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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

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

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

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

Part A (60 marks)

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

1. The account which shows classified summary of transactions of a 'Cash Book' in a Not-for-Profit Organisation is called : [1 mark]

(A) Income and Expenditure A/c

(B) Receipts and Payments A/c

(C) Profit and Loss A/c

(D) Subscriptions A/c

Correct Answer: (B) Receipts and Payments A/c

Solution:

Concept:

- A Receipts and Payments Account summarises the cash and bank transactions of a not-for-profit organisation under suitable heads.
- It includes both capital and revenue receipts and payments, irrespective of the accounting period to which they relate.

Step 1: Identify the underlying record The question asks for a classified summary of the Cash Book. Grouping cash receipts and cash payments under their respective heads produces the Receipts and Payments Account.

Step 2: Distinguish the alternatives Income and Expenditure Account determines surplus or deficit on an accrual basis. Profit and Loss Account serves a profit-seeking business. Subscriptions Account concerns only subscriptions and cannot summarise all cash transactions.

Step 3: Conclusion The account is the Receipts and Payments A/c. Hence, the correct option is (B).

Quick Tip to Solve: Cash Book summary means receipts and payments; accrual surplus means income and expenditure.

2. Give the average period, in months, for charging interest on drawings of a fixed amount, withdrawn at the end of each quarter. [1 mark]

Solution:

Concept:

- For equal drawings made at equal intervals, interest may be calculated using the arithmetic mean of the periods for which each drawing remains outstanding.
- The period runs from the date of withdrawal to the end of the accounting year.

Step 1: List the quarterly periods Drawings at the ends of the first, second, third and fourth quarters remain outstanding for $9, 6, 3$ and 0 months respectively. The final withdrawal is at the year end, so it bears no interest for that year.

Step 2: Find the average Because the amount withdrawn each quarter is the same, each period has

equal weight. Thus, average period $= (9+6+3+0)/4 = 18/4 = 4.5$ months. Equivalently, take the average of the first and last periods: $(9+0)/2$.

Step 3: Conclusion The average period for charging interest on drawings is 4.5 months.

Quick Tip to Solve: For quarterly end drawings, average the first period of nine months and the last period of zero.

3. X, Y and Z are partners in a firm sharing profits and losses in the ratio of 6 : 4 : 1. X guaranteed a profit of ₹ 15,000 to Z. The net profit for the year ending 31st March, 2019 was ₹ 99,000. X's share in the profit of the firm will be : [1 mark]

(A) ₹ 30,000

(B) ₹ 15,000

(C) ₹ 48,000

(D) ₹ 45,000

Correct Answer: (C) ₹ 48,000

Solution:

Concept:

- First distribute profit in the agreed profit-sharing ratio. Any shortfall in a guaranteed partner's share is borne by the partner who alone gives the guarantee.
- The guarantee reallocates the existing profit; it does not increase the firm's total profit.

Step 1: Calculate normal shares Total ratio units $= 6+4+1 = 11$. X's normal share $= 99,000 \times 6/11 =$ Rs $54,000$; Y's share is Rs 36,000; Z's share $= 99,000 \times 1/11 =$ Rs $9,000$.

Step 2: Charge the guarantee deficiency Z is guaranteed Rs 15,000, so the deficiency is $15,000 - 9,000 =$ Rs $6,000$. X alone guaranteed this amount and therefore bears the whole deficiency. X's adjusted share is $54,000 - 6,000 =$ Rs $48,000$. The other numerical options do not give this adjustment.

Step 3: Conclusion X's share of profit is Rs 48,000. Hence, the correct option is (C).

Quick Tip to Solve: Compute the guaranteed partner's normal share first, then debit the shortfall to the guarantor.

4. Average profit of a firm during the last few years is ₹ 1,50,000. In similar business, the normal rate of return is 10% of the capital employed. Calculate the value of goodwill by capitalisation of super profit method if super profits of the firm are ₹ 50,000. [1 mark]

Solution:

Concept:

- Super profit is the excess of maintainable average profit over normal profit.
- Under capitalisation of super profit, goodwill equals super profit divided by the normal rate of return expressed as a fraction.

Step 1: Select the capitalisation formula Goodwill = Super profit $\times$ 100/Normal rate of return. Here the super profit is already given as Rs 50,000, so it must not be deducted again from the average profit. The relevant normal rate is 10%.

Step 2: Substitute the given values

$$\text{Goodwill} = 50,000 \times \frac{100}{10} = \text{Rs } 5,00,000.$$

As a check, normal profit is $1,50,000 - 50,000 = \text{Rs } 1,00,000$; the excess profit capitalised at the same normal rate gives the value attributable to goodwill.

Step 3: Conclusion The value of goodwill is Rs 5,00,000.

Quick Tip to Solve: When super profit is supplied directly, capitalise that amount rather than the average profit.

5. Goodwill is the value of _____ . [1 mark]

Solution:

Concept:

- Goodwill is the value of the reputation of a business.
- A favourable reputation helps a firm attract and retain customers and earn profits above those normally earned by comparable firms.

Step 1: Identify the intangible benefit A business may be known for the quality of its goods, dependable service, favourable location or strong customer relationships. These advantages create reputation and may give it an earning advantage over an ordinary business.

Step 2: Complete the statement The question seeks the standard term in the definition of goodwill. The value attached to this business reputation is goodwill. It is an intangible asset because the reputation itself has no physical form; the blank is filled by reputation of a business.

Step 3: Conclusion Goodwill is the value of the reputation of a business.

Quick Tip to Solve: For the definition, connect goodwill to business reputation and the resulting superior earning capacity.

6. A, B and C were partners in a firm sharing profits and losses in the ratio of 1/2 : 1/3 : 1/6. D was admitted in the firm for 1/6th share. C would retain his original share. Calculate the new profit sharing ratio. [1 mark]

Solution:

Concept:

- The sum of the new shares of all partners must be one.
- A partner who retains his original share makes no sacrifice. The remaining old partners share the

balance in their relative old ratio unless another basis is specified.

Step 1: Reserve the fixed shares C retains $1/6$, while D receives $1/6$. Therefore the share available to A and B is $1 - 1/6 - 1/6 = 2/3$. Their old relative ratio is $(1/2) : (1/3) = 3 : 2$, so the available balance is divided in that ratio.

Step 2: Calculate A and B's new shares A's new share $= (2/3)(3/5) = 2/5$, and B's new share $= (2/3)(2/5) = 4/15$. With C and D each having $1/6$, the shares on a common denominator of 30 are $12/30, 8/30, 5/30, 5/30$. They total one.

Step 3: Conclusion The new profit-sharing ratio of A : B : C : D is $12 : 8 : 5 : 5$.

Quick Tip to Solve: Keep C's one-sixth unchanged, reserve D's one-sixth, then divide the balance between A and B.

7. State any one right acquired by a newly admitted partner. [1 mark]

Solution:

Concept:

- Admission makes the incoming person a partner with rights under the reconstituted partnership agreement.
- One such right is to share in the future profits of the firm in the agreed proportion.

Step 1: Identify a right arising on admission A newly admitted partner becomes entitled to participate in the profits earned after admission. The share is determined by the new profit-sharing arrangement agreed with the existing partners.

Step 2: State the requested single right The right to share in future profits is sufficient to answer this question. The word future matters: merely being admitted does not automatically entitle the incoming partner to the accumulated profits earned by the old partners before the date of admission.

Step 3: Conclusion A newly admitted partner acquires the right to share in the future profits of the firm.

Quick Tip to Solve: State the right to future profits clearly and link the share to the partners' agreed ratio.

8. In the absence of any agreement, the rate of interest payable on the amount remaining unpaid to the executor of deceased partner is [1 mark]

(A) 8% p.a.

(B) 6% p.a.

(C) 9% p.a.

(D) 12% p.a.

Correct Answer: (B) 6% p.a.

Solution:

Concept:

- In the absence of an agreement, the unpaid amount due to a deceased partner's executor carries interest at 6% per annum.
- This interest relates to delayed settlement of the deceased partner's amount; it is distinct from interest on capital under an agreed partnership deed.

Step 1: Apply the default treatment The question explicitly states that there is no agreement specifying the rate. Therefore the standard default annual interest rate of 6% applies to the amount remaining unpaid to the executor.

Step 2: Compare the options Option (B) gives 6% p.a., which is the required default rate. The rates 8%, 9% and 12% p.a. in options (A), (C) and (D) are not the default rate applicable in the absence of an agreement.

Step 3: Conclusion The rate is 6% p.a. Hence, the correct option is (B).

Quick Tip to Solve: For an executor's unpaid settlement balance without an agreement, recall the default rate of six per cent.

9. A, B and C were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 25th February, 2019, B died. B's share of profit till the date of his death was calculated at ₹ 5,000.

Pass the necessary journal entry for the same in the books of the firm. [1 mark]

Solution:

Concept:

- A deceased partner is entitled to the share of profit earned up to the date of death.
- When that share is estimated before final accounts are prepared, debit Profit and Loss Suspense Account and credit the deceased partner's Capital Account.

Step 1: Identify the accounts affected B's share up to 25th February, 2019 is already calculated at Rs 5,000. No further application of the $2 : 2 : 1$ ratio is required. The estimated profit increases the amount due to B, so B's Capital Account is credited; Profit and Loss Suspense Account receives the corresponding debit.

Step 2: Record the journal entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
25-02-2019	Profit and Loss Suspense A/c Dr.		5,000	
	To B's Capital A/c			5,000
	(Being B's share of profit up to the date of death credited to his capital account)			

Step 3: Conclusion Debit Profit and Loss Suspense A/c and credit B's Capital A/c with Rs 5,000.

Quick Tip to Solve: When the deceased partner's profit share is already given, journalise that amount without multiplying by the ratio.

10. Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' on the basis of 'Settlement of Assets and Liabilities'. [1 mark]

Solution:

Concept:

- Reconstitution changes the relationship among partners, but the firm may continue its business.
- Dissolution of the firm closes the business and requires settlement of its assets and liabilities.

Step 1: Dissolution of partnership The assets and liabilities need not be realised and paid off. They may be revalued and carried forward in the books of the continuing firm.

Step 2: Dissolution of partnership firm The assets are realised, the liabilities are settled, and the remaining balance is distributed among the partners after settlement of their accounts.

Step 3: Conclusion On dissolution of partnership, assets and liabilities need not be settled; on dissolution of the firm, assets are realised and liabilities are paid off.

Quick Tip to Solve: Check whether the business continues: settlement of all outside liabilities belongs to closure of the firm.

11. On dissolution of a firm, a creditor of ₹ 75,000 accepted furniture at ₹ 60,000 in full settlement of his claim. Pass the necessary journal entry. [1 mark]

Solution:

Concept:

- On dissolution, furniture and creditors are transferred to the Realisation Account.
- When a creditor accepts an asset in full settlement, no separate journal entry is passed for that direct settlement.

Step 1: Identify the mode of settlement The creditor of Rs 75,000 accepts furniture valued at Rs 60,000 in full satisfaction. No cash is paid or received by the firm.

Step 2: Apply the realisation treatment Both the creditor and the furniture have already been transferred to the Realisation Account. Therefore, their direct settlement requires no further entry.

The difference of Rs 15,000 is not recorded as a separate discount entry; its effect is included in the final realisation profit or loss.

Step 3: Conclusion No journal entry is required for the creditor accepting the furniture in full settlement.

Quick Tip to Solve: When an outside creditor takes over an asset directly, check for cash: with no cash settlement, no further entry is needed.

12. A portion of uncalled capital of a company to be called only in the event of winding up of the company is known as _____ capital. [1 mark]

Solution:

Concept:

- Reserve capital is a specified part of uncalled share capital reserved for being called only on winding up.
- It differs from capital reserve, which is a reserve created from capital profits.

Step 1: Identify the timing of the call The question specifies capital that is currently uncalled and can be called only when the company is wound up. This condition identifies reserve capital.

Step 2: Distinguish the similar term Capital reserve is an accounting reserve arising from capital profits; it is not an amount recoverable from shareholders on winding up. Thus the blank requires the word Reserve.

Step 3: Conclusion The blank is Reserve: it is known as reserve capital.

