CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-5-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

Part A (60 marks)

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

1. A not-for-profit organisation prepares three financial statements, one of which is the Income and Expenditure Account. Name the other two financial statements prepared by it. [1 mark]

Solution:

Concept:

- A not-for-profit organisation records cash transactions separately from its accrual-based operating result.
- Its financial position is reported by a statement of assets, liabilities and capital fund.

Step 1: Identify the cash summary The Receipts and Payments Account summarises all cash and bank receipts and payments during the accounting period, including capital and revenue items.

Step 2: Identify the statement of financial position The Balance Sheet shows the assets, liabilities and capital fund at the end of the accounting period. These two statements accompany the Income and Expenditure Account, which determines surplus or deficit.

Step 3: Conclusion The other two statements are the Receipts and Payments Account and the Balance Sheet.

Quick Tip to Solve: Recall the three purposes: cash summary, surplus or deficit, and financial position.

OR

1. State the basis of preparing 'Income and Expenditure Account'. [1 mark]

Solution:

Concept:

- The Income and Expenditure Account is a nominal account prepared on the accrual basis.
- Only revenue income and revenue expenditure belonging to the current accounting period are included.

Step 1: Identify the basis Income is recognised when earned and expenditure when incurred, irrespective of when cash is received or paid.

Step 2: Apply the period adjustment Consequently, outstanding expenses and accrued income of the current period are included, while prepaid expenses and income received in advance are excluded. Capital receipts and capital expenditure do not enter this account.

Step 3: Conclusion The Income and Expenditure Account is prepared on the accrual basis of accounting.

Quick Tip to Solve: For this account, ask which year an item belongs to, rather than when cash moves.

2. S, B and J were partners in a firm. T was admitted as a partner in the partnership firm for 1/5th share of profits. Calculate the sacrificing ratio of S, B and J. [1 mark]

Solution:

Concept:

- Sacrificing share = old share minus new share.
- When neither a profit-sharing agreement nor a special sacrifice is specified, the existing partners share equally and sacrifice in their old ratio.

Step 1: Determine the old shares No unequal profit-sharing ratio is given for S, B and J. Their old shares are therefore $1/3$ each.

Step 2: Calculate each sacrifice T retains $1/5$, so the old partners retain $4/5$ together. Each new share is $(4/5)(1/3) = 4/15$. Thus each sacrifices $1/3 - 4/15 = 1/15$, and their sacrifices are $1/15 : 1/15 : 1/15$.

Step 3: Conclusion The sacrificing ratio of S, B and J is $\boxed{1:1:1}$.

Quick Tip to Solve: With no contrary agreement, use equal old shares and distribute the new partner's share equally.

3. At the time of dissolution of a partnership firm, the book value of sundry assets transferred to Realisation Account was Rs 2,00,000. 50% of these sundry assets were taken by partner A at 20% discount, 40% of remaining assets were sold at a profit of 30% on cost. 5% of the balance was found obsolete and realised nothing. The remaining assets were taken over by a creditor in full settlement of his claim.

Pass necessary journal entries for the above. [1 mark]

Solution:

Concept:

- Once assets have been transferred to Realisation Account, actual proceeds are credited to Realisation Account.
- A partner taking an asset is debited to the partner's Capital Account; an asset accepted by an outside creditor needs no further entry.

Step 1: Calculate the amounts A takes assets with book value $2,00,000 \times 50\% =$ Rs $1,00,000$, valued at $1,00,000 \times 80\% =$ Rs $80,000$. Of the remaining Rs 1,00,000, assets costing $1,00,000 \times 40\% =$ Rs $40,000$ are sold for $40,000 \times 130\% =$ Rs $52,000$. The balance is Rs 60,000; obsolete assets are Rs 3,000 and assets taken by the creditor have book value Rs 57,000.

Step 2: Record the realisations Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	A's Capital A/c Dr. To Realisation A/c (Being assets taken over by A at 20% discount)		80,000	80,000
	Bank A/c Dr. To Realisation A/c (Being assets sold at 30% profit on cost)		52,000	52,000

No entry is passed for obsolete assets realising nothing. No further entry is passed for assets taken over by the creditor in full settlement: the assets and the creditor's liability have already been transferred to Realisation Account.

Step 3: Conclusion Debit A's Capital Account by Rs 80,000 and Bank Account by Rs 52,000, crediting Realisation Account by the respective amounts.

Quick Tip to Solve: Apply each percentage to its stated base: remaining assets means the balance after the preceding disposal.

4. Give the accounting entry for unrecorded assets in case of reconstitution of a partnership firm.

[1 mark]

Solution:

Concept:

- An unrecorded asset must first be brought into the books at its agreed value.
- The corresponding gain belongs to the old partners and is credited to Revaluation Account.

Step 1: Recognise the asset The asset increases the recorded resources of the firm. Therefore, debit the relevant Asset Account with its agreed value.

Step 2: Record the revaluation gain The journal entry is:

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Asset A/c Dr. To Revaluation A/c (Being unrecorded asset brought into the books)		Agreed value	Agreed value

The resulting revaluation profit is ultimately transferred to the old partners in their old profit-sharing ratio.

Step 3: Conclusion Asset A/c Dr.; To Revaluation A/c, with the agreed value of the unrecorded asset.

Quick Tip to Solve: An unrecorded asset creates a revaluation gain: debit the asset and credit Revaluation Account.

5. What is meant by 'Reserve Capital'? [1 mark]

Solution:

Concept:

- Reserve capital is a specified portion of the uncalled share capital of a company.
- It is reserved to be called only in the event of the company's winding up.

Step 1: Identify the amount concerned A company may leave part of the face value of its subscribed shares uncalled. The amount so uncalled is not yet payable by shareholders.

Step 2: Identify the restriction If a specified portion of this uncalled capital is reserved for calling only on winding up, it is called reserve capital. It cannot be called to finance the ordinary business operations of the company.

Step 3: Conclusion Reserve capital is that portion of uncalled share capital which is to be called up only in the event of winding up of the company.

Quick Tip to Solve: Associate reserve capital with uncalled share capital available only at winding up.

OR

5. Name the sources that may be available for redemption of debentures. [1 mark]

Solution:

Concept:

- Redemption means repayment of the amount due to debentureholders.
- For accounting purposes, redemption can be financed out of capital, profits, or a combination of these sources.

Step 1: Identify redemption out of capital A company can redeem debentures out of capital, including by utilising funds raised through a fresh issue of shares or debentures.

Step 2: Identify redemption out of profits A company may also redeem debentures out of profits, retaining an appropriate portion of profits for this purpose. It can use a combination, redeeming partly out of capital and partly out of profits.

Step 3: Conclusion The sources are capital and profits; redemption may also be partly out of capital and partly out of profits.

Quick Tip to Solve: Remember the two broad accounting sources first: capital and profits.

6. State the two situations under which interest on capital is generally provided. [1 mark]

Solution:

Concept:

- Interest on capital compensates partners for the amount of capital employed and the time for which it remains invested.
- Its provision depends on the partnership agreement; the question asks the usual reasons for providing it.

Step 1: Compare amounts invested Interest on capital is generally provided when the partners contribute unequal amounts of capital. It compensates a partner who has committed a larger investment to the firm.

Step 2: Compare periods of investment It is also generally provided when partners' capitals remain invested for unequal periods. Even equal amounts may earn different interest when introduced on different dates, because the time for which the firm uses them differs.

Step 3: Conclusion Interest on capital is generally provided when partners contribute unequal capitals, or when their capitals are invested for unequal periods.

Quick Tip to Solve: Check both variables of interest: the amount invested and the duration of investment.

OR

6. Distinguish between Fixed Capital Account and Fluctuating Capital Account on the basis of 'Credit Balance'. [1 mark]

Solution:

Concept:

- Under the fixed capital method, routine adjustments are recorded in separate Current Accounts.
- Under the fluctuating capital method, drawings, losses and other adjustments pass through Capital Accounts themselves.

Step 1: Consider fixed capital A Fixed Capital Account normally always shows a credit balance, representing the partner's capital contribution. Drawings and a share of loss affect the separate Current Account rather than reducing the fixed capital balance.

Step 2: Consider fluctuating capital A Fluctuating Capital Account may show either a credit balance or a debit balance. A debit balance can arise if drawings and other debit adjustments exceed the capital and other amounts credited to the partner.

Step 3: Conclusion A Fixed Capital Account always shows a credit balance, whereas a Fluctuating Capital Account may show a credit or a debit balance.

Quick Tip to Solve: Locate the routine adjustments: in Current Account for fixed capital, in Capital Account for fluctuating capital.

7. State any three purposes other than 'writing off the preliminary expenses of the company' for which Securities Premium Reserve can be utilised. [3 marks]

Solution:

Concept:

- Securities Premium Reserve represents the premium received on the issue of securities. Its use is restricted to the purposes permitted by the Companies Act, 2013.
- The balance is a capital reserve; it is not ordinary revenue profit available for unrestricted distribution as a dividend.

Step 1: Issue fully paid bonus shares The company may use Securities Premium Reserve to issue fully paid bonus shares to its members. The premium balance is capitalised: the reserve decreases and share capital increases, without collecting fresh cash from shareholders.

Step 2: Write off securities issue costs It may be used to write off the expenses of an issue of shares or debentures, the commission paid on such an issue, or the discount allowed on such an issue. This purpose concerns the cost of raising securities capital and is distinct from writing off preliminary expenses.

Step 3: Provide for premium on redemption It may be used to provide for the premium payable on the redemption of redeemable preference shares or debentures of the company. Only the redemption premium is covered by this stated purpose; it should not be confused with the entire principal amount payable on redemption.

Step 4: Conclusion The three purposes are: issuing fully paid bonus shares; writing off expenses, commission or discount on the issue of shares or debentures; and providing for premium payable on redemption of redeemable preference shares or debentures.

Quick Tip to Solve: Recall bonus issue, securities issue costs and redemption premium as three distinct permitted uses.

OR

7. Using imaginary figures, present the share capital of a company in its Balance Sheet according to the provisions of Schedule III of the Companies Act, 2013. [3 marks]

Solution:

Concept:

- Under Schedule III, share capital appears under Shareholders' Funds within Equity and Liabilities. Its detailed classification is disclosed in a note to accounts.
- Authorised capital is the maximum capital permitted; issued capital is offered for subscription; subscribed capital is taken up by subscribers. Paid-up capital is the amount actually paid on subscribed shares.

Step 1: Choose consistent imaginary figures Assume ABC Ltd. has only equity shares of Rs 10 each. Its authorised capital consists of 1,00,000 shares; 80,000 shares are issued. Of these, 60,000 shares

are subscribed and fully paid, while 10,000 shares are subscribed with Rs 8 per share called and paid. The remaining 10,000 issued shares are unsubscribed. There are no calls in arrears or forfeited shares. Thus, issued shares do not exceed authorised shares, and subscribed shares do not exceed issued shares.

