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

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. At the time of admission of a new partner in the firm, the new partner compensates the old partners for their loss of share in the super-profits of the firm for which he brings in an additional amount which is known as _____. [1 mark]

Solution:

Concept:

- Goodwill represents the value of the firm's reputation and its capacity to earn super-profits.
- An incoming partner compensates the sacrificing partners for the profit share surrendered by them.

Step 1: Identify the sacrifice On admission, the new partner becomes entitled to a share in future profits. The old partners lose part of their existing share, including their entitlement to super-profits.

Step 2: Name the additional payment The amount brought in for this compensation, over and above capital, is called premium for goodwill. Capital represents the new partner's investment; goodwill premium compensates the old partners for their sacrifice.

Step 3: Conclusion The additional amount is known as premium for goodwill.

Quick Tip to Solve: Separate the investment in capital from compensation for the old partners' sacrificed profit share.

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2. Divya Ltd. forfeited 7,000 equity shares of ₹ 100 each issued at a premium of 10%, for non-payment of first and final call of ₹ 40 per share. The maximum amount of discount at which these shares can be reissued will be: [1 mark]

(A) ₹ 2,80,000

(B) ₹ 4,20,000

(C) ₹ 4,90,000

(D) ₹ 3,50,000

Correct Answer: (B) ₹ 4,20,000

Solution:

Concept:

- The discount allowed on reissue cannot exceed the capital amount forfeited on those shares.
- Securities premium already received is excluded when calculating the balance in Share Forfeiture Account.

Step 1: Find the capital received Face value is Rs 100 per share and the unpaid first and final call is Rs 40. Thus capital received per share is $100 - 40 = \text{Rs } 60$. The Rs 10 issue premium is not part of forfeited share capital.

Step 2: Calculate the maximum discount For 7,000 shares, the maximum discount is $7,000 \times 60 = \text{Rs } 4,20,000$. Option (A) is the unpaid call amount, option (C) includes premium in the amount

received, and option (D) does not equal the forfeited capital.

Step 3: Conclusion The maximum discount is Rs 4,20,000. Hence, the correct option is (B).

Quick Tip to Solve: Subtract the unpaid capital call from face value before multiplying by the number of shares.

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

Solution:

Concept:

- Collateral security is an additional or secondary security provided to a lender.
- Debentures issued as collateral support an existing loan and do not raise separate cash proceeds.

Step 1: Identify the primary borrowing A company may take a loan from a bank or another lender and provide an asset as the primary security. The lender may also require additional protection against non-payment.

Step 2: Explain the role of the debentures The company issues debentures to that lender as secondary security for repayment of the loan. They can be resorted to if the company defaults; their issue does not itself mean a second cash loan has been received.

Step 3: Conclusion Issue of debentures as collateral security means issuing debentures as additional security for a loan taken by the company.

Quick Tip to Solve: Look for an existing loan: collateral debentures secure that loan rather than create another cash receipt.

4. Shobha Ltd. decided to redeem its 8,000, 9% debentures of ₹ 100 each, issued at a discount of 9%, redeemable at a premium of 10%. The minimum amount that can be transferred to Debenture Redemption Reserve will be: [1 mark]

(A) ₹ 8,00,000

(B) ₹ 2,20,000

(C) ₹ 2,00,000

(D) ₹ 8,80,000

Correct Answer: (C) ₹ 2,00,000

Solution:

Concept:

- For this paper, the prescribed minimum Debenture Redemption Reserve is 25% of the nominal value of debentures to be redeemed.
- The issue discount and redemption premium do not enter the nominal-value base for this reserve.

Step 1: Calculate the nominal value The face value of 8,000 debentures of Rs 100 each is $8,000 \times 100 =$

Rs $8,00,000$. The 9% coupon is an interest rate, not the reserve percentage.

Step 2: Apply the reserve percentage Minimum DRR = Rs $8,00,000 \times 25\%$ = Rs $2,00,000$. Option (A) is the full nominal value; (B) incorrectly takes 25% of the redemption amount, while (D) is the redemption amount including the 10% premium.

Step 3: Conclusion The minimum transfer is Rs 2,00,000. Hence, the correct option is (C).

Quick Tip to Solve: For DRR, use the face value of debentures to be redeemed; exclude the redemption premium.

5. 'Interest paid on debentures is a charge against the profits of the company.' Is this statement correct? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Debenture holders are creditors of the company and interest is the cost of borrowed funds.
- A charge against profits is deducted in determining profit and is payable even when the company incurs a loss.

Step 1: Identify the nature of interest Interest on debentures is a contractual finance expense. It arises because funds have been borrowed, rather than because profits are being distributed to owners.

Step 2: Explain why it is a charge The company must pay debenture interest irrespective of whether it earns a profit or incurs a loss. It is therefore charged while ascertaining profit, instead of being treated as an appropriation dependent on available profit.

Step 3: Conclusion Yes, the statement is correct: debenture interest is payable irrespective of profit or loss and is a charge against profits.

Quick Tip to Solve: Distinguish creditors' contractual interest from owners' distributions that depend on profit.

6. From the given extracts obtained from the Receipts and Payments Account of Cheema Club for the year ended 31st March, 2019 and additional information, calculate the amount of subscription in arrears as on 31st March, 2019.

Subscriptions Received	₹
2017-18	10,000
2018-19	1,20,000
2019-20	7,000

Additional Information: The Club had 130 members paying an annual subscription of ₹ 1,000 each. Subscriptions in arrears at the beginning of the year were ₹ 16,000. 10 members paid subscriptions for 2018-19 in 2017-18. [1 mark]

Solution:

Concept:

- Closing arrears include unpaid subscriptions for both the current year and earlier years.
- Current-year subscriptions already received in advance must be included when checking the amount due.

Step 1: Determine current-year arrears The current-year subscription due is $130 \times 1,000 =$ Rs $1,30,000$. Cash received for 2018–19 is Rs 1,20,000, and $10 \times 1,000 =$ Rs $10,000$ was already received in 2017–18. Thus current-year arrears are nil.

Step 2: Carry forward the old unpaid balance Opening arrears of Rs 16,000 less Rs 10,000 received for 2017–18 leave $16,000 - 10,000 =$ Rs $6,000$. The Rs 7,000 for 2019–20 is an advance for the next year and does not reduce these arrears.

Step 3: Conclusion Subscriptions in arrears on 31st March, 2019 are Rs 6,000.

Quick Tip to Solve: Check old arrears separately, and count opening advances towards the current year's subscription due.

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7. The Directors of Unim Ltd. forfeited 30,000 shares of ₹ 10 each, for non-payment of final call of ₹ 3 per share. Half of the forfeited shares were reissued as fully paid-up for ₹ 12 per share. The amount to be transferred to the Capital Reserve Account will be: [1 mark]

(A) ₹ 2,70,000

(B) ₹ 2,10,000

(C) ₹ 1,05,000

(D) ₹ 1,80,000

Correct Answer: (C) ₹ 1,05,000

Solution:

Concept:

- Only the forfeiture profit on shares actually reissued is transferred to Capital Reserve.
- Any premium received on reissue is credited to Securities Premium Reserve, not Capital Reserve.

Step 1: Find forfeited capital attributable to reissued shares Capital received per forfeited share is $10 - 3 =$ Rs 7. Half of 30,000 shares means 15,000 reissued shares. Their forfeited amount is $15,000 \times 7 =$ Rs $1,05,000$.

Step 2: Check the reissue price Reissue at Rs 12 against face value Rs 10 gives a premium of Rs 2 and no discount. Consequently, the full Rs 1,05,000 attributable to these shares is transferred. Option (B) uses all forfeited shares; (A) and (D) incorrectly incorporate unrelated reissue receipts or amounts.

Step 3: Conclusion Capital Reserve receives Rs 1,05,000. Hence, the correct option is (C).

Quick Tip to Solve: Use only the reissued shares, and deduct reissue discount from their forfeited capital if there is any.

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8. Sunaina, Rohan and Rina were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 1. Sunaina retired, selling her share of profits to Rohan and Rina in the ratio of 3 : 1. The new profit-sharing ratio between Rohan and Rina will be: [1 mark]

(A) 4 : 3

(B) 4 : 1

(C) 2 : 1

(D) 3 : 1

Correct Answer: (D) 3 : 1

Solution:

Concept:

- A continuing partner's new share equals the old share plus the share acquired from the retiring partner.
- The ratio in which the retiring partner sells her share is the gaining ratio, not automatically the new ratio.

Step 1: Distribute Sunaina's share Sunaina's old share is $4/8$. Rohan gains $(4/8)(3/4) = 3/8$, while Rina gains $(4/8)(1/4) = 1/8$.

Step 2: Add the gains to the old shares Rohan's new share is $3/8+3/8 = 6/8$; Rina's is $1/8+1/8 = 2/8$. Hence their ratio is $6 : 2 = 3 : 1$, and the shares total one. The other options (A), (B) and (C) do not represent these new shares.

Step 3: Conclusion The new profit-sharing ratio is $3 : 1$. Hence, the correct option is (D).

Quick Tip to Solve: Always add the gain to each continuing partner's old share before simplifying the new ratio.

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9. Which of the following is not a revenue receipt? [1 mark]

(A) Admission Fees

(B) Government Grants

(C) Locker Rent

(D) Legacies

Correct Answer: (D) Legacies

Solution:

Concept:

- Revenue receipts relate to the ordinary recurring activities of a not-for-profit organisation.
- A legacy is an amount received under a deceased person's will and is generally treated as a capital receipt.

Step 1: Identify the exceptional receipt Legacies arise from a bequest rather than the club's or institution's normal activities. They are non-recurring capital receipts in the classification used in this question.

Step 2: Compare the other options Admission fees, government grants of a revenue nature and locker rent are treated here as revenue receipts. Locker rent is a normal service receipt. Although a specific direction can affect the treatment of a grant or admission fee, no such restriction is stated; legacies are the intended capital item.

Step 3: Conclusion Legacies are not a revenue receipt. Hence, the correct option is (D).

Quick Tip to Solve: In a receipt-classification question, identify a bequest under a will as a legacy and a capital receipt.

10. Nominal share capital is: [1 mark]

(A) That part of authorised capital which is issued by the company.

(B) The amount of capital which is actually applied by prospective shareholders.

(C) The amount of capital which is paid by the shareholders.

(D) The maximum amount of share capital that a company is authorised to issue.

Correct Answer: (D) The maximum amount of share capital that a company is authorised to issue.

Solution:

Concept:

- Nominal capital, also called authorised or registered capital, is the maximum share capital specified in the company's memorandum.
- Issued, subscribed and paid-up capital describe successive stages of raising capital within that authorised limit.

Step 1: Identify the statutory ceiling The question asks for nominal share capital. It refers to the amount the company is authorised to issue, irrespective of how much it has actually offered or collected.

Step 2: Compare the options Option (A) defines issued capital; (B) refers to subscribed capital; and (C) describes paid-up capital. None of these is the authorised ceiling. Option (D) states that ceiling explicitly.

Step 3: Conclusion Nominal share capital is the maximum amount of share capital a company is authorised to issue. Hence, the correct option is (D).

Quick Tip to Solve: Associate nominal with the authorised ceiling, then separate it from amounts issued or paid.

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11. Mita and Sumit are partners in a firm with capitals of ₹ 6,00,000 and ₹ 4,00,000 respectively. Keshav was admitted as a new partner for 1/5th share in the profits of the firm. Keshav brought ₹ 40,000 as his share of goodwill premium and ₹ 3,00,000 as his capital. The amount of goodwill premium credited to Sumit will be: [1 mark]

(A) ₹ 20,000

(B) ₹ 24,000

(C) ₹ 16,000

(D) ₹ 40,000

Correct Answer: (A) ₹ 20,000

Solution:

Concept:

- Goodwill premium compensates old partners for their sacrifice in profit share and is credited in the sacrificing ratio.
- When no profit-sharing agreement is stated, partners share profits equally; unequal capitals alone do not establish an unequal profit-sharing ratio.

Step 1: Determine the sacrificing ratio The question gives capitals of Rs 6,00,000 and Rs 4,00,000, but no agreed profit-sharing ratio. Therefore Mita and Sumit share profits equally. With no different sacrifice specified, Keshav's $1/5$ share is acquired equally from them: each sacrifices $1/10$, so the sacrificing ratio is $1 : 1$.

Step 2: Allocate the premium The goodwill premium is Rs 40,000, separate from Keshav's capital of Rs 3,00,000. Sumit's credit is

$$40,000 \times \frac{1}{2} = \text{Rs } 20,000.$$

Rs 24,000 and Rs 16,000 incorrectly use the capital ratio $3 : 2$; Rs 40,000 would allocate the entire premium to Sumit.

Step 3: Conclusion Sumit is credited with Rs 20,000 as goodwill premium. Hence, the correct option is (A).

Quick Tip to Solve: Never infer a profit-sharing ratio from capitals when the question states no such agreement.

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12. Distinguish between Income and Expenditure Account and Receipts and Payments Account on the basis of 'Period'. [1 mark]

Solution:

Concept:

- Income and Expenditure Account is prepared on the accrual basis for a particular accounting period.
- Receipts and Payments Account records actual cash and bank transactions during the period, regardless of the period to which they relate.

Step 1: Income and Expenditure Account It includes only income earned and expenditure incurred for the current accounting year. Current-year outstanding amounts are included, while amounts relating to preceding or succeeding years are excluded.

