Call To Share Forfeiture (Being Rajat's shares forfeited for unpaid call)		3,60,000	 2,16,000 1,44,000

Step 6: Record journal entries 9 to 10 Journal of Megha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank Dr. Share Forfeiture Dr. To Share Capital (Being 8,100 forfeited shares reissued fully paid at Rs 90)		7,29,000 81,000	 8,10,000
	Share Forfeiture Dr. To Capital Reserve (Being surplus on all reissued shares transferred)		1,68,000	 1,68,000

Step 7: Check Rajat and the capital reserve After Sudha's forfeiture, the call is due on $90,000 - 4,500 = 85,500$ shares. Rajat's unpaid call is $3,600 \times 60 =$ Rs $2,16,000$, while the capital already received on his shares is $3,600 \times 40 =$ Rs $1,44,000$. Thus total forfeiture credit is Rs 2,49,000. Reissue discount is $8,100 \times (100 - 90) =$ Rs $81,000$. The balance transferred to Capital Reserve is $2,49,000 - 81,000 =$ Rs $1,68,000$. Premium already received is retained.

Step 8: Prepare the bank-column 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	

There are no cash payments in these transactions. The discount on reissue is debited to Share Forfeiture, so it is not a Cash Book payment.

Step 9: Conclusion Capital Reserve is Rs 1,68,000 and the closing bank balance is Rs 1,43,43,000. All 8,100 forfeited shares have been reissued fully paid.

Quick Tip to Solve: Separate premium from capital at forfeiture, and make the call only on shares still outstanding.

Part B (20 marks)

Option 1 (Analysis of Financial Statements)

18. State any two benefits of preparing Cash Flow Statement. [1 mark]

Solution:

Concept:

- A Cash Flow Statement explains changes in cash and cash equivalents through operating, investing and financing activities.
- Cash availability is necessary to meet liabilities even when a business reports accounting profit.

Step 1: Assess liquidity It helps assess the ability of an enterprise to generate cash and cash equivalents and to meet its obligations, such as payments to creditors and repayment of borrowings. This supports an assessment of liquidity and solvency.

Step 2: Plan future cash requirements It helps management plan future cash requirements by identifying the sources and uses of cash. The pattern of cash inflows and outflows helps management anticipate shortages or surpluses and arrange finance or invest surplus funds.

Step 3: Conclusion Two benefits are assessing cash-generating ability and liquidity, and planning future cash requirements.

Quick Tip to Solve: State distinct benefits: ability to meet obligations and planning cash needs.

19. 'Gain on sale of fixed assets' will be considered as which type of activity while preparing Cash Flow Statement? [1 mark]

Solution:

Concept:

- Investing activities include the acquisition and disposal of long-term assets and other investments that are not cash equivalents.
- The gain on disposal is the difference between sale proceeds and carrying amount; it is not a separate cash receipt.

Step 1: Classify the underlying transaction Sale of a fixed asset is an investing activity because it disposes of a long-term asset. Consequently, the gain associated with that sale is treated as an investing-related, non-operating item.

Step 2: Distinguish gain from cash proceeds Under the indirect method, the gain included in net profit is deducted when calculating cash flow from operating activities. The full cash sale proceeds, rather than merely the gain, appear as an inflow under investing activities. This prevents counting the same transaction in operating and investing cash flows.

Step 3: Conclusion The gain on sale of fixed assets relates to investing activity. It is deducted from net profit in the indirect calculation of operating cash flow; sale proceeds are an investing inflow.

Quick Tip to Solve: Classify the disposal as investing; report sale proceeds, not the gain, as cash inflow.

20. 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 cost of revenue from operations equals revenue from operations multiplied by $1 -$ gross profit ratio.
- Trade receivables turnover ratio equals net credit revenue from operations divided by average trade receivables. Average trade receivables are the arithmetic mean of opening and closing trade receivables.

Step 1: Calculate total revenue from operations Gross profit is 20% of revenue from operations, so cost is the remaining 80%. Therefore,

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

The gross profit is consequently Rs 80,000. The percentage is applied to revenue, rather than to cost.

