CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-4-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

(iii) Part **B** has two options – Analysis of Financial Statements and Computerised Accounting.

(iv) Attempt **only one** option of Part **B**.

(v) All parts of a question should be attempted at one place.

Part A (60 marks)

(Accounting for Not-for-Profit Organizations, Partnership Firms and Companies)

1. What is meant by 'Issue of Debentures as Collateral Security'? [1 mark]

Solution:

Concept:

- Collateral security is an additional security given for a borrowing, over and above its primary security.
- A collateral issue gives the lender a claim on the debentures only if the borrower fails to repay the loan.

Step 1: Identify the purpose The company obtains a loan from a bank or another lender and deposits its own debentures with that lender as an additional guarantee. No separate cash consideration is received for these debentures.

Step 2: Explain the lender's right If the company repays the loan, the lender returns the debentures. If the company defaults, the lender may exercise the rights attached to this collateral to recover the unpaid amount.

Step 3: Conclusion Issue of debentures as collateral security means issuing debentures to a lender as additional security for a loan taken by the company.

Quick Tip to Solve: Look for an existing loan: collateral debentures secure that loan and do not raise a second cash receipt.

OR

1. State the provision of the Companies Act, 2013 for the creation of Debenture Redemption Reserve. [1 mark]

Solution:

Concept:

- Debenture Redemption Reserve (DRR) is an appropriation of profits created to provide for redemption of debentures.
- For the provision applicable to this examination, the reserve is created out of profits available for payment of dividend.

Step 1: State the required reserve Under the Companies Act, 2013 provision applicable to this paper, a company is required to create a Debenture Redemption Reserve equal to 25% of the value of debentures before their redemption.

Step 2: State its source and restriction The amount is transferred from profits available for dividend to DRR. The amount credited to this reserve cannot be used for a purpose other than redemption of debentures; it is therefore a restriction on distributable profits.

Step 3: Conclusion DRR is to be created out of profits available for dividend at 25% of the value of

debentures, and used only for redemption of debentures.

Quick Tip to Solve: For this paper, remember both the prescribed 25% and that DRR comes from profits available for dividend.

2. Distinguish between 'Reconstitution of Partnership' and 'Dissolution of Partnership Firm' on the basis of 'Closure of books'. [1 mark]

Solution:

Concept:

- Reconstitution changes the partnership agreement while the firm continues its business.
- Dissolution of the firm ends the business relationship among all partners and requires final settlement.

Step 1: Consider reconstitution On reconstitution of a partnership, the business continues. The existing books of account are not closed; the necessary adjustments for the change in the partners' relationship are recorded in the continuing books.

Step 2: Consider dissolution of the firm On dissolution of the partnership firm, the business is wound up. The assets and liabilities are settled and the books of account are finally closed after the partners' accounts have been settled.

Step 3: Conclusion Reconstitution: books of account are not closed. Dissolution of the firm: books of account are closed.

Quick Tip to Solve: Use business continuity as the test: continuation means continuing books; winding up means final closure.

OR

2. State the basis of calculating the amount of profit payable to the legal representative of a deceased partner in the year of death. [1 mark]

Solution:

Concept:

- A deceased partner is entitled to the share of profit earned from the beginning of the accounting year up to the date of death.
- Where actual profit to that date is unavailable, it is estimated on a time basis or a sales basis, according to the agreement.

Step 1: Identify the estimation basis Profit may be calculated on the basis of time, using the previous year's profit or the average profit of past years in proportion to the period elapsed up to death. Alternatively, it may be calculated on the basis of sales, applying the past profit-to-sales ratio to sales up to death.

Step 2: Apply the deceased partner's share After estimating the firm's profit up to the date of death by the agreed basis, multiply it by the deceased partner's profit-sharing fraction. That amount is credited

to the deceased partner's capital account for settlement with the legal representative.

Step 3: Conclusion The profit payable is calculated on a time basis or on a sales (turnover) basis, as agreed, and then apportioned in the deceased partner's profit-sharing ratio.

Quick Tip to Solve: First estimate the firm's profit up to death; only then apply the deceased partner's share.

3. Dev withdrew Rs 10,000 on 15th day of every month. Interest on drawings was to be charged @ 12% per annum. Calculate interest on Dev's drawings. [1 mark]

Solution:

Concept:

- For equal monthly drawings made in the middle of each month, the average period is six months.
- Interest on drawings equals total drawings multiplied by the annual rate and the average period expressed in years.

Step 1: Calculate total drawings and average period Dev makes twelve drawings of Rs 10,000 each. Thus total drawings are $12 \times 10,000 = \text{Rs } 1,20,000$. As the drawings occur on the 15th of each month, the first is outstanding for 11.5 months and the last for 0.5 month. The average period is $(11.5 + 0.5)/2 = 6$ months.

Step 2: Calculate interest Apply the annual rate to the total drawings for the average period:

$$I = 1,20,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 7,200.$$

Using a whole year for every withdrawal would overstate the interest, because each later drawing remains outstanding for a shorter period.

Step 3: Conclusion Interest on Dev's drawings is Rs 7,200.

Quick Tip to Solve: Equal drawings on the 15th of every month use six months as the average interest period.

4. A and B were partners in a firm sharing profits in the ratio of 3 : 2. C and D were admitted as new partners. A sacrificed 1/4th of his share in favour of C and B sacrificed 50% of his share in favour of D. Calculate the new profit sharing ratio of A, B, C and D. [1 mark]

Solution:

Concept:

- An incoming partner receives the fraction sacrificed by the old partner in whose favour the transfer is made.
- An old partner's new share equals the old share less that partner's sacrifice.

Step 1: Find the shares transferred to C and D The old shares of A and B are $3/5$ and $2/5$. C receives

one-fourth of A's share:

$$C = \frac{1}{4} \times \frac{3}{5} = \frac{3}{20}.$$

D receives 50% of B's share:

$$D = \frac{1}{2} \times \frac{2}{5} = \frac{1}{5} = \frac{4}{20}.$$

Step 2: Find the continuing partners' shares A retains $\frac{3}{5} - \frac{3}{20} = \frac{9}{20}$. B retains $\frac{2}{5} - \frac{1}{5} = \frac{1}{5} = \frac{4}{20}$. Hence the shares of A, B, C and D have the common denominator 20 and numerators 9, 4, 3 and 4. Their sum is $(9 + 4 + 3 + 4)/20 = 1$, confirming that the entire profit is allocated.

Step 3: Conclusion The new profit-sharing ratio of A, B, C and D is $9 : 4 : 3 : 4$.

Quick Tip to Solve: Take the stated fraction of each old partner's own share before subtracting it; do not subtract it from total profits.

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

Solution:

Concept:

- The Receipts and Payments Account records actual cash and bank receipts and payments during the accounting year.
- The Income and Expenditure Account follows the accrual basis and measures the surplus or deficit for the current accounting year.

Step 1: Identify the periods in Receipts and Payments Receipts and Payments Account includes all amounts actually received or paid during the current year, even when they relate to a preceding year, the current year or a future year. The cash movement during the year determines inclusion.

Step 2: Identify the period in Income and Expenditure Income and Expenditure Account includes only income earned and expenditure incurred for the current accounting year. Amounts relating to previous or future years are excluded through accrual and prepayment adjustments, even if the cash moves this year.

Step 3: Conclusion Receipts and Payments Account may contain amounts relating to past, current and future years; Income and Expenditure Account contains only current-year income and expenditure.

Quick Tip to Solve: For period questions, distinguish when cash moves from the year to which the income or expense belongs.

OR

5. What is meant by 'Life membership fees'? [1 mark]

Solution:

Concept:

- A life member pays a single lump-sum membership fee instead of making recurring annual subscription payments.
- Since this receipt relates to membership for the member's lifetime, it is treated as a capital receipt.

Step 1: Explain the nature of the payment Life membership fees are fees received in one lump sum from a person who becomes a member of a not-for-profit organisation for life. In return, that person is exempted from paying the regular annual membership subscription.

Step 2: Explain the accounting significance The payment provides membership rights over the member's lifetime rather than solely for the current accounting year. It is therefore a capital receipt, generally added to the capital fund and not treated as ordinary annual subscription income in the Income and Expenditure Account.

Step 3: Conclusion Life membership fees are lump-sum fees paid by a member for lifetime membership, exempting the member from further annual subscriptions.

Quick Tip to Solve: The key words are one lump sum and lifetime exemption from annual subscription; this identifies a capital receipt.

6. Distinguish between 'Dissolution of partnership' and 'Dissolution of partnership firm' on the basis of settlement of assets and liabilities. [1 mark]

Solution:

Concept:

- Dissolution of partnership changes the existing agreement among partners and may occur without ending the firm.
- Dissolution of the firm terminates the partnership among all partners and entails winding up the business.

Step 1: Explain dissolution of partnership In dissolution of partnership, the firm may continue with a changed relationship among its partners. The firm's assets and liabilities are not necessarily realised and settled; they may continue in the reconstituted business, subject to the required adjustments.

Step 2: Explain dissolution of the firm In dissolution of the partnership firm, the business is wound up. Its assets are realised or taken over and its liabilities are discharged or taken over. The remaining balance is applied in settling the partners' accounts, so final settlement is required.

Step 3: Conclusion Dissolution of partnership does not necessarily require settlement of all assets and liabilities; dissolution of the firm requires their final settlement.

Quick Tip to Solve: Ask whether the firm continues: continued business need not liquidate assets, while winding up requires settlement.

7. What is meant by 'over-subscription' of shares? With the help of an example, briefly explain the alternatives available for allotment of shares in case of over-subscription. [3 marks]

Solution:

Concept:

- Over-subscription occurs when the number of shares applied for exceeds the number of shares offered for subscription.
- A company can reject some applications, make proportionate (pro-rata) allotment, or combine these methods; it cannot allot more shares than offered.

Step 1: Meaning and illustration Suppose a company offers 10,000 shares and receives applications for 15,000 shares. Applications exceed the offer by 5,000 shares, so the issue is over-subscribed. The directors must determine how the available 10,000 shares are to be distributed among the applicants.

Step 2: Alternative 1: reject surplus applications The company may allot 10,000 shares in full to selected applicants and reject applications for the remaining 5,000 shares. The full application money received on rejected applications is refunded, because those applicants receive no shares.

Step 3: Alternative 2: pro-rata allotment The company may allot the 10,000 shares proportionately among all applicants for 15,000 shares. The allotment ratio is $10,000 : 15,000 = 2 : 3$. Thus, an applicant for 300 shares receives 200 shares. Excess application money is adjusted towards allotment and subsequent calls where permitted, with any balance refunded.

Step 4: Alternative 3: a combination The company may reject applications for 3,000 shares and refund their application money, then allot 10,000 shares pro-rata to applicants for the remaining 12,000 shares. The ratio for this accepted group is $10,000 : 12,000 = 5 : 6$; an applicant for 600 shares receives 500 shares.

Step 5: Conclusion Thus, over-subscription is excess demand for the offered shares; the allotment alternatives are rejection, pro-rata allotment, or a combination of the two.

Quick Tip to Solve: In a pro-rata ratio, put shares allotted first and shares applied for second; account separately for rejected applications.

OR

7. What is meant by 'Forfeiture of shares'? When does 'gain on forfeited shares' arise and when is it transferred to capital reserve? [3 marks]

Solution:

Concept:

- Forfeiture of shares is cancellation of the shares of a shareholder who fails to pay allotment money or a call after the prescribed notice and procedure.
- The Share Forfeiture Account records capital money already received on forfeited shares. A discount on their reissue is charged against the forfeiture amount relating to those shares.

