CBSE Class 12 Accountancy Question Paper 2019 with Solution PDF-Set 67-5-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

Part A (60 marks)

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

1. 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:

- Assets taken over by a partner debit the partner's capital account and credit Realisation Account at the agreed value.
- Cash realised from assets credits Realisation Account. No separate entry is made when an outside liability already transferred to Realisation Account is settled by transferring an asset.

Step 1: Calculate the amounts A takes assets of book value $2,00,000 \times 50\% =$ Rs $1,00,000$, at 80%, giving Rs 80,000. The remaining book value is Rs 1,00,000. Of this, 40%, or Rs 40,000, is sold for $40,000 \times 130\% =$ Rs $52,000$. The balance is Rs 60,000; obsolete assets are $60,000 \times 5\% =$ Rs $3,000$, leaving assets of Rs 57,000 for the creditor.

Step 2: Record realisation transactions 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 discount)		80,000	80,000
	Bank A/c Dr. To Realisation A/c (Being remaining assets partly sold at profit)		52,000	52,000

No entry is required for the obsolete assets realising nothing. No separate entry is required for assets taken by the creditor in full settlement: both assets and the creditor's claim are dealt with through Realisation Account. The transfer of sundry assets to Realisation Account has already been made, as stated in the question.

Step 3: Conclusion Debit A's Capital Account by Rs 80,000 and Bank Account by Rs 52,000, crediting Realisation Account in each entry. No entry is passed for obsolete assets or the creditor taking assets.

Quick Tip to Solve: Apply each successive percentage to the remaining book value, not to the original Rs 2,00,000.

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

Solution:

Concept:

- Reserve capital is the part of uncalled share capital reserved for being called only on winding up.

- It is a restriction on calling share capital, rather than an accumulated profit or a capital reserve.

Step 1: Identify the capital concerned A company may have subscribed share capital which has not yet been called from its shareholders. A specified part of this uncalled amount can be set aside as reserve capital by a special resolution.

Step 2: State when it can be called This reserved amount cannot be called in the ordinary course of business. It is callable only in the event of the winding up of the company, thereby providing additional security to its creditors.

Step 3: Conclusion Reserve capital is that portion of uncalled share capital which a company resolves, by special resolution, to call only in the event of its winding up.

Quick Tip to Solve: Remember the trigger: reserve capital is uncalled capital callable only on winding up.

OR

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

Solution:

Concept:

- Redemption requires funds to repay the principal due to debentureholders.
- The funds may be raised afresh or made available from resources retained by the company.

Step 1: Identify external financing A company may obtain funds by a fresh issue of shares or debentures, subject to applicable conditions. Such an issue replaces the funds being repaid with new share capital or new borrowing.

Step 2: Identify internal resources It may also use accumulated profits or existing capital resources, including funds realised from the sale of assets. Redemption out of profits means using profits retained for this purpose rather than distributing them as dividend.

Step 3: Conclusion Sources for redemption of debentures are: a fresh issue of shares or debentures, accumulated profits, and existing capital resources (including proceeds from sale of assets).

Quick Tip to Solve: List fresh issue, profits and capital resources separately when naming redemption sources.

3. 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 invested and the period for which it is employed.
- It is generally allowed when the partnership agreement provides for it; unequal capital and unequal investment periods explain its purpose.

Step 1: Different amounts of capital Interest on capital is generally provided when partners contribute unequal amounts of capital. It compensates the partner who makes the larger capital contribution before the residual profit is shared in the agreed profit-sharing ratio.

Step 2: Different periods of investment It is also generally provided when capitals remain invested for unequal periods, for example when a partner introduces additional capital during the year. Interest is calculated for the actual period for which each amount remains employed.

Step 3: Conclusion The two situations are unequal capital contributions by partners and capital contributions remaining invested for unequal periods, where the partnership agreement provides for interest.

Quick Tip to Solve: Check both the amount invested and the time it remains in the firm when computing capital interest.

OR

3. 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 made in a separate current account.
- Under the fluctuating capital method, drawings and all routine adjustments are recorded in the capital account itself.

Step 1: Fixed capital account A fixed capital account normally always shows a credit balance: the capital invested remains recorded there. Drawings, interest, salary and shares of profit or loss are adjusted through the current account, which may show either a debit or a credit balance.

Step 2: Fluctuating capital account A fluctuating capital account usually has a credit balance but may show a debit balance when drawings and losses exceed the capital and other credits. There is no separate current account to absorb these routine adjustments.

Step 3: Conclusion Fixed capital accounts always show a credit balance; fluctuating capital accounts may show either a credit balance or a debit balance.

Quick Tip to Solve: Distinguish fixed capital from its current account: the current account can have a debit balance.

4. 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 equals old profit share minus new profit share.

- When no profit-sharing ratio is specified, partners share profits equally; a new partner acquires his share from old partners in their old ratio unless otherwise stated.

Step 1: Determine the old shares No different ratio is specified for S, B and J. Their old ratio is therefore $1 : 1 : 1$, with each entitled to $1/3$. T receives $1/5$, leaving $4/5$ collectively for the old partners.

Step 2: Calculate each sacrifice Each old partner retains $(4/5) \times (1/3) = 4/15$. Thus each sacrifices $1/3 - 4/15 = 1/15$. Their sacrifices are equal, so $S : B : J = (1/15) : (1/15) : (1/15) = 1 : 1 : 1$.

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

Quick Tip to Solve: When neither an old ratio nor a different sacrifice arrangement is stated, use equal sharing.

5. 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:

- The financial statements report cash movements, the annual surplus or deficit, and the financial position.
- Income and Expenditure Account determines the surplus or deficit for the accounting period on the accrual basis.

Step 1: Identify the statement of cash movements The Receipts and Payments Account summarises cash and bank transactions for the period. It includes both capital and revenue receipts and payments and shows the opening and closing cash and bank balances.

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. Together with the Income and Expenditure Account, these statements give the organisation's annual financial information.

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

Quick Tip to Solve: Match the three statements to cash movements, annual surplus or deficit, and financial position.

OR

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

Solution:

Concept:

- The Income and Expenditure Account is prepared on the accrual basis of accounting.
- It matches revenue income with revenue expenditure belonging to the same accounting period.

Step 1: Recognise current-period revenue items Include revenue income earned and revenue expenditure incurred during the current accounting year, whether or not cash has been received or paid. Exclude capital items and income or expenditure belonging to other periods.

Step 2: Make the required adjustments Adjust cash figures for outstanding and prepaid expenses and for accrued income and income received in advance. Include non-cash charges such as depreciation. These adjustments determine the surplus or deficit of the current period correctly.

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

Quick Tip to Solve: For accrual accounting, ask which year the income or expense belongs to, rather than when cash moves.

6. State the 'liability of a partner' in a partnership firm. [1 mark]

Solution:

Concept:

- Partners have unlimited liability for the obligations of the partnership firm.
- Liability is joint and several: a creditor can hold all partners collectively, or an individual partner, liable for firm debts.

Step 1: Explain unlimited liability If the assets of the partnership firm are insufficient to discharge its debts, a partner's personal assets can be used to meet the unpaid obligations. Liability is therefore not limited to the capital introduced into the business.

Step 2: Explain joint and several liability Each partner is liable jointly with the other partners and also individually for the acts of the firm done while he or she is a partner. The sharing of losses among partners does not restrict the creditor's right to recover the firm's dues.

Step 3: Conclusion A partner has unlimited liability, jointly and severally with the other partners, for the debts and obligations of the firm.

Quick Tip to Solve: Use both expressions: unlimited describes the extent; joint and several describes how recovery can be made.

7. The goodwill of a firm is valued at 4 years' purchase of average profits of last five years. The profits of the last five years were :

Year	Profit (Rs)
2013 – 14	2,00,000
2014 – 15	3,00,000
2015 – 16	4,50,000 (including an abnormal gain of Rs 50,000)
2016 – 17	3,50,000 (after charging an abnormal loss of Rs 90,000)
2017 – 18	2,60,000

Calculate the amount of the goodwill. [3 marks]

Solution:

Concept:

- Goodwill under the average-profit method equals adjusted average annual profit multiplied by the agreed number of years' purchase.
- Exclude a non-recurring abnormal gain from reported profit and add back a non-recurring abnormal loss. This makes the past profits comparable as a measure of normal earning capacity.

Step 1: Adjust the two abnormal items For 2015–16, the reported profit includes an abnormal gain, so normal profit is $4,50,000 - 50,000 =$ Rs $4,00,000$. For 2016–17, the abnormal loss has already reduced reported profit, so normal profit is $3,50,000 + 90,000 =$ Rs $4,40,000$. No adjustment is specified for the other three years.
Adjusted annual profits (Rs)

Year	Adjusted profit (Rs)
2013–14	2,00,000
2014–15	3,00,000
2015–16	4,00,000
2016–17	4,40,000
2017–18	2,60,000
Total	16,00,000

Step 2: Calculate average profit and goodwill All five years receive equal weight, since the question specifies average profits rather than weighted average profits.

$$\text{Average annual profit} = \frac{16,00,000}{5} = \text{Rs } 3,20,000,$$

$$\text{Goodwill} = 3,20,000 \times 4 = \text{Rs } 12,80,000.$$

The multiplier is four years' purchase; it does not change the five-year denominator used to find the average.