Step 2: Separate credit revenue from cash revenue Let credit revenue from operations be C. Cash

revenue is $33\frac{1}{3}\% = \frac{1}{3}$ of credit revenue, so total revenue is $C + C/3 = 4C/3$. Hence,

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

Cash revenue is Rs 1,00,000; together these amounts reconcile to total revenue of Rs 4,00,000.

Step 3: Find average trade receivables Using credit revenue in the turnover ratio,

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

Cash revenue is excluded because it does not create trade receivables.

Step 4: Determine the opening and closing balances Let opening trade receivables be x rupees. Closing trade receivables are $x + 15,000$ rupees. Thus,

$$\begin{aligned} \frac{x + (x + 15,000)}{2} &= 75,000, \\ 2x + 15,000 &= 1,50,000, \\ x &= 67,500, \\ x + 15,000 &= 82,500. \end{aligned}$$

Their mean is Rs 75,000 and the closing balance exceeds the opening balance by Rs 15,000, satisfying both conditions.

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: First convert cost into sales, then split total sales in the credit-to-cash ratio $3:1$ before applying receivables turnover.

OR

20. 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 is Quick assets/Current liabilities. Quick assets include cash, bank balances and trade receivables, but exclude inventory and prepaid expenses.
- Start each transaction independently with quick assets $1.5L$ and current liabilities L, where $L > 0$.

A transaction improves the ratio if the resulting ratio exceeds 1.5.

Step 1: (i) Purchase of goods for cash Cash, a quick asset, decreases by the purchase price. Inventory increases by the same amount, but inventory is excluded from quick assets. Current liabilities do not change. For a purchase price $p > 0$, the revised ratio is

$$\frac{1.5L - p}{L} = 1.5 - \frac{p}{L} < 1.5.$$

Thus the quick ratio reduces. Merely exchanging one current asset for another does not ensure an unchanged quick ratio, because inventory is not a quick asset.

Step 2: (ii) Bills payable paid at maturity Payment reduces cash and bills payable by the same amount. Thus both quick assets and current liabilities decrease equally. If payment is p, with $0 < p < L$,

$$\frac{1.5L - p}{L - p} - 1.5 = \frac{0.5p}{L - p} > 0.$$

The quick ratio therefore improves. The initial ratio exceeds unity, so paying a current liability removes a larger proportion of liabilities than of quick assets.

Step 3: (iii) Sale of goods costing Rs 18,000 for Rs 16,000 The sale adds Rs 16,000 to cash or trade receivables; either is a quick asset. The inventory reduction of Rs 18,000 has no direct effect on quick assets because inventory was excluded already. Current liabilities remain unchanged. The revised ratio is

$$\frac{1.5L + 16,000}{L} = 1.5 + \frac{16,000}{L} > 1.5.$$

Hence the quick ratio improves. The loss of Rs 2,000 reduces profit and equity, but does not offset the increase in quick assets when calculating this ratio.

Step 4: (iv) Cash collected from debtors Cash increases and trade receivables decrease by the same amount. Both belong to quick assets, so total quick assets are unchanged. No current liability arises or is discharged. Consequently the quick ratio remains $1.5 : 1$; only the composition of quick assets changes.

Step 5: Conclusion The quick ratio **reduces in (i)**, **improves in (ii)**, **improves in (iii)**, and **does not change in (iv)**.

Quick Tip to Solve: Track only quick assets and current liabilities: exclude inventory, even when the transaction involves a sale at a loss.

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

Solution:

Concept:

- Financial statement analysis studies the relationships between figures in the financial statements to assess the financial performance and financial position of a business.
- Its objectives include assessing earning capacity, short-term liquidity, long-term solvency and the

efficiency with which management uses the business's resources.

Step 1: Assess profitability or earning capacity Analysis determines the business's ability to earn profits from its operations and the adequacy of the return on the funds invested. Comparing profit with sales or capital employed helps users judge whether earnings are satisfactory. It also reveals changes in profitability over time and assists investors in evaluating the business's earning prospects.

Step 2: Assess short-term liquidity Analysis examines whether the business can meet its current obligations when they fall due. The relationship between current assets, especially readily realisable assets, and current liabilities indicates the availability of funds for day-to-day payments. This is useful to suppliers and other short-term creditors when judging the safety of extending credit.

