CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-C-2 - 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. 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 profit earned up to the date of death.
- When interim profit is estimated before final accounts are prepared, debit Profit and Loss Suspense Account and credit the deceased partner's capital.

Step 1: Identify the amount due B's share up to 25th February, 2019 is already given as Rs 5,000. It is credited to his capital account; the old profit-sharing ratio need not be applied again.

Step 2: Record the adjustment Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
25-2-2019	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 his death credited to his capital)			

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: Credit the deceased partner with the given share; do not divide it again.

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 Give the average period, in months, for charging interest on drawings of a fixed amount withdrawn at the beginning of each quarter.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

Solution:

Concept:

- Interest on equal drawings depends on the time each withdrawal remains outstanding.
- For equal withdrawals at equal intervals, average period is the mean of the first and last outstanding periods.

Step 1: List the periods Withdrawals at the beginning of the four quarters remain outstanding for $12, 9, 6$ and 3 months respectively, up to the end of the accounting year.

Step 2: Find the mean period As all four amounts are equal, their time weights are equal. Thus, average period $= (12 + 9 + 6 + 3)/4 = 30/4 = 7.5$ months. Equivalently, $(12 + 3)/2 = 7.5$ months. The last drawing still carries interest for a full quarter.

Step 3: Conclusion The average period is $7\frac{1}{2}$ months.

Quick Tip to Solve: For beginning-of-quarter drawings, use the endpoint periods 12 and 3 months.

3. 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:

- Uncalled capital is the portion of subscribed capital not yet called by the company.
- Reserve capital is that portion of uncalled capital reserved to be called only on winding up.

Step 1: Identify the restriction The question specifies that this capital cannot be called in the ordinary course of business. It can be called only when the company is wound up, which is the distinguishing condition for reserve capital.

Step 2: Distinguish the related term Capital reserve arises from capital profits and belongs to reserves and surplus. It is different from reserve capital, which remains uncalled share capital until winding up. Hence the blank requires the word reserve.

Step 3: Conclusion The blank is **reserve**; the term is **reserve capital**.

Quick Tip to Solve: Reserve capital is uncalled share capital; capital reserve comes from capital profits.

4. A and B were partners in a firm with capitals of ₹ 3,00,000 and ₹ 2,00,000 respectively. The normal rate of return was 20% and the capitalised value of average profits was ₹ 7,50,000. Calculate the goodwill of the firm by capitalisation of average profits method. [1 mark]

Solution:

Concept:

- Capital employed is the total capital actually invested by the partners.
- Goodwill equals capitalised value of average profits minus actual capital employed.

Step 1: Find actual capital employed

$$\text{Capital employed} = 3,00,000 + 2,00,000 = \text{Rs } 5,00,000.$$

These are the two partners' capital balances given in the question.

Step 2: Deduct it from capitalised value

$$\text{Goodwill} = 7,50,000 - 5,00,000 = \text{Rs } 2,50,000.$$

The capitalised value is already supplied, so the normal return of 20% need not be applied again. As a check, average profit is $7,50,000 \times 20\% = \text{Rs } 1,50,000$.

Step 3: Conclusion Goodwill of the firm is $\boxed{\text{Rs } 2,50,000}$.

Quick Tip to Solve: When capitalised value is given, subtract actual capital directly to obtain goodwill.

5. 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 cash and bank transactions of a not-for-profit organisation.
- It classifies receipts and payments under suitable heads without applying accrual adjustments.

Step 1: Match the cash-book summary A cash book records actual receipts and payments. Their classified summary is therefore the Receipts and Payments Account, covering capital as well as revenue cash transactions irrespective of the period to which they relate.

Step 2: Check the other options Income and Expenditure Account measures the current period's surplus or deficit on an accrual basis. Profit and Loss Account is used by profit-making businesses. Subscriptions Account concerns a single source of income, so it cannot summarise the entire cash book.

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

Quick Tip to Solve: A summary of cash-book transactions points directly to Receipts and Payments Account.

6. 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:

- At dissolution, assets and external liabilities are transferred to Realisation Account.
- When a creditor accepts an asset in settlement, no separate entry is passed for that settlement.

Step 1: Identify the form of settlement The creditor accepts furniture valued at Rs 60,000 against his claim of Rs 75,000 in full settlement. No cash passes through the firm, and both the furniture and creditor have already been transferred to Realisation Account.

Step 2: Apply the realisation rule No further entry is needed when an external liability is settled by handing over an asset. The difference of Rs 15,000 is not separately credited as a settlement gain: its effect is already included in the balance of Realisation Account through the transferred amounts.

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

Quick Tip to Solve: After transfers to Realisation, an asset taken by a creditor needs no separate entry.

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

Solution:

Concept:

- Goodwill is an intangible asset representing the value of a business's reputation.
- A favourable reputation can help the firm earn profits above the normal return earned by similar firms.

Step 1: Identify what is valued A well-established business may attract customers because of its good name, quality, location or customer loyalty. The monetary value attached to this business reputation is called goodwill.

Step 2: Connect reputation with earning power Goodwill reflects the advantage that enables the firm to earn higher profits than comparable firms with similar resources. It is not the value of a particular tangible asset such as furniture or machinery; the required expression is the reputation of the firm.

Step 3: Conclusion Goodwill is the value of the **reputation of the firm**.

Quick Tip to Solve: For the definition, link goodwill with reputation and the ability to earn higher profits.

8. 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:

- An incoming partner's share is obtained by sacrifice of the existing partners.
- Here C retains his share, so A and B provide D's share in their old relative ratio of 3:2.

Step 1: Find the share available to A and B C retains $1/6$, and D receives $1/6$. Therefore A and B together retain $1 - 1/6 - 1/6 = 2/3$. Their old relative ratio is $(1/2) : (1/3) = 3 : 2$.

Step 2: Calculate the individual new shares

$$A = \frac{2}{3} \times \frac{3}{5} = \frac{2}{5} = \frac{12}{30}, \qquad B = \frac{2}{3} \times \frac{2}{5} = \frac{4}{15} = \frac{8}{30}.$$

Also $C = D = 1/6 = 5/30$. The four shares total $(12 + 8 + 5 + 5)/30 = 1$, providing a check.