Step 3: Conclusion The goodwill of the firm is $\boxed{\text{Rs } 12,80,000}$.

Quick Tip to Solve: First remove abnormal gains and restore abnormal losses; divide by five before multiplying by four.

8. From the following information, calculate the amount of subscription to be credited in the Income and Expenditure Account of Roshanara Cricket Club for the year ended 31st March, 2018.

Particulars	For the year ended 31st March, 2017 (Rs)	For the year ended 31st March, 2018 (Rs)
Advance Subscription	15,500	21,600
Outstanding Subscription	7,800	25,200

During the year the club received Rs 2,20,000 as subscription which included Rs 2,800 for the year ended 31st March, 2017. [3 marks]

Solution:

Concept:

- The Income and Expenditure Account records subscription earned for the current accounting year, regardless of when cash is received.
- Exclude receipts for the previous year and advances for the following year; include opening advances earned this year and current-year subscriptions still outstanding.

Step 1: Identify the current-year adjustments The cash receipt of Rs 2,20,000 contains Rs 2,800 specifically received for 2016–17. Deduct that receipt because it is not income of 2017–18. The opening outstanding amount of Rs 7,800 is not itself a cash receipt: only the Rs 2,800 actually collected for that previous year is removed from the stated receipts.

The opening advance of Rs 15,500 relates to subscriptions now earned in 2017–18, so add it. The closing advance of Rs 21,600 belongs to the following year, so deduct it. The outstanding subscription specified for the year ended 31st March, 2018 is Rs 25,200; add it as current-year accrued income.

Step 2: Prepare the subscription income working Roshanara Cricket Club: Subscription income for 2017–18

Particulars	Amount (Rs)
Subscription received during the year	2,20,000
Less: Receipt for 2016–17	(2,800)
Add: Opening advance earned this year	15,500
Less: Closing advance for next year	(21,600)
Add: Outstanding subscription for 2017–18	25,200
Subscription credited to Income and Expenditure Account	2,36,300

This calculation matches each receipt or accrual to the year to which it belongs, so cash collected for an earlier year does not inflate the current year's income.

Step 3: Conclusion Subscription credited to the Income and Expenditure Account for the year ended 31st March, 2018 is $\boxed{\text{Rs } 2,36,300}$.

Quick Tip to Solve: When old-year receipts are stated separately, remove that actual receipt; do not treat all opening arrears as collected.

9. On 1st April, 2012, Samir Ltd. issued Rs 5,00,000, 10% Debentures of Rs 100 each at a discount of 5% redeemable at a premium of 10%. The debentures were redeemable on 31st March, 2018. The company created the necessary minimum reserve for redemption of debentures and purchased debenture redemption investments as per the requirements of the Companies Act, 2013.

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

Solution:

Concept:

- For this redemption, the minimum Debenture Redemption Reserve (DRR) is 25% of the nominal debenture amount. The required redemption investment is 15% of the debentures maturing.
- On redemption, transfer the face value and the premium payable to Debentureholders Account, pay the amount due, and transfer the released DRR to General Reserve.

Step 1: Calculate the required amounts The nominal debenture amount is Rs 5,00,000. Thus DRR already created is $5,00,000 \times 25\% =$ Rs $1,25,000$, and the redemption investment already purchased is $5,00,000 \times 15\% =$ Rs $75,000$. Premium on redemption is $5,00,000 \times 10\% =$ Rs $50,000$. The debentureholders must therefore receive Rs 5,50,000.

The issue discount of 5% concerns the original issue in 2012. It does not reduce the face value payable on redemption. Since the reserve and investment have already been created, their original creation entries are not repeated.

Step 2: Record redemption on 31st March, 2018 Journal of Samir Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Bank A/c Dr. To Debenture Redemption Investment A/c (Being redemption investments realised at book value)		75,000	75,000
31-3-2018	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at 10% premium)		5,00,000 50,000	5,50,000
31-3-2018	Debentureholders A/c Dr. To Bank A/c (Being amount due paid to debentureholders)		5,50,000	5,50,000
31-3-2018	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred after redemption)		1,25,000	1,25,000

No gain or loss on realisation of the investment is specified; hence its book value is used.

Step 3: Conclusion Debentures are redeemed by paying Rs $5,50,000$, and DRR of Rs $1,25,000$ is transferred to General Reserve.

Quick Tip to Solve: Compute redemption premium on face value; the discount at issue does not reduce the amount due to debentureholders.

10. 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 is a capital reserve arising when shares are issued above their nominal value. Its use is restricted to the purposes permitted by the Companies Act, 2013.
- The question excludes writing off preliminary expenses. Three other permitted purposes should therefore be stated explicitly.

Step 1: Issue fully paid bonus shares The company may use Securities Premium Reserve to issue fully paid bonus shares to its members. In this use, the reserve is capitalised: an amount is transferred from Securities Premium Reserve to Share Capital, and members receive additional fully paid shares without making a further cash payment. The reserve is not distributed as an ordinary cash dividend.

Step 2: Write off eligible issue costs and discounts Securities Premium Reserve may be utilised to write off the expenses of, commission paid on, or discount allowed on any issue of shares or debentures of the company. These are costs associated with raising capital. This purpose is distinct from preliminary expenses, which the question has expressly excluded.

Step 3: Provide for premium payable on redemption The reserve may also be used to provide for the premium payable on redemption of redeemable preference shares or debentures of the company. Here the permitted use concerns the redemption premium, that is, the amount payable above nominal value; it should not be described simply as repayment of the entire share capital or debenture principal.

Step 4: Conclusion Three permitted uses are: issuing fully paid bonus shares; writing off eligible share/debenture issue expenses, commission or discount; and providing for premium on redemption of preference shares or debentures.

Quick Tip to Solve: Name three statutory purposes and exclude preliminary expenses, since that use is already ruled out in the question.

OR

10. 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:

- Share capital is disclosed under Shareholders' Funds within Equity and Liabilities. A note gives the authorised, issued, subscribed and paid-up capital separately.
- Authorised capital is the maximum capital permitted by the memorandum. Issued capital is the part offered for subscription; subscribed capital is the part taken up by shareholders.
- For each class of shares, disclose the number and face value of shares. Amount paid or called up must be distinguished from nominal value; calls in arrears reduce the called-up amount.

Step 1: Choose internally consistent imaginary figures Let Example Ltd. have authorised capital of 1,00,000 equity shares of Rs 10 each. It issues 80,000 shares, of which 70,000 shares are subscribed and fully paid. Assume no partly paid shares, calls in arrears, forfeited shares or preference shares. Thus authorised capital is Rs 10,00,000, issued capital is Rs 8,00,000, and subscribed and paid-up capital is Rs 7,00,000. The following is an extract, so other balance sheet heads are omitted.

Step 2: Present the balance sheet extract **Example Ltd.**

Balance Sheet (Extract) as at 31 March 2019

Particulars	Note No.	Amount (Rs)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	7,00,000

Step 3: Give the supporting note to accounts **Notes to Accounts: 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 capital	
70,000 equity shares of Rs 10 each, fully paid	7,00,000
Subscribed but not fully paid-up capital	Nil
Total share capital shown in the Balance Sheet	7,00,000

The difference of 10,000 shares between issued and subscribed capital is not added to the paid-up capital. Similarly, the unissued portion of authorised capital is disclosed only in the note.

Step 4: Conclusion The Balance Sheet reports Share Capital $=$ Rs $7,00,000$ under Shareholders' Funds, supported by Note 1 showing the authorised, issued and subscribed capital separately.

Quick Tip to Solve: Check that authorised capital is at least issued capital, which is at least subscribed capital; carry only paid-up capital to the Balance Sheet.

11. Kanu and Manu were partners in a firm. They admitted Tarun as a new partner for 1/4th share of profits. Tarun brought Rs 3,00,000 as his capital and the necessary amount of goodwill premium for his share of goodwill. The goodwill of the firm was valued at Rs 1,60,000. The new profit sharing ratio will be 2 : 1 : 1.

Pass necessary journal entries for the above transactions in the books of the firm. [4 marks]

Solution:

Concept:

- If the partnership agreement does not specify the old profit-sharing ratio, the existing partners share profits equally. Here Kanu and Manu therefore have old shares of one-half each.
- The premium for goodwill equals the value of the firm's goodwill multiplied by the incoming partner's share. The premium compensates the sacrificing partners in their sacrificing ratio.
- Sacrifice equals old share minus new share. Capital contributed by the incoming partner is credited separately to that partner's capital account; goodwill premium is not capital.

