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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

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

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

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

Part A (60 marks)

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

1. Riva, Meetu and Asha were partners in a firm sharing profit and losses in the ratio of 1 : 2 : 3. Meetu died on 31st July, 2019. According to the partnership agreement, her share of profit from the closure of last accounting year till the date of her death was to be calculated on the basis of aggregate profits of two completed years before her death. Profits of the firm for the years ending 31st March, 2018 and 31st March, 2019 were ₹ 46,000 and ₹ 44,000 respectively. The firm closes its books on 31st March every year. Meetu's share of profit till the date of her death will be: [1 mark]

(A) ₹ 20,000

(B) ₹ 5,000

(C) ₹ 10,000

(D) ₹ 45,000

Correct Answer: (C) ₹ 10,000

Solution:

Concept:

- The deceased partner receives the estimated profit up to the date of death on the basis specified in the partnership agreement.
- Meetu's profit-sharing fraction is $2/(1+2+3) = 1/3$. The agreement specifies aggregate profits, so the two yearly profits are added, not averaged.

Step 1: Find the agreed profit base and elapsed period The aggregate profit is $46,000 + 44,000 =$ Rs $90,000$. The period from 1st April to 31st July, 2019 is four months, giving a time fraction of $4/12$.

Step 2: Apply Meetu's share Using the stipulated aggregate-profit basis, her share is

$$90,000 \times \frac{4}{12} \times \frac{2}{6} = \text{Rs } 10,000.$$

Rs 5,000 would result from using average profit, contrary to the word aggregate. Rs 20,000 and Rs 45,000 do not apply both the correct time fraction and her profit share.

Step 3: Conclusion Meetu's share of profit is $\boxed{\text{Rs } 10,000}$. Hence, the correct option is (C).

Quick Tip to Solve: Underline aggregate: add Rs 46,000 and Rs 44,000 without dividing by two, then apply four months and Meetu's one-third share.

2. Excess value of net assets over purchase consideration at the time of purchase of business is:

[1 mark]

(A) Credited to the Capital Reserve.

(B) Debited to the Goodwill Account.

(C) Credited to the General Reserve Account.

(D) Credited to the Vendor's Account.

Correct Answer: (A) Credited to the Capital Reserve.

Solution:

Concept:

- Net assets equal the agreed value of assets taken over less the agreed liabilities assumed.
- When net assets exceed purchase consideration, the excess is a capital profit credited to Capital Reserve.

Step 1: Compare the amounts Here the business is acquired for less than the value of its net assets. Thus Capital Reserve = Net assets − Purchase consideration, and the difference has a credit balance.

Step 2: Check the alternative treatments Goodwill is debited in the opposite situation, when purchase consideration exceeds net assets. General Reserve is normally created from revenue profits, so it does not record this capital gain. The vendor is credited with the purchase consideration payable, not with the excess net assets.

Step 3: Conclusion The excess is credited to Capital Reserve. Hence, the correct option is (A).

Quick Tip to Solve: Compare net assets with the purchase price: excess net assets create Capital Reserve; excess price creates Goodwill.

3. First call amount received in advance from the shareholders before it is actually called up by the directors is:

[1 mark]

(A) Debited to calls-in-advance account.

(B) Credited to share allotment account.

(C) Debited to first call account.

(D) Credited to calls-in-advance account.

Correct Answer: (D) Credited to calls-in-advance account.

Solution:

Concept:

- Money received against a share call before that call is made is Calls-in-Advance.
- The advance is a liability until it is adjusted against the relevant call; receipt increases Bank and credits Calls-in-Advance.

Step 1: Identify the nature of the receipt The directors have not yet made the first call. Consequently, no first-call amount is due from shareholders at this stage. The money received early must be separately recognised as an advance.

Step 2: Choose the credit account The receipt debits Bank and credits Calls-in-Advance. Debiting Calls-in-Advance would reduce it and is used on subsequent adjustment, not receipt. Share Allotment is unrelated to this first-call advance. First Call is debited when the call becomes due, not merely because money arrives early.

Step 3: Conclusion The amount is credited to Calls-in-Advance Account. Hence, the correct option is (D).

Quick Tip to Solve: Use the timing clue before it is called: an early receipt creates a credit balance in Calls-in-Advance.

4. Supreme Ltd. issued 1,000, 11% Debentures of ₹ 100 each at par, redeemable after five years at a premium of 10%. The minimum amount invested in Debenture Redemption Investments will be: [1 mark]

(A) ₹ 25,000

(B) ₹ 27,500

(C) ₹ 16,500

(D) ₹ 15,000

Correct Answer: (D) ₹ 15,000

Solution:

Concept:

- For the prescribed Debenture Redemption Investment calculation, the minimum investment is 15% of the nominal amount of debentures maturing.
- The redemption premium and the annual coupon rate are not included in the nominal-value base for this calculation.

Step 1: Calculate the nominal amount Supreme Ltd. has issued 1,000 debentures of Rs 100 each. Their nominal value is

$$1,000 \times 100 = \text{Rs } 1,00,000.$$

The 11% rate determines interest, while the 10% premium affects the amount paid on redemption.

Step 2: Apply the investment percentage The minimum investment is

$$1,00,000 \times \frac{15}{100} = \text{Rs } 15,000.$$

Rs 16,500 incorrectly applies 15% to the premium-inclusive redemption amount of Rs 1,10,000. Rs 25,000 and Rs 27,500 use 25%, which is not the investment percentage required here.

Step 3: Conclusion The minimum Debenture Redemption Investment is $\boxed{\text{Rs } 15,000}$. Hence, the correct option is (D).

Quick Tip to Solve: For this investment calculation, use 15% of face value; keep the 11% coupon and 10% redemption premium separate.

5. Fill in the blanks for the transaction 'Interest on drawings' ₹ 4,000.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	_____ Dr.		**4,000**	
	To _____			**4,000**
	(Being Interest on drawings charged)			

[1 mark]

Solution:

Concept:

- Interest on drawings is charged to the partner for using the firm's funds personally.
- The partner's Capital Account is debited under the fluctuating-capital method and Interest on Drawings Account is credited. With fixed capitals, the debit goes to the partner's Current Account.

Step 1: Identify the debit and credit The charge reduces the amount due to the partner, so debit the partner's Capital Account by Rs 4,000. Credit Interest on Drawings Account by the same amount; it is subsequently transferred to Profit and Loss Appropriation Account.

Step 2: Complete the journal entry **Journal**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Partner's Capital A/c Dr. To Interest on Drawings A/c (Being interest on drawings charged)		4,000	 4,000

Step 3: Conclusion The blanks are **Partner's Capital A/c** and **Interest on Drawings A/c**, respectively. If capitals are fixed, use Partner's Current A/c for the debit.

Quick Tip to Solve: Interest on drawings is a charge against the partner: debit the partner and credit Interest on Drawings.

6. On 1st April, 2018, Queens Club had a Prize Fund of ₹ 4,00,000. During the year it incurred expenses on prizes amounting to ₹ 4,30,000. The balance of Prize Fund in the Balance Sheet as on 31st March, 2019 will be: [1 mark]

(A) ₹ 30,000

(B) ₹ 4,00,000

(C) (₹ 30,000)

(D) Zero

Correct Answer: (D) Zero

Solution:

Concept:

- Expenditure for a specific purpose is first adjusted against the fund earmarked for that purpose.
- If the expenditure exceeds the available specific fund, the excess is charged to Income and Expenditure Account; the specific fund is exhausted.

Step 1: Use the available prize fund The opening Prize Fund is Rs 4,00,000, while prize expenses total Rs 4,30,000. The whole Rs 4,00,000 fund is applied towards these expenses, leaving an uncovered amount of $4,30,000 - 4,00,000 = \text{Rs } 30,000$.

Step 2: Locate the excess expense correctly The excess Rs 30,000 is debited to Income and Expenditure Account. It is neither a positive fund balance nor a negative specific fund in the Balance Sheet. Retaining the original Rs 4,00,000 would ignore its use to meet the prize expenses.

Step 3: Conclusion The closing Prize Fund balance is Zero. Hence, the correct option is (D).

Quick Tip to Solve: Exhaust the specific fund first; send the excess Rs 30,000 to Income and Expenditure Account, not to a negative fund balance.

7. Reliable Ltd. issued 30,000, 12% Debentures of ₹ 100 each as collateral security for a loan of ₹ 20,00,000 taken from Syndicate Bank. Fill in the blanks for the journal entry for issue of these debentures as a collateral security.

Reliable Ltd.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	..... A/c Dr.		.....	
	To ..... A/c			.....
	(₹ 30,00,000 debentures issued as collateral security for a loan of ₹ 20,00,000)			

[1 mark]

Solution:

Concept:

- Collateral debentures provide additional security for a loan and do not represent a separate cash receipt.
- When their issue is recorded by journal entry, Debenture Suspense Account is debited and the relevant Debentures Account is credited at face value.

Step 1: Calculate the value of collateral debentures The debentures issued as collateral have face value

$$30,000 \times \text{Rs } 100 = \text{Rs } 30,00,000.$$

This amount, rather than the loan of Rs 20,00,000, is used in the collateral-security entry. The loan receipt is recorded separately.

Step 2: Complete the required entry **Journal of Reliable Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Debenture Suspense A/c Dr. To 12% Debentures A/c (Being Rs 30,00,000 debentures issued as collateral security for a loan of Rs 20,00,000 from Syndicate Bank)		30,00,000	30,00,000

Step 3: Conclusion Debit **Debenture Suspense A/c, Rs 30,00,000**; credit **12% Debentures A/c, Rs 30,00,000**.

Quick Tip to Solve: Use the face value of the collateral debentures in both columns; the bank loan amount belongs to the separate loan entry.

8. Mahi and Rajat were in partnership sharing profits and losses in the ratio of 4 : 3. They admitted Kripa as a new partner. Kripa brought ₹ 60,000 as her share of goodwill premium which was entirely credited to Mahi's capital account. On the date of admission, goodwill of the firm was valued at ₹ 4,20,000. Calculate the new profit sharing ratio of Mahi, Rajat and Kripa. [1 mark]

Solution:

Concept:

- The incoming partner's share equals goodwill premium brought in divided by the total goodwill valuation.
- Goodwill premium is credited to the sacrificing partners in their sacrificing ratio. Since Mahi receives the whole premium, Mahi alone sacrifices.

Step 1: Calculate Kripa's share and identify the sacrifice Kripa's profit share is

$$\frac{60,000}{4,20,000} = \frac{1}{7}.$$

The full premium is credited to Mahi, so Mahi sacrifices this entire $1/7$; Rajat sacrifices nothing.

Step 2: Calculate the three new shares Mahi's old share is $4/7$, hence her new share is $4/7 - 1/7 = 3/7$. Rajat retains $3/7$, and Kripa receives $1/7$. The shares total $3/7 + 3/7 + 1/7 = 1$, confirming that the whole profit is allocated.

Step 3: Conclusion The new profit-sharing ratio of Mahi, Rajat and Kripa is $\boxed{3 : 3 : 1}$.

Quick Tip to Solve: Because only Mahi receives the premium, subtract Kripa's one-seventh share only from Mahi; keep Rajat's share unchanged.

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

(A) Endowment Fund

(B) Government Grants

(C) Life Membership Fees

(D) Legacies

Correct Answer: (B) Government Grants

Solution:

Concept:

- Revenue receipts relate to the ordinary recurring operations of a not-for-profit organisation.

- An ordinary government grant for operating activities is a revenue receipt; a grant specifically restricted to a capital purpose would instead receive capital treatment.

Step 1: Identify the operating receipt Among the choices, Government Grants is the revenue receipt under the usual treatment of a general operating grant. No specific capital purpose is stated in this question.

Step 2: Eliminate the capital receipts An Endowment Fund is a capital fund whose principal is preserved for the specified purpose. Life Membership Fees are generally capitalised because they cover membership for life. Legacies are ordinarily treated as capital receipts in the standard classification used here. Thus these three choices do not represent the usual recurring revenue receipt.

Step 3: Conclusion **Government Grants** is the revenue receipt. Hence, the correct option is (B).

Quick Tip to Solve: For an unspecified government grant, use revenue treatment; distinguish a grant expressly given to purchase a capital asset.

10. Subscribed capital is: [1 mark]

(A) That part of authorised capital which is issued to the public for subscription.

(B) That part of issued capital which has been actually subscribed by the public.

(C) That part of subscribed capital which has been called up on the shares.

(D) That part of subscribed capital which has not yet been called up on the shares.

Correct Answer: (B) That part of issued capital which has been actually subscribed by the public.

Solution:

Concept:

- Subscribed capital is the portion of issued capital that the public has actually agreed to take up.
- Issued, subscribed, called-up and uncalled capital describe different stages of the share-capital process.

Step 1: Identify the relevant stage A company first offers shares for subscription. The amount represented by shares actually subscribed by the public is subscribed capital. It is not necessarily equal to the entire amount offered, since an issue may be undersubscribed.

Step 2: Distinguish the other descriptions Option (A) defines issued capital, the portion of authorised capital offered to the public. Option (C) defines called-up capital, the amount demanded on subscribed shares. Option (D) describes uncalled capital, the amount not yet demanded. Only option (B) refers to shares actually subscribed by the public.

Step 3: Conclusion Subscribed capital is that part of issued capital which has been actually subscribed by the public. Hence, the correct option is (B).

Quick Tip to Solve: Link the word subscribed with shares actually taken up; link issued with shares offered to the public.

11. Krish and Laksh were partners in a firm sharing profits and losses in the ratio of 4 : 1. They admitted Rani as a new partner. Krish sacrificed 1/4th of his share and Laksh sacrificed 1/5th of his share in favour of Rani. Rani's share in the profits of the reconstituted firm will be : [1 mark]

(A) 2/5

(B) 6/25

(C) 9/30

(D) 1/9

Correct Answer: (B) 6/25

Solution:

Concept:

- A sacrifice stated as a fraction of a partner's own share must be multiplied by that partner's old share.
- The incoming partner's share equals the sum of the fractions of total profits sacrificed by the existing partners.

Step 1: Find each sacrifice The old shares of Krish and Laksh are $4/5$ and $1/5$, respectively. Therefore,

$$\text{Krish's sacrifice} = \frac{1}{4} \times \frac{4}{5} = \frac{1}{5} = \frac{5}{25},$$
$$\text{Laksh's sacrifice} = \frac{1}{5} \times \frac{1}{5} = \frac{1}{25}.$$

The fractions $1/4$ and $1/5$ are fractions of their own shares, not direct shares of total profits.

Step 2: Combine and check the shares Rani receives both sacrifices, so her share is $5/25+1/25 = 6/25$. Krish retains $4/5 - 1/5 = 3/5 = 15/25$, and Laksh retains $1/5 - 1/25 = 4/25$. Their new shares total $(15 + 4 + 6)/25 = 1$. Options (A), (C) and (D) give $2/5$, $9/30$ and $1/9$, none of which equals the combined sacrifice.