Step 3: Conclusion The new ratio $A : B : C : D = \boxed{12 : 8 : 5 : 5}$.

Quick Tip to Solve: Keep C at one-sixth, then split the remaining two-thirds between A and B in 3:2.

9. 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 the profit in the agreed ratio.
- If one partner personally guarantees another's minimum profit, that guarantor alone bears the deficiency.

Step 1: Calculate normal shares Total ratio $= 6 + 4 + 1 = 11$. Thus $X = 99,000 \times 6/11 =$ Rs $54,000$, $Y =$ Rs $36,000$, and $Z =$ Rs $9,000$.

Step 2: Charge the deficiency to X Z is guaranteed Rs 15,000, so the deficiency is $15,000 - 9,000 =$ Rs $6,000$. X alone bears it, giving $54,000 - 6,000 =$ Rs $48,000$. Y remains at Rs 36,000. Rs 15,000 is Z's guaranteed share, while Rs 30,000 and Rs 45,000 do not follow from the stated ratio and personal guarantee.

Step 3: Conclusion X receives $\boxed{\text{Rs } 48,000}$; the correct option is $\boxed{\text{(C)}}$.

Quick Tip to Solve: Deduct Z's shortfall from X alone because X personally gave the guarantee.

10. Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' on the basis of 'Economic Relationship'. [1 mark]

Solution:

Concept:

- Dissolution of partnership changes the existing partnership agreement; dissolution of the firm ends the business relationship among all its partners.
- Economic relationship means the continuing business association of the partners in the firm.

Step 1: Dissolution of partnership The existing relationship is reconstituted, for example on admission or retirement. The economic relationship among the continuing partners remains, and the business can continue under the revised agreement.

Step 2: Dissolution of partnership firm The economic relationship among all partners comes to an end. The firm closes its business and its affairs are wound up; consequently there is no continuing firm in which that relationship can operate.

Step 3: Conclusion On the basis of economic relationship: in dissolution of partnership it continues among the remaining partners; in dissolution of the firm it terminates among all partners.

Quick Tip to Solve: Ask whether the business association continues: reconstitution preserves it, while dissolution of the firm ends it.

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

Solution:

Concept:

- An incoming partner acquires rights in the partnership under the revised partnership agreement.
- The right to share future profits is distinct from any claim to profits earned before admission.

Step 1: Identify a right acquired A newly admitted partner acquires the right to share in the future profits of the firm from the date of admission, in the agreed profit-sharing ratio.

Step 2: Specify the scope This is a right in profits earned after becoming a partner. It does not automatically give the new partner a share of accumulated profits earned by the old partners before admission. Only one acquired right is required here.

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

Quick Tip to Solve: For one acquired right, state the right to future profits and mention the agreed ratio; do not claim past profits.

12. 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, interest on the unpaid amount due to a deceased partner is calculated at 6% per annum.
- The unpaid balance belongs to the deceased partner's executor; a different contractual rate applies only when agreed.

Step 1: Apply the prescribed rate Since the question expressly states that there is no agreement, use the default rate of 6% p.a. on the amount remaining unpaid to the executor.

Step 2: Check the alternatives Option (B) gives 6% p.a. The rates 8%, 9% and 12% in (A), (C) and (D) are not the default rate, and the question supplies no agreement supporting any of them.

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

Quick Tip to Solve: For the unpaid balance of a deceased partner, use 6% p.a. when no agreement specifies another rate.

13. B Ltd. issued 10,000, 9% Debentures of ₹ 100 each at a premium of 20% to vendors for purchase of plant costing ₹ 6,00,000. Pass the necessary Journal entry for the payment made to vendors. [1 mark]

Solution:

Concept:

- Debentures issued at a premium are credited at face value to Debentures Account; the premium is credited to Securities Premium Reserve.
- The vendor is debited with the total issue consideration: number of debentures multiplied by the issue price.

Step 1: Calculate the consideration for the stated issue Issue price per debenture is $100 + 20\% \times 100 =$ Rs 120. Therefore the stated issue of 10,000 debentures gives face value Rs 10,00,000, premium Rs 2,00,000 and total consideration Rs 12,00,000. This differs from the printed plant cost of Rs 6,00,000; the two printed figures cannot represent the same fully settled purchase.

Step 2: Record payment using the stated number issued Journal of B Ltd. (for the stated issue of 10,000 debentures)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Vendors A/c Dr.		12,00,000	
	To 9% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			2,00,000
	(Being 10,000 debentures of Rs 100 each issued at 20% premium to vendors)			

If payment is instead limited to the printed plant cost, only $6,00,000/120 = 5,000$ debentures can be issued: Vendors A/c Dr. Rs 6,00,000; To 9% Debentures A/c Rs 5,00,000; To Securities Premium Reserve A/c Rs 1,00,000. This uses 5,000, rather than the printed 10,000, debentures.

Step 3: Conclusion For the stated issue of 10,000 debentures: debit Vendors Rs 12,00,000, credit 9% Debentures Rs 10,00,000 and Securities Premium Reserve Rs 2,00,000. The printed plant cost is inconsistent with this issue.

Quick Tip to Solve: Multiply the number issued by Rs 120 first; separate face value from premium and compare the total with the vendor balance.

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 fund is used only for its designated purpose. Related income is added to the fund and related expenditure is deducted from it.
- Tournament fund investments are an asset; the unspent tournament fund is shown separately on the liabilities side of the balance sheet.

Step 1: Calculate the closing tournament fund The investment interest agrees with the stated rate: $3,00,000 \times 10\% = \text{Rs } 30,000$. Interest and ticket proceeds relate to the tournament and are added to its specific fund. Prizes awarded are charged against that fund.

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

Step 2: Present the Income and Expenditure Account No tournament interest, ticket sales or prizes are shown in the Income and Expenditure Account. All relate to the specific Tournament Fund and are adjusted against it; the fund is sufficient to meet the prizes.

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

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

The investment principal stays at Rs 3,00,000; no purchase or sale of investments is stated.

