CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-5-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

(iii) **Part - B** has **two** options i.e. (i) Analysis of Financial Statement and (ii) Computerized Accounting. You have to attempt only **one** of the given OPTIONS.

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

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

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

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

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

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

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

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

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

Part A (60 marks)

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

1. Which of the following does not result into reconstitution of a firm? [1 mark]

(A) Dissolution of partnership firm.

(B) Dissolution of partnership.

(C) Change in profit-sharing-ratio of existing partners.

(D) Death of partner.

Correct Answer: (A) Dissolution of partnership firm.

Solution:

Concept:

- Reconstitution changes the agreement among partners while the business of the firm continues.
- Dissolution of the firm ends the partnership among all partners and brings the firm itself to an end.

Step 1: Distinguish the two kinds of dissolution A change in the partnership agreement dissolves the old partnership relation, but a reconstituted partnership may continue the same firm. Dissolution of the partnership firm instead involves winding up the business, realising assets and settling liabilities.

Step 2: Examine the remaining alternatives A change in the profit-sharing ratio changes the existing agreement. Death of a partner also changes the partnership relation when the remaining partners continue the firm. Thus options (B), (C) and (D) describe changes associated with reconstitution, while option (A) ends the firm itself.

Step 3: Conclusion Dissolution of the partnership firm does not result in reconstitution. Hence, the correct option is (A).

Quick Tip to Solve: Check whether the business continues: reconstitution preserves the firm, whereas dissolution of the firm ends it.

2. No debenture redemption reserve is required for debentures issued by: [1 mark]

(A) manufacturing companies

(B) infrastructure companies

(C) banking companies

(D) trading companies

Correct Answer: (C) banking companies

Solution:

Concept:

- Debenture Redemption Reserve (DRR) is created out of profits available for distribution as dividend, under the applicable redemption rules.
- Banking companies are exempt from the requirement to create DRR for their debentures in the CBSE treatment applicable to this question.

Step 1: Identify the exempt category The question asks which type of company is not required to create a Debenture Redemption Reserve. Banking companies belong to the specifically exempt category.

Step 2: Compare the listed business descriptions Manufacturing, infrastructure and trading describe business activities; none of these descriptions alone identifies the banking-company exemption tested here. Therefore options (A), (B) and (D) do not supply the required exempt category.

Step 3: Conclusion No Debenture Redemption Reserve is required for debentures issued by banking companies. Hence, the correct option is (C).

Quick Tip to Solve: For this exemption question, identify the legal category of the issuer: the listed banking company is the exempt category.

3. What is meant by 'Issued Capital' ? [1 mark]

Solution:

Concept:

- Authorised capital is the maximum share capital a company is authorised to issue under its memorandum.
- Issued capital is the portion of authorised capital offered by the company for subscription; subscribed capital is the portion actually taken up.

Step 1: Identify the amount offered A company may offer only a part of its authorised share capital for subscription. The nominal value of the shares so offered is called issued capital.

Step 2: Distinguish issue from subscription Issued capital concerns the shares offered, irrespective of whether every offered share is subscribed. Thus it must not be confused with subscribed capital or paid-up capital, which concern shares taken up and amounts paid respectively.

Step 3: Conclusion Issued capital means that part of the authorised capital which a company offers for subscription.

Quick Tip to Solve: Use the word offered for issued capital; use actually taken up for subscribed capital.

4. Harit and Leela are partners in a firm sharing profits and losses in the ratio of 2:3. Yash was admitted as a new partner for 1/5th share in the profits of the firm. Yash acquires his share from Leela. The new profit sharing ratio of Harit, Leela and Yash will be : [1 mark]

(A) 2:3:5

(B) 2:2:1

(C) 5:3:2

(D) 3:5:1

Correct Answer: (B) 2:2:1

Solution:

Concept:

- A new partner's share is deducted from the share of the partner who sacrifices it.
- All profit shares are fractions of the total profit and must add to one.

Step 1: Deduct Yash's share from Leela only Harit retains his old share of $2/5$. Leela alone gives Yash his $1/5$ share, so her revised share is

$$\frac{3}{5} - \frac{1}{5} = \frac{2}{5}.$$

Yash receives $1/5$.

Step 2: Form and check the new ratio In the order Harit, Leela and Yash, the shares are

$$\frac{2}{5} : \frac{2}{5} : \frac{1}{5} = 2 : 2 : 1.$$

They add to one and leave Harit's share unchanged. Option (A) gives Yash one-half, option (C) changes Harit's share to one-half, and option (D) also changes Harit's share, so none fits the stated sacrifice.

Step 3: Conclusion The new profit-sharing ratio of Harit, Leela and Yash is $2 : 2 : 1$. Hence, the correct option is (B).

Quick Tip to Solve: When the new partner takes his entire share from one old partner, leave every other old partner's fraction unchanged.

5. Vanya Ltd. forfeited 20,000 equity shares of ₹ 100 each for non-payment of first and final call of ₹ 40 per share. The maximum amount of discount at which these shares can be re-issued will be: [1 mark]

(A) ₹ 8,00,000

(B) ₹ 12,00,000

(C) ₹ 20,00,000

(D) ₹ 20,000

Correct Answer: (B) ₹ 12,00,000

Solution:

Concept:

- The discount on reissue of forfeited shares cannot exceed the amount forfeited on those particular shares.
- The amount forfeited is the capital money already received on the shares, excluding unpaid calls.

Step 1: Find the amount received per share The face value is Rs 100 and the unpaid first and final call is Rs 40 per share. Hence the amount already received and forfeited per share is

$$100 - 40 = \text{Rs } 60.$$

Step 2: Calculate the total permissible discount For 20,000 shares, the forfeited amount is

$$20,000 \times 60 = \text{Rs } 12,00,000.$$

This is the ceiling on the reissue discount. Rs 8,00,000 is the unpaid call amount, Rs 20,00,000 is the total face value, and Rs 20,000 merely repeats the numerical share count; none is the amount forfeited.

Step 3: Conclusion The maximum discount on reissue is Rs 12,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Subtract the unpaid call from face value first, then multiply the amount received per share by the number of shares reissued.

6. Mohit and Rohit were partners in a firm with capitals of ₹ 80,000 and ₹ 40,000 respectively. The firm earned a profit of ₹ 30,000 during the year. Mohit's share in the profit will be: [1 mark]

(A) ₹ 20,000

(B) ₹ 10,000

(C) ₹ 15,000

(D) ₹ 18,000

Correct Answer: (C) ₹ 15,000

Solution:

Concept:

- In the absence of an agreement specifying a profit-sharing ratio, partners share profits and losses equally.
- Unequal capital contributions do not, by themselves, create a profit-sharing ratio.

Step 1: Determine the applicable ratio The question gives Mohit's capital as Rs 80,000 and Rohit's as Rs 40,000, but states no agreement to share profits in proportion to capital. Therefore the two partners share the profit equally, in the ratio $1 : 1$.

Step 2: Allocate the annual profit Mohit's share is

$$\text{Rs } 30,000 \times \frac{1}{2} = \text{Rs } 15,000.$$

Rs 20,000 and Rs 10,000 would result from an unsupported capital-based ratio of $2 : 1$. Rs 18,000 would require an unstated $3 : 2$ profit ratio and is also incorrect.

Step 3: Conclusion Mohit's share of profit is Rs 15,000. Hence, the correct option is (C).

Quick Tip to Solve: Do not infer a profit-sharing ratio from unequal capitals; if the agreement is silent, divide the profit equally.

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7. In case of retirement of a partner, profit or loss on revaluation of assets and re-assessment of liabilities is distributed among _____ partners in _____ ratio. [1 mark]

Solution:

Concept:

- Revaluation adjusts assets and liabilities to their revised values at the time of a partner's retirement.
- The resulting gain or loss relates to the period before retirement and belongs to all the old partners in their old profit-sharing ratio.

Step 1: Identify the partners entitled to the adjustment All existing partners, including the retiring partner, were partners when the changes in asset and liability values arose. The retiring partner must therefore receive a share of a revaluation profit or bear a share of a revaluation loss.

Step 2: Identify the ratio to use The adjustment belongs to the old partnership, so it is distributed in the old profit-sharing ratio. The new ratio applies to subsequent business profits, while the gaining

ratio is used for the goodwill adjustment between continuing and retiring partners.

Step 3: Conclusion The blanks are: all (including the retiring partner) partners; old profit-sharing ratio.

Quick Tip to Solve: For retirement adjustments, link pre-retirement revaluation gains and losses to all old partners and their old ratio.

8. _____ means any offer of securities to a select group of persons by a company other than by way of public offer. [1 mark]

Solution:

Concept:

- Private placement is an offer of securities to a select group of persons by a company otherwise than by way of a public offer.
- The identity of the recipients and the absence of a public invitation distinguish private placement from a public issue.

Step 1: Identify the intended recipients The question specifies a select group of persons. The securities are therefore offered to identified persons rather than to the public generally.

Step 2: Match the wording to the correct term The further condition, other than by way of public offer, completes the definition of private placement. It is not necessarily a rights issue, which is an offer to existing equity shareholders in proportion to their holdings, nor a bonus issue of fully paid shares without fresh consideration.

Step 3: Conclusion The missing term is Private placement.

Quick Tip to Solve: Underline select group and other than public offer: together these phrases identify private placement.

9. Madura Ltd. decided to redeem its 10,000, 10% debentures of ₹ 100 each at a premium of 8%. The minimum amount transferred to debenture redemption reserve will be : [1 mark]

(A) ₹ 10,00,000

(B) ₹ 10,80,000

(C) ₹ 2,70,000

(D) ₹ 2,50,000

Correct Answer: (D) ₹ 2,50,000

Solution:

Concept:

- Under the CBSE rule tested in this paper, the minimum DRR is 25% of the nominal value of debentures to be redeemed.
- The redemption premium is an additional liability and is not included in the nominal value used to

calculate DRR.

Step 1: Find the nominal debenture amount There are 10,000 debentures of Rs 100 each, so their nominal value is

$$10,000 \times 100 = \text{Rs } 10,00,000.$$

The 10% figure is the interest rate and does not determine the reserve.

Step 2: Apply the prescribed reserve percentage The minimum transfer is

$$\text{DRR} = \text{Rs } 10,00,000 \times \frac{25}{100} = \text{Rs } 2,50,000.$$

The 8% premium makes the redemption payment Rs 10,80,000, but applying 25% to that payment would incorrectly give Rs 2,70,000. Options (A) and (B) state the nominal principal and redemption payment respectively, not the minimum reserve.

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

Quick Tip to Solve: For this paper's DRR calculation, take 25% of face value; exclude the redemption premium and ignore the coupon rate.

10. Jaipur Club has a prize fund of ₹ 6,00,000. It incurs expenses on prizes amounting to ₹ 5,20,000. The expenses should be: [1 mark]

(A) debited to income and expenditure account.

(B) presented on the asset side of the balance sheet.

(C) debited to income and expenditure account and presented on the asset side of the balance sheet.

(D) deducted from the prize fund on the liability side of the balance sheet.

Correct Answer: (D) deducted from the prize fund on the liability side of the balance sheet.

Solution:

Concept:

- A specific-purpose fund is used only for the purpose for which it was created. Related expenditure is charged against that fund.
- Only expenditure exceeding the available specific fund is charged to the Income and Expenditure Account.

Step 1: Identify the source of payment The prize fund is Rs 6,00,000 and prize expenses are Rs 5,20,000. Since the fund is sufficient, the whole expense is adjusted against the prize fund.

Step 2: Calculate the remaining fund and test the options The closing prize fund is $6,00,000 - 5,20,000 = \text{Rs } 80,000$. It remains on the liabilities side. Options (A) and (C) wrongly charge the Income and Expenditure Account; (B) wrongly treats expenditure as an asset.

Step 3: Conclusion The prize expenses are deducted from the prize fund on the liabilities side of the Balance Sheet. Hence, the correct option is (D).

Quick Tip to Solve: Compare the prize expenses with the prize fund first; only any excess enters the Income and Expenditure Account.

11. Disha and Abha were partners in a firm. Farad was admitted as a new partner for 1/5th share in the profits of the firm. Farad brought proportionate capital. Capitals of Disha and Abha after all adjustments were ₹ 64,000 and ₹ 46,000 respectively. Capital brought by Farad was: [1 mark]

(A) ₹ 22,000

(B) ₹ 27,500

(C) ₹ 55,000

(D) ₹ 28,000

Correct Answer: (B) ₹ 27,500

Solution:

Concept:

- The old partners adjusted combined capital represents their combined share of profits after admission.
- Total capital equals the old partners combined capital divided by their remaining share; the incoming partner brings his share of that total.

Step 1: Find the capital represented by the old partners Disha and Abha together have adjusted capital of $64,000 + 46,000 = \text{Rs } 1,10,000$. Farad receives $1/5$, so their combined remaining share is $1 - 1/5 = 4/5$.

Step 2: Calculate proportionate capital

$$\text{Total capital} = 1,10,000 \times \frac{5}{4} = \text{Rs } 1,37,500,$$
$$\text{Farad's capital} = 1,37,500 \times \frac{1}{5} = \text{Rs } 27,500.$$

Option (A) incorrectly takes one-fifth of the old capital. Options (C) and (D) do not preserve the required capital proportion of $1 : 4$ between Farad and the old partners together.

Step 3: Conclusion Farad brings capital of $\boxed{\text{Rs } 27,500}$. Hence, the correct option is (B).

Quick Tip to Solve: Multiply the old partners combined adjusted capital by new share / old partners remaining share: here use 1/4.

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

(A) Donations for tournament

(B) Donations for building fund

(C) Life membership fee

(D) Entrance fees

Correct Answer: (D) Entrance fees

Solution:

Concept:

- Receipts specifically restricted to a fund are capital receipts and are credited to the relevant fund.
- Ordinary entrance fees are treated as revenue receipts in this question; life membership fees are capital receipts because they substitute for subscriptions over a member's lifetime.

Step 1: Classify the fund donations and life membership fee Donations for a tournament and for a building fund are earmarked for specific purposes, so options (A) and (B) are capital receipts. Life membership fee, option (C), is also capital in nature rather than an ordinary annual receipt.

Step 2: Identify the receipt of a revenue nature Entrance fees collected on admitting members are ordinarily credited to the Income and Expenditure Account. No instruction to capitalise them is given here. Therefore entrance fees are the revenue receipt among the four choices.

Step 3: Conclusion Entrance fees are not a capital receipt in the given question. Hence, the correct option is (D).

Quick Tip to Solve: Separate earmarked donations and lifetime receipts from ordinary entrance fees before selecting the revenue receipt.

