CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-1-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper comprises **two** Parts – **A** and **B**. There are **32** questions in the question paper. **All** questions are compulsory.

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

(iii) **Part B** has two options i.e. (1) Analysis of Financial Statements and (2) Computerized Accounting. You have to attempt only **one** of the given options.

(iv) **Heading of the option opted** must be written on the Answer-Book before attempting the questions of that particular **OPTION**.

(v) Question nos. **1 to 13** and **23 to 29** are very short answer type questions carrying **1** mark each.

(vi) Question nos. **14** and **30** are short answer type–I questions carrying **3** marks each.

(vii) Question nos. **15 to 18** and **31** are short answer type–II questions carrying **4** marks each.

(viii) Question nos. **19, 20 and 32** are long answer type–I questions carrying **6** marks each.

(ix) Question nos. **21 and 22** are long answer type–II questions carrying **8** marks each.

(x) Answers should be brief and to the point. The answer of each part should be written at one place.

(xi) There is no overall choice. However, an internal choice has been provided in **2** questions of three marks, **2** questions of four marks, **1** question of six marks and **2** questions of eight marks. You have to attempt only **one** of the choices in such questions.

(xii) However, separate instructions are given with each part and question, wherever necessary.

Part A (60 marks)

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

1. In case the partners' capitals are fixed, in which account will withdrawal of capital be recorded ?

[1 mark]

Solution:

Concept:

- Under the fixed capital method, permanent capital introduced or permanently withdrawn is recorded in the partner's Capital Account.
- Routine transactions such as drawings, interest, salary and the share of profit are recorded in the separate Current Account.

Step 1: Identify the nature of the withdrawal The question specifies withdrawal of capital. This reduces the permanent amount invested by the partner in the firm; it is not an ordinary drawing against income.

Step 2: Choose the account A permanent reduction is debited to the concerned partner's Capital Account, even when the firm uses fixed capitals. The word fixed does not prohibit an agreed permanent change in capital.

Step 3: Conclusion Withdrawal of capital is recorded on the debit side of the concerned partner's Capital Account.

Quick Tip to Solve: Distinguish a permanent capital withdrawal from routine drawings before choosing the account.

2. Meera, Myra and Neera were partners sharing profits in the ratio of 2 : 2 : 1. They decided to share future profits in the ratio of 7 : 5 : 3 with effect from 1st April, 2019. Their Balance Sheet as on that date showed a balance of ₹ 45,000 in Advertisement Suspense Account. The amount to be debited respectively to the capital accounts of Meera, Myra and Neera for writing off the amount in Advertisement Suspense Account will be :

[1 mark]

(A) ₹ 18,000, ₹ 18,000 and ₹ 9,000

(B) ₹ 15,000, ₹ 15,000 and ₹ 15,000

(C) ₹ 21,000, ₹ 15,000 and ₹ 9,000

(D) ₹ 22,500, ₹ 22,500 and Nil

Correct Answer: (A) ₹ 18,000, ₹ 18,000 and ₹ 9,000

Solution:

Concept:

- Advertisement Suspense is an accumulated deferred loss and is written off against the old partners' capital accounts in their old profit-sharing ratio.
- The old ratio is $2:2:1$, so the respective fractions are $2/5, 2/5, 1/5$.

Step 1: Allocate the existing loss The balance arose before the change, so the new ratio $7:5:3$ is

irrelevant to its distribution. Meera is debited $45,000 \times 2/5 =$ Rs $18,000$, Myra is debited Rs $18,000$, and Neera is debited $45,000 \times 1/5 =$ Rs $9,000$.

Step 2: Check the choices The debits total $18,000 + 18,000 + 9,000 =$ Rs $45,000$. Option (B) wrongly divides equally; (C) uses the new ratio; (D) omits Neera although she bore one-fifth of the old losses.

Step 3: Conclusion Meera, Myra and Neera are debited Rs 18,000, Rs 18,000 and Rs 9,000 respectively. The correct option is (A).

Quick Tip to Solve: Write off a pre-existing deferred loss in the old ratio before applying the revised ratio.

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3. Mona and Tina were partners in a firm sharing profits in the ratio of 3 : 2. Naina was admitted with 1/6th share in the profits of the firm. At the time of admission, Workmen's Compensation Reserve appeared in the Balance Sheet of the firm at ₹ 32,000. The claim on account of workmen's compensation was determined at ₹ 40,000. Excess of claim over the reserve will be : [1 mark]

(A) Credited to Revaluation Account.

(B) Debited to Revaluation Account.

(C) Credited to old partner's Capital Account.

(D) Debited to old partner's Capital Account.

Correct Answer: (B) Debited to Revaluation Account.

Solution:

Concept:

- An existing Workmen's Compensation Reserve is first applied against the compensation claim.
- A claim exceeding the reserve creates an additional loss, which is debited to Revaluation Account at admission.

Step 1: Find the shortfall The required liability is Rs 40,000, while only Rs 32,000 is covered by the reserve. The excess is $40,000 - 32,000 =$ Rs $8,000$. This represents an additional liability of the old firm.

Step 2: Determine the treatment The additional loss of Rs 8,000 is debited to Revaluation Account. Crediting that account would record a gain. It is not credited to old partners' capitals, and the revaluation loss is transferred through Revaluation Account rather than directly recording this excess as a capital adjustment. Naina's $1/6$ share does not alter this treatment.

Step 3: Conclusion The excess claim of Rs 8,000 is debited to Revaluation Account. The correct option is (B).

Quick Tip to Solve: Compare the claim with the reserve: an uncovered excess is a revaluation loss.

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4. Diya, Riya and Tiya were partners sharing profits and losses in the ratio of 2 : 3 : 5. Tiya died on 28th November, 2019. Her share of profit was taken equally by Diya and Riya. Diya's share of profit in the new firm will be _____ . [1 mark]

Solution:

Concept:

- A continuing partner's new share equals the old share plus the share gained from the deceased partner.
- Tiya's share is $5/10$, and Diya and Riya divide that share equally.

Step 1: Calculate Diya's gain The total of the old ratio is $2+3+5=10$. Diya's original share is $2/10$. Since Tiya's $5/10$ share is taken equally, Diya gains $(5/10)\times(1/2)=5/20$.

Step 2: Add the old and acquired shares Diya's new share is $2/10+5/20=4/20+5/20=9/20$. Riya's corresponding share is $3/10+5/20=11/20$; together the two new shares total one, confirming the calculation.

Step 3: Conclusion Diya's share in the new firm is $\boxed{9/20}$.

Quick Tip to Solve: Equal acquisition means equal gains, not equal final shares of the continuing partners.

5. X and Y were partners in a firm sharing profits in the ratio of 7 : 3. Z was admitted for 1/5th share in the profits which he took 75% from X and remaining from Y. Calculate the sacrificing ratio of X and Y. [1 mark]

Solution:

Concept:

- Sacrificing ratio compares the portions of profit given up by the old partners to the incoming partner.
- Z obtains 75% of his share from X and the remaining 25% from Y.

Step 1: Find the individual sacrifices Z's share is $1/5$. X sacrifices $(1/5)\times(75/100)=3/20$, while Y sacrifices $(1/5)\times(25/100)=1/20$. These amounts add to $4/20=1/5$, exactly Z's share.

Step 2: Compare the shares given up The sacrificing ratio is $(3/20):(1/20)=3:1$. For verification, the new shares of X and Y are $7/10-3/20=11/20$ and $3/10-1/20=5/20$. Adding Z's $4/20$ gives the whole profit.

Step 3: Conclusion The sacrificing ratio of X and Y is $\boxed{3:1}$.

Quick Tip to Solve: When the sources of the incoming share are given as percentages, compare those percentages directly.

6. Name an item that is never shown on the payment side of Receipts and Payments Account, but is shown on the debit side of the Income and Expenditure Account. [1 mark]

Solution:

Concept:

- Receipts and Payments Account records actual cash and bank receipts and payments.
- Income and Expenditure Account records revenue income and expenses on the accrual basis, including non-cash expenses.

Step 1: Choose a non-cash expense Depreciation on fixed assets measures the portion of their depreciable value consumed during the accounting period. Charging depreciation does not itself cause any cash or bank payment.

Step 2: Apply both account rules Since no payment occurs when depreciation is charged, it never appears on the payment side of Receipts and Payments Account. It is nevertheless a revenue expense of the period and is therefore shown on the debit side of Income and Expenditure Account.

Step 3: Conclusion Depreciation on fixed assets is such an item.

Quick Tip to Solve: Look for an expense that reduces the surplus without requiring a current cash payment.

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7. A, B and C were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. C retired and his capital balance after adjustments regarding reserves, accumulated profits/losses and his share of gain on revaluation was ₹ 2,50,000. C was paid ₹ 3,22,000 including his share of goodwill. The amount credited to C's capital account, on his retirement, for goodwill will be : [1 mark]

(A) ₹ 72,000

(B) ₹ 7,200

(C) ₹ 24,000

(D) ₹ 36,000

Correct Answer: (A) ₹ 72,000

Solution:

Concept:

- The amount finally payable to a retiring partner includes the adjusted capital balance and any additional goodwill credit.
- When other capital adjustments have already been made, goodwill equals the settlement amount less that adjusted capital balance.

Step 1: Isolate the goodwill credit C's capital after reserves, accumulated results and revaluation is Rs 2,50,000. His total payment, including goodwill, is Rs 3,22,000. Hence the additional goodwill credit is $3,22,000 - 2,50,000 = \text{Rs } 72,000$.

Step 2: Check the alternatives The reconciliation is $2,50,000 + 72,000 = \text{Rs } 3,22,000$. Option (B) has a misplaced zero. Options (C) and (D) give only fractions of the actual excess and cannot reconcile the payment. No further multiplication by C's old share is needed because this excess is already his

own goodwill entitlement.

Step 3: Conclusion C's Capital Account is credited with Rs 72,000 for goodwill. The correct option is (A).

Quick Tip to Solve: Subtract adjusted capital from the final settlement; the difference already belongs to the retiree.

8. Rahul, Sahil and Jatin were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. Rahul died on 15th October, 2017. At that time, the capitals of Sahil and Jatin after all the adjustments were ₹ 3,56,000 and ₹ 2,44,000 respectively. Sahil and Jatin decided to adjust their capital according to their new profit sharing ratio by opening current accounts. Calculate the new capitals of Sahil and Jatin. [1 mark]

Solution:

Concept:

- When the continuing partners do not agree to a different profit ratio, their relative old shares continue.
- Capitals adjusted through current accounts retain the total existing capital and divide it in the new profit-sharing ratio.

Step 1: Find the new ratio and total capital After Rahul's death, Sahil and Jatin continue in the ratio $3 : 2$. Their combined adjusted capital is $3,56,000 + 2,44,000 =$ Rs $6,00,000$. Current-account transfers permit this total to be reallocated without bringing in or withdrawing cash.

Step 2: Allocate the capital Sahil's new capital is $6,00,000 \times 3/5 =$ Rs $3,60,000$. Jatin's new capital is $6,00,000 \times 2/5 =$ Rs $2,40,000$. Thus Sahil's capital increases by Rs 4,000 and Jatin's decreases by Rs 4,000, with corresponding current-account adjustments.

Step 3: Conclusion The new capitals are Sahil: Rs 3,60,000; Jatin: Rs 2,40,000.

Quick Tip to Solve: First total the adjusted capitals, then divide that total in the continuing partners' new ratio.

9. Sun and Star were partners in a firm sharing profits in the ratio of 2 : 1. Moon was admitted as a new partner in the firm. New profit sharing ratio was 3 : 3 : 2. Moon brought the following assets towards his share of goodwill and his capital :

Particulars	₹
Machinery	2,00,000
Furniture	1,20,000
Stock	80,000
Cash	50,000

If his capital is considered as ₹ 3,80,000, the goodwill of the firm will be : [1 mark]

(A) ₹ 70,000

(B) ₹ 2,80,000

(C) ₹ 4,50,000

(D) ₹ 1,40,000

Correct Answer: (B) ₹ 2,80,000

Solution:

Concept:

- Assets introduced towards capital and goodwill must first be separated into those two components.
- The premium paid by the incoming partner equals firm goodwill multiplied by that partner's profit share.

Step 1: Find Moon's goodwill contribution The value of assets introduced is $2,00,000 + 1,20,000 + 80,000 + 50,000 =$ Rs $4,50,000$. Of this, Rs 3,80,000 is capital, leaving $4,50,000 - 3,80,000 =$ Rs $70,000$ as Moon's share of goodwill.

Step 2: Calculate total firm goodwill and test the options Moon's share in the new ratio $3 : 3 : 2$ is $2/8 = 1/4$. Therefore firm goodwill is $70,000 \div (1/4) =$ Rs $2,80,000$. Option (A) is only Moon's premium, (C) is the total assets introduced, and (D) uses an incorrect one-half share.

Step 3: Conclusion Goodwill of the firm is Rs 2,80,000. The correct option is (B).

Quick Tip to Solve: Subtract the incoming partner's capital from assets brought, then divide the balance by his profit share.

10. Rohan, Mohan and Sohan were partners sharing profits equally. At the time of dissolution of the partnership firm, Rohan's loan to the firm will be : [1 mark]

(A) Credited to Rohan's Capital Account.