Step 3: Assess long-term solvency Analysis evaluates the capacity of the business to repay long-term borrowings and service the interest on them. The relationship between borrowed funds and owners' funds, together with the adequacy of earnings to cover interest, helps long-term lenders assess financial risk and the security of their loans.

Step 4: Assess operating and managerial efficiency Analysis determines how efficiently management uses the available resources to generate revenue and control costs. Studying the turnover of inventories, trade receivables and other assets helps identify slow-moving resources and areas of weakness. Comparisons with earlier periods or similar businesses support corrective action and better planning.

Step 5: Conclusion Four objectives are to assess profitability, short-term liquidity, long-term solvency and operating efficiency. Together they help users judge the business's performance and financial soundness.

Quick Tip to Solve: Organise the four objectives around profit, current dues, long-term debts and the efficient use of assets; explain what each assessment tells its users.

OR

21. 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, Part I classifies a company's balance sheet into Equity and Liabilities and Assets. Each item must be placed under its appropriate major heading and subheading.
- Reserves form part of shareholders' funds; physical fixed assets are tangible assets, while identifiable non-physical rights are intangible assets. Amounts payable during the current year are classified as current liabilities.

Step 1: Classify each item under its major heading and subheading The following classifications use the Schedule III presentation applicable to this question. The additional detail in parentheses identifies the particular class within the subheading.

Balance Sheet Classification (Schedule III, Part I)

Item	Major heading	Subheading / classification
(i) Balance of Statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus (Surplus: balance in Statement of Profit and Loss)
(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
(v) Securities Premium Reserve	Shareholders' Funds	Reserves and Surplus
(vi) Trade Marks	Non-current Assets	Fixed Assets: Intangible Assets
(vii) Work in Progress	Current Assets	Inventories
(viii) 9% Debentures repayable during the current year	Current Liabilities	Other Current Liabilities (current maturities of long-term debt)

Step 2: Explain the distinctions underlying the classifications The credit balance of the Statement of Profit and Loss represents accumulated profits retained in the company and therefore forms part of Reserves and Surplus, along with Securities Premium Reserve. Accrued interest is an amount receivable rather than the investment itself, so it is shown under Other Current Assets. Livestock has physical existence and is a tangible fixed asset; licences, franchise rights and trade marks are intangible fixed assets. Work in progress represents unfinished inventory. Although debentures originate as long-term borrowing, the amount becoming repayable during the current year is presented as a current maturity under Other Current Liabilities.

Step 3: Conclusion Items (i) and (v) belong to Reserves and Surplus; (ii) to Other Current Assets; (iii) to Tangible Assets; (iv) and (vi) to Intangible Assets; (vii) to Inventories; and (viii) to Other Current Liabilities.

Quick Tip to Solve: Separate an investment from its accrued interest, and check the repayment date of debt: a current maturity of long-term debentures goes under Other Current Liabilities.

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

Particulars	Note No.	2017 – 18	2016 – 17
Revenue from operations		Rs 6,00,000	Rs 5,00,000
Cost of materials consumed		Rs 4,40,000	Rs 2,50,000
Other expenses		Rs 1,50,000	Rs 1,00,000
Tax rate		50%	50%

[4 marks]

Solution:

Concept:

- A comparative statement shows each item for both years, its absolute change and its percentage change, using the earlier year as the base.
- Absolute change = current-year amount minus previous-year amount; percentage change = absolute change divided by previous-year amount, multiplied by 100.

Step 1: Calculate expenses and profits For 2016–17, total expenses are Rs $2,50,000 + 1,00,000 = 3,50,000$. Therefore, profit before tax is Rs $5,00,000 - 3,50,000 = 1,50,000$; tax at 50% is Rs 75,000 and profit after tax is Rs 75,000.

For 2017–18, total expenses are Rs $4,40,000 + 1,50,000 = 5,90,000$. Profit before tax is Rs $6,00,000 - 5,90,000 = 10,000$; tax is Rs 5,000 and profit after tax is Rs 5,000.

