CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-4-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

(iii) **Part - B** has **two** options i.e. (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 the business of the firm becomes illegal, the way of dissolution of the firm is _____. [1 mark]

Solution:

Concept:

- Dissolution of a firm ends the partnership between all its partners and brings its business to a close.
- When the business becomes unlawful, dissolution is compulsory; the partners cannot agree to continue an illegal business.

Step 1: Identify the event The question states that the business of the firm becomes illegal. This is a legal bar to carrying on the business, rather than a voluntary decision by the partners.

Step 2: Apply the mode of dissolution Illegality of the business requires the firm to be dissolved compulsorily. Dissolution by agreement or by notice depends on a different trigger and does not describe the event given here.

Step 3: Conclusion The blank is **compulsory dissolution**.

Quick Tip to Solve: Link the word "illegal" directly with compulsory dissolution, since agreement cannot make the business lawful.

2. 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 is a nominal account prepared on the accrual basis by a not-for-profit organisation.
- It records revenue income and revenue expenditure relating to the current accounting period, whether received or paid or still outstanding.

Step 1: Determine the nature of the items Income and expenditure of a revenue nature enter this account. Capital items, such as the purchase of a building, do not become expenditure in this account merely because cash has been paid.

Step 2: Eliminate the alternatives Option (A) describes the broad cash coverage of a Receipts and Payments Account. Option (C) incorrectly restricts the account to capital expenditure. Option (D) omits revenue expenditure and confuses receipts with accrued income.

Step 3: Conclusion Income and Expenditure Account records income and expenditure of revenue

nature only. Hence, the correct option is (B).

Quick Tip to Solve: First distinguish receipts/payments from income/expenditure; then exclude capital items from the latter account.

3. 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 the net tangible assets of the firm: Capital employed $=$ Tangible assets $-$ Outside liabilities.
- Outside liabilities are amounts owed to outsiders, so they are deducted to obtain the capital invested by the owners.

Step 1: Substitute the balance-sheet amounts Use the tangible assets of Rs 14,00,000 and outside liabilities of Rs 4,00,000 given in the question.

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

Step 2: Distinguish the other goodwill calculations The profit and normal rate are not required to find net tangible assets. Rs 1,00,000 is the normal profit, $10,00,000 \times 10\%$; Rs 50,000 is the super profit, $1,50,000 - 1,00,000$. Neither is capital employed, and Rs 20,000 does not equal net assets.

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

Quick Tip to Solve: When tangible assets and outside liabilities are given, subtract them before using any profit or rate figures.

4. 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 receipt and may be applied only for specified purposes.
- Permitted purposes include issuing fully paid bonus shares, writing off preliminary expenses, and purchasing the company's own shares through buy-back.

Step 1: Check the permitted alternatives Options (A), (C) and (D) each describe a permitted use of securities premium. In particular, capitalising the premium to issue bonus shares requires those bonus shares to be fully paid.

Step 2: Identify the prohibited purpose Option (B) says partly paid-up bonus shares. This fails the fully paid condition for issuing bonus shares out of securities premium. The question asks for the purpose that is not permitted, so this qualification is decisive.

Step 3: Conclusion Issuing partly paid-up bonus shares is not an allowed use. Hence, the correct option is (B).

Quick Tip to Solve: Underline "not" in the question and compare "fully paid" with "partly paid" in the bonus-share alternatives.

5. 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 profit; deficiency is the excess of the guarantee over the partner's normal share.
- Where the firm guarantees a partner and no separate bearing ratio is stated, the other partners bear the deficiency in their relative profit-sharing ratio.

Step 1: Calculate Rohit's normal share and deficiency Rohit's share in the ratio $2:1:1$ is $1/4$. Hence,

$$\text{Normal share} = 20,000 \times \frac{1}{4} = \text{Rs } 5,000,$$

$$\text{Deficiency} = 14,000 - 5,000 = \text{Rs } 9,000.$$

Step 2: Apportion the deficiency between the guarantors Mohit and Shobhit bear the deficiency in their relative ratio $2:1$.

$$\text{Mohit's share} = 9,000 \times \frac{2}{3} = \text{Rs } 6,000,$$

$$\text{Shobhit's share} = 9,000 \times \frac{1}{3} = \text{Rs } 3,000.$$

Their adjusted profits are Rs 4,000 and Rs 2,000; with Rohit's Rs 14,000, these total Rs 20,000.

Step 3: Conclusion The deficiency of Rs 9,000 is borne by Mohit: Rs 6,000 and Shobhit: Rs 3,000.

Quick Tip to Solve: Find the guaranteed partner's normal share first; distribute only the shortfall among the remaining partners.

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6. 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)

Particular	Debit Amt. (Rs)	Credit Amt. (Rs)
Kavya's Capital A/c. Dr.	10,000	
To Avya's Capital A/c.		10,000

(B)

Particular	Debit Amt. (Rs)	Credit Amt. (Rs)
Divya's Capital A/c. Dr.	10,000	
To Avya's Capital A/c.		10,000

(C)

Particular	Debit Amt. (Rs)	Credit Amt. (Rs)
Avya's Capital A/c. Dr.	90,000	
To Kavya's Capital A/c.		90,000

(D)

Particular	Debit Amt. (Rs)	Credit Amt. (Rs)
Avya's Capital A/c. Dr.	10,000	
To Kavya's Capital A/c.		10,000

Correct Answer: (D)

Particular	Debit Amt. (Rs)	Credit Amt. (Rs)
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. Gain is new share minus old share; sacrifice is old share minus new share.
- Debit the gaining partner's capital and credit the sacrificing partner's capital with the corresponding share of goodwill.

Step 1: Calculate the change in shares **Working Notes:** The old share of each partner is $1/3 = 3/9$. Avya gains $4/9 - 3/9 = 1/9$, Divya has no change, and Kavya sacrifices $3/9 - 2/9 = 1/9$. Therefore, Avya compensates Kavya by $90,000 \times 1/9 = \text{Rs } 10,000$.

Step 2: Record the goodwill adjustment Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Avya's Capital A/c Dr. To Kavya's Capital A/c (Being goodwill adjusted for Avya's gain and Kavya's sacrifice)		10,000	10,000

Option (A) reverses the adjustment, (B) incorrectly debits Divya, and (C) uses the entire goodwill instead of the share transferred.

Step 3: Conclusion Avya's Capital A/c is debited and Kavya's Capital A/c credited by Rs 10,000. Hence, the correct option is (D).

Quick Tip to Solve: Convert all old and new shares to ninths; only Avya gains and only Kavya sacrifices, so Divya needs no entry.

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7. 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 the continuing partners acquire the retiring partner's share.
- Where the retiring share is transferred for amounts representing its value on the same basis, the gains are proportional to those amounts.

Step 1: Identify the basis of the gains Bimla gives portions of her share to Amla for Rs 3,600 and to Kavita for Rs 3,000. These amounts correspond to the portions acquired; the required ratio is therefore based on Rs 3,600 and Rs 3,000, not on Amla's and Kavita's old shares.

Step 2: Simplify the ratio and compare the options

$$\text{Amla : Kavita} = 3,600 : 3,000 = 6 : 5.$$

The old ratio $4 : 1$ in option (D) is not their gaining ratio. Options (A), $4 : 5$, and (B), $2 : 1$, do not match the proportion of the amounts paid for Bimla's share.

Step 3: Conclusion The gaining ratio of Amla and Kavita is 6 : 5. Hence, the correct option is (C).

Quick Tip to Solve: Use the consideration for the retiring partner's share to determine gains; do not copy the survivors' old ratio.

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

Solution:

Concept:

- A capital reserve is created from profits of a capital nature, rather than from ordinary recurring trading profits.
- The source of a reserve determines its classification: capital profits give rise to a capital reserve, while retained revenue profits normally form revenue reserves.

Step 1: Identify the source of the reserve The question asks the nature of the profits used to create Capital Reserve. Such profits arise from capital transactions; they are distinguished from the profits earned through normal business operations.

Step 2: Connect a standard example A standard example is the surplus on reissue of forfeited shares: after meeting any reissue discount, the related balance in Share Forfeiture Account is transferred to Capital Reserve. This illustrates why the blank requires the word capital.

Step 3: Conclusion Capital Reserve is created out of **capital profits**.

Quick Tip to Solve: Classify a reserve by its source: a surplus from a capital transaction points to capital profits and Capital Reserve.

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9. 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	Particular	LF	Debit Amt. (Rs)	Credit Amt. (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 the old partners in their sacrificing ratio, irrespective of their old profit-sharing ratio.
- Each old partner's new share equals the old share less the share sacrificed in favour of the incoming partner.

Step 1: Infer the sacrificing ratio from the entry **Working Notes:** Anita and Babita receive goodwill credits of Rs 8,000 and Rs 16,000. Thus their sacrificing ratio is $8,000 : 16,000 = 1 : 2$. Savita's share is $1/5$, so Anita sacrifices $\frac{1}{5} \times \frac{1}{3} = \frac{1}{15}$, and Babita sacrifices $\frac{1}{5} \times \frac{2}{3} = \frac{2}{15}$.

Step 2: Deduct sacrifices and form the common-denominator ratio The old shares are $3/4$ and $1/4$.

$$\text{Anita's new share} = \frac{3}{4} - \frac{1}{15} = \frac{41}{60},$$
$$\text{Babita's new share} = \frac{1}{4} - \frac{2}{15} = \frac{7}{60},$$
$$\text{Savita's share} = \frac{1}{5} = \frac{12}{60}.$$

The numerators total 60, confirming the shares sum to one. Option (B) gives Savita a share different from $1/5$. Options (C) and (D) give her $1/5$, but neither reflects Anita and Babita sacrificing in the ratio $1 : 2$.

Step 3: Conclusion The new ratio of Anita, Babita and Savita is 41 : 7 : 12. Hence, the correct option is (A).

Quick Tip to Solve: Read the old partners' goodwill credits to get sacrifice; divide Savita's one-fifth in that ratio before subtracting.

10. 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 is shown on the liabilities side of the Balance Sheet. Receipts for its specific purpose are added to that fund.
- Expenses for that purpose first use the available fund. Any excess is charged to the Income and Expenditure Account, rather than shown as a negative liability.

Step 1: Calculate the amount available for matches Add the opening Match Fund, ticket sales and the donation restricted to matches:

$$5,00,000 + 3,75,000 + 1,24,000 = \text{Rs } 9,99,000.$$

Match expenses of Rs 10,00,000 exceed this amount by Rs 1,000, so the fund is completely used up.

Step 2: Check each statement against the accounts The opening Balance Sheet at 1 April 2018 shows the opening Match Fund of Rs 5,00,000 as a liability, making statement (b) correct. The excess expenditure of Rs 1,000 is debited to the Income and Expenditure Account for the year ended 31 March 2019, making statement (c) correct. Statement (a) is incorrect: no negative Match Fund is carried as a liability. Options (B) and (C) individually describe only one of the two correct statements.

Step 3: Conclusion The opening fund is a liability, and the excess match expenses are charged to the Income and Expenditure Account. Hence, the correct option is (D).

Quick Tip to Solve: Add all receipts to the specific fund before comparing expenses; only the uncovered excess enters the Income and Expenditure Account.

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11. 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:

- When a retiring partner's amount remains unsettled and the firm continues using it without a contrary agreement, Section 37 of the Indian Partnership Act gives the outgoing partner a choice of compensation.

- The choice is between interest at 6% per annum on the unpaid amount and the share of subsequent profits attributable to the use of that amount.

Step 1: Identify the two available entitlements Statement (i) gives the statutory interest rate of 6% per annum. Statement (ii) describes the alternative profit share attributable to the outstanding amount. The retiring partner may elect either basis; both are not received together for the same period.