Step 2: Present the Balance Sheet extract ABC Ltd. – Balance Sheet (Extract) as at 31st March, 2019

Particulars	Note No.	Amount (Rs)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	6,80,000

Step 3: Disclose the share capital note Note 1 – Share Capital

Particulars	Amount (Rs)
Authorised capital: 1,00,000 equity shares of Rs 10 each	10,00,000
Issued capital: 80,000 equity shares of Rs 10 each	8,00,000
Subscribed and fully paid-up:	
60,000 equity shares of Rs 10 each	6,00,000
Subscribed but not fully paid-up:	
10,000 equity shares of Rs 10 each, Rs 8 paid-up	80,000
Total subscribed and paid-up share capital	6,80,000

The face value of the partly paid shares remains Rs 10; Rs 8 is their paid-up value. Their contribution to the Balance Sheet is therefore Rs 80,000, rather than their face value of Rs 1,00,000.

Step 4: Conclusion The Balance Sheet reports share capital of Rs 6,80,000 under Shareholders' Funds, supported by Note 1 showing authorised, issued and subscribed capital.

Quick Tip to Solve: Show the paid-up amount in the Balance Sheet; disclose authorised and issued capital separately in the note.

8. The goodwill of a firm was to be valued at two years' purchase of the average profits of the last three years. The profits were as under :

2014 – 15 : Rs 20,000 (including an abnormal gain of Rs 5,000)

2015 – 16 : Rs 40,000 (after charging an abnormal loss of Rs 10,000)

2016 – 17 : Rs 40,000

Calculate the amount of goodwill. [3 marks]

Solution:

Concept:

- Under the average-profit method, goodwill equals the normal average annual profit multiplied by the agreed number of years' purchase.
- Exclude non-recurring abnormal gains from reported profit, and add back abnormal losses already charged, to determine maintainable profit.

Step 1: Normalise each year's profit The abnormal gain in 2014–15 increased the reported profit and must be deducted. The abnormal loss in 2015–16 reduced the reported profit and must be added

back. No adjustment is given for 2016–17.

$$\begin{aligned}
&\text{2014–15 adjusted profit} = 20,000 - 5,000 = \text{Rs } 15,000,\\
&\text{2015–16 adjusted profit} = 40,000 + 10,000 = \text{Rs } 50,000,\\
&\text{2016–17 adjusted profit} = \text{Rs } 40,000.
\end{aligned}$$

These adjustments remove the effects of exceptional transactions; they do not change the normal operating results of the other years.

Step 2: Find the average annual profit All three years have equal weight because the question specifies an ordinary average, not a weighted average.

$$\begin{aligned}
\text{Total adjusted profits} &= 15,000 + 50,000 + 40,000\\
&= \text{Rs } 1,05,000,\\
\text{Average profit} &= \frac{1,05,000}{3} = \text{Rs } 35,000.
\end{aligned}$$

Step 3: Apply two years' purchase The agreed multiplier is two years' purchase of the adjusted average annual profit. Therefore,

$$\text{Goodwill} = 35,000 \times 2 = \text{Rs } 70,000.$$

Using the unadjusted profits would retain exceptional items and would therefore overstate or understate the maintainable earnings used in valuation.

Step 4: Conclusion The goodwill of the firm is Rs 70,000.

Quick Tip to Solve: Subtract an abnormal gain and add back an abnormal loss before averaging the three years.

9. From the following information, calculate the amount of subscription to be credited in the Income and Expenditure Account of Bharat Sports Club for the year ending 31.3.2018.

Particulars	For the year ended 31st March, 2017 (Rs)	For the year ended 31st March, 2018 (Rs)
Advance Subscription	8,000	9,500
Outstanding Subscription	7,000	12,500

During the year, the club received Rs 1,20,000 as subscription which included Rs 5,000 for the year ending 31st March, 2017. [3 marks]

Solution:

Concept:

- Subscription is credited to the Income and Expenditure Account on the accrual basis: include only income belonging to the current accounting year, whether received or outstanding.
- Opening advance received earlier for the current year is added; closing advance for the following year is deducted. Receipts for an earlier year are excluded, while current-year outstanding subscription is added.

Step 1: Identify the receipts relating to the current year Cash subscription received during 2017–18 is Rs 1,20,000. This includes Rs 5,000 relating to the year ended 31st March, 2017, which must be excluded. The closing advance of Rs 9,500 also belongs to a later year and is excluded from current-year income. The opening advance of Rs 8,000 was received before this year but is now earned, so it is included.

Step 2: Distinguish opening arrears from their actual collection Opening outstanding subscription was Rs 7,000, but the question expressly states that only Rs 5,000 was received for 2016–17. The remaining Rs 2,000 is still an old-year receivable. Accordingly, the closing outstanding total of Rs 12,500 includes Rs 2,000 of old arrears, leaving current-year outstanding subscription of $12,500 - 2,000 =$ Rs $10,500$.

Step 3: Calculate the subscription income Bharat Sports Club – Subscription Income Working for 2017–18

Particulars	Amount (Rs)
Subscription received during the year	1,20,000
Less: receipts relating to 2016–17	(5,000)
Less: advance at 31st March, 2018	(9,500)
Add: advance at 1st April, 2017	8,000
Add: outstanding for the current year	10,500
Subscription credited to Income and Expenditure Account	1,24,000

Step 4: Conclusion Subscription to be credited to the Income and Expenditure Account for the year ended 31st March, 2018 is Rs 1,24,000.

Quick Tip to Solve: When only part of opening arrears is collected, exclude the unpaid old arrears from closing current-year dues.

10. On 1st April, 2011, XYZ, a banking company issued 25,000, 9% Debentures of Rs 100 each at a discount of 5% redeemable at a premium of 10%. These debentures were redeemable on 31st March, 2018. The company created the necessary minimum amount of Debenture Redemption Reserve and purchased the required amount of debenture redemption investments as per the provisions of Companies Act, 2013.

Pass necessary journal entries for redemption of debentures. [3 marks]

Solution:

Concept:

- A banking company is exempt from creating a Debenture Redemption Reserve (DRR). The related requirement to maintain debenture redemption investments does not apply to this banking company.
- At redemption, debit the debentures account with their face value and debit Premium on Redemption of Debentures Account with the premium payable; credit Debentureholders Account with the total due.

Step 1: Determine the amount due and the statutory treatment The face value of the debentures is

$$25,000 \times \text{Rs } 100 = \text{Rs } 25,00,000.$$

The redemption premium is

$$\text{Rs } 25,00,000 \times \frac{10}{100} = \text{Rs } 2,50,000.$$

Thus, the amount payable on 31st March, 2018 is Rs 27,50,000. Since XYZ is a banking company, the minimum DRR and the required debenture redemption investments are both nil. Accordingly, no entry for creating DRR, purchasing or realising such investments, or transferring DRR to General Reserve is required. The issue discount of 5% relates to the original issue and does not reduce the contractual amount payable on redemption.

Step 2: Record redemption and payment Journal of XYZ (Banking Company)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	9% Debentures A/c Dr.		25,00,000	
	Premium on Redemption of Debentures A/c Dr.		2,50,000	
	To Debentureholders A/c			27,50,000
	(Being debentures due for redemption at a premium of 10%)			
31-3-2018	Debentureholders A/c Dr.		27,50,000	
	To Bank A/c			27,50,000
	(Being amount due paid to debentureholders)			

The premium account is discharged through the first entry; the second entry settles the entire liability to debentureholders. No interest entry is required because the question asks for entries for redemption.

Step 3: Conclusion XYZ redeems the debentures by paying Rs 27,50,000, including premium of Rs

2,50,000. No DRR or debenture redemption investment entry is required for this banking company.

Quick Tip to Solve: Check the issuer first: a banking company is exempt from DRR; calculate redemption on face value, ignoring the original issue discount.

11. V and S are partners in a firm sharing profits and losses in the ratio of 5 : 3. They admitted G as a new partner for 1/5th share of profits. G brought Rs 20,000 as capital and Rs 4,000 as his share of goodwill premium. Give necessary journal entries.

(i) when the amount of goodwill premium was retained in the business, and

(ii) when the amount of goodwill premium was fully withdrawn. [4 marks]

Solution:

Concept:

- Goodwill premium brought by an incoming partner compensates the old partners for the profit share they sacrifice. It is credited to their capital accounts in the sacrificing ratio.
- Where no different sacrifice is specified, the old partners sacrifice in their old profit-sharing ratio. Here V and S share the premium in the ratio $5:3$. Retention or withdrawal affects Bank, but does not change the allocation of goodwill.

Step 1: Calculate the sacrificing ratio and allocation G is admitted for $1/5$ share, leaving $4/5$ for V and S. Their new shares are

$$V = \frac{5}{8} \times \frac{4}{5} = \frac{1}{2}, \qquad S = \frac{3}{8} \times \frac{4}{5} = \frac{3}{10}.$$

The new ratio is therefore $5:3:2$. The sacrifices are

$$V : \frac{5}{8} - \frac{1}{2} = \frac{1}{8}, \qquad S : \frac{3}{8} - \frac{3}{10} = \frac{3}{40}.$$

Hence, the sacrificing ratio is $5:3$. Allocate the premium of Rs 4,000 as follows:

$$V = 4,000 \times \frac{5}{8} = \text{Rs } 2,500, \qquad S = 4,000 \times \frac{3}{8} = \text{Rs } 1,500.$$

G's capital contribution of Rs 20,000 is separate from his goodwill premium and is credited entirely to G's Capital Account.

Step 2: (i) Goodwill premium retained in the business Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		24,000	
	To G's Capital A/c			20,000
	To Premium for Goodwill A/c			4,000
	(Being capital and goodwill premium brought in by G)			
	Premium for Goodwill A/c Dr.		4,000	
	To V's Capital A/c			2,500
	To S's Capital A/c			1,500
	(Being premium distributed in the sacrificing ratio of 5:3)			

The money stays in the firm's Bank Account. Retention means that the premium is not paid out; it is nevertheless credited to V and S, rather than being left in the Premium for Goodwill Account.

Step 3: (ii) Goodwill premium fully withdrawn First pass both entries shown in part (i), recording receipt of Rs 24,000 and allocation of Rs 4,000 to V and S. Then pass the following additional entry for their full withdrawal of the premium:

Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	V's Capital A/c Dr.		2,500	
	S's Capital A/c Dr.		1,500	
	To Bank A/c			4,000
	(Being goodwill premium fully withdrawn by the old partners)			

Withdrawal debits the same capital accounts that received the goodwill credit. Thus, the goodwill credits and withdrawals cancel in the old partners' capital accounts, while G's capital credit of Rs 20,000 remains. The net increase in bank is Rs 24,000 in case (i), and Rs 20,000 in case (ii). These are alternative treatments, so the withdrawal entry belongs only to case (ii).

Step 4: Conclusion The goodwill premium is credited to V and S at Rs 2,500 and Rs 1,500 respectively. If retained, no withdrawal entry is passed; if fully withdrawn, debit their capital accounts with those amounts and credit Bank with Rs 4,000.

Quick Tip to Solve: Allocate goodwill in the sacrificing ratio first; for full withdrawal, debit the same partners with exactly the amounts just credited.

