CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-4-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

(iii) **Part - B** has **two** options i.e. (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. Capital Reserve is created out of _____ profits. [1 mark]

Solution:

Concept:

- Capital reserve is a reserve created from capital profits, which arise from capital transactions rather than ordinary trading operations.
- The nature of the underlying profit determines the reserve to which it is transferred.

Step 1: Identify the nature of the reserve Capital reserve represents capital gains retained in the business. A typical source is the profit remaining on reissue of forfeited shares after the relevant discount has been adjusted.

Step 2: Distinguish it from revenue reserve Profits earned through normal business operations are revenue profits. They may be retained as revenue reserves; they do not supply the required word in this statement.

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

Quick Tip to Solve: Link capital reserve to capital transactions such as reissue of forfeited shares.

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

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

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

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

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

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

Solution:

Concept:

- Goodwill adjustment compensates sacrificing partners through the capital accounts of gaining partners.
- Gain or sacrifice equals the difference between the new share and the old share; goodwill adjustment equals this difference multiplied by firm goodwill.

Step 1: Determine gain and sacrifice Each old share is $1/3 = 3/9$. Avya gains $4/9 - 3/9 = 1/9$; Divya has no change, and Kavya sacrifices $3/9 - 2/9 = 1/9$.

Step 2: Compute the adjustment and entry Compensation is Rs $90,000 \times 1/9 =$ Rs $10,000$. The gaining partner Avya is debited and sacrificing partner Kavya is credited. Options (A) and (B) debit the wrong partner; (C) uses the whole goodwill instead of the transferred fraction.

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 adjustment of goodwill)		10,000	 10,000

Step 3: Conclusion Avya's Capital A/c Dr. Rs 10,000; To Kavya's Capital A/c Rs 10,000. Correct option: (D).

Quick Tip to Solve: First compare each new share with the old equal share; debit only the partner who gains.

3. 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 the guaranteed amount if the ordinary profit share is lower.
- The deficiency is borne by the other partners in their relative profit sharing ratio when no different arrangement is specified.

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

Step 2: Allocate the deficiency Mohit and Shobhit bear this deficiency in the ratio $2:1$. Mohit bears Rs $9,000 \times 2/3 =$ Rs $6,000$, and Shobhit bears Rs $9,000 \times 1/3 =$ Rs $3,000$. These deductions increase Rohit's share to the guarantee.

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

Quick Tip to Solve: Find the shortfall from the normal share first; split only that shortfall between the guarantors.

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 with specified permitted applications.
- For bonus shares, the permitted application is the issue of fully paid bonus shares.

Step 1: Apply the fully paid condition The distinction between the first two choices is decisive: securities premium may be applied to fully paid bonus shares, while issuing partly paid bonus shares is not an authorised purpose.

Step 2: Check the remaining choices Writing off preliminary expenses and purchasing the company's own shares by buy back are permitted applications in the syllabus. Thus (A), (C), and (D) are valid purposes, leaving the partly paid bonus share issue as the exception.

Step 3: Conclusion Correct option: (B), issuing partly paid up bonus shares to shareholders.

Quick Tip to Solve: In a securities premium MCQ, check whether the bonus shares are explicitly fully paid.

5. 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) Rs 10,00,000

(B) Rs 1,00,000

(C) Rs 50,000

(D) Rs 20,000

Correct Answer: (A) Rs 10,00,000

Solution:

Concept:

- Capital employed is the net amount invested in the business: tangible assets less outside liabilities.
- Actual profit and the normal rate of return are used for goodwill calculations after capital employed has been identified.

Step 1: Calculate net tangible assets

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

Outside liabilities are deducted because they represent claims financed by outsiders.

Step 2: Separate related quantities At 10%, Rs 10,00,000 would earn a normal profit of Rs 1,00,000, which is option (B). Actual profit less normal profit gives super profit of Rs 50,000, option (C). Neither is capital employed; Rs 20,000 also does not equal net assets.

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

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

6. 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:

- An Income and Expenditure Account records revenue income and revenue expenditure on the accrual basis.
- A Receipts and Payments Account summarises cash and bank transactions of both capital and revenue nature.

Step 1: Identify the account's scope The Income and Expenditure Account determines the surplus or deficit for the accounting period. It therefore includes the revenue income earned and revenue expenses incurred for that period, with necessary outstanding and prepaid adjustments.

Step 2: Eliminate the other choices Option (A) describes the broad cash scope of Receipts and Payments Account. Capital expenditure in (C) is excluded from the revenue account. Option (D) mentions receipts alone and omits expenses and accrual adjustments, so it is incomplete.

Step 3: Conclusion Correct option: (B), Income and Expenditure of Revenue nature only.

Quick Tip to Solve: Use the words income and expenditure to recall accrual-based revenue items on both sides.

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

Solution:

Concept:

- Compulsory dissolution occurs when the business of a firm becomes unlawful.
- Dissolution of the firm ends the business relationship among all partners and leads to settlement of its affairs.

Step 1: Identify the triggering event The question states that the business itself becomes illegal. This prevents the partners from lawfully continuing that business, regardless of whether they would prefer to keep the firm operating.

Step 2: Name the method of dissolution This event falls under compulsory dissolution. It does not depend on notice by a partner or a voluntary agreement to close the firm. The required expression describes dissolution compelled by the unlawful nature of the business.

Step 3: Conclusion The firm undergoes compulsory dissolution.

Quick Tip to Solve: When the trigger is illegality of the business, identify compulsory dissolution immediately.

8. 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 compares the shares acquired by the continuing partners from the retiring partner.
- Amounts paid for the same retiring share provide the relative proportions acquired by the paying partners.

Step 1: Use the amounts paid for Bimla's share Amla pays Rs 3,600 and Kavita pays Rs 3,000 for the respective portions of Bimla's share. Hence their gains are proportional to $3,600 : 3,000$.

Step 2: Simplify and check the choices Dividing both amounts by 600 gives $6 : 5$. The old ratio $4 : 3 : 1$ is not the gaining ratio: it describes shares before retirement. The alternatives $4 : 5$, $2 : 1$, and $4 : 1$ do not match the ratio of the consideration paid.

Step 3: Conclusion The gaining ratio of Amla and Kavita is 6 : 5. Correct option: (C).

Quick Tip to Solve: For a share purchased in stated amounts, compare the purchase amounts to obtain the gaining ratio.

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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 (Rs)	Credit (Rs)
	Savita's Current A/c. Dr.		24,000	
	To Anita's Capital A/c.			8,000
	To Babita's Capital A/c.			16,000
	(Being adjustment of goodwill premium on Savita's Admission)			

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

(A) 41 : 7 : 12

(B) 13 : 12 : 10

(C) 3 : 1 : 1

(D) 5 : 3 : 2

Correct Answer: (A) 41 : 7 : 12

Solution:

Concept:

- Goodwill premium is credited to old partners in their sacrificing ratio.
- New share equals old share minus sacrifice; the total sacrifice equals the incoming partner's share.

Step 1: Find the sacrificing ratio Anita and Babita receive credits of Rs 8,000 and Rs 16,000, so their sacrificing ratio is $1:2$. Since Savita receives $1/5$, Anita sacrifices $1/5 \times 1/3 = 1/15$, and Babita sacrifices $1/5 \times 2/3 = 2/15$.

Step 2: Compute all new shares Anita's new share is $3/4 - 1/15 = 41/60$. Babita's is $1/4 - 2/15 = 7/60$, and Savita's is $1/5 = 12/60$. Their numerators total 60. Only option (A) preserves both the credit-based sacrifice and Savita's stated share; the other ratios fail these conditions.

Step 3: Conclusion The new ratio Anita : Babita : Savita is 41 : 7 : 12. Correct option: (A).

Quick Tip to Solve: Infer sacrifice from goodwill credits, then subtract the incoming share in that ratio from old shares.

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:

- Receipts earmarked for a specific purpose are credited to the corresponding fund; expenses for that purpose are charged against it.
- Expenditure exceeding the available specific fund is charged to the Income and Expenditure Account.

Step 1: Calculate the available Match Fund The opening fund, ticket receipts and specific donation

together provide Rs $5,00,000+3,75,000+1,24,000 =$ Rs $9,99,000$. Match expenses are Rs 10,00,000, so the excess expense is Rs $10,00,000 - 9,99,000 =$ Rs $1,000$.

Step 2: Check the statements The opening specific fund of Rs 5,00,000 belongs on the liabilities side of the opening Balance Sheet: statement (b) is correct. The fund is fully exhausted; the excess Rs 1,000 goes to the expenditure side of the Income and Expenditure Account: statement (c) is also correct. A negative fund is not carried as a liability, so statement (a) is incorrect. Neither (b) nor (c) alone expresses both correct treatments.

Step 3: Conclusion The opening balance is a liability in the opening Balance Sheet and the Rs 1,000 excess expense is charged to the Income and Expenditure Account. Hence, the correct option is (D).

Quick Tip to Solve: Add all receipts earmarked for the match before comparing them with match expenses.

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 dues remain unsettled and the firm continues to use that amount, the partner has an election in the absence of an agreement.
- The election is between interest at 6% per annum and the share of subsequent profit attributable to the use of the outstanding amount.

Step 1: Identify the two permissible entitlements The unpaid retiring partner may choose interest at 6% per annum on the amount outstanding. Alternatively, the partner may choose the proportionate profit attributable to that amount being used in the continuing business. Thus statements (i) and (ii) describe the two available alternatives.

Step 2: Compare all options Option (A) and option (B) each give only one of the entitlements and omit the partner's right to choose. Statement (iii), and therefore option (C), uses 9%, which is not the applicable rate. The partner cannot claim both interest and the attributable profit for the same period; the entitlement is an election between them.

Step 3: Conclusion The retiring partner may choose either (i) or (ii). Hence, the correct option is (D).