Step 2: Eliminate incomplete and incorrect choices Options (A) and (B) each state one possible entitlement but omit the partner's right to choose. Statement (iii), and therefore option (C), uses 9%, which is not the statutory rate in the absence of an agreement. The option expressly allowing an election between (i) and (ii) states the complete rule.

Step 3: Conclusion The retiring partner may choose either interest at 6% per annum or the attributable share of profits. Hence, the correct option is (D).

Quick Tip to Solve: For an unsettled retiring partner's claim, remember the election: 6 percent interest or attributable profits, never both together.

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

Solution:

Concept:

- Under the fixed capital method, a separate Capital Account and Current Account are maintained for each partner.
- Capital introduced and permanent changes in capital are recorded in the Capital Account. Routine adjustments are recorded in the Current Account.

Step 1: Locate routine adjustments Drawings, interest on drawings, interest on capital, salary and the share of profit or loss are posted to the partner's Current Account under the fixed capital method. These entries therefore do not change the fixed capital balance.

Step 2: Identify the account described The fixed Capital Account represents the capital contributed by the partner and shows a credit balance in the standard partnership treatment. The Current Account can show either a debit or a credit balance. A fluctuating Capital Account includes routine adjustments and can also have either balance, so it does not fill the blank.

Step 3: Conclusion **Fixed** capital accounts always show a credit balance.

Quick Tip to Solve: When capital is fixed, test the balance in the separate Current Account for drawings and losses; do not post those routine items to capital.

13. 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 created by transferring profits otherwise available for dividend, to provide for redemption of debentures.
- Under the prescribed treatment applicable to this examination, the minimum DRR is 25% of the face value of outstanding debentures.

Step 1: Apply the reserve requirement If the face value of the outstanding debentures is D, the required reserve is $0.25D$. The percentage is applied to face value, not to a redemption premium, interest payable or the company's share capital.

Step 2: Distinguish a reserve from an investment The transfer is from Surplus in the Statement of Profit and Loss to DRR. It is an appropriation of profits. The separate requirement to invest a portion of debentures due for redemption does not replace the percentage used to create DRR; the blank specifically asks about the reserve transfer.

Step 3: Conclusion The missing percentage is $\boxed{25\%}$.

Quick Tip to Solve: Identify whether the question asks for DRR or redemption investment: this blank asks for the reserve, so use 25 percent of face value.

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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 redemption at par, the amount payable equals the face value of outstanding debentures. No redemption premium is stated here.
- Under the prescribed treatment for this period, DRR must equal 25% of face value; an existing DRR balance reduces the further transfer required.
- Debenture Redemption Investment (DRI) of 15% of debentures maturing in the financial year is made by 30 April. After redemption, the completed DRR is transferred to General Reserve.

Step 1: Calculate the reserve and investment **Working Notes**

$$\text{Face value} = 50,000 \times 100 = \text{Rs } 50,00,000,$$
$$\text{Required DRR} = 50,00,000 \times 25\% = \text{Rs } 12,50,000,$$
$$\text{Further transfer} = 12,50,000 - 5,00,000 = \text{Rs } 7,50,000,$$
$$\text{Required DRI} = 50,00,000 \times 15\% = \text{Rs } 7,50,000.$$

The existing reserve is retained and supplemented; it is not created again in full. The investment provides part of the cash required for payment. With no sale gain or loss specified, its realisation is recorded at book value.

Step 2: Record provision for redemption **Journal of SS Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2018–19	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being the additional reserve created before redemption)		7,50,000	7,50,000
30-4-2018	Debenture Redemption Investment A/c Dr. To Bank A/c (Being 15% of maturing debentures invested)		7,50,000	7,50,000

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Bank A/c Dr. To Debenture Redemption Investment A/c (Being redemption investments realised at book value)		7,50,000	7,50,000
31-3-2019	10% Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at par)		50,00,000	50,00,000
31-3-2019	Debentureholders A/c Dr. To Bank A/c (Being the amount due paid to debentureholders)		50,00,000	50,00,000
31-3-2019	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred after complete redemption)		12,50,000	12,50,000

Interest entries are excluded as instructed. Each entry balances independently, and the final transfer closes the whole DRR, including its opening balance.

Step 4: Conclusion SS Ltd. redeems debentures of Rs 50,00,000 at par, creates additional DRR of Rs 7,50,000 and transfers total DRR of Rs 12,50,000 to General Reserve after redemption.

Quick Tip to Solve: Subtract the opening DRR from the required reserve, but calculate the 15 percent investment on the full debentures maturing that year.

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:

- Interest on debentures is a charge against profit, calculated on their face value for the relevant period.
- Tax deducted at source (TDS) reduces the cash paid to debentureholders but not the interest expense. TDS is a liability until remitted to the Government.

Step 1: Calculate each half-year's interest and tax **Working Notes**

$$\text{Debenture face value} = 4,000 \times 100 = \text{Rs } 4,00,000,$$
$$\text{Half-yearly interest} = 4,00,000 \times 12\% \times \frac{6}{12} = \text{Rs } 24,000,$$
$$\text{TDS each half-year} = 24,000 \times 10\% = \text{Rs } 2,400,$$
$$\text{Net payment} = 24,000 - 2,400 = \text{Rs } 21,600.$$

Both interest periods contain six months. Annual interest expense is therefore Rs 48,000, total TDS is Rs 4,800 and the total paid to debentureholders is Rs 43,200. Tax is calculated on interest, not on debenture principal.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-9-2018	Debenture Interest A/c Dr. To Debentureholders A/c To Income Tax Payable A/c (Being half-yearly interest due after deducting 10% TDS)		24,000	 21,600 2,400
30-9-2018	Debentureholders A/c Dr. To Bank A/c (Being net interest paid to debentureholders)		21,600	 21,600
On remittance	Income Tax Payable A/c Dr. To Bank A/c (Being tax deducted at source remitted to Government)		2,400	 2,400

Step 3: Record the March interest and annual expense transfer **Journal of X Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Debenture Interest A/c Dr. To Debentureholders A/c To Income Tax Payable A/c (Being half-yearly interest due after deducting 10% TDS)		24,000	 21,600 2,400
31-3-2019	Debentureholders A/c Dr. To Bank A/c (Being net interest paid to debentureholders)		21,600	 21,600
On remittance	Income Tax Payable A/c Dr. To Bank A/c (Being tax deducted at source remitted to Government)		2,400	 2,400
31-3-2019	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being annual debenture interest charged to profit)		48,000	 48,000

The actual remittance dates are not specified; the tax entries show the treatment when paid. Any unremitted TDS remains payable until remittance. The closing transfer uses gross interest because withholding tax is paid on behalf of the debentureholders.

Step 4: Conclusion Each half-year carries interest of Rs 24,000, TDS of Rs 2,400 and net payment of Rs 21,600. The annual interest charged to the Statement of Profit and Loss is Rs 48,000.

Quick Tip to Solve: First halve the annual interest, then deduct TDS from that half-yearly amount; transfer gross annual interest, not net cash paid, to profit and loss.

15. From the following information, calculate the amount of sports material that will be debited to Income and Expenditure Account of Sharda Club for the year ended 31-03-2019.

Particulars	1-4-2018 (₹)	31-3-2019 (₹)
Stock of Sports material	2,00,000	2,50,000
Creditors for sports material	3,50,000	2,90,000
Advance paid for sports material	70,000	1,10,000

Additional Information: Cash purchase of sports material during the year was ₹ 1,79,000. ₹ 2,40,000 were paid to the creditors of sports material during the year. [4 marks]

Solution:

Concept:

- The Income and Expenditure Account records sports material consumed during the accounting year, on the accrual basis, rather than the cash paid during the year.
- Purchases are obtained by adding closing creditors and opening advances to payments, and deducting opening creditors and closing advances. Consumption equals opening stock plus

purchases less closing stock.

Step 1: Convert payments into the cost of material purchased Cash purchases and payments to creditors together amount to

$$1,79,000 + 2,40,000 = \text{Rs } 4,19,000.$$

Opening creditors relate to material bought before this year and must be deducted; closing creditors represent this year's unpaid purchases and must be added. The opening advance becomes available towards purchases this year, whereas the closing advance represents payment for material still to be received.

Working Note: Sports material purchased

Particulars	Amount (Rs)
Cash purchases plus payments to creditors	4,19,000
Add: Closing creditors	2,90,000
Add: Opening advance	70,000
Less: Opening creditors	(3,50,000)
Less: Closing advance	(1,10,000)
Purchases for the year	3,19,000

Step 2: Adjust purchases for opening and closing stock The opening stock was available for use during the year, so it is added to purchases. Closing stock remains unused at 31st March, 2019 and is therefore deducted. Neither the unused stock nor the closing advance is an expense of this accounting year.

Working Note: Sports material consumed

Particulars	Amount (Rs)
Opening stock on 1st April, 2018	2,00,000
Add: Purchases for the year	3,19,000
Material available for consumption	5,19,000
Less: Closing stock on 31st March, 2019	(2,50,000)
Sports material consumed	2,69,000

Step 3: Conclusion Sports material of **Rs 2,69,000** will be debited to Sharda Club's Income and Expenditure Account for the year ended 31st March, 2019.

Quick Tip to Solve: Adjust the combined payments for both creditors and advances before adjusting stock; the Rs 40,000 increase in advances reduces purchases, and the Rs 50,000 increase in stock reduces consumption.

16. From the following Receipts and Payments Account of Vandana Music Club for the year ended 31st March, 2019 and additional information, Prepare Income and Expenditure Account for the year ended 31-03-2019.

Receipts and Payments Account of Vandana Music Club

for the year ended 31-03-2019

Receipts	Amount (Rs)	Payments	Amount (Rs)
To Balance b/d:		By Honorarium	1,42,000
Cash 20,000; Bank 30,000	50,000	By Musical Instruments	70,000
To Subscriptions:		By Electricity Bill	40,000
2017-18: 13,000		By Balance c/d:	
2018-19: 4,00,000		Cash: 22,000	
2019-20: 47,000	4,60,000	Bank: 1,91,000	
To Locker Rent	30,000	Fixed deposit	
To Sale of Old furniture	16,000	@ 7% p.a. on	
(book value Rs 12,000)		31-3-2019: 2,30,000	4,43,000
To Building Fund Donations	38,000		
To Life Membership Fees	91,000		
To Entrance Fees	10,000		
Total	6,95,000	Total	6,95,000

Additional Information: The Club had 450 members each paying an annual subscription of Rs 1,000. Musical Instruments were purchased on 1-10-2018. Depreciation @ 20% p.a. was to be charged on Musical Instruments. [4 marks]

Solution:

Concept:

- The Income and Expenditure Account includes revenue income and expenses belonging to the current year, irrespective of the year in which cash is received or paid.
- Specific building donations and life membership fees are capital receipts. The purchase of musical instruments is capital expenditure; only depreciation is charged to expenditure.
- Subscription income equals the number of members multiplied by the annual subscription. Only the profit on sale of an asset is revenue income, not its entire sale proceeds.

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

All 450 members owe Rs 1,000 each for the current year. Thus,

$$\text{Subscription income} = 450 \times 1,000 = \text{Rs } 4,50,000.$$

Current-year subscriptions received are Rs 4,00,000, leaving Rs 50,000 outstanding. The Rs 13,000 received for 2017-18 and Rs 47,000 received for 2019-20 do not belong to the year ended 31st March, 2019.

$$\text{Profit on furniture sale} = 16,000 - 12,000 = \text{Rs } 4,000.$$

Locker rent of Rs 30,000 and entrance fees of Rs 10,000 are revenue income. In the absence of any instruction to capitalise entrance fees, they are credited to the Income and Expenditure Account.