Step 2: Receipts and Payments Account It includes receipts and payments made during the current accounting year, whether they relate to the previous, current or next accounting year. Thus, a subscription received this year for next year appears here but is excluded from this year's Income and Expenditure Account.

Step 3: Conclusion On the basis of period: Income and Expenditure Account relates only to the current accounting year; Receipts and Payments Account includes current-year cash transactions relating to past, current and future years.

Quick Tip to Solve: Ask whether the amount belongs to this year or whether cash moved this year to distinguish the two accounts.

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13. Asha and Deepti were partners in a firm sharing profits and losses in the ratio of 3 : 1. Their fixed capitals were ₹ 3,00,000 and ₹ 2,00,000 respectively. They were entitled to interest on capital @ 10% p.a. The firm earned a profit of ₹ 20,000 during the year. The amount of interest on capital credited to Deepti will be: [1 mark]

(A) ₹ 12,000

(B) ₹ 8,000

(C) ₹ 20,000

(D) ₹ 5,000

Correct Answer: (B) ₹ 8,000

Solution:

Concept:

- Interest on capital is an appropriation of profit unless the agreement makes it a charge; it is restricted to available profit when profits are insufficient.
- Insufficient profit is allocated in the ratio of the partners' interest entitlements, rather than in their general profit-sharing ratio.

Step 1: Calculate full interest entitlements Asha's interest is $3,00,000 \times 10\% = \text{Rs } 30,000$. Deepti's interest is $2,00,000 \times 10\% = \text{Rs } 20,000$. Total interest required is Rs 50,000, exceeding the available

profit of Rs 20,000.

Step 2: Restrict interest to available profit The interest ratio is $30,000 : 20,000 = 3 : 2$. Hence Deepti receives

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

Rs 12,000 is Asha's allocation; Rs 20,000 ignores the profit shortage; Rs 5,000 incorrectly applies the general profit-sharing ratio $3 : 1$.

Step 3: Conclusion Deepti is credited with interest on capital of Rs 8,000. Hence, the correct option is (B).

Quick Tip to Solve: When profit is short, divide available profit in the interest-entitlement ratio, not the profit-sharing ratio.

14. How will the following information of Royal Sports Club be presented in the Income and Expenditure Account for the year ended 31st March, 2019 and its Balance Sheet as on that date?

Particulars	Amount (₹)
Tournament Fund as on 1st April, 2018	5,00,000
Tournament expenses incurred during the year	8,00,000
Donations for Tournament Fund received during the year	1,20,000
Sale of Tournament tickets during the year	1,50,000

[3 marks]

Solution:

Concept:

- A specific-purpose fund is used only for its designated activity. Related donations and receipts increase the fund and related expenses are charged against it.
- Any excess of related expenditure over the available fund is charged to Income and Expenditure Account; only an unutilised balance appears as a liability.

Step 1: Work out the resources available The opening tournament fund is Rs 5,00,000. Add donations specifically for the tournament of Rs 1,20,000 and tournament ticket sales of Rs 1,50,000. Thus the resources available are

$$5,00,000 + 1,20,000 + 1,50,000 = \text{Rs } 7,70,000.$$

The donations are restricted receipts, so they are not treated as ordinary unrestricted income.

Step 2: Determine the excess expenditure Tournament expenses total Rs 8,00,000. First use the entire available fund of Rs 7,70,000. The uncovered expenditure is

$$8,00,000 - 7,70,000 = \text{Rs } 30,000.$$

Only this excess is debited to the Income and Expenditure Account. Charging the full expense there while retaining the fund would misstate both the expense and the fund liability.

Step 3: Present the financial statement extracts Royal Sports Club: Income and Expenditure Account (extract) for the year ended 31st March, 2019

Expenditure	Amount (Rs)
Tournament expenses in excess of fund	30,000

Royal Sports Club: Balance Sheet (extract) as at 31st March, 2019

Liabilities: Specific fund	Amount (Rs)
Tournament Fund: opening balance	5,00,000
Add: Donations	1,20,000
Add: Sale of tournament tickets	1,50,000
Total fund available	7,70,000
Less: Expenses adjusted against fund	7,70,000
Closing Tournament Fund	Nil

The fund is fully exhausted, so no tournament-fund liability is carried forward.

Step 4: Conclusion Rs 30,000 is debited to Income and Expenditure Account; the closing Tournament Fund is nil.

Quick Tip to Solve: Pool the opening specific fund and all related receipts before comparing the pool with the related expense.

OR

14. From the following particulars relating to Ganesh Charitable Society, prepare a Receipts and Payments Account for the year ending 31st March, 2019:

Particulars	Amount (₹)
Opening balance of cash	20,000
Subscriptions received: 2017–18 25,000 2018–19 1,00,000 2019–20 15,000	1,40,000
Entrance fees received	45,000
Sale of old sports material	5,000
Rent paid	19,000
Donations received for construction of building	1,00,000
Office expenses paid	23,000

[3 marks]

Solution:

Concept:

- A Receipts and Payments Account summarises actual cash and bank receipts and payments, including capital and revenue transactions.
- All subscriptions actually received are included irrespective of the year to which they relate; closing cash is the balancing figure.

Step 1: Classify and total the cash receipts Subscriptions received total $25,000 + 1,00,000 + 15,000 =$ Rs $1,40,000$. Include all three years because the money was received during the year. Entrance fees, sale of old sports material and the building donation are also actual receipts. The building donation remains a receipt even though it is a capital receipt restricted to construction. Including opening cash, total cash available is

$$20,000 + 1,40,000 + 45,000 + 5,000 + 1,00,000 = \text{Rs } 3,10,000.$$

Step 2: Calculate closing cash Rent paid and office expenses are payments totalling $19,000 + 23,000 =$ Rs $42,000$. No building expenditure is stated, so the building donation does not generate an assumed payment. The closing balance is

$$3,10,000 - 42,000 = \text{Rs } 2,68,000.$$

Step 3: Prepare the account Ganesh Charitable Society: Receipts and Payments Account for the year ended 31st March, 2019

Dr. Receipts	Amount (Rs)	Cr. Payments	Amount (Rs)
To Balance b/d	20,000	By Rent	19,000
To Subscriptions:		By Office expenses	23,000
2017–18	25,000	By Balance c/d	2,68,000
2018–19	1,00,000		
2019–20	15,000		
To Entrance fees	45,000		
To Sale of old sports material	5,000		
To Building donation	1,00,000		
Total	3,10,000	Total	3,10,000

The equal totals confirm that the recorded receipts and opening cash have been fully accounted for by actual payments and the closing cash balance.

Step 4: Conclusion The Receipts and Payments Account totals Rs 3,10,000 on each side, with closing cash of Rs 2,68,000.

Quick Tip to Solve: Include every actual subscription receipt, then balance total cash available against actual payments.

15. From the given Receipts and Payments Account and additional information of Premier Club for the year ended 31st March, 2019, prepare Income and Expenditure Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

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

Receipts	Amount (Rs)	Payments	Amount (Rs)
To Balance b/d	80,900	By Furniture and Equipment (Purchased on 1.10.2018)	1,00,000
To Donations	39,000	By Salaries	62,000
To Subscriptions: 2017-18 12,000 2018-19 70,000 2019-20 9,000	91,000	By Balance c/d	68,600
To Interest received	19,700		
Total	2,30,600		2,30,600

Additional Information:

(i) On 1st April, 2018, the Club had the following balance of assets and liabilities: Furniture and Equipment ₹ 1,80,000, Subscriptions in arrears ₹ 15,000, and Outstanding Salary ₹ 13,000.

(ii) Charge depreciation on Furniture and Equipment @ 10% p.a.

(iii) The Club had 90 members, each paying an annual subscription of ₹ 1,000. [4 marks]

Solution:

Concept:

- Income and Expenditure Account follows the accrual basis: include only revenue income earned and revenue expenses incurred during the current year. Capital expenditure creates an asset.
- The opening capital fund equals opening assets less opening liabilities. The surplus increases this fund; subscriptions received in advance remain a liability.

Step 1: Work out subscriptions, salary and depreciation The subscription income earned from 90 members is $90 \times \text{Rs } 1,000 = \text{Rs } 90,000$. Of this, Rs 70,000 was received for 2018–19, so current-year subscriptions outstanding are Rs 20,000. Opening arrears of Rs 15,000 less Rs 12,000 collected leave old arrears of Rs 3,000. Thus closing subscriptions receivable are Rs 23,000. The Rs 9,000 received for 2019–20 is an advance, not current income.

Salary paid includes the opening outstanding salary of Rs 13,000. Therefore current salary expense is $\text{Rs } 62,000 - \text{Rs } 13,000 = \text{Rs } 49,000$.

Depreciation on opening furniture is $\text{Rs } 1,80,000 \times 10\% = \text{Rs } 18,000$. New furniture was purchased on 1 October, so its depreciation for six months is $\text{Rs } 1,00,000 \times 10\% \times 6/12 = \text{Rs } 5,000$. Total depreciation is Rs 23,000 and closing furniture and equipment are Rs 2,57,000.

Step 2: Prepare the Income and Expenditure Account The donations have no specified purpose and are treated as revenue income. Interest received is also current income, since no adjustment is given.

Premier Club: Income and Expenditure Account for the year ended 31 March 2019

Expenditure	Rs	Income	Rs
To Salaries	49,000	By Subscriptions	90,000
To Depreciation	23,000	By Donations	39,000
To Surplus	76,700	By Interest	19,700
Total	1,48,700	Total	1,48,700

Step 3: Calculate the capital fund and prepare the Balance Sheet Opening assets are cash Rs 80,900, furniture Rs 1,80,000 and subscriptions in arrears Rs 15,000. Deducting outstanding salary Rs 13,000 gives opening capital fund of Rs 2,62,900. Adding the surplus of Rs 76,700 gives closing capital fund of Rs 3,39,600.

Premier Club: Balance Sheet as at 31 March 2019

Liabilities	Rs	Assets	Rs
Capital fund	3,39,600	Furniture and equipment	2,57,000
Subscriptions in advance	9,000	Subscriptions outstanding	23,000
		Cash and bank balance	68,600
Total	3,48,600	Total	3,48,600

The opening outstanding salary has been settled through the year's payments; no closing salary liability is given.

Step 4: Conclusion The surplus is Rs $76,700$, and the Balance Sheet total is Rs $3,48,600$.

Quick Tip to Solve: Use all 90 annual subscriptions as income, but keep the Rs 3,000 old arrears in the closing asset balance.

16. Yash and Karan were partners in an interior designer firm. Their fixed capitals were ₹ 6,00,000 and ₹ 4,00,000 respectively. There were credit balances in their current accounts of ₹ 4,00,000 and ₹ 5,00,000 respectively. The firm had a balance of ₹ 1,00,000 in General Reserve. The firm did not have any liability. They admitted Radhika into partnership for 1/4th share in the profits of the firm. The average profits of the firm for the last five years were ₹ 5,00,000. Calculate the value of goodwill of the firm by capitalization of average profits method. The normal rate of return in the business is 10%. [4 marks]

Solution:

Concept:

- Under capitalisation of average profits, capitalised business value is average profit multiplied by 100 and divided by the normal percentage rate of return. It is the capital needed to earn that profit at the normal rate.
- Goodwill equals capitalised business value less actual capital employed. Include fixed capitals, credit current-account balances and accumulated reserves when finding the owners' funds.

Step 1: Find the actual capital employed Fixed capital accounts alone do not represent all funds invested in this firm. Yash and Karan also have credit balances in their current accounts, and the General Reserve is an accumulated profit retained in the business. Since the firm has no outside

liability, the aggregate of these owners' funds is its actual capital employed:

$$\begin{aligned}\text{Fixed capitals} &= \text{Rs } (6,00,000 + 4,00,000) = \text{Rs } 10,00,000,\\ \text{Credit current accounts} &= \text{Rs } (4,00,000 + 5,00,000) = \text{Rs } 9,00,000,\\ \text{Actual capital employed} &= \text{Rs } (10,00,000 + 9,00,000 + 1,00,000)\\ &= \text{Rs } 20,00,000.\end{aligned}$$

The current accounts are included as credit balances, rather than deducted as drawings or liabilities to outsiders.

Step 2: Capitalise the average profit The annual average profit is Rs 5,00,000 and the normal annual return is 10 percent. Therefore the capitalised value of the whole business is

$$\begin{aligned}\text{Capitalised value} &= \frac{\text{Rs } 5,00,000 \times 100}{10}\\ &= \text{Rs } 50,00,000.\end{aligned}$$

This represents the amount of capital which, at the normal rate, would earn the firm's average profit. The profit is already the five-year average, so it must not be divided by five again.

Step 3: Determine goodwill and check the result Goodwill is the excess of this capitalised value over the actual capital employed:

$$\text{Goodwill} = \text{Rs } 50,00,000 - \text{Rs } 20,00,000 = \text{Rs } 30,00,000.$$

As a check, normal profit on actual capital is Rs 2,00,000, leaving super profit of Rs 3,00,000. Capitalising that super profit at 10 percent also gives Rs 30,00,000. Radhika's one-fourth share would matter when calculating her share of goodwill or premium, but the question asks for goodwill of the entire firm, so the firm's goodwill is not multiplied by one-fourth.

Step 4: Conclusion The goodwill of the firm by capitalisation of average profits is $\boxed{\text{Rs } 30,00,000}$.

Quick Tip to Solve: Include both credit current accounts and the General Reserve before subtracting capital employed from capitalised profits.