Step 1: Calculate the premium and identify the sacrificing partner The old ratio is not stated, so Kanu and Manu share equally. Their old shares are each $\frac{1}{2}$. The new ratio $2:1:1$ gives Kanu $\frac{2}{4}$, Manu $\frac{1}{4}$ and Tarun $\frac{1}{4}$.

$$\text{Kanu's sacrifice} = \frac{1}{2} - \frac{2}{4} = 0,$$

$$\text{Manu's sacrifice} = \frac{1}{2} - \frac{1}{4} = \frac{1}{4},$$

$$\text{Tarun's goodwill premium} = \text{Rs } 1,60,000 \times \frac{1}{4} = \text{Rs } 40,000.$$

Only Manu sacrifices; consequently the entire goodwill premium is credited to Manu. Kanu receives no goodwill credit. Tarun brings total cash of Rs 3,40,000, comprising capital of Rs 3,00,000 and premium of Rs 40,000.

Step 2: Record the cash received and transfer the goodwill premium **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,40,000	
	To Tarun's Capital A/c			3,00,000
	To Premium for Goodwill A/c			40,000
	(Being capital and goodwill premium brought in by Tarun)			
	Premium for Goodwill A/c Dr.		40,000	
	To Manu's Capital A/c			40,000
	(Being goodwill premium transferred to Manu, the sole sacrificing partner)			
	Total		3,80,000	3,80,000

The premium account is closed by the second entry. No goodwill asset is raised because Tarun has brought the premium in cash. No withdrawal is recorded because the question does not state that Manu withdraws the amount.

Step 3: Conclusion Tarun brings Rs 3,40,000: Rs 3,00,000 is credited to his capital and the entire Rs 40,000 goodwill premium is credited to Manu's Capital Account. Kanu makes no sacrifice.

Quick Tip to Solve: Compare old and new shares partner by partner before distributing goodwill: a partner with zero sacrifice gets no premium.

12. Anita, Babita and Chamanpreet were partners in a firm. Anita died on 31 March, 2018. The Balance Sheet of the firm on that date was as under :

Balance Sheet of Anita, Babita and Chamanpreet as at 31.3.2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	40,000	Cash at Bank	55,000
General Reserve	63,000	Debtors: Rs 40,000	
Employees' Provident Fund	32,000	Less: Provision for Doubtful Debts: Rs 2,000	38,000
Capital:		Furniture	1,30,000
Anita: Rs 2,00,000		Plant and Machinery	4,12,000
Babita: Rs 2,00,000			
Chamanpreet: Rs 1,00,000	5,00,000		
Total	6,35,000	Total	6,35,000

On Anita's death the furniture was to be reduced by Rs 36,000 and plant was to be brought down to Rs 4,00,000. A claim of Rs 15,000 on account of workmen's compensation was accepted.

Pass necessary journal entries for the above transactions in the books of the firm assuming that half the amount due to Anita's executor was paid to her immediately. [4 marks]

Solution:

Concept:

- In the absence of a stated profit-sharing ratio, partners share profits and losses equally. General reserve and revaluation profit or loss therefore belong equally to Anita, Babita and Chamanpreet.
- A decrease in asset values and recognition of an unrecorded liability are debited to Revaluation Account. The deceased partner's adjusted capital is transferred to her executor; only the amount actually paid is debited to the executor and credited to Bank.

Step 1: Calculate reserve shares and revaluation loss General reserve per partner is Rs $63,000/3 =$ Rs $21,000$. Furniture decreases by Rs 36,000 and plant decreases by Rs $4,12,000 - 4,00,000 =$ Rs $12,000$. The accepted compensation claim is a new liability of Rs 15,000. Hence the revaluation loss is

$$\text{Rs } (36,000 + 12,000 + 15,000) = \text{Rs } 63,000,$$

or Rs 21,000 per partner. Employees' Provident Fund is an existing liability; it is neither a reserve available to partners nor a workmen's compensation reserve and remains unchanged.

Step 2: Record the necessary journal entries Journal of Anita, Babita and Chamanpreet (31 March 2018)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.18	General Reserve A/c Dr.		63,000	
	To Anita's Capital A/c			21,000
	To Babita's Capital A/c			21,000
	To Chamanpreet's Capital A/c			21,000
	(Being general reserve distributed equally)			
	Revaluation A/c Dr.		63,000	
	To Furniture A/c			36,000
	To Plant and Machinery A/c			12,000
	To Workmen's Compensation Claim A/c			15,000
	(Being asset reductions and claim recognised)			
	Anita's Capital A/c Dr.		21,000	
	Babita's Capital A/c Dr.		21,000	
	Chamanpreet's Capital A/c Dr.		21,000	
	To Revaluation A/c			63,000
	(Being revaluation loss distributed equally)			
	Anita's Capital A/c Dr.		2,00,000	
	To Anita's Executor's A/c			2,00,000
	(Being adjusted capital transferred to executor)			
	Anita's Executor's A/c Dr.		1,00,000	
	To Bank A/c			1,00,000
	(Being half the amount due paid immediately)			

Anita's adjusted capital is Rs $2,00,000 + 21,000 - 21,000 =$ Rs $2,00,000$. Thus the payment is half of this adjusted amount, not half the aggregate capital of the firm. The unpaid half continues as a liability to her executor.

Step 3: Conclusion Anita's executor is entitled to Rs 2,00,000; Rs 1,00,000 is paid through Bank and Rs 1,00,000 remains payable.

Quick Tip to Solve: Do not distribute Employees' Provident Fund: recognise the compensation claim separately and adjust Anita's capital before taking half.

13. 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, whereas interest on capital and partner salary are appropriations. The loan existed throughout the financial year, so its interest is charged for twelve months.
- Under the fixed-capital method, additional permanent capital goes to the Capital Account; drawings, opening current balances and appropriations go to Current Accounts. Profit is shared in the agreed ratio of 3:3:4.

Step 1: Determine distributable profit and capital interest Interest on C's loan is Rs $2,00,000 \times 6\% =$ Rs $12,000$. The profit transferred to the Profit and Loss Appropriation Account is therefore Rs $4,00,000 - 12,000 =$ Rs $3,88,000$. A's salary is Rs $50,000 \times 4 =$ Rs $2,00,000$. A's additional capital earns interest for three months, January to March:

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

Total interest on capital is Rs 1,39,500. Residual profit is Rs $3,88,000 - 1,39,500 - 2,00,000 =$ Rs $48,500$. A and B each receive $48,500 \times 3/10 =$ Rs $14,550$, and C receives $48,500 \times 4/10 =$ Rs $19,400$.

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

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

The loan interest has already reduced net profit and must not be debited again here. It is credited to C's Loan/Interest Payable Account, independently of his Current Account.

Step 3: Prepare the partners current accounts Partners' Current Accounts for the year ended 31 March 2018 (all amounts in Rs)

Dr. Particulars	A	B	C	Particulars	A	B	C Cr.
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	–	3,400	By Profit and Loss Appropriation A/c	14,550	14,550	19,400
				By Balance c/d	–	25,450	–
Total	2,55,050	85,000	73,400	Total	2,55,050	85,000	73,400
To Balance b/d	–	25,450	–	By Balance b/d	1,95,050	–	3,400

For A, credits total Rs 2,55,050 against debits of Rs 60,000, giving a credit balance of Rs 1,95,050. B's debits of Rs 85,000 exceed credits of Rs 59,550 by Rs 25,450. C's credits of Rs 73,400 exceed debits of Rs 70,000 by Rs 3,400. A's Rs 2,00,000 capital introduction is recorded in his fixed Capital Account and is not a current-account credit.

Step 4: Conclusion Residual profit is Rs 48,500. Closing Current Account balances are A: Rs 1,95,050 Cr.; B: Rs 25,450 Dr.; C: Rs 3,400 Cr.

Quick Tip to Solve: Deduct loan interest before appropriation, and give A only three months of interest on the additional capital introduced on 1 January.

14. 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 and payments, irrespective of whether they are capital or revenue and irrespective of the year to which they relate.
- Opening cash and bank balances appear on the receipts side; closing cash and bank balances appear on the payments side. The missing closing bank balance is the balancing figure.

Step 1: Classify and total the actual receipts and payments All three subscription receipts are included because they were actually received during the year. Donations for the gym, life membership fee and admission fees are receipts even though their treatment in an Income and Expenditure Account may differ. Similarly, the purchase of debentures and machinery are payments; they are not excluded

merely because they create assets.

$$\begin{aligned}\text{Subscriptions received} &= 40,000 + 3,75,000 + 20,000\\ &= \text{Rs } 4,35,000.\\ \text{Total receipts including opening balances} &= \text{Rs } 10,41,040.\\ \text{Actual payments excluding closing balances} &= \text{Rs } 3,67,630.\end{aligned}$$

Thus closing cash and bank together are Rs 6,73,410. After retaining the given cash in hand of Rs 43,000, the closing bank balance is Rs 6,30,410. No interest on the debentures is invented, since the cash summary records no such receipt.