Step 2: Determine depreciation and exclude capital items Musical instruments were purchased on

1st October, 2018, so depreciation is charged for six months:

$$\text{Depreciation} = 70,000 \times \frac{20}{100} \times \frac{6}{12} = \text{Rs } 7,000.$$

The Rs 38,000 building fund donations belong to the specific building fund, and Rs 91,000 life membership fees are added to capital fund. The Rs 70,000 instrument purchase and Rs 2,30,000 fixed deposit are assets. The fixed deposit was made on 31st March, 2019; no interest accrues for a period within this year. Opening and closing cash and bank balances are also excluded from the income and expenditure totals.

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

Dr. Expenditure	**Rs**	**Cr. Income**	**Rs**
To Honorarium	1,42,000	By Subscriptions	4,50,000
To Electricity bill	40,000	By Locker rent	30,000
To Depreciation on musical instruments	7,000	By Profit on sale of old furniture	4,000
To Surplus (transferred to capital fund)	3,05,000	By Entrance fees	10,000
Total	**4,94,000**	**Total**	**4,94,000**

Revenue expenses are Rs 1,89,000. The difference between revenue income of Rs 4,94,000 and these expenses is transferred to the capital fund as surplus.

Step 4: Conclusion Vandana Music Club has a **surplus of Rs 3,05,000** for the year ended 31st March, 2019. The Income and Expenditure Account totals Rs 4,94,000 on each side.

Quick Tip to Solve: Use 450 members times Rs 1,000 for subscription income, charge only six months' depreciation, and note that a deposit made on the final day earns no current-year interest.

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17. 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 is not chargeable when the partnership deed is silent. The erroneous charge must therefore be reversed, along with its effect on distributed profit.
- Interest on capital is calculated on opening capital. Reconstruct opening capital by adding drawings and interest charged on drawings to closing capital and deducting the profit share already credited.
- A past adjustment transfers the net excess credit from one partner's capital account to the other;

the total correction to the partners' capitals must be zero.

Step 1: Calculate the interest on drawings wrongly charged **Working Notes.** A withdrew Rs 15,000 at the beginning of each quarter, so the four withdrawals remained outstanding for 12, 9, 6 and 3 months. Their average period is 7.5 months. B's withdrawal dates are not given, so the usual average period of six months applies.

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

Total interest wrongly charged was Rs 6,900. Both personal debits must be cancelled, and the corresponding profit credit must be withdrawn in the ratio $3 : 2$.

Step 2: Reconstruct opening capitals and calculate interest The stated Rs 50,000 is the profit already distributed after the drawings-interest adjustment. Thus A and B were credited Rs 30,000 and Rs 20,000 respectively. Reverse those credits and restore the withdrawals and interest debits to obtain opening capitals:

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

Interest on capital at 5% is therefore Rs 10,000 for A and Rs 7,500 for B. These allowances total Rs 17,500 and reduce the divisible profit in the ratio $3 : 2$.

Step 3: Determine each partner's net adjustment Credit the omitted interest on capital and refund the wrongful interest on drawings. Debit the partners with their shares of the total reduction in divisible profit, $17,500 + 6,900 = \text{Rs } 24,400$.

Particulars	A (Rs)	B (Rs)
Refund interest on drawings: credit	4,500	2,400
Allow interest on capital: credit	10,000	7,500
Total credit due	14,500	9,900
Withdraw excess profit share: debit	14,640	9,760
Net adjustment	140 Dr.	140 Cr.

As a check, the corrected divisible profit is $50,000 - 6,900 - 17,500 = \text{Rs } 25,600$. A's corrected closing capital is $2,00,000 - 60,000 + 10,000 + 15,360 = \text{Rs } 1,65,360$; B's is $1,50,000 - 40,000 + 7,500 + 10,240 = \text{Rs } 1,27,740$.

Step 4: Pass the rectifying journal entry **Journal of the Firm**

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

Step 5: Conclusion Debit A's Capital Account and credit B's Capital Account by **Rs 140**. The adjustment leaves the combined capital unchanged.

Quick Tip to Solve: Rebuild opening capital before computing interest: add back both drawings and the wrongly charged drawings interest, then subtract the profit already credited.

OR

17. 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. Transfer net profit to the Profit and Loss Appropriation Account and distribute the residual profit in the agreed ratio.
- Under the fixed-capital method, salary, interest and profit shares are credited to the partners' Current Accounts. The fixed Capital Accounts remain unchanged unless permanent capital is introduced or withdrawn.

Step 1: Calculate the appropriations and residual profit **Working Notes.** Each partner receives annual salary of Rs 20,000; therefore the total salary appropriation is $3 \times 20,000 = \text{Rs } 60,000$. All opening capitals are entitled to interest for the full year at 10%.

Particulars	Arun (Rs)	Shobha (Rs)	Yuvraj (Rs)	Total (Rs)
Salary	20,000	20,000	20,000	60,000
Interest on capital	10,000	5,000	5,000	20,000
Share of residual profit	6,000	2,000	2,000	10,000
Total credit to Current A/c	36,000	27,000	27,000	90,000

Interest is $1,00,000 \times 10\% = \text{Rs } 10,000$ for Arun and $50,000 \times 10\% = \text{Rs } 5,000$ each for Shobha and Yuvraj. Hence residual profit is

$$90,000 - 60,000 - 20,000 = \text{Rs } 10,000.$$

Divide this balance in $3 : 1 : 1$, giving $10,000 \times 3/5 = \text{Rs } 6,000$ to Arun and $10,000 \times 1/5 = \text{Rs } 2,000$ each to Shobha and Yuvraj.

Step 2: Transfer net profit and record partners' salaries The appropriations are recorded directly by debiting the Profit and Loss Appropriation Account and crediting the relevant Current Accounts.

Journal of the Firm

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 among partners)		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 salary of Rs 20,000 credited to each partner as provided in the deed)		60,000	 20,000 20,000 20,000

Step 3: Record interest on capital and distribute the balance **Journal of the Firm (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
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% per annum)		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 among partners in the ratio of 3:1:1)		10,000	 6,000 2,000 2,000

The appropriation account is fully closed: its credit of Rs 90,000 equals debits of Rs 60,000, Rs 20,000 and Rs 10,000. Every journal entry separately has equal debits and credits.

Step 4: Conclusion Credit the Current Accounts of Arun, Shobha and Yuvraj by **Rs 36,000, Rs 27,000 and Rs 27,000** respectively. Their fixed capitals remain Rs 1,00,000, Rs 50,000 and Rs 50,000.

Quick Tip to Solve: With fixed capitals, credit every salary, interest and profit appropriation to Current Accounts; apply 3:1:1 only to the Rs 10,000 left after salary and interest.

18. Karim, Saleem and Raheem were partners in a firm sharing profits and losses in the ratio of 3 : 4 : 3. The firm closes its books on 31st March every year. On 1-10-2019 Karim died. On Karim's death the goodwill of the firm was valued at ₹ 3,50,000. Karim's share in the profits of the firm in the year of his death was to be calculated on the basis of average profits of last four years. The profits for the last four years were 2015-16 ₹ 1,70,000; 2016-17 ₹ 1,30,000; 2017-18 ₹ 1,90,000 and 2018-19 ₹ 1,10,000. The total amount payable to Karim's executors on his death was ₹ 7,35,000. It was paid on 15-10-2019.

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

Solution:

Concept:

- A deceased partner's share of goodwill is credited to his capital account and debited to the continuing partners in their gaining ratio, without raising goodwill in the books.
- Estimated profit up to death is credited to the deceased partner's capital account by debiting Profit and Loss Suspense Account. The amount due is then transferred to his executors' account.

Step 1: Calculate goodwill and profit entitlement **Working Notes**

Karim's old profit share is $3/10$. No change in the relative shares of Saleem and Raheem is given, so they continue in $4:3$, also their gaining ratio. Karim's goodwill entitlement is

$$\text{Rs } 3,50,000 \times \frac{3}{10} = \text{Rs } 1,05,000.$$

Saleem bears $1,05,000 \times 4/7 = \text{Rs } 60,000$, and Raheem bears $1,05,000 \times 3/7 = \text{Rs } 45,000$. These amounts credit Karim's capital, rather than being paid immediately as a separate goodwill transaction.

$$\text{Average annual profit} = \frac{1,70,000 + 1,30,000 + 1,90,000 + 1,10,000}{4}$$
$$= \text{Rs } 1,50,000.$$

The interval from 1 April 2019 to 1 October 2019 is six months. Karim's estimated share for this interval is

$$\text{Rs } 1,50,000 \times \frac{6}{12} \times \frac{3}{10} = \text{Rs } 22,500.$$

Step 2: Record the adjustments and payment The stated Rs 7,35,000 is the total amount due after all adjustments. Therefore goodwill and estimated profit are not added to this total again when transferring the liability to the executors.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-10-2019	Saleem's Capital A/c Dr. Raheem's Capital A/c Dr. To Karim's Capital A/c (Being Karim's goodwill share adjusted through the continuing partners in their gaining ratio of 4:3)		60,000 45,000	 1,05,000
1-10-2019	Profit and Loss Suspense A/c Dr. To Karim's Capital A/c (Being Karim's estimated profit share for six months credited to his capital)		22,500	 22,500
1-10-2019	Karim's Capital A/c Dr. To Karim's Executors' A/c (Being total amount due transferred to Karim's executors)		7,35,000	 7,35,000
15-10-2019	Karim's Executors' A/c Dr. To Bank A/c (Being amount due paid to Karim's executors)		7,35,000	 7,35,000

Step 3: Conclusion Karim's goodwill entitlement is Rs 1,05,000 and his estimated profit share is Rs 22,500. The total liability of Rs 7,35,000 is transferred to his executors on 1 October 2019 and settled on 15 October 2019.

Quick Tip to Solve: Use six months for the profit estimate, and transfer the stated total payable of Rs 7,35,000 without adding goodwill or profit to it 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:

Balance Sheet of Harish and Gopal as at March 31, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	36,000	Cash	47,000
Outstanding expenses	10,000	Bank	93,000
Gopal's wife's loan	50,000	Debtors	76,000
Capitals:		Stock	2,00,000
Harish 2,80,000		Furniture	20,000
Gopal 1,60,000	4,40,000	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 their book values. Cash, bank and partners' capital accounts are not transferred.
- Credit realisation proceeds and debit payments of liabilities and expenses. A liability assumed or an expense paid by a partner is credited to that partner's capital account.
- Transfer the resulting realisation profit or loss to partners' capital accounts in their profit-sharing ratio, here Harish:Gopal = 3:2.

Step 1: Work out receipts and liability settlements **Working Notes**

Book values of assets transferred are debtors Rs 76,000, stock Rs 2,00,000, furniture Rs 20,000 and leasehold premises Rs 1,00,000, totalling Rs 3,96,000. Cash Rs 47,000 and bank Rs 93,000 remain outside Realisation Account.

Debtors realise $76,000 - 12,000 = \text{Rs } 64,000$, while leasehold premises realise Rs 1,50,000. Harish pays Rs 90,000 by cheque for half the stock; this is a bank receipt, not a debit to his capital. The remaining stock brings Rs 94,000. Thus total bank receipts are

$$1,50,000 + 64,000 + 90,000 + 94,000 = \text{Rs } 3,98,000.$$

Half the creditors, Rs 18,000, accept furniture in full settlement. Since both furniture and creditors have already been transferred, no further entry is required for this direct exchange. The other half receive

$$18,000 \times \frac{90}{100} = \text{Rs } 16,200.$$

Outstanding expenses of Rs 10,000 are paid at their book value because no different settlement is specified. Gopal assumes his wife's loan of Rs 50,000; Realisation is debited and his capital credited. The Rs 10,000 realisation expenses paid personally by Gopal similarly credit his capital, rather than Bank.