Step 4: Conclusion Income and Expenditure Account: no tournament-related amount. Balance Sheet: Tournament Fund Rs 3,45,000 under liabilities and Tournament Fund Investments Rs 3,00,000 under assets.

Quick Tip to Solve: Route both tournament income and tournament prizes through its specific fund; keep the investment principal separate.

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:

- Consumption equals opening stock plus purchases during the year less closing stock.
- Credit purchases equal payment to suppliers plus closing creditors less opening creditors, when there are no other adjustments.

Step 1: Convert cash payment into purchases Convert payment to purchases using the creditors equation:

$$\text{Opening creditors} + \text{Purchases} - \text{Payments} = \text{Closing creditors}.$$

Hence purchases are $1,00,000 + 22,500 - 20,000 = \text{Rs } 1,02,500$.

Step 2: Adjust purchases for stocks Opening stock is available for use this year, while closing stock remains unused at year end and is excluded from consumption.

$$\begin{aligned}\text{Sports material consumed} &= 10,000 + 1,02,500 - 7,500 \\ &= \text{Rs } 1,05,000.\end{aligned}$$

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

Expenditure	Amount (Rs)
Sports material consumed:	
Opening stock	10,000
Add: Purchases during the year	1,02,500
Material available for consumption	1,12,500
Less: Closing stock	(7,500)
Sports material consumed	**1,05,000**

Only consumption is expensed; closing stock remains an asset.

Step 4: Conclusion Sports material to be debited to the Income and Expenditure Account is Rs 1,05,000.

Quick Tip to Solve: First adjust supplier payments for creditors; only then add opening stock and subtract closing stock to find consumption.

15. Suman and Rajan were partners in a firm sharing profits and losses in the ratio of 3 : 1. The firm was dissolved on 31st March, 2019. Pass the necessary Journal entries for the following transactions after various assets (other than cash in hand and at bank) and third party liabilities have been transferred to Realisation Account :

(i) Dissolution expenses ₹ 10,000 were paid by the firm.

(ii) Rajan had given a loan of ₹ 60,000 to the firm for which he accepted ₹ 58,000 in full settlement.

(iii) The firm had a debit balance of ₹ 40,000 in the Profit and Loss Account on the date of dissolution.

(iv) Profit on realisation was ₹ 12,000. [4 marks]

Solution:

Concept:

- On dissolution, expenses borne by the firm are debited to Realisation Account. Payment reduces the cash or bank balance.
- A partner's loan remains separate from third-party liabilities transferred to Realisation Account. Any concession accepted by the lender is credited to Realisation Account.
- Accumulated losses and the profit on realisation are transferred to partners in their profit-sharing ratio, here $3:1$.

Step 1: Determine the amounts to be transferred The dissolution expenses of Rs 10,000 are paid by the firm, so Realisation Account bears the expense. Rajan's loan has a credit balance of Rs 60,000, but its settlement requires payment of only Rs 58,000. The concession is therefore $60,000 - 58,000 =$ Rs $2,000$, a gain on realisation. The full loan balance must be debited to close the loan account.

The debit balance of Profit and Loss Account represents an accumulated loss. Suman bears $40,000 \times 3/4 =$ Rs $30,000$, while Rajan bears $40,000 \times 1/4 =$ Rs $10,000$. The stated profit on realisation of Rs 12,000 is the amount to distribute: Suman receives Rs 9,000 and Rajan Rs 3,000. It is not necessary to recompute the stated final profit using the separate transactions.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Realisation A/c Dr.		10,000	
	To Bank A/c			10,000
	(Being dissolution expenses paid by the firm)			
31-3-2019	Rajan's Loan A/c Dr.		60,000	
	To Bank A/c			58,000
	To Realisation A/c			2,000
	(Being loan settled in full at a concession)			
31-3-2019	Suman's Capital A/c Dr.		30,000	
	Rajan's Capital A/c Dr.		10,000	
	To Profit and Loss A/c			40,000
	(Being accumulated loss transferred in the ratio 3:1)			

31-3-2019	Realisation A/c Dr.	12,000	
	To Suman's Capital A/c		9,000
	To Rajan's Capital A/c		3,000
	(Being realisation profit distributed in the ratio 3:1)		

Step 3: Conclusion The four entries close the specified balances: accumulated loss is shared as Rs 30,000 and Rs 10,000, and realisation profit as Rs 9,000 and Rs 3,000 by Suman and Rajan respectively.

Quick Tip to Solve: Keep Rajan's Loan Account separate from his Capital Account; debit the full loan and credit the Rs 2,000 concession to Realisation Account.

16. 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:

- Authorised capital is the maximum registered capital; issued capital records shares offered for subscription. Forfeiture does not reduce either of these disclosures.
- Subscribed and fully paid-up capital excludes shares forfeited before the balance sheet is prepared. The amount already paid on those forfeited shares is disclosed separately under share capital.

Step 1: Calculate the capital after forfeiture The second and final call per share is $10-(3+2+3) = \text{Rs } 2$. Chavi failed to pay both calls, totalling $3+2 = \text{Rs } 5$ per share. She had paid the application and allotment money, or $3+2 = \text{Rs } 5$ per share.

The company forfeits all her 2,000 shares. Hence the shares remaining subscribed and fully paid are $80,000 - 2,000 = 78,000$, with capital of $78,000 \times 10 = \text{Rs } 7,80,000$. The amount originally paid on the forfeited shares is $2,000 \times 5 = \text{Rs } 10,000$. It remains in Share Forfeiture Account because no reissue is stated. Consequently, share capital shown in the balance sheet is $7,80,000 + 10,000 = \text{Rs } 7,90,000$. There are no subscribed partly paid shares remaining after forfeiture, and no calls in arrears on the outstanding shares.

Step 2: Present the balance sheet extract Alpha India Ltd. — Balance Sheet (extract)

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	7,90,000

Step 3: Prepare the share capital note 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, fully paid	7,80,000
Add: Forfeited shares (amount originally paid on 2,000 shares)	10,000
Total share capital	7,90,000

The authorised and issued capital figures continue to show their original amounts. The forfeited shares are excluded from subscribed capital, while their paid amount is added as a separate disclosure under share capital, not treated as a capital reserve before reissue.

