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

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. 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 agreed minimum profit even when the normal profit share is smaller.
- The deficiency is the guaranteed amount less the partner's normal share of profit; it is borne by the other partners according to the agreed arrangement.

Step 1: Identify the absence of a special ratio The question gives no provision specifying how the other partners will bear the shortfall. Therefore, no separate guarantee-bearing ratio is available.

Step 2: Apply the normal sharing basis In this situation, the deficiency is distributed among the other partners in their mutual profit-sharing ratio. The guaranteed partner is excluded from this distribution because the adjustment is made to bring that partner's profit up to the guaranteed minimum.

Step 3: Conclusion The deficiency is borne by the other partners in their profit-sharing ratio.

Quick Tip to Solve: Exclude the guaranteed partner, then use the relative profit shares of the remaining partners unless a special ratio is stated.

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

Solution:

Concept:

- Capital reserve is a reserve created out of capital profits, rather than ordinary operating profits.
- Reserve capital is the portion of uncalled share capital reserved to be called only on the winding up of the company.

Step 1: Identify the nature of capital reserve Capital reserve represents capital profits retained in the business, for example the surplus arising on reissue of forfeited shares. It is a reserve and is generally not available for distribution as an ordinary dividend.

Step 2: Identify the nature of reserve capital Reserve capital represents an amount on shares that shareholders have not yet been required to pay. It is kept uncalled during the company's normal life and can be called only on winding up. Thus it is uncalled capital, whereas capital reserve is an accumulated capital profit.

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: Read the last word: capital reserve is a reserve, while reserve capital is part of uncalled share capital.

OR

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

Solution:

Concept:

- Preference shares carry preferential rights over equity shares in respect of dividend and repayment of capital.
- The dividend preference relates to a fixed amount or a dividend calculated at a fixed rate, subject to the terms of issue.

Step 1: State the dividend preference Preference shareholders have priority over equity shareholders in receiving the specified dividend. Where dividend is distributed, their preferential entitlement is satisfied before dividend is paid to equity shareholders.

Step 2: State the capital repayment preference On winding up, preference shareholders have priority over equity shareholders for repayment of their paid-up share capital. This is a priority between classes of shareholders; it does not place preference shareholders ahead of the company's creditors.

Step 3: Conclusion Preference shares are shares carrying preferential rights to dividend at a fixed amount or rate and to repayment of capital before equity shares on winding up.

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

3. 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:

- Sacrifice is the reduction in an old partner's profit share on admission: Sacrifice $=$ Old share $-$ New share.
- When the basis of acquisition is not specified, the incoming partner acquires the share from the old partners in their old profit-sharing ratio.

Step 1: Identify the missing arrangement No separate agreement is given allocating the new partner's share among the old partners. Hence there is no specified unequal sacrifice to apply independently of their existing profit shares.

Step 2: Apply the existing sharing basis The old partners sacrifice proportionately to their old profit shares, so the sacrificing ratio is the old profit-sharing ratio. If no profit-sharing agreement exists at all, their old shares are equal and this rule gives equal sacrifice.

Step 3: Conclusion The old partners sacrifice in their old profit-sharing ratio; where there is no profit-sharing agreement, this means equally.

Quick Tip to Solve: With no stated source of the incoming partner's share, take sacrifice in the old ratio; do not invent a separate sacrifice ratio.

OR

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

Solution:

Concept:

- The sacrificing ratio is the ratio in which partners give up their existing shares of profit in favour of other partners.
- It is used to compensate sacrificing partners for the loss of their future profit share, particularly through adjustment of goodwill.

Step 1: Identify its use on admission When a new partner is admitted, the old partners who surrender part of their profit shares are compensated for goodwill. The incoming partner's premium for goodwill is credited to the sacrificing partners in their sacrificing ratio.

Step 2: Identify its use on a change of ratio When existing partners change their profit-sharing ratio, some partners may sacrifice while others gain. Goodwill compensation is then given to the sacrificing partners according to the shares they have surrendered, using the sacrificing ratio.

Step 3: Conclusion Two circumstances are admission of a new partner and a change in the profit-sharing ratio among existing partners, for distributing goodwill compensation.

Quick Tip to Solve: Look for a partner losing a future profit share: goodwill compensation to that partner uses the sacrifice, not the new ratio.

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

Solution:

Concept:

- On dissolution, the firm's assets are applied first towards debts due to outside parties and then towards partners' loans or advances.
- A lender who is related to a partner remains an outside creditor unless the lender is also a partner in the firm.

Step 1: Classify the two lenders Varun's wife is not a partner in the firm; her loan of Rs 45,000 is therefore an outside liability. Arun is a partner, so his loan of Rs 65,000 is a partner's loan, separate from his capital.

Step 2: Apply the order of settlement Outside liabilities have priority over loans from partners. The different loan amounts and the equal profit-sharing ratio do not change this order. Consequently, the wife's claim is settled before the firm's funds are used to repay Arun's loan.

Step 3: Conclusion Varun's wife's loan of Rs 45,000 will be paid first because she is an outside creditor; Arun's loan is a partner's loan and ranks after outside liabilities.

Quick Tip to Solve: Classify the lender by membership of the firm, not by family relationship or the size of the loan.

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

Solution:

Concept:

- Receipts and Payments Account is a summary of actual cash and bank receipts and payments, prepared on the cash basis.
- Outstanding and prepaid expense adjustments allocate expenses to the accounting period under the accrual basis; they do not themselves cause cash movement.

Step 1: Examine outstanding expenses An outstanding expense has been incurred but has not yet been paid. Since no cash or bank payment has occurred for that unpaid amount, it is not included as a payment in the Receipts and Payments Account.

Step 2: Examine the prepaid adjustment When an expense is paid in advance, the actual payment is included in full in the Receipts and Payments Account. No adjustment is made to deduct the portion relating to the next period, because this account records payments irrespective of the period to which they relate.

Step 3: Conclusion These adjustments are not recorded because Receipts and Payments Account follows the cash basis and records only actual receipts and payments, without accrual adjustments.

Quick Tip to Solve: Include an advance expense payment as cash paid; exclude only the accrual adjustment, not the actual payment.

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 allocation of the depreciable cost of a fixed asset over its useful life; recording it does not involve a cash payment.
- Receipts and Payments Account follows the cash basis, whereas Income and Expenditure Account follows the accrual basis.

Step 1: Apply the cash basis Depreciation is not recorded in Receipts and Payments Account, because no money is received or paid when depreciation is charged. Any actual payment for purchasing the asset is a separate cash transaction.

Step 2: Apply the accrual basis Income and Expenditure Account records expenses belonging to the current accounting period, whether or not they involve a current payment. Therefore, depreciation for the year is debited to this account as an expense and reduces the surplus or increases the deficit.

Step 3: Conclusion Depreciation is excluded from Receipts and Payments Account but debited as an expense in Income and Expenditure Account.

Quick Tip to Solve: Distinguish the cash paid to buy an asset from its annual depreciation: only the latter is the period's non-cash expense.

6. What is meant by 'mutual agency' in case of partnership? [1 mark]

Solution:

Concept:

- Partnership business may be carried on by all the partners or by any one of them acting for all.
- Mutual agency means that every partner is both an agent and a principal in relation to the firm's business.

Step 1: Explain the partner's role as agent When a partner acts on behalf of the firm within the scope of the partnership business and authority, that partner's act binds the firm and the other partners. The acting partner is therefore their agent.

Step 2: Explain the partner's role as principal Each partner is also bound by the authorised business acts of the other partners. In relation to those acts, the partner is a principal represented by the others. This reciprocal capacity to act for and bind one another is the essence of mutual agency.

Step 3: Conclusion Mutual agency means that each partner acts as an agent for the firm and the other partners and, as a principal, is bound by their authorised acts in the firm's business.

Quick Tip to Solve: State both directions: a partner can bind the others and can also be bound by the others' authorised business acts.

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

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

Solution:

Concept:

- Assets acquired are debited and liabilities taken over are credited. Purchase consideration is the amount payable to the vendor; its excess over net assets is goodwill.
- Debentures issued at a premium discharge the vendor at their issue price. Their nominal value is credited to Debentures Account and the excess to Securities Premium Reserve.

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

Net assets acquired are Rs $3,00,000 - 50,000 = 2,50,000$. Since the consideration exceeds these net assets, the difference is goodwill:

$$\text{Goodwill} = 2,75,000 - 2,50,000 = \text{Rs } 25,000.$$

Premium per debenture is Rs $50 \times 10\% = 5$, so each debenture settles Rs 55 of the vendor's claim.

$$\text{Number issued} = \frac{2,75,000}{55} = 5,000.$$

Thus the nominal liability is Rs $5,000 \times 50 = 2,50,000$, and securities premium is Rs $5,000 \times 5 = 25,000$. The 8% coupon does not affect this issue-price calculation.

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

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

The first entry balances at Rs 3,25,000 and the second at Rs 2,75,000. No Bank entry is needed because the consideration is discharged wholly through debentures.

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

Quick Tip to Solve: Divide the vendor's claim by Rs 55, the issue price, and not by the Rs 50 face value; compute goodwill from net assets first.

OR

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

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

Solution:

Concept:

- Discount on issue is the difference between nominal value and issue proceeds. Here the discount rate is $100\% - 93\% = 7\%$.
- When redemption is by annual instalments, discount is written off in the ratio of debentures outstanding during each year, because the funds remain available in different amounts.

Step 1: Determine the annual write-off **Working Notes**

Total discount is Rs $4,00,000 \times 7\% = 28,000$. The first redemption of Rs 2,00,000 occurs on 31st March, 2017, and the second on 31st March, 2018. Consequently, the amounts outstanding during 2014–15, 2015–16, 2016–17 and 2017–18 are Rs 4,00,000, Rs 4,00,000, Rs 4,00,000 and Rs 2,00,000 respectively.

$$\text{Write-off ratio} = 4 : 4 : 4 : 2 = 2 : 2 : 2 : 1.$$

The discount charged in each of the first three years is Rs $28,000 \times 2/7 = 8,000$; the final year's charge is Rs 4,000. Only the first two financial years fall within the period requested. The coupon rate of 9%

relates to interest and is not the discount rate.

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

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
2014 Apr. 1: To 9% Debentures A/c	28,000	2015 Mar. 31: By Statement of Profit and Loss	8,000
		2015 Mar. 31: By Balance c/d	20,000
Total	28,000	Total	28,000
2015 Apr. 1: To Balance b/d	20,000	2016 Mar. 31: By Statement of Profit and Loss	8,000
		2016 Mar. 31: By Balance c/d	12,000
Total	20,000	Total	20,000
2016 Apr. 1: To Balance b/d	12,000		

The final brought-down balance shows the amount carried into the next year; the requested account closes on 31st March, 2016. Each annual write-off reduces the debit balance of the discount account.