Step 2: Prepare and balance Realisation Account **Realisation Account as at 31 March 2018**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Debtors A/c	76,000	By Creditors A/c	36,000
To Stock A/c	2,00,000	By Outstanding Expenses A/c	10,000
To Furniture A/c	20,000	By Gopal's Wife's Loan A/c	50,000
To Leasehold Premises A/c	1,00,000	By Bank A/c (premises)	1,50,000
To Gopal's Capital A/c (wife's loan assumed)	50,000	By Bank A/c (debtors)	64,000
To Bank A/c (creditors)	16,200	By Bank A/c (stock: Harish's cheque)	90,000
To Bank A/c (outstanding expenses)	10,000	By Bank A/c (remaining stock)	94,000
To Gopal's Capital A/c (realisation expenses)	10,000		
To Harish's Capital A/c (profit)	7,080		
To Gopal's Capital A/c (profit)	4,720		
Total	4,94,000	Total	4,94,000

Before distributing profit, the debit total is Rs 4,82,200 and the credit total is Rs 4,94,000. Hence the excess credit is profit:

$$\text{Realisation profit} = 4,94,000 - 4,82,200 = \text{Rs } 11,800,$$
$$\text{Harish's share} = 11,800 \times \frac{3}{5} = \text{Rs } 7,080,$$
$$\text{Gopal's share} = 11,800 \times \frac{2}{5} = \text{Rs } 4,720.$$

Realisation Account closes after these transfers; no balance is carried forward.

Step 3: Conclusion Realisation profit is Rs 11,800, credited to Harish's Capital Account by Rs 7,080 and Gopal's Capital Account by Rs 4,720. Both sides of Realisation Account total Rs 4,94,000.

Quick Tip to Solve: Harish pays by cheque, so credit Realisation through Bank for Rs 90,000. Credit Gopal's capital for the loan he assumes and the expenses he personally pays.

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 transferring net profit to the Profit and Loss Appropriation Account.
- Interest on drawings increases the amount available for appropriation; interest on capital and partners' salaries reduce it. Distribute the residual profit in the agreed ratio of $5 : 3 : 2$.
- For equal drawings at regular intervals, interest is total drawings multiplied by the annual rate and the average period in months divided by 12. With fixed capitals, appropriations are posted to partners' Current Accounts.

Step 1: Calculate the net profit available for appropriation **Working Notes**

Geeta's loan is separate from her fixed capital. Its annual interest must therefore be charged to the

Profit and Loss Account, not treated as interest on capital:

$$\text{Loan interest} = 75,000 \times \frac{9}{100} = \text{Rs } 6,750,$$
$$\text{Net profit} = 7,06,750 - 6,750 = \text{Rs } 7,00,000.$$

This adjusted net profit is credited to the Profit and Loss Appropriation Account.

Step 2: Calculate interest on drawings Sudha draws Rs 50,000 at each quarter-end. The four drawings remain outstanding for 9, 6, 3 and 0 months; their average period is 4.5 months. Naresh draws at the beginning of each half-year, giving periods of 12 and 6 months and an average of 9 months. Geeta draws at each half-year-end, giving periods of 6 and 0 months and an average of 3 months.

$$\text{Sudha} = (50,000 \times 4) \times \frac{12}{100} \times \frac{4.5}{12} = \text{Rs } 9,000,$$
$$\text{Naresh} = (50,000 \times 2) \times \frac{12}{100} \times \frac{9}{12} = \text{Rs } 9,000,$$
$$\text{Geeta} = (70,000 \times 2) \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 4,200.$$

Total interest on drawings is Rs 22,200 and is credited to the appropriation account.

Step 3: Calculate capital interest, salaries and residual profit Interest on the fixed capitals for the year is:

$$\text{Sudha} = 6,00,000 \times 9\% = \text{Rs } 54,000,$$
$$\text{Naresh} = 4,00,000 \times 9\% = \text{Rs } 36,000,$$
$$\text{Geeta} = 2,00,000 \times 9\% = \text{Rs } 18,000.$$

Sudha's salary is Rs $30,000 \times 12 = 3,60,000$; Naresh's salary is Rs $40,000 \times 4 = 1,60,000$. No salary is provided for Geeta. Hence:

$$\text{Residual profit} = 7,00,000 + 22,200 - 1,08,000 - 5,20,000$$
$$= \text{Rs } 94,200.$$

Its allocation in the ratio $5 : 3 : 2$ is Rs 47,100 to Sudha, Rs 28,260 to Naresh and Rs 18,840 to Geeta.

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

Dr. Particulars	Rs	Particulars Cr.	Rs
To Interest on Capital:		By Profit and Loss A/c	7,00,000
Sudha's Current A/c	54,000	(Net profit)	
Naresh's Current A/c	36,000	By Interest on Drawings:	
Geeta's Current A/c	18,000	Sudha's Current A/c	9,000
To Partners' Salaries:		Naresh's Current A/c	9,000
Sudha's Current A/c	3,60,000	Geeta's Current A/c	4,200
Naresh's Current A/c	1,60,000		
To Profit transferred to:			
Sudha's Current A/c	47,100		
Naresh's Current A/c	28,260		
Geeta's Current A/c	18,840		
Total	**7,22,200**	**Total**	**7,22,200**

The account closes after distributing all residual profit; there is no balance carried down. Fixed capital balances remain unchanged because these entries affect the Current Accounts.

Step 5: Conclusion The appropriation account totals Rs 7,22,200 on each side. Residual profit of Rs 94,200 is distributed as Sudha Rs 47,100, Naresh Rs 28,260 and Geeta Rs 18,840.

Quick Tip to Solve: For these drawings use average periods of 4.5, 9 and 3 months respectively. Deduct Geeta's loan interest before appropriation, then add drawings interest before distributing profit.

20. Pass necessary journal entries for the issue of debentures in the following cases :

(i) Issued ₹ 2,00,000 9% debentures of ₹ 100 each at a discount of 10% redeemable at a premium of 15%.

(ii) Issued 4,000, 9% debentures of ₹ 100 each at a premium of 5% redeemable at a premium of 10%.

(iii) Issued ₹ 10,00,000, 9% debentures of ₹ 100 each at par redeemable at a premium of 12.5%.

[6 marks]

Solution:

Concept:

- Credit the Debentures Account with the nominal (face) value issued, and debit Bank with the actual issue proceeds.
- Loss on Issue of Debentures includes the discount on issue plus the premium payable on redemption. Recognise the redemption premium liability at the date of issue.
- An issue premium is credited separately to Securities Premium Reserve. The coupon rate of 9% determines periodic interest; it does not change the amounts recorded on issue.

Step 1: Record case (i): issue at discount, redeem at premium **Working Notes: Case (i)**

The nominal value is Rs 2,00,000. A 10% issue discount reduces cash proceeds, whereas the 15% redemption premium creates a future liability:

$$\begin{aligned}\text{Discount} &= 2,00,000 \times 10\% = \text{Rs } 20,000,\\ \text{Bank proceeds} &= 2,00,000 - 20,000 = \text{Rs } 1,80,000,\\ \text{Redemption premium} &= 2,00,000 \times 15\% = \text{Rs } 30,000,\\ \text{Loss on issue} &= 20,000 + 30,000 = \text{Rs } 50,000.\end{aligned}$$

Journal: Case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,80,000	
	Loss on Issue of Debentures A/c Dr.		50,000	
	To 9% Debentures A/c			2,00,000
	To Premium on Redemption of Debentures A/c			30,000
	(Being Rs 2,00,000 debentures issued at 10% discount, redeemable at 15% premium)			
	Total		**2,30,000**	**2,30,000**

Step 2: Record case (ii): issue at premium, redeem at premium **Working Notes: Case (ii)**

There are 4,000 debentures of Rs 100 each, so their nominal value is Rs 4,00,000. The 5% premium received on issue is a securities premium; the 10% premium payable on redemption is recorded separately as loss on issue and a liability.

$$\begin{aligned}\text{Issue premium} &= 4,00,000 \times 5\% = \text{Rs } 20,000,\\ \text{Bank proceeds} &= 4,00,000 + 20,000 = \text{Rs } 4,20,000,\\ \text{Redemption premium} &= 4,00,000 \times 10\% = \text{Rs } 40,000.\end{aligned}$$

There is no issue discount. Thus the loss recognised on issue equals the redemption premium of Rs 40,000; it is not netted against the securities premium in this issue entry.

Journal: Case (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,20,000	
	Loss on Issue of Debentures A/c Dr.		40,000	
	To 9% Debentures A/c			4,00,000
	To Securities Premium Reserve A/c			20,000
	To Premium on Redemption of Debentures A/c			40,000
	(Being 4,000 debentures of Rs 100 each issued at 5% premium, redeemable at 10% premium)			
	Total		**4,60,000**	**4,60,000**

Step 3: Record case (iii): issue at par, redeem at premium **Working Notes: Case (iii)**

Issue at par means the cash received equals the nominal value of Rs 10,00,000. There is neither discount nor securities premium on issue. The redemption premium still has to be recognised when the debentures are issued:

$$\begin{aligned}\text{Bank proceeds} &= \text{Rs } 10,00,000,\\ \text{Redemption premium} &= 10,00,000 \times \frac{12.5}{100}\\ &= \text{Rs } 1,25,000.\end{aligned}$$

Hence debit Loss on Issue of Debentures with Rs 1,25,000 and credit the corresponding premium payable account.

Journal: Case (iii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		10,00,000	
	Loss on Issue of Debentures A/c Dr.		1,25,000	
	To 9% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			1,25,000
	(Being Rs 10,00,000 debentures issued at par, redeemable at a premium of 12.5%)			
	Total		**11,25,000**	**11,25,000**

Step 4: Conclusion The losses on issue are Rs 50,000, Rs 40,000 and Rs 1,25,000 for cases (i), (ii) and (iii), respectively. Each journal entry balances and recognises both the nominal debenture liability

and the redemption premium liability.

Quick Tip to Solve: Calculate bank proceeds from the issue price and redemption premium from face value separately. Include discount plus redemption premium in loss on issue, but credit any issue premium to Securities Premium Reserve.

21. 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 (Rs)	Assets	Amount (Rs)
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 3,00,000 Aman 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:

- Goodwill brought in by the incoming partner is credited to the sacrificing partners in their sacrificing ratio. Revaluation profit or loss belongs only to the old partners in their old profit-sharing ratio.
- Bad debts are written off before calculating the required provision on remaining debtors. An existing provision is adjusted so that only the net change affects Revaluation Account.
- An existing workmen compensation reserve is applied against the estimated liability; any shortfall is charged to Revaluation Account. Payment of an already recorded liability does not create a fresh loss.

Step 1: Working Notes: calculate goodwill and revaluation adjustments No changed ratio between Raman and Aman is specified, so Suman acquires her share from them in their old ratio, 3 : 1. The

sacrificing ratio is therefore $3:1$; the new shares are $3/5, 1/5, 1/5$.

$$\text{Suman's premium} = 1,00,000 \times \frac{1}{5} = \text{Rs } 20,000,$$
$$\text{Raman's credit} = 20,000 \times \frac{3}{4} = \text{Rs } 15,000,$$
$$\text{Aman's credit} = 20,000 \times \frac{1}{4} = \text{Rs } 5,000.$$

Debtors after writing off bad debts are Rs $95,000 - 5,000 = 90,000$. Required provision is Rs $90,000 \times 5\% = 4,500$. Thus the old provision of Rs 7,000 is reduced by Rs 2,500. Recording bad debts of Rs 5,000 and this reduction separately gives a net revaluation loss of Rs 2,500 on debtors. The workmen compensation liability exceeds its reserve by Rs $60,000 - 55,000 = 5,000$; only this excess is a revaluation loss.