Quick Tip to Solve: For unsettled retirement dues without an agreement, remember the choice: 6% interest or attributable profit.

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

Solution:

Concept:

- Under the fixed capital method, permanent capital is recorded in the Capital Account.
- Routine adjustments such as drawings, interest, salary and profit or loss are recorded in a separate Current Account.

Step 1: Identify where routine adjustments are recorded In the fixed capital method, a partner's capital contribution remains in the Capital Account. The account changes only for a permanent increase or withdrawal of capital. Drawings and the partner's share of loss are posted to the Current Account instead of reducing the fixed capital through routine entries.

Step 2: Apply the distinction to the blank The fixed Capital Account therefore shows the credit balance of capital invested by the partner. It is the Current Account which can have a debit or a credit balance. A fluctuating Capital Account includes routine adjustments and can show a debit balance, so "fluctuating" does not fit the statement.

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

Quick Tip to Solve: Locate drawings and losses first: separate Current Accounts indicate the fixed capital method.

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:

- For the redemption treatment applicable to this question, the minimum Debenture Redemption Reserve is 25% of the face value of outstanding debentures.
- The reserve is created by appropriating profits available for dividend; it is distinct from the bank investment made for redemption.

Step 1: Identify the required reserve The question asks for the minimum transfer from surplus to Debenture Redemption Reserve (DRR). Under the prescribed treatment, the required reserve is DRR $= 25\% \times$ face value of outstanding debentures. The percentage is applied to the face value, not to interest payable or the issue proceeds.

Step 2: Distinguish reserve creation from investment This is a transfer within shareholders' funds, from Surplus to DRR. It is not the requirement to invest funds for repayment. The separate redemption investment requirement of 15% must therefore not be inserted in this blank. The blank refers expressly to the amount transferred to the reserve out of profits.

Step 3: Conclusion The minimum transfer is $\boxed{25\%}$ of the face value of outstanding debentures.

Quick Tip to Solve: For this question, distinguish the 25% DRR transfer from the separate 15% redemption investment.

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:

- Debentures redeemed at par are discharged at their face value. The required DRR is 25% of outstanding face value under the treatment applicable to this paper.
- Before redemption, invest 15% of the debentures maturing in the financial year by 30 April. After redemption, transfer DRR to General Reserve.

Step 1: Calculate reserve and investment The face value due is $50,000 \times$ Rs $100 =$ Rs $50,00,000$. Required DRR is $50,00,000 \times 25\% =$ Rs $12,50,000$. Since Rs 5,00,000 already exists, the additional transfer is $12,50,000 - 5,00,000 =$ Rs $7,50,000$. Required redemption investment is $50,00,000 \times 15\% =$ Rs $7,50,000$. There is no redemption premium stated; repayment is at par. The investment is realised at carrying value since no gain or loss is specified.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2018 Apr. 30	Surplus in Statement of Profit and Loss Dr.		7,50,000	
	To Debenture Redemption Reserve			7,50,000
	(Being additional reserve created for redemption)			
2018 Apr. 30	Debenture Redemption Investment Dr.		7,50,000	
	To Bank			7,50,000
	(Being required investment made for redemption)			

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

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

The reserve appropriation is not a payment to debentureholders. The Bank payment discharges the separate liability of Rs 50,00,000; the reserve then moves to General Reserve.

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

Quick Tip to Solve: Calculate the total required DRR first, then deduct the existing Rs 5,00,000 balance.

OR

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

Solution:

Concept:

- Debenture interest is a charge against profit and is calculated on the nominal value of debentures.
- Tax deducted at source reduces the cash paid to debentureholders, but the full gross interest remains an expense.

Step 1: Calculate half-yearly interest and tax Nominal debentures are $4,000 \times$ Rs $100 =$ Rs $4,00,000$. Annual interest is $4,00,000 \times 12\% =$ Rs $48,000$. Hence each half-year's interest is $48,000 \div 2 =$ Rs $24,000$. Tax deducted is $24,000 \times 10\% =$ Rs $2,400$, leaving $24,000 - 2,400 =$ Rs $21,600$ payable to

debentureholders. These figures apply on both 30 September 2018 and 31 March 2019.

Step 2: Pass the journal entries **Journal of X Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2018 Sept. 30	Debenture Interest Dr.		24,000	
	To Debentureholders			21,600
	To Income Tax Payable			2,400
	(Being half-yearly interest due with TDS)			
	Debentureholders Dr.		21,600	
	To Bank			21,600
	(Being net interest paid)			
	Income Tax Payable Dr.		2,400	
	To Bank			2,400
	(Being tax deducted deposited with government)			
2019 Mar. 31	Debenture Interest Dr.		24,000	
	To Debentureholders			21,600
	To Income Tax Payable			2,400
	(Being half-yearly interest due with TDS)			
	Debentureholders Dr.		21,600	
	To Bank			21,600
	(Being net interest paid)			
	Income Tax Payable Dr.		2,400	
	To Bank			2,400
	(Being tax deducted deposited with government)			
2019 Mar. 31	Statement of Profit and Loss Dr.		48,000	
	To Debenture Interest			48,000
	(Being annual interest expense transferred)			

Step 3: Check the annual charge and settlement The annual expense is the gross amount $24,000 + 24,000 =$ Rs $48,000$. Total net payments to debentureholders are Rs 43,200, and total tax remitted is Rs 4,800. Together these payments equal the interest expense. The tax is a liability to the government until deposited; it is not a reduction in debenture interest expense. The remittance entries show its settlement when deposited.

Step 4: Conclusion On each half-yearly date, interest is Rs 24,000, TDS is Rs 2,400 and net interest paid is Rs 21,600; the annual charge is Rs 48,000.

Quick Tip to Solve: Compute gross half-yearly interest before deducting 10% TDS; do not reduce the interest expense by tax.

15. From the following information, calculate the amount of medicines that will be debited to the Income and Expenditure Account of Sarojini Hospital for the year ended 31-3-2019.

Particulars	1-4-2018 (₹)	31-3-2019 (₹)
Stock of Medicines	3,87,000	4,79,000
Creditors for Medicines	6,77,000	9,83,000
Advance paid for Medicines	1,40,700	1,79,300

Additional Information: During the year ₹ 17,00,000 were paid to creditors. Medicines ₹ 9,33,000 were purchased for cash. [4 marks]

Solution:

Concept:

- Medicines consumed, rather than cash paid, are debited to the Income and Expenditure Account on the accrual basis.
- Purchases equal payments adjusted for creditors and advances. Consumption equals opening stock plus purchases less closing stock.

Step 1: Adjust payments for creditors and advances An increase in creditors represents medicines purchased but not yet paid for. Add closing creditors and subtract opening creditors. Opening advances pay for medicines received this year, while closing advances are for medicines still to be received. Thus opening advances are added and closing advances deducted.

$$\begin{aligned}\text{Purchases through creditors} &= 17,00,000 + 9,83,000 - 6,77,000 \\ &\quad + 1,40,700 - 1,79,300 \\ &= \text{Rs } 19,67,400.\end{aligned}$$

The payment of Rs 17,00,000 is only the payment to creditors. It does not include the separately stated cash purchases. The net increase in advances, Rs 38,600, reduces the purchases relating to this accounting year.

Step 2: Find total purchases and consumption Add the separately stated cash purchases before adjusting for the stock of medicines.

$$\begin{aligned}\text{Total purchases} &= 19,67,400 + 9,33,000 \\ &= \text{Rs } 29,00,400, \\ \text{Medicines consumed} &= 3,87,000 + 29,00,400 - 4,79,000 \\ &= \text{Rs } 28,08,400.\end{aligned}$$

Opening stock is available for use in the current year and is added. Closing stock remains unused at the year end and is deducted. As a check, stock has increased by Rs 92,000, so consumption must be Rs 92,000 less than purchases.

Step 3: Conclusion Medicines of $\boxed{\text{Rs } 28,08,400}$ will be debited to the Income and Expenditure Account of Sarojini Hospital for the year ended 31-3-2019.

Quick Tip to Solve: Add the increase in creditors, subtract the increase in advances, and then subtract the increase in stock from total purchases.

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

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

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

[4 marks]

Solution:

Concept:

- Interest on drawings cannot be charged when the partnership deed is silent. Interest on capital must be allowed at the agreed rate of 5% per annum.
- To correct an appropriation error, compare each partner's direct credit with that partner's share of the total amount withdrawn from divisible profits.

Step 1: Reconstruct the interest on drawings and the profit credited A withdrew Rs 15,000 at the beginning of each quarter, so total drawings were Rs 60,000 and the periods were 12, 9, 6 and 3 months. B's drawings of Rs 40,000 during the year are taken for an average period of six months, since no dates are specified.

$$\begin{aligned}\text{A's interest on drawings} &= 15,000 \times \frac{12}{100} \times \frac{12+9+6+3}{12} \\ &= \text{Rs } 4,500, \\ \text{B's interest on drawings} &= 40,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 2,400.\end{aligned}$$

The question states that Rs 50,000 was distributed after allowing interest on drawings. Hence the profit shares actually credited were Rs 30,000 to A and Rs 20,000 to B, in the ratio 3:2.

Step 2: Find opening capitals and the omitted interest Reverse the movements already included in the closing capitals: add back drawings and interest charged, and deduct the profit share credited.

$$\begin{aligned}\text{A's opening capital} &= 1,65,500 + 60,000 + 4,500 - 30,000 \\ &= \text{Rs } 2,00,000, \\ \text{B's opening capital} &= 1,27,600 + 40,000 + 2,400 - 20,000 \\ &= \text{Rs } 1,50,000.\end{aligned}$$

Interest on opening capital at 5% is therefore Rs 10,000 for A and Rs 7,500 for B, totalling Rs 17,500. No additional capital contribution is stated.