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

Quick Tip to Solve: List the debt outstanding during every year before allocating discount: the first redemption at the end of year three makes the ratio 2:2:2:1.

8. Calculate goodwill of the firm on the basis of 3 years' purchase of the average profits of the last five years. The profits of the last five years were :

Year	Amount (Rs)
2013 – 14	**4,00,000**
2014 – 15	**5,00,000**
2015 – 16	**(60,000)**
2016 – 17	**1,50,000**
2017 – 18	**2,50,000**

Additional Information :

(i) On 1st January, 2016, a fire broke out which resulted into a loss of goods of Rs 3,00,000. A claim of Rs 70,000 was received from the insurance company.

(ii) During the year ended 31st March, 2017 the firm received an unexpected tax refund of Rs 80,000. [3 marks]

Solution:

Concept:

- Goodwill under the average-profit method equals normal average annual profit multiplied by the agreed number of years' purchase.
- Abnormal losses are added back and abnormal gains are deducted from recorded profits to estimate maintainable profits. Insurance recovery offsets the abnormal fire loss.

Step 1: Remove the abnormal items from the relevant years **Working Notes**

The fire occurred on 1st January, 2016, so its effect belongs to 2015–16. The reported Rs 60,000 is a loss, hence it enters the calculation with a negative sign. The uninsured abnormal loss is Rs $3,00,000 - 70,000 = 2,30,000$, which must be added back:

$$\text{Adjusted profit for 2015–16} = -60,000 + 3,00,000 - 70,000 = \text{Rs } 1,70,000.$$

Adding the gross fire loss and deducting the insurance recovery removes both non-recurring components. The unexpected tax refund is an abnormal gain in 2016–17 and must be removed:

$$\text{Adjusted profit for 2016–17} = 1,50,000 - 80,000 = \text{Rs } 70,000.$$

Step 2: Compute average profit and goodwill **Statement of Adjusted Profits**

Year	Adjusted profit (Rs)
2013–14	4,00,000
2014–15	5,00,000
2015–16	1,70,000
2016–17	70,000
2017–18	2,50,000
Total	13,90,000

No adjustment is specified for the other three years, so their recorded profits remain unchanged. All five years receive equal weight under the simple average method.

$$\text{Average annual profit} = \frac{13,90,000}{5} = \text{Rs } 2,78,000.$$

Apply three years' purchase to this adjusted average:

$$\text{Goodwill} = 2,78,000 \times 3 = \text{Rs } 8,34,000.$$

Step 3: Conclusion The firm's goodwill is Rs 8,34,000, based on three years' purchase of the normal average profit of Rs 2,78,000.

Quick Tip to Solve: Treat the bracketed Rs 60,000 as a loss. Add only the net fire loss of Rs 2,30,000 and remove the Rs 80,000 tax refund before averaging.

9. Alton Limited has 50,000, 10% Debentures of Rs 100 each due for redemption on 31st March, 2018. Debenture Redemption Reserve has a balance of Rs 12,50,000 on 31st March, 2017 and the company had 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:

- On redemption, the debenture liability is transferred to Debentureholders Account and the amount due is paid through Bank Account.

- Under the redemption provisions applicable to this question, Debenture Redemption Investment is 15% of the amount maturing. The existing Debenture Redemption Reserve is transferred to General Reserve after redemption.

Step 1: Calculate the redemption amount and investments **Working Notes**

The nominal amount to be redeemed is Rs $50,000 \times 100 = 50,00,000$. Since no redemption premium is specified, payment is at par. Required investments are:

$$\text{Debenture Redemption Investment} = 50,00,000 \times 15\% = \text{Rs } 7,50,000.$$

These investments were already purchased on 30th April, 2017. Their purchase is therefore not recorded again on 31st March, 2018; only their realisation is recorded. No sale gain or loss is specified, so they are realised at their carrying amount. The existing reserve of Rs 12,50,000 equals 25% of the debentures and is already adequate; no additional reserve creation is needed.

Step 2: Pass the entries on the redemption date **Journal of Alton Limited**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2018	Bank A/c Dr. To Debenture Redemption Investment A/c (Being redemption investments realised at carrying amount)		7,50,000	7,50,000
31.3.2018	10% Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at par)		50,00,000	50,00,000
31.3.2018	Debentureholders A/c Dr. To Bank A/c (Being amount due paid to debentureholders)		50,00,000	50,00,000
31.3.2018	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being reserve transferred after full redemption)		12,50,000	12,50,000

The 10% is the coupon rate; interest entries are outside the redemption transactions requested. The reserve transfer affects equity reserves and does not itself provide cash for the payment.

Step 3: Conclusion Debentures of Rs 50,00,000 are redeemed at par, investments of Rs 7,50,000 are realised, and the existing Debenture Redemption Reserve of Rs 12,50,000 is transferred to General Reserve.

Quick Tip to Solve: The reserve and investments already exist: record investment realisation, liability becoming due, payment, and the transfer of the reserve after redemption.

10. From the following information related to a 'Health Club', calculate the amount of subscriptions received during the year ended 31st March, 2018.

	Amount Rs
Income from subscriptions for the year ended 31st March, 2018	1,20,000
Subscriptions received in advance during the year ended 31st March, 2018	10,000
Subscriptions outstanding on 1st April, 2017	27,000
Subscriptions outstanding on 31st March, 2018	22,000
Subscriptions received in advance on 1st April, 2017	8,000

[3 marks]

Solution:

Concept:

- Subscription income is recognised for the year to which it relates, whereas subscriptions received record the actual cash collected during the year.
- To convert income into receipts, add opening outstanding subscriptions and current receipts relating to future years; deduct closing outstanding subscriptions and opening advances already received in the previous year.

Step 1: Identify the timing adjustments The income of Rs 1,20,000 includes subscriptions earned for 2017–18, whether collected or not. Closing outstanding subscriptions of Rs 22,000 have not been received, so deduct them. Opening outstanding subscriptions of Rs 27,000 belong to the preceding year but enter this year's receipts, so add them. Opening advances of Rs 8,000 are included in this year's income but were received before 1st April, 2017, so deduct them. The Rs 10,000 received in advance during this year is cash received now for a later year, so add it to receipts.

Step 2: Reconcile income with cash received The reconciliation for the year ended 31st March, 2018 is:

Particulars	Amount (Rs)
Subscription income for the current year	1,20,000
Add: Opening outstanding subscriptions	27,000
Add: Subscriptions received in advance during the year	10,000
Sub-total	1,57,000
Less: Closing outstanding subscriptions	(22,000)
Less: Opening subscriptions received in advance	(8,000)
Subscriptions received during the year	1,27,000

Check by reversing the adjustments: Rs 1,27,000 plus Rs 22,000 plus Rs 8,000 less Rs 27,000 less Rs 10,000 equals the given income of Rs 1,20,000.

Step 3: Conclusion Subscriptions received by the Health Club during the year ended 31st March, 2018 were $\boxed{\text{Rs } 1,27,000}$.

Quick Tip to Solve: When converting income to cash, reverse the usual receipts-to-income adjustments: opening arrears and new advances increase cash receipts; closing arrears and opening advances decrease them.

11. Dinesh, Ramesh and Suresh are partners in a firm sharing profits and losses in the ratio of 3 : 3 : 2. From 1st April, 2018 they decided to share the future profits equally. On this date, the General Reserve showed a balance of Rs 1,60,000; Revaluation of fixed assets resulted into a gain of Rs 1,02,000 and stock resulted into a loss of Rs 22,000. On this date the goodwill of the firm was valued at Rs 3,60,000.

Pass necessary journal entries for the above transactions on reconstitution of the firm. [4 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit arising before the change belong to the partners in their old profit-sharing ratio, here $3 : 3 : 2$.
- Sacrifice equals old share minus new share. A gaining partner compensates sacrificing partners for goodwill: debit the gaining partner's capital and credit the sacrificing partners' capitals.

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

The new ratio is $1 : 1 : 1$. Dinesh and Ramesh each sacrifice

$$\frac{3}{8} - \frac{1}{3} = \frac{1}{24}.$$

Suresh gains $\frac{1}{3} - \frac{2}{8} = \frac{1}{12}$. Thus he compensates Dinesh and Ramesh equally. His total goodwill adjustment is Rs $3,60,000 \times \frac{1}{12} =$ Rs $30,000$; each sacrificing partner receives Rs $15,000$.

General Reserve of Rs 1,60,000 is divided as Rs 60,000, Rs 60,000 and Rs 40,000. Net revaluation profit is Rs $1,02,000 -$ Rs $22,000 =$ Rs $80,000$, divided as Rs 30,000, Rs 30,000 and Rs 20,000.

Step 2: Transfer the accumulated reserve **Journal of the Firm (1st April, 2018)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2018	General Reserve A/c Dr.		1,60,000	
	To Dinesh's Capital A/c			60,000
	To Ramesh's Capital A/c			60,000
	To Suresh's Capital A/c			40,000
	(Being general reserve distributed in the old ratio of 3 : 3 : 2)			

Step 3: Record revaluation and distribute its profit The increase in fixed assets is credited to Revaluation A/c; the fall in stock is debited to it. Transfer the net credit balance to the partners in their old ratio.

Journal of the Firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2018	Fixed Assets A/c Dr. To Revaluation A/c (Being increase in fixed assets recorded)		1,02,000	 1,02,000
1-4-2018	Revaluation A/c Dr. To Stock A/c (Being reduction in stock recorded)		22,000	 22,000
1-4-2018	Revaluation A/c Dr. To Dinesh's Capital A/c To Ramesh's Capital A/c To Suresh's Capital A/c (Being revaluation profit distributed in the old ratio of 3 : 3 : 2)		80,000	 30,000 30,000 20,000

Step 4: Adjust goodwill through partners' capitals Goodwill is adjusted directly between the gaining and sacrificing partners without raising a goodwill asset in the books.

Journal of the Firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2018	Suresh's Capital A/c Dr. To Dinesh's Capital A/c To Ramesh's Capital A/c (Being goodwill adjusted for Suresh's gain and the equal sacrifices of Dinesh and Ramesh)		30,000	 15,000 15,000

Step 5: Conclusion The entries distribute Rs 1,60,000 of reserve and Rs 80,000 of revaluation profit in 3 : 3 : 2. For goodwill, Suresh is debited Rs 30,000 and Dinesh and Ramesh are credited Rs 15,000 each. Every entry has equal debit and credit totals.

