CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-2-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper 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. 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 or authorised capital is the maximum share capital a company is authorised to issue under its memorandum.
- Issued, subscribed and paid-up capital describe different stages within the authorised limit.

Step 1: Identify the authorised ceiling Nominal capital denotes the stated maximum amount of share capital permitted by the memorandum. It is a ceiling; the company need not issue the whole amount immediately.

Step 2: Compare all options Option (A) describes issued capital, (B) describes subscribed capital and (C) describes paid-up capital. Only (D) describes the authorised maximum.

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

Quick Tip to Solve: Associate nominal capital with the authorised ceiling, before considering subscription or payment.

2. Swati and Aman were partners in a firm. Their fixed capitals were ₹ 9,00,000 and ₹ 3,00,000, respectively. They shared profits in the ratio of their capitals. Divya was admitted as a new partner for 1/4th share in the profits of the firm. Divya brought ₹ 60,000 as her share of goodwill premium and ₹ 6,00,000 as her capital. The amount of goodwill premium credited to Swati's account will be: [1 mark]

(A) ₹ 60,000

(B) ₹ 30,000

(C) ₹ 45,000

(D) ₹ 15,000

Correct Answer: (C) ₹ 45,000

Solution:

Concept:

- Goodwill premium compensates old partners in their sacrificing ratio.

- When no different sacrifice is stated, the incoming share is acquired in the old profit-sharing ratio.

Step 1: Find the sacrificing ratio The old ratio is $9,00,000 : 3,00,000 = 3 : 1$. Since no other arrangement is specified, Swati and Aman sacrifice in this ratio. Their respective sacrifices are $\frac{1}{4} \times \frac{3}{4} = \frac{3}{16}$ and $\frac{1}{4} \times \frac{1}{4} = \frac{1}{16}$.

Step 2: Allocate goodwill premium Swati receives $60,000 \times \frac{3}{4} =$ Rs $45,000$. Aman receives Rs 15,000. The whole Rs 60,000 cannot belong to Swati, and Rs 30,000 would require equal sacrifice. Fixed capitals mean the credit is to her current account.

Step 3: Conclusion Swati is credited with Rs 45,000 as goodwill premium. Hence, the correct option is (C).

Quick Tip to Solve: Use the old ratio for sacrifice when admission terms give no different sacrificing arrangement.

3. Distinguish between Income and Expenditure Account and Receipts and Payments Account on the basis of 'Closing Balance'. [1 mark]

Solution:

Concept:

- The Income and Expenditure Account measures the revenue surplus or deficit for the accounting period.
- The Receipts and Payments Account summarises cash and bank movements, including capital and revenue items.

Step 1: State the Income and Expenditure balance Its closing balance represents surplus when income exceeds expenditure, or deficit when expenditure exceeds income. It is transferred to the capital fund; it is not closing cash.

Step 2: State the Receipts and Payments balance Its closing balance represents cash in hand and/or cash at bank at the period end. Where applicable, a credit bank balance represents a bank overdraft. It does not measure the surplus or deficit earned for the year.

Step 3: Conclusion Income and Expenditure Account: surplus or deficit. Receipts and Payments Account: closing cash and bank balance, or bank overdraft.

Quick Tip to Solve: Ask whether the balance measures annual performance or the money remaining at the year end.

4. Manu and Kanu were partners in a firm, sharing profits and losses in the ratio of 2 : 3. Their fixed capitals were ₹ 10,00,000 and ₹ 5,00,000, respectively. They were entitled to an interest on capital @ 10% p.a. The firm earned a profit of ₹ 60,000 during the year. The amount of interest on capital credited to Kanu will be: [1 mark]

(A) ₹ 20,000

(B) ₹ 40,000

(C) ₹ 36,000

(D) ₹ 24,000

Correct Answer: (A) ₹ 20,000

Solution:

Concept:

- Interest on capital is an appropriation of profits unless the agreement makes it a charge.
- When available profit is insufficient, distribute it in the ratio of interest amounts due.

Step 1: Calculate interest due Manu is entitled to $10,00,000 \times 10\% =$ Rs $1,00,000$, and Kanu to $5,00,000 \times 10\% =$ Rs $50,000$. Their interest ratio is therefore $2 : 1$, and total entitlement is Rs 1,50,000.

Step 2: Restrict the credit to available profit Only Rs 60,000 profit is available. Kanu receives $60,000 \times \frac{50,000}{1,50,000} =$ Rs $20,000$. Rs 40,000 belongs to Manu. Rs 36,000 and Rs 24,000 incorrectly use the profit-sharing ratio rather than the interest entitlement ratio.

Step 3: Conclusion Interest on capital credited to Kanu is Rs 20,000. Hence, the correct option is (A).

Quick Tip to Solve: For insufficient profit, compare interest entitlements before applying any profit-sharing ratio.

5. 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 established reputation and earning capacity of a business.
- The incoming partner compensates sacrificing partners for the profit share surrendered.

Step 1: Identify what is being compensated The old partners surrender a share in future profits, including super-profits attributable to the established business. The incoming partner therefore makes a payment for that benefit.

Step 2: Distinguish the additional payment from capital The additional amount brought for this compensation is called premium for goodwill. It is separate from the new partner's capital contribution and is credited to the sacrificing partners in their sacrificing ratio.

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

Quick Tip to Solve: Compensation for sacrificed future profit is goodwill premium; the investment itself is capital.

6. V.F. Ltd. forfeited 8,000 equity shares of ₹ 100 each, issued at a premium of 10% for non-payment of first and final call of ₹ 30 per share. The maximum amount of discount at which these shares can be reissued will be: [1 mark]

(A) ₹ 5,60,000

(B) ₹ 8,00,000

(C) ₹ 3,20,000

(D) ₹ 2,40,000

Correct Answer: (A) ₹ 5,60,000

Solution:

Concept:

- Discount on reissue cannot exceed the amount forfeited on the shares being reissued.
- Only the capital amount received is credited to Share Forfeiture Account; securities premium is excluded.

Step 1: Find capital received per share Face value is Rs 100 and the unpaid first and final call is Rs 30. Capital already received is therefore $100 - 30 =$ Rs 70 per share. The 10% securities premium is not part of the forfeited capital.

Step 2: Determine the discount limit Maximum discount is $8,000 \times 70 =$ Rs $5,60,000$. Rs 8,00,000 is full nominal capital, while Rs 2,40,000 is the unpaid call. Rs 3,20,000 is not the forfeiture balance available for these shares.

Step 3: Conclusion Maximum total discount on reissue is Rs 5,60,000. Hence, the correct option is (A).

Quick Tip to Solve: Subtract unpaid capital from face value; exclude securities premium when finding the reissue discount limit.

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

Solution:

Concept:

- Collateral security is additional or secondary security given for a loan.
- Debentures issued as collateral support the lender in addition to the primary security.

Step 1: Explain the arrangement A company may hand debentures to its lender as additional security against a loan, over and above any primary security. The debentures are held to secure repayment of that loan.

Step 2: Explain when the security is used If the company repays the loan, the collateral debentures are returned or cancelled. If it defaults, the lender can exercise rights under the collateral terms. No separate cash is received merely for issuing these collateral debentures.

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: Remember that collateral means secondary security supporting the same loan, with no separate borrowing proceeds.

8. Priya Ltd. decided to redeem its 10,000, 6% debentures of ₹ 100 each, issued at a discount of 10% redeemable at a premium of 10%. The minimum amount that is to be transferred to Debenture Redemption Reserve will be: [1 mark]

(A) ₹ 2,75,000

(B) ₹ 2,50,000

(C) ₹ 11,00,000

(D) ₹ 10,00,000

Correct Answer: (B) ₹ 2,50,000

Solution:

Concept:

- For the examination convention applicable to this question, the minimum Debenture Redemption Reserve is 25% of nominal debenture value.
- Issue discount and redemption premium do not change the nominal amount used for this reserve calculation.

Step 1: Determine nominal value The debenture face value is $10,000 \times$ Rs $100 =$ Rs $10,00,000$. The 6% rate determines interest, while issue discount determines proceeds; neither changes this nominal liability.

Step 2: Calculate the required reserve The minimum reserve is $10,00,000 \times 25\% =$ Rs $2,50,000$. Rs 2,75,000 incorrectly applies 25% to the premium-inclusive redemption amount. Rs 11,00,000 is the redemption payment; Rs 10,00,000 is the nominal value, not the reserve.

Step 3: Conclusion The minimum transfer to Debenture Redemption Reserve is Rs 2,50,000. Hence, the correct option is (B).

Quick Tip to Solve: For this paper, apply the prescribed 25% reserve rate to nominal value, excluding redemption premium.

9. '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, not owners sharing its residual profit.
- Interest on borrowed funds is a finance expense and a charge against profit.

Step 1: Judge the statement The statement is correct. Interest on debentures arises from the company's contractual obligation to its debenture holders for the funds borrowed from them.

Step 2: Explain the effect on profit Interest is payable whether the company earns a profit or incurs a loss. It is debited as a finance cost in determining profit or loss, before any appropriation to owners. Thus, unlike dividends, it does not depend on the availability of distributable profit.

Step 3: Conclusion Yes. Debenture interest is a charge against profits because it is payable irrespective

of whether the company earns profit or incurs loss.

Quick Tip to Solve: Check whether payment is a contractual borrowing cost or a distribution to owners after profit is determined.

10. 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:

- Annual subscription income equals the number of members multiplied by the annual rate. Arrears are amounts still unpaid at the reporting date.
- Current-year subscription received in advance in the previous year must be included when checking the amount collected for the current year.

Step 1: Check the current-year subscriptions The subscription due for 2018-19 is $130 \times$ Rs $1,000 =$ Rs $1,30,000$. Of this, Rs 1,20,000 was received during 2018-19 and $10 \times$ Rs $1,000 =$ Rs $10,000$ was received in 2017-18. Hence the full current-year subscription has been collected and no arrears arise for 2018-19.

Step 2: Carry forward the old unpaid subscriptions Opening arrears were Rs 16,000, against which Rs 10,000 relating to 2017-18 was received during the year. Thus old arrears remaining are Rs $16,000 -$ Rs $10,000 =$ Rs $6,000$. The Rs 7,000 received for 2019-20 is an advance and does not reduce these arrears.

Step 3: Conclusion Subscriptions in arrears as on 31st March, 2019 are $\boxed{\text{Rs } 6,000}$.

Quick Tip to Solve: First exhaust the current-year demand using both current receipts and the opening advance; then carry forward the unrecovered old arrears.