Step 3: Calculate the net adjustment Refund the wrongly charged interest on drawings and credit the omitted interest on capital. The combined amount must also be withdrawn from the profit shares in the ratio 3:2.

Particulars	A (Rs)	B (Rs)
Refund of interest on drawings	4,500	2,400
Interest on capital due	10,000	7,500
Total credit due	14,500	9,900
Debit: Rs 24,400 in ratio 3:2	14,640	9,760
Net adjustment	140 (Dr.)	140 (Cr.)

The debit and credit are equal, so the correction changes only the allocation between the two partners.

Step 4: Pass the adjustment 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 wrong interest on drawings reversed and omitted interest on capital adjusted through partners' capital accounts)		140	 140

Step 5: Conclusion Debit A's Capital Account and credit B's Capital Account by $\boxed{\text{Rs } 140}$ each.

Quick Tip to Solve: Reconstruct opening capitals using the profit actually credited, including the wrongly charged interest on drawings.

OR

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

As per the provisions of partnership deed:

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

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

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

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

Solution:

Concept:

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

Step 1: Calculate appropriations and residual profit Annual salaries total $3 \times \text{Rs } 20,000 = \text{Rs } 60,000$.

Interest on the fixed capitals is:

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

Total interest is Rs 20,000. Therefore, residual profit is $90,000 - 60,000 - 20,000 = \text{Rs } 10,000$. Arun receives $10,000 \times 3/5 = \text{Rs } 6,000$, and Shobha and Yuvraj receive Rs 2,000 each.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-19	Profit and Loss A/c Dr.		90,000	
	To Profit and Loss Appropriation A/c			90,000
	(Being net profit transferred for appropriation)			
31-3-19	Profit and Loss Appropriation A/c Dr.		60,000	
	To Arun's Current A/c			20,000
	To Shobha's Current A/c			20,000
	To Yuvraj's Current A/c			20,000
	(Being annual salaries credited as per deed)			
31-3-19	Profit and Loss Appropriation A/c Dr.		20,000	
	To Arun's Current A/c			10,000
	To Shobha's Current A/c			5,000
	To Yuvraj's Current A/c			5,000
	(Being interest on capital credited at 10% p.a.)			
31-3-19	Profit and Loss Appropriation A/c Dr.		10,000	
	To Arun's Current A/c			6,000
	To Shobha's Current A/c			2,000
	To Yuvraj's Current A/c			2,000
	(Being residual profit distributed in ratio 3:1:1)			

Step 3: Conclusion Total credits to Current Accounts are: Arun Rs 36,000, Shobha Rs 27,000 and Yuvraj Rs 27,000. The full profit of Rs 90,000 is appropriated.

Quick Tip to Solve: Credit Current Accounts when capitals are fixed; deduct salaries and interest before applying the profit-sharing ratio.

17. From the following Receipts and Payments Account of Jai Bharat Music Club for the year ended 31-03-2019 and the additional information, prepare Income and Expenditure Account for the year ended 31-3-2019.

Receipts and Payments Account of Jai Bharat Music Club for the year ended 31-03-2019

Receipts	Amount	Payments	Amount
To Balance b/d: Cash 5,000; Bank 7,500	12,500	By Honorarium	35,500
To Subscriptions: 2017-18 6,500; 2018-19 1,00,000; 2019-20 8,500	1,15,000	By Musical instruments	20,000
To Locker Rent	4,000	By Electricity Bill	10,000
To Sale of old furniture (book value ₹ 5,000)	7,500	By Balance c/d: Cash 30,500; Bank 20,250; Fixed Deposit @ 7% p.a. on 31-3-2019 57,500	1,08,250
To Building Fund Donations	22,500		
To Life Membership Fee	9,750		
To Admission Fee	2,500		
Total	1,73,750		1,73,750

Additional Information: (i) The Club had 300 members each paying an annual subscription of ₹ 500. (ii) Musical instruments were purchased on 1-10-2018. Depreciation @ 10% p.a. was to be provided on musical instruments. [4 marks]

Solution:

Concept:

- Income and Expenditure Account records revenue income and expenses relating to the current year on the accrual basis. Capital receipts and capital expenditure are excluded.
- Annual subscription income equals members multiplied by annual subscription. Depreciation is charged only for the period the asset is held; only the gain on sale of a fixed asset is revenue income.

Step 1: Determine current-year subscription income There are 300 members paying Rs 500 each. Hence subscription income for 2018-19 is $300 \times 500 = \text{Rs } 1,50,000$. Of the receipts, only Rs 1,00,000 relates to 2018-19; Rs 6,500 relates to 2017-18 and Rs 8,500 to 2019-20, so these two amounts are excluded from this year's income. The balance Rs 50,000 of the current year's subscription entitlement remains receivable.

Step 2: Classify the remaining receipts and calculate depreciation Locker rent of Rs 4,000 and admission fee of Rs 2,500 are revenue income. The profit on sale of old furniture is $7,500 - 5,000 = \text{Rs } 2,500$; the full sale proceeds are not income. Building Fund Donations of Rs 22,500 are credited to the specified fund, and Life Membership Fee of Rs 9,750 is capitalised.

Musical instruments costing Rs 20,000 were bought on 1st October, 2018. Their cost is capital expenditure, while six months' depreciation is an expense:

$$20,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,000.$$

The fixed deposit was made on 31st March, 2019, so no interest for the year is accrued on it. Opening and closing cash and bank balances are excluded.

Step 3: Prepare the account and balance it Jai Bharat Music Club

Income and Expenditure Account for the year ended 31st March, 2019

Expenditure (Dr.)	Rs	Income (Cr.)	Rs
To Honorarium	35,500	By Subscriptions	1,50,000
To Electricity bill	10,000	By Locker rent	4,000
To Depreciation on musical instruments	1,000	By Profit on sale of furniture	2,500
To Surplus (transferred to Capital Fund)	1,12,500	By Admission fee	2,500
Total	1,59,000	Total	1,59,000

Revenue expenses total $35,500+10,000+1,000 =$ Rs $46,500$, while revenue income totals Rs 1,59,000. The balancing surplus is transferred to Capital Fund.

Step 4: Conclusion The Income and Expenditure Account shows a surplus of Rs 1,12,500 for the year ended 31st March, 2019.

Quick Tip to Solve: Use 300 times Rs 500 for subscription income; charge only six months of depreciation on instruments bought on 1st October.

18. Satnam, Harnam and Gurunam were partners in a firm sharing profits and losses in the ratio of 5 : 2 : 3. The firm closes its books on 31st March every year. On 1-7-2019 Harnam died. On his death goodwill of the firm was valued on the basis of average profits of last four years. The profits of the last four years were as follows:

2015-16: ₹ 50,000

2016-17: ₹ 80,000

2017-18: ₹ 40,000

2018-19: ₹ 1,70,000

His share in the profits of the firm till the date of his death were ₹ 57,000. The total amount payable to Harnam's executors was ₹ 3,40,000. It was paid on 15-7-2019. Pass necessary journal entries for the above transactions in the books of the firm. [4 marks]

Solution:

Concept:

- The deceased partner's share of goodwill is borne by the continuing partners in their gaining ratio. In the absence of a change between the survivors, Satnam and Gurunam gain in the ratio $5 : 3$.
- Profit up to death is credited through Profit and Loss Suspense Account. The total amount due is transferred to the executors and then settled through bank.

Step 1: Calculate goodwill The goodwill equals the average of the four annual profits. No years'

purchase multiplier is given.

$$\text{Goodwill} = \frac{50,000 + 80,000 + 40,000 + 1,70,000}{4} = \text{Rs } 85,000.$$

$$\text{Harnam's share} = 85,000 \times \frac{2}{10} = \text{Rs } 17,000.$$

Satnam bears $17,000 \times 5/8 = \text{Rs } 10,625$, and Gurunam bears $17,000 \times 3/8 = \text{Rs } 6,375$. Goodwill is adjusted directly through the partners' capital accounts.

Step 2: Record goodwill and profit up to death Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-7-2019	Satnam's Capital A/c Dr. Gurunam's Capital A/c Dr. To Harnam's Capital A/c (Being goodwill share adjusted in the gaining ratio 5:3)		10,625 6,375	 17,000
1-7-2019	Profit and Loss Suspense A/c Dr. To Harnam's Capital A/c (Being profit up to death credited to Harnam)		57,000	 57,000

The share of profit of Rs 57,000 is already supplied, so no further time apportionment is required.

Step 3: Transfer and settle the executors claim Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-7-2019	Harnam's Capital A/c Dr. To Harnam's Executors' A/c (Being the total amount due transferred to executors)		3,40,000	 3,40,000
15-7-2019	Harnam's Executors' A/c Dr. To Bank A/c (Being the executors paid in full)		3,40,000	 3,40,000

The expressly stated total payable already includes the adjustments; goodwill and profit are not added to Rs 3,40,000 again.

Step 4: Conclusion Goodwill of Rs 17,000 and profit of Rs 57,000 are credited to Harnam. His executors receive the total amount due of Rs 3,40,000 on 15-7-2019.

Quick Tip to Solve: Adjust goodwill in the gaining ratio, and do not add adjustments again to an expressly stated total amount payable.

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

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

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

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

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

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

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

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

Prepare Realization Account. [6 marks]

Solution:

Concept:

- Realisation Account receives the book values of non-cash assets on its debit side and outside liabilities on its credit side. Cash and bank balances are excluded.
- Asset proceeds are credited, while payments of outside liabilities and realisation expenses are debited. Profit or loss is transferred to partners in their profit-sharing ratio, here $3 : 2$.

Step 1: Work out proceeds and settlements Debtors realise $76,000 - 12,000 =$ Rs $64,000$. Leasehold premises realise Rs 1,50,000. Harish pays Rs 90,000 by cheque for half the stock; this is a bank receipt from realisation, not a debit to his capital. The other half realises Rs 94,000.