Quick Tip to Solve: Use the old ratio for reserve and revaluation profit; use only the change in each partner's share for goodwill. Here Dinesh and Ramesh each sacrifice $1/24$, so Suresh pays each Rs 15,000.

12. Aman, Binu and Chaman were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2018 their Balance Sheet was as follows :
Balance Sheet of Aman, Binu and Chaman as at 31st March, 2018

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	1,10,000	Buildings	2,20,000
General Reserve	60,000	Machinery	1,30,000
Capital :		Stock	1,10,000
Aman 3,00,000		Patents	81,000
Binu 1,50,000		Debtors	90,000
Chaman 1,00,000	5,50,000	Cash	89,000
	7,20,000		7,20,000

Aman died on 1st October, 2018. It was agreed between his executor and remaining partners that :
(i) Aman's share of goodwill will be Rs 1,87,500.
(ii) Patents will be valued at Rs 51,000, Machinery at Rs 1,10,000 and Building at Rs 2,70,000.
(iii) His share of profit in the year of death is calculated as Rs 37,500.
(iv) Interest on capital was to be provided @ 10% p.a.
Prepare Revaluation Account and Aman's Capital Account to be presented to his executor. [4 marks]

Solution:

Concept:

- Revaluation Account records decreases in asset values on its debit side and increases on its credit side. Its profit or loss belongs to all partners in their old profit-sharing ratio of $5 : 3 : 2$.
- A deceased partner's capital is credited with his share of accumulated reserves, goodwill, profit up to death and interest on capital up to death. The final amount is transferred to his executor's account.

Step 1: Calculate the revaluation adjustments **Working Notes**

Buildings increase by Rs $(2,70,000 - 2,20,000) =$ Rs $50,000$. Patents decrease by Rs $(81,000 - 51,000) =$ Rs $30,000$, and machinery decreases by Rs $(1,30,000 - 1,10,000) =$ Rs $20,000$. Thus, the increase exactly offsets the decreases: $50,000 - 30,000 - 20,000 = 0$. No revaluation profit or loss is transferred to the partners' capital accounts.

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

Dr. Particulars	Rs	Particulars Cr.	Rs
To Patents A/c	30,000	By Buildings A/c	50,000
To Machinery A/c	20,000		
Total	**50,000**	**Total**	**50,000**

Step 3: Determine the credits due to Aman **Working Notes**

Aman's share of General Reserve is $60,000 \times 5/10 =$ Rs $30,000$. Interest on his opening capital is allowed for six months, from 1st April to 1st October, 2018:

$$3,00,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 15,000.$$

His share of profit up to death, Rs 37,500, is already given and is credited through Profit and Loss

Suspense Account; it must not be multiplied by his profit share again. His goodwill entitlement is also directly given as Rs 1,87,500. In the absence of a changed ratio, Binu and Chaman continue in their relative old ratio $3:2$, which is also their gaining ratio. Their capital accounts are therefore debited by $1,87,500 \times 3/5 = \text{Rs } 1,12,500$ and $1,87,500 \times 2/5 = \text{Rs } 75,000$, respectively, with the corresponding credits to Aman.

Step 4: Prepare Aman's Capital Account **Aman's Capital Account**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Aman's Executor's A/c	5,70,000	By Balance b/d	3,00,000
		By General Reserve A/c	30,000
		By Binu's Capital A/c	1,12,500
		By Chaman's Capital A/c	75,000
		By Profit and Loss Suspense A/c	37,500
		By Interest on Capital A/c	15,000
Total	**5,70,000**	**Total**	**5,70,000**

The debit transfer closes Aman's capital account and establishes the liability to his executor. No cash payment is recorded because payment to the executor has not been stated.

Step 5: Conclusion Revaluation produces neither profit nor loss; both sides total Rs 50,000. The amount payable to Aman's executor is $\boxed{\text{Rs } 5,70,000}$.

Quick Tip to Solve: For a death on 1st October after a 31st March balance sheet, allow six months' interest. Do not apply the profit ratio again to amounts expressly given as the deceased partner's share.

13. 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 to Realisation Account, asset sale proceeds and assets taken over by partners are credited to Realisation Account; realisation expenses and payments of previously unrecorded liabilities are debited to it.
- A partner's loan is settled through the partner's Loan Account. An accumulated Profit and Loss debit

balance is borne by partners in their profit-sharing ratio. Neither item is transferred to Realisation Account.

Step 1: Record the furniture sale and auctioneer's commission Furniture's book value has already been transferred, so only the actual proceeds of Rs 68,000 are recorded now. The commission of Rs 2,000 is a separate realisation expense. The net bank inflow is Rs 66,000.

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

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

Step 2: Settle Adiraj's loan A partner's loan is distinct from capital and from third-party liabilities already transferred to Realisation Account. Debit the loan account to remove the liability and credit Bank for the payment.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Adiraj's Loan A/c Dr. To Bank A/c (Being Adiraj's loan repaid)		35,000	35,000

Step 3: Record the stock taken over and stock sold **Working Notes**

Each half of the stock costs $80,000 \times 50\% =$ Rs $40,000$. Karan takes his half at $40,000 \times 80\% =$ Rs $32,000$; the remaining half is sold for $40,000 \times 130\% =$ Rs $52,000$.

Karan's Capital Account is debited for the agreed takeover value, while Bank is debited for the actual sale proceeds.

Journal (continued)

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

Step 4: Record payment of the dishonoured discounted bill Discounting had removed the bill from the firm's assets. Its dishonour makes the firm liable to the bank. Since the acceptor is insolvent and the firm must bear the payment, debit Realisation Account with Rs 3,000 and credit Bank. No recovery from the acceptor is stated.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being discounted bill dishonoured and met by the firm owing to acceptor's insolvency)		3,000	3,000

Step 5: Distribute the accumulated loss **Working Notes**

The debit balance represents an accumulated loss. Adiraj bears $56,000 \times 3/5 =$ Rs $33,600$ and Karan bears $56,000 \times 2/5 =$ Rs $22,400$. Credit Profit and Loss Account to close its debit balance.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Adiraj's Capital A/c Dr.		33,600	
	Karan's Capital A/c Dr.		22,400	
	To Profit and Loss A/c			56,000
	(Being accumulated loss transferred to partners in the ratio 3:2)			

Step 6: Recognise expenses paid by Adiraj The expenses are the firm's expense, so debit Realisation Account. Adiraj has paid personally on behalf of the firm, so credit his Capital Account; there is no payment from the firm's Bank Account for this transaction.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		2,000	
	To Adiraj's Capital A/c			2,000
	(Being realisation expenses paid by Adiraj on behalf of the firm)			

Step 7: Conclusion All six transactions are recorded above with equal debits and credits. Karan's stock takeover is Rs 32,000, the remaining stock realises Rs 52,000, and the accumulated loss is shared as Rs 33,600 by Adiraj and Rs 22,400 by Karan.

Quick Tip to Solve: Separate partner loans and old accumulated losses from Realisation Account. For expenses paid personally by a partner, credit that partner's capital rather than the firm's Bank Account.

14. 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 retain their opening balances; salary, commission, interest, drawings and the share of profit or loss are posted to partners' current accounts.
- Interest on drawings is credited to Profit and Loss Appropriation Account. Interest on capital, salary

and commission are debited; the resulting balance is divided in the agreed ratio of $3:2$.

- Interest on drawings equals amount withdrawn multiplied by annual rate and time in years. Equal quarterly drawings at the beginning of each quarter remain outstanding for an average of 7.5 months.

Step 1: Prepare Working Notes for interest and appropriations The accounting year runs from 1 April 2017 to 31 March 2018. Shreya withdraws Rs 3,000 on 1 April, 1 July, 1 October and 1 January, so her total drawings are Rs 12,000.

$$\begin{aligned}\text{Shreya's interest on drawings} &= 3,000 \times \frac{6}{100} \times \frac{12+9+6+3}{12} \\ &= \text{Rs } 450.\end{aligned}$$

$$\text{Vivek's interest on drawings} = 30,000 \times \frac{6}{100} \times \frac{7}{12} = \text{Rs } 1,050.$$

Vivek's withdrawal on 1 September remains outstanding for seven months. Interest on fixed capitals is $3,00,000 \times 8\% = \text{Rs } 24,000$ for Shreya and $2,00,000 \times 8\% = \text{Rs } 16,000$ for Vivek. Shreya's annual salary is $5,000 \times 12 = \text{Rs } 60,000$; Vivek's commission is Rs 30,000.

$$\begin{aligned}\text{Amount available} &= 1,20,000 + 450 + 1,050 = \text{Rs } 1,21,500, \\ \text{Total appropriations} &= 24,000 + 16,000 + 60,000 + 30,000 \\ &= \text{Rs } 1,30,000, \\ \text{Deficiency} &= 1,30,000 - 1,21,500 = \text{Rs } 8,500.\end{aligned}$$

Transfer the deficiency to current accounts in the profit-sharing ratio: Shreya $8,500 \times 3/5 = \text{Rs } 5,100$, Vivek $8,500 \times 2/5 = \text{Rs } 3,400$. The deficiency is a debit to the partners even though the firm earned a net profit before appropriations.

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

Dr. Particulars	Rs	Cr. Particulars	Rs
To Interest on capital:		By Profit and Loss A/c	1,20,000
Shreya	24,000	By Interest on drawings:	
Vivek	16,000	Shreya	450
To Shreya's salary	60,000	Vivek	1,050
To Vivek's commission	30,000	By Current A/cs (deficiency):	
		Shreya	5,100
		Vivek	3,400
Total	**1,30,000**	**Total**	**1,30,000**

Step 3: Prepare the partners' fixed capital accounts No fresh capital or permanent withdrawal of capital is stated. Ordinary drawings and all annual adjustments therefore affect current accounts only.
Partners' Capital Accounts
for the year ended 31 March 2018; all amounts in Rs

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

Step 4: Prepare and balance the partners' current accounts Shreya begins with a credit balance, whereas Vivek begins with a debit balance. Debit drawings, interest on drawings and the appropriation deficiency; credit salary, commission and interest on capital.

Partners' Current Accounts

for the year ended 31 March 2018; all amounts in Rs

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

The closing credit balance of Shreya's current account is carried down on its debit side. Vivek's closing debit balance is carried down on its credit side. On 1 April 2018 these are brought down on the opposite sides.

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

Quick Tip to Solve: For beginning-of-quarter drawings use 7.5 months; for Vivek count September through March. With fixed capitals, post every annual adjustment to the current accounts and retain the opening debit balance on the debit side.