11. The directors of Neelkamal Ltd. forfeited 70,000 equity shares of ₹ 10 each, ₹ 10 called up, for non-payment of final call of ₹ 1 per share. Half of the forfeited shares were reissued at ₹ 20 per share fully paid-up. On reissue of forfeited shares, the following amount will be transferred to the Capital Reserve Account: [1 mark]

(A) ₹ 70,000

(B) ₹ 1,40,000

(C) ₹ 4,20,000

(D) ₹ 3,15,000

Correct Answer: (D) ₹ 3,15,000

Solution:

Concept:

- The credit to Share Forfeiture represents the amount already paid on forfeited shares. Only the proportion relating to reissued shares is available for transfer to Capital Reserve.
- Reissue above face value creates Securities Premium; it does not increase the forfeiture profit transferred to Capital Reserve.

Step 1: Find the forfeiture amount per share The shares were fully called at Rs 10, with only the final call of Rs 1 unpaid. Therefore the amount received and forfeited is Rs $(10 - 1) =$ Rs 9 per share.

Step 2: Calculate the realised forfeiture surplus Half of 70,000 shares, namely 35,000 shares, were reissued. No discount arises because the reissue price Rs 20 exceeds the face value Rs 10. Thus the transferable surplus is $35,000 \times$ Rs $9 =$ Rs $3,15,000$. The premium of $35,000 \times$ Rs 10 belongs to Securities Premium, while the forfeiture credit on the unreissued half remains in Share Forfeiture. Options (A), (B) and (C) do not represent the forfeiture credit attributable to the reissued shares.

Step 3: Conclusion Capital Reserve is credited with $\boxed{\text{Rs } 3,15,000}$. The correct option is (D).

Quick Tip to Solve: Use the amount originally paid per share, and multiply it only by the number of forfeited shares actually reissued.

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12. Nidhi, Kunal and Kabir were partners in a firm, sharing profits and losses in the ratio of 2 : 3 : 5. Nidhi retired, selling her share of profits to Kunal for ₹ 30,000 and to Kabir for ₹ 50,000. The new profit-sharing ratio between Kunal and Kabir will be: [1 mark]

(A) 2 : 3

(B) 3 : 5

(C) 2 : 5

(D) 5 : 3

Correct Answer: (B) 3 : 5

Solution:

Concept:

- New profit share = old profit share + share acquired from the retiring partner.

- When the retiring partner sells her share for different consideration amounts on the same basis, the buyers acquire it in the ratio of those amounts.

Step 1: Allocate Nidhi's share Nidhiś old share is $2/10$. Kunal and Kabir purchase it in the ratio $30,000 : 50,000 = 3 : 5$. Hence their gains are respectively $\frac{2}{10} \times \frac{3}{8} = \frac{3}{40}$ and $\frac{2}{10} \times \frac{5}{8} = \frac{5}{40}$.

Step 2: Add the gains to the old shares Kunalś new share is $\frac{3}{10} + \frac{3}{40} = \frac{15}{40}$. Kabirś new share is $\frac{5}{10} + \frac{5}{40} = \frac{25}{40}$. These add to one, and the new ratio is $15 : 25 = 3 : 5$. Options (A), (C) and (D) fail to match these resulting shares; the purchase ratio alone is not normally the new ratio, although it coincides here.

Step 3: Conclusion The new profit-sharing ratio of Kunal and Kabir is $\boxed{3 : 5}$, option (B).

Quick Tip to Solve: Add each buyer's gain to the existing share before simplifying; do not automatically treat the payment ratio as the new ratio.

13. Which of the following is not a capital receipt? [1 mark]

(A) Endowment Fund

(B) Government Grants

(C) Life-Membership Fees

(D) Donations for Building

Correct Answer: (B) Government Grants

Solution:

Concept:

- Capital receipts add to a permanent fund or are earmarked for a specific capital purpose. Revenue receipts support ordinary recurring activities.
- A government grant without a specified capital restriction is treated as a revenue receipt in this question; a grant expressly for a capital purpose would be treated differently.

Step 1: Identify the capital receipts An Endowment Fund is a permanent fund and is a capital receipt. Life-Membership Fees are received once for membership over a long period and are treated as capital receipts. Donations for Building are specifically earmarked for a capital asset and are credited to the relevant building fund.

Step 2: Select the receipt without a capital purpose The Government Grants option specifies no building, asset or permanent-fund purpose. It therefore represents general assistance for the organisationś activities and is classified as a revenue receipt here. Thus (A), (C) and (D) are capital receipts and cannot answer the negative wording of the question.

Step 3: Conclusion Government Grants are not a capital receipt here. The correct option is (B).

Quick Tip to Solve: For a negative classification question, eliminate the permanent funds and specifically earmarked capital receipts first.

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:

- Income received for a specific purpose is credited to that specific fund, and expenditure for that purpose is charged against the fund.
- When related expenses exceed the entire available fund, only the excess is charged to the Income and Expenditure Account; no negative fund is shown as a liability.

Step 1: Calculate the resources available for the tournament The opening Tournament Fund is Rs 5,00,000. Add the specific donation of Rs 1,20,000 and ticket sales of Rs 1,50,000, since both relate to the tournament. The total amount available is therefore

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

Tournament expenses are Rs 8,00,000, so they exceed the available fund by Rs $8,00,000 -$ Rs $7,70,000 =$ Rs $30,000$.

Step 2: Present the Income and Expenditure Account extract Income and Expenditure Account of Royal Sports Club for the year ended 31st March, 2019 (extract)

Expenditure	Amount (Rs)	Income	Amount (Rs)
Tournament expenses (excess)	30,000		

Only the excess is an expense of the general activities. Recording the full tournament expense here as well as deducting it from the fund would count the same expense twice.

Step 3: Present the Balance Sheet treatment Balance Sheet of Royal Sports Club as at 31st March, 2019 (extract)

Liabilities: Specific fund working	Amount (Rs)
Tournament Fund, opening	5,00,000
Add: Donations for Tournament Fund	1,20,000
Add: Sale of tournament tickets	1,50,000
Total fund available	7,70,000
Less: Tournament expenses met from fund	7,70,000
Closing Tournament Fund	Nil

Consequently no Tournament Fund liability remains in the Balance Sheet. The Rs 30,000 charged to the Income and Expenditure Account affects the general surplus or deficit and consequently the Capital Fund.

Step 4: Conclusion Charge $\boxed{\text{Rs } 30,000}$ to the expenditure side of the Income and Expenditure Account. The closing Tournament Fund is nil.

Quick Tip to Solve: Add all tournament-specific receipts to the opening fund before comparing the available fund with tournament expenses.

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 all cash and bank receipts and payments, whether capital or revenue and irrespective of the year to which they relate.
- Opening cash appears on the debit side; closing cash is the balancing credit entry. Non-cash adjustments such as outstanding income are not introduced.

Step 1: Total all cash receipts Subscriptions actually received are Rs $25,000$ + Rs $1,00,000$ + Rs $15,000$ = Rs $1,40,000$. All three periods are included because this is a cash summary. Add entrance fees Rs 45,000, sale of old sports material Rs 5,000 and the building donation Rs 1,00,000. Total receipts during the year are Rs 2,90,000. Including opening cash Rs 20,000 gives total cash available of Rs 3,10,000.

Step 2: Prepare the account and balance cash Receipts and Payments Account of Ganesh Charitable Society for the year ended 31st March, 2019

Dr. Receipts	Amount (Rs)	Payments Cr.	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 (cash)	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 donations	1,00,000		
Total	3,10,000	Total	3,10,000

The cash paid is Rs $19,000$ + Rs $23,000$ = Rs $42,000$. The balancing cash is Rs $3,10,000$ − Rs $42,000$ = Rs $2,68,000$. Building donations are included even though they are capital receipts, and sale proceeds are included without calculating a profit or loss on the old material. Neither accrual adjustments nor classification as current-year income is required in this account.

Step 3: Conclusion The Receipts and Payments Account totals $\boxed{\text{Rs } 3,10,000}$ on each side and shows closing cash of $\boxed{\text{Rs } 2,68,000}$.

Quick Tip to Solve: Include subscriptions from every period and the building donation: this account records cash movement, not the current-year revenue result.

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15. Amit, Daksh and Surbhi were partners sharing profits and losses in the ratio of 5 : 3 : 2. Amit died on 30th September, 2019. The Balance Sheet of the firm as at 31st March, 2019 was as follows:

Balance Sheet of Amit, Daksh and Surbhi as at 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals: Amit 6,00,000 Daksh 4,00,000 Surbhi 2,00,000	12,00,000	Plant and Machinery Stock Debtors Cash	10,00,000 3,90,000 2,80,000 90,000
Profits for the year 2018-19	4,00,000	Advertisement Expenditure	70,000
Sundry Creditors	2,30,000		
	18,30,000		18,30,000

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 ₹ 2,00,000.

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

(iii) Amit withdrew ₹ 40,000 on 31st May, 2019.

Prepare Amit's Capital Account to be rendered to his executor. [4 marks]

Solution:

Concept:

- A deceased partner is credited with his existing capital, share of undistributed profits, goodwill and profit earned up to death. Drawings and his share of accumulated losses are debited.
- Amit's share is $5/10$. Estimated profit to death uses average annual profit multiplied by the elapsed fraction of the year.

Step 1: Calculate profit up to death Average annual profit is

$$\frac{2,00,000+4,00,000}{2}=\text{Rs } 3,00,000.$$

From 1st April to 30th September is six months. Hence Amit's share of current profit is

$$3,00,000\times\frac{6}{12}\times\frac{5}{10}=\text{Rs } 75,000.$$

This is credited through Profit and Loss Suspense Account because the final current-year profit has not yet been determined.

Step 2: Calculate other adjustments Goodwill of the firm is $3,00,000 \times 2 =$ Rs $6,00,000$. Amit's share is $6,00,000 \times 5/10 =$ Rs $3,00,000$. Daksh and Surbhi compensate him in their gaining ratio $3:2$, so their capital accounts are debited with Rs 1,80,000 and Rs 1,20,000 respectively. The undistributed profit appearing in the Balance Sheet gives Amit a credit of $4,00,000 \times 5/10 =$ Rs $2,00,000$. Advertisement expenditure is an accumulated loss, so his capital is debited with $70,000 \times 5/10 =$ Rs $35,000$. His drawings are Rs 40,000; no interest on drawings is stipulated.

Step 3: Prepare the capital account Amit's Capital Account as at 30th September, 2019

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Advertisement Expenditure	35,000	By Balance b/d	6,00,000
To Drawings	40,000	By Profit and Loss A/c	2,00,000
To Executor's A/c	10,00,000	By Daksh's Capital A/c	1,80,000
		By Surbhi's Capital A/c	1,20,000
		By Profit and Loss Suspense A/c	75,000
Total	10,75,000	Total	10,75,000

The balancing amount is transferred to the executor's account, closing Amit's capital account.