Half the creditors, Rs 18,000, accept furniture in full settlement; no separate realisation entry is required for that exchange after transferring furniture and creditors. The remaining creditors are paid $18,000 \times 90\% =$ Rs $16,200$. Outstanding expenses of Rs 10,000 are paid at book value, since no alternative settlement is specified.

Step 2: Record liabilities and expenses borne by Gopal Gopal's wife's loan is an outside liability of Rs 50,000. It is first transferred to the credit of Realisation Account, and Gopal's agreement to discharge it is recorded on the debit side against his capital. Realisation expenses of Rs 10,000 paid by Gopal on the firm's behalf are also debited to Realisation Account against Gopal's capital. These two amounts are separate and both must be included.

Step 3: Prepare the Realisation Account Realisation Account as at 31st March, 2018

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

This nominal account is closed by transferring its profit to capital accounts; no balance is carried forward.

Step 4: Verify the profit distribution The credits total Rs 4,94,000. Debits before transferring profit total

$$3,96,000 + 50,000 + 16,200 + 10,000 + 10,000 = \text{Rs } 4,82,200.$$

Thus realisation profit is $4,94,000 - 4,82,200 = \text{Rs } 11,800$. Harish receives $11,800 \times 3/5 = \text{Rs } 7,080$, and Gopal receives $11,800 \times 2/5 = \text{Rs } 4,720$. These transfers make the two sides equal.

Step 5: Conclusion Realisation profit is Rs 11,800, transferred to Harish and Gopal in the amounts Rs 7,080 and Rs 4,720 respectively. Both sides of Realisation Account total Rs 4,94,000.

Quick Tip to Solve: When a partner pays by cheque for stock, credit Realisation with Bank; when a partner pays a firm liability, debit Realisation with that partner capital.

OR

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

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

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

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

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

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

Solution:

Concept:

- Interest on a partner's loan is a charge against profit, whereas interest on capital and partners' salaries are appropriations. Interest on drawings is credited to the Profit and Loss Appropriation Account.
- For equal periodic drawings, interest is total drawings multiplied by the annual rate and the average outstanding period. The residual profit is shared by Sudha, Naresh and Geeta in $5 : 3 : 2$.

Step 1: Determine the profit available for appropriation Geeta's loan interest for the year is $75,000 \times 9/100 = \text{Rs } 6,750$. Deduct this charge before preparing the appropriation account:

$$\text{Net profit} = 7,06,750 - 6,750 = \text{Rs } 7,00,000.$$

The loan itself is not capital and therefore earns loan interest separately from Geeta's interest on her fixed capital.

Step 2: Calculate interest on drawings Sudha makes four drawings of Rs 50,000 at quarter ends. Their outstanding periods are 9, 6, 3 and 0 months, giving an average of 4.5 months. Naresh's two beginning-of-half-year drawings remain outstanding for 12 and 6 months, giving an average of 9 months. Geeta's end-of-half-year drawings remain outstanding for 6 and 0 months, giving an average of 3 months.

$$\text{Sudha} = 2,00,000 \times \frac{12}{100} \times \frac{4.5}{12} = \text{Rs } 9,000,$$

$$\text{Naresh} = 1,00,000 \times \frac{12}{100} \times \frac{9}{12} = \text{Rs } 9,000,$$

$$\text{Geeta} = 1,40,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 4,200.$$

Total interest on drawings is Rs 22,200; hence the credit available is Rs 7,22,200.

Step 3: Work out appropriations and residual profit Interest on fixed capitals at 9% is Rs 54,000 for Sudha, Rs 36,000 for Naresh and Rs 18,000 for Geeta, totalling Rs 1,08,000. Sudha's annual salary is

$30,000 \times 12 = \text{Rs } 3,60,000$; Naresh's is $40,000 \times 4 = \text{Rs } 1,60,000$.

$$\text{Residual profit} = 7,22,200 - 1,08,000 - 5,20,000 = \text{Rs } 94,200,$$
$$\text{Sudha's share} = 94,200 \times 5/10 = \text{Rs } 47,100,$$
$$\text{Naresh's share} = 94,200 \times 3/10 = \text{Rs } 28,260,$$
$$\text{Geeta's share} = 94,200 \times 2/10 = \text{Rs } 18,840.$$

Because the capitals are fixed, these appropriations and profit shares are transferred to the partners' current accounts.

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

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Interest on capital:		By Net profit	7,00,000	
	Sudha	54,000	By Interest on drawings:		
	Naresh	36,000	Sudha	9,000	
	Geeta	18,000	Naresh	9,000	
	To Partners' salaries:		Geeta	4,200	
	Sudha	3,60,000			
	Naresh	1,60,000			
	To Current A/cs (profit):				
	Sudha	47,100			
	Naresh	28,260			
	Geeta	18,840			
	Total	7,22,200	Total	7,22,200	

All profit has been appropriated, so there is no balance carried down in this nominal account.

Step 5: Conclusion The distributable profit is Rs $94,200$, shared as Sudha Rs 47,100, Naresh Rs 28,260 and Geeta Rs 18,840. Both sides of the appropriation account total Rs 7,22,200.

Quick Tip to Solve: Use average periods of 4.5, 9 and 3 months for these drawings; deduct the loan interest before adding interest on drawings.

20. Pass necessary journal entries in the books of New India Ltd. for the following transactions :
(i) Issued 500, 9% debentures of ₹ 100 each at a discount of 6% redeemable at a premium of 5%.
(ii) Issued ₹ 15,00,000, 9% debentures of ₹ 100 each at a premium of 10%, redeemable at a premium of 5%.
(iii) Issued ₹ 75,00,000, 9% debentures of ₹ 100 each at par redeemable at a premium of 5%. [6 marks]

Solution:

Concept:

- Debentures are credited at their face value. Bank is debited with the issue proceeds, and any issue premium is credited separately to Securities Premium Reserve.
- Loss on Issue of Debentures includes discount on issue and premium payable on redemption. Premium on Redemption of Debentures is credited when the debentures are issued.

Step 1: Case (i): issue at a discount, redeemable at a premium Face value is $500 \times 100 = \text{Rs } 50,000$. Discount at 6% is Rs 3,000, so bank receives Rs 47,000. Redemption premium at 5% is Rs 2,500. The loss on issue is therefore $3,000 + 2,500 = \text{Rs } 5,500$.

Journal of New India Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		47,000	
	Loss on Issue of Debentures A/c Dr.		5,500	
	To 9% Debentures A/c			50,000
	To Premium on Redemption of Debentures A/c			2,500
	(Being 500 debentures issued at 6% discount, redeemable at 5% premium.)			

The debit total and credit total are each Rs 52,500. The interest rate of 9% does not change the amount received on issue.

Step 2: Case (ii): issue at a premium, redeemable at a premium The aggregate face value is Rs 15,00,000, equivalent to 15,000 debentures of Rs 100 each. Issue premium is $15,00,000 \times 10\% = \text{Rs } 1,50,000$, giving bank receipts of Rs 16,50,000. Redemption premium is $15,00,000 \times 5\% = \text{Rs } 75,000$. Since there is no issue discount, the loss on issue equals this redemption premium.

Journal of New India Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		16,50,000	
	Loss on Issue of Debentures A/c Dr.		75,000	
	To 9% Debentures A/c			15,00,000
	To Securities Premium Reserve A/c			1,50,000
	To Premium on Redemption of Debentures A/c			75,000
	(Being debentures issued at 10% premium, redeemable at 5% premium.)			

Both sides total Rs 17,25,000. The issue premium and redemption premium are recorded separately, rather than netted against each other.

Step 3: Case (iii): issue at par, redeemable at a premium The aggregate face value is Rs 75,00,000, equivalent to 75,000 debentures of Rs 100 each. As issue is at par, bank receives Rs 75,00,000. Redemption premium is $75,00,000 \times 5\% = \text{Rs } 3,75,000$, which is also the loss on issue.

Journal of New India Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		75,00,000	
	Loss on Issue of Debentures A/c Dr.		3,75,000	
	To 9% Debentures A/c			75,00,000
	To Premium on Redemption of Debentures A/c			3,75,000
	(Being debentures issued at par, redeemable at 5% premium.)			

Both sides total Rs 78,75,000. These entries record issue only; an actual repayment entry is passed when redemption takes place.

Step 4: Conclusion The losses on issue are Rs 5,500, Rs 75,000 and Rs 3,75,000 in cases (i), (ii) and (iii), respectively; the journal entries above record all three issues.

Quick Tip to Solve: Calculate bank proceeds from the issue price, credit face value to debentures, and record the redemption premium separately in every case.

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

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

Solution:

Concept:

- The pro-rata ratio is allotted shares to valid applications: $3,40,000 : 4,20,000 = 17 : 21$. Excess application money reduces the allotment amount receivable.
- Only called-up capital is debited on forfeiture. Unreceived securities premium is reversed; capital receipts on forfeited shares are credited to Share Forfeiture Account.
- Calls received before becoming due are liabilities in Calls-in-Advance Account. Reissue discount is charged to forfeiture, and only the surplus relating to shares reissued becomes capital reserve.

Step 1: Calculate allotment, arrears and advance Application receipts are $6,00,000 \times 4 =$ Rs $24,00,000$. Refund is $1,80,000 \times 4 =$ Rs $7,20,000$. For allotted shares, application capital is Rs 6,80,000 and premium is Rs 6,80,000; excess is Rs 3,20,000. Yamini receives $2,100 \times 17/21 = 1,700$ shares. Her excess application money is $2,100 \times 4 - 1,700 \times 4 =$ Rs $1,600$, so allotment arrears are $1,700 \times 5 - 1,600 =$ Rs $6,900$. The excess is adjusted against allotment capital first; unpaid allotment premium is Rs 3,400. Capital credited to forfeiture is $8,400 - 3,400 =$ Rs $5,000$. The final call is Rs 6 per share, comprising Rs 5 capital and Rs 1 premium. Vani's advance is $6,800 \times 6 =$ Rs $40,800$. Allotment bank receipt is $17,00,000 - 3,20,000 - 6,900 + 40,800 =$ Rs $14,13,900$.

