CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-1-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper 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. Why does the Fixed Capital Account of partners show credit balance even when the firm suffers losses year after year ? [1 mark]

Solution:

Concept:

- Under the fixed capital method, a separate Capital Account and Current Account are maintained for each partner.
- Capital changes only for additional permanent capital introduced or permanent capital withdrawn; routine adjustments belong to the Current Account.

Step 1: Locate the loss adjustment The partner's share of each year's loss is debited to the partner's Current Account. Drawings, interest on drawings and other periodic adjustments are also recorded through that account, rather than reducing the fixed capital balance.

Step 2: Distinguish the two balances Repeated losses can therefore reduce the credit balance of the Current Account or make it show a debit balance. They do not, by themselves, change the credit balance representing the partner's fixed capital contribution.

Step 3: Conclusion The Fixed Capital Account continues to show a credit balance because losses are debited to the partners' Current Accounts, not to their Fixed Capital Accounts.

Quick Tip to Solve: For fixed capitals, put annual profit or loss in the Current Account; reserve capital changes for permanent contributions or withdrawals.

2. Milan, Khilan and Silam 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. After the revaluation of assets and re-assessment of liabilities, Revaluation Account showed a loss of ₹ 15,000. The amount to be debited in the capital account of Milan because of loss on revaluation will be : [1 mark]

(A) ₹ 15,000

(B) ₹ 6,000

(C) ₹ 7,000

(D) ₹ 5,000

Correct Answer: (B) ₹ 6,000

Solution:

Concept:

- Revaluation profit or loss arising before a change in profit-sharing ratio is borne by all existing partners in their old ratio.
- A partner's share of revaluation loss equals the total loss multiplied by that partner's old profit share.

Step 1: Choose the relevant ratio The loss relates to the assets and liabilities held before the change. Hence use the old ratio of Milan, Khilan and Silam, $2:2:1$, not their future ratio $7:5:3$. Milan's old share is $2/(2+2+1) = 2/5$.

Step 2: Calculate and compare the options The debit to Milan is

$$\text{Rs } 15,000 \times \frac{2}{5} = \text{Rs } 6,000.$$

Rs 15,000 is the whole firm's loss, while Rs 7,000 uses Milan's new share of $7/15$. Rs 5,000 would divide the loss equally, contrary to the old ratio.

Step 3: Conclusion Milan's Capital Account is debited with Rs 6,000. Hence, the correct option is (B).

Quick Tip to Solve: For revaluation at a change of ratio, circle the old ratio before multiplying the loss by the partner's share.

3. 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:

- At dissolution, accumulated provisions against assets are closed by transferring their credit balances to the credit of Realisation Account.
- The transfer of a provision is an adjustment between accounts; it does not itself require a payment through Cash or Bank.

Step 1: Identify an eligible credit balance Provision for doubtful debts is a credit balance maintained against trade receivables. When the receivables are transferred to Realisation Account at their gross amount, the corresponding provision must also be closed.

Step 2: Explain the absence of cash payment The Provision for Doubtful Debts Account is debited and Realisation Account is credited. This merely transfers the existing provision; neither Cash nor Bank is involved in that transfer. It is therefore an appropriate example of the item requested.

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 an existing provision against an asset: closing the provision credits Realisation without paying cash.

4. 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 subscribed but uncalled share capital which is reserved to be called up only on winding up.
- Reserve capital is distinct from a capital reserve; the similarity of their names does not make their uses interchangeable.

Step 1: Test the statements that define reserve capital Option (A) is related because reserve capital forms part of uncalled capital. Option (D) is also related because this uncalled portion belongs to shares already subscribed. Option (B) is related because the amount cannot be called up for use during the company's normal lifetime.

Step 2: Identify the unrelated use Writing off capital losses is not a use of reserve capital. Reserve capital is an uncalled amount, not an accumulated reserve available for such adjustments. Option (C) confuses reserve capital with capital reserve and is the statement that does not relate to it.

Step 3: Conclusion The statement "It can be used for writing off capital losses" does not relate to reserve capital. Hence, the correct option is (C).

Quick Tip to Solve: Remember the order of the words: reserve capital is uncalled share capital; capital reserve is a reserve.

5. P and Q were partners in a firm sharing profits in the ratio of 5 : 3. R was admitted for 1/4th share in the profits, of which he took 75% from P and the remaining from Q. Calculate the sacrificing ratio of P and Q. [1 mark]

Solution:

Concept:

- A partner's sacrifice is the fraction of total profits given up to the incoming partner.
- The sacrificing ratio compares the sacrifices of the old partners, rather than their original profit shares.

Step 1: Calculate the shares surrendered R receives $1/4$ of total profits. P supplies $75\% = 3/4$ of R's share and Q supplies the remaining $25\% = 1/4$. Thus

$$\text{P's sacrifice} = \frac{1}{4} \times \frac{3}{4} = \frac{3}{16}, \qquad \text{Q's sacrifice} = \frac{1}{4} \times \frac{1}{4} = \frac{1}{16}.$$

Step 2: Compare the two sacrifices The sacrifices total $3/16 + 1/16 = 1/4$, agreeing with R's entire share. Compare them directly:

$$\frac{3}{16} : \frac{1}{16} = 3 : 1.$$

The old ratio $5 : 3$ is not the sacrificing ratio because the question explicitly specifies how R acquires his share.

Step 3: Conclusion The sacrificing ratio of P and Q is $3 : 1$.

Quick Tip to Solve: When the incoming partner takes specified percentages from the old partners, compare those percentages directly: 75:25 = 3:1.

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

Solution:

Concept:

- Face value is the nominal amount stated on a debenture; issue price is the amount charged to the investor on issue.
- When issue price exceeds face value, the difference is the premium on issue of debentures.

Step 1: Compare issue price and face value The question specifies that the amount charged on issue is greater than the nominal value of the debenture. Hence the debenture is being issued above par. An issue at par would have no excess, while an issue below par would involve a discount.

Step 2: Name the excess The relationship is

$$\text{Premium on issue} = \text{Issue price} - \text{Face value}.$$

This excess is credited to Securities Premium Account. The term asked for describes the excess itself, rather than the whole amount received on issue.

Step 3: Conclusion The blank is filled by "premium on issue of debentures".

Quick Tip to Solve: Compare the issue price with face value: above face value means premium; below face value means discount.

7. A, B and C were partners in a firm sharing profits in the ratio of 2 : 2 : 1. C retired. The balance in this capital account after adjustments regarding reserves, accumulated profits/loss and revaluation of assets and liabilities was ₹ 4,40,000. C was paid ₹ 5,00,000 including his share of goodwill. The amount that was credited to his capital account on account of goodwill was : [1 mark]

(A) ₹ 60,000

(B) ₹ 3,00,000

(C) ₹ 1,00,000

(D) ₹ 12,000

Correct Answer: (A) ₹ 60,000

Solution:

Concept:

- A retiring partner's final entitlement includes the adjusted capital balance and the partner's share of goodwill.
- If the payment and adjusted capital are known, the goodwill credit is their difference.

Step 1: Separate the components of the settlement C's capital after the stated adjustments is Rs 4,40,000. Since the payment of Rs 5,00,000 also includes C's share of goodwill, only the excess of this payment over the adjusted capital represents the goodwill credited to C.

Step 2: Calculate and reject the distractors

$$\text{C's goodwill credit} = \text{Rs } 5,00,000 - \text{Rs } 4,40,000 = \text{Rs } 60,000.$$

Rs 3,00,000 would be the whole firm's goodwill inferred using C's $1/5$ share; it is not C's credit. Rs 1,00,000 incorrectly takes one-fifth of the total payment, and Rs 12,000 takes one-fifth of C's goodwill share again.

Step 3: Conclusion C's Capital Account was credited with Rs 60,000 for goodwill. Hence, the correct option is (A).

Quick Tip to Solve: Subtract the fully adjusted capital from the inclusive payment; do not apply the retiring partner's fraction a second time.

8. 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 to the firm is a liability distinct from that partner's capital.
- On dissolution, the partner's loan is settled separately by debiting the Partner's Loan Account and crediting Bank Account.

Step 1: Identify the separate liability Rohan's loan is an amount payable by the firm to Rohan as lender. It is not transferred to Realisation Account and is not added to his Capital Account merely because the firm is dissolved. Thus options (A), (B) and (C) do not give its settlement treatment.

Step 2: Identify the payment side Repayment reduces the liability in Rohan's Loan Account and also reduces the firm's bank balance. Therefore, Rohan's Loan Account is debited and Bank Account is credited for the amount paid. The equal profit-sharing ratio does not change the treatment of a partner's loan.

Step 3: Conclusion The amount paid to discharge Rohan's loan is credited to Bank Account. Hence, the correct option is (D).

Quick Tip to Solve: Keep a partner's loan separate from capital and Realisation: repayment reduces the loan liability and credits Bank.

9. 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:

- In the absence of a different agreement, continuing partners share future profits in their old relative ratio.
- When total capital is retained, each revised capital equals combined adjusted capital multiplied by the partner's new profit share.

Step 1: Find the new ratio and combined capital After Rahul's death, Sahil and Jatin continue in

their relative ratio $3 : 2$. Their combined adjusted capital is

$$\text{Rs } 3,56,000 + \text{Rs } 2,44,000 = \text{Rs } 6,00,000.$$

Opening Current Accounts permits this total to remain unchanged while capital balances are redistributed.

Step 2: Allocate the total and explain the adjustments

$$\text{Sahil's new capital} = \text{Rs } 6,00,000 \times \frac{3}{5} = \text{Rs } 3,60,000,$$
$$\text{Jatin's new capital} = \text{Rs } 6,00,000 \times \frac{2}{5} = \text{Rs } 2,40,000.$$

Sahil's capital increases by Rs 4,000, matched by a debit to his Current Account. Jatin's capital decreases by Rs 4,000, matched by a credit to his Current Account; no cash introduction or withdrawal is required.

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

Quick Tip to Solve: Remove the deceased partner from the old ratio, divide the combined continuing capital in 3:2, and transfer differences to Current Accounts.

10. 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:

- A Receipts and Payments Account records actual cash and bank receipts and payments.
- An Income and Expenditure Account follows the accrual basis and includes revenue expenses of the current year, including non-cash expenses.

Step 1: Identify a non-cash expense Depreciation is the allocation of the cost of a fixed asset over its useful life. Recording depreciation does not involve a cash or bank payment, so it is never entered on the payment side of the Receipts and Payments Account.

Step 2: Apply the accrual treatment The portion of the asset's cost used up in the current year is an expense of that year. Therefore, depreciation is charged on the debit side of the Income and Expenditure Account even though no money is paid when that charge is recorded.

Step 3: Conclusion Depreciation is the required item.

Quick Tip to Solve: Look for an expense without a current cash payment: depreciation fits both conditions in this question.

11. 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 profit share equals the old share plus the share gained from the deceased partner.
- When two continuing partners take the deceased partner's share equally, each receives one-half of that share; their old shares need not be equal.

Step 1: Calculate Diya's gain The sum of the old ratio terms is $2+3+5=10$. Thus Tiya's old share is $5/10$, and Diya receives half of it:

$$\text{Diya's gain} = \frac{1}{2} \times \frac{5}{10} = \frac{5}{20}.$$

Step 2: Add the gain to the old share Diya's old share is $2/10 = 4/20$. Hence her new share is

$$\frac{4}{20} + \frac{5}{20} = \frac{9}{20}.$$

As a check, Riya's new share is $3/10 + 5/20 = 11/20$; the two new shares add to one, giving a new ratio of $9 : 11$.

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

Quick Tip to Solve: Equal gains do not mean equal new shares: add half of Tiya's share to Diya's existing share.

12. 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:

- Workmen's Compensation Reserve is first applied against the determined compensation claim.
- A claim exceeding the reserve creates a revaluation loss, which is debited to Revaluation Account

and ultimately borne by the old partners in their old profit-sharing ratio.