Step 1: Explain forfeiture When a shareholder fails to pay an amount due on allotted shares, the

company may forfeit the shares in accordance with its articles and the required notice. The shareholder loses membership in respect of those shares and loses the capital amount already paid on them. The company cancels the shares and can subsequently reissue them.

Step 2: Identify the gain The capital amount already received on forfeited shares is credited to Share Forfeiture Account. On reissue, any discount allowed is debited to this account. The gain is the balance of the forfeited amount relating to the reissued shares after deducting their reissue discount. It is a capital profit, rather than revenue earned through normal trading operations.

Step 3: Explain the time of transfer with an example The gain is transferred to Capital Reserve only after the forfeited shares have been reissued. For example, if 100 shares of Rs 10 each, on which Rs 7 per share was received, are forfeited and reissued as fully paid at Rs 8 per share, the forfeiture amount is Rs 700 and the reissue discount is Rs 200. The resulting capital profit is $700 - 200 = \text{Rs } 500$. On reissue of only part of the forfeited shares, transfer only the surplus attributable to that reissued part; retain the amount relating to shares not yet reissued in Share Forfeiture Account.

Step 4: Conclusion Gain on forfeited shares is the amount forfeited on the shares reissued less their reissue discount. It is transferred to Capital Reserve after reissue, only for the shares actually reissued.

Quick Tip to Solve: Match the forfeiture balance and discount to the same reissued shares before calculating the transfer to Capital Reserve.

8. A, B and C were partners in a firm sharing profits in the ratio of 2 : 1 : 1. On 1st April, 2018 they admitted D as a new partner. D brought Rs 2,00,000 for his capital and Rs 24,000 for his share of goodwill premium. The new profit sharing ratio between A, B, C and D will be 1 : 2 : 1 : 1.

Pass necessary journal entries for the above transactions in the books of the firm on D's admission.

[3 marks]

Solution:

Concept:

- Sacrifice equals old share minus new share. A positive difference is a sacrifice; a negative difference is a gain.
- Goodwill premium compensates sacrificing partners. If an old partner gains, that partner must also compensate the sacrificing partners at the same valuation of goodwill.

Step 1: Calculate sacrifices and the gaining share The old shares of A, B and C are $1/2, 1/4, 1/4$. Their new shares are $1/5, 2/5, 1/5$, while D receives $1/5$.

$$\text{A's sacrifice} = \frac{1}{2} - \frac{1}{5} = \frac{3}{10},$$
$$\text{B's sacrifice} = \frac{1}{4} - \frac{2}{5} = -\frac{3}{20},$$
$$\text{C's sacrifice} = \frac{1}{4} - \frac{1}{5} = \frac{1}{20}.$$

Thus A and C sacrifice in the ratio $6 : 1$, while B gains $3/20$.

Step 2: Value goodwill and allocate compensation D pays Rs 24,000 for a $1/5$ share, so the implied

total goodwill is $24,000 \div (1/5) =$ Rs $1,20,000$. Therefore, B must contribute $1,20,000 \times 3/20 =$ Rs $18,000$. A is credited with $1,20,000 \times 3/10 =$ Rs $36,000$ and C with $1,20,000 \times 1/20 =$ Rs $6,000$. Total compensation is Rs 42,000, financed by D's Rs 24,000 premium and B's Rs 18,000 capital adjustment.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1.4.2018	Bank A/c Dr. To D's Capital A/c To Premium for Goodwill A/c (Being capital and goodwill premium brought in by D)		2,24,000	 2,00,000 24,000
1.4.2018	Premium for Goodwill A/c Dr. B's Capital A/c Dr. To A's Capital A/c To C's Capital A/c (Being goodwill adjusted for the sacrifices of A and C and the gain of B)		24,000 18,000	 36,000 6,000

Step 4: Conclusion Bank is debited by Rs 2,24,000 and D is credited with capital of Rs 2,00,000. For goodwill, B is debited Rs 18,000, A is credited Rs 36,000 and C is credited Rs 6,000, using D's premium of Rs 24,000.

Quick Tip to Solve: Check every old partner for a gain: a gaining old partner must compensate the sacrificing partners along with the incoming partner.

9. From the following information, calculate the amount of sports material consumed by Durga Sports Club for the year ended 31st March, 2018 :

Particulars	31.3.2017 (Rs)	31.3.2018 (Rs)
Balance of sports material	87,000	1,07,000
Creditors for sports material	2,39,000	3,41,000

During the year sports material purchased was Rs 4,94,000. [3 marks]

Solution:

Concept:

- Sports material consumed is the cost of material used during the accounting year: opening stock plus purchases minus closing stock.
- Creditors adjustments are needed when cash paid to suppliers is given. If purchases are already given, they are not adjusted again for changes in creditors.

Step 1: Select the relevant figures The opening stock of sports material on 1st April, 2017 is Rs 87,000, and the closing stock on 31st March, 2018 is Rs 1,07,000. Purchases during the year are explicitly given as Rs 4,94,000. The stock balances measure unused material at the beginning and end of the year; consumption must be determined after allowing for both balances.

Step 2: Calculate material available and consumed Statement of Sports Material Consumed for the year ended 31st March, 2018

Particulars	Amount (Rs)
Opening stock of sports material	87,000
Add: Purchases during the year	4,94,000
Sports material available for use	5,81,000
Less: Closing stock of sports material	1,07,000
Sports material consumed	4,74,000

Thus, $87,000 + 4,94,000 - 1,07,000 = \text{Rs } 4,74,000$.

Step 3: Explain why creditors are not adjusted Opening creditors of Rs 2,39,000 and closing creditors of Rs 3,41,000 would be used to convert cash payments for sports material into accrual purchases. Here Rs 4,94,000 is stated to be purchases, so making that adjustment would count the credit-purchase effect a second time. Consumption is Rs 20,000 below purchases because unused stock increased by Rs 20,000 during the year.

Step 4: Conclusion Sports material consumed by Durga Sports Club for the year ended 31st March, 2018 is Rs 4,74,000, chargeable to its Income and Expenditure Account.

Quick Tip to Solve: Read whether the figure is purchases or cash paid before using creditors; only cash payments require the creditor adjustment.

10. X Ltd. issued 1,000, 9% Debentures of Rs 100 each at a discount of 6%. These debentures were redeemable at a premium of 10% after five years.

Pass necessary journal entries for issue of debentures and prepare 9% Debentures Account. [3 marks]

Solution:

Concept:

- The Debentures Account is credited with the nominal value of the debentures issued, irrespective of the cash collected or the amount repayable.
- Loss on issue includes both discount allowed on issue and premium payable on redemption. Premium on Redemption of Debentures Account records the additional contractual liability.

Step 1: Calculate proceeds and loss on issue The nominal value is $1,000 \times \text{Rs } 100 = \text{Rs } 1,00,000$. The issue price is $100 - 6 = \text{Rs } 94$ per debenture. Therefore:

$$\begin{aligned} \text{Bank proceeds} &= 1,000 \times 94 = \text{Rs } 94,000, \\ \text{Discount on issue} &= 1,00,000 \times 6\% = \text{Rs } 6,000, \\ \text{Premium on redemption} &= 1,00,000 \times 10\% = \text{Rs } 10,000, \\ \text{Loss on issue} &= 6,000 + 10,000 = \text{Rs } 16,000. \end{aligned}$$

The premium is recognised when the debentures are issued, although its payment falls due after five years.

Step 2: Record the issue in the journal Journal of X Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		94,000	
	Loss on Issue of Debentures A/c Dr.		16,000	
	To 9% Debentures A/c			1,00,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being 1,000 debentures of Rs 100 each issued at 6% discount, redeemable at 10% premium after five years)			

The debit of Rs 1,10,000 equals the total credit of Rs 1,10,000. No interest entry is required for the issue transaction.

Step 3: Prepare the nominal-value ledger account 9% Debentures Account in the books of X Ltd.

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Balance c/d	1,00,000	By Bank and Loss on Issue A/cs	1,00,000	
	Total	1,00,000	Total	1,00,000	
			By Balance b/d	1,00,000	

The account has a credit balance because it represents the principal liability. The redemption premium is kept in its separate account; it does not increase the nominal amount credited here.

Step 4: Conclusion Bank receives Rs 94,000; loss on issue is Rs 16,000. The 9% Debentures Account carries a credit balance of Rs 1,00,000 and premium payable on redemption is Rs 10,000.

Quick Tip to Solve: Credit debentures at face value; add the issue discount and redemption premium to find the loss on issue.

11. Jain, Sharma and Verma were partners in a firm sharing profits in the ratio of 1 : 2 : 1. On 31st March, 2018 their firm was dissolved. It was agreed that Sharma will look after the dissolution work and will be paid Rs 15,000 as remuneration. The dissolution expenses were Rs 5,000. Rs 2,84,000 were paid to the creditors in full settlement of their claim of Rs 3,00,000. Dissolution of the firm resulted into a loss of Rs 18,000.

Pass necessary journal entries for the above transactions. [4 marks]

Solution:

Concept:

- Remuneration payable to a partner for dissolution work is debited to Realisation Account and credited to that partner's Capital Account.
- Expenses paid by the firm are debited to Realisation Account. Creditors transferred to Realisation Account are settled by debiting Realisation and crediting Bank.
- The final realisation loss is borne by partners in their profit-sharing ratio, here $1 : 2 : 1$.

Step 1: Record remuneration and dissolution expenses Journal of the firm (31st March, 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Realisation A/c Dr. To Sharma's Capital A/c (Being remuneration due to Sharma for undertaking dissolution work)		15,000	 15,000
31-3-2018	Realisation A/c Dr. To Bank A/c (Being dissolution expenses paid by the firm)		5,000	 5,000

Sharma is entitled to the agreed remuneration independently of his share of the realisation loss. Since the question does not state that Sharma must bear the expenses personally, the actual dissolution expenses are charged to the firm.

Step 2: Transfer and settle the creditors Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Creditors A/c Dr. To Realisation A/c (Being creditors transferred to Realisation Account)		3,00,000	 3,00,000
31-3-2018	Realisation A/c Dr. To Bank A/c (Being creditors settled in full for Rs 2,84,000)		2,84,000	 2,84,000

The settlement produces a benefit of Rs $3,00,000$ − Rs $2,84,000$ = Rs $16,000$ within Realisation Account. A separate entry crediting this benefit again would double-count it.

Step 3: Distribute the final loss among the partners The stated Rs 18,000 is the final loss on dissolution; it is not increased again by the expenses or remuneration already considered in realisation. The total ratio is $1 + 2 + 1 = 4$:

$$\text{Jain's share} = 18,000 \times \frac{1}{4} = \text{Rs } 4,500,$$

$$\text{Sharma's share} = 18,000 \times \frac{2}{4} = \text{Rs } 9,000,$$

$$\text{Verma's share} = 18,000 \times \frac{1}{4} = \text{Rs } 4,500.$$

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Jain's Capital A/c Dr. Sharma's Capital A/c Dr. Verma's Capital A/c Dr. To Realisation A/c (Being final loss on realisation distributed in the profit-sharing ratio of 1:2:1)		4,500 9,000 4,500	 18,000

Step 4: Conclusion Sharma is credited Rs 15,000 remuneration; the firm pays Rs 5,000 expenses and Rs 2,84,000 to creditors. The final loss is debited to Jain, Sharma and Verma at Rs 4,500, Rs 9,000 and Rs 4,500 respectively.

Quick Tip to Solve: Transfer creditors at their book value, record only the actual settlement payment, and divide the stated final loss in 1:2:1.