Step 2: Record application and allotment

Journal of Zee Ltd.

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

Step 3: Record forfeiture and final call

Journal of Zee Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		8,500	
	Securities Premium A/c Dr.		3,400	
	To Calls-in-Arrears A/c			6,900
	To Share Forfeiture A/c			5,000
	(Being 1,700 shares forfeited for non-payment of allotment)			
	Share First and Final Call A/c Dr.		20,29,800	
	To Share Capital A/c			16,91,500
	To Securities Premium A/c			3,38,300
	(Being final call due on 3,38,300 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 call received and advance adjusted)			

Step 4: Record reissue and capital reserve

Journal of Zee Ltd. (continued)

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 fully paid)			
	Share Forfeiture A/c Dr.		800	
	To Capital Reserve A/c			800
	(Being surplus on reissued shares transferred)			

The forfeiture attributable to 850 shares is $5,000 \times 850/1,700 = \text{Rs } 2,500$. Deducting Rs 1,700 reissue discount gives Rs 800; Rs 2,500 remains in forfeiture for unreissued shares.

Step 5: Conclusion Capital Reserve is credited with $\boxed{\text{Rs } 800}$; the remaining Share Forfeiture balance is Rs 2,500. Calls-in-Arrears and Calls-in-Advance are cleared.

Quick Tip to Solve: On forfeiture before the final call, debit only Rs 5 called-up capital per share, and reverse unpaid allotment premium separately.

OR

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

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

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

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

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

Solution:

Concept:

- Application and allotment is capital of Rs 3 per share; first call is capital of Rs 4. Final call is Rs 6, comprising Rs 3 capital and Rs 3 premium.
- Calculate excess money independently for each category, and adjust it against first-call dues. Forfeiture before the final call concerns only Rs 7 called-up capital.
- Premium on reissue is credited to Securities Premium Account. The whole forfeiture balance becomes capital reserve when all forfeited shares are reissued.

Step 1: Compute category excess and Rakesh arrears Category I excess is $(4,00,000 - 3,00,000) \times 3 =$

Rs $3,00,000$. Category II applications are $8,00,000 - 50,000 - 4,00,000 = 3,50,000$, allotted 3,00,000 shares, giving excess Rs 1,50,000. Total excess adjusted towards the first call is Rs 4,50,000. Rakesh applied for $6,000 \times 4/3 = 8,000$ shares. His application payment is Rs 24,000, including Rs 6,000 excess. His first-call dues are Rs 24,000, leaving unpaid $24,000 - 6,000 =$ Rs $18,000$. First-call bank receipt is $24,00,000 - 4,50,000 - 18,000 =$ Rs $19,32,000$.

Step 2: Record application and first call

Journal of K.N. Ltd.

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

Step 3: Record forfeiture, reissue and reserve

Journal of K.N. Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c (Being 6,000 shares forfeited with Rs 7 capital called and Rs 4 per share received)		42,000	 18,000 24,000
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (Being 6,000 shares reissued at Rs 13 as fully paid)		78,000	 60,000 18,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being entire forfeiture surplus transferred after reissue)		24,000	 24,000

No premium reversal arises on forfeiture because the original issue premium becomes due only with the subsequent final call.

Step 4: Record the final call The final call applies to $6,00,000 - 6,000 = 5,94,000$ original shares, since reissued shares are already fully paid. Thus total dues are $5,94,000 \times 6 =$ Rs $35,64,000$, split

equally between capital and premium.

Journal of K.N. Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Second and Final Call A/c Dr. To Share Capital A/c To Securities Premium A/c (Being second and final call due on 5,94,000 shares)		35,64,000	 17,82,000 17,82,000
	Bank A/c Dr. To Share Second and Final Call A/c (Being final call received in full)		35,64,000	 35,64,000

Step 5: Conclusion Capital Reserve is $\boxed{\text{Rs } 24,000}$. Final-call receipts are Rs 35,64,000; reissued fully paid shares are excluded from that call.

Quick Tip to Solve: Compute Rakesh's application using his own category ratio; the Rs 6,000 excess reduces his unpaid first call to Rs 18,000.

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

Liabilities	Amount	Assets	Amount
Provision for bad debts	7,000	Bank	24,000
Outstanding Expenses	18,000	Bills Receivable	80,000
Bills Payable	47,000	Sundry Debtors	95,000
Sundry Creditors	1,02,000	Stock	14,000
Workmen Compensation Reserve	55,000	Furniture	70,000
Capitals: Raman 3,00,000 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:

- Revaluation gains and losses belong to the old partners Raman and Aman in their old ratio $3:1$. Capital brought by Suman is credited to her capital account.
- The goodwill premium is $1,00,000 \times 1/5 =$ Rs $20,000$. Since no different sacrifice is specified, Raman and Aman sacrifice in their old ratio $3:1$.
- Bad debts reduce debtors before the new provision is calculated. An existing compensation reserve is first used against the estimated compensation liability.

Step 1: Determine goodwill and revised provision Suman brings Rs 2,00,000 as capital and Rs 20,000 as goodwill premium, a total of Rs 2,20,000. Raman receives Rs 15,000 and Aman receives Rs 5,000 of the premium. After writing off Rs 5,000, debtors are Rs 90,000 and the required provision is $90,000 \times 5\% =$ Rs $4,500$. Thus the existing Rs 7,000 provision is reduced by Rs 2,500, a revaluation gain. The workmen compensation liability exceeds its reserve by $60,000 - 55,000 =$ Rs $5,000$, a revaluation loss.

Step 2: Record cash and goodwill transactions Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,20,000	
	To Suman's Capital A/c			2,00,000
	To Premium for Goodwill A/c			20,000
	(Being capital and goodwill brought in by 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 credited in sacrificing ratio 3:1)			
	Outstanding Expenses A/c Dr.		18,000	
	To Bank A/c			18,000
	(Being outstanding expenses paid)			

Step 3: Record revaluation adjustments Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr.		5,000	
	To Sundry Debtors A/c			5,000
	(Being bad debts written off)			
	Provision for Bad Debts A/c Dr.		2,500	
	To Revaluation A/c			2,500
	(Being provision reduced to 5 percent of Rs 90,000)			
	Workmen Compensation Reserve A/c Dr.		55,000	
	Revaluation A/c Dr.		5,000	
	To Workmen Compensation Liability A/c			60,000
	(Being estimated compensation liability recognised)			
	Revaluation A/c Dr.		72,000	
	To Machinery A/c			18,000
	To Land and Building A/c			54,000
	(Being depreciation charged on machinery and property)			

Step 4: Transfer the revaluation loss Total revaluation debits are $5,000 + 5,000 + 18,000 + 54,000 =$

Rs $82,000$. After crediting the provision reduction of Rs 2,500, the loss is Rs 79,500. Raman bears $79,500 \times 3/4 =$ Rs $59,625$ and Aman bears Rs 19,875.

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	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 revaluation loss is Rs 79,500, distributed to Raman and Aman as Rs 59,625 and Rs 19,875 respectively. Suman is credited with capital Rs 2,00,000; goodwill premium Rs 20,000 is credited to the old partners in the ratio 3:1.

Quick Tip to Solve: Calculate the provision on debtors after bad debts; payment of an existing outstanding liability does not affect revaluation.

OR

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

Liabilities	Amount	Assets	Amount
Bills payable	20,000	Bank	20,000
Creditors	40,000	Furniture	28,000
General Reserve	30,000	Stock	20,000
Workmen Compensation Reserve	6,000	Debtors 45,000 Less Provision 5,000	40,000
Capitals: A 60,000 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:

- Where no profit-sharing ratio is stated, the partners share equally. Reserves and revaluation profit are therefore allocated to A, B and C in the ratio $1:1:1$.
- Goodwill is adjusted through capital accounts in the gaining ratio. A's gain is $2/3 - 1/3 = 1/3$, whereas C's share remains $1/3$. Hence A alone compensates B.
- The retiring partner's balance, after all adjustments and immediate payment, is transferred to his loan account. Only cash and cheque transactions enter Bank Account.

Step 1: Compute revaluation and reserve adjustments After bad debts of Rs 4,000, debtors are Rs 41,000. The required provision is $41,000 \times 10\% =$ Rs $4,100$, so the existing provision falls by Rs 900. Land and building appreciate by Rs 12,000. Furniture realises Rs 20,000 against book value Rs 28,000, creating a loss of Rs 8,000. Thus revaluation profit is $12,000 + 900 - 4,000 - 8,000 =$ Rs 900, or Rs 300 for each partner. General reserve of Rs 30,000 gives each partner Rs 10,000. The compensation reserve exceeds the estimated liability by $6,000 - 1,500 =$ Rs $4,500$; this excess gives each partner Rs 1,500. The remaining Rs 1,500 is retained as compensation liability.

Step 2: Prepare Revaluation Account Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Debtors (bad debts)	4,000	By Provision for Doubtful Debts	900
To Furniture (loss on sale)	8,000	By Land and Building	12,000
To A's Capital	300		
To B's Capital	300		
To C's Capital	300		
Total	**12,900**	**Total**	**12,900**

Step 3: Adjust goodwill and prepare capital accounts B's share of goodwill is $30,000 \times 1/3 =$ Rs $10,000$. Debit A's Capital Account and credit B's Capital Account with this amount because A takes the whole of B's share.

Partners'Capital Accounts

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

Step 4: Prepare Bank Account B's total entitlement is $40,000 + 10,000 + 1,500 + 300 + 10,000 =$ Rs $61,800$. After paying Rs 20,000, his loan is Rs 41,800. The furniture sale increases bank by Rs 20,000; the payment to B decreases it by Rs 20,000.