OR

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

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

Solution:

Concept:

- Hidden goodwill is the excess of the firm's implied total capital, based on the new partner's capital and profit share, over the actual combined capitals after admission.
- Sacrifice equals old profit share minus new profit share. A negative sacrifice denotes a gain, and a gaining existing partner compensates the sacrificing partners for goodwill.
- Since capitals are fixed, goodwill adjustments between partners are made through their current accounts. The new partner's capital contribution is credited to his capital account separately from his goodwill premium.

Step 1: Prepare Working Notes for hidden goodwill Govind contributes Rs 4,00,000 as capital for a $1/5$ share. This implies the following total capital for the whole firm:

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

The actual capital comprises the three old partners' fixed capitals and Govind's capital. Goodwill premium is not part of his capital contribution.

$$\begin{aligned}\text{Actual combined capitals} &= 5,00,000 + 4,00,000 + 3,00,000 + 4,00,000\\ &= \text{Rs } 16,00,000,\\ \text{Goodwill of the firm} &= 20,00,000 - 16,00,000 = \text{Rs } 4,00,000,\\ \text{Govind's goodwill premium} &= 4,00,000 \times \frac{1}{5} = \text{Rs } 80,000.\end{aligned}$$

Thus Govind brings Rs 4,80,000 through bank: Rs 4,00,000 capital and Rs 80,000 goodwill premium.

Step 2: Determine each old partner's sacrifice or gain The old ratio is $3:3:2$, and the new ratio of Ramesh, Mahesh, Suresh and Govind is $2:1:1:1$. Expressing the old and new shares with denominator 40 gives:

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

Ramesh gains $1/40$, so his current account must be debited by $4,00,000 \times 1/40 = \text{Rs } 10,000$. Mahesh is entitled to $4,00,000 \times 7/40 = \text{Rs } 70,000$, and Suresh to $4,00,000 \times 2/40 = \text{Rs } 20,000$. The sacrificing ratio is $7:2$.

The total compensation of Rs 90,000 comes from Govind's premium of Rs 80,000 and Ramesh's adjustment of Rs 10,000. This checks that the total credits equal the total debits in the goodwill adjustment.

Step 3: Record the admission transactions in the journal **Journal of the Firm**

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

Both entries balance: the first has debits and credits of Rs 4,80,000 each; the second has Rs 90,000 each. No Goodwill Account is raised because the premium method is used. No withdrawal of premium

is recorded, since the question does not state that the partners withdraw it.

Step 4: Conclusion The firm's goodwill is **Rs 4,00,000**; Govind brings **Rs 80,000** as premium in addition to Rs 4,00,000 capital. Ramesh's current account is debited by Rs 10,000, while Mahesh's and Suresh's current accounts are credited by Rs 70,000 and Rs 20,000 respectively.

Quick Tip to Solve: Calculate old share minus new share for every old partner: Ramesh gains here. Include his Rs 10,000 contribution with Govind's premium before crediting Mahesh and Suresh, and use current accounts because capitals are fixed.

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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 includes the current year's revenue income and expenses on the accrual basis. Capital receipts, asset purchases and cash balances are excluded.
- Subscription income equals cash subscriptions plus opening advance subscriptions less closing advance subscriptions, with any outstanding subscriptions also adjusted when supplied.
- Depreciation applies only for the period for which an asset belongs to the accounting year. A

purchase after the year end cannot bear depreciation in that year.

Step 1: Check the printed dates before making adjustments The question contains inconsistent dates: the Balance Sheet is dated 31st March, 2018, which is also the end of the year for which the Income and Expenditure Account is requested. Computers are shown as purchased on 1st October, 2018, after that year end, although the payment is included in that year's Receipts and Payments Account. Thus the printed computer date gives **no depreciation for the year ending 31st March, 2018**; charging six months would require a different purchase date.

Further, the Balance Sheet's advance subscriptions of Rs 6,000 cannot be identified as an opening liability from its printed date, while the additional information gives Rs 20,000 received in advance. Cash in hand in the Balance Sheet is Rs 8,000, against Rs 24,000 in the opening receipts. Consequently, the printed data do not support one unqualified final surplus. Cash balances themselves are excluded from Income and Expenditure, so their discrepancy is not adjusted through income.

To demonstrate the full account without silently changing the question, the calculation below is **conditional**: treat the supplied Balance Sheet balances as opening balances, treat Rs 20,000 as closing advance subscriptions, and suppose the computer purchase was on 1st October, 2017. These assumptions are used only for the illustrative account below; they are not the printed dates.

Step 2: Working Notes: calculate revenue income on the stated conditional basis Opening advance subscriptions become income when the membership service is provided. Closing advances relate to the following year and remain a liability.

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

Investments purchased on 1st December, 2017 earn interest for four months to 31st March, 2018:

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

Since cash interest is Rs 1,600, accrued interest is $2,000 - 1,600 = \text{Rs } 400$. The full Rs 2,000 is credited as income. Locker's rent Rs 7,000 and newspaper proceeds Rs 900 are revenue receipts. Entrance fees of Rs 50,000 are treated as revenue in the absence of an instruction to capitalise them. Life membership fees Rs 1,00,000 are capital receipts, and the Rs 17,000 collected specifically for the relief fund belongs to that fund; neither is general income.

Step 3: Working Notes: adjust revenue expenses Outstanding electricity must be added to the payment because it relates to this year's service:

$$\text{Electric charges} = 15,000 + 10,000 = \text{Rs } 25,000.$$

Office expenses Rs 29,000 and postage and stationery Rs 9,000 require no stated accrual adjustment. On the expressly assumed opening furniture balance and six-month computer use:

$$\text{Furniture depreciation} = 40,000 \times 10\% = \text{Rs } 4,000,$$

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

Purchase of computers Rs 1,00,000 and investments Rs 60,000 are capital payments, not expenses.

Only the applicable depreciation is charged; there is no depreciation on investments here.

Step 4: Prepare the conditional Income and Expenditure Account **Namanjyot Society**
Income and Expenditure Account for the year ending 31st March, 2018

Illustration subject to the assumptions stated in Step 1

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's rent	7,000
To Depreciation: furniture	4,000	By Interest on investments	2,000
To Depreciation: computers	30,000	By Entrance fees	50,000
To Surplus (Capital Fund)	46,900		
Total	1,43,900	Total	1,43,900

Check: revenue expenses total $29,000 + 25,000 + 9,000 + 4,000 + 30,000 =$ Rs $97,000$, so the conditional excess of income is $1,43,900 - 97,000 =$ Rs $46,900$. If only the computer date is instead retained literally, while all the other assumptions are retained, depreciation on computers is nil and this conditional surplus increases to Rs 76,900. Neither amount resolves the conflicting opening and closing dates in the question itself.

Step 5: Conclusion The printed dates prevent a unique, fully supported Income and Expenditure Account. Under the explicitly stated opening-balance and six-month-use assumptions, the account balances at Rs 1,43,900 with a surplus of $\boxed{\text{Rs } 46,900}$. This is a conditional result, not an unconditional result from the inconsistent printed dates.

Quick Tip to Solve: First place each balance and purchase date on the accounting-year timeline; only then add opening subscription advances and calculate the months of depreciation.

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

On Application – Rs 15 per share

On Allotment – Rs 10 per share

On First and Final Call – Rs 25 per share

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

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

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

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

Solution:

Concept:

- Excess application money is adjusted first against allotment; any balance is a liability called Calls in Advance until the call becomes due.
- On forfeiture, debit Share Capital with the amount called up. Credit unpaid instalments and credit Share Forfeiture with capital money already received.
- On reissue above face value, credit Securities Premium. The forfeiture balance relating to all reissued shares is transferred to Capital Reserve.

Step 1: Working Notes: allocate the application money The issue price is Rs 50, entirely capital. Application receipts are $3,00,000 \times 15 =$ Rs $45,00,000$, while application capital is $2,00,000 \times 15 =$ Rs $30,00,000$.

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

Thus Rs 12,50,000 is transferred to Share Allotment and Rs 2,50,000 to Calls in Advance.

Step 2: Working Notes: calculate each default and cash receipt Namita's 3,000 allotted shares represent $3,000 \times 4/3 = 4,000$ applications. She paid Rs 60,000 on application; Rs 45,000 is application capital and Rs 15,000 adjusts allotment. Her unpaid allotment is $30,000 - 15,000 =$ Rs $15,000$. Since forfeiture precedes the call, called-up capital is only $3,000 \times 25 =$ Rs $75,000$, and forfeiture is Rs 60,000.

$$\text{Allotment cash} = 20,00,000 - 12,50,000 - 15,000 = \text{Rs } 7,35,000.$$

Manav receives $1,000 \times 1/2 = 500$ shares. Of his Rs 15,000 application payment, Rs 7,500 is application capital, Rs 5,000 adjusts allotment, and Rs 2,500 is calls in advance. His call arrears are $500 \times 25 - 2,500 =$ Rs $10,000$; his forfeiture balance is Rs 15,000.

$$\text{Call due} = (2,00,000 - 3,000) \times 25 = \text{Rs } 49,25,000,$$
$$\text{Call cash} = 49,25,000 - 2,50,000 - 10,000 = \text{Rs } 46,65,000.$$

The call excludes Namita's shares because they have already been forfeited.

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

Cash receipts are entered in the Cash Book below; these journal entries record the non-cash postings. Dates and ledger folios are left blank because dates are not supplied.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Calls in Advance A/c (Being application money appropriated and excess adjusted)		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 at Rs 10 each)		20,00,000	 20,00,000
	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Namita's 3,000 shares forfeited for unpaid allotment)		75,000	 15,000 60,000

Step 4: Record the call, Manav's forfeiture and reserve transfer **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 at Rs 25 each)		49,25,000	 49,25,000
	Calls in Advance A/c Dr. To Share First and Final Call A/c (Being advance money adjusted against the call)		2,50,000	 2,50,000
	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
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on all 3,500 forfeited shares transferred after reissue)		75,000	 75,000

Reissue receipts are $3,500 \times 60 = \text{Rs } 2,10,000$, comprising Share Capital $3,500 \times 50 = \text{Rs } 1,75,000$ and Securities Premium $3,500 \times 10 = \text{Rs } 35,000$. Both credits appear in the Cash Book. There is no reissue discount, so the whole forfeiture credit $60,000 + 15,000$ becomes Capital Reserve.

Step 5: Prepare the bank-column Cash Book **Sunstar Ltd. — Cash Book (Bank Column)**

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

The two reissue credit accounts together represent one bank receipt of Rs 2,10,000. No refund arises because all excess applications are adjusted. As a check, closing equity is Share Capital Rs 1,00,00,000 plus Securities Premium Rs 35,000 plus Capital Reserve Rs 75,000, agreeing with the bank balance.