Quick Tip to Solve: Remember the word order: reserve capital is uncalled share capital; capital reserve comes from capital profits.

13. Beta Ltd. issued 10,000, 9% Debentures of ₹ 100 each as collateral security for a loan of ₹ 6,00,000 taken from Varsha Bank.

Pass the necessary journal entry for the issue of debentures as collateral security. [1 mark]

Solution:

Concept:

- Collateral security is secondary security given to a lender in addition to the primary security for a loan.
- If the issue is recorded, debit Debenture Suspense Account and credit Debentures Account with the nominal value issued.

Step 1: Calculate the nominal value The collateral debentures have a face value of $10,000 \times$ Rs $100 =$ Rs $10,00,000$. The loan amount of Rs 6,00,000 does not determine the value of the debenture issue.

Step 2: Record the issue Journal of Beta Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Debenture Suspense A/c Dr. To 9% Debentures A/c (Being 10,000 debentures of Rs 100 each issued as collateral security to Varsha Bank)		10,00,000	10,00,000

Step 3: Conclusion Debit Debenture Suspense A/c and credit 9% Debentures A/c by Rs 10,00,000 each.

Quick Tip to Solve: Value collateral debentures at their own face value, even when it exceeds the bank loan.

14. How will the following items be presented in the 'Income and Expenditure Account' of a club for the year ending 31st March, 2019 and the Balance Sheet as on that date ?

Particulars	₹
Tournament Fund on 1st April, 2018	**3,00,000**
10% Tournament Fund Investments on 1st April, 2018	**3,00,000**
Interest received on Tournament Fund Investments	**30,000**
Sale of Tournament Tickets	**75,000**
Tournament prizes awarded	**60,000**

[3 marks]

Solution:

Concept:

- A specific tournament fund is a restricted fund. Related receipts increase the fund, while related expenses decrease it.
- Interest earned on investments belonging to the fund is credited to that fund; the investment itself remains an asset.

Step 1: Compute the closing tournament fund Opening tournament fund is Rs 3,00,000. Interest of Rs 30,000 and ticket receipts of Rs 75,000 belong to the same tournament activity. Prizes of Rs 60,000 are charged against this specific fund.

$$\begin{aligned}\text{Closing fund} &= 3,00,000 + 30,000 + 75,000 - 60,000 \\ &= \text{Rs } 3,45,000.\end{aligned}$$

Interest received equals 10% of Rs 3,00,000; none is outstanding.

Step 2: Present the Income and Expenditure Account No tournament receipt or prize expense is shown in the Income and Expenditure Account for the year ended 31st March, 2019. They are adjusted against the Tournament Fund because the available restricted fund is sufficient to cover the tournament expenditure.

Step 3: Present the Balance Sheet Balance Sheet (extract) as at 31st March, 2019

Liabilities	Rs	Assets	Rs
Tournament Fund:		10% Tournament Fund Investments	3,00,000
Opening balance	3,00,000		
Add: Interest on investments	30,000		
Add: Sale of tournament tickets	75,000		
Subtotal	4,05,000		
Less: Tournament prizes	(60,000)		
Closing Tournament Fund	3,45,000		

Step 4: Conclusion No entry appears in the Income and Expenditure Account for these tournament items. The Balance Sheet shows Tournament Fund Rs 3,45,000 and Tournament Fund Investments Rs 3,00,000.

Quick Tip to Solve: Keep the specific fund and its investment separate: adjust related income and expenses in the fund, leaving the investment as an asset.

OR

14. From the following information, calculate the amount of sports material to be debited to 'Income and Expenditure Account' of a sports club for the year ending 31st March, 2019 :

Particulars	₹
Stock of Sports Material on 1st April, 2018	**10,000**
Stock of Sports Material on 31st March, 2019	**7,500**
Creditors for Sports Material on 1st April, 2018	**20,000**
Creditors for Sports Material on 31st March, 2019	**22,500**
Payment made to creditors of Sports Material during the year ending 31st March, 2019	**1,00,000**

[3 marks]

Solution:

Concept:

- Payments to suppliers must first be converted into accrual-basis purchases using the change in creditors.
- Sports material consumed equals opening stock plus purchases less closing stock. Consumption is the expense charged to Income and Expenditure Account.

Step 1: Calculate purchases during the year The payment of Rs 1,00,000 includes settlement of opening creditors. Add closing creditors to include current-year purchases remaining unpaid, and deduct opening creditors to exclude purchases belonging to the previous year.

$$\begin{aligned} \text{Purchases} &= \text{Payments} + \text{Closing creditors} - \text{Opening creditors} \\ &= 1,00,000 + 22,500 - 20,000 \\ &= \text{Rs } 1,02,500. \end{aligned}$$

Step 2: Calculate sports material consumed Add the opening material available for use to the purchases and deduct the material still unused at the year end.

$$\begin{aligned}\text{Consumption} &= \text{Opening stock} + \text{Purchases} - \text{Closing stock}\\ &= 10,000 + 1,02,500 - 7,500\\ &= \text{Rs } 1,05,000.\end{aligned}$$

The stock decrease of Rs 2,500 raises consumption above purchases, while the creditors increase of Rs 2,500 raises purchases above cash payments. Thus consumption exceeds the payment by Rs 5,000.

Step 3: Show the expense Income and Expenditure Account (extract) for the year ended 31st March, 2019

Dr.	Expenditure	Rs	Income	Rs	Cr.
	To Sports material consumed	1,05,000			

Step 4: Conclusion Sports material of Rs 1,05,000 is debited to the Income and Expenditure Account for the year ended 31st March, 2019.

Quick Tip to Solve: Adjust creditors before stock: cash payments become purchases first, and purchases then become consumption.

15. Give the necessary journal entries for the following transactions in case of dissolution of a partnership firm after various assets (other than cash and bank) and third party liabilities have been transferred to Realisation Account :

(i) Dissolution expenses ₹ 5,000 were paid by the firm.

(ii) An unrecorded computer not appearing in the books of accounts realised ₹ 2,200.

(iii) A creditor for ₹ 1,40,000 accepted building valued at ₹ 1,80,000 and paid to the firm ₹ 40,000.

(iv) Loss on realisation ₹ 10,000 was divided between the partners Subhi and Sudha in the ratio of 4 : 1. [4 marks]

Solution:

Concept:

- Realisation Account records expenses of dissolution, proceeds of assets and the final profit or loss after assets and outside liabilities have been transferred to it.
- An unrecorded asset has no book value to transfer. Its sale proceeds are credited directly to Realisation Account. The loss on realisation is debited to partners' capital accounts in their profit-sharing ratio.

Step 1: Analyse the cash transactions The firm's payment of dissolution expenses increases the realisation loss: debit Realisation Account and credit Bank Account with Rs 5,000. Sale of the unrecorded computer brings cash into the firm: debit Bank Account and credit Realisation Account with Rs 2,200. There is no separate initial transfer entry for this computer because it does not appear in the books.

Step 2: Account for the creditor and allocate the loss Both the creditor and the building have already

been transferred to Realisation Account. Therefore, no further entry is needed for the creditor taking over the building. Only the additional Rs 40,000 received is recorded as a debit to Bank and credit to Realisation. The Rs 10,000 loss is allocated as follows:

$$\text{Subhi} = 10,000 \times \frac{4}{5} = \text{Rs } 8,000, \qquad \text{Sudha} = 10,000 \times \frac{1}{5} = \text{Rs } 2,000.$$

Step 3: Record the necessary journal entries Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
(i)	Realisation A/c Dr. To Bank A/c (Being dissolution expenses paid by the firm)		5,000	5,000
(ii)	Bank A/c Dr. To Realisation A/c (Being proceeds of sale of unrecorded computer received)		2,200	2,200
(iii)	Bank A/c Dr. To Realisation A/c (Being cash received from creditor on taking over building)		40,000	40,000
(iv)	Subhi's Capital A/c Dr. Sudha's Capital A/c Dr. To Realisation A/c (Being realisation loss transferred in the ratio 4:1)		8,000 2,000	10,000

Step 4: Conclusion Realisation is debited with expenses of Rs 5,000 and credited with receipts of Rs 2,200 and Rs 40,000. The final loss is transferred to Subhi's and Sudha's capital accounts as Rs 8,000 and Rs 2,000 respectively.

Quick Tip to Solve: When both an asset and a creditor are already in Realisation Account, record only any extra cash exchanged on their settlement.

16. A, B and C were partners in a firm. On 1st April, 2018 the balance in their capital accounts stood at ₹ 8,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. As per the provisions of the partnership deed, partners were entitled to interest on capital @ 5% p.a., salary to B ₹ 3,000 per month and a commission of ₹ 12,000 to C.

A's share of profit, excluding interest on capital, was guaranteed at ₹ 25,000 p.a. B's share of profit, including interest on capital but excluding salary was guaranteed at ₹ 55,000 p.a. Any deficiency arising on that account was to be met by C. The profits of the firm for the year ending 31st March, 2019 amounted to ₹ 2,16,000.

Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2019. [4 marks]

Solution:

Concept:

- Interest on capital, partners' salary and commission are appropriations of profit. The remaining profit is shared equally when the partnership deed specifies no profit-sharing ratio.
- A guarantee is tested against the particular income components stated in the deed. C bears a deficiency only if the relevant normal entitlement falls below its guaranteed amount.

Step 1: Calculate the prior appropriations Interest on capital is calculated for the full year, since the given balances are those on 1st April, 2018:

$$A : 8,00,000 \times 5\% = \text{Rs } 40,000,$$
$$B : 6,00,000 \times 5\% = \text{Rs } 30,000,$$
$$C : 4,00,000 \times 5\% = \text{Rs } 20,000.$$

Total interest is Rs 90,000. B's annual salary is $3,000 \times 12 = \text{Rs } 36,000$, and C's commission is Rs 12,000. These are deducted before distributing the remaining profit.

Step 2: Distribute the balance and test both guarantees Profit available for division is

$$2,16,000 - 90,000 - 36,000 - 12,000 = \text{Rs } 78,000.$$

No profit-sharing ratio is specified, so A, B and C share this balance equally: $78,000/3 = \text{Rs } 26,000$ each. A's share excluding interest on capital is Rs 26,000, which exceeds the guarantee of Rs 25,000. B's entitlement including interest but excluding salary is $26,000 + 30,000 = \text{Rs } 56,000$, which exceeds Rs 55,000. Consequently, neither guarantee produces a deficiency, and C's normal share requires no adjustment. B's salary must not be included while testing his guarantee.

Step 3: Prepare the appropriation account Profit and Loss Appropriation Account for the year ended 31st March, 2019

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Interest on Capital:		By Profit and Loss A/c	2,16,000	
	A	40,000	(Net profit)		
	B	30,000			
	C	20,000			
	To B's Salary A/c	36,000			
	To C's Commission A/c	12,000			
	To Partners' Capital A/cs:				
	A (profit share)	26,000			
	B (profit share)	26,000			
	C (profit share)	26,000			
	Total	2,16,000	Total	2,16,000	

The account closes by transferring all appropriations and the divisible balance to partners. It therefore has no balance to carry down. Total credits to the partners are A: Rs 66,000; B: Rs 92,000; and C: Rs 58,000, which together equal the year's profit of Rs 2,16,000.

Step 4: Conclusion The divisible profit is Rs 78,000, shared equally at Rs 26,000 each. Both A's and B's guarantees are satisfied, so C bears no deficiency. The Profit and Loss Appropriation Account totals Rs 2,16,000 on each side.

Quick Tip to Solve: Test A's guarantee using profit share alone, and B's guarantee using profit share plus interest, keeping B's salary out of the comparison.

OR

16. On 31st March, 2019, the balance in the capital accounts of Asha, Nisha and Disha after making adjustments for profits and drawings were ₹ 1,50,000, ₹ 1,20,000 and ₹ 90,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 10% p.a. Interest on drawings was also to be charged @ 10% p.a. The drawings during the year were : Asha ₹ 50,000, Nisha ₹ 60,000 and Disha ₹ 30,000. The net profit for the year ending 31st March, 2019 amounted to ₹ 1,00,000. The profit sharing ratio was 2 : 2 : 1.