Bank Account

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

Step 5: Conclusion Revaluation profit is Rs 900. The closing capitals of A and C are Rs 61,800 and Rs 43,800; B's loan is Rs 41,800. The closing bank balance is Rs 20,000.

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

Part B (20 marks)

Option – I (Analysis of Financial Statements)

23. The quick ratio of a company is 1 : 0.75. Will purchase of goods for cash ₹ 70,000 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.
- Cash is a quick asset. Buying inventory for cash exchanges a quick asset for a non-quick current asset.

Step 1: Trace the transaction Cash decreases by Rs 70,000 and inventory increases by Rs 70,000. Since inventory is excluded from quick assets, the increase in inventory does not offset the fall in cash for this ratio.

Step 2: Compare the numerator and denominator Current liabilities remain unchanged because the purchase is paid for immediately. Hence, if quick assets and current liabilities were Q and L, the ratio changes from Q/L to $(Q - 70,000)/L$, which is smaller.

Step 3: Conclusion The quick ratio decreases: quick assets fall by Rs 70,000 while current liabilities remain unchanged.

Quick Tip to Solve: For a cash purchase of inventory, track cash in quick assets and exclude the inventory received.

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

Solution:

Concept:

- Employee benefit expenses include remuneration and 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 payment Bonus is an additional payment to employees in connection with their service. It therefore forms part of employee benefit expenses along with salaries and wages.

Step 2: Reject the other alternatives Depreciation represents allocation of the depreciable cost of fixed assets and is shown under depreciation and amortisation expenses. Income tax is a tax expense, rather than remuneration or an employee benefit. Neither fills the blank correctly.

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

Quick Tip to Solve: Associate bonus with employee remuneration; depreciation concerns assets and income tax concerns tax expense.

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

(a) Window Dressing

(b) Price level changes ignored

(c) Subjectivity

(d) Intra firm comparison possible

Correct Answer: (d) Intra firm comparison possible

Solution:

Concept:

- Financial statement analysis helps compare the performance of the same firm over different accounting periods; this is intra-firm comparison.
- A limitation is a factor that reduces the reliability or usefulness of the analysis.

Step 1: Assess the limitations Window dressing can conceal the true financial position. Ignoring price-level changes makes monetary figures from different periods less comparable. Subjectivity in accounting policies and interpretation can influence the conclusions. Hence options (a), (b) and (c) describe limitations.

Step 2: Identify the useful feature Intra-firm comparison allows the enterprise to examine its own trends in profitability and financial position. It is a use or advantage of analysis, so option (d) answers the negative wording of the question.

Step 3: Conclusion Intra firm comparison possible is not a limitation. The correct option is (d).

Quick Tip to Solve: For a negative question, distinguish an advantage of analysis from factors that make its results less reliable.

26. Under which heading/sub-heading, 'Calls-in-arrears' will be presented in the Balance sheet of a Company as per Schedule III Part I of the Companies Act, 2013. [1 mark]

Solution:

Concept:

- Calls-in-arrears are amounts called up on shares but not yet paid by the shareholders.
- Paid-up share capital is obtained by deducting unpaid calls from called-up share capital.

Step 1: Identify the main heading Share capital forms part of shareholders' funds under the main heading Equity and Liabilities in the company's balance sheet.

Step 2: Show the deduction Calls-in-arrears are disclosed in the note to Share Capital as a deduction from subscribed and called-up capital to arrive at paid-up capital. They are not a separate asset or liability.

Step 3: Conclusion Calls-in-arrears appear under Equity and Liabilities, sub-heading Shareholders' Funds, in the Share Capital note as a deduction from called-up capital.

Quick Tip to Solve: Trace unpaid share calls to paid-up share capital: called-up capital less calls-in-arrears equals paid-up capital.

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

Solution:

Concept:

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

Step 1: Identify the source of receipt The interest is received on loans and advances given by the enterprise. It is a return on funds invested outside its day-to-day operations.

Step 2: Classify the cash flow Under the usual cash flow classification for a non-financial enterprise, this cash receipt belongs to investing activities. It increases the cash inflow reported in that section of the statement.

Step 3: Conclusion The blank is filled with investing: interest received in cash from loans and advances is an investing activity.

Quick Tip to Solve: Interest received on money lent is an investing inflow for the usual non-financial enterprise cash flow question.

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

Solution:

Concept:

- Cash equivalents are held to meet short-term cash commitments rather than for investment or other purposes.
- They must be readily convertible into a known amount of cash and carry an insignificant risk of changes in value.

Step 1: State the nature of the investment A cash equivalent is a short-term, highly liquid investment. Its liquidity makes it suitable for meeting immediate cash commitments alongside cash balances.

Step 2: State the qualifying conditions It can be converted readily into a known amount of cash with insignificant risk of changes in value. Normally, it has a maturity of three months or less from the date of acquisition; short maturity alone does not replace the liquidity and risk requirements.

Step 3: Conclusion Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Quick Tip to Solve: Remember all three tests together: short term, known cash amount, and insignificant risk of value changes.

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:

- For a cash flow statement, cash includes both cash in hand and demand deposits with banks.
- A transfer between components of cash does not change the total cash and cash equivalents of the enterprise.

Step 1: Identify the two effects Withdrawing cash from the bank increases cash in hand by the amount withdrawn and decreases the bank balance by the same amount.

Step 2: Evaluate the net change The equal increase and decrease cancel when total cash is measured. Since the enterprise has merely changed the form in which it holds cash, this internal transfer is excluded from operating, investing and financing cash flows.

Step 3: Conclusion Cash withdrawn from bank results in no flow of cash because cash in hand increases and bank cash decreases equally, leaving total cash unchanged.

Quick Tip to Solve: Combine cash in hand and bank cash before deciding whether a transaction creates a cash flow.

30. From the following information obtained from the books of Kamal Ltd., Calculate (i) Gross Profit Ratio and (ii) Net Profit Ratio.

	₹
Revenue from operations	**2,50,000**
Purchases	**1,05,000**
Carriage Inwards	**4,000**
Salaries	**30,000**
Decrease in inventory	**15,000**
Return Outwards	**5,000**
Wages	**18,000**

[3 marks]

Solution:

Concept:

- Gross Profit Ratio = Gross Profit / Revenue from Operations multiplied by 100; gross profit is revenue less cost of revenue from operations.
- Net Profit Ratio = Net Profit / Revenue from Operations multiplied by 100; salaries are deducted from gross profit to obtain net profit here.
- Net purchases exclude purchase returns; wages and carriage inwards are direct expenses included in cost of revenue.

Step 1: Calculate net purchases and cost of revenue Return outwards means purchase returns, so it reduces purchases. A decrease in inventory means opening inventory exceeds closing inventory; it therefore increases the cost of goods sold.

$$\begin{aligned}\text{Net purchases} &= 1,05,000 - 5,000 = 1,00,000\\ \text{Cost of revenue} &= \text{Net purchases} + \text{Carriage inwards}\\ &\quad + \text{Wages} + \text{Decrease in inventory}\\ &= 1,00,000 + 4,000 + 18,000 + 15,000\\ &= \text{Rs } 1,37,000.\end{aligned}$$

Step 2: Calculate gross profit and its ratio Revenue from operations is the common denominator for both ratios. Deduct the direct cost calculated above to obtain gross profit:

$$\begin{aligned}\text{Gross profit} &= 2,50,000 - 1,37,000 = \text{Rs } 1,13,000,\\ \text{Gross Profit Ratio} &= \frac{1,13,000}{2,50,000} \times 100 = 45.2\%.\end{aligned}$$

Salaries are an indirect expense and are not included in this gross profit calculation.

Step 3: Calculate net profit and its ratio Deduct salaries from gross profit. No other indirect income

or expense is given, so no further adjustment is required:

$$\text{Net profit} = 1,13,000 - 30,000 = \text{Rs } 83,000,$$
$$\text{Net Profit Ratio} = \frac{83,000}{2,50,000} \times 100 = 33.2\%.$$

As a cross-check, salaries represent 12% of revenue, so the net profit ratio is 12 percentage points below the gross profit ratio.

Step 4: Conclusion (i) Gross Profit Ratio $= 45.2\%$. (ii) Net Profit Ratio $= 33.2\%$.

Quick Tip to Solve: Add the decrease in inventory to net purchases and direct expenses; deduct salaries only after finding gross profit.

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 and Loss for the year ended 31st March, 2019

Particulars	Absolute Change (Rs)		% of Revenue from operations	
	2017-18	2018-19	2017-18	2018-19
Revenue from operations	20,00,000	25,00,000	___	100
Other income	1,00,000	2,50,000	___	10
Total revenue	21,00,000	27,50,000	105	110
Expenses:				
Cost of material consumed	___	8,00,000	30	32
Change in inventory	1,00,000	2,00,000	___	8
Employee benefit expense	___	4,50,000	15	18
Other expenses	___	2,25,000	10	9
Total expenses	12,00,000	16,75,000	___	67
Profit before tax	9,00,000	10,75,000	45	43
Less: Tax	2,00,000	2,50,000	10	___
Profit after tax	7,00,000	8,25,000	35	33

[4 marks]

Solution:

Concept:

- A common-size income statement expresses every income, expense and profit as a percentage of revenue from operations of the same year: Percentage $= \frac{\text{Item amount}}{\text{Revenue from operations}} \times 100$.
- To recover an amount from a given percentage, multiply that year's revenue from operations by the percentage divided by 100. Each year has its own base; total revenue includes other income and is not the denominator.