Step 2: Record capital, goodwill and settlement of expenses

Journal of Raman, Aman and Suman

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	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 premium received from Suman)			
	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 distributed in sacrificing ratio 3:1)			
	Outstanding Expenses A/c Dr.		18,000	
	To Bank A/c			18,000
	(Being outstanding expenses paid off)			

Step 3: Record bad debts, provision and compensation liability

Journal of Raman, Aman and Suman

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Revaluation A/c Dr.		5,000	
	To Sundry Debtors A/c			5,000
	(Being bad debts written off on reconstitution)			
	Provision for Bad Debts A/c Dr.		2,500	
	To Revaluation A/c			2,500
	(Being provision reduced from Rs 7,000 to Rs 4,500)			
	Workmen Compensation Reserve A/c Dr.		55,000	
	Revaluation A/c Dr.		5,000	
	To Workmen Compensation Liability A/c			60,000
	(Being liability recognised, with excess over reserve charged to revaluation)			

Step 4: Record depreciation and transfer the revaluation loss Both decreases in asset values are

debited to Revaluation Account. The net loss is:

$$\begin{aligned}\text{Loss} &= 5,000 + 5,000 + 18,000 + 54,000 - 2,500\\ &= \text{Rs } 79,500.\\ \text{Raman's share} &= 79,500 \times \frac{3}{4} = \text{Rs } 59,625,\\ \text{Aman's share} &= 79,500 \times \frac{1}{4} = \text{Rs } 19,875.\end{aligned}$$

Journal of Raman, Aman and Suman

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Revaluation A/c Dr.		72,000	
	To Machinery A/c			18,000
	To Land and Building A/c			54,000
	(Being machinery and land and building depreciated)			
	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 old ratio 3:1)			

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

Quick Tip to Solve: Calculate the new bad-debt provision on Rs 90,000, and charge only the Rs 5,000 excess of the compensation claim over its reserve to revaluation.

OR

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

Liabilities	Amount (Rs)	Assets	Amount (Rs)
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 60,000 B 40,000 C 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:

- When the old profit-sharing ratio is not specified, partners share profits equally. Revaluation profit and accumulated reserves are distributed in that old ratio, not in the new ratio of the continuing partners.
- The retiring partner is compensated for his share of goodwill by the continuing partners in their gaining ratio. Gain equals new share minus old share.
- Only the workmen compensation reserve exceeding the estimated claim is credited to partners. The retiring partner's balance after cash payment becomes a loan liability.

Step 1: Working Notes: determine ratios and goodwill adjustment The question gives no old profit-sharing ratio; hence A, B and C share equally, $1:1:1$. Their capitals do not determine their old profit shares. The new ratio of A and C is $2:1$.

$$\text{A's gain} = \frac{2}{3} - \frac{1}{3} = \frac{1}{3},$$
$$\text{C's gain} = \frac{1}{3} - \frac{1}{3} = 0,$$
$$\text{B's share of goodwill} = 30,000 \times \frac{1}{3} = \text{Rs } 10,000.$$

A alone gains B's entire share. Accordingly, debit A's Capital Account and credit B's Capital Account by Rs 10,000. No goodwill asset is raised. General reserve of Rs 30,000 is credited equally, Rs 10,000 each. Of the workmen compensation reserve, Rs 1,500 is retained as a liability and the surplus Rs $6,000 - 1,500 = 4,500$ is credited equally, Rs 1,500 each.

Step 2: Working Notes: calculate revaluation effects After bad debts of Rs 4,000, debtors are Rs $45,000 - 4,000 = 41,000$. The required provision is Rs $41,000 \times 10\% = 4,100$. The existing provision is Rs 5,000, so its reduction by Rs 900 is credited to Revaluation Account. Together with the bad-debt debit of Rs 4,000, the net loss on debtors is Rs 3,100. Land and building appreciate by Rs $1,32,000 - 1,20,000 = 12,000$. Furniture sold for Rs 20,000 against its book value of Rs 28,000 causes a loss of Rs 8,000. The sale proceeds themselves are debited to Bank Account.

$$\text{Revaluation profit} = 12,000 + 900 - 4,000 - 8,000 = \text{Rs } 900.$$

Credit Rs $900/3 = 300$ to each partner's capital account. The Rs 4,500 reserve surplus is distributed directly to partners; it is not included again in revaluation profit.

Step 3: Prepare Revaluation Account **Revaluation Account**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Debtors A/c (bad debts)	4,000	By Provision for Doubtful Debts A/c	900
To Furniture A/c (loss)	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**

Revaluation Account is closed by transferring its profit to all three partners; there is no balance carried forward.

Step 4: Prepare the partners' capital accounts **Partners' Capital Accounts**

Dr.				Cr.			
Particulars	A Rs	B Rs	C Rs	Particulars	A Rs	B Rs	C Rs
To B's Capital (goodwill)	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 Workmen Compensation Reserve	1,500	1,500	1,500
To Balance c/d	61,800	–	43,800	By Revaluation	300	300	300
				By A's Capital (goodwill)	–	10,000	–
Total	**71,800**	**61,800**	**43,800**	**Total**	**71,800**	**61,800**	**43,800**
				By Balance b/d	61,800	–	43,800

B's amount due before settlement is Rs $40,000 + 10,000 + 1,500 + 300 + 10,000 = 61,800$. After paying Rs 20,000, transfer Rs $61,800 - 20,000 = 41,800$ to B's Loan Account. This completely closes his capital account.

Step 5: Prepare Bank Account **Bank Account**

Dr.		Cr.	
Particulars	Amount (Rs)	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**
To Balance b/d	20,000		

The cheque from furniture disposal increases bank by Rs 20,000 and the cheque paid to B reduces it by the same amount. Goodwill adjustment, reserves, revaluation and the loan transfer are non-cash items and therefore do not enter Bank Account.

Step 6: Conclusion Revaluation profit is Rs 900. Closing capitals are A: Rs 61,800 and C: Rs 43,800; B's capital is closed by paying Rs 20,000 and transferring Rs 41,800 to his loan account. The closing bank balance is Rs 20,000.

Quick Tip to Solve: Use equal old shares because no old ratio is stated. Compare each continuing partner's new share with one-third: only A gains, so only A bears B's goodwill.

22. 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:

- Share capital is credited with the nominal component and Securities Premium with the premium component of each instalment.
- Excess application money reduces allotment due. Unpaid money is recorded in Calls-in-Arrears; money received before a call is due is recorded in Calls-in-Advance.
- On forfeiture, debit called-up capital and reverse unpaid premium. Credit Share Forfeiture only with capital already received. Reissue profit is transferred only for shares actually reissued.

Step 1: Working Notes: determine allotment and unpaid amounts Accepted applications are $6,00,000 - 1,80,000 = 4,20,000$ shares. The ratio of shares allotted to shares applied is $3,40,000 : 4,20,000 = 17 : 21$. Application cash is Rs 24,00,000; refund is Rs 7,20,000; excess adjusted to allotment is $(4,20,000 - 3,40,000) \times 4 =$ Rs $3,20,000$.

Yamini receives $2,100 \times 17/21 = 1,700$ shares. Her excess application money is $(2,100 - 1,700) \times 4 =$ Rs $1,600$. Allotment due is $1,700 \times 5 =$ Rs $8,500$, so unpaid allotment is Rs 6,900. The excess is adjusted towards allotment capital; the allotment premium of $1,700 \times 2 =$ Rs $3,400$ remains unpaid. Capital received is $1,700 \times 2 + 1,600 =$ Rs $5,000$.

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

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

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 on 6,00,000 shares)			
	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 application money apportioned 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 money due on 3,40,000 shares)			
	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 received with Yamini in arrears and Vani paying her final call in advance)			

Allotment cash is $17,00,000 - 3,20,000 - 6,900 + 40,800 = \text{Rs } 14,13,900$.

Step 3: Record forfeiture and the first and final call **Journal of Zee Ltd. (forfeiture and final call)**

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 unpaid allotment; unpaid premium reversed)			
	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 outstanding 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 final call received and advance adjusted)			

Following forfeiture, the call is made on $3,40,000 - 1,700 = 3,38,300$ shares. Cash received is $20,29,800 - 40,800 = \text{Rs } 19,89,000$.

Step 4: Record reissue and transfer the realised capital profit **Journal of Zee Ltd. (reissue)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		6,800	
	Share Forfeiture A/c Dr.		1,700	
	To Share Capital A/c			8,500
	(Being 850 shares reissued at Rs 8 each as fully paid Rs 10 shares)			
	Share Forfeiture A/c Dr.		800	
	To Capital Reserve A/c			800
	(Being profit on reissued shares transferred to capital reserve)			

Forfeiture relating to 850 reissued shares is $5,000 \times 850/1,700 = \text{Rs } 2,500$. Reissue discount is $850 \times (10 - 8) = \text{Rs } 1,700$. The remaining Rs 2,500 in Share Forfeiture relates to the 850 shares not yet reissued.

Step 5: Conclusion The required journal entries are given above. Capital Reserve is credited with **Rs 800**; Share Forfeiture retains **Rs 2,500** for the unreissued shares. Calls-in-Arrears and Calls-in-Advance are both cleared.

Quick Tip to Solve: For Yamini, first apply the 17:21 ratio, then deduct her Rs 1,600 excess from allotment; transfer forfeiture profit only on the 850 reissued shares.

OR

22. 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 money is allocated category-wise on the pro-rata allotment ratio; excess is adjusted against the next call as directed.
- Forfeiture reverses only called-up share capital and any called but unpaid premium. Amounts already received towards capital are credited to Share Forfeiture.
- Reissued fully paid shares do not bear a subsequent call; reissue above face value creates Securities

Premium, and the related forfeiture balance becomes Capital Reserve.

Step 1: Working Notes: calculate category adjustments and default Category I is allotted $3,00,000/4,00,000 = 3/4$ of shares applied for. Category II applications are $8,00,000 - 50,000 - 4,00,000 = 3,50,000$; allotment is 3,00,000 shares, giving a ratio of $6 : 7$. Category I excess is $(4,00,000 - 3,00,000) \times 3 =$ Rs $3,00,000$, and Category II excess is $(3,50,000 - 3,00,000) \times 3 =$ Rs $1,50,000$.

Rakesh applied for $6,000 \times 4/3 = 8,000$ shares and paid Rs 24,000. Of this, Rs 18,000 belongs to application and allotment and Rs 6,000 adjusts the first call. His first-call liability is Rs 24,000, leaving Rs 18,000 unpaid. Capital called up at forfeiture is $6,000 \times (3 + 4) =$ Rs $42,000$; capital received and forfeited is Rs 24,000. The original issue premium has not yet been called, so it is not reversed on forfeiture.

Step 2: Record application, allotment and first call **Journal of K.N. Ltd. (application and first call)**

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 6,00,000 shares allotted, excess adjusted to first call 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 made)			
	Bank A/c Dr.		19,32,000	
	To Share First Call A/c			19,32,000
	(Being first call received except Rakesh after excess application adjustment)			

First-call cash is $24,00,000 - 4,50,000 - 18,000 =$ Rs $19,32,000$. The Rs 18,000 unpaid remains in Share First Call until forfeiture.

Step 3: Record forfeiture and reissue **Journal of K.N. Ltd. (forfeiture and reissue)**

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 6,000 shares forfeited for non-payment of 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 each fully paid)			
	Share Forfeiture A/c Dr.		24,000	
	To Capital Reserve A/c			24,000
	(Being entire forfeiture gain transferred after reissue without discount)			

On reissue, $6,000 \times 13 = \text{Rs } 78,000$ is received, comprising Rs 60,000 nominal capital and Rs 18,000 reissue premium. As no discount is allowed, all Rs 24,000 forfeited is a capital profit.