OR

16. Samiksha, Ash and Divya were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 1st April, 2019, they agreed to share future profits and losses in the ratio of 2 : 5 : 3. Their Balance Sheet showed a debit balance of ₹ 50,000 in the Profit and Loss Account and a balance of ₹ 40,000 in the Investment Fluctuation Fund. For this purpose, it was agreed that:

(i) Goodwill of the firm be valued at ₹ 3,00,000.

(ii) Investments of book value of ₹ 5,00,000 be valued at ₹ 4,80,000.

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

Solution:

Concept:

- Accumulated losses and the surplus investment fluctuation fund belong to the old partners in their old profit-sharing ratio, $5:3:2$. A fall in investment value is first met from that fund.
- Goodwill is adjusted through capital accounts: gaining partners compensate sacrificing partners by Goodwill $\times$ individual gain or sacrifice.

Step 1: Determine sacrifice and gains Samiksha's sacrifice is $5/10 - 2/10 = 3/10$. Ash gains $5/10 - 3/10 = 2/10$, and Divya gains $3/10 - 2/10 = 1/10$. Hence Ash compensates Samiksha by Rs $3,00,000 \times 2/10 = 60,000$, and Divya compensates her by Rs $3,00,000 \times 1/10 = 30,000$. No goodwill account needs to be raised.

Step 2: Record the accumulated loss The debit balance of Profit and Loss Account is an accumulated loss. Charge Rs 50,000 to partners in $5:3:2$: Samiksha Rs 25,000, Ash Rs 15,000 and Divya Rs 10,000.

Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	Samiksha's Capital A/c Dr.		25,000	
	Ash's Capital A/c Dr.		15,000	
	Divya's Capital A/c Dr.		10,000	
	To Profit and Loss A/c			50,000
	(Being accumulated loss transferred in the old ratio)			

Step 3: Adjust investments and goodwill Investment value has fallen by Rs $5,00,000 - 4,80,000 = 20,000$. The fund of Rs 40,000 meets this loss; its remaining Rs 20,000 is distributed in the old ratio as Rs 10,000, Rs 6,000 and Rs 4,000.

Journal of the Firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	Investment Fluctuation Fund A/c Dr.		40,000	
	To Investments A/c			20,000
	To Samiksha's Capital A/c			10,000
	To Ash's Capital A/c			6,000
	To Divya's Capital A/c			4,000
	(Being fall in investment value met and surplus distributed in old ratio)			
1-4-2019	Ash's Capital A/c Dr.		60,000	
	Divya's Capital A/c Dr.		30,000	
	To Samiksha's Capital A/c			90,000
	(Being goodwill adjusted through gaining and sacrificing partners' capitals)			

Step 4: Conclusion The necessary entries write off the loss of Rs 50,000, reduce investments by Rs 20,000, distribute the surplus fund of Rs 20,000, and credit Samiksha Rs 90,000 for goodwill by debiting Ash Rs 60,000 and Divya Rs 30,000.

Quick Tip to Solve: First use the investment fluctuation fund against the fall in investment value; distribute only its unused balance in the old ratio.

17. The capital accounts of Alka and Archana showed credit balances of ₹ 4,00,000 and ₹ 3,00,000 respectively, after taking into account drawings and net profit of ₹ 2,00,000. The drawings of the partners during the year 2018-19 were:

(i) Alka withdrew ₹ 10,000 at the end of each quarter.

(ii) Archana's drawings were: 31st May, 2018 – ₹ 8,000; 1st November, 2018 – ₹ 7,000; 1st February, 2019 – ₹ 5,000.

Calculate interest on partners' capitals @ 10% p.a. and interest on partners' drawings @ 6% p.a. for the year ended 31st March, 2019. [4 marks]

Solution:

Concept:

- Interest on capital is calculated on opening capital. Opening capital equals closing capital plus drawings minus the share of profit already credited, provided there are no other capital changes.
- When no profit-sharing ratio is stated, partners share profits equally. Interest on drawings is $D \times r \times t/12$, where D is the drawing, r the annual rate and t the number of months outstanding.

Step 1: Reconstruct opening capitals The net profit of Rs 2,00,000 has already been credited to capital accounts. Since no profit-sharing ratio is specified, each partner's share is Rs $2,00,000/2 = 1,00,000$. Alka's annual drawings are Rs $10,000 \times 4 = 40,000$, and Archana's are Rs $8,000 + 7,000 + 5,000 =$

$20,000$.

$$\begin{aligned}\text{Alka's opening capital} &= 4,00,000 + 40,000 - 1,00,000\\ &= \text{Rs } 3,40,000,\\ \text{Archana's opening capital} &= 3,00,000 + 20,000 - 1,00,000\\ &= \text{Rs } 2,20,000.\end{aligned}$$

Adding drawings reverses their debit; subtracting profit reverses the credit included in closing capital.

Step 2: Calculate interest on capitals Apply the stated annual rate of 10% to the reconstructed opening capitals for the full year ended 31st March, 2019:

$$\begin{aligned}\text{Alka} &= 3,40,000 \times 10/100 = \text{Rs } 34,000,\\ \text{Archana} &= 2,20,000 \times 10/100 = \text{Rs } 22,000.\end{aligned}$$

Using the closing balances would incorrectly include the year's profit and exclude the drawings already taken.

Step 3: Calculate interest on drawings Alka withdraws at the end of each quarter: 30th June, 30th September, 31st December and 31st March. These drawings remain outstanding for 9, 6, 3 and 0 months respectively. Their average period is $(9+6+3+0)/4 = 4.5$ months.

$$\text{Alka's interest} = 40,000 \times \frac{6}{100} \times \frac{4.5}{12} = \text{Rs } 900.$$

Archana's drawings have different dates and amounts, so calculate each separately. The periods from 31st May, 1st November and 1st February to 31st March are 10, 5 and 2 months respectively.

$$\begin{aligned}\text{Archana's interest} &= 8,000 \times \frac{6}{100} \times \frac{10}{12}\\ &\quad + 7,000 \times \frac{6}{100} \times \frac{5}{12}\\ &\quad + 5,000 \times \frac{6}{100} \times \frac{2}{12}\\ &= 400 + 175 + 50 = \text{Rs } 625.\end{aligned}$$

Step 4: Conclusion Interest on capital: Alka Rs 34,000 and Archana Rs 22,000. Interest on drawings: Alka Rs 900 and Archana Rs 625.

Quick Tip to Solve: For equal drawings at each quarter-end use an average of 4.5 months; for unequal dated drawings calculate each amount separately.

18. Harsh, Kavya and Nitin were partners sharing profits and losses in the ratio of 2 : 2 : 1. On 31st July, 2019, Nitin died. The Balance Sheet of the firm as at 31st March, 2019 was as follows:

Balance Sheet of Harsh, Kavya and Nitin as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Plant and Machinery	9,00,000
Harsh: 5,00,000		Stock	2,80,000
Kavya: 4,00,000		Debtors	2,70,000
Nitin: 3,00,000	12,00,000	Cash	80,000
Profits for 2018–19	2,00,000	Advertisement Expenditure	30,000
Sundry Creditors	1,60,000		
Total	15,60,000	Total	15,60,000

According to the Partnership deed, in addition to the deceased partner's capital, his executor is entitled to:

(i) Share in profits on the basis of average profits of the last two years. Profit for the year 2017-18 was ₹ 1,60,000.

(ii) His share in the goodwill of the firm. Goodwill will be valued on the basis of three years' purchase of the average profits of the last two years.

(iii) Nitin withdrew ₹ 20,000 on 1st May, 2019.

Prepare Nitin's Capital Account which is to be rendered to his executor. [4 marks]

Solution:

Concept:

- A deceased partner's capital account is credited with opening capital, his share of accumulated profit, goodwill compensation and profit up to death. Drawings and his share of deferred expenditure are debited.
- Nitin's profit share is $1/5$. Profit to the date of death is estimated for four months, from 1 April to 31 July, using average annual profit. The final balance is transferred to his executor's account.

Step 1: Calculate accumulated profit and advertisement expenditure The profit of Rs 2,00,000 for 2018–19 remains separately on the liabilities side of the balance sheet; it has not yet been included in the partners' stated capitals. Nitin must therefore receive his share:

$$2,00,000 \times \frac{1}{5} = \text{Rs } 40,000.$$

Advertisement expenditure is a deferred expenditure balance and must be written off against the old partners' capitals. Nitin's debit is

$$30,000 \times \frac{1}{5} = \text{Rs } 6,000.$$

Step 2: Determine profit to death and goodwill compensation Average annual profit of the last two completed years is

$$\frac{1,60,000 + 2,00,000}{2} = \text{Rs } 1,80,000.$$

Nitin's estimated share for the four months ending 31 July 2019 is

$$1,80,000 \times \frac{4}{12} \times \frac{1}{5} = \text{Rs } 12,000.$$

Goodwill of the firm is $1,80,000 \times 3 = \text{Rs } 5,40,000$, so Nitin's share is Rs 1,08,000. Harsh and Kavya compensate him equally: each bears Rs 54,000, since their continuing ratio is 1:1 and each gains half his share.

Step 3: Prepare the capital account **Nitin's Capital Account as at 31 July 2019**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Advertisement expenditure	6,000	By Balance b/d	3,00,000
To Drawings	20,000	By Profit and Loss A/c	40,000
To Nitin's Executor's A/c	4,34,000	By Harsh's Capital A/c	54,000
		By Kavya's Capital A/c	54,000
		By Profit and Loss Suspense A/c	12,000
Total	4,60,000	Total	4,60,000

The amount transferred to the executor closes Nitin's capital account. No interest on drawings or capital is charged because the deed gives no such provision.

Step 4: Conclusion The amount due to Nitin's executor is $\boxed{\text{Rs } 4,34,000}$.

Quick Tip to Solve: Include the Rs 2,00,000 accumulated profit separately; the four-month profit estimate does not replace it.

19. Disha, Preeti and Ritvik were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. The firm was dissolved on 31st March, 2019. After transfer of assets (other than cash) and external liabilities to the Realization Account, the following transactions took place:

(i) A debtor, whose debt of ₹ 70,000 was written off as bad, paid ₹ 68,000 in full settlement.

(ii) A creditor, to whom ₹ 1,00,000 were due to be paid, accepted furniture at ₹ 56,000 and the balance was paid to him by cheque.

(iii) Ritvik had given a loan of ₹ 21,000 to the firm. He accepted ₹ 19,000 in full settlement of his loan.

(iv) Stock was worth ₹ 88,000 out of which stock worth ₹ 78,000 was taken over by Disha at ₹ 60,000 and the balance of the stock was sold for ₹ 12,000.

(v) Expenses on dissolution amounted to ₹ 23,000 and were paid by the firm.

(vi) Profit on dissolution amounted to ₹ 18,000.

Pass the necessary journal entries for the above transactions in the books of the firm. [6 marks]

Solution:

Concept:

- Once assets and outside liabilities have been transferred, subsequent asset recoveries credit Realisation and payments to settle creditors debit Realisation. An asset directly accepted by a transferred creditor needs no separate entry.

- A partner's loan remains a separate liability. Any concession on its settlement is credited to Realisation. Profit on dissolution is credited to partners' capital accounts in their old profit-sharing ratio, 3:2:1.

Step 1: Work out the settlement amounts The previously written-off debtor is an unrecorded recovery: record only the Rs 68,000 actually received. The creditor receives furniture directly, so the only cash payment is $1,00,000 - 56,000 =$ Rs $44,000$. No additional entry is made for the furniture accepted by him because both the furniture and creditor already stand transferred to Realisation.

Ritvik's loan liability of Rs 21,000 is discharged by paying Rs 19,000; the Rs 2,000 concession is a realisation gain. Disha's capital is debited with the agreed takeover price of Rs 60,000, not the stock's Rs 78,000 book value. The remaining stock is sold for Rs 12,000; its book value of Rs 10,000 is already in Realisation.

Distribute the given profit of Rs 18,000 as follows: Disha $18,000 \times 3/6 =$ Rs $9,000$, Preeti $18,000 \times 2/6 =$ Rs $6,000$, Ritvik $18,000 \times 1/6 =$ Rs $3,000$.

Step 2: Record recoveries and creditor settlement **Journal of the firm (31 March 2019)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		68,000	
	To Realisation A/c			68,000
	(Being bad debt recovered in full settlement)			
	Realisation A/c Dr.		44,000	
	To Bank A/c			44,000
	(Being balance paid after creditor accepted furniture)			
	Ritvik's Loan A/c Dr.		21,000	
	To Bank A/c			19,000
	To Realisation A/c			2,000
	(Being partner's loan settled at a concession)			

Step 3: Record stock, expenses and distribution of profit **Journal of the firm (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Disha's Capital A/c Dr.		60,000	
	To Realisation A/c			60,000
	(Being stock taken over by Disha at agreed value)			
	Bank A/c Dr.		12,000	
	To Realisation A/c			12,000
	(Being remaining stock sold)			
	Realisation A/c Dr.		23,000	
	To Bank A/c			23,000
	(Being dissolution expenses paid by the firm)			
	Realisation A/c Dr.		18,000	
	To Disha's Capital A/c			9,000
	To Preeti's Capital A/c			6,000
	To Ritvik's Capital A/c			3,000
	(Being realisation profit distributed in the ratio 3:2:1)			

Each entry balances independently. The given Rs 18,000 is the overall dissolution profit; it is not recomputed from these selected transactions, since opening transferred balances are not supplied.

