CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-4-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

Part A (60 marks)

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

1. 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:

- A new partner receives the fraction of total profits sacrificed by an existing partner. A fraction of a partner's share must first be multiplied by that partner's old share.
- For an existing partner, new share = old share minus share sacrificed. The four new shares must add to one.

Step 1: Calculate the shares transferred to C and D A's old share is $3/5$, while B's is $2/5$. Hence,

$$C = \frac{1}{4} \times \frac{3}{5} = \frac{3}{20}, \qquad D = \frac{50}{100} \times \frac{2}{5} = \frac{1}{5} = \frac{4}{20}.$$

Step 2: Calculate the shares retained by A and B Subtract each sacrifice only from the partner making it:

$$A = \frac{3}{5} - \frac{3}{20} = \frac{9}{20}, \qquad B = \frac{2}{5} - \frac{1}{5} = \frac{1}{5} = \frac{4}{20}.$$

The check is $(9 + 4 + 3 + 4)/20 = 1$. Expressing all four shares with denominator 20 makes the ratio directly comparable.

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

Quick Tip to Solve: Multiply the stated fraction by the sacrificing partner's old share first; then subtract it from that same partner.

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 relationship among partners while the firm continues its business.
- Dissolution of the firm terminates its business and requires the final settlement of its accounts.

Step 1: Explain the treatment on reconstitution The existing books of account are not closed. Necessary adjustments for changes in partners, assets, liabilities, goodwill and capital are recorded in the continuing books, as applicable. The change in the partnership agreement does not itself end the firm.

Step 2: Explain the treatment on dissolution The books of account are closed after the assets are realised, liabilities are paid and partners' accounts are finally settled. There is no continuing firm for

which balances are carried forward in the ordinary way.

Step 3: Conclusion On reconstitution, the books are not closed; on dissolution of the firm, the books are closed.

Quick Tip to Solve: For the basis "closure of books", first ask whether the firm continues its business or comes to an end.

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:

- The deceased partner is entitled to a share of profit from the last accounting date up to the date of death.
- When final accounts cannot be prepared on the date of death, that profit may be estimated on a time basis or a sales basis, according to the agreement.

Step 1: State the time basis Profit is estimated from the preceding year's profit, or the agreed average of previous years' profits, in proportion to the time elapsed up to death. The deceased partner's profit-sharing fraction is then applied to that estimated profit.

Step 2: State the sales basis Profit is estimated by applying the previous year's profit-to-sales ratio to sales from the last accounting date up to the date of death. The deceased partner's profit-sharing fraction is applied to the resulting estimated profit.

Step 3: Conclusion The two bases are time elapsed and sales made up to the date of death, using past profits as agreed.

Quick Tip to Solve: Identify whether the question supplies months or sales up to death; this selects the time basis or sales basis.

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

Solution:

Concept:

- Collateral security is secondary or additional security given to a lender in addition to the principal security for a loan.
- Debentures issued as collateral security secure the existing borrowing; they do not represent a separate cash receipt from the lender.

Step 1: Identify why the debentures are issued A company may take a loan from a bank or another lender and deposit its debentures with that lender as additional security. This strengthens the lender's protection beyond the primary security already provided for the loan.

Step 2: Explain when the security is used If the company repays the loan, the lender releases or returns the collateral debentures. If the company defaults, the lender may exercise the rights under the collateral security to recover the outstanding amount, subject to the terms of the loan.

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

Quick Tip to Solve: In a collateral issue, connect the debentures with the loan already secured; no fresh debenture subscription is received.

OR

3. State the provision of the Companies Act, 2013 for the creation of Debenture Redemption Reserve.

[1 mark]

Solution:

Concept:

- A Debenture Redemption Reserve (DRR) is an appropriation of profits for the redemption of debentures.
- The reserve is created out of profits available for payment of dividend, rather than by treating the transfer as an operating expense.

Step 1: State the reserve requirement Under the provision applicable to this examination, a company required to create DRR transfers profits available for dividend to a Debenture Redemption Reserve of at least 25% of the nominal value of debentures to be redeemed.

Step 2: State the permitted use of the reserve The amount credited to the Debenture Redemption Reserve cannot be used for a purpose other than the redemption of debentures. It is a restriction on the use of the appropriated profits; it is not itself the payment of cash to debentureholders.

Step 3: Conclusion DRR is created out of profits available for dividend, at a minimum of 25% of the debentures to be redeemed under the applicable provision, and is used only for debenture redemption.

Quick Tip to Solve: Remember both parts of the provision: the source is divisible profits and the reserved amount is restricted to redemption.

4. Differentiate between 'Receipts and Payments Account' and 'Income and Expenditure Account' on the basis of 'Period'.

[1 mark]

Solution:

Concept:

- A Receipts and Payments Account follows the cash basis and records cash received and paid during the accounting year.
- An Income and Expenditure Account follows the accrual basis and measures income earned and expenditure incurred for the current accounting year.

Step 1: Identify the periods covered by receipts and payments Receipts and payments occurring in the current year may relate to a previous year, the current year or a future year. For example, subscriptions received now may include arrears or amounts collected in advance.

Step 2: Identify the period covered by income and expenditure Only income and expenditure relating to the current accounting year are included, regardless of the date of receipt or payment. Previous-year and future-year revenue items are excluded when calculating the current year's surplus or deficit.

Step 3: Conclusion Receipts and Payments may cover amounts relating to past, present and future years; Income and Expenditure relates only to the current year.

Quick Tip to Solve: Separate the date cash moves from the year it belongs to: only the latter controls the Income and Expenditure Account.

OR

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

Solution:

Concept:

- A life member pays a lump-sum amount to obtain membership for life instead of paying annual membership subscriptions.
- Because this receipt gives membership rights extending beyond the current year, it is treated as a capital receipt in the usual CBSE treatment.

Step 1: Explain the nature of the payment A not-for-profit organisation may accept a single payment from a person who becomes a member for the rest of that person's life. The member is consequently exempted from the recurring annual subscription covered by that arrangement.

Step 2: Explain its accounting character The organisation receives cash in the year the fee is paid, so it appears on the receipts side of the Receipts and Payments Account. Being a capital receipt, it is ordinarily added to the capital fund rather than treated as the current year's subscription income.

Step 3: Conclusion Life membership fees are lump-sum fees paid once by members to obtain membership for life and exemption from annual subscriptions.

Quick Tip to Solve: Look for a once-only payment replacing future annual subscriptions; that identifies a life membership fee.

5. 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 every month, the average period is six months.

- Interest on drawings = total drawings multiplied by the annual rate and the average period expressed as a fraction of a year.

Step 1: Calculate total drawings and the average period Dev withdraws the same amount on the 15th of each of the twelve months. Total drawings are Rs $10,000 \times 12 =$ Rs $1,20,000$. The first drawing remains outstanding for 11.5 months and the last for 0.5 month. Thus,

$$\text{Average period} = \frac{11.5 + 0.5}{2} = 6 \text{ months.}$$

Step 2: Apply the annual rate for the average period Charge interest on the total annual drawings for six months:

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

Using a full year for every instalment would overstate interest because the drawings occur throughout the year.

Step 3: Conclusion Interest on Dev's drawings is $\boxed{\text{Rs } 7,200}$.

Quick Tip to Solve: For equal drawings on the 15th of each month throughout a year, use six months as the average period.

6. State any two situations when a partnership firm may be compulsorily dissolved. [1 mark]

Solution:

Concept:

- Compulsory dissolution arises when a legal condition prevents the partnership from continuing.
- A partnership needs at least two persons capable of continuing as partners, and its business must remain lawful.

Step 1: State the insolvency situation A firm is compulsorily dissolved when all its partners, or all partners except one, are adjudicated insolvent. With fewer than two partners able to continue, the required partnership relationship cannot remain in existence.

Step 2: State the illegality situation A firm is compulsorily dissolved when an event makes its business unlawful, or makes it unlawful for its partners to carry on that business in partnership. An example is a legal prohibition of the sole business for which the firm was formed.

Step 3: Conclusion Two situations are: (i) all or all but one partner are adjudicated insolvent; (ii) the firm's business, or its continuation in partnership, becomes unlawful.

Quick Tip to Solve: For compulsory dissolution, recall the two legal barriers: insufficient solvent partners and an unlawful business.

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 offered by the company for subscription.
- The company cannot allot more shares than it offers. It can reject excess applications, allot proportionately (pro rata), or combine these methods.

Step 1: Meaning and numerical setting Suppose a company offers 10,000 shares and receives valid applications for 15,000 shares. Demand exceeds the offer by 5,000 shares, so the issue is over-subscribed. The company must restrict allotment to 10,000 shares while deciding how to deal with the applications and the money received.

Step 2: Alternative 1: full allotment to some applicants The company may accept applications covering 10,000 shares in full and reject applications for the remaining 5,000 shares. Application money received on all rejected applications is refunded. Thus, accepted applicants receive their entire requested number, whereas rejected applicants receive no shares.

Step 3: Alternative 2: pro-rata allotment to all applicants All 10,000 shares may be allotted proportionately among applicants for 15,000 shares. The allotment-to-application ratio is $10,000 : 15,000 = 2 : 3$. Thus, an applicant for 300 shares receives 200 shares. Excess application money is normally adjusted towards allotment money due; any refundable excess is returned.

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 among applicants for the remaining 12,000 shares. Here the ratio is $10,000 : 12,000 = 5 : 6$, so an applicant for 600 shares receives 500 shares. Excess money of successful applicants is adjusted towards allotment, with any remaining refundable excess returned.

Step 5: Conclusion Over-subscription means applications exceed the shares offered. The available alternatives are full allotment to selected applicants with rejection of others, pro-rata allotment, or a combination of rejection and pro-rata allotment.

Quick Tip to Solve: For any pro-rata group, divide shares allotted by shares applied for in that group; exclude rejected applications first.

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 is cancellation of shares by the company, under its articles and after the prescribed notice, because a shareholder fails to pay allotment or call money due.
- The amount already received towards share capital on forfeited shares is credited to Share Forfeiture Account. It is a capital receipt, not revenue income.
- On reissue, the forfeiture amount relating to those shares, less any discount allowed on their reissue, becomes the realised capital profit transferable to Capital Reserve.