Step 4: Conclusion The amount payable to Amit's executor is $\boxed{\text{Rs } 10,00,000}$.

Quick Tip to Solve: Include both the old undistributed profit and the six-month estimated profit; they are separate credits.

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16. 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 (₹)	Payments	Amount (₹)
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:

- The Income and Expenditure Account records current-year revenue income and expenses on the accrual basis. Receipts for past and future years are excluded from current subscription income.
- The opening capital fund equals opening assets less opening liabilities. Furniture purchases are capital expenditure; depreciation alone is charged to income.

Step 1: Determine income and expenses Annual subscription income is $90 \times 1,000 = \text{Rs } 90,000$. Current-year arrears are $90,000 - 70,000 = \text{Rs } 20,000$. Uncollected old arrears are $15,000 - 12,000 = \text{Rs } 3,000$, so total closing subscription receivable is Rs 23,000. The Rs 9,000 received for 2019–20 is a liability. Salaries expense is $62,000 - 13,000 = \text{Rs } 49,000$, since payment includes the opening outstanding salary. Depreciation is

$$1,80,000 \times 10\% + 1,00,000 \times 10\% \times \frac{6}{12} = \text{Rs } 23,000.$$

Donations have no specified capital purpose or restriction and are treated as revenue income.

Step 2: Prepare the Income and Expenditure Account Premier Club: Income and Expenditure Account for the year ended 31st March, 2019

Dr.			Cr.
Expenditure	Amount (Rs)	Income	Amount (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 capital fund and prepare Balance Sheet Opening capital fund is

$$80,900 + 1,80,000 + 15,000 - 13,000 = \text{Rs } 2,62,900.$$

Closing fund is $2,62,900 + 76,700 = \text{Rs } 3,39,600$. Furniture and equipment at closing is $1,80,000 + 1,00,000 - 23,000 = \text{Rs } 2,57,000$.

Premier Club: Balance Sheet as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital fund: opening	2,62,900	Furniture and equipment	2,57,000
Add: Surplus	76,700	Subscriptions in arrears:	
Closing capital fund	3,39,600	2017–18	3,000
Subscriptions in advance	9,000	2018–19	20,000
		Cash balance	68,600
Total	3,48,600	Total	3,48,600

The opening salary liability is paid during the year, so it does not remain in the closing Balance Sheet.

Step 4: Conclusion The surplus is $\boxed{\text{Rs } 76,700}$, closing capital fund is Rs 3,39,600, and the Balance Sheet totals Rs 3,48,600.

Quick Tip to Solve: Compute subscriptions from member count first, then carry both old and current unpaid subscriptions into the Balance Sheet.

17. 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:

- Capitalised value of the firm is the capital required to earn its average maintainable profit at the normal rate: Capitalised value $=$ Average profit $\times$ 100/Normal rate (%).
- Capital employed is the actual net investment in the firm. With fixed capitals, include the credit balances of current accounts and accumulated reserves, as these also finance the business.
- Goodwill equals capitalised value of the firm less actual capital employed. This method values the entire firm before determining the excess attributable to goodwill.

Step 1: Calculate the actual capital employed The partners' fixed capitals alone do not represent the full funds employed. Add their current-account credit balances and the General Reserve. Since there are no liabilities, no external liability has to be deducted:

$$\begin{aligned} \text{Fixed capitals} &= 6,00,000 + 4,00,000 = \text{Rs } 10,00,000, \\ \text{Current-account balances} &= 4,00,000 + 5,00,000 = \text{Rs } 9,00,000, \\ \text{Capital employed} &= 10,00,000 + 9,00,000 + 1,00,000 \\ &= \text{Rs } 20,00,000. \end{aligned}$$

The reserve is part of the funds retained in the business and must therefore be included.

Step 2: Capitalise the average profits The average profits for the last five years are already given as Rs 5,00,000. They are not to be divided by five again. At the normal rate of return of 10%, the capital supporting these earnings is

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

This is the value of the business implied by its earning capacity at the normal return.

Step 3: Determine goodwill as the excess value Deduct the actual capital employed from the capitalised value:

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

As a check, normal profit on Rs 20,00,000 is Rs 2,00,000, leaving super profit of Rs 3,00,000; capitalising that at 10% also gives Rs 30,00,000. Radhika's $1/4$ share is not used here because the question asks for goodwill of the whole firm, rather than her share of it.

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

Quick Tip to Solve: With fixed capitals, add credit current accounts and reserves before subtracting capital employed from capitalised profits.

OR

17. 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:

- An accumulated debit balance of Profit and Loss Account is an old loss and is charged to the old partners in their old ratio, here $5 : 3 : 2$.
- Investment Fluctuation Fund first absorbs the fall in investment value. Any unused fund belongs to the old partners and is transferred to their capital accounts in the old ratio.
- For goodwill adjustment without raising goodwill, gaining partners compensate sacrificing partners. Sacrifice is old share minus new share; gain is new share minus old share.

Step 1: Work out the goodwill adjustment The changes in shares are

$$\begin{aligned} \text{Samiksha's sacrifice} &= 5/10 - 2/10 = 3/10, \\ \text{Ash's gain} &= 5/10 - 3/10 = 2/10, \\ \text{Divya's gain} &= 3/10 - 2/10 = 1/10. \end{aligned}$$

Thus Ash compensates Samiksha by $3,00,000 \times 2/10 = \text{Rs } 60,000$, and Divya by $3,00,000 \times 1/10 = \text{Rs } 30,000$. Samiksha receives Rs 90,000 in total. Goodwill is adjusted through capitals; no goodwill asset needs to be raised.

Step 2: Allocate the accumulated loss and investment fund The debit Profit and Loss balance of Rs 50,000 is allocated in the old ratio: Samiksha Rs 25,000, Ash Rs 15,000 and Divya Rs 10,000.

The fall in investments is $5,00,000 - 4,80,000 = \text{Rs } 20,000$. Of the Rs 40,000 Investment Fluctuation Fund, Rs 20,000 covers this fall. The remaining Rs 20,000 is credited to Samiksha, Ash and Divya in their old ratio as Rs 10,000, Rs 6,000 and Rs 4,000, respectively. No further loss on investments remains to be charged.

Step 3: Record the journal entries

Journal of the Firm (amounts in Rs)				
Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	Samiksha's Capital A/c Dr. Ash's Capital A/c Dr. Divya's Capital A/c Dr. To Profit and Loss A/c (Being accumulated loss transferred in the old ratio of 5:3:2)		25,000 15,000 10,000	 50,000
1-4-2019	Investment Fluctuation Fund A/c Dr. To Investments A/c To Samiksha's Capital A/c To Ash's Capital A/c To Divya's Capital A/c (Being fall in investments adjusted against the fund and surplus distributed in the old ratio)		40,000	 20,000 10,000 6,000 4,000
1-4-2019	Ash's Capital A/c Dr. Divya's Capital A/c Dr. To Samiksha's Capital A/c (Being goodwill adjusted through capital accounts in the gaining ratio of 2:1)		60,000 30,000	 90,000

Each entry has equal debit and credit totals. The investments are now carried at Rs 4,80,000, and the old accumulated loss and Investment Fluctuation Fund are fully closed.

Step 4: Conclusion Ash and Divya compensate Samiksha by Rs 60,000 and Rs 30,000 for goodwill. The journal entries above also close the old loss and investment fund and reduce investments by Rs 20,000.

Quick Tip to Solve: Use the old ratio for accumulated balances; use only the change in shares for the goodwill compensation.

18. 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. Reverse the adjustments already made: opening capital = closing capital + drawings - share of net profit.
- In the absence of a stated profit-sharing ratio, partners share profit equally. Interest on drawings is

$D \times r \times t/12$, where D is the amount drawn, r the annual rate and t the months outstanding.

Step 1: Recover the opening capitals The net profit of Rs 2,00,000 has already been credited to the capital accounts. Since no profit-sharing ratio is given, each partner's share is Rs 1,00,000. Alka's total drawings are $4\times$Rs $10,000 =$ Rs $40,000$; Archana's total drawings are Rs $8,000+$Rs $7,000+$Rs $5,000 =$ Rs $20,000$.

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

Drawings are added back because they reduced the closing capital; profit is deducted because it increased the closing capital.

Step 2: Calculate interest on capitals Apply the annual rate of 10% to the opening balances for the full year:

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

The given closing capitals must not be used directly because they include the current year's profit and drawings.

Step 3: Calculate interest on drawings Alka withdraws at the ends of the four quarters, so the outstanding periods to 31st March are 9, 6, 3 and 0 months. Their average 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 unequal drawings require the product method. The amounts drawn on 31st May, 1st November and 1st February remain outstanding for 10, 5 and 2 months respectively.

$$\text{Archana's interest} = (8,000 \times 10 + 7,000 \times 5 + 5,000 \times 2)\frac{6}{100 \times 12}$$
$$= 1,25,000 \times \frac{6}{1,200} = \text{Rs } 625.$$

Interest on capital is allowed to the partners; interest on drawings is charged to them.

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 quarter-end drawings use 4.5 months; first reverse profit and drawings to recover opening capitals.

19. Prateek, Neeraj and Umang were partners in a firm, sharing profits and losses in the ratio of 7 : 2 : 1. The firm was dissolved on 31st March, 2019. After transfer of assets (other than cash) and external liabilities to the Realisation Account, the following transactions took place:

(i) Furniture of ₹ 45,000 was sold by auction for ₹ 66,000 and the auctioneer's commission amounted to ₹ 2,000.

(ii) Office equipment of ₹ 90,000 was taken over by creditors of the book value of ₹ 82,000 in full settlement.

(iii) Umang had given a loan of ₹ 1,09,000 to the firm. He accepted ₹ 1,00,000 in full settlement of his loan.

(iv) Investments were ₹ 53,000 out of which ₹ 23,000 was taken over by Neeraj at ₹ 25,000. Balance of the investments were sold for ₹ 35,000.

(v) Expenses incurred on dissolution were ₹ 21,000 and were paid by Prateek.

(vi) Loss on dissolution amounted to ₹ 40,000.

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

Solution:

Concept:

- Assets and external liabilities have already been transferred to Realisation Account. Cash received on disposal is credited to Realisation; cash expenses are debited to it.
- A partner taking an asset is debited through the capital account. A partner paying firm expenses receives a capital credit. Realisation loss is transferred to partners in their profit-sharing ratio.