12. P and Q were partners in a firm sharing profits in 3 : 1 ratio. Their respective fixed capitals were Rs 10,00,000 and Rs 6,00,000. The partnership deed provided interest on capital @ 12% p.a. The partnership deed further provided that interest on capital will be allowed fully even if it will result into a loss to the firm. The net profit of the firm for the year ended 31st March, 2018 was Rs 1,50,000. Pass necessary journal entries in the books of the firm allowing interest on capital and division of profit/loss among the partners. [4 marks]

Solution:

Concept:

- Interest on capital equals capital multiplied by the annual rate. The deed expressly allows the entire interest even when the resulting appropriation is a loss.
- Under the fixed capital method, interest and the share of profit or loss are posted to partners' current accounts. The fixed capital balances remain intact.

Step 1: Calculate the full interest and residual loss For the year ended 31st March, 2018:

$$\begin{aligned} \text{P's interest} &= 10,00,000 \times 12\% = \text{Rs } 1,20,000, \\ \text{Q's interest} &= 6,00,000 \times 12\% = \text{Rs } 72,000, \\ \text{Total interest} &= \text{Rs } 1,92,000, \\ \text{Residual loss} &= 1,92,000 - 1,50,000 = \text{Rs } 42,000. \end{aligned}$$

The available profit does not restrict the interest because the deed expressly provides for full allowance. Divide the residual loss in the profit-sharing ratio $3:1$: P bears $42,000 \times 3/4 = \text{Rs } 31,500$, and Q bears $42,000 \times 1/4 = \text{Rs } 10,500$.

Step 2: Record the journal entries Journal of the firm (31st March, 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Profit and Loss A/c Dr.		1,50,000	
	To Profit and Loss Appropriation A/c			1,50,000
	(Being net profit transferred for appropriation)			
	Interest on Capital A/c Dr.		1,92,000	
	To P's Current A/c			1,20,000
	To Q's Current A/c			72,000
	(Being full interest on fixed capitals allowed at 12% p.a.)			
	Profit and Loss Appropriation A/c Dr.		1,92,000	
	To Interest on Capital A/c			1,92,000
	(Being interest transferred to appropriation account)			
	P's Current A/c Dr.		31,500	
	Q's Current A/c Dr.		10,500	
	To Profit and Loss Appropriation A/c			42,000
	(Being residual loss distributed in the ratio 3:1)			

As a check, the net credits are Rs 88,500 to P and Rs 61,500 to Q; together these equal the firm's net profit of Rs 1,50,000. The appropriation account is thereby closed.

Step 3: Conclusion Allow interest of Rs 1,20,000 to P and Rs 72,000 to Q, and debit their current accounts with the residual loss of Rs 31,500 and Rs 10,500 respectively.

Quick Tip to Solve: When the deed guarantees full interest despite a loss, allow it first and distribute the resulting deficit in the profit-sharing ratio.

13. Pass necessary rectifying journal entries for the following omissions committed while preparing Profit and Loss Appropriation Account. You are also required to show your workings clearly.

(i) A, B and C were partners sharing profits and losses equally. Their fixed capitals were A Rs 4,00,000; B Rs 5,00,000 and C Rs 6,00,000. The partnership deed provided that interest on partners' capital will be allowed @ 10% per annum. The same was omitted.

(ii) P, Q and R were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their partnership deed provided that interest on partners' drawings will be charged @ 18% p.a. Interest on the partners' drawings was Rs 1,000, Rs 500 and Rs 2,000 respectively. The same was omitted.

[6 marks]

Solution:

Concept:

- A past adjustment restores each partner's correct entitlement without reopening the already distributed profit. Compare the omitted credit or debit with the corresponding change in the partner's share of distributable profit.
- Omitted interest on capital reduces divisible profit, while omitted interest on drawings increases divisible profit. A partner with excess credit is debited and a partner with deficient credit is credited.

Step 1: Work out the adjustment for omitted interest on capital Interest at 10% on the fixed capitals is Rs 40,000 for A, Rs 50,000 for B and Rs 60,000 for C. Its total is Rs 1,50,000. As this expense of appropriation was omitted, the distributed profit was excessive by Rs 1,50,000. Since the partners share equally, each received Rs 50,000 too much as profit.

Statement of adjustment (i)

Particulars	A (Rs)	B (Rs)	C (Rs)
Interest on capital due: credit	40,000	50,000	60,000
Excess profit already credited: debit	50,000	50,000	50,000
Net adjustment	10,000 Dr.	Nil	10,000 Cr.

A's earlier profit credit exceeds his omitted interest entitlement by Rs 10,000. C's omitted entitlement exceeds his excess profit credit by Rs 10,000. B requires no net adjustment. Fixed capitals require these corrections in current accounts.

Step 2: Pass the rectifying entry for part (i) Journal of the firm: part (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	A's Current A/c Dr.		10,000	
	To C's Current A/c			10,000
	(Being omitted interest on fixed capitals adjusted after correcting the excess profit distributed equally)			

Step 3: Work out the adjustment for omitted interest on drawings The interest amounts are already given: P Rs 1,000, Q Rs 500 and R Rs 2,000. Do not multiply these figures by 18% again. The total omitted interest is $1,000 + 500 + 2,000 =$ Rs $3,500$. Charging it would increase divisible profit by Rs 3,500. Divide this additional profit in the ratio $2 : 2 : 1$, giving P Rs 1,400, Q Rs 1,400 and R Rs 700.

Statement of adjustment (ii)

Particulars	P (Rs)	Q (Rs)	R (Rs)
Interest on drawings: debit	1,000	500	2,000
Additional profit share: credit	1,400	1,400	700
Net adjustment	400 Cr.	900 Cr.	1,300 Dr.

P and Q must receive net credits because their additional profit shares exceed the interest charge against them. R must bear a net debit because his interest charge exceeds his additional profit share. The net debit of Rs 1,300 equals the total net credits of Rs 1,300.

Step 4: Pass the rectifying entry for part (ii) Journal of the firm: part (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	R's Capital A/c Dr.		1,300	
	To P's Capital A/c			400
	To Q's Capital A/c			900
	(Being omitted interest on drawings and the resulting additional profit adjusted in the ratio 2:2:1)			

Part (ii) does not specify fixed capitals, so the adjustment is recorded through capital accounts under the fluctuating capital method.

Step 5: Conclusion (i) Debit A's Current A/c and credit C's Current A/c by Rs 10,000. (ii) Debit R's Capital A/c by Rs 1,300; credit P's Capital A/c by Rs 400 and Q's Capital A/c by Rs 900.

Quick Tip to Solve: For each partner, net the omitted interest against the change in profit share; all net debits must equal all net credits.

14. A, B and C were partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2018 was as follows :

Balance Sheet of A, B and C as at 31st March, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals : A 7,50,000 B 3,00,000 C 2,50,000	13,00,000	Cash at Bank	3,00,000
Creditors	2,00,000	Sundry Debtors 1,95,000 Less : Provision for Bad Debts 5,000	1,90,000
		Stock	3,00,000
		Fixed Assets	7,10,000
	15,00,000		15,00,000

On the above date they dissolved the firm and following amounts were realised :

Fixed Assets Rs 6,75,000; Stock Rs 3,39,000; Debtors Rs 1,35,000; Creditors were paid Rs 1,85,000 in full settlement of their claim. Expenses on Realisation amounted to Rs 19,000.

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

Solution:

Concept:

- On dissolution, transfer non-cash assets at gross book values and external liabilities to Realisation Account. Transfer any provision relating to the assets separately to its credit.
- Realisation profit or loss is divided in the existing profit-sharing ratio, here $2:2:1$. Cash and bank balances remain outside Realisation Account.

Step 1: Transfer assets, creditors and provision Journal of A, B and C

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		12,05,000	
	To Sundry Debtors A/c			1,95,000
	To Stock A/c			3,00,000
	To Fixed Assets A/c			7,10,000
	(Being assets transferred at gross book values)			
	Creditors A/c Dr.		2,00,000	
	Provision for Bad Debts A/c Dr.		5,000	
	To Realisation A/c			2,05,000
	(Being liability and provision transferred)			

Step 2: Record receipts and payments Assets realise $6,75,000 + 3,39,000 + 1,35,000 =$ Rs $11,49,000$. Creditors are paid only the settlement amount; the reduction in their claim is included automatically in the realisation result.

Journal of A, B and C (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		11,49,000	
	To Realisation A/c			11,49,000
	(Being assets realised)			
	Realisation A/c Dr.		1,85,000	
	To Bank A/c			1,85,000
	(Being creditors settled in full)			
	Realisation A/c Dr.		19,000	
	To Bank A/c			19,000
	(Being realisation expenses paid)			

Step 3: Determine loss and close capital accounts Total realisation debits are $12,05,000 + 1,85,000 + 19,000 =$ Rs $14,09,000$; credits before loss are $2,05,000 + 11,49,000 =$ Rs $13,54,000$. Thus the loss is Rs 55,000, allocated as Rs 22,000, Rs 22,000 and Rs 11,000. Deducting these from the respective capitals gives the amounts payable below.

Journal of A, B and C (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	A's Capital A/c Dr.		22,000	
	B's Capital A/c Dr.		22,000	
	C's Capital A/c Dr.		11,000	
	To Realisation A/c			55,000
	(Being realisation loss shared in the ratio 2:2:1)			
	A's Capital A/c Dr.		7,28,000	
	B's Capital A/c Dr.		2,78,000	
	C's Capital A/c Dr.		2,39,000	
	To Bank A/c			12,45,000
	(Being final balances paid to partners)			

Step 4: Check settlement Bank available for capital settlement is $3,00,000 + 11,49,000 - 1,85,000 - 19,000 =$ Rs $12,45,000$. This equals $7,28,000 + 2,78,000 + 2,39,000$, so all accounts close without an unexplained cash balance.

Step 5: Conclusion Realisation loss is Rs 55,000. Final payments to A, B and C are Rs 7,28,000, Rs 2,78,000 and Rs 2,39,000 respectively.

Quick Tip to Solve: Transfer debtors gross and credit their provision separately; otherwise the Rs 5,000 provision can be counted twice.

OR

14. P, Q and R were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. On 31st March, 2018 their Balance Sheet was as follows :

Balance Sheet of P, Q and R as at 31st March, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	50,000	Cash in Hand	40,000
General Reserve	60,000	Cash at Bank	2,00,000
Capital : P 2,00,000 Q 3,00,000 R 3,00,000	8,00,000	Stock	50,000
		Debtors	60,000
		Fixed Assets	5,60,000
	9,10,000		9,10,000

On the above date the firm was reconstituted and it was decided that :

(i) The new profit sharing ratio will be 2 : 2 : 1.

(ii) Bad debts Rs 6,000 were to be written off and a provision of Rs 3,000 was to be made for bad and doubtful debts.

(iii) The capital of the partners will be adjusted in the new firm in their profit sharing ratio. For this, partners' current accounts will be opened.

Pass the necessary journal entries on the reconstitution of the firm. [6 marks]

Solution:

Concept:

- Reserves and revaluation results earned before reconstitution belong to the partners in their old ratio $3 : 2 : 1$.
- Adjusted total capital is allocated in the new ratio $2 : 2 : 1$. With adjustment through current accounts, a capital deficiency creates a debit current balance and excess capital creates a credit current balance.

Step 1: Distribute accumulated reserve Journal of P, Q and R

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		60,000	
	To P's Capital A/c			30,000
	To Q's Capital A/c			20,000
	To R's Capital A/c			10,000
	(Being reserve distributed in the old ratio 3:2:1)			

Step 2: Recognise the reduction in debtors Bad debts of Rs 6,000 and the new provision of Rs 3,000 together produce a revaluation loss of Rs 9,000. The shares in the old ratio are $9,000 \times 3/6 = 4,500$, $9,000 \times 2/6 = 3,000$, and $9,000 \times 1/6 = 1,500$. No existing provision is shown in the balance sheet.