Pass the necessary adjustment entry. Also show your workings clearly. [4 marks]

Solution:

Concept:

- An omitted appropriation is corrected through partners' capital accounts. First reconstruct opening capitals: closing capital plus drawings minus the profit already credited.
- Interest on capital is opening capital multiplied by the annual rate. When drawings dates are unspecified, interest on total drawings is calculated for an average period of six months.
- The net omitted benefit equals interest on capital less interest on drawings. Its total reduces the divisible profit in the ratio 2 : 2 : 1; compare each partner's benefit with that reduction.

Step 1: Reconstruct the capitals at the beginning of the year The original profit of Rs 1,00,000 was already credited in the ratio 2 : 2 : 1: Asha Rs 40,000, Nisha Rs 40,000 and Disha Rs 20,000.

Therefore:

$$\text{Asha: } 1,50,000 + 50,000 - 40,000 = 1,60,000,$$
$$\text{Nisha: } 1,20,000 + 60,000 - 40,000 = 1,40,000,$$
$$\text{Disha: } 90,000 + 30,000 - 20,000 = 1,00,000.$$

The capital balances given are closing balances; using them directly would charge interest on the wrong base.

Step 2: Calculate the omitted interest and net adjustment Interest on drawings is charged for six months because no drawing dates are specified. For example, Asha's interest is $50,000 \times 10\% \times 6/12 =$ Rs $2,500$.

Particulars (Rs)	Asha	Nisha	Disha
Interest on opening capital, 10%	16,000	14,000	10,000
Less: Interest on drawings	2,500	3,000	1,500
Net benefit due	13,500	11,000	8,500
Less: Share of profit reduction	13,200	13,200	6,600
Net credit/(debit)	300	(2,200)	1,900

Total interest on capital is Rs 40,000 and total interest on drawings is Rs 7,000. Thus the distributable profit falls by Rs 33,000. Its allocation is $33,000 \times 2/5 = 13,200$ each to Asha and Nisha and $33,000 \times 1/5 = 6,600$ to Disha. The two credits total Rs 2,200 and equal the debit.

Step 3: Pass the single adjustment entry Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31 March 2019	Nisha's Capital A/c Dr.		2,200	
	To Asha's Capital A/c			300
	To Disha's Capital A/c			1,900
	(Being omitted interest on capital and drawings adjusted through partners' capital accounts)			

This transfer corrects the allocation among the partners without reopening the profit already distributed.

Step 4: Conclusion Debit Nisha's Capital Account by Rs 2,200; credit Asha's Capital Account by Rs 300 and Disha's Capital Account by Rs 1,900.

Quick Tip to Solve: Add drawings and subtract the already credited profit before calculating interest on capital; then check that adjustment debits equal credits.

17. The Balance Sheet of A, B and C who were sharing profits in the ratio of 3 : 3 : 4 as at 31st March, 2019 was as follows :

Balance Sheet of A, B and C as at 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
General Reserve	40,000	Cash	4,000
Bills Payable	15,000	Stock	43,000
Loan from Bank	30,000	Investments	70,000
Capitals: A 60,000 B 90,000 C 40,000	1,90,000	Land and Buildings	1,58,000
	2,75,000		2,75,000

A died on 1st October, 2019. The partnership deed provided for the following on the death of a partner :

(i) Goodwill of the firm be valued at two years' purchase of average profits for the last three years.

(ii) The profit for the year ending 31st March, 2019 was ₹ 50,000.

(iii) Interest on capital was to be provided @ 6% p.a.

(iv) The average profits of the last three years were ₹ 35,000.

Prepare A's Capital Account to be rendered to his executors. [4 marks]

Solution:

Concept:

- A deceased partner is entitled to the opening capital, the old profit-sharing fraction of accumulated reserves and goodwill, and profit and interest on capital up to the date of death.
- Goodwill equals average annual profit multiplied by years' purchase. A's old share is $3/10$; goodwill compensation is credited to A and borne by the continuing partners.
- For the six months from 1 April to 1 October, estimated profit is based on the preceding year's profit. The balance payable is transferred to A's Executors' Account.

Step 1: Compute reserve and goodwill entitlements The old profit-sharing ratio is $3 : 3 : 4$, so A's fraction is $3/10$. The General Reserve accumulated before death belongs to all three partners in this ratio. A's share is

$$40,000 \times \frac{3}{10} = \text{Rs } 12,000.$$

Goodwill of the firm is two years' purchase of the average profit of Rs 35,000:

$$\text{Goodwill} = 35,000 \times 2 = \text{Rs } 70,000.$$

Consequently A's share of goodwill is $70,000 \times 3/10 = \text{Rs } 21,000$. With no changed ratio stated, B and C continue in their relative old ratio $3 : 4$. Their compensation is therefore Rs 9,000 and Rs 12,000 respectively, credited to A's capital.

Step 2: Compute profit and interest up to death A died on 1 October 2019, six months after the balance-sheet date. Using the preceding annual profit of Rs 50,000, the firm's estimated profit for this

period is $50,000 \times 6/12 = \text{Rs } 25,000$. A's share is

$$25,000 \times \frac{3}{10} = \text{Rs } 7,500.$$

This is credited through Profit and Loss Suspense Account because the actual current-year profit has not yet been determined. Interest on A's capital is

$$60,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,800.$$

The annual profit figure of Rs 50,000 determines the interim profit; the three-year average of Rs 35,000 is used only for goodwill. No drawings or other deductions from A's capital are stated.

Step 3: Prepare the account to be rendered to the executors A's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To A's Executors' A/c	92,300	By Balance b/d	60,000	
			By General Reserve A/c	12,000	
			By B's Capital A/c	9,000	
			By C's Capital A/c	12,000	
			By Profit and Loss Suspense A/c	7,500	
			By Interest on Capital A/c	1,800	
	Total	92,300	Total	92,300	

The debit transfer closes A's capital account and records the liability to his executors. It does not imply immediate cash payment; the supplied cash balance is not used to determine the entitlement.

Step 4: Conclusion The amount due to A's executors is $60,000 + 12,000 + 21,000 + 7,500 + 1,800 = \text{Rs } 92,300$.

Quick Tip to Solve: Use average profit for goodwill, last year's profit for the interim profit share, and only six months for both interim profit and capital interest.

18. Alpha India Ltd. was registered with an authorised capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The company offered to the public for subscription 80,000 equity shares payable per share as : ₹ 3 on application, ₹ 2 on allotment, ₹ 3 on first call and the balance on second and final call. The issue was fully subscribed and all amounts due were received except the first and final call money on 2,000 shares allotted to Chavi. Her shares were forfeited.

Present the 'Share Capital' in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013. Also prepare 'Notes to Accounts'. [4 marks]

Solution:

Concept:

- Share capital is shown under Shareholders' Funds in Equity and Liabilities. Authorised, issued and subscribed capital are disclosed separately in the note.
- Forfeited shares cease to form part of subscribed capital. The amount already received on them is added separately as shares forfeited until reissue.

Step 1: Calculate the called-up and forfeited amounts The second and final call is $10-(3+2+3) = \text{Rs } 2$ per share. Thus, all Rs 10 per share have been called. Chavi paid application and allotment only, or $3 + 2 = \text{Rs } 5$ per share, and failed to pay the two calls totalling Rs 5 per share. On forfeiture, the nominal capital of her $2,000$ shares, $2,000 \times 10 = \text{Rs } 20,000$, is removed from subscribed capital. The amount received and retained is $2,000 \times 5 = \text{Rs } 10,000$. The unpaid calls on these forfeited shares do not remain as a deduction from the capital of the continuing shareholders.

Step 2: Determine subscribed capital after forfeiture The company issued all $80,000$ shares offered and the issue was fully subscribed. After forfeiting $2,000$ shares, the remaining $78,000$ shares are fully paid. Their capital is $78,000 \times 10 = \text{Rs } 7,80,000$. Adding the amount received on forfeited shares gives $7,80,000 + 10,000 = \text{Rs } 7,90,000$. This also equals the total cash retained on the issue, since no premium or reissue is stated.

Step 3: Present the balance sheet extract and share capital note **Alpha India Ltd. — Balance Sheet (Extract)**

Particulars	Note	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	7,90,000

Notes to Accounts — Note 1: Share Capital

Particulars	Amount (Rs)
Authorised Capital:	
1,00,000 equity shares of Rs 10 each	10,00,000
Issued Capital:	
80,000 equity shares of Rs 10 each	8,00,000
Subscribed and Fully Paid-up Capital:	
78,000 equity shares of Rs 10 each	7,80,000
Add: Shares forfeited (amount originally paid-up)	10,000
Total	7,90,000

Step 4: Conclusion Share Capital shown in the Balance Sheet is $\boxed{\text{Rs } 7,90,000}$, comprising fully paid-up capital of Rs 7,80,000 and Rs 10,000 received on forfeited shares.

Quick Tip to Solve: Remove the face value of forfeited shares from subscribed capital, then add only the amount actually received on those shares.

19. From the following Receipts and Payments Account of Shesha Sports and Entertainment Club, Chandigarh, prepare Income and Expenditure Account for the year ending 31st March, 2019 :

Receipts and Payments Account of Shesha Sports and Entertainment Club, Chandigarh for the year ending 31st March, 2019

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d Bank	5,000	By Salaries	60,000
To Subscriptions : 2017 – 18 10,000 2018 – 19 70,000 2019 – 20 20,000	1,00,000	By Upkeep of Ground	6,000
To Entrance Fees	20,000	By Investments @ 10% p.a. (01.07.2018)	90,000
To Donations	10,000	By Electricity Charges	7,000
To Sale of Waste Paper	4,000	By Balance c/d Bank	6,000
To Endowment Fund	30,000		
	1,69,000		1,69,000

Additional Information :

(i) On 31st March, 2019, salaries outstanding amounted to ₹ 10,000. Salaries paid in the year 2018 – 19 included ₹ 8,000 for the year 2017 – 18.

(ii) Subscriptions outstanding were ₹ 6,000.

(iii) On 1st April, 2018, the club owned land and buildings valued at ₹ 5,00,000. [6 marks]

Solution:

Concept:

- The Income and Expenditure Account records revenue income and revenue expenses belonging to the current accounting year on an accrual basis, irrespective of when cash is received or paid.
- Capital receipts, purchases of investments and bank balances are excluded. Outstanding current income and expenses are included; amounts relating to earlier or later years are excluded.

Step 1: Adjust subscriptions and salaries for the accounting year Of the Rs 1,00,000 subscriptions received, Rs 10,000 belongs to 2017–18 and Rs 20,000 to 2019–20. Therefore only Rs 70,000 received for 2018–19 is current income. Add current subscriptions outstanding of Rs 6,000:

$$\text{Subscription income} = 70,000 + 6,000 = \text{Rs } 76,000.$$

Salaries paid include Rs 8,000 for the preceding year; these are not a current expense. Add the closing outstanding salaries of Rs 10,000:

$$\text{Salary expense} = 60,000 - 8,000 + 10,000 = \text{Rs } 62,000.$$

Outstanding subscriptions are receivable and outstanding salaries are payable; their absence from the cash account does not prevent recognition in the current year's revenue account.

Step 2: Recognise interest and classify the other receipts and payments The investments were

purchased on 1 July 2018, so interest accrues for nine months up to 31 March 2019:

$$\text{Accrued interest} = 90,000 \times \frac{10}{100} \times \frac{9}{12} = \text{Rs } 6,750.$$

Include this income even though no interest receipt appears in the Receipts and Payments Account. Entrance fees of Rs 20,000 and the general donation of Rs 10,000 are treated as revenue income because no direction for capitalisation or specific purpose is given. Sale of waste paper, Rs 4,000, is also revenue income. The endowment fund of Rs 30,000 is a specific capital receipt and is excluded. The investment purchase of Rs 90,000 creates an asset; it is not an expense. Opening and closing bank balances are assets, not income or expenditure. The land and buildings of Rs 5,00,000 are existing assets. As no depreciation rate or amount is provided, no depreciation charge is calculated.