Step 4: Record the second and final call **Journal of K.N. Ltd. (second and final call)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	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 per share 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 duly received)			

The final instalment is $13 - 3 - 4 = \text{Rs } 6$, consisting of Rs 3 capital and Rs 3 premium. The 6,000 reissued shares are already fully paid, so the call applies only to $6,00,000 - 6,000 = 5,94,000$ shares. Final share capital is $18,00,000 + 24,00,000 - 42,000 + 60,000 + 17,82,000 = \text{Rs } 60,00,000$.

Step 5: Conclusion The required journal entries are shown above. Rakesh has unpaid first call of **Rs 18,000**; **Rs 24,000** is transferred to Capital Reserve. The final call of **Rs 35,64,000** is received on 5,94,000 shares.

Quick Tip to Solve: Rakesh belongs to Category I, so invert its 3:4 allotment ratio to find his application. Exclude his fully paid reissued shares from the later final call.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

23. The quick ratio of a company is 0.75 : 0.50. Will credit purchase of goods ₹ 10,000 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 credit purchase of goods increases inventory and trade payables by the same amount.

Step 1: Identify the numerator effect The original quick ratio is $0.75 : 0.50 = 1.5 : 1$. Buying goods on credit increases inventory by Rs 10,000, but inventory is excluded from quick assets. Therefore the numerator remains unchanged.

Step 2: Identify the denominator effect Trade payables, a current liability, increase by Rs 10,000. If initial quick assets and current liabilities are Q and L, the new ratio is $Q/(L + 10{,}000)$, which is less than Q/L. No exact new numerical ratio can be calculated without the actual balances.

Step 3: Conclusion The quick ratio will **decrease**: quick assets remain unchanged while current liabilities increase by Rs 10,000.

Quick Tip to Solve: Exclude the purchased inventory from quick assets, but include its unpaid supplier balance in current liabilities.

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

Solution:

Concept:

- Employee benefit expenses include remuneration and other benefits payable to employees for their services.
- Expenses are classified according to their nature in the Statement of Profit and Loss.

Step 1: Identify the employee-related payment Bonus is an additional payment to employees for their services, in addition to normal wages or salaries. It therefore belongs under Employee benefit expenses.

Step 2: Distinguish the other choices Depreciation allocates the cost of a depreciable asset over its useful life and appears under Depreciation and amortisation expense. Income tax is a tax expense on taxable profits; it is not a payment for employee services.

Step 3: Conclusion Employee benefit expenses include **bonus**.

Quick Tip to Solve: Classify bonus with wages and salaries; classify depreciation by asset usage and income tax under tax expense.

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

(A) Subjectivity

(B) Qualitative aspects ignored

(C) Inter-firm comparison

(D) Window dressing

Correct Answer: (C) Inter-firm comparison

Solution:

Concept:

- Financial analysis interprets accounting information to assess profitability, liquidity and financial position.
- A limitation reduces the reliability or scope of analysis; a use or advantage helps the analyst make a comparison.

Step 1: Identify the actual limitations Subjectivity can influence the interpretation of figures. Qualitative aspects, such as employee skill and management quality, are generally ignored because financial statements mainly record monetary information. Window dressing can make the reported financial position appear better than it really is. Thus options (A), (B) and (D) are limitations.

Step 2: Examine inter-firm comparison Inter-firm comparison means comparing the performance and financial position of different firms. Financial analysis facilitates such comparison, so it is a use of analysis. Differences in accounting policies may limit comparability, but inter-firm comparison itself is not a limitation.

Step 3: Conclusion Inter-firm comparison is not a limitation of financial analysis. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish the benefit of comparing firms from the limitation caused by different accounting policies.

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

Solution:

Concept:

- Investing activities include cash flows from investments and from loans and advances made to other parties.
- For a non-financial enterprise, interest received is classified as an investing cash inflow because it is a return on funds invested or lent.

Step 1: Identify the nature of the receipt The cash received is interest earned on loans and advances. It is the return earned by lending funds, rather than cash obtained by issuing shares or taking a loan.

Step 2: Apply the classification Under the usual treatment for a non-financial enterprise, interest received is shown separately under investing activities. It increases cash and cash equivalents when

received. A financial enterprise treats interest received as operating, since lending is part of its principal revenue-producing business.

Step 3: Conclusion The blank is **investing activity** (the usual non-financial enterprise treatment).

Quick Tip to Solve: For a non-financial enterprise, connect interest received on loans given with investing cash inflows.

27. 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 those amounts on their shares.
- Amounts received but not yet called are a liability, and are shown under Other Current Liabilities within Current Liabilities.

Step 1: Determine the nature of calls in advance A shareholder has paid an instalment before it becomes due under a call. Until the call is made, the company has a liability for this advance. It is therefore not added to called-up share capital.

Step 2: Compare the available heads Calls in advance belong to Current Liabilities, specifically Other Current Liabilities. Share Application Money Pending Allotment concerns applications awaiting allotment, whereas calls in advance relate to already allotted shares. The amount is also not a profit or reserve, so Reserves and Surplus is inappropriate.

Step 3: Conclusion Calls in advance are presented under **Current Liabilities**, in the sub-heading Other Current Liabilities. Hence, the correct option is (A).

Quick Tip to Solve: Ask whether the amount has been called: money received before a call is a liability, not called-up capital.

28. List any two items that may be presented under 'Other Current Liabilities' in the balance sheet of a Company as per Schedule III Part I of the Companies Act 2013. [1 mark]

Solution:

Concept:

- Other Current Liabilities includes current obligations not classified under another specified current-liability head.
- A dividend already declared but unpaid and an expense incurred but unpaid are amounts owed by the company.

Step 1: Identify an unpaid dividend Unpaid dividends are dividends that have become payable to shareholders but have not yet been paid. They represent an existing obligation and are presented under Other Current Liabilities.

Step 2: Identify an outstanding expense Outstanding expenses, such as salary payable, are expenses already incurred for which payment remains due. Such accrued expenses are presented under Other Current Liabilities, distinct from trade payables for purchases of goods or services in the normal course of business.

Step 3: Conclusion Two items are: **(i) unpaid dividends** and **(ii) outstanding expenses, such as salary payable**.

Quick Tip to Solve: Use an amount already payable, such as unpaid dividend or salary due, rather than a reserve or share-capital balance.

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:

- Cash includes cash in hand and demand deposits with banks.
- A transfer between components of cash and cash equivalents does not change their combined total, and is excluded from the cash flow statement.

Step 1: Trace both sides of the withdrawal When cash is withdrawn from a bank account, cash in hand increases by the amount withdrawn. At the same time, the bank balance decreases by exactly the same amount. Both are components of cash.

Step 2: Check the total cash balance If the amount withdrawn is x, the net change is

$$\text{Increase in cash in hand} + \text{Decrease in bank balance} = x - x = 0.$$

The transaction merely changes the location or form of cash; it creates neither an external cash receipt nor an external cash payment.

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

Quick Tip to Solve: For a cash-to-bank or bank-to-cash transfer, add both changes before deciding whether any cash flow occurs.

30. From the following information obtained from the books of Raja Ltd, calculate :

(i) Trade Receivables Turnover Ratio, and

(ii) Trade Payables Turnover Ratio.

Information :	(₹)
Revenue from operations	15,00,000
Creditors	2,00,000
Bills receivable	79,000
Bills Payable	87,000
Debtors	2,21,000
Purchases	11,48,000

[3 marks]

Solution:

Concept:

- Trade receivables turnover ratio $= \dfrac{\text{Net credit revenue from operations}}{\text{Average trade receivables}}$. Trade receivables include debtors and bills receivable.
- Trade payables turnover ratio $= \dfrac{\text{Net credit purchases}}{\text{Average trade payables}}$. Trade payables include creditors and bills payable.
- As cash transactions, returns and opening balances are not specified, use the given revenue and purchases as net credit amounts and the given receivables and payables as the relevant balances.

Step 1: Calculate trade receivables Combine debtors with bills receivable, because both arise from credit sales. The available balance is used since separate opening and closing balances are not supplied.

$$\begin{aligned}\text{Trade receivables} &= \text{Debtors} + \text{Bills receivable}\\ &= \text{Rs } 2,21,000 + \text{Rs } 79,000\\ &= \text{Rs } 3,00,000.\end{aligned}$$

Step 2: Calculate trade receivables turnover Use revenue from operations of Rs 15,00,000 as net credit revenue, since there is no cash-sales or sales-returns adjustment.

$$\text{Trade receivables turnover ratio} = \frac{15,00,000}{3,00,000} = 5 \text{ times.}$$

This compares the period's credit sales with the trade receivables balance.

Step 3: Calculate trade payables Combine creditors with bills payable; both represent obligations for credit purchases. Bills receivable belong only in receivables, so they must not be included here.

$$\begin{aligned}\text{Trade payables} &= \text{Creditors} + \text{Bills payable}\\ &= \text{Rs } 2,00,000 + \text{Rs } 87,000\\ &= \text{Rs } 2,87,000.\end{aligned}$$

Step 4: Calculate trade payables turnover Use purchases of Rs 11,48,000 as net credit purchases, as

no cash purchases or purchase returns are specified.

$$\text{Trade payables turnover ratio} = \frac{11,48,000}{2,87,000} = 4 \text{ times.}$$

As a check, Rs $2,87,000 \times 4 = 11,48,000$. No conversion to days is needed because the question asks for turnover ratios.

Step 5: Conclusion (i) Trade Receivables Turnover Ratio $= 5$ times.

(ii) Trade Payables Turnover Ratio $= 4$ times.

Quick Tip to Solve: Add bills receivable to debtors and bills payable to creditors before dividing sales and purchases respectively.

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 of Profit and Loss, revenue from operations of each year is the base, taken as 100%. Each item is compared with the revenue of its own year.
- Common-size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Conversely, Item amount $=$ Revenue from operations $\times \dfrac{\text{Percentage}}{100}$.

Step 1: Determine the missing percentages For 2017-18, the base is Rs 20,00,000; for 2018-19, it is

Rs 25,00,000. Thus the same base must not be used for both years.

$$\text{Revenue percentage (2017-18)} = \frac{20,00,000}{20,00,000} \times 100 = 100\%,$$
$$\text{Other income (2017-18)} = \frac{1,00,000}{20,00,000} \times 100 = 5\%,$$
$$\text{Change in inventory (2017-18)} = \frac{1,00,000}{20,00,000} \times 100 = 5\%,$$
$$\text{Total expenses (2017-18)} = \frac{12,00,000}{20,00,000} \times 100 = 60\%,$$
$$\text{Tax (2018-19)} = \frac{2,50,000}{25,00,000} \times 100 = 10\%.$$

Step 2: Calculate the missing expense amounts All three missing rupee amounts relate to 2017-18, so apply the given percentages to Rs 20,00,000:

$$\text{Cost of material consumed} = 20,00,000 \times \frac{30}{100} = \text{Rs } 6,00,000,$$
$$\text{Employee benefit expense} = 20,00,000 \times \frac{15}{100} = \text{Rs } 3,00,000,$$
$$\text{Other expenses} = 20,00,000 \times \frac{10}{100} = \text{Rs } 2,00,000.$$

The expense amounts cross-check as $6,00,000 + 1,00,000 + 3,00,000 + 2,00,000 = \text{Rs } 12,00,000$. The corresponding percentages total $30 + 5 + 15 + 10 = 60\%$. Hence total revenue less expenses is $105 - 60 = 45\%$, agreeing with the printed profit before tax.

Step 3: Present the completed common-size statement **Common-size Statement of Profit and Loss For the year ended 31st March, 2019**

Particulars	Amount (Rs)		% of operations 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

Step 4: Conclusion The blanks, read down the statement, 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%, even when total revenue includes other income. For 2017-18, each 1% equals Rs 20,000; for 2018-19, each 1% equals Rs 25,000.