(B) Debited to Realisation Account.

(C) Credited to Realisation Account.

(D) Credited to Bank Account.

Correct Answer: (D) Credited to Bank Account.

Solution:

Concept:

- A loan advanced by a partner is a liability distinct from that partner's capital. At dissolution, it is settled separately rather than transferred to Realisation Account.
- Payment reduces both the partner's loan liability and the bank balance: debit the loan account and credit Bank Account.

Step 1: Identify the account to be settled Rohan is a lender to the firm in respect of his loan. The equal profit-sharing ratio does not change the treatment of this separate liability. Repayment therefore debits Rohan's Loan Account, not his Capital Account.

Step 2: Record the payment The settlement entry is:

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Rohan's Loan A/c Dr.		Loan amount	
	To Bank A/c			Loan amount
	(Being Rohan's loan repaid on dissolution)			

Thus Bank Account is credited. Neither debit nor credit to Realisation Account is appropriate for this loan, and crediting capital would incorrectly combine two separate claims.

Step 3: Conclusion Rohan's loan is settled by crediting Bank Account. Hence, the correct option is (D).

Quick Tip to Solve: For a partner's loan, keep the loan account separate from capital and Realisation Account; repayment credits Bank.

11. Excess of issue price of a debenture over its face value is called _____ . [1 mark]

Solution:

Concept:

- The face value is the nominal amount stated on a debenture; the issue price is the amount charged to its subscriber.
- The excess on an issue above face value is the premium: Premium $=$ Issue price $-$ Face value.

Step 1: Compare issue price with face value The question specifies an issue price greater than the face value. This is an issue at a premium, so the difference is a capital receipt in excess of the nominal debenture liability.

Step 2: Name the excess The excess is called premium on issue of debentures and is credited to

Securities Premium Reserve Account. It is not debenture interest, which is a borrowing expense, or discount, which arises when the issue price is below face value.

Step 3: Conclusion The excess is called premium on issue of debentures.

Quick Tip to Solve: Compare issue price with face value: excess means premium; a shortfall means discount.

12. Which of the following statements does not relate to 'Reserve Capital' : [1 mark]

(A) It is part of uncalled capital of a company.

(B) It cannot be used during the lifetime of a company.

(C) It can be used for writing off capital losses.

(D) It is part of subscribed capital.

Correct Answer: (C) It can be used for writing off capital losses.

Solution:

Concept:

- Reserve capital is the portion of uncalled subscribed share capital which a company has resolved to call only in the event of its winding up.
- Capital reserve and reserve capital are different: reserve capital is an uncalled amount, not an available reserve created from capital profits.

Step 1: Test the statements about uncalled capital Statement (A) relates to reserve capital because it is a portion of uncalled capital. Statement (D) also relates to it because this uncalled amount forms part of subscribed capital. Statement (B) is consistent with the restriction that reserve capital is callable only on winding up.

Step 2: Identify the unrelated use Statement (C) says it can be used to write off capital losses. This is incorrect for reserve capital: an uncalled amount restricted to winding up is not a reserve available for writing off such losses during the company's lifetime. The question asks for the statement that does not relate to reserve capital.

Step 3: Conclusion Reserve capital cannot be used for writing off capital losses. Hence, the correct option is (C).

Quick Tip to Solve: In a negative question about reserve capital, test every option against the rule: callable only on winding up.

13. Name an item which is transferred to credit side of Realisation Account at the time of dissolution of partnership firm, but does not involve cash payment. [1 mark]

Solution:

Concept:

- A provision for doubtful debts is a valuation allowance against debtors, not an outside liability payable to a creditor.
- At dissolution, its credit balance is closed by debiting Provision for Doubtful Debts Account and crediting Realisation Account. This transfer does not involve payment.

Step 1: Identify a non-cash credit-side item Provision for doubtful debts is transferred to the credit side of Realisation Account. It represents an allowance already recorded against possible bad debts; there is no person to whom this provision must be paid. Its transfer therefore does not involve cash payment.

Step 2: Show why no cash payment is involved The transfer entry is:

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Provision for Doubtful Debts A/c Dr.		Balance	
	To Realisation A/c			Balance
	(Being provision transferred to Realisation Account)			

The debit closes the provision's existing credit balance. The equal credit is posted to Realisation Account. Bank Account is not involved because this is an adjustment of a valuation allowance, not settlement of an amount payable.

Step 3: Conclusion Provision for doubtful debts is transferred to the credit side of Realisation Account without involving cash payment.

Quick Tip to Solve: Choose a valuation provision, such as provision for doubtful debts: it is transferred but is not itself payable in cash.

14. How would the following items be treated while preparing the financial statements of a sports club ?

Particulars	Amount ₹
Prize Fund	44,000
Interest on Prize Fund Investments	6,000
Prizes Awarded	46,000
Match Expenses	64,000
Prize Fund Investments	44,000

[3 marks]

Solution:

Concept:

- A specific prize fund is used only for its specified purpose. Income from its investments is added to the fund, and the related prize expenditure is deducted from it.
- General revenue expenses are debited to Income and Expenditure Account. Investments held against a fund remain assets in the Balance Sheet.

Step 1: Calculate the closing Prize Fund Interest on Prize Fund Investments belongs to the specific fund, rather than general income. Add Rs 6,000 to the opening fund of Rs 44,000; the amount available for prizes becomes Rs 50,000. Deduct prizes awarded of Rs 46,000:

$$\begin{aligned}\text{Closing Prize Fund} &= 44,000 + 6,000 - 46,000 \\ &= \text{Rs } 4,000.\end{aligned}$$

Since the available fund exceeds the prize expenditure, no excess prize expense is charged to Income and Expenditure Account.

Step 2: Present the Income and Expenditure Account treatment Match expenses are a general revenue expense and are charged in full. Interest on the prize investments and prizes awarded are adjusted against the specific fund, so neither appears separately in this account.

Income and Expenditure Account (extract)

Expenditure	Amount (Rs)
Match expenses	64,000

Step 3: Present the Balance Sheet treatment Balance Sheet (extract)

Particulars	Amount (Rs)
Liabilities: Specific Fund	
Prize Fund	44,000
Add: Interest on Prize Fund Investments	6,000
Subtotal	50,000
Less: Prizes awarded	(46,000)
Closing Prize Fund	4,000
Assets	
Prize Fund Investments	44,000

The investment is shown at its given amount: expenditure of the fund does not by itself establish that investments have been sold.

Step 4: Conclusion Show Prize Fund of Rs 4,000 as a liability and Prize Fund Investments of Rs 44,000 as an asset; debit match expenses of Rs 64,000 to Income and Expenditure Account.

Quick Tip to Solve: First adjust prize interest and prizes against the specific fund; charge only the unrelated match expenses to general expenditure.

OR

14. From the following information of a charitable dispensary, calculate the amount of medicines consumed during the year that would appear in the Income and Expenditure Account for the year ending 31st March, 2019 :

Particulars	Amount ₹
Stock of medicines on 1.4.2018	60,000
Creditors for medicines 1.4.2018	40,000
Stock of medicines 31.3.2019	10,000
Creditors for medicines 31.3.2019	25,000
Advances for medicines 31.3.2019	22,000
Credit purchases of medicines during the year	2,76,000
Cash purchases of medicines during the year	46,500

[3 marks]

Solution:

Concept:

- Medicines consumed equals opening stock plus purchases during the year less closing stock: Consumption = Opening stock + Purchases − Closing stock.
- When purchases are already given, creditors are not used to adjust them again. Advances for future medicines are assets rather than current consumption.

Step 1: Determine total purchases Both credit purchases and cash purchases of medicines are explicitly supplied. They are added to determine the medicines purchased during the year:

$$\begin{aligned}\text{Total purchases} &= 2,76,000 + 46,500 \\ &= \text{Rs } 3,22,500.\end{aligned}$$

The opening creditors of Rs 40,000 and closing creditors of Rs 25,000 relate to amounts outstanding to suppliers. Such balances are used when converting payments into purchases; they must not be added or deducted again when the actual credit purchases are already known.

Step 2: Adjust purchases for medicines held in stock Opening medicines are available for consumption this year, so add Rs 60,000. Closing medicines of Rs 10,000 remain unused at the year end, so deduct them.

Working note: Medicines consumed

Particulars	Amount (Rs)
Opening stock of medicines	60,000
Add: Credit purchases	2,76,000
Add: Cash purchases	46,500
Medicines available for use	3,82,500
Less: Closing stock of medicines	(10,000)
Medicines consumed	3,72,500

Step 3: State the amount charged to expenditure Debit medicines consumed of Rs 3,72,500 to the Income and Expenditure Account for the year ended 31st March, 2019. Advances for medicines of Rs 22,000 are not medicines received and consumed; they remain an asset in the Balance Sheet and do not enter this consumption calculation.

Step 4: Conclusion Medicines consumed, debited to Income and Expenditure Account for the year ended 31st March, 2019, amount to Rs 3,72,500.

Quick Tip to Solve: Use the stated cash and credit purchases directly; do not adjust actual purchases again for creditors or advances.

15. Ram, Mohan and Sohan were partners sharing profits in the ratio of 2 : 1 : 1. Ram withdrew ₹ 3,000 every month and Mohan withdrew ₹ 4,000 every month. Interest on drawings @ 6% p.a. was charged, whereas the partnership deed was silent about interest on drawings.

Showing your working clearly, pass the necessary adjustment entry to rectify the error. [4 marks]

Solution:

Concept:

- When the deed is silent, interest on drawings is not charged. Reverse both the incorrect charge and its distribution as additional profit.
- Equal monthly drawings with no dates specified carry an average period of six months; interest equals annual drawings multiplied by the annual rate and $6/12$.

Step 1: Compute the interest incorrectly charged Ram's annual drawings were $3,000 \times 12 = \text{Rs } 36,000$ and Mohan's were $4,000 \times 12 = \text{Rs } 48,000$. Since the dates of monthly withdrawals are unspecified, use the average period of six months:

$$I_R = 36,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,080,$$
$$I_M = 48,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,440.$$

Sohan has no stated drawings. Total interest wrongly credited to the appropriation account was Rs 2,520.

Step 2: Find the net adjustment The incorrect interest increased distributable profit by Rs 2,520. In the ratio $2 : 1 : 1$, Ram received Rs 1,260 and Mohan and Sohan received Rs 630 each. Withdraw those profit credits and refund the wrongly charged interest:

Particulars (Rs)	Ram	Mohan	Sohan
Refund of interest (Cr.)	1,080	1,440	–
Excess profit withdrawn (Dr.)	1,260	630	630
Net adjustment	180 Dr.	810 Cr.	630 Dr.

The total debit $180 + 630 = \text{Rs } 810$ equals the total credit of Rs 810. Ram's original interest charge was smaller than his excess profit credit, so his net adjustment is a debit.

Step 3: Record the adjustment entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Ram's Capital A/c Dr.		180	
	Sohan's Capital A/c Dr.		630	
	To Mohan's Capital A/c			810
	(Being incorrect interest on drawings and its distribution as profit rectified)			

Step 4: Conclusion Debit Ram's Capital Account by Rs 180 and Sohan's Capital Account by Rs 630; credit Mohan's Capital Account by Rs 810.

Quick Tip to Solve: Refund the interest first, reverse its profit distribution in 2:1:1, then net the two amounts for each partner.

OR

15. Yadu, Vidu and Radhu were partners in a firm sharing profits in the ratio of 4 : 3 : 3. Their fixed capitals on 1st April, 2018 were ₹ 9,00,000, ₹ 5,00,000 and ₹ 4,00,000 respectively. On 1st November, 2018, Yadu gave a loan of ₹ 80,000 to the firm. As per the partnership agreement :

(i) The partners were entitled to an interest on capital @ 6% p.a.

(ii) Interest on partners' drawings was to be charged @ 8% p.a.

The firm earned profits of ₹ 2,53,000 (after interest on Yadu's loan) during the year 2018 – 19. Partners' drawings for the year amounted to Yadu : ₹ 80,000, Vidu : ₹ 70,000 and Radhu : ₹ 50,000. Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2019. [4 marks]

Solution:

Concept:

- Interest on capital and distribution of residual profit are appropriations. Interest on drawings is credited to the Profit and Loss Appropriation Account.
- A partner's loan interest is a charge against profit. Because the stated profit is already after Yadu's loan interest, do not deduct it again.
- When only annual drawings are given without dates, interest is calculated for an average period of six months. Fixed capitals remain unchanged; appropriations are transferred to current accounts.

Step 1: Compute interest on capital and drawings All three fixed capitals remained invested for the

whole year. Interest on capital at 6% per annum is:

$$\text{Yadu} = 9,00,000 \times 6/100 = \text{Rs } 54,000,$$
$$\text{Vidu} = 5,00,000 \times 6/100 = \text{Rs } 30,000,$$
$$\text{Radhu} = 4,00,000 \times 6/100 = \text{Rs } 24,000.$$

Total interest on capital is Rs 1,08,000. With no dates specified for drawings, interest at 8% per annum for six months is Yadu: $80,000 \times 8/100 \times 6/12 = \text{Rs } 3,200$; Vidu: Rs 2,800; Radhu: Rs 2,000. Total interest on drawings is Rs 8,000.