Step 3: Prepare the Income and Expenditure Account **Shesha Sports and Entertainment Club, Chandigarh**

Income and Expenditure Account for the year ended 31 March 2019

Expenditure	Amount (Rs)	Income	Amount (Rs)
To Salaries	62,000	By Subscriptions	76,000
To Upkeep of Ground	6,000	By Entrance Fees	20,000
To Electricity Charges	7,000	By Donations	10,000
To Surplus (transferred to Capital Fund)	41,750	By Sale of Waste Paper	4,000
		By Accrued Interest on Investments	6,750
Total	1,16,750	Total	1,16,750

Revenue expenditure totals $62,000 + 6,000 + 7,000 = \text{Rs } 75,000$. Revenue income totals $76,000 + 20,000 + 10,000 + 4,000 + 6,750 = \text{Rs } 1,16,750$. The balancing surplus is transferred to the capital fund rather than treated as a cash receipt.

Step 4: Conclusion The club earns a surplus of $\boxed{\text{Rs } 41,750}$ for the year ended 31 March 2019, being income of Rs 1,16,750 less expenditure of Rs 75,000.

Quick Tip to Solve: First isolate the current year's subscriptions and salaries; then include nine months' accrued investment interest and exclude the endowment fund.

20. D Ltd. had issued 40,000, 11% Debentures of ₹ 100 each of which one half were due for redemption on 31st March, 2019. It was decided to invest the required amount towards Debenture Redemption Investments. The company had in its Debenture Redemption Reserve Account a balance of ₹ 3,10,000.

Record the necessary journal entries at the time of Redemption of Debentures. [6 marks]

Solution:

Concept:

- The applicable reserve requirement for this redemption is 25% of the nominal amount of debentures issued. The existing reserve reduces the further appropriation needed.
- Debenture Redemption Investments are 15% of the nominal value falling due in the year. Their

realisation supplies cash; the reserve itself is an appropriation of profits.

Step 1: Calculate the reserve and investment The nominal issue is $40,000 \times$ Rs $100 =$ Rs $40,00,000$. Half the issue, or 20,000 debentures, matures on 31 March 2019, giving a redemption liability of Rs 20,00,000. No redemption premium is specified.

$$\text{Required DRR} = 40,00,000 \times 25\% = \text{Rs } 10,00,000,$$
$$\text{Further appropriation} = 10,00,000 - 3,10,000 = \text{Rs } 6,90,000,$$
$$\text{Required investment} = 20,00,000 \times 15\% = \text{Rs } 3,00,000.$$

The investment is made by 30 April 2018 for the debentures maturing in the financial year ending 31 March 2019. The annual interest rate of 11% does not alter the principal or these percentages; interest entries are not required for this redemption question.

Step 2: Record the redemption transactions

Journal of D Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2018	Surplus in Statement of Profit and Loss A/c Dr.		6,90,000	
	To Debenture Redemption Reserve A/c			6,90,000
	(Being the shortfall in the required reserve appropriated from profits)			
30-4-2018	Debenture Redemption Investments A/c Dr.		3,00,000	
	To Bank A/c			3,00,000
	(Being the required investment made before the stipulated date)			
31-3-2019	Bank A/c Dr.		3,00,000	
	To Debenture Redemption Investments A/c			3,00,000
	(Being investments realised at their carrying amount for redemption)			
31-3-2019	11% Debentures A/c Dr.		20,00,000	
	To Debentureholders A/c			20,00,000
	(Being 20,000 debentures made due for redemption at par)			
31-3-2019	Debentureholders A/c Dr.		20,00,000	
	To Bank A/c			20,00,000
	(Being the amount due paid to debentureholders)			
31-3-2019	Debenture Redemption Reserve A/c Dr.		5,00,000	
	To General Reserve A/c			5,00,000
	(Being the proportionate reserve released after redemption of half the issue)			

Step 3: Check the remaining reserve After half the debentures have been redeemed, the proportionate DRR released is $10,00,000 \times \frac{1}{2} =$ Rs $5,00,000$. DRR of Rs 5,00,000 remains against the remaining nominal debenture liability of Rs 20,00,000. Every journal entry has equal debit and credit amounts; selling the investment does not itself cancel the debenture liability.

Step 4: Conclusion D Ltd. transfers Rs 6,90,000 to DRR, invests Rs 3,00,000, redeems Rs 20,00,000 and releases Rs 5,00,000 of DRR to General Reserve.

Quick Tip to Solve: Use the total issue for DRR, but only the half maturing this year for the 15% investment calculation.

OR

20. (i) LT Ltd. purchased land from JSS Ltd. The payment was made by issuing a cheque for ₹ 10,00,000 and by accepting a bill of exchange for 6 months for ₹ 5,00,000. The balance amount was paid by issuing 5,000, 10% Debentures of ₹ 100 each at par redeemable at 10% premium after 3 years.

Pass the necessary journal entries in the books of LT Ltd. for the above transactions.

(ii) ABC Ltd. purchased assets of ₹ 4,20,000 and took over liabilities of ₹ 40,000 of XYZ Ltd. at a value of ₹ 3,60,000. ABC Ltd. issued 10% Debentures of ₹ 100 each at a discount of 10% in full settlement of the purchase consideration.

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

Solution:

Concept:

- Debentures issued at par settle a vendor at their face value. A future redemption premium is recognised separately as a liability and an equal loss on issue.
- When debentures are issued at a discount, the consideration discharged per debenture is face value minus discount. Excess net assets over purchase consideration is Capital Reserve.

Step 1: (i) Determine land cost and redemption premium The debentures discharge $5,000 \times$ Rs $100 =$ Rs $5,00,000$ of the vendor balance. Thus land costs $10,00,000 + 5,00,000 + 5,00,000 =$ Rs $20,00,000$. The redemption premium is $5,00,000 \times 10\% =$ Rs $50,000$. This is payable after three years and does not increase the purchase price of land. The six-month accepted bill creates Bills Payable, rather than an immediate bank payment.

Step 2: (i) Pass the entries in LT Ltd.

Journal of LT Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Land A/c Dr.		20,00,000	
	To JSS Ltd. A/c			20,00,000
	(Being land acquired on the agreed purchase consideration)			
	JSS Ltd. A/c Dr.		15,00,000	
	To Bank A/c			10,00,000
	To Bills Payable A/c			5,00,000
	(Being cheque issued and a six-month bill accepted in part settlement)			
	JSS Ltd. A/c Dr.		5,00,000	
	Loss on Issue of Debentures A/c Dr.		50,000	
	To 10% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being 5,000 debentures issued at par, redeemable at a premium of 10 percent after three years)			

Step 3: (ii) Calculate capital reserve and number of debentures The acquired net assets are $4,20,000 - 40,000 =$ Rs $3,80,000$, whereas purchase consideration is Rs 3,60,000. Hence Capital Reserve is $3,80,000 - 3,60,000 =$ Rs $20,000$. Each Rs 100 debenture is issued for Rs 90. Therefore $3,60,000/90 = 4,000$ debentures are required. Their face value is Rs 4,00,000, and the discount is $4,000 \times$ Rs $10 =$

Rs $40,000$. The 10% coupon is an interest rate; it does not determine the issue proceeds.

Step 4: (ii) Pass the entries in ABC Ltd.

Journal of ABC Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Assets A/c Dr.		4,20,000	
	To Liabilities A/c			40,000
	To XYZ Ltd. A/c			3,60,000
	To Capital Reserve A/c			20,000
	(Being assets and liabilities taken over and the capital profit recognised)			
	XYZ Ltd. A/c Dr.		3,60,000	
	Discount on Issue of Debentures A/c Dr.		40,000	
	To 10% Debentures A/c			4,00,000
	(Being 4,000 debentures issued at a discount of 10 percent in full settlement)			

Step 5: Conclusion LT Ltd. records land at Rs 20,00,000 and loss on issue of Rs 50,000. ABC Ltd. credits Capital Reserve with Rs 20,000 and issues 4,000 debentures with a total discount of Rs 40,000.

Quick Tip to Solve: For ABC Ltd., divide the vendor balance by Rs 90, the issue price, rather than by the Rs 100 face value.

21. A Ltd. invited applications for issuing 80,000 equity shares of ₹ 10 each at a premium of ₹ 4 per share. The amount was payable as follows :

On application – ₹ 5 per share

On allotment – ₹ 9 per share (premium included)

Applications were received for 1,40,000 shares and allotment was made to all applicants on pro-rata basis. Money overpaid on applications was adjusted towards sum due on allotment. Rajiv, who had applied for 1,400 shares failed to pay the allotment money. His shares were forfeited. Later on, these forfeited shares were reissued at ₹ 9 per share as fully paid up.

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

Solution:

Concept:

- Pro-rata allotment distributes the 80,000 shares in the ratio $80,000 : 1,40,000 = 4 : 7$. Excess application money is adjusted against allotment, reducing the cash subsequently collectible.
- On forfeiture, debit Share Capital with called-up nominal capital. Reverse premium credited but not received; credit Share Forfeiture only with capital money actually received.
- On reissue as fully paid, credit nominal capital; any discount is debited to Share Forfeiture. Transfer the remaining forfeiture balance relating to reissued shares to Capital Reserve.

Step 1: Calculate the allotment and Rajiv's default Rajiv receives $1,400 \times 4/7 = 800$ shares. His application payment is $1,400 \times 5 =$ Rs $7,000$, of which $800 \times 5 =$ Rs $4,000$ is application capital. The

excess Rs 3,000 is adjusted against allotment.

$$\text{Gross allotment due from Rajiv} = 800 \times 9 = \text{Rs } 7,200,$$
$$\text{Unpaid allotment} = 7,200 - 3,000 = \text{Rs } 4,200.$$

The allotment contains capital of Rs 4,000 and premium of Rs 3,200. Adjust the excess application money first against capital: Rs 3,000 of the allotment capital has been received, leaving Rs 1,000 capital and the entire Rs 3,200 premium unpaid. Thus capital received on the forfeited shares is Rs 7,000.

Step 2: Record application and allotment Total application receipt is $1,40,000 \times 5 = \text{Rs } 7,00,000$. Application capital is Rs 4,00,000 and the surplus is Rs 3,00,000. Allotment due is $80,000 \times 9 = \text{Rs } 7,20,000$, comprising Rs 4,00,000 capital and Rs 3,20,000 premium. Cash collected on allotment is $7,20,000 - 3,00,000 - 4,200 = \text{Rs } 4,15,800$.

Journal of A Ltd. (application and allotment)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,40,000 shares)		7,00,000	 7,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Being application money transferred and surplus adjusted on allotment)		7,00,000	 4,00,000 3,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being allotment money due including premium)		7,20,000	 4,00,000 3,20,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment money received except Rajiv's unpaid amount)		4,15,800	 4,15,800

Step 3: Record forfeiture and reissue Called-up capital on Rajiv's shares is $800 \times 10 = \text{Rs } 8,000$. Reverse the unpaid premium of Rs 3,200. The forfeiture credit is $8,000 + 3,200 - 4,200 = \text{Rs } 7,000$. Reissue proceeds are $800 \times 9 = \text{Rs } 7,200$, and discount is $800 \times 1 = \text{Rs } 800$. Since every forfeited share is reissued, the entire remaining balance $7,000 - 800 = \text{Rs } 6,200$ becomes capital reserve.

Journal of A Ltd. (forfeiture and reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		8,000	
	Securities Premium Reserve A/c Dr.		3,200	
	To Share Allotment A/c			4,200
	To Share Forfeiture A/c			7,000
	(Being 800 shares forfeited for non-payment of allotment)			
	Bank A/c Dr.		7,200	
	Share Forfeiture A/c Dr.		800	
	To Share Capital A/c			8,000
	(Being 800 forfeited shares reissued at Rs 9 as fully paid)			
	Share Forfeiture A/c Dr.		6,200	
	To Capital Reserve A/c			6,200
	(Being profit on reissue transferred to capital reserve)			

Step 4: Conclusion Rajiv is allotted 800 shares; unpaid allotment is Rs 4,200. The forfeiture credit is Rs 7,000 and the capital reserve on reissue is $\boxed{\text{Rs } 6,200}$.

Quick Tip to Solve: Separate the capital and premium in Rajiv's allotment before recording forfeiture; apply his excess application money to capital first.

