CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-4-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

(iii) **Part - B** has **two** options i.e. (i) Analysis of Financial Statement and (ii) 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 number **1 to 13** and **23 to 29** are very short answer type questions carrying **1** mark each.

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

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

(viii) Question number **19 to 20** and **32** are also long answer type-I questions carrying **6** marks each.

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

(x) Answer 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 section and question, wherever necessary.

Part A (60 marks)

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

1. When a company plans to redeem its debentures out of profits, it should transfer minimum _____% of the face value of the outstanding debentures to Debenture Redemption Reserve out of surplus available for payment of dividend. [1 mark]

Solution:

Concept:

- Debenture Redemption Reserve (DRR) is an appropriation of profits made before redemption out of profits.
- The prescribed transfer is calculated on the face value of outstanding debentures, rather than their issue proceeds.

Step 1: Identify the reserve requirement For the rule tested in this paper, a company redeeming debentures out of profits transfers a minimum of 25% of their outstanding face value to DRR from profits available for dividend.

Step 2: Apply the percentage If outstanding debentures have face value F, the required minimum DRR is $0.25F$. This transfer restricts distributable surplus; it does not itself pay the debenture holders or create a separate cash balance.

Step 3: Conclusion The blank is 25%.

Quick Tip to Solve: Apply the percentage to outstanding face value, not the issue price or redemption premium.

2. _____ capital accounts always show a credit balance. [1 mark]

Solution:

Concept:

- Under the fixed capital method, capital and routine partner adjustments are recorded in separate accounts.
- Capital introduced is a credit balance; drawings, interest and profit adjustments normally pass through the current account.

Step 1: Identify the capital method Fixed capital accounts record the permanent capital introduced by partners. They change only when additional permanent capital is brought in or permanent capital is withdrawn.

Step 2: Distinguish the current account Routine drawings, interest on drawings, interest on capital, salary and shares of profit or loss are recorded in separate current accounts. Thus current accounts may have either debit or credit balances, whereas fixed capital accounts show credit balances.

Step 3: Conclusion The blank is Fixed.

Quick Tip to Solve: When routine adjustments use a separate current account, the capital account follows the fixed method.

3. In the case of retirement, if full or part of the amount payable to the retiring partner still remains to be paid, and there is no agreement among the partners then retiring partner will get

(i) Interest @ 6% p.a. on the Balance amount.

(ii) Share of profit earned proportionate to his amount outstanding to total capital of the firm.

(iii) Interest @ 9% p.a. on the balance amount.

Which out of the following is correct? [1 mark]

(A) (i)

(B) (ii)

(C) (iii)

(D) Have a choice to get either (i) or (ii)

Correct Answer: (D) Have a choice to get either (i) or (ii)

Solution:

Concept:

- Where the retiring partnerś amount remains unpaid and no agreement governs the settlement, the partner has an option over the return on that amount.
- The alternatives are interest at 6% per annum or the attributable share of subsequent profits.

Step 1: Assess statements (i) and (ii) The retiring partner may choose interest at 6% per annum on the amount outstanding. Alternatively, the partner may choose the share of profit attributable to the use of that unpaid amount in the business. Therefore both (i) and (ii) are available alternatives.

Step 2: Assess statement (iii) and the options Interest at 9% is not the stated default entitlement. Options (A) and (B) each give only one of the available alternatives; option (C) uses the wrong rate. Option (D) correctly recognises the retiring partnerś choice between (i) and (ii).

Step 3: Conclusion The correct option is (D): a choice to get either (i) or (ii).

Quick Tip to Solve: Remember the choice: six per cent interest or attributable profit, without claiming both.

4. The following information has been extracted from the financial statements of a not-for-profit-organization for the year ended 31st March, 2019.

Particulars	Amount (₹)
Opening balance of Match Fund	5,00,000
Sale of Match tickets	3,75,000
Donation for Match Fund received during the year	1,24,000
Match expenses	10,00,000

Which of the following statements is correct for the presentation of the above items in the financial statements of the not-for-profit-organization? [1 mark]

(A) Negative Balance of Match fund ₹ 1,000 will be shown on the liabilities side of the Balance sheet as at 31st March, 2019.

(B) Opening Balance of Match Fund ₹ 5,00,000 will be shown on the liabilities side of Balance Sheet as at 1-4-2018.

(C) Negative balance of match fund, ₹ 1,000 will be shown on the expenditure side of the Income and Expenditure Account for the year ended 31-3-2019.

(D) Both (b) and (c).

Correct Answer: (D) Both (b) and (c).

Solution:

Concept:

- A specific fund and receipts earmarked for its purpose are used to meet the related expenditure.
- Expenses exceeding the available specific fund are charged to the Income and Expenditure Account.

Step 1: Calculate the available fund and excess expense Available Match Fund $=$ Rs $5,00,000 +$ Rs $3,75,000 +$ Rs $1,24,000 =$ Rs $9,99,000$. Match expenses are Rs 10,00,000, so the excess expenditure is Rs 1,000.

Step 2: Check the statements The opening Match Fund of Rs 5,00,000 appears on the liabilities side of the opening Balance Sheet at 1 April 2018, so (b) is correct. The excess Rs 1,000 is charged on the expenditure side of the Income and Expenditure Account, so (c) is correct. A negative fund is not carried as a closing liability, making (a) incorrect.

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

Quick Tip to Solve: Add earmarked receipts to the opening fund before comparing the total with related expenses.

5. Anita and Babita were partners sharing profits and losses in the ratio of 3 : 1. Savita was admitted for 1/5th share in the profits. Savita was unable to bring her share of goodwill premium in cash. The journal entry recorded for goodwill premium is given below :

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Savita's Current A/c Dr.		24,000	
	To Anita's Capital A/c			8,000
	To Babita's Capital A/c			16,000
	(Being adjustment of goodwill premium on Savita's admission)			

The new profit sharing ratio of Anita, Babita and Savita, will be [1 mark]

(A) 41 : 7 : 12

(B) 13 : 12 : 10

(C) 3 : 1 : 1

(D) 5 : 3 : 2

Correct Answer: (A) 41 : 7 : 12

Solution:

Concept:

- Goodwill premium is credited to old partners in their sacrificing ratio.
- An old partnerś new share equals old share minus sacrifice.

Step 1: Derive each sacrifice The goodwill credits of Rs 8,000 and Rs 16,000 give Anita and Babita a sacrificing ratio of $1 : 2$. Savita receives $1/5$, so Anita sacrifices $(1/5)(1/3) = 1/15$, and Babita sacrifices $(1/5)(2/3) = 2/15$.

Step 2: Calculate and compare new shares Anitaś new share is $3/4 - 1/15 = 41/60$. Babitaś new share is $1/4 - 2/15 = 7/60$. Savitaś share is $1/5 = 12/60$. These add to one. Only option (A) gives these three shares; the other ratios do not reproduce both the old shares and the recorded goodwill credits.

Step 3: Conclusion The new ratio is $41 : 7 : 12$, option (A).

Quick Tip to Solve: Goodwill credits reveal sacrifices; do not distribute the incoming share in the old profit ratio.

6. Amla, Bimla and Kavita were partners sharing profits and losses in the ratio of 4 : 3 : 1. Bimla retires and gives her share of profit to Amla for ₹ 3,600 and to Kavita for ₹ 3,000. The gaining ratio of Amla and Kavita will be: [1 mark]

(A) 4 : 5

(B) 2 : 1

(C) 6 : 5

(D) 4 : 1

Correct Answer: (C) 6 : 5

Solution:

Concept:

- Gaining ratio is the ratio in which continuing partners acquire the retiring partnerś share.
- Payments for the same retiring share are proportional to the shares acquired.

Step 1: Use the consideration paid Amla and Kavita acquire Bimlaś share for Rs 3,600 and Rs 3,000 respectively. Their relative gains are therefore $3,600 : 3,000 = 6 : 5$. The old ratio need not be used to split the share when the acquisition proportions are already given.

Step 2: Verify using Bimla's share Bimlaś old share is $3/8$. Amla gains $(3/8)(6/11) = 18/88$, and Kavita gains $(3/8)(5/11) = 15/88$. Their total gain is $33/88 = 3/8$, confirming the allocation. Options (A), (B) and (D) do not match the payment ratio.

Step 3: Conclusion The gaining ratio is $6 : 5$, option (C).

Quick Tip to Solve: When partners pay for the retiring share at the same valuation, simplify their payments directly.

7. Capital Reserve is created out of _____ profits. [1 mark]

Solution:

Concept:

- Capital profits arise from capital transactions rather than normal revenue earning activities.
- Capital reserve is created by transferring capital profits to a reserve.

Step 1: Identify the source Capital Reserve is formed out of capital profits. These are profits of a capital nature, such as the surplus remaining on reissue of forfeited shares after adjusting the relevant discount on reissue.

Step 2: Distinguish revenue profits Revenue profits arise from ordinary business activities and generally form the basis of revenue reserves. The question asks for the nature of the profits used to create Capital Reserve, so the required word is capital rather than revenue. Capital reserve is also distinct from reserve capital, which concerns uncalled share capital.

Step 3: Conclusion The blank is capital.

Quick Tip to Solve: Link capital reserve with capital transaction profits; reserve capital refers to uncalled share capital.

8. Avya, Divya and Kavya were equal partners. They decided to change the profit sharing ratio to 4 : 3 : 2. For this purpose the goodwill of the firm was valued at ₹ 90,000. The journal entry for the treatment of Goodwill on change in profit sharing ratio will be: [1 mark]

(A) Kavya's Capital A/c Dr. ₹ 10,000 To Avya's Capital A/c ₹ 10,000

(B) Divya's Capital A/c Dr. ₹ 10,000 To Avya's Capital A/c ₹ 10,000

(C) Avya's Capital A/c Dr. ₹ 90,000 To Kavya's Capital A/c ₹ 90,000

(D) Avya's Capital A/c Dr. ₹ 10,000 To Kavya's Capital A/c ₹ 10,000

Correct Answer: (D) Avya's Capital A/c Dr. ₹ 10,000 To Kavya's Capital A/c ₹ 10,000

Solution:

Concept:

- A gaining partner compensates a sacrificing partner for goodwill without raising a goodwill asset.
- Compensation equals the firmś goodwill multiplied by the share gained or sacrificed.

Step 1: Compute gains and sacrifices The old equal shares are $3/9$ each. Avyaś share rises to $4/9$, giving a gain of $1/9$. Divya remains at $3/9$, while Kavya falls to $2/9$, sacrificing $1/9$. Thus Avya owes Kavya Rs $90,000 \times 1/9 =$ Rs $10,000$.

Step 2: Record the goodwill adjustment Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Avyaś Capital A/c Dr. To Kavyaś Capital A/c (Being compensation for goodwill on change in ratio)		10,000	 10,000

Option (A) reverses the entry, (B) wrongly charges Divya, and (C) uses the entire goodwill instead of the compensation amount.

Step 3: Conclusion The correct option is (D): debit Avya and credit Kavya by Rs 10,000.

Quick Tip to Solve: New share minus old share identifies the gaining partner, whose capital account is debited.

9. Mohit, Shobhit and Rohit are partners sharing profits and losses in the ratio 2 : 1 : 1. Rohit is guaranteed a profit of ₹ 14,000. The firm incurred a profit of ₹ 20,000 during the year. Calculate the amount of deficiency borne by Mohit and Shobhit. [1 mark]

Solution:

Concept:

- A guaranteed partner receives at least the guaranteed amount of profit.
- In the absence of a specified individual guarantor, the other partners bear the deficiency in their mutual profit sharing ratio.

Step 1: Find Rohit's deficiency Rohitś normal profit share is Rs $20,000 \times 1/4 =$ Rs $5,000$. His guaranteed amount is Rs 14,000. Therefore the deficiency is Rs $14,000 -$ Rs $5,000 =$ Rs $9,000$.

Step 2: Allocate the deficiency Mohit and Shobhit bear Rs 9,000 in their mutual ratio $2:1$. Mohit bears Rs $9,000 \times 2/3 =$ Rs $6,000$; Shobhit bears Rs $9,000 \times 1/3 =$ Rs $3,000$. Their final profit shares

are Rs 4,000 and Rs 2,000; adding Rohitś Rs 14,000 gives the total Rs 20,000.

Step 3: Conclusion Deficiency borne: Mohit Rs 6,000; Shobhit Rs 3,000.

Quick Tip to Solve: Calculate the guaranteed partnerś normal share first, then divide only the shortfall among guarantors.

10. Which of the following is not a purpose for which the Securities Premium amount can be used?

[1 mark]

(A) Issuing fully paid bonus shares to shareholders.

(B) Issuing partly paid up bonus shares to shareholders.

(C) Writing off preliminary expenses of the company.

(D) In purchasing its own shares (buy back)

Correct Answer: (B) Issuing partly paid up bonus shares to shareholders.

Solution:

Concept:

- Securities premium is a capital reserve whose application is restricted to the permitted purposes.
- A permitted bonus issue out of securities premium must consist of fully paid bonus shares.

Step 1: Check the bonus-share alternatives Issuing fully paid bonus shares is permitted, so option (A) is a valid use. Issuing partly paid bonus shares does not satisfy the fully paid condition, so option (B) is the prohibited use asked for.