Step 4: Conclusion Alpha India Ltd. will show Share Capital of Rs 7,90,000, comprising fully paid-up capital of Rs 7,80,000 and Rs 10,000 originally paid on forfeited shares.

Quick Tip to Solve: After forfeiture, remove all 2,000 shares from subscribed capital, then add back only their Rs 5 per share already received.

17. The Balance Sheet of Mohan, Vir and Geeta who were sharing profits in the ratio of 2 : 1 : 2 as at 31st March, 2019 was as follows :
Balance Sheet of Mohan, Vir and Geeta as at 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
General Reserve	38,000	Building	2,60,000
Bills Payable	4,000	Stock	1,15,000
Creditors	28,000	Debtors	95,000
Capitals :		Cash	1,00,000
Mohan	2,00,000		
Vir	1,00,000		
Geeta	2,00,000		
Total Capitals	5,00,000		
	5,70,000		5,70,000

Mohan died on 30th September, 2019. The partnership deed provided for the following on the death of a partner :
(i) Goodwill of the firm be valued on three years' purchase of average profits for the last three years.
(ii) Interest on capital was to be provided @ 6% p.a.
(iii) The average profits of the last three years were ₹ 30,000.
(iv) The profit for the year ending 31st March, 2019 was ₹ 50,000.
Prepare Mohan's Capital Account to be rendered to his executors. [4 marks]

Solution:

Concept:

- A deceased partner is entitled to opening capital, accumulated reserves, goodwill, interest on capital and profit up to death. Mohan's share is $2/5$.
- Interest and estimated profit relate to six months from 1st April to 30th September, 2019. Goodwill uses the three-year average profit; interim profit uses the last completed year.

Step 1: Calculate reserve and goodwill Mohan's reserve share is Rs $38,000 \times 2/5 =$ Rs $15,200$. Goodwill of the firm is Rs $30,000 \times 3 =$ Rs $90,000$, giving Mohan Rs $90,000 \times 2/5 =$ Rs $36,000$. Vir and Geeta continue in their relative ratio $1:2$, so their capital accounts bear goodwill of Rs 12,000 and Rs 24,000 respectively. This compensates Mohan without retaining goodwill as an asset.

Step 2: Calculate interest and interim profit Interest on capital is

$$\text{Rs } 2,00,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 6,000.$$

Using the preceding annual profit, Mohan's share to death is

$$\text{Rs } 50,000 \times \frac{6}{12} \times \frac{2}{5} = \text{Rs } 10,000.$$

This estimated profit is credited through Profit and Loss Suspense Account because the current year has not ended. No drawings or revaluation adjustments are specified.

Step 3: Prepare the capital account **Mohan's Capital Account as at 30th September, 2019**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Mohan's Executors' A/c	2,67,200	By Balance b/d	2,00,000
		By General Reserve	15,200
		By Vir's Capital A/c	12,000
		By Geeta's Capital A/c	24,000
		By Interest on Capital A/c	6,000
		By Profit and Loss Suspense A/c	10,000
Total	2,67,200	Total	2,67,200

The entire credit balance is transferred to the executors. Thus the capital account closes; there is no balance carried down after this transfer.

Step 4: Conclusion The amount due to Mohan's executors is $\boxed{\text{Rs } 2,67,200}$.

Quick Tip to Solve: Use the average profit for goodwill and the last annual profit for the six-month profit estimate.

18. 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:

- In the absence of a stated profit-sharing ratio, partners share residual profit equally. Interest, salary and commission are appropriations of profit.
- Compare each guaranteed amount with the entitlement defined in the deed. C bears both deficiencies, so the total residual profit distributed remains unchanged.

Step 1: Compute prior appropriations and residual profit Interest on capital at 5% is A: Rs 40,000, B: Rs 30,000 and C: Rs 20,000, totalling Rs 90,000. B's annual salary is Rs $3,000 \times 12 =$ Rs $36,000$, and C's commission is Rs 12,000. The balance available for equal distribution is

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

Each partner's initial residual share is therefore Rs $78,000/3 =$ Rs $26,000$.

Step 2: Apply the two guarantees separately A's guarantee excludes interest on capital. His residual profit of Rs 26,000 exceeds the guaranteed Rs 25,000, so A has no deficiency. B's guarantee includes capital interest but excludes salary: his eligible entitlement is Rs $26,000 + 30,000 =$ Rs $56,000$. This exceeds Rs 55,000, so B also has no deficiency. C consequently bears no guarantee adjustment. Neither B's salary nor C's commission is included in the guarantee comparisons.

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

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

All profit is appropriated, leaving no balance carried down. A receives Rs 66,000 in total; B receives

Rs 92,000 including salary; C receives Rs 58,000 including commission. These sum to Rs 2,16,000 and provide a cross-check.

Step 4: Conclusion The residual profit is Rs 78,000, shared equally at Rs 26,000 each. Both guarantees are satisfied; C bears no deficiency.

Quick Tip to Solve: Check exactly what each guarantee includes before comparing: B includes interest but excludes salary.

OR

18. 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:

- Opening capital equals closing capital plus drawings less the profit already credited. Interest on capital is calculated on these opening balances.
- With no dates of drawings given, drawings are treated as spread evenly through the year; interest is charged for an average of six months. The net omitted appropriation changes divisible profit in the ratio $2:2:1$.

Step 1: Reconstruct opening capitals The profit of Rs 1,00,000 was already credited as Rs 40,000, Rs 40,000 and Rs 20,000 to Asha, Nisha and Disha respectively. Thus the opening capitals are:

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

Adding drawings reverses their debit and subtracting profit reverses its credit; using closing capital directly would therefore overstate or understate the interest base.

Step 2: Calculate omitted interest and its effect on profit Interest on capital at 10% is Rs 16,000, Rs 14,000 and Rs 10,000 respectively, totalling Rs 40,000. Interest on drawings is drawings $\times\, 10\% \times 6/12$, giving Rs 2,500, Rs 3,000 and Rs 1,500 respectively, totalling Rs 7,000. The net reduction in divisible profit is $40,000 - 7,000 =$ Rs $33,000$. Therefore, the excess profit already credited must be debited in the ratio $2:2:1$: Rs 13,200, Rs 13,200 and Rs 6,600 respectively.