Step 2: Determine the residual profit Profit available for appropriation is the given net profit plus interest on drawings:

$$\text{Available profit} = 2,53,000 + 8,000 = \text{Rs } 2,61,000,$$
$$\text{Residual profit} = 2,61,000 - 1,08,000 = \text{Rs } 1,53,000.$$

Distribute this balance in $4:3:3$. Yadu receives $1,53,000 \times 4/10 = \text{Rs } 61,200$; Vidu and Radhu each receive $1,53,000 \times 3/10 = \text{Rs } 45,900$. The three shares total Rs 1,53,000. No further loan-interest charge is required because the supplied net profit already includes it.

Step 3: Prepare the appropriation account

Profit and Loss Appropriation Account for the year ended 31st March, 2019

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Interest on Capital:		By Net Profit	2,53,000	
	Yadu	54,000	By Interest on Drawings:		
	Vidu	30,000	Yadu	3,200	
	Radhu	24,000	Vidu	2,800	
	To Profit transferred to:		Radhu	2,000	
	Yadu's Current A/c	61,200			
	Vidu's Current A/c	45,900			
	Radhu's Current A/c	45,900			
	Total	2,61,000	Total	2,61,000	

All available profit has been appropriated, so there is no balance carried down in this account. Fixed capitals require these credits to be made to partners' current accounts.

Step 4: Conclusion The appropriation account totals Rs 2,61,000 on each side. Residual profit is Rs 1,53,000: Yadu receives Rs 61,200, Vidu Rs 45,900 and Radhu Rs 45,900.

Quick Tip to Solve: Add Rs 8,000 interest on drawings before deducting capital interest; the given profit is already after loan interest.

16. Furkan, Tanmay and Barkat were partners in a firm sharing profits in the ratio of 3 : 2 : 1. The firm closes its books on 31st March every year. Tanmay died on 31st July, 2019. His executor was entitled to :

(i) His capital ₹ 8,00,000 and his share of goodwill which was valued for the firm at ₹ 96,000.

(ii) His share of profit as per partnership agreement, which was to be calculated on the basis of average profit of last 3 years. Average profits of the last 3 years were ₹ 78,000.

(iii) Tanmay's executors were paid ₹ 95,000 by cheque at the time of his death and the balance was transferred to his executor's loan account.

Pass the necessary journal entries in the books of the firm, on Tanmay's death, for the above transactions. [4 marks]

Solution:

Concept:

- The deceased partner is credited with his capital, his share of goodwill and profit earned up to death. The resulting amount belongs to his executor.
- In the absence of a changed profit-sharing arrangement, surviving partners gain in their existing relative ratio. Goodwill compensation is debited to their capital accounts in that gaining ratio.
- Profit to the date of death equals average annual profit multiplied by the fraction of the year elapsed and the deceased partner's profit share.

Step 1: Calculate goodwill compensation Tanmay's share is $2/6 = 1/3$. His goodwill entitlement is therefore

$$\text{Rs } 96,000 \times \frac{2}{6} = \text{Rs } 32,000.$$

Furkan and Barkat continue in the relative ratio $3 : 1$. Their new shares are $3/4$ and $1/4$, so their gains are $3/4 - 3/6 = 1/4$ and $1/4 - 1/6 = 1/12$, respectively. Thus their gaining ratio is $3 : 1$, and they bear Rs 24,000 and Rs 8,000 of the compensation. Goodwill need not be raised in the books.

Step 2: Compute profit and the executor loan The accounting year began on 1st April, 2019. From that date to 31st July, 2019, four months have elapsed. Hence

$$\text{Tanmay's profit} = 78,000 \times \frac{4}{12} \times \frac{2}{6} = \text{Rs } 8,666.67.$$

Amounts below are rounded to two decimal places. The total due is Rs $8,00,000 + 32,000 + 8,666.67 = 8,40,666.67$. After the cheque payment of Rs 95,000, the loan balance is Rs $8,40,666.67 - 95,000 = 7,45,666.67$. Profit and Loss Suspense Account is used because final accounts for the current year have not yet been prepared.

Step 3: Record the journal entries Journal of the firm (31st July, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-7-19	Furkan's Capital A/c Dr.		24,000	
	Barkat's Capital A/c Dr.		8,000	
	To Tanmay's Capital A/c			32,000
	(Being Tanmay's share of goodwill adjusted in the gaining ratio of 3:1)			
31-7-19	Profit and Loss Suspense A/c Dr.		8,666.67	
	To Tanmay's Capital A/c			8,666.67
	(Being estimated profit credited up to the date of death)			
31-7-19	Tanmay's Capital A/c Dr.		8,40,666.67	
	To Tanmay's Executor's A/c			8,40,666.67
	(Being the total amount due transferred to the executor)			
31-7-19	Tanmay's Executor's A/c Dr.		8,40,666.67	
	To Bank A/c			95,000
	To Tanmay's Executor's Loan A/c			7,45,666.67
	(Being payment by cheque and transfer of the balance to the executor's loan)			

Step 4: Conclusion Tanmay's executor receives Rs 95,000 by cheque; the remaining Rs 7,45,666.67 is credited to his loan account.

Quick Tip to Solve: Count April through July as four months, and charge goodwill to the surviving partners in their gaining ratio, not to all three partners.

17. Raunit Styles Ltd. was registered with a capital of ₹ 85,00,000 divided into equity shares of ₹ 100 each. The company invited applications for issuing 45,000 shares.

The amount was payable as ₹ 25 on application, ₹ 35 on allotment, ₹ 25 on first call and balance on final call.

Applications were received for 42,000 shares and allotment was made to all the applicants. Kavi, to whom 3,300 shares were alloted, failed to pay both the calls. His shares were forfeited.

Present the Share Capital in the Balance Sheet of the company as per Schedule III of the Companies Act, 2013. [4 marks]

Solution:

Concept:

- Authorised capital is the registered maximum; issued capital is the face value offered for subscription. Subscribed capital depends on actual allotment.
- After forfeiture, forfeited shares are excluded from subscribed share capital, but the amount already received on them appears separately as forfeited shares (amount originally paid up).
- Forfeiture cancels unpaid calls on those shares. Thus calls unpaid by the former holder are not deducted again from the capital of the remaining fully paid shares.

Step 1: Determine the number of shares and paid-up amounts The face value is Rs 100 per share. Authorised shares are $85,00,000/100 = 85,000$, while issued shares are 45,000. Actual allotment was

42,000 shares; the unallotted 3,000 shares are not subscribed capital.

The final call is Rs $100 - 25 - 35 - 25 = 15$ per share. Kavi paid application and allotment only, namely Rs $25 + 35 = 60$ per share. Therefore the amount originally paid on his 3,300 forfeited shares is Rs $3,300 \times 60 = 1,98,000$. His unpaid calls total Rs $3,300 \times (25 + 15) = 1,32,000$; that unpaid amount is cancelled upon forfeiture.

Step 2: Calculate subscribed capital after forfeiture The shares remaining subscribed are $42,000 - 3,300 = 38,700$. Both calls have been made, and the other holders have paid the full face value. Thus fully paid subscribed capital is Rs $38,700 \times 100 = 38,70,000$.

Add the forfeiture amount of Rs 1,98,000 separately in the share capital note. The amount reported under Share Capital is consequently Rs $38,70,000 + 1,98,000 = 40,68,000$. The forfeiture balance remains under share capital until the relevant reissue accounting is completed; the question gives no reissue.

Step 3: Present the Balance Sheet extract and note Raunit Styles Ltd. — Balance Sheet (extract)

Particulars	Amount (Rs)
I. Equity and Liabilities	
1. Shareholders' Funds	
(a) Share Capital (Note 1)	40,68,000

Note 1: Share Capital

Particulars	Amount (Rs)
Authorised capital	
85,000 equity shares of Rs 100 each	85,00,000
Issued capital	
45,000 equity shares of Rs 100 each	45,00,000
Subscribed and fully paid-up capital	
38,700 equity shares of Rs 100 each	38,70,000
Add: Forfeited shares (amount originally paid up)	1,98,000
Total Share Capital	40,68,000

There is no remaining subscribed but not fully paid-up category: the only defaulting holder's shares have already been forfeited. Authorised and issued capital are disclosures, so neither is added to the total Share Capital figure.

Step 4: Conclusion Share Capital in the Balance Sheet is Rs 40,68,000, comprising Rs 38,70,000 on fully paid shares and Rs 1,98,000 originally paid on forfeited shares.

Quick Tip to Solve: After forfeiture, remove the 3,300 shares from subscribed shares and add only their Rs 60 per share already received as a separate forfeiture line.

18. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Tony and Rony after the various assets (other than cash) and external liabilities have been transferred to Realization Account :

(i) An unrecorded asset of ₹ 2,000 and cash ₹ 3,000 was paid for liability of ₹ 6,000 in full settlement.

(ii) 100 shares of ₹ 10 each have been taken over by partners at market value of ₹ 20 per share in their profit sharing ratio, which is 3 : 2.

(iii) Stock of ₹ 30,000 was taken over by a creditor of ₹ 40,000 at a discount of 30% in full settlement.

(iv) Expenses of realisation ₹ 4,000 were to be borne by Rony. Rony used the firm's cash for paying these expenses. [4 marks]

Solution:

Concept:

- After assets and external liabilities have been transferred to Realisation Account, cash paid to settle those liabilities is debited to Realisation Account. An asset given directly to a creditor does not require a separate entry.
- Assets taken over by partners are debited to their capital accounts at the agreed value and credited to Realisation Account. Expenses borne personally by a partner but paid from firm cash are debited to that partner.

Step 1: Transactions (i) and (ii) The unrecorded asset is handed directly to the creditor; only the additional cash payment of Rs 3,000 is recorded. Neither the liability of Rs 6,000 nor the unrecorded asset of Rs 2,000 is separately transferred again.

The shares are taken at their market value:

$$100 \times 20 = \text{Rs } 2,000, \qquad \text{Tony} = 2,000 \times \frac{3}{5} = \text{Rs } 1,200, \quad \text{Rony} = 2,000 \times \frac{2}{5} = \text{Rs } 800.$$

Face value does not determine the amount credited to Realisation Account.

Step 2: Journal entries Journal of Tony and Rony

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
(i)	Realisation A/c Dr. To Cash A/c (Being unrecorded asset and cash given to creditor in full settlement)		3,000	3,000
(ii)	Tony's Capital A/c Dr. Rony's Capital A/c Dr. To Realisation A/c (Being 100 shares taken by partners at Rs 20 each in the ratio 3:2)		1,200 800	2,000
(iv)	Rony's Capital A/c Dr. To Cash A/c (Being expenses borne by Rony paid using the firm's cash)		4,000	4,000

Step 3: Treatment of transaction (iii) No journal entry is passed for stock taken over directly by a creditor in full settlement. Both the stock and the external liability have already been transferred to Realisation Account. The creditor accepts the stock instead of receiving cash; the stated discount does

not create a separate cash payment or discount account. The resulting difference is already absorbed in the balance of Realisation Account.

Step 4: Conclusion The required entries are Realisation Dr. Rs 3,000 to Cash; Tony Capital Dr. Rs 1,200 and Rony Capital Dr. Rs 800 to Realisation Rs 2,000; and Rony Capital Dr. Rs 4,000 to Cash. Transaction (iii) requires no entry.

Quick Tip to Solve: When a creditor accepts an already transferred asset in full settlement, do not record the asset or liability a second time.

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19. From the following Receipts and Payments Account of Dee Club for the year ending 31st March, 2019 and additional information, prepare an Income and Expenditure Account for the year ending 31st March, 2019 :

Receipts and Payments Account of Dee Club for the year ending 31st March, 2019

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	2,000	By Salaries	42,500
To Subscription : 2017 – 18 1,200 2018 – 19 49,200 2019 – 20 2,300	52,700	By Printing and Stationery	21,500
		By Furniture (1.10.2018)	15,000
		By 9% Investments	3,000
		By Balance c/d	16,850
To Sale of old furniture (Book value ₹ 800)	500		
To Donation for prizes	43,000		
To Interest on Investment	650		
	98,850		98,850

(i) The club has 400 members, each paying an annual subscription of ₹ 150.

(ii) Salaries paid included ₹ 3,150 for the year 2017 – 18 and outstanding salaries for the year 2018 – 19 were ₹ 4,250.

(iii) 9% investments were made on 30th November, 2018. The club had a similar investment of ₹ 8,000 at the beginning of the year.

(iv) Depreciate furniture @ 10% p.a. No depreciation is charged on the furniture sold. [6 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue income earned and revenue expenses incurred during the current accounting year, irrespective of the dates of cash receipt or payment.
- Specific donations are credited to their specific funds. Asset purchases and investment purchases are capital payments; depreciation and any loss on sale of an asset are revenue expenses.

Step 1: Subscription and salaries for the current year Annual subscription income is determined from

the membership:

$$400 \times \text{Rs } 150 = \text{Rs } 60,000.$$

The Rs 1,200 received for 2017–18 belongs to the previous year, and Rs 2,300 for 2019–20 is received in advance. Current-year receipts of Rs 49,200 leave Rs 10,800 outstanding for 2018–19; hence current subscription income remains Rs 60,000.