Step 2: Prepare the comparative statement **Voltech Ltd.**
Comparative Statement of Profit and Loss
For the years ended 31st March, 2017 and 2018

Particulars	2016–17 Rs	2017–18 Rs	Change Rs	Change %
Revenue from operations	5,00,000	6,00,000	1,00,000	20
Expenses:				
Cost of materials consumed	2,50,000	4,40,000	1,90,000	76
Other expenses	1,00,000	1,50,000	50,000	50
Total expenses	3,50,000	5,90,000	2,40,000	68.57
Profit before tax	1,50,000	10,000	(1,40,000)	(93.33)
Tax expense (50%)	75,000	5,000	(70,000)	(93.33)
Profit after tax	75,000	5,000	(70,000)	(93.33)

Parentheses indicate a decrease. For example, materials cost rises by $1,90,000/2,50,000 \times 100 = 76\%$, whereas profit after tax decreases by $70,000/75,000 \times 100 = 93.33\%$.

Step 3: Conclusion Revenue increased by 20%, but total expenses increased by 68.57%; consequently,

profit after tax fell from Rs 75,000 to Rs 5,000, a decrease of 93.33%.

Quick Tip to Solve: Put the earlier year first and always divide the change by that earlier-year amount.

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, adjust profit before tax for non-cash and non-operating items, then for operating working capital changes, and deduct income tax paid.
- Purchases and sales of fixed assets are investing cash flows. Share and debenture proceeds and interest paid are financing cash flows for a non-financial company.

Step 1: Calculate depreciation, machinery purchase and interest The book value of machinery sold is Rs $4,00,000 - 73,000 = 3,27,000$. Its sale for Rs 3,10,000 creates a loss of Rs 17,000.

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

The new debentures were issued on the last day of the year, so interest for this year is charged only on the opening debentures: Rs $3,00,000 \times 9\% = 27,000$. Goodwill purchased is Rs $2,70,000 - 1,60,000 = 1,10,000$.

Step 2: Determine profit and tax The surplus falls from Rs 4,00,000 to Rs 3,00,000. With no transfer or dividend specified, the current-year loss after tax is Rs 1,00,000. Adding the current provision for tax of Rs 76,000 gives a loss before tax of Rs 24,000. The opening tax provision of Rs 64,000 is taken as tax paid during the year; the closing provision of Rs 76,000 relates to the current year.

Before working capital changes, operating cash profit is Rs $-24,000 + 2,73,000 + 17,000 + 27,000 = 2,93,000$. Inventory decreases by Rs 10,000 and receivables decrease by Rs 20,000, both releasing cash. Payables decrease by Rs 80,000, which uses cash.

Step 3: Prepare the cash flow statement **Mayur Ltd. – Cash Flow Statement**
For the year ended 31st March, 2018

Particulars	Rs
A. Cash flows from operating activities	
Net loss before tax	(24,000)
Add: Depreciation	2,73,000
Add: Loss on sale of machinery	17,000
Add: Interest on debentures	27,000
Operating profit before working capital changes	2,93,000
Decrease in inventories	10,000
Decrease in trade receivables	20,000
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**
B. Cash flows from investing activities	
Purchase of machinery	(12,00,000)
Proceeds from sale of machinery	3,10,000
Purchase of goodwill	(1,10,000)
Net cash used in investing activities (B)	**(10,00,000)**
C. Cash flows from financing activities	
Proceeds from issue of share capital	10,00,000
Proceeds from issue of debentures	1,00,000
Interest paid	(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**

The increase of Rs 2,52,000 reconciles with the difference between the closing and opening cash balances in the balance sheet.

Step 4: Conclusion Net cash from operating activities is Rs 1,79,000; investing activities use Rs 10,00,000; financing activities provide Rs 10,73,000. Closing cash and cash equivalents are Rs 4,46,000.

Quick Tip to Solve: Add depreciation removed on a machinery sale when finding annual depreciation, and use original cost to find purchases.

Option 2 (Computerised Accounting)

18. Which function is used to compute loan repayment schedule? [1 mark]

Solution:

Concept:

- The PMT function calculates a constant periodic payment on a loan with a constant interest rate and a fixed number of payment periods.
- Use a consistent period for the interest rate and number of instalments, such as monthly rate and total monthly instalments.