Step 1: Record furniture sale, commission and settlement with creditors Journal of the firm (31st March, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		66,000	
	To Realisation A/c			66,000
	(Being furniture sold by auction)			
	Realisation A/c Dr.		2,000	
	To Bank A/c			2,000
	(Being auctioneer's commission paid)			

No journal entry is required for office equipment taken over by the creditors in full settlement. Both the asset and the external liability have already been transferred to Realisation Account. No cash changes hands; the difference between their book values is absorbed in the balance of Realisation Account. The furniture's book value of Rs 45,000 is likewise not transferred again.

Step 2: Settle Umang loan and dispose of investments Journal of the firm (31st March, 2019), continued

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Umang's Loan A/c Dr.		1,09,000	
	To Bank A/c			1,00,000
	To Realisation A/c			9,000
	(Being loan settled and balance waived)			
	Neeraj's Capital A/c Dr.		25,000	
	To Realisation A/c			25,000
	(Being investments taken over by Neeraj)			
	Bank A/c Dr.		35,000	
	To Realisation A/c			35,000
	(Being remaining investments sold)			

A partner's loan is settled separately rather than being treated as an external liability already transferred to Realisation. Its unpaid Rs 9,000 is a gain on settlement. Neeraj is charged the agreed takeover value of Rs 25,000, not the book value of Rs 23,000. The remaining investments have book value Rs 30,000 but cash proceeds of Rs 35,000 are recorded.

Step 3: Record expenses and distribute the dissolution loss The Rs 21,000 paid personally by Prateek is credited to his capital account. The stated final loss is Rs 40,000, distributed in the ratio $7:2:1$: Prateek $40,000 \times 7/10 =$ Rs $28,000$, Neeraj $40,000 \times 2/10 =$ Rs $8,000$ and Umang $40,000 \times 1/10 =$ Rs $4,000$.

Journal of the firm (31st March, 2019), continued

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		21,000	
	To Prateek's Capital A/c			21,000
	(Being dissolution expenses paid by Prateek)			
	Prateek's Capital A/c Dr.		28,000	
	Neeraj's Capital A/c Dr.		8,000	
	Umang's Capital A/c Dr.		4,000	
	To Realisation A/c			40,000
	(Being loss transferred in the ratio 7:2:1)			

Each entry has equal debits and credits. The supplied final loss is transferred as stated; the listed transactions alone do not provide every opening asset and liability balance needed to recompute it.

Step 4: Conclusion The necessary journal entries are given above. No entry arises for the equipment-creditor settlement; the final loss is borne by Prateek, Neeraj and Umang as Rs 28,000, Rs 8,000 and Rs 4,000 respectively.

Quick Tip to Solve: Do not transfer assets twice: record actual proceeds or agreed takeover values after the initial Realisation transfers.

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 are credited at face value; the discount is debited separately. Excess application money is refunded when the full issue price is payable on application.
- For this redemption under the rules applicable to the stated dates, the minimum Debenture Redemption Reserve is 25% of the outstanding debentures. Investments are 15% of debentures maturing during the financial year.

Step 1: Part (i): Determine allotment and application money The issue price is $100 - 10 = \text{Rs } 90$. Applications bring $9,000 \times 90 = \text{Rs } 8,10,000$. Pro-rata allotment is in the ratio $8,000 : 9,000 = 8 : 9$. The money required for the issue is $8,000 \times 90 = \text{Rs } 7,20,000$; hence excess money of Rs 90,000 is refunded. Since no further instalment is payable, it cannot be adjusted against a later call. The discount is $8,000 \times 10 = \text{Rs } 80,000$.

Step 2: Part (i): Record the issue

Journal of Kati Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		8,10,000	
	To Debenture Application and Allotment A/c			8,10,000
	(Being application money received on 9,000 debentures at Rs 90 each)			
	Debenture Application and Allotment 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 at a discount of 10 percent)			
	Debenture Application and Allotment A/c Dr.		90,000	
	To Bank A/c			90,000
	(Being excess application money refunded after pro-rata allotment)			

Step 3: Part (ii): Calculate the reserve and investment The total nominal debenture liability is $40,000 \times 100 = \text{Rs } 40,00,000$. The minimum reserve is $25\% \times 40,00,000 = \text{Rs } 10,00,000$. Half the issue, namely 20,000 debentures of Rs 100 each, matures on 31 March 2019, giving a redemption liability of Rs 20,00,000. The investment due by 30 April 2018 is $15\% \times 20,00,000 = \text{Rs } 3,00,000$. No investment return or sale price is specified, so the investments are realised at their book value. Since only half the debentures are redeemed, the reserve is retained for the outstanding debentures.

Step 4: Part (ii): Record the redemption transactions

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 reserve of 25 percent of Rs 40,00,000 created)			
30-4-2018	Debenture Redemption Investments A/c Dr.		3,00,000	
	To Bank A/c			3,00,000
	(Being 15 percent of Rs 20,00,000 invested for redemption)			
31-3-2019	11% Debentures A/c Dr.		20,00,000	
	To Debentureholders A/c			20,00,000
	(Being 20,000 debentures became due for redemption at par)			
31-3-2019	Bank A/c Dr.		3,00,000	
	To Debenture Redemption Investments A/c			3,00,000
	(Being redemption investments realised at book value)			
31-3-2019	Debentureholders A/c Dr.		20,00,000	
	To Bank A/c			20,00,000
	(Being amount due paid to debentureholders)			

Step 5: Conclusion Kati Ltd. 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 of debentures at par.

Quick Tip to Solve: Apply 25% to the outstanding issue for DRR, but 15% only to the amount maturing in the relevant financial year.

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 equals purchase consideration less net assets acquired. Debentures issued to a vendor are credited at face value and the excess issue price is credited to Securities Premium Reserve.
- Loss on issue includes the discount at issue plus the premium payable on redemption. Banking companies do not create a Debenture Redemption Reserve or make the related mandatory redemption investment.

Step 1: Part (i): Compute consideration settlement Assets acquired total $50,00,000 + 10,00,000 + 5,00,000 =$ Rs $65,00,000$. Net assets are $65,00,000 - 7,00,000 =$ Rs $58,00,000$. As consideration is Rs 60,00,000, goodwill is Rs 2,00,000. Each debenture is issued for $100 + 20 =$ Rs 120, so $60,00,000/120 = 50,000$ debentures are issued. Their nominal value is Rs 50,00,000 and issue premium is Rs 10,00,000.

Step 2: Part (i): Record acquisition 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 acquired for the agreed consideration)			
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 50,000 debentures issued at a premium of 20 percent)			

Step 3: Part (ii): Calculate and record the issue Sakshi Ltd. receives $1,000 \times 94 =$ Rs $94,000$. The issue discount is Rs 6,000 and redemption premium is Rs 5,000. Therefore the total loss on issue is $6,000 + 5,000 =$ Rs $11,000$. The redemption premium is recognised as a liability at issue, although it is paid only when redemption takes place.

Journal of Sakshi Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2018	Bank A/c Dr.		94,000	
	To Debenture Application and Allotment A/c			94,000
	(Being application and allotment money received)			
1-4-2018	Debenture Application and Allotment 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 debentures issued at 6 percent discount, redeemable at 5 percent premium)			

Step 4: Part (iii): Calculate and record redemption The nominal liability of Canara Bank is $5,000 \times$

$100 =$ Rs $5,00,000$. The redemption premium is $10\% \times 5,00,000 =$ Rs $50,000$, so the amount payable is Rs 5,50,000. The 6% premium received on the original issue does not reduce the contractual redemption premium. Being a banking company, Canara Bank is exempt from creating DRR and the associated redemption investment.

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 principal and redemption premium due)			
31-3-2019	Debentureholders A/c Dr.		5,50,000	
	To Bank A/c			5,50,000
	(Being debentures redeemed at a premium of 10 percent)			

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

Quick Tip to Solve: Keep issue premium and redemption premium separate: the first is a capital reserve receipt, while the second is a contractual redemption liability.

21. 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 receipts are transferred to share capital and securities premium only for allotted shares; rejected money is refunded and excess is adjusted against allotment.
- On forfeiture, debit called-up share capital and unpaid securities premium. Credit the unpaid instalment and Share Forfeiture with capital actually received.
- On reissue at a premium, credit share capital with face value and securities premium with the excess. Transfer only the forfeiture surplus relating to reissued shares to Capital Reserve.

Step 1: Calculate pro-rata adjustment and unpaid amounts Valid applications are $2,50,000 - 10,000 = 2,40,000$ shares for $2,00,000$ allotments, giving an application-to-allotment ratio of $6:5$. Application

receipts are Rs $7,50,000$; the refund is Rs $30,000$. Of the balance, Rs $4,00,000$ is application capital, Rs $2,00,000$ is premium and Rs $1,20,000$ is excess adjusted against allotment.

Agam applied for $1,000 \times 6/5 = 1,200$ shares and paid Rs $3,600$. Her excess of Rs 600 reduces unpaid allotment to Rs $7,000 - 600 = 6,400$. Capital called up before forfeiture is Rs 4 per share. Her forfeiture amount is Rs $3,600 - 1,000 = 2,600$, after excluding application premium. The allotment premium of Rs $5,000$ remains unpaid and is reversed.

The final call is Rs $16 - 3 - 7 = 6$ per share, made on $1,99,000$ shares after Agam's forfeiture. Seema's unpaid call is Rs $12,000$; capital already received on her shares is Rs $8,000$.

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 transferred, adjusted and 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 including premium due)			
	Bank A/c Dr.		12,73,600	
	To Share Allotment A/c			12,73,600
	(Being allotment received except Agam: 14,00,000 less 1,20,000 less 6,400)			

Step 3: Record forfeitures and final 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.		5,000	
	To Share Allotment A/c			6,400
	To Share Forfeiture A/c			2,600
	(Being Agam's shares forfeited after allotment)			
	Share First and Final Call A/c Dr.		11,94,000	
	To Share Capital A/c			11,94,000
	(Being final call 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 Seema's Rs 12,000)			
	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's fully called shares forfeited)			

Step 4: Record reissue and transfer the realised surplus Reissued shares are $500 + 1,000 = 1,500$. Bank receives Rs $24,000$, comprising face value Rs $15,000$ and premium Rs $9,000$. No reissue discount

is charged to forfeiture. Half of each shareholder's forfeiture is realised:

$$\text{Capital Reserve} = \frac{2,600}{2} + \frac{8,000}{2} = \text{Rs } 5,300.$$

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 each)			
	Share Forfeiture A/c Dr.		5,300	
	To Capital Reserve A/c			5,300
	(Being surplus on reissued shares transferred)			

Step 5: Conclusion The journal entries above record all transactions. Capital Reserve is Rs $5,300$; Rs $5,300$ remains in Share Forfeiture for the shares not yet reissued.