Step 6: Conclusion Capital Reserve is $\boxed{\text{Rs } 75,000}$, Securities Premium is $\boxed{\text{Rs } 35,000}$, and the Cash Book closes with $\boxed{\text{Rs } 1,01,10,000}$ at bank. All 2,00,000 shares stand fully paid after reissue.

Quick Tip to Solve: Compute excess applications separately for each category: Category II creates calls in advance, while Namita's immediate forfeiture removes her shares from the subsequent call.

OR

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

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

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

On First and Final Call – Balance amount

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

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

Solution:

Concept:

- Application money for shares allotted is transferred to share capital and securities premium in the stated proportions. Excess application money on pro-rata allotment is adjusted against allotment dues.
- On forfeiture, debit share capital only with the capital called up. Reverse unpaid securities premium, but retain premium already received. Share Forfeiture Account receives only the capital money

actually received.

- Discount on reissue is debited to Share Forfeiture Account. When all forfeited shares are reissued, transfer the remaining forfeiture balance to Capital Reserve. Cash transactions are entered in the Cash Book; the journal records the other entries.

Step 1: Calculate allotment and the defaulters' amounts The applied-to-allotted ratio is $1,00,000 : 90,000 = 10 : 9$. Application receipts are $1,00,000 \times 30 =$ Rs $30,00,000$. Of this, Rs 18,00,000 is share capital, Rs 9,00,000 is premium and Rs 3,00,000 is excess adjusted towards allotment. The call per share is $100 + 60 - 30 - 70 =$ Rs 60, entirely capital.

Sudha applied for $4,500 \times 10/9 = 5,000$ shares. Her excess application money is $(5,000 - 4,500) \times 30 =$ Rs $15,000$. Her unpaid allotment is $4,500 \times 70 - 15,000 =$ Rs $3,00,000$. Capital called up before her forfeiture is $4,500 \times (20 + 20) =$ Rs $1,80,000$. The excess application adjustment covers part of allotment capital; unpaid allotment premium is $4,500 \times 50 =$ Rs $2,25,000$. Her forfeited capital receipts are $4,500 \times 20 + 15,000 =$ Rs $1,05,000$.

After Sudha's forfeiture, the call is made on $90,000 - 4,500 = 85,500$ shares: $85,500 \times 60 =$ Rs $51,30,000$. Rajat's unpaid call is $3,600 \times 60 =$ Rs $2,16,000$; his capital already paid is $3,600 \times 40 =$ Rs $1,44,000$. All premium on his shares has been received, so it is not reversed.

Step 2: Record application transfer and allotment due **Journal of Megha Ltd. (non-cash entries)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Application A/c Dr.		30,00,000	
	To Share Capital A/c			18,00,000
	To Securities Premium A/c			9,00,000
	To Share Allotment A/c			3,00,000
	(Being application money transferred and excess adjusted towards allotment)			
	Share Allotment A/c Dr.		63,00,000	
	To Share Capital A/c			18,00,000
	To Securities Premium A/c			45,00,000
	(Being allotment due on 90,000 shares at Rs 70 each, including premium Rs 50 each)			

Allotment cash received is $63,00,000 - 3,00,000 - 3,00,000 =$ Rs $57,00,000$, entered in the Cash Book below.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Sudha's 4,500 shares forfeited for unpaid allotment and unpaid premium reversed)		1,80,000 2,25,000	 3,00,000 1,05,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being call of Rs 60 per share due on the remaining 85,500 shares)		51,30,000	 51,30,000
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being Rajat's 3,600 fully called shares forfeited for non-payment of the call)		3,60,000	 2,16,000 1,44,000

Call cash received is $51,30,000 - 2,16,000 =$ Rs $49,14,000$. Sudha's shares were forfeited before the call, so no call is due on them.

Step 4: Record reissue discount and capital reserve Total forfeited shares are $4,500 + 3,600 = 8,100$. Reissue cash of $8,100 \times 90 =$ Rs $7,29,000$ is recorded as a receipt from Share Capital in the Cash Book. Reissue discount is $8,100 \times 10 =$ Rs $81,000$; the journal records this non-cash portion, so that total share capital credited on reissue is $7,29,000 + 81,000 =$ Rs $8,10,000$.

Total forfeiture balance is $1,05,000 + 1,44,000 =$ Rs $2,49,000$. After using Rs 81,000 for the discount, capital profit is $2,49,000 - 81,000 =$ Rs $1,68,000$.

Journal of Megha Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Forfeiture A/c Dr. To Share Capital A/c (Being discount on reissue of 8,100 shares fully paid; cash proceeds recorded in Cash Book)		81,000	 81,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on all forfeited shares reissued transferred to capital reserve)		1,68,000	 1,68,000

Step 5: Prepare the Cash Book with bank columns All receipts below are the bank entries for the transactions already explained; they are not repeated in the journal. No bank payments are specified.

Cash Book of Megha Ltd. (Bank Columns)

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

As a check, closing paid-up capital Rs 90,00,000 plus securities premium $54,00,000 - 2,25,000 =$ Rs $51,75,000$ plus capital reserve Rs 1,68,000 equals the bank balance of Rs 1,43,43,000.

Step 6: Conclusion Sudha's and Rajat's forfeited capital receipts are Rs 1,05,000 and Rs 1,44,000 respectively. All 8,100 shares are reissued; the reissue discount is Rs 81,000 and Capital Reserve is Rs 1,68,000. The Cash Book closes with a bank balance of Rs 1,43,43,000.

Quick Tip to Solve: Exclude Sudha's 4,500 shares before calculating the Rs 60 call. Reverse her unpaid allotment premium, but do not reverse Rajat's premium, which was already received.

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

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

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

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

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

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

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

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

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

Solution:

Concept:

- Calculate sacrifice from each partner's old share; credit goodwill premium in the sacrificing ratio.
- Distribute revaluation loss and surplus compensation fund in the old ratio; retain the admitted claim as a liability.
- Calculate the incoming partner's proportionate capital from the old partners' adjusted combined capital.

Step 1: Determine the new ratio and distribute goodwill and the fund Raman's sacrifice is $\frac{2}{3} \times \frac{2}{5} = \frac{4}{15}$;

Rohit's sacrifice is $\frac{1}{3} \times \frac{1}{5} = \frac{1}{15}$. Hence Saloni receives $\frac{5}{15} = \frac{1}{3}$, and the sacrificing ratio is $4 : 1$.

$$\text{Raman's new share} = \frac{10}{15} - \frac{4}{15} = \frac{6}{15},$$
$$\text{Rohit's new share} = \frac{5}{15} - \frac{1}{15} = \frac{4}{15}.$$

The new ratio Raman : Rohit : Saloni is therefore $6 : 4 : 5$. Distribute Saloni's goodwill premium of Rs 42,000 as Rs 33,600 to Raman and Rs 8,400 to Rohit. The admitted compensation claim is Rs 16,000; distribute only the surplus fund, $40,000 - 16,000 =$ Rs $24,000$, as Rs 16,000 and Rs 8,000 respectively. The claim remains payable.

Step 2: Prepare the Revaluation Account Furniture falls by $65,000 - 58,500 =$ Rs $6,500$. The additional doubtful-debt provision is Rs 3,000, giving a closing provision of Rs 10,000. Creditors decrease by Rs 2,500. Thus revaluation loss is $35,000 + 6,500 + 3,000 - 2,500 =$ Rs $42,000$, shared by Raman and Rohit in $2 : 1$.

Revaluation Account

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

Step 3: Calculate Saloni's proportionate capital After all admission adjustments, the old partners' capitals are:

$$\text{Raman} = 1,40,000 + 16,000 + 33,600 - 28,000 = \text{Rs } 1,61,600,$$
$$\text{Rohit} = 1,00,000 + 8,000 + 8,400 - 14,000 = \text{Rs } 1,02,400.$$

Their combined capital, Rs 2,64,000, represents their combined new share $\frac{10}{15} = \frac{2}{3}$. Therefore total capital is $2,64,000 \div \frac{2}{3} =$ Rs $3,96,000$, and Saloni brings $3,96,000 \times \frac{1}{3} =$ Rs $1,32,000$. Goodwill premium of Rs 42,000 is additional and remains in the business.

Step 4: Prepare the partners' capital accounts **Partners' Capital Accounts (amounts in Rs)**

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

Step 5: Prepare the balance sheet after admission Bank balance becomes $50,000 + 42,000 + 1,32,000 =$ Rs $2,24,000$. Debtors are shown net of the revised provision: $1,10,000 - 10,000 =$ Rs $1,00,000$.

Balance Sheet of Raman, Rohit and Saloni
as at 31st March, 2018 (after admission)

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

Step 6: Conclusion The new ratio is $6:4:5$, revaluation loss is Rs 42,000 and Saloni brings capital of Rs 1,32,000 plus goodwill premium of Rs 42,000. Closing capitals are Rs 1,61,600, Rs 1,02,400 and Rs 1,32,000 respectively; the reconstituted balance sheet totals Rs 5,69,500.

Quick Tip to Solve: Find each sacrifice from the old share, and use adjusted old capitals for Saloni's capital; distribute only the surplus compensation fund.

OR

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

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

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

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

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

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

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

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

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

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

Solution:

Concept:

- Revaluation profit or loss and accumulated profits belong to all the old partners in their old profit-sharing ratio, here $5:3:2$.
- The continuing partners compensate the retiring partner for her share of goodwill in their gaining ratio, calculated as new share minus old share.
- An asset taken over by the retiring partner is debited to her capital account at its agreed value. Her remaining capital is settled through bank.
- Continuing capitals are adjusted to their new profit-sharing ratio after allowing for all assets and outside liabilities remaining in the business.

Step 1: Calculate goodwill and revaluation adjustments **Working Notes**

Gautam's gain is $2/5 - 3/10 = 1/10$; Kanika's gain is $3/5 - 2/10 = 4/10$. Thus their gaining ratio is $1:4$. Sushma's goodwill entitlement is Rs $8,00,000 \times 5/10 =$ Rs $4,00,000$. Debit Gautam by Rs 80,000 and Kanika by Rs 3,20,000, crediting Sushma by Rs 4,00,000. No goodwill asset is raised.

$$\begin{aligned}\text{Fixed-assets reduction} &= 3,60,000 - 2,90,000 = 70,000,\\ \text{Doubtful-debts provision} &= 1,60,000 \times 5\% = 8,000,\\ \text{Stock reduction} &= 2,40,000 - 2,18,000 = 22,000,\\ \text{Revaluation loss} &= 70,000 + 8,000 + 22,000 = 1,00,000.\end{aligned}$$

The loss is borne by Sushma, Gautam and Kanika as Rs 50,000, Rs 30,000 and Rs 20,000. The credit balance of Profit and Loss Account, Rs 1,00,000, is distributed in exactly the same amounts, so these two adjustments offset in their capitals. Employees' Provident Fund remains an outside liability.