Step 4: Conclusion The necessary entries are recorded above; the dissolution profit is credited as Rs 9,000 to Disha, Rs 6,000 to Preeti and Rs 3,000 to Ritvik.

Quick Tip to Solve: For assets accepted directly by an already-transferred creditor, journalise only any cash balance paid; avoid recording the same asset twice.

20. (i) Kati Ltd. issued 8,000, 9% debentures of ₹ 100 each at a discount of 10%. The full amount was payable on application. Applications were received for 9,000 debentures and allotment was made on pro-rata basis. Pass the necessary journal entries for the above transactions in the books of Kati Ltd.

(ii) Pivot Ltd. issued 40,000, 11% debentures of ₹ 100 each on 1st April, 2015. Half of the debentures were due for redemption on 31st March, 2019. The company decided to transfer the minimum required amount to Debenture Redemption Reserve on 31st March, 2018 and invested the necessary amount in Debenture Redemption Investments on 30th April, 2018. Pass the necessary journal entries for Redemption of Debentures. [6 marks]

Solution:

Concept:

- Debentures issued at a discount credit the Debentures Account with face value; the difference between face value and proceeds is debited as Discount on Issue of Debentures.
- Under pro-rata allotment, excess application money is refunded when the entire issue price was payable on application; there is no future allotment or call instalment against which to adjust it.
- For the period specified, a non-banking company creates DRR equal to 25% of outstanding debentures and invests at least 15% of the debentures maturing during the following financial year.

Step 1: (i) Calculate application money and refund The issue price is $100 - 10 = \text{Rs } 90$ per debenture. Applications bring in $9,000 \times 90 = \text{Rs } 8,10,000$. Allotment is in the ratio $8,000 : 9,000 = 8 : 9$. The allotted debentures require $8,000 \times 90 = \text{Rs } 7,20,000$; therefore the excess $8,10,000 - 7,20,000 = \text{Rs } 90,000$ is refunded. Discount is $8,000 \times 10 = \text{Rs } 80,000$.

Step 2: (i) Record the issue in Kati Ltd. Journal of Kati Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		8,10,000	
	To Debenture Application A/c			8,10,000
	(Being application money received on 9,000 debentures at Rs 90 each)			
	Debenture Application A/c Dr.		7,20,000	
	Discount on Issue of Debentures A/c Dr.		80,000	
	To 9% Debentures A/c			8,00,000
	(Being 8,000 debentures allotted pro-rata at a discount of 10%)			
	Debenture Application A/c Dr.		90,000	
	To Bank A/c			90,000
	(Being excess application money refunded)			

Step 3: (ii) Determine reserve and investment Total outstanding debentures are $40,000 \times 100 = \text{Rs } 40,00,000$. Minimum DRR on 31 March 2018 is $40,00,000 \times 25\% = \text{Rs } 10,00,000$. Half the debentures mature: $20,000 \times 100 = \text{Rs } 20,00,000$. The investment on 30 April 2018 is $20,00,000 \times 15\% = \text{Rs } 3,00,000$. DRR is calculated on the outstanding issue, whereas the investment is calculated on the amount maturing. No return or profit on investments is given, so their realisation is recorded at book value.

Step 4: (ii) Record redemption in Pivot Ltd. Journal of Pivot Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Surplus in Statement of Profit and Loss A/c Dr.		10,00,000	
	To Debenture Redemption Reserve A/c			10,00,000
	(Being minimum DRR of 25% of outstanding debentures created)			
30-4-2018	Debenture Redemption Investment A/c Dr.		3,00,000	
	To Bank A/c			3,00,000
	(Being 15% of debentures maturing invested)			
31-3-2019	Bank A/c Dr.		3,00,000	
	To Debenture Redemption Investment A/c			3,00,000
	(Being investments realised at book value)			
31-3-2019	11% Debentures A/c Dr.		20,00,000	
	To Debentureholders A/c			20,00,000
	(Being half the debentures due for redemption at par)			
31-3-2019	Debentureholders A/c Dr.		20,00,000	
	To Bank A/c			20,00,000
	(Being amount due paid to debentureholders)			

The remaining Rs 20,00,000 debentures are still outstanding, so the DRR is retained. Its transfer to General Reserve is made after completion of redemption of the issue. Interest entries are not required because this part asks for redemption transactions.

Step 5: Conclusion Kati Ltd. issues debentures of Rs 8,00,000 face value, records Rs 80,000 discount and refunds Rs 90,000. Pivot Ltd. creates DRR of Rs 10,00,000, invests Rs 3,00,000 and redeems Rs 20,00,000 at par.

Quick Tip to Solve: Use Rs 90 for Kati's application receipts, face value for its debenture credit, and distinguish outstanding debentures from the portion maturing for Pivot's reserve and investment.

OR

20. (i) Rama Ltd. took over the following assets and liabilities of Krishna Ltd. on 1st April, 2019: Land and Building ₹ 50,00,000; Furniture ₹ 10,00,000; Stock ₹ 5,00,000; Creditors ₹ 7,00,000. The purchase consideration of ₹ 60,00,000 was paid by issuing 12% debentures of ₹ 100 each at a premium of 20%. Pass the necessary journal entries for the above in the books of Rama Ltd.

(ii) On 1st April, 2018, Sakshi Ltd. issued 1,000, 11% Debentures of ₹ 100 each at a discount of 6%, redeemable at a premium of 5% after three years. Pass the necessary journal entries for the issue of debentures in the books of Sakshi Ltd.

(iii) On 1st April, 2016, Canara Bank issued 5,000, 9% debentures of ₹ 100 each at a premium of 6%, redeemable on 31st March, 2019, at a premium of 10%. The issue was fully subscribed. Pass the necessary journal entries for redemption of debentures in the books of Canara Bank. [6 marks]

Solution:

Concept:

- Goodwill on acquisition equals purchase consideration minus net identifiable assets. Debentures issued to a vendor settle the consideration at their issue price, including securities premium.
- Loss on issue comprises issue discount plus premium payable on redemption. Debentures Account is always credited with nominal value.
- Redemption debits nominal debentures and any premium liability, credits debentureholders, and then records payment. Banking companies are exempt from creating DRR.

Step 1: (i) Calculate goodwill and debentures issued by Rama Ltd. Assets taken over total $50,00,000 + 10,00,000 + 5,00,000 =$ Rs $65,00,000$. Net assets are $65,00,000 - 7,00,000 =$ Rs $58,00,000$. Since consideration is Rs 60,00,000, goodwill is $60,00,000 - 58,00,000 =$ Rs $2,00,000$. Each debenture is issued for $100 + 20 =$ Rs 120; hence $60,00,000/120 = 50,000$ debentures are issued. Face value is Rs 50,00,000 and premium is Rs 10,00,000.

Step 2: (i) Enter the purchase and settlement Journal of Rama Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	Land and Building A/c Dr.		50,00,000	
	Furniture A/c Dr.		10,00,000	
	Stock A/c Dr.		5,00,000	
	Goodwill A/c Dr.		2,00,000	
	To Creditors A/c			7,00,000
	To Krishna Ltd. A/c			60,00,000
	(Being business purchased and goodwill recognised)			
1-4-2019	Krishna Ltd. A/c Dr.		60,00,000	
	To 12% Debentures A/c			50,00,000
	To Securities Premium Reserve A/c			10,00,000
	(Being purchase consideration discharged by debentures at 20% premium)			

Step 3: (ii) Record the issue by Sakshi Ltd. Nominal value is $1,000 \times 100 =$ Rs $1,00,000$. Cash received is $1,00,000 \times 94\% =$ Rs $94,000$. Issue discount is Rs 6,000 and redemption premium is Rs 5,000, giving total loss $6,000 + 5,000 =$ Rs $11,000$. The premium liability is recognised at issue even though paid after three years.

Journal of Sakshi Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2018	Bank A/c Dr.		94,000	
	Loss on Issue of Debentures A/c Dr.		11,000	
	To 11% Debentures A/c			1,00,000
	To Premium on Redemption of Debentures A/c			5,000
	(Being 1,000 debentures issued at 6% discount, redeemable at 5% premium)			

Step 4: (iii) Record redemption by Canara Bank Nominal value redeemed is $5,000 \times 100 =$ Rs $5,00,000$. Redemption premium is $5,00,000 \times 10\% =$ Rs $50,000$, making the amount payable Rs 5,50,000. The original 6% issue premium does not reduce this contractual payment. As Canara Bank is a banking company, no DRR is created; only redemption entries are required. The premium liability recognised on issue is discharged on redemption.

Journal of Canara Bank

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	9% Debentures A/c Dr.		5,00,000	
	Premium on Redemption of Debentures A/c Dr.		50,000	
	To Debentureholders A/c			5,50,000
	(Being debentures due for redemption with 10% premium)			
31-3-2019	Debentureholders A/c Dr.		5,50,000	
	To Bank A/c			5,50,000
	(Being debentureholders paid on redemption)			

Step 5: Conclusion Rama Ltd. recognises Rs 2,00,000 goodwill and issues 50,000 debentures. Sakshi Ltd. receives Rs 94,000 and records Rs 11,000 loss on issue. Canara Bank pays Rs 5,50,000 on redemption.

Quick Tip to Solve: Divide Rama's purchase consideration by Rs 120, combine both losses for Sakshi, and use Canara's 10% redemption premium independently of its 6% issue premium.

21. Madhuri and Arsh were partners in a firm sharing profits and losses in the ratio of 3 : 1. Their Balance Sheet as at 31st March, 2019, was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Madhuri 3,00,000 Arsh 2,00,000	5,00,000	Machinery	4,70,000
Workmen's Compensation Fund	60,000	Investments	1,10,000
Creditors	1,90,000	Debtors 1,20,000 Less: Provision for doubtful debts 10,000	1,10,000
Employees' Provident Fund	1,10,000	Stock	1,40,000
		Cash	30,000
Total	8,60,000	Total	8,60,000

On 1st April, 2019, they admitted Jyoti into partnership for 1/4th share in the profits of the firm. Jyoti brought proportionate capital and ₹ 40,000 as her share of goodwill premium. The following terms were agreed upon:

(i) Provision for doubtful debts was to be maintained at 10% on debtors.

(ii) Stock was undervalued by ₹ 10,000.

(iii) An old customer whose account was written off as bad, paid ₹ 15,000.

(iv) 20% of the investments were taken over by Arsh at book value.

(v) Claim on account of workmen's compensation amounted to ₹ 70,000.

(vi) Creditors included a sum of ₹ 27,000 which was not likely to be claimed.

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

Solution:

Concept:

- Revaluation gains and losses belong to the old partners in their old ratio $3:1$. An existing fund for a specific liability first meets that liability.
- Premium for goodwill is credited in the sacrificing ratio. With no different sacrifice specified, the old partners sacrifice in $3:1$.
- Proportionate capital is based on adjusted old capitals after revaluation, goodwill and asset takeover.

Step 1: Calculate revaluation adjustments The required provision is $1,20,000 \times 10\% = 12,000$, so the increase over the existing Rs 10,000 is Rs 2,000. Stock increases by Rs 10,000. The recovery of an old bad debt adds Rs 15,000 to cash and is a revaluation gain. The compensation claim of Rs 70,000 uses the Rs 60,000 fund; only its excess, Rs 10,000, is a revaluation loss. Creditors decrease by Rs 27,000. Thus profit is $10,000 + 15,000 + 27,000 - 2,000 - 10,000 = 40,000$. Madhuri receives Rs 30,000 and Arsh Rs 10,000.

Step 2: Prepare Revaluation Account Revaluation Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Provision increase	2,000	By Stock	10,000	
	To Compensation excess	10,000	By Bad debts recovered	15,000	
	To Madhuri capital	30,000	By Creditors	27,000	
	To Arsh capital	10,000			
	Total	52,000	Total	52,000	

Step 3: Determine capital brought by Jyoti Arsh takes investments of $1,10,000 \times 20\% = 22,000$, debited to his capital. The goodwill premium is distributed Rs 30,000 to Madhuri and Rs 10,000 to Arsh. Their adjusted capitals are $3,00,000 + 30,000 + 30,000 = 3,60,000$ and $2,00,000 + 10,000 + 10,000 - 22,000 = 1,98,000$. Their combined capital, Rs 5,58,000, represents the remaining $3/4$ share. Jyoti therefore brings $5,58,000 \times (1/4)/(3/4) = 1,86,000$. The new ratio is $9 : 3 : 4$.

Step 4: Prepare Partners Capital Accounts Madhuri Capital Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Balance c/d	3,60,000	By Balance b/d	3,00,000	
			By Goodwill premium	30,000	
			By Revaluation	30,000	
	Total	3,60,000	Total	3,60,000	

Arsh Capital Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Investments	22,000	By Balance b/d	2,00,000	
	To Balance c/d	1,98,000	By Goodwill premium	10,000	
			By Revaluation	10,000	
	Total	2,20,000	Total	2,20,000	

Jyoti Capital Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Balance c/d	1,86,000	By Cash	1,86,000	
	Total	1,86,000	Total	1,86,000	

Step 5: Prepare the reconstituted Balance Sheet Cash becomes $30,000 + 15,000 + 40,000 + 1,86,000 = 2,71,000$. Investments remaining are Rs 88,000; creditors are Rs 1,63,000. The provident fund remains a liability, while the compensation claim replaces the compensation fund.