Step 3: Conclusion Rani's share in the profits of the reconstituted firm is $\frac{6}{25}$. Hence, the correct option is (B).

Quick Tip to Solve: Multiply each stated sacrifice by the respective old share before adding; do not add 1/4 and 1/5 directly.

12. Which of the following statements is not true for Income and Expenditure Account? [1 mark]

(A) It records items of revenue nature only.

(B) Items recorded in it relate only to the current period.

(C) Depreciation is not recorded in this account.

(D) It does not have an opening balance.

Correct Answer: (C) Depreciation is not recorded in this account.

Solution:

Concept:

- An Income and Expenditure Account records revenue income and revenue expenses relating to the current accounting period on the accrual basis.
- Depreciation is a revenue expense reflecting the use of a fixed asset, even though it does not involve a cash payment in the current period.

Step 1: Test the statements about scope Statement (A) is true because capital receipts and capital expenditure are excluded from this account. Statement (B) is also true: amounts are adjusted for outstanding and prepaid items so that only the income and expenses of the current period are recorded.

Step 2: Test depreciation and the opening balance Statement (C) is false. Depreciation is charged on the expenditure side because it is a current-period expense; the absence of a cash payment does not exclude it. Statement (D) is true because this nominal account starts afresh for each period and does not carry an opening balance. Its surplus or deficit is transferred to the capital fund.

Step 3: Conclusion The statement "Depreciation is not recorded in this account" is not true. Hence, the correct option is (C).

Quick Tip to Solve: For a "not true" question, remember that Income and Expenditure follows accrual accounting, so depreciation is included.

13. Authorised capital of a company is also known as _____. [1 mark]

Solution:

Concept:

- Authorised capital is the maximum share capital a company is authorised to issue under its Memorandum of Association.
- The terms nominal capital and registered capital are alternative names for authorised capital.

Step 1: Identify what the capital limit represents The amount stated in the capital clause of the Memorandum of Association sets the company's authorised share-capital limit. It indicates the permitted ceiling, rather than the amount already offered to investors or received from them.

Step 2: Supply the equivalent name Since this is the registered or nominal limit of share capital, the blank is filled by nominal capital, also called registered capital. It should not be confused with issued capital, which is the portion offered for subscription, or paid-up capital, which represents the amount

actually paid on shares.

Step 3: Conclusion Authorised capital is also known as nominal capital or registered capital.

Quick Tip to Solve: Remember the three equivalent names: authorised, nominal and registered capital all refer to the permitted share-capital limit.

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

Particulars	Amount (₹)
Cash in hand as on 1.4.2018	16,000
Cash at bank as on 1.4.2018	28,000
Subscriptions (including ₹ 11,000 for 2017-18)	60,000
Donations for building	2,90,000
Miscellaneous expenses	98,000
Locker rent	32,000
Entrance fees	41,000

[3 marks]

Solution:

Concept:

- A Receipts and Payments Account summarises actual cash and bank receipts and payments during the year, irrespective of their capital or revenue nature.
- It begins with opening cash and bank balances and ends with the closing cash and bank balance; receipts are debited and payments are credited.

Step 1: Classify the cash movements Record the opening cash of Rs 16,000 and opening bank balance of Rs 28,000 on the receipts side. Include the full subscriptions of Rs 60,000: the Rs 11,000 relating to 2017–18 was received during this year and is therefore not deducted. Building donations are also included, despite being capital receipts. Locker rent and entrance fees are cash receipts, while miscellaneous expenses are payments.

Step 2: Prepare the account **Shyamji Charitable Society**
Receipts and Payments Account for the year ended 31st March, 2019

Dr. Receipts	Rs	Payments Cr.	Rs
To Balance b/d:		By Miscellaneous expenses	98,000
Cash in hand	16,000	By Balance c/d	3,69,000
Cash at bank	28,000	(Cash and bank)	
To Subscriptions	60,000		
To Donations for building	2,90,000		
To Locker rent	32,000		
To Entrance fees	41,000		
Total	**4,67,000**	**Total**	**4,67,000**

Step 3: Verify the closing balance **Working Notes**

Total funds available are Rs $16,000 + 28,000 + 60,000 + 2,90,000 + 32,000 + 41,000 = 4,67,000$.

Thus, the closing balance is Rs $4,67,000 - 98,000 = 3,69,000$. The split between closing cash and bank is not given, so their combined balance is shown.

Step 4: Conclusion The Receipts and Payments Account balances at Rs 4,67,000 on each side, with closing cash and bank balances totalling Rs 3,69,000.

Quick Tip to Solve: Include the full Rs 60,000 subscriptions and the building donation: this account records cash movements, regardless of period or nature.

OR

14. From the given information of a hospital, calculate the amount of medicines consumed during the year 2018-19:

Particulars	Amount (₹)
Payment for purchase of medicines	5,10,000
Creditors for medicines purchased on 1.4.2018	34,000
Creditors for medicines purchased on 31.3.2019	29,000
Stock of Medicines on 1.4.2018	86,000
Stock of Medicines on 31.3.2019	39,000
Advance to suppliers of medicines on 1.4.2018	26,000
Advance to suppliers of medicines on 31.3.2019	32,000

[3 marks]

Solution:

Concept:

- Medicines consumed equal opening stock plus medicines purchased during the year less closing stock.
- To convert cash payments into purchases, add closing creditors and opening advances, and subtract opening creditors and closing advances.

Step 1: Convert payments into purchases **Working Notes**

The payment of Rs 5,10,000 includes settlement of opening creditors of Rs 34,000 and a closing advance of Rs 32,000, neither of which represents medicines purchased for this year. Remove both. Add closing creditors of Rs 29,000, representing this year's purchases not yet paid for, and the opening advance of Rs 26,000 adjusted against purchases during this year.

$$\begin{aligned} \text{Purchases} &= 5,10,000 + 29,000 - 34,000 \\ &\quad + 26,000 - 32,000 \\ &= \text{Rs } 4,99,000. \end{aligned}$$

Step 2: Adjust purchases for the change in stock Opening stock was available for use in addition to this year's purchases. Closing stock remains unused and must be deducted. The calculation is:

Statement of Medicines Consumed for 2018–19

Particulars	Amount (Rs)
Opening stock of medicines	86,000
Add: Purchases during the year	4,99,000
Medicines available for consumption	5,85,000
Less: Closing stock of medicines	(39,000)
Medicines consumed	**5,46,000**

As a check, the stock decreased by Rs 47,000, so consumption exceeds purchases by Rs 47,000. The creditors and advance adjustments affect purchases; the stock adjustment then determines the portion actually consumed.

Step 3: Conclusion The amount of medicines consumed during 2018–19 is Rs 5,46,000.

Quick Tip to Solve: First adjust payments for creditors and supplier advances; only then add opening stock and deduct closing stock to find consumption.

15. From the given Receipts and Payments Account and additional information of Friends Club for the year ended 31st March, 2019, prepare Income and Expenditure Account for the year ending 31st March, 2019.

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

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	50,400	By Furniture (Purchased on 1.12.2018)	1,20,000
To Donations	44,000	By Salaries	1,00,000
To Sale of old sports material	2,000	By Secretary's honorarium	4,000
To Subscriptions : 2017-18 1,600 2018-19 60,000 2019-20 5,000	66,600	By Books	44,000
To Entrance fees	1,20,000	By Balance c/d	15,000
	2,83,000		2,83,000

Additional Information :

(i) On 1st April, 2018 the Club had the following balances of assets and liabilities :

Furniture ₹ 1,00,000; Subscriptions in arrears ₹ 2,000 and Outstanding Salary ₹ 6,000.

(ii) The Club had 75 members each paying an annual subscription of ₹ 1,000.

(iii) Charge depreciation on Furniture @ 10% p.a. [4 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue income and revenue expenditure relating to the current year on the accrual basis; cash balances and capital purchases are excluded.

- Subscription income equals the annual subscription due from members. Previous-year collections and subscriptions received for the following year are not current-year income.
- Depreciation is charged for the period an asset is held. General donations and entrance fees are treated as revenue receipts when no specific restriction or capitalisation instruction is given.

Step 1: Working Notes: determine subscription income There are 75 members paying Rs 1,000 each, so the subscription earned for 2018–19 is

$$75 \times 1,000 = \text{Rs } 75,000.$$

Of this, Rs 60,000 has been received and Rs 15,000 remains outstanding for the current year. The Rs 1,600 collected for 2017–18 reduces opening subscription arrears and the Rs 5,000 received for 2019–20 is income received in advance. Neither is included in the current year's income. The unpaid Rs 400 of opening arrears also remains a receivable; there is no instruction to write it off.

Step 2: Working Notes: adjust salary and depreciation Salaries paid include the opening outstanding salary of Rs 6,000. Therefore,

$$\text{Current-year salary} = 1,00,000 - 6,000 = \text{Rs } 94,000.$$

Existing furniture is depreciated for the full year, while furniture purchased on 1st December, 2018 is depreciated for four months:

$$\text{Old furniture depreciation} = 1,00,000 \times 10\% = 10,000,$$
$$\text{New furniture depreciation} = 1,20,000 \times 10\% \times \frac{4}{12} = 4,000,$$
$$\text{Total depreciation} = \text{Rs } 14,000.$$

Furniture purchased and books purchased are capital expenditure. Opening and closing cash balances are assets. They do not enter this account. Sale of old sports material is revenue income.

Step 3: Prepare the Income and Expenditure Account **Income and Expenditure Account of Friends Club**
for the year ended 31st March, 2019

Dr. Expenditure	Rs	Cr. Income	Rs
To Salaries	94,000	By Donations	44,000
To Secretary's honorarium	4,000	By Sale of old sports material	2,000
To Depreciation on furniture	14,000	By Subscriptions	75,000
To Surplus (transferred to Capital Fund)	1,29,000	By Entrance fees	1,20,000
Total	**2,41,000**	**Total**	**2,41,000**

Step 4: Conclusion Total revenue income is Rs 2,41,000 and revenue expenditure is Rs 1,12,000. The surplus for the year is $2,41,000 - 1,12,000 = \boxed{\text{Rs } 1,29,000}$, transferred to the Capital Fund.

Quick Tip to Solve: Start subscription income with 75 members times Rs 1,000; then subtract opening salary dues from salary paid and depreciate the December furniture for only four months.

16. Veena and Somesh were partners in a firm with capitals of ₹ 1,00,000 and ₹ 80,000 respectively. They admitted Nisha on 1st April, 2019 as a new partner for 1/4th share in the future profits of the firm. Nisha brought ₹ 90,000 as her capital. Nisha acquired her share as 1/12th from Veena and the remaining from Somesh. Calculate the value of goodwill of the firm and pass the necessary journal entries on Nisha's admission. [4 marks]

Solution:

Concept:

- When an incoming partner's capital and profit share imply a total firm value exceeding the aggregate actual capitals, the difference is hidden goodwill.
- The incoming partner compensates the sacrificing partners for her share of goodwill in their sacrificing ratio. The old capital ratio does not determine this compensation.
- If only capital is brought in and no separate premium is paid, debit the incoming partner's capital account for her share of goodwill and credit the sacrificing partners' capital accounts.

Step 1: Working Notes: calculate the firm's hidden goodwill Nisha contributes Rs 90,000 for a one-fourth share in future profits. The total value of the firm implied by this contribution is

$$90,000 \times \frac{4}{1} = \text{Rs } 3,60,000.$$

The aggregate actual capital after her contribution, before goodwill adjustment, is

$$1,00,000 + 80,000 + 90,000 = \text{Rs } 2,70,000.$$

The excess of the implied value over actual capital represents goodwill:

$$\text{Goodwill} = 3,60,000 - 2,70,000 = \text{Rs } 90,000.$$

Nisha's share of this goodwill is $90,000 \times \frac{1}{4} = \text{Rs } 22,500$. Her cash contribution is stated to be capital, so a separate cash premium must not be invented.

Step 2: Working Notes: determine the sacrificing ratio Veena gives up $\frac{1}{12}$ and Somesh supplies the balance of Nisha's share:

$$\text{Somesh's sacrifice} = \frac{1}{4} - \frac{1}{12} = \frac{2}{12} = \frac{1}{6}.$$

Thus Veena and Somesh sacrifice in the ratio

$$\frac{1}{12} : \frac{2}{12} = 1 : 2.$$

They must receive goodwill compensation of

$$\text{Veena} = 22,500 \times \frac{1}{3} = \text{Rs } 7,500,$$
$$\text{Somesh} = 22,500 \times \frac{2}{3} = \text{Rs } 15,000.$$

The sacrifices total $\frac{3}{12} = \frac{1}{4}$, exactly Nisha's profit share. No old profit-sharing ratio is needed because both sacrifices can be calculated directly.

Step 3: Record the admission entries **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	Bank A/c Dr. To Nisha's Capital A/c (Being capital brought in by Nisha on admission)		90,000	 90,000
1-4-2019	Nisha's Capital A/c Dr. To Veena's Capital A/c To Somesh's Capital A/c (Being Nisha's share of goodwill adjusted in favour of the sacrificing partners in the ratio 1:2)		22,500	 7,500 15,000

Each entry balances. The goodwill adjustment merely transfers Rs 22,500 between the partners' capitals; it neither changes total capital nor creates a goodwill asset.

Step 4: Conclusion Goodwill of the firm is $\boxed{\text{Rs } 90,000}$. Nisha's capital is debited by Rs 22,500, while Veena and Somesh are credited by Rs 7,500 and Rs 15,000 respectively. Their closing capitals after these entries are Rs 1,07,500, Rs 95,000 and Rs 67,500 for Veena, Somesh and Nisha respectively.

Quick Tip to Solve: Multiply Nisha's capital by four to find implied firm value, subtract all three actual capitals, and distribute only her one-fourth share of goodwill in the sacrifice ratio 1:2.

OR

16. Asha, Rina and Chahat were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2019 was as follows:

Balance Sheet of Asha, Rina and Chahat as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	12,00,000	Plant and Machinery	14,80,000
General Reserve	2,00,000	Stock	2,20,000
Capitals:		Sundry Debtors 2,60,000	
Asha 3,00,000		Less Provision for doubtful debts 20,000	2,40,000
Rina 2,00,000		Bank	60,000
Chahat 1,00,000	6,00,000		
Total	20,00,000	Total	20,00,000

Asha, Rina and Chahat decided to share future profits equally with effect from 1st April, 2019. For this, it was agreed that:

(i) Goodwill of the firm be valued at Rs 1,50,000.

(ii) Bad debts amounted to Rs 40,000. A provision for doubtful debts was to be made @ 5% on debtors.