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	Note No.	2018-19 (Rs)	2017-18 (Rs)
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:

- A comparative statement shows the previous year, current year, absolute change and percentage change for each item. Absolute change = Current year − Previous year.
- Percentage change $= \dfrac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$. Tax is calculated at the given rate of 30% of profit before tax for both years.

Step 1: Compute expenses, profit and tax for each year For 2017-18, total expenses consist of employee benefits and other expenses:

$$\begin{aligned}\text{Total expenses} &= 8,00,000 + 2,00,000 = \text{Rs } 10,00,000,\\ \text{Profit before tax} &= 20,00,000 - 10,00,000 = \text{Rs } 10,00,000,\\ \text{Tax} &= 10,00,000 \times 30\% = \text{Rs } 3,00,000,\\ \text{Profit after tax} &= 10,00,000 - 3,00,000 = \text{Rs } 7,00,000.\end{aligned}$$

For 2018-19:

$$\begin{aligned}\text{Total expenses} &= 10,00,000 + 5,00,000 = \text{Rs } 15,00,000,\\ \text{Profit before tax} &= 45,00,000 - 15,00,000 = \text{Rs } 30,00,000,\\ \text{Tax} &= 30,00,000 \times 30\% = \text{Rs } 9,00,000,\\ \text{Profit after tax} &= 30,00,000 - 9,00,000 = \text{Rs } 21,00,000.\end{aligned}$$

Step 2: Calculate changes against the previous year The previous year, 2017-18, is the denominator for each comparison. Revenue increases by Rs 25,00,000, so its percentage increase is $25,00,000/20,00,000 \times 100 = 125\%$. Employee benefit expense increases by Rs 2,00,000, or 25%; other expenses increase by Rs 3,00,000, or 150%. Total expenses increase by Rs 5,00,000, or 50%.

Profit before tax rises by Rs 20,00,000 relative to Rs 10,00,000, giving 200%. Tax increases by Rs 6,00,000 relative to Rs 3,00,000, also 200%. Profit after tax rises by Rs 14,00,000 relative to Rs 7,00,000, again 200%. These profit and tax growth rates agree because the tax rate remains constant.

Step 3: Prepare the comparative statement **Skills India Ltd.**
Comparative Statement of Profit and Loss
For the years ended 31st March, 2018 and 2019

Particulars	Note No.	2017-18 (Rs)	2018-19 (Rs)	Absolute increase (Rs)	Increase %
I. Revenue from operations		20,00,000	45,00,000	25,00,000	125
II. Total revenue		20,00,000	45,00,000	25,00,000	125
III. Expenses					
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
IV. Profit before tax (II-III)		10,00,000	30,00,000	20,00,000	200
V. Tax expense (30%)		3,00,000	9,00,000	6,00,000	200
VI. Profit after tax (IV-V)		7,00,000	21,00,000	14,00,000	200

Step 4: Conclusion Revenue increased by Rs 25,00,000 (125%), while expenses increased by Rs 5,00,000 (50%). Profit after tax increased from Rs 7,00,000 to Rs 21,00,000: an increase of Rs 14,00,000, or 200%.

Quick Tip to Solve: Reorder the printed years into previous year then current year, and divide every increase by its own 2017-18 amount. A profit that becomes three times its old value has increased by 200%, not 300%.

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)	16,42,000 (2,00,000)
		20,00,000	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, add non-cash expenses and financing charges to profit before tax, then adjust operating working capital and tax paid.
- Purchases of machinery and non-current investments are investing outflows. Interest paid and changes in share capital and bank overdraft are financing flows here.
- Under the school-accountancy convention applied here, current investments are treated as cash equivalents when marketable securities are not separately given. Reconcile the three activity totals to the change in cash plus current investments.

Step 1: Calculate profit before tax and non-cash adjustments The opening statement of profit and loss has a debit balance of Rs 1,00,000, so it must be subtracted as a negative figure:

$$\begin{aligned} \text{Profit after tax} &= 4,00,000 - (-1,00,000) = 5,00,000, \\ \text{Tax provision for the year} &= 2,00,000 + 1,50,000 - 1,75,000 \\ &= 1,75,000, \\ \text{Profit before tax} &= 5,00,000 + 1,75,000 = 6,75,000. \end{aligned}$$

No machinery disposal is given. Depreciation is therefore the increase in accumulated depreciation, Rs $4,00,000 - 2,00,000 = 2,00,000$. Goodwill written off is Rs $58,000 - 46,000 = 12,000$. Interest on debentures is Rs $9,00,000 \times 12\% = 1,08,000$. These charges are added back when calculating operating cash flow.

Step 2: Prepare cash flows from operating activities **Gopal Ltd. — Cash Flow Statement for the year ended 31 March 2019**

A. Cash flows from operating activities

Particulars	Amount (Rs)
Net profit before tax	6,75,000
Add: Interest on debentures	1,08,000
Add: Depreciation	2,00,000
Add: Goodwill written off	12,000
Operating profit before working capital changes	9,95,000
Less: Increase in inventories $(2,14,000 - 90,000)$	(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**

The increase in inventory absorbs operating cash. Tax expense was added to obtain profit before tax, but the cash flow deduction is the actual payment of Rs 1,50,000.

Step 3: Prepare investing and financing activities Machinery purchases are based on gross cost, not on the net carrying amounts:

$$\begin{aligned} \text{Machinery purchased} &= 24,00,000 - 16,42,000 = 7,58,000, \\ \text{Non-current investments purchased} &= 1,00,000 - 45,000 = 55,000. \end{aligned}$$

B. Cash flows from investing activities

Particulars	Amount (Rs)
Purchase of machinery	(7,58,000)
Purchase of non-current investments	(55,000)
Net cash used in investing activities (B)	**(8,13,000)**

C. Cash flows from financing activities

Particulars	Amount (Rs)
Net cash from financing activities (given)	2,32,000

The given financing total also checks as share capital issued Rs 2,00,000 plus increase in bank overdraft Rs 1,40,000 less debenture interest Rs 1,08,000, giving Rs 2,32,000. The unchanged debenture principal gives no borrowing or repayment flow.

Step 4: Reconcile opening and closing cash equivalents **Reconciliation of cash and cash equivalents**

Particulars	Amount (Rs)
Net increase: A + B + C	1,40,000
Opening cash and cash equivalents	1,20,000
Opening current investments	1,20,000
Total opening cash and cash equivalents	2,40,000
Add: Net increase	1,40,000
Total closing cash and cash equivalents	**3,80,000**
Represented by: Closing cash and cash equivalents	1,80,000
Closing current investments	2,00,000
Total	**3,80,000**

The activity totals reconcile because Rs $7,21,000 - 8,13,000 + 2,32,000 = 1,40,000$. Current investments form part of the cash-equivalent reconciliation under the convention stated above, so their increase is not deducted again in investing activities. The overdraft is included in financing activities, consistently with the supplied financing total.

Step 5: Conclusion Net cash from operating activities is **Rs 7,21,000**; net cash used in investing activities is **Rs 8,13,000**; financing inflow is **Rs 2,32,000**. Cash and cash equivalents increase by **Rs 1,40,000** to **Rs 3,80,000**, including current investments.

Quick Tip to Solve: Treat the opening loss as a negative balance; use gross machinery cost for purchases and include current investments in the cash-equivalent reconciliation.

OPTION – II (Computerized Accounting)

23. Name the accounting information sub-system which generates periodic reports about sales and collections made. [1 mark]

(A) Cash and Bank sub-system.

(B) Sales and accounts receivable sub-system.

(C) Inventory sub-system.

(D) Budget sub-system.

Correct Answer: (B) Sales and accounts receivable sub-system.

Solution:

Concept:

- An accounting information system divides related transaction processing into specialised sub-systems.
- Sales and accounts receivable records customer sales, amounts due and collections against those dues.

Step 1: Identify the transactions The question combines sales with collections from customers. Sales create receivables, and collections reduce those receivables. Both belong to the sales and accounts receivable sub-system, which produces periodic reports on these activities.

Step 2: Check the alternatives Cash and bank records receipts and payments generally, but does not specifically link sales with customer balances. Inventory deals with stocks, while the budget sub-system compares planned and actual figures. Thus none of these alternatives describes the required sales-and-collections reporting function.

Step 3: Conclusion The correct option is (B): Sales and accounts receivable sub-system.

Quick Tip to Solve: Pair customer sales with customer collections to identify the accounts receivable sub-system.

24. A spread sheet is used to _____ calculate and compare _____ or financial data. [1 mark]

Solution:

Concept:

- A spreadsheet organises data in a tabular grid of rows and columns.
- Its formulae and functions calculate results and make comparisons using numerical or financial data.

Step 1: Identify the first blank Before calculating or comparing values, a spreadsheet arranges them systematically in cells. The verb that describes this function is organise.

Step 2: Identify the second blank Calculations use numbers, and financial data is a specific application of such quantitative information. Hence the general category required before the words "or financial data" is numerical. These words describe both the arrangement and the analysis of data in a spreadsheet.

Step 3: Conclusion The blanks are **organise** and **numerical**: A spreadsheet is used to organise, calculate and compare numerical or financial data.

Quick Tip to Solve: Read the three verbs together: organise, calculate and compare numerical or financial data.

25. 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 satisfies known requirements or acceptable values.
- Data entry is the act of supplying data; storage is retaining it for later use.

Step 1: Identify the checking process Here the input is compared with known data. This comparison checks its acceptability and is therefore a validation activity. It helps detect unacceptable values before they are processed further.

Step 2: Eliminate the other options Storage data does not name the checking process; it concerns keeping data. Information data refers to data or its processed output, not a validity check. Data entry only records the input and does not itself imply comparison with known values. Thus option (C) alone names the process described.

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

Quick Tip to Solve: When input is checked against known values or rules, identify the process as data validation.

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

Solution:

Concept:

- An attribute is a property used to describe an entity in a database.
- A composite attribute contains smaller meaningful components; a simple attribute is indivisible for the database purpose.

Step 1: Fill the first blank An attribute that can be divided into smaller sub-parts is composite. For example, an address may be divided into house number, street, city and PIN code. Each component has a meaning of its own.

Step 2: Fill the second blank An attribute that is not divided into further meaningful components is simple, also called atomic. For example, an age stored as a single value is treated as a simple attribute. The distinction concerns meaningful database components, rather than merely splitting a value into individual characters.

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

Quick Tip to Solve: Use address as the model for a composite attribute and one age value as the model for a simple attribute.

27. Hardware refers to: [1 mark]

(A) System software and application software.

(B) Computer associated peripherals and their network.

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

(D) All of the above.

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

Solution:

Concept:

- Hardware consists of the physical computer equipment and its associated peripheral and network devices.
- Software consists of programs; a logical sequence of actions describes a procedure or algorithm.

Step 1: Recognise the physical components Computers and their associated input, output, storage and network equipment are tangible devices. This is the hardware category described in option (B). Examples include a keyboard, monitor, printer and network equipment.

Step 2: Reject the other descriptions System software and application software in option (A) are programs, so they are not hardware. A logical sequence of actions in option (C) is a procedure or algorithm rather than a physical device. Since (A) and (C) do not define hardware, the all-of-the-above choice (D) is also incorrect.

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

Quick Tip to Solve: Distinguish physical equipment from the programs and procedures that tell it what to do.

28. 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 correct matching is (i)–(a), (ii)–(b).

Solution:

Concept:

- Arrow keys move the active spreadsheet cell in the direction indicated by the arrow.
- Vertical movement changes the row while retaining the same column; horizontal movement changes the column.