Step 2: Prepare the Receipts and Payments Account **Good Health Club**
Receipts and Payments Account for the year ended 31.3.2018

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

Step 3: Conclusion The Receipts and Payments Account balances at Rs 10,41,040 on each side. Closing balances are cash Rs 43,000 and bank Rs 6,30,410.

Quick Tip to Solve: Include every actual cash receipt and payment, then subtract the known closing cash from the total closing funds to find the missing bank balance.

15. 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:

- Determine each partner's correct total entitlement under the deed, then compare it with the amount already credited. Credit a shortfall and debit an excess through partners' current accounts when capitals are fixed.
- Interest on capital is capital multiplied by the annual rate. C's commission is calculated after interest on capital but before B's salary, exactly as stipulated in the deed.

Step 1: Compute the omitted appropriations and divisible profit Interest on capital at 5% is Rs 3,000 for A, Rs 2,000 for B and Rs 1,000 for C, totalling Rs 6,000. B's annual salary is $1,500 \times 12 = \text{Rs } 18,000$.

$$\begin{aligned} \text{C's commission} &= (80,000 - 6,000) \times \frac{5}{100} \\ &= \text{Rs } 3,700. \\ \text{Profit left for sharing} &= 80,000 - 6,000 - 18,000 - 3,700 \\ &= \text{Rs } 52,300. \end{aligned}$$

Salary is not deducted in calculating the commission base. Commission is 5% of Rs 74,000, rather than 5/105 of that amount, because the stated base deducts only interest on capital.

Step 2: Compare correct and actual distribution Correct residual profit is shared in the agreed ratio $2 : 2 : 1$. The earlier distribution used capitals in the ratio $60,000 : 40,000 : 20,000 = 3 : 2 : 1$, so A received Rs 40,000, B Rs $26,666\frac{2}{3}$, and C Rs $13,333\frac{1}{3}$.

Adjustment working (amounts in Rs)

Particulars	A	B	C
Interest on capital	3,000	2,000	1,000
Salary	–	18,000	–
Commission	–	–	3,700
Residual profit in 2:2:1	20,920	20,920	10,460
Correct total entitlement	23,920	40,920	15,160
Amount already credited	40,000	26,666.67	13,333.33
Net adjustment	16,080 Dr.	14,253.33 Cr.	1,826.67 Cr.

The excess credited to A equals the combined shortfalls of B and C. Values in the entry are rounded to the nearest paisa; the exact credits are Rs $14,253\frac{1}{3}$ and Rs $1,826\frac{2}{3}$, respectively.

Step 3: Pass the single adjustment entry **Journal**

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 omitted interest on capital, salary and commission and incorrect profit distribution rectified through current accounts)			

Since the partners maintain fixed capitals, these adjustments affect current accounts and do not alter the fixed capital balances.

Step 4: Conclusion Debit A's Current Account by Rs 16,080; credit B's Current Account by Rs 14,253.33 and C's Current Account by Rs 1,826.67.

Quick Tip to Solve: First calculate correct total entitlement including every appropriation; subtract the original credit partner by partner, using current accounts for fixed capitals.

OR

15. 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: Rs 30,000		Furniture	3,000
N: Rs 15,000	45,000	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 1/4th 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 an agreed profit-sharing ratio, existing partners share profits and losses equally. Revaluation profit or loss and accumulated reserves belong to the old partners in their old ratio.
- Goodwill premium is credited to sacrificing partners. The incoming partner's capital equals his total cash contribution less the goodwill premium retained in the business.

Step 1: Determine the ratios and adjustments T and N share equally, so the old ratio is $1:1$. M acquires $1/4$ and the old partners retain $3/4$ equally. Thus the new ratio is $3:3:2$, and T and N sacrifice equally. The Rs 4,500 goodwill premium is credited Rs 2,250 to each old partner. General reserve of Rs 2,000 is also distributed equally, Rs 1,000 each. M's capital is $20,000 - 4,500 =$ Rs $15,500$. The provision is $40,000 \times 5\% =$ Rs $2,000$; depreciation is $3,000 \times 5\% =$ Rs 150; and the stock reduction is $6,000 - 5,000 =$ Rs $1,000$.

Step 2: Prepare the 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

The revaluation loss of Rs 3,150 is transferred equally to T and N; the account has no balance to carry down.

Step 3: Prepare the partners capital accounts 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

Hence T's capital is $30,000 + 1,000 + 2,250 - 1,575 =$ Rs $31,675$ and N's capital is $15,000 + 1,000 + 2,250 - 1,575 =$ Rs $16,675$.

Step 4: Prepare the opening Balance Sheet Balance Sheet of T, N and M as at 31st March, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	18,000	Cash at Bank	21,000
Partners' capitals:		Debtors: Rs 40,000	
T	31,675	Less: Provision Rs 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

Cash at bank increases by the entire Rs 20,000 brought in by M, since the premium is retained. General reserve has been transferred and is not shown again as a liability.

Step 5: Conclusion Revaluation loss is Rs 3,150. Closing capitals: T Rs 31,675, N Rs 16,675 and M Rs 15,500. The new Balance Sheet totals Rs 81,850.

Quick Tip to Solve: Do not infer a profit ratio from capital balances: without an agreement, T and N share equally. Separate the Rs 4,500 premium from M's Rs 20,000 payment.

16. 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:

- Application money includes the entire premium of Rs 2.50 per share and capital of Rs 1.50 per share. Excess application money is adjusted against allotment before calculating any default.
- On forfeiture, debit share capital only with the capital called up. Credit forfeiture with capital actually received; premium already received is not reversed. A surplus on reissue is securities premium, and the related forfeiture balance is capital reserve.

Step 1: Calculate pro-rata adjustment and the defaults The accepted applications are for $4,50,000 - 1,00,000 = 3,50,000$ shares. The allotment ratio is $2,00,000 : 3,50,000 = 4 : 7$. Application receipts are $4,50,000 \times 4 =$ Rs $18,00,000$, of which Rs 4,00,000 is refunded to rejected applicants. On allotted shares, application capital is Rs 3,00,000 and premium is Rs 5,00,000. The remaining Rs 6,00,000 is adjusted against allotment of Rs 7,00,000, leaving Rs 1,00,000 receivable. No further application refund is needed.

Raghu receives $7,000 \times 4/7 = 4,000$ shares. His excess application is $28,000 - 16,000 =$ Rs $12,000$, against allotment of Rs 14,000, so his unpaid allotment is Rs 2,000. Capital called up is Rs 5 per share; capital received is $6,000 + 12,000 =$ Rs $18,000$.

The final call is $12.50 - 4 - 3.50 =$ Rs 5 per share. It is made on 1,96,000 shares after Raghu's forfeiture. Nandan receives $10,500 \times 4/7 = 6,000$ shares and defaults on $6,000 \times 5 =$ Rs $30,000$. His capital received is $6,000 \times 5 =$ Rs $30,000$, since he paid allotment in full after adjustment.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received for 4,50,000 shares at Rs 4 each)		18,00,000	 18,00,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c To Share Allotment A/c To Bank A/c (Being application money transferred, excess adjusted and rejected applications 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 at Rs 3.50 each)		7,00,000	 7,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment balance received except Rs 2,000 due from Raghu)		98,000	 98,000

Step 3: Record forfeitures and the final call Journal of Royal Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being 4,000 shares of Raghu forfeited with Rs 5 per share called up)		20,000	 2,000 18,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being final call due on 1,96,000 shares at Rs 5 each)		9,80,000	 9,80,000
	Bank A/c Dr. To Share First and Final Call A/c (Being final call received except Rs 30,000 due from Nandan)		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 6,000 shares of Nandan forfeited for non-payment of final call)		60,000	 30,000 30,000

Step 4: Record reissue and transfer the forfeiture surplus Journal of Royal Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being 10,000 forfeited shares reissued fully paid to Meeta at Rs 11.50 each)		1,15,000	 1,00,000 15,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being entire forfeiture surplus on reissued shares transferred to capital reserve)		48,000	 48,000

Both lots were reissued in full. Their forfeiture balances total $18,000 + 30,000 =$ Rs $48,000$. No discount was allowed on reissue, so the entire amount is a capital profit. The reissue premium is $10,000 \times 1.50 =$ Rs $15,000$, credited separately to securities premium.

After the transactions, 2,00,000 shares are fully paid: 1,90,000 continuing shares plus 10,000 reissued shares. Share capital is therefore Rs 20,00,000. Securities premium totals Rs 5,15,000.

Step 5: Conclusion All journal entries are shown above. Raghu forfeiture: Rs 18,000; Nandan forfeiture: Rs 30,000. Reissue premium is Rs 15,000 and capital reserve is Rs 48,000.

Quick Tip to Solve: Compute the allotment adjustment separately for each defaulter before recording forfeiture; the securities premium was fully received with application.

OR

16. 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 allotted enter share capital. Each instalment is first made due and the amount collected is then credited to its instalment account.
- On forfeiture, debit called-up capital, credit unpaid instalments and credit Share Forfeiture with capital already received. A reissue discount is charged against the forfeiture balance of the shares reissued.