Journal of P, Q and R (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr.		9,000	
	To Debtors A/c			6,000
	To Provision for Doubtful Debts A/c			3,000
	(Being bad debts written off and provision created)			
	P's Capital A/c Dr.		4,500	
	Q's Capital A/c Dr.		3,000	
	R's Capital A/c Dr.		1,500	
	To Revaluation A/c			9,000
	(Being revaluation loss distributed in the old ratio)			

Step 3: Calculate revised capital requirements After reserve and loss adjustments, capitals are: P, $2,00,000 + 30,000 - 4,500 =$ Rs $2,25,500$; Q, $3,00,000 + 20,000 - 3,000 =$ Rs $3,17,000$; R, $3,00,000 + 10,000 - 1,500 =$ Rs $3,08,500$. Total capital is Rs 8,51,000. Allocating it in $2 : 2 : 1$ gives P and Q Rs 3,40,400 each and R Rs 1,70,200. P is short by Rs 1,14,900; Q is short by Rs 23,400; R has excess of Rs 1,38,300.

Step 4: Make adjustment through current accounts The question specifically requires current accounts, so no cash is introduced or withdrawn. Debit current accounts to increase deficient capital and credit current accounts to reduce excess capital. The debit current balances total Rs 1,38,300, equal to the credit current balance.

Journal of P, Q and R (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	P's Current A/c Dr.		1,14,900	
	Q's Current A/c Dr.		23,400	
	To P's Capital A/c			1,14,900
	To Q's Capital A/c			23,400
	(Being capital deficiencies transferred to current accounts)			
	R's Capital A/c Dr.		1,38,300	
	To R's Current A/c			1,38,300
	(Being excess capital transferred to current account)			

Step 5: Conclusion New capitals: P Rs 3,40,400; Q Rs 3,40,400; R Rs 1,70,200. Current balances: P debit Rs 1,14,900; Q debit Rs 23,400; R credit Rs 1,38,300.

Quick Tip to Solve: Adjust reserves and revaluation in the old ratio before calculating the total capital to divide in the new ratio.

15. From the following Receipts and Payments Account and additional information of Swachh Bharat Club, New Delhi for the year ended 31st March, 2018, prepare Income and Expenditure Account and Balance Sheet.

Receipts and Payments Account of Swachh Bharat Club for the year ended 31st March, 2018

Receipts	Amount (Rs)	Payments	Amount (Rs)
To Balance b/d Cash 20,000 Bank 40,000	60,000	By Campaign Expenses	1,30,000
To Subscriptions	1,80,000	By Office rent	40,000
To Sale of old furniture (book value Rs 3,000)	2,000	By Salary	10,000
To Life Membership fees	30,000	By Furniture hire rent	12,000
To Government grants	2,00,000	By Advertisement	15,000
		By Fixed deposit (On 1.8.2017 @12%p.a.)	2,00,000
		By Balance c/d Cash 25,000 Bank 40,000	65,000
	4,72,000		4,72,000

Additional Information :

Assets on 1.4.2017 were : Books Rs 50,000; Computers Rs 75,000.

Liabilities and Capital fund on 1.4.2017 were : Creditors Rs 60,000; Capital fund Rs 1,28,000.

[6 marks]

Solution:

Concept:

- Income and Expenditure Account records revenue income and expenses on the accrual basis. A general government grant is revenue income; life membership fees are added to the capital fund.
- Interest earned on a fixed deposit is recognised even when not received. A loss on sale equals the book value of the asset less its sale proceeds.

Step 1: Calculate the adjustments The fixed deposit was made on 1st August, 2017, so interest accrues for eight months up to 31st March, 2018:

$$\text{Accrued interest} = 2,00,000 \times \frac{12}{100} \times \frac{8}{12} = \text{Rs } 16,000.$$

The old furniture has book value Rs 3,000 and sale proceeds Rs 2,000; the loss on sale is Rs 1,000. The government grant has no stated capital purpose and is therefore revenue income. Life membership fees of Rs 30,000 are a capital receipt. The fixed deposit is an investment, so its purchase does not enter revenue expenditure. Opening assets must equal opening liabilities plus capital fund, namely Rs 60,000 + Rs 1,28,000 = Rs 1,88,000. Cash and bank, books and computers total Rs 60,000 + Rs 50,000 + Rs 75,000 = Rs 1,85,000. Thus opening furniture was Rs 3,000, all of which was sold; no furniture remains at the year end.

Step 2: Prepare the Income and Expenditure Account **Swachh Bharat Club, New Delhi: Income and Expenditure Account for the year ended 31st March, 2018**

Dr. Expenditure	Rs	Income Cr.	Rs
To Campaign expenses	1,30,000	By Subscriptions	1,80,000
To Office rent	40,000	By Government grants	2,00,000
To Salary	10,000	By Interest on fixed deposit	16,000
To Furniture hire rent	12,000		
To Advertisement	15,000		
To Loss on sale of furniture	1,000		
To Surplus (capital fund)	1,88,000		
Total	3,96,000	Total	3,96,000

Revenue expenses total Rs 2,08,000. The excess of revenue income of Rs 3,96,000 over these expenses is transferred to the capital fund.

Step 3: Prepare the closing Balance Sheet **Swachh Bharat Club, New Delhi: Balance Sheet as at 31st March, 2018**

Liabilities	Rs	Assets	Rs
Capital fund: opening	1,28,000	Books	50,000
Add: Life membership fees	30,000	Computers	75,000
Add: Surplus	1,88,000	Fixed deposit	2,00,000
Capital fund: closing	3,46,000	Interest accrued	16,000
Creditors	60,000	Cash	25,000
		Bank	40,000
Total	4,06,000	Total	4,06,000

The first three capital-fund lines are the working for its closing subtotal; only Rs 3,46,000 enters the liabilities total. Creditors are unchanged because no settlement or other adjustment is given. Books and computers remain at their opening values because no depreciation is prescribed.

Step 4: Conclusion The surplus is Rs 1,88,000; the closing capital fund is Rs 3,46,000, and the Balance Sheet totals Rs 4,06,000.

Quick Tip to Solve: Count August to March as eight months, and show accrued deposit interest both as income and as an asset.

16. A and B were partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2018, was as follows :

Balance Sheet of A and B as at 31st March, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital : A 1,04,000 B 52,000	1,56,000	Cash	8,000
Creditors	1,54,000	Sundry Debtors 37,600 Less : Provision for doubtful debts 1,600	36,000
Employees' Provident Fund	16,000	Stock	60,000
Workmen Compensation Fund	10,000	Prepaid Insurance	6,000
Contingency Reserve	10,000	Plant and Machinery	76,000
		Building	1,40,000
		Furniture	20,000
	3,46,000		3,46,000

C was admitted as a new partner and brought Rs 64,000 as capital and Rs 15,000 for his share of goodwill premium. The new profit sharing ratio was 5 : 3 : 2.

On C's admission the following was agreed upon :

(i) Stock was to be depreciated by 5%.

(ii) Provision for doubtful debts was to be made at Rs 2,000.

(iii) Furniture was to be depreciated by 10%.

(iv) Building was valued at Rs 1,60,000.

(v) Capitals of A and B were to be adjusted on the basis of C's capital by bringing or paying of cash as the case may be.

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

Solution:

Concept:

- Revaluation gains and losses belong to the old partners in their old profit-sharing ratio, here 3 : 2. Unclaimed workmen compensation fund and contingency reserve are also distributed in that ratio.
- Goodwill premium is credited in the sacrificing ratio, computed as old share minus new share. Capitals based on the incoming partner are adjusted to the new profit-sharing ratio.

Step 1: Calculate sacrifice, revaluation and capital adjustments The sacrificing shares are

$$A: \frac{3}{5}-\frac{5}{10}=\frac{1}{10}, \qquad B: \frac{2}{5}-\frac{3}{10}=\frac{1}{10}.$$

Thus goodwill premium Rs 15,000 is shared equally: Rs 7,500 each. The workmen compensation fund has no claim stated, so Rs 10,000 is distributed with contingency reserve Rs 10,000: A receives Rs 12,000 and B Rs 8,000. Stock depreciation is Rs 3,000; additional doubtful-debt provision is Rs 2,000 - Rs 1,600 = Rs 400; furniture depreciation is Rs 2,000. Building appreciation is Rs 20,000. Revaluation profit is Rs 14,600, shared as A Rs 8,760 and B Rs 5,840. C's Rs 64,000 capital represents $2/10$ of the total. Therefore total capital is Rs 3,20,000, with A Rs 1,60,000 and B Rs 96,000. Before cash adjustment A has Rs 1,32,260 and B Rs 73,340; they bring Rs 27,740 and Rs 22,660 respectively.

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

Dr. Particulars	Rs	Particulars Cr.	Rs
To Stock	3,000	By Building	20,000
To Provision for doubtful debts	400		
To Furniture	2,000		
To A's Capital (profit)	8,760		
To B's Capital (profit)	5,840		
Total	20,000	Total	20,000

Only the increase in the existing provision is charged to revaluation. The employee provident fund is an outside liability and remains payable; it is not distributed as a free reserve.

Step 3: Prepare the Partners Capital Accounts **A's Capital Account**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Balance c/d	1,60,000	By Balance b/d	1,04,000
		By Workmen compensation fund	6,000
		By Contingency reserve	6,000
		By Goodwill premium	7,500
		By Revaluation	8,760
		By Cash	27,740
Total	1,60,000	Total	1,60,000

B's Capital Account

Dr. Particulars	Rs	Particulars Cr.	Rs
To Balance c/d	96,000	By Balance b/d	52,000
		By Workmen compensation fund	4,000
		By Contingency reserve	4,000
		By Goodwill premium	7,500
		By Revaluation	5,840
		By Cash	22,660
Total	96,000	Total	96,000

C's Capital Account

Dr. Particulars	Rs	Particulars Cr.	Rs
To Balance c/d	64,000	By Balance b/d	–
		By Cash	64,000
Total	64,000	Total	64,000

C brings total cash Rs 79,000, comprising capital Rs 64,000 and goodwill premium Rs 15,000; only the capital belongs in C's capital account. The premium is credited to the sacrificing partners.

Step 4: Prepare the reconstituted firms Balance Sheet Closing cash is Rs 8,000 + Rs 64,000 + Rs 15,000 + Rs 27,740 + Rs 22,660 = Rs 1,37,400. **Balance Sheet of A, B and C after admission**

Liabilities	Rs	Assets	Rs
Capital: A	1,60,000	Cash	1,37,400
Capital: B	96,000	Debtors: Rs 37,600	
Capital: C	64,000	Less provision: Rs 2,000	35,600
Creditors	1,54,000	Stock	57,000
Employees' Provident Fund	16,000	Prepaid insurance	6,000
		Plant and machinery	76,000
		Building	1,60,000
		Furniture	18,000
Total	4,90,000	Total	4,90,000

The distributed funds no longer appear as liabilities. The revised capitals total Rs 3,20,000 and are in the required ratio $5 : 3 : 2$.

Step 5: Conclusion Revaluation profit is Rs 14,600. A brings Rs 27,740 and B Rs 22,660; closing capitals are Rs 1,60,000, Rs 96,000 and Rs 64,000. The Balance Sheet totals Rs 4,90,000.

Quick Tip to Solve: Compute sacrifice separately from the old ratio: goodwill is shared equally here, while reserves and revaluation use 3:2.