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

Solution:

Concept:

- On a change in profit-sharing ratio, accumulated reserves belong to the partners in their old ratio. Revaluation profit or loss is also transferred in that ratio.
- For goodwill adjustment without raising a goodwill account, debit the gaining partner and credit the sacrificing partners. Compensation equals the value of goodwill multiplied by the share gained or sacrificed.
- Bad debts reduce gross debtors before the new provision is calculated. Revaluation bears the bad debts and the change in the existing provision.

Step 1: Working Notes: Calculate sacrifice and goodwill adjustment The old ratio is $2:2:1$, and the new ratio is $1:1:1$.

$$\text{Asha's sacrifice} = \frac{2}{5} - \frac{1}{3} = \frac{1}{15},$$
$$\text{Rina's sacrifice} = \frac{2}{5} - \frac{1}{3} = \frac{1}{15},$$
$$\text{Chahat's gain} = \frac{1}{3} - \frac{1}{5} = \frac{2}{15}.$$

Thus, Asha and Rina sacrifice equally. Each receives goodwill compensation of Rs $1,50,000 \times 1/15 =$ Rs $10,000$. Chahat is debited with Rs $1,50,000 \times 2/15 =$ Rs $20,000$. This is an adjustment among capitals; goodwill is not retained as an asset.

Step 2: Working Notes: Allocate reserve and calculate the revaluation loss Distribute the General Reserve of Rs 2,00,000 in the old ratio: Asha Rs 80,000, Rina Rs 80,000 and Chahat Rs 40,000.

$$\text{Remaining debtors} = 2,60,000 - 40,000 = \text{Rs } 2,20,000,$$
$$\text{New provision} = 2,20,000 \times 5\% = \text{Rs } 11,000,$$
$$\text{Decrease in provision} = 20,000 - 11,000 = \text{Rs } 9,000,$$
$$\text{Revaluation loss} = 40,000 - 9,000 = \text{Rs } 31,000.$$

The decrease in provision is a revaluation credit, offsetting part of the bad-debt loss. The net loss is borne in the old ratio: Asha Rs 12,400, Rina Rs 12,400 and Chahat Rs 6,200. Net debtors become $2,20,000 - 11,000 =$ Rs $2,09,000$, a decline of Rs 31,000 from their earlier net value of Rs 2,40,000, confirming the loss.

Step 3: Record reserve and goodwill adjustments **Journal of Asha, Rina and Chahat (1st April, 2019)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr. To Asha's Capital A/c To Rina's Capital A/c To Chahat's Capital A/c (Being general reserve distributed in the old ratio of 2:2:1)		2,00,000	 80,000 80,000 40,000
	Chahat's Capital A/c Dr. To Asha's Capital A/c To Rina's Capital A/c (Being gaining partner compensating sacrificing partners for goodwill)		20,000	 10,000 10,000

Step 4: Record the debtors adjustment and transfer the loss **Journal of Asha, Rina and Chahat (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr. To Sundry Debtors A/c (Being bad debts written off on revaluation)		40,000	 40,000
	Provision for Doubtful Debts A/c Dr. To Revaluation A/c (Being existing provision reduced from Rs 20,000 to Rs 11,000)		9,000	 9,000
	Asha's Capital A/c Dr. Rina's Capital A/c Dr. Chahat's Capital A/c Dr. To Revaluation A/c (Being revaluation loss transferred in the old ratio of 2:2:1)		12,400 12,400 6,200	 31,000

Step 5: Conclusion Chahat compensates Asha and Rina by Rs 10,000 each for goodwill. General Reserve is distributed as Rs 80,000, Rs 80,000 and Rs 40,000, while the revaluation loss of Rs 31,000 is charged as Rs 12,400, Rs 12,400 and Rs 6,200 respectively. The above entries record all adjustments.

Quick Tip to Solve: Calculate the 5% provision after writing off Rs 40,000 from gross debtors; distribute the reserve and revaluation loss in 2:2:1, not the new equal ratio.

17. Neena and Sara were partners in a firm with fixed capitals of ₹ 5,00,000 and ₹ 4,00,000 respectively. It was discovered that interest on capital @ 6% p.a. was credited to the partners for the two years ending 31st March, 2018 and 31st March, 2019 whereas there was no such provision in the partnership deed. Their profit sharing ratio during the last two years was:

2017-18: 4 : 5

2018-19: 5 : 1

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

Solution:

Concept:

- Interest on capital is allowed only when the partnership deed provides for it. Interest wrongly credited must be reversed and the resulting increase in divisible profit allocated in the applicable profit-sharing ratio.
- Under the fixed capital method, adjustments for interest and profit shares are made through partners' current accounts. The fixed capital balances remain unchanged.

Step 1: Working Notes: Calculate the incorrect annual interest Neena's fixed capital is Rs 5,00,000 and Sara's is Rs 4,00,000. The same incorrect annual interest was credited in each of the two years:

$$\begin{aligned}\text{Neena's interest} &= 5,00,000 \times 6\% = \text{Rs } 30,000,\\ \text{Sara's interest} &= 4,00,000 \times 6\% = \text{Rs } 24,000,\\ \text{Total each year} &= 30,000 + 24,000 = \text{Rs } 54,000.\end{aligned}$$

Removing this unauthorised appropriation increases the divisible profit by Rs 54,000 each year. Therefore, merely reversing interest would be incomplete: the same amount must be credited back as profit in each year's own ratio.

Step 2: Working Notes: Compute each year's net adjustment For 2017–18, distribute Rs 54,000 in $4:5$: Neena receives $54,000 \times 4/9 = \text{Rs } 24,000$, and Sara receives $54,000 \times 5/9 = \text{Rs } 30,000$. After reversing their interest, Neena needs a debit of Rs 6,000 and Sara a credit of Rs 6,000. For 2018–19, distribute Rs 54,000 in $5:1$: Neena receives $54,000 \times 5/6 = \text{Rs } 45,000$, and Sara receives $54,000 \times 1/6 = \text{Rs } 9,000$. After reversing interest, Neena needs a credit of Rs 15,000 and Sara a debit of Rs 15,000.

Adjustment Working Statement

Particulars	Neena (Rs)	Sara (Rs)
2017–18: Reverse interest credited	30,000 Dr.	24,000 Dr.
Restore profit in 4:5	24,000 Cr.	30,000 Cr.
Net adjustment for 2017–18	6,000 Dr.	6,000 Cr.
2018–19: Reverse interest credited	30,000 Dr.	24,000 Dr.
Restore profit in 5:1	45,000 Cr.	9,000 Cr.
Net adjustment for 2018–19	15,000 Cr.	15,000 Dr.
Combined net adjustment	9,000 Cr.	9,000 Dr.

Across both years, Neena should receive Rs 69,000 as additional profit against Rs 60,000 of interest wrongly credited, leaving Rs 9,000 due to her. Sara should receive Rs 39,000 against Rs 48,000 already credited, so Rs 9,000 must be debited to her.

Step 3: Pass the combined rectifying entry **Journal of Neena and Sara**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sara's Current A/c Dr. To Neena's Current A/c (Being net adjustment of interest on capital wrongly allowed for 2017–18 and 2018–19, after redistribution of profit in the respective ratios)		9,000	 9,000

The debit and credit are equal. Current accounts are used because the question expressly states that capitals are fixed; there is no change in the capital invested or in total partners' funds.

Step 4: Conclusion Debit Sara's Current Account by Rs 9,000 and credit Neena's Current Account by Rs 9,000 to rectify the two years' error through one adjustment entry.

Quick Tip to Solve: Work out each year separately when the profit-sharing ratio changes, then net the adjustments; fixed capitals require the final entry in current accounts.

18. Aan, Shaan and Mahan were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2019 their Balance Sheet was as follows :

Balance Sheet of Aan, Shaan and Mahan as at 31st March, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	1,20,000	Furniture	3,70,000
Capitals :		Stock	1,50,000
Aan 2,00,000		Debtors	75,000
Shaan 3,00,000		Bank	1,25,000
Mahan 1,00,000	6,00,000		
	7,20,000		7,20,000

Mahan died on 1st December, 2019. The following terms were agreed upon on Mahan's death :

(i) Goodwill of the firm was valued at Rs 80,000.

(ii) Profit for the year 2019-20 be taken as having accrued at the same rate as the previous year. Profits for the year 2018-19 were Rs 60,000.

(iii) Half the amount was paid to Mahan's executors immediately.

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

Solution:

Concept:

- A deceased partner's capital is credited with his share of goodwill and his share of profit up to the date of death. The resulting amount belongs to his executors.
- Continuing partners compensate the deceased partner for goodwill in their gaining ratio. With no new ratio specified, Aan and Shaan continue in their old relative ratio of $2 : 2 = 1 : 1$.
- Profit to the date of death is estimated as previous annual profit multiplied by the elapsed fraction of the year and the deceased partner's profit share. Profit and Loss Suspense Account is debited for this estimated profit.

Step 1: Working Notes: determine goodwill and profit adjustments Mahan's share in profits is $1/5$. Aan and Shaan each have a new share of $1/2$, so each gains $1/2 - 2/5 = 1/10$. Their gaining ratio is therefore $1 : 1$.

$$\text{Mahan's goodwill share} = \text{Rs } 80,000 \times \frac{1}{5} = \text{Rs } 16,000.$$

Aan and Shaan bear Rs 8,000 each. Goodwill is adjusted directly through capital accounts; no goodwill asset is raised. From 1st April to 1st December, 2019, eight months have elapsed. Hence:

$$\text{Mahan's profit share} = \text{Rs } 60,000 \times \frac{8}{12} \times \frac{1}{5} = \text{Rs } 8,000.$$

Step 2: Working Notes: find the amount due to the executors Mahan's opening capital is Rs 1,00,000. There are no stated drawings, revaluation adjustments or reserves to adjust.

$$\begin{aligned} \text{Total due} &= 1,00,000 + 16,000 + 8,000 \\ &= \text{Rs } 1,24,000, \\ \text{Immediate payment} &= 1,24,000 \times \frac{1}{2} = \text{Rs } 62,000. \end{aligned}$$

First transfer the full amount due to the executors' account, then debit that account for the bank payment. The unpaid half remains a credit balance due to the executors.

Step 3: Record the necessary journal entries **Journal of Aan, Shaan and Mahan**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Dec. 2019	Aan's Capital A/c Dr.		8,000	
	Shaan's Capital A/c Dr.		8,000	
	To Mahan's Capital A/c			16,000
	(Being Mahan's share of goodwill adjusted in the gaining ratio of 1:1)			
1 Dec. 2019	Profit and Loss Suspense A/c Dr.		8,000	
	To Mahan's Capital A/c			8,000
	(Being estimated profit for eight months credited to Mahan)			
1 Dec. 2019	Mahan's Capital A/c Dr.		1,24,000	
	To Mahan's Executors' A/c			1,24,000
	(Being total amount due transferred to the executors)			
1 Dec. 2019	Mahan's Executors' A/c Dr.		62,000	
	To Bank A/c			62,000
	(Being half of the amount due paid immediately)			

Step 4: Conclusion Mahan's executors are entitled to Rs 1,24,000. Rs 62,000 is paid immediately, leaving Rs 62,000 payable to them. Each entry has equal debit and credit amounts.

Quick Tip to Solve: Count April through November as eight months; add goodwill and accrued profit to Mahan's capital before taking half for the payment.

19. Pass the necessary journal entries for the issue of debentures for the following transactions:

(i) Anand Ltd. issued 800, 9% Debentures of ₹ 500 each at a premium of 20%, to the vendors for machinery purchased from them costing ₹ 4,80,000.

(ii) Dawar Ltd. issued 5,000, 7% Debentures of ₹ 200 each at a premium of 5%, redeemable at a premium of 10%.

(iii) Novelty Ltd. issued 1,000, 8% Debentures of ₹ 100 each at a discount of 5%, redeemable at a premium of 10%. [6 marks]

Solution:

Concept:

- Debentures Account is always credited with the nominal value issued. An issue premium is credited separately to Securities Premium Reserve Account.
- Loss on Issue of Debentures includes the discount allowed at issue and any premium payable on redemption. Premium on Redemption of Debentures Account is credited for the additional redemption liability.
- Debentures issued to a vendor settle a purchase consideration; no bank receipt arises. For a cash issue, Bank Account is debited with the amount actually received.

Step 1: Record Anand Ltd.'s purchase and settlement **Working Notes**

Face value issued $= 800 \times$ Rs $500 =$ Rs $4,00,000$. Issue premium $= 4,00,000 \times 20\% =$ Rs $80,000$. Thus the issue value is Rs 4,80,000, exactly equal to the machinery purchase consideration. First recognise the machinery and the vendor liability, then discharge that liability through debentures.

Journal of Anand Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Machinery A/c Dr. To Vendors' A/c (Being machinery purchased from vendors)		4,80,000	 4,80,000
	Vendors' A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being 800 debentures of Rs 500 issued at 20% premium to settle the purchase price)		4,80,000	 4,00,000 80,000

Step 2: Record Dawar Ltd.'s cash issue **Working Notes**

Nominal value $= 5,000 \times$ Rs $200 =$ Rs $10,00,000$. Issue premium $= 10,00,000 \times 5\% =$ Rs $50,000$, so cash received is Rs 10,50,000. Redemption premium $= 10,00,000 \times 10\% =$ Rs $1,00,000$. This premium creates a loss on issue and a corresponding liability, even though the issue itself is at a premium.

Journal of Dawar Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		10,50,000	
	Loss on Issue of Debentures A/c Dr.		1,00,000	
	To 7% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			50,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(Being 5,000 debentures of Rs 200 issued at 5% premium and redeemable at 10% premium)			

Debits and credits each total Rs 11,50,000.

Step 3: Record Novelty Ltd.'s discounted issue **Working Notes**

Nominal value $= 1,000 \times$ Rs $100 =$ Rs $1,00,000$. Issue discount is Rs 5,000, so Bank receives Rs 95,000. Redemption premium is Rs 10,000.

$$\text{Loss on issue} = 5,000 + 10,000 = \text{Rs } 15,000.$$

The discount reduces the cash received, while the redemption premium increases the future amount payable. Both form part of the loss recognised at issue.

Journal of Novelty Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		95,000	
	Loss on Issue of Debentures A/c Dr.		15,000	
	To 8% Debentures A/c			1,00,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being 1,000 debentures of Rs 100 issued at 5% discount and redeemable at 10% premium)			

Debits and credits each total Rs 1,10,000. The stated 9%, 7% and 8% rates are interest rates; no interest entry is required for recording these issues.

Step 4: Conclusion Anand Ltd. settles Rs 4,80,000 through debentures and premium. Dawar Ltd. receives Rs 10,50,000 and records a loss on issue of Rs 1,00,000. Novelty Ltd. receives Rs 95,000 and records a loss on issue of Rs 15,000.

Quick Tip to Solve: Credit Debentures at face value; calculate issue premium, issue discount and redemption premium separately before balancing each entry.