Quick Tip to Solve: For Agam, remove the application premium from cash received before finding capital forfeited; final call excludes her already-forfeited shares.

OR

21. 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:

- Compute excess application money separately for each allotment group and adjust it against allotment.
- Calls paid before they become due are credited to Calls in Advance, a liability; transfer them when the call becomes due.
- Forfeiture credits capital received, excluding unpaid instalments. On reissue at par the proportion-

ate forfeiture balance becomes Capital Reserve.

Step 1: Calculate group adjustments and individual defaults Group (i) excess is $(2,40,000 - 2,00,000) \times 3 =$ Rs $1,20,000$. Group (ii) excess is $(1,20,000 - 80,000) \times 3 =$ Rs $1,20,000$. Remaining applicants applied for $40,000$ shares and receive $20,000$, so group (iii) excess is Rs $60,000$. Total excess is Rs $3,00,000$, leaving allotment cash normally receivable of Rs $9,00,000 - 3,00,000 = 6,00,000$.

Divij receives $6,000 \times 80,000/1,20,000 = 4,000$ shares. He paid application money Rs $18,000$, including excess Rs $6,000$. His allotment due is Rs $12,000$, of which Rs $6,000$ is adjusted and Rs $6,000$ remains unpaid. His call arrears are Rs $16,000$.

Faisal's advance call is $10,000 \times 4 =$ Rs $40,000$. Thus cash received with allotment is Rs $6,00,000 - 6,000 + 40,000 = 6,34,000$.

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 applications received for 4,00,000 shares)			
	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 due on 3,00,000 shares)			
	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 and Faisal's call received in advance)			

Step 3: Record the final call and forfeiture 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 on all allotted shares)			
	Calls in Advance A/c Dr.		40,000	
	To Share First and Final Call A/c			40,000
	(Being Faisal's advance adjusted against call due)			
	Bank A/c Dr.		11,44,000	
	To Share First and Final Call A/c			11,44,000
	(Being call received after advance adjustment and excluding Divij)			
	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's 4,000 fully called shares forfeited)			

Step 4: Record reissue and capital reserve Divij's capital paid is the whole Rs $18,000$ application

receipt: Rs $12,000$ application capital plus Rs $6,000$ adjusted towards allotment. Half of his $4,000$ shares means $2,000$ shares reissued at par. There is no discount, so half the forfeiture balance, Rs $9,000$, is transferred to Capital Reserve. The balance relating to unreissued shares stays in Share Forfeiture.

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 shares reissued fully paid at par)			
	Share Forfeiture A/c Dr.		9,000	
	To Capital Reserve A/c			9,000
	(Being forfeiture surplus on reissued shares transferred)			

Step 5: Conclusion The entries record the grouped allotment, advance call, forfeiture and reissue. Capital Reserve is Rs $9,000$, and Share Forfeiture retains Rs $9,000$.

Quick Tip to Solve: Divij receives 4,000 shares, not 6,000; his excess application already pays half the allotment, leaving only Rs 6,000 unpaid.

22. 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	Assets	Amount
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, Madhuri : Arsh $= 3:1$. Goodwill premium is credited in the sacrificing ratio, also $3:1$, since no change in the relative shares of the old partners is specified.
- Jyoti receives $1/4$, leaving $3/4$ for the old partners. Her proportionate capital equals the adjusted combined capital of the old partners multiplied by $(1/4)/(3/4) = 1/3$.

Step 1: Work out revaluation adjustments Required provision is $1,20,000 \times 10\% =$ Rs $12,000$; the increase is Rs 2,000. Stock rises by Rs 10,000 and recovery of bad debts brings Rs 15,000 into cash. The compensation fund of Rs 60,000 is set against the claim of Rs 70,000; only the excess Rs 10,000 is a revaluation loss. Creditors decrease by Rs 27,000. Arsh takes investments of $1,10,000 \times 20\% =$ Rs $22,000$ at book value, so his capital is debited without any revaluation gain or loss.

$$\text{Profit} = 10,000 + 15,000 + 27,000 - 2,000 - 10,000 = \text{Rs } 40,000.$$

Madhuri receives Rs 30,000 and Arsh Rs 10,000.

Step 2: Prepare the Revaluation Account Revaluation Account (amounts in Rs)

Dr. Particulars	Amount	Particulars Cr.	Amount
To Provision for doubtful debts	2,000	By Stock	10,000
To Compensation claim (excess)	10,000	By Cash: bad debts recovered	15,000
To Madhuri's Capital	30,000	By Creditors	27,000
To Arsh's Capital	10,000		
Total	52,000	Total	52,000

Step 3: Determine capital and prepare the capital accounts Goodwill premium Rs 40,000 is credited to Madhuri Rs 30,000 and Arsh Rs 10,000. Their adjusted capitals are Rs 3,60,000 and Rs 1,98,000. Therefore Jyoti brings capital of $(3,60,000 + 1,98,000)/3 =$ Rs $1,86,000$. Her goodwill payment is separate from this capital.

Partners' Capital Accounts (amounts in Rs)

Dr. Particulars	M	A	J	Particulars Cr.	M	A	J
To Investments	–	22,000	–	By Balance b/d	3,00,000	2,00,000	–
To Balance c/d	3,60,000	1,98,000	1,86,000	By Goodwill premium	30,000	10,000	–
				By Revaluation	30,000	10,000	–
				By Cash	–	–	1,86,000
Total	3,60,000	2,20,000	1,86,000	Total	3,60,000	2,20,000	1,86,000

Step 4: Prepare the reconstituted balance sheet Cash becomes $30,000+15,000+40,000+1,86,000 =$ Rs $2,71,000$. Investments remaining are Rs 88,000 and debtors net of provision are Rs 1,08,000. The Employees' Provident Fund remains a liability; it is not a distributable reserve.

Balance Sheet as at 1st April, 2019 (amounts in Rs)

Liabilities	Amount	Assets	Amount
Capital: Madhuri	3,60,000	Machinery	4,70,000
Capital: Arsh	1,98,000	Investments	88,000
Capital: Jyoti	1,86,000	Debtors	1,20,000
Creditors	1,63,000	Less: Provision	(12,000)
Compensation claim	70,000	Stock	1,50,000
Employees' Provident Fund	1,10,000	Cash	2,71,000
Total	10,87,000	Total	10,87,000

Step 5: Conclusion Revaluation profit is Rs 40,000; Jyoti brings capital Rs 1,86,000. The reconstituted Balance Sheet totals Rs 10,87,000.

Quick Tip to Solve: Calculate Jyoti's capital from the old partners' adjusted capitals after goodwill, revaluation and the investment takeover.

OR

22. 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	Assets	Amount
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:

- The old profit ratio is the capital ratio $2,00,000 : 2,00,000 : 1,00,000 = 2 : 2 : 1$. Gaurav and Sonu continue in $2 : 1$, their gaining ratio.
- Use the investment fluctuation fund first against the decline in investment value; distribute only the unused fund in the old ratio. Adjust the retiring partner's goodwill through the gaining partners' capitals.

Step 1: Calculate reserves and goodwill adjustments Investments fall by $1,20,000 - 1,10,000 =$ Rs $10,000$. This is absorbed by the Rs 40,000 investment fluctuation fund, leaving Rs 30,000 to distribute: Anita Rs 12,000, Gaurav Rs 12,000 and Sonu Rs 6,000. General reserve Rs 30,000 is distributed in exactly the same amounts. Anita's goodwill share is $3,00,000 \times 2/5 =$ Rs $1,20,000$. Gaurav's gain is $2/3 - 2/5 = 4/15$ and Sonu's is $1/3 - 1/5 = 2/15$. Debit Gaurav Rs 80,000 and Sonu Rs 40,000 and credit Anita Rs 1,20,000. No goodwill asset remains.

Step 2: Prepare the Revaluation Account Land and building increase by $5,00,000 \times 20\% =$ Rs $1,00,000$. After bad debts, debtors are Rs 1,30,000 and required provision is Rs 13,000. Against the old Rs 10,000 provision, the additional charge is Rs 3,000. Thus the total debtors-related loss is Rs 23,000. Revaluation profit is Rs 77,000, shared as Rs 30,800, Rs 30,800 and Rs 15,400.

Revaluation Account (amounts in Rs)

Dr. Particulars	Amount	Particulars Cr.	Amount
To Bad debts	20,000	By Land and Building	1,00,000
To Provision for doubtful debts	3,000		
To Anita's Capital	30,800		
To Gaurav's Capital	30,800		
To Sonu's Capital	15,400		
Total	1,00,000	Total	1,00,000

Step 3: Prepare the Partners capital accounts Anita's total entitlement is $2,00,000 + 12,000 + 12,000 + 30,800 + 1,20,000 =$ Rs $3,74,800$. After paying Rs 1,00,000, transfer Rs 2,74,800 to her loan account. Gaurav's closing capital is Rs 1,74,800 and Sonu's is Rs 87,400.

Partners' Capital Accounts (amounts in Rs)

Dr. Particulars	A	G	S	Particulars Cr.	A	G	S
To Anita's Capital: goodwill	–	80,000	40,000	By Balance b/d	2,00,000	2,00,000	1,00,000
To Bank	1,00,000	–	–	By Investment Fluctuation Fund	12,000	12,000	6,000
To Anita's Loan	2,74,800	–	–	By General Reserve	12,000	12,000	6,000
To Balance c/d	–	1,74,800	87,400	By Revaluation	30,800	30,800	15,400
				By Gaurav's Capital: goodwill	80,000	–	–
				By Sonu's Capital: goodwill	40,000	–	–
Total	3,74,800	2,54,800	1,27,400	Total	3,74,800	2,54,800	1,27,400

Step 4: Prepare the balance sheet on retirement Bank balance after immediate payment is $1,70,000 - 1,00,000 =$ Rs $70,000$. Net debtors are $1,50,000 - 20,000 - 13,000 =$ Rs $1,17,000$. No interest on Anita's loan has accrued on the date of retirement; subsequent interest is payable at 10% per annum on the outstanding balance. Each annual principal instalment will be Rs 1,37,400.