OR

16. G, E and F were partners in a firm sharing profits in the ratio of 7 : 2 : 1. The Balance Sheet of the firm as at 31st March, 2018, was as follows :

Balance Sheet of G, E and F as at 31st March, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital : G 1,40,000 E 40,000 F 20,000	2,00,000	Cash	90,000
Creditors	28,000	Sundry Debtors	24,000
General Reserve	40,000	Stock	14,000
Loan from E	60,000	Machinery	80,000
		Land and Building	1,20,000
	3,28,000		3,28,000

E retired on the above date. On E's retirement the following was agreed upon :

(i) Land and Building were revalued at Rs 1,88,000, Machinery at Rs 76,000 and Stock at Rs 10,000 and goodwill of the firm was valued at Rs 90,000.

(ii) A provision of 2.5% was to be created on debtors for doubtful debts.

(iii) The net amount payable to E was transferred to his loan account to be paid later on.

(iv) Total capital of the new firm was fixed at Rs 2,40,000 which will be adjusted according to their new profit sharing ratio by opening current accounts.

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

Solution:

Concept:

- Revaluation gains and losses and accumulated reserves belong to all old partners in their old ratio, $7:2:1$.
- In the absence of a different agreement, G and F continue in their relative old ratio $7:1$. They compensate E for goodwill in their gaining ratio $7:1$.
- Fixed capitals are adjusted through current accounts; no cash is brought in or withdrawn for this adjustment.

Step 1: Calculate revaluation and goodwill Land and building appreciates by Rs 68,000. Machinery and stock each fall by Rs 4,000. Provision for doubtful debts is $24,000 \times 2.5\% = 600$. Thus the net revaluation profit is

$$68,000 - 4,000 - 4,000 - 600 = 59,400.$$

G, E and F receive Rs 41,580, Rs 11,880 and Rs 5,940 respectively. General reserve of Rs 40,000 is divided as Rs 28,000, Rs 8,000 and Rs 4,000. E's goodwill share is $90,000 \times 2/10 = 18,000$. G and F bear it as Rs 15,750 and Rs 2,250. Goodwill is adjusted through capitals, without creating a goodwill asset.

Step 2: Prepare Revaluation Account Revaluation Account (Dr. and Cr.; amounts in Rs)

Dr. Particulars	Amount	Cr. Particulars	Amount
To Machinery	4,000	By Land and Building	68,000
To Stock	4,000		
To Provision for doubtful debts	600		
To G's Capital	41,580		
To E's Capital	11,880		
To F's Capital	5,940		
Total	68,000	Total	68,000

Step 3: Prepare Partners Capital Accounts Partners' Capital Accounts (amounts in Rs)

Dr. Particulars	G	E	F	Cr. Particulars	G	E	F
To E's Capital	15,750	–	2,250	By Balance b/d	1,40,000	40,000	20,000
To E's Loan	–	77,880	–	By General Reserve	28,000	8,000	4,000
To Balance c/d	2,10,000	–	30,000	By Revaluation	41,580	11,880	5,940
				By G's Capital	–	15,750	–
				By F's Capital	–	2,250	–
				By Current Accounts	16,170	–	2,310
Total	2,25,750	77,880	32,250	Total	2,25,750	77,880	32,250

E's amount due is $40,000 + 8,000 + 11,880 + 18,000 = 77,880$, transferred to his loan. His existing loan of Rs 60,000 remains payable, giving total E's loan Rs 1,37,880.

Step 4: Adjust continuing capitals and prepare Balance Sheet Required capitals are $2,40,000 \times 7/8 = 2,10,000$ for G and $2,40,000 \times 1/8 = 30,000$ for F. Their adjusted capitals before fixing them are Rs 1,93,830 and Rs 27,690. Debit current balances are therefore Rs 16,170 and Rs 2,310; they are deducted from the continuing partners' funds below.

Balance Sheet of G and F as at 31st March, 2018 (amounts in Rs)

Liabilities	Amount	Assets	Amount
G's fixed capital	2,10,000	Cash	90,000
F's fixed capital	30,000	Sundry debtors	24,000
Less: G's current debit	(16,170)	Less: provision	(600)
Less: F's current debit	(2,310)	Net debtors	23,400
Partners' funds (net)	2,21,520	Stock	10,000
Creditors	28,000	Machinery	76,000
E's loan	1,37,880	Land and Building	1,88,000
Total	3,87,400	Total	3,87,400

Step 5: Conclusion The revaluation profit is Rs 59,400; E's total loan is Rs 1,37,880. G and F have fixed capitals of Rs 2,10,000 and Rs 30,000, and debit current balances of Rs 16,170 and Rs 2,310. The Balance Sheet totals Rs 3,87,400.

Quick Tip to Solve: Keep E's existing loan separate from his retirement entitlement until combining them in the final Balance Sheet.

17. S Ltd. invited applications for issuing 1,00,000 equity shares of Rs 10 each. The shares were issued at a premium of Rs 5 per share. The amount was payable as follows :

On Application and Allotment — Rs 8 per share (including premium Rs 3)

On the First and Final call — Balance including premium

Applications for 1,50,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants on the following basis :

(I) Applicants for 80,000 shares were allotted 60,000 shares, and

(II) Applicants for 60,000 shares were allotted 40,000 shares.

Excess amount received on application and allotment was to be adjusted against sums due on call. X, who belonged to the first category and was allotted 300 shares, failed to pay the first and final call money. Y, who belonged to the second category and was allotted 200 shares, also failed to pay the first and final call money. Their shares were forfeited. The forfeited shares were reissued @ Rs 12 per share as fully paid-up.

Pass necessary cash book and journal entries for the above transactions in the books of the company.

[8 marks]

Solution:

Concept:

- Application and allotment of Rs 8 contains capital Rs 5 and premium Rs 3. The remaining call of Rs 7 contains capital Rs 5 and premium Rs 2.
- Excess application money is carried to the call account. On forfeiture, reverse unpaid premium; amounts received towards capital go to Share Forfeiture Account.
- Reissue above face value credits Securities Premium. Once every forfeited share is reissued, the entire forfeiture balance becomes capital reserve.

Step 1: Compute allotment adjustments and unpaid call Application receipts are $1,50,000 \times 8 =$

$12,00,000$. Rejected applications receive a refund of $10,000 \times 8 = 80,000$. Amount due on application and allotment is Rs 8,00,000; excess carried to call is Rs 3,20,000.

X applied for $300 \times 80,000/60,000 = 400$ shares and paid Rs 3,200. His excess is $3,200 - 300 \times 8 = 800$; unpaid call is $300 \times 7 - 800 = 1,300$.

Y applied for $200 \times 60,000/40,000 = 300$ shares and paid Rs 2,400. His excess is $2,400 - 200 \times 8 = 800$; unpaid call is $200 \times 7 - 800 = 600$.

Total call due is Rs 7,00,000, of which Rs 3,20,000 is already held and Rs 1,900 remains unpaid. Fresh bank receipts on call are therefore Rs 3,78,100.

Step 2: Prepare Cash Book S Ltd.: Cash Book (Bank columns; amounts in Rs)

Dr. Particulars	Bank	Cr. Particulars	Bank
To Share Application and Allotment	12,00,000	By Share Application and Allotment	80,000
To Share First and Final Call	3,78,100	By Balance c/d	15,04,100
To Sundries: reissue	6,000		
Total	15,84,100	Total	15,84,100

The reissue receipt is $500 \times 12 = 6,000$. The closing bank balance is Rs 15,04,100. Cash transactions above appear in the Cash Book; the remaining entries follow in the Journal.

Step 3: Record application adjustment and call due Journal of S Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Application and Allotment A/c Dr.		11,20,000	
	To Share Capital A/c			5,00,000
	To Securities Premium A/c			3,00,000
	To Share First and Final Call A/c			3,20,000
	(Being application and allotment adjusted and excess carried to call)			
	Share First and Final Call A/c Dr.		7,00,000	
	To Share Capital A/c			5,00,000
	To Securities Premium A/c			2,00,000
	(Being first and final call of Rs 7 per share made due)			

The rejected applicants' refund of Rs 80,000 is already entered on the payment side of the Cash Book. Application and Allotment Account thus has no remaining balance.

Step 4: Record forfeiture and transfer to capital reserve For X, capital received is $300 \times 5 + 800 = 2,300$; for Y it is $200 \times 5 + 800 = 1,800$. Thus total forfeiture credit is Rs 4,100. Unpaid call premium is $500 \times 2 = 1,000$.

Journal of S Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		5,000	
	Securities Premium A/c Dr.		1,000	
	To Share First and Final Call A/c			1,900
	To Share Forfeiture A/c			4,100
	(Being 500 fully called shares forfeited for unpaid call)			
	Share Forfeiture A/c Dr.		4,100	
	To Capital Reserve A/c			4,100
	(Being profit on reissue of all forfeited shares transferred)			

For the Cash Book receipt of Rs 6,000 on reissue, credit Share Capital Account Rs 5,000 and Securities

Premium Account Rs 1,000. Its equivalent double entry is Bank A/c Dr. Rs 6,000, To Share Capital A/c Rs 5,000, To Securities Premium A/c Rs 1,000 (being 500 shares reissued at Rs 12 fully paid). It is represented by the Cash Book receipt and is not posted a second time. No forfeiture balance is used as a discount because reissue is above par.

Step 5: Conclusion Call money received through bank is Rs 3,78,100. The 500 forfeited shares produce a forfeiture balance of Rs 4,100, all transferred to Capital Reserve after reissue. Closing bank balance is Rs 15,04,100.

Quick Tip to Solve: Calculate excess separately for X and Y before finding call arrears; their different pro-rata categories produce different applied quantities.

OR

17. Jain Ltd. invited applications for issuing 1,12,000 equity shares of Rs 10 each at par. The amount per share was payable as follows :

On Application — Rs 1

On Allotment — Rs 2

On First call — Rs 3

On Second and Final call — Rs 4

Applications for 1,00,000 shares were received. Shares were fully allotted to all the applicants. Ramesh failed to pay his allotment money which was Rs 2,000. His shares were forfeited immediately. Suresh did not pay the first call on 500 shares applied by him. His shares were forfeited after the first call. The forfeited shares of Ramesh and Suresh were re-issued at Rs 9 per share fully paid up. Afterwards the second and final call was made and was duly received.

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

Solution:

Concept:

- Forfeiture debits share capital by called-up capital, credits unpaid calls and credits share forfeiture with capital already received.
- On reissue, the discount is debited to share forfeiture; the remaining forfeiture surplus is transferred to capital reserve.
- Shares reissued as fully paid carry no liability for a subsequent call.

Step 1: Determine shares and the amounts forfeited Ramesh held $2,000/2 = 1,000$ shares. Only application and allotment had been called when these were forfeited, so called-up capital was $1,000 \times 3 =$ Rs $3,000$, and capital received was Rs 1,000. The first call is therefore made on $1,00,000 - 1,000 = 99,000$ shares. Suresh held 500 shares; his unpaid first call was $500 \times 3 =$ Rs $1,500$. His called-up capital was $500 \times 6 =$ Rs $3,000$, of which Rs 1,500 had been received.