Balance Sheet as at 1 April 2019

Liabilities	Rs	Assets	Rs
Madhuri capital	3,60,000	Machinery	4,70,000
Arsh capital	1,98,000	Investments	88,000
Jyoti capital	1,86,000	Debtors	1,20,000
Compensation claim	70,000	Less: Provision	(12,000)
Creditors	1,63,000	Net debtors	1,08,000
Provident fund	1,10,000	Stock	1,50,000
		Cash	2,71,000
Total	10,87,000	Total	10,87,000

Step 6: Conclusion Jyoti brings capital of Rs 1,86,000. Closing capitals are Madhuri Rs 3,60,000, Arsh Rs 1,98,000 and Jyoti Rs 1,86,000; the Balance Sheet totals Rs 10,87,000.

Quick Tip to Solve: Compute adjusted old capitals first; divide their total by three to obtain the new partner capital for a one-fourth share.

OR

21. Anita, Gaurav and Sonu were partners in a firm sharing profits and losses in proportion to their capitals. Their Balance Sheet as at 31st March, 2019 was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals: Anita 2,00,000 Gaurav 2,00,000 Sonu 1,00,000	5,00,000	Land and Building	5,00,000
Investment Fluctuation Fund	40,000	Investments	1,20,000
General Reserve	30,000	Debtors 1,50,000 Less: Provision for doubtful debts 10,000	1,40,000
Creditors	4,60,000	Stock	1,00,000
		Cash at bank	1,70,000
Total	10,30,000	Total	10,30,000

On the above date, Anita retired from the firm and the remaining partners decided to carry on the business. It was agreed to revalue the assets and reassess the liabilities as follows:

(i) Goodwill of the firm was valued at ₹ 3,00,000 and Anita's share of goodwill was adjusted in the capital accounts of the remaining partners, Gaurav and Sonu.

(ii) Land and Building was to be brought up to 120% of its book value.

(iii) Bad debts amounted to ₹ 20,000. A provision for doubtful debts was to be maintained at 10% on debtors.

(iv) Market value of investments was ₹ 1,10,000.

(v) ₹ 1,00,000 was paid immediately by cheque to Anita out of the amount due and the balance was to be transferred to her loan account which was to be paid in two equal annual instalments along with interest @ 10% p.a.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm on Anita's retirement. [8 marks]

Solution:

Concept:

- Old profit sharing ratio follows capitals: $2:2:1$. Revaluation profit and accumulated free reserves are shared in this old ratio.
- Retiring partner goodwill is borne by the continuing partners in their gaining ratio. A specific investment fund first absorbs the decline in investment value.
- Amount due to the retiring partner is settled through bank and the balance is transferred to a loan account.

Step 1: Find ratios and goodwill adjustment The old ratio is $2,00,000:2,00,000:1,00,000 = 2:2:1$. Gaurav and Sonu continue in their relative ratio $2:1$. Their gains are $2/3 - 2/5 = 4/15$ and

$1/3 - 1/5 = 2/15$, giving gaining ratio $2:1$. Anita goodwill share is $3,00,000 \times 2/5 = 1,20,000$. Debit Gaurav Rs 80,000 and Sonu Rs 40,000 and credit Anita Rs 1,20,000; goodwill is not raised as an asset.

Step 2: Calculate reserves and revaluation Land and Building increases by $5,00,000 \times 20\% = 1,00,000$. After writing off Rs 20,000 bad debts, debtors are Rs 1,30,000 and required provision is Rs 13,000. The increase from the existing Rs 10,000 is Rs 3,000, giving total debtors-related loss Rs 23,000. Investments decrease by Rs 10,000; this is absorbed by the Rs 40,000 Investment Fluctuation Fund. Distribute its remaining Rs 30,000 in $2:2:1$, namely Rs 12,000, Rs 12,000 and Rs 6,000. Distribute the Rs 30,000 General Reserve in the same amounts. Revaluation profit is $1,00,000 - 20,000 - 3,000 = 77,000$, allocated Rs 30,800, Rs 30,800 and Rs 15,400.

Step 3: Prepare Revaluation Account Revaluation Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Bad debts	20,000	By Land and Building	1,00,000	
	To Provision increase	3,000			
	To Anita capital	30,800			
	To Gaurav capital	30,800			
	To Sonu capital	15,400			
	Total	1,00,000	Total	1,00,000	

Step 4: Prepare Partners Capital Accounts Anita Capital Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Bank	1,00,000	By Balance b/d	2,00,000	
	To Loan	2,74,800	By General reserve	12,000	
			By Investment fund	12,000	
			By Revaluation	30,800	
			By Goodwill adjustment	1,20,000	
	Total	3,74,800	Total	3,74,800	

Gaurav Capital Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Anita capital	80,000	By Balance b/d	2,00,000	
	To Balance c/d	1,74,800	By General reserve	12,000	
			By Investment fund	12,000	
			By Revaluation	30,800	
	Total	2,54,800	Total	2,54,800	

Sonu Capital Account

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Anita capital	40,000	By Balance b/d	1,00,000	
	To Balance c/d	87,400	By General reserve	6,000	
			By Investment fund	6,000	
			By Revaluation	15,400	
	Total	1,27,400	Total	1,27,400	

Step 5: Prepare the Balance Sheet Bank after the immediate payment is $1,70,000 - 1,00,000 = 70,000$. The loan is shown at Rs 2,74,800 on the retirement date. The principal instalments will be Rs 1,37,400 each; interest accrues subsequently on the outstanding loan, so no future interest is included in this Balance Sheet.

Balance Sheet as at 31 March 2019 after retirement

Liabilities	Rs	Assets	Rs
Gaurav capital	1,74,800	Land and Building	6,00,000
Sonu capital	87,400	Investments	1,10,000
Anita loan	2,74,800	Debtors after bad debts	1,30,000
Creditors	4,60,000	Less: Provision	(13,000)
		Net debtors	1,17,000
		Stock	1,00,000
		Bank	70,000
Total	9,97,000	Total	9,97,000

Step 6: Conclusion Revaluation profit is Rs 77,000; Anita loan is Rs 2,74,800. Closing capitals are Gaurav Rs 1,74,800 and Sonu Rs 87,400. The Balance Sheet totals Rs 9,97,000.

Quick Tip to Solve: Use the investment fund to absorb the investment decline before sharing its surplus, and calculate provision only on debtors remaining after bad debts.

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22. V.D. Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 6 per share. The amount per share was payable as follows: On application – ₹ 3 (including premium ₹ 1); On allotment – ₹ 7 (including premium ₹ 5); On first and final call – Balance amount.

Applications were received for 2,50,000 shares. Applicants for 10,000 shares were sent letters of regret and application money returned to them. Shares were allotted to the remaining applicants on a pro-rata basis. Money overpaid on application was adjusted towards the sums due on allotment.

The company received all the money due on allotment except from Agam, who was allotted 1,000 shares. Her shares were forfeited immediately after allotment. Afterwards, the first and final call was made. Seema, the holder of 2,000 shares, did not pay the first and final call on her shares. Her shares were also forfeited. 50% of the forfeited shares, each of Agam and Seema, were reissued as fully paid-up @ ₹ 16 per share.

Pass the necessary journal entries to record the above transactions in the books of V.D. Ltd. [8 marks]

Solution:

Concept:

- Application excess is adjusted against allotment; securities premium is credited when it becomes due. Only unpaid premium is reversed on forfeiture.
- Share Forfeiture receives capital actually collected. Profit on reissue is transferred to Capital Reserve only for the shares reissued.

Step 1: Compute pro-rata allotment and Agam's arrears The accepted applications are for $2,50,000 - 10,000 = 2,40,000$ shares; the allotment ratio is $2,00,000 : 2,40,000 = 5 : 6$. Application money received is Rs 7,50,000; Rs 30,000 is refunded and Rs 1,20,000 is adjusted towards allotment. Agam applied for $1,000 \times 6/5 = 1,200$ shares and paid Rs 3,600. Her application excess is Rs 600, reducing allotment arrears from Rs 7,000 to Rs 6,400. This adjustment pays part of the allotment premium, leaving unpaid premium of Rs 4,400. Capital called on her shares is Rs 4,000 and capital received is Rs 2,000. Thus forfeiture credit is Rs 2,000. The final call is $16 - 3 - 7 =$ Rs 6 per surviving share.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		7,50,000	
	To Share Application A/c			7,50,000
	(Being application money received)			
	Share Application A/c Dr.		7,50,000	
	To Share Capital A/c			4,00,000
	To Securities Premium A/c			2,00,000
	To Share Allotment A/c			1,20,000
	To Bank A/c			30,000
	(Being application money appropriated, excess adjusted and rejected applications refunded)			
	Share Allotment A/c Dr.		14,00,000	
	To Share Capital A/c			4,00,000
	To Securities Premium A/c			10,00,000
	(Being allotment money due)			
	Bank A/c Dr.		12,73,600	
	To Share Allotment A/c			12,73,600
	(Being allotment received after adjustment, except Agam arrears of Rs 6,400)			

Step 3: Forfeit Agam shares and record the call Journal of V.D. Ltd. (forfeiture and call)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		4,000	
	Securities Premium A/c Dr.		4,400	
	To Share Allotment A/c			6,400
	To Share Forfeiture A/c			2,000
	(Being Agam shares forfeited and unpaid premium reversed)			
	Share First and Final Call A/c Dr.		11,94,000	
	To Share Capital A/c			11,94,000
	(Being call of Rs 6 due on 1,99,000 shares)			
	Bank A/c Dr.		11,82,000	
	To Share First and Final Call A/c			11,82,000
	(Being call received except Rs 12,000 due from Seema)			
	Share Capital A/c Dr.		20,000	
	To Share First and Final Call A/c			12,000
	To Share Forfeiture A/c			8,000
	(Being Seema shares forfeited for non-payment of call)			

Step 4: Reissue and transfer the realised gain Half of each holding is reissued: 500 Agam shares and 1,000 Seema shares. The reissue price is Rs 16, so bank receives Rs 24,000, share capital is credited with Rs 15,000 and securities premium with Rs 9,000. The forfeiture balance relating to reissued shares is $2,000 \times \frac{1}{2} + 8,000 \times \frac{1}{2} = \text{Rs } 5,000$. No discount is allowed; this entire amount is transferred. Journal of V.D. Ltd. (reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		24,000	
	To Share Capital A/c			15,000
	To Securities Premium A/c			9,000
	(Being 1,500 forfeited shares reissued fully paid at Rs 16)			
	Share Forfeiture A/c Dr.		5,000	
	To Capital Reserve A/c			5,000
	(Being profit relating to reissued shares transferred to capital reserve)			

Step 5: Conclusion Capital Reserve is Rs 5,000; Share Forfeiture retains Rs 5,000 for the unreissued shares.

Quick Tip to Solve: Allocate Agam application excess to allotment premium before reversing unpaid premium on forfeiture.

OR

22. Konark Ltd. invited applications for issuing 3,00,000 shares of ₹ 10 each. The amount per share was payable as follows: ₹ 3 on application, ₹ 3 on allotment, and ₹ 4 on first and final call.

The company received applications for 4,00,000 shares. Allotment was done as follows:

(i) Applicants of 2,40,000 shares were allotted 2,00,000 shares.

(ii) Applicants of 1,20,000 shares were allotted 80,000 shares.

(iii) Remaining applicants were allotted 20,000 shares.

Money overpaid on applications was adjusted towards sums due on allotment. Divij, a shareholder, belonging to group (ii), who had applied for 6,000 shares, failed to pay allotment and call money. Faisal, another shareholder, who was allotted 10,000 shares, paid the call money along with allotment. Faisal belonged to group (i).

Divij's shares were forfeited after the first and final call. Half of the forfeited shares were reissued @ ₹ 10 per share fully paid. Pass the necessary journal entries to record the above transactions in the books of the company. [8 marks]

Solution:

Concept:

- Application excess within each allotment group is adjusted towards its allotment dues. Call money received before the call is recorded in Calls in Advance.
- Forfeiture cancels called-up capital; the capital already received is credited to Share Forfeiture. On reissue at par, the proportionate forfeiture gain goes to Capital Reserve.