Balance Sheet as at 31st March, 2019, after retirement (amounts in Rs)

Liabilities	Amount	Assets	Amount
Capital: Gaurav	1,74,800	Land and Building	6,00,000
Capital: Sonu	87,400	Investments	1,10,000
Anita's Loan	2,74,800	Debtors after bad debts	1,30,000
Creditors	4,60,000	Less: Provision	(13,000)
		Stock	1,00,000
		Cash at bank	70,000
Total	9,97,000	Total	9,97,000

Step 5: Conclusion Revaluation profit is Rs 77,000; Anita receives Rs 1,00,000 immediately and her loan is Rs 2,74,800. The Balance Sheet totals Rs 9,97,000.

Quick Tip to Solve: Absorb the investment fall against its fluctuation fund before distributing the surplus; calculate provision after writing off bad debts.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

23. While preparing Cash Flow Statement, cash comprises _____ and _____ with bank. [1 mark]

Solution:

Concept:

- For a Cash Flow Statement, cash includes cash on hand and demand deposits with banks. Demand deposits are balances withdrawable on demand.

Step 1: Identify the first component The first blank is **cash on hand**. This includes the currency and coins held by the enterprise, including petty cash. It is immediately available for payment.

Step 2: Identify the bank component The second blank is **demand deposits**. Bank balances withdrawable on demand form part of cash. Fixed deposits that cannot be withdrawn on demand are not automatically included in this definition, and cash equivalents are considered separately.

Step 3: Conclusion Cash comprises **cash on hand** and **demand deposits** with bank.

Quick Tip to Solve: Use the word demand for the bank component: the balance must be available for withdrawal on demand.

24. 'Forfeited Shares Account' appears in the Balance Sheet of the company under the subhead:

[1 mark]

(A) Reserves and Surplus

(B) Long-term Provisions

(C) Share Capital

(D) Other Current Liabilities

Correct Answer: (C) Share Capital

Solution:

Concept:

- The credit balance of the Forfeited Shares Account represents amounts received on forfeited shares that have not yet been reissued.
- Under Schedule III, this balance is disclosed with Share Capital in the notes to the Balance Sheet.

Step 1: Identify the nature of the balance The company has retained amounts paid by shareholders whose shares were forfeited. Until the relevant shares are reissued, the forfeiture balance remains associated with share capital.

Step 2: Distinguish the other subheads The balance is neither an obligation payable to outsiders nor a provision for a liability, so Long-term Provisions and Other Current Liabilities do not apply. Only the surplus relating to shares actually reissued is transferred to Capital Reserve; the unreissued forfeiture balance is not shown under Reserves and Surplus.

Step 3: Conclusion The Forfeited Shares Account appears under Share Capital. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish the unreissued forfeiture balance from the gain transferred to Capital Reserve after reissue.

25. Which of the following is not presented under 'Current Liabilities' in the Balance Sheet of a company?

[1 mark]

(A) Short-term Borrowings

(B) Deferred Tax Liabilities

(C) Short-term Provisions

(D) Trade Payables

Correct Answer: (B) Deferred Tax Liabilities

Solution:

Concept:

- Current liabilities include short-term borrowings, trade payables, other current liabilities and short-term provisions.
- Deferred tax liabilities (net) are presented under Non-current Liabilities in the prescribed company Balance Sheet.

Step 1: Classify deferred tax liabilities Deferred tax liabilities arise from timing differences in the

recognition of income or expenditure for accounting and tax purposes. Their prescribed presentation is under Non-current Liabilities.

Step 2: Check all alternatives Short-term Borrowings and Short-term Provisions are expressly current subheads. Trade Payables are also shown under Current Liabilities. Thus options (A), (C) and (D) do not satisfy the word "not" in the question.

Step 3: Conclusion Deferred Tax Liabilities are not presented under Current Liabilities. Hence, the correct option is (B).

Quick Tip to Solve: For a classification MCQ, first match each option with its Schedule III subhead.

26. 'Sale of goods on credit for ₹ 67,000 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 settlement, cash or credit, does not itself determine the gross profit percentage.

Step 1: Examine the credit sale A credit sale of Rs 67,000 increases revenue from operations and trade receivables. Its effect on gross profit also depends on the cost of the goods sold; the fact that collection is deferred does not establish a higher margin.

Step 2: Apply the normal margin comparison When goods are sold at the existing gross profit rate, gross profit and sales increase in the same proportion, leaving the ratio unchanged. The ratio would rise only if the additional sale carried a higher gross profit percentage than the existing percentage; that information is not given.

Step 3: Conclusion No, the statement is incorrect. A credit sale at the normal gross profit rate leaves the Gross Profit Ratio unchanged; credit terms alone do not increase it.

Quick Tip to Solve: Compare the margin on the additional sale with the existing margin, rather than focusing on cash versus credit.

27. 'An investment normally qualifies as a cash equivalent only when it has a maturity of three months or more from the date of acquisition.' Is this statement correct? Give reason in support of your answer. [1 mark]

Solution:

Concept:

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

Step 1: Check the maturity condition The statement reverses the normal maturity requirement. To qualify normally as a cash equivalent, the investment must have a short maturity of three months or less from its acquisition date, rather than three months or more.

Step 2: Explain the reason Cash equivalents are held to meet short-term cash commitments. A longer maturity can expose the holder to changes in value and reduces immediate liquidity. The short maturity condition supports the ready convertibility and low risk required for this classification.

Step 3: Conclusion No, the statement is incorrect. The normal maturity is three months or less from the date of acquisition, together with high liquidity and insignificant risk of changes in value.

Quick Tip to Solve: Measure the three-month period from acquisition, and remember the requirement says "or less".

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28. Z Ltd. purchased a building for ₹ 50,00,000 from J Ltd., paying 40% by the issue of 9% debentures and the balance by cheque.

The above transaction will result in: [1 mark]

(A) Cash used in investing activities ₹ 20,00,000.

(B) Cash generated from financing activities ₹ 20,00,000.

(C) Decrease in cash and cash equivalents ₹ 20,00,000.

(D) Cash used in investing activities ₹ 30,00,000.

Correct Answer: (D) Cash used in investing activities ₹ 30,00,000.

Solution:

Concept:

- Cash paid to purchase a building is an investing cash outflow.
- An asset acquired directly by issuing debentures is a non-cash transaction and is excluded from the cash flow statement.

Step 1: Separate the two forms of consideration Building cost is Rs 50,00,000. Debentures issued directly to the seller amount to $50,00,000 \times 40\% =$ Rs $20,00,000$. The cheque payment is $50,00,000 \times 60\% =$ Rs $30,00,000$.

Step 2: Classify the actual cash movement Only the cheque payment uses cash, and acquisition of a building is an investing activity. Issuing debentures to J Ltd. does not bring cash into the company, so

there is no financing cash inflow of Rs 20,00,000. Options (A) and (C) incorrectly use the non-cash portion as the cash outflow.

Step 3: Conclusion Cash used in investing activities is Rs 30,00,000. Hence, the correct option is (D).

Quick Tip to Solve: For an asset bought partly through securities, report only the cash consideration as investing outflow.

29. 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 helps compare the performance and financial position of different firms.
- Limitations include personal bias, omission of qualitative factors and the effect of changing price levels.

Step 1: Identify the useful feature Inter-firm comparative study enables users to compare profitability, liquidity and other aspects across firms, subject to comparable accounting information. This is a use or advantage of analysis.

Step 2: Check the limitations Personal bias may affect accounting estimates and interpretation. Qualitative factors such as management competence are not fully captured in financial figures. Historical financial data also ignore price level changes. Therefore options (A), (C) and (D) describe limitations, whereas option (B) describes a benefit.

Step 3: Conclusion Inter-firm comparative study possible is not a limitation. Hence, the correct option is (B).

Quick Tip to Solve: In a "not a limitation" question, identify the option describing a useful purpose of analysis.

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 $= \dfrac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$. Capital employed represents shareholders' funds plus long-term debt.
- Debt-Equity Ratio $= \dfrac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$. Interest is added back only after tax has been reversed.

Step 1: Calculate profit before tax Net profit after interest and tax is Rs 6,00,000, and the tax rate is 40%. Therefore the given profit is 60% of profit before tax (but after interest):

$$\text{Profit before tax} = \frac{6,00,000}{1-0.40} = \text{Rs } 10,00,000.$$

The implied tax expense is Rs 4,00,000.

Step 2: Calculate return on investment Interest on the 6% debentures is

$$\text{Interest} = 10,00,000 \times \frac{6}{100} = \text{Rs } 60,000.$$

Add it to profit before tax to obtain profit before interest and tax:

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

Thus,

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

This compares the return before financing costs with the total long-term funds employed.

Step 3: Calculate shareholders funds and debt-equity ratio Long-term debt consists of the given debentures of Rs 10,00,000. Since capital employed includes this debt and shareholders' funds,

$$\begin{aligned}\text{Shareholders' Funds} &= 20,00,000 - 10,00,000 \\ &= \text{Rs } 10,00,000.\end{aligned}$$

Therefore,

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

Debt and equity each supply half of the capital employed.

Step 4: Conclusion (i) Return on Investment is 53%. (ii) Debt-Equity Ratio is $1:1$.

Quick Tip to Solve: First divide after-tax profit by 0.60, then add debenture interest; do not gross up interest for tax.

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 measures immediately realisable assets against current liabilities: Quick ratio = Quick assets/Current liabilities.
- Quick assets exclude inventories, prepaid expenses and advance tax from current assets because these are not immediately available for paying current liabilities.
- Inventory turnover ratio is Cost of revenue from operations/Average inventory. A gross loss means that cost exceeds sales by the amount of the loss.

Step 1: (i) Determine the quick assets Start with current assets of Rs 2,80,000. Inventory must first be sold, while prepaid rent represents a service already paid for and advance tax represents tax paid in advance; these are excluded for the quick ratio.

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

Step 2: (i) Compare quick assets with current liabilities The denominator remains the given current liabilities of Rs 1,50,000; the exclusions above affect only the numerator.

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

Step 3: (ii) Convert sales into cost and calculate turnover The loss is stated as a percentage of sales, so apply 10% to revenue from operations rather than to cost.

$$\text{Gross loss} = 6,00,000 \times \frac{10}{100} = \text{Rs } 60,000.$$

Since gross loss equals cost less sales, add it to sales to recover cost.

$$\text{Cost of revenue from operations} = 6,00,000 + 60,000 = \text{Rs } 6,60,000.$$

$$\text{Inventory turnover ratio} = \frac{6,60,000}{60,000} = 11 \text{ times}.$$

Step 4: Conclusion (i) Quick ratio is $1.33 : 1$ approximately (exactly $4 : 3$). (ii) Inventory turnover ratio is 11 times.

Quick Tip to Solve: Exclude advance tax as well as inventory and prepaid rent for quick assets; add a gross loss to sales when finding cost.