Salaries paid include the preceding year's dues, which must be excluded, while current outstanding salaries must be added:

$$\text{Salaries} = 42,500 - 3,150 + 4,250 = \text{Rs } 43,600.$$

Step 2: Interest, furniture and specific donation The existing investment earns interest for twelve months. The investment made on 30 November earns interest for four months, December to March:

$$\begin{aligned}\text{Interest earned} &= 8,000 \times \frac{9}{100} + 3,000 \times \frac{9}{100} \times \frac{4}{12} \\ &= 720 + 90 = \text{Rs } 810.\end{aligned}$$

Since cash interest received is Rs 650, accrued interest is Rs 160.

The furniture bought on 1 October is depreciated for six months:

$$15,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 750.$$

No depreciation is charged on the furniture sold. Its book value is Rs 800 and sale proceeds are Rs 500, so the loss is Rs 300. The Rs 43,000 donation for prizes is credited to the Prize Fund. The furniture purchase and investment purchase are excluded from revenue expenditure. Opening and closing cash balances also do not enter this account.

Step 3: Prepare the Income and Expenditure Account Income and Expenditure Account of Dee Club for the year ended 31 March 2019

Dr. Expenditure	Amount (Rs)	Cr. Income	Amount (Rs)
To Salaries	43,600	By Subscription	60,000
To Printing and stationery	21,500	By Interest on investments	810
To Loss on sale of furniture	300	By Deficit (excess of expenditure over income)	5,340
To Depreciation on furniture	750		
Total	66,150	Total	66,150

Total revenue income is Rs 60,810 and total revenue expenditure is Rs 66,150. Their difference is transferred as a deficit to the capital fund.

Step 4: Conclusion Dee Club has a deficit of Rs 5,340 for the year ended 31 March 2019.

Quick Tip to Solve: Use members multiplied by annual subscription for income; time-apportion interest and depreciation from their purchase dates.

20. (i) Vayee Ltd. purchased the following assets of E.X. Ltd. :

Land and Building of ₹ 60,00,000 at ₹ 84,00,000; Plant and Machinery of ₹ 40,00,000 at ₹ 36,00,000.

The purchase consideration was ₹ 1,10,00,000. Payment was made by accepting a Bill of Exchange in favour of E.X. Ltd. of ₹ 20,00,000 and remaining by issue of 8% debentures of ₹ 100 each at a premium of 20%.

Record the necessary journal entries for the above transactions in the books of Vayee Ltd.

(ii) Zed Ltd. issued 2,00,000, 8% debentures of ₹ 100 each at a discount of 6% redeemable at a premium of 10% after 5 years. The amount was payable as follows :

On application – ₹ 50 per debenture and

On allotment – balance

Record the necessary journal entries for the issue of debentures in the books of Zed Ltd. [6 marks]

Solution:

Concept:

- Assets purchased are debited at their agreed values. When the net assets acquired exceed the purchase consideration, the difference is credited to Capital Reserve.
- Debentures issued to a vendor discharge the amount due at their issue price; face value is credited to Debentures and issue premium to Securities Premium Reserve.
- Loss on issue includes both discount on issue and premium payable on redemption. Application and allotment accounts record the amounts received or due at each stage.

Step 1: (i) Calculate the capital reserve and debentures issued Total agreed asset value is $84,00,000 + 36,00,000 =$ Rs $1,20,00,000$. The purchase consideration is Rs 1,10,00,000, so capital reserve is Rs 10,00,000. The book values in the vendors books are not used to record the assets acquired. After accepting a bill for Rs 20,00,000, the balance payable is Rs 90,00,000. Each debenture is issued at $100 + 20 =$ Rs 120. Thus $90,00,000/120 = 75,000$ debentures are issued, with face value Rs 75,00,000 and premium Rs 15,00,000.

Step 2: (i) Record purchase and settlement Journal of Vayee Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Land and Building A/c Dr.		84,00,000	
	Plant and Machinery A/c Dr.		36,00,000	
	To E.X. Ltd.			1,10,00,000
	To Capital Reserve A/c			10,00,000
	(Being assets purchased and capital profit recognised)			
	E.X. Ltd. Dr.		1,10,00,000	
	To Bills Payable A/c			20,00,000
	To 8% Debentures A/c			75,00,000
	To Securities Premium Reserve A/c			15,00,000
	(Being vendor paid by bill and 75,000 debentures at 20% premium)			

Step 3: (ii) Determine application, allotment and loss on issue Total face value is $2,00,000 \times 100 =$ Rs $2,00,00,000$. The issue price is Rs 94 per debenture. Application receives Rs 50 per debenture, so allotment is $94 - 50 =$ Rs 44 per debenture. Application money is Rs 1,00,00,000 and allotment money is Rs 88,00,000. Discount is $2,00,00,000 \times 6\% =$ Rs $12,00,000$; premium on redemption is

$2,00,00,000 \times 10\% =$ Rs $20,00,000$. Hence loss on issue is Rs 32,00,000. The premium is a future liability recognised at issue; it is not collected from the applicants.

Step 4: (ii) Record the issue in stages Journal of Zed Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,00,00,000	
	To Debenture Application A/c			1,00,00,000
	(Being application money received on 2,00,000 debentures)			
	Debenture Application A/c Dr.		1,00,00,000	
	To 8% Debentures A/c			1,00,00,000
	(Being application money transferred to debentures)			
	Debenture Allotment A/c Dr.		88,00,000	
	Loss on Issue of Debentures A/c Dr.		32,00,000	
	To 8% Debentures A/c			1,00,00,000
	To Premium on Redemption of Debentures A/c			20,00,000
	(Being allotment due, including discount and redemption premium)			
	Bank A/c Dr.		88,00,000	
	To Debenture Allotment A/c			88,00,000
	(Being allotment money received)			

Step 5: Conclusion Vayee Ltd. records capital reserve of Rs 10,00,000 and issues 75,000 debentures. Zed Ltd. receives Rs 1,88,00,000 and recognises loss on issue of Rs 32,00,000, including redemption premium of Rs 20,00,000.

Quick Tip to Solve: Compute vendor debentures using the issue price Rs 120; for Zed, subtract application Rs 50 from issue price Rs 94, not from face value.

OR

20. Mahesh Ltd. had issued 20,000, 10% debentures of ₹ 100 each. 8,000, 10% debentures were due for redemption on 31st March, 2019. The company had a balance of ₹ 4,40,000 in the Debenture Redemption Reserve Account on 31st March, 2018. The company invested the required amount in the Debenture Redemption Investment on 1st April, 2018.

Pass the necessary journal entries for redemption of debentures. Ignore the entries for interest on debentures. [6 marks]

Solution:

Concept:

- Under the CBSE treatment applicable to this paper, Debenture Redemption Reserve (DRR) is maintained at 25% of the nominal value of debentures issued.
- Debenture Redemption Investment (DRI) is 15% of the amount maturing during the financial year. It is made by 30 April and can be realised for redemption.
- On redemption at par, the face value is transferred to Debentureholders and then paid. The reserve attributable to redeemed debentures is transferred to General Reserve.

Step 1: Determine the additional reserve and investment The total issue is $20,000 \times 100 =$ Rs $20,00,000$. Required DRR is $20,00,000 \times 25\% =$ Rs $5,00,000$. As Rs 4,40,000 already exists, the further transfer from surplus is $5,00,000 - 4,40,000 =$ Rs $60,000$. Debentures maturing on 31 March 2019 are $8,000 \times 100 =$ Rs $8,00,000$. Therefore the investment made on 1 April 2018 is $8,00,000 \times 15\% =$ Rs $1,20,000$. The reserve is based on the whole issue, whereas the investment is based only on the debentures due for redemption during this year.

Step 2: Calculate the reserve released after partial redemption The redeemed portion is $8,000/20,000 = 2/5$. Thus the related reserve is $5,00,000 \times 2/5 =$ Rs $2,00,000$, transferable to General Reserve. The balance DRR is Rs 3,00,000, equal to 25% of the remaining debentures of Rs 12,00,000. No redemption premium is specified, so the debentures are redeemed at par. Since no gain or loss on realisation of the investment is given, it is realised at its book value. No interest entry is made, as directed.

Step 3: Record investment, reserve and redemption Journal of Mahesh Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-18	Debenture Redemption Investment A/c Dr.		1,20,000	
	To Bank A/c			1,20,000
	(Being 15% of debentures due for redemption invested)			
31-3-19	Surplus in Statement of Profit and Loss A/c Dr.		60,000	
	To Debenture Redemption Reserve A/c			60,000
	(Being reserve increased to 25% of total debentures)			
31-3-19	Bank A/c Dr.		1,20,000	
	To Debenture Redemption Investment A/c			1,20,000
	(Being investment realised at its book value)			
31-3-19	10% Debentures A/c Dr.		8,00,000	
	To Debentureholders A/c			8,00,000
	(Being 8,000 debentures due for redemption at par)			
31-3-19	Debentureholders A/c Dr.		8,00,000	
	To Bank A/c			8,00,000
	(Being amount due paid to debentureholders)			
31-3-19	Debenture Redemption Reserve A/c Dr.		2,00,000	
	To General Reserve A/c			2,00,000
	(Being proportionate reserve transferred on redemption)			

Step 4: Conclusion Additional DRR is Rs 60,000; DRI is Rs 1,20,000; redemption payment is Rs 8,00,000. Following partial redemption, Rs 2,00,000 of DRR is transferred to General Reserve.

Quick Tip to Solve: Apply 25% to the whole Rs 20,00,000 issue for DRR, but apply 15% only to the Rs 8,00,000 maturing for DRI.

21. Badal and Bijli were partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2019 was as follows :

Balance Sheet of Badal and Bijli as at 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capitals : Badal 1,50,000 Bijli 90,000	2,40,000	Building	1,50,000
		Investments	73,000
		Stock	43,000
Badal's Current A/c	12,000	Debtors	20,000
Investment Fluctuation Reserve	24,000	Cash	22,000
Bills Payable	8,000	Bijli's Current A/c	2,000
Creditors	26,000		
	3,10,000		3,10,000

Raina was admitted on the above date as a new partner for 1/6th share in the profits of the firm. The terms of agreement were as follows :

(i) Raina will bring ₹ 40,000 as her capital and capitals of Badal and Bijli will be adjusted on the basis of Raina's capital by opening current accounts.

(ii) Raina will bring her share of goodwill premium for ₹ 12,000 in cash.

(iii) The building was overvalued by ₹ 15,000 and stock by ₹ 3,000.

(iv) A provision of 10% was to be created on debtors for bad debts.

Prepare the Revaluation Account and Current and Capital Accounts of Badal, Bijli and Raina. [8 marks]

Solution:

Concept:

- On admission, revaluation profit or loss and accumulated reserves belong to old partners in their old profit-sharing ratio.
- Goodwill premium is credited to sacrificing partners in the sacrificing ratio; fixed capitals are adjusted through current accounts.
- A credit current balance is due to the partner; an opening debit current balance reduces the amount due.

Step 1: Determine the new ratio and the required capitals Raina receives $1/6$ of the profits. In the absence of a different arrangement, Badal and Bijli retain the remaining $5/6$ in their old ratio $3 : 2$. Thus their new shares are $1/2$ and $1/3$, and the new ratio is $3 : 2 : 1$. Their sacrifices are $3/5 - 1/2 = 1/10$ and $2/5 - 1/3 = 1/15$, giving a sacrificing ratio of $3 : 2$.

$$\text{Total capital} = \frac{40,000}{1/6} = \text{Rs } 2,40,000.$$

Required capitals are Badal Rs 1,20,000, Bijli Rs 80,000 and Raina Rs 40,000. Transfer the excess old capitals, Rs 30,000 and Rs 10,000 respectively, to their current accounts; no cash withdrawal is required.

Step 2: Record the revaluation loss The reductions in building and stock and the new provision are losses. The provision is $20,000 \times 10\% =$ Rs $2,000$. The total loss of Rs 20,000 belongs to the old partners in $3:2$: Badal Rs 12,000 and Bijli Rs 8,000. Since the capitals are fixed, these losses are debited to their current accounts.

Revaluation Account

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Building	15,000	By Badal's Current A/c	12,000
To Stock	3,000	By Bijli's Current A/c	8,000
To Provision for bad debts	2,000		
Total	20,000	Total	20,000

Step 3: Allocate reserve and goodwill through current accounts There is no stated fall in the value of investments. Therefore the whole investment fluctuation reserve of Rs 24,000 is credited to the old partners in their old ratio: Badal Rs 14,400 and Bijli Rs 9,600. The goodwill premium of Rs 12,000 brought in cash is credited in the sacrificing ratio $3:2$: Badal Rs 7,200 and Bijli Rs 4,800. Raina brings Rs 52,000 in total, comprising capital Rs 40,000 and premium Rs 12,000. Her current account has no transaction and hence a nil balance.

Partners' Current Accounts

Dr. Particulars	Badal	Bijli	Cr. Particulars	Badal	Bijli
	Rs	Rs		Rs	Rs
To Balance b/d	–	2,000	By Balance b/d	12,000	–
To Revaluation A/c	12,000	8,000	By Investment reserve	14,400	9,600
To Balance c/d	51,600	14,400	By Premium for goodwill	7,200	4,800
			By Capital A/c	30,000	10,000
Total	63,600	24,400	Total	63,600	24,400

Step 4: Prepare the fixed capital accounts The old capital balances are adjusted to the capitals determined from Raina's contribution. The credits to the current accounts in the previous step have corresponding debits in these capital accounts. All three closing capital balances agree with the new profit-sharing ratio.