OR

21. AB Ltd. issued 30,000 shares of ₹ 10 each at par, payable as follows :

₹ 3 per share – on application

₹ 3 per share – on allotment

Balance – on first and final call

Applications were received for 50,000 shares. Applications for 10,000 shares were rejected and allotment was made on pro-rata basis to the remaining applicants. Excess money received on application was adjusted towards sums due on allotment. Natasha, who had applied for 1,600 shares, failed to pay the amount due on allotment and call. The company forfeited her shares. Later on, these forfeited shares were reissued at ₹ 10 per share as fully paid-up.

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

Solution:

Concept:

- Refund application money on rejected applications before computing the pro-rata ratio for accepted applications. Apply excess application receipts towards allotment.
- Forfeiture removes the full called-up capital and cancels unpaid allotment and call balances. Capital already received is credited to Share Forfeiture.
- Reissue at par has no discount. Once all forfeited shares are reissued, transfer their entire forfeiture balance to Capital Reserve.

Step 1: Work out accepted applications and Natasha's allotment Out of 50,000 applications, 10,000 are rejected, so 40,000 applications participate in allotment of 30,000 shares. The allotment ratio is $30,000 : 40,000 = 3 : 4$. Natasha therefore receives $1,600 \times 3/4 = 1,200$ shares. Her application payment is $1,600 \times 3 =$ Rs $4,800$. Application capital on her allotted shares is Rs 3,600, leaving Rs 1,200 surplus for allotment.

$$\text{Unpaid allotment} = 1,200 \times 3 - 1,200 = \text{Rs } 2,400,$$
$$\text{Unpaid call} = 1,200 \times (10 - 3 - 3) = \text{Rs } 4,800.$$

All Rs 4,800 received from Natasha is capital, since these shares carry no premium.

Step 2: Record application and allotment Application money received is $50,000 \times 3 =$ Rs $1,50,000$. Refund $10,000 \times 3 =$ Rs $30,000$. Transfer $30,000 \times 3 =$ Rs $90,000$ to capital and adjust the remaining Rs 30,000 against allotment. Gross allotment due is Rs 90,000; cash received is $90,000 - 30,000 - 2,400 =$ Rs $57,600$.

Journal of AB Ltd. (application and allotment)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 50,000 shares)		1,50,000	 1,50,000
	Share Application A/c Dr. To Bank A/c To Share Capital A/c To Share Allotment A/c (Being rejected applications refunded and balance transferred or adjusted)		1,50,000	 30,000 90,000 30,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment money due on 30,000 shares)		90,000	 90,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment money received except Natasha's unpaid amount)		57,600	 57,600

Step 3: Record the call, forfeiture and reissue The first and final call is Rs 4 per share, giving total call due of $30,000 \times 4 =$ Rs $1,20,000$. Actual call receipts are $1,20,000 - 4,800 =$ Rs $1,15,200$. On forfeiture, nominal capital of $1,200 \times 10 =$ Rs $12,000$ is debited; the unpaid Rs 7,200 is cancelled, leaving Rs 4,800 in Share Forfeiture. Reissue at Rs 10 brings Rs 12,000 without discount, so the entire Rs 4,800 becomes capital reserve.

Journal of AB Ltd. (call, forfeiture and reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being call due at Rs 4 per share)		1,20,000	 1,20,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call received, except from Natasha)		1,15,200	 1,15,200
	Share Capital A/c Dr. To Share Allotment A/c To Share First and Final Call A/c To Share Forfeiture A/c (Being 1,200 shares forfeited for arrears)		12,000	 2,400 4,800 4,800
	Bank A/c Dr. To Share Capital A/c (Being 1,200 shares reissued fully paid at par)		12,000	 12,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture gain transferred)		4,800	 4,800

Step 4: Conclusion Natasha is allotted $1,200$ shares. Her unpaid allotment and call are Rs 2,400 and Rs 4,800 respectively. Reissue at par yields $\boxed{\text{Capital Reserve} = \text{Rs } 4,800}$.

Quick Tip to Solve: Use only the accepted 40,000 applications for the pro-rata ratio; subtract Natasha's excess application payment before finding her allotment arrears.

22. On 31st March, 2019 the Balance Sheet of A and B, who were sharing profits in the ratio of 3 : 2 was as follows :

Balance Sheet of A and B as at 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	30,000	Cash at Bank	20,000
Investment Fluctuation Fund	12,000	Debtors 85,000 Less : Provision for bad debts 5,000	80,000
General Reserve	25,000	Stock	1,30,000
Capitals : A 1,60,000 B 1,40,000	3,00,000	Investments	60,000
		Furniture	77,000
	3,67,000		3,67,000

On 1st April, 2019, they decided to admit C as a new partner for 1/5th share in the profits on the following terms :

(i) C brought ₹ 1,00,000 as his capital and ₹ 50,000 as his share of premium for goodwill.

(ii) Outstanding salaries of ₹ 2,000 be provided for.

(iii) The market value of investments was ₹ 50,000.

(iv) A debtor whose dues of ₹ 18,000 were written off as bad debts paid ₹ 12,000 in full settlement.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

[8 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit belong to A and B in their old ratio $3:2$.
- Investment Fluctuation Fund first absorbs the fall in investments; only its surplus is distributed.
- C's goodwill premium compensates the old partners in their sacrificing ratio, here $3:2$.

Step 1: Determine reserve, goodwill and revaluation adjustments Investments fall by Rs 10,000. Use Rs 10,000 of the Investment Fluctuation Fund against this fall; distribute the remaining Rs 2,000 to A and B as Rs 1,200 and Rs 800. General Reserve of Rs 25,000 is distributed as Rs 15,000 and Rs 10,000. Goodwill premium of Rs 50,000 is credited as Rs 30,000 and Rs 20,000. The recovered bad debt was already written off, so the Rs 12,000 recovery increases bank and is credited to Revaluation Account; it does not reduce existing debtors. Outstanding salaries create a liability and a revaluation expense. No withdrawal of the goodwill premium is specified.

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

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Outstanding salaries	2,000	By Bank (bad debts recovered)	12,000
To A's Capital (profit)	6,000		
To B's Capital (profit)	4,000		
Total	12,000	Total	12,000

Revaluation profit is Rs 10,000, divided in the old ratio. The fall in investments is covered by the specific fund and is therefore not charged again to revaluation.

Step 3: Prepare the capital accounts **Partners' Capital Accounts (amounts in Rs)**

Dr. Particulars	A	B	C	Particulars Cr.	A	B	C
To Balance c/d	2,12,200	1,74,800	1,00,000	By Balance b/d	1,60,000	1,40,000	–
				By General Reserve	15,000	10,000	–
				By Investment Fund	1,200	800	–
				By Goodwill premium	30,000	20,000	–
				By Revaluation	6,000	4,000	–
				By Bank	–	–	1,00,000
Total	2,12,200	1,74,800	1,00,000	Total	2,12,200	1,74,800	1,00,000

Step 4: Prepare the new balance sheet Bank balance is Rs 20,000 + Rs 1,00,000 + Rs 50,000 + Rs 12,000 = Rs 1,82,000. Debtors remain Rs 85,000 less provision Rs 5,000 = Rs 80,000.

Balance Sheet of A, B and C as at 1st April, 2019

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	30,000	Bank	1,82,000
Outstanding salaries	2,000	Debtors (net)	80,000
A's Capital	2,12,200	Stock	1,30,000
B's Capital	1,74,800	Investments	50,000
C's Capital	1,00,000	Furniture	77,000
Total	5,19,000	Total	5,19,000

Step 5: Conclusion Revaluation profit is Rs 10,000. Closing capitals are A: Rs 2,12,200, B: Rs 1,74,800 and C: Rs 1,00,000; the new Balance Sheet totals Rs 5,19,000.

Quick Tip to Solve: Use the investment fund against the investment fall before distributing its surplus to the old partners.

OR

22. Chintan, Ayush and Sudha were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2019, their Balance Sheet was as follows :

Balance Sheet of Chintan, Ayush and Sudha as at 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capitals : Chintan 90,000 Ayush 60,000 Sudha 40,000	1,90,000	Plant and Machinery	90,000
Provident Fund	30,000	Furniture	60,000
General Reserve	20,000	Stock	30,000
Creditors	10,000	Debtors 60,000 Less : Provision for doubtful debts 5,000	55,000
		Cash at Bank	15,000
	2,50,000		2,50,000

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

(i) Debtors of ₹ 5,000 were to be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts was to be created.

(ii) Goodwill of the firm on Chintan's retirement was valued at ₹ 1,00,000 and Chintan's share of the same will be adjusted by debiting the Capital Accounts of Ayush and Sudha.

(iii) Stock was revalued at ₹ 36,000.

(iv) Furniture was undervalued by ₹ 9,000.

(v) Liability for workmen's compensation of ₹ 2,000 was to be created.

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

Pass the necessary journal entries in the books of the firm on Chintan's retirement. [8 marks]

Solution:

Concept:

- Revaluation profit and accumulated reserves are distributed in the old ratio $5 : 3 : 2$.
- Unless a new ratio is specified, Ayush and Sudha continue in their relative ratio $3 : 2$; their gains are in the same ratio.
- The retiring partner receives his adjusted capital after goodwill, reserves and revaluation; the unpaid balance becomes his loan.

Step 1: Calculate the revaluation result and goodwill adjustment Write off bad debts of Rs 5,000 against the existing provision of Rs 5,000. Remaining debtors are Rs 55,000, requiring a new provision of $55,000 \times 5\% = \text{Rs } 2,750$. Stock increases by Rs 6,000 and furniture increases by Rs 9,000. The workmen compensation liability reduces profit by Rs 2,000. Therefore revaluation profit is $6,000 + 9,000 - 2,750 - 2,000 = \text{Rs } 10,250$. Chintan, Ayush and Sudha receive Rs 5,125, Rs

3,075 and Rs 2,050 respectively. Chintan's goodwill share is $1,00,000 \times 5/10 = \text{Rs } 50,000$. Ayush gains $3/5 - 3/10 = 3/10$, and Sudha gains $2/5 - 2/10 = 2/10$. Debit them Rs 30,000 and Rs 20,000 respectively. No goodwill asset is raised.

Step 2: Record asset and liability adjustments **Journal of the Firm — 31st March, 2019**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Provision for doubtful debts A/c Dr.		5,000	
	To Debtors A/c			5,000
	(Being bad debts written off against the existing provision.)			
	Revaluation A/c Dr.		2,750	
	To Provision for doubtful debts A/c			2,750
	(Being fresh provision created at 5 percent of Rs 55,000.)			
	Stock A/c Dr.		6,000	
	To Revaluation A/c			6,000
	(Being stock increased from Rs 30,000 to Rs 36,000.)			
	Furniture A/c Dr.		9,000	
	To Revaluation A/c			9,000
	(Being undervaluation of furniture corrected.)			
	Revaluation A/c Dr.		2,000	
	To Workmen compensation liability A/c			2,000
	(Being liability for workmen compensation provided.)			

Step 3: Record reserve and revaluation distributions **Journal of the Firm — 31st March, 2019**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		20,000	
	To Chintan Capital A/c			10,000
	To Ayush Capital A/c			6,000
	To Sudha Capital A/c			4,000
	(Being general reserve distributed in the old profit-sharing ratio.)			
	Revaluation A/c Dr.		10,250	
	To Chintan Capital A/c			5,125
	To Ayush Capital A/c			3,075
	To Sudha Capital A/c			2,050
	(Being revaluation profit distributed in the old ratio.)			

Step 4: Record goodwill and final settlement General Reserve is distributed as Rs 10,000, Rs 6,000 and Rs 4,000. Provident Fund is a liability towards employees, so it is retained and is not distributed. Chintan's total entitlement is

$$90,000 + 10,000 + 5,125 + 50,000 = \text{Rs } 1,55,125.$$

After paying Rs 20,000, his loan is Rs 1,35,125.

Journal of the Firm — 31st March, 2019

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Ayush Capital A/c Dr.		30,000	
	Sudha Capital A/c Dr.		20,000	
	To Chintan Capital A/c			50,000
	(Being retiring partner goodwill adjusted in the gaining ratio.)			
	Chintan Capital A/c Dr.		1,55,125	
	To Bank A/c			20,000
	To Chintan Loan A/c			1,35,125
	(Being Rs 20,000 paid by cheque and balance transferred to loan.)			