Step 1: Explain forfeiture and its immediate accounting effect If a shareholder does not pay an amount called up on shares, the company may forfeit the shares after complying with its articles and the required procedure. The defaulting shareholder loses membership rights in respect of those shares and the company retains the amount already paid. At forfeiture, called-up share capital is cancelled, unpaid allotment or calls are cancelled, and the amount actually received towards capital is credited to Share Forfeiture Account.

Step 2: Identify when the gain becomes realised The retained capital amount is a potential capital gain at forfeiture. The net gain is realised when those forfeited shares are reissued. If the reissue is at a discount, that discount is debited to Share Forfeiture Account, within the amount forfeited on the shares reissued. Therefore,

$$\text{Capital profit} = \text{Forfeiture amount on reissued shares} - \text{Reissue discount}.$$

For example, if Rs 600 had been forfeited on the shares reissued and their reissue discount is Rs 200, the realised gain is Rs 400.

Step 3: State the time and extent of transfer The realised gain is transferred to Capital Reserve after reissue. If only some forfeited shares are reissued, transfer only the proportionate forfeiture balance relating to those shares after deducting their reissue discount; retain the balance for shares still awaiting reissue. The entire Share Forfeiture balance is not transferred merely because the shares have been forfeited.

Step 4: Conclusion Forfeiture cancels shares for non-payment of amounts due. The amount retained becomes a realised capital gain on reissue to the extent it exceeds any reissue discount, and this net gain on the shares actually reissued is then transferred to Capital Reserve.

Quick Tip to Solve: First isolate the forfeiture credit for shares actually reissued; subtract their reissue discount before transferring the gain.

8. Devi, Dayal and Daya were partners in a firm sharing profits in the ratio of 2 : 1 : 2. On 31st March, 2018, they admitted Divya as a new partner for 1/5th share in the profits. Their new profit sharing ratio was 1 : 2 : 1 : 1. Divya brought Rs 5,00,000 as her capital and Rs 50,000 for her share of goodwill premium.

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

[3 marks]

Solution:

Concept:

- For each old partner, sacrificing share equals old share minus new share. A negative sacrifice is a gain, so that old partner must compensate the sacrificing partners.
- The total goodwill of the firm is inferred from the incoming partner's premium divided by her profit share. Compensation is credited to sacrificing partners in their sacrificing ratio.

Step 1: Determine sacrifice and gain The old shares of Devi, Dayal and Daya are $2/5, 1/5, 2/5$; their new shares are $1/5, 2/5, 1/5$. Hence

$$\text{Devi's sacrifice} = 2/5 - 1/5 = 1/5,$$
$$\text{Dayal's sacrifice} = 1/5 - 2/5 = -1/5,$$
$$\text{Daya's sacrifice} = 2/5 - 1/5 = 1/5.$$

Devi and Daya sacrifice equally; Dayal gains $1/5$.

Step 2: Calculate goodwill compensation Divya brings Rs 50,000 for her $1/5$ share, implying total goodwill of $50,000 \div (1/5) =$ Rs $2,50,000$. Dayal must also compensate for his gain: $2,50,000 \times 1/5 =$ Rs $50,000$. The total compensation is therefore Rs 1,00,000, credited equally to Devi and Daya: Rs 50,000 each.

Step 3: Pass the journal entries

Journal of the Firm (31st March, 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2018	Bank A/c Dr. To Divya's Capital A/c To Premium for Goodwill A/c (Being capital and goodwill premium brought in by Divya)		5,50,000	 5,00,000 50,000
31.3.2018	Premium for Goodwill A/c Dr. Dayal's Capital A/c Dr. To Devi's Capital A/c To Daya's Capital A/c (Being goodwill compensation credited to sacrificing partners, including Dayal's gaining share)		50,000 50,000	 50,000 50,000

Step 4: Conclusion Divya's capital credit is Rs 5,00,000. Devi and Daya receive Rs 50,000 goodwill each; Dayal's capital is debited by Rs 50,000.

Quick Tip to Solve: Check every old partner: Dayal gains here, so Divya's premium alone cannot compensate the total sacrifice.

9. From the following information, calculate the amount of stationery consumed by 'Shree Club' for the year ended 31st March, 2018.

Particulars	31.3.2017 (Rs)	31.3.2018 (Rs)
Balance of stationery	24,000	29,500
Creditors for stationery	2,09,000	1,95,000

During the year creditors were paid Rs 3,00,000. [3 marks]

Solution:

Concept:

- Stationery expense is measured on the accrual basis: payments to creditors must first be converted into purchases by adjusting opening and closing creditors.
- Purchases equal cash paid to creditors plus closing creditors minus opening creditors. Consumption equals opening stationery stock plus purchases minus closing stationery stock.

Step 1: Convert payment to purchases The Rs 3,00,000 paid during the year includes settlement of opening creditors and excludes purchases still unpaid at year-end. Therefore, use the creditors movement:

$$\begin{aligned}\text{Purchases} &= \text{Payment} + \text{Closing creditors} \\ &\quad - \text{Opening creditors} \\ &= 3,00,000 + 1,95,000 - 2,09,000 \\ &= \text{Rs } 2,86,000.\end{aligned}$$

Creditors fell by Rs 14,000, so payment exceeds the current year's purchases by Rs 14,000. This provides a check on the direction of the adjustment.

Step 2: Adjust stationery stocks to find consumption The opening stationery balance is available for use this year, while the closing balance remains unused. Hence

$$\begin{aligned}\text{Stationery consumed} &= \text{Opening stock} + \text{Purchases} \\ &\quad - \text{Closing stock} \\ &= 24,000 + 2,86,000 - 29,500 \\ &= \text{Rs } 2,80,500.\end{aligned}$$

Stock increased by Rs 5,500; consequently, consumption is Rs 5,500 below purchases. Deducting both adjustments from payments gives the same check: $3,00,000 - 14,000 - 5,500 = 2,80,500$. This is the stationery expense to be debited to the Income and Expenditure Account for the year ended 31st March, 2018, rather than the cash payment of Rs 3,00,000.

Step 3: Conclusion Stationery consumed by Shree Club for the year ended 31st March, 2018 is $\boxed{\text{Rs } 2,80,500}$.

Quick Tip to Solve: Work in two stages: convert creditors paid to purchases, then adjust opening and closing stationery stock.

10. On 1st April, 2018, R.J. Ltd issued Rs 10,00,000, 9% debentures of Rs 100 each at a discount of 10%. These debentures were redeemable at a premium of 5% after four years.

Pass necessary journal entries for the issue of debentures and prepare 9% Debentures Account.

[3 marks]

Solution:

Concept:

- Debentures are credited at their nominal value. The issue discount reduces the cash received, but does not reduce the debenture liability.
- Loss on issue includes both the discount on issue and the premium payable on redemption. The redemption premium is recognised as a separate liability at issue.

Step 1: Calculate the issue proceeds and loss **Working Notes.** The number of debentures is $10,00,000/100 = 10,000$. Each debenture is issued for Rs 90 and is redeemable for Rs 105. Therefore,

$$\begin{aligned}\text{Issue discount} &= 10,00,000 \times 10\% = \text{Rs } 1,00,000,\\ \text{Bank receipt} &= 10,00,000 - 1,00,000 = \text{Rs } 9,00,000,\\ \text{Redemption premium} &= 10,00,000 \times 5\% = \text{Rs } 50,000,\\ \text{Loss on issue} &= 1,00,000 + 50,000 = \text{Rs } 1,50,000.\end{aligned}$$

The 9% rate determines interest on the nominal value; it does not enter the calculation of the issue proceeds.

Step 2: Record the issue of debentures **Journal of R.J. Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2018	Bank A/c Dr.		9,00,000	
	Loss on Issue of Debentures A/c Dr.		1,50,000	
	To 9% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being 10,000 debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium after four years)			

Total debits and total credits are both Rs 10,50,000. Although redemption is after four years, the premium obligation is recorded at the date of issue.

Step 3: Post the nominal liability to the ledger **9% Debentures Account in the books of R.J. Ltd.**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance c/d	10,00,000	By Sundries (1 Apr. 2018)	10,00,000
Total	10,00,000	Total	10,00,000
		By Balance b/d	10,00,000

Sundries represents the compound issue entry. The Rs 50,000 premium is kept in its separate account; the Rs 1,50,000 loss is not deducted from the face-value liability. No redemption entry is required at the time of issue.

Step 4: Conclusion Cash received is Rs 9,00,000 and loss on issue is Rs 1,50,000. The 9% Debentures

Account has a credit balance of Rs 10,00,000, with a separate redemption-premium liability of Rs 50,000.

Quick Tip to Solve: Add the 10% issue discount and 5% redemption premium to find the loss, but credit Debentures only with the face value.

11. J, K and L were partners in a firm sharing profits in the ratio of 4 : 5 : 1. On 31st March, 2018 their firm was dissolved. On this date the Balance Sheet showed a balance of Rs 1,34,000 in debtors account and a balance of Rs 14,000 in provision for bad debts account. Both the accounts were closed by transferring their balances to realisation account. Rs 4,000 of the debtors became bad and nothing could be realised from them on dissolution. K agreed to look after the dissolution work for which he was allowed a remuneration of Rs 16,000. K also agreed to bear dissolution expenses for which he was allowed a lumpsum payment of Rs 4,000. Actual dissolution expenses were Rs 6,500 and the same were paid from the firm's cash. Loss on dissolution amounted to Rs 37,000.

Pass necessary journal entries for the above transactions in the books of the firm on its dissolution.

[4 marks]

Solution:

Concept:

- On dissolution, debtors and their provision are transferred separately to Realisation Account. Cash recovered from the debtors is then credited to Realisation Account.
- A partner's agreed remuneration and fixed allowance for expenses are debited to Realisation and credited to the partner's capital. When that partner must bear the expenses, any payment made by the firm on the partner's behalf is debited to the partner's capital.
- The final realisation loss is borne by the partners in their profit-sharing ratio of $4 : 5 : 1$.

Step 1: Calculate the recovery and loss shares **Working Notes.** Out of total debtors of Rs 1,34,000, Rs 4,000 yields no recovery. Hence cash realised is

$$\text{Rs } 1,34,000 - \text{Rs } 4,000 = \text{Rs } 1,30,000.$$

The provision of Rs 14,000 is not deducted again from this cash receipt. It has already been credited to Realisation Account when transferred. No separate entry for Rs 4,000 bad debts is needed because the debtors account has already been closed.

$$\text{J's share of loss} = 37,000 \times \frac{4}{10} = \text{Rs } 14,800,$$
$$\text{K's share of loss} = 37,000 \times \frac{5}{10} = \text{Rs } 18,500,$$
$$\text{L's share of loss} = 37,000 \times \frac{1}{10} = \text{Rs } 3,700.$$

The Rs 37,000 is the stated final loss; it already includes the effects of realisation and dissolution charges and is not recalculated from these selected transactions.