Step 2: Check the remaining alternatives Writing off preliminary expenses is permitted. Purchase of the company's own shares under the buy-back provisions is also a permitted use. Thus neither (C) nor (D) answers the question.

Step 3: Conclusion The correct option is (B): issuing partly paid up bonus shares to shareholders.

Quick Tip to Solve: For a bonus issue from securities premium, check the words fully paid before selecting an option.

11. Tangible Assets of the firm are ₹ 14,00,000 and outside liabilities are ₹ 4,00,000. Profit of the firm is ₹ 1,50,000 and normal rate of return is 10%. The amount of Capital employed will be: [1 mark]

(A) ₹ 10,00,000

(B) ₹ 1,00,000

(C) ₹ 50,000

(D) ₹ 20,000

Correct Answer: (A) ₹ 10,00,000

Solution:

Concept:

- Capital employed is net tangible assets: Tangible assets − Outside liabilities.
- Outside liabilities represent claims of outsiders and are deducted to find the funds employed by the proprietors.

Step 1: Calculate net tangible assets

$$\begin{aligned} \text{Capital employed} &= \text{Rs } 14,00,000 - \text{Rs } 4,00,000 \\ &= \text{Rs } 10,00,000. \end{aligned}$$

Step 2: Distinguish capital employed from profit measures The given profit and normal return are not needed for this subtraction. Applying 10% to capital employed gives normal profit of Rs 1,00,000, which is option (B), not capital employed. The excess of actual profit over normal profit is Rs 50,000, option (C). Option (D) also does not equal net tangible assets.

Step 3: Conclusion Capital employed is Rs $10,00,000$. Hence the correct option is (A).

Quick Tip to Solve: Subtract outside liabilities from tangible assets first; use the return rate only when normal profit is requested.

12. Income and Expenditure Account records: [1 mark]

(A) Receipts and Payments of Revenue and Capital nature both.

(B) Income and Expenditure of Revenue nature only.

(C) Expenditure of Capital nature only.

(D) Receipts of Revenue nature only.

Correct Answer: (B) Income and Expenditure of Revenue nature only.

Solution:

Concept:

- The Income and Expenditure Account records revenue income and revenue expenditure relating to the accounting period on the accrual basis.
- Capital receipts and capital expenditure are excluded from this account and are dealt with through the balance sheet.

Step 1: Identify what the account measures The account determines the surplus or deficit for the period by comparing revenue income with revenue expenditure. It includes both sides, so a statement referring only to receipts or only to expenditure is incomplete.

Step 2: Evaluate the alternatives Option (B) correctly includes income and expenditure of revenue nature only. Option (A) describes the coverage of a Receipts and Payments Account, including capital cash flows. Option (C) incorrectly includes only capital expenditure, while (D) includes only revenue receipts.

Step 3: Conclusion The correct option is (B): income and expenditure of revenue nature only.

Quick Tip to Solve: Use revenue plus accrual as the identifying features of an Income and Expenditure Account.

13. When the business of the firm becomes illegal, the way of dissolution of the firm is _____. [1 mark]

Solution:

Concept:

- A firm cannot legally continue a business that has become unlawful.
- Compulsory dissolution arises when the business of the firm becomes illegal.

Step 1: Identify the event The question states that the business itself has become illegal. The partners therefore lose the lawful basis for continuing that business together as a firm.

Step 2: Classify the dissolution This is compulsory dissolution: it follows from the illegality of the business. It does not depend on the partners choosing to dissolve by agreement, giving notice, or obtaining a court order in an ordinary dispute.

Step 3: Conclusion The blank is compulsory dissolution.

Quick Tip to Solve: When the business becomes unlawful, connect illegality directly with compulsory dissolution.

14. On 31st March 2018 SS Ltd. had 50,000 10% debentures of ₹ 100 each outstanding. These debentures were due for redemption on 31st March, 2019. Debenture Redemption Reserve has a balance of ₹ 5,00,000 on 31st March, 2018. Ignoring the entries for interest, pass the necessary journal entries for redemption of debentures. [3 marks]

Solution:

Concept:

- For this redemption, Debenture Redemption Reserve (DRR) is created at 25% of the nominal value, crediting only the shortfall after the existing reserve.
- Debenture Redemption Investment (DRI) is made by 30th April for at least 15 percent of the debentures redeemable during the financial year.
- Redemption at par creates an amount due to debentureholders; payment extinguishes that liability.

After redemption the DRR is transferred to General Reserve.

Step 1: Calculate the reserve and investment

$$\begin{aligned}\text{Nominal amount} &= 50,000 \times \text{Rs } 100 = \text{Rs } 50,00,000,\\ \text{Required DRR} &= 25\% \times \text{Rs } 50,00,000 = \text{Rs } 12,50,000,\\ \text{Additional DRR} &= \text{Rs } 12,50,000 - \text{Rs } 5,00,000 = \text{Rs } 7,50,000,\\ \text{Required DRI} &= 15\% \times \text{Rs } 50,00,000 = \text{Rs } 7,50,000.\end{aligned}$$

The debentures fall due during 2018-19, so the investment is made by 30th April 2018. The existing reserve is not created again.

Step 2: Record reserve creation and investment Journal of SS Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2018-19	Surplus in Statement of Profit and Loss A/c Dr.		7,50,000	
	To Debenture Redemption Reserve A/c			7,50,000
	(Being additional DRR created before redemption)			
30 Apr 2018	Debenture Redemption Investment A/c Dr.		7,50,000	
	To Bank A/c			7,50,000
	(Being 15 percent of the amount due invested)			

Step 3: Record redemption and transfer the reserve Journal of SS Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2019	Bank A/c Dr.		7,50,000	
	To Debenture Redemption Investment A/c			7,50,000
	(Being investment realised at book value)			
31 Mar 2019	10% Debentures A/c Dr.		50,00,000	
	To Debentureholders A/c			50,00,000
	(Being debentures due for redemption at par)			
31 Mar 2019	Debentureholders A/c Dr.		50,00,000	
	To Bank A/c			50,00,000
	(Being amount paid to debentureholders)			
31 Mar 2019	Debenture Redemption Reserve A/c Dr.		12,50,000	
	To General Reserve A/c			12,50,000
	(Being entire DRR transferred after redemption)			

Step 4: Conclusion SS Ltd. redeems debentures of Rs 50,00,000 at par; additional DRR is Rs 7,50,000 and DRI is Rs 7,50,000.

Quick Tip to Solve: Deduct existing DRR from the required reserve, but calculate investment on the full amount redeemable.

OR

14. X Ltd. has 4,000 12% debentures of ₹ 100 each on 1st April, 2018. According to the terms of issue interest on debentures is payable half yearly on 30th September and 31st March and the rate of tax deducted at source is 10%. Pass necessary journal entries for interest on debentures for the year 2018-19. [3 marks]

Solution:

Concept:

- Debenture interest is a charge against profit. Interest for a half-year is nominal value multiplied by annual rate multiplied by $6/12$.
- Tax deducted at source (TDS) is withheld from gross interest; only net interest is paid to holders. The tax liability is discharged when remitted to the government.

Step 1: Calculate each half-year payment

$$\text{Nominal value} = 4,000 \times \text{Rs } 100 = \text{Rs } 4,00,000,$$

$$\text{Half-yearly interest} = \text{Rs } 4,00,000 \times 12\% \times \frac{6}{12} = \text{Rs } 24,000,$$

$$\text{TDS} = 10\% \times \text{Rs } 24,000 = \text{Rs } 2,400,$$

$$\text{Net interest} = \text{Rs } 24,000 - \text{Rs } 2,400 = \text{Rs } 21,600.$$

Both half-years have the same principal and interest rate.

Step 2: Record the September interest Journal of X Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30 Sep 2018	Debenture Interest A/c Dr.		24,000	
	To Debentureholders A/c			21,600
	To Income Tax Payable A/c			2,400
	(Being half-yearly interest due after deduction of tax at source)			
30 Sep 2018	Debentureholders A/c Dr.		21,600	
	To Bank A/c			21,600
	(Being net interest paid to debentureholders)			
30 Sep 2018	Income Tax Payable A/c Dr.		2,400	
	To Bank A/c			2,400
	(Being tax deducted at source remitted to the government)			

Step 3: Record the March interest Journal of X Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2019	Debenture Interest A/c Dr.		24,000	
	To Debentureholders A/c			21,600
	To Income Tax Payable A/c			2,400
	(Being half-yearly interest due after deduction of tax at source)			
31 Mar 2019	Debentureholders A/c Dr.		21,600	
	To Bank A/c			21,600
	(Being net interest paid to debentureholders)			
31 Mar 2019	Income Tax Payable A/c Dr.		2,400	
	To Bank A/c			2,400
	(Being tax deducted at source remitted to the government)			

The tax-remittance entries are recorded on remittance to the government; they are shown with the respective instalments here.

Step 4: Transfer the annual interest expense Journal of X Ltd. (annual transfer)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2019	Statement of Profit and Loss A/c Dr.		48,000	
	To Debenture Interest A/c			48,000
	(Being annual debenture interest transferred to profit and loss)			

Step 5: Conclusion Annual gross interest is Rs 48,000; total TDS is Rs 4,800 and total net interest paid is Rs 43,200.

Quick Tip to Solve: Compute gross interest first, withhold 10 percent of that interest, and transfer the full gross annual expense.

15. From the following information, calculate the amount of sports material that will be debited to the 'Income and Expenditure Account' of Bright Sports Club for the year ended 31-3-2019.

Particulars	1st April, 2018 (₹)	31st March, 2019 (₹)
Stock of Sports Material	1,10,000	1,50,000
Creditors for Sports Material	25,000	60,000
Advance paid for Sports Material	25,000	70,000

Additional Information: Cash purchase of sports material during the year was ₹ 2,50,000. ₹ 1,50,000 were paid to the creditors of sports material. [4 marks]

Solution:

Concept:

- Sports material consumed, rather than cash paid, is charged to the Income and Expenditure Account: consumption = opening stock + purchases - closing stock.
- Purchases on accrual basis equal payments plus closing creditors minus opening creditors, adjusted

by adding opening advances and subtracting closing advances. An advance is an asset until material is received.

Step 1: Convert payments into purchases Payments for material comprise cash purchases of Rs 2,50,000 and payments to suppliers of Rs 1,50,000. Opening creditors relate to earlier purchases and must be removed; closing creditors represent current purchases still unpaid. Similarly, opening advances are available against current supplies, whereas closing advances relate to material not yet received.

$$\begin{aligned}\text{Purchases} &= 2,50,000 + 1,50,000 + 60,000 - 25,000 \\ &\quad + 25,000 - 70,000 \\ &= \text{Rs } 3,90,000.\end{aligned}$$

The increase in advances of Rs 45,000 reduces purchases relative to payments. The increase in creditors of Rs 35,000 increases purchases relative to payments.

Step 2: Determine material used during the year Stock retained at the year end is not an expense of this year. Add the opening stock to purchases to obtain material available for use, then deduct the unused closing stock.

Particulars	Amount (Rs)
Opening stock of sports material	1,10,000
Add: Purchases during the year	3,90,000
Material available for use	5,00,000
Less: Closing stock	1,50,000
Sports material consumed	3,50,000

The stock rises by Rs 40,000, so consumption is Rs 40,000 below purchases. Neither creditors nor advances are separately charged as expenses; their effects have already been included in the accrual calculation.

Step 3: Conclusion The amount debited as sports material consumed to the Income and Expenditure Account for the year ended 31-3-2019 is $\boxed{\text{Rs } 3,50,000}$.

Quick Tip to Solve: First adjust payments for creditors and advances; adjust opening and closing stock only after finding purchases.

16. A and B are partners sharing profits and losses in the ratio of 3 : 2. Their capital on 31st March, 2018 after all adjustments stood at ₹ 1,65,500 and ₹ 1,27,600 respectively.

Profits amounting to ₹ 50,000 for the year 2017-18 were distributed after allowing interest on drawings @ 12% p.a. During the year A withdrew ₹ 15,000 at the beginning of every quarter and B withdrew ₹ 40,000 during the year. Partnership deed is silent on interest on drawings but provides for interest on Capital @ 5% p.a. Interest on Capital has not been provided.

Showing your workings clearly, pass the necessary adjustment entry to rectify the above errors.

[4 marks]

Solution:

Concept:

- Interest on drawings cannot be charged when the partnership deed is silent. Reverse the interest charged and its corresponding distribution in the profit-sharing ratio of $3 : 2$.
- Interest on capital is calculated on opening capital at the agreed rate of 5%. A single adjustment entry transfers the net excess credit from one partner to the other.

Step 1: Reconstruct drawings interest and opening capitals A withdrew Rs 15,000 at the beginning of each quarter, giving total drawings of Rs 60,000 and an average period of $(12 + 9 + 6 + 3)/4 = 7.5$ months. For B's drawings, whose dates are unspecified, use six months.

$$I_A = 60,000 \times \frac{12}{100} \times \frac{7.5}{12} = \text{Rs } 4,500, \qquad I_B = 40,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 2,400.$$

The Rs 50,000 already distributed gives profit shares of Rs 30,000 and Rs 20,000. Reverse those credits and restore drawings, including the interest debited, to reconstruct opening capital:

$$C_A = 1,65,500 + 60,000 + 4,500 - 30,000 = \text{Rs } 2,00,000,$$
$$C_B = 1,27,600 + 40,000 + 2,400 - 20,000 = \text{Rs } 1,50,000.$$

Thus omitted interest on capital is Rs 10,000 for A and Rs 7,500 for B.