13. Give the meaning of 'Calls-in-Advance'. [1 mark]

Solution:

Concept:

- A call is the portion of share capital that a company has formally demanded from its shareholders.
- Money received against an uncalled portion of shares is Calls-in-Advance; receipt of cash alone does not make that amount called-up capital.

Step 1: Distinguish due and not-yet-due amounts A shareholder may pay more than the amount presently demanded on allotted shares. The excess is intended to meet a future call which the company has not yet made.

Step 2: Identify the accounting meaning That excess is recorded separately as Calls-in-Advance until the relevant call becomes due. For example, if Rs 6 per share has been called and a shareholder pays Rs 10, the extra Rs 4 per share is Calls-in-Advance. It is different from Calls-in-Arrears, which represents an unpaid amount already called.

Step 3: Conclusion Calls-in-Advance means the amount received from shareholders towards the uncalled amount on their shares, before the company makes the relevant call.

Quick Tip to Solve: Ask whether the company has already demanded the amount: an early payment of an uncalled amount is Calls-in-Advance.

14. Kabir and Farid are partners in a firm sharing profits in the ratio of 3:1 on 1-4-2019 they admitted Manik into partnership for 1/4th share in the profits of the firm. Manik brought his share of goodwill premium in cash. Goodwill of the firm was valued on the basis of 2 years purchase of last three years average profits. The profits of last three years were :

2016-17 ₹ 90,000

2017-18 ₹ 1,30,000

2018-19 ₹ 86,000

During the year 2018-19 there was a loss of ₹ 20,000 due to fire which was not accounted for while calculating the profit.

Calculate the value of goodwill and pass the necessary journal entries for the treatment of goodwill.

[3 marks]

Solution:

Concept:

- Goodwill equals average maintainable profit multiplied by the agreed number of years'purchase. Abnormal losses are excluded when finding maintainable profits.
- The incoming partner contributes goodwill premium equal to his share of the firm's goodwill. This premium compensates the old partners in their sacrificing ratio.

Step 1: Determine the profits to average The fire loss of Rs 20,000 was not accounted for in the stated profit of Rs 86,000. Thus this figure is already before the abnormal loss, and no further addition is needed. To check: recording the loss first gives Rs 66,000; adding it back for goodwill valuation restores Rs 86,000. Adding Rs 20,000 directly to Rs 86,000 would double-count the adjustment.

$$\text{Average profit} = \frac{90,000 + 1,30,000 + 86,000}{3} = \text{Rs } 1,02,000.$$

Step 2: Calculate goodwill, premium and its allocation

$$\text{Goodwill} = 1,02,000 \times 2 = \text{Rs } 2,04,000,$$

$$\text{Manik's premium} = 2,04,000 \times \frac{1}{4} = \text{Rs } 51,000.$$

No different sacrifice is specified, so Kabir and Farid sacrifice in their old ratio $3:1$. Their sacrifices are $3/16$ and $1/16$; their premium credits are $51,000 \times 3/4 = \text{Rs } 38,250$ and $51,000 \times 1/4 = \text{Rs } 12,750$, respectively.

Step 3: Record receipt and transfer of premium

Journal of Kabir, Farid and Manik

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	Cash A/c Dr. To Premium for Goodwill A/c (Being Manik's share of goodwill premium received in cash)		51,000	 51,000
1-4-2019	Premium for Goodwill A/c Dr. To Kabir's Capital A/c To Farid's Capital A/c (Being premium credited to sacrificing partners in the ratio 3:1)		51,000	 38,250 12,750

Each entry balances at Rs 51,000. Goodwill is not raised as an asset because the premium is received in cash; no withdrawal is specified.

Step 4: Conclusion Goodwill is $\boxed{\text{Rs } 2,04,000}$. Manik brings Rs 51,000 as premium, credited to Kabir and Farid in amounts of Rs 38,250 and Rs 12,750.

Quick Tip to Solve: Read whether the fire loss has already reduced the given profit; add it back only if it was deducted.

OR

14. Raka, Seema and Mahesh were partners sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 1st April, 2019, they mutually agreed to share profits and losses in the ratio of 2 : 2 : 1. On that date, there was a workmen's compensation fund of ₹ 90,000 in the books of the firm. It was agreed that:

(i) Goodwill of the firm be valued at ₹ 70,000.

(ii) Claim for workmen's compensation amounted to ₹ 40,000.

(iii) Profit on revaluation of assets and re-assessment of liabilities amounted to ₹ 40,000.

Pass necessary journal entries for the above transactions in the books of the firm. [3 marks]

Solution:

Concept:

- A sacrificing partner is compensated by a gaining partner: sacrifice equals old share minus new share, and compensation equals sacrifice multiplied by goodwill.
- The excess of a workmen's compensation fund over the claim and the profit on revaluation belong to the partners in their old profit-sharing ratio.

Step 1: Find sacrifice and gain The old shares are $5/10, 3/10, 2/10$; the new shares are $4/10, 4/10, 2/10$. Thus Raka sacrifices $1/10$, Seema gains $1/10$, and Mahesh has neither sacrifice nor gain. Seema must compensate Raka by $70,000 \times 1/10 = \text{Rs } 7,000$. The adjustment is made directly through capital accounts.

Step 2: Allocate the fund surplus and revaluation profit After providing the workmen's compensation claim, the distributable fund is $90,000 - 40,000 = \text{Rs } 50,000$. In the old ratio $5 : 3 : 2$, Raka, Seema and Mahesh receive Rs 25,000, Rs 15,000 and Rs 10,000 respectively. The revaluation profit of Rs

40,000 is also divided in $5:3:2$, giving Rs 20,000, Rs 12,000 and Rs 8,000. These balances were earned before the change in ratio.

Step 3: Pass the journal entries

Journal of Raka, Seema and Mahesh

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2019	Seema's Capital A/c Dr. To Raka's Capital A/c (Being goodwill compensation for Seema's gain of 1/10 paid to Raka)		7,000	 7,000
1-4-2019	Workmen's Compensation Fund A/c Dr. To Workmen's Compensation Claim A/c To Raka's Capital A/c To Seema's Capital A/c To Mahesh's Capital A/c (Being claim provided and surplus fund distributed in the old ratio 5:3:2)		90,000	 40,000 25,000 15,000 10,000
1-4-2019	Revaluation A/c Dr. To Raka's Capital A/c To Seema's Capital A/c To Mahesh's Capital A/c (Being revaluation profit transferred in the old ratio 5:3:2)		40,000	 20,000 12,000 8,000

The entries balance at Rs 7,000, Rs 90,000 and Rs 40,000 respectively. The compensation claim remains a liability until paid.

Step 4: Conclusion Seema is debited and Raka credited by Rs 7,000 for goodwill. The Rs 50,000 fund surplus and Rs 40,000 revaluation profit are distributed to Raka, Seema and Mahesh in the old ratio $5:3:2$.

Quick Tip to Solve: Use sacrifice and gain for goodwill, but the old ratio for the fund surplus and revaluation profit.

15. How will the following items be treated while preparing the financial statements of a not-for-profit-organization for the year ended 31st March, 2019 ?

Particulars	As at 31-3-2018 (₹)	As at 31-3-2019 (₹)
Creditors for medicines	33,000	67,000
Stock of medicines	27,000	43,000

During 2018-19, the payment made to the creditors was ₹ 4,25,000. [4 marks]

Solution:

Concept:

- The Income and Expenditure Account records the cost of medicines consumed during the current year on the accrual basis, rather than the cash paid to suppliers.
- Purchases of medicines = payments to creditors + closing creditors - opening creditors. Medicines

consumed = opening stock + purchases - closing stock.

- Closing stock is an asset, while unpaid amounts due to medicine suppliers are liabilities. Opening balances belong to the opening Balance Sheet.

Step 1: Convert cash payments into purchases Of the Rs 4,25,000 paid during 2018-19, Rs 33,000 settles the opening liability. The closing liability of Rs 67,000 represents purchases not yet paid for and must be added to determine this year's purchases.

$$\begin{aligned}\text{Purchases} &= 4,25,000 + 67,000 - 33,000 \\ &= \text{Rs } 4,59,000.\end{aligned}$$

The creditors reconciliation checks this amount: opening creditors plus purchases equal payments plus closing creditors, namely Rs 4,92,000 on each side.

Step 2: Calculate the cost of medicines consumed Opening medicines become available for use during the year, so they are added to purchases. Medicines still on hand at the year-end have not been consumed, so the closing stock is deducted.

$$\begin{aligned}\text{Medicines consumed} &= 27,000 + 4,59,000 - 43,000 \\ &= \text{Rs } 4,43,000.\end{aligned}$$

Thus, the charge to the current year's Income and Expenditure Account is based on consumption. Neither the full purchases nor the cash payments alone measure this expense.

Step 3: Show the financial statement treatment **Income and Expenditure Account (Extract) for the year ended 31st March, 2019**

Expenditure (Dr.)	Rs	Income (Cr.)	Rs
To Medicines consumed	4,43,000		

Balance Sheet (Extract) as at 31st March, 2019

Liabilities	Rs	Assets	Rs
Creditors for medicines	67,000	Stock of medicines	43,000

These are extracts, so unrelated balances and overall totals are omitted. The opening Balance Sheet as at 31st March, 2018 shows creditors for medicines of Rs 33,000 under liabilities and stock of medicines of Rs 27,000 under assets. They are used in the workings, but are not repeated as closing balances.

Step 4: Conclusion Debit medicines consumed of Rs 4,43,000 to the Income and Expenditure Account. In the Balance Sheet as at 31st March, 2019, show stock of medicines of Rs 43,000 as an asset and creditors for medicines of Rs 67,000 as a liability.

Quick Tip to Solve: First adjust the payment for creditors to find purchases; then adjust purchases for stock to find consumption.

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

Receipts and Payments Account of Shine Club for the year ended

31st March, 2019

Receipts	Amount (Rs)	Payments	Amount (Rs)
To balance b/d	50,000	By Furniture & equipments	1,22,000
To donations	45,000	By Salaries	32,000
To subscriptions:		By balance c/d	13,400
2017-18 1,600			
2018-19 60,000			
2019-20 5,000	66,600		
To interest received	5,800		
Total	1,67,400		1,67,400

Additional Information:

(i) Furniture and equipments were purchased on 1-10-2018. Depreciation @ 10% p.a. was to be provided on furniture and equipments.

(ii) Subscriptions in arrears for the year 2018-19 were Rs 2,000.

(iii) Outstanding salary Rs 6,000. [4 marks]

Solution:

Concept:

- An Income and Expenditure Account contains revenue income and revenue expenses relating to the current accounting year, whether received or paid or still outstanding.
- Subscriptions received for earlier and later years are excluded from current income; current-year subscriptions in arrears are added. Outstanding salary is added to the salary paid.
- Furniture and equipment are capital assets. Their purchase price is excluded from revenue expenditure, but depreciation for the period of use is charged. Donations without any specified purpose are treated as general revenue income.

Step 1: Calculate subscriptions and total revenue income Of the subscription receipts of Rs 66,600, Rs 1,600 relates to 2017-18 and Rs 5,000 relates to 2019-20. Only Rs 60,000 relates to the current year. Add the current year's arrears of Rs 2,000:

$$\begin{aligned}\text{Subscription income} &= 66,600 - 1,600 - 5,000 + 2,000\\ &= \text{Rs } 62,000.\\ \text{Total income} &= 62,000 + 45,000 + 5,800\\ &= \text{Rs } 1,12,800.\end{aligned}$$

Donations are not earmarked for a specific purpose in the question, so Rs 45,000 is credited as general donation income. Interest received of Rs 5,800 is also credited, as no adjustment is given for it.

Step 2: Adjust salary and provide depreciation Salary expense includes Rs 32,000 paid and Rs 6,000 still outstanding, so the current year's charge is Rs 38,000. The furniture and equipment were

acquired on 1st October, 2018 and used for six months up to 31st March, 2019.

$$\begin{aligned}\text{Depreciation} &= 1,22,000 \times \frac{10}{100} \times \frac{6}{12} \\ &= \text{Rs } 6,100. \\ \text{Total expenditure} &= 38,000 + 6,100 \\ &= \text{Rs } 44,100.\end{aligned}$$

The Rs 1,22,000 asset purchase is a capital payment and is not charged in full. Opening and closing cash balances of Rs 50,000 and Rs 13,400 are Balance Sheet items and are excluded from this account.

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

Expenditure (Dr.)	Amount (Rs)	Income (Cr.)	Amount (Rs)
To Salaries	38,000	By Donations	45,000
To Depreciation on furniture and equipment	6,100	By Subscriptions	62,000
To Surplus (transferred to Capital Fund)	68,700	By Interest received	5,800
Total	1,12,800	Total	1,12,800

Income exceeds expenditure by Rs 68,700. The balancing surplus is placed on the expenditure side to make the totals equal and is added to the Capital Fund. It is not an operating expense.

Step 4: Conclusion Shine Club's Income and Expenditure Account shows total income of Rs 1,12,800, total expenditure of Rs 44,100 and a surplus of Rs 68,700 for the year ended 31st March, 2019.

Quick Tip to Solve: Use only 2018-19 subscriptions plus that year's arrears, and charge six months' depreciation from the 1st October purchase date.

17. Tripti, Atishay and Radhika were partners in a firm sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as on 31-3-2019 was as follows :

Balance Sheet of Tripti, Atishay and Radhika as on 31st March, 2019.

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Plant and Machinery	5,00,000
Tripti 3,00,000		Stock	1,10,000
Atishay 2,00,000		Sundry debtors	60,000
Radhika 1,00,000	6,00,000	Cash at bank	40,000
General Reserve	50,000		
Creditors	60,000		
	7,10,000		7,10,000

Tripti died on 30th June, 2019. According to the partnership deed, the executors of the deceased partner are entitled to :

(a) Balance in partner's capital account.

(b) Salary @ ₹ 12,500 per quarter.

(c) Share of goodwill calculated on the basis of twice the average of past three years' profits and share of profits from the closure of the last accounting year till the date of death on the basis of last year's profit. Profits for 2016-17, 2017-18 and 2018-19 were ₹ 1,00,000, ₹ 1,50,000 and ₹ 2,00,000 respectively.

(d) Tripti withdrew ₹ 20,000 on 1st May, 2019 for her personal use.

Prepare Tripti's Capital Account to be rendered to her executors. [4 marks]

Solution:

Concept:

- The deceased partner's capital account is credited with opening capital, accumulated reserves, goodwill, salary due and profit earned up to death. Drawings reduce the amount payable to the executors.
- Goodwill equals twice the average profit of the preceding three years. Tripti's share is calculated in the old profit-sharing ratio, namely $2/5$.
- Profit to the date of death is estimated from the last year's profit, multiplied by the fraction of the year elapsed and Tripti's profit share.