Step 2: Identify the transfers already recorded The question states that debtors and the provision

have already been closed. Their entries are shown below for completeness and must not be posted a second time. All entries relate to 31 March 2018.

Journal of J, K and L: transfers already made

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Debtors A/c (Being debtors transferred to Realisation Account)		1,34,000	1,34,000
	Provision for Bad Debts A/c Dr. To Realisation A/c (Being provision for bad debts transferred to Realisation Account)		14,000	14,000

Step 3: Record the receipt and K's agreed allowances **Journal of J, K and L: dissolution entries**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. To Realisation A/c (Being cash realised from debtors, excluding Rs 4,000 irrecoverable)		1,30,000	1,30,000
	Realisation A/c Dr. To K's Capital A/c (Being remuneration allowed to K for dissolution work)		16,000	16,000
	Realisation A/c Dr. To K's Capital A/c (Being fixed allowance granted to K for bearing dissolution expenses)		4,000	4,000

Step 4: Charge expenses to K and distribute the final loss K agreed to bear actual expenses. Therefore, the firm's cash payment of Rs 6,500 is recoverable from K and is charged to his capital account. Debiting Realisation again would wrongly make the firm bear this expenditure in addition to its agreed Rs 4,000 allowance.

Journal of J, K and L: remaining entries

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	K's Capital A/c Dr. To Cash A/c (Being dissolution expenses borne by K but paid out of the firm's cash)		6,500	6,500
	J's Capital A/c Dr. K's Capital A/c Dr. L's Capital A/c Dr. To Realisation A/c (Being loss on realisation transferred to partners' capital accounts in the ratio 4:5:1)		14,800 18,500 3,700	37,000

Step 5: Conclusion Debtors realise Rs 1,30,000. K receives capital credits of Rs 16,000 and Rs 4,000, and a debit of Rs 6,500 for expenses paid on his behalf. The final loss is debited to J, K and L at Rs 14,800, Rs 18,500 and Rs 3,700 respectively.

Quick Tip to Solve: Separate who bears the expenses from who pays them: K bears Rs 6,500, so the firm's payment debits K's capital; only the agreed Rs 4,000 allowance debits Realisation.

12. E, F and G were partners in a firm sharing profits in the ratio of 3 : 3 : 4. Their respective fixed capitals were E Rs 3,00,000; F Rs 4,00,000 and G Rs 5,00,000. The partnership deed provided for allowing interest on capital @ 12% p.a. even if it results into a loss to the firm. The net profit of the firm for the year ended 31st March, 2018 was Rs 2,10,000.

Pass necessary journal entries for allowing interest on capital and division of profit/loss in the books of the firm. [4 marks]

Solution:

Concept:

- Interest payable even if it creates a loss is a charge against profit. Allow the full contractual interest before dividing the remaining profit.
- With fixed capitals, interest and profit shares are credited to partners' Current Accounts; the fixed Capital Accounts remain unchanged.

Step 1: Calculate the interest and divisible profit **Working Notes:** The capitals apply for the full year ended 31st March, 2018. Interest is capital multiplied by $12/100$:

$$E: 3,00,000 \times 12/100 = \text{Rs } 36,000,$$
$$F: 4,00,000 \times 12/100 = \text{Rs } 48,000,$$
$$G: 5,00,000 \times 12/100 = \text{Rs } 60,000.$$

Total interest is Rs 1,44,000. Hence the remaining profit is $2,10,000 - 1,44,000 = \text{Rs } 66,000$. The deed's loss clause requires full interest, but no loss actually arises here. Divide the remaining profit in $3:3:4$: E receives Rs 19,800, F receives Rs 19,800 and G receives Rs 26,400.

Step 2: Record the interest on capital **Journal of the firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Interest on Capital A/c Dr.		1,44,000	
	To E's Current A/c			36,000
	To F's Current A/c			48,000
	To G's Current A/c			60,000
	(Being full year's interest allowed at 12% p.a. on fixed capitals)			
31-3-2018	Profit and Loss A/c Dr.		1,44,000	
	To Interest on Capital A/c			1,44,000
	(Being interest transferred as a charge against profit under the deed)			

Step 3: Transfer and distribute the remaining profit **Journal of the firm (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Being profit after interest transferred for distribution)		66,000	 66,000
31-3-2018	Profit and Loss Appropriation A/c Dr. To E's Current A/c To F's Current A/c To G's Current A/c (Being remaining profit distributed in the ratio 3:3:4)		66,000	 19,800 19,800 26,400

Each entry has equal debits and credits. The interest and profit credits together total Rs 2,10,000, agreeing with the original profit.

Step 4: Conclusion Interest allowed to E, F and G is Rs 36,000, Rs 48,000 and Rs 60,000 respectively. The remaining profit of Rs 66,000 is divided as Rs 19,800, Rs 19,800 and Rs 26,400 respectively through their Current Accounts.

Quick Tip to Solve: First deduct the full Rs 1,44,000 interest, then divide only Rs 66,000 in 3:3:4. Fixed capitals require Current Accounts for both credits.

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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 compares each partner's correct entitlement with the amount already credited. A net excess credit is debited and a net short credit is credited.
- Omitted interest on capital requires crediting interest and debiting the consequent reduction in divisible profit. Omitted interest on drawings requires debiting interest and crediting the increase in divisible profit.
- Use Current Accounts where capitals are fixed. In part (ii), where no fixed-capital system is specified, use Capital Accounts.

Step 1: Work out the adjustment for omitted interest on capital **Working Notes for (i):** A, B and C should receive interest of $4,00,000 \times 10/100 = \text{Rs } 40,000$, $5,00,000 \times 10/100 = \text{Rs } 50,000$ and $6,00,000 \times 10/100 = \text{Rs } 60,000$. Total omitted interest is Rs 1,50,000. Since profit was distributed

without deducting it, each partner received $1,50,000/3 =$ Rs $50,000$ excess profit. Deduct that excess from the interest now due:

Particulars	A (Rs)	B (Rs)	C (Rs)
Interest to be credited	40,000	50,000	60,000
Excess profit to be debited	50,000	50,000	50,000
Net adjustment	10,000 Dr.	Nil	10,000 Cr.

A was overcredited by Rs 10,000, while C was undercredited by Rs 10,000. B's omitted interest exactly offsets his excess profit; therefore B needs no net entry.

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

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 adjustment for omitted interest on fixed capitals after reversing excess profit shares)			

The adjustment is made through Current Accounts because the question explicitly states that the capitals are fixed. Neither cash nor the fixed capital balances change.

Step 3: Work out the adjustment for omitted interest on drawings **Working Notes for (ii):** The question already gives the interest amounts: Rs 1,000, Rs 500 and Rs 2,000. Do not multiply them by 18% again. Their sum, Rs 3,500, should have increased the divisible profit. The omitted credits in $2:2:1$ are

$$P: 3,500 \times 2/5 = \text{Rs } 1,400, \quad Q: 3,500 \times 2/5 = \text{Rs } 1,400,$$

$$R: 3,500 \times 1/5 = \text{Rs } 700.$$

Compare these profit credits with the interest that must be charged:

Particulars	P (Rs)	Q (Rs)	R (Rs)
Interest on drawings to be debited	1,000	500	2,000
Additional profit to be credited	1,400	1,400	700
Net adjustment	400 Cr.	900 Cr.	1,300 Dr.

R must bear a net debit of Rs 1,300; P and Q require credits of Rs 400 and Rs 900. The total net credit, $400 + 900$, equals the net debit.

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

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 adjustment for omitted interest on drawings and the resulting increase in profit shares)			

This single compound entry corrects both the drawings-interest charges and the related profit distribution. It avoids reopening the already distributed Profit and Loss Appropriation Account.

Step 5: Conclusion (i) Debit A's Current Account and credit C's Current Account by Rs 10,000; no adjustment is needed for B. (ii) Debit R's Capital Account by Rs 1,300 and credit P's and Q's Capital Accounts by Rs 400 and Rs 900 respectively.

Quick Tip to Solve: For each partner, net the omitted interest against its effect on profit sharing. In (ii), Rs 1,000, Rs 500 and Rs 2,000 are interest amounts already calculated, not drawings.

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 all non-cash assets at their gross book values to Realisation Account. Transfer related provisions and outside liabilities to its credit; bank is not transferred.
- Asset-sale proceeds are credited to Realisation Account, while payments to creditors and realisation expenses are debited to it.
- Divide the realisation profit or loss in the old profit-sharing ratio $2:2:1$. Pay partners their capital balances after this adjustment.

Step 1: Transfer assets, provision and creditors Debtors are transferred at Rs 1,95,000, not their net balance of Rs 1,90,000, because the provision of Rs 5,000 is transferred separately. The assets transferred total $7,10,000 + 3,00,000 + 1,95,000 =$ Rs $12,05,000$.

Journal of A, B and C (31st March, 2018)

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

Step 2: Record realisation and payments All three assets are sold, giving total bank receipts of $6,75,000 + 3,39,000 + 1,35,000 =$ Rs $11,49,000$. Creditors are settled for their actual payment of Rs

1,85,000. Their Rs 15,000 discount is automatically included in the Realisation Account balance; it needs no separate entry.

Journal of A, B and C (continued)

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

Step 3: Calculate and distribute the realisation loss **Working Notes**

Total debits to Realisation Account are Rs 14,09,000 and total credits before loss transfer are Rs 13,54,000:

$$\text{Debits} = 12,05,000 + 1,85,000 + 19,000 = 14,09,000,$$

$$\text{Credits} = 2,05,000 + 11,49,000 = 13,54,000,$$

$$\text{Loss} = 14,09,000 - 13,54,000 = \text{Rs } 55,000.$$

Allocate this loss to A, B and C in $2:2:1$: Rs 22,000, Rs 22,000 and Rs 11,000 respectively. It reduces each partner's capital.

Journal of A, B and C (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Realisation A/c (Being realisation loss transferred in the ratio 2:2:1)		22,000 22,000 11,000	 55,000

Step 4: Settle the partners' capital balances The amounts payable are: A, $7,50,000 - 22,000 =$ Rs $7,28,000$; B, $3,00,000 - 22,000 =$ Rs $2,78,000$; and C, $2,50,000 - 11,000 =$ Rs $2,39,000$.