Step 1: Match the two vertical movements One cell down corresponds to the down-arrow key, or Enter under the usual setting, so (i) matches (a). One cell up corresponds to the up-arrow key, so (ii) matches (b).

Step 2: Check each printed option Option (A) correctly matches (i) with (a), but wrongly uses the left-arrow key (d) for moving up. Option (B) uses up for down and right for up. Option (C) uses left for down and down for up. Option (D) correctly gives down for (i), but incorrectly uses right for (ii). Thus none supplies both required matches.

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

Quick Tip to Solve: Match each arrow to its physical direction before checking the option pairs; both matches in a pair must be correct.

29. _____ 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 retrieves records from a database according to specified selection criteria.
- A parameter supplies a value at run time, allowing the same query to be used with changing criteria.

Step 1: Identify the role of the input box The input box asks the user for a criterion when the query runs. For example, the user may enter the name of a customer whose transactions are required.

Step 2: Connect the prompt to the query type A parameter query takes that entered value and uses it

to select the matching records. The query structure remains saved, while the parameter can change on each execution; a fixed criterion need not be rewritten every time.

Step 3: Conclusion **Parameter query** fills the blank.

Quick Tip to Solve: Link the phrase "prompts the user through an input box" to a parameter supplied when a query is run.

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

Solution:

Concept:

- Accounting software records transactions, processes accounting data and generates reports for users.
- Good software should be convenient to operate, protect the data entrusted to it and adapt to the organisation's accounting requirements.

Step 1: Explain ease of use **User friendliness:** The software should have a simple, clearly organised interface, understandable menus and convenient data-entry screens. Operators should be able to enter vouchers, locate accounts and obtain reports without unnecessary difficulty. Help facilities and clear error messages reduce training effort and assist users in correcting mistakes during routine work.

Step 2: Explain data protection **Security:** The software should protect accounting information against unauthorised access and alteration. Passwords and access rights can restrict each user to permitted tasks; for example, one employee may enter transactions while only an authorised person can approve changes. Backup and recovery facilities help preserve records and restore information if data is lost.

Step 3: Explain adaptability **Flexibility:** The software should accommodate the business's particular accounting needs and changes in those needs. It should permit suitable account heads and useful report formats, and support additional requirements as the business develops. This enables the organisation to obtain relevant accounting information without having to redesign its entire recording process whenever its requirements change.

Step 4: Conclusion Three features of good accounting software are **user friendliness, security and flexibility**.

Quick Tip to Solve: For each feature, give its name and one practical benefit: easy voucher entry, protected records or adaptable reports.

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:

- A spreadsheet stores numbers as numeric values and can represent them in chosen display formats.
- Excel's TEXT function converts a numeric value into a text string using a specified number-format code.

Step 1: Identify the function and write its syntax The function described is **TEXT**. Its syntax, when entered as a worksheet formula, is

`=TEXT(value, format_text).`

The function takes two arguments: the value to be converted and the formatting instruction. The result is text, even when the displayed characters look like a number.

Step 2: Explain the value argument `value` is the numeric value to be formatted. It may be a number typed directly into the formula, a reference to a cell containing a number, or a formula that evaluates to a numeric value. For example, if cell A1 contains 1250, A1 may be used as the first argument.

Step 3: Explain the format argument and illustrate `format_text` specifies the number-format code and is enclosed in double quotation marks when written directly in the formula. The code controls such features as decimal places, a percentage sign or a date pattern. For example,

`=TEXT(A1, "0.00")`

returns the text `"1250.00"` when A1 contains 1250. Here each zero reserves a digit position and the two zeros after the decimal point require two decimal places. The original numeric value in A1 is unchanged; the formula cell contains the formatted text result.

Step 4: Conclusion Use **TEXT**, with syntax `=TEXT(value, format_text)`, where `value` is the number and `format_text` is the desired format code.

Quick Tip to Solve: Put the format code in double quotes and remember that TEXT returns a string; retain the original numeric cell for calculations.

31. Explain the elements to be considered for calculating "deductions" for a current pay roll. [4 marks]

Solution:

Concept:

- Payroll deductions are amounts withheld from an employee's gross earnings for the current pay period. They reduce the amount actually paid to the employee.
- Net pay = Gross earnings − Total deductions. Each deduction must be computed from the em-

ployee's records and the applicable payroll rule; the employer's own contribution is not deducted from the employee's salary.

Step 1: Compute provident fund deductions Determine the employee's contribution to the provident fund from the eligible salary components and the prescribed contribution rate. The payroll system uses the employee's coverage details and the relevant salary base. This contribution is withheld from current earnings and credited to the fund payable account. Any separate employer contribution is the employer's expense, not an additional deduction from the employee's pay.

Step 2: Determine insurance and social security deductions Include the employee's contribution to Employees' State Insurance, where applicable, and insurance premiums authorised for recovery through salary. Use the employee's eligibility, the applicable contribution basis and the premium or contribution due for this pay period. A deduction should not be applied to an employee who is not covered by the corresponding scheme.

Step 3: Calculate tax deducted at source Determine income tax to be withheld from salary after considering estimated taxable annual salary, admissible deductions and exemptions supported by the employee's declarations, and tax already deducted in earlier payroll periods. The remaining tax liability is recovered through the relevant remaining salary payments. Include other applicable payroll taxes, such as professional tax, wherever required.

Step 4: Include authorised recoveries and total the deductions Add instalments of employee loans, recovery of salary advances, and other authorised deductions such as welfare fund contributions or union subscriptions. Check the outstanding balance and current instalment so that a fully repaid loan is not deducted again. Use the current attendance and leave records to determine any loss-of-pay adjustment, ensuring it is not counted again if gross earnings have already been reduced. Sum the applicable deductions employee-wise to calculate the current net pay.

Step 5: Conclusion Current payroll deductions comprise provident fund contributions, insurance and social security contributions, income tax and other applicable taxes, and authorised loan, advance and other recoveries. Their total is subtracted from gross earnings to obtain net pay.

Quick Tip to Solve: Check each deduction against the employee's eligibility and the current period; keep employer contributions separate and avoid recovering an advance twice.

OR

31. Show with the help of a flow chart, how are accounting transactions processed in computerized accounting system. [4 marks]

Solution:

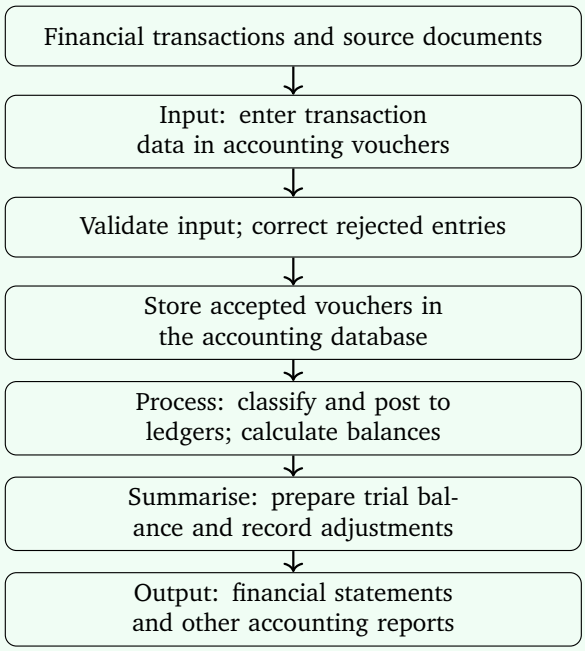
Concept:

- A computerised accounting system follows the input–processing–output cycle. Transaction data are entered once and processed according to the accounting rules stored in the software.
- The database holds account masters and transaction records. Processing classifies and summarises these records to generate ledgers, a trial balance and financial reports.

Step 1: Collect and enter the transaction data Identify the financial transaction from a source document such as an invoice, receipt or payment voucher. Select the appropriate accounting voucher and enter the date, account codes, particulars and amounts. Account masters supply details such as account names and their groups. Thus the source document becomes the basis of the input rather than an unsupported entry.

Step 2: Validate and process the input Check that the required fields and valid account codes are present and that the debit and credit amounts agree. Correct any rejected entry before saving it. Accepted entries are stored in the accounting database. The software then classifies transactions under the appropriate accounts and posts their effects to the ledgers. Totals and balances are calculated automatically from the stored records.

Step 3: Follow the transaction processing flow chart The arrows show how original transaction data become useful accounting information. The validation stage prevents incomplete or inconsistent input from entering the accepted transaction records. Processing uses both the stored vouchers and account masters, so a transaction need not be separately re-entered for each ledger or report.



Processing accounting transactions in a computerised accounting system

Step 4: Generate and review the output Ledger balances are summarised in a trial balance. After recording necessary adjustment vouchers, the system generates the Trading and Profit and Loss Account, Balance Sheet and other required reports. These outputs can be displayed, printed or saved. Users must still review the accounts: agreement of debits and credits does not prove that every transaction has been correctly classified or that none has been omitted.

Step 5: Conclusion Transactions are processed through source documents, voucher input and validation, storage and ledger processing, and finally the trial balance and financial statements. The computer performs classification and summarisation using the accepted data and accounting rules.

Quick Tip to Solve: Build the flow chart around input, processing and output, then name the accounting records at each stage and connect them with directional arrows.

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:

- A chart presents worksheet data graphically. A Ltd. can compare the sales of its three products by using product names as categories and their sales figures as the numerical data.
- A useful chart has an appropriate chart type, the correct source range, descriptive titles, labelled axes and a legend where more than one data series is plotted. The chart must faithfully represent the underlying sales data.

Step 1: Enter and arrange the sales data Open an Excel workbook and enter the sales information in a worksheet with clear column headings. Place the names of the three products in one column and their corresponding sales in the adjacent column. If sales are to be compared over several periods, use a separate headed column for each period. Keep all figures in the same unit, such as Rs, and enter sales as numbers so that Excel can plot them. Check the entries against the sales records.

Step 2: Select the source range Select the cells containing the three product names, the sales figures and their headings. The text headings allow Excel to identify category labels and series names. Do not include unrelated cells or a grand total as though it were a fourth product. In the chart's source-data settings, confirm the selected range and whether the series are arranged in rows or columns.

Step 3: Insert an appropriate chart Choose the Chart command from the Insert menu or tab; in versions with a Chart Wizard, start the wizard. Select a suitable chart type and subtype. A column or bar chart is appropriate for comparing the sales of the three products. Where sales for several periods are available, a clustered column chart can compare the products period by period. Preview the selected chart and check that all three products appear correctly.

Step 4: Set the chart options Give the chart a descriptive title, such as "Product-wise Sales of A Ltd." Label the category axis "Products" and the value axis "Sales (Rs)", using the actual unit of the source data. Add or position the legend to identify different periods or other data series where necessary. Set suitable data labels and gridlines so that the directors can read and compare the values easily. Check the scale and ensure that labels correspond to the correct products.

Step 5: Choose the location and format the chart Place the chart as an object in the worksheet or on a separate chart sheet. In the Chart Wizard, choose the chart location and click Finish. Resize and position the chart, and use readable fonts and distinct colours for the series. Keep the presentation clear, with all titles, labels and the legend visible and without unnecessary decorative effects.

Step 6: Verify and save the presentation Compare the chart with the worksheet to confirm the product names, sales values and period headings. Save the workbook so that both the source data and chart are retained. Use print preview if a printed copy is required, or place the completed chart in the presentation for the Board of Directors' meeting, ensuring it remains legible.

Step 7: Conclusion A Ltd. should enter and select its sales data, insert a suitable chart, specify its source data and chart options, choose its location, format and verify it, and save the completed graphic presentation.

Quick Tip to Solve: Select the three product names along with their sales and headings before inserting the chart; then check the source range so that a total is not plotted as an extra product.