12. A, B and C were partners in a firm. A died on 31.3.2018 and the Balance Sheet of the firm on that date was as under :

Balance Sheet of A, B and C as at 31.3.2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	7,000	Cash at Bank	12,000
General Reserve	9,000	Debtors	32,000
Workmen's Compensation Fund	10,000	Furniture	30,000
Profit and Loss Account	6,000	Plant	40,000
Capital: A 40,000 B 30,000 C 20,000	90,000	Patents	8,000
	1,22,000		1,22,000

On A's death it was found that patents were valueless, furniture was to be brought down to Rs 24,000, plant was to be reduced by Rs 10,000 and there was a liability of Rs 7,000 on account of workmen's compensation.

Pass the necessary journal entries for the above at the time of A's death. [4 marks]

Solution:

Concept:

- In the absence of an agreed profit-sharing ratio, partners share profits and losses equally. Hence A, B and C share all existing reserves and revaluation loss in the ratio $1:1:1$.
- On death, accumulated profits belong to all old partners, including the deceased partner. A compensation fund first covers its related claim; only the surplus is distributed.
- A fall in asset values is debited to Revaluation Account and credited to the respective asset accounts.

Step 1: Determine the amounts to be adjusted Patents are written off in full: Rs 8,000. Furniture falls from Rs 30,000 to Rs 24,000, a loss of Rs 6,000. Plant falls by Rs 10,000. Thus,

$$\text{Revaluation loss} = 8,000 + 6,000 + 10,000 = \text{Rs } 24,000.$$

Each partner bears $24,000/3 = \text{Rs } 8,000$. General Reserve and the credit balance of Profit and Loss Account total Rs 15,000, giving each partner Rs 5,000. The compensation fund exceeds the claim by $10,000 - 7,000 = \text{Rs } 3,000$, giving each partner Rs 1,000.

Step 2: Record the necessary journal entries Journal of A, B and C (31 March 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2018	General Reserve A/c Dr.		9,000	
	Profit and Loss A/c Dr.		6,000	
	To A's Capital A/c			5,000
	To B's Capital A/c			5,000
	To C's Capital A/c			5,000
	(Being accumulated profits transferred equally)			
31.3.2018	Workmen's Compensation Fund A/c Dr.		10,000	
	To Workmen's Compensation Claim A/c			7,000
	To A's Capital A/c			1,000
	To B's Capital A/c			1,000
	To C's Capital A/c			1,000
	(Being claim provided and surplus distributed equally)			
31.3.2018	Revaluation A/c Dr.		24,000	
	To Patents A/c			8,000
	To Furniture A/c			6,000
	To Plant A/c			10,000
	(Being decrease in asset values recorded)			
31.3.2018	A's Capital A/c Dr.		8,000	
	B's Capital A/c Dr.		8,000	
	C's Capital A/c Dr.		8,000	
	To Revaluation A/c			24,000
	(Being revaluation loss transferred equally)			

Step 3: Conclusion The revaluation loss is Rs 24,000 and the compensation liability is Rs 7,000. Each partner receives Rs 6,000 from accumulated profits and surplus fund and bears Rs 8,000 revaluation loss; the net debit to each capital is Rs 2,000.

Quick Tip to Solve: Use equal shares when no profit-sharing ratio is given; capital balances do not determine the ratio.

13. A, B and C were partners. Their fixed capitals were Rs 60,000, Rs 40,000 and Rs 20,000 respectively. Their profit sharing ratio was 2 : 2 : 1. According to the partnership deed, they were entitled to interest on capital @ 5% p.a. In addition, B was also entitled to draw a salary of Rs 1,500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to B. The net profits for the year, Rs 80,000, were distributed in the ratio of their capitals without providing for any of the above adjustments. Showing your workings clearly, pass the necessary adjustment entry. [6 marks]

Solution:

Concept:

- When capitals are fixed, appropriations and past adjustments are recorded through partners' current accounts; fixed capital accounts remain unchanged.

- Interest on capital is capital multiplied by the annual rate. Salary and commission are appropriations of the stated net profit before distributing the residual profit.
- The correcting amount for each partner equals the correct entitlement less the amount already credited. The total debit must equal the total credits.

Step 1: Calculate interest, salary and commission Interest on capital at 5% is: A, $60,000 \times 5/100 =$ Rs $3,000$; B, Rs 2,000; C, Rs 1,000. Total interest is Rs 6,000. B's annual salary is $1,500 \times 12 =$ Rs $18,000$. C's commission is computed after interest but before B's salary:

$$\text{Commission} = \frac{5}{100}(80,000 - 6,000) = \text{Rs } 3,700.$$

Do not deduct B's salary before calculating this commission, since the deed expressly specifies otherwise.

Step 2: Calculate the correct profit distribution Profit remaining for division in the ratio $2:2:1$ is

$$80,000 - 6,000 - 18,000 - 3,700 = \text{Rs } 52,300.$$

Thus A's and B's shares are each $52,300 \times 2/5 =$ Rs $20,920$; C's share is $52,300/5 =$ Rs $10,460$.

Particulars (Rs)	A	B	C
Interest on capital	3,000	2,000	1,000
Salary	–	18,000	–
Commission	–	–	3,700
Share of residual profit	20,920	20,920	10,460
Correct total credit	23,920	40,920	15,160

The total correct credits equal Rs 80,000, providing an independent check.

Step 3: Compare with the credits already made The capital ratio was $60,000 : 40,000 : 20,000 = 3 : 2 : 1$. The incorrect distribution therefore credited A with Rs 40,000, B with Rs $26,666\frac{2}{3}$, and C with Rs $13,333\frac{1}{3}$. A received Rs 16,080 too much and must be debited. B received Rs $14,253\frac{1}{3}$ too little; C received Rs $1,826\frac{2}{3}$ too little. These credits total Rs 16,080. Rounded to paise, the credits are Rs 14,253.33 and Rs 1,826.67.

Step 4: Pass the adjustment entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	A's Current A/c Dr.		16,080.00	
	To B's Current A/c			14,253.33
	To C's Current A/c			1,826.67
	(Being past adjustment for interest, salary, commission and correct profit sharing)			

Step 5: Conclusion Debit A's Current Account with Rs 16,080; credit B's Current Account with Rs 14,253.33 and C's Current Account with Rs 1,826.67.

Quick Tip to Solve: Compute C's commission on Rs 74,000 before salary, then compare each final entitlement with the capital-ratio credit.

OR

13. T and N were partners in a firm. On 31st March, 2018 they decided to admit M as a new partner. On 31st March, 2018 the Balance Sheet of T and N stood as follows :

Balance Sheet of T and N as at 31.3.2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	18,000	Cash at Bank	1,000
General Reserve	2,000	Debtors	40,000
Capital :		Stock	6,000
T	30,000	Furniture	3,000
N	15,000	Freehold Property	15,000
Total	65,000	Total	65,000

They agreed to admit M as a new partner subject to the following terms and conditions :

(i) M will bring in Rs 20,000 of which Rs 4,500 will be treated as his share of goodwill premium to be retained in the business.

(ii) M will be entitled to $1/4$th share of the profits in the firm.

(iii) A provision for doubtful debts was to be created at 5% on the debtors.

(iv) Furniture was to be depreciated by 5%.

(v) Stock was to be revalued at Rs 5,000.

Prepare Revaluation Account, Partners' Capital Accounts and Opening Balance Sheet of the new firm. [6 marks]

Solution:

Concept:

- In the absence of a stated profit-sharing ratio, T and N share equally. The general reserve and revaluation loss belong to these old partners in their old ratio of $1:1$.
- M brings Rs 20,000 inclusive of goodwill premium of Rs 4,500. Thus his capital is Rs 15,500; the premium is credited to the sacrificing partners and retained as cash in the firm.
- Assuming the old partners surrender equally, the new ratio is $3:3:2$, and the sacrificing ratio is $1:1$.

Step 1: Calculate revaluation adjustments The provision for doubtful debts is $40,000 \times 5\% = \text{Rs } 2,000$. Furniture depreciation is $3,000 \times 5\% = \text{Rs } 150$, while stock falls by $6,000 - 5,000 = \text{Rs } 1,000$. There is no revaluation gain. The total loss is therefore Rs 3,150, shared equally: Rs 1,575 each. Debtors are shown net of the new provision in the opening balance sheet.

Step 2: Prepare Revaluation Account Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Provision for doubtful debts	2,000	By T's Capital A/c	1,575
To Furniture A/c	150	By N's Capital A/c	1,575
To Stock A/c	1,000		
Total	3,150	Total	3,150

Step 3: Prepare Partners Capital Accounts The reserve of Rs 2,000 gives T and N Rs 1,000 each. The goodwill premium of Rs 4,500 gives each Rs 2,250. No premium is withdrawn.

Partners' Capital Accounts

Dr.				Cr.			
Particulars	T (Rs)	N (Rs)	M (Rs)	Particulars	T (Rs)	N (Rs)	M (Rs)
To Revaluation	1,575	1,575	–	By Balance b/d	30,000	15,000	–
To Balance c/d	31,675	16,675	15,500	By General Reserve	1,000	1,000	–
				By Goodwill premium	2,250	2,250	–
				By Bank	–	–	15,500
Total	33,250	18,250	15,500	Total	33,250	18,250	15,500

Step 4: Prepare the opening balance sheet Bank increases from Rs 1,000 to Rs 21,000 because the entire amount brought by M remains in the business. The goodwill premium has already been credited to T and N; it does not create a goodwill asset.

Balance Sheet of T, N and M as at 31.3.2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	18,000	Cash at Bank	21,000
Partners' capitals:		Debtors: 40,000	
T	31,675	Less: Provision 2,000	38,000
N	16,675	Stock	5,000
M	15,500	Furniture	2,850
		Freehold Property	15,000
Total	81,850	Total	81,850

Step 5: Conclusion Revaluation loss is Rs 3,150. Closing capitals are T: Rs 31,675, N: Rs 16,675 and M: Rs 15,500. The opening balance sheet totals Rs 81,850.

Quick Tip to Solve: Deduct the goodwill premium from M's total cash contribution before recording his capital; retain the whole cash receipt in Bank.

14. A, B and C were partners in a firm sharing profits and losses in the ratio of 3 : 3 : 4. On 1.4.2017 the balances in their Capital and Current Accounts were as follows :

	Capital Accounts (Rs)	Current Accounts (Rs)
A	4,00,000 Cr.	20,000 Dr.
B	5,00,000 Cr.	10,000 Dr.
C	6,00,000 Cr.	15,000 Dr.

Their partnership deed provided for the following :

(i) Interest on Capital @ 9% p.a.

(ii) Salary to A @ Rs 50,000 per quarter

On 1.1.2016 C had given a loan of Rs 2,00,000 to the firm at 6% per annum interest. During the year their drawings were A Rs 40,000, B Rs 75,000 and C Rs 55,000. On 1.1.2018, A introduced further capital Rs 2,00,000. The net profit of the firm before allowing interest on C's loan was Rs 4,00,000.

Prepare Profit and Loss Appropriation Account of the firm for the year ending 31.3.2018 and the Current Accounts of the partners. [6 marks]

Solution:

Concept:

- Interest on a partner's loan is a charge against profit. Interest on capital and partner salary are appropriations of the profit remaining after that charge.
- Under the fixed-capital method, drawings, appropriations and opening current-account balances enter current accounts. Additional permanent capital enters the capital account, but earns interest for the period employed.
- Residual profit is divided among A, B and C in the agreed ratio $3 : 3 : 4$.