Step 2: Calculate the net correction Reverse total drawings interest of Rs 6,900 and remove its profit credits in the ratio 3:2. Credit the omitted capital interest of Rs 17,500 and debit the corresponding reduction in divisible profit in that same ratio.

Adjustment	A (Rs)	B (Rs)
Reverse drawings interest: credit	4,500	2,400
Remove its profit distribution: debit	4,140	2,760
Allow interest on capital: credit	10,000	7,500
Reduce profit for capital interest: debit	10,500	7,000
Total credits	14,500	9,900
Total debits	14,640	9,760
Net adjustment	140 debit	140 credit

As an independent check, actual profit before the wrongly charged drawings interest is Rs 43,100. After capital interest, Rs 25,600 remains divisible. Correct net credits are therefore Rs 25,360 and Rs 17,740, against the former net credits of Rs 25,500 and Rs 17,600.

Step 3: Pass the adjustment entry Journal of A and B

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	A's Capital A/c Dr. To B's Capital A/c (Being the net correction of wrongly charged interest on drawings and omitted interest on capital)		140	 140

A's capital is reduced because A previously received Rs 140 more than the correct entitlement; B's capital is increased by the same amount.

Step 4: Conclusion Debit A's Capital Account and credit B's Capital Account by $\boxed{\text{Rs } 140}$.

Quick Tip to Solve: Reconstruct opening capital using the profit actually distributed; reverse both drawings interest and the profit credit arising from it.

OR

16. Arun, Shobha and Yuvraj were partners in a firm. On 1st April, 2018 their Fixed Capitals Stood at ₹ 1,00,000, ₹ 50,000 and ₹ 50,000 respectively.

As per the provisions of partnership deed:

(i) Partners were entitled to an annual salary of ₹ 20,000 each.

(ii) Interest on Capital @ 10% p.a. was to be provided.

(iii) Profits were to be shared in the ratio 3 : 1 : 1. Net profit for the year ended 31st March, 2019 was ₹ 90,000.

Pass Journal Entries for the above in the books of the firm. [4 marks]

Solution:

Concept:

- Partners' salary and interest on capital are appropriations of profit under the partnership deed; they are debited to Profit and Loss Appropriation Account.
- With fixed capitals, all salary, interest and shares of profit are credited to the partners' Current Accounts; the fixed Capital Accounts remain unchanged.
- Residual profit equals net profit less salary and interest on capital and is divided in the agreed ratio $3:1:1$.

Step 1: Calculate the appropriations Each partner's annual salary is Rs 20,000, so total salary is $3 \times 20,000 = \text{Rs } 60,000$. Interest on the opening fixed capitals for the full year is:

$$\begin{aligned} \text{Arun} &= 1,00,000 \times 10\% = \text{Rs } 10,000, \\ \text{Shobha} &= 50,000 \times 10\% = \text{Rs } 5,000, \\ \text{Yuvraj} &= 50,000 \times 10\% = \text{Rs } 5,000. \end{aligned}$$

Thus, total interest on capital is Rs 20,000. Profit remaining for distribution is $90,000 - 60,000 -$

$20,000 =$ Rs $10,000$. Arun receives $10,000 \times 3/5 =$ Rs $6,000$; Shobha and Yuvraj receive Rs 2,000 each.

Step 2: Record the journal entries Journal of the Firm (31st March, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Being net profit transferred for appropriation)		90,000	 90,000
31-3-2019	Profit and Loss Appropriation A/c Dr. To Arun's Current A/c To Shobha's Current A/c To Yuvraj's Current A/c (Being annual salaries allowed under the deed)		60,000	 20,000 20,000 20,000
31-3-2019	Profit and Loss Appropriation A/c Dr. To Arun's Current A/c To Shobha's Current A/c To Yuvraj's Current A/c (Being interest on fixed capitals allowed at 10% p.a.)		20,000	 10,000 5,000 5,000
31-3-2019	Profit and Loss Appropriation A/c Dr. To Arun's Current A/c To Shobha's Current A/c To Yuvraj's Current A/c (Being remaining profit distributed in ratio 3:1:1)		10,000	 6,000 2,000 2,000

The appropriation debits total Rs 90,000, exactly matching the transferred net profit. Total credits to the three Current Accounts are Rs 36,000, Rs 27,000 and Rs 27,000 respectively.

Step 3: Conclusion Residual profit is Rs 10,000, shared as Arun Rs 6,000, Shobha Rs 2,000 and Yuvraj Rs 2,000, after salary and interest on capital.

Quick Tip to Solve: For fixed capitals, credit every appropriation to Current Accounts and divide only the remaining profit in the profit-sharing ratio.

17. From the following Receipts and Payments Account of Shyam Music Club for the year ended 31st March, 2019 and additional information, prepare Income and Expenditure Account for the year ended 31-3-2019.

Receipts and Payments Account of Shyam Music Club for the year ended 31-3-2019

Receipts	Amount	Payments	Amount
To Balance b/d: Cash 10,000; Bank 15,000	25,000	By Honorarium	71,000
To Subscriptions: 2017-18 13,000; 2018-19 2,00,000; 2019-20 17,000	2,30,000	By Musical Instruments	40,000
To Locker Rent	8,000	By Electricity Bill	31,000
To Sale of old furniture (book value ₹ 10,000)	15,000	By Balance c/d: Cash 50,000; Bank 40,500; Fixed Deposit (@ 7% p.a. on 31-3-2019) 1,15,000	2,05,500
To Building Fund Donations	45,000		
To Life Membership Fee	19,500		
To Admission Fee	5,000		
Total	3,47,500		3,47,500

Additional Information:

(i) The Club had 225 members each paying an annual subscription of ₹ 1,000.

(ii) Musical instruments were purchased on 1-10-2018. Depreciation @ 15% p.a. was to be charged on musical instruments. [4 marks]

Solution:

Concept:

- The Income and Expenditure Account records revenue income and revenue expenditure for the current accounting year on the accrual basis.
- Capital receipts and payments are excluded; only the profit on sale of a fixed asset is revenue income. Depreciation is a revenue expense.
- Annual subscription income equals the number of members multiplied by each member's annual subscription.

Step 1: Adjust revenue income Subscription income for 2018-19 is $225 \times 1,000 = \text{Rs } 2,25,000$. Of this, Rs 2,00,000 was received for 2018-19; the balance Rs 25,000 is outstanding. The Rs 13,000 received for 2017-18 belongs to the previous year, while Rs 17,000 received for 2019-20 is an advance for the next year, so neither is current income.

Locker rent of Rs 8,000 and admission fee of Rs 5,000 are revenue receipts. With no direction to capitalise admission fee, it is included as income. Profit on sale of old furniture is $15,000 - 10,000 = \text{Rs } 5,000$; the full sale proceeds are not income. Building fund donations of Rs 45,000 are for a specific

purpose and life membership fee of Rs 19,500 is a capital receipt; both are excluded from this account.

Step 2: Calculate depreciation and classify other payments Musical instruments costing Rs 40,000 were bought on 1st October, 2018. Their purchase is a capital payment. Charge depreciation for six months, from October to March:

$$\text{Depreciation} = 40,000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs } 3,000.$$

Honorarium of Rs 71,000 and electricity bill of Rs 31,000 are current revenue expenses. Opening and closing cash and bank balances are assets, not income or expenditure. The fixed deposit was made on 31st March, 2019, the closing date; no period of interest has accrued in this accounting year. Therefore no annual interest of Rs 8,050 is credited.

Step 3: Prepare the Income and Expenditure Account Shyam Music Club
Income and Expenditure Account for the year ended 31st March, 2019

Expenditure	Amount (Rs)	Income	Amount (Rs)
To Honorarium	71,000	By Subscriptions	2,25,000
To Electricity bill	31,000	By Locker rent	8,000
To Depreciation on instruments	3,000	By Profit on sale of furniture	5,000
To Surplus (capital fund)	1,38,000	By Admission fee	5,000
Total	2,43,000	Total	2,43,000

Total revenue expenditure before surplus is $71,000 + 31,000 + 3,000 = \text{Rs } 1,05,000$. Total income is $2,25,000 + 8,000 + 5,000 + 5,000 = \text{Rs } 2,43,000$. The excess of income over expenditure is transferred to the capital fund.

Step 4: Conclusion The Income and Expenditure Account shows a surplus of Rs 1,38,000 for the year ended 31st March, 2019.

Quick Tip to Solve: Use 225 times Rs 1,000 for subscription income; charge only six months depreciation and include only the furniture sale profit.

18. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. Y died on 24th June, 2018. On Y's death goodwill of the firm was valued at ₹ 1,20,000. Y's share in the profits of the firm till the date of death from the last Balance Sheet was to be calculated on the basis of sales. Sales during the year 2017-18 was ₹ 15,00,000 and profit earned during the year was ₹ 3,00,000. Sales from 1st April, 2018 to 24th June, 2018 were ₹ 2,00,000. The total amount payable to Y's executors on his death was ₹ 1,75,000. This amount was paid to them on 15-7-2018. Pass the necessary journal entries for the above transactions in the books of the firm. [4 marks]

Solution:

Concept:

- On death, the deceased partner's goodwill share is credited to the capital account and debited to the continuing partners in their gaining ratio.
- Profit estimated on sales equals current-period sales multiplied by the previous year's net profit-to-

sales ratio; the deceased partner receives the old profit-sharing fraction.

- The final amount due is transferred from the deceased partner's capital to the executor's account, which is debited on payment.

Step 1: Calculate goodwill compensation Y's share of goodwill is Rs $1,20,000 \times 2/5 =$ Rs $48,000$. With no change specified for the continuing partners, X and Z continue in their relative old ratio $2 : 1$, which is also their gaining ratio. Hence X bears $48,000 \times 2/3 =$ Rs $32,000$, and Z bears $48,000 \times 1/3 =$ Rs $16,000$. The goodwill adjustment is made directly through capitals; goodwill is not raised in the books.

Step 2: Estimate Y's profit up to death The previous year's profit-to-sales ratio is $3,00,000/15,00,000 = 20\%$. Estimated firm profit from 1 April to 24 June 2018 is $2,00,000 \times 20\% =$ Rs $40,000$. Y's share is $40,000 \times 2/5 =$ Rs $16,000$. Since this is an interim estimate, Profit and Loss Suspense Account is debited and Y's Capital Account is credited. Do not apply a time fraction as well: the sales figure already covers the period up to death.

Step 3: Record the adjustments and settlement Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
24-6-2018	X's Capital A/c Dr.		32,000	
	Z's Capital A/c Dr.		16,000	
	To Y's Capital A/c			48,000
	(Being Y's goodwill share adjusted in gaining ratio.)			
24-6-2018	Profit and Loss Suspense A/c Dr.		16,000	
	To Y's Capital A/c			16,000
	(Being Y's estimated share of profit credited.)			
24-6-2018	Y's Capital A/c Dr.		1,75,000	
	To Y's Executors' A/c			1,75,000
	(Being total amount due transferred to executors.)			
15-7-2018	Y's Executors' A/c Dr.		1,75,000	
	To Bank A/c			1,75,000
	(Being executors paid in full.)			

The total payable of Rs 1,75,000 is supplied directly. It already includes the above adjustments, so it is transferred once, without adding goodwill or interim profit again.

Step 4: Conclusion Y is credited with goodwill of Rs 48,000 and interim profit of Rs 16,000. The final liability of Rs 1,75,000 is transferred to Y's Executors' Account and paid on 15 July 2018.

Quick Tip to Solve: Calculate interim profit using sales alone; do not multiply the sales-based estimate by months again.

19. Harish and Gopal were partners in a firm sharing profits in the ratio of 3 : 2. On 31st March, 2018, their Balance Sheet was as follows:

Liabilities	Amount	Assets	Amount
Creditors	36,000	Cash	47,000
Outstanding expenses	10,000	Bank	93,000
Gopal's wife's loan	50,000	Debtors	76,000
Capitals: Harish 2,80,000 Gopal 1,60,000	4,40,000	Stock	2,00,000
		Furniture	20,000
		Leasehold premises	1,00,000
Total	5,36,000	Total	5,36,000

On the above date the firm was dissolved. The various assets were realized and liabilities were settled as under:

(i) Gopal agreed to pay his wife's loan.

(ii) Leasehold premises realised ₹ 1,50,000 and Debtors ₹ 12,000 less.

(iii) Half of the creditors agreed to accept furniture of the firm as full settlement of their claim and remaining half agreed to accept 10% less.

(iv) 50% stock was taken over by Harish on payment by cheque of ₹ 90,000 and remaining stock was sold for ₹ 94,000.

(v) Realization expenses of ₹ 10,000 were paid by Gopal on behalf of the firm.

Prepare Realization Account. [6 marks]

Solution:

Concept:

- Transfer non-cash assets to the debit and outside liabilities to the credit of Realisation Account at book value; cash, bank and partners' capitals are excluded.
- Realisation Account records actual receipts, settlement payments and expenses. A liability assumed by a partner credits that partner's capital account.
- Realisation profit or loss is transferred to partners in their old profit-sharing ratio, here $3 : 2$.