Step 1: Compute goodwill and the reserve share **Working Notes**

Tripti's share in the general reserve is $50,000 \times 2/5 = \text{Rs } 20,000$. This accumulated profit belongs to the partners in their old ratio.

$$\text{Average profit} = \frac{1,00,000 + 1,50,000 + 2,00,000}{3}$$
$$= \text{Rs } 1,50,000,$$
$$\text{Firm's goodwill} = 1,50,000 \times 2 = \text{Rs } 3,00,000,$$
$$\text{Tripti's goodwill share} = 3,00,000 \times \frac{2}{5} = \text{Rs } 1,20,000.$$

In the absence of a changed ratio, Atishay and Radhika continue in their relative old ratio $2 : 1$. They

compensate Tripti in this gaining ratio: Atishay bears Rs 80,000 and Radhika Rs 40,000, credited to Tripti's capital account.

Step 2: Calculate salary and profit up to death From 1 April to 30 June 2019 there are three months, or one quarter. Therefore, salary due to Tripti is Rs 12,500. The last completed year's profit is Rs 2,00,000.

$$\text{Tripti's interim profit} = 2,00,000 \times \frac{3}{12} \times \frac{2}{5} = \text{Rs } 20,000.$$

Credit this estimated profit through Profit and Loss Suspense Account. Deduct the Rs 20,000 withdrawn on 1 May. No interest on drawings or capital is charged or allowed because the stated terms do not provide for it.

Step 3: Prepare the capital account for the executors **Tripti's Capital Account as at 30 June 2019**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Bank A/c (drawings)	20,000	By Balance b/d	3,00,000
To Tripti's Executors' A/c (balance transferred)	4,52,500	By General Reserve A/c	20,000
		By Atishay's Capital A/c	80,000
		By Radhika's Capital A/c	40,000
		By Salary A/c	12,500
		By Profit and Loss Suspense A/c	20,000
Total	**4,72,500**	**Total**	**4,72,500**

The balance is transferred to the executors' account because Tripti's capital account is closed on her death. Both sides of the capital account total Rs 4,72,500.

Step 4: Conclusion The amount due to Tripti's executors is $\boxed{\text{Rs } 4,52,500}$: capital Rs 3,00,000 plus reserve Rs 20,000, goodwill Rs 1,20,000, salary Rs 12,500 and interim profit Rs 20,000, less drawings Rs 20,000.

Quick Tip to Solve: For a death on 30 June after a 31 March closing, use one quarter for salary and three-twelfths of annual profit; apply the deceased partner's share only to profit and goodwill.

18. Puneet and Akshara were partners in a firm sharing profits and losses in the ratio of 2 : 3. The following was the balance sheet of the firm as on 31st March, 2019.

Balance Sheet of Puneet and Akshara as on 31st March, 2019.

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Sundry Assets	2,00,000
Puneet 90,000			
Akshara 1,10,000	2,00,000		
	2,00,000		2,00,000

The profits ₹ 40,000 for the year ended 31st March, 2019 were divided between the partners without allowing interest on capital @ 5% p.a. and commission to Akshara @ ₹ 1,000 per quarter. The drawings of the partners during the year were:

Puneet ₹ 2,500 per month

Akshara ₹ 10,000 per quarter

Showing your workings clearly, pass necessary adjustment entry in the books of the firm. [4 marks]

Solution:

Concept:

- For fluctuating capitals, opening capital equals closing capital plus drawings minus the profit already credited. Interest on capital is computed on the opening balance when no additional capital was introduced.
- A past adjustment credits each partner with omitted appropriations and debits the partner with the resulting reduction in divisible profit in the agreed profit-sharing ratio.
- Partners who received excess profit are debited, and partners who received too little are credited. The single adjustment entry must have equal debits and credits.

Step 1: Reconstruct the opening capitals **Working Notes**

The closing capitals already include the incorrectly distributed profit and reflect the year's drawings. Puneet received $40,000 \times 2/5 = \text{Rs } 16,000$, and Akshara received $40,000 \times 3/5 = \text{Rs } 24,000$. Annual drawings are Rs $2,500 \times 12 = 30,000$ for Puneet and Rs $10,000 \times 4 = 40,000$ for Akshara.

$$\begin{aligned} \text{Puneet's opening capital} &= 90,000 + 30,000 - 16,000 \\ &= \text{Rs } 1,04,000, \\ \text{Akshara's opening capital} &= 1,10,000 + 40,000 - 24,000 \\ &= \text{Rs } 1,26,000. \end{aligned}$$

Apply the annual interest rate to these opening capitals, rather than to the closing balances.

Step 2: Calculate omitted appropriations and their net effect Interest on capital is $1,04,000 \times 5\% = \text{Rs } 5,200$ for Puneet and $1,26,000 \times 5\% = \text{Rs } 6,300$ for Akshara. Akshara's annual commission is $1,000 \times 4 = \text{Rs } 4,000$. The total omitted appropriation is Rs 15,500, which reduces the profit divisible in the ratio $2 : 3$.

Adjustment Working Table

Particulars	Puneet (Rs)	Akshara (Rs)
Interest on capital to be credited	5,200	6,300
Commission to be credited	—	4,000
Total additional credits	5,200	10,300
Reduction in profit share: Rs 15,500 in 2:3	6,200	9,300
Net adjustment	1,000 (Dr.)	1,000 (Cr.)

As a check, the corrected divisible profit is $40,000 - 15,500 =$ Rs $24,500$. Puneet should receive Rs $5,200 + 9,800 = 15,000$ and Akshara Rs $6,300 + 4,000 + 14,700 = 25,000$. Compared with the Rs 16,000 and Rs 24,000 already credited, Puneet has Rs 1,000 excess and Akshara Rs 1,000 short.

Step 3: Record the single adjustment entry **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Puneet's Capital A/c Dr.		1,000	
	To Akshara's Capital A/c			1,000
	(Being omitted interest on capital and Akshara's commission adjusted through the partners' capital accounts)			

The entry transfers the excess credit from Puneet to Akshara without reopening the full profit distribution. Drawings are used to reconstruct opening capital; no interest on drawings is specified.

Step 4: Conclusion Debit Puneet's Capital Account and credit Akshara's Capital Account by $\boxed{\text{Rs } 1,000}$ each. This corrects both omitted appropriations through one balanced adjustment entry.

Quick Tip to Solve: First reverse the profit already credited and add annual drawings to obtain opening capitals. Then compare omitted benefits with each partner's share of the total omitted amount.

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19. Naina, Uday and Tara were partners in a firm sharing profits and losses in the ratio of 5:3:2. The firm was dissolved on 31-3-2019. After transfer of assets (other than cash) and external liabilities to Realization Account, the following transactions took place :

(a) A typewriter completely written off from the books was sold for ₹ 4,000.

(b) Loan of ₹ 30,000 advanced by Uday to the firm was paid back.

(c) Tara was to get remuneration of ₹ 42,000 for completing the dissolution process and for bearing realization expenses. Actual realization expenses amounted to ₹ 51,000 and were paid by the firm.

(d) Creditors of ₹ 23,000 took over all the investments at ₹ 12,000. Remaining amount was paid to them in cash.

(e) Uday agreed to pay loan of Mrs. Uday ₹ 45,000.

(f) Profit and Loss Account balance of ₹ 20,000 appeared on the asset side of the balance sheet.

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

Solution:

Concept:

- After transfer of recorded assets and external liabilities, their settlement is recorded through Realisation Account. A partner's loan is settled separately.

- Remuneration promised to a partner is a realisation expense. Expenses borne by that partner but paid by the firm are debited to the partner's Capital Account.
- Accumulated losses are debited to partners' Capital Accounts in the old profit-sharing ratio, here $5:3:2$.

Step 1: Record the unrecorded asset and partner's loan: (a) and (b) The written-off typewriter has no book balance to transfer; its entire sale proceeds are credited to Realisation. Uday's own loan was not an external liability transferred to Realisation, so its repayment debits his Loan Account directly.

Journal of the firm (31 March 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being the written-off typewriter sold)		4,000	4,000
	Uday's Loan A/c Dr. To Bank A/c (Being Uday's loan repaid)		30,000	30,000

Step 2: Record Tara's remuneration and expenses: (c) Tara is entitled to Rs 42,000 and must bear the actual expenses. Therefore the firm charges only the agreed remuneration to Realisation. Its payment of Rs 51,000 on Tara's behalf is recovered by debiting her Capital Account, rather than charging Realisation again. The net debit to Tara's capital from these two entries is Rs 9,000.

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Tara's Capital A/c (Being remuneration due to Tara for dissolution and bearing expenses)		42,000	42,000
	Tara's Capital A/c Dr. To Bank A/c (Being expenses borne by Tara paid by the firm on her behalf)		51,000	51,000

Step 3: Settle the creditors and Mrs. Uday's loan: (d) and (e) Both the investments and creditors have already been transferred to Realisation. Their direct settlement against each other needs no further entry; only the cash difference, $23,000 - 12,000 =$ Rs $11,000$, is recorded. Mrs. Uday's loan is an external liability already transferred to Realisation. Uday's acceptance of it credits his Capital Account.

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being creditors settled after taking investments at Rs 12,000)		11,000	11,000
	Realisation A/c Dr. To Uday's Capital A/c (Being Mrs. Uday's loan assumed by Uday)		45,000	45,000

Step 4: Transfer the accumulated loss: (f) **Working Notes:** The Profit and Loss Account on the asset side represents a debit balance, namely an accumulated loss. Its allocation is Naina: $20,000 \times 5/10 =$ Rs $10,000$, Uday: $20,000 \times 3/10 =$ Rs $6,000$, and Tara: $20,000 \times 2/10 =$ Rs $4,000$. This is transferred

directly to partners, outside Realisation Account.

Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Naina's Capital A/c Dr.		10,000	
	Uday's Capital A/c Dr.		6,000	
	Tara's Capital A/c Dr.		4,000	
	To Profit and Loss A/c			20,000
	(Being accumulated loss transferred in the ratio 5:3:2)			

Step 5: Conclusion The seven entries above record all six transactions. Realisation is credited with Rs 4,000 and debited with Rs 42,000, Rs 11,000 and Rs 45,000; the partner's loan, Tara's actual expenses and accumulated loss receive their separate treatments.

Quick Tip to Solve: Distinguish Uday's own loan from Mrs. Uday's loan: the former uses Loan Account, while Uday's takeover of the latter credits his Capital Account.

20. (a) On 1st April, 2015, Mayfair Ltd. issued 4,000 9% debentures of ₹ 100 each at a discount of 5% redeemable at a premium of 8%. The debentures were redeemable on 31st March, 2019. The company created the necessary minimum amount of debenture redemption reserve and purchased the required amount of debenture redemption investments as per the provisions of Companies Act, 2013. Pass the necessary journal entries for redemption of debentures.

(b) Hero Ltd. purchased plant and machinery for ₹ 18,00,000 from Pearl Machines Ltd. payable ₹ 3,00,000 by drawing a promissory note and the balance by issue of 9% debentures of ₹ 100 each at a premium of 20%. Pass the necessary journal entries in the books of Hero Ltd. for the above transactions. [6 marks]

Solution:

Concept:

- For the redemption on 31 March 2019, the applicable minimum Debenture Redemption Reserve (DRR) is 25% of nominal debenture capital; Debenture Redemption Investments (DRI) are 15% of the nominal amount maturing during the year.
- Redemption premium is added to the face value payable to debentureholders. After redemption, the DRR is transferred to General Reserve.
- Debentures issued to a vendor are credited at face value; the excess of their issue price over face value is credited to Securities Premium Reserve.

Step 1: Calculate Mayfair Ltd.'s redemption requirements: (a) **Working Notes:** Nominal debenture capital is $4,000 \times 100 = \text{Rs } 4,00,000$. Therefore,

$$\begin{aligned} \text{DRR} &= 4,00,000 \times 25\% = \text{Rs } 1,00,000, \\ \text{DRI} &= 4,00,000 \times 15\% = \text{Rs } 60,000, \\ \text{Redemption premium} &= 4,00,000 \times 8\% = \text{Rs } 32,000, \\ \text{Amount payable} &= 4,00,000 + 32,000 = \text{Rs } 4,32,000. \end{aligned}$$

The issue discount does not reduce the nominal base for DRR or DRI. The redemption premium liability was recognised at issue.

Step 2: Record the reserve and investment for Mayfair Ltd. Create the minimum reserve and purchase the required investments on or before 30 April 2018 for redemption on 31 March 2019.

Journal of Mayfair Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being minimum DRR created at 25% of nominal debenture capital)		1,00,000	1,00,000
	Debenture Redemption Investments A/c Dr. To Bank A/c (Being required DRI purchased at 15% of nominal debentures maturing)		60,000	60,000

Step 3: Record Mayfair Ltd.'s redemption on 31 March 2019 With no change in value given, realise DRI at Rs 60,000. Pay face value plus premium, then transfer DRR to General Reserve.

Journal of Mayfair Ltd. (31 March 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Redemption Investments A/c (Being DRI realised at its carrying amount)		60,000	60,000
	9% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption at a premium of 8%)		4,00,000 32,000	4,32,000
	Debentureholders A/c Dr. To Bank A/c (Being amount due paid to debentureholders)		4,32,000	4,32,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred after completion of redemption)		1,00,000	1,00,000

Step 4: Calculate the debentures issued by Hero Ltd.: (b) **Working Notes:** The plant costs Rs 18,00,000. A promissory note settles Rs 3,00,000, leaving Rs 15,00,000 payable through debentures. Each debenture's issue price is $100 + 20 = \text{Rs } 120$.

$$\text{Number issued} = 15,00,000/120 = 12,500,$$
$$\text{Nominal debenture capital} = 12,500 \times 100 = \text{Rs } 12,50,000,$$
$$\text{Securities premium} = 12,500 \times 20 = \text{Rs } 2,50,000.$$

The promissory note creates Bills Payable. The debentures issued directly to the vendor are for consideration other than cash.

Step 5: Journalise Hero Ltd.'s purchase and settlement **Journal of Hero Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Plant and Machinery A/c Dr.		18,00,000	
	To Pearl Machines Ltd. A/c			18,00,000
	(Being plant and machinery purchased on credit)			
	Pearl Machines Ltd. A/c Dr.		18,00,000	
	To Bills Payable A/c			3,00,000
	To 9% Debentures A/c			12,50,000
	To Securities Premium Reserve A/c			2,50,000
	(Being vendor settled by promissory note and 12,500 debentures issued at 20% premium)			

Check: credits $3,00,000 + 12,50,000 + 2,50,000 =$ Rs $18,00,000$, equal to the vendor's debit.