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

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

The debit balance represents the loss transferred to the partners' capital accounts in their old ratio. Stock taken over is separately debited to Sushma's capital; it is not an additional revaluation loss.

Step 3: Determine the cash settlement and required capitals After the offsetting profit and revaluation transfers and the goodwill adjustment, the capital balances are: Sushma Rs 7,00,000; Gautam Rs 1,70,000; Kanika Rs 30,000. Sushma takes stock worth Rs 2,18,000, leaving a cash payment of

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

The business must retain Rs 58,000 in bank. The combined fresh contribution is therefore

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

Total final capital is $1,70,000 + 30,000 + 4,00,000 =$ Rs $6,00,000$. In the new ratio $2:3$, Gautam's

capital must be Rs 2,40,000 and Kanika's Rs 3,60,000. Hence Gautam brings $2,40,000 - 1,70,000 =$ Rs $70,000$, and Kanika brings $3,60,000 - 30,000 =$ Rs $3,30,000$. Check: bank balance $= 1,40,000 + 70,000 + 3,30,000 - 4,82,000 =$ Rs $58,000$.

Step 4: Prepare Partners' Capital Accounts **Partners' Capital Accounts (amounts in Rs)**

In the table, S = Sushma, G = Gautam and K = Kanika.

Dr.							Cr.
Particulars	S	G	K	Particulars	S	G	K
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 Profit and Loss	50,000	30,000	20,000
To Stock	2,18,000	–	–	By Gautam (goodwill)	80,000	–	–
To Bank (settlement)	4,82,000	–	–	By Kanika (goodwill)	3,20,000	–	–
To Balance c/d	–	2,40,000	3,60,000	By Bank (capital)	–	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

Sushma's account is fully settled by stock and cash. The remaining partners carry forward the agreed capitals of Rs 2,40,000 and Rs 3,60,000.

Step 5: Prepare the reconstituted Balance Sheet **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	1,52,000
Gautam	2,40,000	Investments	2,00,000
Kanika	3,60,000	Fixed Assets	2,90,000
Total	7,00,000	Total	7,00,000

Stock is absent because Sushma has taken it over. The accumulated profit and revaluation balance have been transferred to capitals, and no goodwill asset remains. Net assets of Rs 6,00,000 equal the continuing partners' total capital.

Step 6: Conclusion Revaluation loss is **Rs 1,00,000**. Sushma receives stock of **Rs 2,18,000** and cash of **Rs 4,82,000**. Gautam and Kanika bring **Rs 70,000** and **Rs 3,30,000**, leaving capitals of **Rs 2,40,000** and **Rs 3,60,000**. The reconstituted Balance Sheet totals **Rs 7,00,000**.

Quick Tip to Solve: The equal accumulated profit and revaluation loss cancel in each old partner's capital. Settle goodwill next, then use the required closing bank balance to find the fresh capital contribution.

Part B (20 marks)

Option 1 (Analysis of Financial Statements)

18. 'Payment of capital gains tax on sale of fixed assets' will be classified under which type of activity while preparing Cash Flow Statement? [1 mark]

Solution:

Concept:

- Investing activities include the acquisition and disposal of fixed assets and the cash flows directly attributable to these transactions.
- Income tax is generally an operating cash flow, but a tax payment specifically identifiable with an investing transaction is classified with that transaction.

Step 1: Identify the underlying transaction The tax arises specifically from the capital gain on the sale of a fixed asset. Sale of a fixed asset is an investing activity because it involves disposal of a long-term asset.

Step 2: Classify the associated tax payment Since this payment is directly identifiable with that disposal, it is a cash outflow from investing activities. It is not grouped with ordinary income tax paid under operating activities.

Step 3: Conclusion Payment of capital gains tax on sale of fixed assets is classified as an **investing activity**, shown as a cash outflow.

Quick Tip to Solve: Link a specifically identified tax payment to its underlying transaction: tax on the sale of a fixed asset follows investing activities.

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

Solution:

Concept:

- A Cash Flow Statement reports cash inflows and cash outflows during a specified accounting period.
- These flows are classified into operating, investing and financing activities to explain the movement in cash and cash equivalents.

Step 1: Identify the information required Users need to know the sources from which cash was generated and the purposes for which it was used during the period. Accounting profit alone does not give this information because it includes non-cash items and accruals.

Step 2: Relate the flows to the change in cash The statement shows historical changes in cash and cash equivalents by grouping receipts and payments under the three activities. Their combined net cash flow reconciles the opening and closing cash and cash-equivalent balances.

Step 3: Conclusion The primary objective is to provide information about the **cash inflows and cash outflows during the period**, explaining changes in cash and cash equivalents through operating,

investing and financing activities.

Quick Tip to Solve: State the objective in terms of sources and uses of cash during a period; do not substitute the calculation of accounting profit.

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

Solution:

Concept:

- Financial statement analysis studies the relationships among items in the Balance Sheet and the Statement of Profit and Loss to interpret the performance and financial position of a business.
- Its objectives explain what users wish to assess. Ratios, comparative statements and common-size statements are tools used to achieve those objectives.

Step 1: Assess earning capacity and profitability Analysis helps ascertain whether the business earns adequate profit in relation to its sales, assets and capital employed. Studying profits over successive years reveals whether profitability is improving or declining. This assists owners and investors in judging the return on their investment and the enterprise's ability to maintain earnings.

Step 2: Assess managerial and operating efficiency Analysis examines how effectively management uses the resources entrusted to it. Relationships between revenue, expenses and assets reveal whether costs are controlled and whether assets generate adequate business. For example, the relationship between sales and inventory can help assess how efficiently inventory is managed.

Step 3: Assess short-term and long-term solvency Analysis determines the enterprise's capacity to meet its financial commitments. Short-term solvency concerns payment of current obligations when due; long-term solvency concerns servicing interest and repaying long-term debt. These assessments help suppliers and lenders judge the security of the credit they extend.

Step 4: Facilitate comparisons of performance Analysis makes it possible to compare the same enterprise across different years and to compare it with similar enterprises. Such comparisons reveal trends, relative strengths and weaknesses, and areas requiring corrective action. Comparable ratios and percentages make the comparison more meaningful than a comparison of absolute figures alone.

Step 5: Conclusion Four objectives are to assess earning capacity, evaluate managerial efficiency, judge short-term and long-term solvency, and facilitate comparisons of financial performance.

Quick Tip to Solve: State each objective and then explain the decision it supports; naming ratio analysis or comparative statements alone gives tools, not objectives.

OR

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

(i) Balance of the Statement of Profit and Loss

(ii) Interest accrued on investments

(iii) Livestock

(iv) Licenses and Franchise

(v) Securities Premium Reserve

(vi) Trade Marks

(vii) Work in Progress

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

Solution:

Concept:

- Under Schedule III, shareholders' funds and liabilities are classified on the equity and liabilities side; assets are classified as non-current or current according to their nature and expected realisation.
- The major heading identifies the broad category, while the subheading identifies the specific balance-sheet class. Current maturities of long-term debt are presented under Other current liabilities in the format applicable to this question.

Step 1: Classify the items under the prescribed headings The following classification gives the major heading and the subheading for each of the eight items. For fixed assets, the relevant tangible or intangible category is also shown.

Balance Sheet classification under Schedule III

Item	Major heading	Subheading / classification
(i) Balance of the Statement of Profit and Loss	Shareholders' funds	Reserves and surplus
(ii) Interest accrued on investments	Current assets	Other current assets
(iii) Livestock	Non-current assets	Fixed assets: Tangible assets (Property, plant and equipment)
(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 that determine classification The Statement of Profit and Loss balance represents accumulated surplus or deficit, and the Securities Premium Reserve arises from the premium received on the issue of securities; both are presented within Reserves and surplus. Accrued interest is income already earned but not yet received and is shown separately from the investment itself under Other current assets.

Livestock has physical existence, so it is a tangible fixed asset. Licenses, franchises and trade marks are identifiable rights without physical substance, so they are intangible assets. Work in progress

consists of goods still undergoing production and therefore forms part of inventories. Debentures due for repayment during the current year are a current maturity of long-term borrowing, so they move to Other current liabilities instead of remaining under Long-term borrowings.

Step 3: Conclusion Items (i) and (v) belong to Reserves and surplus; (ii) to Other current assets; (iii), (iv) and (vi) to fixed assets in their respective tangible or intangible categories; (vii) to Inventories; and (viii) to Other current liabilities.

Quick Tip to Solve: For debentures, inspect the repayment date before classifying the liability: the current maturity goes under Other current liabilities in this paper's format.

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

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

Solution:

Concept:

- Gross profit ratio is gross profit divided by revenue from operations, multiplied by 100. Therefore, cost of revenue from operations is $100\% - 20\% = 80\%$ of total revenue from operations.
- Trade receivables turnover ratio equals net credit revenue from operations divided by average trade receivables. Average trade receivables equal half the sum of opening and closing trade receivables.
- Cash revenue is one-third of credit revenue here. Hence total revenue comprises four equal parts, of which credit revenue represents three parts.

Step 1: Calculate total revenue from operations The gross profit percentage is based on revenue, not on cost. Let total revenue from operations be R. Since gross profit is $0.20R$, the cost is $R - 0.20R = 0.80R$. Thus,

$$0.80R = \text{Rs } 3,20,000,$$
$$R = \frac{3,20,000}{0.80} = \text{Rs } 4,00,000.$$

The implied gross profit is Rs 80,000, which is 20% of Rs 4,00,000.

Step 2: Separate credit revenue from cash revenue Let credit revenue from operations be C. Cash revenue is $33\frac{1}{3}\%$ of credit revenue, so it equals $C/3$. Therefore,

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

Cash revenue is consequently Rs 1,00,000. Only credit revenue enters the trade receivables turnover calculation because cash sales do not create receivables.

Step 3: Obtain average trade receivables Applying the given turnover of 4 times,

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

Step 4: Use the difference between closing and opening balances Let opening trade receivables be x; closing trade receivables are $x + 15,000$. Substituting in the average,

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

Adding Rs 15,000 gives the closing balance. As a check, the two balances total Rs 1,50,000 and differ by the required Rs 15,000.

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: Cash sales equal one-third of credit sales, so credit sales are three-fourths of total sales. Opening and closing receivables lie Rs 7,500 below and above their average.