Step 1: Identify the function The required spreadsheet financial function is **PMT** (payment). It determines the fixed instalment used in preparing a loan repayment schedule.

Step 2: State how it is applied The syntax is `PMT(rate, nper, pv, [fv], [type])`, where rate is interest per period, nper is the number of payments, and pv is the loan principal. The optional future balance is normally zero for a fully repaid loan. The payment covers both principal and interest; their split changes over the repayment periods.

Step 3: Conclusion The **PMT function** is used to compute the periodic loan repayment for a loan repayment schedule.

Quick Tip to Solve: For monthly instalments, divide the annual interest rate by 12 and multiply loan years by 12.

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

Solution:

Concept:

- A database is an organised collection of related data.
- A relational database organises data in tables, called relations, which can be linked through common fields.

Step 1: Identify the tabular structure In a relational database, each table stores data about a particular subject. Its rows are records and its columns are fields or attributes.

Step 2: Explain the relationship between tables Related tables are connected through common fields or keys. For example, a Customer ID can link a customer table with a sales table, allowing related information to be retrieved together without repeating all customer details in each sale.

Step 3: Conclusion A relational database is a collection of related tables in which data is stored in rows and columns and relationships are established through common fields.

Quick Tip to Solve: Remember: tables store the records, while common key fields establish the relationships.

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

Solution:

Concept:

- Accounting data must be protected against unauthorised access and disclosure.
- Password security verifies access credentials; a data vault protects stored company data through encryption.

Step 1: Explain password security Password security is a mechanism that permits access to accounting software or its data only after the user enters the correct password. A password is a secret combination of characters known to the authorised user. The software checks the supplied password before allowing access, thereby restricting outsiders from viewing or changing confidential accounting information. Different users may be assigned separate credentials and permissions according to their responsibilities.

Step 2: Explain a data vault A data vault is a security facility that encrypts the company data stored in accounting software. Encryption transforms readable data into an unreadable form, so that a person who obtains the data files cannot understand their contents without the required vault password or decryption facility. In accounting packages such as Tally, the TallyVault facility can protect company information in this way. The authorised user supplies the correct vault password to open and use the protected data.

Step 3: Distinguish the protection provided Password security acts as an access check when a user attempts to enter the system or use a protected function. A data vault protects the contents of the stored files by encryption. Thus, the former restricts entry, while the latter protects the readability and confidentiality of the data itself. Both are useful because accounting records may contain sensitive balances, transactions and business information.

Step 4: Conclusion Password security restricts access by requiring a valid password. A data vault encrypts stored company data and makes it readable only through authorised access using the required vault password.

Quick Tip to Solve: Link password security with access control, and data vault with encryption of the stored accounting data.

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, viewing and editing data in tables or queries.
- A simple form displays a record in form view; a split form combines form view and datasheet view of the same data.

Step 1: Explain the meaning of a form A form is a user-friendly screen or interface through which a user can enter, display and modify records stored in a database table or obtained through a query.

It presents fields using controls such as labelled text boxes, so that the user can work with records without directly handling the underlying table layout. For example, a customer form may show Customer ID, Name and Address in clearly labelled fields.

Step 2: Describe a simple form A simple form normally presents the fields of one record at a time in form view. The user enters or edits that record and uses navigation controls to move to another record. It is useful when attention is needed on the details of an individual record, but it does not simultaneously show the list of records in a datasheet pane.

Step 3: Distinguish a split form from a simple form A split form displays two views of the same data at the same time: a form view showing the selected record and a datasheet view showing records in rows and fields in columns. These two views are synchronised. Selecting a record in the datasheet displays its details in the form pane, and changes to data in either view are reflected in the other. Consequently, a split form lets the user locate a record quickly in the list and then inspect or edit its details. A simple form provides the individual-record interface without this simultaneous datasheet view.

Step 4: Conclusion A form is an interface for entering, viewing and editing database records. A split form combines synchronised form and datasheet views, whereas a simple form normally shows one record at a time in form view.