Journal of A, B and C (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Bank A/c (Being partners' final capital balances paid)		7,28,000 2,78,000 2,39,000	 12,45,000

Check: bank available is $3,00,000 + 11,49,000 - 1,85,000 - 19,000 =$ Rs $12,45,000$, exactly equal to the partners' final payments. Thus the bank and capital accounts close.

Step 5: Conclusion Realisation loss is **Rs 55,000**, shared by A, B and C as Rs 22,000, Rs 22,000 and Rs 11,000. Their final payments are **Rs 7,28,000, Rs 2,78,000 and Rs 2,39,000**, respectively; the above journal entries close the firm's books.

Quick Tip to Solve: Transfer debtors gross and the provision separately; then check that the bank balance after outside payments equals the total payable to partners.

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:

- Accumulated reserves and revaluation profit or loss arising before reconstitution belong to the old partners in their old profit-sharing ratio, here $3 : 2 : 1$.
- Writing off bad debts and creating a provision for doubtful debts reduce net assets, so both are debited to Revaluation Account.
- After these adjustments, distribute the total adjusted capital in the new ratio $2 : 2 : 1$. Transfer each partner's excess or deficiency to that partner's Current Account as instructed; no cash is introduced or withdrawn.

Step 1: Distribute the general reserve in the old ratio General Reserve of Rs 60,000 represents accumulated profits earned before the change. P, Q and R receive $60,000 \times 3/6 =$ Rs $30,000$, $60,000 \times 2/6 =$ Rs $20,000$ and $60,000 \times 1/6 =$ Rs $10,000$, respectively.

Journal of P, Q and R (31st March, 2018)

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 general reserve distributed in the old ratio 3:2:1)			

Step 2: Record the debtor adjustments and revaluation loss Write off Rs 6,000 from debtors and create the specified provision of Rs 3,000. These are separate reductions: the provision is not calculated as a percentage. Revaluation loss is $6,000 + 3,000 =$ Rs $9,000$, allocated in $3:2:1$ as Rs 4,500, Rs 3,000 and Rs 1,500.

Journal of P, Q and R (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr.		6,000	
	To Debtors A/c			6,000
	(Being bad debts written off on reconstitution)			
	Revaluation A/c Dr.		3,000	
	To Provision for Doubtful Debts A/c			3,000
	(Being provision for doubtful debts 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 transferred in the old ratio 3:2:1)			

Step 3: Work out adjusted and required capitals **Working Notes**

Add the reserve share and deduct the revaluation-loss share from each opening capital. The combined adjusted capital is $8,00,000 + 60,000 - 9,000 =$ Rs $8,51,000$. This total is retained, since the question requires adjustment through current accounts.

Particulars	P (Rs)	Q (Rs)	R (Rs)
Opening capital	2,00,000	3,00,000	3,00,000
Add: Share of general reserve	30,000	20,000	10,000
Less: Share of revaluation loss	4,500	3,000	1,500
Adjusted capital	2,25,500	3,17,000	3,08,500
Required capital in ratio 2:2:1	3,40,400	3,40,400	1,70,200
Deficiency / (excess)	1,14,900	23,400	(1,38,300)

For P and Q, required capital is $8,51,000 \times 2/5 =$ Rs $3,40,400$ each; for R it is $8,51,000 \times 1/5 =$ Rs $1,70,200$. P and Q require increases in capital, whereas R's excess capital must be transferred out to his Current Account.

Step 4: Adjust capitals by opening current accounts Debit a partner's Current Account for a capital deficiency and credit Capital Account; reverse this direction for an excess. This changes the classification between capital and current accounts without changing total partners' funds or bank balances.

Journal of P, Q and R (continued)

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

Check: total current-account debits are $1,14,900 + 23,400 =$ Rs $1,38,300$, equal to R's current-account credit. Capital now stands in the required ratio without any cash movement.

Step 5: Conclusion New capitals of P, Q and R are **Rs 3,40,400, Rs 3,40,400 and Rs 1,70,200**, respectively, in $2:2:1$. Current Accounts have debit balances of **Rs 1,14,900 for P and Rs 23,400 for Q**, and a credit balance of **Rs 1,38,300 for R**.

Quick Tip to Solve: Use 3:2:1 for reserve and revaluation adjustments first; only then apply 2:2:1 to the adjusted total capital, transferring each difference to a current account.

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:

- The Income and Expenditure Account records revenue income and expenses on the accrual basis; capital receipts and asset purchases belong in the Balance Sheet.
- Life membership fees are added to the capital fund. A government grant without a specified capital purpose is treated as revenue income.
- Accrued interest is both current-year income and a closing asset. Loss on sale of an asset equals its book value less sale proceeds.

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

Opening furniture is found from the accounting equation, using the opening cash and bank balances in the Receipts and Payments Account:

$$\begin{aligned} \text{Opening assets} &= 1,28,000 + 60,000 = 1,88,000, \\ \text{Furniture} &= 1,88,000 - (60,000 + 50,000 + 75,000) \\ &= \text{Rs } 3,000. \end{aligned}$$

This equals the book value of the furniture sold, so no furniture remains. The loss on sale is $3,000 - 2,000 = \text{Rs } 1,000$. Furniture hire rent is a revenue expense, not a furniture purchase.

The fixed deposit earns interest for eight months, from 1st August, 2017 to 31st March, 2018:

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

No interest receipt appears in the Receipts and Payments Account; the entire interest is accrued. No depreciation or outstanding expense adjustment is specified. Books, computers and creditors therefore retain their given balances.

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 (accrued)	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 expenditure is Rs 2,08,000. Subscriptions, the unrestricted government grant and accrued interest give total income of Rs 3,96,000. Life membership fees are excluded from this account because they are capitalised. The fixed deposit principal is an investment, so its payment is also excluded.

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

Liabilities	Rs	Assets	Rs
Capital fund:		Books	50,000
Opening balance	1,28,000	Computers	75,000
Add: Life membership fees	30,000	Fixed deposit	2,00,000
Add: Surplus	1,88,000	Interest accrued	16,000
Closing capital fund	3,46,000	Cash in hand	25,000
Creditors	60,000	Cash at bank	40,000
Total	4,06,000	Total	4,06,000

The opening fund, life membership fees and surplus are components of the closing capital fund; only the closing figure of Rs 3,46,000 is included in the Balance Sheet total. The Rs 2,000 furniture sale proceeds are already included in the closing cash/bank balances, so they are not added again.

Step 4: Conclusion The surplus for the year is **Rs 1,88,000**. The closing capital fund is **Rs 3,46,000**, and the Balance Sheet totals **Rs 4,06,000** on each side.

Quick Tip to Solve: Derive the missing opening furniture from capital plus liabilities less known assets, and accrue eight months' interest on the August fixed deposit.

16. 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:

- Separate the face value of shares from securities premium. Application and allotment comprises Rs 5 capital and Rs 3 premium; the call comprises Rs 5 capital and Rs 2 premium per share.
- Pro-rata allotment creates excess application money, which is transferred to Calls in Advance and adjusted when the call becomes due. Rejected applications are refunded.
- On forfeiture, debit called-up share capital, credit unpaid calls and credit Share Forfeiture with

capital already received. Premium already received is not reversed. Adjust available excess money towards call premium first.

- On reissue above face value, credit the excess to Securities Premium. Transfer the forfeiture balance on shares reissued to Capital Reserve when there is no reissue discount.

Step 1: Calculate application money, refund and advances **Working Notes**

Application and allotment receipts are $1,50,000 \times 8 =$ Rs $12,00,000$. Refund on rejected applications is $10,000 \times 8 =$ Rs $80,000$. The accepted applicants paid Rs 11,20,000, against an application and allotment amount due of $1,00,000 \times 8 =$ Rs $8,00,000$.

Category	Applied	Allotted	Excess (Rs)
I	80,000	60,000	1,60,000
II	60,000	40,000	1,60,000
Total	1,40,000	1,00,000	3,20,000

In each category the excess is the difference between applied and allotted shares multiplied by Rs 8. Of the Rs 8,00,000 due, Rs 5,00,000 is share capital and Rs 3,00,000 is securities premium. The remaining Rs 3,20,000 is available against the call.

Step 2: Determine the defaults and capital received X applied for $300 \times 80,000/60,000 = 400$ shares. Y applied for $200 \times 60,000/40,000 = 300$ shares. The call is Rs 7 per allotted share.

Particulars	X (Rs)	Y (Rs)
Excess application: (applied less allotted) times Rs 8	800	800
Gross first and final call	2,100	1,400
Less: Excess adjusted	800	800
Unpaid call	1,300	600
Call premium included in gross call	600	400
Excess left for capital after call premium	200	400
Capital received on application and allotment	1,500	1,000
Total capital received (forfeiture credit)	1,700	1,400

The excess available for each defaulter covers the call premium in full, so no Securities Premium debit is required at forfeiture. Total unpaid call is $1,300 + 600 =$ Rs $1,900$. Hence the cash received on call is

$$1,00,000 \times 7 - 3,20,000 - 1,900 = \text{Rs } 3,78,100.$$

Forfeiture credit is $1,700 + 1,400 =$ Rs $3,100$. Reissue of 500 shares at Rs 12 brings Rs 6,000, split into Rs 5,000 capital and Rs 1,000 premium.

Step 3: Prepare the bank-column Cash Book **Cash Book (Bank column) of S Ltd.**

Dr. Particulars	Bank (Rs)	Particulars Cr.	Bank (Rs)
To Share Application and Allotment	12,00,000	By Share Application and Allotment (refund)	80,000
To Share First and Final Call	3,78,100	By Balance c/d	15,04,100
To Share Capital (reissue)	5,000		
To Securities Premium (reissue)	1,000		
Total	15,84,100	Total	15,84,100
To Balance b/d	15,04,100		

The two reissue receipt lines together record one bank receipt of Rs 6,000. Cash transactions are recorded in this Cash Book and are therefore not repeated in the Journal below.