Step 1: Transfer assets and external liabilities The assets transferred total $76,000 + 2,00,000 + 20,000 + 1,00,000 =$ Rs $3,96,000$. Cash of Rs 47,000 and bank of Rs 93,000 are retained outside Realisation Account. Transfer creditors Rs 36,000, outstanding expenses Rs 10,000 and Gopal's wife's loan Rs 50,000 to the credit. A partner's wife's loan is an outside liability; it is not treated as a partner's own loan.

Step 2: Determine receipts and payments Debtors realise $76,000 - 12,000 =$ Rs $64,000$, and premises realise Rs 1,50,000. Harish pays Rs 90,000 by cheque for half the stock, so this is a bank receipt, not a debit to his capital. The other half realises Rs 94,000. Total bank receipts are $1,50,000 + 64,000 + 90,000 + 94,000 =$ Rs $3,98,000$. Half the creditors, Rs 18,000, take furniture in full settlement; no separate entry is needed after both furniture and creditors have been transferred. The remaining creditors receive $18,000 \times 90\% =$ Rs $16,200$. Outstanding expenses of Rs 10,000 are settled at book

value because no concession is given. Bank payments therefore total Rs 26,200. Gopal assumes his wife's loan of Rs 50,000 and personally pays expenses of Rs 10,000, so his capital is credited with these amounts.

Step 3: Prepare the balanced account Realisation Account as at 31 March 2018

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Debtors	76,000	By Creditors	36,000	
	To Stock	2,00,000	By Outstanding expenses	10,000	
	To Furniture	20,000	By Gopal's wife's loan	50,000	
	To Leasehold premises	1,00,000	By Bank (assets realised)	3,98,000	
	To Bank (liabilities paid)	26,200			
	To Gopal's Capital (loan)	50,000			
	To Gopal's Capital (expenses)	10,000			
	To Harish's Capital (profit)	7,080			
	To Gopal's Capital (profit)	4,720			
	Total	4,94,000	Total	4,94,000	

Before distributing profit, the credit total is Rs 4,94,000 and the debit total is Rs 4,82,200. Hence the profit is Rs 11,800, shared as $11,800 \times 3/5 = \text{Rs } 7,080$ to Harish and $11,800 \times 2/5 = \text{Rs } 4,720$ to Gopal. The account closes by these transfers; no balance is carried forward after dissolution.

Step 4: Conclusion Realisation profit is Rs 11,800: Harish receives Rs 7,080 and Gopal Rs 4,720. Both sides of Realisation Account total Rs 4,94,000.

Quick Tip to Solve: When a partner pays by cheque for stock, credit Realisation through Bank; when a partner assumes a liability, credit the partner's capital.

OR

19. Sudha, Naresh and Geeta were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Their fixed capitals were ₹ 6,00,000; ₹ 4,00,000 and ₹ 2,00,000 respectively. Besides her capital Geeta had given a loan of ₹ 75,000 to the firm. Their partnership deed provided for the following:

(i) Interest on capital @ 9% p.a.

(ii) Interest on partners' drawings @ 12% p.a.

(iii) Salary to Sudha ₹ 30,000 per month and to Naresh ₹ 40,000 per quarter.

(iv) Interest on Geeta's loan @ 9% p.a.

During the year Sudha withdrew ₹ 50,000 at the end of each quarter; Naresh withdrew ₹ 50,000 in the beginning of each half year and Geeta withdrew ₹ 70,000 at the end of each half year. The profit of the firm for the year ended 31-3-2019 before allowing interest on Geeta's loan was ₹ 7,06,750. Prepare Profit and Loss Appropriation Account. [6 marks]

Solution:

Concept:

- Interest on a partner's loan is a charge against profit; deduct it before appropriating profit among partners.
- Interest on fixed capitals and partners' salaries are appropriations. The remaining profit is divided

in the agreed ratio $5:3:2$.

- Interest on drawings is credited to the Appropriation Account. For equal periodic drawings, use total drawings multiplied by the annual rate and the average time.

Step 1: Determine profit available for appropriation Geeta's loan interest is $75,000 \times 9/100 = \text{Rs } 6,750$. Hence the profit transferred from Profit and Loss Account is $7,06,750 - 6,750 = \text{Rs } 7,00,000$. This interest is not debited again to the Appropriation Account.

Step 2: Calculate interest on drawings Sudha draws at quarter ends, so the four drawings remain outstanding for 9, 6, 3 and 0 months. Her interest is $50,000 \times 12/100 \times (9+6+3+0)/12 = \text{Rs } 9,000$. Naresh draws at the beginning of each half year: $50,000 \times 12/100 \times (12+6)/12 = \text{Rs } 9,000$. Geeta draws at half-year ends: $70,000 \times 12/100 \times (6+0)/12 = \text{Rs } 4,200$. Total interest on drawings is therefore Rs 22,200.

Step 3: Calculate appropriations and residual profit Interest on capitals is: Sudha $6,00,000 \times 9\% = \text{Rs } 54,000$; Naresh $4,00,000 \times 9\% = \text{Rs } 36,000$; Geeta $2,00,000 \times 9\% = \text{Rs } 18,000$. Total capital interest is Rs 1,08,000. Annual salaries are $30,000 \times 12 = \text{Rs } 3,60,000$ for Sudha and $40,000 \times 4 = \text{Rs } 1,60,000$ for Naresh. Residual profit is $7,00,000 + 22,200 - 1,08,000 - 5,20,000 = \text{Rs } 94,200$. Its shares are Rs 47,100, Rs 28,260 and Rs 18,840 respectively.

Step 4: Prepare the Profit and Loss Appropriation Account Profit and Loss Appropriation Account for the year ended 31 March 2019

Dr.	Particulars	Rs	Particulars	Rs	Cr.
	To Interest on capitals:		By Profit and Loss A/c	7,00,000	
	Sudha	54,000	By Interest on drawings:		
	Naresh	36,000	Sudha	9,000	
	Geeta	18,000	Naresh	9,000	
	To Salary:		Geeta	4,200	
	Sudha	3,60,000			
	Naresh	1,60,000			
	To Profit transferred to partners' current accounts:				
	Sudha	47,100			
	Naresh	28,260			
	Geeta	18,840			
	Total	7,22,200	Total	7,22,200	

Since capitals are fixed, all appropriations and drawings-related adjustments belong in current accounts. The account closes by transferring the residual profit; no balance is carried forward.

Step 5: Conclusion Residual profit of Rs 94,200 is credited to current accounts: Sudha Rs 47,100, Naresh Rs 28,260 and Geeta Rs 18,840. The Appropriation Account totals Rs 7,22,200 on each side.

Quick Tip to Solve: Use 4.5 months for quarter-end drawings, 9 months for half-year-beginning drawings and 3 months for half-year-end drawings.

20. Pass journal entries in the book of X Ltd. in the following cases:

(i) The Company took a loan of ₹ 1,60,000 from SBI and issued 2,000, 12% debentures of ₹ 100 each as collateral security.

(ii) Issued 1,000, 12% debentures of ₹ 100 each at 10% premium, redeemable at a premium of 5%.

(iii) Purchased machinery ₹ 4,60,000, from Beta Ltd. Payment was made by issue of 9% debentures of ₹ 100 each at a premium of 15% redeemable at par. [6 marks]

Solution:

Concept:

- Collateral security is additional security for a loan. Under the entry method, debit Debenture Suspense Account and credit Debentures Account for their nominal amount.
- Premium on issue is credited to Securities Premium Reserve; premium payable on redemption is credited to Premium on Redemption of Debentures Account and debited to Loss on Issue of Debentures Account.
- When debentures settle a vendor's claim, divide purchase consideration by issue price to obtain their number.

Step 1: Record the bank loan and collateral debentures The loan proceeds are Rs 1,60,000. Collateral debentures have face value $2,000 \times 100 =$ Rs $2,00,000$. They provide security; they do not bring a further bank receipt. The following uses the entry method for recording collateral security.

Journal of X Ltd. — case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To SBI Loan A/c (Being loan received from SBI)		1,60,000	 1,60,000
	Debenture Suspense A/c Dr. To 12% Debentures A/c (Being 2,000 debentures issued as collateral security for the SBI loan)		2,00,000	 2,00,000

Alternatively, if collateral security is recorded only by a note, the second entry is omitted and the collateral issue is disclosed with the secured loan. Do not credit Bank for collateral debentures.

Step 2: Record debentures issued at premium and redeemable at premium Nominal value is $1,000 \times 100 =$ Rs $1,00,000$. The issue premium is Rs 10,000, so cash received is Rs 1,10,000. Redemption premium is $1,00,000 \times 5\% =$ Rs $5,000$, recognised as loss on issue and a redemption liability.

Journal of X Ltd. — case (ii)

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

	Bank A/c Dr.
	Loss on Issue of Debentures A/c Dr.
	  To 12% Debentures A/c
	  To Securities Premium Reserve A/c
	  To Premium on Redemption of Debentures A/c
	(Being 1,000 debentures issued at 10% premium, redeemable at 5% premium)
			1,10,000
			5,000
				
				1,00,000
				10,000
				5,000

Total debit and credit are each Rs 1,15,000. The coupon rate of 12% determines interest and does not

change these issue amounts.

Step 3: Record machinery purchase and settlement with debentures Issue price per debenture is $100 + 15 =$ Rs 115. Number issued is $4,60,000/115 = 4,000$. Their nominal value is Rs 4,00,000 and securities premium is Rs 60,000. As redemption is at par, there is no redemption premium or loss on issue.

Journal of X Ltd. — case (iii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Machinery A/c Dr. To Beta Ltd. A/c (Being machinery purchased from Beta Ltd.)		4,60,000	 4,60,000
	Beta Ltd. A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being vendor paid by 4,000 debentures issued at 15% premium, redeemable at par)		4,60,000	 4,00,000 60,000

Step 4: Conclusion The collateral issue is Rs 2,00,000 nominal; case (ii) records Rs 10,000 issue premium and Rs 5,000 redemption premium; Beta Ltd. receives 4,000 debentures with Rs 60,000 issue premium.

Quick Tip to Solve: For machinery settlement divide Rs 4,60,000 by Rs 115, not Rs 100; the issue premium forms part of the amount paid to Beta Ltd.

21. Zee Ltd. invited applications for issuing 3,40,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The amount was payable as follows: On application ₹ 4 per share (including ₹ 2 premium); On allotment ₹ 5 per share (including ₹ 2 premium); On First and Final call – Balance.

Applications for 6,00,000 shares were received. Application for 1,80,000 shares were rejected and application money was refunded. Shares were allotted on prorata basis to the remaining applicants. Excess money received with applications was adjusted towards sum due on allotment. Yamini who had applied for 2100 shares failed to pay allotment money and her shares were forfeited immediately. Vani to whom 6800 shares were allotted paid her entire share money due on allotment. Afterwards First and Final call was made and was duly received. Out of the forfeited shares 850 shares were reissued to Vansh at ₹ 8 per share fully paid up. Pass necessary journal entries for the above transactions in the books of the company by opening calls-in-arrears and calls-in-advance accounts. [8 marks]

Solution:

Concept:

- Excess application money is adjusted against allotment. Calls-in-advance is a liability until the call becomes due; calls-in-arrears records the unpaid amount.
- On forfeiture, debit Share Capital with called-up nominal capital and reverse only unpaid premium already credited. Transfer the forfeiture surplus on reissued shares to Capital Reserve.

Step 1: Calculate allotment and defaulters Valid applications are for $6,00,000 - 1,80,000 = 4,20,000$ shares, giving the allotment ratio $3,40,000 : 4,20,000 = 17 : 21$. Application receipts are Rs 24,00,000;

refund is Rs 7,20,000. Application due on allotted shares is Rs 13,60,000 and excess adjusted on allotment is Rs 3,20,000.

Yamini receives $2,100 \times 17/21 = 1,700$ shares. Her application payment is Rs 8,400, of which Rs 6,800 is application due and Rs 1,600 is excess. Her allotment arrears are $1,700 \times 5 - 1,600 =$ Rs $6,900$. The excess is credited against the capital portion of allotment; unpaid allotment premium is Rs 3,400. Called-up capital at forfeiture is $1,700 \times (2+3) =$ Rs $8,500$, and capital received is Rs 5,000.

The final call is $15 - 4 - 5 =$ Rs 6 per share, comprising capital Rs 5 and premium Rs 1. Vani pays $6,800 \times 6 =$ Rs $40,800$ in advance.