Step 1: Determine collections and arrears Application received is $24,000 \times 20 =$ Rs $4,80,000$. Allotment is received on $18,000 + 2,000 + 2,500 = 22,500$ shares, giving Rs 6,75,000; its arrears are $1,500 \times 30 =$ Rs $45,000$. First call is received on 20,000 shares, giving Rs 5,00,000; its arrears on 4,000 shares are Rs 1,00,000. Final call is received on 18,000 shares, giving Rs 4,50,000; its total arrears on 6,000 shares are Rs 1,50,000.

Step 2: Record issue and calls **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 at Rs 20 each)		4,80,000	4,80,000
	Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred on allotment)		4,80,000	4,80,000
	Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment of Rs 30 per share due)		7,20,000	7,20,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received on 22,500 shares)		6,75,000	6,75,000
	Share First Call A/c Dr. To Equity Share Capital A/c (Being first call of Rs 25 per share due)		6,00,000	6,00,000
	Bank A/c Dr. To Share First Call A/c (Being first call received on 20,000 shares)		5,00,000	5,00,000
	Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Being final call of Rs 25 per share due)		6,00,000	6,00,000
	Bank A/c Dr. To Share Second and Final Call A/c (Being final call received on 18,000 shares)		4,50,000	4,50,000

Step 3: Calculate forfeiture and reissue amounts The 2,000 shares on which Rs 75 each was received are retained. Only $2,500 + 1,500 = 4,000$ shares are forfeited. Capital received on these is $2,500 \times 50 + 1,500 \times 20 =$ Rs $1,55,000$. Their unpaid allotment is Rs 45,000; unpaid first and final calls are Rs 1,00,000 each. Thus Rs 4,00,000 called-up capital equals Rs 2,45,000 unpaid plus Rs 1,55,000 received. Reissue proceeds are $4,000 \times 95 =$ Rs $3,80,000$, with a discount of Rs 20,000. The remaining final-call arrears, $2,000 \times 25 =$ Rs $50,000$, relate to retained shares.

Step 4: Record forfeiture and reissue **Journal of Saral Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Equity Share Capital A/c Dr. To Share Allotment A/c To Share First Call A/c To Share Second and Final Call A/c To Share Forfeiture A/c (Being 4,000 shares receiving less than Rs 75 each forfeited)		4,00,000	 45,000 1,00,000 1,00,000 1,55,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Equity Share Capital A/c (Being 4,000 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 5: Conclusion 4,000 shares are forfeited and reissued fully paid. The surplus transferred to Capital Reserve is Rs $1,55,000$ − Rs $20,000$ = $\boxed{\text{Rs } 1,35,000}$; final-call arrears of Rs 50,000 remain outstanding.

Quick Tip to Solve: Separate the 2,000 shares paid up to Rs 75: the question does not permit their forfeiture.

17. 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: Rs 48,400	
Capital:		Less: Provision Rs 2,400	46,000
Michael: Rs 50,000		Stock in Trade	16,000
Jackson: Rs 25,000		Furniture	2,000
John: Rs 14,000	89,000	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 non-cash assets at gross book value to the debit of Realisation and external liabilities and the existing provision to its credit. Bank is kept separately.
- Assets taken over are debited to the respective partnerś capital and liabilities assumed or expenses personally paid are credited to it. The realisation loss is shared in the profit-sharing ratio $3:1:1$.

Step 1: Work out takeovers and realisation proceeds Michael takes furniture and debtors for $2,600+34,400 =$ Rs $37,000$, and assumes creditors of 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 $32,000$. Hence the remaining sundry assets have book value $34,000 - 32,000 =$ Rs $2,000$, taken by John at Rs 1,800. John assumes the Rs 3,500 loan and pays Rs 600 dissolution expenses personally. Remaining gross debtors are $48,400 - 40,000 =$ Rs $8,400$; bank realisation is $8,400 \times 50\% =$ Rs $4,200$. The remaining creditors paid through bank are $11,500 - 10,000 =$ Rs $1,500$.

Step 2: Prepare Realisation Account **Realisation Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	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's Capital	37,000	
	To Michael's Capital (creditors)	10,000	By Jackson's Capital	42,800	
	To John's Capital (loan)	3,500	By John's Capital	1,800	
	To Bank (creditors)	1,500	By Bank (debtors)	4,200	
	To John's Capital (expenses)	600	By Michael's Capital (loss)	7,680	
			By Jackson's Capital (loss)	2,560	
			By John's Capital (loss)	2,560	
	Total	1,16,000	Total	1,16,000	

Step 3: Allocate loss and settle capitals Realisation debit total before loss is Rs 1,16,000, while credits before loss total Rs 1,03,200. The loss is therefore Rs 12,800. Michael bears $12,800 \times 3/5 =$ Rs $7,680$, and Jackson and John each bear $12,800 \times 1/5 =$ Rs $2,560$. Michael is due $50,000 + 10,000 - 37,000 - 7,680 =$ Rs $15,320$. Jackson must bring in $42,800 + 2,560 - 25,000 =$ Rs $20,360$. John is due $14,000 + 3,500 + 600 - 1,800 - 2,560 =$ Rs $13,740$.

Step 4: Michael's Capital Account **Michael's Capital Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	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			
	To Balance c/d	Nil	By Balance c/d	Nil	
	Total	60,000	Total	60,000	

Step 5: Jackson's Capital Account **Jackson's Capital Account**

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

Step 6: John's Capital Account **John's Capital Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	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	
	To Balance c/d	Nil	By Balance c/d	Nil	
	Total	18,100	Total	18,100	

Step 7: Prepare Bank Account **Bank Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Balance b/d	6,000	By Realisation (creditors)	1,500	
	To Realisation (debtors)	4,200	By Michael's Capital	15,320	
	To Jackson's Capital	20,360	By John's Capital	13,740	
	To Balance c/d	Nil	By Balance c/d	Nil	
	Total	30,560	Total	30,560	

Step 8: Conclusion Realisation loss is $\boxed{\text{Rs } 12,800}$. Jackson brings in Rs 20,360; Michael and John receive Rs 15,320 and Rs 13,740 respectively. All capital accounts and Bank Account close with nil balances.

Quick Tip to Solve: Use gross debtors of Rs 48,400 and credit the provision separately; the agency receives the remaining Rs 8,400 debtors.

OR

17. 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 S 30,000 B 28,000	88,000	Freehold Premises Machinery Furniture Stock	40,000 30,000 12,000 22,000
Bills Payable	12,000	Sundry Debtors 20,000 Less : Provision for Bad Debts 1,000	19,000
General Reserve	12,000		
Sundry Creditors	18,000	Cash	7,000
	1,30,000		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:

- The old ratio is $\frac{1}{2} : \frac{1}{6} : \frac{1}{3} = 3 : 1 : 2$. With no change specified between N and S, their new ratio and gaining ratio are both $3 : 1$.
- On retirement the business continues: asset and liability changes belong to Revaluation Account. The printed demand calls it Realisation Account; the account below records the required revaluation adjustments, not dissolution transfers.
- General reserve and revaluation profit belong to all partners in the old ratio. B's goodwill share is debited to N and S in their gaining ratio; no goodwill asset is raised.

Step 1: Calculate revaluation profit Appreciation of premises $= 40,000 \times 20\% = 8,000$; appreciation of stock $= 22,000 \times 15\% = 3,300$. Depreciation of machinery $= 30,000 \times 10\% = 3,000$; depreciation of furniture $= 12,000 \times 7\% = 840$. The additional provision is Rs 1,500, making the closing provision Rs 2,500.

$$\text{Profit} = 8,000 + 3,300 - 3,000 - 840 - 1,500 = \text{Rs } 5,960.$$

Its shares are N: Rs 2,980; S: Rs $993\frac{1}{3}$; B: Rs $1,986\frac{2}{3}$. Recurring amounts are displayed to two decimals below.

Step 2: Prepare the adjustment account Revaluation Account (the adjustment account required on B's retirement)

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	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 profit is transferred to capitals, so this temporary account closes without a balance carried down.

Step 3: Distribute reserve and adjust goodwill General reserve of Rs 12,000 is credited to N, S and B in $3 : 1 : 2$: Rs 6,000, Rs 2,000 and Rs 4,000 respectively. B's goodwill share is $21,000 \times \frac{1}{3} = \text{Rs } 7,000$. N and S bear it in $3 : 1$: N Rs 5,250 and S Rs 1,750. Credit B's Capital with Rs 7,000. Therefore

adjusted capitals before the final current-account transfers are:

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

No payment to B is specified; transfer his amount to B's Loan Account.

Step 4: Adjust continuing capitals and prepare capital accounts Combined continuing capital is Rs 64,973.33. Required capitals in $3:1$ are N Rs 48,730 and S Rs 16,243.33. N's deficiency Rs 15,000 is transferred from his Current Account (a debit balance). S's surplus Rs 15,000 is transferred to his Current Account (a credit balance). Cash does not change.