Step 4: Journalise allotment and the call **Journal of S Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Application and Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c To Calls in Advance A/c (Being application and allotment money on accepted applications transferred, with excess carried forward to the call)		11,20,000	 5,00,000 3,00,000 3,20,000
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium A/c (Being final call of Rs 7 per share, including Rs 2 premium, due on 1,00,000 shares)		7,00,000	 5,00,000 2,00,000
	Calls in Advance A/c Dr. To Share First and Final Call A/c (Being excess application money adjusted against the call)		3,20,000	 3,20,000

Step 5: Journalise forfeiture and transfer the reissue gain **Journal of S Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being X's 300 and Y's 200 fully called shares forfeited for non-payment of the net call)		5,000	 1,900 3,100
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being the entire forfeiture gain transferred to capital reserve after all 500 shares were reissued without discount)		3,100	 3,100

Reissue is already entered in the Cash Book. Since Rs 12 exceeds face value by Rs 2, the reissue premium of Rs 1,000 is kept in Securities Premium, and does not reduce or increase the forfeiture gain. After forfeiture and reissue, share capital is again Rs 10,00,000; securities premium is Rs 5,01,000 and capital reserve is Rs 3,100. Their sum, Rs 15,04,100, agrees with the closing bank balance.

Step 6: Conclusion The Cash Book closes with **Rs 15,04,100**. The unpaid call is **Rs 1,900**; forfeiture and the subsequent transfer to Capital Reserve are **Rs 3,100**. Reissue adds **Rs 1,000** to Securities Premium.

Quick Tip to Solve: Work backwards from shares allotted to shares applied for in each category. Deduct each holder's own excess before calculating the unpaid call and check whether that excess covers the call premium.

OR

16. 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:

- On forfeiture, debit Share Capital with the amount called up on the forfeited shares; credit the unpaid instalment and the amount already received to Share Forfeiture.
- Reissue of forfeited shares as fully paid credits Share Capital at face value. Discount on reissue is debited to Share Forfeiture; the remaining forfeiture balance is transferred to Capital Reserve.
- A later call applies only to shares still partly paid. Shares already reissued as fully paid are excluded from that call.

Step 1: Determine the shares affected and the amounts due Ramesh's unpaid allotment is Rs 2,000 at Rs 2 per share, so he holds $2,000/2 = 1,000$ shares. These are forfeited when Rs 3 per share has been called: capital cancelled is Rs 3,000 and application money forfeited is Rs 1,000.

After this forfeiture the first call is due on $1,00,000 - 1,000 = 99,000$ shares: Rs 2,97,000. Suresh's arrears are $500 \times 3 =$ Rs $1,500$. On his forfeiture, Rs 6 per share has been called, so capital cancelled is Rs 3,000; application and allotment already paid total Rs 1,500.

Step 2: Record application, allotment and Ramesh's forfeiture **Journal of Jain Ltd. (application and allotment)**

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

Step 3: Record the first call and Suresh's forfeiture **Journal of Jain Ltd. (first call)**

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

Step 4: Record reissue and transfer of capital profit All $1,000 + 500 = 1,500$ forfeited shares are reissued fully paid. Cash received is $1,500 \times 9 =$ Rs $13,500$; discount is $1,500 \times 1 =$ Rs $1,500$. Total forfeiture credit is Rs 2,500, leaving Rs 1,000 as capital profit.

Journal of Jain Ltd. (reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 1,500 forfeited shares reissued at Rs 9 each as fully paid)		13,500 1,500	 15,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue transferred to capital reserve)		1,000	 1,000

Step 5: Record the second and final call Only $1,00,000 - 1,000 - 500 = 98,500$ original shares remain partly paid. The reissued 1,500 shares are already fully paid; therefore the final call is $98,500 \times 4 =$ Rs $3,94,000$.

Journal of Jain Ltd. (second and final call)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Second and Final Call A/c Dr. To Share Capital A/c (Being second and final call due on 98,500 shares at Rs 4 each)		3,94,000	 3,94,000
	Bank A/c Dr. To Share Second and Final Call A/c (Being second and final call received in full)		3,94,000	 3,94,000

Step 6: Conclusion The entries above leave 1,00,000 fully paid shares, Share Capital of Rs 10,00,000 and Capital Reserve of Rs 1,000. Total cash received is Rs 10,01,000.

Quick Tip to Solve: Exclude the 1,500 shares reissued as fully paid when calculating the later Rs 4 call; it is due on only 98,500 shares.

17. 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 and are transferred in the old profit-sharing ratio, 3:2.
- Goodwill premium is credited to sacrificing partners in their sacrificing ratio. Accumulated reserves are credited to old partners in their old ratio; an outside liability such as Employees' Provident Fund remains payable.
- Total capital is inferred from the incoming partner's capital and profit share. Each partner's target capital equals total capital multiplied by the new profit share.

Step 1: Calculate sacrifice and distribute goodwill and reserves A's sacrifice is $3/5 - 5/10 = 1/10$, and B's sacrifice is $2/5 - 3/10 = 1/10$. Thus the sacrificing ratio is $1 : 1$; C's goodwill premium of Rs 15,000 is credited as Rs 7,500 each to A and B.

No workmen compensation claim is stated, so the Workmen Compensation Fund of Rs 10,000 and

Contingency Reserve of Rs 10,000 are distributed to A and B in 3:2. Each reserve gives A Rs 6,000 and B Rs 4,000; their combined credits are Rs 12,000 and Rs 8,000. Employees' Provident Fund of Rs 16,000 is a liability and is retained.

Step 2: Prepare the Revaluation Account Stock decreases by $60,000 \times 5\% = \text{Rs } 3,000$; furniture decreases by $20,000 \times 10\% = \text{Rs } 2,000$. The provision increases by only $2,000 - 1,600 = \text{Rs } 400$. Building increases by Rs 20,000. Hence the revaluation profit is $20,000 - 3,000 - 2,000 - 400 = \text{Rs } 14,600$, shared as Rs 8,760 and Rs 5,840.

Revaluation Account

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

Step 3: Determine the capital adjustment in cash C brings Rs 64,000 for a $2/10$ share. Therefore total capital is $64,000 \div (2/10) = \text{Rs } 3,20,000$. A's required capital is $3,20,000 \times 5/10 = \text{Rs } 1,60,000$, and B's is $3,20,000 \times 3/10 = \text{Rs } 96,000$.

$$\begin{aligned} \text{A's adjusted capital} &= 1,04,000 + 12,000 + 7,500 + 8,760 \\ &= \text{Rs } 1,32,260; \\ \text{B's adjusted capital} &= 52,000 + 8,000 + 7,500 + 5,840 \\ &= \text{Rs } 73,340. \end{aligned}$$

A brings $1,60,000 - 1,32,260 = \text{Rs } 27,740$; B brings $96,000 - 73,340 = \text{Rs } 22,660$. The goodwill premium remains in the business because no withdrawal is required.

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

Dr. Particulars	A (Rs)	B (Rs)	C (Rs)	Particulars	A (Rs)	B (Rs)	C (Rs) Cr.
To Balance c/d	1,60,000	96,000	64,000	By Balance b/d	1,04,000	52,000	—
				By Cash A/c (C's capital)	—	—	64,000
				By Workmen Compensation Fund	6,000	4,000	—
				By Contingency Reserve	6,000	4,000	—
				By Premium for Goodwill A/c	7,500	7,500	—
				By Revaluation A/c	8,760	5,840	—
				By Cash A/c (adjustment)	27,740	22,660	—
Total	1,60,000	96,000	64,000	Total	1,60,000	96,000	64,000

Step 5: Prepare the reconstituted Balance Sheet Closing cash is $8,000 + 64,000 + 15,000 + 27,740 + 22,660 =$ Rs $1,37,400$. Net debtors are $37,600 - 2,000 =$ Rs $35,600$.

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

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital accounts:		Cash	1,37,400
A	1,60,000	Sundry debtors: Rs 37,600	
B	96,000	Less: Provision Rs 2,000	35,600
C	64,000	Stock	57,000
Total partners' capital	**3,20,000**	Prepaid Insurance	6,000
Creditors	1,54,000	Plant and Machinery	76,000
Employees' Provident Fund	16,000	Building	1,60,000
		Furniture	18,000
Total	4,90,000	Total	4,90,000

Step 6: Conclusion Revaluation profit is Rs 14,600. A and B bring Rs 27,740 and Rs 22,660 respectively; final capitals are Rs 1,60,000, Rs 96,000 and Rs 64,000. The reconstituted Balance Sheet totals Rs 4,90,000.

Quick Tip to Solve: Increase the existing doubtful-debt provision by only Rs 400, and use the equal sacrificing ratio for goodwill even though the old ratio is 3:2.

OR

17. 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:		Cash	90,000
G: 1,40,000		Sundry Debtors	24,000
E: 40,000		Stock	14,000
F: 20,000	2,00,000	Machinery	80,000
Creditors	28,000	Land and Building	1,20,000
General Reserve	40,000		
Loan from E	60,000		
Total	3,28,000	Total	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 profit and accumulated reserves belong to all old partners in their old ratio, G:E:F $= 7:2:1$.
- In the absence of a different agreement, continuing partners retain their relative shares. G and F share future profits in $7:1$, which is also their gaining ratio here. They compensate E for his share of goodwill through capital accounts; goodwill is not retained as an asset.
- After all retirement adjustments, transfer E's capital balance to his existing loan account. Fix continuing capitals in the new ratio, transferring the differences to current accounts as instructed, without changing cash.

Step 1: Work out the revaluation profit and its distribution Land and Building increase by Rs $1,88,000 - 1,20,000 = 68,000$. Machinery and Stock decrease by Rs 4,000 each. The provision for doubtful debts is Rs $24,000 \times 2.5\% = 600$.

$$\text{Revaluation profit} = 68,000 - 4,000 - 4,000 - 600 = 59,400,$$
$$\text{G's share} = 59,400 \times 7/10 = 41,580,$$
$$\text{E's share} = 59,400 \times 2/10 = 11,880,$$
$$\text{F's share} = 59,400 \times 1/10 = 5,940.$$

Revaluation Account

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

Step 2: Adjust the reserve and E's goodwill entitlement Distribute General Reserve of Rs 40,000 in $7:2:1$: G receives Rs 28,000, E Rs 8,000 and F Rs 4,000. E's goodwill entitlement is Rs $90,000 \times 2/10 = 18,000$.

$$\text{G's gain} = 7/8 - 7/10 = 7/40,$$
$$\text{F's gain} = 1/8 - 1/10 = 1/40.$$

Debit G's capital by Rs $18,000 \times 7/8 = 15,750$, debit F's capital by Rs $18,000 \times 1/8 = 2,250$, and credit E's capital by Rs 18,000. Thus the goodwill adjustment is borne in the gaining ratio $7:1$. The adjusted capital balances are:

$$G = 1,40,000 + 28,000 + 41,580 - 15,750 = 1,93,830,$$
$$E = 40,000 + 8,000 + 11,880 + 18,000 = 77,880,$$
$$F = 20,000 + 4,000 + 5,940 - 2,250 = 27,690.$$

E's total loan balance becomes Rs $60,000 + 77,880 = 1,37,880$; the original loan is additional to his

adjusted capital entitlement.