OR

19. (i) On 1st April, 2019, Bright Ltd. issued 4,00,000, 6% Debentures of ₹ 100 each at a discount of 5%, redeemable after three years. The amount per debenture was payable as follows: On Application – ₹ 80 per debenture; On Allotment – Balance. The debentures were fully subscribed and all money was duly received. Pass necessary journal entries for issue of debentures.

(ii) Disha Ltd. took over assets of ₹ 8,00,000 and liabilities of ₹ 3,00,000 from Kriti Ltd. for a purchase consideration of ₹ 6,00,000. The payment was made by issue of 9% Debentures of ₹ 100 each at 20% premium. Pass the necessary journal entries for the above transactions in the books of Disha Ltd. [6 marks]

Solution:

Concept:

- Debentures are credited at face value; an issue discount is debited separately and an issue premium is credited to Securities Premium Reserve.
- Application and allotment accounts record the instalments due and are cleared when the money is received or transferred.
- Goodwill equals purchase consideration less net assets acquired. Debentures issued to a vendor equal consideration divided by issue price per debenture.

Step 1: Calculate the issue amounts for Bright Ltd. **Working Notes:** The issue price is face value less the issue discount. Thus, each debenture is issued for $100 - 5 = \text{Rs } 95$. After application money of Rs 80, the amount payable on allotment is $95 - 80 = \text{Rs } 15$ per debenture.

$$\begin{aligned} \text{Face value} &= 4,00,000 \times 100 = \text{Rs } 4,00,00,000, \\ \text{Application money} &= 4,00,000 \times 80 = \text{Rs } 3,20,00,000, \\ \text{Allotment money} &= 4,00,000 \times 15 = \text{Rs } 60,00,000, \\ \text{Discount on issue} &= 4,00,000 \times 5 = \text{Rs } 20,00,000. \end{aligned}$$

The debentures are credited at their full face value. The discount is a separate debit; it is not part of the cash collected. Since no redemption premium is specified, no premium on redemption is recorded.

Step 2: Record application and allotment in Bright Ltd. Journal of Bright Ltd. (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2019	Bank A/c Dr. To Debenture Application A/c (Being application money received on 4,00,000 debentures at Rs 80 each)		3,20,00,000	 3,20,00,000
	Debenture Application A/c Dr. To 6% Debentures A/c (Being application money transferred to debentures)		3,20,00,000	 3,20,00,000
	Debenture Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 6% Debentures A/c (Being allotment due at Rs 15 and discount recorded at Rs 5 per debenture)		60,00,000 20,00,000	 80,00,000
	Bank A/c Dr. To Debenture Allotment A/c (Being allotment money received in full)		60,00,000	 60,00,000

Step 3: Determine goodwill and the number of Disha Ltd. debentures **Working Notes:** Net assets taken over are assets less the liabilities assumed:

$$\text{Net assets} = 8,00,000 - 3,00,000 = \text{Rs } 5,00,000.$$

The agreed consideration is higher than the net assets, so the difference is goodwill:

$$\text{Goodwill} = 6,00,000 - 5,00,000 = \text{Rs } 1,00,000.$$

Each debenture settles Rs $100 + 20 = 120$ of the vendor's claim. Therefore,

$$\text{Number of debentures} = \frac{6,00,000}{120} = 5,000,$$
$$\text{Debenture face value} = 5,000 \times 100 = \text{Rs } 5,00,000,$$
$$\text{Securities premium} = 5,000 \times 20 = \text{Rs } 1,00,000.$$

The 9% rate determines interest, not the issue price or number of debentures.

Step 4: Record the takeover and payment in Disha Ltd. Journal of Disha Ltd. (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Kriti Ltd. A/c (Being assets and liabilities taken over from Kriti Ltd. for Rs 6,00,000)		8,00,000 1,00,000	 3,00,000 6,00,000
	Kriti Ltd. A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being 5,000 debentures of Rs 100 each issued at 20% premium to settle the purchase consideration)		6,00,000	 5,00,000 1,00,000

Step 5: Conclusion Bright Ltd. records 6% Debentures of Rs 4,00,00,000, cash receipts of Rs 3,80,00,000 and issue discount of Rs 20,00,000. Disha Ltd. records goodwill of Rs 1,00,000 and settles Kriti Ltd. by issuing 5,000 debentures, with face value Rs 5,00,000 and securities premium Rs 1,00,000.

Quick Tip to Solve: For Bright, subtract both the Rs 5 discount and Rs 80 application from Rs 100 to find allotment. For Disha, divide consideration by Rs 120, not by face value Rs 100.

20. Namita and Akhil were partners in a firm sharing profits and losses in the ratio of 4 : 3. The firm was dissolved on 31st March, 2019. After transfer of assets (other than cash) and external liabilities to Realization Account, the following transactions took place :

(i) Akhil undertook to pay a bank loan of ₹ 49,000.

(ii) There was an old computer which had been completely written off from the books. It was taken over by Namita at ₹ 3,000.

(iii) Investments of ₹ 39,000 were sold in the open market for ₹ 32,000. A commission of ₹ 600 was paid to the broker for the same.

(iv) Creditors worth ₹ 46,000 accepted stock of ₹ 40,000 at a discount of 10% and the balance was paid to them by cheque.

(v) Akhil was appointed to look after the dissolution process for which he was allowed a remuneration of ₹ 13,000. He agreed to bear dissolution expenses. Actual expenses incurred by Akhil were ₹ 21,000 which were paid by the firm.

(vi) Profit and Loss Account showed a credit balance of ₹ 14,000 which was distributed between the partners.

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

Solution:

Concept:

- After assets and external liabilities have been transferred, realisation proceeds are credited and settlement payments are debited to Realisation Account.

- An asset taken over by a partner debits that partner's capital; a liability undertaken by a partner credits that partner's capital.
- Expenses borne by a partner but paid by the firm are debited to that partner's capital. Accumulated profits are distributed in the old profit-sharing ratio.

Step 1: Record the liability undertaken and unrecorded asset taken over All external liabilities have already been transferred to Realisation Account. Akhil's undertaking to settle the bank loan therefore debits Realisation and credits his capital. Namita receives the unrecorded computer, so her capital is debited and Realisation is credited; no asset-transfer entry is needed for an asset already written off.

Journal of Namita and Akhil (31 March 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Realisation A/c Dr.		49,000	
	To Akhil's Capital A/c			49,000
	(Being bank loan undertaken by Akhil)			
	Namita's Capital A/c Dr.		3,000	
	To Realisation A/c			3,000
	(Being unrecorded computer taken over by Namita)			

Step 2: Record investment proceeds and the broker commission The Rs 39,000 book value has already been transferred to Realisation. Record the Rs 32,000 sale proceeds and the Rs 600 commission separately. Their net cash effect is an inflow of Rs 31,400; there is no further credit to Investments Account.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Bank A/c Dr.		32,000	
	To Realisation A/c			32,000
	(Being investments sold in the open market)			
	Realisation A/c Dr.		600	
	To Bank A/c			600
	(Being commission paid to the broker on sale of investments)			

Step 3: Calculate and record the cash paid to creditors **Working Notes:** Creditors accept stock at a discount on its stated value:

$$\text{Agreed stock value} = 40,000 \times \frac{90}{100} = \text{Rs } 36,000,$$

$$\text{Balance paid by cheque} = 46,000 - 36,000 = \text{Rs } 10,000.$$

Both stock and creditors have already been transferred to Realisation. Consequently, no separate entry is passed for stock accepted by creditors; only the balance paid by cheque is recorded.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Realisation A/c Dr.		10,000	
	To Bank A/c			10,000
	(Being balance paid to creditors after stock was accepted at Rs 36,000)			

Step 4: Record Akhil remuneration and expenses paid on his behalf The agreed remuneration of Rs 13,000 is charged to Realisation and credited to Akhil. As Akhil agreed to bear dissolution expenses, the actual Rs 21,000 paid by the firm is recoverable from him and is debited to his capital. Charging these expenses to Realisation again would incorrectly make the firm bear a cost assigned to Akhil.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Realisation A/c Dr.		13,000	
	To Akhil's Capital A/c			13,000
	(Being remuneration allowed to Akhil for conducting dissolution)			
	Akhil's Capital A/c Dr.		21,000	
	To Bank A/c			21,000
	(Being dissolution expenses borne by Akhil but paid by the firm)			

Step 5: Distribute the accumulated profit in the old ratio **Working Notes:** The credit balance of Profit and Loss Account is an accumulated profit. Distribute it directly to the partners' capital accounts in the profit-sharing ratio $4:3$; it does not enter Realisation Account.

$$\text{Namita's share} = 14,000 \times \frac{4}{7} = \text{Rs } 8,000,$$

$$\text{Akhil's share} = 14,000 \times \frac{3}{7} = \text{Rs } 6,000.$$

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar. 2019	Profit and Loss A/c Dr.		14,000	
	To Namita's Capital A/c			8,000
	To Akhil's Capital A/c			6,000
	(Being accumulated profit distributed in the ratio 4:3)			

Step 6: Conclusion The entries record all six transactions. Creditors receive a cheque for Rs 10,000; Akhil is credited Rs 13,000 for remuneration and debited Rs 21,000 for expenses paid on his behalf. The accumulated profit of Rs 14,000 is credited to Namita and Akhil as Rs 8,000 and Rs 6,000 respectively.

Quick Tip to Solve: Once stock and creditors are transferred to Realisation, record only the Rs 10,000 cash balance for their settlement. Keep Akhil's agreed remuneration separate from expenses that he must bear.

21. Ashish and Nimish were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2019 their Balance Sheet was as follows:

Liabilities	Amount	Assets	Amount
Capitals: Ashish 3,10,000 Nimish 2,90,000	6,00,000	Plant and Machinery	2,90,000
General Reserve	50,000	Furniture	2,20,000
Workmen's Compensation Fund	20,000	Debtors 90,000 Less Provision 1,000	89,000
Creditors	1,10,000	Stock	1,40,000
		Cash	41,000
Total	7,80,000	Total	7,80,000

On 1st April, 2019, Geeta was admitted into the partnership for 1/4th share in the profits on the following terms:

(i) Goodwill of the firm was valued at ₹ 2,00,000.

(ii) Geeta brought ₹ 3,00,000 as her capital and her share of goodwill premium in cash.

(iii) Bad debts amounted to ₹ 2,000. Create a provision for doubtful debts @ 5% on debtors.

(iv) Furniture was found undervalued by ₹ 65,400.

(v) Stock was taken over by Nimish for ₹ 1,30,000.

(vi) The liability against workmen's compensation fund was determined at ₹ 30,000.

(vii) After the above adjustments, the capitals of Ashish and Nimish were to be adjusted taking Geeta's capital as the base. Excess or shortage was to be adjusted by opening current accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the firm after Geeta's admission. [8 marks]

Solution:

Concept:

- Revaluation records changes in asset values and liabilities; its profit belongs to the old partners in their old ratio of $3 : 2$.
- Goodwill premium compensates the sacrificing partners. General reserve belongs entirely to Ashish and Nimish; an excess compensation liability is a revaluation loss.
- Total capital of the new firm equals the incoming partner's capital divided by her profit share. Transfer a capital deficiency to the debit of the partner's current account when no cash adjustment is required.

Step 1: Working Notes: determine the ratios and adjustments Geeta receives $1/4$; Ashish and Nimish retain their relative ratio because no different arrangement is given. Their new shares are

$$\frac{3}{5} \times \frac{3}{4} = \frac{9}{20}, \qquad \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}, \qquad \text{Geeta} = \frac{5}{20}.$$

Thus the new ratio is $9 : 6 : 5$ and the sacrificing ratio is $3 : 2$. Geeta brings goodwill premium of Rs $2,00,000 \times 1/4 = 50,000$, credited as Rs 30,000 to Ashish and Rs 20,000 to Nimish. General reserve of Rs 50,000 is also distributed as Rs 30,000 and Rs 20,000.

After writing off bad debts, debtors are Rs $90,000 - 2,000 = 88,000$. Required provision is Rs $88,000 \times 5\% = 4,400$. The existing provision is Rs 1,000, so the additional charge is Rs 3,400. Stock taken over for Rs 1,30,000 creates a loss of Rs 10,000 and debits Nimish's capital by Rs 1,30,000. The compensation fund of Rs 20,000 is fully used against the Rs 30,000 claim; the additional Rs 10,000 is charged to revaluation.

Step 2: Prepare the Revaluation Account **Revaluation Account**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Bad Debts	2,000	By Furniture	65,400
To Provision for Doubtful Debts	3,400		
To Stock	10,000		
To Workmen's Compensation Liability	10,000		
To Ashish's Capital (profit)	24,000		
To Nimish's Capital (profit)	16,000		
Total	65,400	Total	65,400

Revaluation profit is Rs $65,400 - 2,000 - 3,400 - 10,000 - 10,000 = 40,000$, distributed in the old ratio $3:2$. The account closes by transferring this profit; it has no balance carried down.

Step 3: Adjust the capitals using Geeta's capital Total capital based on Geeta's contribution is Rs $3,00,000 \div (1/4) = 12,00,000$. Required capitals in the new ratio $9:6:5$ are Rs 5,40,000, Rs 3,60,000 and Rs 3,00,000 respectively.

$$\begin{aligned}\text{Ashish's adjusted capital} &= 3,10,000 + 30,000 + 30,000 + 24,000\\ &= \text{Rs } 3,94,000,\\ \text{Nimish's adjusted capital} &= 2,90,000 + 20,000 + 20,000 + 16,000 - 1,30,000\\ &= \text{Rs } 2,16,000.\end{aligned}$$

Deficiencies of Rs 1,46,000 and Rs 1,44,000 are debited to their respective current accounts and credited to capital. These are debit current-account balances shown on the asset side; they do not change cash.

Step 4: Prepare Partners' Capital Accounts **Partners' Capital Accounts (amounts in Rs)**

Dr.				Cr.			
Particulars	Ashish	Nimish	Geeta	Particulars	Ashish	Nimish	Geeta
To Stock	–	1,30,000	–	By Balance b/d	3,10,000	2,90,000	–
To Balance c/d	5,40,000	3,60,000	3,00,000	By General Reserve	30,000	20,000	–
				By Premium for Goodwill	30,000	20,000	–
				By Revaluation	24,000	16,000	–
				By Cash	–	–	3,00,000
				By Current A/c	1,46,000	1,44,000	–
Total	5,40,000	4,90,000	3,00,000	Total	5,40,000	4,90,000	3,00,000

Step 5: Prepare the balance sheet after admission Cash is Rs $41,000 + 3,00,000 + 50,000 = 3,91,000$; the premium is retained in the business. Furniture becomes Rs $2,20,000 + 65,400 = 2,85,400$, and

net debtors are Rs $88,000 - 4,400 = 83,600$. No stock remains because Nimish takes it over in full.