Partners' Capital Accounts

Dr. Particulars	Badal	Bijli	Raina	Cr. Particulars	Badal	Bijli	Raina
	Rs	Rs	Rs		Rs	Rs	Rs
To Current A/c	30,000	10,000	–	By Balance b/d	1,50,000	90,000	–
To Balance c/d	1,20,000	80,000	40,000	By Bank A/c	–	–	40,000
Total	1,50,000	90,000	40,000	Total	1,50,000	90,000	40,000

Step 5: Conclusion Revaluation loss is Rs 20,000. Closing capitals: Badal Rs 1,20,000, Bijli Rs 80,000 and Raina Rs 40,000. Closing current balances are credits of Rs 51,600 and Rs 14,400 for Badal and Bijli; Raina has nil current balance.

Quick Tip to Solve: For fixed capitals, route reserve, goodwill and revaluation through current accounts; transfer only capital excesses to them.

OR

21. Prem, Kumar and Aarti were partners sharing profits in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2019 was as under :

Balance Sheet of Prem, Kumar and Aarti as at 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capitals : Prem 30,000 Kumar 20,000 Aarti 20,000	70,000	Building	25,000
		Plant and Machinery	15,000
		Investment	10,000
		Debtors	10,000
General Reserve	8,000	Stock	5,000
Investment Fluctuation Reserve	2,000	Cash	25,000
Sundry Creditors	10,000		
	90,000		90,000

On the above date, Kumar retired. The terms of retirement were :

(i) Kumar sold his share of goodwill to Prem for ₹ 8,000 and to Aarti for ₹ 4,000.

(ii) Stock was found to be undervalued by ₹ 1,000 and building by ₹ 7,000.

(iii) Investments were sold for ₹ 11,000.

(iv) There was an unrecorded creditor of ₹ 7,000.

(v) An amount of ₹ 30,000 was paid to Kumar in cash which was contributed by Prem and Aarti in the ratio of 2 : 1. The balance amount of Kumar was settled by accepting a Bill of Exchange in favour of Kumar.

Prepare the Revaluation Account, Capital Accounts of partners and the Balance Sheet of the reconstituted firm.

[8 marks]

Solution:

Concept:

- Revaluation profit and accumulated reserves are allocated to all old partners in their old ratio before retirement.
- Continuing partners compensate the retiring partner for goodwill in the gaining ratio; cash introduced increases their capitals.
- The unpaid retirement amount settled by an accepted bill becomes bills payable, not a continuing capital balance.

Step 1: Calculate the gain and distribute accumulated reserves Kumar's goodwill entitlement is Rs 12,000, purchased by Prem and Aarti for Rs 8,000 and Rs 4,000. Thus the gaining ratio is $2:1$. Kumar's share $3/10$ is acquired as $2/10$ by Prem and $1/10$ by Aarti. Their new shares are $5/10 + 2/10 = 7/10$ and $2/10 + 1/10 = 3/10$, giving $7:3$. Debit Prem's capital Rs 8,000 and Aarti's capital Rs 4,000, and credit Kumar's capital Rs 12,000. The general reserve of Rs 8,000 and investment

fluctuation reserve of Rs 2,000 are credited in the old ratio $5:3:2$. Together they give Prem Rs 5,000, Kumar Rs 3,000 and Aarti Rs 2,000. There is no investment loss to absorb the reserve.

Step 2: Prepare the Revaluation Account Stock and building appreciate by Rs 1,000 and Rs 7,000. Selling investments for Rs 11,000 against their book value Rs 10,000 gives a gain of Rs 1,000. The unrecorded creditor causes a loss of Rs 7,000. Net revaluation profit is therefore $1,000 + 7,000 + 1,000 - 7,000 =$ Rs $2,000$. Allocate it to all three old partners in $5:3:2$.

Revaluation Account

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Creditors	7,000	By Stock	1,000
To Prem's Capital A/c	1,000	By Building	7,000
To Kumar's Capital A/c	600	By Bank (investment gain)	1,000
To Aarti's Capital A/c	400		
Total	9,000	Total	9,000

Step 3: Settle Kumar and prepare the capital accounts Kumar's amount due is $20,000 + 2,400 + 600 + 600 + 12,000 =$ Rs $35,600$. Here Rs 2,400 and Rs 600 are his shares of the general reserve and investment fluctuation reserve, respectively. Cash paid is Rs 30,000; the balance of Rs 5,600 becomes bills payable. Prem contributes Rs 20,000 and Aarti Rs 10,000, credited to their capital accounts.

Partners' Capital Accounts

Dr. Particulars	Prem	Kumar	Aarti	Cr. Particulars	Prem	Kumar	Aarti
	Rs	Rs	Rs		Rs	Rs	Rs
To Kumar's Capital	8,000	–	4,000	By Balance b/d	30,000	20,000	20,000
To Bank	–	30,000	–	By General Reserve	4,000	2,400	1,600
To Bills Payable	–	5,600	–	By Investment reserve	1,000	600	400
To Balance c/d	48,000	–	28,400	By Revaluation	1,000	600	400
				By Prem / Aarti capital	–	12,000	–
				By Bank	20,000	–	10,000
Total	56,000	35,600	32,400	Total	56,000	35,600	32,400

Step 4: Prepare the reconstituted balance sheet Closing cash is $25,000 + 11,000 + 30,000 - 30,000 =$ Rs $36,000$: add investment-sale proceeds and partners' cash contributions, then subtract Kumar's payment. Investments are sold; creditors increase to Rs 17,000. Kumar's capital is fully settled.

Balance Sheet of Prem and Aarti as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Prem	48,000	Building	32,000
Aarti	28,400	Plant and Machinery	15,000
Capital subtotal	76,400	Debtors	10,000
Sundry Creditors	17,000	Stock	6,000
Bills Payable	5,600	Cash	36,000
Total	99,000	Total	99,000

Step 5: Conclusion Revaluation profit is Rs 2,000; Kumar receives Rs 30,000 cash and a bill for Rs 5,600. Closing capitals are Prem Rs 48,000 and Aarti Rs 28,400. The reconstituted Balance Sheet totals Rs 99,000.

Quick Tip to Solve: First compute Kumaŕs full entitlement, then deduct Rs 30,000 cash to obtain the bill; investment-sale cash is the full Rs 11,000.

22. (i) R.P. Ltd. forfeited 1,500 shares of Rahim of ₹ 10 each issued at a premium of ₹ 3 per share for non-payment of allotment and first call money. Rahim had applied for 3,000 shares. On these shares, amount was payable as follows :

On application – ₹ 3 per share

On allotment (including premium) – ₹ 5 per share

On first call – ₹ 3 per share

On final call – Balance

Final call has not been called up. 1,000 of the forfeited shares were reissued for ₹ 8,500 as fully paid-up.

Record the necessary journal entries for the above transactions in the books of R.P. Ltd.

(ii) Max Ltd. forfeited 500 shares of ₹ 100 each for non-payment of first call of ₹ 20 per share and final call of ₹ 25 per share. 250 of these shares were re-issued at ₹ 50 per share fully paid-up.

Pass the necessary journal entries in the books of Max Ltd. for forfeiture and re-issue of shares. Also prepare the Share Forfeiture Account. [8 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with called-up capital and credit unpaid calls and Share Forfeiture with capital already received. Reverse Securities Premium only when the premium was not received.
- On reissue as fully paid, credit full face value. Debit any discount to Share Forfeiture; transfer only the surplus relating to reissued shares to Capital Reserve.

Step 1: (i) R.P. Ltd.: determine amounts received Rahim paid application money on 3,000 shares: $3,000 \times 3 = \text{Rs } 9,000$. Application money required on 1,500 allotted shares is Rs 4,500; the excess Rs 4,500 is adjusted against allotment of Rs 7,500. Thus unpaid allotment is Rs 3,000 and unpaid first call is $1,500 \times 3 = \text{Rs } 4,500$. The allotment adjustment covers the premium of Rs 4,500, so no Securities Premium reversal is required. Capital called up is $3 + 2 + 3 = \text{Rs } 8$ per share: Rs 12,000. Capital received is $9,000 - 4,500 = \text{Rs } 4,500$.

Step 2: (i) Journal entries of R.P. Ltd. Journal of R.P. Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		12,000	
	To Share Allotment A/c			3,000
	To Share First Call A/c			4,500
	To Share Forfeiture A/c			4,500
	(Being 1,500 shares forfeited for unpaid allotment and first call)			
	Bank A/c Dr.		8,500	
	Share Forfeiture A/c Dr.		1,500	
	To Share Capital A/c			10,000
	(Being 1,000 forfeited shares reissued as fully paid)			
	Share Forfeiture A/c Dr.		1,500	
	To Capital Reserve A/c			1,500
	(Being surplus on reissued shares transferred to capital reserve)			

Forfeiture available on 1,000 reissued shares is $4,500 \times 1,000/1,500 = \text{Rs } 3,000$. After the Rs 1,500 reissue discount, the surplus is Rs 1,500. The Rs 2 final call was never called; it is not credited as an unpaid call on forfeiture.

Step 3: (ii) Max Ltd.: calculate forfeiture and reissue surplus Capital called up is $500 \times 100 =$ Rs $50,000$. Unpaid first and final calls are Rs 10,000 and Rs 12,500 respectively. Capital received and forfeited is $50,000 - 10,000 - 12,500 =$ Rs $27,500$. Reissuing 250 shares at Rs 50 gives a discount of Rs 12,500. Forfeiture attributable to those shares is $27,500 \times 250/500 =$ Rs $13,750$; capital reserve is therefore Rs 1,250.

Step 4: (ii) Journal entries of Max Ltd. Journal of Max Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		50,000	
	To Share First Call A/c			10,000
	To Share Final Call A/c			12,500
	To Share Forfeiture A/c			27,500
	(Being 500 shares forfeited for unpaid calls)			
	Bank A/c Dr.		12,500	
	Share Forfeiture A/c Dr.		12,500	
	To Share Capital A/c			25,000
	(Being 250 shares reissued fully paid at Rs 50 each)			
	Share Forfeiture A/c Dr.		1,250	
	To Capital Reserve A/c			1,250
	(Being surplus on reissued shares transferred to capital reserve)			

Step 5: (ii) Share Forfeiture Account of Max Ltd. Share Forfeiture Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Capital	12,500	By Share Capital	27,500	
	To Capital Reserve	1,250			
	To Balance c/d	13,750			
	Total	27,500	Total	27,500	
			By Balance b/d	13,750	

The closing balance belongs to the 250 forfeited shares which have not yet been reissued.

Step 6: Conclusion R.P. Ltd. transfers Rs 1,500 to Capital Reserve. Max Ltd. transfers Rs 1,250 to Capital Reserve and retains Rs 13,750 in Share Forfeiture.

Quick Tip to Solve: For each reissue, first isolate the forfeiture on that number of shares; never transfer the entire forfeiture balance.

OR

22. Karur Ltd. invited applications for issuing 2,40,000 equity shares of ₹ 10 each at a premium of ₹ 4 per share. The amount was payable as under :

On application – ₹ 4 per share (including premium ₹ 2)

On allotment – ₹ 4 per share

On first and final call – ₹ 6 per share (including premium ₹ 2)

Applications for 3,00,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money received on application was adjusted towards sums due on allotment. All calls were made and were duly received except from Rohini, who failed to pay allotment and first and final call on 7,500 shares applied by her. These shares were forfeited. Afterwards, 40% of the forfeited shares were re-issued at ₹ 11 per share as fully paid-up.

Pass the necessary journal entries in the books of Karur Ltd. Open call-in-arrears and call-in-advance accounts wherever necessary. [8 marks]

Solution:

Concept:

- Pro-rata allotment distributes shares in a common ratio. Excess application money is adjusted against allotment; the unpaid balance is debited to Calls in Arrears.
- On forfeiture, cancel face capital and reverse only unpaid premium. On reissue above face value, credit the excess to Securities Premium and transfer forfeiture relating to reissued shares to Capital Reserve.

Step 1: Determine allotment and Rohini's default Allotment ratio is $2,40,000 : 3,00,000 = 4 : 5$. Rohini receives $7,500 \times 4/5 = 6,000$ shares. Her application payment is Rs 30,000, of which Rs 24,000 is due on allotted shares and Rs 6,000 is adjusted against allotment. Her allotment due is Rs 24,000, leaving Rs 18,000 unpaid. Her first and final call due is $6,000 \times 6 =$ Rs $36,000$, including unpaid premium Rs 12,000. Total Calls in Arrears is Rs 54,000.