Step 1: Calculate the missing percentages Revenue from operations is its own base, so its 2017-18 percentage is 100%. Other income is $\frac{1,00,000}{20,00,000} \times 100 = 5\%$. Change in inventory similarly is $\frac{1,00,000}{20,00,000} \times 100 = 5\%$. Total expenses are $\frac{12,00,000}{20,00,000} \times 100 = 60\%$. For 2018-19, tax is $\frac{2,50,000}{25,00,000} \times 100 = 10\%$. Use the corresponding year's revenue in each calculation, even though the absolute figures differ.

Step 2: Recover the missing amounts and complete the statement For 2017-18, cost of material

consumed is $20,00,000 \times 30/100 =$ Rs $6,00,000$; employee benefit expense is $20,00,000 \times 15/100 =$ Rs $3,00,000$; and other expenses are $20,00,000 \times 10/100 =$ Rs $2,00,000$. The completed statement is:

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

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

Step 3: Check the totals The recovered expenses total $6,00,000 + 1,00,000 + 3,00,000 + 2,00,000 =$ Rs $12,00,000$, agreeing with the supplied total. Their percentages total $30 + 5 + 15 + 10 = 60$. Therefore $105 - 60 = 45\%$ is profit before tax and $45 - 10 = 35\%$ is profit after tax, matching the printed statement. In 2018-19, $110 - 67 = 43\%$ and $43 - 10 = 33\%$, which independently verifies the missing tax percentage.

Step 4: Conclusion The blanks in row order are 100%, 5%, Rs 6,00,000, 5%, Rs 3,00,000, Rs 2,00,000, 60%, and 10%.

Quick Tip to Solve: Circle revenue from operations for each year first; divide by that base, never by total revenue.

OR

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

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

[4 marks]

Solution:

Concept:

- A comparative statement shows the previous year, current year, absolute change and percentage change for each item. Increase $=$ Current year $-$ Previous year and Increase percentage $=$ $\frac{\text{Increase}}{\text{Previous year}} \times 100$.
- Profit before tax equals total revenue less total expenses. Tax is 30% of profit before tax in each year, and profit after tax equals profit before tax less tax.

Step 1: Calculate annual expenses and profits For 2017-18, total expenses are $8,00,000 + 2,00,000 =$ Rs $10,00,000$. Profit before tax is $20,00,000 - 10,00,000 =$ Rs $10,00,000$; tax is $10,00,000 \times 30/100 =$ Rs $3,00,000$, leaving profit after tax of Rs 7,00,000. For 2018-19, expenses total $10,00,000 + 5,00,000 =$ Rs $15,00,000$. Profit before tax is $45,00,000 - 15,00,000 =$ Rs $30,00,000$; tax is Rs 9,00,000, leaving Rs 21,00,000 after tax. No other income is given, so total revenue equals revenue from operations.

Step 2: Calculate changes using the previous year as base Revenue increases by $45,00,000 - 20,00,000 =$ Rs $25,00,000$, or $25,00,000/20,00,000 \times 100 = 125\%$. Employee benefit expenses increase 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 increases by Rs 20,00,000, or 200%. The same tax rate in both years means tax and profit after tax also increase by 200%. A percentage increase of 200 means the current figure is three times its previous value.

Step 3: Present the comparative statement **Skills India Ltd.: Comparative Statement of Profit and Loss**

For the years ended 31st March, 2018 and 2019

Particulars	2017-18 (Rs)	2018-19 (Rs)	Increase (Rs)	Increase (%)
Revenue from operations	20,00,000	45,00,000	25,00,000	125
Total revenue	20,00,000	45,00,000	25,00,000	125
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
Profit before tax	10,00,000	30,00,000	20,00,000	200
Less: Tax at 30%	3,00,000	9,00,000	6,00,000	200
Profit after tax	7,00,000	21,00,000	14,00,000	200

Step 4: Conclusion Revenue increases by Rs 25,00,000 (125%), while profit after tax increases from Rs 7,00,000 to Rs 21,00,000, an increase of Rs 14,00,000 (200%).

Quick Tip to Solve: Find both years' profits and tax first, then calculate every change using the 2017-18 amount as denominator.

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

Gopal Ltd.

Balance Sheet as at 31-3-2019

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

Notes to Accounts :

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

Additional Information :

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

Solution:

Concept:

- Under the indirect method, adjust profit before tax for non-cash and non-operating items, then for operating working capital and tax paid.
- Purchases of machinery and investments are investing outflows; share issues, bank borrowings and interest paid are financing cash flows.

Step 1: Calculate profit before tax and non-cash adjustments The surplus moves from a debit balance of Rs 1,00,000 to a credit balance of Rs 4,00,000. Therefore, profit after tax is

$$4,00,000 - (-1,00,000) = 5,00,000.$$

Tax expense is obtained from the provision movement:

$$2,00,000 - 1,75,000 + 1,50,000 = 1,75,000.$$

Thus, profit before tax is Rs 6,75,000. Accumulated depreciation increases by Rs 2,00,000, and goodwill written off is Rs 12,000. Interest on debentures is $9,00,000 \times 12\% = 1,08,000$. These charges are added back to profit in operating activities; interest paid is a financing outflow.

Step 2: Determine investing and financing cash flows Machinery purchased equals the increase in its gross cost:

$$24,00,000 - 16,42,000 = 7,58,000.$$

Non-current investments increase by Rs 55,000 and current investments by Rs 80,000. Since the current investments are presented separately from cash equivalents and no cash-equivalent qualification is given, their purchase is an investing outflow. Total investing outflow is Rs 8,93,000. The financing

amount supplied in the question also reconciles:

$$2,00,000 + 1,40,000 - 1,08,000 = 2,32,000.$$

Here, Rs 2,00,000 is the share capital issued and Rs 1,40,000 is the increase in bank overdraft. There is no change in debenture principal.

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

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

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

The increase in inventory is $2,14,000 - 90,000 = 1,24,000$, which absorbs operating cash. The closing cash balance agrees with the balance sheet.

Step 4: Conclusion Net cash from operating activities is Rs 7,21,000; investing activities use Rs 8,93,000; financing activities provide Rs 2,32,000. Cash increases by Rs 60,000 to Rs 1,80,000.

Quick Tip to Solve: Use gross machinery cost for purchases, and reconstruct tax expense from tax paid and the provision movement.

OPTION – II (Computerized Accounting)

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

Solution:

Concept:

- Spreadsheet rows are numbered; columns are identified by letters.
- A cell reference gives the column letter followed by the row number.

Step 1: Check the row identifiers Rows run horizontally across a worksheet and are identified by numbers such as 1, 2 and 3, increasing from top to bottom. They are not referred to by alphabetic characters.

Step 2: Check the column identifiers Columns run vertically and are identified by letters such as A, B and C from left to right. For example, B3 identifies column B and row 3. The statement reverses the two naming conventions, so both its descriptions are incorrect.

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

Quick Tip to Solve: Remember the cell reference A1: A names the column, while 1 names the row.

24. Hardware refers to: [1 mark]

(a) System software and application software.

(b) Computer associated peripherals and their network.

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

(d) All of the above.

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

Solution:

Concept:

- Hardware comprises the physical components of a computer system.
- Software comprises programs and instructions that direct hardware.

Step 1: Identify the physical resources Computer peripherals, such as a keyboard, monitor and printer, and the physical networking equipment associated with computers belong to hardware. This is the description given in option (b).

Step 2: Eliminate the other descriptions Option (a) lists system and application software, which are programs rather than physical equipment. Option (c) describes a logical sequence of actions, or an algorithm. Since (a) and (c) do not describe hardware, option (d), all of the above, is also incorrect.

Step 3: Conclusion Computer associated peripherals and their network; the correct option is (b).

Quick Tip to Solve: Use the physical-component test: equipment is hardware, while programs and procedures are not.

25. _____ 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 satisfying specified selection criteria.
- A parameter query asks the user to supply a criterion when the query runs.

Step 1: Recognise the input prompt The essential clue is that an input box asks the user for parameters or criteria before records are selected. The criterion is supplied at execution time instead of being permanently fixed in the query.

Step 2: Match the database term A parameter query uses the entered value to filter the records. For example, entering a city in the prompt retrieves records for that city; running the same query with another city retrieves a different set. This matches the entire description in the question.

Step 3: Conclusion The blank is Parameter query.

Quick Tip to Solve: An input box asking for a selection value at run time identifies a parameter query.

26. Name the Accounting information sub-system which is linked with other sub-systems for obtaining information about cost and expenses. [1 mark]

(a) Cash and Bank sub-system.

(b) Expenses Accounting sub-system.

(c) Costing sub-system.

(d) Final Accounts sub-system.

Correct Answer: (c) Costing sub-system.

Solution:

Concept:

- A costing sub-system determines and analyses the cost of products or services.
- It draws cost and expense information from other accounting sub-systems.

Step 1: Identify the purpose of the link Cost determination needs data from multiple sources, including purchases, payroll and expenses. The costing sub-system links with the relevant sub-systems to assemble this information and calculate costs.

Step 2: Compare the alternatives The cash and bank sub-system chiefly records cash and banking transactions. Expenses accounting records expenses, while final accounts compiles the financial statements. The question specifically describes the integrated collection of cost and expense data, which identifies costing rather than these narrower or different functions.

Step 3: Conclusion The Costing sub-system; the correct option is (c).

Quick Tip to Solve: Focus on the purpose of collecting data: calculation of cost points to the costing sub-system.

27. To facilitate duplication of information, the information is broken up into separate but related tables and the process is called normalization process. State with reason whether the above statement is true or false. [1 mark]

Solution:

Concept:

- Normalisation organises data into separate but related tables.
- Its purpose is to reduce redundancy and avoid insertion, update and deletion anomalies.

Step 1: Evaluate the stated purpose The statement says that information is split into tables to facilitate duplication. That purpose is incorrect: repeated storage of the same fact can cause inconsistent records when some copies are updated and others are not.