Balance Sheet of Ashish, Nimish and Geeta as at 1st April, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Partners' Capitals:		Plant and Machinery	2,90,000
Ashish	5,40,000	Furniture	2,85,400
Nimish	3,60,000	Debtors: 88,000	
Geeta	3,00,000	Less: Provision: 4,400	83,600
Total Capitals	12,00,000	Cash	3,91,000
Creditors	1,10,000	Current Accounts (Dr.):	
Workmen's Compensation Liability	30,000	Ashish	1,46,000
		Nimish	1,44,000
Total	13,40,000	Total	13,40,000

Step 6: Conclusion Revaluation profit is Rs 40,000. Closing capitals are Ashish Rs 5,40,000, Nimish Rs 3,60,000 and Geeta Rs 3,00,000. Debit current accounts are Rs 1,46,000 and Rs 1,44,000. The balance sheet totals Rs 13,40,000.

Quick Tip to Solve: Calculate the 5% provision after deducting bad debts. Use Geeta's Rs 3,00,000 for one-fourth share to set total capital, and transfer the old partners' deficiencies to current accounts without changing cash.

OR

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

Liabilities	Amount	Assets	Amount
Capitals: Radha 4,00,000 Manas 3,00,000 Arnav 2,00,000	9,00,000	Furniture	4,60,000
Investment Fluctuation Fund	1,10,000	Investments	2,00,000
Creditors	2,50,000	Stock	2,40,000
		Debtors 2,20,000 Less provision 10,000	2,10,000
		Cash	1,50,000
Total	12,60,000	Total	12,60,000

Manas retired on 1st April, 2019. It was agreed that:

(i) Stock was to be appreciated by 20%.

(ii) Provision for doubtful debts was to be increased to ₹ 15,000.

(iii) Value of furniture was to be reduced by ₹ 3,000.

(iv) Market value of investments was ₹ 1,90,000.

(v) Goodwill of the firm was valued at ₹ 2,00,000 and Manas's share was adjusted in the accounts of Radha and Arnav.

(vi) Manas was paid ₹ 68,000 in cash and the balance was transferred to his loan account.

(vii) Capitals of Radha and Arnav were to be in proportion to their new profit sharing ratio. Surplus/deficit, if any, in their capital accounts was to be adjusted through current accounts.

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

Solution:

Concept:

- On retirement, revaluation profit and accumulated reserves belong to all old partners in their old ratio, here $3:1:1$.
- The retiring partner's goodwill is borne by continuing partners in their gaining ratio. An investment fluctuation fund first absorbs the investment loss; its surplus is distributed in the old ratio.
- After settling the retiring partner, divide the continuing partners' combined adjusted capital in the new ratio and transfer any individual difference to current accounts.

Step 1: Working Notes: calculate the ratios and reserve adjustment Radha and Arnav continue in their old relative ratio $3:1$, since no different ratio is specified. Their gains are

$$\frac{3}{4}-\frac{3}{5}=\frac{3}{20}, \qquad \frac{1}{4}-\frac{1}{5}=\frac{1}{20},$$

so the gaining ratio is $3:1$. Manas's share of goodwill is Rs $2,00,000 \times 1/5 = 40,000$. Credit Manas's capital by Rs 40,000 and debit Radha and Arnav by Rs 30,000 and Rs 10,000 respectively; no goodwill asset is raised.

Investment value falls by Rs $2,00,000 - 1,90,000 = 10,000$. Charge this against the investment fluctuation fund. Distribute the remaining Rs $1,10,000 - 10,000 = 1,00,000$ among Radha, Manas and Arnav as Rs 60,000, Rs 20,000 and Rs 20,000. The investment loss is therefore not charged again to revaluation.

Step 2: Prepare the Revaluation Account Stock appreciation is Rs $2,40,000 \times 20\% = 48,000$. The additional provision is Rs $15,000 - 10,000 = 5,000$; furniture decreases by Rs 3,000. Revaluation profit is Rs $48,000 - 5,000 - 3,000 = 40,000$, shared as Rs 24,000, Rs 8,000 and Rs 8,000.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Provision for Doubtful Debts	5,000	By Stock	48,000
To Furniture	3,000		
To Radha's Capital (profit)	24,000		
To Manas's Capital (profit)	8,000		
To Arnav's Capital (profit)	8,000		
Total	48,000	Total	48,000

The revaluation account closes by transfer of profit and has no balance carried down.

Step 3: Settle Manas and determine the continuing capitals Manas's entitlement is Rs $3,00,000 + 20,000 + 8,000 + 40,000 = 3,68,000$. After payment of Rs 68,000, the remaining Rs 3,00,000 is credited to Manas's Loan Account.

$$\begin{aligned}\text{Radha's adjusted capital} &= 4,00,000 + 60,000 + 24,000 - 30,000\\ &= \text{Rs } 4,54,000,\\ \text{Arnav's adjusted capital} &= 2,00,000 + 20,000 + 8,000 - 10,000\\ &= \text{Rs } 2,18,000.\end{aligned}$$

Their combined capital is Rs $4,54,000 + 2,18,000 = 6,72,000$. In the new ratio $3:1$, required capitals are Rs 5,04,000 and Rs 1,68,000. Radha's shortage of Rs 50,000 is debited to her current account; Arnav's excess of Rs 50,000 is credited to his current account. Neither adjustment affects cash.

Step 4: Prepare Partners' Capital Accounts **Partners' Capital Accounts (amounts in Rs)**

Dr.							Cr.
Particulars	Radha	Manas	Arnav	Particulars	Radha	Manas	Arnav
To Manas's Capital (goodwill)	30,000	–	10,000	By Balance b/d	4,00,000	3,00,000	2,00,000
To Cash	–	68,000	–	By Investment Fluctuation Fund	60,000	20,000	20,000
To Manas's Loan	–	3,00,000	–	By Revaluation	24,000	8,000	8,000
To Current A/c	–	–	50,000	By Radha's Capital	–	30,000	–
To Balance c/d	5,04,000	–	1,68,000	By Arnav's Capital	–	10,000	–
				By Current A/c	50,000	–	–
Total	5,34,000	3,68,000	2,28,000	Total	5,34,000	3,68,000	2,28,000

Step 5: Prepare the reconstituted balance sheet Furniture is Rs $4,60,000 - 3,000 = 4,57,000$, stock is Rs $2,40,000 + 48,000 = 2,88,000$, and net debtors are Rs $2,20,000 - 15,000 = 2,05,000$. Cash after paying Manas is Rs $1,50,000 - 68,000 = 82,000$.

Balance Sheet of Radha and Arnav as at 1st April, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Partners' Capitals:		Furniture	4,57,000
Radha	5,04,000	Investments	1,90,000
Arnav	1,68,000	Stock	2,88,000
Total Capitals	6,72,000	Debtors: 2,20,000	
Arnav's Current A/c	50,000	Less: Provision: 15,000	2,05,000
Manas's Loan	3,00,000	Cash	82,000
Creditors	2,50,000	Radha's Current A/c (Dr.)	50,000
Total	12,72,000	Total	12,72,000

Step 6: Conclusion Revaluation profit is Rs 40,000 and Manas's loan is Rs 3,00,000. Closing capitals are Radha Rs 5,04,000 and Arnav Rs 1,68,000, with Rs 50,000 debit and credit current balances respectively. The balance sheet totals Rs 12,72,000.

Quick Tip to Solve: Use the investment fluctuation fund to cover the Rs 10,000 fall before distributing its surplus. Reallocate the continuing partners' combined adjusted capital in 3:1 only after charging Manas's goodwill.

22. Rathi Ltd. invited applications for issuing 1,00,000 shares of ₹ 10 each at a premium of ₹ 2 per share. Amount per share was payable as follows: On Application – ₹ 4 (including premium ₹ 1); On Allotment – ₹ 4 (including premium ₹ 1); On First and Final Call – Balance.

Applications were received for 1,50,000 shares and allotment was made to the applicants as follows:

(i) Applicants of 80,000 shares were allotted 60,000 shares.

(ii) Applicants of 50,000 shares were allotted 40,000 shares.

(iii) No shares were allotted to the remaining applicants and their application money was returned.

Yatin, who belonged to category (ii) and who had applied for 5,000 shares failed to pay the allotment and call money. His shares were forfeited. Later, half of Yatin's forfeited shares were reissued @ ₹ 18 per share as fully paid up. Pass the necessary journal entries to record the above transactions in the books of Rathi Ltd. [8 marks]

Solution:

Concept:

- Application and allotment each include Rs 3 capital and Rs 1 premium per share. The first and final call is therefore $10 - 3 - 3 =$ Rs 4 per share.
- Excess application money is adjusted towards allotment; for a defaulting shareholder it is applied to the capital component first. On forfeiture, debit called-up share capital and any premium not received, and credit the unpaid instalments and the capital already received.
- On reissue, the premium received is credited to Securities Premium. Only the forfeiture balance attributable to shares actually reissued is transferred to Capital Reserve.

Step 1: Calculate allotment and application adjustments Category (i): excess application money $=$ $(80,000-60,000)\times 4 =$ Rs $80,000$. Category (ii): excess $=$ $(50,000-40,000)\times 4 =$ Rs $40,000$. Thus Rs 1,20,000 is adjusted towards allotment. The rejected applications are for $1,50,000-80,000-50,000 =$ $20,000$ shares; refund $=$ $20,000\times 4 =$ Rs $80,000$. Yatin receives $5,000\times 40,000/50,000 = 4,000$ shares. He paid Rs 20,000 on application; Rs 16,000 is required for his allotted shares, leaving Rs 4,000 towards allotment. His gross allotment is Rs 16,000, so unpaid allotment is Rs 12,000, comprising Rs 8,000 capital and Rs 4,000 premium. His unpaid call is $4,000 \times 4 =$ Rs $16,000$. Capital received from him is $20,000 - 4,000 =$ Rs $16,000$, excluding the application premium.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,50,000 shares)		6,00,000	 6,00,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c To Share Allotment A/c To Bank A/c (Being application money transferred, excess adjusted and rejected applications refunded)		6,00,000	 3,00,000 1,00,000 1,20,000 80,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being allotment due on 1,00,000 shares)		4,00,000	 3,00,000 1,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after excess adjustment and Yatin's default)		2,68,000	 2,68,000

Allotment cash received $= 4,00,000 - 1,20,000 - 12,000 =$ Rs $2,68,000$.

Step 3: Record the call and forfeiture Journal of Rathi Ltd. (call and forfeiture)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call due at Rs 4 per share)		4,00,000	 4,00,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call received except Rs 16,000 from Yatin)		3,84,000	 3,84,000
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share First and Final Call A/c To Share Forfeiture A/c (Being Yatin's 4,000 shares forfeited and unpaid allotment premium reversed)		40,000 4,000	 12,000 16,000 16,000

Step 4: Record reissue and capital profit Half the forfeited shares, $4,000/2 = 2,000$, are reissued. Bank receives $2,000 \times 18 =$ Rs $36,000$. The excess of Rs 8 per share over face value is fresh securities premium; it is not forfeiture profit. Since reissue is above face value, no forfeiture balance is used as discount. The portion transferable to Capital Reserve is $16,000 \times 2,000/4,000 =$ Rs $8,000$.

Journal of Rathi Ltd. (reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (Being 2,000 forfeited shares reissued at Rs 18 as fully paid)		36,000	 20,000 16,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being capital profit on the reissued shares transferred)		8,000	 8,000

Step 5: Conclusion The required entries are recorded above. Capital Reserve increases by Rs 8,000; Rs 8,000 remains in Share Forfeiture for the 2,000 shares not reissued.

Quick Tip to Solve: For Yatin, calculate his actual 4,000-share allotment first; separate the Rs 4,000 application premium from capital received before computing forfeiture profit.

OR

22. Eiko Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 3 per share. The amount was payable as follows: On Application – ₹ 4 per share; On Allotment – ₹ 6 per share (including premium ₹ 3); On First and Final Call – Balance.

Applications were received for 3,00,000 shares and allotment was made on pro-rata basis to all the applicants. Money overpaid on applications was utilised towards sums due on allotment. Sunil, who applied for 6,000 shares failed to pay the allotment money while Rishab holding 2,000 shares paid the first and final call money with allotment. Sunil's shares were forfeited immediately after allotment. Thereafter, first and final call was made and was duly received. Half of the forfeited shares were reissued to Varsha as fully paid for ₹ 9 per share. Pass the necessary journal entries to record the above transactions in the books of Eiko Ltd. [8 marks]

Solution:

Concept:

- Under pro-rata allotment, allotted shares equal applications multiplied by the allotment ratio. Excess application money reduces the amount collectible on allotment.
- Shares forfeited immediately after allotment have only Rs 7 per share called-up capital: Rs 4 application plus Rs 3 allotment. The uncalled Rs 3 is not debited at forfeiture.
- Calls in Advance is a liability until the call becomes due. Reissue discount is debited to Share Forfeiture; the remaining forfeiture profit relating to reissued shares is transferred to Capital Reserve.

Step 1: Compute pro-rata allotment and defaults The allotment ratio is $2,00,000 : 3,00,000 = 2 : 3$. Application receipts are $3,00,000 \times 4 =$ Rs $12,00,000$; Rs 8,00,000 belongs to share capital and Rs 4,00,000 is excess adjusted on allotment. Sunil is allotted $6,000 \times 2/3 = 4,000$ shares. His application payment is Rs 24,000, of which Rs 16,000 is application capital and Rs 8,000 is excess. Gross allotment

due is $4,000 \times 6 =$ Rs $24,000$, so unpaid allotment is Rs 16,000. Adjusting excess first towards the Rs 12,000 capital due on allotment leaves Rs 4,000 capital and the entire Rs 12,000 premium unpaid. The first and final call is $10 - 4 - 3 =$ Rs 3 per share. Rishab pays $2,000 \times 3 =$ Rs $6,000$ in advance. Allotment bank receipt is therefore $12,00,000 - 4,00,000 - 16,000 + 6,000 =$ Rs $7,90,000$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 3,00,000 shares)		12,00,000	 12,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Being application capital transferred and excess adjusted to allotment)		12,00,000	 8,00,000 4,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being allotment due including Rs 3 premium per share)		12,00,000	 6,00,000 6,00,000
	Bank A/c Dr. To Share Allotment A/c To Calls in Advance A/c (Being allotment received except Sunil's arrears, with Rishab's call in advance)		7,90,000	 7,84,000 6,000

Step 3: Forfeit Sunil's shares and make the call Sunil's called-up capital is $4,000 \times 7 =$ Rs $28,000$. His Rs 24,000 application payment is entirely capital received, since the premium was due only on allotment and remains unpaid. After forfeiture, the call is due on $2,00,000 - 4,000 = 1,96,000$ shares: $1,96,000 \times 3 =$ Rs $5,88,000$. The call cash receipt is Rs 5,88,000 less Rs 6,000 already received.