Step 2: Record application and allotment Journal of Karur Ltd. (application and allotment)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		12,00,000	
	To Share Application A/c			12,00,000
	(Being application money received on 3,00,000 shares)			
	Share Application A/c Dr.		12,00,000	
	To Share Capital A/c			4,80,000
	To Securities Premium A/c			4,80,000
	To Share Allotment A/c			2,40,000
	(Being application money transferred and excess adjusted against allotment)			
	Share Allotment A/c Dr.		9,60,000	
	To Share Capital A/c			9,60,000
	(Being allotment of Rs 4 per share due on 2,40,000 shares)			
	Bank A/c Dr.		7,02,000	
	Calls in Arrears A/c Dr.		18,000	
	To Share Allotment A/c			7,20,000
	(Being balance allotment received except Rohini's arrears)			

Total application receipt is $3,00,000 \times 4 =$ Rs $12,00,000$. Of this, Rs 9,60,000 belongs to allotted shares (capital Rs 4,80,000 and premium Rs 4,80,000); the excess Rs 2,40,000 is adjusted against allotment. Net allotment collection is $9,60,000 - 2,40,000 - 18,000 =$ Rs $7,02,000$.

Step 3: Record the first and final call Journal of Karur Ltd. (call)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr.		14,40,000	
	To Share Capital A/c			9,60,000
	To Securities Premium A/c			4,80,000
	(Being first and final call of Rs 6 per share due, including Rs 2 premium)			
	Bank A/c Dr.		14,04,000	
	Calls in Arrears A/c Dr.		36,000	
	To Share First and Final Call A/c			14,40,000
	(Being call received except Rohini's unpaid amount)			

Step 4: Record forfeiture and reissue Rohini has paid capital of $6,000 \times 2 + 6,000 =$ Rs $18,000$: application capital plus excess application adjusted to allotment. Forfeiture cancels Rs 60,000 face capital and Rs 12,000 unpaid call premium. Reissue comprises $6,000 \times 40\% = 2,400$ shares; cash is Rs 26,400, including reissue premium Rs 2,400. Forfeiture transferred is $18,000 \times 40\% =$ Rs $7,200$.

Journal of Karur Ltd. (forfeiture and reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		60,000	
	Securities Premium A/c Dr.		12,000	
	To Calls in Arrears A/c			54,000
	To Share Forfeiture A/c			18,000
	(Being 6,000 shares forfeited and unpaid premium reversed)			
	Bank A/c Dr.		26,400	
	To Share Capital A/c			24,000
	To Securities Premium A/c			2,400
	(Being 2,400 forfeited shares reissued fully paid at Rs 11)			
	Share Forfeiture A/c Dr.		7,200	
	To Capital Reserve A/c			7,200
	(Being forfeiture relating to reissued shares transferred to capital reserve)			

Step 5: Close Calls in Arrears Calls in Arrears Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Allotment	18,000	By Share Capital	54,000	
	To Share First and Final Call	36,000	(Forfeiture entry)		
	Total	54,000	Total	54,000	

The account closes with no balance after forfeiture. No Calls in Advance Account is needed: all excess application money is adjusted against allotment, and no later call has been paid before it falls due. The remaining Share Forfeiture balance is Rs 10,800, attributable to the 3,600 shares not reissued.

Step 6: Conclusion Rohini is allotted 6,000 shares; Calls in Arrears of Rs 54,000 is cleared on forfeiture. Reissue of 2,400 shares gives Securities Premium Rs 2,400 and Capital Reserve Rs 7,200.

Quick Tip to Solve: Split each instalment into capital and premium before calculating forfeiture; reverse only the premium actually unpaid.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

23. State any one limitation of Financial Statement Analysis. [1 mark]

Solution:

Concept:

- Financial statement analysis interprets recorded accounting data; its conclusions inherit the limitations of those records.
- Historical cost records the original transaction amount, whereas purchasing power can change over time.

Step 1: State one limitation Financial statement analysis ignores changes in the price level because financial statements are generally prepared using historical costs.

Step 2: Explain its effect Amounts belonging to different periods may have different purchasing power. Consequently, a rise in reported sales or profit may partly reflect inflation, and comparisons may give a misleading picture of actual financial performance.

Step 3: Conclusion One limitation is that financial statement analysis ignores price-level changes.

Quick Tip to Solve: Link the limitation to its effect: historical amounts can make comparisons misleading when prices change.

24. State the impact of 'Bills Receivable discounted dishonoured on due date' on the liquid ratio of 0·75 : 1. Also give reason in support of your answer. [1 mark]

Solution:

Concept:

- Liquid ratio is Liquid assets/Current liabilities. Liquid assets include bank balance and trade debtors.
- On dishonour of an already discounted bill, the bank recovers its amount from the business and the debtor becomes liable again.

Step 1: Identify the accounting effect The debtor is debited and the bank account is credited with the same amount. Thus, debtors increase while bank balance decreases by an equal amount.

Step 2: Compare the numerator and denominator The increase in debtors exactly offsets the decrease in bank balance, so total liquid assets remain unchanged. Current liabilities also remain unchanged; the existing ratio of $0.75 : 1$ is therefore unaffected.

Step 3: Conclusion The liquid ratio remains unchanged at $0.75 : 1$, because one liquid asset increases and another decreases by the same amount.

Quick Tip to Solve: For a discounted bill dishonoured, trace both debtors and bank before judging the liquid ratio.

25. State whether the following statement is true or false.

'Inventory Turnover Ratio measures the level of financial leverage.' [1 mark]

Solution:

Concept:

- Inventory turnover ratio is an activity ratio: Cost of revenue from operations/Average inventory.
- Financial leverage concerns the use of debt in financing the business, rather than the movement of inventory.

Step 1: Interpret inventory turnover This ratio indicates how many times inventory is sold and replaced during the accounting period. It therefore measures the efficiency of inventory management.

Step 2: Distinguish leverage from efficiency The formula compares cost of sales with inventory, and contains no measure of borrowed funds. Financial leverage is assessed using capital-structure measures such as the debt-equity ratio, so the stated interpretation is incorrect.

Step 3: Conclusion The statement is false. Inventory Turnover Ratio measures the efficiency of inventory management, not financial leverage.

Quick Tip to Solve: Classify inventory turnover as an activity ratio; associate debt-equity with financial leverage.

26. The total debtors of X Ltd. were ₹ 9,00,000. It had created a provision of 10% for bad and doubtful debts. What amount of debtors will be used for calculating the 'Trade Receivables Turnover Ratio' ? [1 mark]

Solution:

Concept:

- Trade receivables turnover ratio relates net credit revenue from operations to average trade receivables.
- For this ratio, debtors are taken before deducting the provision for bad and doubtful debts; the provision is a valuation adjustment.

Step 1: Identify the debtors figure required The question gives total debtors of Rs 9,00,000. This gross amount represents the outstanding trade debtors to be considered for turnover calculations.

Step 2: Check the effect of the provision The provision is $10\% \times \text{Rs } 9,00,000 = \text{Rs } 90,000$. Although deducting it gives a net balance-sheet value of Rs 8,10,000, that net figure is not used for calculating this ratio.

Step 3: Conclusion Debtors of Rs 9,00,000 will be used, without deducting the provision of Rs 90,000.

Quick Tip to Solve: Use gross trade debtors for receivables turnover; do not deduct the doubtful-debt provision.

27. Give an example of an activity which is always financing with regards to the Cash Flow Statement.

[1 mark]

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings.
- A cash issue of equity shares raises owners' funds and is classified as a financing cash inflow.

Step 1: Choose a transaction involving capital Consider cash received from issuing equity shares. Investors contribute cash to the company in exchange for an ownership interest; this directly increases the company's share capital.

Step 2: Classify the cash flow This receipt raises finance for the business rather than arising from its ordinary sales or from the disposal of a productive asset. Consequently, cash proceeds from the issue of equity shares are always a financing activity.

Step 3: Conclusion Cash received from the issue of equity shares is an example of an activity that is always financing.

Quick Tip to Solve: Choose a cash issue of shares as the clear example: it directly changes owners' capital.

28. On 1.10.2018, Micro Ltd. issued 20,000, 8% debentures of ₹ 100 each and paid interest of ₹ 80,000 on these debentures on 31st March, 2019. Calculate the cash flow from financing activities for the period ending 31st March, 2019.

[1 mark]

Solution:

Concept:

- Cash proceeds from issuing debentures are financing inflows because they increase long-term borrowings.
- For a non-financial company, interest paid on debentures is a financing cash outflow. Net financing cash flow equals inflows less outflows.

Step 1: Calculate the issue proceeds Cash raised on 1 October 2018 is

$$20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000.$$

No issue premium or discount is given.

Step 2: Deduct interest paid The stated interest payment is Rs 80,000. It also agrees with six months' interest: Rs $20,00,000 \times 8\% \times 6/12 = \text{Rs } 80,000$. Hence net financing cash flow is

$$\text{Rs } 20,00,000 - \text{Rs } 80,000 = \text{Rs } 19,20,000.$$

Step 3: Conclusion Cash flow from financing activities for the year ended 31 March 2019 is an inflow of Rs 19,20,000.

Quick Tip to Solve: Count only six months from October to March, and subtract interest paid from debenture issue proceeds.

29. An investment normally qualifies as cash-equivalent only when from the date of acquisition it has a short maturity period of : [1 mark]

(A) One month or less

(B) Three months or less

(C) Three months or more

(D) One year or less

Correct Answer: (B) Three months or less

Solution:

Concept:

- Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash, with insignificant risk of changes in value.
- The normal maturity threshold is three months or less from the date of acquisition.

Step 1: Apply the maturity test The relevant period begins on the date the investment is acquired. An investment normally qualifies only if its maturity from that date is three months or less, in addition to satisfying liquidity and risk requirements.

Step 2: Compare all four options Option (A) gives an unnecessarily narrow one-month limit. Option (C) reverses the test and admits maturities longer than three months. Option (D) extends the limit to one year. Only option (B) states the normal three-month-or-less criterion exactly.

Step 3: Conclusion The correct option is (B): Three months or less.

Quick Tip to Solve: Measure the three-month maturity limit from acquisition, not from the balance-sheet date.

30. Calculate the 'Total Assets to Debt Ratio' from the following information :

Particulars	₹
Current Assets	11,00,000
Working Capital	6,50,000
Shareholder's Fund	7,50,000
Total Debt	19,50,000
Reserves and Surplus	2,50,000

[3 marks]

Solution:

Concept:

- Total Assets to Debt Ratio is Total assets/Long-term debt; current liabilities are excluded from its debt denominator.
- Working capital equals current assets less current liabilities. Total assets equal shareholders' funds plus total outside liabilities.

Step 1: Find current liabilities Current liabilities equal current assets less working capital:

$$\text{Rs } 11,00,000 - \text{Rs } 6,50,000 = \text{Rs } 4,50,000.$$

This is the short-term component included in the given total debt.

Step 2: Separate long-term debt Total debt comprises current liabilities and long-term debt. Subtract the current liabilities calculated above:

$$\text{Long-term debt} = \text{Rs } 19,50,000 - \text{Rs } 4,50,000 = \text{Rs } 15,00,000.$$

The resulting amount is the denominator required for the total assets to debt ratio.

Step 3: Calculate total assets The accounting equation gives total assets as shareholders' funds plus total outside liabilities:

$$\text{Total assets} = \text{Rs } 7,50,000 + \text{Rs } 19,50,000 = \text{Rs } 27,00,000.$$

Reserves and surplus of Rs 2,50,000 are already included in shareholders' funds. They must not be added again, since this would double-count them.

Step 4: Substitute in the ratio

$$\text{Total Assets to Debt Ratio} = \frac{27,00,000}{15,00,000} = 1.8 : 1.$$

Thus, total assets provide coverage of Rs 1.80 for every Rs 1 of long-term debt. The numerator includes all assets, while the denominator excludes the current liabilities.

Step 5: Conclusion The Total Assets to Debt Ratio is $1.8 : 1$.

Quick Tip to Solve: First deduct current liabilities from total debt; do not add reserves again to shareholders' funds.

OR

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

(i) Computer software

(ii) Calls-in-advance

(iii) Outstanding salary

(iv) Securities Premium Reserve

(v) Patents

(vi) Interest accrued on Investment [3 marks]

Solution:

Concept:

- Schedule III groups assets according to their nature and liquidity, while equity and liabilities are grouped according to ownership and the obligation to repay.
- An intangible asset has no physical substance but provides future economic benefits. Amounts payable in the normal operating cycle are current liabilities; accrued income receivable is an other current asset.

Step 1: Classify the assets Computer software and patents are identifiable assets without physical substance. Both appear under Non-current assets, within Fixed assets: Intangible assets. Interest accrued on investment is income already earned but not yet received and is shown under Current assets: Other current assets.

Step 2: Classify equity and liabilities Calls-in-advance represents money received before the relevant call is due and is not yet part of called-up share capital. It is therefore shown as an other current liability. Outstanding salary is an unpaid operating expense and is also an other current liability. Securities Premium Reserve belongs to shareholders and is included in Reserves and Surplus.

Step 3: Present the Schedule III classification Classification in the Balance Sheet

Item	Major head	Sub-head
(i) Computer software	Non-current assets	Fixed assets: Intangible assets
(ii) Calls-in-advance	Current liabilities	Other current liabilities
(iii) Outstanding salary	Current liabilities	Other current liabilities
(iv) Securities Premium Reserve	Shareholders' funds	Reserves and Surplus
(v) Patents	Non-current assets	Fixed assets: Intangible assets
(vi) Interest accrued on investment	Current assets	Other current assets

Step 4: Conclusion Software and patents are intangible non-current assets; calls-in-advance and outstanding salary are other current liabilities; securities premium is Reserves and Surplus; accrued investment interest is an other current asset.