Step 5: Conclusion Chintan is entitled to Rs 1,55,125: Rs 20,000 is paid by cheque and Rs 1,35,125 is transferred to his Loan Account. Revaluation profit is Rs 10,250.

Quick Tip to Solve: Use the old provision to absorb the bad debt, then calculate the fresh provision on the remaining debtors.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

23. If the operating ratio of a company is 75%, operating profit ratio will be _____ . [1 mark]

Solution:

Concept:

- Operating ratio expresses operating cost as a percentage of revenue from operations.
- Operating profit is revenue from operations less operating cost; both ratios use the same denominator.

Step 1: Relate the complementary ratios

$$\text{Operating profit ratio} = 100\% - \text{Operating ratio}.$$

The complement works because operating cost and operating profit together equal revenue from operations. Non-operating income and expenses are excluded from both measures.

Step 2: Substitute the given operating ratio

$$\text{Operating profit ratio} = 100\% - 75\% = 25\%.$$

Thus, of every Rs 100 of revenue from operations, Rs 75 meets operating costs and Rs 25 remains as operating profit.

Step 3: Conclusion The blank is 25%.

Quick Tip to Solve: Subtract the operating ratio from 100%; do not subtract it from the net profit ratio.

24. Quick Assets do *not* include [1 mark]

(A) Cash in Hand

(B) Marketable Securities

(C) Prepaid Expenses

(D) Trade Receivables

Correct Answer: (C) Prepaid Expenses

Solution:

Concept:

- Quick assets are current assets readily convertible into cash without a significant loss of value.
- Quick assets exclude inventories and prepaid expenses because these cannot ordinarily be used immediately to settle current liabilities.

Step 1: Apply the liquidity test Cash in hand is already cash. Marketable securities can normally be realised readily, and trade receivables represent amounts collectible from customers. Hence options (A), (B) and (D) are included in quick assets.

Step 2: Identify the excluded asset Prepaid expenses represent payments already made for services to be received in future. They provide future benefits, rather than an amount receivable in cash, so they fail the quick-asset test.

Step 3: Conclusion Prepaid Expenses are excluded from quick assets. Hence, the correct option is (C).

Quick Tip to Solve: For quick assets, exclude both stock and prepaid expenses from current assets.

25. Define 'Cash Equivalents'. [1 mark]

Solution:

Concept:

- Cash equivalents are held to meet short-term cash commitments rather than for investment purposes.
- Liquidity, ready convertibility into a known cash amount and insignificant risk of value changes are all necessary.

Step 1: State the defining features Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Step 2: Identify the usual maturity limit An investment normally qualifies only when its maturity is three months or less from its date of acquisition. This short maturity helps ensure that the amount obtainable is sufficiently certain.

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

Quick Tip to Solve: Check the maturity from acquisition, not merely the remaining period at the balance sheet date.

26. Name any two tools of Analysis of Financial Statements. [1 mark]

Solution:

Concept:

- Financial statement analysis uses systematic comparisons to interpret financial position and operating performance.
- Comparative statements compare figures over time; common-size statements express each item as a percentage of a common base.

Step 1: Name the first tool Comparative financial statements are a tool of analysis. They show corresponding items for two or more periods together, helping identify absolute and percentage changes.

Step 2: Name the second tool Common-size financial statements are another tool. They express statement items as percentages of a common base, such as revenue from operations or total assets, making relative proportions easier to compare.

Step 3: Conclusion Any two tools are: (i) Comparative Financial Statements; (ii) Common-size Financial Statements.

Quick Tip to Solve: When asked only to name two tools, give two distinct recognised methods of analysis.

27. Give any one example of an activity which is a financing activity for every enterprise. [1 mark]

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings.
- A receipt from raising a loan is a financing cash inflow because it raises borrowed capital.

Step 1: Choose an activity common to enterprises An example is cash proceeds from obtaining a long-term loan. Borrowing provides funds from an external lender and increases the enterprise's borrowings.

Step 2: Explain the classification The loan proceeds change the amount of borrowed capital. This is the defining financing characteristic, so the receipt is classified as a financing activity for every enterprise, including a financial enterprise.

Step 3: Conclusion Cash received from obtaining a long-term loan is a financing activity for every enterprise.

Quick Tip to Solve: Use raising or repaying borrowed capital for an example that applies to every enterprise.

28. 'Sale of marketable securities at par' would result in inflow of cash. State whether the statement is True or False. [1 mark]

Solution:

Concept:

- For the cash flow statement, cash includes cash equivalents, such as qualifying short-term marketable securities.
- Transfers between cash and cash equivalents change their composition without changing the combined balance.

Step 1: Identify what is exchanged Sale of qualifying marketable securities at par converts a cash equivalent into cash at the same amount. The bank balance increases but the cash-equivalent balance decreases equally.

Step 2: Assess the net cash flow Because the total of cash and cash equivalents remains unchanged, the conversion is excluded from cash flows. There is no net inflow for the purposes of preparing the cash flow statement.

Step 3: Conclusion False. Sale of marketable securities at par merely converts cash equivalents into cash; it does not create a cash inflow in the cash flow statement.

Quick Tip to Solve: For a conversion at par, compare the combined cash and cash-equivalent total before and after.

29. The debt-equity ratio of a company is 2 : 1. State, giving reason, if issue of shares of ₹ 6,00,000 will increase, decrease or not affect the ratio. [1 mark]

Solution:

Concept:

- Debt-equity ratio is $\dfrac{\text{Long-term debt}}{\text{Shareholders' funds}}$.
- An issue of shares increases shareholders' funds without increasing long-term debt.

Step 1: Represent the existing ratio Let existing shareholders' funds be Rs E, where $E > 0$. Since the debt-equity ratio is $2 : 1$, long-term debt is Rs $2E$.

Step 2: Calculate the direction of change After the issue, shareholders' funds become Rs $(E + 6,00,000)$, while debt remains Rs $2E$. Thus the new ratio is

$$\frac{2E}{E + 6,00,000} < \frac{2E}{E} = 2.$$

The larger denominator therefore reduces the debt-equity ratio.

Step 3: Conclusion The debt-equity ratio will decrease because the issue increases shareholders' funds by Rs 6,00,000 while long-term debt remains unchanged.

Quick Tip to Solve: In a ratio, increasing only the denominator always reduces its value when both amounts are positive.

30. Under which heads and sub-heads will the following items will appear in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013 ?

(i) Unclaimed Dividend

(ii) Shares in State Bank of India

(iii) Loose Tools [3 marks]

Solution:

Concept:

- Schedule III groups balance sheet items first by their main head and then by their sub-head.
- Unclaimed dividends remain payable to shareholders; shares held in another company are investments; loose tools are inventories.

Step 1: Classify unclaimed dividend Unclaimed dividend is a liability because the amount remains payable to the shareholders who have not collected it. It appears under Current Liabilities, within Other Current Liabilities. It is not a reserve or part of share capital.

Step 2: Classify shares in State Bank of India Shares held in State Bank of India are investments of the reporting company. In the absence of an indication that they are held for short-term disposal, they appear under Non-current Assets, within Non-current Investments.

Step 3: Classify loose tools and present the extract Loose tools form part of inventory rather than trade receivables. They appear under Current Assets, within Inventories. The balance sheet classification is:

Balance Sheet Extract: Classification under Schedule III

Item	Main head	Sub-head
Unclaimed Dividend	Current Liabilities	Other Current Liabilities
Shares in State Bank of India	Non-current Assets	Non-current Investments
Loose Tools	Current Assets	Inventories

Step 4: Conclusion Unclaimed Dividend: Other Current Liabilities; Shares in State Bank of India: Non-current Investments; Loose Tools: Inventories, under the respective main heads shown above.

Quick Tip to Solve: Separate an amount payable to owners from owners' funds; an unclaimed dividend remains a liability.

OR

30. (i) X Ltd. has a current ratio of 3 : 1 and quick ratio of 2 : 1. The excess of current assets over quick assets are ₹ 24,000. Calculate current assets and current liabilities.

(ii) From the following information, compute 'Total Assets to Debt Ratio' :

Particulars	₹
Long-term Borrowings	3,00,000
Long-term Provisions	1,50,000
Current Liabilities	75,000
Non-Current Assets	5,40,000
Current Assets	1,35,000

[3 marks]

Solution:

Concept:

- Current ratio is current assets divided by current liabilities; quick ratio is quick assets divided by current liabilities. Both ratios here have the same denominator.
- Total assets to debt ratio is total assets divided by long-term debt. Long-term borrowings and long-term provisions form long-term debt; current liabilities are excluded from this denominator.

Step 1: (i) Express both types of assets in terms of current liabilities Let current liabilities be x rupees. From the current ratio $3:1$, current assets are $3x$. From the quick ratio $2:1$, quick assets are $2x$. Hence the excess of current assets over quick assets is

$$3x - 2x = 24,000 \quad \Rightarrow \quad x = 24,000.$$

Therefore, current liabilities are Rs 24,000 and current assets are $3 \times 24,000 = \text{Rs } 72,000$. As a check, quick assets are Rs 48,000, so their excess below current assets is Rs 24,000 and both stated ratios hold.

Step 2: (ii) Calculate total assets and long-term debt Add current assets to non-current assets, and include both long-term liability components in debt:

$$\begin{aligned} \text{Total assets} &= 5,40,000 + 1,35,000 = \text{Rs } 6,75,000, \\ \text{Long-term debt} &= 3,00,000 + 1,50,000 = \text{Rs } 4,50,000, \\ \text{Total assets to debt ratio} &= \frac{6,75,000}{4,50,000} = 1.5:1. \end{aligned}$$

The Rs 75,000 current liabilities are not added to long-term debt. This ratio measures the asset coverage available for long-term obligations, so using total outside liabilities would answer a different question.

Step 3: Conclusion (i) Current assets = Rs 72,000; current liabilities = Rs 24,000. (ii) Total assets to debt ratio = $1.5:1$.

Quick Tip to Solve: Subtract the quick ratio from the current ratio when both have the same current-liabilities denominator; the difference directly identifies the excess assets in units of current liabilities.

31. The following particulars are related to the Statement of Profit and Loss of AT Ltd :

Particulars	2018 – 19 ₹	2017 – 18 ₹
Revenue from Operations	37,50,000	30,00,000
Other Income	75,000	60,000
Expenses	25,75,000	20,60,000
Income Tax	40%	40%

Prepare Comparative Statement of Profit and Loss. [4 marks]

Solution:

Concept:

- A comparative statement places the previous and current years side by side and shows the absolute change and percentage change for every item.
- Absolute change = current year amount minus previous year amount. Percentage change = absolute change divided by previous year amount, multiplied by 100. Tax is calculated on profit before tax, not on revenue.

Step 1: Calculate total income, profit and tax for each year For 2017–18, total income is $30,00,000 + 60,000 =$ Rs $30,60,000$. After expenses of Rs 20,60,000, profit before tax is Rs 10,00,000. Tax at 40% is Rs 4,00,000, leaving profit after tax of Rs 6,00,000.

For 2018–19, total income is $37,50,000 + 75,000 =$ Rs $38,25,000$. After expenses of Rs 25,75,000, profit before tax is Rs 12,50,000. Tax at 40% is Rs 5,00,000, leaving profit after tax of Rs 7,50,000.

Step 2: Prepare the comparative statement

AT Ltd.
Comparative Statement of Profit and Loss
for the years ended 31st March, 2018 and 2019

Particulars	2017–18 (Rs)	2018–19 (Rs)	Increase (Rs)	Change (%)
Revenue from operations	30,00,000	37,50,000	7,50,000	25
Other income	60,000	75,000	15,000	25
Total income	**30,60,000**	**38,25,000**	**7,65,000**	**25**
Less: Expenses	20,60,000	25,75,000	5,15,000	25
Profit before tax	**10,00,000**	**12,50,000**	**2,50,000**	**25**
Less: Tax at 40%	4,00,000	5,00,000	1,00,000	25
Profit after tax	**6,00,000**	**7,50,000**	**1,50,000**	**25**

Step 3: Verify the percentage changes For example, the revenue increase is Rs 7,50,000, so its percentage change is $7,50,000 \div 30,00,000 \times 100 = 25\%$. Similarly, the profit after tax increase is Rs 1,50,000, and $1,50,000 \div 6,00,000 \times 100 = 25\%$. All amounts grow in the same proportion, while the tax rate remains 40% in both years.