Journal of Eiko Ltd. (forfeiture and call)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Sunil's 4,000 shares forfeited after allotment and unpaid premium reversed)		28,000 12,000	 16,000 24,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being call of Rs 3 due on the remaining 1,96,000 shares)		5,88,000	 5,88,000
	Bank A/c Dr. Calls in Advance A/c Dr. To Share First and Final Call A/c (Being call received and Rishab's advance adjusted)		5,82,000 6,000	 5,88,000

Step 4: Record the reissue and reserve transfer Varsha receives $4,000/2 = 2,000$ fully paid shares. Cash received is $2,000 \times 9 =$ Rs $18,000$; fully paid capital credited is Rs 20,000, so the discount is Rs

2,000. Forfeiture attributable to these shares is $24,000 \times 2,000/4,000 = \text{Rs } 12,000$. The capital profit is therefore $12,000 - 2,000 = \text{Rs } 10,000$.

Journal of Eiko Ltd. (reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 2,000 forfeited shares reissued to Varsha at Rs 9 as fully paid)		18,000 2,000	 20,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on reissued shares transferred to Capital Reserve)		10,000	 10,000

Step 5: Conclusion The required entries are recorded above. Capital Reserve increases by Rs 10,000, while Rs 12,000 remains in Share Forfeiture for the 2,000 shares not reissued.

Quick Tip to Solve: Forfeit Sunil at Rs 7 called up, then calculate the call on only 1,96,000 shares; subtract Rishab's Rs 6,000 advance from the call cash receipt.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

23. 'Prepaid Insurance' appears in the Balance Sheet of a company under the sub-head _____ .

[1 mark]

Solution:

Concept:

- An expense paid for a future accounting period is an asset until the related benefit is consumed.
- Prepaid expenses expected to be utilised during the normal operating cycle are classified under Current Assets; prepaid insurance is shown within Other Current Assets.

Step 1: Identify the nature of the balance Prepaid insurance represents insurance premium already paid for coverage relating to a future period. It is not an expense of the current period because the corresponding insurance benefit has not yet been consumed. It is therefore carried forward as an asset.

Step 2: Select the required sub-head In the company balance sheet, the prepaid amount is included under the main heading Current Assets and the sub-head Other Current Assets. It is not a trade receivable, since it does not arise from a credit sale, and it is not cash or a cash equivalent, since the payment has already been made.

Step 3: Conclusion The blank is **Other Current Assets**.

Quick Tip to Solve: Remember that the question asks for the sub-head: write Other Current Assets, rather than only the broader heading Current Assets.

24. The debt-equity ratio of X Ltd. is 1 : 2. Will 'issue of bonus shares' increase, decrease or not change the ratio ? Give reasons in support of your answer. [1 mark]

Solution:

Concept:

- Debt-equity ratio compares long-term debt with shareholders' funds: Debt-equity ratio = Long-term debt/Shareholders' funds.
- A bonus issue capitalises reserves: share capital increases while reserves decrease by the same amount.

Step 1: Identify the change within equity On issuing bonus shares, the company transfers an amount from eligible reserves to share capital. The issue brings in no fresh cash and does not create a new borrowing.

Step 2: Check both terms of the ratio Shareholders' funds comprise share capital and reserves and surplus. Their total remains unchanged because the increase in share capital is exactly offset by the reduction in reserves. Long-term debt also stays unchanged.

Step 3: Conclusion The debt-equity ratio does not change; it remains $1 : 2$. Both long-term debt and total shareholders' funds are unchanged.

Quick Tip to Solve: For a bonus issue, track total equity rather than share capital alone: the transfer within equity cancels out.

25. For a company manufacturing garments, procurement of raw material, incurrence of manufacturing expenses, sale of garments are classified as _____ activities.

[1 mark]

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Classification depends on the nature of the business; routine production and sales belong to operations.

Step 1: Identify the main business The company manufactures garments. Buying raw material and incurring manufacturing expenses are necessary to produce the goods that it sells in the normal course of business.

Step 2: Classify the production and sales cycle Procurement and manufacturing create the garments, and their sale earns the company its main revenue. All three activities therefore form part of its ordinary operating cycle, rather than acquiring long-term investments or raising finance.

Step 3: Conclusion The blank is filled with **operating activities**.

Quick Tip to Solve: Identify what the enterprise normally produces and sells; its routine purchases, production costs and sales are operating activities.

26. Paid ₹ 7,00,000 to acquire shares in K.L. Ltd. and received a dividend of ₹ 20,000 after acquisition. These transactions will result in [1 mark]

(A) Cash used in investing activities ₹ 7,00,000.

(B) Cash generated from financing activities ₹ 7,20,000.

(C) Cash generated from financing activities ₹ 6,80,000.

(D) Cash used in investing activities ₹ 6,80,000.

Correct Answer: (D) Cash used in investing activities ₹ 6,80,000.

Solution:

Concept:

- For a non-financial enterprise, purchase of shares held as investments is an investing cash outflow.
- Dividend received on those investments is an investing cash inflow; net cash flow is inflow less outflow.

Step 1: Classify the two cash flows The Rs 7,00,000 paid purchases shares in another company and is an investing outflow. The Rs 20,000 dividend received is a return on that investment and is an investing inflow.

Step 2: Calculate the net effect and test the options

$$\text{Net investing cash flow} = 20,000 - 7,00,000 = -6,80,000.$$

The negative sign denotes cash used. Option (A) omits the dividend inflow. Options (B) and (C) incorrectly call the transactions financing activities and show cash generated; buying another company's shares does not raise the investor's finance.

Step 3: Conclusion Cash used in investing activities is Rs 6,80,000. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish buying another company's shares from issuing your own; deduct the dividend received from the investment outflow.

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

(A) Balance Sheet

(B) Cash Flow Statement

(C) Statement of Profit and Loss

(D) All of the above

Correct Answer: Both (A) and (C) are basic financial statements, not analysis tools; no unique option is correct.

Solution:

Concept:

- Basic financial statements provide the information on which analysis is performed.
- Tools of analysis include comparative statements, common-size statements, ratio analysis, trend analysis and cash flow analysis.

Step 1: Distinguish statements from tools A Balance Sheet, option (A), presents assets, equity and liabilities at a point in time. A Statement of Profit and Loss, option (C), reports income and expenses for a period. As named here, these are basic financial statements, rather than tools of financial statement analysis.

Step 2: Check every printed alternative Cash Flow Statement, option (B), is treated as a tool of financial analysis in the CBSE classification. Therefore, option (D), all of the above, cannot be correct. Both (A) and (C) satisfy the wording "not a tool", so the printed alternatives do not support a unique answer.

Step 3: Conclusion Both (A) Balance Sheet and (C) Statement of Profit and Loss are defensible. The printed question has no unique correct option.

Quick Tip to Solve: Do not confuse basic statements with comparative or common-size versions, which are tools used to analyse those statements.

28. State the objective of preparing Cash Flow Statement. [1 mark]

Solution:

Concept:

- A Cash Flow Statement summarises inflows and outflows of cash and cash equivalents during a period.
- It groups those flows into operating, investing and financing activities to explain changes in cash.

Step 1: Identify what the statement explains The statement explains why the opening balance of cash and cash equivalents differs from the closing balance. It identifies the sources from which cash was received and the purposes for which cash was spent during the period.

Step 2: State how this information is useful Classification into operating, investing and financing activities helps users assess the enterprise's ability to generate cash and meet its cash requirements. Thus it supplements profit information with information about actual cash movements.

Step 3: Conclusion The objective is to show the sources and uses of cash and cash equivalents during a period and explain their net change.

Quick Tip to Solve: State both sides of the objective: where cash came from and where it went, reconciling opening and closing cash.

29. 'Calls in advance' appears in the company's Balance Sheet under the head : [1 mark]

(A) Non-Current Assets

(B) Current Liabilities

(C) Shareholders Funds

(D) Non-Current Liabilities

Correct Answer: (B) Current Liabilities

Solution:

Concept:

- Calls in advance are amounts received from shareholders before the company has called those amounts.
- Until the call becomes due, the advance is a liability and is not included in paid-up share capital.

Step 1: Identify the nature of the balance The company holds money received before it is presently due on the shares. It must adjust the advance against a subsequent call or otherwise settle it, so this amount is a liability rather than an asset.

Step 2: Select the Balance Sheet head Calls in advance are shown under Current Liabilities, within Other Current Liabilities. Non-Current Assets is inappropriate because an obligation is involved. Shareholders Funds is inappropriate because the amount is not yet called-up capital; Non-Current Liabilities is not the prescribed head.

Step 3: Conclusion Calls in advance appear under Current Liabilities. Hence, the correct option is (B).

Quick Tip to Solve: Keep calls in advance separate from share capital until the call is made; place the advance under Other Current Liabilities.

30. Calculate the Current Ratio and Debt-Equity Ratio from the following information:

Non-Current Assets	**₹ 16,00,000**
Current Assets	**₹ 4,00,000**
Working Capital	**₹ 2,00,000**
Non-Current Liabilities	**₹ 12,00,000**

[3 marks]

Solution:

Concept:

- Working capital is the excess of current assets over current liabilities: $\mathrm{WC} = \mathrm{CA} - \mathrm{CL}$.
- Current ratio measures short-term liquidity: Current ratio $= \mathrm{CA}/\mathrm{CL}$.
- Debt-equity ratio compares long-term debt with shareholders' funds. Shareholders' funds equal total assets less total outside liabilities.

Step 1: Find current liabilities Current assets are Rs 4,00,000 and working capital is Rs 2,00,000.

Rearranging the working-capital relationship gives

$$\begin{aligned}\text{Current liabilities} &= \text{Current assets} - \text{Working capital}\\ &= 4,00,000 - 2,00,000\\ &= \text{Rs } 2,00,000.\end{aligned}$$

Step 2: Calculate the current ratio Substitute the current assets and the current liabilities just derived:

$$\text{Current ratio} = \frac{4,00,000}{2,00,000} = 2:1.$$

Thus, the company has Rs 2 of current assets for each Rs 1 of current liabilities.

Step 3: Determine shareholders' funds First combine non-current and current assets, and then deduct both classes of outside liabilities. All amounts in the following working are in Rs.

$$\begin{aligned}\text{Total assets} &= 16,00,000 + 4,00,000 = 20,00,000,\\ \text{Total outside liabilities} &= 12,00,000 + 2,00,000 = 14,00,000,\\ \text{Shareholders' funds} &= 20,00,000 - 14,00,000 = 6,00,000.\end{aligned}$$

This also reconciles total assets with the total of equity and liabilities.

Step 4: Calculate the debt-equity ratio Use non-current liabilities of Rs 12,00,000 as long-term debt. Current liabilities helped determine equity but do not enter this ratio's numerator.

$$\text{Debt-equity ratio} = \frac{12,00,000}{6,00,000} = 2:1.$$

Step 5: Conclusion Current Ratio $= 2:1$; Debt-Equity Ratio $= 2:1$.

Quick Tip to Solve: Find current liabilities from working capital first; then deduct all outside liabilities from total assets to obtain equity.

OR

30. From the following information, determine the opening inventory and the closing inventory:
Inventory Turnover Ratio = 5 times
Revenue from Operations = ₹ 8,00,000
Gross Profit Ratio = 25%
Closing inventory was ₹ 20,000 more than the opening inventory. [3 marks]

Solution:

Concept:

- Gross profit ratio expresses gross profit as a percentage of revenue from operations: Gross profit = Revenue $\times$ Gross profit ratio/100.

- Inventory turnover ratio compares cost of revenue from operations with average inventory: Average inventory $=$ Cost of revenue/Inventory turnover ratio.
- Average inventory is the arithmetic mean of opening and closing inventories. If opening inventory is x, closing inventory here is $x + 20,000$.

Step 1: Calculate cost of revenue from operations The gross profit ratio is based on revenue from operations, so gross profit is 25% of Rs 8,00,000. Deduct it from revenue to obtain the cost figure used in inventory turnover.

$$\text{Gross profit} = 8,00,000 \times \frac{25}{100} = \text{Rs } 2,00,000,$$
$$\text{Cost of revenue} = 8,00,000 - 2,00,000 = \text{Rs } 6,00,000.$$

Step 2: Determine average inventory Inventory turns over five times during the year. Therefore the cost of revenue is five times average inventory, rather than five times closing inventory alone.

$$\text{Average inventory} = \frac{6,00,000}{5} = \text{Rs } 1,20,000.$$

Step 3: Solve for the two inventories and check the ratio Let opening inventory be Rs x. The stated increase makes closing inventory Rs $(x + 20,000)$. Substituting in the average-inventory formula gives

$$\frac{x + (x + 20,000)}{2} = 1,20,000,$$
$$2x + 20,000 = 2,40,000,$$
$$x = 1,10,000.$$

Adding Rs 20,000 gives the closing amount, Rs 1,30,000. As a check, their mean is Rs 1,20,000 and $6,00,000 \div 1,20,000 = 5$ times, while their difference is the required Rs 20,000.

Step 4: Conclusion Opening inventory is $\boxed{\text{Rs } 1,10,000}$ and closing inventory is $\boxed{\text{Rs } 1,30,000}$.

Quick Tip to Solve: Once average inventory is known, subtract half the stated increase to find opening inventory and add half to find closing inventory.

31. From the following information obtained from the books of Vichar Ltd., prepare a Comparative Statement of Profit and Loss for the year ending 31st March, 2019:

Particulars	2018–19	2017–18
Revenue from operations	300% of cost of materials consumed	200% of cost of materials consumed
Cost of materials consumed	Rs 4,00,000	Rs 2,00,000
Other expenses	20% of cost of materials consumed	20% of cost of materials consumed
Tax rate	50%	50%

[4 marks]

Solution:

Concept:

- A comparative statement shows both years, their absolute difference and percentage change, with the previous year as the base.
- Absolute change equals current year minus previous year. Divide that change by the previous-year amount and multiply by 100 to find the percentage change.
- Profit before tax equals revenue less expenses; profit after tax equals profit before tax less the tax expense.

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

Use each year's cost of materials consumed as the base for its revenue:

$$\text{Revenue, 2017–18} = 2,00,000 \times 200\% = \text{Rs } 4,00,000,$$
$$\text{Revenue, 2018–19} = 4,00,000 \times 300\% = \text{Rs } 12,00,000.$$

Other expenses equal 20% of materials consumed: Rs 40,000 in 2017–18 and Rs 80,000 in 2018–19. Hence total expenses are Rs 2,40,000 and Rs 4,80,000 respectively.

Step 2: Calculate profits, tax and changes Profit before tax is Rs $4,00,000 - 2,40,000 = 1,60,000$ in 2017–18 and Rs $12,00,000 - 4,80,000 = 7,20,000$ in 2018–19. At 50%, tax and profit after tax each equal Rs 80,000 and Rs 3,60,000 respectively. Revenue growth is $8,00,000/4,00,000 \times 100 = 200\%$. Profit growth is $5,60,000/1,60,000 \times 100 = 350\%$. The same previous-year base is used throughout.