Quick Tip to Solve: Classify accrued interest by the receivable itself, rather than by the investment on which it arises.

31. From the following information, prepare Comparative Statement of Profit and Loss :

Particulars	31.3.2018 ₹	31.3.2019 ₹
Revenue from operations	4,00,000	3,00,000
Other Income	80,000	40,000
Expenses – 50% of Revenue from operations		
Income Tax Rate	40%	40%

[4 marks]

Solution:

Concept:

- A comparative statement shows both years, absolute change and percentage change. Absolute change equals the current-year amount less the previous-year amount.
- Percentage change is calculated on the previous-year amount:

$$\text{Percentage change} = \frac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$$

. A negative sign denotes a decrease.

- Total revenue equals revenue from operations plus other income. Profit before tax equals total revenue less expenses, and profit after tax equals profit before tax less income tax.

Step 1: Calculate expenses and total revenue Expenses are 50% of revenue from operations, not of total revenue. Thus, expenses for 2017–18 are Rs $4,00,000 \times 50\% =$ Rs $2,00,000$, and for 2018–19 are Rs $3,00,000 \times 50\% =$ Rs $1,50,000$. Total revenue is Rs $4,00,000 +$ Rs $80,000 =$ Rs $4,80,000$ for 2017–18 and Rs $3,00,000 +$ Rs $40,000 =$ Rs $3,40,000$ for 2018–19.

Step 2: Calculate profit and income tax Profit before tax is Rs $4,80,000 -$ Rs $2,00,000 =$ Rs $2,80,000$ in 2017–18 and Rs $3,40,000 -$ Rs $1,50,000 =$ Rs $1,90,000$ in 2018–19. Applying the 40% tax rate gives tax expenses of Rs 1,12,000 and Rs 76,000 respectively. Therefore, profit after tax is Rs 1,68,000 and Rs 1,14,000 respectively. Tax is charged on profit before tax, not directly on revenue.

Step 3: Prepare the comparative statement Comparative Statement of Profit and Loss for the years ended 31 March 2018 and 31 March 2019

Particulars	2017–18 (Rs)	2018–19 (Rs)	Change (Rs)	Change (%)
Revenue from operations	4,00,000	3,00,000	-1,00,000	-25.00
Other income	80,000	40,000	-40,000	-50.00
Total revenue	4,80,000	3,40,000	-1,40,000	-29.17
Less: Expenses	2,00,000	1,50,000	-50,000	-25.00
Profit before tax	2,80,000	1,90,000	-90,000	-32.14
Less: Income tax	1,12,000	76,000	-36,000	-32.14
Profit after tax	1,68,000	1,14,000	-54,000	-32.14

Percentage changes are rounded to two decimal places. For example, the change in profit after tax is $\frac{-54,000}{1,68,000} \times 100 = -32.14\%$.

Step 4: Conclusion Profit after tax decreased from Rs 1,68,000 to Rs 1,14,000, a decrease of Rs 54,000 or 32.14%. Total revenue decreased by 29.17%.

Quick Tip to Solve: Calculate expenses on operating revenue first, then compute tax on profit before tax; use 2017–18 as the percentage base.

OR

31. Prepare a common size Balance Sheet of L.X. Ltd. from the following information :

Particulars	Note No.	31.3.2019 ₹	31.3.2018 ₹
I – Equity and Liabilities :			
1. Shareholder's Funds		**20,00,000**	**10,00,000**
2. Non-Current Liabilities		**20,00,000**	**5,00,000**
3. Current Liabilities		**10,00,000**	**5,00,000**
Total		**50,00,000**	**20,00,000**
II – Assets :			
1. Non-Current Assets		**30,00,000**	**12,50,000**
2. Current Assets		**20,00,000**	**7,50,000**
Total		**50,00,000**	**20,00,000**

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses every balance as a percentage of total assets or total equity and liabilities of the same year.
- Common size percentage $= \dfrac{\text{Individual item}}{\text{Balance sheet total}} \times 100$. The base is 100 percent separately for each year.

Step 1: Select the base for each year The balance sheet total on 31 March 2019 is Rs 50,00,000, whereas that on 31 March 2018 is Rs 20,00,000. Each item must be divided by its own year's total. Thus the percentages describe the composition of the balance sheet rather than the percentage change between years.

Step 2: Calculate the individual percentages For 2019, shareholders' funds and non-current liabilities each equal $20,00,000/50,00,000 \times 100 = 40\%$; current liabilities equal 20%. Non-current assets equal 60% and current assets equal 40%. For 2018, shareholders' funds equal 50%, non-current liabilities and current liabilities each equal 25%, non-current assets equal 62.5%, and current assets equal 37.5%.

Step 3: Prepare the common size balance sheet Common Size Balance Sheet of L.X. Ltd. as at 31 March 2019 and 2018

Particulars	2019 (Rs)	2018 (Rs)	2019 (%)	2018 (%)
I. Equity and Liabilities				
Shareholders' funds	20,00,000	10,00,000	40	50
Non-current liabilities	20,00,000	5,00,000	40	25
Current liabilities	10,00,000	5,00,000	20	25
Total	50,00,000	20,00,000	100	100
II. Assets				
Non-current assets	30,00,000	12,50,000	60	62.5
Current assets	20,00,000	7,50,000	40	37.5
Total	50,00,000	20,00,000	100	100

Each side totals 100 percent in each year, confirming that all components have been included.

Step 4: Conclusion The common size balance sheet is shown above. In 2019, shareholders' funds,

non-current liabilities and current liabilities constitute 40%, 40% and 20% respectively; non-current and current assets constitute 60% and 40%.

Quick Tip to Solve: Use the total of the same year as the denominator; never divide 2019 balances by the 2018 total.

32. (i) From the following information of Nova Ltd., calculate the cash flow from investing activities :

Particulars	31.3.2019 ₹	31.3.2018 ₹
Machinery (At cost)	5,00,000	3,00,000
Accumulated Depreciation on machinery	1,00,000	80,000
Goodwill	1,50,000	1,00,000
Land	70,000	1,00,000

Additional Information :

During the year, a machine costing ₹ 50,000 on which the accumulated depreciation was ₹ 35,000, was sold for ₹ 12,000.

(ii) The profit of Jova Ltd. for the year ended 31st March, 2019 after appropriation was ₹ 2,50,000.

Additional Information :

S.No.	Particulars	Amount ₹
1.	Depreciation of Machinery	20,000
2.	Goodwill written off	9,000
3.	Loss on sale of Furniture	2,000
4.	Transfer to General Reserve	22,500

The following was the position of its Current Assets and Current Liabilities as at 31st March, 2018 and 2019.

Particulars	31.3.2018 ₹	31.3.2019 ₹
Income Received in Advance	8,000	—
Inventory	12,000	8,000

Calculate the Cash flow from operating activities. [6 marks]

Solution:

Concept:

- Investing cash flows comprise cash paid to acquire fixed assets and goodwill and cash received on their disposal; depreciation is a non-cash expense.
- Under the indirect method, start from profit before appropriations, add back non-cash and non-operating charges, and adjust for changes in operating current assets and liabilities.

Step 1: (i) Find machinery purchased during the year Using machinery at original cost avoids

confusing depreciation with cash expenditure:

$$\begin{aligned}\text{Closing cost} &= \text{Opening cost} + \text{Purchases} - \text{Cost sold},\\ \text{Purchases} &= 5,00,000 - 3,00,000 + 50,000\\ &= \text{Rs } 2,50,000.\end{aligned}$$

The cash inflow from the sale is Rs 12,000, not the original cost of Rs 50,000. The machine's carrying amount is $50,000 - 35,000 = \text{Rs } 15,000$, so its loss on sale is Rs 3,000; that loss is not an additional investing cash payment.

Step 2: (i) Prepare the investing activities extract for Nova Ltd. Goodwill increases by $1,50,000 - 1,00,000 = \text{Rs } 50,000$, representing purchase. Land decreases by $1,00,000 - 70,000 = \text{Rs } 30,000$, representing sale proceeds in the absence of any stated gain, loss or other adjustment.

Nova Ltd.: Cash Flow Statement (Investing Activities) for the year ended 31 March 2019

Particulars	Amount (Rs)
Purchase of machinery	(2,50,000)
Purchase of goodwill	(50,000)
Proceeds from sale of machinery	12,000
Proceeds from sale of land	30,000
Net cash used in investing activities	**(2,58,000)**

The accumulated depreciation balances do not change these cash flows. Depreciation for the year would be $1,00,000 - 80,000 + 35,000 = \text{Rs } 55,000$, a non-cash charge.

Step 3: (ii) Restore profit before appropriations for Jova Ltd. The stated Rs 2,50,000 is profit after appropriation. Transfer to general reserve is an appropriation, so add it back before computing operating profit:

$$\text{Profit before appropriations} = 2,50,000 + 22,500 = \text{Rs } 2,72,500.$$

Depreciation of Rs 20,000 and goodwill written off of Rs 9,000 reduce profit without using cash. Loss on sale of furniture of Rs 2,000 belongs to the disposal calculation, rather than operating cash generation. All three are therefore added back.

Step 4: (ii) Adjust working capital and prepare the operating activities extract Inventory falls from Rs 12,000 to Rs 8,000, releasing Rs 4,000 of working capital, which is added. Income received in advance falls from Rs 8,000 to nil. This decrease in an operating current liability is deducted because current profit includes income whose cash was received earlier.

Jova Ltd.: Cash Flow Statement (Operating Activities) for the year ended 31 March 2019

Particulars	Amount (Rs)
Profit after appropriation	2,50,000
Add: Transfer to general reserve	22,500
Profit before appropriations	2,72,500
Add: Depreciation of machinery	20,000
Add: Goodwill written off	9,000
Add: Loss on sale of furniture	2,000
Operating profit before working capital changes	3,03,500
Add: Decrease in inventory	4,000
Less: Decrease in income received in advance	(8,000)
Net cash from operating activities	**2,99,500**

No tax payment or further operating adjustment is given; consequently Rs 2,99,500 is the cash flow from operating activities on the supplied information.

Step 5: Conclusion (i) Nova Ltd.: net cash used in investing activities = Rs 2,58,000. (ii) Jova Ltd.: net cash from operating activities = Rs 2,99,500.

Quick Tip to Solve: For machinery purchases use cost balances and add the original cost sold; add reserve transfers back when profit is after appropriation.

OPTION 2 (Computerised Accounting)

23. When the accumulated data from various sources is processed in one shot it is called : [1 mark]

(A) Real Time Processing

(B) Data Validation

(C) Processing and Revalidation

(D) Batch Processing

Correct Answer: (D) Batch Processing

Solution:

Concept:

- Batch processing collects transactions over a period and processes the accumulated group together in a single run.
- Real-time processing updates records as each transaction occurs; validation checks data correctness rather than specifying the processing schedule.

Step 1: Identify the processing pattern The data are first accumulated from various sources and then processed in one shot. These two features identify a batch: several records are grouped before a processing run begins.

Step 2: Check the alternatives Option (A) is unsuitable because real-time processing handles transactions immediately as they arise. Option (B) describes checking the validity of input data. Option (C) refers to processing and rechecking, but does not name the accumulated-data method. Option (D), batch processing, matches the stated method exactly.

Step 3: Conclusion The correct option is (D): Batch Processing.

Quick Tip to Solve: The words accumulated and one shot identify a batch; immediate updating identifies real-time processing.

24. Height of a person is a _____ attribute whereas academic qualification can be _____ attribute. [1 mark]

Solution:

Concept:

- An attribute describes a property of an entity. A single or simple attribute holds one indivisible value.
- A composite attribute can be divided into meaningful component attributes.

Step 1: Classify height Height is recorded as one measurement, such as 170 cm. Its numerical value and unit together represent one property; height is not divided into separate meaningful database attributes.

Step 2: Classify academic qualification Academic qualification can contain the degree or examination, institution, year of passing and result. Since these components can be stored separately while describing the qualification, it can be a composite attribute.

Step 3: Conclusion Height is a single (simple) attribute, whereas academic qualification can be a composite attribute.

Quick Tip to Solve: Ask whether the property can be split into meaningful fields: qualification can, while one height measurement cannot.

25. Name the accounting subsystem which deals with recording of different items purchased and issued specifying the price, quantity and data. [1 mark]

(A) Purchase and Accounts Payable subsystem

(B) Expense Accounting subsystem

(C) Inventory subsystem

(D) Costing subsystem

Correct Answer: (C) Inventory subsystem

Solution:

Concept:

- The inventory subsystem records receipts, issues and balances of stock, maintaining item-wise quantity and value.
- An accounting subsystem groups related transactions so that a particular activity can be controlled and reported.

Step 1: Identify the transactions Recording different items purchased and issued involves inward and

outward stock movements. The price, quantity and transaction details allow inventory balances and values to be maintained.

Step 2: Compare the alternatives Purchase and Accounts Payable focuses on purchases and suppliers' dues; Expense Accounting records expenses; Costing determines costs. None describes the complete stock-receipt and stock-issue register as directly as Inventory does.

Step 3: Conclusion The required subsystem is the Inventory subsystem. Hence, the correct option is (C).

Quick Tip to Solve: The pair of words purchased and issued points to movements of stock, so select the inventory subsystem.