Step 3: Fix capitals and prepare the capital accounts Total fixed capital is Rs 2,40,000. G's fixed capital is Rs $2,40,000 \times 7/8 = 2,10,000$; F's is Rs $2,40,000 \times 1/8 = 30,000$. Credit their capitals with the shortfalls and debit their current accounts: G Rs $2,10,000 - 1,93,830 = 16,170$, F Rs $30,000 - 27,690 = 2,310$. No additional cash is brought in.

Partners' Capital Accounts (amounts in Rs)

Dr.							Cr.
Particulars	G	E	F	Particulars	G	E	F
To E's Capital (goodwill)	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 (goodwill)	–	15,750	–
				By F's Capital (goodwill)	–	2,250	–
				By Current A/c	16,170	–	2,310
Total	2,25,750	77,880	32,250	Total	2,25,750	77,880	32,250

Step 4: Prepare the reconstituted firm's Balance Sheet Cash remains Rs 90,000, debtors are shown net of the new Rs 600 provision, and the debit current balances appear on the assets side. The reserve is distributed and goodwill adjusted through capitals; neither is carried forward.

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

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Cash	90,000
G	2,10,000	Sundry Debtors: 24,000	
F	30,000	Less: Provision: 600	23,400
E's Loan	1,37,880	Stock	10,000
Creditors	28,000	Machinery	76,000
		Land and Building	1,88,000
		Current Accounts (Dr.):	
		G	16,170
		F	2,310
Total	4,05,880	Total	4,05,880

Step 5: Conclusion Revaluation profit is Rs 59,400. E's final 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 respectively. The reconstituted Balance Sheet totals Rs 4,05,880 on each side.

Quick Tip to Solve: Add E's old loan to his adjusted capital; use current accounts, not cash, for G's and F's capital shortfalls.

Part B (20 marks)

18. How is goodwill written off treated while calculating cash flow from operating activities? [1 mark]

Solution:

Concept:

- Under the indirect method, net profit is adjusted for non-cash expenses to determine cash generated from operations.
- Writing off goodwill reduces accounting profit but does not involve a cash payment in the current period.

Step 1: Identify the nature of the adjustment Goodwill written off is a non-cash expense. Its charge has reduced the profit used as the starting point, although no cash has left the business because of the write-off.

Step 2: Reverse the non-cash charge Add back the amount of goodwill written off to net profit before tax and extraordinary items while calculating operating profit before working capital changes. This removes the reduction in profit caused by the non-cash expense; it is not itself a cash receipt.

Step 3: Conclusion Goodwill written off is added back to net profit before tax and extraordinary items in calculating cash flow from operating activities under the indirect method.

Quick Tip to Solve: A goodwill write-off reduces profit without using cash: add back the expense already charged to profit.

19. When does an investment qualify as cash equivalent? [1 mark]

Solution:

Concept:

- Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments rather than for investment purposes.
- They must be readily convertible into known amounts of cash and carry an insignificant risk of changes in value.

Step 1: Apply the liquidity and risk tests The investment must be convertible promptly into a known cash amount. Merely being marketable is insufficient if its sale value can fluctuate significantly; both ready convertibility and insignificant value risk are necessary.

Step 2: Check maturity from acquisition An investment normally qualifies only when it has a short maturity, say three months or less from its date of acquisition. This period is assessed from acquisition, not merely from the balance-sheet date, because cash equivalents are held to meet near-term cash commitments.

Step 3: Conclusion An investment qualifies as a cash equivalent when it is short-term and highly liquid, readily convertible into a known amount of cash and subject to insignificant risk of value changes, normally with maturity of three months or less from acquisition.

Quick Tip to Solve: Check the three-month period from acquisition along with liquidity and insignificant value risk.

20. 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 classifies assets as current or non-current and separately shows shareholders' funds. Classification depends on the nature of the item and, where relevant, its remaining maturity.
- Inventories include work-in-progress and loose tools. Identifiable rights and titles without physical substance are intangible assets.

Step 1: Classify the current assets Cheques and bank drafts in hand are included in cash and cash equivalents. Loose tools and work-in-progress are inventories: the former are stores used in operations, while the latter are goods whose production is incomplete. Debtors arising from credit sales are trade receivables.

The investments in item (iv) were originally long-term investments, but now mature within six months. Their current maturities are shown under other current assets. They should not be confused with investments originally classified as current investments.

Step 2: Classify the reserve and intangible assets Securities Premium Reserve forms part of shareholders' funds under reserves and surplus. It represents the premium on issue of securities, rather than a liability payable to an outside party. Mining rights and publishing titles are non-current intangible assets because their value comes from legal or commercial rights rather than physical form.

Balance Sheet classification under Schedule III

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 placed under the major heads and sub-heads shown in the table. In particular, current maturities of long-term investments belong to other current assets, while both mining rights and publishing titles are intangible assets.

Quick Tip to Solve: Distinguish current maturities of long-term investments from current investments; also group loose tools with inventories and legal rights with intangible assets.

OR

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

Solution:

Concept:

- Financial analysis interprets the information in financial statements to assess profitability, financial position and the ability to meet obligations. Different users study these results for different decisions.
- Profitability indicates earning capacity, while liquidity indicates the ability to pay short-term obligations as they fall due. Both must be considered in the context of the user's interest in the enterprise.

Step 1: Explain the importance for labour unions Labour unions analyse the company's profits and financial position to assess its capacity to pay higher wages, bonuses and other employee benefits. A sustained improvement in profitability provides a factual basis for negotiating a fair share of the company's increased prosperity for workers.

Analysis also helps unions examine whether management's claim that it cannot afford a wage increase is supported by the accounts. Trends in profits, business activity and financial stability help them assess the security of employment and the ability of the business to maintain employee benefits. Thus, their negotiations can reflect both workers' demands and the enterprise's financial capacity.

Step 2: Explain the importance for creditors Creditors, particularly suppliers granting trade credit, analyse financial statements to determine whether the company can pay the amounts due on time. They focus on liquidity and short-term solvency by examining current assets, current liabilities, cash availability and the collection of trade receivables. Current and quick ratios can support this assessment.

Profitability and past payment capacity also help creditors judge whether the business is likely to continue generating funds. On this basis, they decide whether to extend credit and determine the credit limit, repayment period and other credit terms. A business with sound liquidity and satisfactory earnings gives greater confidence that dues will be recovered when payable.

Step 3: Conclusion Labour unions use financial analysis to judge the company's capacity to improve wages and employee benefits and to support negotiations. Creditors use it to assess timely recovery of their dues and decide suitable credit terms.

Quick Tip to Solve: Link each user's decision to a financial concern: labour unions examine the capacity to pay wages and benefits; creditors examine liquidity and the recovery of dues.

21. From the following information prepare a Comparative Income Statement of NY Ltd :

Particulars	2016-17 (Rs)	2017-18 (Rs)
Revenue from operations	15,00,000	24,00,000
Cost of materials consumed	8,00,000	12,00,000
Employee benefit expenses	1,20,000	1,80,000
Other expenses	80,000	60,000

Tax Rate 50%. [4 marks]

Solution:

Concept:

- A comparative income statement presents two years side by side. The absolute change is the current-year amount minus the previous-year amount.
- Percentage change is calculated on the previous year's amount. A negative change denotes a decrease.

$$\text{Change (\%)} = \frac{\text{Absolute change}}{\text{Previous-year amount}} \times 100.$$

- Profit before tax equals revenue from operations less total expenses. Tax is 50% of profit before tax; profit after tax is the remaining 50%.

Step 1: Compute total expenses and profits Working Notes (all amounts in Rs): Add the three expense heads separately for each year.

$$\begin{aligned} \text{Expenses, 2016–17} &= 8,00,000 + 1,20,000 + 80,000 \\ &= 10,00,000, \\ \text{Expenses, 2017–18} &= 12,00,000 + 1,80,000 + 60,000 \\ &= 14,40,000. \end{aligned}$$

Therefore, profit before tax is Rs $15,00,000 - 10,00,000 = 5,00,000$ for 2016–17 and Rs $24,00,000 - 14,40,000 = 9,60,000$ for 2017–18. Applying tax at 50% gives tax expense of Rs 2,50,000 and Rs 4,80,000 respectively. Subtracting these taxes gives profit after tax of Rs 2,50,000 and Rs 4,80,000 respectively.

Step 2: Prepare the comparative statement **NY Ltd.**

Comparative Income Statement for 2016–17 and 2017–18

Particulars	2016–17 (Rs)	2017–18 (Rs)	Change (Rs)	Change (%)
I. Revenue from operations	15,00,000	24,00,000	9,00,000	60
II. Expenses:				
Cost of materials consumed	8,00,000	12,00,000	4,00,000	50
Employee benefit expenses	1,20,000	1,80,000	60,000	50
Other expenses	80,000	60,000	(20,000)	(25)
Total expenses	10,00,000	14,40,000	4,40,000	44
III. Profit before tax (I–II)	5,00,000	9,60,000	4,60,000	92
IV. Tax expense (50%)	2,50,000	4,80,000	2,30,000	92
V. Profit after tax (III–IV)	2,50,000	4,80,000	2,30,000	92

Parentheses indicate decreases. For example, the percentage decrease in other expenses is $\frac{20{,}000}{80{,}000} \times 100 = 25\%$; the increase in profit after tax is $\frac{2{,}30{,}000}{2{,}50{,}000} \times 100 = 92\%$. Each percentage uses its own 2016–17 row as the base.

Step 3: Conclusion Revenue rose by Rs 9,00,000 (60%), while total expenses rose by Rs 4,40,000 (44%). Consequently, profit after tax increased by Rs 2,30,000 (92%), from Rs 2,50,000 to Rs 4,80,000.

Quick Tip to Solve: Use 2016–17 as the base for every percentage; with the same 50% tax rate in both years, profit before tax and profit after tax have the same percentage increase.