Step 1: Find distributable profit and interest on capital C's loan was outstanding throughout the financial year. Its interest is $2,00,000 \times 6\% = \text{Rs } 12,000$. Thus profit transferred to the appropriation account is $4,00,000 - 12,000 = \text{Rs } 3,88,000$.

A's additional capital earns interest for three months, January to March:

$$I_A = 4,00,000 \times 9\% + 2,00,000 \times 9\% \times \frac{3}{12} = \text{Rs } 40,500,$$
$$I_B = 5,00,000 \times 9\% = \text{Rs } 45,000,$$
$$I_C = 6,00,000 \times 9\% = \text{Rs } 54,000.$$

Total interest on capital is Rs 1,39,500. A's annual salary is $50,000 \times 4 = \text{Rs } 2,00,000$.

Step 2: Distribute the residual profit After these appropriations, the residual profit is

$$3,88,000 - 1,39,500 - 2,00,000 = \text{Rs } 48,500.$$

A and B each receive $48,500 \times 3/10 = \text{Rs } 14,550$. C receives $48,500 \times 4/10 = \text{Rs } 19,400$. These add to Rs 48,500. The opening debit current balances and drawings do not reduce the profit available for appropriation; they are personal-account debits.

Step 3: Prepare Profit and Loss Appropriation Account Profit and Loss Appropriation Account for the year ended 31.3.2018

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Interest on capital:		By Profit and Loss A/c	3,88,000
A	40,500		
B	45,000		
C	54,000		
To A's salary	2,00,000		
To Profit transferred:			
A's Current A/c	14,550		
B's Current A/c	14,550		
C's Current A/c	19,400		
Total	3,88,000	Total	3,88,000

Step 4: Prepare the partners Current Accounts The unpaid interest on C's loan is credited to C's Current Account. It has already been charged before appropriation and must not be charged again in that account. A's Rs 2,00,000 additional capital is credited to his fixed capital account, which consequently closes at Rs 6,00,000.

Partners' Current Accounts for the year ended 31.3.2018

Dr.				Cr.			
Particulars	A (Rs)	B (Rs)	C (Rs)	Particulars	A (Rs)	B (Rs)	C (Rs)
To Balance b/d	20,000	10,000	15,000	By Interest on capital	40,500	45,000	54,000
To Drawings	40,000	75,000	55,000	By Salary	2,00,000	–	–
To Balance c/d	1,95,050	–	15,400	By Profit share	14,550	14,550	19,400
				By Interest on loan	–	–	12,000
				By Balance c/d	–	25,450	–
Total	2,55,050	85,000	85,400	Total	2,55,050	85,000	85,400

The balance brought down next year is a credit for A and C and a debit for B. No interest on drawings is charged because the deed specifies none.

Step 5: Conclusion Residual profit is Rs 48,500, shared as Rs 14,550, Rs 14,550 and Rs 19,400. Closing current balances are A Rs 1,95,050 Cr., B Rs 25,450 Dr. and C Rs 15,400 Cr.

Quick Tip to Solve: Charge loan interest first, then calculate interest on additional capital only for its actual three months in the firm.

15. Following is the summary of cash transactions of Good Health Club for the year ending 31.3.2018 :

Particulars	Amount (Rs)
Opening Balance – Cash	70,000
Opening Balance – Bank	3,00,000
Subscriptions Received :	
2016 – 2017	40,000
2017 – 2018	3,75,000
2018 – 2019	20,000
Donations for Gym	1,64,000
Admission Fees	14,000
Life Membership Fee	45,000
Wages and Salaries	55,000
Locker Rent	11,000
Invested in 9% debentures of XYZ Ltd.	2,40,000
Health Journals	5,000
Stationery	12,500
Insurance Premium	6,760
Courier Charges	800
Municipal Taxes	9,570
Machinery Purchased	38,000
Sale of Old Newspapers	300
Interest on Bank Balance	1,740
Cash in Hand	43,000

From the above summary prepare a Receipts and Payments Account of Good Health Club for the year ending 31.3.2018. [6 marks]

Solution:

Concept:

- A Receipts and Payments Account summarises actual cash and bank receipts on the debit side and actual payments on the credit side, irrespective of the period to which they relate.
- Both capital and revenue transactions are included. Opening cash and bank balances appear as receipts; closing balances appear as payments. No accrual or depreciation adjustment is made.

Step 1: Classify the receipts and payments All subscriptions actually received are included: $40,000 + 3,75,000 + 20,000 =$ Rs $4,35,000$. Donations for gym, admission fees, life membership fees, locker rent, sale of newspapers and bank interest are receipts. The investment and machinery purchase are payments even though they create assets. Opening balances total $70,000 + 3,00,000 =$ Rs $3,70,000$.

Step 2: Prepare the account Good Health Club

Receipts and Payments Account for the year ended 31.3.2018

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance b/d: Cash	70,000	By Wages and salaries	55,000
To Balance b/d: Bank	3,00,000	By Investment in 9% debentures	2,40,000
To Subscriptions: 2016–2017	40,000	By Health journals	5,000
To Subscriptions: 2017–2018	3,75,000	By Stationery	12,500
To Subscriptions: 2018–2019	20,000	By Insurance premium	6,760
To Donations for gym	1,64,000	By Courier charges	800
To Admission fees	14,000	By Municipal taxes	9,570
To Life membership fee	45,000	By Machinery purchased	38,000
To Locker rent	11,000	By Balance c/d: Cash	43,000
To Sale of old newspapers	300	By Balance c/d: Bank	6,30,410
To Interest on bank balance	1,740		
Total	10,41,040	Total	10,41,040

Step 3: Find the balancing bank amount Total receipts including opening balances are Rs 10,41,040. Payments excluding closing balances total Rs 3,67,630. Therefore closing cash and bank together equal $10,41,040 - 3,67,630 =$ Rs $6,73,410$. Since closing cash in hand is Rs 43,000, closing bank balance is $6,73,410 - 43,000 =$ Rs $6,30,410$. The debit and credit sides agree at Rs 10,41,040.

Step 4: Conclusion The Receipts and Payments Account totals Rs 10,41,040 on each side, with closing cash Rs 43,000 and closing bank balance Rs 6,30,410.

Quick Tip to Solve: Include all three years of subscriptions: this account records cash received, rather than income earned.

16. Michael, Jackson and John were partners in a firm sharing profits in the ratio of 3 : 1 : 1. On 31st March, 2017, they decided to dissolve their firm. On that date their Balance Sheet was as follows :

Balance Sheet of Michael, Jackson and John as at 31.3.2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	11,500	Bank	6,000
Loan	3,500	Debtors 48,400	
Capital:		Less: Provision for doubtful debts 2,400	46,000
Michael	50,000	Stock in trade	16,000
Jackson	25,000	Furniture	2,000
John	14,000	Sundry assets	34,000
Total	1,04,000	Total	1,04,000

It was agreed that :

(i) Michael was to take over Furniture at Rs 2,600 and Debtors amounting to Rs 40,000 at Rs 34,400 and the Creditors of Rs 10,000 were to be paid by him at this figure.

(ii) Jackson was to take over all the stock in trade at Rs 14,000 and some of the other Sundry Assets at Rs 28,800 (being 10% less than book value).

(iii) John was to take over the remaining Sundry Assets at 90% of the book value and assumed the responsibility for the discharge of the loan.

(iv) The remaining debtors were sold to a debt collecting agency for 50% of the book value. The expenses of dissolution Rs 600 were paid by John.

Prepare Realisation Account, Bank Account and Partners' Capital Accounts. [8 marks]

Solution:

Concept:

- On dissolution, transfer all non-cash assets at gross book values to the debit of Realisation Account. Transfer outside liabilities and the provision for doubtful debts to its credit.
- Assets taken over by a partner debit that partner's capital and credit Realisation. Liabilities assumed and expenses personally paid credit the partner's capital and debit Realisation.
- Realisation profit or loss is shared in the existing profit-sharing ratio $3:1:1$. A debit capital balance is brought in; a credit balance is paid through bank.

Step 1: Calculate the values realised Michael takes furniture and debtors for $2,600 + 34,400 =$ Rs $37,000$, and assumes creditors Rs 10,000. Jackson takes stock and sundry assets for $14,000 + 28,800 =$ Rs $42,800$. The book value of his sundry assets is $28,800/0.90 =$ Rs $32,000$. Thus John takes the remaining sundry assets, book value $34,000 - 32,000 =$ Rs $2,000$, for Rs 1,800. Remaining gross debtors are $48,400 - 40,000 =$ Rs $8,400$; the agency pays Rs 4,200. Creditors left for bank payment are Rs 1,500. John assumes the Rs 3,500 loan and personally pays expenses Rs 600.

Step 2: Prepare Realisation Account Realisation Account

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Debtors	48,400	By Provision for doubtful debts	2,400
To Stock in trade	16,000	By Creditors	11,500
To Furniture	2,000	By Loan	3,500
To Sundry assets	34,000	By Michael capital	37,000
To Michael capital (creditors)	10,000	By Jackson capital	42,800
To John capital (loan)	3,500	By John capital (assets)	1,800
To Bank (creditors)	1,500	By Bank (debtors)	4,200
To John capital (expenses)	600	By Loss transferred:	
		Michael capital	7,680
		Jackson capital	2,560
		John capital	2,560
Total	1,16,000	Total	1,16,000

Realisation loss is $1,16,000 - 1,03,200 =$ Rs $12,800$, shared as Rs 7,680, Rs 2,560 and Rs 2,560 respectively.

Step 3: Prepare the capital accounts Michael's Capital Account

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Realisation (assets)	37,000	By Balance b/d	50,000
To Realisation (loss)	7,680	By Realisation (creditors)	10,000
To Bank	15,320		
Total	60,000	Total	60,000

Jackson's Capital Account

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Realisation (assets)	42,800	By Balance b/d	25,000
To Realisation (loss)	2,560	By Bank	20,360
Total	45,360	Total	45,360

John's Capital Account

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Realisation (assets)	1,800	By Balance b/d	14,000
To Realisation (loss)	2,560	By Realisation (loan)	3,500
To Bank	13,740	By Realisation (expenses)	600
Total	18,100	Total	18,100

Step 4: Prepare Bank Account Bank Account

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance b/d	6,000	By Realisation (creditors)	1,500
To Realisation (debtors)	4,200	By Michael capital	15,320
To Jackson capital	20,360	By John capital	13,740
Total	30,560	Total	30,560

All bank funds are distributed after Jackson brings in his capital deficiency. No bank or capital balance

remains after settlement.

Step 5: Conclusion Realisation loss is Rs 12,800. Jackson brings in Rs 20,360; Michael receives Rs 15,320 and John receives Rs 13,740. Bank Account closes with equal totals of Rs 30,560.

Quick Tip to Solve: Use gross debtors Rs 48,400 and transfer the Rs 2,400 provision separately; partner takeovers do not enter Bank Account.