26. Match the movement of mouse with the keystrokes :

(i) One cell up	**(a) Down arrow key (↓) or Enter**
(ii) One cell right	**(b) Up arrow key (↑)**
	(c) Left arrow key (←)
	(d) Right arrow key (→)

[1 mark]

(A) (i) (c) and (ii) (a)

(B) (i) (b) and (ii) (d)

(C) (i) (a) and (ii) (d)

(D) (i) (b) and (ii) (c)

Correct Answer: (B) (i) (b) and (ii) (d)

Solution:

Concept:

- The active cell in a spreadsheet moves in the direction of the corresponding arrow key.
- Moving one cell vertically preserves the column; moving one cell horizontally preserves the row.

Step 1: Match the upward movement One cell up is achieved with the Up arrow key, which is labelled (b). The Down arrow or Enter, labelled (a), normally moves the active selection downward, so it cannot match (i).

Step 2: Match the rightward movement One cell right uses the Right arrow key, labelled (d). The Left arrow key, labelled (c), moves in the opposite horizontal direction. Thus (i) matches (b) and (ii) matches (d); A, C and D each contain an incorrect direction.

Step 3: Conclusion The matching is one cell up with the Up arrow and one cell right with the Right arrow. Hence, the correct option is (B).

Quick Tip to Solve: Read the movement literally: up uses the Up arrow and right uses the Right arrow; then match their printed labels.

27. A _____ query is used to extract aggregate of data items for a group of records rather than a detailed set of records. [1 mark]

Solution:

Concept:

- A database query retrieves or processes records satisfying specified requirements.
- A summary query groups related records and applies aggregate functions such as SUM, COUNT or AVG to each group.

Step 1: Identify the requested output The question asks for an aggregate for a group of records rather than every detailed record. For example, a department-wise total of salaries gives one result per department instead of listing every employee.

Step 2: Name the query A summary query, also called a totals query, groups records by the required field and calculates the relevant aggregate. A detail query instead displays individual records and does not by itself summarise each group.

Step 3: Conclusion A summary query is used to extract aggregate data items for a group of records.

Quick Tip to Solve: The words aggregate and group indicate a summary query; think of department-wise totals instead of employee-wise details.

28. A ##### error appears when : [1 mark]

(A) A negative data is used.

(B) Column is not wide enough.

(C) Negative time is used.

(D) All of the above

Correct Answer: Both (B) and (C) can cause hash symbols; (A) is too broad, so the printed question has no unique correct option.

Solution:

Concept:

- Excel displays hash symbols when a formatted value cannot be displayed in the available column width.
- In the usual date system, a negative date or time may also display hash symbols; an ordinary negative number is valid.

Step 1: Check width and time Option (B) gives a standard cause: the column may be too narrow to show the formatted value. Option (C) is also a recognised cause when a negative time cannot be represented in the workbook's date/time system.

Step 2: Assess the printed wording Option (A) says negative data, without restricting it to dates or times. That statement is too broad: an ordinary negative number displays correctly when the column is wide enough. Therefore (D) cannot be accepted literally. Since (B) and (C) are both defensible, the printed choices do not give a unique correct answer.

Step 3: Conclusion As printed, both (B) and (C) are defensible; no unique option is available. Ordinary negative numeric data alone does not cause this display.

Quick Tip to Solve: For hash symbols, first widen the column; if they remain in a date/time cell, inspect the value for a negative date or time.

29. The existence of data in a primary key field is : [1 mark]

(A) Not necessarily required.

(B) Required but need not be unique.

(C) Required and must be unique.

(D) All of the above

Correct Answer: (C) Required and must be unique.

Solution:

Concept:

- A primary key uniquely identifies each record in a database table.
- Its value must be present (not NULL) and must be unique across records, ensuring entity integrity.

Step 1: Check whether data is required Every record must have a primary-key value, because a missing value cannot identify the record. Therefore option (A), which says the data is not necessarily required, is incorrect.

Step 2: Check uniqueness If two records had the same primary-key value, that value would not distinguish them. Thus option (B) is incorrect. Option (C) combines both required conditions: presence and uniqueness. Since (A) and (B) fail, option (D) cannot be correct.

Step 3: Conclusion Data in a primary key field is required and must be unique. Hence, the correct option is (C).

Quick Tip to Solve: Test a primary key with two questions: Is any value missing? Is any value repeated? Both answers must be no.

30. Write and explain the formula to calculate 'Dearness Allowance' and 'Gross Salary'. [3 marks]

Solution:

Concept:

- Dearness Allowance (DA) is an allowance calculated as a prescribed percentage of basic salary to compensate for changes in the cost of living.
- Gross salary is total earnings before deductions. It includes basic salary, DA, House Rent Allowance (HRA) and other applicable allowances.

Step 1: Calculate Dearness Allowance Let basic salary be B and the DA rate be r percent. Then the

allowance is obtained by multiplying basic salary by the rate expressed as a fraction:

$$\text{DA} = B \times \frac{r}{100}.$$

For illustration, if basic salary is Rs 20,000 and DA is 40 percent, DA is Rs 8,000. In a spreadsheet, if B2 contains basic salary and C2 contains 40 as a number, use `=B2*C2/100`. If C2 is already formatted as 40%, use `=B2*C2`.

Step 2: Calculate Gross Salary Add all earnings for the salary period, before subtracting deductions:

$$\begin{aligned}\text{Gross Salary} = \text{Basic Salary} + \text{DA} \\ + \text{HRA} + \text{Other Allowances}.\end{aligned}$$

For the same illustration, with HRA of Rs 4,000 and other allowances of Rs 1,000, gross salary is Rs 20,000 + Rs 8,000 + Rs 4,000 + Rs 1,000 = Rs 33,000. If these four amounts occupy B2 to E2, use `=SUM(B2:E2)`. Provident fund, tax and other deductions are subtracted later to determine net salary, not gross salary.

Step 3: Conclusion DA equals basic salary multiplied by the prescribed DA rate. Gross salary equals basic salary plus DA and all other applicable earnings, before deductions.

Quick Tip to Solve: Check whether the DA rate cell holds 40 or 40% before deciding to divide by 100; keep deductions out of gross salary.

OR

30. Explain 'Contra voucher' and 'Receipt voucher'. [3 marks]

Solution:

Concept:

- An accounting voucher is the input document or entry screen used to record a transaction in a computerised accounting system. The voucher type is selected according to the nature of the transaction.
- A transfer between cash and bank accounts changes the form in which money is held, whereas a receipt from an outside party brings money into the business.

Step 1: Contra voucher A contra voucher records transactions involving transfers between the cash account and bank accounts, or between two bank accounts of the same business. Both aspects relate to the business's own cash or bank balances. Examples include depositing cash into the bank, withdrawing money from the bank for office use and transferring money from one bank account to another. For a cash deposit of Rs 5,000, Bank Account is debited and Cash Account is credited by Rs 5,000. The total funds of the business remain unchanged; only their location or form changes.

Step 2: Receipt voucher A receipt voucher records money received by the business in cash or through its bank account from an outside source. Examples include collection from a debtor, receipt of commission and introduction of capital by the proprietor. For Rs 5,000 received in cash from a

debtor, Cash Account is debited and the debtor's account is credited by Rs 5,000. The receipt voucher identifies the receiving cash or bank account and the account from which the amount is received. A cash deposit into the business's own bank account is recorded using a contra voucher because it is an internal transfer.

Step 3: Conclusion A contra voucher records internal transfers among the business's cash and bank accounts. A receipt voucher records money received in cash or bank from an outside party or source.

Quick Tip to Solve: Check the other side of the cash or bank entry: another own cash or bank account means contra; an outside source means receipt.

31. State any four limitations of a computerised accounting system. [4 marks]

Solution:

Concept:

- A computerised accounting system processes accounting data through hardware and software. Its speed and accuracy depend on suitable equipment, trained users, reliable inputs and proper controls.
- Automation does not remove the costs of operating the system or the risks affecting electronic records. Appropriate safeguards are needed to obtain dependable accounting information.

Step 1: High installation and operating costs Establishing a computerised accounting system involves expenditure on computers, accounting software, installation and related equipment. Maintenance, software updates and replacement of obsolete equipment create further costs. These expenses may be a significant burden for a small business with a limited volume of transactions.

Step 2: Need for trained personnel Employees require training to enter transactions correctly, use accounting software and interpret its reports. Training takes both time and money. If staff lack the necessary skills, incorrect voucher selection or data entry can produce misleading results even though the computer processes the instructions accurately.

Step 3: Risk of system failure and loss of data Hardware breakdown, software failure, viruses or interruptions in power supply can stop accounting work. Electronic records may be damaged or lost, and the preparation of reports may be delayed. Regular backups and recovery arrangements are therefore necessary to protect continuity of accounting operations.

Step 4: Security and confidentiality risks Unauthorised users may access, copy, alter or delete accounting information. Sensitive details such as salaries and bank balances may be disclosed if access is not controlled. Passwords, access restrictions and other security measures are required, but inadequate controls can still expose the business to misuse of its records.

Step 5: Conclusion Four limitations are high installation and operating costs, the need for trained personnel, risk of system failure and data loss, and threats to the security and confidentiality of accounting information.

Quick Tip to Solve: Remember four distinct areas: cost, staff training, system reliability and confidentiality; explain each with its effect on the business.

OR

31. What is meant by 'data validation' ? Give two examples when the cell will give error if the values are not meeting the conditions. [4 marks]

Solution:

Concept:

- Data validation is the process of checking data against specified rules before accepting it in a cell. It controls the type of data or the range of values that users may enter.
- In a spreadsheet, validation criteria can restrict whole numbers, decimals, dates, text length or entries from a specified list. An error alert informs the user when an entry fails the rule.

Step 1: Meaning and purpose Data validation ensures that input data satisfy predefined conditions. For example, a cell intended for the number of units sold can be restricted to whole numbers within a permitted range. The user specifies the rule for the selected cell and can provide an error message explaining the acceptable entry. Validation helps prevent inappropriate input at the point of entry; it does not establish that an otherwise permitted value is factually correct.

Step 2: Example 1: Whole number within a range Suppose a cell records a student's age and is set to accept only whole numbers between 15 and 20, inclusive. The entry 18 satisfies both the data-type and range conditions. Entering 14 or 22 violates the permitted range, while entering 17.5 violates the whole-number condition. Each invalid entry causes a validation error alert. With the Stop error alert selected, the invalid entry is rejected and the user must correct it or cancel it.

Step 3: Example 2: Text of a specified length Suppose a cell records an employee code and its text length is restricted to exactly five characters. The entry AB123 satisfies the length condition. Entering AB12, which contains four characters, or AB1234, which contains six characters, fails the specified condition and produces a validation error alert. Selecting the Stop alert prevents such an entry from being accepted. A length rule alone checks the number of characters; it does not automatically check whether the code exists in the employee records.

Step 4: Conclusion Data validation checks cell entries against predefined conditions. A whole-number range rule for age and an exact text-length rule for an employee code are two examples that generate errors when the conditions are not met.

Quick Tip to Solve: For each example, state the exact rule and then give a specific invalid entry that breaks it.

32. Name the error which appears on the screen of your computer while using Excel, when the formula refers to a deleted cell. Also explain how to correct that error. [6 marks]

Solution:

Concept:

- Excel displays the #REF! error when a formula contains an invalid cell reference. Deleting a referenced cell, row or column can remove the location required by the formula.
- A cell reference identifies the location from which a formula obtains a value. Restoring the deleted location or replacing the invalid reference with the correct existing reference repairs the formula.

Step 1: Identify the error and its cause The error is #REF!, called the reference error. It appears because the formula refers to a cell that is no longer a valid reference after deletion. Excel cannot obtain the required value from that location, so the formula cannot calculate its intended result. This is a reference problem, rather than an indication that the arithmetic operation itself is incorrect.

Step 2: Illustrate the error Suppose D2 contains the formula `=B2+C2`. If column B is deleted, the explicit reference to the deleted cell becomes invalid. The formula may then appear as `=#REF!+B2`, since the original column C shifts into column B. The cell containing the formula displays #REF!. Inspecting the formula bar reveals the broken reference and helps identify which input location has been lost.

Step 3: Restore an accidental deletion If the deletion was accidental and Undo is available, immediately use Undo, or press Ctrl+Z, to reverse the deletion. This restores the deleted cell, row or column and its original data and references. Recheck the affected formula after restoration. Merely inserting a blank column with the same column letter does not necessarily restore the missing data or repair a formula that already contains `#REF!`.

Step 4: Correct the reference if deletion must be retained Select the cell displaying the error and examine its formula in the formula bar. Determine the intended surviving input cell or range, edit the formula and replace the invalid `#REF!` portion with that correct reference. If a required input was deleted altogether, restore or re-enter its data in an appropriate cell and refer to that cell. For example, if the intended two inputs are now in B2 and C2, use `=B2+C2`. Press Enter, check that the reference error disappears and verify the result against the intended calculation. Check dependent formulae too, because the same invalid reference may affect more than one result.

Step 5: Conclusion The error is #REF!, an invalid-reference error. Correct it by undoing the accidental deletion, or by restoring the necessary data and editing the formula to refer to valid, intended cells or ranges.

Quick Tip to Solve: Look for the literal `#REF!` inside the formula bar; replace the broken reference only after identifying the intended input.