Partners' Capital Accounts

Dr.				Cr.			
Particulars	N (Rs)	S (Rs)	B (Rs)	Particulars	N (Rs)	S (Rs)	B (Rs)
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 5: Prepare the reconstituted balance sheet Balance Sheet of N and S as at 31st March, 2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Accounts:		Freehold Premises	48,000
N	48,730	Machinery	27,000
S	16,243.33	Furniture	11,160
Total capital	64,973.33	Stock	25,300
S's Current Account	15,000	Sundry Debtors	20,000
B's Loan Account	40,986.67	Less: Provision	(2,500)
Bills Payable	12,000	Net debtors	17,500
Sundry Creditors	18,000	Cash	7,000
		N's Current Account	15,000
Total	1,50,960	Total	1,50,960

General reserve has been fully distributed; goodwill has been adjusted through capitals. The continuing partners' current balances preserve the original total funds while fixing their capital ratio.

Step 6: Conclusion Revaluation profit is Rs 5,960. B is due Rs 40,986.67; N and S have final capitals Rs 48,730 and Rs 16,243.33. The reconstituted Balance Sheet totals Rs 1,50,960.

Quick Tip to Solve: First compute adjusted capitals, then divide their combined amount in 3:1; transfer only the differences to current accounts.

Part B (20 marks)

Option 1 (Analysis of Financial Statements)

18. Give any two examples of financing activities of a finance company. [1 mark]

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings. A finance company also raises funds to finance its business.

Step 1: Equity finance Cash proceeds from the issue of equity shares are a financing cash inflow. The issue increases the owners' funds available to the company.

Step 2: Borrowed finance Cash proceeds from the issue of debentures are another financing cash inflow. They increase the company's borrowings; lending to customers, by contrast, belongs to its operating business.

Step 3: Conclusion Two examples are cash received from issuing equity shares and cash received from issuing debentures.

Quick Tip to Solve: For a finance company, choose raising capital or borrowings as financing examples, rather than loans advanced to customers.

19. Give the meaning of 'cash and cash equivalents' while preparing cash flow statement. [1 mark]

Solution:

Concept:

- Cash includes cash on hand and demand deposits with banks. Cash equivalents are held to meet short-term cash commitments rather than for investment.

Step 1: Meaning of cash Cash consists of cash in hand and deposits with banks that are repayable on demand, such as current account balances.

Step 2: Meaning of cash equivalents Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. An investment normally qualifies only when its maturity is three months or less from its date of acquisition.

Step 3: Conclusion Cash and cash equivalents comprise cash in hand, demand bank deposits and qualifying short-term, highly liquid investments with insignificant value risk.

Quick Tip to Solve: Apply the three-month maturity test from the acquisition date, not merely from the balance-sheet date.

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, Part I separates equity and liabilities from assets. Classification depends on the nature of the item and, for liabilities, its expected settlement period.
- Reserves and surplus form part of shareholders' funds. An accumulated loss is a deduction within reserves and surplus; it is not an asset.

Step 1: Classify each item under the prescribed heads The following presentation applies in the Balance Sheet as per the Schedule III format applicable to this question.

Item	Major head	Sub-head
(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 (as a negative amount)
(vii) Debenture Redemption Reserve	Shareholders' Funds	Reserves and Surplus
(viii) Provision for Taxation	Current Liabilities	Short-term Provisions

Step 2: Explain the distinguishing classifications Bank overdraft represents short-term borrowing from a bank, whereas provision for taxation represents an estimated tax obligation; hence their sub-heads differ. Subsidy Reserve, Capital Redemption Reserve and Debenture Redemption Reserve are reserves within shareholders' funds. Their specified purposes do not turn them into outside liabilities. Mining rights and patents provide rights or benefits without physical substance and are therefore intangible fixed assets. The debit balance of the Statement of Profit and Loss reduces the aggregate of reserves and surplus: it is shown with a negative sign even if this makes that aggregate negative.

Step 3: Conclusion The eight items are classified in the table above; the debit balance of the Statement of Profit and Loss is deducted under Reserves and Surplus.

Quick Tip to Solve: Distinguish bank borrowings from provisions, and show accumulated losses as a negative amount within Reserves and Surplus.

OR

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

Solution:

Concept:

- Financial analysis systematically examines financial statements to assess profitability, liquidity, solvency and operating efficiency.
- Comparison over time, comparison with standards and relationships between statement items help management identify strengths, weaknesses and areas requiring action.

Step 1: (i) Importance for the Financial Manager Financial analysis helps the Financial Manager judge whether the enterprise has adequate funds and uses those funds efficiently. Analysis of liquidity and working capital indicates whether cash, receivables and inventories are sufficient to meet short-term obligations without keeping excessive funds idle. Solvency analysis helps assess the debt burden, ability to service interest and repayment commitments, and the suitability of the financing mix. Analysis of profitability and returns assists decisions about investment, financing and the use of resources. Comparisons with earlier periods and planned results help the manager identify adverse trends, estimate future financial requirements and take corrective measures. Thus, the analysis supports both the procurement of finance and its effective utilisation.

Step 2: (ii) Importance for Top Management Financial analysis supplies Top Management with a basis for judging the overall performance and financial position of the enterprise. Comparison of actual performance with budgets, earlier years and relevant standards helps evaluate how successfully policies have been implemented and resources have been used. It highlights weak areas, such as rising costs, declining margins or inefficient use of assets, so that management can improve operating policies and exercise control. It also supports long-term planning and major decisions concerning expansion, diversification and allocation of resources. By considering profitability alongside financial strength, Top Management can set realistic objectives, coordinate activities and assess progress towards the enterprise's goals.

Step 3: Conclusion For the Financial Manager, analysis guides financial planning, funding and utilisation of funds. For Top Management, it supports performance evaluation, control, policy formulation and long-term decisions.

Quick Tip to Solve: Link the Financial Manager to funds and financial commitments; link Top Management to overall performance, policies and strategic planning.

21. 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' funds: Proprietary ratio $= \dfrac{\text{Shareholders' funds}}{\text{Total assets}}$.
- The accounting equation gives Shareholders' funds $=$ Total assets $-$ Non-current liabilities $-$ Current liabilities. Both categories of outside liabilities must be deducted.

Step 1: Calculate total assets Include all the non-current and current assets supplied in the question. Plant and machinery, land and building, motor car and furniture are non-current assets:

$$\begin{aligned}\text{Non-current assets} &= 10,00,000 + 6,00,000 + 8,00,000 + 1,50,000\\ &= \text{Rs } 25,50,000.\end{aligned}$$

Stock, debtors and cash at bank are current assets:

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

Step 2: Determine shareholders' funds The balances do not separately state share capital and reserves. Therefore derive shareholders' funds as the residual interest in assets after paying all outside liabilities:

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

Current liabilities are deducted here even though they are excluded from long-term debt in a debt-equity ratio. This calculation seeks the owners' total claim.

Step 3: Apply the proprietary ratio formula Substitute the computed shareholders' funds and total

assets:

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

Equivalently, multiplying by 100 gives approximately 52.77%. The numerator represents the owners' funds, while the denominator represents the total asset base financed by both owners and outsiders.

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

Quick Tip to Solve: Add every asset first, then deduct both current and non-current outside liabilities to find the owners' funds.

OR

21. 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 compares long-term debt D with shareholders' funds E: $D/E = 0.50$. Short-term trade liabilities are excluded from D.
- For positive amounts, increasing E with D unchanged reduces D/E; increasing D with E unchanged raises it.

Step 1: (i) Purchase of fixed assets on three months' credit A three-month credit creates a current liability, even though the asset purchased is a fixed asset. It does not create long-term debt. Shareholders' funds also remain the same because neither share capital nor reserves change on purchase. Consequently, both terms of the debt-equity ratio remain unchanged:

$$\text{New ratio} = \frac{D}{E} = 0.50.$$

The nature of the liability, rather than the nature of the asset acquired, determines whether the numerator changes.

Step 2: (ii) Issue of new shares for cash Let the increase in shareholders' funds be $x > 0$. Cash and shareholders' funds increase, but long-term debt does not change. Thus:

$$\text{New ratio} = \frac{D}{E+x} < \frac{D}{E} = 0.50.$$

The ratio decreases because the denominator increases. The increase in cash is not itself included in either term of the debt-equity ratio.

Step 3: (iii) Machinery purchased by issuing equity shares Issuing equity shares to the vendors

increases shareholders' funds by the value of the shares issued. The machinery increases assets. No long-term borrowing arises from settlement through equity shares. If the increase in equity is $y > 0$, then:

$$\text{New ratio} = \frac{D}{E + y} < 0.50.$$

Therefore, the ratio decreases, just as it does when equity shares are issued for cash. Receiving an asset instead of cash does not alter this effect.

Step 4: (iv) Obtaining an 8 percent long-term loan The loan increases long-term debt while shareholders' funds remain unchanged at the time the loan is obtained. For a loan amount $z > 0$:

$$\text{New ratio} = \frac{D + z}{E} > \frac{D}{E} = 0.50.$$

Therefore, the ratio increases. The stated 8% is the loan's interest rate; it does not change the principal amount's classification as long-term debt. No interest expense is recorded merely from the act of obtaining the loan.