Step 1: Determine the uncovered claim The reserve covers Rs 32,000 of the Rs 40,000 claim. The excess liability is

$$\text{Excess claim} = 40,000 - 32,000 = \text{Rs } 8,000.$$

This amount is a loss arising on admission, not a distributable surplus of reserve.

Step 2: Select the account and side The excess Rs 8,000 is debited to Revaluation Account. Crediting that account would treat a loss as a gain. Crediting the old partners' capitals is also incorrect because no surplus reserve remains. Although the revaluation loss is ultimately transferred to the old partners' capital accounts in the ratio $3 : 2$, the immediate treatment of the excess claim is through Revaluation Account, rather than a direct capital adjustment. Naina's new share does not change this treatment.

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

Quick Tip to Solve: Compare the claim with the reserve first: a shortfall is a revaluation loss, so debit Revaluation Account.

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13. 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) Rs 70,000

(B) Rs 2,80,000

(C) Rs 4,50,000

(D) Rs 1,40,000

Correct Answer: (B) Rs 2,80,000

Solution:

Concept:

- When a new partner brings assets for both capital and goodwill, the excess of their total value over the agreed capital is that partner's goodwill premium.
- Goodwill of the whole firm equals the incoming partner's premium divided by the incoming partner's share in profits.

Step 1: Separate the goodwill premium from capital All assets contributed, including cash, form the

total contribution:

$$2,00,000 + 1,20,000 + 80,000 + 50,000 = \text{Rs } 4,50,000.$$

Deduct Moon's agreed capital to obtain his share of goodwill:

$$4,50,000 - 3,80,000 = \text{Rs } 70,000.$$

Step 2: Convert Moon's premium to the firm's goodwill Moon's new profit share is $2/(3+3+2) = 1/4$. Therefore,

$$\text{Firm's goodwill} = 70,000 \div \frac{1}{4} = \text{Rs } 2,80,000.$$

Rs 70,000 is only Moon's premium, whereas Rs 4,50,000 is his total asset contribution. Rs 1,40,000 would incorrectly treat his share as one-half instead of one-quarter. The old ratio does not determine Moon's new share.

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

Quick Tip to Solve: Subtract agreed capital from all assets brought in, then divide the excess by Moon's new share of one-quarter.

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 fund is restricted to its stated purpose. Income earned on its investments is added to that fund, and related expenses are deducted from it.
- General revenue expenses are charged to the Income and Expenditure Account. A fund is shown on the liabilities side of the Balance Sheet; its investments are separately shown as assets.

Step 1: Calculate the closing Prize Fund Interest on Prize Fund Investments belongs to the Prize Fund and must first be added to it. Prizes awarded are then charged against the available fund. Working Note:

Particulars	Amount (Rs)
Opening Prize Fund	44,000
Add: Interest on Prize Fund Investments	6,000
Fund available for prizes	50,000
Less: Prizes awarded	(46,000)
Closing Prize Fund	4,000

The available fund exceeds the prize expense, so neither the interest nor the prizes awarded is transferred to the Income and Expenditure Account.

Step 2: Charge the match expenses to income and expenditure No separate Match Fund is given. Match expenses are therefore an ordinary expense of the club. The Prize Fund cannot be used to absorb an unrelated match expense. The relevant extract is:

Income and Expenditure Account (extract)

Dr. Expenditure	Rs	Cr. Income	Rs
To Match Expenses	64,000		

Step 3: Show the fund and its investments separately The remaining Prize Fund is a restricted balance shown on the liabilities side. Prize Fund Investments remain an asset of Rs 44,000 because no sale or redemption of investments is stated. Do not reduce the investment merely because the fund balance decreased.

Balance Sheet of the Sports Club (extract)

Liabilities	Rs	Assets	Rs
Prize Fund (closing)	4,000	Prize Fund Investments	44,000

These are extracts only; the club's other balances are not supplied, so full statement totals cannot be prepared.

Step 4: Conclusion Show closing 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 the Income and Expenditure Account; adjust the interest and prizes through the Prize Fund.

Quick Tip to Solve: Add the Rs 6,000 interest before deducting prizes; keep the Rs 64,000 match expense outside the restricted Prize Fund.

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 are a revenue expense recorded on the debit side of the Income and Expenditure Account, irrespective of when the purchases are paid for.
- Medicines consumed equal opening stock plus medicines purchased during the year minus closing stock. When cash and credit purchases are both given, their sum gives total purchases directly.

Step 1: Find the total purchases of medicines The question supplies purchases themselves, not merely payments to suppliers. Add the cash purchases to the credit purchases:

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

Opening and closing creditors need no adjustment here. Such adjustments are used to derive credit purchases from cash paid when purchases are not already known. Applying them again would count settlement timing twice.

Step 2: Adjust purchases for the change in stock Opening stock was available for use during the year, so add it. Closing stock remains unused at year-end, so deduct it. The working is:

Working Note: Medicines Consumed

Particulars	Amount (Rs)
Opening stock on 1 April 2018	60,000
Add: Purchases during the year	3,22,500
Medicines available for consumption	3,82,500
Less: Closing stock on 31 March 2019	(10,000)
Medicines consumed during the year	3,72,500

The Rs 22,000 advance for medicines is an asset representing payment before receipt of medicines; it is not medicines consumed. Since actual purchases are already given, it does not alter the above

purchases figure.

Step 3: Present the expense in the financial statement The amount consumed relates to the year ended 31 March 2019 and is shown as expenditure. The relevant extract is:

Income and Expenditure Account (extract)
For the year ended 31 March 2019

Dr. Expenditure	Rs	Cr. Income	Rs
To Medicines Consumed	3,72,500		

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

Quick Tip to Solve: When purchases are already stated, use opening stock plus both types of purchases minus closing stock; do not adjust creditors again.

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15. 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 maximum registered share capital; issued capital is the face value of shares offered for subscription. These amounts are disclosed separately in the share capital note.
- After forfeiture, the forfeited shares cease to form part of subscribed capital. The amount already received on those shares is shown separately as shares forfeited under Share Capital until their reissue.

Step 1: Calculate the capital categories and the forfeited amount The registered capital is Rs 85,00,000, comprising $85,00,000/100 = 85,000$ equity shares. The company issued 45,000 shares, so issued capital is $45,000 \times 100 =$ Rs $45,00,000$. Only 42,000 shares were subscribed and allotted.

The final call per share is $100 - 25 - 35 - 25 =$ Rs 15. Kavi paid the application and allotment amounts, totalling $25 + 35 =$ Rs 60 per share, but did not pay either call. Consequently:

$$\begin{aligned} \text{Calls unpaid on forfeited shares} &= 3,300(25+15) = \text{Rs } 1,32,000, \\ \text{Amount forfeited} &= 3,300(25+35) = \text{Rs } 1,98,000, \\ \text{Remaining subscribed shares} &= 42,000 - 3,300 = 38,700, \\ \text{Fully paid subscribed capital} &= 38,700 \times 100 = \text{Rs } 38,70,000. \end{aligned}$$

The unpaid calls on Kavi's shares are cancelled when those shares are forfeited; therefore they are not

deducted again from the remaining fully paid capital.

Step 2: Present the Balance Sheet extract and supporting note **Raunit Styles Ltd. — Balance Sheet (Extract)**

Particulars	Note	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	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: Shares forfeited (amount originally paid on 3,300 shares)	1,98,000
Total Share Capital	**40,68,000**

There is no subscribed but not fully paid-up capital remaining, since all 3,300 defaulting shares have been forfeited and no other default is stated.

Step 3: Conclusion Share Capital is shown at $\boxed{\text{Rs } 40,68,000}$ under Shareholders' funds: fully paid-up subscribed capital of Rs 38,70,000 plus forfeited shares' paid amount of Rs 1,98,000.

Quick Tip to Solve: Remove all 3,300 forfeited shares from subscribed capital, then add only the Rs 60 per share already received on them; do not deduct their unpaid calls twice.

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16. Manu, Sonu and Tony were partners in a firm sharing profits in the ratio of 5 : 3 : 2. The firm closes its books on 31st March every year. Manu died on 31st July, 2019. His executor is entitled to :

(i) His capital ₹ 4,00,000 and his share of goodwill. Goodwill of the firm was valued at ₹ 96,000.

(ii) His share of profit till the date of his death which will be calculated on the basis of average profits of last 3 years.

(iii) Average profits of last 3 years were ₹ 78,000.

(iv) Interest on capital @ 6% p.a.

(v) His drawings till the date of death were ₹ 21,000.

Prepare Manu's Capital Account to be rendered to his executors. [4 marks]

Solution:

Concept:

- A deceased partner's capital account is credited with opening capital, goodwill entitlement, profit up to death and interest on capital. Drawings are debited; the net balance is payable to the executor.
- Profit up to death is estimated using annual average profit multiplied by the fraction of the year elapsed and the deceased partner's old profit-sharing fraction. Interest on capital is also restricted

to the period up to death.

Step 1: Determine Manu's entitlements up to 31st July, 2019 Manu's share of profits is $5/(5+3+2) = 1/2$. The accounting year began on 1st April, 2019, so the period from the last closing date to his death is four months: April to July inclusive.

$$\text{Manu's share of goodwill} = 96,000 \times \frac{5}{10} = \text{Rs } 48,000,$$
$$\text{Estimated profit up to death} = 78,000 \times \frac{4}{12} = \text{Rs } 26,000,$$
$$\text{Manu's share of that profit} = 26,000 \times \frac{5}{10} = \text{Rs } 13,000,$$
$$\text{Interest on capital} = 4,00,000 \times \frac{6}{100} \times \frac{4}{12} = \text{Rs } 8,000.$$

The Rs 78,000 is already the average annual profit, so it is not divided by three again. Since no revised ratio is given, Sonu and Tony continue in their existing relative ratio of $3:2$; they bear Manu's goodwill in that gaining ratio. Their debits are $48,000 \times 3/5 = \text{Rs } 28,800$ and $48,000 \times 2/5 = \text{Rs } 19,200$, respectively.

Step 2: Prepare Manu's Capital Account **Manu's Capital Account as at 31st July, 2019**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Drawings A/c	21,000	By Balance b/d	4,00,000
To Balance c/d (due to executor)	4,48,000	By Sonu's Capital A/c (goodwill)	28,800
		By Tony's Capital A/c (goodwill)	19,200
		By Profit and Loss Suspense A/c	13,000
		By Interest on Capital A/c	8,000
Total	**4,69,000**	**Total**	**4,69,000**

The balancing credit entitlement of Rs 4,48,000 is transferred to Manu's Executor's Account by debiting Manu's Capital Account and crediting the Executor's Account. Thus, when closing the capital account directly, the debit-side balancing entry is written as "To Manu's Executor's A/c" for the same amount.

Check: $4,00,000 + 48,000 + 13,000 + 8,000 - 21,000 = \text{Rs } 4,48,000$. No interest on drawings is charged because none is specified in the question.

Step 3: Conclusion The amount payable to Manu's executor is $\boxed{\text{Rs } 4,48,000}$. Manu's Capital Account balances at Rs 4,69,000 on each side before the amount due is transferred to the Executor's Account.

Quick Tip to Solve: Use four months from 1st April to 31st July for both profit and interest; apply Manu's one-half share only to profit and goodwill, not to his own capital.

17. 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 partnership deed is silent, interest on partners' drawings is not charged. Interest already charged must therefore be refunded to the partners concerned.
- For equal monthly drawings with no withdrawal dates specified, use an average period of six months. Interest equals total annual drawings multiplied by the annual rate and by $6/12$.
- Wrongly charged interest increased divisible profit. Reverse both the interest charged and the extra profit credited in the profit-sharing ratio $2 : 1 : 1$, then record only the net adjustment.