OR

16. N, S and B were partners in a firm sharing profits and losses in proportion of 1/2, 1/6 and 1/3 respectively. The Balance Sheet of the firm as at 31st March, 2017 was as follows :

Balance Sheet of N, S and B as at 31.3.2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital: N	30,000	Freehold premises	40,000
S	30,000	Machinery	30,000
B	28,000	Furniture	12,000
Bills payable	12,000	Stock	22,000
General reserve	12,000	Sundry debtors: 20,000	
Sundry creditors	18,000	Less provision: 1,000	19,000
		Cash	7,000
Total	1,30,000	Total	1,30,000

B retired from the business on the above date and the partners agreed to the following :

(i) Freehold premises and stock were to be appreciated by 20% and 15% respectively.

(ii) Machinery and furniture were to be depreciated by 10% and 7% respectively.

(iii) Provision for bad debts was to be increased by Rs 1,500.

(iv) On B's retirement goodwill of the firm was valued at Rs 21,000.

(v) The continuing partners decided to adjust their capitals in their new profit-sharing ratio after retirement of B. Surplus/deficit, if any, in their capital accounts was to be adjusted through their current accounts.

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

Solution:

Concept:

- Revaluation gains and losses, and accumulated reserves, belong to all partners in the old ratio $3:1:2$. The continuing partners share future profits in $3:1$, which is also their gaining ratio.
- The retiring partner receives his capital, reserve and revaluation shares and goodwill entitlement. Capital adjustments through current accounts do not change cash.

Step 1: Determine the revaluation result The question prints "Realisation Account" although the business continues after retirement. Accordingly, the requested account below records revaluation

adjustments; assets and outside liabilities are not closed as on dissolution.

$$\begin{aligned}\text{Premises increase} &= 40,000 \times 20\% = 8,000,\\ \text{Stock increase} &= 22,000 \times 15\% = 3,300,\\ \text{Machinery decrease} &= 30,000 \times 10\% = 3,000,\\ \text{Furniture decrease} &= 12,000 \times 7\% = 840,\\ \text{Net gain} &= 8,000 + 3,300 - 3,000 - 840 - 1,500 = 5,960.\end{aligned}$$

Realisation Account (revaluation adjustments on retirement)

Dr.: Particulars	Amount (Rs)	Particulars :Cr.	Amount (Rs)
To Machinery	3,000	By Freehold premises	8,000
To Furniture	840	By Stock	3,300
To Provision for bad debts	1,500		
To N's capital	2,980		
To S's capital	993.33		
To B's capital	1,986.67		
Total	11,300	Total	11,300

The temporary revaluation account is closed by transferring its gain, so no balance is carried forward.

Step 2: Distribute reserve and adjust goodwill General reserve of Rs 12,000 is distributed to N, S and B as Rs 6,000, Rs 2,000 and Rs 4,000 respectively. B's goodwill share is $21,000 \times 1/3 = \text{Rs } 7,000$. N and S compensate B in their gaining ratio $3:1$, by Rs 5,250 and Rs 1,750. Goodwill is adjusted through capitals and is not raised as an asset.

$$\begin{aligned}N &= 30,000 + 6,000 + 2,980 - 5,250 = 33,730,\\ S &= 30,000 + 2,000 + 993.33 - 1,750 = 31,243.33,\\ B &= 28,000 + 4,000 + 1,986.67 + 7,000 = 40,986.67.\end{aligned}$$

Step 3: Adjust continuing capitals and prepare capital accounts Combined adjusted capital of N and S is Rs 64,973.33. Their required capitals in the ratio $3:1$ are Rs 48,730 and Rs 16,243.33, after rounding to paise. Thus N's capital needs Rs 15,000 and S's capital has an equal surplus. Debit N's current account and credit his capital; debit S's capital and credit his current account. As no payment terms for B are given, transfer his amount to B's loan account. Partners' Capital Accounts (amounts in Rs)

Dr.: Particulars	N	S	B	Particulars :Cr.	N	S	B
To B's capital	5,250	1,750	–	By Balance b/d	30,000	30,000	28,000
To S's current	–	15,000	–	By General reserve	6,000	2,000	4,000
To B's loan	–	–	40,986.67	By Revaluation	2,980	993.33	1,986.67
To Balance c/d	48,730	16,243.33	–	By N's capital	–	–	5,250
				By S's capital	–	–	1,750
				By N's current	15,000	–	–
Total	53,980	32,993.33	40,986.67	Total	53,980	32,993.33	40,986.67

Step 4: Prepare the reconstituted balance sheet Balance Sheet of N and S as at 31st March, 2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills payable	12,000	Freehold premises	48,000
Sundry creditors	18,000	Machinery	27,000
B's loan	40,986.67	Furniture	11,160
S's current account	15,000	Stock	25,300
Capital accounts:		Sundry debtors: Rs 20,000	
N	48,730	Less provision: Rs 2,500	17,500
S	16,243.33	Cash	7,000
		N's current account	15,000
Total	1,50,960	Total	1,50,960

The debit current balance is shown separately as an asset, while S's credit current balance is a liability. Revaluation and goodwill do not create a cash movement.

Step 5: Conclusion Revaluation profit is Rs 5,960; B is owed Rs 40,986.67. N and S have capitals of Rs 48,730 and Rs 16,243.33. The reconstituted Balance Sheet totals Rs 1,50,960.

Quick Tip to Solve: First adjust reserve, revaluation and goodwill; apply the new capital ratio only to the continuing partners combined adjusted capital.

17. Royal Ltd. invited applications for issuing 2,00,000 equity shares of Rs 10 each at a premium of 25% payable with application. Applications for 4,50,000 shares were received. Applications for 1,00,000 shares were rejected and money refunded. Pro-rata allotment was made to the remaining applicants. The amount per share was payable as follows :

On Application : Rs 4 per share including premium

On Allotment : Rs 3.50 per share

Balance on 1st and Final Call.

Excess application money received with applications was adjusted with sums due on allotment.

Application money in excess of sums due on allotment, if any, was refunded. Raghu, who had applied for 7,000 shares failed to pay allotment money. His shares were forfeited immediately after allotment. Afterwards the first and final call was made.

Nandan, who had applied for 10,500 shares, failed to pay the first and final call. His shares were also forfeited. All the forfeited shares were reissued at Rs 11.50 fully paid up, to Meeta.

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

Solution:

Concept:

- Allotment is pro rata in the ratio $2,00,000 : 3,50,000 = 4 : 7$. Application of Rs 4 includes capital Rs 1.50 and premium Rs 2.50.
- Excess application is credited against allotment. Forfeiture credits only capital already received; premium already received is retained. Reissue profit is transferred from forfeiture to capital reserve.

Step 1: Calculate application adjustment and defaults Applications bring $4,50,000 \times 4 =$ Rs $18,00,000$. Rejected applications receive Rs 4,00,000 back. Accepted applicants paid Rs 14,00,000, of which Rs

8,00,000 is required on allotted shares. Excess Rs 6,00,000 adjusts allotment of Rs 7,00,000; no further refund is needed. Final call is $12.50 - 4 - 3.50 =$ Rs 5 per share. Raghu receives $7,000 \times 4/7 = 4,000$ shares. His excess application is $28,000 - 16,000 =$ Rs $12,000$; allotment due is Rs 14,000, leaving Rs 2,000 unpaid. Capital called before call is Rs 5 per share and capital received is Rs 18,000. Nandan receives $10,500 \times 4/7 = 6,000$ shares. He pays application and allotment in full but defaults on call of Rs 30,000. Capital received from him is Rs 30,000.

Step 2: Record application, allotment and Raghu forfeiture Journal of Royal Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received)		18,00,000	 18,00,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c To Share Allotment A/c To Bank A/c (Being application allocated, excess adjusted and rejected money refunded)		18,00,000	 3,00,000 5,00,000 6,00,000 4,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 2,00,000 shares)		7,00,000	 7,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after adjustment, except Raghu's Rs 2,000)		98,000	 98,000
	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Raghu's 4,000 shares forfeited at Rs 5 called-up capital each)		20,000	 2,000 18,000

Step 3: Record call, Nandan forfeiture and reissue After Raghu's forfeiture, the call applies to $2,00,000 - 4,000 = 1,96,000$ shares. Thus call due is Rs 9,80,000 and call collected is Rs 9,50,000.

Journal of Royal Ltd. (continued; amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being final call of Rs 5 on 1,96,000 shares due)		9,80,000	 9,80,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call received except Nandan's Rs 30,000)		9,50,000	 9,50,000
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being Nandan's 6,000 fully called shares forfeited)		60,000	 30,000 30,000
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (Being 10,000 forfeited shares reissued to Meeta at Rs 11.50 fully paid)		1,15,000	 1,00,000 15,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture gain on all reissued shares transferred to capital reserve)		48,000	 48,000

All forfeited shares have been reissued at a premium, so no forfeiture amount is consumed as reissue discount. Total capital reserve is $18,000 + 30,000 =$ Rs $48,000$. Securities premium on the original issue was already collected with application and is not cancelled on either forfeiture.

Step 4: Conclusion Raghu forfeits 4,000 shares and Nandan forfeits 6,000 shares. Reissue gives securities premium Rs 15,000 and capital reserve Rs 48,000.

Quick Tip to Solve: For Raghu, subtract the pro-rata excess application from allotment before calculating arrears; make the call only after removing his forfeited shares.

OR

17. Saral Ltd. invited applications for issuing 25,000 equity shares of Rs 100 each at par. The amount per share was payable as follows :

On Application : Rs 20 per share

On Allotment : Rs 30 per share

On First Call : Rs 25 per share

On Second and Final Call : Rs 25 per share

Applications were received for 24,000 shares and the shares were allotted to all the applicants. All calls were made and were received as follows :

On 18,000 shares : Full amount

On 2,000 shares : Rs 75 per share

On 2,500 shares : Rs 50 per share

On 1,500 shares : Rs 20 per share

The company forfeited those shares on which less than Rs 75 per share were received. The forfeited shares were reissued at Rs 95 per share fully paid up.

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

Solution:

Concept:

- Only the 24,000 shares actually subscribed are allotted and called up. Share capital is credited when an instalment becomes due; receipts are credited to the relevant instalment account.
- Calls in arrears records amounts due but unpaid. On forfeiture, debit called-up share capital, credit unpaid calls and credit Share Forfeiture with capital already received.
- Reissue discount is debited to Share Forfeiture. The remaining forfeiture balance relating to reissued shares is transferred to Capital Reserve.

Step 1: Calculate instalments and unpaid calls Application received: $24,000 \times 20 =$ Rs $4,80,000$. Allotment due: $24,000 \times 30 =$ Rs $7,20,000$. Only the holders of 1,500 shares default on allotment, so the arrears are $1,500 \times 30 =$ Rs $45,000$, and the receipt is Rs 6,75,000. Each call due is $24,000 \times 25 =$ Rs $6,00,000$. The first call is paid on $18,000 + 2,000 = 20,000$ shares, giving Rs 5,00,000 received and Rs 1,00,000 unpaid. The final call is paid only on 18,000 shares, giving Rs 4,50,000 received and Rs 1,50,000 unpaid. Total calls in arrears before forfeiture are Rs 2,95,000.