Step 2: Record application and allotment — Journal of Zee Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		24,00,000	
	To Share Application A/c			24,00,000
	(Being application money received)			
	Share Application A/c Dr.		24,00,000	
	To Share Capital A/c			6,80,000
	To Securities Premium A/c			6,80,000
	To Share Allotment A/c			3,20,000
	To Bank A/c			7,20,000
	(Being applications adjusted and rejected applications refunded)			
	Share Allotment A/c Dr.		17,00,000	
	To Share Capital A/c			10,20,000
	To Securities Premium A/c			6,80,000
	(Being allotment became due)			
	Bank A/c Dr.		14,13,900	
	Calls-in-Arrears A/c Dr.		6,900	
	To Share Allotment A/c			13,80,000
	To Calls-in-Advance A/c			40,800
	(Being allotment collected with arrears and advance call money)			

Step 3: Record forfeiture, final call and reissue Journal of Zee Ltd. (continued; amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		8,500	
	Securities Premium A/c Dr.		3,400	
	To Calls-in-Arrears A/c			6,900
	To Share Forfeiture A/c			5,000
	(Being 1,700 shares forfeited for non-payment of allotment)			
	Share First and Final Call A/c Dr.		20,29,800	
	To Share Capital A/c			16,91,500
	To Securities Premium A/c			3,38,300
	(Being final call due on 3,38,300 shares)			
	Bank A/c Dr.		19,89,000	
	Calls-in-Advance A/c Dr.		40,800	
	To Share First and Final Call A/c			20,29,800
	(Being call collected after adjustment of advance)			
	Bank A/c Dr.		6,800	
	Share Forfeiture A/c Dr.		1,700	
	To Share Capital A/c			8,500
	(Being 850 forfeited shares reissued fully paid at Rs 8)			
	Share Forfeiture A/c Dr.		800	
	To Capital Reserve A/c			800
	(Being surplus on reissued shares transferred to capital reserve)			

Surplus transferred is $5,000 \times 850/1,700 - 1,700 = \text{Rs } 800$. The remaining Rs 2,500 in Share Forfeiture relates to the 850 shares not yet reissued.

Step 4: Conclusion Capital Reserve is Rs 800; Share Forfeiture retains Rs 2,500 for shares not reissued. Calls-in-arrears and calls-in-advance are cleared.

Quick Tip to Solve: Compute Yaminiś allotted shares before calculating arrears; exclude her forfeited shares from the final call.

OR

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

Applications for 8,00,000 shares were received. Applications for 50,000 shares were rejected and the application money was refunded. Shares were allotted to the remaining applicants as follows:

Category I: Those who had applied for 4,00,000 share were allotted 3,00,000 shares on pro-rata basis.

Category II: The remaining applicants were allotted the remaining shares on pro-rata basis.

Excess application money received with applications was adjusted towards sums due on first call. Rakesh to whom 6,000 shares were allotted failed to pay the first call money. Rakesh belonged to category I. His shares were forfeited. The forfeited shares were re-issued at ₹ 13 per share fully paid up. The second call was made afterwards and was duly received. Pass necessary journal entries for the above transactions in the books of K.N. Ltd. [8 marks]

Solution:

Concept:

- Application and allotment money is credited to nominal capital. Excess application money is carried forward and adjusted against the first call.
- Only called-up capital is debited on forfeiture. Reissue as fully paid credits full face value; any excess reissue proceeds are securities premium.

Step 1: Work out the categories and Rakesh's default Applications total 8,00,000 shares; 50,000 are rejected. Category I applies for 4,00,000 and receives 3,00,000, a ratio of 4:3. Category II applies for $7,50,000 - 4,00,000 = 3,50,000$ and receives 3,00,000, a ratio of 7:6.

Application receipts are $8,00,000 \times 3 =$ Rs $24,00,000$; refund is Rs 1,50,000 and capital due is Rs 18,00,000. Category I excess is Rs 3,00,000 and Category II excess is Rs 1,50,000. Total excess Rs 4,50,000 is adjusted against the first call of Rs 24,00,000.

Rakesh applied for $6,000 \times 4/3 = 8,000$ shares. His application payment was Rs 24,000, whereas application and allotment due was Rs 18,000. Excess Rs 6,000 reduces his first call liability from Rs 24,000 to Rs 18,000. Capital called up on his shares is $6,000 \times 7 =$ Rs $42,000$. Capital received, including the adjusted excess, is Rs 24,000.

Step 2: Record applications and the first call Journal of K.N. Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		24,00,000	
	To Share Application and Allotment A/c			24,00,000
	(Being application and allotment money received)			
	Share Application and Allotment A/c Dr.		24,00,000	
	To Share Capital A/c			18,00,000
	To Share First Call A/c			4,50,000
	To Bank A/c			1,50,000
	(Being shares allotted, excess adjusted and rejected money refunded)			
	Share First Call A/c Dr.		24,00,000	
	To Share Capital A/c			24,00,000
	(Being first call of Rs 4 per share became due)			
	Bank A/c Dr.		19,32,000	
	To Share First Call A/c			19,32,000
	(Being first call received except Rakesh arrears of Rs 18,000)			

Step 3: Record forfeiture, reissue and the final call Journal of K.N. Ltd. (continued; amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		42,000	
	To Share First Call A/c			18,000
	To Share Forfeiture A/c			24,000
	(Being Rakesh shares forfeited for unpaid first call)			
	Bank A/c Dr.		78,000	
	To Share Capital A/c			60,000
	To Securities Premium A/c			18,000
	(Being 6,000 forfeited shares reissued at Rs 13 fully paid)			
	Share Forfeiture A/c Dr.		24,000	
	To Capital Reserve A/c			24,000
	(Being entire forfeiture balance transferred after reissue)			
	Share Second and Final Call A/c Dr.		35,64,000	
	To Share Capital A/c			17,82,000
	To Securities Premium A/c			17,82,000
	(Being final call of Rs 6 due on 5,94,000 shares)			
	Bank A/c Dr.		35,64,000	
	To Share Second and Final Call A/c			35,64,000
	(Being second and final call received in full)			

The final call is $13 - 3 - 4 =$ Rs 6, including capital Rs 3 and premium Rs 3. The 6,000 reissued shares are already fully paid and are excluded from the call. Thus $6,00,000 - 6,000 = 5,94,000$ shares bear the final call. The original premium was not called before forfeiture, so it is not reversed on forfeiture.

Step 4: Conclusion Capital Reserve is Rs 24,000. The final call collected is Rs 35,64,000, and all 6,00,000 shares are fully paid after reissue and collection.

Quick Tip to Solve: For fully paid reissues made before the final call, exclude the reissued shares from the subsequent call.

22. Raman and Aman were partners in a firm and were sharing profits in 3 : 1 ratio. On 31-3-2019 their balance sheet was as follows:

Liabilities	Amount	Assets	Amount
Provision for bad debts	7,000	Bank	24,000
Outstanding Expenses	18,000	Bills Receivable	80,000
Bills Payable	47,000	Sundry Debtors	95,000
Sundry Creditors	1,02,000	Stock	14,000
Workmen Compensation Reserve	55,000	Furniture	70,000
Capitals:Raman 3,00,000Aman 1,50,000	4,50,000	Machinery	2,00,000
		Land & Building	1,96,000
Total	6,79,000	Total	6,79,000

On the above date Suman was admitted as a new partner for 1/5th share in the profits on the following conditions:

(i) Suman will bring ₹ 2,00,000 as her capital and necessary amount for her share of goodwill premium. The goodwill of the firm on Suman's admission was valued at ₹ 1,00,000.

(ii) Outstanding expenses will be paid off. ₹ 5,000 will be written off as bad debts and a provision of 5% for bad debts on debtors was to be maintained.

(iii) The liability towards workmen compensation was estimated at ₹ 60,000.

(iv) Machinery was to be depreciated by ₹ 18,000 and Land and Building was to be depreciated by ₹ 54,000.

Pass necessary journal entries for the above transactions in the books of the firm. [8 marks]

Solution:

Concept:

- On admission, goodwill premium belongs to the old partners in their sacrificing ratio. As no different sacrifice is specified, Raman and Aman sacrifice in their old ratio $3:1$.
- Revaluation records changes in asset values and liabilities; its profit or loss belongs only to the old partners in their old profit-sharing ratio.
- Use the existing provision against bad debts before charging the net additional expense. A workmen compensation claim exceeding its reserve creates a revaluation loss.

Step 1: Calculate goodwill and revaluation adjustments Suman's goodwill premium is $1,00,000 \times 1/5 = \text{Rs } 20,000$. Raman receives Rs 15,000 and Aman receives Rs 5,000. Her capital contribution is separate from this premium. After writing off Rs 5,000, debtors are Rs 90,000. The required provision is $90,000 \times 5\% = \text{Rs } 4,500$. The existing provision of Rs 7,000 leaves Rs 2,000 after the bad debts are written off, so the additional provision charged to revaluation is Rs 2,500. The compensation reserve of Rs 55,000 is wholly required against the Rs 60,000 claim; the shortfall is Rs 5,000. No part of this reserve is distributed to partners.

Step 2: Record cash brought in, goodwill and settlement of expenses

Journal of the firm (31 March 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,20,000	
	To Suman's Capital A/c			2,00,000
	To Premium for Goodwill A/c			20,000
	(Being capital and goodwill brought in)			
	Premium for Goodwill A/c Dr.		20,000	
	To Raman's Capital A/c			15,000
	To Aman's Capital A/c			5,000
	(Being premium credited in sacrificing ratio)			
	Outstanding Expenses A/c Dr.		18,000	
	To Bank A/c			18,000
	(Being outstanding expenses paid)			

Step 3: Record bad debts and compensation liability

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Provision for Bad Debts A/c Dr.		5,000	
	To Sundry Debtors A/c			5,000
	(Being bad debts written off against provision)			
	Revaluation A/c Dr.		2,500	
	To Provision for Bad Debts A/c			2,500
	(Being provision raised to Rs 4,500)			
	Workmen Compensation Reserve A/c Dr.		55,000	
	Revaluation A/c Dr.		5,000	
	To Workmen Compensation Claim A/c			60,000
	(Being estimated compensation liability recorded)			

Step 4: Record depreciation and transfer revaluation loss

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr.		72,000	
	To Machinery A/c			18,000
	To Land and Building A/c			54,000
	(Being depreciation recorded on both assets)			
	Raman's Capital A/c Dr.		59,625	
	Aman's Capital A/c Dr.		19,875	
	To Revaluation A/c			79,500
	(Being revaluation loss transferred in ratio 3:1)			

The total loss is $2,500 + 5,000 + 18,000 + 54,000 =$ Rs $79,500$. Payment of an already recorded outstanding expense does not create a further revaluation loss.

Step 5: Conclusion The required entries record Suman's capital of Rs 2,00,000, goodwill premium of Rs 20,000 and revaluation loss of Rs 79,500, borne by Raman and Aman as Rs 59,625 and Rs 19,875 respectively.

Quick Tip to Solve: For bad debts, compare the old provision with bad debts plus the new required provision; charge only the net shortage to revaluation.

OR

22. A, B and C were partners in a firm. Their Balance Sheet as at 31st March, 2019 was as follows:

Liabilities	Amount	Assets	Amount
Bills payable	20,000	Bank	20,000
Creditors	40,000	Furniture	28,000
General Reserve	30,000	Stock	20,000
Workmen Compensation Reserve	6,000	Debtors 45,000 Less Provision 5,000	40,000
Capitals:A 60,000B 40,000C 32,000	1,32,000	Land & Building	1,20,000
Total	2,28,000	Total	2,28,000

B retired on 1st April, 2019. A and C decided to share profits in the ratio of 2 : 1. The following terms were agreed upon:

(i) Goodwill of the firm was valued at ₹ 30,000.

(ii) Bad-debts ₹ 4,000 were written off. The provision for doubtful debts was to be maintained @ 10% on debtors.

(iii) Land and Building was to be increased to ₹ 1,32,000.

(iv) Furniture was sold for ₹ 20,000 and the payment was received by cheque.

(v) Liability towards Workmen Compensation was estimated at ₹ 1,500.

(vi) B was to be paid ₹ 20,000 through a cheque and the balance was transferred to his loan account.

Prepare Revaluation Account, Partners' Capital Accounts and Bank Account. [8 marks]

Solution:

Concept:

- As the old profit-sharing ratio is not specified, A, B and C share equally. Distribute accumulated reserves and revaluation profit in the old ratio $1:1:1$.
- Goodwill compensation is borne by gaining partners: A gains $2/3 - 1/3 = 1/3$, while C gains $1/3 - 1/3 = 0$. Thus A alone compensates B.
- The retiring partner receives the agreed cheque payment; transfer the unpaid capital balance to his loan account.

Step 1: Work out goodwill, reserves and revaluation B's goodwill share is $30,000/3 =$ Rs $10,000$: debit A's capital and credit B's capital. No goodwill asset is raised. General reserve of Rs 30,000 gives Rs 10,000 to each partner. Of the workmen compensation reserve, Rs 1,500 is retained as the claim liability and the surplus Rs 4,500 gives Rs 1,500 to each partner. Debtors after bad debts are $45,000 - 4,000 =$ Rs $41,000$. Required provision is Rs 4,100. Compared with the existing provision of Rs 5,000, the release is Rs 900; together with bad debts of Rs 4,000, the net loss is Rs 3,100. Furniture sold for Rs 20,000 produces a loss of Rs 8,000, and land and building appreciate by Rs 12,000.

Step 2: Prepare Revaluation Account

Revaluation Account (1 April 2019)

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Bad Debts A/c	4,000	By Provision for Doubtful Debts A/c	900
To Furniture A/c	8,000	By Land and Building A/c	12,000
To A's Capital A/c	300		
To B's Capital A/c	300		
To C's Capital A/c	300		
Total	12,900	Total	12,900

The profit is $12,900 - 12,000 =$ Rs 900, credited equally as Rs 300 to each partner. The Rs 900 provision release is the reduction from Rs 5,000 to Rs 4,100; it is not the revaluation profit by itself.