Step 1: Calculate the wrongly charged interest **Working Notes**

Since neither the beginning nor the end of each month is specified, the average period is six months. Ram's annual drawings were Rs $3,000 \times 12 = 36,000$, and Mohan's were Rs $4,000 \times 12 = 48,000$.

$$\text{Ram's interest} = 36,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,080,$$
$$\text{Mohan's interest} = 48,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,440.$$

Thus Rs $1,080 + 1,440 = 2,520$ was wrongly added to divisible profit. No drawings or interest charge is stated for Sohan.

Step 2: Determine each partner's net adjustment Refund the interest by crediting Ram with Rs 1,080 and Mohan with Rs 1,440. At the same time, debit the partners for their shares of the excess profit of Rs 2,520: Ram Rs $2,520 \times 2/4 = 1,260$, Mohan Rs $2,520 \times 1/4 = 630$, and Sohan Rs 630.

Adjustment	Ram (Rs)	Mohan (Rs)	Sohan (Rs)
Refund interest: credit	1,080	1,440	–
Reverse excess profit: debit	1,260	630	630
Net adjustment	180 Dr.	810 Cr.	630 Dr.

The net debits are Rs $180 + 630 = 810$, exactly equal to Mohan's net credit. The entry redistributes partners' balances without changing the firm's total capital.

Step 3: Pass the rectifying entry **Journal**

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 wrongly charged interest on drawings and the resulting excess profit distribution rectified by a net adjustment)			

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, then reverse the Rs 2,520 excess profit in the ratio 2:1:1. Net each partner's debit and credit before writing the single adjustment entry.

OR

17. 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:

- The Profit and Loss Appropriation Account shows the distribution of net profit among partners. Interest on drawings is credited, while interest on capital and the remaining profit shares are debited.
- Interest on capital equals capital multiplied by the annual rate and the time fraction. With unchanged opening capitals, the full year's interest is allowed.
- When annual drawings are given without dates, calculate interest for an average period of six months. Because capitals are fixed, all appropriations are credited to partners' current accounts.

Step 1: Calculate interest on capital and drawings **Working Notes**

All three capitals stood on 1st April, 2018 and no change in capital is given. Interest at 6% for the year is therefore:

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

Total interest on capital is Rs $54,000 + 30,000 + 24,000 = 1,08,000$. Apply 8% to each partner's annual drawings for six months, since their withdrawal dates are not stated:

$$\text{Yadu} = 80,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs } 3,200,$$
$$\text{Vidu} = 70,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs } 2,800,$$
$$\text{Radhu} = 50,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs } 2,000.$$

Total interest on drawings is Rs $3,200 + 2,800 + 2,000 = 8,000$.

Step 2: Determine the distributable profit The given profit of Rs 2,53,000 is already after interest on Yadu's loan. Loan interest is a charge against profit, so no further loan-interest deduction is made in this appropriation account. Adding interest on drawings and deducting interest on capital gives:

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

Share this amount in the ratio $4 : 3 : 3$:

$$\text{Yadu} = 1,53,000 \times \frac{4}{10} = \text{Rs } 61,200,$$
$$\text{Vidu} = 1,53,000 \times \frac{3}{10} = \text{Rs } 45,900,$$
$$\text{Radhu} = 1,53,000 \times \frac{3}{10} = \text{Rs } 45,900.$$

Step 3: Prepare the appropriation account **Profit and Loss Appropriation Account for the year ended 31st March, 2019**

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

The credit total of Rs 2,61,000 equals interest on capital of Rs 1,08,000 plus profit transferred of Rs 1,53,000. The appropriation account is fully closed by these transfers, so it carries no balance forward.

Step 4: Conclusion The Profit and Loss Appropriation Account totals Rs 2,61,000 on each side. The residual profit of Rs 1,53,000 is credited to Yadu, Vidu and Radhu's Current Accounts as Rs 61,200, Rs 45,900 and Rs 45,900 respectively, in addition to their interest on capital.

Quick Tip to Solve: Start with the profit already after loan interest; do not deduct it again. Add Rs 8,000 interest on drawings, allow Rs 1,08,000 interest on capital, and divide the remainder in 4:3:3.

18. Rakesh, Ram and Rohan were partners sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2018, their Balance Sheet was as follows :

Balance Sheet of Rakesh, Ram and Rohan as at 31st March, 2018

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	70,000	Land and Building	3,50,000
Rohan's Loan	20,000	Stock	3,00,000
Mrs. Rohan's Loan	20,000	Debtors 2,00,000 Less : Provision for doubtful debts 10,000	1,90,000
Capitals : Rakesh 4,00,000 Ram 3,00,000 Rohan 1,00,000	8,00,000	Cash	70,000
	9,10,000		9,10,000

The firm was dissolved on the above date on the following terms :

(i) Land and building and stock were sold for ₹ 6,00,000. Debtors were realised at 10% less than the book value.

(ii) Mrs. Rohan's loan was settled by giving her an unrecorded computer of ₹ 22,000.

(iii) Rakesh paid off one of the creditors ₹ 20,000 in settlement of ₹ 30,000.

(iv) Rohan's loan was fully settled at ₹ 18,500.

Prepare Realisation Account. [4 marks]

Solution:

Concept:

- Realisation Account records the transfer and disposal of non-cash assets and external liabilities. Assets are transferred at gross book values; the provision for doubtful debts is credited separately.
- A partner's loan is settled through the loan account. Any amount waived by the partner is a gain transferred to Realisation Account. Realisation profit or loss is shared in the old profit-sharing ratio.

Step 1: Work out the realisations and settlements **Working Notes**

Land and building and stock realise Rs 6,00,000 together. Debtors have a gross book value of Rs 2,00,000, so their realisation is

$$2,00,000 \times \frac{90}{100} = \text{Rs } 1,80,000.$$

The separate provision of Rs 10,000 is transferred to the credit of Realisation Account. Total cash proceeds are therefore Rs 7,80,000. Rakesh actually pays Rs 20,000 to settle creditors of Rs 30,000; debit Realisation and credit his capital by Rs 20,000. The remaining creditors, Rs 40,000, are paid in cash. Mrs. Rohan's loan of Rs 20,000 is an external liability and is transferred to Realisation. Her acceptance of an unrecorded computer in full settlement requires no further entry: neither the computer's stated Rs 22,000 value nor its exchange is entered separately in Realisation. Rohan's own

loan is not transferred to Realisation. Its settlement gives a gain of

$$20,000 - 18,500 = \text{Rs } 1,500,$$

credited to Realisation by debiting Rohan's Loan Account; the Rs 18,500 payment is recorded directly in that loan account.

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

Dr. Particulars	Rs	Cr. Particulars	Rs
To Land and Building	3,50,000	By Provision for Doubtful Debts	10,000
To Stock	3,00,000	By Sundry Creditors	70,000
To Debtors	2,00,000	By Mrs. Rohan's Loan	20,000
To Rakesh's Capital	20,000	By Cash (assets realised)	7,80,000
To Cash (creditors)	40,000	By Rohan's Loan (gain)	1,500
		By Partners' Capital Accounts (loss):	
		Rakesh	14,250
		Ram	8,550
		Rohan	5,700
Total	**9,10,000**	**Total**	**9,10,000**

The debit total before closing is Rs 9,10,000 and the credit total before loss transfer is Rs 8,81,500. Their difference is Rs 28,500. Allocate this loss in the ratio $5:3:2$: Rakesh $28,500 \times 5/10 = 14,250$, Ram $28,500 \times 3/10 = 8,550$, and Rohan $28,500 \times 2/10 = 5,700$. These amounts debit the partners' capital accounts and close Realisation, leaving no balance carried forward.

Step 3: Conclusion Realisation loss is **Rs 28,500**, borne by Rakesh Rs 14,250, Ram Rs 8,550 and Rohan Rs 5,700. The Realisation Account balances at Rs 9,10,000 on each side.

Quick Tip to Solve: Transfer gross debtors and their provision separately. Distinguish Rohan's partner loan from Mrs. Rohan's external loan, and record only Rakesh's actual creditor payment of Rs 20,000.

19. From the following Receipts and Payments Account of Vista Club, prepare an Income and Expenditure Account for the year ended 31st March, 2019 :

Receipts and Payments Account of Vista Club for the year ended 31st March, 2019

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	5,000	By Salaries	31,000
To Subscriptions : 2017 – 18 11,600 2018 – 19 73,000 2019 – 20 8,000	92,600	By Electricity Expenses	14,500
		By Machinery (01.07.2018)	40,000
		By 8% Investments	30,000
		By Balance c/d	5,100
To Sale of old furniture (Book value of ₹ 2,000)	800		
To Entrance Fees	22,000		
To Interest on Investment	200		
	1,20,600		1,20,600

Additional Information :

(i) The club had 50 members each paying an annual subscription of ₹ 1,500. Subscriptions in arrears on 31st March, 2018, were ₹ 15,000.

(ii) On 31st March, 2019, outstanding salaries were ₹ 4,000.

(iii) 8% Investments were made on 31st December, 2018.

(iv) The club owned machinery of ₹ 1,00,000 on 1st April, 2018. Depreciate machinery @ 6% p.a.

[6 marks]

Solution:

Concept:

- An Income and Expenditure Account includes revenue income and revenue expenses of the current year on the accrual basis, regardless of when the cash is received or paid.
- Capital purchases and opening or closing cash balances are excluded. Depreciation and loss on disposal are expenses. Entrance fees are treated as revenue when no instruction to capitalise them is given.

Step 1: Calculate the current year's subscription and interest income **Working Notes**

The club has 50 members each liable to pay an annual subscription of Rs 1,500:

$$\text{Subscription income} = 50 \times 1,500 = \text{Rs } 75,000.$$

Of the cash received, Rs 11,600 relates to the previous year and Rs 8,000 to the next year, so neither is current-year income. Current-year receipts of Rs 73,000 leave Rs 2,000 outstanding for 2018–19. The old arrears still outstanding are $15,000 - 11,600 = \text{Rs } 3,400$, making total closing arrears Rs 5,400. A full reconciliation is

$$92,600 + 5,400 - 15,000 - 8,000 = \text{Rs } 75,000.$$

The investments earn interest from 31st December, 2018 to 31st March, 2019, a period of three months:

$$30,000 \times \frac{8}{100} \times \frac{3}{12} = \text{Rs } 600.$$

Rs 200 has been received, so Rs 400 is accrued interest. Include the full Rs 600 in income and include entrance fees of Rs 22,000 as revenue.

Step 2: Adjust expenses and separate capital payments Salaries for the year equal the amount paid plus closing outstanding salaries:

$$31,000 + 4,000 = \text{Rs } 35,000.$$

Electricity expense is Rs 14,500. The sale of furniture produces a loss, rather than revenue of Rs 800:

$$\text{Loss on furniture} = 2,000 - 800 = \text{Rs } 1,200.$$

The machinery held on 1st April is depreciated for a full year, while the machinery bought on 1st July is depreciated for nine months:

$$\text{Old machinery depreciation} = 1,00,000 \times 6\% = \text{Rs } 6,000,$$

$$\text{New machinery depreciation} = 40,000 \times 6\% \times \frac{9}{12} = \text{Rs } 1,800,$$

$$\text{Total depreciation} = 6,000 + 1,800 = \text{Rs } 7,800.$$

The Rs 40,000 machinery purchase and Rs 30,000 investment purchase create assets; they are excluded from expenditure. Cash balances of Rs 5,000 and Rs 5,100 also do not belong to this account.

Step 3: Prepare the Income and Expenditure Account **Vista Club**

Income and Expenditure Account for the year ended 31st March, 2019

Dr. Expenditure	Rs	Cr. Income	Rs
To Salaries	35,000	By Subscriptions	75,000
To Electricity Expenses	14,500	By Entrance Fees	22,000
To Loss on Sale of Furniture	1,200	By Interest on Investments	600
To Depreciation on Machinery	7,800		
To Surplus (transferred to Capital Fund)	39,100		
Total	**97,600**	**Total**	**97,600**

Check: total revenue expenses are $35,000 + 14,500 + 1,200 + 7,800 =$ Rs $58,500$; revenue income is $75,000 + 22,000 + 600 =$ Rs $97,600$. The excess is transferred to the Capital Fund.