Step 5: Conclusion The effects are: (i) unchanged at 0.50; (ii) decreases; (iii) decreases; and (iv) increases.

Quick Tip to Solve: Classify each transaction by its effect on long-term debt and shareholders' funds; ignore current trade credit in this ratio.

22. From the following information prepare a common size Statement of Profit and Loss of R.K. Ltd :

Particulars	2016 – 17 Amount (Rs)	2017 – 18 Amount (Rs)
Revenue from operations	20,00,000	10,00,000
Other income	3,00,000	80,000
Cost of materials consumed	40% of Revenue from operations	30% of Revenue from operations
Employee benefit expenses	2,40,000	1,80,000
Tax rate	40%	40%

[4 marks]

Solution:

Concept:

- A common size statement expresses each income and expense as a percentage of revenue from operations of the same year.
- For each item, common size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Tax is calculated on profit before tax.

Step 1: Calculate expenses and profits For 2016–17, materials consumed $= 20,00,000 \times 40\% =$ Rs $8,00,000$. Total income is Rs 23,00,000 and total expenses are Rs 10,40,000. Therefore, profit before tax is Rs 12,60,000, tax is Rs 5,04,000 and profit after tax is Rs 7,56,000.

For 2017–18, materials consumed $= 10,00,000 \times 30\% =$ Rs $3,00,000$. Total income is Rs 10,80,000

and total expenses are Rs 4,80,000. Therefore, profit before tax is Rs 6,00,000, tax is Rs 2,40,000 and profit after tax is Rs 3,60,000.

Step 2: Prepare the common size statement R.K. Ltd.: Common Size Statement of Profit and Loss

Particulars	2016–17		2017–18	
	Rs	%	Rs	%
Revenue from operations	20,00,000	100	10,00,000	100
Other income	3,00,000	15	80,000	8
Total income	23,00,000	115	10,80,000	108
Expenses:				
Cost of materials consumed	8,00,000	40	3,00,000	30
Employee benefit expenses	2,40,000	12	1,80,000	18
Total expenses	10,40,000	52	4,80,000	48
Profit before tax	12,60,000	63	6,00,000	60
Tax expense	5,04,000	25.2	2,40,000	24
Profit after tax	7,56,000	37.8	3,60,000	36

For example, other income in 2016–17 is $3,00,000/20,00,000 \times 100 = 15\%$. In 2017–18, employee benefit expenses are $1,80,000/10,00,000 \times 100 = 18\%$. Apply the same year's revenue base to every row.

Step 3: Conclusion Profit after tax is Rs 7,56,000 (37.8% of revenue) in 2016–17 and Rs 3,60,000 (36%) in 2017–18.

Quick Tip to Solve: Use revenue from operations as 100% in each year; calculate tax on profit before tax, then convert it to the revenue base.

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:

- Under the indirect method, adjust profit for non-cash and non-operating items, then adjust operating current assets and liabilities.
- Cash from machinery sales and purchases belongs to investing activities; proceeds from issuing shares belong to financing activities.

Step 1: Calculate profit, depreciation and machinery purchase The increase in the Statement of Profit and Loss is Rs 1,00,000. Transfer to General Reserve is $1,80,000 - 82,000 =$ Rs $98,000$. Thus net profit before tax is Rs 1,98,000; no tax payment or tax provision is given.

Book value of machinery sold $= 42,000 - 28,000 =$ Rs $14,000$. Profit on sale $= 56,000 - 14,000 =$ Rs $42,000$.

From accumulated depreciation, current depreciation $= 58,000 + 28,000 - 80,000 =$ Rs $6,000$. From machinery at cost, purchases $= 4,50,000 + 42,000 - 3,60,000 =$ Rs $1,32,000$. These reconcile the opening and closing asset balances after disposal.

Step 2: 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: Profit on sale of machinery	(42,000)	(36,000)
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)	(1,42,000)
Net cash from operating activities (A)		20,000
B. Cash flow from investing activities		
Proceeds from 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 share capital		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 3: Check the working capital and cash reconciliation Inventories decrease by $1,82,000 - 1,26,000 =$ Rs $56,000$, releasing cash. Receivables increase by $6,30,000 - 4,20,000 =$ Rs $2,10,000$, absorbing cash. Payables increase by Rs 26,000, while other current liabilities decrease by Rs 14,000. Their net adjustment is Rs (1,42,000).

The share capital increase is $6,30,000 - 5,60,000 =$ Rs $70,000$. Consequently, $20,000 - 76,000 + 70,000 =$ Rs $14,000$, exactly matching the increase from opening cash Rs 70,000 to closing cash Rs 84,000.

Step 4: Conclusion Net cash from operating activities is Rs 20,000; investing activities use Rs 76,000; financing activities provide Rs 70,000. Cash increases by Rs 14,000 to Rs 84,000.

Quick Tip to Solve: Remove only the Rs 42,000 sale profit from operating profit; put the full Rs 56,000 sale proceeds under investing activities.

Option 2 (Computerised Accounting)

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

Solution:

Concept:

- An attribute is a characteristic or property used to describe an entity in a database.
- In a relational table, attributes are represented by columns (fields), while each row represents a record.

Step 1: Identify the meaning Attributes describe the individual properties of an entity about which

data are stored. Each attribute has a name and holds one kind of information, such as an employee number or employee name.

Step 2: Illustrate in an accounting database For an Employee entity, Employee ID, Name and Salary are attributes. For example, the Salary column records the salary value for each employee; it is a property of the employee rather than a complete employee record.

Step 3: Conclusion Attributes are the properties or characteristics of an entity, represented as fields or columns in a database table.

Quick Tip to Solve: Remember: the entity is what is described; its attributes are the named columns describing it.

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

Solution:

Concept:

- Hardware means the physical components of a computer system that can be seen and touched.
- Hardware performs input, processing, storage and output operations under the instructions of software.

Step 1: State the meaning Hardware is the collective name for the tangible, physical equipment forming a computer system. It includes the electronic and mechanical devices used to enter, process, store and communicate data.

Step 2: Identify examples A keyboard and mouse are input hardware; the central processing unit processes data; a hard disk stores it; and a monitor or printer presents the output. Accounting software gives instructions to these devices, but the software itself is not hardware.

Step 3: Conclusion Hardware is the physical equipment of a computer system, such as its keyboard, CPU, monitor and printer.

Quick Tip to Solve: Use the test "can it be physically touched?" to distinguish hardware from programs and data.

20. Explain four limitations of Computerised Accounting System. [4 marks]

Solution:

Concept:

- A computerised accounting system records and processes accounting transactions through computer hardware and accounting software.
- Its speed and accuracy depend on suitable equipment, trained staff, correct input and reliable controls.

Step 1: Cost of training Employees require training to operate accounting software, enter transactions correctly and interpret reports. Training involves fees, time and a temporary reduction in productivity.

Whenever software or procedures change, further training may be necessary, increasing the cost to the enterprise.

Step 2: Staff resistance Existing employees may resist the introduction of a computerised accounting system because they fear job losses, changes in duties or their inability to learn the new system. Such resistance can delay implementation and reduce the effectiveness of the system until staff members become familiar with it.

Step 3: Disruption and system failure Power failures, hardware breakdowns, software faults and network problems can interrupt accounting work. Records may become unavailable or be damaged, and a business that depends on the system may be unable to generate bills or reports until service is restored. Backups and recovery arrangements are therefore necessary.

Step 4: Security risks Accounting data may be exposed to unauthorised access, alteration, theft or destruction through misuse of passwords, malware or attacks on the computer system. Confidential financial information can be compromised. Access controls, security software and regular backups reduce these risks, but require continuing attention and expenditure.

Step 5: Conclusion Four limitations are the cost of training, staff resistance, disruption or system failure, and risks to the security of accounting data.

Quick Tip to Solve: Explain each limitation by connecting the problem to its effect on accounting work or business records.

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 an organisation's data centrally and provides database services to client computers over a network.
- Its higher price is justified by enterprise-level capabilities such as simultaneous access, reliability, performance and expansion.

Step 1: Multi-user application A server database allows many users to access and work on the database at the same time. For example, staff in sales, purchases and accounts can use the same central records concurrently. Transaction management and concurrency controls coordinate their operations so that one user's work does not produce inconsistent results for another user.

Step 2: Data protection A server database provides stronger protection for valuable business data. User authentication and access permissions can restrict users to authorised records and operations. Backup and recovery facilities help restore data after failure, while transaction controls help preserve consistency. These features protect confidential accounting information and support dependable records.

Step 3: Database performance Server databases are designed to handle large volumes of data and many simultaneous requests efficiently. Query processing, indexing and the use of powerful server resources can improve the speed of searches, updates and report generation. Thus users expect

responsive service even when numerous departments use the system together.