Quick Tip to Solve: For the difference, state both views of a split form and mention that selecting or editing data keeps them synchronised.

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 must remain confidential, accurate and available to authorised users. Safety features protect both the records and the reliability of financial reports.
- Data security controls restrict access to the software and protect stored information against unauthorised reading or alteration.

Step 1: Need for safety features Accounting software stores confidential information such as cash and bank balances, customer and supplier details, salaries and financial results. Unauthorised access may lead to disclosure, fraudulent entries, alteration or deletion of records. Accidental errors, malicious software and system failure may also damage the data. Safety features are therefore necessary to preserve confidentiality and accuracy, prevent misuse and maintain dependable records for preparing accounts and taking decisions. Access should be granted according to each employee's responsibility; for example, permission to enter vouchers need not include permission to change security settings.

Step 2: Tool 1: Password security Password security requires a user to enter a valid password before accessing the accounting software or its protected functions. Only authorised users are given the

credentials. User accounts and access rights can limit the operations each person may perform, such as viewing records, entering transactions or changing existing data. A strong password, kept secret and changed periodically, reduces the possibility of unauthorised access and protects confidential accounting information.

Step 3: Tool 2: Data encryption Encryption converts readable accounting data into a coded form using an encryption method and a key. The coded data cannot be meaningfully read without the appropriate decryption key or authorised software. Thus, even if an unauthorised person obtains a copy of an encrypted file, its contents remain protected. Decryption restores the information to a readable form for the authorised user. Encryption therefore protects the confidentiality of stored or transmitted financial information.

Step 4: Conclusion Safety features protect accounting information against unauthorised access, misuse, alteration and loss. Password security controls access, while encryption makes the data unreadable to persons without the required key.

Quick Tip to Solve: Link password security with access control and encryption with converting readable data into a protected coded form.

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

Solution:

Concept:

- A voucher is the document or electronic record used to authorise and record a business transaction. In accounting software, the voucher type determines the nature of the entry being recorded.
- Select the voucher by the substance of the transaction: cash or bank movement, sale, purchase, return or adjustment.

Step 1: Vouchers for cash and bank transactions **Contra voucher:** Records transfers involving cash and bank accounts, such as cash deposited into a bank, cash withdrawn from a bank for office use, or transfer between bank accounts. Both aspects relate to cash or bank balances.

Payment voucher: Records payments through cash or bank, such as rent paid, salary paid or an amount paid to a supplier. Cash or bank is credited.

Receipt voucher: Records amounts received in cash or through a bank, such as collection from a debtor, commission received or capital introduced through cash. Cash or bank is debited.

Step 2: Vouchers for purchases and sales **Purchase voucher:** Records purchases of goods, particularly credit purchases from suppliers, with the supplier's invoice providing the supporting details. For example, goods bought on credit are entered through a purchase voucher.

Sales voucher: Records sales of goods, particularly credit sales to customers, with the sales invoice giving the transaction details. For example, goods sold on credit are entered through a sales voucher.

Step 3: Vouchers for returns and adjustments **Debit note voucher:** Commonly records purchase returns. When goods are returned to a supplier, the supplier's account is debited to reduce the amount payable.

Credit note voucher: Commonly records sales returns. When a customer returns goods, the customer's account is credited to reduce the amount receivable.

Journal voucher: Records adjustment and other non-cash entries that do not fall under the specialised voucher types. Examples include depreciation charged on fixed assets, outstanding expenses and transfer entries. The relevant debit and credit accounts are specified in the voucher.

Step 4: Conclusion The principal accounting voucher types are contra, payment, receipt, purchase, sales, debit note, credit note and journal vouchers. Each provides a suitable entry format for its particular class of transaction.

Quick Tip to Solve: Remember: money paid uses payment, money received uses receipt, cash-bank transfers use contra, and non-cash adjustments use journal.

OR

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

Solution:

Concept:

- A graph presents numerical data visually, using points, lines, bars or other shapes to show quantities and their relationships.
- Graphical presentation helps users understand accounting information, compare results and identify patterns for decisions.