Step 4: Conclusion Vista Club has a **surplus of Rs 39,100** for the year ended 31st March, 2019. The Income and Expenditure Account totals Rs 97,600 on each side.

Quick Tip to Solve: Use members times annual subscription to determine this year's subscription income. Depreciate July's machinery addition for nine months and accrue only three months' investment interest.

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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 recorded at the agreed values. The excess of their net value over purchase consideration is credited to Capital Reserve.
- Debentures issued for consideration other than cash are credited at face value; the excess of issue price over face value is Securities Premium.
- Loss on Issue of Debentures includes both discount on issue and premium payable on redemption. Application and allotment accounts record the amounts due and received separately.

Step 1: (i) Calculate capital reserve and the debenture issue **Working Notes:** Vayee Ltd. records the

assets at the agreed purchase values, not their book values in E.X. Ltd.

$$\begin{aligned}\text{Agreed asset value} &= 84,00,000 + 36,00,000 = \text{Rs } 1,20,00,000,\\ \text{Capital reserve} &= 1,20,00,000 - 1,10,00,000 = \text{Rs } 10,00,000,\\ \text{Balance payable by debentures} &= 1,10,00,000 - 20,00,000 = \text{Rs } 90,00,000.\end{aligned}$$

Issue price per debenture is $100 + 20 = \text{Rs } 120$. Therefore, the number issued is $90,00,000/120 = 75,000$. Their face value is Rs 75,00,000 and the securities premium is Rs 15,00,000. The 8% coupon rate does not determine the issue price.

Step 2: (i) Record Vayee Ltd.'s purchase and payment **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 at agreed values and capital reserve 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 A/c			15,00,000
	(Being purchase consideration discharged by accepting a bill and issuing 75,000 debentures at 20% premium)			

The second entry settles the entire vendor liability: Rs 20,00,000 through the bill and Rs 90,00,000 through the debenture issue.

Step 3: (ii) Calculate application, allotment and loss on issue **Working Notes:** Zed Ltd.'s total nominal capital is $2,00,000 \times 100 = \text{Rs } 2,00,00,000$. Issue price per debenture is $100 - 6 = \text{Rs } 94$, so allotment money is $94 - 50 = \text{Rs } 44$ per debenture.

$$\begin{aligned}\text{Application money} &= 2,00,000 \times 50 = \text{Rs } 1,00,00,000,\\ \text{Allotment money} &= 2,00,000 \times 44 = \text{Rs } 88,00,000,\\ \text{Discount on issue} &= 2,00,00,000 \times 6\% = \text{Rs } 12,00,000,\\ \text{Premium on redemption} &= 2,00,00,000 \times 10\% = \text{Rs } 20,00,000,\\ \text{Loss on issue} &= 12,00,000 + 20,00,000 = \text{Rs } 32,00,000.\end{aligned}$$

The redemption premium is recognised when the debentures are issued even though it becomes payable after five years. It does not reduce the allotment money receivable.

Step 4: (ii) Record Zed Ltd.'s issue of debentures **Journal of Zed Ltd.**

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

Total bank receipts are Rs 1,88,00,000, while the debentures account is credited with the full face value of Rs 2,00,00,000. Interest and actual redemption entries are outside the issue transactions requested.

Step 5: Conclusion Vayee Ltd. recognises capital reserve of Rs 10,00,000 and issues 75,000 debentures with securities premium of Rs 15,00,000. 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: Divide the vendor balance by the issue price of Rs 120, not the face value. For Zed Ltd., subtract the Rs 6 discount before calculating the Rs 44 allotment instalment.

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 the stated redemption date, Debenture Redemption Reserve (DRR) is maintained at 25% of the nominal value of debentures issued. Only the shortfall over the existing reserve is appropriated from profits.
- Debenture Redemption Investment (DRI) equals 15% of debentures maturing during the financial year. This investment is distinct from the reserve appropriation.
- On redemption, the debenture liability is transferred to debentureholders and then paid. The

proportionate DRR relating to the debentures redeemed is transferred to General Reserve.

Step 1: Calculate the reserve shortfall and required investment **Working Notes:** Total debentures issued are $20,000 \times 100 = \text{Rs } 20,00,000$, whereas the debentures becoming due on 31st March, 2019 are $8,000 \times 100 = \text{Rs } 8,00,000$.

$$\text{Required DRR} = 20,00,000 \times 25\% = \text{Rs } 5,00,000,$$
$$\text{Additional transfer to DRR} = 5,00,000 - 4,40,000 = \text{Rs } 60,000,$$
$$\text{Required DRI} = 8,00,000 \times 15\% = \text{Rs } 1,20,000.$$

The reserve requirement uses the entire nominal issue, but the investment requirement uses only the amount due for redemption during the relevant year. The existing Rs 4,40,000 reserve is already in the books and must not be recorded as a fresh credit.

Step 2: Record the reserve appropriation and investment **Journal of Mahesh Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
Before redemption	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being additional profit appropriated to bring DRR to Rs 5,00,000)		60,000	 60,000
1 Apr. 2018	Debenture Redemption Investment A/c Dr. To Bank A/c (Being 15% of the debentures due for redemption invested)		1,20,000	 1,20,000

The appropriation is a transfer within equity; creating DRR does not itself put money into a bank or investment account. The second entry separately records the investment made on the date specified in the question.

Step 3: Realise the investment and redeem the debentures No premium on redemption is specified, so redemption takes place at the nominal amount of Rs 8,00,000. As no gain or loss on sale of the investment is given, its realisation is recorded at book value.

Journal of Mahesh Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment realised at book value)		1,20,000	 1,20,000
31 Mar. 2019	10% Debentures A/c Dr. To Debentureholders A/c (Being 8,000 debentures of Rs 100 each due for redemption at par)		8,00,000	 8,00,000
31 Mar. 2019	Debentureholders A/c Dr. To Bank A/c (Being the amount due paid to debentureholders)		8,00,000	 8,00,000

The investment provides Rs 1,20,000 of the redemption cash; the remaining Rs 6,80,000 is met from the company's other bank funds. The 10% rate concerns interest only, whose entries are expressly

excluded.

Step 4: Transfer the proportionate reserve after redemption Only $8,000/20,000$ of the issue has been redeemed. The reserve released is therefore

$$5,00,000 \times \frac{8,000}{20,000} = \text{Rs } 2,00,000.$$

Journal of Mahesh Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Debenture Redemption Reserve A/c Dr.		2,00,000	
	To General Reserve A/c			2,00,000
	(Being proportionate DRR transferred after redemption of 8,000 debentures)			

The remaining DRR is $5,00,000 - 2,00,000 = \text{Rs } 3,00,000$, equal to 25% of the Rs 12,00,000 debentures still outstanding. Thus the entire reserve is not released while part of the issue remains unredeemed.

Step 5: Conclusion Mahesh Ltd. adds Rs 60,000 to DRR, invests and realises Rs 1,20,000, redeems debentures of Rs 8,00,000 at par, and transfers Rs 2,00,000 from DRR to General Reserve. DRR of Rs 3,00,000 remains against the outstanding debentures.

Quick Tip to Solve: Keep three bases separate: 25% of the total issue for DRR, 15% of this year's maturity for DRI, and the redeemed proportion for the transfer to General Reserve.

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21. (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, debit Securities Premium Reserve only for unpaid premium already credited, and credit unpaid instalments and Share Forfeiture with the capital amount actually received.
- Excess application money is adjusted towards allotment capital first and then towards premium. Premium received is never credited to Share Forfeiture.
- Reissue discount is debited to Share Forfeiture. Transfer to Capital Reserve only the forfeiture relating to reissued shares, less their reissue discount; retain the balance for unreissued shares.

Step 1: (i) R.P. Ltd.: calculate paid capital and unpaid premium Rahim applied for 3,000 shares and received 1,500 shares. Application money received was $3,000 \times 3 =$ Rs $9,000$. Application due on allotted shares was $1,500 \times 3 =$ Rs $4,500$; hence excess application of Rs 4,500 was adjusted towards allotment.

$$\text{Allotment due} = 1,500 \times 5 = \text{Rs } 7,500,$$

$$\text{Allotment capital} = 1,500 \times 2 = \text{Rs } 3,000,$$

$$\text{Allotment premium} = 1,500 \times 3 = \text{Rs } 4,500.$$

The excess first meets allotment capital of Rs 3,000; the remaining Rs 1,500 meets premium. Thus unpaid allotment is Rs 3,000, consisting wholly of unpaid premium. First call unpaid is $1,500 \times 3 =$ Rs $4,500$. Final call of Rs 2 per share has not been made, so called-up capital is only Rs 8 per share. Capital received is application capital Rs 4,500 plus allotment capital Rs 3,000, namely Rs 7,500.

Step 2: (i) Record forfeiture and reissue in R.P. Ltd. **Journal of R.P. Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		12,000	
	Securities Premium Reserve A/c Dr.		3,000	
	To Share Allotment A/c			3,000
	To Share First Call A/c			4,500
	To Share Forfeiture A/c			7,500
	(Being 1,500 shares forfeited for unpaid allotment and first call; unpaid premium reversed)			
	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 at Rs 8.50 each)			
	Share Forfeiture A/c Dr.		3,500	
	To Capital Reserve A/c			3,500
	(Being profit on reissued shares transferred to capital reserve)			

Forfeiture attributable to the 1,000 reissued shares is $7,500 \times 1,000/1,500 =$ Rs $5,000$. Reissue discount is $10,000 - 8,500 =$ Rs $1,500$, leaving capital profit of Rs 3,500. The remaining 500 forfeited shares retain $7,500 - 5,000 =$ Rs $2,500$ in Share Forfeiture. Reissue as fully paid requires credit of the full Rs 10 face value, despite only Rs 8 having been called before forfeiture.

Step 3: (ii) Max Ltd.: determine forfeiture and reissue amounts All Rs 100 per share had been called.

Amount unpaid per share is $20 + 25 =$ Rs 45, so capital received per share is $100 - 45 =$ Rs 55. For 500 shares, Share Forfeiture is credited with $500 \times 55 =$ Rs $27,500$; unpaid first and final calls are Rs 10,000 and Rs 12,500 respectively.

On reissue of 250 shares, bank receives $250 \times 50 =$ Rs $12,500$, while fully paid capital is Rs 25,000. The Rs 12,500 discount is within the $250 \times 55 =$ Rs $13,750$ forfeiture available on those shares. Therefore their remaining forfeiture is transferred to Capital Reserve.

Step 4: (ii) Record Max Ltd. journal entries **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 fully called shares forfeited for non-payment of first and final calls)			
	Bank A/c Dr.		12,500	
	Share Forfeiture A/c Dr.		12,500	
	To Share Capital A/c			25,000
	(Being 250 forfeited shares reissued at Rs 50 each as fully paid)			
	Share Forfeiture A/c Dr.		1,250	
	To Capital Reserve A/c			1,250
	(Being profit of Rs 13,750 less reissue discount Rs 12,500 transferred)			

Step 5: (ii) Prepare Share Forfeiture Account **Share Forfeiture Account in the books of Max Ltd.**

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

The closing credit balance belongs to the 250 shares still forfeited: $250 \times 55 =$ Rs $13,750$. It is not transferred to Capital Reserve until those shares are reissued.

Step 6: Conclusion R.P. Ltd.: Capital Reserve Rs 3,500; unreissued-share forfeiture balance Rs 2,500. Max Ltd.: Capital Reserve Rs 1,250; Share Forfeiture credit balance Rs 13,750.