Step 6: Conclusion Mayfair's redemption payment is Rs 4,32,000, with DRR of Rs 1,00,000 and DRI of Rs 60,000. Hero issues 12,500 debentures at Rs 120, giving Rs 12,50,000 capital and Rs 2,50,000 premium, and a Rs 3,00,000 promissory note.

Quick Tip to Solve: Use nominal value for Mayfair's reserve and investment percentages, but divide Hero's vendor balance by the issue price of Rs 120 to find the number of debentures.

OR

20. (a) BGP Ltd. invited applications for issuing 15,000, 11% debentures of ₹ 100 each at a premium of ₹ 50 per debenture. The full amount was payable on application. Applications were received for 25,000 debentures. Applications for 5,000 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants on pro-rata basis. Pass the necessary journal entries for the above transactions in the books of BGP Ltd.

(b) Agam Ltd. issued 40,000 9% debentures of ₹ 100 each on April 1, 2018 at a discount of 10%, redeemable at a premium of 10%. Assuming that the interest was paid half yearly on September 30 and March 31 and the tax deducted at source was 10%, give journal entries relating to debenture interest for the half year ended March 31, 2019. [6 marks]

Solution:

Concept:

- Debenture application money includes face value and issue premium. When the entire issue price is payable on application, every excess receipt must be refunded because there are no later instalments against which to adjust it.
- Debenture interest is calculated on nominal value, irrespective of issue discount or redemption premium. Tax deducted at source (TDS) is withheld from gross interest; the balance is paid to debentureholders.

Step 1: (a) Calculate BGP Ltd.'s application receipts and refunds The issue price is $100 + 50 =$ Rs 150 per debenture. Therefore, applications for 25,000 debentures bring $25,000 \times 150 =$ Rs $37,50,000$. Rejected applications for 5,000 debentures require a refund of $5,000 \times 150 =$ Rs $7,50,000$. The remaining applicants applied for 20,000 debentures but receive only 15,000, so the pro-rata allotment

ratio is $15,000 : 20,000 = 3 : 4$. Their excess money is $(20,000 - 15,000) \times 150 =$ Rs $7,50,000$, also refundable. Thus the total refund is Rs 15,00,000; the amount retained is Rs 22,50,000, comprising debenture capital Rs 15,00,000 and securities premium Rs 7,50,000.

Step 2: (a) Record the issue in BGP Ltd.'s journal **Journal of BGP Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received for 25,000 debentures at Rs 150 each)		37,50,000	 37,50,000
	Debenture Application and Allotment A/c Dr. To 11% Debentures A/c To Securities Premium Reserve A/c To Bank A/c (Being 15,000 debentures allotted at Rs 50 premium and rejected and excess application money refunded)		37,50,000	 15,00,000 7,50,000 15,00,000

The application and allotment account closes: its receipt of Rs 37,50,000 is fully transferred or refunded. The 11% coupon does not affect the amount payable on application.

Step 3: (b) Work out Agam Ltd.'s half-yearly interest and TDS The nominal value of the issue is $40,000 \times 100 =$ Rs $40,00,000$. Interest for the six months ending 31st March, 2019 is

$$I = 40,00,000 \times \frac{9}{100} \times \frac{6}{12} = \text{Rs } 1,80,000.$$

TDS is $1,80,000 \times 10\% =$ Rs $18,000$, leaving $1,80,000 - 18,000 =$ Rs $1,62,000$ payable to debentureholders. Neither the 10% issue discount nor the 10% redemption premium changes the nominal value on which interest is charged.

Step 4: (b) Record interest for the half year ended 31st March, 2019 **Journal of Agam Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 Mar 2019	Debenture Interest A/c Dr. To Debentureholders A/c To TDS Payable A/c (Being six months' interest due on 9% debentures after deducting 10% TDS)		1,80,000	 1,62,000 18,000
31 Mar 2019	Debentureholders A/c Dr. To Bank A/c (Being net half-yearly interest paid)		1,62,000	 1,62,000
31 Mar 2019	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being interest expense for this half year transferred to Statement of Profit and Loss)		1,80,000	 1,80,000

TDS Payable remains a liability until remitted. On its remittance, debit TDS Payable A/c and credit Bank A/c with Rs 18,000 (being tax deducted deposited with the Government). No remittance date is stated in the question.

Step 5: Conclusion BGP Ltd. records debentures of Rs 15,00,000, securities premium of Rs 7,50,000

and refunds of Rs 15,00,000. Agam Ltd.'s half-yearly interest expense is Rs 1,80,000, comprising Rs 1,62,000 paid to holders and Rs 18,000 TDS.

Quick Tip to Solve: When the full issue price is due on application, refund the pro-rata excess too; compute interest on face value, never on the discounted issue proceeds.

21. Achla and Bobby were partners in a firm sharing profits and losses in the ratio of 3 : 1. On 31st March, 2019, their balance sheet was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,10,000	Cash at bank	60,000
General Reserve	40,000	Debtors	40,000
Workmen's compensation reserve	50,000	Stock	45,000
Capitals: Achla 4,00,000 Bobby 2,00,000	6,00,000	Furniture	1,55,000
		Land & Building	5,00,000
Total	8,00,000	Total	8,00,000

On 1st April, 2019, they admitted Vihaan as a new partner for 1/5th share in the profits of the firm on the following terms:

(a) Vihaan brought ₹ 1,00,000 as his capital and the capitals of Achla and Bobby were to be adjusted on the basis of Vihaan's capital; any surplus or deficiency was to be adjusted by opening current accounts.

(b) Goodwill of the firm was valued at ₹ 4,00,000. Vihaan brought the necessary amount in cash for his share of goodwill premium, half of which was withdrawn by the old partners.

(c) Liability on account of workmen's compensation amounted to ₹ 80,000.

(d) Achla took over stock at ₹ 35,000.

(e) Land and building was to be appreciated by 20%.

Prepare Revaluation Account, Partner's Capital Accounts and the Balance Sheet of the reconstituted firm on Vihaan's admission. [8 marks]

Solution:

Concept:

- Revaluation gains and losses and accumulated reserves belong to the old partners in their old profit-sharing ratio. The incoming partner's cash goodwill premium compensates the sacrificing partners.
- Where the incoming share is acquired from the old partners in their existing ratio, the old partners retain that relative ratio. Fixed capitals are based on the incoming partner's capital and share; excess adjusted capitals are transferred to current accounts.

Step 1: Find the new ratio, goodwill and capital requirements In the absence of a different sacrifice ratio, Achla and Bobby surrender Vihaan's $1/5$ share in their old ratio of $3 : 1$. Their new shares are $(4/5)(3/4) = 3/5$ and $(4/5)(1/4) = 1/5$. Thus the new ratio is $3 : 1 : 1$, and the sacrificing ratio is $3 : 1$.

Vihaan brings goodwill premium of $4,00,000 \times 1/5 =$ Rs $80,000$, credited to Achla Rs 60,000 and Bobby Rs 20,000. Half is withdrawn: Achla Rs 30,000 and Bobby Rs 10,000. The general reserve of Rs 40,000 is transferred to their capitals as Rs 30,000 and Rs 10,000 respectively. Total fixed capital based on Vihaan's capital is $1,00,000 \div (1/5) =$ Rs $5,00,000$. Required capitals are therefore Achla Rs 3,00,000, Bobby Rs 1,00,000 and Vihaan Rs 1,00,000.

Step 2: Prepare the Revaluation Account The workmen's compensation reserve of Rs 50,000 is absorbed against the claim of Rs 80,000; only the shortfall of Rs 30,000 is a revaluation loss. Stock taken over for Rs 35,000 against its book value of Rs 45,000 causes a further loss of Rs 10,000. Appreciation of land and building is $5,00,000 \times 20\% =$ Rs $1,00,000$. Hence revaluation profit is $1,00,000 - 30,000 - 10,000 =$ Rs $60,000$, credited to Achla Rs 45,000 and Bobby Rs 15,000.

Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Workmen's Compensation Liability A/c	30,000	By Land and Building A/c	1,00,000
To Stock A/c	10,000		
To Achla's Capital A/c (profit)	45,000		
To Bobby's Capital A/c (profit)	15,000		
Total	1,00,000	Total	1,00,000

The revaluation account is closed by transferring the profit; it has no balance carried down. The full compensation liability of Rs 80,000 appears in the new balance sheet, and the old reserve no longer appears separately.

Step 3: Prepare Achla's Capital Account Achla takes over stock at the agreed value of Rs 35,000, so her capital is debited with that amount. Her capital before fixing it is

$$4,00,000 + 30,000 + 60,000 + 45,000 - 35,000 - 30,000 = \text{Rs } 4,70,000.$$

The excess $4,70,000 - 3,00,000 =$ Rs $1,70,000$ is transferred to her current account.

Achla's Capital Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Stock A/c	35,000	By Balance b/d	4,00,000
To Bank A/c (withdrawal)	30,000	By General Reserve A/c	30,000
To Current A/c	1,70,000	By Premium for Goodwill A/c	60,000
To Balance c/d	3,00,000	By Revaluation A/c	45,000
Total	5,35,000	Total	5,35,000

Step 4: Prepare Bobby's and Vihaan's Capital Accounts Bobby's adjusted capital is $2,00,000 + 10,000 + 20,000 + 15,000 - 10,000 =$ Rs $2,35,000$. His surplus of $2,35,000 - 1,00,000 =$ Rs $1,35,000$ is transferred to his current account. Vihaan's Rs 80,000 goodwill contribution passes through Premium for Goodwill A/c to the old partners; it is not part of his fixed capital.

Bobby's Capital Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Bank A/c (withdrawal)	10,000	By Balance b/d	2,00,000
To Current A/c	1,35,000	By General Reserve A/c	10,000
To Balance c/d	1,00,000	By Premium for Goodwill A/c	20,000
		By Revaluation A/c	15,000
Total	2,45,000	Total	2,45,000

Vihaan's Capital Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Balance c/d	1,00,000	By Bank A/c	1,00,000
Total	1,00,000	Total	1,00,000

Step 5: Prepare the balance sheet of the reconstituted firm Cash at bank is $60,000 + 1,00,000 + 80,000 - 40,000 =$ Rs $2,00,000$. No cash is paid to adjust fixed capitals because the surpluses are placed in current accounts. Stock is removed entirely because Achla takes it over; land and building becomes Rs 6,00,000. Goodwill is not raised as an asset, as the premium is brought in cash and credited to the sacrificing partners.

Balance Sheet of Achla, Bobby and Vihaan as at 1st April, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	1,10,000	Cash at bank	2,00,000
Workmen's compensation liability	80,000	Debtors	40,000
Partners' current accounts:		Furniture	1,55,000
Achla	1,70,000	Land and building	6,00,000
Bobby	1,35,000		
Partners' fixed capitals:			
Achla	3,00,000		
Bobby	1,00,000		
Vihaan	1,00,000		
Total	9,95,000	Total	9,95,000

Step 6: Conclusion Revaluation profit is Rs 60,000. Fixed capitals are Achla Rs 3,00,000, Bobby Rs 1,00,000 and Vihaan Rs 1,00,000, with credit current-account balances of Rs 1,70,000 and Rs 1,35,000 for Achla and Bobby. The reconstituted balance sheet totals Rs 9,95,000.

Quick Tip to Solve: Charge only the Rs 30,000 compensation shortfall to revaluation; transfer capital surpluses to current accounts, so they do not reduce the bank balance.

OR

21. Gita, Radha and Garv were partners in a firm sharing profits and losses in the ratio of 3 : 5 : 2. On 31st March, 2019, their balance sheet was as follows:

Liabilities		Amount (Rs)	Assets	Amount (Rs)
Sundry Creditors		60,000	Cash	50,000
General Reserve		40,000	Stock	80,000
Capitals:			Debtors	40,000
Gita	3,00,000		Investments	30,000
Radha	2,00,000		Buildings	5,00,000
Garv	1,00,000	6,00,000		
Total		7,00,000	Total	7,00,000

Radha retired on the above date and it was agreed that:

(a) Goodwill of the firm be valued at ₹ 3,00,000 and Radha's share be adjusted through the capital accounts of Gita and Garv.

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

(c) Buildings were found undervalued by ₹ 1,00,000.

(d) Investments were sold for ₹ 34,000.

(e) Capital of the new firm was fixed at ₹ 5,00,000 which will be in the new profit sharing ratio of the partners; the necessary adjustments for this purpose were to be made by opening current accounts of the partners.

Prepare Revaluation Account, Partner's Capital Accounts and the Balance Sheet of the reconstituted firm on Radha's retirement. [8 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit belong to all old partners in their old profit-sharing ratio, $3:5:2$.
- The continuing partners compensate the retiring partner for goodwill in their gaining ratio. In the absence of a different agreement, Gita and Garv continue in their old relative ratio, $3:2$.
- Fixed capitals are set in the new profit-sharing ratio. Any difference from adjusted capitals is transferred to partners' current accounts; no cash adjustment is made for this purpose.

Step 1: Working Notes: determine the new ratio and goodwill adjustment Gita and Garv retain their relative profit shares, so their new shares are $3/5$ and $2/5$. Their gains are

$$\text{Gita's gain} = \frac{3}{5} - \frac{3}{10} = \frac{3}{10},$$
$$\text{Garv's gain} = \frac{2}{5} - \frac{2}{10} = \frac{2}{10}.$$

Thus the gaining ratio is $3:2$. Radha's share of goodwill is Rs $3,00,000 \times 5/10 =$ Rs $1,50,000$. Debit Gita's Capital by Rs 90,000 and Garv's Capital by Rs 60,000, and credit Radha's Capital by Rs 1,50,000. Goodwill is adjusted directly through capitals, so no goodwill asset appears in the new balance sheet.

Distribute General Reserve of Rs 40,000 in the old ratio: Gita Rs 12,000, Radha Rs 20,000 and Garv Rs 8,000. Appreciation in stock is $80,000 \times 20\% =$ Rs $16,000$; buildings increase by Rs 1,00,000; investment sale yields profit of $34,000 - 30,000 =$ Rs $4,000$. Cash becomes $50,000 + 34,000 =$ Rs $84,000$.

Step 2: Prepare the Revaluation Account All three revaluation adjustments are gains. Revaluation profit is $16,000 + 1,00,000 + 4,000 =$ Rs $1,20,000$, distributed in $3:5:2$: Rs 36,000, Rs 60,000 and Rs 24,000 respectively.