Step 3: Find each partner's net adjustment

Particulars (Rs)	Asha	Nisha	Disha
Interest on capital: credit	16,000	14,000	10,000
Interest on drawings: debit	2,500	3,000	1,500
Excess profit: debit	13,200	13,200	6,600
Net adjustment	300 Cr.	2,200 Dr.	1,900 Cr.

The total required credit of Rs 2,200 equals the required debit, so one compound adjustment entry corrects all the omissions without reopening the profit account.

Step 4: Record the adjustment entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	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)			

Step 5: Conclusion Debit Nisha's Capital Account by Rs 2,200 and credit Asha's and Disha's Capital Accounts by Rs 300 and Rs 1,900 respectively.

Quick Tip to Solve: First reverse the profit and drawings from closing capitals; then combine interest and the compensating profit adjustment partner by partner.

19. From the following particulars of Silver Charitable Society, prepare Receipts and Payments Account for the year ending 31st March, 2019:

Particulars	Amount (Rs)
Opening Balance: Cash in Hand	40,000
Opening Balance: Cash at Bank	2,10,000
Subscriptions Received (including Rs 15,000 for the year 2017–18)	3,05,000
Donations for Building	5,00,000
Postage and Stationery	25,000
Insurance Premium (including Rs 4,000 paid in advance)	28,000
Purchase of Investments	31,000
Life Membership Fees	30,000
Salaries Paid (including Rs 5,000 for the year 2019–20)	35,000
Tournament Expenses	15,000
Locker Rent	34,000
Closing Balance: Cash in Hand	8,000

[6 marks]

Solution:

Concept:

- A Receipts and Payments Account summarises actual cash and bank movements. Receipts appear on the debit side and payments on the credit side, irrespective of the accounting period to which they relate.
- Both capital and revenue cash transactions are included. Opening cash and bank balances are

brought down on the debit side; closing cash and bank balances balance the credit side.

Step 1: Identify cash receipts and payments Subscriptions of Rs 3,05,000 include Rs 15,000 relating to 2017–18. Include the whole Rs 3,05,000 because all of it was received during the current year. Building donations of Rs 5,00,000 and life membership fees of Rs 30,000 also belong on the receipts side even though they are capital receipts. Locker rent of Rs 34,000 is another actual receipt. Insurance of Rs 28,000 includes Rs 4,000 paid in advance, and salaries of Rs 35,000 include Rs 5,000 for 2019–20. Include the full payments; prepaid amounts are not deducted in this account. Purchase of investments of Rs 31,000 is a capital payment and is included alongside postage and stationery of Rs 25,000 and tournament expenses of Rs 15,000.

Step 2: Calculate the missing closing bank balance Opening cash and bank together are $40,000 + 2,10,000 = \text{Rs } 2,50,000$. Current receipts total

$$3,05,000 + 5,00,000 + 30,000 + 34,000 = \text{Rs } 8,69,000.$$

Thus total funds available are Rs 11,19,000. Actual payments are

$$25,000 + 28,000 + 31,000 + 35,000 + 15,000 = \text{Rs } 1,34,000.$$

Closing cash and bank together are $11,19,000 - 1,34,000 = \text{Rs } 9,85,000$. As closing cash in hand is Rs 8,000, closing cash at bank is $9,85,000 - 8,000 = \text{Rs } 9,77,000$.

Step 3: Prepare the account Silver Charitable Society

Receipts and Payments Account for the year ended 31st March, 2019

Dr. Receipts	Amount (Rs)	Payments	Amount (Rs) Cr.
To Balance b/d:		By Postage and stationery	25,000
Cash in hand	40,000	By Insurance premium	28,000
Cash at bank	2,10,000	By Investments	31,000
To Subscriptions	3,05,000	By Salaries	35,000
To Building donations	5,00,000	By Tournament expenses	15,000
To Life membership fees	30,000	By Balance c/d:	
To Locker rent	34,000	Cash in hand	8,000
		Cash at bank	9,77,000
Total	11,19,000	Total	11,19,000

The account balances after recording the closing bank balance. No depreciation, outstanding subscription or accrued expense is introduced because none represents an actual cash movement given in the particulars.

Step 4: Conclusion Both sides of the Receipts and Payments Account total Rs 11,19,000. Closing cash at bank is Rs 9,77,000, in addition to cash in hand of Rs 8,000.

Quick Tip to Solve: Keep the full subscription, insurance and salary cash amounts; use total receipts less payments and closing cash to find the bank balance.

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:

- Debenture Redemption Reserve (DRR) is an appropriation of profits. Under the provisions applicable to this question, it is maintained at 25% of the nominal value of debentures issued.
- Debenture Redemption Investment (DRI) equals 15% of the debentures becoming due for redemption during the year. Investment is realised to provide cash for redemption.
- On partial redemption, the proportionate DRR relating to debentures redeemed is transferred to General Reserve; the balance continues against the unredeemed debentures.

Step 1: Calculate the reserve and investment requirements Working Notes

$$\begin{aligned}
\text{Total nominal value} &= 40,000 \times 100 = \text{Rs } 40,00,000,\\
\text{Amount due} &= 20,000 \times 100 = \text{Rs } 20,00,000,\\
\text{Required DRR} &= 25\% \times 40,00,000 = \text{Rs } 10,00,000,\\
\text{Additional DRR} &= 10,00,000 - 3,10,000 = \text{Rs } 6,90,000,\\
\text{Required DRI} &= 15\% \times 20,00,000 = \text{Rs } 3,00,000.
\end{aligned}$$

The investment is made by 30 April 2018 for the redemption falling on 31 March 2019. The debentures are redeemed at par because no redemption premium is stated. The coupon rate of 11% does not alter the principal payable; no interest entry is required by the information given.