Quick Tip to Solve: For R.P., separate capital from premium within allotment before forfeiture; for both companies, transfer profit only on the shares actually reissued.

OR

21. 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 the ratio of shares offered to shares applied for. Excess application money is transferred to Share Allotment.
- Calls-in-Arrears records amounts called but unpaid. Calls-in-Advance arises only for money received for a call not yet made, not for application money adjusted towards allotment.
- Forfeiture reverses called capital and unpaid premium; capital already received is credited to Share Forfeiture. A reissue above face value creates Securities Premium Reserve.

Step 1: Determine allotment and Rohini's arrears The allotment ratio is $2,40,000 : 3,00,000 = 4 : 5$. Accordingly Rohini receives $7,500 \times 4/5 = 6,000$ shares. She paid application money of $7,500 \times 4 =$ Rs $30,000$. Of this, Rs 24,000 belongs to her allotted shares (Rs 12,000 capital and Rs 12,000 premium); excess Rs 6,000 is adjusted towards allotment capital.

$$\begin{aligned}\text{Rohini's allotment due} &= 6,000 \times 4 = \text{Rs } 24,000,\\ \text{Allotment arrears} &= 24,000 - 6,000 = \text{Rs } 18,000,\\ \text{Call arrears} &= 6,000 \times 6 = \text{Rs } 36,000,\\ \text{Total arrears} &= 18,000 + 36,000 = \text{Rs } 54,000.\end{aligned}$$

The call arrears include premium of $6,000 \times 2 =$ Rs $12,000$. Capital received on these shares is $12,000 + 6,000 =$ Rs $18,000$. Application premium was received and must remain credited.

Step 2: Record application and allotment transactions **Journal of Karur Ltd.: application and allotment**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 3,00,000 shares at Rs 4 each)		12,00,000	 12,00,000

	Share Application A/c Dr.
	  To Share Capital A/c
	  To Securities Premium Reserve A/c
	  To Share Allotment A/c
	(Being application adjusted on 2,40,000 allotted shares and excess transferred to allotment)
			12,00,000	
				4,80,000
				4,80,000
				2,40,000

	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 2,40,000 shares at Rs 4 each)		9,60,000	 9,60,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Allotment A/c (Being balance allotment money received except Rs 18,000 due from Rohini)		7,02,000 18,000	 7,20,000

Total allotment receivable after adjustment is $9,60,000 - 2,40,000 =$ Rs $7,20,000$; cash received is $7,20,000 - 18,000 =$ Rs $7,02,000$.

Step 3: Record the first and final call and forfeiture **Journal of Karur Ltd.: call and forfeiture**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Share First and Final Call A/c Dr.
	  To Share Capital A/c
	  To Securities Premium Reserve A/c
	(Being call due at Rs 6 per share including premium Rs 2 per share)
			14,40,000	
				9,60,000
				4,80,000

	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share First and Final Call A/c (Being call money received except Rs 36,000 due from Rohini)		14,04,000 36,000	 14,40,000

	Share Capital A/c Dr.
	Securities Premium Reserve A/c Dr.
	  To Calls-in-Arrears A/c
	  To Share Forfeiture A/c
	(Being 6,000 shares forfeited; unpaid call premium reversed and capital received retained)
			60,000
			12,000
				
				54,000
				18,000

The forfeiture entry balances: debit $60,000 + 12,000 =$ Rs $72,000$ equals credit $54,000 + 18,000 =$ Rs $72,000$. Only the unpaid call premium is cancelled; application premium remains received.

Step 4: Record reissue and transfer capital profit Number of shares reissued is $6,000 \times 40\% = 2,400$. Cash received is $2,400 \times 11 =$ Rs $26,400$, comprising share capital Rs 24,000 and premium Rs 2,400. Since there is no reissue discount, the whole forfeiture belonging to these shares, $18,000 \times 40\% =$ Rs $7,200$, is transferred to Capital Reserve.

Journal of Karur Ltd.: reissue

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being 2,400 forfeited shares reissued at Rs 11 each as fully paid)		26,400	 24,000 2,400
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture relating to reissued shares transferred to capital reserve)		7,200	 7,200

The forfeiture balance on the 3,600 unreissued shares is $18,000 - 7,200 = \text{Rs } 10,800$.

Step 5: Open Calls-in-Arrears Account and consider advances **Calls-in-Arrears Account in the books of Karur Ltd.**

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

Calls-in-Arrears is fully cleared on forfeiture, so no balance is carried down. No Calls-in-Advance Account is required: all excess application money was adjusted towards allotment, and no money was received for an uncalled instalment.

Step 6: Conclusion Rohini was allotted 6,000 shares; arrears of Rs 54,000 were cleared on forfeiture. Reissue of 2,400 shares yields Securities Premium Reserve Rs 2,400 and Capital Reserve Rs 7,200. Share Forfeiture retains Rs 10,800; no calls-in-advance arise.

Quick Tip to Solve: Apply the 4:5 allotment ratio to Rohini's 7,500 applications first; charge the call only on her 6,000 allotted shares and reverse only its unpaid premium.

22. 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:

- Revaluation losses and existing reserves belong to the old partners in their old profit-sharing ratio, here $3 : 2$.
- Goodwill premium compensates sacrificing partners. With no different sacrifice specified, Badal and Bijli sacrifice in their old ratio.
- Under fixed capitals, goodwill, reserve and revaluation adjustments pass through current accounts. Excess capital is transferred to current account when capitals are aligned with the new ratio.

Step 1: Calculate the ratios and capital adjustments **Working Notes**

Raina receives $1/6$, leaving $5/6$ for the old partners. Hence Badal's new share is $(5/6)(3/5) = 1/2$, and Bijli's is $(5/6)(2/5) = 1/3$. The new ratio is $3 : 2 : 1$, and the sacrificing ratio is $3 : 2$.

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

Required capitals are Badal Rs 1,20,000, Bijli Rs 80,000 and Raina Rs 40,000. Thus Rs 30,000 and Rs 10,000 are transferred from Badal's and Bijli's capital accounts to their respective current accounts; no cash withdrawal is required. The goodwill premium of Rs 12,000 is credited to Badal and Bijli as Rs

7,200 and Rs 4,800. Since no fall in investment value is specified, the entire investment fluctuation reserve of Rs 24,000 is distributed: Badal Rs 14,400 and Bijli Rs 9,600.

Step 2: Prepare the Revaluation Account Building and stock are reduced by Rs 15,000 and Rs 3,000. The new provision is $10\% \times \text{Rs } 20,000 = \text{Rs } 2,000$. Total revaluation loss is Rs 20,000, borne by Badal and Bijli as Rs 12,000 and Rs 8,000. Raina bears none of this pre-admission loss.

Revaluation Account as at 31st March, 2019

Dr. Particulars	Rs	Cr. Particulars	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 Doubtful Debts	2,000		
Total	20,000	Total	20,000

Step 3: Prepare the fixed capital accounts For the following accounts, B denotes Badal, J denotes Bijli and R denotes Raina. All figures are in Rs. The opening capitals remain separate from current-account adjustments. Raina brings Rs 40,000 as capital; her additional Rs 12,000 is goodwill premium, not capital.

Partners' Capital Accounts as at 31st March, 2019

Dr. Particulars	B	J	R	Cr. Particulars	B	J	R
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 Cash	–	–	40,000
Total	1,50,000	90,000	40,000	Total	1,50,000	90,000	40,000

Step 4: Prepare the current accounts Badal starts with a credit current balance of Rs 12,000. Bijli's Rs 2,000 appears on the asset side of the original balance sheet and is therefore a debit balance. Record these on opposite sides, then post the reserve, premium, capital transfers and revaluation loss.

Partners' Current Accounts as at 31st March, 2019

Dr. Particulars	B	J	R	Cr. Particulars	B	J	R
To Balance b/d	–	2,000	–	By Balance b/d	12,000	–	–
To Revaluation	12,000	8,000	–	By Investment Fluctuation 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	–

Raina has no current-account balance. As a check, Badal's credit balance is $12,000 + 14,400 + 7,200 + 30,000 - 12,000 = 51,600$; Bijli's is $-2,000 + 9,600 + 4,800 + 10,000 - 8,000 = 14,400$.

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

Quick Tip to Solve: First derive total capital from Raina's Rs 40,000 for a one-sixth share. Keep Bijli's opening Rs 2,000 current balance on the debit side, and transfer excess fixed capitals to current accounts.

OR

22. 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 credited to all old partners in the old profit-sharing ratio, including the retiring partner.
- Goodwill compensation is debited to the gaining partners and credited to the retiring partner. Kumar's stated compensation is Rs 8,000 from Prem and Rs 4,000 from Aarti.
- After all adjustments, the retiring partner's balance is settled by the specified cash payment and the balance by bills payable. The reconstituted balance sheet shows revised assets and remaining liabilities.

Step 1: Calculate reserve and revaluation adjustments **Working Notes**

The old ratio is $5 : 3 : 2$. General reserve of Rs 8,000 is distributed as Rs 4,000, Rs 2,400 and Rs

1,600. Investments are sold above book value, so the investment fluctuation reserve of Rs 2,000 is no longer needed and is credited as Rs 1,000, Rs 600 and Rs 400 to Prem, Kumar and Aarti respectively. Investment sale profit is $11,000 - 10,000 =$ Rs $1,000$. Stock rises by Rs 1,000 and building by Rs 7,000; recognising the unrecorded creditor creates a loss of Rs 7,000. Therefore:

$$\text{Revaluation profit} = 1,000 + 7,000 + 1,000 - 7,000 = \text{Rs } 2,000.$$

Prem, Kumar and Aarti receive Rs 1,000, Rs 600 and Rs 400 respectively. The investment reserve is an accumulated reserve, so its distribution is kept separate from the Rs 1,000 sale profit.

Step 2: Prepare the Revaluation Account Credit asset increases and the gain on sale of investments; debit the additional liability. Transfer the resulting profit to the old partners' capital accounts.

Revaluation Account as at 31st March, 2019

Dr. Particulars	Rs	Cr. Particulars	Rs
To Sundry 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 Investments (sale gain)	1,000
To Aarti's Capital A/c	400		
Total	9,000	Total	9,000

Step 3: Determine goodwill and settlement amounts Kumar's capital is credited with total goodwill of Rs 12,000; Prem and Aarti are debited Rs 8,000 and Rs 4,000. Their gaining ratio is $2:1$. Kumar's old share of $3/10$ is acquired as $2/10$ and $1/10$, giving new shares $7/10$ and $3/10$, or $7:3$. Kumar's amount due is:

$$20,000 + 2,400 + 600 + 600 + 12,000 = \text{Rs } 35,600.$$

After paying Rs 30,000 in cash, the remaining Rs 5,600 is transferred to Bills Payable. Prem and Aarti contribute the Rs 30,000 in the ratio $2:1$, namely Rs 20,000 and Rs 10,000. These contributions increase their capitals.

Step 4: Prepare the partners' capital accounts P denotes Prem, K denotes Kumar and A denotes Aarti. All figures are in Rs. The goodwill adjustment transfers value between partners; no goodwill asset is raised.

Partners' Capital Accounts as at 31st March, 2019

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

Step 5: Prepare the reconstituted balance sheet Closing cash is $25,000 + 11,000 + 30,000 - 30,000 =$ Rs $36,000$. Investments are removed because they were sold; creditors become $10,000 + 7,000 =$

Rs $17,000$. Building becomes Rs 32,000 and stock Rs 6,000. Both reserves have been distributed, and Kumar's capital has been fully settled.

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

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

The capital subtotal of Rs 76,400 is included once in the total liabilities. Assets independently total $32,000 + 15,000 + 10,000 + 6,000 + 36,000 =$ Rs $99,000$, confirming the balance.