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 presents the previous year's and current year's figures, the absolute change, and the percentage change based on the previous year.
- Total revenue equals revenue from operations plus other income. Total expenses include purchases of stock-in-trade, changes in inventory and other expenses; profit or loss before tax equals total revenue less total expenses.
- Absolute change is current year less previous year. Percentage change is the absolute change divided by the previous year, multiplied by 100.

Step 1: Calculate the revenue, expenses and result Working Notes: For 2016–17, total revenue is Rs $40,00,000 + 2,00,000 = 42,00,000$, and total expenses are Rs $30,00,000 + 8,00,000 + 4,00,000 = 42,00,000$. Thus there is neither profit nor loss before tax in that year. For 2017–18, total revenue is Rs $50,00,000 + 2,50,000 = 52,50,000$, while total expenses are Rs $40,00,000 + 10,00,000 + 5,00,000 = 55,00,000$. The resulting loss before tax is Rs 2,50,000. The printed positive inventory changes are included as expenses; they are not treated as inventory decreases in cost by changing their sign.

Step 2: Prepare the comparative statement Mark Ltd. — Comparative Statement of Profit and Loss

For the years ended 31st March, 2017 and 31st March, 2018

All amounts are in Rs; change is 2017–18 less 2016–17.

Particulars	2016–17	2017–18	Change	Change (%)
I. Revenue from operations	40,00,000	50,00,000	10,00,000	25
II. Other income	2,00,000	2,50,000	50,000	25
III. Total revenue (I+II)	42,00,000	52,50,000	10,50,000	25
IV. Expenses:				
Purchases 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
Other expenses	4,00,000	5,00,000	1,00,000	25
Total expenses	42,00,000	55,00,000	13,00,000	30.95
V. Profit/(loss) before tax (III–IV)	Nil	(2,50,000)	(2,50,000)	—

For example, purchases increased by Rs 10,00,000 on a base of Rs 30,00,000, giving 33.33%; total expenses increased by Rs 13,00,000 on Rs 42,00,000, giving 30.95%. A percentage change in profit cannot be calculated because the previous year's result is zero. No tax amount is supplied, so the

statement reports the result before tax.

Step 3: Conclusion Total revenue rose by Rs 10,50,000 (25%), but expenses rose by Rs 13,00,000 (30.95%). Mark Ltd. therefore moved from a nil result before tax in 2016–17 to a loss before tax of Rs 2,50,000 in 2017–18.

Quick Tip to Solve: Use 2016–17 as the percentage base for every row, and show a dash for profit percentage when the previous year's profit is zero.

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 item as a percentage of the total balance sheet of the same year.
- For either side, Percentage $= \dfrac{\text{Item amount}}{\text{Total assets or total equity and liabilities}} \times 100.$

Step 1: Determine the common base The total is Rs 50,00,000 in each year. Thus Rs 50,000 represents one percentage point in both columns. Compute each year separately using its own amounts. For example, share capital in 2019 is $34,00,000/50,00,000 \times 100 = 68\%$, and in 2018 it is $30,00,000/50,00,000 \times 100 = 60\%$.

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

Particulars	2019 (Rs)	2018 (Rs)	2019 (%)	2018 (%)
I. Equity and Liabilities				
Shareholders' Funds				
Share Capital	34,00,000	30,00,000	68	60
Reserves and Surplus	10,00,000	10,00,000	20	20
Non-current Liabilities				
Long-term Borrowings	5,00,000	3,00,000	10	6
Current Liabilities				
Trade Payables	1,00,000	7,00,000	2	14
Total	50,00,000	50,00,000	100	100
II. Assets				
Non-current Assets: Fixed Assets				
Tangible Assets	36,00,000	28,00,000	72	56
Current Assets				
Inventories	13,00,000	20,00,000	26	40
Cash and Cash Equivalents	1,00,000	2,00,000	2	4
Total	50,00,000	50,00,000	100	100

Step 3: Check each side The financing percentages total $68 + 20 + 10 + 2 = 100\%$ in 2019 and $60+20+6+14 = 100\%$ in 2018. The asset percentages total $72+26+2 = 100\%$ and $56+40+4 = 100\%$, respectively. These independent totals confirm that the same base has been used consistently.

Step 4: Conclusion The common size balance sheet is shown above; tangible assets constitute 72% of total assets in 2019 compared with 56% in 2018.

Quick Tip to Solve: Divide each amount by Rs 50,000 to obtain its percentage directly in this question.

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 into operating, investing and financing activities. The operating cash flow is already provided.
- Cash proceeds on disposal equal book value plus profit. Machinery purchases are found using original costs, rather than net book values.
- Interest on debentures is a financing outflow for a non-financial enterprise. Current investments are treated as investing assets since they are separately stated from cash equivalents.

Step 1: Calculate machinery purchase and sale proceeds The original cost of machinery sold is book

value plus accumulated depreciation on that machinery:

$$\text{Cost sold} = 90,000 + 23,000 = \text{Rs } 1,13,000.$$

Using the movement in gross plant and machinery:

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

Sale proceeds are $90,000 + 12,000 = \text{Rs } 1,02,000$. Depreciation on the machinery sold is a non-cash adjustment.

Step 2: Determine investing and financing movements Current investments increased by $1,30,000 - 20,000 = \text{Rs } 1,10,000$, an investing outflow. The increase in share capital gives issue proceeds of $9,00,000 - 5,00,000 = \text{Rs } 4,00,000$. The debenture issue gives $3,00,000 - 2,00,000 = \text{Rs } 1,00,000$. As the new debentures were issued on 1st April, 2018, the entire closing debenture amount bears interest for the full year:

$$\text{Interest paid} = 3,00,000 \times 9\% = \text{Rs } 27,000.$$

Goodwill written off and depreciation are non-cash items. Operating cash flow is already given.

Step 3: Prepare 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	
Proceeds from sale of machinery	1,02,000
Purchase of machinery	(3,95,000)
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

Step 4: Reconcile with the balance sheet The three activity totals yield $28,000 - 4,03,000 + 4,73,000 = \text{Rs } 98,000$. Independently, the cash balance increased by $2,38,000 - 1,40,000 = \text{Rs } 98,000$, so the statement reconciles exactly. Do not count operating working-capital movements again.

Step 5: Conclusion Net cash increases by Rs 98,000, giving closing cash and cash equivalents of Rs 2,38,000.

Quick Tip to Solve: Recover the cost of the machinery sold before calculating purchases from gross machinery balances.

OPTION 2 (Computerised Accounting)

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

Solution:

Concept:

- A voucher records the nature and account classification of an accounting transaction.
- Journal vouchers record non-cash adjustments, whereas cash and bank vouchers record cash or bank movements.

Step 1: Identify the nature of the transaction The question specifies an adjustment in the ledger involving no cash transaction. Such adjustments can include depreciation charged on assets or outstanding expenses recognised at the end of the accounting period.

Step 2: Select the appropriate voucher A journal voucher permits the required debit and credit to be recorded without a cash receipt or payment. Therefore the blank is filled with journal. A receipt or payment voucher would be inappropriate because neither a receipt nor a payment occurs here.

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

Quick Tip to Solve: For a non-cash ledger adjustment, choose a journal voucher.

24. 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 meaningful abbreviations to identify information.
- The letters normally suggest the name or nature of the item, making the code easy to remember.

Step 1: Identify the coding basis The question specifies an alphabet or an abbreviation used as a symbol. This is a meaningful letter-based representation, rather than a purely numerical serial number.

Step 2: Name the code Such a representation is called a mnemonic code. For example, the abbreviation SAL may identify salary and PUR may identify purchases; the code itself helps the user recall its meaning.

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

Quick Tip to Solve: Letters that suggest the name of an account indicate a mnemonic code.

25. 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 data that meet specified conditions from a database.
- Related tables can be joined using their common fields to answer requests involving several tables.

Step 1: Fill the first blank The query provides the real power of a database. It enables the user to specify which records and fields are required, apply conditions, and obtain meaningful information from stored data.

Step 2: Fill the second blank A complex request may need data from more than one table. A query can combine related tables, so the second blank is multiple. Merely storing data in tables does not by itself answer these requests.

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

Quick Tip to Solve: Associate complex database requests with queries joining multiple tables.

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26. 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 comprises the physical components of a computer system and associated devices.
- Software consists of programs and instructions; a procedure specifies a sequence of actions.

Step 1: Identify the physical components Computer-associated peripherals, such as a keyboard, printer and storage device, and their network are physical parts of the system. Hence option (B) describes hardware.

Step 2: Check the remaining choices System software and application software in (A) are programs, not physical equipment. The logical sequence in (C) is a procedure. Since (A) and (C) do not define hardware, the combined choice (D) is also incorrect.

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

Quick Tip to Solve: Test whether the description identifies physical equipment before selecting hardware.

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27. 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 protect assets and promote efficient operations.
- They also support reliable accounting records and adherence to management policies.

Step 1: Match both objectives Safeguarding assets helps prevent loss, theft and misuse. Controls such as authorisation, division of duties and checks on transactions also promote the efficient use of resources. Thus internal controls serve both objectives.

Step 2: Eliminate narrow alternatives Trying only to maximise revenue in (B) does not ensure protection or efficiency. Accurate records alone in (C) cover only one aspect of control. Option (D) addresses asset protection alone and omits optimal resource use.

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

Quick Tip to Solve: When both asset protection and operating efficiency appear, select internal controls.

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

(A) Not necessarily required.

(B) Required but need not be unique.

(C) Required and must be unique.

(D) All of the above.

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

Solution:

Concept:

- A primary key uniquely identifies each record in a database table.
- Entity integrity requires every primary-key value to be present and unique.

Step 1: Check that a value is present A record cannot be reliably identified if its primary-key field is null. Therefore the existence of data in that field is required, ruling out option (A).

Step 2: Check uniqueness Two records with the same primary-key value would not be distinguishable by that key. Hence duplicate key values are prohibited. Option (B) is incorrect because it permits duplicates, and (D) cannot be correct when (A) and (B) are false.

Step 3: Conclusion Data in a primary-key field are required and must be unique. The correct option is (C).

Quick Tip to Solve: Apply both tests to a primary key: no missing value and no duplicate value.

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

(A) A negative data is used.

(B) Column is not wide enough.

(C) Negative time is used.

(D) All of the above.

Correct Answer: Both (B) and (C) are valid causes; no single printed option correctly represents the valid choices.

Solution:

Concept:

- A hash display indicates that a spreadsheet cannot display a cell value in its current format.
- Common causes are insufficient column width and a negative date or time in a date/time format. Ordinary negative numbers can be displayed normally.