Step 4: Conclusion AT Ltd.'s profit after tax increased from Rs 6,00,000 to Rs 7,50,000, an increase of Rs 1,50,000 or 25%. The comparative statement above shows the corresponding changes in income, expenses and tax.

Quick Tip to Solve: Always use the previous year's amount as the percentage-change denominator, and calculate income tax only after determining profit before tax.

OR

31. From the following Balance Sheet of Surbhi Ltd. as at 31st March, 2019, prepare a Common Size Balance Sheet :

Balance Sheet of Surbhi Ltd. as at 31st March, 2019

Particulars	Note No.	31.03.2019 ₹	31.03.2018 ₹
I – Equity and Liabilities :			
1. Shareholder's Funds :			
(a) Share Capital		20,00,000	9,00,000
(b) Reserves and Surplus		2,00,000	1,00,000
2. Non-Current Liabilities :			
Long-term Borrowings		12,00,000	5,00,000
3. Current Liabilities :			
Trade Payables		6,00,000	5,00,000
Total		40,00,000	20,00,000
II – Assets :			
1. Non-Current Assets :			
Fixed Assets		20,00,000	10,00,000
2. Current Assets :			
(a) Inventories		19,00,000	8,00,000
(b) Cash and Cash Equivalents		1,00,000	2,00,000
Total		40,00,000	20,00,000

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses every item as a percentage of total assets or total equity and liabilities of the same year.
- $$\text{Common size percentage} = \frac{\text{Amount of item}}{\text{Balance sheet total}} \times 100.$$

  The total for each year is taken as 100%.

Step 1: Choose the base for each year The bases are Rs 40,00,000 for 31 March 2019 and Rs 20,00,000 for 31 March 2018. Each amount must be divided by its own year's total. For example, share capital in 2019 is $20,00,000/40,00,000 \times 100 = 50\%$; share capital in 2018 is $9,00,000/20,00,000 \times 100 = 45\%$.

Step 2: Prepare the common size balance sheet **Common Size Balance Sheet of Surbhi Ltd. as at 31 March 2019**

Particulars	31.03.2019		31.03.2018	
	Rs	%	Rs	%
I. Equity and Liabilities				
Shareholders' funds:				
Share capital	20,00,000	50	9,00,000	45
Reserves and surplus	2,00,000	5	1,00,000	5
Total shareholders' funds	22,00,000	55	10,00,000	50
Non-current liabilities:				
Long-term borrowings	12,00,000	30	5,00,000	25
Current liabilities:				
Trade payables	6,00,000	15	5,00,000	25
Total	40,00,000	100	20,00,000	100
II. Assets				
Non-current assets:				
Fixed assets	20,00,000	50	10,00,000	50
Current assets:				
Inventories	19,00,000	47.5	8,00,000	40
Cash and cash equivalents	1,00,000	2.5	2,00,000	10
Total current assets	20,00,000	50	10,00,000	50
Total	40,00,000	100	20,00,000	100

Step 3: Check the percentages For 2019, equity and liabilities total $50 + 5 + 30 + 15 = 100\%$, while assets total $50 + 47.5 + 2.5 = 100\%$. For 2018 the corresponding totals are $45 + 5 + 25 + 25 = 100\%$ and $50 + 40 + 10 = 100\%$. Subtotals are shown for classification and are not added a second time.

Step 4: Conclusion The common size balance sheet shows total assets and total equity and liabilities as 100% in each year. Inventories increased from 40% to 47.5%, while cash declined from 10% to 2.5% of total assets.

Quick Tip to Solve: Use each year's own balance sheet total as the denominator; do not use the previous year's total for both columns.

32. From the following Balance Sheet of G Ltd. as at 31st March, 2019 and additional information, prepare Cash Flow Statement :

Balance Sheet of G Ltd. as at 31st March, 2019

Particulars	Note No.	31.03.2019 ₹	31.03.2018 ₹
I – Equity and Liabilities :			
1. Shareholder's Funds :			
(a) Share Capital		8,00,000	6,00,000
(b) Reserves and Surplus	1	3,30,000	2,20,000
2. Non-Current Liabilities :			
Long-term Borrowings	2	1,60,000	1,00,000
3. Current Liabilities :			
Trade Payables		1,65,000	1,95,000
Total		14,55,000	11,15,000
II – Assets :			
1. Non-Current Assets :			
(a) Fixed Assets	3	9,50,000	6,05,000
(b) Non-Current Investments		1,35,000	1,00,000
2. Current Assets :			
(a) Current Investments		80,000	40,000
(b) Trade Receivables		90,000	2,00,000
(c) Cash and Cash Equivalents		2,00,000	1,70,000
Total		14,55,000	11,15,000

Notes to Accounts :

Note No.	Particulars	31.03.2019 ₹	31.03.2018 ₹
1.	Reserves and Surplus : Surplus (i.e. Balance in Statement of Profit and Loss)	3,30,000	2,20,000
		3,30,000	2,20,000
2.	Long-term Borrowings : 10% Debentures	1,60,000	1,00,000
		1,60,000	1,00,000
3.	Fixed Assets : Machinery (cost) (–) Accumulated Depreciation	10,70,000 (1,20,000)	7,00,000 (95,000)
		9,50,000	6,05,000

Additional information :

10% Debentures ₹ 60,000 were issued on 1st April, 2018. [6 marks]

Solution:

Concept:

- Under the indirect method, adjust the increase in surplus for non-cash expenses and non-operating items, then adjust changes in operating working capital.

- For a non-financial company, interest paid is a financing outflow; purchases of machinery and investments are investing outflows. Cash equivalents are included only when they meet the prescribed short-term, highly liquid criteria.

Step 1: Calculate depreciation, interest and purchases The surplus increases by $3,30,000 - 2,20,000 =$ Rs $1,10,000$. No dividend or tax adjustment is given. Depreciation is the increase in accumulated depreciation, $1,20,000 - 95,000 =$ Rs $25,000$. No disposal is stated, so machinery purchased is the increase in cost, $10,70,000 - 7,00,000 =$ Rs $3,70,000$.

The Rs 60,000 debentures were issued on 1 April 2018, so the entire closing balance bears interest for the full year:

$$\text{Interest} = (1,00,000 + 60,000) \times 10\% = \text{Rs } 16,000.$$

Interest is added back to operating profit and shown separately as financing cash paid.

Step 2: Prepare the statement in AS 3 format **Cash Flow Statement of G Ltd. for the year ended 31 March 2019**

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net profit (increase in surplus)	1,10,000
Add: Depreciation	25,000
Add: Interest on debentures	16,000
Operating profit before working capital changes	1,51,000
Add: Decrease in trade receivables	1,10,000
Less: Decrease in trade payables	(30,000)
Cash generated from operations	2,31,000
Net cash from operating activities (A)	2,31,000
B. Cash flows from investing activities	
Purchase of machinery	(3,70,000)
Purchase of non-current investments	(35,000)
Purchase of current investments	(40,000)
Net cash used in investing activities (B)	(4,45,000)
C. Cash flows from financing activities	
Proceeds from issue of share capital	2,00,000
Proceeds from issue of debentures	60,000
Interest paid on debentures	(16,000)
Net cash from financing activities (C)	2,44,000
Net increase in cash and cash equivalents (A+B+C)	30,000
Add: Opening cash and cash equivalents	1,70,000
Closing cash and cash equivalents	2,00,000

Step 3: Explain working capital and investment movements Trade receivables fall from Rs 2,00,000 to Rs 90,000, releasing Rs 1,10,000 of operating cash. Trade payables fall from Rs 1,95,000 to Rs 1,65,000, using Rs 30,000 of operating cash. Non-current investments increase by Rs 35,000 and current investments increase by Rs 40,000. The latter are separately stated from cash and cash equivalents, and no qualifying maturity is specified, so their purchase is classified under investing activities. These movements are not operating working capital changes.

Step 4: Reconcile the cash balance

$$\begin{aligned}\text{Net cash increase} &= 2,31,000 - 4,45,000 + 2,44,000 \\ &= \text{Rs } 30,000.\end{aligned}$$

Adding Rs 30,000 to the opening Rs 1,70,000 gives Rs 2,00,000, exactly the closing cash and cash equivalents in the balance sheet.

Step 5: Conclusion Net cash from operating activities is Rs 2,31,000; net cash used in investing activities is Rs 4,45,000; and net cash from financing activities is Rs 2,44,000. Cash and cash equivalents increase by Rs 30,000 to Rs 2,00,000.

Quick Tip to Solve: The new debentures were issued on the first day of the year: calculate full-year interest on Rs 1,60,000, not just the opening balance.

OPTION 2 (Computerised Accounting)

23. Give one limitation of Computerised Accounting system. [1 mark]

Solution:

Concept:

- Computerised accounting depends on trained people who can operate the software and enter transactions correctly.
- A limitation is a cost or practical difficulty faced while installing, maintaining or using the system.

Step 1: State one limitation **High training cost:** Staff must be trained to use the accounting software, enter transactions and generate the required reports. This requires expenditure on training.

Step 2: Explain its effect Employees who are unfamiliar with the system need time and instruction before they can use it efficiently. The business must therefore bear this training expense when it adopts computerised accounting. This is a limitation even though the system can process data quickly.

Step 3: Conclusion One limitation of a computerised accounting system is the high cost of training staff to use the software.

Quick Tip to Solve: Give one clear limitation and connect it to the practical expense or difficulty that the business faces.

24. The syntax of PMT Function is _____ . [1 mark]

(A) PMT (rate, pv, nper, [fv], [type])

(B) PMT (rate, nper, pv, [fv], [type])

(C) PMT (rate, pv, nper, [type], [fv])

(D) PMT (rate, nper, pv, [type], [fv])

Correct Answer: (B) PMT (rate, nper, pv, [fv], [type])

Solution:

Concept:

- The PMT financial function calculates the constant periodic payment for a loan or investment with a constant interest rate.
- Its three required arguments are rate (interest per period), nper (number of periods) and pv (present value), in that order.

Step 1: Write the argument order The syntax is $\mathrm{PMT}(\text{rate}, \text{nper}, \text{pv}, [\text{fv}], [\text{type}])$. The square brackets indicate optional arguments: fv is the future value and type states when payments fall due.

Step 2: Check the alternatives Option (B) preserves both the required and optional argument order. Options (A) and (C) incorrectly place pv before nper. Option (D) has the required arguments in order but reverses the optional fv and type arguments.

Step 3: Conclusion The correct syntax is PMT(rate, nper, pv, [fv], [type]). Hence, the correct option is (B).

Quick Tip to Solve: Remember the required order as rate, number of periods, present value; then append future value and timing.

25. Define Pivot table. [1 mark]

Solution:

Concept:

- A Pivot table is an interactive spreadsheet summary table used to organise and analyse a large set of data.
- It groups records by selected fields and performs summaries such as totals, counts and averages.

Step 1: Identify the purpose Instead of displaying each transaction separately, a Pivot table presents a compact summary. For example, a list of sales transactions can be summarised to show total sales for each product or each month.

Step 2: Explain the flexibility The user can rearrange the row and column fields to obtain different views of the same source data. This rearrangement changes the summary presentation without altering the underlying transaction records.

Step 3: Conclusion A Pivot table is an interactive table that groups and summarises spreadsheet data and allows its fields to be rearranged for analysis.

Quick Tip to Solve: In a definition, include both summarising data and rearranging fields; these distinguish a Pivot table from an ordinary list.

26. When extended selection is active, _____ is the keyboard shortcut for selecting all data up to and including the last row. [1 mark]

Solution:

Concept:

- Extend Selection mode lets movement keys enlarge a selected range instead of merely moving the active cell.
- Ctrl together with an arrow key moves to the edge of a data region in the indicated direction.

Step 1: Use the direction required The question asks for selection downwards to the last row of data. Therefore the directional key is the Down Arrow, used with Ctrl to reach the lower edge of the data region.