Step 1: Meaning of a graph A graph is a pictorial representation of numerical data. Instead of showing information only as rows of figures, it displays the values through a suitable visual form, such as a line graph or a bar graph. For example, monthly sales can be plotted against months so that the movement of sales is immediately visible. The graph should have a clear title, suitable labels and an appropriate scale so that its meaning is correctly understood.

Step 2: Advantage 1: Easy understanding of information A graph condenses a large amount of numerical information into a simple visual presentation. A reader can grasp the main features quickly without examining every figure in a detailed table. For example, the highest and lowest monthly sales become easy to identify. This saves the reader's time and communicates accounting information clearly, including to users who find long numerical statements difficult to interpret.

Step 3: Advantage 2: Facilitates comparison A graph makes it easier to compare different sets of data on a common basis. Sales of two products, expenses of different departments or actual results against budgeted results can be presented together with the same scale. Differences in the heights of bars or positions of lines help the reader identify relative performance quickly and direct attention to significant variations requiring investigation.

Step 4: Advantage 3: Reveals trends and supports decisions A graph showing data over successive periods makes increases, decreases and recurring fluctuations visible. For example, a line graph of monthly revenue can reveal sustained growth or a seasonal fall. Management can use these observed patterns when planning sales targets, expenditure and future resource requirements. Thus, a graph

supports interpretation and decision-making by bringing out the direction of change in the underlying data.

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

Quick Tip to Solve: State the meaning first, then explain each advantage with a distinct accounting example: understanding, comparison and trends.

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 voucher types while transactions are being entered or existing vouchers are being altered.
- Functionality means the action performed by a key combination; availability means the screen on which that key combination can be used.

Step 1: (i) F6: Receipt voucher Functionality: F6 opens or selects the Receipt voucher. This voucher records amounts received, such as cash or bank receipts from a debtor. Availability: at the Accounting / Inventory Voucher creation and alteration screens. For example, when recording money received from a customer, select the Receipt voucher with F6 and enter the relevant cash or bank and customer ledger details.

Step 2: (ii) F7: Journal voucher Functionality: F7 opens or selects the Journal voucher. This voucher is used for journal adjustments, such as depreciation or the transfer of an amount between appropriate ledger accounts. Availability: at the Accounting / Inventory Voucher creation and alteration screens. It provides the voucher form in which the required accounts can be debited and credited for such an adjustment.

Step 3: (iii) F8: Sales voucher Functionality: F8 opens or selects the Sales voucher. It is used to record sales transactions, whether the amount is received immediately or is due from the customer. Availability: at the Accounting / Inventory Voucher creation and alteration screens. The Sales voucher identifies the transaction as a sale and permits entry of the relevant party and sales details.

Step 4: (iv) CTRL + F8: Credit Note voucher Functionality: CTRL + F8 opens or selects the Credit Note voucher. A credit note may be used to record sales returns or another permitted reduction in the amount due from a customer. Availability: at the Accounting / Inventory Voucher creation

and alteration screens. The CTRL combination distinguishes the Credit Note from the Sales voucher selected by F8 alone.

Step 5: (v) F9: Purchase voucher Functionality: F9 opens or selects the Purchase voucher. It is used to record purchase transactions, including credit purchases from suppliers. Availability: at the Accounting / Inventory Voucher creation and alteration screens. For example, purchases of goods from a supplier can be entered using the appropriate supplier and purchase ledgers in this voucher.

Step 6: (vi) CTRL + F9: Debit Note voucher Functionality: CTRL + F9 opens or selects the Debit Note voucher. It may be used for purchase returns or another permitted reduction in the amount payable to a supplier. Availability: at the Accounting / Inventory Voucher creation and alteration screens. Thus, F9 selects the purchase transaction form, while CTRL + F9 selects the corresponding Debit Note form.

Step 7: Conclusion F6 selects Receipt, F7 Journal, F8 Sales, CTRL + F8 Credit Note, F9 Purchase and CTRL + F9 Debit Note. These combinations are available at the Accounting / Inventory Voucher creation and alteration screens.

Quick Tip to Solve: Remember F8 for sales and F9 for purchases; adding CTRL selects their associated return-note vouchers: Credit Note and Debit Note respectively.