Step 2: Record application, allotment and Ramesh forfeiture Journal of Jain Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,00,000	
	To Share Application A/c			1,00,000
	(Being application money received on 1,00,000 shares at Rs 1 each)			
	Share Application A/c Dr.		1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being application money transferred to share capital)			
	Share Allotment A/c Dr.		2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Being allotment of Rs 2 per share due on 1,00,000 shares)			
	Bank A/c Dr.		1,98,000	
	To Share Allotment A/c			1,98,000
	(Being allotment money received except Rs 2,000 due from Ramesh)			
	Equity Share Capital A/c Dr.		3,000	
	To Share Allotment A/c			2,000
	To Share Forfeiture A/c			1,000
	(Being 1,000 shares of Ramesh forfeited for non-payment of allotment)			

Step 3: Record first call and Suresh forfeiture Journal of Jain Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		2,97,000	
	To Equity Share Capital A/c			2,97,000
	(Being first call of Rs 3 due on 99,000 outstanding shares)			
	Bank A/c Dr.		2,95,500	
	To Share First Call A/c			2,95,500
	(Being first call received except Rs 1,500 due from Suresh)			
	Equity Share Capital A/c Dr.		3,000	
	To Share First Call A/c			1,500
	To Share Forfeiture A/c			1,500
	(Being 500 shares of Suresh forfeited for non-payment of first call)			

Step 4: Calculate the reissue surplus and final call Total shares reissued are $1,000 + 500 = 1,500$. Reissue receipts are $1,500 \times 9 =$ Rs $13,500$; fully paid capital is Rs 15,000, giving discount of Rs 1,500. Total forfeiture credit is $1,000 + 1,500 =$ Rs $2,500$, so capital reserve is $2,500 - 1,500 =$ Rs $1,000$. Ramesh shares use their entire Rs 1,000 forfeiture credit against discount; Suresh shares leave Rs 1,000 surplus. The reissued shares are already fully paid. Hence the final call applies only to $1,00,000 - 1,000 - 500 = 98,500$ shares, giving $98,500 \times 4 =$ Rs $3,94,000$.

Step 5: Record reissue, reserve and final call Journal of Jain Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		13,500	
	Share Forfeiture A/c Dr.		1,500	
	To Equity Share Capital A/c			15,000
	(Being 1,500 forfeited shares reissued at Rs 9 each as fully paid)			
	Share Forfeiture A/c Dr.		1,000	
	To Capital Reserve A/c			1,000
	(Being surplus on reissue transferred to capital reserve)			
	Share Second and Final Call A/c Dr.		3,94,000	
	To Equity Share Capital A/c			3,94,000
	(Being final call of Rs 4 due on 98,500 originally continuing shares)			
	Bank A/c Dr.		3,94,000	
	To Share Second and Final Call A/c			3,94,000
	(Being second and final call money received in full)			

Step 6: Conclusion The above journal entries record all transactions. Capital reserve is $\boxed{\text{Rs } 1,000}$, and the second and final call received is $\boxed{\text{Rs } 3,94,000}$. The company finally has 1,00,000 fully paid equity shares of Rs 10 each.

Quick Tip to Solve: Exclude previously forfeited shares from each later call; also exclude reissued fully paid shares from the final call.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

18. 'Payment of dividend and interest' will be classified as which type of activity while preparing cash flow statement? [1 mark]

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings.
- Dividend paid is a return to shareholders; interest paid is the cost of funds borrowed by a non-financial enterprise.

Step 1: Identify the nature of the payments Payment of dividend distributes a return to the providers of equity capital. Payment of interest remunerates the providers of borrowed capital. Both payments therefore relate to the financing of the enterprise.

Step 2: Apply the cash flow classification Under the usual CBSE classification for a non-financial enterprise, dividend paid and interest paid are shown as cash outflows under financing activities. Interest paid by a financial enterprise is classified as an operating cash flow because lending and borrowing form its principal revenue-producing business.

Step 3: Conclusion Payment of dividend and interest is classified under **financing activities** (for a non-financial enterprise).

Quick Tip to Solve: Connect payments to shareholders and lenders with the funds they supplied: these are financing outflows.

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

Solution:

Concept:

- Cash comprises cash on hand and demand deposits with banks.
- Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Step 1: State what moves A cash flow arises when cash or cash equivalents enter or leave an enterprise during a period. Receipts constitute inflows, whereas payments constitute outflows.

Step 2: Distinguish flows from internal transfers Cash sales and collections from debtors generate inflows; payments to suppliers generate outflows. A movement between cash and cash equivalents, such as depositing cash into a demand bank account, merely changes their form and is not a cash flow for the cash flow statement.

Step 3: Conclusion **Cash flows are inflows and outflows of cash and cash equivalents.**

Quick Tip to Solve: Look for a receipt or payment involving an outside party; an internal transfer between cash balances is excluded.

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20. The operating ratio of a company is 80%. State whether the following transactions will increase, decrease or not change the ratio :

(i) Purchased goods on credit Rs 20,000

(ii) Paid wages Rs 5,000

(iii) Redeemed Rs 8,000, 9% debentures

(iv) Sold goods Rs 50,000 for cash [4 marks]

Solution:

Concept:

- Operating ratio measures operating cost as a percentage of revenue from operations: $\text{Operating ratio} = \dfrac{\text{Cost of revenue from operations} + \text{Operating expenses}}{\text{Revenue from operations}} \times 100.$
- Purchases and direct wages are components of operating cost. Redemption of debentures is a financing transaction; it is excluded from operating cost and revenue from operations.

Step 1: Establish the original relationship Let the original revenue from operations be Rs S, where $S > 0$. Since the operating ratio is 80%, the original operating cost is Rs $0.80S$. To judge each transaction, consider its individual effect on this original numerator and denominator, keeping other information unchanged.

Step 2: (i) Goods purchased on credit Purchases of Rs 20,000 increase the cost of revenue from operations. There is no corresponding increase in sales. Thus the numerator increases while the denominator remains unchanged:

$$\text{New ratio} = \frac{0.80S + 20,000}{S} \times 100 > 80\%.$$

Therefore, the operating ratio increases. The credit nature of the purchase affects the liability and the timing of payment, not its classification as an operating purchase.

Step 3: (ii) Wages paid Wages of Rs 5,000 are a direct operating cost and form part of the cost of revenue from operations. Sales remain unchanged. Hence,

$$\text{New ratio} = \frac{0.80S + 5,000}{S} \times 100 > 80\%.$$

Therefore, payment of wages increases the operating ratio.

Step 4: (iii) Redemption of debentures Redemption of Rs 8,000 of 9% debentures reduces cash and the outstanding debenture liability. It does not change revenue from operations or operating cost. The principal repaid is not an expense, and interest on debentures is a finance cost excluded from the operating ratio. Therefore, the ratio remains 80%.

Step 5: (iv) Goods sold for cash Cash sales increase revenue from operations by Rs 50,000. No additional cost of the goods sold is specified in the transaction, so operating cost is held unchanged for this comparison. Consequently,

$$\text{New ratio} = \frac{0.80S}{S + 50,000} \times 100 < 80\%.$$

Therefore, the operating ratio decreases. Receiving cash rather than allowing credit does not change the treatment of sales in this ratio.

Step 6: Conclusion The effects are: (i) increase; (ii) increase; (iii) no change; and (iv) decrease.

Quick Tip to Solve: Put operating costs in the numerator and sales in the denominator; exclude debenture principal and finance costs.

OR

20. From the following information of Shiva Ltd., calculate total assets to debt ratio :

Equity Share Capital — Rs 5,00,000

9% Preference Share Capital — Rs 4,00,000

Fixed Assets — Rs 12,00,000

Non-Current Investments — Rs 1,50,000

Reserves and Surplus — Rs 2,40,000

Current Assets — Rs 1,90,000

Current Liabilities — Rs 1,00,000 [4 marks]

Solution:

Concept:

- Total assets to debt ratio compares total assets with long-term debt: Total assets to debt ratio $= \frac{\text{Total assets}}{\text{Long-term debt}}$. It indicates the asset cover available for long-term lenders.

- By the accounting equation, total assets equal shareholders' funds plus non-current liabilities plus current liabilities. Preference share capital is included in shareholders' funds, while current liabilities are excluded from the debt denominator of this ratio.

Step 1: Calculate total assets Include both non-current and current assets. The non-current investments are separate from fixed assets and therefore must also be included:

$$\begin{aligned}\text{Total assets} &= \text{Fixed assets} + \text{Non-current investments} \\ &\quad + \text{Current assets} \\ &= \text{Rs } 12,00,000 + \text{Rs } 1,50,000 + \text{Rs } 1,90,000 \\ &= \text{Rs } 15,40,000.\end{aligned}$$

Step 2: Calculate shareholders' funds Both equity and preference share capital represent owners' funds. Add reserves and surplus to obtain the total shareholders' funds:

$$\begin{aligned}\text{Shareholders' funds} &= \text{Equity capital} + \text{Preference capital} \\ &\quad + \text{Reserves and surplus} \\ &= \text{Rs } 5,00,000 + \text{Rs } 4,00,000 + \text{Rs } 2,40,000 \\ &= \text{Rs } 11,40,000.\end{aligned}$$

The 9% attached to preference capital specifies its dividend rate; it does not convert that share capital into a long-term borrowing.

Step 3: Derive long-term debt from the accounting equation Deduct both shareholders' funds and current liabilities from total assets. The balance is the non-current liability, which is the long-term debt required here:

$$\begin{aligned}\text{Long-term debt} &= \text{Total assets} - \text{Shareholders' funds} \\ &\quad - \text{Current liabilities} \\ &= \text{Rs } 15,40,000 - \text{Rs } 11,40,000 - \text{Rs } 1,00,000 \\ &= \text{Rs } 3,00,000.\end{aligned}$$

Check: Rs $11,40,000 + 3,00,000 + 1,00,000 = 15,40,000$, which agrees with total assets.

Step 4: Apply the ratio formula

$$\text{Total assets to debt ratio} = \frac{15,40,000}{3,00,000} = 5.1333\ldots : 1.$$

Thus total assets provide approximately Rs 5.13 of cover for every Rs 1 of long-term debt. Using all outside liabilities in the denominator would incorrectly include current liabilities in this particular ratio.

Step 5: Conclusion Shiva Ltd.'s total assets to debt ratio is $\boxed{5.13 : 1}$ (approximately).

Quick Tip to Solve: When long-term debt is missing, subtract shareholders' funds and current liabilities from total assets before calculating the ratio.

21. From the following Balance Sheet of KP Ltd. as at 31st March, 2018 prepare a Common Size Balance Sheet :

Particulars	31.3.2018 (Rs)	31.3.2017 (Rs)
I — Equity and Liabilities :		
Shareholder's Funds	12,00,000	10,00,000
Non-current Liabilities	6,00,000	6,00,000
Current Liabilities	7,00,000	4,00,000
Total	25,00,000	20,00,000
II — Assets :		
Non-Current Assets	13,00,000	12,00,000
Current Assets	12,00,000	8,00,000
Total	25,00,000	20,00,000

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses each item as a percentage of the total balance sheet amount for the same year. Total assets and total equity and liabilities are each taken as 100%.
- The formula is Percentage $= \dfrac{\text{Individual item}}{\text{Total for that year}} \times 100$. A separate base must be used for each year's figures.

Step 1: Calculate the percentages using each year's total For 31st March, 2018 the base is Rs 25,00,000. Thus shareholders' funds are $12,00,000/25,00,000 \times 100 = 48\%$, non-current liabilities are 24%, and current liabilities are 28%. Non-current assets are $13,00,000/25,00,000 \times 100 = 52\%$, leaving current assets at 48%.

For 2017, use Rs 20,00,000: shareholders' funds are $10,00,000/20,00,000 \times 100 = 50\%$. Applying the same formula gives $30\%, 20\%, 60\%, 40\%$ for the remaining items in their printed order.