Step 1: Calculate group adjustments and individual arrears The three groups applied for 2,40,000, 1,20,000 and 40,000 shares and received 2,00,000, 80,000 and 20,000 shares. Their application excesses are respectively Rs 1,20,000, Rs 1,20,000 and Rs 60,000, totalling Rs 3,00,000. Application receipts are Rs 12,00,000, of which Rs 9,00,000 belongs to capital. Allotment due is Rs 9,00,000; the balance collectible after application adjustment is Rs 6,00,000. Divij receives $6,000 \times 80,000/1,20,000 = 4,000$ shares. His Rs 18,000 application payment includes Rs 6,000

excess, leaving Rs 6,000 allotment unpaid. His call arrears are $4,000 \times 4 =$ Rs $16,000$. Faisal pays Rs 40,000 call money in advance, in addition to his net allotment dues. Hence bank receives $6,00,000 - 6,000 + 40,000 =$ Rs $6,34,000$ on allotment.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		12,00,000	
	To Share Application A/c			12,00,000
	(Being application money received)			
	Share Application A/c Dr.		12,00,000	
	To Share Capital A/c			9,00,000
	To Share Allotment A/c			3,00,000
	(Being application money transferred and excess adjusted)			
	Share Allotment A/c Dr.		9,00,000	
	To Share Capital A/c			9,00,000
	(Being allotment money due)			
	Bank A/c Dr.		6,34,000	
	To Share Allotment A/c			5,94,000
	To Calls in Advance A/c			40,000
	(Being allotment received except Divij arrears, including Faisal advance call)			

Step 3: Record call and forfeiture The call due on all 3,00,000 shares is Rs 12,00,000. Adjust Faisal advance of Rs 40,000; Divij fails to pay Rs 16,000. The remaining cash receipt is Rs 11,44,000. Divij shares are fully called at Rs 10 each when forfeited. His entire application payment of Rs 18,000 has become capital paid, including the Rs 6,000 adjusted to allotment. Journal of Konark Ltd. (call and forfeiture)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr.		12,00,000	
	To Share Capital A/c			12,00,000
	(Being final call due)			
	Bank A/c Dr.		11,44,000	
	Calls in Advance A/c Dr.		40,000	
	To Share First and Final Call A/c			11,84,000
	(Being call money received and advance adjusted, except Divij arrears)			
	Share Capital A/c Dr.		40,000	
	To Share Allotment A/c			6,000
	To Share First and Final Call A/c			16,000
	To Share Forfeiture A/c			18,000
	(Being Divij 4,000 shares forfeited for non-payment)			

Step 4: Reissue half the forfeited shares Reissue 2,000 shares at par: bank and share capital each equal Rs 20,000. Their forfeiture credit is $18,000 \times 2,000/4,000 =$ Rs $9,000$. With no discount, this is capital profit. Journal of Konark Ltd. (reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		20,000	
	To Share Capital A/c			20,000
	(Being 2,000 forfeited shares reissued fully paid at par)			
	Share Forfeiture A/c Dr.		9,000	
	To Capital Reserve A/c			9,000
	(Being gain on reissued shares transferred to capital reserve)			

Step 5: Conclusion Capital Reserve and the remaining Share Forfeiture balance are Rs 9,000 each.

Quick Tip to Solve: For Divij, retain all Rs 18,000 of application cash as paid capital, including the Rs 6,000 allotment adjustment.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

23. Which of the following is not an item under 'Current Assets'? [1 mark]

(A) Cash and Cash Equivalents

(B) Capital Advances

(C) Short-term Loans and Advances

(D) Inventories

Correct Answer: (B) Capital Advances

Solution:

Concept:

- Current assets are assets expected to be realised, sold or consumed within the normal operating cycle or the prescribed short-term period.
- An advance towards acquisition of a capital asset has the nature of a non-current capital investment rather than an operating current asset.

Step 1: Classify the capital advance Capital advances are amounts paid towards acquiring fixed assets. Their purpose is capital expenditure, so they are presented under non-current assets, rather than the Current Assets heading. Thus option (B) satisfies the negative wording of the question.

Step 2: Check the remaining choices Cash and Cash Equivalents, Short-term Loans and Advances, and Inventories are all headings or items within Current Assets in the Schedule III classification used here. Options (A), (C) and (D) therefore cannot answer which item is not included.

Step 3: Conclusion The correct option is (B): Capital Advances.

Quick Tip to Solve: For a classification MCQ, distinguish an advance for a capital asset from a short-term operating advance.

24. 'Sale of goods ₹ 3,000 for cash will increase the Gross Profit Ratio.' Is this statement correct? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Gross Profit Ratio measures gross profit as a percentage of revenue from operations:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100.$$

- The mode of collection, cash or credit, does not itself determine the gross profit margin.

Step 1: Identify the effect of the sale A cash sale increases revenue from operations, but the cost of the goods sold must also be deducted to determine its gross profit. Merely collecting Rs 3,000 in cash gives no evidence of a higher profit margin.

Step 2: Consider the ratio If goods are sold at the existing gross profit rate, gross profit and sales rise proportionately and the ratio remains unchanged. A rise requires the margin on the additional sale to exceed the existing margin.

Step 3: Conclusion No, the statement is incorrect. A cash sale does not by itself increase the Gross Profit Ratio; a sale at the existing margin leaves it unchanged.

Quick Tip to Solve: Compare the margin on the new sale with the existing margin; receiving cash alone cannot raise the ratio.

25. Interest received in cash on loans and advances results in cash inflow from _____ activity. [1 mark]

Solution:

Concept:

- For a non-financial enterprise, interest received on loans and advances is a return on investments.
- Cash flows are classified into operating, investing and financing activities according to their nature.

Step 1: Identify the receipt The enterprise has lent money as loans or advances and now receives interest in cash. This receipt is income from funds invested, rather than a receipt from selling goods or services.

Step 2: Classify the cash flow Under the usual CBSE treatment for a non-financial enterprise, interest received is a cash inflow from investing activities. The fact that it is received in cash confirms that it enters the cash flow statement.

Step 3: Conclusion The blank is **investing** activity.

Quick Tip to Solve: For a non-financial enterprise, connect interest received on money lent with investing activities.

26. Machinery was purchased for ₹ 10,00,000, paying 40% by issue of equity shares of ₹ 10 each and the balance by a cheque. This transaction will result in: [1 mark]

(A) Cash used in investing activities ₹ 6,00,000.

(B) Cash generated from financing activities ₹ 4,00,000.

(C) Decrease in cash and cash equivalents ₹ 10,00,000.

(D) Cash used in investing activities ₹ 10,00,000.

Correct Answer: (A) Cash used in investing activities ₹ 6,00,000.

Solution:

Concept:

- Purchase of machinery is an investing activity, but only the portion paid in cash is shown in the cash flow statement.
- A direct issue of shares to acquire an asset is a non-cash investing and financing transaction.

Step 1: Calculate the cheque payment Of the Rs 10,00,000 purchase price, shares settle $40\% \times 10,00,000 = \text{Rs } 4,00,000$. Therefore the cheque payment is $60\% \times 10,00,000 = \text{Rs } 6,00,000$.

Step 2: Test the options The Rs 6,00,000 cheque is a cash outflow for acquiring machinery, so (A) is correct. The Rs 4,00,000 share issue brings no cash into the company, ruling out (B). Only Rs 6,00,000 leaves cash and cash equivalents, ruling out both (C) and (D).

Step 3: Conclusion Cash used in investing activities is **Rs 6,00,000**. The correct option is **(A)**.

Quick Tip to Solve: First remove the share-settled portion of the asset price; classify only the cheque payment as investing cash outflow.

27. Which of the following is not a limitation of 'Financial Statements Analysis'? [1 mark]

(A) It is affected by personal bias.

(B) Inter-firm comparative study possible.

(C) Lack of qualitative analysis.

(D) Ignores price level changes.

Correct Answer: (B) Inter-firm comparative study possible.

Solution:

Concept:

- Financial statement analysis interprets accounting information to assess profitability, financial position and performance.
- A limitation restricts the usefulness of analysis; a comparative use is an advantage.

Step 1: Identify the useful feature Inter-firm comparison helps compare the performance and financial position of different firms, particularly when their accounting policies are comparable. Thus the possibility of such a study is a use of analysis.

Step 2: Eliminate the limitations Personal bias in accounting estimates can affect the figures, qualitative factors are not fully captured, and historical figures ignore changes in price levels. Hence

(A), (C) and (D) describe limitations, whereas (B) does not.

Step 3: Conclusion The correct option is **(B): Inter-firm comparative study possible**.

Quick Tip to Solve: For a question asking what is not a limitation, select the useful purpose of analysis rather than a weakness.

28. What is meant by 'Cash Flow Statement'? [1 mark]

Solution:

Concept:

- Cash flows are inflows and outflows of cash and cash equivalents during a period.
- The three classes of cash flows are operating, investing and financing activities.

Step 1: State what the statement reports A Cash Flow Statement is a statement showing the inflows and outflows of cash and cash equivalents of an enterprise during a particular accounting period. It explains movements in liquid funds.

Step 2: State the classification These movements are classified as operating, investing and financing activities. Their net effect reconciles the opening cash and cash equivalents with the closing cash and cash equivalents.

Step 3: Conclusion A **Cash Flow Statement** shows inflows and outflows of cash and cash equivalents during a period, classified into operating, investing and financing activities.

Quick Tip to Solve: In the definition include both cash and cash equivalents, the period, and the three activity classes.

29. 'Security Deposits' are presented in the Balance Sheet of the company under the subhead: [1 mark]

(A) Other Non-Current Assets

(B) Long-term Loans and Advances

(C) Fixed Assets

(D) Other Current Liabilities

Correct Answer: (B) Long-term Loans and Advances

Solution:

Concept:

- Under the Schedule III classification applicable to this paper, security deposits paid are shown as long-term loans and advances.
- A refundable deposit is an amount recoverable from another party, rather than a tangible fixed asset.

Step 1: Identify the nature of the balance A security deposit paid remains recoverable under the relevant arrangement. It is treated as an advance held with another party and is therefore an asset of the company.

Step 2: Choose the prescribed subhead The prescribed subhead is Long-term Loans and Advances, so (B) applies. It is not grouped under Other Non-Current Assets or Fixed Assets in this classification. Other Current Liabilities would represent amounts payable, not security deposits paid.

Step 3: Conclusion The correct option is **(B): Long-term Loans and Advances**.

Quick Tip to Solve: For this Schedule III question, remember security deposits paid under Long-term Loans and Advances.

30. From the following information obtained from the books of P. Ltd., calculate, (i) Return on Investment, and (ii) Debt-Equity Ratio:

Information: Net Profit after interest and tax ₹ 6,00,000; 6% Debentures ₹ 10,00,000; Capital employed ₹ 20,00,000, and Tax rate 40%. [3 marks]

Solution:

Concept:

- Return on Investment $= \dfrac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100.$
- Debt-Equity Ratio $= \dfrac{\text{Long-term debt}}{\text{Shareholders' funds}}$, where shareholders' funds equal capital employed less long-term debt.

Step 1: Recover profit before tax Tax is charged on profit after interest. Since the tax rate is 40%, the given net profit is 60% of profit before tax. Thus

$$\text{Profit before tax} = \frac{6,00,000}{0.60} = \text{Rs } 10,00,000.$$

This figure still includes the deduction for debenture interest.

Step 2: Calculate return on investment Debenture interest is $6\% \times \text{Rs } 10,00,000 = \text{Rs } 60,000$. Add it back to profit before tax to obtain profit before interest and tax:

$$\text{PBIT} = 10,00,000 + 60,000 = \text{Rs } 10,60,000.$$

Therefore,

$$\text{Return on Investment} = \frac{10,60,000}{20,00,000} \times 100 = 53\%.$$

The numerator is the profit earned before payments to providers of long-term finance and before tax, matching total capital employed in the denominator.

Step 3: Calculate debt-equity ratio Long-term debt consists of the Rs 10,00,000 debentures. Capital employed comprises long-term debt and shareholders' funds. Consequently,

$$\text{Shareholders' funds} = 20,00,000 - 10,00,000 = \text{Rs } 10,00,000.$$

Hence,

$$\text{Debt-Equity Ratio} = \frac{10,00,000}{10,00,000} = 1:1.$$

The tax adjustment affects the return calculation; it does not change the capital figures used in this ratio.

Step 4: Conclusion (i) Return on Investment $= \boxed{53\%}$. (ii) Debt-Equity Ratio $= \boxed{1:1}$.

Quick Tip to Solve: Gross up the after-tax profit by 60 percent first, then add debenture interest; subtract debt from capital employed to find equity.

OR

30. (i) Current Liabilities ₹ 1,50,000, Current Assets ₹ 2,80,000, Inventories ₹ 40,000, Advance Tax ₹ 30,000, and Prepaid Rent ₹ 10,000. Calculate Quick Ratio.

(ii) Average Inventory ₹ 60,000, Revenue from Operations ₹ 6,00,000, the rate of Gross Loss on Sales is 10%. Calculate the Inventory Turnover Ratio. [3 marks]

Solution:

Concept:

- Quick ratio is liquid assets divided by current liabilities. Exclude inventories, prepaid expenses and advance tax from current assets.
- Inventory turnover is cost of revenue from operations divided by average inventory. Gross loss means cost exceeds sales.

Step 1: (i) Determine quick assets Inventories require sale before becoming cash. Prepaid rent is an expense paid in advance, while advance tax is a tax payment rather than an asset available for meeting current liabilities. Hence all three must be excluded.

$$\begin{aligned}\text{Quick assets} &= 2,80,000 - 40,000 - 30,000 - 10,000 \\ &= \text{Rs } 2,00,000.\end{aligned}$$

Step 2: (i) Calculate the quick ratio Use current liabilities of Rs 1,50,000 as the denominator; no adjustment to that amount is specified.

$$\text{Quick ratio} = \frac{2,00,000}{1,50,000} = \frac{4}{3} = 1.33:1 \quad \text{(approximately)}.$$

This means liquid assets are about 1.33 times current liabilities.

Step 3: (ii) Calculate cost and inventory turnover The gross loss is 10% of sales, not 10% of cost. Therefore, gross loss is $6,00,000 \times 10/100 = \text{Rs } 60,000$. Since Gross profit = Sales − Cost, a negative gross profit requires adding the loss to sales.

$$\begin{aligned}\text{Cost of revenue from operations} &= 6,00,000 + 60,000 \\ &= \text{Rs } 6,60,000, \\ \text{Inventory turnover ratio} &= \frac{6,60,000}{60,000} = 11 \text{ times}.\end{aligned}$$

Using sales alone would give 10 times and would omit the stated gross loss.

Step 4: Conclusion (i) Quick ratio $= 1.33 : 1$ (or $4 : 3$). (ii) Inventory turnover ratio $= 11$ times.

Quick Tip to Solve: For a gross loss on sales, add the loss to sales before dividing cost by average inventory.