Revaluation Account

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Gita's Capital	36,000	By Stock	16,000
To Radha's Capital	60,000	By Buildings	1,00,000
To Garv's Capital	24,000	By Cash (investment gain)	4,000
Total	1,20,000	Total	1,20,000

Step 3: Determine adjusted and fixed capitals After reserve, revaluation and goodwill adjustments, the capital balances are

$$\text{Gita} = 3,00,000 + 12,000 + 36,000 - 90,000 = 2,58,000,$$
$$\text{Radha} = 2,00,000 + 20,000 + 60,000 + 1,50,000 = 4,30,000,$$
$$\text{Garv} = 1,00,000 + 8,000 + 24,000 - 60,000 = 72,000.$$

All amounts are in Rs. The required fixed capitals are $5,00,000 \times 3/5 =$ Rs $3,00,000$ for Gita and $5,00,000 \times 2/5 =$ Rs $2,00,000$ for Garv. Therefore debit their current accounts by Rs 42,000 and Rs 1,28,000 respectively and credit their capital accounts. No payment to Radha is specified; transfer her full amount due to Radha's Loan Account.

Step 4: Prepare the Partners' Capital Accounts **Partners' Capital Accounts**

Dr. (Amounts in Rs)				Cr. (Amounts in Rs)			
Particulars	Gita	Radha	Garv	Particulars	Gita	Radha	Garv
To Radha's Capital	90,000	–	60,000	By Balance b/d	3,00,000	2,00,000	1,00,000
To Radha's Loan	–	4,30,000	–	By General Reserve	12,000	20,000	8,000
To Balance c/d	3,00,000	–	2,00,000	By Revaluation	36,000	60,000	24,000
				By Gita's Capital	–	90,000	–
				By Garv's Capital	–	60,000	–
				By Current A/c	42,000	–	1,28,000
Total	3,90,000	4,30,000	2,60,000	Total	3,90,000	4,30,000	2,60,000

The credits from current accounts increase the continuing partners' fixed capitals to the required amounts. Their current accounts consequently have debit balances, shown on the asset side below.

Step 5: Prepare the reconstituted firm's Balance Sheet **Balance Sheet of Gita and Garv as at 31st March, 2019**

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Sundry Creditors	60,000	Cash	84,000
Radha's Loan	4,30,000	Stock	96,000
Partners' Capitals:		Debtors	40,000
Gita	3,00,000	Buildings	6,00,000
Garv	2,00,000	Partners' Current A/cs:	
		Gita	42,000
		Garv	1,28,000
Total	9,90,000	Total	9,90,000

Investments no longer appear because they have been sold. General Reserve and revaluation profit have been transferred completely to the old partners. The balance sheet includes only the two continuing partners' capitals and treats Radha's unsettled amount as a liability.

Step 6: Conclusion Revaluation profit is Rs 1,20,000. Radha's loan is Rs 4,30,000. Gita's and Garv's fixed capitals are Rs 3,00,000 and Rs 2,00,000, with debit current balances of Rs 42,000 and Rs 1,28,000. The reconstituted Balance Sheet totals Rs 9,90,000.

Quick Tip to Solve: Distribute reserve and revaluation in 3:5:2, but charge Radha's goodwill to Gita and Garv in 3:2. Fix capitals only after these adjustments, and transfer the shortfalls to debit current accounts.

22. Premier Tools Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The amount was payable as follows: On application – ₹ 5 per share (including premium); On allotment – ₹ 3 per share; On first & final call – Balance.

Applications were received for 2,50,000 shares. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Over payments received on application were adjusted towards sums due on allotment. All calls were made and duly received except allotment and first and final call from Naveen who applied for 7,200 shares. His shares were forfeited. Half of the forfeited shares were reissued for ₹ 48,000 as fully paid. Pass the necessary journal entries for the above transactions in the books of Premier Tools Ltd. Open calls-in-arrears account wherever required. [8 marks]

Solution:

Concept:

- Application money includes both share capital and premium. Excess application money of successful applicants is adjusted against allotment; money of rejected applicants is refunded.
- On forfeiture, debit Share Capital with the called-up nominal value, credit Calls-in-Arrears with unpaid amounts and credit Share Forfeiture with capital already received. Premium already collected is not reversed.
- Reissue above face value creates Securities Premium. Transfer to Capital Reserve only the forfeiture gain attributable to shares actually reissued.

Step 1: Working Notes: calculate pro-rata allotment and Naveen's arrears Successful applications

cover $2,50,000 - 10,000 = 2,40,000$ shares. Thus the ratio of shares applied for to shares allotted is $2,40,000 : 2,00,000 = 6 : 5$. Naveen receives $7,200 \times 5/6 = 6,000$ shares.

Total application receipts are $2,50,000 \times 5 =$ Rs $12,50,000$. Refund is $10,000 \times 5 =$ Rs $50,000$. On allotted shares, application capital is $2,00,000 \times 3 =$ Rs $6,00,000$, premium is $2,00,000 \times 2 =$ Rs $4,00,000$, and excess application money is $40,000 \times 5 =$ Rs $2,00,000$.

Naveen paid $7,200 \times 5 =$ Rs $36,000$. Application due on his allotted shares is $6,000 \times 5 =$ Rs $30,000$, giving an adjustment of Rs 6,000 against allotment. Allotment due is Rs 18,000; hence his unpaid allotment is $18,000 - 6,000 =$ Rs $12,000$.

First and final call per share is $10 + 2 - 5 - 3 =$ Rs 4. Naveen's unpaid call is $6,000 \times 4 =$ Rs $24,000$. His total arrears are Rs 36,000. Capital received on his shares is $6,000 \times 3 + 6,000 =$ Rs $24,000$; premium of Rs 12,000 was already received on application.

Step 2: Record application and allotment transactions **Journal of Premier Tools Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 2,50,000 shares at Rs 5 per share)		12,50,000	 12,50,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c To Share Allotment A/c To Bank A/c (Being application money adjusted to capital, premium and allotment, and rejected applications refunded)		12,50,000	 6,00,000 4,00,000 2,00,000 50,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment of Rs 3 per share due on 2,00,000 shares)		6,00,000	 6,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Allotment A/c (Being allotment received after excess application adjustment, except Naveen's balance of Rs 12,000)		3,88,000 12,000	 4,00,000

The allotment receivable after application adjustment is $6,00,000 - 2,00,000 =$ Rs $4,00,000$. Bank receives $4,00,000 - 12,000 =$ Rs $3,88,000$.

Step 3: Record the call and forfeiture **Journal of Premier Tools Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call of Rs 4 per share due on 2,00,000 shares)		8,00,000	 8,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share First and Final Call A/c (Being call received except Rs 24,000 from Naveen)		7,76,000 24,000	 8,00,000
	Share Capital A/c Dr. To Calls-in-Arrears A/c To Share Forfeiture A/c (Being Naveen's 6,000 shares of Rs 10 each forfeited for non-payment of allotment and call balances)		60,000	 36,000 24,000

All Rs 10 of nominal capital has been called, so Share Capital is debited by $6,000 \times 10 = \text{Rs } 60,000$. The forfeiture entry balances because $36,000 + 24,000 = 60,000$. Securities Premium is not debited: the entire premium on these shares was collected with application money.

Step 4: Record reissue and transfer the realised forfeiture gain Half of 6,000 forfeited shares means 3,000 shares reissued. Their nominal capital is $3,000 \times 10 = \text{Rs } 30,000$. Cash of Rs 48,000 means reissue at Rs 16 per share, including premium of Rs 6 per share, or Rs 18,000 in total. There is no reissue discount.

Forfeiture gain relating to the reissued half is $24,000 \times 3,000/6,000 = \text{Rs } 12,000$. The remaining Rs 12,000 stays in Share Forfeiture Account until the other shares are reissued.

Journal of Premier Tools Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being 3,000 forfeited shares reissued at Rs 16 each as fully paid)		48,000	 30,000 18,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture gain on 3,000 reissued shares transferred to Capital Reserve)		12,000	 12,000

Step 5: Open and close the Calls-in-Arrears Account **Calls-in-Arrears Account**

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Share Allotment	12,000	By Share Capital (forfeiture)	36,000
To Share First and Final Call	24,000		
Total	36,000	Total	36,000

The account closes with nil balance on forfeiture: the unpaid allotment and call no longer remain receivable from Naveen. This ledger also checks the credit of Rs 36,000 in the forfeiture journal entry.

Step 6: Conclusion Naveen is allotted 6,000 shares, with total arrears of Rs 36,000 and capital

forfeited of Rs 24,000. Reissue of 3,000 shares creates securities premium of Rs 18,000 and transfers Rs 12,000 to Capital Reserve; the remaining Share Forfeiture balance is Rs 12,000.

Quick Tip to Solve: First convert Naveen's 7,200 applications to 6,000 allotted shares. Subtract his Rs 6,000 excess application money from allotment, and transfer only half the forfeiture gain because only half the shares are reissued.

OR

22. Concept Stationary Ltd. invited applications for issuing 3,00,000 shares of ₹ 10 each at a premium of ₹ 3 per share. The amounts were payable as follows: On application and allotment – ₹ 7 per share; On first & final call – balance (including premium of ₹ 3).

Applications were received for 4,00,000 shares & allotment was made as follows:

(i) To applicants for 80,000 shares – 80,000 shares.

(ii) To applicants for 40,000 shares – nil.

(iii) Balance of the applicants were allotted shares on pro-rata basis.

Excess money received with applications was adjusted towards sums due on first and final call. Amit, who belonged to category (i) and was allotted 4,000 shares and Veni, who belonged to category (iii) and was allotted 4,400 shares failed to pay the first and final call money. Their shares were forfeited. The forfeited shares were re-issued at ₹ 7 per share fully paid-up. Pass necessary journal entries for the above transactions in the books of the company. [8 marks]

Solution:

Concept:

- Share capital records the face value of shares. The premium is credited to Securities Premium Reserve when the instalment containing it becomes due.
- On pro-rata allotment, excess application money is carried forward against the next call. Rejected applications are refunded in full.
- On forfeiture, debit called-up share capital and unpaid premium, credit unpaid call money and credit Share Forfeiture with capital already received. The discount on reissue is charged against that forfeiture balance.

Step 1: Prepare working notes for allotment **Working Notes** Category (i) receives 80,000 shares in full. Category (ii), with 40,000 applications, receives no shares and obtains a refund of $40,000 \times$ Rs $7 =$ Rs $2,80,000$. For category (iii), the pro-rata calculation is

$$\begin{aligned} \text{Shares applied} &= 4,00,000 - 80,000 - 40,000 = 2,80,000, \\ \text{Shares allotted} &= 3,00,000 - 80,000 = 2,20,000, \\ \text{Application : allotment} &= 2,80,000 : 2,20,000 = 14 : 11. \end{aligned}$$

Application and allotment capital is $3,00,000 \times$ Rs $7 =$ Rs $21,00,000$. Excess application money carried forward is $(2,80,000 - 2,20,000) \times$ Rs $7 =$ Rs $4,20,000$. The first and final call is Rs 6 per share, consisting of Rs 3 capital and Rs 3 premium.

Step 2: Calculate the unpaid call and forfeiture balance Amit paid Rs 28,000 on 4,000 shares and owes $4,000 \times$ Rs $6 =$ Rs $24,000$. Veni's application and excess money are

$$\text{Shares applied} = 4,400 \times \frac{14}{11} = 5,600,$$
$$\text{Application money paid} = 5,600 \times \text{Rs } 7 = \text{Rs } 39,200,$$
$$\text{Excess adjusted to call} = (5,600 - 4,400) \times \text{Rs } 7 = \text{Rs } 8,400,$$
$$\text{Call still unpaid} = 4,400 \times \text{Rs } 6 - \text{Rs } 8,400 = \text{Rs } 18,000.$$

The excess adjusted to Veni's call is applied towards its capital component; it is less than her call capital of Rs 13,200. Thus the premium of Rs 13,200 on her shares remains unpaid. Amit's unpaid premium is Rs 12,000. Total unpaid call is Rs 42,000; unpaid premium is Rs 25,200; capital received on the forfeited shares is Rs $28,000 +$ Rs $39,200 =$ Rs $67,200$. Cash collected on the call is Rs $18,00,000 -$ Rs $4,20,000 -$ Rs $42,000 =$ Rs $13,38,000$.

Step 3: Record the issue and call entries **Journal of Concept Stationary Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application and Allotment A/c (Being application money received on 4,00,000 shares at Rs 7 each)		28,00,000	 28,00,000

	Share Application and Allotment A/c Dr.
	  To Share Capital A/c
	  To Bank A/c
	  To Calls-in-Advance A/c
	(Being allotment made, rejected applications refunded and excess retained for the call)
			28,00,000	
				21,00,000
				2,80,000
				4,20,000

	Share First and Final Call A/c Dr.
	  To Share Capital A/c
	  To Securities Premium Reserve A/c
	(Being call of Rs 6 per share due, including Rs 3 premium)
			18,00,000	
				9,00,000
				9,00,000

	Calls-in-Advance A/c Dr. To Share First and Final Call A/c (Being excess application money adjusted against the call)		4,20,000	 4,20,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share First and Final Call A/c (Being balance call received except amounts unpaid by Amit and Veni)		13,38,000 42,000	 13,80,000

Step 4: Record forfeiture, reissue and transfer All $4,000 + 4,400 = 8,400$ forfeited shares are reissued fully paid at Rs 7 per share. The reissue discount is $8,400 \times$ Rs $3 =$ Rs $25,200$, within the forfeiture balance available. The remaining capital profit is Rs $67,200 -$ Rs $25,200 =$ Rs $42,000$.

Journal of Concept Stationary Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Calls-in-Arrears A/c To Share Forfeiture A/c (Being 8,400 shares forfeited for non-payment of call and unpaid premium cancelled)		84,000 25,200	 42,000 67,200
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being all forfeited shares reissued at Rs 7 each as fully paid)		58,800 25,200	 84,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue of all forfeited shares transferred to capital reserve)		42,000	 42,000

Step 5: Conclusion The forfeiture credits Share Forfeiture with Rs 67,200. Reissue uses Rs 25,200 of this balance as discount, leaving $\boxed{\text{Rs } 42,000}$ transferred to Capital Reserve.

Quick Tip to Solve: For Veni, first recover the applied shares using 14:11, then deduct her excess application money from the call; do not treat her full Rs 26,400 call as unpaid.

Part B (20 marks)

Option – I (Analysis of Financial Statements)

23. What is meant by 'Operating Activities' ? [1 mark]

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Other activities that are neither investing nor financing activities also belong to operating activities.