OR

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

(i) Purchase of goods for cash

(ii) Bills payable paid at maturity

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

(iv) Cash collected from debtors [4 marks]

Solution:

Concept:

- Quick ratio equals quick assets divided by current liabilities. Quick assets comprise current assets excluding inventory and prepaid expenses; cash and trade receivables are quick assets.
- Let initial quick assets be Q and current liabilities be L. The given ratio implies $Q = 1.5L$, so quick assets exceed current liabilities. Each transaction is considered independently from this initial position.

Step 1: Analyse purchase of goods for cash **(i) The quick ratio reduces.** Cash decreases by the purchase amount, while inventory increases by the same amount. Inventory is excluded from quick assets, so this exchange reduces the numerator without changing current liabilities. If the cash

payment is p, the revised ratio is

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

Thus an unchanged total of current assets does not imply an unchanged quick ratio.

Step 2: Analyse payment of bills payable at maturity **(ii) The quick ratio improves.** Paying a bill reduces cash, a quick asset, and bills payable, a current liability, by equal amounts. Since the initial ratio is above one, the proportionate fall in liabilities is greater than the proportionate fall in quick assets. For a payment b, with current liabilities remaining positive,

$$\frac{Q-b}{L-b} - \frac{Q}{L} = \frac{b(Q-L)}{L(L-b)} > 0.$$

The excess $Q - L$ stays the same while the liability base becomes smaller, so the ratio rises above $1.5 : 1$.

Step 3: Analyse sale of goods at a loss **(iii) The quick ratio improves.** Goods costing Rs 18,000 are sold for Rs 16,000. Inventory falls by Rs 18,000, but inventory was already excluded from quick assets. The sale increases either cash (for a cash sale) or trade receivables (for a credit sale) by Rs 16,000; both are quick assets. Current liabilities remain unchanged. Therefore,

$$\text{Revised quick ratio} = \frac{Q + 16,000}{L} > 1.5.$$

The loss of Rs 2,000 reduces equity and total current assets, but does not reverse the increase in quick assets from converting inventory into cash or receivables.

Step 4: Analyse cash collected from debtors **(iv) The quick ratio does not change.** Cash increases and debtors decrease by the same amount. Both are included in quick assets, so the collection merely changes their composition. If the amount collected is d, total quick assets become $Q + d - d = Q$; current liabilities are unaffected. The ratio therefore remains $Q/L = 1.5 : 1$.

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

Quick Tip to Solve: Track only quick assets and current liabilities. Exclude inventory even when goods are sold at a loss; equal reductions in numerator and denominator improve a ratio initially above one.

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

Particulars	Note No.	2017 – 18	2016 – 17
Revenue from operations		Rs 5,00,000	Rs 6,00,000
Cost of materials consumed		Rs 3,80,000	Rs 4,20,000
Other expenses		Rs 2,20,000	Rs 2,40,000
Tax rate		40%	40%

[4 marks]

Solution:

Concept:

- A common-size statement expresses each item as a percentage of revenue from operations of the same year: Percentage = Item amount/Revenue from operations $\times$ 100.
- Profit before tax equals revenue less total expenses. When expenses exceed revenue, the result is a loss, shown in brackets. A tax rate alone does not create a tax refund on a loss.

Step 1: Calculate expenses and the loss for each year For 2017–18, total expenses are Rs $3,80,000 + 2,20,000 = 6,00,000$, so the loss before tax is Rs $6,00,000 - 5,00,000 = 1,00,000$. For 2016–17, total expenses are Rs $4,20,000 + 2,40,000 = 6,60,000$, so the loss before tax is Rs $6,60,000 - 6,00,000 = 60,000$. Both years show losses. Current tax is therefore nil; no tax benefit or deferred-tax credit is specified in the question. Thus the loss after tax equals the loss before tax in each year.

Step 2: Use each year's own revenue as the base Revenue from operations is 100% in both years. For 2017–18, materials consumed are $3,80,000/5,00,000 \times 100 = 76\%$, other expenses are 44%, and total expenses are 120%. The loss is therefore 20% of revenue. For 2016–17, materials consumed are $4,20,000/6,00,000 \times 100 = 70\%$, other expenses are 40%, and total expenses are 110%. The loss is 10% of revenue. A common-size percentage can exceed 100% when expenses exceed sales.

Step 3: Prepare the common-size statement **Kavya Ltd. – Common-size Statement of Profit and Loss**

For the years ended 31st March, 2018 and 31st March, 2017

Particulars	2017–18 Rs	2016–17 Rs	2017–18 %	2016–17 %
I. Revenue from operations	5,00,000	6,00,000	100	100
II. Total revenue	5,00,000	6,00,000	100	100
III. Expenses:				
Cost of materials consumed	3,80,000	4,20,000	76	70
Other expenses	2,20,000	2,40,000	44	40
Total expenses	6,00,000	6,60,000	120	110
IV. Profit/(loss) before tax	(1,00,000)	(60,000)	(20)	(10)
V. Tax expense	Nil	Nil	0	0
VI. Profit/(loss) after tax	(1,00,000)	(60,000)	(20)	(10)

Step 4: Conclusion Kavya Ltd.'s loss after tax is Rs 1,00,000 (20% of revenue) in 2017–18 and Rs 60,000 (10% of revenue) in 2016–17. Total expenses rose from 110% to 120% of revenue, indicating a deterioration in profitability.

Quick Tip to Solve: Divide by Rs 5,00,000 for 2017–18 and Rs 6,00,000 for 2016–17; retain brackets for losses and do not invent a tax refund merely from the 40% rate.

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 charges, then for changes in operating working capital and income tax paid.
- Purchases and sales of fixed assets are investing activities. Issue of shares and debentures, and interest paid by a non-financial company, are financing activities.
- The net cash flow must equal closing cash and cash equivalents less opening cash and cash equivalents. In the absence of other information, opening tax provision is treated as tax paid and closing tax provision as the current year's tax charge.

Step 1: Work out depreciation, disposal loss and machinery purchases **Working Notes**

The machinery sold had a book value of Rs $4,00,000 - 73,000 = 3,27,000$. Sale proceeds were Rs 3,10,000, so loss on sale is Rs $3,27,000 - 3,10,000 = 17,000$. Add this loss back in operating activities; show the actual proceeds in investing activities. Depreciation for the year restores the depreciation removed on disposal:

$$\text{Depreciation} = 7,00,000 - 5,00,000 + 73,000 = \text{Rs } 2,73,000.$$

Machinery purchases are obtained from the gross cost balances:

$$\text{Purchases} = 36,00,000 - 28,00,000 + 4,00,000 = \text{Rs } 12,00,000.$$

The increase in goodwill, Rs $2,70,000 - 1,60,000 = 1,10,000$, is treated as a cash purchase, since no write-off or non-cash acquisition is given.

Step 2: Calculate profit before tax and working-capital adjustments The Statement of Profit and Loss surplus fell by Rs $4,00,000 - 3,00,000 = 1,00,000$. With no dividend or transfer given, this is the year's loss after tax. Adding the current provision for tax gives:

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

New debentures were issued on the last day of the year, so interest is charged only on opening debentures: Rs $3,00,000 \times 9/100 = 27,000$. It is added back to profit for operating activities and shown as a financing outflow. The Rs 10,000 decrease in inventories and Rs 20,000 decrease in trade receivables release cash. The Rs 80,000 decrease in trade payables uses cash. The net working-capital adjustment is therefore Rs $10,000 + 20,000 - 80,000 = -50,000$. Tax paid is Rs 64,000, the opening provision.

Step 3: Prepare the operating section **Mayur Ltd. – Cash Flow Statement**

For the year ended 31st March, 2018

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net profit/(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
Add: Decrease in inventories	10,000
Add: Decrease in trade receivables	20,000
Less: Decrease in trade payables	(80,000)
Cash generated from operations	2,43,000
Less: Income tax paid	(64,000)
Net cash from operating activities (A)	**1,79,000**

Step 4: Complete the investing and financing sections **Mayur Ltd. – Cash Flow Statement (continued)**

Particulars	Amount (Rs)
B. Cash flow 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 flow from financing activities	
Proceeds from issue of share capital	10,00,000
Proceeds from issue of 9% debentures	1,00,000
Interest paid on debentures	(27,000)
Net cash from financing activities (C)	**10,73,000**
Net increase in cash and cash equivalents (A+B+C)	2,52,000
Add: Opening cash and cash equivalents	1,94,000
Closing cash and cash equivalents	**4,46,000**

The share-capital increase of Rs 10,00,000 is taken as cash proceeds because no non-cash issue is given. The closing cash balance agrees exactly with the balance sheet, confirming the reconciliation.

Step 5: Conclusion Net cash from operating activities is Rs 1,79,000; net cash used in investing activities is Rs 10,00,000; and net cash from financing activities is Rs 10,73,000. The net increase of Rs 2,52,000 reconciles opening cash of Rs 1,94,000 to closing cash of Rs 4,46,000.

Quick Tip to Solve: Add back the Rs 73,000 depreciation removed on sale when finding annual depreciation; charge interest only on the opening debentures because the new issue is dated 31st March.

Option 2 (Computerised Accounting)

18. What is meant by data validation? [1 mark]

Solution:

Concept:

- Data validation checks whether an input satisfies the rules specified for a field before it is accepted for processing.
- Rules may restrict the type, range, length or permitted values of the data, improving the consistency of accounting records.

Step 1: State the meaning Data validation is the process of checking entered data against predefined criteria to ensure that it is acceptable for the intended use. In a spreadsheet, validation can restrict entries in a cell to a whole number, a date, a range of values or a list of permitted choices.

Step 2: Explain with an accounting example For example, the quantity field may accept only non-negative whole numbers, while a transaction-date field may accept only dates within the accounting period. An entry outside the rule is rejected or flagged. Passing validation means that the entry follows the rule; it does not by itself prove that the entry agrees with the original voucher.

Step 3: Conclusion Data validation means checking input data against specified rules to ensure that only acceptable data is entered and processed.

Quick Tip to Solve: Link validation to an input rule: a list of allowed account codes or an allowed date range is a clear example.

19. What is the activity sequence of the basic information processing mode? [1 mark]

Solution:

Concept:

- Information processing converts raw data into meaningful information.
- Input supplies data, processing applies instructions to it, and output communicates the result.

Step 1: Identify the input and processing activities First, data are collected and entered into the system as input. Next, the system processes the data by operations such as classification, calculation and summarisation.

Step 2: Identify the output activity After processing, the system presents the resulting information as output. For example, entered sales transactions are totalled to produce a sales report.

Step 3: Conclusion The activity sequence is Input $\longrightarrow$ Processing $\longrightarrow$ Output.

Quick Tip to Solve: Recall the sequence as IPO: data enter first, are processed next, and emerge as information.