Step 6: Conclusion Revaluation profit is Rs 2,000. Kumar receives Rs 30,000 cash and a bill for Rs 5,600. Prem's and Aarti's closing capitals are Rs 48,000 and Rs 28,400, and the reconstituted balance sheet totals Rs 99,000.

Quick Tip to Solve: Distribute the unused investment reserve separately from the gain on sale. Include both the partners' cash contributions and Kumar's cash payment when calculating closing cash.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

23. Which of the following is not an objective of Analysis of Financial Statements : [1 mark]

(A) To judge the financial health of the firm.

(B) To judge the short-term and long-term liquidity position of the firm.

(C) To judge the reasons for change in the profitability of the firm.

(D) To judge the variations in the accounting practices of the business followed by different enterprises.

Correct Answer: (D) To judge the variations in the accounting practices of the business followed by different enterprises.

Solution:

Concept:

- Financial statement analysis interprets accounting information to assess financial position and operating performance.
- Differences in accounting policies between enterprises affect comparability; identifying such variations is not itself an objective of financial statement analysis.

Step 1: Identify the financial assessments Option (A) concerns the firm's financial health, option (B) concerns its ability to meet short-term and long-term obligations, and option (C) concerns the reasons for changes in profitability. These are all objectives of analysis, so none answers the negative wording of the question.

Step 2: Distinguish a comparability limitation Option (D) focuses on variations in accounting practices

followed by different enterprises. Such variations can make comparisons misleading and must be considered while analysing statements, but judging those variations is not an objective of the analysis itself.

Step 3: Conclusion Judging variations in accounting practices followed by different enterprises is not an objective of analysis of financial statements. Hence, the correct option is (D).

Quick Tip to Solve: For a question asking what is not an objective, separate performance and liquidity assessments from limitations such as differing accounting policies.

24. What will be the impact of 'issuing ₹ 5,00,000 equity shares to vendors of machinery' on the Debt-Equity Ratio of 2 : 1 ? [1 mark]

Solution:

Concept:

- Debt-equity ratio compares long-term debt with shareholders' funds: D/E, where D denotes debt and E denotes equity.
- An issue of equity shares increases shareholders' funds, even when shares are issued for an asset instead of cash.

Step 1: Identify the changes in debt and equity The company acquires machinery and issues equity shares worth Rs 5,00,000 to its vendors. Share capital therefore increases by Rs 5,00,000. No additional long-term debt is raised, so the numerator of the ratio remains unchanged.

Step 2: Compare the revised ratio with the original ratio Originally, $D/E = 2$, so $D = 2E$. After the issue, the ratio is

$$\frac{D}{E + 5,00,000} = \frac{2E}{E + 5,00,000} < 2.$$

The larger equity denominator reduces the ratio. A precise new numerical ratio cannot be obtained without the original equity amount.

Step 3: Conclusion The debt-equity ratio will decrease from $2 : 1$.

Quick Tip to Solve: Shares issued for machinery still increase equity; check the ratio's denominator even though no cash is received.

25. Total amount of Trade Receivables of Ashoka Ltd. as on 31st March, 2019 were ₹ 3,00,000. It had created a provision of 5% for bad and doubtful debts. What amount of Trade Receivables will be taken to calculate 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, trade receivables are taken before deducting the provision for doubtful debts; the provision is a valuation adjustment, not a collection from customers.

Step 1: Identify the gross receivables The total trade receivables given on 31st March, 2019 are Rs 3,00,000. This represents the amount owing from customers before the provision is deducted.

Step 2: Apply the turnover-ratio treatment The provision is $3,00,000 \times 5\% = \text{Rs } 15,000$. Deducting it would give a net balance-sheet value of Rs 2,85,000. However, turnover is calculated using gross receivables, so this provision is not deducted from the amount used in the ratio.

Step 3: Conclusion Trade receivables of $\boxed{\text{Rs } 3,00,000}$ will be taken for calculating the trade receivables turnover ratio.

Quick Tip to Solve: Use gross debtors and bills receivable for turnover; add back a provision only when the stated receivables are already net.

26. 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 and subject to an insignificant risk of changes in value.
- The normal short-maturity test is three months or less from the date of acquisition, rather than from the reporting date.

Step 1: Apply the maturity criterion The question asks for the normal maximum maturity period measured from acquisition. An investment ordinarily satisfies this timing requirement when its maturity is three months or less. The other liquidity and risk conditions must also be satisfied.

Step 2: Check the printed options Option (A), one month or less, is unnecessarily restrictive: a qualifying two-month investment can also be a cash equivalent. Option (B) states the normal threshold correctly. Option (C) allows maturities longer than three months and reverses the intended limit. Option (D), one year or less, is too broad.

Step 3: Conclusion The normal maturity period is **three months or less** from acquisition. Hence, the correct option is (B).

Quick Tip to Solve: Start the three-month maturity test on the acquisition date; do not reset it at the balance-sheet date.

27. 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:

- Financing activities change the size or composition of owners' capital and borrowings. Cash proceeds from issuing debentures are financing inflows.
- For a non-financial company, interest paid on borrowings is a financing cash outflow. Net financing cash flow is financing receipts less financing payments.

Step 1: Calculate the issue proceeds and interest Micro Ltd. receives $20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000$ from the debenture issue. The interest paid is Rs 80,000. It also agrees with six months' interest from 1st October to 31st March:

$$20,00,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs } 80,000.$$

Step 2: Present the financing cash flows **Micro Ltd.: Cash Flow Statement (extract)**
For the period ended 31st March, 2019

Particulars	Amount (Rs)
Cash flows from financing activities	
Proceeds from issue of debentures	20,00,000
Interest paid on debentures	(80,000)
Net cash from financing activities	**19,20,000**

Step 3: Conclusion Net cash inflow from financing activities is $\boxed{\text{Rs } 19,20,000}$.

Quick Tip to Solve: Deduct the actual interest paid from debenture issue proceeds; use the six-month calculation only to check the given payment.

28. 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 the entity's owners' capital and borrowings.
- Cash received from issuing the company's own equity shares increases owners' capital and is classified as a financing inflow.

Step 1: Select a transaction involving owners' capital Consider the issue of equity shares for cash. The company receives funds from its shareholders in exchange for an ownership interest. This is a means of raising capital for the business, not revenue earned from selling its goods or services.

Step 2: Explain why the classification is financing Issuing the entity's own shares changes its share capital. Consequently, the cash proceeds are financing receipts irrespective of whether the entity is financial or non-financial. Specifying an issue for cash ensures that the example produces an actual cash flow.

Step 3: Conclusion **Cash proceeds from the issue of equity shares** are an example of an activity that is always classified as financing.

Quick Tip to Solve: Choose an issue of the company's own shares for cash; it clearly changes owners' capital and generates a cash inflow.

29. 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 or efficiency ratio. It equals cost of revenue from operations divided by average inventory.
- Financial leverage concerns the use of debt in financing the business; capital-structure ratios such as debt-equity ratio help assess it.

Step 1: Identify what inventory turnover measures Inventory turnover indicates how many times average inventory is sold and replaced during an accounting period. By comparing the cost of goods sold with the inventory held, it assesses the efficiency of inventory management.

Step 2: Compare this with financial leverage Financial leverage depends on the use of borrowed funds relative to owners' funds. Neither debt nor equity appears in the inventory turnover formula. The statement therefore attributes a financing measure to an operating-efficiency ratio.

Step 3: Conclusion The statement is **false**. Inventory turnover measures inventory-management efficiency, not the level of financial leverage.

Quick Tip to Solve: Inspect the formula: cost and inventory indicate operating efficiency; debt and equity indicate capital structure and leverage.

30. Opening inventory is ₹ 60,000, closing inventory is 1·5 times of opening inventory. Inventory Turnover Ratio is 6 times. Selling price is 33 1/3% above cost. Calculate the Gross Profit Ratio.

[3 marks]

Solution:

Concept:

- Average inventory is the mean of opening and closing inventories. Inventory turnover ratio equals cost of revenue from operations divided by average inventory.
- Gross profit is revenue from operations less cost of revenue from operations. Gross profit ratio is Gross profit/Revenue from operations $\times$ 100.
- A selling price $33\frac{1}{3}\%$ above cost means a profit of one-third of cost. This is a markup on cost, whereas gross profit ratio uses sales as its base.

Step 1: Calculate closing and average inventory Closing inventory is 1.5 times the opening inventory.

Therefore,

$$\text{Closing inventory} = 60,000 \times 1.5 = \text{Rs } 90,000,$$

$$\text{Average inventory} = \frac{60,000 + 90,000}{2} = \text{Rs } 75,000.$$

The average, rather than closing inventory alone, is the denominator of the inventory turnover ratio.

Step 2: Derive the cost of revenue from operations The turnover ratio is six times, so cost of revenue from operations is six times the average inventory:

$$\text{Cost of revenue from operations} = 6 \times 75,000 = \text{Rs } 4,50,000.$$

Step 3: Calculate gross profit and revenue from operations Since the selling price is one-third above cost, apply the markup to the cost just obtained:

$$\text{Gross profit} = 4,50,000 \times \frac{1}{3} = \text{Rs } 1,50,000,$$

$$\begin{aligned}\text{Revenue from operations} &= 4,50,000 + 1,50,000 \\ &= \text{Rs } 6,00,000.\end{aligned}$$

Selling price already includes both the recovery of cost and the gross profit; consequently, the ratio must divide profit by Rs 6,00,000, not by Rs 4,50,000.

Step 4: Compute gross profit as a percentage of sales

$$\text{Gross profit ratio} = \frac{1,50,000}{6,00,000} \times 100 = 25\%.$$

As a check, cost of Rs 3 gives profit of Rs 1 and sales of Rs 4, so profit is one-quarter of sales.

Step 5: Conclusion The gross profit ratio is $\boxed{25\%}$.

Quick Tip to Solve: Convert a one-third markup on cost into a one-quarter margin on sales: cost 3, profit 1, sales 4.

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) Capital Advances

(ii) Income received in advance

(iii) Capital work-in-progress

(iv) Motor vehicles

(v) Stores and spare parts

(vi) 9% Debentures [3 marks]

Solution:

Concept:

- Schedule III classifies assets and liabilities as current or non-current according to their nature and expected realisation or settlement. The major head and the relevant sub-head must both be identified.
- Capital expenditure and advances towards acquiring fixed assets relate to long-term resources. Inventories belong to current assets, while income collected before it is earned is a liability.

Step 1: Identify the nature of the six items Capital advances are payments towards acquisition of capital assets and are classified under long-term loans and advances. Capital work-in-progress is the cost of fixed assets still under construction; motor vehicles are tangible fixed assets already available for use. Stores and spare parts are inventory held for consumption in operations. Income received in advance is an obligation to provide goods or services, and is shown under other current liabilities. In the absence of any indication of current maturity, debentures are long-term borrowings; the 9% specifies their interest rate, not their maturity.

Step 2: Present the major heads and sub-heads **Balance Sheet classification under Schedule III**

Item	Major head	Sub-head / further classification
(i) Capital Advances	Non-current assets	Long-term loans and advances
(ii) Income received in advance	Current liabilities	Other current liabilities
(iii) Capital work-in-progress	Non-current assets	Fixed assets: Capital work-in-progress
(iv) Motor vehicles	Non-current assets	Fixed assets: Tangible assets
(v) Stores and spare parts	Current assets	Inventories
(vi) 9% Debentures	Non-current liabilities	Long-term borrowings

Step 3: Conclusion Capital advances, capital work-in-progress and motor vehicles are non-current assets; stores and spare parts are current assets. Income received in advance is a current liability, and 9% debentures are non-current liabilities under long-term borrowings, with the detailed sub-heads shown above.

Quick Tip to Solve: Distinguish a capital advance from the asset itself: the advance goes under long-term loans and advances, while construction cost goes under capital work-in-progress.