Step 2: Record application and allotment Journal of Saral Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 24,000 shares)		4,80,000	4,80,000
	Share Application A/c Dr. To Share Capital A/c (Being application money transferred to capital)		4,80,000	4,80,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment money due on 24,000 shares)		7,20,000	7,20,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share Allotment A/c (Being allotment received except on 1,500 shares)		6,75,000 45,000	 7,20,000

Step 3: Record the two calls Journal of Saral Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr. To Share Capital A/c (Being first call due on 24,000 shares)		6,00,000	6,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share First Call A/c (Being first call received except on 4,000 shares)		5,00,000 1,00,000	 6,00,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Being second and final call due)		6,00,000	6,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share Second and Final Call A/c (Being final call received except on 6,000 shares)		4,50,000 1,50,000	 6,00,000

Step 4: Determine the forfeiture and reissue amounts Only $2,500 + 1,500 = 4,000$ shares have received less than Rs 75 each and are forfeited. The 2,000 shares with Rs 75 received are retained.

$$\begin{aligned}\text{Capital forfeited} &= 4,000 \times 100 = \text{Rs } 4,00,000,\\ \text{Amount received} &= 2,500 \times 50 + 1,500 \times 20\\ &= \text{Rs } 1,55,000,\\ \text{Unpaid calls cancelled} &= 4,00,000 - 1,55,000 = \text{Rs } 2,45,000.\end{aligned}$$

Reissue receipts are $4,000 \times 95 = \text{Rs } 3,80,000$. The discount is $4,000 \times 5 = \text{Rs } 20,000$. Since every

forfeited share is reissued, the entire residual forfeiture balance, Rs 1,35,000, is a capital profit.

Step 5: Record forfeiture, reissue and capital profit Journal of Saral Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being 4,000 fully called shares forfeited for unpaid calls)		4,00,000	 2,45,000 1,55,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being forfeited shares reissued at Rs 95 fully paid)		3,80,000 20,000	 4,00,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue transferred to capital reserve)		1,35,000	 1,35,000

Step 6: Conclusion The company forfeits 4,000 shares and transfers Rs 1,35,000 to Capital Reserve after reissue. Calls in Arrears retains Rs 50,000 due on the 2,000 shares which were not forfeited.

Quick Tip to Solve: Apply the strict condition "less than Rs 75": the 2,000 shares with Rs 75 received must not be forfeited.

Part B (20 marks)

Option 1 (Analysis of Financial Statements)

18. What is meant by 'operating activities'? [1 mark]

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise and other activities that are neither investing nor financing activities.
- Cash flows are classified by the nature of the underlying activity; normal trading receipts and payments arise from the operating cycle.

Step 1: Identify the principal business activities The activities through which an enterprise earns its main revenue are operating activities. For a trading enterprise, these include buying goods and selling goods to customers.

Step 2: Connect the definition with cash flows Cash receipts from customers and cash payments to suppliers or employees are typical operating cash flows. Activities outside the principal revenue-producing business also fall here when they are neither investing nor financing activities.

Step 3: Conclusion Operating activities mean the principal revenue-producing activities of an enterprise and other activities that are not investing or financing activities.

Quick Tip to Solve: Remember both parts of the definition: principal revenue activities, and the residual activities outside investing and financing.

19. State any two objectives of preparing 'Cash Flow Statement'. [1 mark]

Solution:

Concept:

- A Cash Flow Statement explains changes in cash and cash equivalents during an accounting period by classifying flows into operating, investing and financing activities.
- Cash information helps users judge liquidity and the ability to generate cash; accounting profit alone does not show the cash available for payments.

Step 1: Objective 1: explain changes in cash To show the sources of cash inflows and the uses of cash outflows during a period, thereby explaining the change between the opening and closing balances of cash and cash equivalents.

Step 2: Objective 2: assess cash generation and payment capacity To assess the ability of the enterprise to generate cash and cash equivalents and to meet its cash requirements, such as payment of liabilities and dividends. This helps users evaluate liquidity and financial flexibility.

Step 3: Conclusion Two objectives are: (i) explaining the sources and uses of cash and cash equivalents, and (ii) assessing cash generation and the ability to meet cash obligations.

Quick Tip to Solve: State two distinct objectives: where cash came from and went, and whether the enterprise can meet future cash needs.

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

(i) Bank Overdraft

(ii) Subsidy Reserve

(iii) Capital Redemption Reserve

(iv) Mining Rights

(v) Patents

(vi) Debit balance in the Statement of Profit and Loss

(vii) Debenture Redemption Reserve

(viii) Provision for Taxation [4 marks]

Solution:

Concept:

- Schedule III classifies company balance sheet items first under major heads and then under the appropriate sub-heads. The nature of an item determines its presentation.
- Reserves form part of shareholders' funds. A debit balance of the Statement of Profit and Loss is a negative component of reserves and surplus; intangible rights are non-current assets.

Step 1: Identify the liability and reserve classifications A bank overdraft is a short-term borrowing and therefore belongs to current liabilities. Provision for taxation is a short-term provision under current liabilities. Subsidy Reserve, Capital Redemption Reserve and Debenture Redemption Reserve are

reserves: their purposes differ, but each is presented within reserves and surplus under shareholders' funds.

Step 2: Present all eight items under their Schedule III heads The following classification gives the major head and the sub-head for every item in the printed order.

Balance Sheet Classification (Schedule III)

Item	Major head	Sub-head / presentation
(i) Bank Overdraft	Current Liabilities	Short-term Borrowings
(ii) Subsidy Reserve	Shareholders' Funds	Reserves and Surplus
(iii) Capital Redemption Reserve	Shareholders' Funds	Reserves and Surplus
(iv) Mining Rights	Non-current Assets	Fixed Assets: Intangible Assets
(v) Patents	Non-current Assets	Fixed Assets: Intangible Assets
(vi) Debit balance in Statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus (deducted as a negative balance)
(vii) Debenture Redemption Reserve	Shareholders' Funds	Reserves and Surplus
(viii) Provision for Taxation	Current Liabilities	Short-term Provisions

Mining rights and patents provide benefits over future periods without physical substance, so both are intangible fixed assets. The debit balance in the Statement of Profit and Loss represents accumulated loss; it reduces reserves and surplus instead of being shown as an asset.

Step 3: Conclusion Bank overdraft and tax provision are current liabilities; mining rights and patents are intangible non-current assets. The three specified reserves and the negative balance of profit and loss are presented under shareholders' funds, within reserves and surplus.

Quick Tip to Solve: Classify the nature first: overdraft means borrowing, tax provision means provision, rights mean intangible assets, and accumulated loss reduces reserves.

OR

20. Explain briefly the importance of financial analysis for (i) Financial Manager, and (ii) Top Management. [4 marks]

Solution:

Concept:

- Financial analysis studies the relationships and trends in financial statements to assess profitability, liquidity, solvency and operating efficiency.
- The usefulness of analysis depends on the decision-maker: a financial manager focuses on financial planning and control, while top management uses it for overall policy and business direction.

Step 1: (i) Importance for the Financial Manager Financial analysis helps the financial manager assess whether funds are available in the right amount and used efficiently. Its principal uses are:

1. **Financial planning and financing:** Analysis of capital structure and solvency indicates the balance between owners' funds and borrowed funds. This helps decide future financing requirements and suitable sources of finance.

2. **Liquidity and working-capital control:** Analysis of current assets, current liabilities and cash flows helps determine the capacity to pay short-term obligations and the funds needed for day-to-day operations.
3. **Efficient use of funds:** Profitability and turnover comparisons reveal idle funds, excessive investment in inventories or receivables, and weak returns. The manager can then take corrective action and improve financial performance.

Step 2: (ii) Importance for Top Management Top management uses financial analysis to judge the performance and direction of the business as a whole. It assists in:

1. **Evaluating overall performance:** Comparing actual results with previous years, budgets and comparable firms shows whether profitability and efficiency are improving and where performance is weak.
2. **Framing policies and plans:** Information about the financial strengths and weaknesses supports long-term decisions such as expansion, diversification, investment and the allocation of resources among business activities.
3. **Control and corrective decisions:** Analysis helps locate adverse trends in costs, earnings and financial stability, evaluate managerial performance, and revise operating or financial policies before weaknesses become more serious.

Step 3: Conclusion Financial analysis supports the financial manager in planning, obtaining and controlling funds, and supports top management in evaluating overall performance, setting policies and choosing future business strategies.

Quick Tip to Solve: Link each use to its user: discuss financing and liquidity for the financial manager, and overall performance and long-term policy for top management.

21. From the following information prepare Comparative Balance Sheet of X Ltd. :

Particulars	31-3-2017 Amount (Rs)	31-3-2016 Amount (Rs)
Share Capital	25,00,000	25,00,000
Reserves and Surplus	6,00,000	10,00,000
Long-term Borrowings	16,00,000	15,00,000
Current Liabilities	5,00,000	4,50,000
Fixed Assets	35,00,000	25,00,000
Investments (Non-Current)	10,50,000	15,00,000
Current Assets	6,50,000	14,50,000

[4 marks]

Solution:

Concept:

- A comparative balance sheet places the previous and current years side by side, showing the absolute and percentage change in every item.
- Absolute change = Current-year amount minus Previous-year amount. Percentage change = Absolute change divided by Previous-year amount, multiplied by 100. A negative change denotes a

decrease.

Step 1: Calculate changes using 2016 as the base year The dates must be arranged chronologically: 31-3-2016 is the base and 31-3-2017 is the current year. Share capital is unchanged. Reserves fall by Rs 4,00,000, while long-term borrowings rise by Rs 1,00,000 and current liabilities rise by Rs 50,000. Thus the total financing decreases by Rs 2,50,000. For example,

$$\text{Reserves change (\%)} = \frac{-4,00,000}{10,00,000} \times 100 = -40\%,$$
$$\text{Borrowings change (\%)} = \frac{1,00,000}{15,00,000} \times 100 = 6.67\%.$$

On the assets side, fixed assets increase by Rs 10,00,000, investments decrease by Rs 4,50,000 and current assets decrease by Rs 8,00,000. Their net change is also a decrease of Rs 2,50,000.

Step 2: Prepare the comparative statement

Comparative Balance Sheet of X Ltd.
As at 31 March 2016 and 2017

Particulars	2016 (Rs)	2017 (Rs)	Change (Rs)	Change (%)
I. Equity and liabilities				
1. Shareholders' funds				
Share capital	25,00,000	25,00,000	0	0.00
Reserves and surplus	10,00,000	6,00,000	-4,00,000	-40.00
Subtotal	35,00,000	31,00,000	-4,00,000	-11.43
2. Non-current liabilities				
Long-term borrowings	15,00,000	16,00,000	1,00,000	6.67
3. Current liabilities	4,50,000	5,00,000	50,000	11.11
Total	54,50,000	52,00,000	-2,50,000	-4.59
II. Assets				
1. Non-current assets				
Fixed assets	25,00,000	35,00,000	10,00,000	40.00
Non-current investments	15,00,000	10,50,000	-4,50,000	-30.00
Subtotal	40,00,000	45,50,000	5,50,000	13.75
2. Current assets	14,50,000	6,50,000	-8,00,000	-55.17
Total	54,50,000	52,00,000	-2,50,000	-4.59

Percentages are rounded to two decimal places. Each percentage uses that item's own 2016 amount as its denominator; it does not use the balance sheet total.