Step 3: Prepare the comparative statement Present the earlier year first and show increases separately. Total revenue less total expenses gives profit before tax; deducting tax gives profit for the year.

Vichar Ltd.
Comparative Statement of Profit and Loss
For the year ended 31st March, 2019

Particulars	2017–18 (Rs)	2018–19 (Rs)	Increase (Rs)	Increase (%)
I. Revenue from operations	4,00,000	12,00,000	8,00,000	200
II. Total revenue	4,00,000	12,00,000	8,00,000	200
III. Expenses:				
Cost of materials consumed	2,00,000	4,00,000	2,00,000	100
Other expenses	40,000	80,000	40,000	100
Total expenses	2,40,000	4,80,000	2,40,000	100
IV. Profit before tax (II–III)	1,60,000	7,20,000	5,60,000	350
V. Tax expense (50%)	80,000	3,60,000	2,80,000	350
VI. Profit after tax (IV–V)	80,000	3,60,000	2,80,000	350

Step 4: Conclusion Revenue increased by Rs 8,00,000 (200%), while total expenses increased by Rs 2,40,000 (100%). Profit after tax rose from Rs 80,000 to Rs 3,60,000, an increase of Rs 2,80,000 (350%).

Quick Tip to Solve: Calculate each year's revenue from its own materials cost first; use 2017–18, not 2018–19, as the denominator for every percentage change.

OR

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

Sanchi Ltd.

Balance Sheet as at 31st March, 2019

Particulars	Note No.	31.3.2019 (Rs)	31.3.2018 (Rs)
I – Equity and Liabilities:			
1. Shareholders Funds:			
(a) Share Capital		**4,00,000**	**2,00,000**
(b) Reserves and Surplus		**1,00,000**	**70,000**
2. Non-Current Liabilities:			
Long-term Borrowings		**3,00,000**	**4,30,000**
3. Current Liabilities:			
Trade Payables		**2,00,000**	**3,00,000**
Total		**10,00,000**	**10,00,000**
II – Assets:			
1. Non-Current Assets:			
Fixed Assets:			
Tangible Assets		**6,00,000**	**5,00,000**
2. Current Assets:			
(a) Inventories		**2,50,000**	**2,00,000**
(b) Cash and Cash Equivalents		**1,50,000**	**3,00,000**
Total		**10,00,000**	**10,00,000**

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses every item as a percentage of the total assets or the total equity and liabilities of its own year.
- For an item of amount x, its common size percentage is $\dfrac{x}{\text{balance sheet total}} \times 100$. Each side totals 100%.

Step 1: Determine the common base The balance sheet total is Rs 10,00,000 in each year. Thus, Rs 10,000 corresponds to one percentage point in either year. For example,

$$\text{Share capital, 2019} = \frac{4,00,000}{10,00,000} \times 100 = 40\%,$$
$$\text{Share capital, 2018} = \frac{2,00,000}{10,00,000} \times 100 = 20\%.$$

The same base is used for liabilities and assets. These are proportions of the total, not percentage changes between years.

Step 2: Prepare the common size balance sheet **Sanchi Ltd.**

Common Size Balance Sheet as at 31st March, 2019

Particulars	2019 (Rs)	2018 (Rs)	2019 (%)	2018 (%)
I. Equity and Liabilities				
1. Shareholders' Funds				
(a) Share capital	4,00,000	2,00,000	40	20
(b) Reserves and surplus	1,00,000	70,000	10	7
Total shareholders' funds	5,00,000	2,70,000	50	27
2. Non-current liabilities				
Long-term borrowings	3,00,000	4,30,000	30	43
3. Current liabilities				
Trade payables	2,00,000	3,00,000	20	30
Total	**10,00,000**	**10,00,000**	**100**	**100**
II. Assets				
1. Non-current assets				
Fixed assets: Tangible assets	6,00,000	5,00,000	60	50
2. Current assets				
(a) Inventories	2,50,000	2,00,000	25	20
(b) Cash and cash equivalents	1,50,000	3,00,000	15	30
Total current assets	4,00,000	5,00,000	40	50
Total	**10,00,000**	**10,00,000**	**100**	**100**

Step 3: Verify both sides For 2019, equity and liabilities give $40 + 10 + 30 + 20 = 100\%$, while assets give $60 + 25 + 15 = 100\%$. For 2018, the corresponding checks are $20 + 7 + 43 + 30 = 100\%$ and $50 + 20 + 30 = 100\%$. Subtotals are not counted again when adding the constituent items.

Step 4: Conclusion The common size balance sheet balances at 100% on each side in both years. Shareholders' funds represent 50% of the 2019 total and 27% of the 2018 total.

Quick Tip to Solve: Because both totals are Rs 10,00,000, divide each amount by Rs 10,000 to get its percentage directly; check each side separately.

32. There was 'Nil' net cash flow from operating activities of Ashok Ltd. during the year ending 31st March, 2019. From the following Balance Sheet of Ashok Ltd. as at 31st March, 2019, prepare a Cash Flow Statement:

Ashok Ltd.

Balance Sheet as at 31st March, 2019

Particulars	Note No.	31.3.2019 (Rs)	31.3.2018 (Rs)
I – Equity and Liabilities:			
1. Shareholders Funds:			
(a) Share Capital		19,00,000	11,00,000
(b) Reserves and Surplus	1	1,60,000	2,00,000
2. Non-Current Liabilities:			
Long-term Borrowings	2	1,00,000	4,00,000
3. Current Liabilities:			
(a) Short-Term Borrowings	3	2,50,000	2,30,000
(b) Short-Term Provisions	4	1,90,000	2,70,000
Total		26,00,000	22,00,000
II – Assets:			
1. Non-Current Assets:			
Fixed Assets:			
(i) Tangible Assets	5	15,00,000	11,00,000
(ii) Intangible Assets	6	2,80,000	1,70,000
2. Current Assets:			
(a) Current Investments		1,30,000	2,90,000
(b) Trade Receivables		3,90,000	4,10,000
(c) Cash and Cash Equivalents		3,00,000	2,30,000
Total		26,00,000	22,00,000

Notes to Accounts:

Note No.	Particulars	31.3.2019 (Rs)	31.3.2018 (Rs)
1.	Reserves and Surplus:		
	Surplus (Balance in the Statement of Profit and Loss)	1,60,000	2,00,000
2.	Long-term Borrowings:		
	8% Debentures	1,00,000	4,00,000
3.	Short-term Borrowings:		
	Bank overdraft	2,50,000	2,30,000
4.	Short-term Provisions:		
	Provision for Tax	1,90,000	2,70,000
5.	Tangible Assets:		
	Plant and Machinery	16,30,000	11,70,000
	Accumulated Depreciation	(1,30,000)	(70,000)
		15,00,000	11,00,000
6.	Intangible Assets:		
	Goodwill	2,80,000	1,70,000

Additional information:

(i) A machinery of the book value of Rs 60,000, (depreciation provided thereon Rs 20,000) was sold at a loss of Rs 6,000.

(ii) 8% Debentures were redeemed on 1st July, 2018. [6 marks]

Solution:

Concept:

- Cash flows are classified into operating, investing and financing activities. Use the given nil operating cash flow directly.
- Cash paid for fixed assets uses their gross cost movement, after allowing for the original cost of assets sold. Sale proceeds equal book value less loss.
- In the standard treatment for this question, current investments are included in cash equivalents and bank overdraft is treated as financing. Interest paid by a non-financial enterprise is a financing outflow.

Step 1: Calculate the machinery purchase and sale proceeds **Working Notes**

The machinery sold had a book value of Rs 60,000 after depreciation of Rs 20,000. Its original cost was therefore Rs 80,000. Use the gross plant balances, not the net carrying amounts:

$$\begin{aligned}\text{Cost of machinery sold} &= 60,000 + 20,000 = \text{Rs } 80,000,\\ \text{Machinery purchased} &= 16,30,000 - 11,70,000 + 80,000\\ &= \text{Rs } 5,40,000,\\ \text{Sale proceeds} &= 60,000 - 6,000 = \text{Rs } 54,000.\end{aligned}$$

As a cross-check, depreciation for the year is Rs $1,30,000 - 70,000 + 20,000 = 80,000$. Hence the closing net plant is Rs $11,00,000 + 5,40,000 - 60,000 - 80,000 = 15,00,000$. Depreciation is non-cash; it is not separately deducted from investing cash flows.

Step 2: Compute the remaining investing and financing amounts The increase in goodwill represents its purchase, and the increase in share capital represents cash raised by issue of shares, with no non-cash transactions stated.

$$\begin{aligned}\text{Goodwill purchased} &= 2,80,000 - 1,70,000 = \text{Rs } 1,10,000,\\ \text{Shares issued} &= 19,00,000 - 11,00,000 = \text{Rs } 8,00,000,\\ \text{Debentures redeemed} &= 4,00,000 - 1,00,000 = \text{Rs } 3,00,000,\\ \text{Increase in overdraft} &= 2,50,000 - 2,30,000 = \text{Rs } 20,000.\end{aligned}$$

Debentures of Rs 4,00,000 were outstanding for April–June, and Rs 1,00,000 for July–March. Therefore,

$$\begin{aligned}\text{Interest paid} &= 4,00,000 \times \frac{8}{100} \times \frac{3}{12}\\ &\quad + 1,00,000 \times \frac{8}{100} \times \frac{9}{12}\\ &= 8,000 + 6,000 = \text{Rs } 14,000.\end{aligned}$$

No unpaid interest is given. The changes in surplus, tax provision and trade receivables need not be used to reconstruct operating cash flow because its net amount is expressly given as nil.

Step 3: Prepare the cash flow statement **Ashok Ltd.**

Cash Flow Statement for the year ended 31st March, 2019

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net cash flow from operating activities (given)	Nil
B. Cash flow from investing activities	
Sale of machinery	54,000
Purchase of machinery	(5,40,000)
Purchase of goodwill	(1,10,000)
Net cash used in investing activities	**(5,96,000)**
C. Cash flow from financing activities	
Proceeds from issue of shares	8,00,000
Redemption of debentures	(3,00,000)
Interest paid on debentures	(14,000)
Increase in bank overdraft	20,000
Net cash from financing activities	**5,06,000**
Net decrease in cash and cash equivalents (A+B+C)	**(90,000)**
Add: Opening cash and cash equivalents	5,20,000
Closing cash and cash equivalents	**4,30,000**

Step 4: Reconcile cash and cash equivalents Include current investments in the cash-equivalent total:

$$\begin{aligned} \text{Opening total} &= 2,30,000 + 2,90,000 = \text{Rs } 5,20,000, \\ \text{Closing total} &= 3,00,000 + 1,30,000 = \text{Rs } 4,30,000, \\ \text{Change} &= 4,30,000 - 5,20,000 = -\text{Rs } 90,000. \end{aligned}$$

The decrease in current investments is not separately shown as an investing inflow because these investments form part of cash equivalents under this treatment. Parentheses in the statement denote cash outflows or a decrease.

Step 5: Conclusion Net cash used in investing activities is Rs 5,96,000 and net cash from financing activities is Rs 5,06,000. With nil operating cash flow, cash and cash equivalents decrease by Rs 90,000 to Rs 4,30,000.

Quick Tip to Solve: Add depreciation on the sold machine to its book value before finding purchases; split debenture interest at 1st July and include current investments in the cash reconciliation.

OPTION 2 (Computerised Accounting)

23. Which of the following is not a limitation of Computerised Accounting system? [1 mark]

(A) Data may be lost or corrupted due to power interruptions.

(B) Data is prone to hacking.

(C) Data is not made available to everybody.

(D) Unprogrammed and un-specified reports cannot be generated.

Correct Answer: (C) Data is not made available to everybody.

Solution:

Concept:

- Computerised accounting uses access controls so that only authorised persons can view or alter financial records.
- Limitations are risks or restrictions that hinder operation; restricting unauthorised access protects confidentiality.

Step 1: Identify the security feature Data not being made available to everybody means that access is restricted to authorised users. Such a restriction protects confidential information and is an advantage of the system.

Step 2: Check the other options Option (A) describes the risk of data loss during power interruptions. Option (B) describes a security threat from hacking. Option (D) describes dependence on predefined or programmed reports. These are limitations, whereas controlled access in option (C) is a protective feature.

Step 3: Conclusion Data is not made available to everybody. Hence, the correct option is (C).

Quick Tip to Solve: For a question asking what is NOT a limitation, distinguish restricted authorised access from hacking or data loss.

24. A cell reference that holds either row or column constant when the formula or function is copied to another location is known as: [1 mark]

(A) Absolute cell reference

(B) Ranges

(C) Relative cell reference

(D) Mixed cell reference

Correct Answer: (D) Mixed cell reference

Solution:

Concept:

- A cell reference identifies a cell by its column letter and row number. A dollar sign fixes the component immediately following it.
- A mixed reference fixes one component and allows the other to change when the formula is copied.

Step 1: Apply the copying rule In $A1, column A remains fixed but the row changes; in A$1, row 1 remains fixed but the column changes. Each fixes either the column or the row, as the question requires.

Step 2: Distinguish the alternatives An absolute reference such as A1 fixes both components. A relative reference such as A1 fixes neither. A range denotes a group of cells and does not name this copying behaviour.

Step 3: Conclusion The reference is a mixed cell reference. Hence, the correct option is (D).

Quick Tip to Solve: Count the dollar signs: one in $A1 or A$1 indicates a mixed reference; two indicate an absolute reference.

25. Computerised Accounting system takes (i) _____ as inputs which are processed through (ii) _____ to generate reports. [1 mark]

Solution:

Concept:

- A computerised accounting system follows the input–processing–output sequence.
- Accounting data describe business transactions; accounting software processes these data to produce accounting information.

Step 1: Identify the input The system receives accounting data, such as transaction dates, account names and amounts from vouchers. These transaction data are the raw inputs and are distinct from the reports produced at the end.

Step 2: Identify the processing mechanism Accounting software applies accounting rules and programmed procedures to the input data. It classifies and processes transactions to generate ledgers, trial balances and financial reports.

Step 3: Conclusion (i) Accounting data (transactions); (ii) accounting software.

Quick Tip to Solve: Use the sequence: transaction data enter, accounting software processes, and accounting reports emerge.

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

Solution:

Concept:

- A code is a symbol or set of symbols used to identify and classify an item of information.
- A mnemonic code uses meaningful letters or abbreviations associated with the name of the item, making the code easy to remember.

Step 1: Recognise the clue in the question The use of an alphabetic symbol or an abbreviation that recalls the information is characteristic of mnemonic coding. The letters convey a recognisable

connection with the item being represented.

Step 2: Illustrate the coding method For example, SAL may identify salaries and PUR may identify purchases. Such codes help the operator recall the account name, whereas a sequential numerical code identifies items by an allotted number.