Step 2: Apply the active selection mode Since extended selection is already active, Ctrl + Down Arrow extends the current selection down through the data to the last row. There is no need to activate the mode again. Ctrl + Up Arrow would extend upwards, rather than to the last row below.

Step 3: Conclusion The keyboard shortcut is Ctrl + Down Arrow when extended selection is active.

Quick Tip to Solve: Read the mode condition first: with Extend Selection active, Ctrl plus the downward arrow extends the selection downwards.

27. In Excel, the chart tools provide three different options _____, _____ and _____ for formatting. [1 mark]

(A) Layout, Format, DataMaker

(B) Design, Layout, Format

(C) Format, Layout, Label

(D) Design, DataMaker, Layout

Correct Answer: (B) Design, Layout, Format

Solution:

Concept:

- In the Excel interface referred to in the question, selecting a chart displays the contextual Chart Tools tabs.
- The three tabs are Design, Layout and Format; they control different aspects of a chart presentation.

Step 1: Identify the three tabs Design provides chart types, data selection, layouts and styles. Layout controls chart elements such as titles, axes and legends. Format controls the appearance of selected chart elements, including fills, outlines and text formatting.

Step 2: Check all the options Option (B) lists Design, Layout and Format together. Options (A) and (D) contain DataMaker, which is not one of these three Chart Tools tabs. Option (C) contains Label, which may describe a chart element but is not the required tab name.

Step 3: Conclusion The three options are Design, Layout and Format. Hence, the correct option is (B).

Quick Tip to Solve: Recall the Chart Tools sequence as Design, Layout, Format; data labels are elements controlled through these tabs.

28. Expand SQL. [1 mark]

Solution:

Concept:

- SQL is the standard language used to communicate with a relational database.
- Its commands can define tables, retrieve selected records and insert, update or delete stored data.

Step 1: Expand each letter S stands for Structured, Q stands for Query and L stands for Language. The expansion refers to the language used for expressing requests and commands to a database.

Step 2: Relate the expansion to its use For example, a SELECT query can retrieve the names of customers with outstanding balances from an accounting database. Thus the term describes a database language, rather than the name of a particular spreadsheet or accounting package.

Step 3: Conclusion SQL stands for Structured Query Language.

Quick Tip to Solve: Remember Query as the middle word: SQL is Structured Query Language, used to request and manage database data.

29. State the mathematical operator which is represented by an 'asterisk' (*). [1 mark]

Solution:

Concept:

- Spreadsheet formulas use standard keyboard symbols to represent arithmetic operations.
- The asterisk symbol $*$ represents multiplication, whereas $+$, $-$ and $/$ represent addition, subtraction and division.

Step 1: Identify the operation In a numerical formula, placing an asterisk between two values instructs the spreadsheet to multiply them. It performs the same operation as the multiplication sign used in ordinary arithmetic.

Step 2: Verify with an example The formula =5*4 evaluates to 20. Similarly, =B2*C2 multiplies the amount in B2 by the amount in C2; this can calculate sales value from quantity and price. It does not add the two cells or raise either value to a power.

Step 3: Conclusion The asterisk $*$ represents the multiplication operator.

Quick Tip to Solve: For quantity multiplied by rate in a spreadsheet, place an asterisk between the two cell references.

30. Explain the terms Primary key and Secondary key in a database. [3 marks]

Solution:

Concept:

- A database table stores records in rows and fields in columns; keys are fields, or combinations of fields, used to identify or retrieve records.

- The primary key ensures unique record identification, while a secondary key provides an additional basis for searching or grouping records.

Step 1: Explain primary key A primary key is a field, or combination of fields, whose value uniquely identifies each record in a table. It cannot contain a null value and duplicate primary-key values are not allowed. If a Customers table uses CustomerCode as its primary key, each customer receives a different code. The code therefore identifies one customer even when two customers have the same name.

Step 2: Explain secondary key A secondary key is a field, or combination of fields, other than the primary key, used as an alternative basis for searching and retrieving records. Its values need not be unique: several records may share the same secondary-key value. For example, City can be used to retrieve all customers located in Delhi, while CustomerCode continues to identify each individual customer.

Step 3: Distinguish their roles The primary key answers which exact record is required and safeguards the identity of every row. A secondary key answers which records match a search criterion and can locate a group of matching rows. A table has one designated primary key, which may be composite, but can have several secondary search keys. A secondary key is not necessarily a foreign key: it need not reference the primary key of another table.

Step 4: Conclusion A primary key uniquely identifies each record and must be unique and non-null. A secondary key is an additional search or retrieval key whose values may be repeated across records.

Quick Tip to Solve: Use a customer code for the primary-key example and a shared city for the secondary-key example to show uniqueness versus grouping clearly.

OR

30. Differentiate between data and information with the help of an example. [3 marks]

Solution:

Concept:

- Data consists of raw facts and figures collected about transactions or events before they are processed for a particular purpose.
- Information is data that has been processed, organised and interpreted so that it conveys meaning and assists decision-making.

Step 1: Distinguish the two terms Data is the input to an information system, whereas information is its meaningful output. Data may be a collection of individual amounts, dates or quantities without a useful summary. Information arranges or summarises those facts in a form relevant to the user's needs. Thus, recording facts creates data; classifying, calculating and presenting them converts them into information. Data provides the material for processing, while information enables the user to understand the result and make a decision.

Step 2: Explain with an accounting example Suppose the sales recorded on three invoices are Rs 5,000, Rs 7,000 and Rs 8,000. These individual invoice amounts are data. When the accounting

system adds them and reports that total sales for the day are Rs 20,000, the resulting daily sales summary is information. The manager can use this total to compare the day's performance with a sales target. The invoice amounts are therefore the raw input, and the meaningful daily sales report is the processed output.

Step 3: Conclusion Data means raw facts; information means processed, meaningful data. Individual invoice amounts are data, while their daily sales total of Rs 20,000 is information.

Quick Tip to Solve: In your example, name the raw input first and then show exactly how processing makes it useful.

31. State the features of Computerized Accounting system. [4 marks]

Solution:

Concept:

- A computerised accounting system processes financial transactions through accounting software and a database, following established accounting principles.
- Its features relate both to efficient transaction processing and to the useful, controlled presentation of accounting information.

Step 1: Features of transaction processing (i) Speed: The system can perform calculations and process a large number of accounting transactions very quickly, reducing the time taken to prepare accounts.

(ii) Accuracy: Arithmetic operations and posting follow programmed instructions, reducing calculation errors. Accuracy still depends on correct input and properly configured software.

(iii) Reliability: For the same valid input and processing rules, the system produces consistent results and can perform repetitive accounting tasks without fatigue.

(iv) Scalability: It can accommodate an increase in transaction volume and the information needs of a growing business by upgrading the system and its resources.

Step 2: Features of information management (v) Real-time user interface: Transactions can be entered and processed as they occur, making updated accounting information available promptly to users.

(vi) Automation of document production: It can generate documents and reports such as invoices, ledger accounts, trial balances and financial statements from recorded transactions, avoiding repeated manual preparation.

(vii) Storage and retrieval: Large amounts of accounting data can be stored systematically and retrieved quickly when a particular transaction or report is required.

(viii) Security: Passwords, access rights and other controls restrict unauthorised access or alteration; backups help protect the records against loss.

Step 3: Conclusion A computerised accounting system offers speed, accuracy, reliability, scalability, a real-time user interface, automated document production, efficient storage and retrieval, and security of accounting records.

Quick Tip to Solve: State each feature by name and add its specific benefit to recording transactions or producing accounting reports.

OR

31. Explain the use of 'Conditional Formatting'. [4 marks]

Solution:

Concept:

- Conditional formatting automatically changes the appearance of a spreadsheet cell when its value or a formula satisfies a specified condition.
- A formatting rule has a condition and an associated format. It changes how information is displayed; it does not change the underlying value or the calculation.

Step 1: Highlight values that need attention Conditional formatting is used to identify significant accounting information quickly. For example, a business can highlight overdue receivables in red, expenses exceeding a budget in another colour, or stock quantities below the reorder level. Instead of examining every cell individually, the accountant can locate exceptions immediately. Conditions may compare values with a fixed limit, a date, another cell or the result of a formula.

Step 2: Apply a rule to the selected range Select the cells concerned, choose Conditional Formatting, specify the condition and choose the required font, fill, border or other available format. For example, if actual expenses are in column B and budgeted expenses are in column C, a formula rule such as `=B2>C2` can highlight each expense that exceeds its budget. Apply the rule consistently to the relevant rows. A rule referring to a fixed threshold cell can use an absolute reference such as `$F$1`.

Step 3: Compare information and keep the display current Depending on the spreadsheet facilities, colour scales, data bars or icon sets can distinguish relatively high and low amounts and show patterns in a large data set. The rule is evaluated again when the data changes, so the display updates automatically: an overdue account that is paid can cease to be highlighted. Thus conditional formatting helps comparison, exception reporting and control while preserving the original numerical data. It is a visual aid; the user must still choose a meaningful condition and investigate the highlighted entries.

Step 4: Conclusion Conditional formatting makes spreadsheet information easier to interpret by automatically displaying cells in specified formats when stated conditions are met. It is especially useful for identifying exceptions, comparing values and monitoring accounting data.

Quick Tip to Solve: State both parts of a rule: the condition being tested and the visual format applied when it is true.

32. Describe two basic methods of charging depreciation. Differentiate between both of them. [6 marks]

Solution:

Concept:

- Depreciation allocates the depreciable amount of a tangible fixed asset systematically over its useful life; it is not a process of providing cash for replacement.
- Under the straight line method (SLM), annual depreciation is constant: $D = (C - S)/n$, where C

is cost, S is estimated residual value and n is useful life in years.

- Under the written down value method (WDV), depreciation is a fixed percentage of the opening carrying amount: $D_t = rB_{t-1}$, where r is the annual rate and B_{t-1} is the opening written down value.

Step 1: Describe the straight line method Under SLM, an equal amount of depreciation is charged in each full accounting year of the estimated useful life, assuming that the estimates do not change. Depreciation is calculated on the original cost after deducting the estimated residual value. For an asset costing Rs 1,00,000, with residual value Rs 10,000 and useful life five years, annual depreciation is

$$D = \frac{1,00,000 - 10,000}{5} = \text{Rs } 18,000.$$

The closing carrying amounts after the first two full years are therefore Rs 82,000 and Rs 64,000. This method suits assets expected to provide substantially equal service from year to year.

Step 2: Describe the written down value method Under WDV, the same depreciation rate is applied every year to the reducing opening book value. Consequently, depreciation is higher in the early years and becomes smaller in later years. For example, on cost Rs 1,00,000 at 20% per annum, first-year depreciation is Rs 20,000 and closing WDV is Rs 80,000. Second-year depreciation is $20\% \times 80,000 = \text{Rs } 16,000$, leaving Rs 64,000. This example illustrates the reducing base; the appropriate rate for a particular asset depends on its useful life and residual value. WDV is suitable where benefits decline over time or repair expenses tend to rise as the asset ages.

Step 3: Differentiate the methods The principal differences are as follows.

Basis	Straight line method	Written down value method
Calculation base	Original depreciable amount is allocated over useful life.	Opening written down value is the annual base.
Annual charge	Equal each full year if estimates are unchanged.	Declines each year at a fixed positive rate below 100%.
Asset value	Decreases by an equal amount each year.	Decreases by successively smaller amounts.
Depreciation with repairs	Combined charge tends to rise as repairs increase.	Falling depreciation can offset rising repairs, making the combined charge more even.
Suitability	Suitable for assets with relatively uniform benefits.	Suitable for assets providing greater benefits in earlier years.
End value	Reaches estimated residual value at the end of useful life.	A fixed rate below 100% does not mathematically reduce a positive balance to zero.

Both methods allocate asset cost, but their different annual charges affect the timing of the expense and the carrying amount shown in the balance sheet.

Step 4: Conclusion The two basic methods are SLM and WDV. SLM charges an equal annual amount based on cost less residual value, whereas WDV charges a fixed rate on the reducing book value and therefore produces decreasing annual depreciation.

Quick Tip to Solve: Check the base before multiplying: SLM uses original depreciable cost; WDV uses the opening book value each year.