Step 3: Conclusion Total assets and total equity and liabilities each decrease from Rs 54,50,000 to Rs 52,00,000, a decline of Rs 2,50,000 or approximately 4.59%.

Quick Tip to Solve: Even when the current year is printed first, subtract the earlier year and divide each change by its own earlier-year balance.

22. From the following balances obtained from the books of Heera Ltd. calculate proprietary ratio :

Particulars	Rs
Plant and Machinery	10,00,000
Land and Building	6,00,000
Motor Car	8,00,000
Furniture	1,50,000
Stock	4,50,000
Debtors	90,000
Cash at Bank	3,40,000
Non-Current Liabilities	10,00,000
Current Liabilities	6,20,000

[4 marks]

Solution:

Concept:

- Proprietary ratio measures the proportion of total assets financed by shareholders. Divide shareholders' funds by total assets to calculate it.
- The accounting equation gives shareholders' funds as total assets less outside liabilities. Outside liabilities include both non-current liabilities and current liabilities.

Step 1: Calculate total assets Add all the listed assets. Plant and machinery, land and building, motor car and furniture are non-current assets; stock, debtors and cash at bank are current assets. There are no fictitious assets or other deductions in the information given.

$$\begin{aligned}\text{Non-current assets} &= 10,00,000 + 6,00,000 + 8,00,000 + 1,50,000\\ &= \text{Rs } 25,50,000,\\ \text{Current assets} &= 4,50,000 + 90,000 + 3,40,000\\ &= \text{Rs } 8,80,000,\\ \text{Total assets} &= 25,50,000 + 8,80,000 = \text{Rs } 34,30,000.\end{aligned}$$

Step 2: Determine shareholders' funds Both categories of outside liabilities must be deducted, because neither represents the owners' investment in the company.

$$\begin{aligned}\text{Outside liabilities} &= 10,00,000 + 6,20,000 = \text{Rs } 16,20,000,\\ \text{Shareholders' funds} &= 34,30,000 - 16,20,000\\ &= \text{Rs } 18,10,000.\end{aligned}$$

Check: owners' funds of Rs 18,10,000 plus outside liabilities of Rs 16,20,000 equal total assets of Rs 34,30,000.

Step 3: Substitute in the proprietary ratio Use total assets as the denominator, rather than capital

employed or outside liabilities:

$$\text{Proprietary ratio} = \frac{18,10,000}{34,30,000} = \frac{181}{343} = 0.5277 \text{ (approximately)}.$$

Expressed as a percentage, the same proportion is $0.5277 \times 100 = 52.77\%$. This means approximately Rs 52.77 out of every Rs 100 invested in assets is financed by the shareholders; the remainder is financed by outside liabilities.

Step 4: Conclusion The proprietary ratio of Heera Ltd. is approximately $0.528 : 1$, or 52.77%.

Quick Tip to Solve: First total all seven assets; then deduct both liability categories to obtain owners' funds before dividing by total assets.

OR

22. Assuming that the Debt to Equity ratio of a company is 0.50, state whether this ratio would increase, decrease or remain unchanged in the following cases :

(i) Purchase of fixed assets on a credit of 3 months

(ii) Issue of new shares for cash

(iii) Purchased machinery and paid to the vendors by issue of equity shares

(iv) Obtained 8% long-term loan [4 marks]

Solution:

Concept:

- Debt-equity ratio is D/E, where D is long-term debt and E is shareholders' funds. Here $D/E = 0.50$.
- Current liabilities are excluded from long-term debt. For a positive debt, an increase in equity alone lowers this ratio, whereas an increase in long-term debt alone raises it.

Step 1: Purchase of fixed assets on three months credit The credit period is only three months, so the amount payable is a current liability. Fixed assets and current liabilities increase equally; neither long-term debt nor shareholders' funds changes. Therefore, D/E remains unchanged at 0.50.

Step 2: Issue of new shares for cash Cash and share capital increase. The issue increases shareholders' funds, while long-term debt remains the same. If the increase in equity is $x > 0$, the new ratio is $D/(E + x) < D/E$. Hence the ratio decreases below 0.50.

Step 3: Machinery purchased by issuing equity shares The company receives machinery and issues equity shares to the vendor in payment. Shareholders' funds increase, but no long-term borrowing arises. The fact that no cash is paid does not prevent equity from increasing. Thus the denominator rises and the ratio decreases below 0.50.

Step 4: Obtaining an 8 percent long-term loan The loan adds to long-term debt without an immediate change in shareholders' funds. For a loan of $x > 0$, the ratio becomes $(D + x)/E > D/E$. Therefore

it increases above 0.50. The stated interest rate does not determine the immediate ratio; it is the principal borrowed that increases debt.

Step 5: Conclusion The effects are: (i) unchanged; (ii) decrease; (iii) decrease; (iv) increase.

Quick Tip to Solve: First classify the liability by its repayment period; three-month credit is excluded from long-term debt.

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

Axe Ltd.

Balance Sheet as at 31.3.2018

Particulars	Note No.	31.3.2018 (Rs)	31.3.2017 (Rs)
I – Equity and Liabilities :			
1. Shareholder's Funds :			
(a) Share Capital		6,30,000	5,60,000
(b) Reserves and Surplus	1	3,80,000	1,82,000
2. Current Liabilities :			
(a) Trade Payables		2,08,000	1,82,000
(b) Other Current Liabilities		14,000	28,000
Total		12,32,000	9,52,000
II – Assets :			
1. Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets	2	3,92,000	2,80,000
2. Current Assets :			
(a) Inventories		1,26,000	1,82,000
(b) Trade Receivables		6,30,000	4,20,000
(c) Cash and Cash Equivalents		84,000	70,000
Total		12,32,000	9,52,000

Notes to Accounts :

Note No.	Particulars	31.3.2018 (Rs)	31.3.2017 (Rs)
1.	Reserves and Surplus :		
	Balance in the Statement of Profit and Loss	2,00,000	1,00,000
	General Reserve	1,80,000	82,000
		3,80,000	1,82,000
2.	Tangible Assets :		
	Machinery Cost	4,50,000	3,60,000
	Accumulated Depreciation	(58,000)	(80,000)
		3,92,000	2,80,000

Additional Information :

An old machinery costing Rs 42,000, on which accumulated depreciation was Rs 28,000 was sold for Rs 56,000.

[6 marks]

Solution:

Concept:

- The indirect method adjusts profit for non-cash items, non-operating gains and changes in operating working capital.
- Cash received from sale and cash paid to purchase machinery are investing flows; proceeds from issuing shares are financing flows.

Step 1: Calculate profit and depreciation Transfer to general reserve is $1,80,000 - 82,000 =$ Rs $98,000$. Therefore profit before tax, with no tax adjustment given, is

$$(2,00,000 - 1,00,000) + 98,000 = \text{Rs } 1,98,000.$$

Accumulated depreciation removed on sale is Rs 28,000. Hence depreciation for the year is

$$58,000 + 28,000 - 80,000 = \text{Rs } 6,000.$$

The transfer to general reserve is an appropriation of profit, not a cash payment.

Step 2: Calculate gain on sale and machinery purchased The sold machinery's carrying amount is $42,000 - 28,000 =$ Rs $14,000$. Gain on sale is therefore $56,000 - 14,000 =$ Rs $42,000$. This gain is deducted from profit when computing operating cash flow; the full proceeds belong to investing activities. Machinery purchases at cost are

$$4,50,000 - 3,60,000 + 42,000 = \text{Rs } 1,32,000.$$

The cost of the asset sold must be added back in this calculation because it reduced the closing machinery cost.

Step 3: Prepare the Cash Flow Statement Axe Ltd. — Cash Flow Statement for the year ended 31st March, 2018

Particulars	Rs	Rs
A. Cash flow from operating activities		
Net profit before tax	1,98,000	
Add: Depreciation	6,000	
Less: Gain on sale of machinery	(42,000)	
Operating profit before working capital changes		1,62,000
Decrease in inventories	56,000	
Increase in trade receivables	(2,10,000)	
Increase in trade payables	26,000	
Decrease in other current liabilities	(14,000)	
Cash generated from operations		20,000
Net cash from operating activities (A)		20,000
B. Cash flow from investing activities		
Sale of machinery	56,000	
Purchase of machinery	(1,32,000)	
Net cash used in investing activities (B)		(76,000)
C. Cash flow from financing activities		
Proceeds from issue of shares	70,000	
Net cash from financing activities (C)		70,000
Net increase in cash and cash equivalents (A+B+C)		14,000
Add: Opening cash and cash equivalents		70,000
Closing cash and cash equivalents		84,000

Step 4: Verify the cash reconciliation Trade receivables increase by Rs 2,10,000, which absorbs operating cash; inventories decrease by Rs 56,000, which releases cash. Trade payables increase by Rs 26,000, whereas other current liabilities decrease by Rs 14,000. Share capital increases by Rs 70,000, treated as cash proceeds since no non-cash issue is specified. The net movement is

$$20,000 - 76,000 + 70,000 = \text{Rs } 14,000.$$

Adding it to opening cash of Rs 70,000 gives Rs 84,000, agreeing with the Balance Sheet.

Step 5: Conclusion Operating cash inflow is Rs 20,000; investing cash outflow is Rs 76,000; financing cash inflow is Rs 70,000. Cash increases by Rs 14,000 to Rs 84,000.

Quick Tip to Solve: Remove only the gain from operating profit, but show the full sale proceeds under investing activities.

Option 2 (Computerised Accounting)

18. What is meant by 'Parameter Queries'? [1 mark]

Solution:

Concept:

- A query retrieves records or information from database tables according to specified criteria.
- A parameter is an input value supplied by the user when the query is executed.

Step 1: Identify when the criterion is supplied In a parameter query, the selection criterion is not

permanently fixed in the query. Instead, a prompt asks the user to enter the required value whenever the query runs.

Step 2: Explain the result with an example The entered value is used to select the matching records. For example, an accounting query may ask for a customer code and then display only the transactions of that customer. The same query can be run again with another customer code.

Step 3: Conclusion Parameter queries are queries that prompt the user for one or more values at run time and use those values as criteria to retrieve the required records.

Quick Tip to Solve: Remember the sequence: run the query, enter the prompted value, obtain matching records.

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

Solution:

Concept:

- A spreadsheet cell may contain text, a numerical value or a formula.
- A label is a text entry used to describe or identify worksheet information.

Step 1: Define a label A label is an entry containing text, such as a heading, name or description, in a spreadsheet cell. It identifies the nature of the data entered in the worksheet.

Step 2: Illustrate its purpose For example, the entries Sales, Purchases and Total Expenses used as column or row headings are labels. They make the worksheet understandable; they are descriptive entries and are not themselves numerical amounts on which arithmetic calculations are performed.

Step 3: Conclusion A label is a text entry in a spreadsheet cell used to identify or describe data, such as a row or column heading.

Quick Tip to Solve: Identify whether the cell describes an amount or contains the amount itself: the description is a label.