Step 2: Record creation of DRR and purchase of investments Journal of D Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Surplus in Statement of Profit and Loss Dr. To Debenture Redemption Reserve (Being additional reserve created out of profits)		6,90,000	6,90,000
30-4-2018	Debenture Redemption Investment Dr. To Bank (Being required investment made for redemption)		3,00,000	3,00,000

Step 3: Record realisation and redemption Journal of D Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Bank Dr. To Debenture Redemption Investment (Being investment realised at its book value)		3,00,000	3,00,000
31-3-2019	11% Debentures Dr. To Debentureholders (Being half the debentures became due for redemption)		20,00,000	20,00,000

31-3-2019	Debentureholders Dr. To Bank (Being amount due paid to debentureholders)		20,00,000	20,00,000
31-3-2019	Debenture Redemption Reserve Dr. To General Reserve (Being proportionate reserve transferred after redemption)		5,00,000	5,00,000

The reserve transferred is $10,00,000 \times 20,000/40,000 =$ Rs $5,00,000$. No gain or loss on investments is given, so realisation is recorded at cost.

Step 4: Conclusion D Ltd. redeems debentures of Rs 20,00,000. Additional DRR is Rs 6,90,000 and DRI is Rs 3,00,000. DRR of Rs 5,00,000 remains for the outstanding debentures after the proportionate transfer.

Quick Tip to Solve: Use the total issue for the DRR calculation, but only the half due 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:

- An asset bought from a vendor is debited at its purchase price and the vendor is credited. The vendor account is then debited for the agreed modes of payment.
- Debentures issued at par are credited with face value. A premium payable on redemption is credited separately and debited to Loss on Issue of Debentures.
- For an acquired business, net assets exceeding purchase consideration create Capital Reserve. Debentures issued at a discount settle the vendor at their issue price, not face value.

Step 1: Determine the cost of land and redemption premium Working Notes for part (i)

$$\begin{aligned} \text{Debentures issued at par} &= 5,000 \times 100 = \text{Rs } 5,00,000, \\ \text{Cost of land} &= 10,00,000 + 5,00,000 + 5,00,000 \\ &= \text{Rs } 20,00,000, \\ \text{Premium on redemption} &= 10\% \times 5,00,000 = \text{Rs } 50,000. \end{aligned}$$

The premium payable after three years is a loss on issue recognised now. It is not part of the consideration paid to JSS Ltd. because the issue is at par. Accepting a six-month bill creates Bills Payable; it does not immediately reduce Bank.

Step 2: Pass the entries in LT Ltd. Journal of LT Ltd. – Part (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Land Dr. To JSS Ltd. (Being land purchased from JSS Ltd.)		20,00,000	 20,00,000
	JSS Ltd. Dr. To Bank (Being part payment made by cheque)		10,00,000	 10,00,000
	JSS Ltd. Dr. To Bills Payable (Being six-month bill accepted in part settlement)		5,00,000	 5,00,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	JSS Ltd. Dr. Loss on Issue of Debentures Dr. To 10% Debentures To Premium on Redemption of Debentures (Being 5,000 debentures issued at par to settle the balance, redeemable at a premium of 10%)		5,00,000 50,000	 5,00,000 50,000

Step 3: Calculate net assets and debentures for ABC Ltd. Working Notes for part (ii)

$$\begin{aligned}
\text{Net assets} &= 4,20,000 - 40,000 = \text{Rs } 3,80,000,\\
\text{Capital reserve} &= 3,80,000 - 3,60,000 = \text{Rs } 20,000,\\
\text{Issue price per debenture} &= 100 - 10 = \text{Rs } 90,\\
\text{Number issued} &= 3,60,000/90 = 4,000,\\
\text{Face value issued} &= 4,000 \times 100 = \text{Rs } 4,00,000,\\
\text{Discount on issue} &= 4,000 \times 10 = \text{Rs } 40,000.
\end{aligned}$$

ABC Ltd. therefore credits the vendor with Rs 3,60,000 while recording the debentures at their full nominal liability of Rs 4,00,000.

Step 4: Pass the entries in ABC Ltd. Journal of ABC Ltd. – Part (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets Dr. To Sundry Liabilities To XYZ Ltd. To Capital Reserve (Being assets and liabilities of XYZ Ltd. taken over for Rs 3,60,000)		4,20,000	 40,000 3,60,000 20,000
	XYZ Ltd. Dr. Discount on Issue of Debentures Dr. To 10% Debentures (Being 4,000 debentures of Rs 100 each issued at 10% discount in full settlement)		3,60,000 40,000	 4,00,000

Step 5: Conclusion (i) Land costs Rs 20,00,000 and loss on issue is Rs 50,000. (ii) Capital Reserve is Rs 20,000; ABC Ltd. issues 4,000 debentures, recording Rs 40,000 discount.

Quick Tip to Solve: For LT Ltd., separate redemption premium from the purchase price; for ABC Ltd., divide the vendor balance by Rs 90 to find the number of debentures.

21. 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:

- Pre-admission reserves and revaluation profit belong to A and B in their old ratio $3 : 2$. Goodwill premium compensates the sacrificing partners.
- The investment fluctuation fund first absorbs the fall in investments. Only the excess fund is transferred to old partners; the same fall must not also be charged to Revaluation.

Step 1: Determine the ratios and reserve adjustments In the absence of another agreement, C acquires his $1/5$ share from A and B in their old ratio. The new shares are $12/25, 8/25, 5/25$, so the new ratio is $12 : 8 : 5$ and the sacrificing ratio is $3 : 2$. General Reserve of Rs 25,000 gives A Rs 15,000 and B Rs 10,000. Investments fall by $60,000 - 50,000 =$ Rs $10,000$. Against the Investment Fluctuation Fund of Rs 12,000 this leaves Rs 2,000, credited to A Rs 1,200 and B Rs 800. Goodwill premium of Rs 50,000

is credited to A Rs 30,000 and B Rs 20,000. No withdrawal of this premium is stated.

Step 2: Prepare Revaluation Account The Rs 12,000 recovered from the debtor previously written off is a gain; the original Rs 18,000 is no longer included in book debtors. Outstanding salaries create a loss of Rs 2,000. Thus revaluation profit is Rs 10,000, divided as Rs 6,000 and Rs 4,000.