Step 4: Scalability The database can accommodate growth in the number of users, the volume of stored transactions and the demands of business applications. Server resources and capacity can be expanded as requirements increase. This allows an organisation to continue using its database as the business grows, rather than repeatedly replacing a small system that has reached its limits.

Step 5: Conclusion The four expected advantages are multi-user application, data protection, improved database performance and scalability.

Quick Tip to Solve: Remember the four headings: many users, protected data, efficient processing and capacity for growth.

OR

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

Solution:

Concept:

- A voucher is a document containing the details of a financial transaction and providing evidence and authorisation for recording it in the books of account.
- An accounting voucher identifies the accounts to be debited and credited and their amounts. Every voucher must maintain equality between the total debit and total credit.

Step 1: Meaning and contents of a voucher A voucher is prepared on the basis of supporting evidence, such as an invoice, cash memo, receipt or pay-in-slip. It normally contains its number and date, the names of the accounts, the amount, a brief description of the transaction and the signature or approval of the authorised person. In a computerised system, these details are entered through the appropriate voucher form to update the accounts.

Step 2: Cash vouchers: receipt and payment Cash vouchers record transactions involving receipt or payment of cash. A receipt voucher, also called a credit voucher, supports money received, for example cash received from a debtor; Cash Account is debited and the debtor's account is credited. A payment voucher, also called a debit voucher, supports money paid, for example payment of rent; Rent Account is debited and Cash Account is credited. Computerised packages also provide receipt and payment forms for bank receipts and payments.

Step 3: Non-cash or transfer vouchers A non-cash voucher records a transaction that does not involve a receipt or payment of cash, such as credit purchases, credit sales, depreciation or an adjustment of outstanding expenses. For example, depreciation is recorded by debiting Depreciation Account and crediting the relevant Asset Account. Such a voucher is also called a transfer or journal voucher. It states both the debit and credit aspects, even though no cash changes hands.

Step 4: Simple and compound accounting vouchers According to the number of accounts involved, a simple voucher records one debit and one credit. A compound voucher involves several accounts: one debit with two or more credits, or two or more debits with one credit. A complex voucher contains several debits as well as several credits. For example, buying furniture partly for cash and partly on

credit requires a debit to Furniture Account and credits to Cash Account and the supplier's account. In every case, total debits equal total credits.

Step 5: Conclusion A voucher is the documentary basis for recording a transaction. The main transaction-based types are cash receipt vouchers, cash payment vouchers and non-cash or transfer vouchers; accounting vouchers may also be simple, compound or complex according to the accounts involved.

Quick Tip to Solve: First identify whether money is received, paid or unaffected; then select the voucher and check that its total debit equals its total credit.

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

Solution:

Concept:

- Coding assigns a short, unique symbol or set of symbols to an account or item so that it can be identified, stored and retrieved consistently.
- Sequential codes depend on order, whereas mnemonic codes use meaningful letters or abbreviations to suggest the name of the item.

Step 1: Sequential codes: meaning and assignment A sequential code is a number or letter assigned consecutively to each item in a list. Each new item receives the next available code. The code identifies the item by its position in the sequence; its digits do not, by themselves, describe the item's nature or group. For example, employees entered into a master list may be given codes 001, 002, 003 and so on. Similarly, consecutive invoice or voucher numbers identify documents in the order in which they are issued.

Step 2: Sequential codes: use and limitation Sequential codes are easy to generate, maintain and check for missing numbers. A newly added item can normally receive the next unused number without changing existing codes. However, a user who sees code 003 cannot infer the employee's name or department from that code alone; the corresponding master list must be consulted. Thus, the system is useful when unique identification and a simple, orderly sequence are more important than a descriptive code.

Step 3: Mnemonic codes: meaning and examples A mnemonic code consists of letters, abbreviations or a combination of letters and numbers chosen to help the user remember the item represented. The letters are usually derived from the item's name. For example, TV can identify televisions, AC can identify air conditioners and PC can identify personal computers. In an accounting master, SAL may represent Salary Account and RENT may represent Rent Account. These examples illustrate how the code itself gives a clue to the associated item.

Step 4: Mnemonic codes: use and limitation Mnemonic codes are easy to recognise and recall, making account or item selection convenient during data entry. They require a consistent coding rule and a uniqueness check: two items with similar names may otherwise receive the same abbreviation. A distinguishing letter or number may be added when necessary. Unlike a sequential code, a mnemonic code need not follow numerical order because its purpose is to convey meaning through a memorable

abbreviation.

Step 5: Conclusion Sequential coding assigns consecutive identifiers, such as 001, 002 and 003. Mnemonic coding assigns meaningful, memorable identifiers, such as TV for televisions or SAL for salary. The former emphasises sequence; the latter helps users recognise the item from its code.

Quick Tip to Solve: Use one clear example of each: consecutive employee numbers show sequence, while TV for television shows a code that suggests its meaning.

OR

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

Solution:

Concept:

- A Bank Reconciliation Statement explains differences between the bank balance in the firm's books and the bank statement, commonly arising from cheques issued or deposited but not yet cleared.
- In Tally, the bank ledger records the book date of each transaction; the Bank Date records when the bank actually clears it. Reconciliation matches these records without recording a second receipt or payment.

Step 1: Open the relevant bank ledger Select the required company and financial year in Tally. From Gateway of Tally choose Display, then Account Books, then Cash/Bank Book(s). Select the bank account to be reconciled and open its ledger vouchers. Set the required period using F2: Period so that it corresponds to the bank statement being checked.

Step 2: Activate bank reconciliation In the bank ledger voucher display, use F5: Reconcile to open the Bank Reconciliation screen. The screen displays bank transactions with a Bank Date field. Keep the bank statement or pass book for the same account and period ready, and compare the date, amount and reference of each entry.

Step 3: Enter clearing dates from the bank statement For each transaction appearing in both records, enter its actual clearing date from the bank statement in the Bank Date column. Leave Bank Date blank for an issued cheque not yet presented or a deposited cheque not yet collected. Do not use the voucher date automatically: the bank may clear the transaction on a later date.

Step 4: Review and accept the statement Check the reconciled and unreconciled entries and the balance shown by Tally. Investigate bank charges, interest, direct deposits or other bank entries missing from the books; enter the appropriate vouchers in the books and reconcile them with their bank dates. Accept and save the reconciliation screen. Display or print the Bank Reconciliation Statement, showing the book balance, outstanding transactions and the resulting bank-statement balance.

Step 5: Conclusion Open the bank ledger for the required period, select F5: Reconcile, enter the bank clearing dates against matched transactions, verify the outstanding items and balances, and accept or print the Bank Reconciliation Statement.

Quick Tip to Solve: Enter the clearing date from the bank statement in Bank Date; leave it blank for a cheque that has not cleared.

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

Solution:

Concept:

- Conditional formatting is a spreadsheet facility that automatically applies specified formatting to cells when their contents satisfy a defined condition or rule.
- The condition is tested using a cell value or a formula. Font colour, shading, borders, data bars or other visual indicators can highlight qualifying data without changing the underlying values or calculations.

Step 1: Explain the meaning with an accounting example The user selects a range, specifies a rule and chooses the format to apply when that rule is true. For example, in a debtors schedule, outstanding balances above Rs 50,000 may appear with red shading. Cells meeting the condition are highlighted automatically; those that do not meet it retain their normal format. When a balance changes, the spreadsheet tests the rule again and updates the appearance. Thus, the appearance communicates information about the value while the recorded amount remains unchanged.

Step 2: Identify important information quickly Conditional formatting draws attention to significant figures in a large worksheet. High-value outstanding balances, overdue accounts or cash balances below a specified level can stand out immediately. The accountant can locate items needing attention without reading every cell individually, saving time in reviewing records.

Step 3: Compare performance and reveal patterns Rules can distinguish actual expenses exceeding a budget, sales below a target, or favourable and unfavourable variances. Colour scales and data bars also make the relative size of figures easier to see. Applied consistently across periods or departments, these visual distinctions help reveal trends and differences that a plain table of numbers may conceal.

Step 4: Assist in detecting unusual data and errors Rules can flag duplicate invoice numbers, negative quantities where these are unexpected, or amounts outside an acceptable range. Such highlighting directs the user's attention to entries requiring investigation. It assists checking and control, although a highlighted value must still be examined before deciding whether it is wrong.

Step 5: Keep reports clear and automatically updated The same rule applies uniformly to every cell in the selected range, improving consistency and readability. As data is amended, qualifying cells are reformatted automatically, reducing repeated manual colouring and the chance of inconsistent emphasis. Clear exception reports help management prioritise follow-up, such as collecting overdue debts or controlling excess expenditure, and support timely decisions.

Step 6: Conclusion Conditional formatting automatically changes a cell's appearance when a stated rule is satisfied. Its benefits include quick identification of important information, easier comparison and trend analysis, detection of unusual entries, consistent presentation and automatically updated reports that support decisions.

Quick Tip to Solve: Explain conditional formatting with a rule, such as overdue debtors shown in red, then link each benefit to a practical use.