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 displays the previous year's and current year's amounts, the absolute change, and the percentage change using the previous year as the base.
- Absolute change = current-year amount minus previous-year amount; percentage change = absolute change divided by previous-year amount, multiplied by 100.
- Total income equals revenue from operations plus other income. Profit before tax equals total income less expenses, and profit after tax equals profit before tax less income tax.

Step 1: Calculate expenses and profits for both years **Working Notes**

Expenses are 50% of revenue from operations, excluding other income: Rs $4,00,000 \times 50\% = 2,00,000$ in 2017–18 and Rs $3,00,000 \times 50\% = 1,50,000$ in 2018–19.

For 2017–18, total income is Rs $4,00,000 + 80,000 = 4,80,000$; profit before tax is Rs $4,80,000 - 2,00,000 = 2,80,000$. Tax is Rs $2,80,000 \times 40\% = 1,12,000$, leaving profit after tax of Rs $2,80,000 - 1,12,000 = 1,68,000$.

For 2018–19, total income is Rs $3,00,000 + 40,000 = 3,40,000$; profit before tax is Rs $3,40,000 - 1,50,000 = 1,90,000$. Tax is Rs $1,90,000 \times 40\% = 76,000$, leaving profit after tax of Rs $1,90,000 - 76,000 = 1,14,000$.

Step 2: Compute changes and prepare the comparative statement For example, the change in profit before tax is Rs $1,90,000 - 2,80,000 = -90,000$. Its percentage change is $(-90,000/2,80,000) \times 100 = -32.14\%$. Apply the same base-year method to every row. Negative amounts below denote decreases; percentages are rounded to two decimal places.

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 (%)
I. Revenue from operations	4,00,000	3,00,000	-1,00,000	-25.00
II. Other income	80,000	40,000	-40,000	-50.00
III. Total income (I + II)	4,80,000	3,40,000	-1,40,000	-29.17
IV. Expenses	2,00,000	1,50,000	-50,000	-25.00
V. Profit before tax (III - IV)	2,80,000	1,90,000	-90,000	-32.14
VI. Tax expense (40%)	1,12,000	76,000	-36,000	-32.14
VII. Profit after tax (V - VI)	1,68,000	1,14,000	-54,000	-32.14

Step 3: Conclusion Profit after tax decreased from Rs 1,68,000 to Rs 1,14,000, a fall of Rs 54,000 or 32.14%. Total income declined by 29.17%, whereas expenses declined by only 25%, causing the larger percentage fall in profit.

Quick Tip to Solve: Use 2017–18 as the denominator for every percentage change; calculate expenses on revenue from operations and tax on profit before tax.

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 each component as a percentage of the total Balance Sheet of that same year. Total assets and total equity and liabilities each represent 100%.
- For a component of amount C and the same year's total T, its common size percentage is $C/T \times 100$. Use a separate base for each year; this is not a percentage-change statement.

Step 1: Select the base for each year The Balance Sheet totals are Rs 50,00,000 on 31st March, 2019 and Rs 20,00,000 on 31st March, 2018. Both sides of each Balance Sheet use that year's total as their denominator. Thus, the increase in the total from one year to the next does not change the rule for calculating the composition within a year.

Step 2: Calculate the component percentages **Working Notes** For 2019, shareholders' funds and non-current liabilities each have the same amount and therefore the same percentage:

$$\frac{20,00,000}{50,00,000} \times 100 = 40\%.$$

Current liabilities are $10,00,000/50,00,000 \times 100 = 20\%$. Non-current assets are $30,00,000/50,00,000 \times 100 = 60\%$, while current assets are 40%. For 2018, shareholders' funds are $10,00,000/20,00,000 \times 100 = 50\%$. Non-current and current liabilities are each $5,00,000/20,00,000 \times 100 = 25\%$. On the assets side, non-current assets are $12,50,000/20,00,000 \times 100 = 62.5\%$, and current assets are $7,50,000/20,00,000 \times 100 = 37.5\%$.

Step 3: Prepare the common size Balance Sheet **L.X. Ltd. — Common Size Balance Sheet**

Particulars	Note No.	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**

The dates represented by 2019 and 2018 are 31st March of the respective years. Each percentage column totals 100% separately on both sides, confirming that all components have been included.

Step 4: Conclusion The common size Balance Sheet shows equity and liability proportions of $40\%, 40\%, 20\%$ in 2019 and $50\%, 25\%, 25\%$ in 2018. Non-current and current assets represent $60\%, 40\%$ in 2019 and $62.5\%, 37.5\%$ in 2018, respectively.

Quick Tip to Solve: Write 100% against each year's total first, then divide every component by that same year's total; never use the previous year's total as the common size base.

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 activities include cash paid to acquire non-current assets and cash received on their sale. A fixed-asset balance stated at cost must be adjusted using the original cost of the asset disposed of, not its book value or sale proceeds.
- Under the indirect method, profit after appropriation is first adjusted for appropriations, non-cash expenses and non-operating losses. Then decreases in operating current assets are added and decreases in operating current liabilities are deducted.
- Depreciation and goodwill written off do not themselves involve current cash payments. A loss on sale is added back to operating profit, while the actual disposal proceeds belong to investing activities.

Step 1: (i) Determine Nova Ltd.'s asset purchases and proceeds **Working Notes — Nova Ltd.** Machinery is stated at cost. Its closing balance equals opening cost plus purchases minus the original cost of machinery sold. Hence:

$$\begin{aligned}\text{Machinery purchased} &= 5,00,000 - 3,00,000 + 50,000 \\ &= \text{Rs } 2,50,000.\end{aligned}$$

The sold machine's book value was $50,000 - 35,000 = \text{Rs } 15,000$. Its sale for Rs 12,000 gives a loss of Rs 3,000, but the investing inflow is the actual receipt of Rs 12,000. Accumulated depreciation is therefore not deducted in the cost reconciliation above. Goodwill increased by $1,50,000 - 1,00,000 = \text{Rs } 50,000$, representing its purchase. Land decreased by $1,00,000 - 70,000 = \text{Rs } 30,000$, representing sale proceeds at book value, as no gain, loss or other land transaction is given. No non-cash asset acquisition is stated.

Step 2: (i) Present Nova Ltd.'s investing activities **Nova Ltd. — Cash Flow Statement (Extract)**
For the year ended 31st March, 2019

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

Parentheses indicate cash outflows. The net amount is obtained by adding receipts of Rs 42,000 and deducting payments of Rs 3,00,000.

Step 3: (ii) Restore Jova Ltd.'s operating profit before working capital changes **Working Notes — Jova Ltd.** The given profit is after appropriation, so the transfer to General Reserve must first be restored:

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

Add back depreciation of Rs 20,000, goodwill written off of Rs 9,000 and loss on sale of furniture of Rs 2,000. The first two are non-cash charges; the third belongs to disposal of an investing asset.

Operating profit before working capital changes is therefore:

$$2,72,500 + 20,000 + 9,000 + 2,000 = \text{Rs } 3,03,500.$$

These figures relate to Jova Ltd. only; the machinery loss calculated for Nova Ltd. in part (i) must not enter this calculation.

Step 4: (ii) Adjust working capital and prepare the operating extract Inventory falls from Rs 12,000 to Rs 8,000. Add this Rs 4,000 decrease in an operating current asset. Income received in advance falls from Rs 8,000 to nil. Deduct this Rs 8,000 decrease in an operating current liability because the corresponding income does not represent cash newly received during this year. **Jova Ltd. — Cash Flow Statement (Extract)**
For the year ended 31st March, 2019

Particulars	Amount (Rs)
Cash flow from operating activities	
Profit after appropriation	2,50,000
Add: Transfer to General Reserve	22,500
Profit before appropriation	**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 separate tax payment or other operating adjustment is supplied. Thus cash generated from operations is also the requested net operating cash flow on the given information.

Step 5: Conclusion (i) Nova Ltd. has net cash used in investing activities of **Rs 2,58,000**, i.e. a cash flow of **(Rs 2,58,000)**. (ii) Jova Ltd. has net cash from operating activities of **Rs 2,99,500**.

Quick Tip to Solve: For machinery shown at cost, add the cost of the machine sold when finding purchases. In part (ii), restore the reserve transfer before adding non-cash expenses, and keep the two companies' figures separate.

OPTION 2 (Computerised Accounting)

23. Name the accounting information subsystem which deals with receipt and payment of physical cash and electronic fund transfer. [1 mark]

(A) Sales and Accounts Receivable subsystem

(B) Cash and Bank subsystem

(C) Purchase and Accounts Payable subsystem

(D) Costing subsystem

Correct Answer: (B) Cash and Bank subsystem

Solution:

Concept:

- An accounting information system groups related transactions into subsystems. The Cash and Bank subsystem maintains records of money received and paid through cash and bank accounts.
- Electronic fund transfers are movements through bank accounts even though physical currency is not handled. Both forms of receipt and payment therefore belong to the cash and banking function.

Step 1: Identify the activity described The question specifies receipts and payments of physical cash as well as electronic fund transfers. These transactions directly change cash or bank balances. The subsystem must therefore cover both cash handling and banking transactions, which is the function of the Cash and Bank subsystem.

Step 2: Check the other subsystems The Sales and Accounts Receivable subsystem focuses on sales and customer dues; it does not cover all cash and bank movements. The Purchase and Accounts Payable subsystem focuses on purchases and amounts owed to suppliers. The Costing subsystem determines and analyses costs. None of these is the general subsystem responsible for both cash receipts/payments and electronic fund transfers.

Step 3: Conclusion The required accounting information subsystem is the **Cash and Bank subsystem**. Hence, the correct option is (B).

Quick Tip to Solve: When a question combines physical cash with electronic fund transfers, select the subsystem whose name includes both Cash and Bank.

24. 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.

- Entity integrity requires every primary-key value to be present (not null) and unique.

Step 1: Check whether a value is required A record must have an identifying key value. If the primary-key field were null, that record would lack the required identifier. Hence option (A), which makes the value optional, is incorrect.

Step 2: Check whether repetition is allowed Two records cannot have the same primary-key value, because the key would then fail to distinguish them. Thus option (B) is incorrect. Option (C) satisfies both requirements, while (D) wrongly includes the rejected statements.

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 proposed primary key twice: can it be blank, and can it repeat? Both answers must be no.

---

25. 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) are valid; (A) is not generally true for negative data, so no unique option follows.

Solution:

Concept:

- The display ##### can mean that the formatted cell value is too wide for its column.
- A negative date or time value can also display hashes under the usual Excel date system; ordinary negative numbers are valid.

Step 1: Examine the column-width and time cases Option (B) describes a genuine cause: a narrow column may not display the formatted number or date. Option (C) also describes a genuine cause: a negative time can produce hashes even if the column is wide enough.

Step 2: Test the general negative-data claim Option (A) says negative data, not negative date. A normal numeric value such as -5 displays correctly in a sufficiently wide, normally formatted cell. Negative data alone is therefore not a valid general cause. Consequently, (D) cannot be justified literally, and both (B) and (C) remain defensible.

Step 3: Conclusion The printed question has no unique correct option: both (B) and (C) describe valid causes of the hash display. Option (D) is not justified by the general wording of (A).

Quick Tip to Solve: First widen the column; if hashes remain in a time cell, check whether its calculated time is negative.

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

Solution:

Concept:

- A single-valued attribute has one value for a particular entity at a given time.
- A multi-valued attribute can have more than one value for the same entity.

Step 1: Classify height For one person at a particular time, height has one measured value. Different units describe the same height and do not make it a set of separate attribute values. Height is therefore a single-valued attribute.

Step 2: Classify academic qualification One person can possess several qualifications, such as a bachelor's degree and a master's degree. Because more than one qualification may belong to the same person, academic qualification can be a multi-valued attribute.

Step 3: Conclusion Height is a **single-valued** attribute, whereas academic qualification can be a **multi-valued** attribute.