Step 1: Identify the definite width condition When the formatted numeric or date value is wider than its column, the spreadsheet displays hashes. Increasing the column width normally reveals the value. Thus option (B) states a valid general cause.

Step 2: Test the other statements literally Option (C), negative time, is also a valid cause in the usual spreadsheet date system. Option (A) says negative data without restricting these to date or time values: an ordinary negative number such as -25 displays correctly. Therefore (A) is not generally true and (D), all of the above, is not defensible. Both (B) and (C) are valid causes, but the paper provides no combined B-and-C option.

Step 3: Conclusion Both (B), insufficient column width, and (C), negative time, can cause hashes. The printed choices do not provide a unique correct answer: (A) is not generally valid, so (D) cannot combine them correctly.

Quick Tip to Solve: For hashes, widen the column first; then inspect whether the cell contains a negative date or time.

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

Solution:

Concept:

- A salary bill is a period-wise statement of the remuneration payable to employees.
- It records employee details, earnings and deductions, and determines the amount payable after deductions.

Step 1: Identify employees and the salary period The bill identifies the organisation or department and the period for which salary is prepared. It supplies employee particulars such as name, employee number and designation, so that each salary amount can be linked to the correct employee.

Step 2: Show earnings and gross salary It provides the basic pay and the applicable allowances, for example dearness allowance, house rent allowance and other admissible allowances. These components are added to calculate gross salary. Where relevant, the bill also reflects attendance or

payable days, overtime and arrears that affect the earnings for that period.

Step 3: Show deductions and net amount payable The salary bill details deductions such as provident fund, income tax deducted at source, loan recoveries and other authorised deductions. It totals these deductions and subtracts them from gross salary to arrive at net salary payable to each employee. The totals show the employer the overall salary liability and the amounts to be remitted for deductions. Thus the bill supports both the payment of employees and the recording of payroll expenses and related liabilities.

Step 4: Conclusion A salary bill gives employee particulars, salary-period details, basic pay and allowances, gross salary, deductions and the net salary payable.

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

OR

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

Solution:

Concept:

- An attribute is a field describing one characteristic of an employee or of the employee's pay record. Together these fields provide the data needed to prepare the salary bill.
- A payroll record identifies the employee, records earnings and deductions, and determines net salary. Net salary equals gross earnings less total deductions.

Step 1: Employee identification and service particulars The database normally contains employee code or employee ID, employee name, designation, department and pay scale or grade. Employee ID identifies each employee uniquely, so employees having the same name are not confused. Date of joining and bank account details may also be recorded for service and payment purposes.

Step 2: Earnings and attendance particulars The main earnings attributes include basic pay, dearness allowance (DA), house rent allowance (HRA), other allowances and overtime pay, where applicable. Attendance, days worked and leave without pay help determine the salary payable for the period. Gross salary is obtained by adding the admissible basic pay and allowances.

Step 3: Deductions and final payment Deduction attributes include provident fund contribution, income tax deducted at source, insurance premium and recovery of loans or advances, as applicable. The database also records total deductions and net salary payable. The salary month or pay period associates these amounts with the correct payroll cycle. Thus, the same employee can have a separate pay record for each month without mixing current and previous payments.

Step 4: Conclusion The principal payroll attributes are employee ID, name, designation, department, pay scale, basic pay, DA, HRA, other allowances, deductions such as provident fund and tax, gross salary and net salary, together with the pay period.

Quick Tip to Solve: Group payroll fields into identity, earnings and deductions; then include gross and net salary.

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

Solution:

Concept:

- Closing entries transfer the balances of nominal accounts to the appropriate final account at the end of the accounting year. They help determine the profit or loss for that year.
- Adjustment entries record accrued, outstanding, prepaid or other unrecorded items so that income and expenses belong to the correct accounting period.

Step 1: Closing entry: meaning and purpose A closing entry closes a revenue or expense account by transferring its balance to Trading Account or Profit and Loss Account, as appropriate. It leaves the nominal account with no balance to carry into the next year. For example, the balance of Salaries Account is transferred to Profit and Loss Account at year-end. Assets and liabilities are carried forward instead of being closed into the profit calculation.

Step 2: Example of a closing entry Suppose Salaries Account has a debit balance of Rs 20,000. The closing entry is:

Journal

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

Salaries Account is credited to cancel its debit balance, while Profit and Loss Account is debited with the expense.

Step 3: Adjustment entry: meaning and purpose An adjustment entry brings the books up to date before preparing final accounts. It gives effect to the accrual and matching principles: an expense incurred during the year must be recognised even if it has not yet been paid. Such an entry may affect both the income statement and the balance sheet.

Step 4: Example of an adjustment entry Suppose salaries of Rs 2,000 for the current year remain unpaid at year-end and have not yet been recorded. The adjustment entry is:

Journal

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

This increases the current year's salary expense by Rs 2,000 and recognises a liability of Rs 2,000. After all adjustments have been recorded, the adjusted salary balance is transferred through the closing entry.

Step 5: Conclusion A closing entry transfers a nominal account's balance to a final account; an adjustment entry recognises an amount needed to measure the current year's income, expense, asset or liability correctly.

Quick Tip to Solve: Record outstanding or prepaid items first; close the adjusted expense and income balances afterwards.

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 is a database management system in which a central server stores and manages data and serves requests from several client computers.
- Its higher price is justified by capabilities needed in a large organisation: concurrent use, reliable transaction processing, protection of confidential information and growth in workload.

Step 1: 1. Multi-user application A server database permits many authorised users to access and work with the same database at the same time. For example, employees in sales, stores and accounts can use common accounting records concurrently. Concurrency control coordinates their updates so that one user's work does not improperly overwrite another user's work. This supports the organisation's day-to-day operations without making every user wait for exclusive access.

Step 2: 2. Flexibility A server database can be used in a variety of computing environments and can support different client applications. Users can obtain the information they need through suitable interfaces while sharing centrally maintained data. Thus, an organisation can adapt the database application to its operational requirements instead of maintaining separate, inconsistent sets of records for different departments.

Step 3: 3. Performance Server databases are designed to store and process large volumes of records efficiently and to respond to many users' requests. Query optimisation, indexing and the server's processing resources help retrieve the required information quickly. For instance, an enterprise can generate sales summaries or locate customer balances from a large transaction database with acceptable response time.

Step 4: 4. Scalability The system can expand as the number of users, transactions and stored records increases. Additional processing capacity, memory or storage can be provided to meet the larger workload. This allows the database to continue serving the business as it adds branches or customers, reducing the need to replace the entire database system simply because the business has grown.

Step 5: Conclusion Four advantages expected from a server database are multi-user application, flexibility, high performance and scalability.

Quick Tip to Solve: State four distinct capabilities and link each one to a practical benefit for the user; distinguish present processing speed from the ability to grow.

32. Deepshikha Ltd. has its offices in Jaipur and Satara. HRA for Jaipur is ₹ 8,000 and for Satara is ₹ 6,000. DA is calculated on Basic Pay (BP) as 8% for BP $\leq$ ₹ 10,000 and 6% for BP $\geq$ ₹ 18,000. 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) Jagat is working in Jaipur office. His Basic Pay is ₹ 25,000. Out of the sick leave allowed by the company, he has availed sick leave for five days.

(ii) Reeta is working in Satara office. Her Basic Pay is ₹ 9,500. She has availed sick leave for two days. [6 marks]

Solution:

Concept:

- Gross salary is the sum of basic pay earned, dearness allowance (DA) and house rent allowance (HRA): $GS = BPE + DA + HRA$.
- DA is calculated on basic pay: 8% for basic pay up to Rs 10,000 and 6% for basic pay of Rs 18,000 or more. HRA depends on the employee's office location.
- Sick leave is not stated to be leave without pay. Therefore it does not reduce salary. The standard month has 30 payable days, including the sick leave taken.

Step 1: Set up the worksheet inputs Use row 1 for headings. Enter the employee's name in column A, city in B, monthly basic pay in C, sick-leave days in D and standard days in E. Enter Jagat, Jaipur, 25000, 5 and 30 in row 2; enter Reeta, Satara, 9500, 2 and 30 in row 3. Keep the pay and days as numerical values so that Excel can use them in calculations. The sick-leave column records leave taken; it is not a deduction column because neither employee's leave is described as unpaid.

Step 2: Enter the Excel formulae Use F for payable days, G for basic pay earned, H for DA, I for HRA and J for gross salary. For row 2, enter:

Cell	Formula
F2	`=E2`
G2	`=C2*F2/E2`
H2	`=IF(C2<=10000,C2*8%,IF(C2>=18000,C2*6%,0))`
I2	`=IF(B2="Jaipur",8000,6000)`
J2	`=SUM(G2:I2)`

Copy F2:J2 into F3:J3; the relative references change automatically to row 3. The HRA formula applies to the two stated offices. Both employees fall within a stated DA band; no intermediate basic-pay band is needed for these calculations.

Step 3: (i) Calculate Jagat's salary Jagat's basic pay is Rs 25,000, which is at least Rs 18,000. His DA rate is therefore 6%. He works in Jaipur, so HRA is Rs 8,000. His five days of sick leave are within the company's allowed sick leave, so all 30 days are payable.

$$BPE = 25,000 \times \frac{30}{30} = \text{Rs } 25,000,$$
$$DA = 25,000 \times \frac{6}{100} = \text{Rs } 1,500,$$
$$GS = 25,000 + 1,500 + 8,000 = \text{Rs } 34,500.$$

Thus G2, H2, I2 and J2 display 25000, 1500, 8000 and 34500 respectively.

Step 4: (ii) Calculate Reeta's salary Reeta's basic pay is Rs 9,500, which is at most Rs 10,000. Her DA rate is therefore 8%. She works in Satara, so HRA is Rs 6,000. Her two days of sick leave are not described as leave without pay, so they do not reduce her payable days.

$$BPE = 9,500 \times \frac{30}{30} = \text{Rs } 9,500,$$
$$DA = 9,500 \times \frac{8}{100} = \text{Rs } 760,$$
$$GS = 9,500 + 760 + 6,000 = \text{Rs } 16,260.$$

Thus G3, H3, I3 and J3 display 9500, 760, 6000 and 16260 respectively. Gross salary is calculated before deductions such as tax or provident fund; none are specified here.

Step 5: Conclusion Jagat's gross salary is $\boxed{\text{Rs } 34,500}$ and Reeta's gross salary is $\boxed{\text{Rs } 16,260}$. No salary is deducted for the stated sick leave.

Quick Tip to Solve: Select DA from basic pay and HRA from city; deduct leave days only when the question identifies them as leave without pay.