Step 2: State the correct purpose Normalisation stores each fact in an appropriate table and relates tables through keys. For example, customer details can be stored once in a customer table and linked to many sales records. Thus, dividing information into related tables is part of normalisation, but it reduces unnecessary duplication rather than facilitating it.

Step 3: Conclusion False. Normalisation divides data into related tables to minimise duplication and maintain consistency.

Quick Tip to Solve: Check the purpose as well as the definition: normalisation reduces redundant copies of information.

28. 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 input against known data or prescribed rules before the input is accepted.
- Validation helps identify unacceptable entries; data entry merely supplies data to the system.

Step 1: Identify the checking process The question describes comparing the entered data with known data. Such a comparison tests whether the input is acceptable and is therefore a validation check.

Step 2: Eliminate the other options Storage data refers to data kept in a system, while information data does not name the stated checking process. Data entry means entering values, without necessarily checking them. Thus only data validation describes the comparison.

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

Quick Tip to Solve: Look for the word comparing: a check on input identifies validation, whereas entering input identifies data entry.

29. 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 meaningful component attributes; a simple attribute is treated as indivisible in the database model.

Step 1: Fill the first blank A composite attribute can be divided into smaller meaningful sub-parts. For example, an Address attribute may be divided into house number, street, city and PIN code.

Step 2: Fill the second blank A simple attribute cannot be further subdivided into meaningful component attributes for the database concerned. For example, an employee identification number may be stored as a single simple attribute.

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

Quick Tip to Solve: If an attribute contains meaningful component fields, call it composite; otherwise classify it as simple.

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

Solution:

Concept:

- Good accounting software should support reliable recording, processing and reporting of accounting information.
- Its quality depends on usability, the ability to meet business requirements and effective control over access to data.

Step 1: Ease of use Good accounting software should be user-friendly and easy to learn and operate. Clear menus, understandable input screens and useful help facilities should enable accounting staff to enter transactions and obtain reports efficiently. This reduces training time and the likelihood of avoidable operating errors.

Step 2: Flexibility The software should be flexible enough to suit the requirements of the business. It should permit suitable account classifications and reports and accommodate changes in reporting needs or the volume of transactions. This allows the accounting system to continue serving the enterprise as its operations develop.

Step 3: Security The software should protect accounting data against unauthorised access and alteration. User identification, passwords and access permissions should restrict sensitive functions to authorised persons. Appropriate backup and recovery facilities should also help preserve accounting records against accidental loss.

Step 4: Conclusion Three features of good accounting software are ease of use, flexibility and security.

Quick Tip to Solve: State each feature as a separate point and explain how it improves the business accounting system.

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:

- The TEXT function converts a numeric value into a text string displayed in a specified number format.
- A number format controls the appearance of the result, such as the number of decimal places, currency style or date style.

Step 1: Name the function and give its syntax The function is TEXT. Its syntax is

`TEXT(value, format_text).`

In a worksheet, the formula begins with an equals sign: `=TEXT(value, format_text)`. The function returns text representing the supplied value in the requested format.

Step 2: Explain both arguments The argument `value` is the number to be converted, a formula that evaluates to a number, or a reference to a cell containing a numeric value. The argument `format_text` specifies the desired number-format code and is enclosed in double quotation marks when entered directly. For example, the code `"0.00"` requests two decimal places.

Step 3: Illustrate the result For example, `=TEXT(123.4,"0.00")` returns the text string `"123.40"`. The value is displayed with two digits after the decimal point because of the chosen format. The returned result is text, so the function should be used when a formatted textual representation is required, rather than merely changing a cell display format.

Step 4: Conclusion The required Excel function is TEXT, with syntax `=TEXT(value, format_text)`.

Quick Tip to Solve: Remember both arguments: the numeric input comes first, followed by the desired format code in quotation marks.

31. Differentiate between 'desktop database' and 'server database'. [4 marks]

Solution:

Concept:

- A database is an organised collection of related data. Desktop and server databases differ principally in the scale of use and the way users access and manage that data.
- A desktop database normally runs on a personal computer for an individual or a small workgroup; a server database uses a database server to provide controlled access to many clients over a network.

Step 1: Compare users, storage and scale The following differences distinguish the two types:

Basis	Desktop database	Server database
Users	Designed mainly for a single user or a small group of users.	Designed for many users accessing the database concurrently.
Data and workload	Suitable for relatively small data sets and simple, limited workloads.	Suitable for large data sets, complex queries and heavy transaction workloads.
Access	Usually installed and used on a desktop computer; limited sharing may be supported.	Managed on a central server and accessed by client computers through a network.

Step 2: Compare administration, protection and cost

Basis	Desktop database	Server database
Administration	Relatively easy to install and operate, with modest hardware requirements.	Requires server resources and more specialised database administration.
Security and recovery	Generally provides simpler access controls and backup facilities.	Provides extensive user permissions, concurrency control, backup and recovery facilities.
Cost	Generally less expensive to purchase, maintain and use.	Generally more expensive because of server hardware, software and administration.

For example, Microsoft Access is commonly used as a desktop database, while Oracle and Microsoft SQL Server are examples of server database systems. The distinction concerns the usual design and use; a desktop database can still support some shared access.

Step 3: Conclusion A desktop database suits individual or small workgroup applications with modest data and cost, whereas a server database suits large, shared applications requiring concurrent access, stronger control and central administration.

Quick Tip to Solve: Organise the comparison under users, workload, access, security and cost; write a matching difference for both database types on each basis.

OR

31. List various attributes of payroll database. [4 marks]

Solution:

Concept:

- A payroll database stores employee details and the information needed to calculate salary, deductions and the amount payable to each employee.
- An attribute is a field describing a property of an entity. An employee code identifies the employee, while pay-period and salary fields relate the employee to a particular payroll calculation.

Step 1: List employee identification and service attributes The employee master records generally contain the following attributes:

1. Employee code or employee number: a unique identifier used to link salary records to the correct employee.
2. Employee name and address: personal identification and contact details.
3. Date of birth and date of joining: information relevant to service records and eligibility.
4. Department, designation and grade: the employee's organisational position and pay classification.
5. Bank account details: the account to which salary is to be transferred.

The employee code is especially useful because different employees can have the same name. Related attendance and salary records can use that code to refer to the employee without repeatedly storing all personal particulars.

Step 2: List salary, attendance and deduction attributes The payroll computation records generally include:

1. Salary month or pay period, days worked, attendance and leave details.
2. Basic pay and applicable pay scale or salary rate.
3. Dearness allowance, house rent allowance, transport allowance and other admissible allowances.
4. Overtime hours and overtime payment, where applicable.
5. Gross earnings or gross salary for the period.
6. Deductions such as provident fund contribution, income tax deducted at source, insurance premium and recovery of loans or advances.
7. Total deductions and net salary payable.

Gross salary is obtained by adding basic pay, allowances and other earnings. Net salary is then calculated as

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

Some fields, such as net salary, may be calculated from other fields rather than entered separately. The precise attributes used depend on the organisation's payroll rules and the benefits or deductions applicable to its employees.

Step 3: Conclusion The main payroll attributes are employee code, name, department, designation, basic pay, allowances, attendance or days worked, gross salary, deductions and net salary, together with service and bank particulars needed to process payment.

Quick Tip to Solve: Recall payroll fields in three groups: who the employee is, what the employee earns and what is deducted before net pay is paid.

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

Solution:

Concept:

- An Excel chart presents numerical data graphically. A well-organised source table supplies category labels, data-series names and the numerical values used in the chart.

- For A Ltd., the three products can form three data series, while months or other reporting periods form the categories. The chart type must suit the intended comparison and the axes must show the correct units.

Step 1: Enter and organise the sales data Open Excel and create a worksheet. Enter a clear heading for the reporting period in the first column and separate column headings for each of the three products. Enter each period's sales figures in the corresponding rows under the product headings. Use consistent units, such as sales in Rs or units sold, and check the entries for accuracy. Keep the source data in a contiguous rectangular table so that each sales figure is associated with the correct product and period.

Step 2: Select the source range Select the complete table containing the sales values together with the row and column headings. Including the headings enables Excel to use the reporting periods as category labels and the three product names as the series names. Exclude unrelated figures and unnecessary totals if they would distort the intended comparison.

Step 3: Insert an appropriate chart Choose Insert and then the required chart type from the Charts group. A clustered column chart is suitable for comparing sales of the three products across reporting periods. If the emphasis is the movement of sales over time, a line chart can be selected instead. Choose the required subtype and insert the chart using the selected source range.

Step 4: Check the chart's data arrangement Verify that the chart displays all three products and all reporting periods correctly. Use Select Data to confirm the source range, series names and category labels. If Excel has interchanged the intended arrangement, use Switch Row/Column so that the product names appear as the three series and the reporting periods appear along the horizontal axis. Check plotted values against the worksheet.

Step 5: Add titles, labels and suitable formatting Give the chart a meaningful title, such as Sales of A Ltd.'s Three Products. Add a horizontal-axis title for the reporting period and a vertical-axis title for sales, clearly stating whether the figures represent Rs or quantities. Display a legend identifying the three products. Apply distinguishable colours, readable fonts and an appropriate axis scale; add data labels where these improve clarity. Keep the design simple enough for the Board to compare the products easily.

Step 6: Place, review and save the presentation Resize and position the completed chart suitably on the worksheet or move it to a separate chart sheet. Review the chart and its print preview to ensure that the title, legend and labels are readable and nothing is cut off. Save the workbook with an appropriate name. The finished chart can then be printed or copied into the Board meeting presentation as required.

Step 7: Conclusion A Ltd. should organise and enter the sales data, select the labelled range, insert a suitable chart, verify its data arrangement, add clear chart elements and formatting, and finally position and save the completed graphic presentation.

Quick Tip to Solve: Select the product headings along with the sales values so that Excel automatically creates a meaningful legend for the three products.