Step 1: Identify the main business operations The enterprise earns its regular business revenue through operating activities. For a trading enterprise, these include selling goods and purchasing goods for resale.

Step 2: Distinguish the remaining categories Cash paid to suppliers and employees and cash received from customers generally arise from operating activities. Buying a long-term asset is investing, while raising share capital or repaying borrowings is financing.

Step 3: Conclusion Operating activities are the principal revenue-producing activities of an enterprise and other activities that are not investing or financing activities.

Quick Tip to Solve: For this definition, mention both the principal revenue-producing activities and the exclusion of investing and financing activities.

24. X Ltd. redeemed ₹ 1,00,000, 9% debentures at 10% premium. What will be the amount of 'Cash Flows from financing activities' ? [1 mark]

Solution:

Concept:

- Redemption of debentures is a financing cash outflow because it repays funds borrowed by the company.
- The cash paid on redemption includes the face value and the premium payable on redemption.

Step 1: Calculate the redemption premium The redemption premium is calculated on the face value of the debentures:

$$\text{Premium} = \text{Rs } 1,00,000 \times \frac{10}{100} = \text{Rs } 10,000.$$

Step 2: Calculate the financing cash payment Total cash paid is

$$\text{Rs } 1,00,000 + \text{Rs } 10,000 = \text{Rs } 1,10,000.$$

The stated 9% is the interest rate on the debentures; it does not change their redemption value. No separate interest payment is stated in this transaction.

Step 3: Conclusion Cash flow from financing activities is $\boxed{-\text{Rs } 1,10,000}$, i.e. an outflow of Rs 1,10,000.

Quick Tip to Solve: Use the redemption premium of 10%, not the coupon rate of 9%, when calculating the repayment.

25. The current ratio of a company is 2:1. State giving reason whether purchase of goods on credit will increase, decrease or not change the ratio. [1 mark]

Solution:

Concept:

- Current ratio is current assets divided by current liabilities: Current ratio $= CA/CL$.
- A credit purchase increases inventory and trade payables by the same amount, so both current assets and current liabilities increase equally.

Step 1: Express the original ratio Let current liabilities be $x > 0$. Since the original ratio is $2:1$, current assets are $2x$. Let the credit purchase amount be $p > 0$.

Step 2: Compare the new ratio After the purchase, the ratio is

$$\frac{2x+p}{x+p} = 1 + \frac{x}{x+p} < 2.$$

The denominator rises proportionately more than the numerator. For example, assets of Rs 200 and liabilities of Rs 100 become Rs 250 and Rs 150 after a credit purchase of Rs 50.

Step 3: Conclusion The current ratio decreases from $2:1$, because equal additions to current assets and current liabilities reduce a ratio that is greater than $1:1$.

Quick Tip to Solve: When the current ratio exceeds 1:1, equal increases in its numerator and denominator bring the ratio closer to 1:1.

26. Which of the following is not an activity ratio ? [1 mark]

(A) Inventory turnover ratio

(B) Interest coverage ratio

(C) Working capital turnover ratio

(D) Trade receivables turnover ratio

Correct Answer: (B) Interest coverage ratio

Solution:

Concept:

- Activity or turnover ratios measure how efficiently an enterprise uses its assets or working capital to generate revenue.
- Interest coverage ratio is a solvency ratio: Interest coverage $=$ EBIT/Interest expense.

Step 1: Classify the turnover ratios Inventory turnover measures the movement of inventory, trade receivables turnover measures collection efficiency, and working capital turnover measures revenue generated from working capital. Thus options (A), (C) and (D) are all activity ratios.

Step 2: Identify the different purpose Interest coverage compares earnings before interest and tax with interest expense. It indicates the ability to meet interest obligations to lenders, rather than the rate at which an asset or working capital turns over.

Step 3: Conclusion Hence, the correct option is (B): Interest coverage ratio.

Quick Tip to Solve: Look for the purpose: turnover measures operating efficiency, while coverage measures capacity to meet a financial obligation.

27. The Balance Sheet provides information about financial position of an enterprise : [1 mark]

(A) over a period of time

(B) during a period of time

(C) for a period of time

(D) at a point of time

Correct Answer: (D) at a point of time

Solution:

Concept:

- A Balance Sheet reports assets, liabilities and equity as they stand on a specified reporting date.
- Financial position is a stock measurement at a date; income and cash flows are measured over a period.

Step 1: Identify what the statement reports The Balance Sheet lists the resources controlled by the enterprise and the claims against those resources on its reporting date, such as 31 March. Its amounts are the balances existing on that date.

Step 2: Eliminate the period-based alternatives Options (A), (B) and (C) all refer to a span of time. They describe the time basis used for statements such as the Statement of Profit and Loss or the Cash Flow Statement, rather than the date-specific financial position shown by a Balance Sheet.

Step 3: Conclusion Hence, the correct option is (D): at a point of time.

Quick Tip to Solve: Remember the wording: a Balance Sheet is prepared as at a date; a Statement of Profit and Loss is prepared for a period.

28. State giving reason, whether issue of shares for consideration other than cash will result into inflow, outflow or no flow of cash. [1 mark]

Solution:

Concept:

- A cash flow is an inflow or outflow of cash and cash equivalents; a change in share capital alone is not a cash flow.
- Shares issued for non-cash consideration exchange ownership claims for an asset or another non-cash item, without a cash receipt or payment.

Step 1: Identify the consideration received The company receives consideration other than cash in exchange for the shares. For example, shares may be issued directly to the vendor for an asset purchased. The share capital increases, but no cash is received from the vendor.

Step 2: Check the effect on cash Since neither cash nor cash equivalents enter or leave the business in this exchange, it is a non-cash transaction. It is excluded from cash flows in the cash flow statement; describing it as an issue of shares does not itself make it a financing cash inflow.

Step 3: Conclusion Issue of shares for consideration other than cash results in **no flow of cash**, because no cash or cash equivalents are received or paid.

Quick Tip to Solve: Before treating a share issue as a financing inflow, check whether the company actually receives cash for those shares.

29. 'Prepaid Expenses' are presented in the Balance Sheet of a company under the sub-head _____. [1 mark]

Solution:

Concept:

- Prepaid expenses represent expenditure already paid for which the benefit belongs to a future accounting period.
- Under the prescribed company Balance Sheet classification, ordinary prepaid expenses form part of current assets and are shown under Other Current Assets.

Step 1: Identify the nature of the balance The unexpired portion of an expense, such as insurance paid in advance, provides a future benefit. It is therefore an asset at the reporting date rather than an

expense wholly chargeable to the current period.

Step 2: Select the required sub-head Prepaid expenses are neither inventories nor trade receivables, and they do not represent cash. In the company Balance Sheet they are classified within Current Assets under the sub-head Other Current Assets. The blank asks for this sub-head, rather than the broader head Current Assets.

Step 3: Conclusion Prepaid Expenses are presented under the sub-head **Other Current Assets**.

Quick Tip to Solve: For a prepaid expense, identify the unexpired benefit as an asset, then write the precise sub-head Other Current Assets.

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30. A company had a liquid ratio of 1.5 : 1 and a current ratio of 2 : 1. Its inventory turnover ratio was 6 times. It had total current assets of ₹ 2,00,000. Find out revenue from operations if the goods are sold at 25% profit on cost. [3 marks]

Solution:

Concept:

- Current ratio is Current Assets divided by Current Liabilities; liquid ratio is Liquid Assets divided by Current Liabilities. Liquid assets exclude inventory and prepaid expenses.
- Inventory turnover ratio is Cost of Revenue from Operations divided by Average Inventory. Profit on cost is added to cost to obtain Revenue from Operations.

Step 1: Calculate current liabilities and liquid assets Both ratios use the same current liabilities as denominator. Thus, with current assets of Rs 2,00,000,

$$\text{Current Liabilities} = \frac{2,00,000}{2} = \text{Rs } 1,00,000,$$
$$\text{Liquid Assets} = 1.5 \times 1,00,000 = \text{Rs } 1,50,000.$$

Step 2: Determine inventory and cost of revenue No prepaid expenses or separate opening inventory are specified. Following the standard treatment for this question, the difference between current and liquid assets is inventory, and this inventory is used as average inventory for the turnover calculation.

$$\text{Inventory} = 2,00,000 - 1,50,000 = \text{Rs } 50,000,$$
$$\text{Cost of Revenue from Operations} = 6 \times 50,000$$
$$= \text{Rs } 3,00,000.$$

The turnover ratio relates inventory to the cost of goods sold, so multiplying by six gives cost, not selling revenue.

Step 3: Add profit calculated on cost Profit is 25% of cost, not 25% of revenue. Therefore revenue is

125% of cost.

$$\text{Gross Profit} = 3,00,000 \times \frac{25}{100} = \text{Rs } 75,000,$$
$$\text{Revenue from Operations} = 3,00,000 + 75,000$$
$$= \text{Rs } 3,75,000.$$

Step 4: Conclusion Revenue from Operations is $\boxed{\text{Rs } 3,75,000}$.

Quick Tip to Solve: Use the gap between current and liquid assets to find inventory, then apply turnover to find cost; a 25% profit on cost means multiplying cost by 1.25.

OR

30. Calculate the amount of opening trade receivables and closing trade receivables from the following information:

Trade receivables turnover ratio 8 times

Cost of revenue from operations ₹ 4,80,000

The amount of credit revenue from operations is ₹ 2,00,000 more than cash revenue from operations.

Gross profit ratio is 20%.

Opening trade receivables are 1/4th of Closing trade receivables. [3 marks]

Solution:

Concept:

- Gross profit ratio is Gross Profit divided by Revenue from Operations, multiplied by 100. If gross profit is 20% of revenue, cost is 80% of revenue.
- Trade receivables turnover ratio equals Net Credit Revenue from Operations divided by Average Trade Receivables. Average trade receivables are half the sum of opening and closing trade receivables.

Step 1: Calculate total revenue from operations Cost of revenue from operations is Rs 4,80,000 and gross profit is 20% of revenue. Consequently, the given cost represents 80% of total revenue.

$$\text{Revenue from Operations} = 4,80,000 \times \frac{100}{80} = \text{Rs } 6,00,000.$$

Step 2: Separate credit revenue from cash revenue Let cash revenue be Rs x. Credit revenue is then Rs $(x + 2,00,000)$. Their sum must equal total revenue, so

$$x + (x + 2,00,000) = 6,00,000,$$
$$2x = 4,00,000,$$
$$x = 2,00,000.$$

Cash revenue is Rs 2,00,000 and credit revenue is Rs 4,00,000. Only credit revenue is used in the trade receivables turnover ratio, since cash sales do not create receivables.

Step 3: Find average trade receivables Divide credit revenue by the turnover ratio of 8 times:

$$\text{Average Trade Receivables} = \frac{4,00,000}{8} = \text{Rs } 50,000.$$

Hence opening and closing trade receivables together total Rs 1,00,000.

Step 4: Apply the opening-to-closing relationship Let closing trade receivables be Rs C. Opening trade receivables are one-fourth of this amount, namely Rs $C/4$.

$$\frac{C/4 + C}{2} = 50,000,$$
$$\frac{5C}{4} = 1,00,000,$$
$$C = 80,000,$$
$$\text{Opening Trade Receivables} = \frac{80,000}{4} = \text{Rs } 20,000.$$

Check: the average of Rs 20,000 and Rs 80,000 is Rs 50,000, and Rs 4,00,000 divided by Rs 50,000 gives the stated turnover of 8 times.

Step 5: Conclusion Opening Trade Receivables are $\boxed{\text{Rs } 20,000}$ and Closing Trade Receivables are $\boxed{\text{Rs } 80,000}$.

Quick Tip to Solve: First separate credit sales from total sales. Then double average receivables and divide that total in the opening-to-closing ratio $1 : 4$.

31. Prepare common size statement of profit and loss from the following information :

Particulars	Note No.	2017-18	2016-17
Revenue from operations		₹ 16,00,000	₹ 8,00,000
Cost of material consumed(% of revenue from operations)		60%	50%
Operating expenses		₹ 80,000	₹ 40,000
Income tax rate		40%	30%

[4 marks]

Solution:

Concept:

- A common-size statement expresses each item as a percentage of revenue from operations for the same year. Thus revenue from operations is the base, equal to 100% in each year.
- Common-size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Profit before tax equals revenue less the given expenses; income tax is calculated on profit before tax.

Step 1: Calculate the missing amounts **Working Notes**

For 2017-18, cost of materials consumed is Rs $16,00,000 \times 60\% = \text{Rs } 9,60,000$. Including operating

expenses of Rs 80,000, total expenses are Rs 10,40,000. Therefore,

$$\text{Profit before tax} = 16,00,000 - 10,40,000 = \text{Rs } 5,60,000,$$
$$\text{Income tax} = 5,60,000 \times 40\% = \text{Rs } 2,24,000,$$
$$\text{Profit after tax} = 5,60,000 - 2,24,000 = \text{Rs } 3,36,000.$$

For 2016-17, cost of materials consumed is Rs $8,00,000 \times 50\% =$ Rs $4,00,000$. Adding operating expenses of Rs 40,000 gives total expenses of Rs 4,40,000. Hence,

$$\text{Profit before tax} = 8,00,000 - 4,40,000 = \text{Rs } 3,60,000,$$
$$\text{Income tax} = 3,60,000 \times 30\% = \text{Rs } 1,08,000,$$
$$\text{Profit after tax} = 3,60,000 - 1,08,000 = \text{Rs } 2,52,000.$$

Step 2: Express the amounts as percentages of revenue Use Rs 16,00,000 as the denominator for 2017-18 and Rs 8,00,000 for 2016-17. For example, the tax percentages are $2,24,000/16,00,000 \times 100 = 14\%$ and $1,08,000/8,00,000 \times 100 = 13.5\%$. The stated tax rates of 40% and 30% apply to profit, so they are not entered directly as common-size percentages.

Common-size Statement of Profit and Loss

Particulars	Note No.	Amount (Rs)		% of revenue	
		2017-18	2016-17	2017-18	2016-17
I. Revenue from operations		16,00,000	8,00,000	100.0	100.0
II. Expenses					
Cost of materials consumed		9,60,000	4,00,000	60.0	50.0
Operating expenses		80,000	40,000	5.0	5.0
Total expenses		10,40,000	4,40,000	65.0	55.0
III. Profit before tax (I–II)		5,60,000	3,60,000	35.0	45.0
IV. Income tax		2,24,000	1,08,000	14.0	13.5
V. Profit after tax (III–IV)		3,36,000	2,52,000	21.0	31.5

Step 3: Conclusion Profit after tax is Rs 3,36,000 (21% of revenue) in 2017-18 and Rs 2,52,000 (31.5% of revenue) in 2016-17. Although profit increases in absolute amount, its share of revenue falls by 10.5 percentage points.