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22. 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:

- The operating ratio measures the operating cost incurred per Rs 100 of revenue from operations: Operating ratio $= \dfrac{\text{Cost of revenue from operations} + \text{Operating expenses}}{\text{Revenue from operations}} \times 100$.
- The given 80% means that operating cost is Rs 80 for each Rs 100 of revenue. Operating costs include direct wages; repayment of borrowed capital is a financing transaction and is excluded.
- Consider each transaction separately. Identify whether it affects operating cost, revenue from operations, or neither; an inventory purchase is not itself a sale or consumption of that inventory.

Step 1: Examine the credit purchase of goods (i) Purchasing goods on credit for Rs 20,000 does not change the operating ratio. Purchases and the stock of unsold goods both increase by Rs 20,000. In the calculation Cost of revenue = Opening stock + Net purchases + Direct expenses − Closing stock, the increase in purchases is offset by the increase in closing stock. Therefore operating cost and revenue remain unchanged. The simultaneous increase in trade payables concerns the balance sheet and does not alter this ratio.

Step 2: Examine the payment of wages (ii) Paying wages of Rs 5,000 increases the operating ratio. Wages are a direct operating expense and add Rs 5,000 to the numerator, while revenue from operations remains unchanged. If original revenue is R and operating cost is $0.80R$, the revised ratio is $\frac{0.80R+5{,}000}{R} \times 100$, which exceeds 80%.

Step 3: Examine the redemption of debentures (iii) Redeeming Rs 8,000 of 9% debentures does not change the operating ratio. Redemption repays the principal of a borrowing and reduces both cash and debentures; it is not an operating expense. The 9% coupon rate does not make the redemption an operating cost. Even interest on debentures is a finance cost, excluded when calculating the operating ratio. Both the numerator and denominator remain unchanged.

Step 4: Examine the cash sale of goods (iv) Selling goods for cash for Rs 50,000 decreases the operating ratio. In the stated transaction, revenue from operations increases by Rs 50,000, with no additional operating expense specified. Using the question's isolated-transaction treatment, the revised ratio is $\frac{0.80R}{R+50{,}000} \times 100$, which is less than 80%. Receiving cash rather than selling on credit does not affect the classification of this amount as revenue from operations.

Step 5: Conclusion The effects are: (i) no change; (ii) increase; (iii) no change; and (iv) decrease.

Quick Tip to Solve: Separate stock purchases from goods consumed: unsold purchases are offset by closing stock. Exclude debenture principal and interest from operating costs.

OR

22. 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 measures the assets available to cover long-term debt. Divide total assets by long-term debt to calculate this ratio.
- Shareholders' funds include both equity and preference share capital together with reserves and surplus. Preference share capital is not included in long-term debt for this ratio.
- The balance sheet equation determines long-term debt by subtracting shareholders' funds and current liabilities from total assets.

Step 1: Calculate total assets Add fixed assets, non-current investments and current assets. Investments are assets even though they are shown separately from fixed assets.

$$\begin{aligned}\text{Total assets} &= 12,00,000 + 1,50,000 + 1,90,000 \\ &= \text{Rs } 15,40,000.\end{aligned}$$

Step 2: Determine shareholders' funds and long-term debt Both categories of share capital belong to

shareholders' funds; the 9% rate attached to preference capital does not make it a borrowing.

$$\begin{aligned}\text{Shareholders' funds} &= 5,00,000 + 4,00,000 + 2,40,000\\ &= \text{Rs } 11,40,000,\\ \text{Long-term debt} &= 15,40,000 - 11,40,000 - 1,00,000\\ &= \text{Rs } 3,00,000.\end{aligned}$$

As a check, shareholders' funds of Rs 11,40,000, long-term debt of Rs 3,00,000 and current liabilities of Rs 1,00,000 together equal total assets of Rs 15,40,000.

Step 3: Substitute in the required ratio The denominator is long-term debt, so current liabilities must not be added to it. Using the amounts calculated above,

$$\frac{\text{Total assets}}{\text{Long-term debt}} = \frac{15,40,000}{3,00,000} = \frac{77}{15} = 5.1333\ldots.$$

Thus each rupee of long-term debt is covered by approximately Rs 5.13 of total assets.

Step 4: Conclusion Shiva Ltd.'s total assets to debt ratio is $\boxed{5.13:1}$ (approximately).

Quick Tip to Solve: Find the missing long-term debt by subtracting shareholders' funds and current liabilities from total assets; include preference capital in shareholders' funds.

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	12,10,000	11,40,000
	Accumulated Depreciation	(2,00,000)	(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	70,000	3,50,000
	(ii) Bank Balance	3,05,000	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, operating cash flow starts with profit before tax, adjusts for non-cash and non-operating items, and then adjusts operating current assets and liabilities. Tax paid is deducted separately.
- Purchases and sales of non-current assets are investing activities. Share issues, redemption of debentures and interest paid by a non-financial company are financing activities.
- Cash and cash equivalents are excluded from working-capital adjustments. Their opening and closing balances reconcile the net change from the three activities.

Step 1: Calculate depreciation, machinery purchases and debenture interest The machine sold had a carrying amount of Rs $80,000 - 50,000 = 30,000$, equal to the sale proceeds, so there is no profit or loss on disposal. Remove the sold machine's accumulated depreciation when finding the year's depreciation:

$$2,40,000 + \text{Depreciation} - 50,000 = 2,00,000,$$
$$\text{Depreciation} = \text{Rs } 10,000.$$

At original cost, opening machinery plus purchases less the cost of the machine sold equals closing machinery:

$$11,40,000 + \text{Purchases} - 80,000 = 12,10,000,$$
$$\text{Purchases} = \text{Rs } 1,50,000.$$

The reduction of debentures from Rs 2,00,000 to Rs 1,00,000 represents redemption of Rs 1,00,000 on 31st March, 2017. Therefore interest for the full year is charged on the opening debentures:

$$\text{Interest} = 2,00,000 \times \frac{9}{100} = \text{Rs } 18,000.$$

Step 2: Derive profit before tax and tax paid The increase in the Statement of Profit and Loss balance is the year's profit after tax, since no dividends or other appropriations are given:

$$\text{Profit after tax} = 7,50,000 - 6,00,000 = \text{Rs } 1,50,000.$$

Treat the closing tax provision of Rs 95,000 as the provision made for the current year and the opening provision of Rs 80,000 as tax paid during the year, as no other tax information is given. Thus profit before tax is Rs $1,50,000 + 95,000 = 2,45,000$. The provision reconciles as Rs $80,000 + 95,000 - 80,000 = 95,000$. The increases in inventories and receivables use cash, while the reduction in trade payables also uses cash. Their respective adjustments are Rs 80,000, Rs 50,000 and Rs 10,000, all deducted from operating profit before working-capital changes.

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

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net profit before tax	2,45,000
Add: Depreciation on machinery	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**

Interest is added back because it is included in profit but its cash payment is classified under financing. Tax provision is handled separately and is not included again among working-capital changes.

Step 4: Prepare investing and financing sections and reconcile cash The increase in goodwill represents a purchase of Rs 80,000, and the new non-current investments represent a cash purchase of Rs 5,00,000. The increase in share capital provides Rs 5,00,000. No non-cash acquisitions or other adjustments are given.

R.M. Ltd. — Cash Flow Statement (continued)

Particulars	Amount (Rs)
B. Cash flow 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 flow 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 agrees with cash in hand of Rs 70,000 plus bank balance of Rs 3,05,000. The opening amount likewise agrees with Rs $3,50,000 + 2,90,000 = 6,40,000$.

Step 5: Conclusion Net cash from operating activities is $\boxed{\text{Rs } 53,000}$, net cash used in investing activities is $\boxed{\text{Rs } 7,00,000}$, and net cash from financing activities is $\boxed{\text{Rs } 3,82,000}$. The net decrease of Rs 2,65,000 reconciles opening cash of Rs 6,40,000 to closing cash of Rs 3,75,000.

Quick Tip to Solve: Remove the sold machine's Rs 50,000 accumulated depreciation before deriving annual depreciation; charge full-year interest because redemption occurs on the final day.

OPTION 2 (Computerised Accounting)

18. Give the meaning of the term 'Mixed Reference'. [1 mark]

Solution:

Concept:

- A spreadsheet cell reference identifies a cell by its column letter and row number. When a formula is copied, relative components change with the new position.
- A dollar sign fixes the component immediately following it: the column in `$A1`, or the row in `A$1`.

Step 1: Identify the fixed and variable components A mixed reference combines an absolute component with a relative component. Either the column stays fixed and the row changes, or the row stays fixed and the column changes, when the formula is copied to another cell.

Step 2: Illustrate the reference In `$A1`, column A is fixed but row 1 is relative; copying one row down gives `$A2`. In `A$1`, row 1 is fixed but the column is relative; copying one column right gives `B$1`.

Step 3: Conclusion A mixed reference is a cell reference with one absolute part and one relative part, such as `$A1` or `A$1`.

Quick Tip to Solve: Read the dollar sign as locking only the letter or number immediately after it; one dollar sign normally signals a mixed reference.

19. List any four attributes of information to be stored in payroll database. [1 mark]

Solution:

Concept:

- A payroll database stores employee details and the information needed to calculate and pay salaries.
- An attribute is a named field describing an employee or a component of the employee's pay; each employee record contains values for these fields.

Step 1: Identify the employee Two suitable attributes are **(i) Employee ID** and **(ii) Employee name**. The ID distinguishes each employee's record, while the name identifies the person to whom the salary relates.

Step 2: Record salary information Two further attributes are **(iii) Basic pay** and **(iv) Provident fund deduction**. Basic pay is a component of earnings, while the provident fund deduction is an amount withheld in arriving at net salary.

Step 3: Conclusion Any four attributes are **Employee ID, Employee name, Basic pay and Provident fund deduction**.

Quick Tip to Solve: List field names, such as Employee ID and Basic pay, rather than a particular employee's name or salary amount.

20. Differentiate between 'Generic Software' and 'Specific Software' on any four bases. [4 marks]

Solution:

Concept:

- Generic software is developed to meet the common requirements of a broad class of users. It provides standard facilities which are useful in many organisations.
- Specific software is developed to meet a defined set of requirements of a particular user or organisation. Its features reflect the activities and procedures for which it is designed.