Step 3: Prepare Partners Capital Accounts

Partners' Capital Accounts (1 April 2019)

Dr. Particulars	A Rs	B Rs	C Rs	Cr. Particulars	A Rs	B Rs	C Rs
To B's Capital	10,000	–	–	By Balance b/d	60,000	40,000	32,000
To Bank	–	20,000	–	By General Reserve	10,000	10,000	10,000
To B's Loan	–	41,800	–	By W.C. Reserve	1,500	1,500	1,500
To Balance c/d	61,800	–	43,800	By Revaluation	300	300	300
				By A's Capital	–	10,000	–
Total	71,800	61,800	43,800	Total	71,800	61,800	43,800

Here W.C. Reserve means Workmen Compensation Reserve. B's total entitlement is $40,000 + 10,000 + 1,500 + 300 + 10,000 =$ Rs $61,800$. After paying Rs 20,000 by cheque, Rs 41,800 remains payable as his loan. A's goodwill debit reduces his capital; C's profit share is unchanged, so C pays no goodwill compensation.

Step 4: Prepare Bank Account

Bank Account (1 April 2019)

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Balance b/d	20,000	By B's Capital A/c	20,000
To Furniture A/c	20,000	By Balance c/d	20,000
Total	40,000	Total	40,000

Only the furniture proceeds and the cheque to B affect bank. The compensation claim is an estimated liability, not a payment, and goodwill is adjusted directly through capital accounts. Therefore neither appears as an additional bank transaction.

Step 5: Conclusion Revaluation profit is Rs 900. Closing capitals are A: Rs 61,800 and C: Rs 43,800. B receives Rs 20,000 and his loan is Rs 41,800. Closing bank balance is Rs 20,000.

Quick Tip to Solve: When an old ratio is omitted, use equal shares; compare each continuing partner's new share with that old share before charging goodwill.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

23. The quick ratio of a company is 0.5 : 0.75. Will cash sales of ₹ 5,000 increase, decrease or not change the ratio? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Quick ratio is Quick assets/Current liabilities. Quick assets exclude inventory and prepaid expenses.
- A cash sale increases cash, which is a quick asset, while the stock sold is excluded from quick assets.

Step 1: Identify the effect on the numerator Cash sales of Rs 5,000 increase cash and therefore quick assets by Rs 5,000. The accompanying decrease in stock does not offset this increase because inventory is excluded when quick assets are calculated.

Step 2: Compare the ratio Current liabilities remain unchanged. Thus, if quick assets and current liabilities were Q and L, the new ratio is $(Q + 5,000)/L$, greater than $Q/L = 0.5/0.75$. The stated ratio gives a proportion, not the actual rupee balances, so a numerical new ratio cannot be calculated.

Step 3: Conclusion The quick ratio increases because cash increases by Rs 5,000 while current liabilities remain unchanged.

Quick Tip to Solve: For cash sales, exclude stock from both comparisons: the increase in cash alone raises quick assets.

24. Employee benefit expenses include _____. (bonus/depreciation/income tax) [1 mark]

Solution:

Concept:

- Employee benefit expenses are amounts paid or payable to employees for their services, including salaries, wages and bonus.
- Expenses are classified by their nature in the Statement of Profit and Loss.

Step 1: Identify the employee-related payment Bonus is additional remuneration paid to employees for their services. It therefore forms part of employee benefit expenses.

Step 2: Exclude the other choices Depreciation allocates the cost of a tangible asset over its useful life; it is not remuneration to employees. Income tax is a tax expense on taxable income, so it is also excluded from employee benefit expenses.

Step 3: Conclusion The blank is filled with **bonus**.

Quick Tip to Solve: Link employee benefit expenses to payments for employee services, including bonus.

25. Which of the following is not a limitation of analysis of financial statements? [1 mark]

(A) Window Dressing

(B) Price level changes ignored

(C) Subjectivity

(D) Intra firm comparison possible

Correct Answer: (D) Intra firm comparison possible

Solution:

Concept:

- A limitation restricts the reliability or usefulness of financial statement analysis.
- Intra-firm comparison compares the performance of the same firm across accounting periods.

Step 1: Assess the first three options Window dressing can present an artificially favourable position. Ignoring price level changes reduces comparability of historical figures. Subjectivity in accounting policies and interpretation can influence conclusions. Thus (A), (B) and (C) are limitations.

Step 2: Identify the useful feature Intra-firm comparison is possible through financial analysis and helps identify trends in profitability and financial position over time. This is a use or advantage of analysis, so it cannot be classified as a limitation.

Step 3: Conclusion The correct option is (D): Intra firm comparison possible.

Quick Tip to Solve: For a negative question, distinguish a useful comparison from factors that distort analysis.

26. Under which of the following headings/sub-headings, Calls in advance will be presented in the Balance Sheet of a Company as per Schedule III Part I of the Companies Act, 2013? [1 mark]

(A) Current Liabilities

(B) Share Capital

(C) Share Application Money Pending Allotment

(D) Reserves and Surplus

Correct Answer: (A) Current Liabilities

Solution:

Concept:

- Calls in advance are amounts received from shareholders before the company has called them up.
- An amount received before becoming due is a liability until the corresponding call becomes due.

Step 1: Determine the nature of the receipt The company has received money in advance of a call. As the sum is not yet called-up share capital, it is not included in share capital and is shown as a liability.

Step 2: Select the appropriate heading Calls in advance are presented under Other Current Liabilities within Current Liabilities. They are neither a reserve nor share application money pending allotment, because the shares have already been allotted and the receipt relates to a future call.

Step 3: Conclusion The correct option is (A): Current Liabilities.

Quick Tip to Solve: Keep calls in advance outside called-up capital until the relevant call becomes due.

27. Interest received in cash from loans and advance is considered as _____ activity while preparing cash flow statement. [1 mark]

Solution:

Concept:

- Investing activities include making loans and advances to other parties and receiving returns on such investments.
- For a non-financial enterprise, interest received is classified as an investing cash inflow.

Step 1: Identify the source of interest The firm has lent funds through loans and advances. The cash interest is a return earned from deploying those funds, rather than a receipt from selling goods or services.

Step 2: Classify the cash receipt In the usual non-financial enterprise classification used for this question, interest received is shown under investing activities. Because the interest is actually received in cash, it appears as an inflow in that section of the cash flow statement.

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

Quick Tip to Solve: Interest received on loans given is an investing inflow for a non-financial enterprise.

28. List any two items other than cash in hand and cheques in hand that are presented under the sub-heading 'Cash and Cash Equivalents' in the Balance Sheet of a company. [1 mark]

Solution:

Concept:

- Cash and cash equivalents include cash balances and short-term highly liquid investments readily convertible into known amounts of cash.
- A cash equivalent carries an insignificant risk of changes in value and normally has an original maturity of three months or less.

Step 1: Give a bank balance item Balances with banks held in current or demand deposit accounts are presented under Cash and Cash Equivalents. They are available for withdrawal to meet the companyś immediate cash commitments.

Step 2: Give a qualifying investment item A short-term highly liquid investment, such as a Treasury bill acquired with an original maturity of three months or less, is a cash equivalent if readily convertible into a known cash amount with insignificant value risk. This is distinct from cash in hand and cheques in hand.

Step 3: Conclusion Two items are **balances with banks in current accounts** and **qualifying short-term highly liquid investments**.

Quick Tip to Solve: Use a demand bank balance and a qualifying cash equivalent; exclude the two items named in the question.

29. While preparing cash flow statement, will 'Cash withdrawn from bank' result into inflow, outflow or no flow of cash? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- A cash flow changes the total of cash and cash equivalents held by an enterprise.
- Transfers between components of cash and cash equivalents do not create a cash flow.

Step 1: Track both sides of the withdrawal When cash is withdrawn from the firmś bank account for office use, cash in hand increases and the bank balance decreases by the same amount. Both balances form part of cash and cash equivalents.

Step 2: Measure the total change For example, withdrawing Rs 1,000 increases cash in hand by Rs 1,000 and reduces the bank balance by Rs 1,000. The combined total is unchanged. This is an internal transfer, so it is excluded from the operating, investing and financing sections.

Step 3: Conclusion Cash withdrawn from bank results in **no flow of cash**, since total cash and cash equivalents remain unchanged.

Quick Tip to Solve: Check the combined cash-plus-bank balance before treating a withdrawal as an outflow.

30. The Revenue from operations of a firm is ₹ 6,00,000. Its inventory turnover ratio is 3 times. If gross profit ratio is 25%, calculate its opening inventory and closing inventory. The opening inventory is 25% of closing inventory. [3 marks]

Solution:

Concept:

- Gross profit ratio is gross profit divided by revenue from operations, multiplied by 100.
- Inventory turnover ratio equals cost of revenue from operations divided by average inventory.
- Average inventory is $(\text{Opening inventory} + \text{Closing inventory})/2$.

Step 1: Calculate cost of revenue from operations Given revenue from operations of Rs 6,00,000 and a gross profit ratio of 25%, gross profit is

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

Hence,

$$\text{Cost of revenue from operations} = 6,00,000 - 1,50,000 = \text{Rs } 4,50,000.$$

The turnover ratio uses cost, so revenue itself must not be used as the numerator.

Step 2: Calculate average inventory Using the given inventory turnover ratio of 3 times,

$$\text{Average inventory} = \frac{\text{Cost of revenue from operations}}{\text{Inventory turnover ratio}} = \frac{4,50,000}{3} = \text{Rs } 1,50,000.$$

Therefore the total of opening and closing inventories is $2 \times 1,50,000 = \text{Rs } 3,00,000$.

Step 3: Use the relationship between the inventories Let closing inventory be Rs C. Opening inventory is 25% of closing inventory, or Rs $0.25C$. Thus,

$$\begin{aligned} 0.25C + C &= 3,00,000, \\ 1.25C &= 3,00,000, \\ C &= 2,40,000. \end{aligned}$$

Opening inventory is $0.25 \times 2,40,000 =$ Rs $60,000$. As a check, their average is Rs 1,50,000 and $4,50,000/1,50,000 = 3$ times, agreeing with the given ratio.

Step 4: Conclusion **Opening inventory = Rs 60,000; closing inventory = Rs 2,40,000.**

Quick Tip to Solve: Convert the gross profit ratio into cost first; then use opening : closing inventory = 1 : 4.

OR

30. From the following information, calculate 'Interest coverage Ratio':
Profit after interest and tax ₹ 6,00,000
10% Debentures ₹ 8,00,000
Rate of Income Tax 40% [3 marks]

Solution:

Concept:

- Interest coverage ratio measures the number of times earnings before interest and tax cover the annual interest expense: ICR = EBIT/Interest.
- Profit after tax equals profit before tax multiplied by $(1 - t)$, where t is the income-tax rate. Add interest back to profit before tax to obtain EBIT.

Step 1: Calculate the annual debenture interest The debenture percentage is the annual interest rate on the face value of the debentures. Therefore,

$$\text{Interest} = \text{Rs } 8,00,000 \times \frac{10}{100} = \text{Rs } 80,000.$$

This finance cost is the denominator of the interest coverage ratio; the full debenture principal is not the annual expense.

Step 2: Recover profit before tax The given Rs 6,00,000 is profit after both interest and tax. Since income tax is 40% of profit before tax, the retained 60% equals the given profit after tax. Hence,

$$\text{Profit before tax} = \frac{6,00,000}{1 - 0.40} = \frac{6,00,000}{0.60} = \text{Rs } 10,00,000.$$

Adding 40% of profit after tax would not reverse the tax deduction correctly.

Step 3: Find EBIT and compute the coverage Interest has already been deducted in arriving at profit

before tax. Restore that expense to find the earnings available to meet interest:

$$\text{EBIT} = 10,00,000 + 80,000 = \text{Rs } 10,80,000,$$

$$\text{Interest coverage ratio} = \frac{10,80,000}{80,000} = 13.5 \text{ times}.$$

As a check, deducting interest gives Rs 10,00,000, and deducting tax of Rs 4,00,000 gives the stated profit after tax of Rs 6,00,000.

Step 4: Conclusion The interest coverage ratio is $\boxed{13.5 \text{ times}}$.

Quick Tip to Solve: First divide profit after tax by 0.60, then add the Rs 80,000 interest; divide EBIT by annual interest, not debenture capital.

31. Fill in the amounts left blank in the following Common Size Statement of Profit and Loss for the year ended 31st March, 2019.

Common-Size Statement of Profit & Loss for the year ended 31st March, 2019

Particulars	Absolute Change		% of Revenue from operations	
	2017-18 (Rs)	2018-19 (Rs)	2017-18	2018-19
I. Revenue from operations	20,00,000	25,00,000	_____	100
II. Other Income	1,00,000	2,50,000	_____	10
III. Total Revenue	21,00,000	27,50,000	105	110
IV. Expenses				
(a) Cost of Material consumed	_____	8,00,000	30	32
(b) Change in Inventory	1,00,000	2,00,000	_____	8
(c) Employee Benefit Expense	_____	4,50,000	15	18
(d) Other expenses	_____	2,25,000	10	9
Total Expenses	12,00,000	16,75,000	_____	67
V. Profit before Tax (III-IV)	9,00,000	10,75,000	45	43
Less : Tax	2,00,000	2,50,000	10	_____
VI. Profit after Tax	7,00,000	8,25,000	35	33

[4 marks]

Solution:

Concept:

- In a common-size statement, revenue from operations of each year is the base, taken as 100%. Each item is expressed as a percentage of that same year's revenue from operations.
- Use Percentage $= \frac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Conversely, Item amount $=$ Revenue from operations $\times \frac{\text{Percentage}}{100}$.