Quick Tip to Solve: Calculate tax on profit before tax first; then divide that tax amount by the same year's revenue to obtain its common-size percentage.

OR

31. From the following Balance Sheets of Vinayak Ltd. as at 31st March, 2019, prepare a comparative Balance Sheet.

Vinayak Ltd.

Balance Sheet as at 31st March, 2019

Particulars	Note No.	31-3-19 (₹)	31-3-18 (₹)
Equity and Liabilities			
(1) Shareholders Funds			
(a) Share capital		21,00,000	20,00,000
(b) Reserves and Surplus		2,30,000	2,00,000
(2) Non-current liabilities			
Long term borrowing		5,60,000	2,00,000
(3) Current liabilities			
Trade payables		2,80,000	1,00,000
Total		31,70,000	25,00,000
Assets			
(1) Non-current Assets			
Fixed Assets			
(i) Tangible assets		21,00,000	20,00,000
(ii) Intangible assets		3,00,000	2,00,000
(2) Current Assets			
(a) Inventories		5,60,000	2,00,000
(b) cash and cash equivalents		2,10,000	1,00,000
Total		31,70,000	25,00,000

[4 marks]

Solution:

Concept:

- A comparative balance sheet shows each balance at two dates, the absolute increase or decrease and its percentage relative to the earlier year's balance.
- Absolute change = Amount at 31-3-2019 − Amount at 31-3-2018. Percentage change = $\frac{\text{Absolute change}}{\text{Amount at 31-3-2018}} \times 100$. Use the same earlier-year base for each corresponding item.

Step 1: Calculate changes using the earlier year as the base **Working Notes**

Share capital increases by $21,00,000 - 20,00,000 =$ Rs $1,00,000$, giving $1,00,000/20,00,000 \times 100 = 5\%$. Reserves and surplus rise by Rs 30,000, or $30,000/2,00,000 \times 100 = 15\%$. Long-term borrowings increase by Rs 3,60,000, or 180%, and trade payables by Rs 1,80,000, also 180%. For assets, tangible assets rise by Rs 1,00,000 (5%), intangible assets by Rs 1,00,000 (50%), inventories by Rs 3,60,000

(180%) and cash and cash equivalents by Rs 1,10,000 (110%).

$$\text{Total increase} = 31,70,000 - 25,00,000 = \text{Rs } 6,70,000,$$
$$\text{Percentage increase} = \frac{6,70,000}{25,00,000} \times 100 = 26.8\%.$$

All changes are increases. For subtotal percentages, divide each subtotal's increase by that subtotal's earlier-year amount; do not add the percentages of individual rows.

Step 2: Prepare the comparative balance sheet
Vinayak Ltd.
Comparative Balance Sheet as at 31st March, 2019
Amounts in Rs; change from 31-3-2018 to 31-3-2019.

Particulars	Note No.	31-3-2018 (Rs)	31-3-2019 (Rs)	Increase (Rs)	Increase (%)
I. Equity and liabilities					
1. Shareholders' funds					
(a) Share capital		20,00,000	21,00,000	1,00,000	5.00
(b) Reserves and surplus		2,00,000	2,30,000	30,000	15.00
Total shareholders' funds		22,00,000	23,30,000	1,30,000	5.91
2. Non-current liabilities					
Long-term borrowings		2,00,000	5,60,000	3,60,000	180.00
3. Current liabilities					
Trade payables		1,00,000	2,80,000	1,80,000	180.00
Total		**25,00,000**	**31,70,000**	**6,70,000**	**26.80**
II. Assets					
1. Non-current assets					
Fixed assets:					
(i) Tangible assets		20,00,000	21,00,000	1,00,000	5.00
(ii) Intangible assets		2,00,000	3,00,000	1,00,000	50.00
Total non-current assets		22,00,000	24,00,000	2,00,000	9.09
2. Current assets					
(a) Inventories		2,00,000	5,60,000	3,60,000	180.00
(b) Cash and cash equivalents		1,00,000	2,10,000	1,10,000	110.00
Total current assets		3,00,000	7,70,000	4,70,000	156.67
Total		**25,00,000**	**31,70,000**	**6,70,000**	**26.80**

Percentages are rounded to two decimal places where necessary. Both sides agree at each date, and the increases in the individual assets add to Rs 6,70,000, equal to the increase in equity and liabilities.

Step 3: Conclusion The comparative balance sheet shows total assets and total equity and liabilities increasing from Rs 25,00,000 to Rs 31,70,000, an increase of Rs 6,70,000 or 26.80%.

Quick Tip to Solve: Use 31-3-2018 as the percentage denominator for every row; calculate the total's 26.80% separately rather than adding the component percentages.

32. Cash flow from operating activities of Starline Ltd. for the year ended 31.03.2019 was ₹ 18,000. The Balance Sheet along with notes to accounts of Starline Ltd. as at 31-03-19 is given below :

Starline limited

Balance Sheet as at 31st March, 2019

Particulars	Note No.	31-3-19 (₹)	31-3-18 (₹)
I. Equity and Liabilities :			
(1) Shareholders Funds			
(a) Share capital		18,00,000	10,00,000
(b) Reserves and Surplus	1	50,000	40,000
(2) Non-current liabilities			
Long term borrowing	2	1,00,000	4,00,000
(3) Current liabilities			
Short term provisions	3	2,50,000	3,60,000
Total		22,00,000	18,00,000
II. Assets :			
(1) Non-current Assets			
Fixed Assets			
(i) Tangible assets	4	14,00,000	10,00,000
(ii) Intangible assets	5	1,80,000	70,000
(2) Current Assets			
(a) Current Investments		30,000	1,90,000
(b) Trade Receivables		2,90,000	3,10,000
(c) Cash and cash equivalents		3,00,000	2,30,000
Total		22,00,000	18,00,000

Notes to Accounts

Note No.	Particulars	31-3-19 (Rs)	31-3-18 (Rs)
1.	Reserves & Surplus	50,000	40,000
	Surplus (balance in statement of profit & loss)	50,000	40,000
2.	Long term borrowing		
	8% debentures	1,00,000	4,00,000
		1,00,000	4,00,000
3.	Short term provisions		
	Provision for tax	2,50,000	3,60,000
		2,50,000	3,60,000
4.	Tangible Assets		
	Plant & Machinery	15,20,000	10,90,000
	Less Accumulated depreciation	(1,20,000)	(90,000)
		14,00,000	10,00,000
5.	Intangible Assets		
	Goodwill	1,80,000	70,000
		1,80,000	70,000

You are given the following additional information :

(a) A machinery of the book value of ₹ 40,000 (depreciation provided thereon ₹ 12,000) was sold at a loss of ₹ 6,000.

(b) 6% debentures were redeemed on 1st July 2018.

Prepare Cash Flow Statement. [6 marks]

Solution:

Concept:

- Cash flows are classified as operating, investing and financing activities. A non-financial company classifies interest paid as a financing outflow.
- The book value of a sold asset equals its original cost less accumulated depreciation. Sale proceeds equal book value less loss on sale.
- The net change in cash and cash equivalents should equal closing cash less opening cash. Any inconsistency in the supplied figures must be shown rather than concealed by a balancing amount.

Step 1: State the basis and the printed inconsistency The question supplies operating cash inflow of Rs 18,000, which is used directly; tax and working-capital movements must not be deducted again. Treat the current investments as investments distinct from cash equivalents, since no qualifying maturity is stated. Assume the changes in share capital, investments, goodwill and debentures are cash transactions, with no additional non-cash changes.

Note 2 describes the debentures as 8%, while additional information (b) calls those redeemed 6%. The main statement below uses the 8% rate in Note 2 throughout. The alternative using 6% on the redeemed amount is shown separately. These inconsistent rates cannot be silently combined into a unique answer.

Step 2: Calculate machinery purchases and sale proceeds **Working Notes**

The machinery sold had book value Rs 40,000 and accumulated depreciation Rs 12,000. Therefore its original cost and proceeds are:

$$\text{Original cost sold} = 40,000 + 12,000 = \text{Rs } 52,000,$$
$$\text{Sale proceeds} = 40,000 - 6,000 = \text{Rs } 34,000.$$

Using original-cost balances from Note 4:

$$\begin{aligned}\text{Purchases} &= \text{Closing cost} - \text{Opening cost} + \text{Cost sold} \\ &= 15,20,000 - 10,90,000 + 52,000 \\ &= \text{Rs } 4,82,000.\end{aligned}$$

The depreciation charge is $1,20,000 - 90,000 + 12,000 = \text{Rs } 42,000$. It is non-cash and is not a separate investing outflow. The supplied operating cash flow already incorporates the relevant operating adjustments.

Step 3: Calculate the remaining investing and financing amounts Goodwill purchased is $1,80,000 - 70,000 = \text{Rs } 1,10,000$. Investment sale proceeds, with no gain or loss supplied, are $1,90,000 - 30,000 = \text{Rs } 1,60,000$.

Cash received from issue of shares is $18,00,000 - 10,00,000 = \text{Rs } 8,00,000$. Debentures redeemed on 1 July 2018 are $4,00,000 - 1,00,000 = \text{Rs } 3,00,000$. The redeemed portion was outstanding for

three months; the remaining Rs 1,00,000 was outstanding all year. On the stated main basis:

$$\text{Interest paid} = 3,00,000 \times \frac{8}{100} \times \frac{3}{12} + 1,00,000 \times \frac{8}{100}$$
$$= 6,000 + 8,000 = \text{Rs } 14,000.$$

No interest payable balance is stated, so interest expense is treated as paid.

Step 4: Prepare the cash flow statement on the stated basis **Starline Ltd.**

Cash Flow Statement for the year ended 31 March 2019

Using the 8% debenture rate in Note 2; amounts in Rs

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net cash from operating activities (given)	18,000
B. Cash flow from investing activities	
Proceeds from sale of machinery	34,000
Purchase of machinery	(4,82,000)
Purchase of goodwill	(1,10,000)
Proceeds from sale of current investments	1,60,000
Net cash used in investing activities	**(3,98,000)**
C. Cash flow from financing activities	
Proceeds from issue of shares	8,00,000
Redemption of debentures	(3,00,000)
Interest paid on debentures	(14,000)
Net cash from financing activities	**4,86,000**
Net increase from the above cash flows (A+B+C)	**1,06,000**
Add: Opening cash and cash equivalents	2,30,000
Closing cash implied by the above cash flows	**3,36,000**
Closing cash printed in the balance sheet	3,00,000
Unreconciled excess of implied closing cash	**36,000**

Step 5: Check the alternative rate and the reconciliation If the redemption note's 6% is applied to Rs 3,00,000 redeemed and 8% is retained for the continuing Rs 1,00,000, interest becomes:

$$3,00,000 \times \frac{6}{100} \times \frac{3}{12} + 8,000 = \text{Rs } 12,500.$$

Financing inflow then becomes Rs 4,87,500, net increase Rs 1,07,500 and implied closing cash Rs 3,37,500. This also fails to match the printed Rs 3,00,000, by Rs 37,500.

The balance-sheet cash movement is only $3,00,000 - 2,30,000 = \text{Rs } 70,000$. Thus changing the disputed interest rate does not reconcile the figures. No unreported dividend, expense or other cash outflow can be inserted merely to force agreement. A fully reconciled statement requires clarification of the question's figures.

Step 6: Conclusion On the Note 2 8% basis, operating inflow is Rs 18,000, investing outflow Rs 3,98,000 and financing inflow Rs 4,86,000. The implied cash increase of Rs 1,06,000 exceeds the printed increase of Rs 70,000 by Rs 36,000. The printed data therefore do not yield a unique reconciled cash flow statement.

Quick Tip to Solve: Use original cost, not net book value, to find machinery purchases; then reconcile the net cash movement without inventing a balancing cash flow.

Option – II (Computerized Accounting)

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

(A) Table

(B) Form

(C) Report

(D) Query

Correct Answer: (C) Report

Solution:

Concept:

- A report presents selected database information in an organised format suitable for printing.
- An Access database has different objects for storing records, entering data, selecting data and presenting output.

Step 1: Identify the requested output The question asks for well-formatted printable data. A report supplies page layout, headings, grouping and summaries, so it is the object designed for this purpose.

Step 2: Eliminate the other objects A table stores records. A form mainly supports convenient data entry and viewing. A query selects or processes records, which can provide the data for a report, but the report supplies the formatted printed presentation.

Step 3: Conclusion A Report is used. Hence, the correct option is (C).

Quick Tip to Solve: For an Access question, link printed presentation to Report and data entry to Form.

24. A spreadsheet is used (i) _____ calculate and compare (ii) _____ or financial data. [1 mark]

Solution:

Concept:

- A spreadsheet stores data in cells arranged in rows and columns.
- Formulae and functions calculate results from numerical entries and help users compare data.

Step 1: Complete the purpose phrase The first blank must make the phrase "is used ... calculate and compare" read correctly. Insert "to store," so the three actions are to store, calculate and compare.

Step 2: Identify the kind of data Spreadsheets commonly handle numerical or financial data. Numerical data are quantities such as units sold or attendance; financial data include sales values, expenses and account balances. Thus the second blank is "numerical".

Step 3: Conclusion (i) to store; (ii) numerical. The completed statement is: A spreadsheet is used to store, calculate and compare numerical or financial data.

Quick Tip to Solve: Read both blanks in the complete sentence: store describes an action and numerical describes data.

25. A sequential code helps either (i) in _____ or (ii) _____ a relevant document. [1 mark]

Solution:

Concept:

- A sequential code assigns consecutive numbers to documents or records.
- The assigned number acts as an identifier and helps retrieve the associated document from an ordered record.

Step 1: Explain identification Giving each document its own serial number makes it possible to identify the particular document. For example, voucher 105 can be distinguished from voucher 106 even when their dates or amounts are similar.

Step 2: Explain location When documents are arranged or indexed by those numbers, the code also helps locate the required document. This is the retrieval function of a sequential code; the number need not describe the contents of the transaction.

Step 3: Conclusion (i) identifying; (ii) locating. A sequential code helps in identifying or locating a relevant document.

Quick Tip to Solve: Think of consecutively numbered vouchers: the number identifies the voucher and helps locate it.

26. The interactive link between the user and data base oriented software through which the user communicates is known as: [1 mark]

(A) Front end interface

(B) Back end interface

(C) Data processing

(D) Reporting system

Correct Answer: (A) Front end interface

Solution:

Concept:

- The front end is the user-facing part of a database-oriented application.
- The back end stores and manages the database and processes requests received through the application.