Step 1: Compare purpose and intended users **1. Purpose:** Generic software performs standard, general-purpose tasks. For example, a spreadsheet package can be used to prepare budgets, lists or calculations. Specific software addresses a particular requirement, such as a payroll system designed around an organisation's salary rules.

2. Intended users: Generic software is intended for a large number of users with broadly similar needs; the same package can serve different businesses. Specific software is intended for the particular user or organisation whose requirements have been studied, so its suitability depends on those requirements.

Step 2: Compare customisation and cost **3. Customisation:** Generic software offers a standard set of functions and usually allows configuration within the limits provided by the package. It may not accommodate every special procedure of a business. Specific software can incorporate the required input forms, processing rules and reports during its development and can be modified to suit the intended organisation.

4. Cost: Generic software generally has a lower cost per user because the development cost is spread over many customers. Specific software generally involves a higher development and maintenance cost for the intended user, because requirements analysis, programming, testing and later changes are undertaken for that user's needs.

Step 3: Conclusion Generic and specific software differ on **purpose, intended users, customisation and cost**: generic packages serve common needs widely, whereas specific software is tailored to defined user requirements.

Quick Tip to Solve: State each basis first, then describe both types on that same basis; do not compare the purpose of one with the cost of the other.

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

Solution:

Concept:

- A desktop database is designed mainly for use on a personal computer by an individual or a small workgroup. It provides convenient tools to create tables, forms, queries and reports.
- A server database uses a database server to manage data and process requests from client computers. It is designed for shared access and larger organisational applications.

Step 1: Compare users and working arrangement **1. Number of users:** A desktop database is suitable for a single user or a limited number of users working with relatively modest data requirements. A server database is designed to support many users accessing shared data concurrently and coordinates their operations.

2. Location and processing: In a desktop database, the application normally runs on the user's computer and commonly works with a local database file. In a server database, the database is centrally managed by the server; client computers send requests over the network, and the server processes these requests and returns the results.

Step 2: Compare capacity, administration and cost **3. Capacity and scalability:** Desktop databases suit small applications with limited data volumes and processing demands. Server databases handle larger volumes and heavier transaction workloads and can be expanded as organisational requirements grow. They are therefore more suitable for a large, shared accounting system.

4. Security and administration: Desktop databases generally have simpler access controls and are easier for an individual to install and maintain at a lower cost. Server databases generally provide more extensive user permissions, concurrency control, backup and recovery facilities; they require more administrative expertise and usually involve higher hardware and administration costs. These facilities help protect shared records and maintain consistency when several users update data.

Step 3: Conclusion A desktop database suits an individual or small workgroup with modest requirements; a server database suits a larger organisation needing centralised data management, many concurrent users and stronger administration facilities.

Quick Tip to Solve: Compare the same features on both sides: users, processing arrangement, capacity and administration. A desktop database can support a small workgroup, so avoid saying it must always be single-user.

OR

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

Solution:

Concept:

- Accounting software records and processes accounting transactions and produces information for users. Its quality depends on suitability, reliability and ease of use.
- A good package must meet the organisation's present accounting and reporting needs and allow for changes in the volume or nature of its business.

Step 1: State the features relating to use and suitability **1. User-friendliness:** The software should be easy to learn and operate, with clear menus, simple data-entry screens and useful help facilities. This enables accounting staff to use it efficiently with reasonable training.

2. Flexibility: It should permit changes in account codes, report formats and other settings to suit the organisation's requirements. It should also accommodate changes in accounting requirements without disrupting existing records.

Step 2: State the features relating to processing and growth **3. Speed and reliability:** It should process transactions promptly and produce accurate, consistent results from correctly entered data. Validation checks should help detect invalid entries before they affect the accounts.

4. Scalability: The package should be capable of handling more transactions, users and branches as the business expands, without requiring the organisation to replace its entire accounting system immediately.

Step 3: State the features relating to protection and information **5. Data security and recovery:** Access controls should protect records from unauthorised viewing or alteration. Backup and restoration facilities should allow recovery of data after accidental deletion or system failure.

6. Useful reporting and support: The software should generate required financial statements and management reports in suitable formats. Clear documentation, updates and dependable vendor support help users maintain and operate the package effectively.

Step 4: Conclusion Good accounting software is user-friendly, flexible, fast and reliable, scalable, secure and capable of producing useful reports with adequate support.

Quick Tip to Solve: Organise the features around the user, business needs, processing, growth, data protection and reports; state how each feature helps the organisation.

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

Solution:

Concept:

- Accounting records contain confidential financial information. Data security protects their confidentiality, integrity and availability for authorised users.
- Security tools restrict access to the accounting system and protect stored or transmitted information from unauthorised use.

Step 1: Explain the need for safety features Accounting software stores information such as cash and bank balances, customers' dues, payments and employees' salaries. Unauthorised disclosure can breach confidentiality, while unauthorised alteration can lead to fraud or incorrect financial statements. Accidental deletion, malicious software or system failure can also destroy essential records and interrupt accounting work. Safety features are therefore necessary to prevent unauthorised access and changes, protect records against loss and preserve dependable information for reporting and decision-making.

Step 2: Explain password security **Password security:** A user must enter the correct password, normally with a user name, before accessing the accounting software or protected data. User-specific access rights can limit the operations permitted; for example, a data-entry operator may enter vouchers while approval or changes to important settings are reserved for an authorised supervisor. Passwords should be kept confidential and changed periodically so that another person cannot use the authorised user's identity.

Step 3: Explain data encryption **Data encryption:** Encryption converts readable accounting data

into a coded, unreadable form using an encryption method and key. An authorised person uses the appropriate decryption key to convert it back into readable information. Thus, even if an unauthorised person obtains the stored file or intercepts it during transmission, its contents cannot readily be understood without the required key. Encryption is particularly useful when confidential accounting data are stored electronically or transferred between locations.

Step 4: Conclusion Safety features preserve reliable and confidential accounting records and help protect them against misuse or loss. Password security controls access, while encryption protects the readability of the data from unauthorised persons.

Quick Tip to Solve: Separate the reason from the tools: first explain the risk to financial records, then explain how a password controls access and encryption protects the data's contents.

OR

22. 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 data in a database field. It indicates that no actual value has been supplied for that attribute of the record.
- NULL is different from zero, a blank space or an empty text string. Zero is a known numerical value; NULL means the data value itself is absent.

Step 1: Identify the value representing missing data The required value is a **NULL value**. In a computerised accounting database, a record may be created even though the value of a particular field is not known or is not applicable. That field may contain NULL, provided the database permits it. NULL does not state that the amount is zero: it states that no value is recorded.

Step 2: Explain when the value is unknown NULL is needed when a value exists but is not yet known to the person entering the record. For example, a new customer's telephone number may not have been supplied when the customer master record is created. The telephone field can remain NULL until the number becomes known; entering a made-up number would make the database inaccurate.

Step 3: Explain unavailable and inapplicable data A value may be temporarily unavailable even though the field applies to the record, such as an employee's address that has not yet been collected. NULL records that absence without pretending that information has been received. A field may also not apply at all: for example, a spouse-name field for an unmarried employee has no applicable value. NULL can represent this situation as well. These examples cover unknown data, missing or unavailable data, and a field that is not applicable to the particular record.

Step 4: Conclusion The value is **NULL**. It is used when data is unknown, unavailable or missing, or when the field is not applicable to a record.

Quick Tip to Solve: Ask whether the field has a known value: zero is known data, whereas NULL records its absence. Give examples of unknown, unavailable and inapplicable fields.

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:

- Straight Line Method charges the same depreciation each year: annual depreciation equals the cost of the asset less its salvage value, divided by its useful life in years.
- The cost of machinery includes installation and transport expenses incurred to bring it to its working location and condition. The depreciation rate is annual depreciation divided by this original capitalised cost, multiplied by 100.
- In MS Excel, `SLN(cost,salvage,life)` returns straight-line depreciation for one period. The period used for life determines the period of the returned depreciation.

Step 1: Determine the cost and depreciable amount Installation and transport are part of the cost of the embossing machine, so they must be added to its purchase price before calculating depreciation.

$$\begin{aligned} \text{Cost} &= \text{Rs } 1,50,000 + \text{Rs } 50,000 \\ &= \text{Rs } 2,00,000. \\ \text{Depreciable amount} &= \text{Rs } 2,00,000 - \text{Rs } 25,000 \\ &= \text{Rs } 1,75,000. \end{aligned}$$

The salvage value is the amount remaining at the end of the five-year useful life; it is excluded from the amount to be depreciated.

Step 2: Calculate annual depreciation and its rate Spread the depreciable amount equally over the useful life of five years:

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

The rate is measured on the original capitalised cost of Rs 2,00,000:

$$\text{Depreciation rate} = \frac{35,000}{2,00,000} \times 100 = 17.5\%.$$

Dividing by the depreciable amount would give 20%, which is the yearly fraction of that amount, rather than the depreciation rate on original cost.

Step 3: Enter the data and formulas in MS Excel Use the following worksheet arrangement. Enter amounts as plain numbers, without the currency label, so that Excel treats the cells as numerical values.

Cell	Description	Entry or formula
B2	Purchase price (Rs)	`150000`
B3	Installation and transport (Rs)	`50000`
B4	Total cost (Rs)	`=SUM(B2:B3)`
B5	Salvage value (Rs)	`25000`
B6	Useful life in years	`5`
B7	Annual depreciation (Rs)	`=SLN(B4,B5,B6)`
B8	Depreciation rate	`=B7/B4`

B7 returns `35000`; the equivalent arithmetic formula is `=(B4-B5)/B6`. Format B8 as Percentage to display 17.5%, since its underlying value is 0.175. Alternatively, enter `=B7/B4*100` in a General-format cell to obtain 17.5, the numerical percentage rate. The direct function `=SLN(200000,25000,5)` gives the same annual depreciation.

Step 4: Check the residual carrying amount Five equal annual charges total $5 \times$ Rs $35,000 =$ Rs $1,75,000$. Deducting this total from the capitalised cost leaves Rs $2,00,000 -$ Rs $1,75,000 =$ Rs $25,000$, exactly the stated salvage value. Thus the formula allocates the correct depreciable amount over the full useful life.

Step 5: Conclusion Annual straight-line depreciation is **Rs 35,000**, and the annual depreciation rate on original cost is $\boxed{17.5\%}$.

Quick Tip to Solve: Add installation and transport to cost before using SLN. For the rate, divide the yearly charge by total original cost and format the result as Percentage.