Step 1: Fill the missing percentages For 2017-18, the base revenue is Rs 20,00,000. Thus revenue from operations is 100%; other income is $1,00,000/20,00,000 \times 100 = 5\%$; change in inventory is $1,00,000/20,00,000 \times 100 = 5\%$; and total expenses are $12,00,000/20,00,000 \times 100 = 60\%$. For 2018-19, tax as a percentage of revenue is $2,50,000/25,00,000 \times 100 = 10\%$. Each denominator

belongs to the same year as the numerator.

Step 2: Fill the missing absolute amounts The missing amounts all relate to 2017-18. Multiply the base revenue of Rs 20,00,000 by the stated percentage:

$$\begin{aligned}\text{Material consumed} &= 20,00,000 \times 30/100 = \text{Rs } 6,00,000,\\ \text{Employee benefit expense} &= 20,00,000 \times 15/100 = \text{Rs } 3,00,000,\\ \text{Other expenses} &= 20,00,000 \times 10/100 = \text{Rs } 2,00,000.\end{aligned}$$

The sum of all four expenses is Rs 12,00,000, matching the given total.

Step 3: Complete and verify the statement

Common-Size Statement of Profit and Loss
for the year ended 31st March, 2019

Particulars	Amount (Rs)		% of revenue	
	2017-18	2018-19	2017-18	2018-19
I. Revenue from operations	20,00,000	25,00,000	100	100
II. Other income	1,00,000	2,50,000	5	10
III. Total revenue	21,00,000	27,50,000	105	110
IV. Expenses:				
(a) Cost of material consumed	6,00,000	8,00,000	30	32
(b) Change in inventory	1,00,000	2,00,000	5	8
(c) Employee benefit expense	3,00,000	4,50,000	15	18
(d) Other expenses	2,00,000	2,25,000	10	9
Total expenses	12,00,000	16,75,000	60	67
V. Profit before tax (III-IV)	9,00,000	10,75,000	45	43
Less: Tax	2,00,000	2,50,000	10	10
VI. Profit after tax	7,00,000	8,25,000	35	33

The 2017-18 expense percentages add to $30+5+15+10=60\%$. Total revenue of 105% less expenses of 60% gives profit before tax of 45%, and deducting tax of 10% gives profit after tax of 35%. The same check for 2018-19 gives $110-67-10=33\%$.

Step 4: Conclusion The completed statement above gives all eight missing values. In row order, they are 100%, 5%, Rs 6,00,000, 5%, Rs 3,00,000, Rs 2,00,000, 60% and 10%.

Quick Tip to Solve: Use revenue from operations as 100% separately for each year; total revenue includes other income and can therefore exceed 100%.

OR

31. From the following Statement of Profit and Loss of Skills India Ltd. for the year ended 31st March, 2018 and 2019, prepare a Comparative Statement of Profit and Loss.

Particulars	2018-19 (₹)	2017-18 (₹)
Revenue from Operations	45,00,000	20,00,000
Employee Benefit Expenses	10,00,000	8,00,000
Other Expenses	5,00,000	2,00,000
Tax Rate	30%	

[4 marks]

Solution:

Concept:

- Absolute change equals the current year amount minus the previous year amount.
- Percentage change is $\dfrac{\text{Absolute change}}{\text{Previous year amount}} \times 100$.
- Profit before tax equals revenue less expenses; profit after tax deducts tax at 30%.

Step 1: Calculate profits and tax For 2017-18, total expenses are Rs 8,00,000 + Rs 2,00,000 = Rs 10,00,000. Therefore, profit before tax is Rs 20,00,000 - Rs 10,00,000 = Rs 10,00,000; tax is Rs 3,00,000 and profit after tax is Rs 7,00,000. For 2018-19, expenses are Rs 10,00,000 + Rs 5,00,000 = Rs 15,00,000. Profit before tax is Rs 45,00,000 - Rs 15,00,000 = Rs 30,00,000; tax is Rs 9,00,000 and profit after tax is Rs 21,00,000.

Step 2: Prepare the comparative statement **Skills India Ltd.**
Comparative Statement of Profit and Loss
for the years ended 31st March, 2018 and 2019

Particulars	2017-18 Rs	2018-19 Rs	Increase Rs	Change %
Revenue from operations	20,00,000	45,00,000	25,00,000	125
Employee benefit expenses	8,00,000	10,00,000	2,00,000	25
Other expenses	2,00,000	5,00,000	3,00,000	150
Total expenses	10,00,000	15,00,000	5,00,000	50
Profit before tax	10,00,000	30,00,000	20,00,000	200
Less: Tax (30%)	3,00,000	9,00,000	6,00,000	200
Profit after tax	7,00,000	21,00,000	14,00,000	200

For example, revenue growth is $25,00,000/20,00,000 \times 100 = 125\%$. Employee benefit expenses grow by $2,00,000/8,00,000 \times 100 = 25\%$. Each comparison uses its own previous-year amount as denominator.

Step 3: Conclusion Profit after tax increased by Rs 14,00,000, or 200%, from Rs 7,00,000 to Rs 21,00,000.

Quick Tip to Solve: Always divide the increase by the earlier year amount, even when the source presents the latest year first.

32. From the following Balance Sheet of Gopal Ltd. and the additional information as at 31st March, 2019, prepare a Cash Flow statement when cash flows from financing activities is ₹ 2,32,000.

Gopal Ltd.

Balance Sheet as at 31-3-2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
I. Equity and Liabilities :			
1. Shareholder's Fund			
(a) Share Capital		10,00,000	8,00,000
(b) Reserve and Surplus	1	4,00,000	(1,00,000)
2. Non-Current Liabilities			
Long term Borrowings	2	9,00,000	9,00,000
3. Current Liabilities			
(a) Short term Borrowings	3	2,40,000	1,00,000
(b) Short term Provisions	4	2,00,000	1,75,000
Total :		27,40,000	18,75,000
II. Assets :			
1. Non-Current Assets			
(a) Fixed Asset			
(i) Tangible Assets	5	20,00,000	14,42,000
(ii) Intangible Assets	6	46,000	58,000
(b) Non-current Investments		1,00,000	45,000
2. Current Assets :			
(a) Current Investments		2,00,000	1,20,000
(b) Inventories	7	2,14,000	90,000
(c) Cash and Cash equivalents		1,80,000	1,20,000
Total :		27,40,000	18,75,000

Notes to Accounts :

Note No.	Particulars	31 March, 2019 (₹)	31 March, 2018 (₹)
1.	Reserve and Surplus Surplus (Balance in statement of Profit and Loss)	4,00,000	(1,00,000)
2.	Long term Borrowings 12% debentures	9,00,000	9,00,000
3.	Short term Borrowings Bank overdraft	2,40,000	1,00,000
4.	Short term provisions Provision for tax	2,00,000	1,75,000
5.	Tangible Assets Machinery Less : Accumulated Depreciation	24,00,000 (4,00,000) 20,00,000	16,42,000 (2,00,000) 14,42,000
6.	Intangible Assets Goodwill	46,000	58,000
7.	Inventories Stock in trade	2,14,000	90,000

Additional Information :

Tax ₹ 1,50,000 was paid during the year. [6 marks]

Solution:

Concept:

- Under the indirect method, adjust profit before tax for non-cash expenses, financing costs and changes in operating working capital.
- Tax paid is an operating outflow. Machinery and investments purchased are investing outflows.
- Share capital and bank overdraft movements are financing flows; interest on debentures is a financing outflow for this non-financial company.

Step 1: Determine profit before tax and non-cash adjustments The surplus rises from a debit balance of Rs 1,00,000 to a credit balance of Rs 4,00,000. Thus profit after tax is Rs 5,00,000. Tax expense for the year is obtained from the provision:

$$\text{Tax expense} = 2,00,000 + 1,50,000 - 1,75,000 = \text{Rs } 1,75,000.$$

Profit before tax is therefore Rs 6,75,000. Depreciation is Rs 4,00,000 - Rs 2,00,000 = Rs 2,00,000. Goodwill written off is Rs 58,000 - Rs 46,000 = Rs 12,000. Debenture interest is $9,00,000 \times 12\% =$ Rs $1,08,000$. These non-cash expenses and financing cost are added back to profit before tax.

Step 2: Calculate investing and financing flows There is no disposal information. Machinery purchased is the increase in its gross cost, Rs 24,00,000 - Rs 16,42,000 = Rs 7,58,000. Non-current investments increase by Rs 55,000, while current investments increase by Rs 80,000. The latter are presented separately from cash equivalents and are therefore treated as investments. Total investing outflow is Rs 8,93,000.

The financing inflow checks with the figure given: share capital issued Rs 2,00,000 plus increase in bank overdraft Rs 1,40,000 less debenture interest Rs 1,08,000 equals Rs 2,32,000. Long-term debentures remain unchanged.

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

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

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net profit before tax	6,75,000
Add: Depreciation	2,00,000
Add: Goodwill written off	12,000
Add: Interest on debentures	1,08,000
Operating profit before working capital changes	9,95,000
Less: Increase in inventories	(1,24,000)
Cash generated from operations	8,71,000
Less: Income tax paid	(1,50,000)
Net cash from operating activities (A)	7,21,000
B. Cash flows from investing activities	
Purchase of machinery	(7,58,000)
Purchase of non-current investments	(55,000)
Purchase of current investments	(80,000)
Net cash used in investing activities (B)	(8,93,000)
C. Cash flows from financing activities	
Proceeds from issue of shares	2,00,000
Increase in bank overdraft	1,40,000
Interest paid on debentures	(1,08,000)
Net cash from financing activities (C)	2,32,000
Net increase in cash and cash equivalents (A+B+C)	60,000
Add: Opening cash and cash equivalents	1,20,000
Closing cash and cash equivalents	1,80,000

Inventories increase by Rs 2,14,000 - Rs 90,000 = Rs 1,24,000, which uses operating cash. Bank overdraft is excluded from operating working capital because it is classified as financing here, consistent with the supplied financing cash flow.

Step 4: Conclusion Net operating inflow is Rs 7,21,000, investing outflow is Rs 8,93,000 and financing inflow is Rs 2,32,000. The resulting Rs 60,000 increase reconciles to closing cash of Rs 1,80,000.

Quick Tip to Solve: Use gross machinery cost to find purchases, and reconcile the three activity totals with the change in cash.

OPTION – II (Computerized Accounting)

23. The process of comparing input data with some known data is called: [1 mark]

(A) storage data

(B) information data

(C) data validation

(D) data entry

Correct Answer: (C) data validation

Solution:

Concept:

- Data validation checks whether input data agrees with known data or prescribed acceptance rules.
- Validation is performed before data is accepted for processing, helping detect unsuitable input.

Step 1: Identify the process The question describes checking the input by comparing it with known data. This is a validation check: the comparison establishes whether the input is acceptable.

Step 2: Check the alternatives Storage refers to retaining data, while data entry refers to putting data into the system. Information is the result of processing data; information data is not the name of this comparison process. Therefore, none of these other choices describes the stated check.

Step 3: Conclusion The correct option is (C): **data validation**.

Quick Tip to Solve: Look for a comparison or acceptance check: that signals validation rather than entry or storage.

24. A _____ attribute can be divided into smaller sub-parts but a _____ attribute cannot be further sub divided. [1 mark]

Solution:

Concept:

- An attribute describes a property of an entity, such as a customer name or address.
- A composite attribute has meaningful component attributes; a simple attribute is indivisible for the database design.

Step 1: Identify the divisible attribute An address may be separated into house number, street, city and PIN code. Because these smaller parts retain their own meaning, address is an example of a composite attribute.

Step 2: Identify the indivisible attribute A simple attribute is stored as a single unit and is not further subdivided into meaningful attributes in that database. Thus the two blanks require opposite classifications, in the same order as the question.

Step 3: Conclusion The blanks are composite and simple, respectively.

Quick Tip to Solve: Use composite for an attribute with meaningful components, such as an address.

25. Name the accounting information sub-system which deals with receipt and payment of physical cash and electronic fund transfer. [1 mark]

(A) Cash and Bank sub-system.

(B) Sales and accounts receivable sub-system.

(C) Purchase and accounts payable sub-system.

(D) Costing sub-system.

Correct Answer: (A) Cash and Bank sub-system.

Solution:

Concept:

- An accounting information system groups related transactions into sub-systems according to their function.
- The cash and bank sub-system records receipts and payments made through cash and banking channels.

Step 1: Identify the transactions described Physical cash receipts and payments affect cash balances, while electronic fund transfers affect bank balances. Both are movements of funds handled by the cash and bank sub-system.