31. From the following particulars obtained from the books of Mark Ltd., prepare a Comparative Statement of Profit and Loss:

Particulars	2017-18 (₹)	2016-17 (₹)
Revenue from operations	50,00,000	40,00,000
Purchase of stock-in trade	40,00,000	30,00,000
Changes in inventory	10,00,000	8,00,000
Other expenses	5,00,000	4,00,000
Other incomes	2,50,000	2,00,000

[4 marks]

Solution:

Concept:

- A comparative statement places the previous year first and shows the absolute change as current year minus previous year. Percentage change is Absolute change/Previous-year amount $\times$ 100.
- Total income equals revenue from operations plus other income. Total expenses include purchases, changes in inventory and other expenses as given; profit or loss before tax is total income less total expenses.

Step 1: Compute the totals for both years In 2016–17, total income is $40,00,000 + 2,00,000 =$ Rs $42,00,000$; expenses are $30,00,000 + 8,00,000 + 4,00,000 =$ Rs $42,00,000$. Profit is therefore nil. In 2017–18, income is $50,00,000 + 2,50,000 =$ Rs $52,50,000$; expenses are $40,00,000 + 10,00,000 + 5,00,000 =$ Rs $55,00,000$. The loss is Rs 2,50,000. Positive changes in inventory are included in expenses as supplied.

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

Comparative Statement of Profit and Loss

Amounts in Rs; percentage changes relative to 2016–17

Particulars	2016–17	2017–18	Change	%
I. Revenue from operations	40,00,000	50,00,000	10,00,000	25.00
II. Other income	2,00,000	2,50,000	50,000	25.00
III. Total income (I + II)	42,00,000	52,50,000	10,50,000	25.00
IV. Expenses:				
Purchase of stock-in-trade	30,00,000	40,00,000	10,00,000	33.33
Changes in inventory	8,00,000	10,00,000	2,00,000	25.00
Other expenses	4,00,000	5,00,000	1,00,000	25.00
Total expenses	42,00,000	55,00,000	13,00,000	30.95
V. Profit/(Loss) before tax	Nil	(2,50,000)	(2,50,000)	–

Step 3: Explain the percentage and loss presentation Purchases increased by $10,00,000/30,00,000 \times 100 = 33.33\%$; total expenses increased by $13,00,000/42,00,000 \times 100 = 30.95\%$. Parentheses denote negative amounts. A percentage change in profit cannot be calculated using a zero base, hence the dash. No tax expense is supplied.

Step 4: Conclusion Profit was nil in 2016–17; loss before tax was Rs 2,50,000 in 2017–18.

Quick Tip to Solve: Calculate both totals before percentage changes; a nil base-year profit makes its percentage change undefined.

OR

31. From the following Balance Sheet of Swaraj Ltd., as at 31st March, 2019, prepare a common size Balance Sheet:

Particulars	31.3.2019 (₹)	31.3.2018 (₹)
I - Equity and Liabilities:		
1. Shareholders Funds: (a) Share Capital	34,00,000	30,00,000
(b) Reserves and Surplus	10,00,000	10,00,000
2. Non-Current Liabilities: Long-term Borrowings	5,00,000	3,00,000
3. Current Liabilities: Trade Payables	1,00,000	7,00,000
Total	50,00,000	50,00,000
II - Assets:		
1. Non-Current Assets: Tangible Assets	36,00,000	28,00,000
2. Current Assets: (a) Inventories	13,00,000	20,00,000
(b) Cash and Cash Equivalents	1,00,000	2,00,000
Total	50,00,000	50,00,000

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses every asset and every equity or liability as a percentage of the balance sheet total for the same year.
- Percentage of an item $= \dfrac{\text{Amount of item}}{\text{Total assets or total equity and liabilities}} \times 100$. Both totals here are Rs 50,00,000.

Step 1: Determine the common base The total on each side is Rs 50,00,000 in both years. Therefore each Rs 50,000 represents 1% of the total. Share capital for 2019 is $34,00,000 \div 50,00,000 \times 100 = 68\%$, while the corresponding percentage for 2018 is $30,00,000 \div 50,00,000 \times 100 = 60\%$. The percentages must be calculated separately for each year, even though the base happens to be unchanged.

Step 2: Prepare the common size statement **Swaraj Ltd.: Common Size Balance Sheet as at 31st March, 2019**

Particulars	31.3.2019 (%)	31.3.2018 (%)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	68	60
(b) Reserves and Surplus	20	20
Total Shareholders' Funds	88	80
2. Non-Current Liabilities		
Long-term Borrowings	10	6
3. Current Liabilities		
Trade Payables	2	14
Total	**100**	**100**
II. Assets		
1. Non-Current Assets		
Fixed Assets: Tangible Assets	72	56
2. Current Assets		
(a) Inventories	26	40
(b) Cash and Cash Equivalents	2	4
Total Current Assets	28	44
Total	**100**	**100**

The liabilities percentages reconcile as $68 + 20 + 10 + 2 = 100$ for 2019 and $60 + 20 + 6 + 14 = 100$ for 2018. The assets percentages reconcile as $72 + 26 + 2 = 100$ and $56 + 40 + 4 = 100$, respectively.

Step 3: Conclusion The common size balance sheet totals 100% on both sides in both years. Shareholders' funds increased from 80% to 88% of total financing, while tangible assets increased from 56% to 72% of total assets.

Quick Tip to Solve: With a total of Rs 50,00,000, divide each amount by Rs 50,000 to obtain its percentage directly.

32. Cash flow from the operating activities of Pinnacle Ltd. for the year ended 31st March, 2019 was ₹ 28,000. The Balance Sheet along with notes to accounts of Pinnacle Ltd. as at 31st March, 2019 is given below:

Pinnacle Ltd. — Balance Sheet as at 31st March, 2019

Particulars	Note No.	31.3.2019 (₹)	31.3.2018 (₹)
I - Equity and Liabilities:			
1. Shareholders Funds: (a) Share Capital		9,00,000	5,00,000
(b) Reserves and Surplus	1	90,000	1,10,000
2. Non-Current Liabilities: Long-term Borrowings	2	3,00,000	2,00,000
3. Current Liabilities: Trade Payables		60,000	80,000
Total		13,50,000	8,90,000
II - Assets:			
1. Non-Current Assets: (i) Tangible Assets	3	7,46,000	5,24,000
(ii) Intangible Assets	4	36,000	76,000
2. Current Assets: (a) Current Investments		1,30,000	20,000
(b) Inventories		2,00,000	1,30,000
(c) Cash and Cash Equivalents		2,38,000	1,40,000
Total		13,50,000	8,90,000

Notes to Accounts:

1. Reserves and Surplus (Balance in Statement of Profit and Loss): 90,000 / 1,10,000

2. Long-term Borrowings: 9% Debentures: 3,00,000 / 2,00,000

3. Tangible Assets: Plant and Machinery 8,86,000 / 6,04,000; Accumulated Depreciation (1,40,000) / (80,000); Net 7,46,000 / 5,24,000

4. Intangible Assets: Goodwill 36,000 / 76,000

Additional information:

(i) A machinery of the book value of ₹ 90,000, (depreciation provided thereon was ₹ 23,000) was sold at a profit of ₹ 12,000.

(ii) 9% debentures were issued on 1st April, 2018.

Prepare the Cash Flow Statement. [6 marks]

Solution:

Concept:

- AS 3 classifies cash flows as operating, investing and financing. Acquisition and disposal of plant and investments are investing activities; share and debenture issues and interest paid by a non-financial company are financing activities.
- For a machinery disposal, original cost equals book value plus accumulated depreciation. Sale proceeds equal book value plus profit. Non-cash depreciation and goodwill written off do not themselves create cash flows.

Step 1: Compute machinery purchase and sale proceeds Original cost of the machine sold =

$90,000 + 23,000 =$ Rs $1,13,000$. Therefore the gross plant balance gives:

$$\text{Purchases} = 8,86,000 - 6,04,000 + 1,13,000 = \text{Rs } 3,95,000.$$

The sale proceeds are $90,000 + 12,000 =$ Rs $1,02,000$. Thus use the actual receipt from disposal, not its book value or profit alone. For reference, depreciation for the year is $1,40,000 - 80,000 + 23,000 =$ Rs $83,000$. It is a non-cash charge and is not an additional investing payment.

Step 2: Compute investing and financing cash flows Current investments increased by $1,30,000 - 20,000 =$ Rs $1,10,000$; this is an investing outflow. No information identifies these investments as cash equivalents. Goodwill decreased by Rs 40,000; this represents a non-cash write-off, not a receipt from disposal.

Cash from issue of shares $= 9,00,000 - 5,00,000 =$ Rs $4,00,000$. New debentures issued on 1st April, 2018 amount to $3,00,000 - 2,00,000 =$ Rs $1,00,000$. The full closing debenture balance was outstanding throughout the year, so interest paid is $3,00,000 \times 9\% =$ Rs $27,000$. No interest payable is shown. Hence net financing cash inflow is $4,00,000 + 1,00,000 - 27,000 =$ Rs $4,73,000$.

Step 3: Prepare and reconcile the cash flow statement **Pinnacle Ltd.: Cash Flow Statement for the year ended 31st March, 2019**

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net cash from operating activities (given)	28,000
B. Cash flow from investing activities	
Purchase of plant and machinery	(3,95,000)
Sale of plant and machinery	1,02,000
Purchase of current investments	(1,10,000)
Net cash used in investing activities	**(4,03,000)**
C. Cash flow from financing activities	
Proceeds from issue of share capital	4,00,000
Proceeds from issue of 9% debentures	1,00,000
Interest paid on debentures	(27,000)
Net cash from financing activities	**4,73,000**
Net increase in cash and cash equivalents (A+B+C)	98,000
Add: Opening cash and cash equivalents	1,40,000
Closing cash and cash equivalents	**2,38,000**

Operating cash flow is already supplied, so changes in inventories and trade payables must not be deducted again. The decrease in the profit and loss balance is also not itself a financing cash flow.

Step 4: Conclusion Net cash from operating activities is Rs 28,000; investing activities use Rs 4,03,000; financing activities provide Rs 4,73,000. The net increase of Rs 98,000 reconciles opening cash of Rs 1,40,000 to closing cash of Rs 2,38,000.

Quick Tip to Solve: Add disposal depreciation to book value to recover cost; charge a full year of interest because the new debentures were issued on 1st April.

OPTION 2 (Computerised Accounting)

23. 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: (D) All of the above.

Solution:

Concept:

- The ##### display indicates that a spreadsheet cannot show a formatted value in the available cell space, or cannot display a negative date/time value.

Step 1: Check the listed conditions A column that is too narrow displays hashes when its formatted numeric value cannot fit. Negative time is another standard cause because the spreadsheet cannot display it in the usual date/time system. The negative-data condition in this list refers to negative date/time data that cannot be represented in that format.

Step 2: Select the inclusive option Thus (B) and (C) each describe a recognised cause, while (A) covers the negative-data case in the date/time context. An ordinary negative number in General or Number format does not automatically cause hashes; it can be displayed normally if there is enough width. With the listed causes read in this display-error context, the inclusive answer is (D).

Step 3: Conclusion The correct option is (D), All of the above.

Quick Tip to Solve: For hashes, first widen the column; if they remain, check whether a date/time calculation has produced a negative value.

24. The _____ provides real power to database in terms of its capacities to answer complex requests involving data to be taken from _____ tables. [1 mark]

Solution:

Concept:

- A query retrieves selected information from stored database tables by specifying the required fields and conditions.
- Related tables can be combined through common fields so that one request can draw information from multiple tables.

Step 1: Identify the database facility A query is the database object used to ask a question about stored data. It can filter records, select fields and combine related information, rather than merely display all stored records.

Step 2: Complete the two blanks Complex requests may need data from more than one related table. Thus the first blank is query and the second blank is multiple. A table stores data, whereas the query extracts the required information from those tables.

Step 3: Conclusion The blanks are query and multiple, respectively.

Quick Tip to Solve: Remember: tables store data; queries answer requests across related tables.

25. A code which consists of alphabet or abbreviation as symbol to codify a piece of information is known as _____ code. [1 mark]

Solution:

Concept:

- A mnemonic code uses letters or an abbreviation that suggests the meaning of the information being represented.
- Meaningful abbreviations make codes easier to remember and recognise than arbitrary symbols.

Step 1: Identify the feature of the code The question describes a code formed from an alphabetic symbol or an abbreviation. Its distinguishing feature is that the symbol helps the user associate the code with the information represented.

Step 2: Name the coding method Such meaningful letter-based coding is called mnemonic coding. For example, an abbreviation such as SAL for salary suggests the underlying account, making it easier to identify than an arbitrary numerical code.

Step 3: Conclusion The blank is mnemonic: it is a mnemonic code.

Quick Tip to Solve: Link mnemonic with memory: the abbreviation should suggest what it represents.

26. A _____ voucher is used for adjustment of non-cash transaction in the ledger. [1 mark]

Solution:

Concept:

- A voucher supplies the basis for recording a transaction in a computerised accounting system.
- Journal vouchers record adjustments and other non-cash transactions that do not require a cash or bank receipt or payment.

Step 1: Classify the transaction The adjustment specified in the question does not involve a cash receipt or cash payment. Therefore a receipt voucher or a payment voucher would not represent its nature.

Step 2: Choose the adjustment voucher A journal voucher records the debit and credit aspects of a non-cash adjustment in the ledger. For example, depreciation is recorded by debiting depreciation expense and crediting the relevant asset or accumulated depreciation account.