Revaluation Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	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	

Step 3: Prepare the old partners capital accounts **A's Capital Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Balance c/d	2,12,200	By Balance b/d	1,60,000	
			By General Reserve	15,000	
			By Investment Fund	1,200	
			By Goodwill premium	30,000	
			By Revaluation	6,000	
	Total	2,12,200	Total	2,12,200	

B's Capital Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Balance c/d	1,74,800	By Balance b/d	1,40,000	
			By General Reserve	10,000	
			By Investment Fund	800	
			By Goodwill premium	20,000	
			By Revaluation	4,000	
	Total	1,74,800	Total	1,74,800	

Step 4: Prepare C capital account and reconcile bank **C's Capital Account**

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

Closing bank is $20,000 + 1,00,000 + 50,000 + 12,000 =$ Rs $1,82,000$. The goodwill premium remains in bank, while its credit is included in old partners capital balances.

Step 5: Prepare the new firm balance sheet **Balance Sheet of A, B and C as at 1st April, 2019**

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	30,000	Cash at Bank	1,82,000
Outstanding salaries	2,000	Debtors	85,000
Capitals:		Less: Provision	(5,000)
A	2,12,200	Net debtors	80,000
B	1,74,800	Stock	1,30,000
C	1,00,000	Investments	50,000
		Furniture	77,000
Total	5,19,000	Total	5,19,000

Step 6: Conclusion The new firm has capitals A Rs 2,12,200, B Rs 1,74,800 and C Rs 1,00,000. The Balance Sheet totals Rs 5,19,000 on each side.

Quick Tip to Solve: Use the investment fund against its related fall first; transfer only its Rs 2,000 surplus to the old partners.

OR

21. 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 gains and losses and accumulated General Reserve are allocated in the old ratio $5:3:2$. Provident Fund represents a liability and remains payable; it is not an accumulated profit.
- Chintan receives goodwill compensation from the continuing partners in their gaining ratio. His final capital balance is settled by bank payment and a loan.

Step 1: Calculate provision and revaluation profit After writing off Rs 5,000, debtors are Rs 55,000. The existing Rs 5,000 provision covers the write-off completely. The fresh required provision is $55,000 \times 5\% =$ Rs $2,750$. Stock appreciation is $36,000 - 30,000 =$ Rs $6,000$; furniture appreciation is Rs 9,000. After compensation liability of Rs 2,000, revaluation profit is $6,000+9,000-2,750-2,000 =$ Rs $10,250$. Chintan, Ayush and Sudha receive respectively Rs 5,125, Rs 3,075 and Rs 2,050.

Step 2: Record asset adjustments and revaluation distribution **Journal of the Firm (31st March, 2019)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bad Debts A/c Dr.		5,000	
	To Debtors A/c			5,000
	(Being bad debts written off)			
	Provision for Doubtful Debts A/c Dr.		5,000	
	To Bad Debts A/c			5,000
	(Being existing provision used for bad debts)			
	Revaluation A/c Dr.		2,750	
	To Provision for Doubtful Debts A/c			2,750
	(Being new provision created on remaining debtors)			
	Stock A/c Dr.		6,000	
	Furniture A/c Dr.		9,000	
	To Revaluation A/c			15,000
	(Being increase in asset values recorded)			
	Revaluation A/c Dr.		2,000	
	To Workmen's Compensation Liability A/c			2,000
	(Being compensation liability provided)			
	Revaluation A/c Dr.		10,250	
	To Chintan's Capital A/c			5,125
	To Ayush's Capital A/c			3,075
	To Sudha's Capital A/c			2,050
	(Being revaluation profit distributed in old ratio)			

Step 3: Compute goodwill compensation and amount due The continuing ratio is $3:2$. Ayush gains $3/5 - 3/10 = 3/10$, and Sudha gains $2/5 - 2/10 = 2/10$; hence the gaining ratio is $3:2$. Chintan goodwill share is $1,00,000 \times 5/10 =$ Rs $50,000$. Ayush is debited Rs 30,000 and Sudha Rs 20,000. Chintan also receives half the General Reserve, Rs 10,000. His total entitlement is $90,000 + 5,125 + 10,000 + 50,000 =$ Rs $1,55,125$. After the Rs 20,000 cheque, the balance is Rs 1,35,125. The stated settlement is recorded as directed; no additional funding transaction is specified.

Step 4: Record reserve, goodwill and settlement entries **Journal of the Firm (continued; 31st March, 2019)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		20,000	
	To Chintan's Capital A/c			10,000
	To Ayush's Capital A/c			6,000
	To Sudha's Capital A/c			4,000
	(Being reserve distributed in old ratio)			
	Ayush's Capital A/c Dr.		30,000	
	Sudha's Capital A/c Dr.		20,000	
	To Chintan's Capital A/c			50,000
	(Being retiring partner goodwill adjusted in gaining ratio)			
	Chintan's Capital A/c Dr.		1,55,125	
	To Bank A/c			20,000
	To Chintan's Loan A/c			1,35,125
	(Being part payment made and balance transferred to loan)			

Step 5: Conclusion Revaluation profit is Rs 10,250. Chintan is paid Rs 20,000 by cheque and Rs

1,35,125 is credited to his Loan Account.

Quick Tip to Solve: Apply the 5 percent provision to debtors after the write-off, and retain Provident Fund as an outside liability.

22. 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:

- Application money is first transferred to share capital for shares allotted; the excess is transferred to share allotment. The allotment ratio is shares allotted divided by shares applied for.
- On forfeiture, debit called-up share capital and unpaid securities premium; credit the unpaid allotment and the capital amount already received to Share Forfeiture. Reissue discount is charged against forfeiture; the remaining surplus becomes Capital Reserve.