Step 2: Compare the other options The sales and accounts receivable sub-system concerns sales and customer dues; the purchase and accounts payable sub-system concerns purchases and supplier dues. The costing sub-system determines and analyses costs. These do not collectively describe the cash and bank movements asked here.

Step 3: Conclusion The correct option is (A): Cash and Bank sub-system.

Quick Tip to Solve: For questions covering both cash receipts and electronic transfers, choose Cash and Bank.

26. Match the movement of mouse with the key strokes.

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

[1 mark]

(A) (i) (a), (ii) (d)

(B) (i) (b), (ii) (c)

(C) (i) (d), (ii) (a)

(D) (i) (a), (ii) (c)

Correct Answer: No printed option is correct; the required matching is (i)-(a), (ii)-(b).

Solution:

Concept:

- The down arrow key moves the active cell one row down; Enter also normally moves down.

- The up arrow key moves one row up, while the right and left arrow keys move between columns.

Step 1: Match each movement independently For (i), one cell down corresponds to (a), Down arrow or Enter. For (ii), one cell up corresponds to (b), Up arrow. The required matching is therefore (i)-(a), (ii)-(b).

Step 2: Check every printed choice Option (A) correctly pairs (i) with (a), but pairs upward movement with the left arrow. Option (B) pairs downward movement with the up arrow and upward movement with the right arrow. Option (C) pairs downward movement with the left arrow and upward movement with the down arrow. Option (D) gets downward movement right but pairs upward movement with the right arrow. None contains the required complete pair.

Step 3: Conclusion No printed option is correct. The correct matching is (i)-(a), (ii)-(b).

Quick Tip to Solve: Check the vertical arrow directions before comparing each entire matching pair.

27. _____ prompts the user to enter parameters or criteria through an input box for selecting a set of records with different criteria. [1 mark]

Solution:

Concept:

- A query selects records from a database by applying specified conditions or criteria.
- A parameter query obtains a criterion from the user when the query is run.

Step 1: Recognise the input prompt The question describes an input box that requests a value or criterion from the user. This is the identifying behaviour of a parameter query rather than a query with only permanently fixed criteria.

Step 2: Explain how records are selected The entered parameter is applied as a selection condition, and the query returns matching records. For example, entering a city name can select customers belonging to that city. Running the same query with a different city can produce a different set of records.

Step 3: Conclusion The blank is Parameter query.

Quick Tip to Solve: An input box asking for a selection criterion identifies a parameter query.

28. Hardware refers to: [1 mark]

(A) System software and application software.

(B) Computer associated peripherals and their network.

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

(D) All of the above.

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

Solution:

Concept:

- Hardware comprises the physical components of a computer system and its associated devices.
- Software comprises programs and instructions; a procedure describes a sequence of actions.

Step 1: Identify the physical components Computer peripherals, such as a keyboard, monitor and printer, together with the physical networking equipment connecting devices, belong to hardware. Thus option (B) identifies the physical part of the system.

Step 2: Eliminate the remaining choices System software and application software are programs, so option (A) describes software. A logical sequence of actions to perform a task describes a procedure or algorithm, so option (C) is not hardware. Since (A) and (C) are incorrect, option (D), All of the above, cannot be correct.

Step 3: Conclusion The correct option is (B): Computer associated peripherals and their network.

Quick Tip to Solve: Ask whether the component is physical: peripherals are hardware, programs are software.

29. Rows are referred by alpha characters and columns are numerically numbered from top to bottom. (True/False) [1 mark]

Solution:

Concept:

- Spreadsheet rows are identified by numbers, increasing from top to bottom.
- Spreadsheet columns are identified by letters, running from left to right, such as A, B and C.

Step 1: Check the row identification Rows are numbered 1, 2, 3 and so on. They are not referred to by alphabetic characters, so the first part of the statement reverses the usual convention.

Step 2: Check the column identification Columns use alphabetic labels such as A, B, C and, after Z, AA and AB. They are not numbered from top to bottom. For example, cell B3 lies in column B and row 3, illustrating both parts of the correct reference system.

Step 3: Conclusion False. Rows are numbered and columns are lettered.

Quick Tip to Solve: Read B3 as column B, row 3 to remember which uses letters and which uses numbers.

30. State any three features of good Accounting Software. [3 marks]

Solution:

Concept:

- Good accounting software should record and process accounting information accurately and provide useful reports.
- Its suitability depends on the needs of the organisation, including ease of use, information security and capacity for growth.

Step 1: Ease of use The software should be user-friendly, with clear menus, understandable input screens and convenient preparation of vouchers and reports. Accounting staff should be able to learn and operate it without unnecessary complexity. Input checks and helpful error messages assist users in recording transactions correctly and reduce avoidable mistakes.

Step 2: Security of accounting information The software should protect accounting records through passwords and access controls. Authorised users should have access appropriate to their responsibilities, so that confidential information is protected and unauthorised alterations are restricted. Backup and recovery facilities should help preserve records and restore them when data is lost or damaged.

Step 3: Flexibility and scalability The software should accommodate the organisation's accounting requirements and adapt to changes in its business. It should permit suitable account classifications and reports, and support a growing volume of transactions or additional users. This helps the organisation continue using the system effectively as its operations expand, rather than requiring immediate replacement whenever its needs change.

Step 4: Conclusion Three features are user-friendliness, security of accounting data, and flexibility with scalability.

Quick Tip to Solve: State three distinct features and explain how each helps the organisation use its accounts.

OR

30. Name the function of Excel which converts numeric value to text in a specific number format. Explain its syntax. [3 marks]

Solution:

Concept:

- Excel's TEXT function converts a numeric value into a text string using a specified number-format code.
- A format code controls the appearance of the result, such as decimal places, leading zeros, dates or currency symbols. The result is text rather than a numeric value.

Step 1: Identify the required function The required function is **TEXT**. It is useful when a number must appear in a particular format within a heading, report or text message. For example, it can display a number with exactly two decimal places. Merely applying a cell number format changes the display of a numeric cell; TEXT returns a text value that can be joined to other text.

Step 2: State and explain the syntax The syntax is `=TEXT(value, format_text)`. Here, `value` is the number, a formula returning a number, or a reference to the cell containing the number to be converted. The argument `format_text` specifies the required number format and is enclosed in double quotation marks when entered as a format string. For example, the code `"0.00"` requires two digits after the decimal point, including trailing zeros when necessary.

Step 3: Illustrate the arguments If cell A1 contains 1250.5, entering `=TEXT(A1,"0.00")` returns the text `1250.50`. A1 supplies the numeric value and `"0.00"` supplies the display pattern. The extra zero comes from the requested format; the result is suitable for combining with a descriptive label. Keep the original numeric cell for subsequent calculations.

Step 4: Conclusion The function is **TEXT**, with syntax `=TEXT(value, format_text)`; its two arguments specify the numeric input and the format of the returned text.

Quick Tip to Solve: In TEXT, put the format code in double quotes: use "0.00" to retain exactly two decimal places.

31. Why is it necessary to have safety features in accounting softwares? Explain any two tools which provide data security. [4 marks]

Solution:

Concept:

- Accounting software stores confidential financial information, including transactions, balances and details of customers, suppliers and employees.
- Data security protects confidentiality, prevents unauthorised changes and helps ensure that accounting records remain reliable and available to authorised users.

Step 1: Explain the need for safety features Safety features are necessary because accounting information is valuable and confidential. Unauthorised access may disclose business information, while unauthorised alteration or deletion of transactions can lead to incorrect accounts, fraud and unreliable reports. Records must therefore be protected against misuse and interference. Security controls also help management assign responsibility for the use of the system and restrict sensitive operations to appropriate employees.

Step 2: Tool 1: Password security and access controls Password security requires a user to enter valid login credentials before accessing the accounting software or its data. Separate user accounts and passwords identify authorised users. Access rights can then restrict the operations each user may perform: for example, a data-entry employee may enter vouchers while only an authorised supervisor may approve changes or access sensitive reports. Thus, possession of the computer alone does not give unrestricted access to the accounts. Passwords should be kept confidential and changed periodically so that another person cannot easily use an authorised user's identity.

Step 3: Tool 2: Data encryption Encryption converts readable accounting data into an encoded form using an encryption method and key. The encrypted data cannot be understood directly; an authorised user or application must use the appropriate decryption key to restore readable information. This protects confidentiality when accounting files are stored or transferred. Even if an unauthorised

person obtains a copy of an encrypted file, the contents are not readily readable without the required key. Encryption keys must themselves be protected, since anyone with the necessary key may be able to decrypt the information.

Step 4: Conclusion Safety features protect accounting records from unauthorised disclosure, alteration and misuse. Two tools that provide data security are **password security with access controls** and **data encryption**.

Quick Tip to Solve: Explain each tool's mechanism: passwords restrict entry and permissions, while encryption makes captured data unreadable without its key.

OR

31. What is meant by # DIV/O ! Error ? State the reasons for the error. [4 marks]

Solution:

Concept:

- An Excel error value indicates that the spreadsheet cannot evaluate a formula as written. The error $\#\text{DIV}/0!$ denotes division by zero.
- In a division formula, the denominator or divisor must have a non-zero numerical value. Excel treats an empty cell used as the divisor as zero.

Step 1: Meaning of the error The $\#\text{DIV}/0!$ error appears when a formula attempts to divide a number by zero. The result of such a division is undefined, so Excel displays an error value instead of a numerical answer. For example, entering $= 10/0$ produces this error. In an accounting worksheet, a ratio such as sales divided by quantity cannot be calculated if the quantity used as the divisor is zero.

Step 2: Zero entered directly or obtained through a reference One reason is that zero has been typed directly as the divisor in the formula. Another is that a formula refers to a cell containing zero: if cell B1 contains 0, the formula $= A1/B1$ returns the division error. The same problem arises if the denominator is an expression which evaluates to zero; for example, $= A1/(B1 - C1)$ fails when B1 and C1 contain equal values. The zero may therefore be an input value or the result of another calculation.

Step 3: Blank divisor or no numerical observations A second common reason is that the formula uses a blank cell as its divisor. Excel evaluates that empty reference as zero during division, so an otherwise correct formula still produces the error until the missing divisor is entered. A related case occurs when an averaging calculation has no numerical observations to count: its count is zero and an average cannot be calculated. To correct the error, check the denominator, its cell references and any missing input; enter the appropriate non-zero data or revise the calculation to handle a zero divisor.

Step 4: Conclusion Thus, $\#\text{DIV}/0!$ means division by zero. Its main causes are a zero divisor, a reference to an empty divisor cell, or a denominator calculation that gives zero.

Quick Tip to Solve: Trace the divisor cell first: a blank input may be treated as zero even when the numerator and formula look correct.

32. 'A Ltd.' wants to enter their sales related data on excel sheet, for their three products to prepare a graphic presentation to be presented in the Board Of Directors meeting. State the basic steps to prepare presentation. [6 marks]

Solution:

Concept:

- An Excel chart presents numerical worksheet data graphically. A chart uses a selected source range containing category labels, series names and the corresponding numerical values.
- For A Ltd., the three products can form the categories or separate data series. A column chart is suitable for comparing their sales; a line chart can show their sales trends over successive periods.

Step 1: Enter and organise the sales data Open Excel and create a worksheet in a workbook. Give the table clear headings, such as Product A, Product B and Product C, and enter the corresponding sales figures. If sales are compared over several months or years, enter the periods in the first column and each product's sales in a separate adjacent column. Keep the numerical entries in a consistent unit, such as Rs or units sold, and ensure that labels are distinguishable from values. Check the entries before preparing the chart.

Step 2: Select the source range Select the complete rectangular range containing the sales data along with the relevant product names, period labels and column headings. Including the headings helps Excel generate meaningful category labels and legend entries. Exclude unrelated figures or totals that would distort the intended comparison. The selected range becomes the source of the graphic presentation.

Step 3: Insert a suitable chart Choose the Insert tab and select an appropriate chart type from the Charts group. For a comparison of the sales of the three products, choose a column or bar chart and the required subtype. If the purpose is to compare sales trends over time, select a line chart instead. In versions that use the Chart Wizard, choose Insert Chart and proceed through the corresponding wizard stages.

Step 4: Confirm the data series and categories Check the proposed chart's data range and series arrangement. Set the period or product names as the category labels, as appropriate, and use the product headings as series names when showing several periods. Switch rows and columns if necessary so that the chart compares the intended quantities. Verify that all three products are represented and that the plotted values agree with the worksheet.

Step 5: Add titles and format the presentation Enter a descriptive chart title, such as Sales of A Ltd.'s Three Products. Add suitable axis titles, for example Period and Sales (Rs), and display a legend identifying each product. Set a sensible numerical scale, readable labels and, where helpful, data labels or gridlines. Use distinct colours for the products consistently. Keep the chart clear so that the directors can compare sales without confusing products, periods or units.

Step 6: Choose location, review and save Place the chart as an object on the worksheet or move it to a separate chart sheet. Resize and position it for a readable presentation, review the final chart against the source data, and save the workbook with an appropriate file name. The completed chart can then be printed or copied into the presentation for the Board of Directors meeting.

Step 7: Conclusion A Ltd. should enter and select its sales data, insert a suitable chart, verify the series, add meaningful titles and labels, choose its location and save the checked presentation.

Quick Tip to Solve: Select the product headings with the figures so that Excel can identify the three products correctly in the legend.