Step 2: Prepare the common size balance sheet **KP Ltd. — Common Size Balance Sheet as at 31st March, 2018 and 2017**

Particulars	2018 (Rs)	2017 (Rs)	2018 (%)	2017 (%)
I. Equity and Liabilities				
Shareholders' Funds	12,00,000	10,00,000	48	50
Non-current Liabilities	6,00,000	6,00,000	24	30
Current Liabilities	7,00,000	4,00,000	28	20
Total	**25,00,000**	**20,00,000**	**100**	**100**
II. Assets				
Non-current Assets	13,00,000	12,00,000	52	60
Current Assets	12,00,000	8,00,000	48	40
Total	**25,00,000**	**20,00,000**	**100**	**100**

Both sides total 100% in each year: liabilities $48 + 24 + 28 = 100$, $50 + 30 + 20 = 100$; assets $52 + 48 = 100$, $60 + 40 = 100$.

Step 3: Conclusion Each year's assets and equity and liabilities separately equal 100%, as shown in the common size balance sheet.

Quick Tip to Solve: Divide every 2018 item by Rs 25,00,000 and every 2017 item by Rs 20,00,000; check that each side separately totals 100 percent.

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

(i) Cheques and Bank Drafts in Hand

(ii) Loose tools

(iii) Securities Premium Reserve

(iv) Long-Term Investments with maturity period less than six months

(v) Work-in-Progress

(vi) Mining Rights

(vii) Publishing titles

(viii) Debtors [4 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities under prescribed major heads and sub-heads. The nature of an item determines its classification: inventories, receivables and cash have different sub-heads even though all may be current assets.
- An investment originally held for the long term but due for maturity within the next twelve months is shown under Other Current Assets. Its remaining maturity does not by itself make it a cash equivalent.

Step 1: Classify cash, inventories and receivables Cheques and bank drafts in hand are included in Cash and Cash Equivalents under Current Assets. Loose tools are inventories rather than fixed assets in this classification; work-in-progress also represents inventories awaiting completion. Debtors are amounts due from customers and belong to Trade Receivables under Current Assets.

Step 2: Classify reserves, maturing investments and intangible assets Securities Premium Reserve is a component of Reserves and Surplus within Shareholders' Funds; it is neither revenue income nor a borrowing. The long-term investments mature in less than six months, so they are presented as Other Current Assets. Mining rights and publishing titles are identifiable non-physical rights and therefore are Intangible Assets within Non-current Assets, under Fixed Assets.

Balance Sheet Classification as per Schedule III, Part I

Item	Major head	Sub-head
(i) Cheques and Bank Drafts in Hand	Current Assets	Cash and Cash Equivalents
(ii) Loose tools	Current Assets	Inventories
(iii) Securities Premium Reserve	Shareholders' Funds	Reserves and Surplus
(iv) Long-term investments maturing in less than six months	Current Assets	Other Current Assets
(v) Work-in-Progress	Current Assets	Inventories
(vi) Mining Rights	Non-current Assets	Fixed Assets: Intangible Assets
(vii) Publishing titles	Non-current Assets	Fixed Assets: Intangible Assets
(viii) Debtors	Current Assets	Trade Receivables

Step 3: Conclusion The eight items are classified under the prescribed heads and sub-heads in the table. In particular, loose tools are inventories, while the soon-maturing long-term investments are Other Current Assets.

Quick Tip to Solve: For the investment, check remaining maturity; for mining rights and publishing titles, identify the intangible right rather than a physical asset.

OR

22. Explain the importance of financial analysis for (i) labour unions, and (ii) creditors. [4 marks]

Solution:

Concept:

- Financial analysis interprets profitability, liquidity and solvency to assess the financial performance and position of an enterprise.
- Different users analyse the same statements for different decisions: employees focus on remuneration and employment security, while creditors focus on timely payment.

Step 1: Importance for labour unions Labour unions examine the profits earned by the enterprise and the trend in its financial performance. This helps them judge its capacity to pay higher wages, bonuses and improved employee benefits. Such analysis provides a factual basis for collective bargaining: wage demands can be related to the employer's earning capacity instead of being based only on expectations. Unions also study the financial strength and continuity of the business because these affect the security of employment and the ability to honour employee-related obligations.

Step 2: Importance for creditors Creditors supply goods or services on credit and therefore need to know whether their dues will be paid on time. They analyse current assets, current liabilities and cash flows to assess the enterprise's short-term liquidity and payment capacity. For example, the current ratio and the quick ratio help assess the availability of assets to meet current obligations. Profitability and the trend in financial position also help them judge whether that payment capacity is sustainable. On this basis, creditors decide whether to grant or continue credit, the credit limit to allow and the period of credit. A weak liquidity position may lead them to seek earlier payment or restrict further credit.

Step 3: Conclusion Financial analysis helps labour unions negotiate remuneration and assess job security, and helps creditors assess payment capacity and decide suitable credit terms.

Quick Tip to Solve: Relate each user to the decision made: unions negotiate wages; creditors decide credit limits and payment periods.

23. The following is the Balance Sheet of R.M. Ltd. as at 31st March, 2017. Prepare a Cash Flow Statement :

R.M. Ltd.

Balance Sheet as at 31st March, 2017

Particulars	Note No.	31.3.2017 (Rs)	31.3.2016 (Rs)
I — Equity and Liabilities :			
1. Shareholder's Funds :			
(a) Share Capital		15,00,000	10,00,000
(b) Reserves and Surplus (Balance in Statement of Profit and Loss)		7,50,000	6,00,000
2. Non-Current Liabilities :			
Long-term Borrowings	1	1,00,000	2,00,000
3. Current Liabilities :			
(a) Trade Payables		1,00,000	1,10,000
(b) Short-term Provisions	2	95,000	80,000
Total		25,45,000	19,90,000
II — Assets :			
1. Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets	3	10,10,000	9,00,000
(ii) Intangible Assets	4	2,80,000	2,00,000
(b) Non-Current Investments :		5,00,000	—
2. Current Assets :			
(a) Inventories		1,80,000	1,00,000
(b) Trade Receivables		2,00,000	1,50,000
(c) Cash and Cash Equivalents	5	3,75,000	6,40,000
Total		25,45,000	19,90,000

Notes to Accounts :

Note No.	Particulars	31.3.2017 (Rs)	31.3.2016 (Rs)
1.	Long-term Borrowings : 9% Debentures	 1,00,000	 2,00,000
		1,00,000	2,00,000
2.	Short-term Provisions : Provision for Tax	 95,000	 80,000
		95,000	80,000
3.	Tangible Assets : Plant and Machinery Accumulated Depreciation	 12,10,000 (2,00,000)	 11,40,000 (2,40,000)
		10,10,000	9,00,000
4.	Intangible Assets : Goodwill	 2,80,000	 2,00,000
		2,80,000	2,00,000
5.	Cash and Cash Equivalents : (i) Cash in Hand (ii) Bank Balance	 70,000 3,05,000	 3,50,000 2,90,000
		3,75,000	6,40,000

Additional Information :

(i) During the year, a machine costing Rs 80,000 on which accumulated depreciation was Rs 50,000 was sold for Rs 30,000.

(ii) 9% Debentures were released on 31st March, 2017. [6 marks]

Solution:

Concept:

- Under the indirect method, net profit is adjusted for non-cash and non-operating items and changes in operating working capital to determine operating cash flow.
- Purchase and sale of non-current assets are investing activities; share issue, debenture redemption and interest paid by this non-financial company are financing activities.
- Cash and cash equivalents must reconcile: opening balance plus the net cash flow equals the closing balance.

Step 1: Calculate depreciation and purchases of machinery The machine sold had a book value of Rs 80,000 less Rs 50,000, or Rs 30,000. As its sale proceeds were also Rs 30,000, there is no profit or loss on sale.

$$\begin{aligned}\text{Depreciation for the year} &= 2,00,000 - 2,40,000 + 50,000 \\ &= \text{Rs } 10,000.\end{aligned}$$

$$\begin{aligned}\text{Machinery purchased} &= 12,10,000 - 11,40,000 + 80,000 \\ &= \text{Rs } 1,50,000.\end{aligned}$$

The machinery purchase is found from gross cost; accumulated depreciation is adjusted separately.

Step 2: Calculate profit, tax and interest adjustments The increase in the Statement of Profit and Loss balance is Rs 7,50,000 less Rs 6,00,000 = Rs 1,50,000. Adding the current year's tax provision of Rs 95,000 gives net profit before tax of Rs 2,45,000. The opening tax provision of Rs 80,000 is treated as paid during the year; the closing provision relates to the current year's charge.

The reduction in debentures is Rs 1,00,000. Since redemption occurred on 31st March, interest for the full year is charged on opening debentures: $2,00,000 \times 9\% = \text{Rs } 18,000$. Add this interest back in operating activities and show its payment in financing activities. Goodwill has increased by Rs 80,000, representing a purchase; no goodwill write-off is indicated.

Step 3: Prepare operating activities **R.M. Ltd. — Cash Flow Statement for the year ended 31st March, 2017**

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net profit before tax	2,45,000
Add: Depreciation	10,000
Add: Interest on debentures	18,000
Operating profit before working capital changes	**2,73,000**
Less: Increase in inventories	(80,000)
Less: Increase in trade receivables	(50,000)
Less: Decrease in trade payables	(10,000)
Cash generated from operations	1,33,000
Less: Income tax paid	(80,000)
Net cash from operating activities (A)	**53,000**

Inventory and receivables increases absorb operating cash. A decrease in trade payables also absorbs cash because payments to suppliers exceed the corresponding credit purchases.

Step 4: Prepare investing and financing activities and reconcile cash **R.M. Ltd. — Cash Flow Statement (continued)**

Particulars	Amount (Rs)
B. Cash flows from investing activities	
Purchase of plant and machinery	(1,50,000)
Proceeds from sale of machinery	30,000
Purchase of goodwill	(80,000)
Purchase of non-current investments	(5,00,000)
Net cash used in investing activities (B)	**(7,00,000)**
C. Cash flows from financing activities	
Proceeds from issue of share capital	5,00,000
Redemption of debentures	(1,00,000)
Interest paid on debentures	(18,000)
Net cash from financing activities (C)	**3,82,000**
Net decrease in cash and cash equivalents (A+B+C)	**(2,65,000)**
Add: Opening cash and cash equivalents	6,40,000
Closing cash and cash equivalents	**3,75,000**

The closing amount comprises cash in hand of Rs 70,000 and bank balance of Rs 3,05,000. Thus the cash movement agrees with both balance sheets.

Step 5: Conclusion Net cash from operating activities is Rs 53,000; net cash used in investing activities is Rs 7,00,000; and net cash from financing activities is Rs 3,82,000. The net decrease of Rs

2,65,000 gives closing cash and cash equivalents of Rs 3,75,000.

Quick Tip to Solve: For a machine sold, remove its original cost and accumulated depreciation separately; calculate debenture interest up to the actual redemption date.

OPTION 2 (Computerised Accounting)

18. What is a spreadsheet? [1 mark]

Solution:

Concept:

- A spreadsheet is an electronic worksheet organised into rows and columns; their intersections form cells.
- Cells can hold text, numerical data or formulae used for calculations and analysis.

Step 1: Define the worksheet A spreadsheet is a computer application that presents data in a tabular worksheet of rows and columns. Each cell has an address, such as A1, through which its data can be referred to in calculations.

Step 2: Explain its use It enables users to enter, store, organise and analyse data using formulae and functions. When an input value changes, dependent formulae can recalculate automatically; for example, a total of expenses updates when an expense is changed.

Step 3: Conclusion A spreadsheet is an electronic worksheet of rows and columns used to store and process data and perform calculations through formulae and functions.

Quick Tip to Solve: Include both its structure (rows, columns and cells) and its calculating function in the definition.

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

Solution:

Concept:

- Database design organises the data that an organisation needs to store and use.
- A database structure specifies tables, fields, keys and relationships between tables.