20. Give the meaning of a 'Graph'. Explain its three advantages. [4 marks]

Solution:

Concept:

- A graph represents worksheet data visually by means of bars, lines, sectors or other graphical forms.
- Graphs communicate relationships, comparisons and changes in numerical data.

Step 1: Meaning of a graph A graph is a pictorial representation of numerical data. In a spreadsheet, it presents selected data through visual elements such as bars, lines or sectors, generally accompanied by suitable headings and labels. It converts figures in a worksheet into a form that can be understood at a glance.

Step 2: Advantage 1: Easy understanding of data A graph condenses a large volume of numerical

information into a clear visual presentation. Readers can grasp the main facts quickly without studying every entry in a long table. For example, a graph of monthly sales communicates the overall sales pattern more readily than a list of twelve separate amounts.

Step 3: Advantage 2: Convenient comparison Graphs help compare the values of different items, groups or periods. Differences in bar heights or the positions of plotted values make relative magnitudes easy to see. For example, a bar graph can show which branch has the highest sales and how the performance of the remaining branches compares with it.

Step 4: Advantage 3: Identification of trends A graph makes trends and changes over time apparent. A rising or falling line highlights growth, decline and fluctuations, which may be difficult to notice in raw figures. This helps management analyse past performance and supports planning and decision-making, such as identifying a continuing fall in sales that requires attention.

Step 5: Conclusion A graph is a pictorial representation of numerical data. Its advantages include easier understanding, convenient comparison and clear identification of trends.

Quick Tip to Solve: Use a distinct purpose for each advantage: understand the data, compare values, and identify trends over time.

21. Explain four advantages expected by the user for paying a high price for a chosen server database.

[4 marks]

Solution:

Concept:

- A server database stores and manages data centrally and serves requests from client computers.
- Its higher cost is justified by capabilities needed for large, shared and dependable information systems.

Step 1: Advantage 1: Flexibility A server database offers flexibility in storing, retrieving and presenting data. It supports different applications and users through suitable database interfaces and development tools. Thus an organisation can build or adapt applications to meet its particular accounting and information requirements instead of being restricted to a single fixed arrangement.

Step 2: Advantage 2: Powerful performance A server database is designed to process large volumes of data efficiently. It uses the processing power and resources of the server to handle complex queries and many simultaneous user requests. Consequently, multiple users can work with the common database while obtaining timely access to the information needed for their tasks.

Step 3: Advantage 3: Scalability A server database can expand as the organisation grows. It can accommodate increasing numbers of users, larger data volumes and heavier transaction workloads by using additional or upgraded resources. The organisation can therefore extend its information system as its needs increase without having to replace the entire database arrangement.

Step 4: Advantage 4: Reliability A server database provides dependable operation and protects the integrity of shared data. Transaction controls, backup and recovery facilities help preserve consistent records and restore data after failures. This is particularly valuable in accounting, where users need

accurate records and continuity of access despite equipment or system problems.

Step 5: Conclusion The four expected advantages are flexibility, powerful performance, scalability and reliability.

Quick Tip to Solve: Remember the four separate benefits: adapt applications, process workloads, expand capacity, and maintain dependable data.

OR

21. What is meant by a 'voucher'? Explain different types of vouchers. [4 marks]

Solution:

Concept:

- A voucher is a document that records and authorises an accounting transaction and provides the basis for entering it in the books or accounting software.
- The voucher type depends on the nature of the transaction: receipt, payment, internal transfer, credit purchase or sale, return, or adjustment.

Step 1: Meaning and role of a voucher A voucher contains the date, voucher number, accounts affected, amount and narration of a transaction. It is prepared using supporting evidence, such as an invoice or receipt, and is authorised before posting. Thus, it supplies an audit trail between the evidence for a transaction and the resulting debit and credit entries.

Step 2: Cash and bank transaction vouchers **Receipt voucher:** Records money received in cash or through bank, such as collection from a debtor or interest received. Cash or bank is debited. **Payment voucher:** Records money paid in cash or through bank, such as rent paid or payment to a creditor. Cash or bank is credited. **Contra voucher:** Records transfers between cash and bank accounts, or between bank accounts, such as depositing office cash into the bank. It does not record an income or an expense.

Step 3: Trading and return vouchers **Purchase voucher:** Records purchases, particularly credit purchases of goods from suppliers. **Sales voucher:** Records sales, particularly credit sales to customers. **Debit note voucher:** Records purchase returns, for which the supplier is debited and a debit note is issued. **Credit note voucher:** Records sales returns, for which the customer is credited and a credit note is issued. The corresponding purchase or sales return account is also affected.

Step 4: Adjustment voucher **Journal voucher:** Records non-cash adjustments that are not entered through the other specialised vouchers. Examples include depreciation, outstanding expenses, provision entries and transfer entries. Each voucher must preserve the equality of total debits and total credits.

Step 5: Conclusion A voucher is the authorised accounting document used for recording a transaction. The principal computerised accounting voucher types are receipt, payment, contra, purchase, sales, debit note, credit note and journal vouchers.

Quick Tip to Solve: Identify the transaction first: money received means receipt, money paid means payment, and cash deposited into bank means contra.

22. Explain 'Sequential' and 'Mnemonic' codes. [4 marks]

Solution:

Concept:

- Coding assigns a short, unique symbol or combination of symbols to an account or item so that it can be identified and processed consistently.
- Sequential codes identify items by their position in a series; mnemonic codes use symbols that suggest the name or nature of the item.

Step 1: Sequential codes: meaning and construction Sequential codes assign consecutive numbers to accounts, documents or other items in the order in which they are added or occur. Each new item receives the next available number. For example, vouchers can be numbered 001, 002, 003 and so on, or customers can be assigned codes 1001, 1002 and 1003. The number primarily gives an identity and position in the sequence; it need not describe the item.

Step 2: Sequential codes: usefulness and limitation This method is simple to design and administer. A continuous voucher-number series helps locate documents and detect a missing number or duplicate number during checking. For example, if vouchers 021 and 023 are present but 022 is absent, the missing voucher number can be investigated. However, a person normally needs a code list to know which account a number represents because the code itself conveys little information about the account.

Step 3: Mnemonic codes: meaning and examples Mnemonic codes are formed from letters, abbreviations or combinations that help the user remember the item represented. They are often derived from the account name or description. For example, CSH may stand for Cash, BNK for Bank, SAL for Sales and PUR for Purchases. Unlike a purely sequential number, the code supplies a clue to the identity or nature of the account.

Step 4: Mnemonic codes: usefulness and limitation These codes are easier to remember and recognise, making account selection and data entry more convenient. However, abbreviations must be chosen systematically and kept unique: two similar account names must not receive the same code. For example, salaries and sales should not both be assigned SAL; distinct codes such as SLR and SAL can be used. A documented coding convention therefore remains necessary.

Step 5: Conclusion Sequential codes use an ordered series, such as 001, 002 and 003. Mnemonic codes use meaningful, memorable abbreviations, such as CSH for Cash and BNK for Bank.

Quick Tip to Solve: Link sequential with sequence and mnemonic with memory; give one clear example of each and explain what its symbols convey.

OR

22. State the steps to construct Bank Reconciliation Statement in Tally. [4 marks]

Solution:

Concept:

- A Bank Reconciliation Statement explains the difference between the bank balance recorded in the business books and the balance shown by the bank statement on a particular date.
- In Tally, reconciliation matches entries in the bank ledger with the bank statement by recording the bank date, that is, the date on which the bank clears or records each transaction.

Step 1: Open the relevant bank ledger Open the company in Tally and ensure that its bank receipts and payments have been entered. From Gateway of Tally, select Display, then Account Books, then Ledger. Select the bank account that is to be reconciled. The ledger displays the transactions recorded in the company's books for that bank account.

Step 2: Set the period and open reconciliation Set the required reporting period using F2: Period. From the bank ledger display, select the Reconcile facility, normally F5: Reconcile in the Tally version used for this procedure. This opens the Bank Reconciliation screen. Keep the bank statement for the same account and period available for comparison.

Step 3: Match entries and enter bank dates Compare each receipt and payment in the bank ledger with the corresponding entry in the bank statement, using the cheque number, amount and other particulars. For each entry appearing in the bank statement, enter its actual clearance or recording date in the Bank Date column. For cheques issued but not yet presented and deposits not yet credited, leave the Bank Date blank: these remain unreconciled items.

Step 4: Review and save the statement Check the entries without bank dates and the reconciliation totals. If the bank statement contains charges, interest, direct deposits or other transactions not yet entered in the books, record the necessary vouchers and reconcile them as appropriate. Accept and save the bank dates. Tally displays the balance as per company books, the unreconciled amounts and the balance as per bank. Display or print the resulting Bank Reconciliation Statement after verifying it against the bank statement.

Step 5: Conclusion Thus, select the bank ledger, open Reconcile for the required period, enter bank dates for matched transactions, review outstanding items and save or print the Bank Reconciliation Statement.

Quick Tip to Solve: Enter the clearance date from the bank statement, not the voucher date; leave unmatched transactions without a bank date.

23. What is meant by 'Conditional Formatting'? Explain its benefits. [6 marks]

Solution:

Concept:

- Conditional formatting is a spreadsheet facility that automatically applies a specified format to a cell or range when its value, or the result of a formula, satisfies a defined condition.
- A rule combines a condition with a visual format, such as a font colour, background fill or border. It changes the presentation of the data without changing the underlying values or calculations.

Step 1: Explain how conditional formatting works The user selects the relevant range, defines a condition and chooses the format to apply when that condition is true. For example, a business may specify that outstanding customer balances greater than Rs 50,000 should appear with a red fill. Cells meeting the rule are highlighted automatically. When a balance changes, the spreadsheet evaluates the rule again and updates the formatting accordingly.

Step 2: Identify important values and exceptions quickly Conditional formatting draws attention to information that requires action. For example, overdue receivables, expenses exceeding a budget or inventory below its reorder level can be highlighted. The user can locate such exceptions quickly instead of reading every figure individually, making large accounting worksheets easier to review.

Step 3: Facilitate comparison and analysis Different colours or formats can distinguish high and low values and show the relative performance of departments or periods. For example, favourable and adverse budget variances may be displayed differently. Visual differences make patterns, unusually large movements and areas requiring further investigation easier to identify.

Step 4: Improve accuracy of review and maintain consistent presentation Rules can flag values outside an expected range, duplicate entries or blank fields that should contain data. Such highlighting helps the user investigate possible input errors; it does not itself correct them. Applying the same rule to an entire range also gives consistent formatting and reduces the omissions that can arise when cells are coloured manually.

Step 5: Save time and support decisions Once the rules are set, the formatting responds automatically to changes in the data, reducing repeated manual work. Clear visual signals help managers concentrate on significant information and prioritise follow-up, such as collecting overdue debts or controlling excessive expenditure. It therefore improves readability, speeds up analysis and supports timely decisions based on the worksheet.

Step 6: Conclusion Conditional formatting automatically highlights cells according to specified rules. Its benefits include clearer presentation, faster comparison, easy identification of exceptions and possible errors, consistent updating and better support for decisions.

Quick Tip to Solve: Explain each benefit with an accounting example, and remember that conditional formatting changes appearance rather than cell values.