20. Write and explain the formulae to calculate basic pay earned and total earnings. [4 marks]

Solution:

Concept:

- Basic pay earned is the basic salary attributable to the days for which an employee is entitled to pay in the month.
- Total earnings, or gross earnings, comprise basic pay earned and all admissible allowances and other earnings before deductions.

Step 1: Calculate basic pay earned Let B be the employee's basic pay for a full month, D the total number of days in that month and P the number of days for which pay is due. Then

$$\text{Basic pay earned} = B \times \frac{P}{D}.$$

The amount B/D is the daily basic pay; multiplying it by payable days gives basic pay earned. Payable days include admissible paid leave, while absence without pay reduces them. When pay is due for the entire month, $P = D$ and basic pay earned equals the full monthly basic pay.

Step 2: Calculate total earnings Add the allowances and other earnings payable for the period to basic pay earned. In a payroll containing dearness allowance (DA), house rent allowance (HRA) and transport allowance (TA), the formula is

$$\begin{aligned}\text{Total earnings} = \text{Basic pay earned} + \text{DA} \\ + \text{HRA} + \text{TA} + \text{Other earnings}.\end{aligned}$$

Other earnings, when applicable, include overtime pay or a bonus. Each allowance is computed using its prescribed rate and basis before inclusion. If an allowance is a percentage of basic pay earned, multiply that basic pay earned by the percentage divided by 100. Fixed allowances are included at the applicable payable amount.

Step 3: Distinguish earnings from take-home pay In a spreadsheet, enter the basic-pay calculation as monthly basic pay multiplied by payable days and divided by days in the month. Add the resulting cell and the allowance cells to obtain total earnings. Provident fund, income tax and other recoveries are deductions; they are subtracted from total earnings only when calculating net pay, and do not reduce gross earnings.

Step 4: Conclusion Basic pay earned equals monthly basic pay multiplied by the fraction of payable days in the month. Total earnings equal basic pay earned plus DA, HRA, TA and any other admissible earnings, before deductions.

Quick Tip to Solve: Prorate basic pay using payable days first; add allowances for gross earnings and subtract deductions only for net pay.

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

Solution:

Concept:

- An accounting voucher is a document or electronic record used to authorise and record a business transaction in the accounts.
- In a computerised accounting system, the voucher type is selected according to the nature of the transaction so that the appropriate accounts are debited and credited.

Step 1: Explain cash and bank voucher types **Receipt voucher:** Records money received in cash or through a bank, such as a receipt from a debtor or commission received. The relevant cash or bank account is debited.

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

Contra voucher: Records transfers between cash and bank accounts, or between two bank accounts of the business. Examples are cash deposited into the bank and cash withdrawn from the bank for office use. These are internal transfers, not income or expenses.

Step 2: Explain purchase and sales voucher types **Purchase voucher:** Records the purchase of goods, particularly credit purchases from suppliers. Purchases are debited and the supplier's account is credited for a credit purchase.

Sales voucher: Records the sale of goods, particularly credit sales to customers. The customer's account is debited and sales are credited for a credit sale.

Step 3: Explain adjustment and return voucher types **Journal voucher:** Records non-cash adjustments that do not belong to the other specialised voucher types, such as depreciation, outstanding expenses and transfer entries. It identifies the accounts to be debited and credited with equal amounts.

Debit note voucher: Commonly records purchase returns. The business debits the supplier's account to reduce the amount payable and credits Purchase Returns Account.

Credit note voucher: Commonly records sales returns. The business credits the customer's account to reduce the amount receivable and debits Sales Returns Account.

Step 4: Conclusion The main voucher types are receipt, payment, contra, purchase, sales, journal, debit note and credit note. Each records a distinct kind of transaction in the computerised accounts.

Quick Tip to Solve: Identify the transaction first: receipts bring money in, payments send it out, and contra entries transfer it within the business's cash and bank accounts.

OR

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

Solution:

Concept:

- A graph presents numerical data visually through bars, lines, points or other suitable symbols, so that the information and relationships in the data can be understood readily.
- In computerised accounting, graphs can present accounting data such as sales, expenses and profits. A suitable graph makes comparisons and changes over time easier to interpret.

Step 1: Define a graph A **graph is a pictorial or visual representation of numerical data**. Instead of studying a long table of figures alone, the user can examine the relative heights, lengths or positions of plotted values. For example, monthly sales can be shown by a line graph with months along one axis and sales values along the other. The graph communicates the pattern contained in the underlying figures.

Step 2: Explain three advantages **1. Easy understanding of data:** A graph condenses a large amount of numerical information into a clear visual form. The reader can quickly grasp the main features without examining each figure in a table, making accounting reports easier to understand.

2. Convenient comparison: A graph helps compare different items or different periods. For example, bars representing the sales of different branches immediately show which branch has higher or lower sales. This supports a quick assessment of relative performance.

3. Identification of trends: A graph reveals the direction and pattern of changes over time. A line graph of monthly sales can show growth, decline or recurring fluctuations. Such patterns help management analyse past performance and provide a basis for planning and decisions.

Step 3: Conclusion A graph represents numerical information visually. Its three advantages are easier understanding, convenient comparison and clear identification of trends.

Quick Tip to Solve: After defining a graph, explain three distinct benefits: understanding, comparison and trends. Link each benefit to an accounting example.

22. 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 records stored in a table or obtained through a query.
- Forms use controls, such as labelled text boxes, to display fields. The arrangement of the controls makes the data easier to work with than an unformatted collection of records.

Step 1: Explain the meaning of a form A **form** is a structured screen through which a user can enter, display or modify database data. It presents the required fields with suitable labels and controls, while the data itself is stored in the underlying table. For example, a customer form may show the

customer code, name and address together, enabling the user to enter or check a customer's particulars conveniently.

Step 2: Distinguish a simple form from a split form **Simple form:** A simple form presents the fields of one record at a time in a single form view. The user can concentrate on that record and use navigation controls to move to another record. It is suitable for entering or examining the details of an individual customer, supplier or transaction.

Split form: A split form displays the same data in **two views at the same time**: a Form view and a Datasheet view. The Form view shows the fields of the current record, while the Datasheet view displays records in rows and fields in columns, making it easy to locate a record in the list.

The two parts of a split form are **synchronised**. Selecting a record in the datasheet displays that record in the form portion; a permitted change made in one view is reflected in the other. Thus, a split form combines the convenience of working on an individual record with the ability to browse several records in a datasheet. A simple form does not provide this simultaneous, synchronised datasheet portion.

Step 3: Conclusion A form is an interface for entering, viewing and editing database records. A simple form displays one record in a single form view, whereas a split form provides synchronised Form and Datasheet views of the same data together.

Quick Tip to Solve: Remember the key distinction: simple form means one form view; split form means Form view plus Datasheet view, with both portions synchronised.

OR

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

Solution:

Concept:

- Accounting data contains confidential financial information and must remain accurate, complete and accessible only to authorised users.
- Data security tools control access to accounting records and protect their contents from unauthorised reading or alteration.

Step 1: Explain why safety features are necessary Accounting software stores records of cash, bank balances, customers, suppliers, salaries and business results. Unauthorised access can disclose confidential information or permit someone to alter or delete transactions. Such changes may produce incorrect balances and misleading financial statements. Safety features are therefore necessary to protect the confidentiality and integrity of records, prevent misuse and fraud, and allow only authorised persons to perform permitted operations. Protection against accidental loss also helps keep records available when required.

Step 2: Describe password security A password is a secret code used to authenticate a user before allowing access to the accounting system or a protected data file. A person must enter the correct

password to open the protected records. Separate user accounts can be assigned different access rights: for example, a data-entry operator may enter vouchers while only an authorised supervisor may alter sensitive records. Passwords should be kept confidential, made difficult to guess and changed periodically. This reduces the risk of an unauthorised person viewing or changing the accounts.

Step 3: Describe data encryption Encryption converts readable accounting data into an encoded, unreadable form using an encryption method and key. The data becomes intelligible again only after it is decrypted with the proper key or authorised password. Thus, even if an unauthorised person obtains a copy of the stored file or intercepts it during transfer, its contents cannot be read directly. Encryption protects the confidentiality of the information itself, whereas password protection primarily controls entry to the system or file.

Step 4: Conclusion Safety features protect accounting records from unauthorised access, disclosure, alteration and loss. Password security controls access, while encryption makes the stored or transmitted data unreadable without authorised decryption.

Quick Tip to Solve: For each security tool, state how it works and the risk it prevents: a password checks access, whereas encryption protects the readability of the data itself.

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:

- A voucher records a transaction in Tally. Function keys select the appropriate voucher type while entering or altering accounting vouchers.
- Receipt, journal, sales and purchase vouchers record different classes of transactions; credit and debit notes record adjustments such as sales returns and purchase returns.

Step 1: List the function keys and where they are available The required shortcuts are available on the Accounting Voucher Creation and Accounting Voucher Alteration screens. Their functions are as follows:

Key combination	Functionality
(i) F6	Selects the Receipt voucher, used for money received in cash or through a bank, for example a receipt from a customer.
(ii) F7	Selects the Journal voucher, used for journal adjustments such as depreciation or outstanding expenses.
(iii) F8	Selects the Sales voucher, used to record sales transactions, whether cash or credit.
(iv) CTRL + F8	Selects the Credit Note voucher, used for a credit allowed to a customer, for example on a sales return.
(v) F9	Selects the Purchase voucher, used to record purchase transactions, whether cash or credit.
(vi) CTRL + F9	Selects the Debit Note voucher, used for a debit raised on a supplier, for example on a purchase return.

Step 2: Explain the availability of the shortcuts To use these keys, open Accounting Vouchers from the Gateway of Tally and select the appropriate voucher type while creating a voucher. The same key combinations are also available during accounting voucher alteration. Thus, the availability stated above applies to each of the six listed combinations; they are voucher-screen shortcuts rather than commands to open a ledger or financial report.

For CTRL + F8 and CTRL + F9, the debit/credit note facility must be enabled in the company's accounting features, using F11 and setting the option to use debit and credit notes to Yes. Once enabled, CTRL + F8 opens a Credit Note and CTRL + F9 opens a Debit Note. A sales return reduces the customer's liability through a credit note, whereas a purchase return reduces the amount payable to the supplier through a debit note.

Step 3: Conclusion F6 selects Receipt, F7 Journal, F8 Sales, CTRL + F8 Credit Note, F9 Purchase and CTRL + F9 Debit Note. These shortcuts are available in Accounting Voucher Creation and Alteration, with debit/credit notes enabled for the two CTRL combinations.

Quick Tip to Solve: Pair F8 with sales and CTRL + F8 with sales returns (credit note); pair F9 with purchases and CTRL + F9 with purchase returns (debit note).