Step 1: Identify the purpose An accounting database must store related information, such as customer details and sales transactions, so that records can be entered, retrieved and processed correctly.

Step 2: Define the term Database design means planning and specifying the structure of a database, including its tables, fields, data types, keys and relationships. It determines how the required data will be organised and linked for efficient storage and retrieval.

Step 3: Conclusion Database design is the process of planning the logical structure of a database and defining its tables, fields, keys and relationships.

Quick Tip to Solve: Think of design as the plan for storing and connecting records, before data entry begins.

20. Explain any four advantages of Database Management System (DBMS). [4 marks]

Solution:

Concept:

- A Database Management System (DBMS) is software used to create, maintain, retrieve and control access to a database.
- Central control over related data supports consistency, sharing, integrity and security.

Step 1: Reduction in data redundancy A DBMS stores related data in an organised and integrated manner, reducing unnecessary duplication. For example, a customer's address can be stored once in a customer table and linked to several invoices by a customer code. Repeated entry of the same address in every transaction is avoided.

Step 2: Improvement in data consistency When a common fact is stored centrally, an authorised change can be made at its source and used by all related applications. Thus, changing a customer's address in the customer record prevents different departments from continuing to use conflicting copies of the same information.

Step 3: Data sharing A DBMS enables authorised users and applications to access a common database according to their requirements. For instance, sales staff can use customer records for billing while the accounts department uses linked sales records to determine outstanding balances. This improves coordination and timely availability of information.

Step 4: Data security The DBMS can restrict access through user identification, passwords and access rights. Users may receive permission to view certain records without permission to change or delete them. Such control helps protect confidential financial information and prevents unauthorised alteration of accounting records.

Step 5: Conclusion Four advantages of a DBMS are reduced data redundancy, improved data consistency, data sharing and enhanced data security.

Quick Tip to Solve: Keep redundancy and consistency distinct: duplication concerns repeated storage; consistency concerns agreement of values.

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

Solution:

Concept:

- Accounting records contain confidential financial information and must remain accurate, complete and available to authorised users.
- Data security tools control access to the software and protect stored information from unauthorised reading or use.

Step 1: Explain the need for safety features Accounting software stores information about cash, bank transactions, salaries, customers and other financial matters. Unauthorised access, deliberate alteration, accidental deletion or misuse can make accounts unreliable and expose confidential

information. Safety features are therefore necessary to protect confidentiality and integrity, control who can use the system and preserve dependable records for preparing financial statements and making decisions.

Step 2: Tool 1: Password security A password is a secret code used with a user identity to verify an authorised user before access is granted. The software can allow different users different access rights; for example, a data-entry operator may enter transactions while only a supervisor can approve changes or view sensitive reports. Strong passwords, kept confidential and changed periodically, help prevent unauthorised entry into the accounting system.

Step 3: Tool 2: Data encryption Encryption converts readable accounting data into a coded form by using an encryption method and a key. An authorised person or program with the appropriate decryption key can convert it back into readable information. Thus, even if an unauthorised person obtains the stored file or intercepts data being transferred, its contents are not readily understandable. This helps protect confidential financial records from unauthorised disclosure.

Step 4: Conclusion Safety features protect accounting data against unauthorised access, misuse and alteration. Password security and data encryption are two tools that provide data security.

Quick Tip to Solve: Distinguish the two tools: passwords control entry; encryption protects the readability of the data itself.

OR

21. Name the value which represents absence of data. Also state the situation which may require the use of these values. [4 marks]

Solution:

Concept:

- A NULL value represents the absence of a data value in a database field. It indicates that no actual value has been recorded for that field.
- NULL is distinct from zero and from an empty text string: zero is a known numerical value, whereas NULL indicates missing, unknown or inapplicable information.

Step 1: Identify the value representing absence of data The required value is **NULL**. In a database, a record may exist even though a particular attribute of that record has no available value. For example, an employee record can contain an employee's name and employee number while the telephone-number field has no recorded value. That field can contain NULL; it should not be filled with a made-up number or with zero merely to complete the record.

Step 2: State situations requiring NULL values NULL values may be needed in the following situations:

1. **The value is unknown:** An employee has a telephone number, but the organisation does not yet know it. NULL records the absence of the information without suggesting that the employee has no telephone.
2. **The value is unavailable or not yet recorded:** A customer's tax-identification details may be awaited when the customer record is first created. The relevant field can remain NULL until the

details are received and entered.

3. **The attribute is not applicable:** A spouse-name field does not apply to an unmarried employee. NULL avoids entering an incorrect name or an arbitrary substitute.

In each case, NULL preserves the distinction between a missing value and an actual value. For instance, a recorded discount of zero means that no discount was allowed; a NULL discount means that the discount information is absent. The two therefore convey different information.

Step 3: Conclusion **NULL** represents absence of data. It is used when a field's value is unknown, unavailable or not yet entered, or when the attribute is not applicable to the particular record.

Quick Tip to Solve: Test whether the field contains a known value: zero is known data, but unknown or inapplicable information is represented by NULL.

22. Differentiate between 'desktop database' and 'server database'? [4 marks]

Solution:

Concept:

- A desktop database is generally designed for personal or small workgroup use on a desktop computer, with comparatively modest data and processing requirements.
- A server database uses a database server to manage shared data and process requests from client computers. It supports larger and more demanding multi-user applications.

Step 1: Compare scale, access and processing The main differences are as follows:

Basis	Desktop database	Server database
Users and purpose	Intended mainly for an individual or a small workgroup, with limited simultaneous access.	Intended for many users who access common data concurrently through client computers.
Data volume	Suitable for relatively small databases and less demanding applications.	Suitable for large databases and applications handling many transactions.
Processing	Database operations are primarily handled on the user's desktop; in a shared-file arrangement, clients process the shared data.	The server manages database operations and processes client requests centrally, returning the required results.

Step 2: Compare control, resources and examples

Basis	Desktop database	Server database
Security and control	Typically provides simpler security and administration for a limited number of users.	Provides more extensive user permissions, access control and central administration.
Cost and maintenance	Usually less expensive, easier to install and maintain, and needs fewer computing resources.	Generally requires greater investment in server resources and skilled administration.
Examples	Microsoft Access is a common desktop database application.	Oracle Database and Microsoft SQL Server are examples of server database systems.

Thus, a small business maintaining a modest local accounting database may use a desktop system.

An organisation in which many branches or departments enter and retrieve accounting transactions simultaneously needs the greater capacity and central control of a server database.

Step 3: Conclusion A desktop database suits personal or small workgroup applications with modest requirements, whereas a server database supports larger shared databases, concurrent users and stronger central management.

Quick Tip to Solve: Compare the same bases on both sides: users, data volume, processing, security and cost; give Access versus SQL Server as examples.

OR

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

Solution:

Concept:

- Good accounting software records transactions accurately and converts them into useful accounting information with suitable controls.
- Its suitability depends on ease of use, reliability, security, adaptability and the quality of reports and support.

Step 1: Ease of use and reliable processing A good accounting package should be easy to install, learn and operate. Clear menus, help facilities and simple data-entry screens enable users to record transactions with minimum effort. It should process transactions accurately and consistently, check invalid entries and maintain agreement between related accounting records. For example, posting a voucher should update the relevant ledgers without repeated manual entry.

Step 2: Security and protection of data The software should restrict access through passwords and user permissions so that only authorised persons can enter, alter or view specified information. An audit trail should identify changes made to records. Backup and recovery facilities should protect accounting data against accidental deletion, system failure or other loss and permit restoration of the records.

Step 3: Flexibility and capacity for growth The package should allow the organisation to configure account heads, voucher types and reports according to its requirements. It should accommodate increased transaction volume and additional users as the business expands. It should also permit suitable updates when reporting requirements or the business's accounting needs change.

Step 4: Useful reports, integration and support Good software should generate timely and understandable reports such as ledgers, trial balance and financial statements, with the facility to obtain relevant details. Integration with related functions, such as inventory and payroll, avoids duplication of data entry. Reasonable acquisition and maintenance costs, proper documentation, training and dependable vendor support make the package practical to use over time.

Step 5: Conclusion A good accounting software is user-friendly, accurate and reliable, secure, flexible and scalable, and provides useful reports, integration, backup and dependable support at a reasonable cost.

Quick Tip to Solve: Organise the features around users, processing, data protection and business growth, and explain what each feature enables.

23. Nisan Ltd. purchased an embossing machine for Rs 1,50,000. They paid Rs 50,000 as installation and transport expenses. Assuming its salvage value at the end of 5 years as Rs 25,000, calculate depreciation by using Straight Line Method and its rate using formulas in MS Excel. [6 marks]

Solution:

Concept:

- Under the straight line method, annual depreciation equals $(C - S)/n$, where C is the capitalised cost, S the salvage value and n the useful life in years.
- Installation and transport expenditure necessary to bring the asset into use forms part of its cost. The annual depreciation rate on original cost is $(\text{annual depreciation}/C) \times 100$.
- Excel's `SLN(cost, salvage, life)` function returns depreciation for one period under the straight line method.

Step 1: Determine the cost and depreciable amount The machine's purchase price is Rs 1,50,000 and the installation and transport expenditure is Rs 50,000. Both are capitalised because they bring the machine to its working condition. Therefore,

$$C = 1,50,000 + 50,000 = \text{Rs } 2,00,000,$$
$$S = \text{Rs } 25,000, \qquad n = 5 \text{ years},$$
$$C - S = 2,00,000 - 25,000 = \text{Rs } 1,75,000.$$

The salvage value is excluded from the amount to be depreciated because it is the amount expected to remain recoverable at the end of the useful life.

Step 2: Calculate annual straight line depreciation Spread the depreciable amount equally over the five years:

$$\text{Annual depreciation} = \frac{2,00,000 - 25,000}{5} = \frac{1,75,000}{5} = \text{Rs } 35,000.$$

Thus the same depreciation is charged in each full year. As a check, total depreciation over five years is $5 \times 35,000 = \text{Rs } 1,75,000$, leaving a book value of $2,00,000 - 1,75,000 = \text{Rs } 25,000$, equal to the stated salvage value.

Step 3: Enter the calculation in MS Excel Use the following worksheet arrangement. Enter amounts as numbers without the Rs prefix so that Excel can calculate with them.

Cell	Description	Entry
B1	Purchase price	150000
B2	Installation and transport	50000
B3	Capitalised cost	`=B1+B2`
B4	Salvage value	25000
B5	Useful life in years	5
B6	Annual depreciation	`=SLN(B3,B4,B5)`
B7	Annual rate (percentage format)	`=B6/B3`

Cell B3 displays 200000 and B6 displays 35000. The equivalent arithmetic formula for B6 is `=(B3-B4)/B5`; the direct numerical function is `=SLN(200000,25000,5)`.

Step 4: Calculate and display the annual rate The rate is measured against the full capitalised original cost:

$$\text{Rate} = \frac{35,000}{2,00,000} \times 100 = 17.5\% \text{ per annum.}$$

Formula `=B6/B3` returns 0.175; applying Excel's Percentage format displays 17.5%. Alternatively, `=B6/B3*100` returns the numerical value 17.5, which is read as a percentage without applying Percentage format again. Dividing by the depreciable amount instead would give the fraction written off each year of that amount, rather than the depreciation rate on original cost.

Step 5: Conclusion Annual straight line depreciation is Rs 35,000 and the depreciation rate is 17.5% per annum on the capitalised cost of Rs 2,00,000. Excel formulas are `=SLN(200000,25000,5)` for depreciation and `=35000/200000` with Percentage formatting for the rate.

Quick Tip to Solve: Add installation and transport to the purchase price before using SLN; divide annual depreciation by this total cost for the rate.