Step 3: Conclusion The code is known as a mnemonic code.

Quick Tip to Solve: Link mnemonic with memory: a meaningful abbreviation such as SAL for salaries is the key clue.

27. The data is classified for creating groups of accounts in the heads of: [1 mark]

(A) Assets, Liabilities and Capital

(B) Assets, Owners' equity, Revenue and Expenses

(C) Assets, Capital, Liabilities, Revenue and Expenses

(D) Capital, Revenue and Expenses

Correct Answer: (C) Assets, Capital, Liabilities, Revenue and Expenses

Solution:

Concept:

- Accounts are classified under assets, liabilities, capital, revenue and expenses.
- Assets, liabilities and capital describe financial position; revenue and expenses determine the profit or loss for a period.

Step 1: Identify the complete classification The classification must include resources owned (assets), obligations to outsiders (liabilities), the owner's claim (capital), earnings (revenue) and costs incurred (expenses). These five heads cover the principal account groups.

Step 2: Check each alternative Option (A) omits revenue and expenses. Option (B) omits liabilities even though owners' equity includes capital. Option (D) omits both assets and liabilities. Option (C) includes all five required heads.

Step 3: Conclusion The heads are Assets, Capital, Liabilities, Revenue and Expenses. Hence, the correct option is (C).

Quick Tip to Solve: Check for all five heads: three describe financial position and two measure operating performance.

28. A1 : E2 in Excel refers to: [1 mark]

(A) Column on Excel sheet

(B) Row on Excel sheet

(C) Column between start and end points of Excel sheet

(D) Alphabets between A to E on Excel sheet.

Correct Answer: A1:E2 denotes a rectangular cell range, not a single column or row. None of the printed options states this correctly; option (C) appears to be the intended choice but its printed wording is inaccurate.

Solution:

Concept:

- The colon in a spreadsheet reference is the range operator: it includes both endpoint cells and every cell in the rectangle between them.
- Column letters and row numbers together identify each endpoint; A1:E2 spans columns A through E and rows 1 through 2.

Step 1: Read both endpoints A1 is the top-left cell and E2 is the bottom-right cell. The reference therefore contains A1, B1, C1, D1, E1 and A2, B2, C2, D2, E2: a rectangular range of ten cells.

Step 2: Evaluate the printed options Option (A) describes a column and option (B) a row, but the reference spans five columns and two rows. Option (C), as printed, says a column between endpoints, which is not a cell range. Option (D) describes letters only and ignores the row numbers. Thus none of the printed choices accurately defines A1:E2.

Step 3: Conclusion A1:E2 is a rectangular range of ten cells. No printed option is technically correct.

Quick Tip to Solve: A colon joins opposite corner cells of a range; count five columns times two rows to obtain ten cells.

29. To expect a well formatted printable data from Access database, we use: [1 mark]

(A) Table

(B) Query

(C) Form

(D) Report

Correct Answer: (D) Report

Solution:

Concept:

- A report is a database object used to organise and format information for presentation and printing.
- Tables store data, queries select or calculate data, and forms provide a convenient interface for entering and viewing records.

Step 1: Match the requirement to the object The question requires well-formatted printable output. A report can arrange records with headings, grouping, totals and page formatting, so it is designed for

this purpose.

Step 2: Distinguish the other objects A table is primarily for storage. A query retrieves or processes selected records, and can supply data to a report. A form is primarily an interface for working with records. None is the object specifically intended for formatted printed presentation.

Step 3: Conclusion A Report is used for well-formatted printable data. Hence, the correct option is (D).

Quick Tip to Solve: When the question emphasises page formatting and printing, select Report; for data entry, think Form.

30. Explain 'Null Values' and 'Complex Attributes'. [3 marks]

Solution:

Concept:

- An attribute is a property used to describe an entity, such as an employee's name, address or telephone number.
- A null value records the absence of an available or applicable value. It must be distinguished from a known zero or an empty text string.
- A composite attribute has components, while a multivalued attribute can have several values for one entity. A complex attribute combines these features.

Step 1: Explain null values A null value represents an attribute value that is missing, unknown or not applicable to a particular entity. For example, an employee's telephone number may be unknown, or an apartment number may not apply to an employee living in an independent house. Null does not mean that the telephone number is zero, and it is not a known blank text value. It tells the database that an ordinary value is unavailable or inapplicable, rather than supplying a fictitious value.

Step 2: Explain complex attributes A complex attribute combines composite and multivalued attributes, which may be grouped or nested. Consider an employee who has more than one address. The Addresses attribute is multivalued because several addresses belong to that employee, and each address is composite because it contains house number, street, city and PIN code. The complete set of structured addresses is therefore a complex attribute. A single address broken into components alone is composite; several unstructured telephone numbers alone are multivalued.

Step 3: Conclusion Null values indicate missing, unknown or inapplicable data; complex attributes combine multivalued and composite attributes, as in several addresses each having its own component fields.

Quick Tip to Solve: For a complex attribute, show both several values and components within each value; for null, never substitute zero.

OR

30. Explain any two types of vouchers used for entry in Tally software with the help of examples. [3 marks]

Solution:

Concept:

- An accounting voucher is the input document or entry form through which a transaction is recorded in Tally. Its type is selected according to the nature of the transaction.
- Payment and receipt vouchers record outflows and inflows of cash or bank funds respectively. Each transaction records both the debit and credit aspects under double-entry accounting.

Step 1: Explain a payment voucher with an example A **payment voucher** records money paid by the business, either in cash or through its bank account. It is used, for example, to record payment of expenses or amounts owed to suppliers. The entry identifies the date, the expense or party ledger, the cash or bank ledger, the amount and a narration describing the payment.

For example, rent of Rs 5,000 paid in cash is entered using a payment voucher: Rent Account is debited with Rs 5,000 and Cash Account is credited with Rs 5,000. Rent is an expense of the business and cash decreases by the amount paid.

Step 2: Explain a receipt voucher with an example A **receipt voucher** records money received by the business in cash or through its bank account. It is used, for example, for collections from customers or receipt of income. The cash or bank ledger receiving the money and the relevant customer or income ledger are selected, together with the amount and narration.

For example, Rs 8,000 received in cash from debtor Arun is entered using a receipt voucher: Cash Account is debited with Rs 8,000 and Arun's Account is credited with Rs 8,000. Cash increases, while the amount receivable from Arun decreases. This collection settles an existing debt; it does not record another sale.

Step 3: Conclusion Two types are **payment vouchers**, such as for rent paid in cash, and **receipt vouchers**, such as for cash collected from a debtor.

Quick Tip to Solve: Check the direction of money: an outflow uses a payment voucher and an inflow uses a receipt voucher; then identify the expense, income or party ledger involved.

31. Explain any two subsystems of accounting information system. [4 marks]

Solution:

Concept:

- An Accounting Information System (AIS) collects, records and processes accounting data to provide information for decision-making and control.
- A subsystem performs a particular accounting function within the overall AIS. Its records and reports are linked with other subsystems so that the same business transaction can serve different information needs.

Step 1: Explain the cash and bank subsystem The **cash and bank subsystem** deals with receipts and payments of cash and transactions through bank accounts. It captures details such as the transaction date, amount, account involved and voucher or cheque reference. Cash received from customers, cash expenses, deposits into the bank and payments to suppliers are examples of the transactions handled.

The subsystem maintains cash and bank records and provides information about cash in hand and balances in bank accounts. It helps management plan payments, monitor the availability of funds and control cash movements. Its bank transaction records also support bank reconciliation by enabling comparison with the bank statement.

For example, payment of Rs 6,000 to a supplier by cheque is recorded as a bank payment. The bank balance decreases and the related supplier's outstanding balance is reduced through the linked accounting records.

Step 2: Explain the sales and accounts receivable subsystem The **sales and accounts receivable subsystem** records sales and keeps track of the amounts recoverable from credit customers. It processes sales invoices, customer details, sales returns and receipts against invoices, and maintains customer-wise balances.

It produces information such as sales summaries, outstanding invoices, customer statements and ageing reports. These reports help management review sales, follow up overdue debts and exercise credit control. When a customer pays, information about the receipt is linked with cash or bank records and the customer's outstanding amount is updated.

For example, a credit sale of Rs 20,000 increases the customer's receivable by Rs 20,000. If the customer subsequently pays Rs 12,000, that receipt is adjusted against the amount due, leaving Rs 8,000 outstanding. The subsystem makes both the original sale and the unpaid balance traceable.

Step 3: Conclusion The **cash and bank subsystem** manages money received, paid and available, while the **sales and accounts receivable subsystem** manages sales and amounts due from customers. Their linked records support an integrated AIS.

Quick Tip to Solve: For each AIS subsystem, explain the transactions it handles, the records or reports it produces, and how those reports help management; add one transaction example.

OR

31. What is meant by a graph? Explain any three of its advantages. [4 marks]

Solution:

Concept:

- A graph is a visual representation of numerical data using devices such as bars, lines or sectors. It communicates the relationship, comparison or trend contained in the data.
- In a spreadsheet, a graph or chart is prepared from a selected data range. A clear title, suitable scale and labels identify what the displayed values represent.

Step 1: State the meaning of a graph A graph presents numerical information in pictorial form so that its meaning can be understood easily. Instead of requiring the reader to examine every entry in a

table, it represents the values by the height of bars, the position of points joined by lines, or the size of sectors, according to the type chosen. For example, a graph of monthly sales displays the pattern of sales over successive months.

Step 2: Explain the advantage of easy understanding A graph summarises a large volume of figures in a simple and attractive visual form. The reader can grasp the main message quickly without reading lengthy tables. For example, the highest and lowest monthly sales can be identified at a glance from a bar graph.

Step 3: Explain the advantage of comparison A graph facilitates comparison between related sets of data, such as sales of different branches or actual and budgeted expenses. When values are displayed on the same scale, differences in performance become immediately visible. This helps managers identify which branch or category needs attention.

Step 4: Explain the advantage of identifying trends A graph reveals changes and trends over time, including increases, decreases and fluctuations. For example, a line graph of successive months' sales may reveal seasonal peaks or a continuing decline. Recognising these patterns helps management plan purchases, production and other future activities.

Step 5: Conclusion A graph is a pictorial presentation of numerical data. Three advantages are easy understanding of information, convenient comparison of related values, and identification of trends for planning and decision-making.

Quick Tip to Solve: Link each advantage to a different purpose: understanding a large table, comparing categories, and tracing changes over time.

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32. S.S. Associates have their offices in Chennai and Ludhiana. HRA for Chennai is ₹ 15,000 and Ludhiana is ₹ 10,000. D.A. is calculated on Basic Pay (BP) as 10% for BP $\leq$ ₹ 16,000 and 8% for BP $\geq$ ₹ 17,000. 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) Rama is working in Chennai office. Her Basic Pay is ₹ 27,000. She did not avail any leave without pay.

(ii) Pankaj is working in Ludhiana office of S.S. Associates. His Basic Pay is ₹ 15,000. He has taken leave of two days without pay. [6 marks]

Solution:

Concept:

- Monthly gross salary is the sum of Basic Pay (BP), Dearness Allowance (DA) and House Rent Allowance (HRA), before statutory deductions. The DA rate depends on basic pay, while HRA depends on the office location.
- With a standard month of 30 days, paid days equal 30 – leave without pay. Salary payable for the month is monthly gross salary multiplied by paid days$/30$.
- Excel's IF function selects a value after testing a condition. Cell references allow the same salary formula to be copied to the next employee's row.

Step 1: Arrange the employee data in Excel Use the following columns: A for Employee, B for Office, C for Basic Pay, D for Leave without Pay, E for HRA, F for DA, G for Paid Days and H for Gross Salary Payable. Enter the fixed monthly basic pay in column C and the number of unpaid leave days in column D.

Row	A: Employee	B: Office	C: BP (Rs)	D: Unpaid days
2	Rama	Chennai	27,000	0
3	Pankaj	Ludhiana	15,000	2

Step 2: Enter the formulae for the allowances and paid days For the two offices given, enter the following HRA formula in E2:

```
=IF(B2="Chennai",15000,10000)
```

This returns Rs 15,000 for Chennai and Rs 10,000 for Ludhiana. In F2, calculate DA from the monthly basic pay:

```
=IF(C2<=16000,C2*10%,IF(C2>=17000,C2*8%,NA()))
```

The first condition applies the 10% rate; the second applies the 8% rate. Both employees fall within the specified bands. The `NA()` branch avoids assigning an unstated rate to any other basic pay. In G2 enter:

```
=30-D2
```

Copy E2:G2 down to row 3. Relative cell references automatically change to refer to Pankaj's data.

Step 3: Enter the gross salary formula Calculate the full-month gross amount by adding the three salary components, and multiply it by the fraction of the month payable. In H2 enter:

```
=ROUND((C2+E2+F2)*G2/30,2)
```

Copy the formula into H3; it becomes:

```
=ROUND((C3+E3+F3)*G3/30,2)
```

Thus the unpaid leave reduces the salary proportionately on the prescribed 30-day basis. The ROUND function gives the amount payable to two decimal places; no other deduction is specified in the question.

Step 4: Calculate Rama's gross salary Rama's monthly BP of Rs 27,000 is at least Rs 17,000, so the DA rate is 8%. Her Chennai HRA is Rs 15,000, and she is paid for all 30 days.

$$\begin{aligned} \text{DA} &= 27,000 \times 8\% = \text{Rs } 2,160, \\ \text{Monthly gross} &= 27,000 + 15,000 + 2,160 \\ &= \text{Rs } 44,160, \\ \text{Gross salary payable} &= 44,160 \times \frac{30}{30} \\ &= \text{Rs } 44,160. \end{aligned}$$

Step 5: Calculate Pankaj's gross salary Pankaj's monthly BP of Rs 15,000 is no more than Rs 16,000, so the DA rate is 10%. His Ludhiana HRA is Rs 10,000. His two unpaid days leave $30 - 2 = 28$ paid

days.

$$\begin{aligned} \text{DA} &= 15,000 \times 10\% = \text{Rs } 1,500, \\ \text{Monthly gross} &= 15,000 + 10,000 + 1,500 \\ &= \text{Rs } 26,500, \\ \text{Gross salary payable} &= 26,500 \times \frac{28}{30} \\ &= \text{Rs } 24,733.33 \quad \text{(rounded)}. \end{aligned}$$

As a check, the two-day deduction is $26,500 \times 2/30 = \text{Rs } 1,766.67$, rounded; subtracting it from Rs 26,500 gives Rs 24,733.33.

Step 6: Conclusion The gross salary payable is $\boxed{\text{Rs } 44,160}$ for Rama and $\boxed{\text{Rs } 24,733.33}$ for Pankaj, after proportionately adjusting for his two days of leave without pay.

Quick Tip to Solve: Select DA from the full monthly basic pay, add HRA, and apply the paid-days fraction once to the monthly gross amount.