Step 1: Identify the interactive component The user communicates through screens, menus, forms and controls. Together these form the front end interface, which accepts the user's instructions and displays responses.

Step 2: Distinguish the remaining options The back end works with storage and database operations behind this interface. Data processing describes operations on data, while a reporting system prepares output. Neither names the general interactive link specified in the question.

Step 3: Conclusion The link is the Front end interface. Hence, the correct option is (A).

Quick Tip to Solve: Associate the word front with the screens and controls that the user directly sees and uses.

27. _____ is a logical action to perform a task. [1 mark]

(A) Data

(B) Hardware

(C) System

(D) Procedure

Correct Answer: (D) Procedure

Solution:

Concept:

- A procedure specifies the logical actions to be followed to carry out a task.
- An accounting information system combines data, hardware, software, people and procedures.

Step 1: Match the definition The key words are "logical action" and "perform a task". They describe a procedure, such as the defined actions for entering a voucher or generating a report.

Step 2: Eliminate the other terms Data are facts supplied to or produced by a system. Hardware means the physical equipment. A system is the overall combination of interacting components. These are distinct from the logical action or method used to perform a particular task.

Step 3: Conclusion Procedure completes the statement. Hence, the correct option is (D).

Quick Tip to Solve: When the definition asks how a task is performed, look for Procedure among the options.

28. Name of account, (i) _____, (ii) _____ and amount are the four forms of data elements of a transaction in computerized accounting. [1 mark]

Solution:

Concept:

- A computerised accounting system stores transaction details as separate data elements so that each record can be identified, classified and processed.
- The basic elements identify the account, its code, the transaction date and the monetary amount.

Step 1: Identify the account classification element Besides the name of the account, the system uses an **accounting code**. This code uniquely identifies the relevant account in the chart of accounts and facilitates systematic processing.

Step 2: Identify the time element The **date of the transaction** specifies when the transaction occurred. It permits chronological recording and allocation to the appropriate accounting period; the amount records its monetary value.

Step 3: Conclusion The blanks are **(i) accounting code** and **(ii) date of transaction**. The four elements are name of account, accounting code, date of transaction and amount.

Quick Tip to Solve: Recall the four transaction fields as account name, account code, date and amount.

29. Cell address refers to: [1 mark]

(A) location of cell

(B) group of cells

(C) cell reference

(D) All of these

Correct Answer: (A) location of cell

Solution:

Concept:

- A cell is the intersection of a row and a column in a spreadsheet.
- A cell address identifies its location by combining the column letter and row number, for example B5.

Step 1: Interpret a cell address In B5, B specifies the column and 5 specifies the row. Together they locate one particular cell. Thus, **location of cell** directly defines what a cell address denotes.

Step 2: Compare the alternatives A group of cells is a range, such as B5:B10, so option (B) is incorrect. A cell reference uses an address to refer to a cell in a formula; although the terms are closely related, option (A) gives the direct meaning asked here. Since a cell address does not mean a group of cells, option (D), All of these, cannot be correct.

Step 3: Conclusion A cell address refers to the **location of a cell**. Hence, the correct option is (A).

Quick Tip to Solve: Read B5 as column B, row 5: an address locates one cell; B5:B10 denotes a range.

30. State any three requirements which should be considered before making an investment to choose between 'Desktop Database' or 'Server Database'. [3 marks]

Solution:

Concept:

- A desktop database generally serves a single user or a small workgroup, whereas a server database supports centrally managed data and many simultaneous users.
- The investment decision should follow the organisation's data-processing requirements, rather than the initial purchase price alone.

Step 1: Assess the number of users and concurrent access Determine how many people will use the database and whether they must access or update it simultaneously. A desktop database may meet the needs of an individual or a small office. A server database is appropriate when many users require shared access, because it manages concurrent operations and controls conflicting updates to common data.

Step 2: Assess the volume and processing complexity of data Estimate the number and size of records, the frequency of transactions and the complexity of queries and reports. A small, relatively simple database may be handled by a desktop system. Large volumes, complex relationships and heavy processing favour a server database with greater storage and processing capacity. Expected growth

should also be considered so that the chosen system remains adequate.

Step 3: Assess security and reliability requirements Identify who should be allowed to view or change each class of information, how critical uninterrupted availability is, and what backup and recovery facilities are required. Sensitive accounting information shared across departments may require the stronger central administration, access controls and recovery arrangements of a server database. The choice should reflect the level of protection actually required.

Step 4: Conclusion Three requirements to consider are **the number of concurrent users**, **the volume and complexity of data**, and **security, backup and reliability needs**.

Quick Tip to Solve: Before comparing database prices, ask how many users, how much data and how much protection the organisation needs.

OR

30. Explain any three types of vouchers used for facilitating entry in 'Tally Software'. [3 marks]

Solution:

Concept:

- A voucher is the document or entry form through which a business transaction is recorded in accounting software.
- Tally provides different voucher types for different transactions. Selecting the proper type helps classify the entry while maintaining the double-entry principle.

Step 1: Explain the receipt voucher A **receipt voucher** records money received in cash or through a bank, for example a customer settling an outstanding balance or interest credited by the bank. The relevant Cash or Bank Account is debited, while the account explaining the receipt is credited. For a collection from a debtor, the debtor's account is credited because the amount due from that debtor decreases.

Step 2: Explain the payment voucher A **payment voucher** records money paid in cash or through a bank, for example payment of rent, salaries or an amount owed to a supplier. The expense, liability or other relevant account is debited, and Cash or Bank Account is credited. The voucher thus records the reduction in the business's cash or bank balance together with the purpose of payment.

Step 3: Explain the contra voucher A **contra voucher** records transfers between the business's own cash and bank accounts, such as depositing cash into the bank, withdrawing cash from the bank for office use, or transferring funds between two bank accounts. For a cash deposit, Bank Account is debited and Cash Account is credited. Such a transfer changes the composition of cash and bank balances; it does not itself create an expense or income.

Step 4: Conclusion Any three types are **receipt vouchers** for money received, **payment vouchers** for money paid, and **contra vouchers** for transfers among the business's own cash and bank accounts.

Quick Tip to Solve: First decide whether money comes in, goes out, or moves between the business's own cash and bank accounts; then choose receipt, payment, or contra.

31. Write and explain the formulae to calculate basic pay earned and total earnings. [4 marks]

Solution:

Concept:

- Basic pay earned is the portion of the monthly basic pay payable for the employee's effective paid days in that month.
- Total earnings, or gross salary, comprise basic pay earned plus dearness allowance, house rent allowance and transport allowance, before deductions.

Step 1: Determine the effective paid days Let NODM be the number of days in the month and NOEDP the number of effective days present. Days of leave without pay and unauthorised absence are excluded:

$$\mathrm{NOEDP} = \mathrm{NODM} - \text{Leave without pay} - \text{Unauthorised absence}.$$

All quantities in this formula are measured in days. Paid leave is not deducted as leave without pay. This gives the days for which basic pay is actually earned.

Step 2: Calculate basic pay earned If BP denotes the employee's monthly basic pay, the formula is

$$\mathrm{BPE} = \frac{\mathrm{BP} \times \mathrm{NOEDP}}{\mathrm{NODM}}.$$

Dividing monthly basic pay by the number of days in the month gives basic pay per day; multiplying by effective paid days gives basic pay earned. If the employee earns pay for the entire month, $\mathrm{NOEDP} = \mathrm{NODM}$, so $\mathrm{BPE} = \mathrm{BP}$. The actual number of days in the relevant month must be used.

Step 3: Add the earning components Total earnings are calculated as

$$\mathrm{TE} = \mathrm{BPE} + \mathrm{DA} + \mathrm{HRA} + \mathrm{TRA}.$$

Here DA is dearness allowance, HRA is house rent allowance and TRA is transport allowance. Each allowance is first computed at the applicable rate or taken at the prescribed fixed amount. These allowance amounts are then added to basic pay earned. Provident fund, tax deducted at source and loan instalments are deductions; they are not subtracted when calculating total earnings. Subtracting total deductions from total earnings would instead give net salary.

Step 4: Conclusion The required formulae are $\mathrm{BPE} = \mathrm{BP} \times \mathrm{NOEDP}/\mathrm{NODM}$ and $\mathrm{TE} = \mathrm{BPE} + \mathrm{DA} + \mathrm{HRA} + \mathrm{TRA}$.

Quick Tip to Solve: Prorate monthly basic pay for effective paid days first, then add the allowances. Stop before deductions when the question asks for total earnings.

OR

31. What is meant by a 'Form'? How is 'split form' different from 'simple form'? [4 marks]

Solution:

Concept:

- A form is a database object that provides a convenient interface for entering, displaying and editing data held in a table or obtained through a query.
- A simple form presents one record at a time; a split form combines a form view with a synchronised datasheet view of the same underlying data.

Step 1: Explain the meaning of a form A form arranges fields with suitable labels and controls so that a user can work with database records conveniently. For example, an employee form may display employee number, name and basic pay in clearly labelled boxes. The user can enter a new record, view an existing record or edit its values through these controls, subject to the permissions and design of the form. The data are stored in the underlying table; the form is the interface used to work with them. It can therefore make data entry clearer and easier than entering values directly into a large table.

Step 2: Describe a simple form A simple form displays the fields of one record at a time in a form layout. The user moves to another record using the record navigation controls. It is useful when attention is required on the details of a single employee, customer or transaction. It does not simultaneously provide a separate datasheet pane listing several records alongside the displayed form record.

Step 3: Distinguish a split form A split form shows two views of the same data at the same time: a form view showing the individual record and a datasheet view showing records in rows and fields in columns. The two views are connected to the same data source and remain synchronised. Selecting a record in the datasheet makes that record available in the form portion. An allowed change made in one view is reflected in the other because both refer to the same underlying record.

Thus, the principal difference is the display and navigation arrangement: a simple form provides the single-record form view, whereas a split form provides both that detailed view and a tabular view together. The datasheet helps the user locate or compare records quickly, while the form portion provides a convenient layout for examining or editing the selected record.

Step 4: Conclusion A form is an interface for entering, viewing and editing database data. A simple form shows one record at a time; a split form shows a synchronised form view and datasheet view simultaneously.

Quick Tip to Solve: Remember split form as two linked views of the same data: select a row in the datasheet and examine its fields in the form portion.

32. Moonlite Ltd. has a sales linked bonus policy to motivate its sales personnel. Any employee achieving target sales for the month is paid ₹ 8,000 as bonus. There is an additional incentive of 3% of the amount of sales exceeding the target sales (i.e., the difference in target sales and actual sales). The target sale for the month was 2000 units @ ₹ 5,000 per unit.

Calculate the bonus for employees mentioned below and also give its excel formulae.

(a) Vijay sold 2200 units.

(b) Rajesh sold 1800 units.

(c) Gaurav sold 2000 units. [6 marks]

Solution:

Concept:

- An IF formula tests a condition and returns one value when the condition is true and another when it is false: `IF(condition,value_if_true,value_if_false)`.
- An employee who meets the target earns the fixed bonus of Rs 8,000. An employee who exceeds it also earns 3% of the excess sales value. An employee below target earns no bonus under this policy.
- Convert excess units into rupees before applying the incentive rate: excess sales value equals excess units multiplied by Rs 5,000 per unit. Equality must be included in the eligibility test.

Step 1: Establish the target and calculation rule The target sales value for every employee is

$$2,000 \times \text{Rs } 5,000 = \text{Rs } 1,00,00,000.$$

When actual sales reach this amount, the employee becomes entitled to the fixed bonus. For eligible employees, calculate the additional incentive only on the difference between actual sales and target sales, rather than on the entire sales value. Thus, for sales at or above target,

$$\text{Bonus} = \text{Rs } 8,000 + 0.03(\text{Actual sales} - \text{Target sales}).$$

Below target, the bonus is zero; no negative incentive is deducted.

Step 2: (a) Calculate Vijay's bonus Vijay sold 2,200 units, exceeding the target by $2,200 - 2,000 = 200$ units. His actual sales are $2,200 \times 5,000 = \text{Rs } 1,10,00,000$, and his excess sales value is $200 \times 5,000 = \text{Rs } 10,00,000$. Therefore,

$$\text{Additional incentive} = 10,00,000 \times 3\% = \text{Rs } 30,000,$$
$$\text{Total bonus} = 8,000 + 30,000 = \text{Rs } 38,000.$$

Step 3: (b) Calculate Rajesh's bonus Rajesh sold 1,800 units, which is less than the target of 2,000 units. His actual sales are $1,800 \times 5,000 = \text{Rs } 90,00,000$, below the target sales value. He qualifies for neither the fixed bonus nor the excess-sales incentive, so his bonus is Rs 0.

Step 4: (c) Calculate Gaurav's bonus Gaurav sold exactly 2,000 units, giving sales of $2,000 \times 5,000 = \text{Rs } 1,00,00,000$. He has achieved the target, so the fixed bonus is payable. His excess sales are zero and the additional incentive is $0 \times 3\% = 0$. His total bonus is therefore Rs 8,000.

Step 5: Enter the Excel formulae Use the following worksheet arrangement, with headings in row 1:

Row	A: Employee	B: Units	C: Sales (Rs)	D: Bonus (Rs)
2	Vijay	2,200	1,10,00,000	38,000
3	Rajesh	1,800	90,00,000	0
4	Gaurav	2,000	1,00,00,000	8,000

In C2 enter `=B2*5000` and copy it down through C4 to calculate actual sales. Enter the following bonus formulae (numbers inside Excel formulae have no grouping commas):

D2 (Vijay):

```
=IF(C2>=10000000,8000+(C2-10000000)*3%,0)
```

D3 (Rajesh):

```
=IF(C3>=10000000,8000+(C3-10000000)*3%,0)
```

D4 (Gaurav):

```
=IF(C4>=10000000,8000+(C4-10000000)*3%,0)
```

Alternatively, enter D2 once and copy it down to D4: the relative cell reference changes from C2 to C3 and C4 automatically. The greater-than-or-equal-to condition ensures that Gaurav receives the fixed bonus, while the false branch returns zero for Rajesh.

Step 6: Conclusion The bonuses are: **Vijay Rs 38,000; Rajesh Rs 0; Gaurav Rs 8,000**. The Excel IF formulae above implement both target eligibility and the incentive on excess sales.

Quick Tip to Solve: Test the formula with sales below, exactly at and above target. Use >= so exact achievement earns Rs 8,000, and apply 3% only after converting excess units into rupees.