Step 3: Conclusion A journal voucher is used for adjustment of non-cash transactions in the ledger.

Quick Tip to Solve: Check whether cash moves: non-cash ledger adjustments normally use a journal voucher.

27. Hardware refers to: [1 mark]

(A) System software and application software.

(B) Computer associated peripherals and their network.

(C) A logical sequence of actions to perform a task.

(D) All of the above.

Correct Answer: (B) Computer associated peripherals and their network.

Solution:

Concept:

- Hardware consists of the physical components of a computer system, including its associated peripherals and networking equipment.
- Software consists of programs or instructions; a procedure is a logical sequence of actions for carrying out a task.

Step 1: Apply the definition of hardware Computer-associated peripherals, such as input and output devices, and the equipment forming their network are physical components. This makes option (B) the description of hardware.

Step 2: Eliminate the other options Option (A) describes software, comprising system software and application software. Option (C) describes a procedure, not physical equipment. Since (A) and (C) do not define hardware, option (D), all of the above, cannot be correct.

Step 3: Conclusion Hardware refers to computer associated peripherals and their network. Hence, the correct option is (B).

Quick Tip to Solve: Separate physical equipment from programs and procedures before choosing the option.

28. To safeguard assets and optimise the use of resources, a business: [1 mark]

(A) Keeps internal controls.

(B) Only tries to achieve maximum revenue.

(C) Only ensures accurate accounting records.

(D) Only safeguards assets.

Correct Answer: (A) Keeps internal controls.

Solution:

Concept:

- Internal controls are policies and procedures designed to safeguard assets, improve efficiency and support reliable accounting information.
- Safeguarding assets and optimising resources are linked objectives of an effective internal control system.

Step 1: Identify the comprehensive measure A business establishes internal controls to protect its assets from loss or misuse and to ensure that available resources are used efficiently. Controls include authorisation, checking, supervision and division of duties.

Step 2: Evaluate the alternatives Option (B) focuses only on revenue and does not ensure asset protection. Option (C) addresses record accuracy alone, while option (D) addresses only asset safeguarding. These limited statements omit the combined objectives in the question, which internal controls cover.

Step 3: Conclusion The business keeps internal controls. Hence, the correct option is (A).

Quick Tip to Solve: Choose the measure covering both asset protection and efficient use of resources.

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

(A) Not necessarily required.

(B) Required but need not be unique.

(C) Required and must be unique.

(D) All of the above.

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

Solution:

Concept:

- A primary key is a field, or combination of fields, that uniquely identifies each record in a database table.
- Every record must have a primary-key value, and no two records may share the same primary-key value.

Step 1: Check whether a value is required A record must be identifiable, so its primary key cannot be left null. The existence of data in the primary-key field is therefore required, which rules out option (A).

Step 2: Check uniqueness and select the option If two records had the same primary key, the key could not distinguish them. Its values must therefore be unique, ruling out option (B). Option (C) satisfies both requirements; option (D) cannot hold because the other statements contradict these requirements.

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: For any primary key, check both conditions together: non-null and unique.

30. What information is provided by a salary bill? [3 marks]

Solution:

Concept:

- A salary bill summarises the salary payable to employees for a particular pay period and supports recording and payment of payroll.
- Gross salary is the total of basic pay and applicable allowances; net salary is gross salary less

authorised deductions.

Step 1: Employee and pay-period details The salary bill identifies the employer or department, the salary month or pay period, and the employee concerned. Employee particulars normally include the employee number, name and designation. Attendance, days worked or leave without pay may also be shown where these affect the amount payable.

Step 2: Earnings and gross salary It shows the components of earnings, such as basic pay, dearness allowance, house rent allowance and other applicable allowances or overtime. Their total gives the gross salary for the period. Showing the components separately enables the calculation to be checked against the employee's authorised pay and applicable entitlement.

Step 3: Deductions and net amount payable It shows deductions such as provident fund contribution, income tax deducted at source, insurance premium and recovery of loans or advances, as applicable. The total deductions are subtracted from gross salary to obtain net salary payable. Payment or acknowledgement details may also be recorded. Thus the bill explains both what the employee earned and the amount actually payable after deductions.

Step 4: Conclusion A salary bill provides employee and period details, the break-up of earnings and gross salary, deductions, and the resulting net salary payable.

Quick Tip to Solve: Read a salary bill in order: employee details, earnings, deductions, then net pay.

OR

30. List the various attributes of a 'payroll' database. [3 marks]

Solution:

Concept:

- An attribute is a named field describing an entity. Payroll attributes identify each employee and record the data needed to calculate salary.
- Payroll links employee particulars with earnings, deductions and the resulting net amount payable for a specified pay period.

Step 1: Employee identification and service particulars Employee code or employee number, employee name, designation, department and relevant service particulars, such as date of joining and grade, are maintained. The employee code uniquely identifies the employee and connects the pay record with the employee master record. Bank account details may also be maintained for salary payment.

Step 2: Earnings and attendance attributes Salary fields include basic pay, dearness allowance, house rent allowance, other admissible allowances and overtime remuneration, where applicable. Attendance, days worked or leave without pay, and the month or pay period are recorded so that salary is calculated for the correct period. Gross salary is the total of basic pay and admissible allowances and other earnings.

Step 3: Deductions and net salary attributes Deduction fields include provident fund contribution, income tax deducted at source, insurance premium, loan or advance recovery and other authorised

deductions. Total deductions and net salary payable are also recorded:

$$\text{Net salary} = \text{Gross salary} - \text{Total deductions}.$$

These fields enable preparation of an employee-wise salary bill and retain the calculation behind each payment.

Step 4: Conclusion Principal payroll attributes include employee code, name, designation, department, pay period, attendance, basic pay, allowances, gross salary, deductions and net salary payable.

Quick Tip to Solve: Organise payroll fields into employee details, earnings and deductions; finish with net salary payable.

31. Explain 'closing entry' and 'adjustment entry' with the help of examples. [4 marks]

Solution:

Concept:

- Closing entries transfer balances of nominal accounts to Trading Account or Profit and Loss Account at the end of an accounting period.
- Adjustment entries recognise accruals, prepayments and other end-of-period changes so that income, expenses, assets and liabilities relate to the correct accounting period.

Step 1: Meaning and purpose of a closing entry A closing entry closes an income or expense account by transferring its balance to the appropriate final account. Direct expenses and trading items are transferred to Trading Account; indirect expenses and other incomes are transferred to Profit and Loss Account. These nominal accounts then begin the next period with no balance. The resulting net profit or loss is transferred to capital in a sole proprietorship.

Step 2: Example of a closing entry Suppose the salaries expense account has a debit balance of Rs 20,000. It is closed by transferring the expense to Profit and Loss Account:

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Profit and Loss A/c Dr.		20,000	
	To Salaries A/c			20,000
	(Being salaries expense transferred to Profit and Loss Account)			

Crediting Salaries Account cancels its debit balance; the debit to Profit and Loss Account records the expense in determining profit.

Step 3: Meaning and purpose of an adjustment entry An adjustment entry records an item that has not yet been fully or correctly recognised for the current period. For example, outstanding expenses, prepaid expenses, accrued income, income received in advance and depreciation require adjustment. Such entries apply the accrual and matching principles before final accounts are prepared; unlike closing entries, they correct or complete recognition rather than merely transfer nominal balances.

Step 4: Example of an adjustment entry Suppose salaries of Rs 2,000 for the current period remain unpaid and unrecorded at year-end. The adjustment is:

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Salaries A/c Dr.		2,000	
	To Outstanding Salaries A/c			2,000
	(Being unpaid salaries for the current period recognised)			

The salary expense increases by Rs 2,000 and a current liability of Rs 2,000 is recognised. No cash or bank account is affected because payment has not yet occurred. Adjustments are made before the adjusted expense balance is closed to Profit and Loss Account.

Step 5: Conclusion Closing entries transfer nominal account balances to final accounts; adjustment entries ensure that the correct period's income, expenses, assets and liabilities are recognised before those final accounts are prepared.

Quick Tip to Solve: Ask whether the entry recognises an unrecorded period-end item or transfers an existing nominal balance to a final account.

OR

31. Explain any four advantages expected by the user for paying high price for a chosen server database. [4 marks]

Solution:

Concept:

- A server database stores and manages data centrally while allowing authorised users at different client computers to access it.
- The higher cost is justified by facilities for dependable shared access, protection of data and efficient processing as the organisation grows.

Step 1: 1. Reliable multi-user access A server database permits many users to work on the same database simultaneously. Concurrency control coordinates their transactions so that one user's changes do not improperly overwrite another user's work. For example, sales and accounts staff can use the same accounting records while the database maintains consistency.

Step 2: 2. Greater security The database administrator can create user accounts and grant different access rights. A data-entry operator may be allowed to enter transactions, while only an authorised manager may alter master records or approve changes. Authentication and controlled permissions protect confidential information and reduce unauthorised alteration or disclosure.

Step 3: 3. Backup and recovery Server database systems provide backup facilities and recovery mechanisms for restoring data after hardware failure, software failure or accidental loss. Transaction logs help recover committed work and undo incomplete transactions. This improves continuity of accounting operations and reduces the risk of losing valuable business records.

Step 4: 4. Scalability and performance A server database can handle large volumes of records and many concurrent requests more efficiently through server-side processing, indexing and query optimisation. Capacity can be increased as the business adds users and transactions. Thus an

organisation can expand its accounting system without immediately replacing the entire database arrangement.

Step 5: Conclusion The user expects dependable concurrent access, stronger security, backup and recovery, and scalable processing performance from the chosen server database.

Quick Tip to Solve: Link each advantage to a user benefit: shared access, protected records, recoverable data and room for growth.

32. A. Ranjan Ltd. has its offices in Hyderabad and Surat. HRA for Hyderabad is ₹ 21,000 and for Surat it is ₹ 18,000. DA is calculated on Basic Pay (BP) as 12% for BP $\leq$ ₹ 25,000, and 10% for BP $\geq$ ₹ 30,000. Standard number of days are taken as 30 days per month.

Give the formulae and calculate the amount of Gross Salary using Excel for the following employees:

(i) Vishal is working in Hyderabad office. His Basic Pay is ₹ 40,000. He has not availed any leave without pay.

(ii) Sangeeta is working in Surat office of A. Ranjan Ltd. Her Basic Pay is ₹ 20,000. She availed four days of leave without pay. [6 marks]

Solution:

Concept:

- For a full month, gross salary is Basic Pay plus Dearness Allowance plus House Rent Allowance: $G = BP + DA + HRA$.
- For leave without pay, payable days equal 30 minus unpaid leave days. Payable gross salary is monthly gross salary multiplied by payable days divided by 30.
- DA is 12% of Basic Pay up to Rs 25,000 and 10% from Rs 30,000. Both employees fall within these stated slabs.

Step 1: Set up the Excel worksheet Use these columns, with Vishal in row 2 and Sangeeta in row 3:

Row	A: Employee	B: Office	C: Basic Pay (Rs)	D: Unpaid leave
2	Vishal	Hyderabad	40,000	0
3	Sangeeta	Surat	20,000	4

Let E contain HRA, F contain DA, G contain payable days and H contain payable gross salary. Basic Pay and HRA given in the question are monthly amounts.

Step 2: Enter the Excel formulae In E2 enter `=IF(B2="Hyderabad",21000,18000)`. In F2 enter `=IF(C2<=25000,C2*12%,C2*10%)`. In G2 enter `=30-D2`. In H2 enter `=(C2+E2+F2)*G2/30`. Copy these formulae down to row 3. The DA formula applies to the two Basic Pay values in this worksheet; the question specifies no DA rate for Basic Pay strictly between Rs 25,000 and Rs 30,000, so it should not be used to infer a rate for an employee in that interval. The HRA formula distinguishes the two offices given in this question.

Step 3: Calculate Vishal's gross salary Vishal works in Hyderabad, so monthly HRA is Rs 21,000. His Basic Pay of Rs 40,000 attracts DA at 10%:

$$DA = 40,000 \times \frac{10}{100} = \text{Rs } 4,000.$$

He has no unpaid leave, so his payable days are $30 - 0 = 30$. Therefore,

$$G_V = (40,000 + 21,000 + 4,000) \times \frac{30}{30} = \text{Rs } 65,000.$$

Thus H2 evaluates to 65,000.

Step 4: Calculate Sangeeta's gross salary Sangeeta works in Surat, so monthly HRA is Rs 18,000. Her Basic Pay of Rs 20,000 attracts DA at 12%:

$$DA = 20,000 \times \frac{12}{100} = \text{Rs } 2,400.$$

Monthly gross salary before the unpaid-leave deduction is

$$20,000 + 18,000 + 2,400 = \text{Rs } 40,400.$$

Her payable days are $30 - 4 = 26$. Hence,

$$G_S = 40,400 \times \frac{26}{30} = \text{Rs } 35,013.33$$

to two decimal places. Equivalently, the unpaid-leave deduction is $40,400 \times 4/30 = \text{Rs } 5,386.67$. Format H3 to display two decimal places, or use `=ROUND((C3+E3+F3)*G3/30,2)`.

Step 5: Conclusion Vishal's payable gross salary is Rs 65,000; Sangeeta's payable gross salary is Rs 35,013.33.

Quick Tip to Solve: First calculate the full-month Basic Pay, DA and HRA total; then apply payable days divided by 30 once to the total.