Quick Tip to Solve: Ask how many values one person may have at a time; do not confuse multiple values with parts of one value.

---

27. 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 up-arrow key moves the active spreadsheet cell one row upward.
- The right-arrow key moves the active cell one column to the right.

Step 1: Match one cell up Movement (i) is matched with (b), the up-arrow key ↑. The down-arrow key in (a) moves in the opposite direction, and the left-arrow key in (c) changes the column rather than moving up.

Step 2: Match one cell right Movement (ii) is matched with (d), the right-arrow key →. Thus (A) has both matches wrong, (C) has the first match wrong, and (D) has the second match wrong. Only (B) gives both required movements correctly.

Step 3: Conclusion One cell up matches the up-arrow key; one cell right matches the right-arrow key. Hence, the correct option is (B).

Quick Tip to Solve: Trace each arrow from the active cell: up changes the row, while right changes the column.

28. 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 or other data and processes the accumulated group together.
- Real-time processing handles input as it occurs; validation checks whether input meets specified rules.

Step 1: Identify the timing of processing The question states that data are accumulated from various sources and processed in one shot. Processing is therefore deferred until a group of input records is ready, which is the defining feature of a batch.

Step 2: Eliminate the alternatives Real Time Processing in (A) does not wait for such accumulation. Data Validation in (B) concerns checking input rather than when the whole group is processed. Processing and Revalidation in (C) is not the stated processing mode. The term that directly describes the procedure is (D).

Step 3: Conclusion The procedure is Batch Processing. Hence, the correct option is (D).

Quick Tip to Solve: Look for the combination of accumulation and processing together; it identifies a batch.

29. Name the language used to store and manipulate data or create a complex set of database structures. [1 mark]

(A) Structured Computer Language

(B) Structured Query Language

(C) Strictly Query Language

(D) Structured Query Logistics

Correct Answer: (B) Structured Query Language

Solution:

Concept:

- SQL stands for Structured Query Language and is used with relational databases.

- Its data-definition commands create database structures; its data-manipulation commands retrieve and change stored records.

Step 1: Connect the stated tasks with SQL Creating a table is a data-definition task, while inserting, updating or deleting records is data manipulation. SQL supplies commands for these operations and therefore meets both parts of the description.

Step 2: Check the expansion of the name The exact name is Structured Query Language. Structured Computer Language in (A), Strictly Query Language in (C), and Structured Query Logistics in (D) are not the expansion of SQL. Option (B) alone names the database language correctly.

Step 3: Conclusion The language is Structured Query Language (SQL). Hence, the correct option is (B).

Quick Tip to Solve: Remember the word Query in SQL, and distinguish defining a table from manipulating its rows.

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

Solution:

Concept:

- Dearness allowance (DA) is an allowance calculated at the prescribed percentage of basic pay to compensate for changes in the cost of living.
- Gross salary is total salary earned before deductions: basic pay plus DA and the other applicable allowances.

Step 1: Calculate dearness allowance Let B denote basic pay and r the prescribed DA percentage, written as a number such as 20 for 20%. Then

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

In a spreadsheet, if basic pay is in B2 and the percentage number is in C2, enter `=B2*C2/100`. If C2 already contains an Excel percentage such as 20%, enter `=B2*C2`; dividing by 100 again would understate the allowance.

Step 2: Add salary components to obtain gross salary Let HRA denote house rent allowance, TA transport allowance, and O any other applicable allowances. Then

$$\begin{aligned}\text{Gross salary} = \text{Basic pay} + \text{DA} \\ + \text{HRA} + \text{TA} + O.\end{aligned}$$

For example, in a worksheet where B2 holds basic pay, D2 holds DA, E2 holds HRA, F2 holds TA and G2 holds other allowances, enter `=SUM(B2,D2:G2)`. This adds the salary amounts and excludes the percentage rate in C2. Use the components provided by the salary structure; an inapplicable allowance contributes nothing.

Step 3: Distinguish gross salary from take-home salary Provident fund, income tax and similar

employee deductions are not subtracted in calculating gross salary. Subtracting those deductions from gross salary gives net salary. Thus DA forms part of earnings, while deductions belong to the later calculation of net pay.

Step 4: Conclusion Dearness allowance is Basic pay $\times$ DA rate$/100$ when the rate is a percentage number. Gross salary is basic pay plus DA plus all other applicable allowances, before deductions.

Quick Tip to Solve: Check whether the DA rate cell stores 20 or 20 percent before dividing by 100; add earnings only when finding gross salary.

OR

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

Solution:

Concept:

- A voucher records the details of a financial transaction and provides the basis for posting it to the relevant accounts in a computerised accounting system.
- The choice of voucher depends on the nature of the transaction: an internal transfer of money differs from money received from an outside party.

Step 1: Explain a contra voucher A contra voucher is used to record a transfer of funds between the business's own cash and bank accounts or between its bank accounts. Examples are cash deposited into the business bank account, cash withdrawn from that account for office use, and a transfer from one business bank account to another. Both aspects affect cash or bank accounts: one balance increases while another decreases. Such a transfer does not itself create income or an expense and leaves the combined cash and bank balance unchanged. Withdrawal for office use is distinguished from withdrawal by a proprietor for personal use, which is drawings.

Step 2: Explain a receipt voucher A receipt voucher is used to record money received by the business in cash or through a bank from an outside source. Examples include collection from a debtor, commission received and cash introduced as capital. The cash or bank account receiving the money is debited, and the relevant debtor, income or capital account is credited according to the reason for the receipt. The voucher records details such as the date, amount, source and account concerned. A receipt is not necessarily revenue: collecting a debtor settles an existing asset, while capital introduced increases the owner's capital. Depositing existing business cash into its own bank account is an internal transfer recorded through a contra voucher.

Step 3: Conclusion A contra voucher records internal transfers among cash and bank accounts; a receipt voucher records money received in cash or bank from an outside source, with the corresponding account identified by the nature of the receipt.

Quick Tip to Solve: Check the other account: cash/bank on both sides means contra; money from a debtor, income source or owner calls for a receipt voucher.

31. Explain any four advantages of 'Database Management System'. [4 marks]

Solution:

Concept:

- A Database Management System (DBMS) is software used to define, store, retrieve and manage an organised database.
- A shared database can serve different users and applications while its management system controls access and applies rules to the data.

Step 1: Reduced data redundancy and inconsistency A DBMS helps minimise unnecessary duplication of data by storing related information in an integrated database. For example, a customer's address can be maintained in the customer record and referred to by different applications, instead of being entered separately in many files. Updating the common record reduces the risk of different files carrying different addresses. Thus, reduced redundancy saves storage and helps maintain consistent information. It does not mean that every repeated data value must be eliminated; keys can appear in related tables to establish relationships.

Step 2: Improved data sharing Authorised users and applications can use the same database for their different requirements. For example, the sales department can use customer information to prepare invoices, while the accounts department uses the related information to track collections. Users obtain the information they need from a common data resource, and the DBMS coordinates access when several users work with it. This reduces the need to create and exchange separate departmental copies.

Step 3: Better data integrity A DBMS can enforce rules that help keep stored data valid and internally consistent. For example, a primary key can prevent duplicate customer identifiers, and a relationship constraint can prevent an invoice from referring to a customer who has no corresponding record. Such validation rules reduce incorrect or incompatible entries and improve the reliability of reports prepared from the database.

Step 4: Improved data security A DBMS allows access rights to be assigned according to each user's role. Authentication identifies the user, while permissions control which records the user may view, add or change. For example, payroll staff may be permitted to update salary details while other staff have restricted access. This helps protect confidential information and reduces unauthorised changes without preventing permitted users from doing their work.

Step 5: Conclusion Four advantages of a DBMS are reduced data redundancy and inconsistency, improved data sharing, better data integrity, and improved data security.

Quick Tip to Solve: Give four distinct benefits and explain each: fewer duplicate copies, shared use, valid records, and controlled access.

OR

31. Explain Modules, Pages, Reports, and Query as database objects. [4 marks]

Solution:

Concept:

- A database application uses different objects for storing, retrieving, presenting and processing information. Each object performs a particular task within the application.
- Modules provide programmed procedures, pages provide a web interface to data, reports present organised output, and queries retrieve or process specified data.

Step 1: Explain modules A module is a collection of declarations, statements and procedures stored together as a unit. It contains program code, such as Visual Basic for Applications procedures in MS Access, which adds functions to a database application. A module can automate operations, perform a calculation or respond to an event. For example, a procedure may calculate interest on overdue customer balances. Modules are useful when a task requires programmed instructions beyond the ordinary built-in object settings.

Step 2: Explain pages Pages, or data access pages, are web pages linked to a database. They allow users to view and, where permitted, enter or edit database information through a web browser on the Internet or an intranet. For example, a data access page can display customer account information from the database. The page provides an interface to the stored data; it is not simply a printed page of a report.

Step 3: Explain reports A report presents data from tables or queries in a formatted and organised manner, especially for viewing and printing. It can group records, display headings and calculate totals or subtotals. For example, a report may present customer balances grouped by region with a total for each region. Reports are designed for communicating information clearly rather than for entering individual transactions.

Step 4: Explain queries A query is a request for specified information or an operation on database data. A select query retrieves chosen fields and records from one or more tables according to stated criteria; it can also sort data and perform calculations. For example, a query may retrieve all customers whose outstanding balance exceeds Rs 10,000. Action queries can update, append or delete records, or create a table, as required.

Step 5: Conclusion Modules execute programmed procedures; pages provide browser-based access to database information; reports present formatted output; and queries retrieve or process data according to specified requirements.

Quick Tip to Solve: Link each object to its main purpose: modules–code, pages–web access, reports–formatted output, and queries–selection or processing of data.

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:

- A spreadsheet formula refers to cells or ranges by their addresses. The references must identify valid cells for Excel to evaluate the formula correctly.
- The `#REF!` error indicates an invalid cell reference. It commonly occurs when cells, rows or columns used by a formula are deleted.

Step 1: Identify the error and its cause The error is `#REF!`, called the reference error. If a formula depends on a cell and that cell is deleted, its reference may no longer be valid. Excel then replaces the broken reference with `#REF!` and cannot obtain the required value. This differs from merely clearing the contents of a cell: clearing normally leaves the cell address available, whereas deleting the referenced cells can destroy the reference.

Step 2: Illustrate a broken reference Suppose cell D1 contains the formula `=A1+B1+C1`. If column B is deleted, the original B1 reference is lost. The formula, now in C1 because columns shift left, can become `=A1+#REF!+B1`. The last B1 here refers to the cell that was originally C1; the `#REF!` part represents the deleted reference. The displayed result is therefore a reference error rather than the intended total.

Step 3: Undo an accidental deletion If the deletion has just occurred and can still be reversed, use **Undo** or press **Ctrl+Z**. This restores the deleted cells and their original relationships with the formula. Recheck the formula and the restored data to confirm that the intended calculation is available again. Undo is appropriate when the deletion was accidental and the original calculation should be retained.

Step 4: Correct the formula when the deletion is intentional Select the cell displaying the error and inspect its formula in the formula bar. Identify the `#REF!` part and determine which valid cell or range should now supply that value. Replace the invalid reference with the correct address, or rewrite the formula to remove the deleted term if it is no longer needed. In the example, if only the two surviving values should be added, the formula in C1 becomes `=A1+B1`. Press Enter and check the result against the intended calculation. If the deleted value is still required, restore it from the available original data and explicitly point the formula to its valid location; simply inserting a new blank column does not reliably repair the broken reference.

Step 5: Conclusion The error is `#REF!`. Correct it by undoing an accidental deletion or by editing the formula so that every reference points to the intended valid cell or range, then verify the recalculated result.

Quick Tip to Solve: When `#REF!` appears after a deletion, try Undo first. If the deletion is intended, repair the cell addresses in the formula rather than replacing the error with an arbitrary zero.