Step 1: Compute pro-rata allotment and outstanding amounts The allotment ratio is $80,000 : 1,40,000 = 4 : 7$. Thus Rajiv receives $1,400 \times 4/7 = 800$ shares. Total application receipts are $1,40,000 \times$ Rs $5 =$ Rs $7,00,000$. Of this, Rs 4,00,000 is application capital and Rs 3,00,000 is adjusted against allotment. Total allotment due is $80,000 \times$ Rs $9 =$ Rs $7,20,000$, including Rs 3,20,000 premium. Rajiv paid Rs 7,000 on application. Application due on his allotted shares is Rs 4,000, so Rs 3,000 is adjusted against allotment of Rs 7,200. His unpaid allotment is therefore Rs 4,200. Bank receipts on allotment are $7,20,000 - 3,00,000 - 4,200 =$ Rs $4,15,800$. His unpaid premium is $800 \times$ Rs $4 =$ Rs $3,200$; capital received on these shares is Rs 7,000.

Step 2: Record issue and allotment Journal of A Ltd. (issue 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 excess adjusted)		7,00,000	 4,00,000 3,00,000

	Share Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium 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 from Rajiv)		4,15,800	 4,15,800

Step 3: Record forfeiture, reissue and reserve Rajiv's 800 fully called shares have capital of Rs 8,000. The premium credited earlier but not received is reversed. Reissue proceeds are $800 \times \text{Rs } 9 = \text{Rs } 7,200$; discount is Rs 800. Therefore the forfeiture surplus transferred is $7,000 - 800 = \text{Rs } 6,200$.

Journal of A Ltd. (forfeiture and reissue)

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

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Share Allotment A/c
	  To Share Forfeiture A/c
	(Being Rajiv's 800 shares forfeited for unpaid allotment)
			8,000
			3,200
				
				4,200
				7,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 800 forfeited shares reissued fully paid at Rs 9 each)		7,200 800	 8,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue transferred to capital reserve)		6,200	 6,200

Step 4: Conclusion Rajiv was allotted 800 shares; unpaid allotment was Rs 4,200. The capital reserve arising on their reissue is $\boxed{\text{Rs } 6,200}$.

Quick Tip to Solve: Find the defaulter's allotted shares first, then deduct excess application money from that person's allotment due.

OR

22. 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. For accepted applicants, transfer the application amount on allotted shares to capital and adjust excess against allotment.
- On forfeiture, debit the full called-up capital and credit unpaid allotment, unpaid calls and capital already received. When reissue is at par, the entire forfeiture amount on those reissued shares is transferred to Capital Reserve.

Step 1: Calculate allotment and defaults Applications accepted for pro-rata allotment are $50,000 - 10,000 = 40,000$ shares, so the allotment ratio is $30,000 : 40,000 = 3 : 4$. Application receipts are Rs 1,50,000; refund on rejected applications is Rs 30,000. Application capital is $30,000 \times$ Rs $3 =$ Rs $90,000$, leaving Rs 30,000 for allotment adjustment. Natasha receives $1,600 \times 3/4 = 1,200$ shares. She paid Rs 4,800 on application, of which Rs 3,600 is application capital and Rs 1,200 is excess. Allotment due is Rs 3,600, so unpaid allotment is Rs 2,400. The call is Rs 4 per share: her unpaid call is Rs 4,800. Allotment bank receipts are $90,000 - 30,000 - 2,400 =$ Rs $57,600$. Call receipts are $1,20,000 - 4,800 =$ Rs $1,15,200$.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,50,000	
	To Share Application A/c			1,50,000
	(Being application money received on 50,000 shares)			
	Share Application A/c Dr.		1,50,000	
	To Bank A/c			30,000
	To Share Capital A/c			90,000
	To Share Allotment A/c			30,000
	(Being rejected applications refunded and excess accepted money adjusted)			
	Share Allotment A/c Dr.		90,000	
	To Share Capital A/c			90,000
	(Being allotment at Rs 3 per share due)			

	Bank A/c Dr. To Share Allotment A/c (Being allotment money received except from Natasha)		57,600	57,600

Step 3: Record call and forfeiture Journal of AB Ltd. (call and forfeiture)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call at Rs 4 per share due)		1,20,000	1,20,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call money received except on Natasha's shares)		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 fully called shares forfeited for unpaid allotment and call)		12,000	 2,400 4,800 4,800

Step 4: Record reissue and capital reserve The amount actually received on Natasha's shares, including the adjusted excess application money, is Rs 4,800. Since all 1,200 shares are reissued at their face value, no discount is deducted from this amount.

Journal of AB Ltd. (reissue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Capital A/c (Being 1,200 forfeited shares reissued at Rs 10 each fully paid)		12,000	12,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being entire forfeiture surplus transferred to capital reserve)		4,800	4,800

Step 5: Conclusion Natasha was allotted 1,200 shares; unpaid allotment and call were Rs 2,400 and Rs 4,800 respectively. Capital Reserve is $\boxed{\text{Rs } 4,800}$.

Quick Tip to Solve: Remove rejected applications before computing the pro-rata ratio; include adjusted excess application money in capital received.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

23. 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 long-term debt divided by shareholders' funds. An issue of shares increases share capital and hence shareholders' funds.

Step 1: Identify the effect of issuing shares The issue brings Rs 6,00,000 into shareholders' funds. It does not increase long-term debt. Thus the denominator of the debt-equity ratio rises while its numerator remains unchanged.

Step 2: Compare the ratios Let original shareholders' funds be $E > 0$. Since the original ratio is $2 : 1$, long-term debt is $2E$. The new ratio is $\dfrac{2E}{E + 6,00,000}$, which is less than $\dfrac{2E}{E} = 2$. Hence the ratio falls; the actual new ratio requires the original equity amount.

Step 3: Conclusion The debt-equity ratio will $\boxed{\text{decrease}}$ because shareholders' funds increase by Rs 6,00,000 while debt remains unchanged.

Quick Tip to Solve: For a ratio effect, identify which of the numerator and denominator changes before doing any arithmetic.

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

Solution:

Concept:

- Operating ratio measures operating cost as a percentage of revenue from operations. Operating profit is the balance of revenue after meeting operating cost.
- Operating ratio and operating profit ratio use the same denominator, so their sum is 100%.

Step 1: Use the complementary relationship

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

Both ratios refer only to operating items; non-operating income and expenses do not enter this relationship.

Step 2: Substitute the given ratio

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

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

Step 3: Conclusion The operating profit ratio is 25%.

Quick Tip to Solve: Subtract operating ratio from 100%; do not divide operating profit by operating cost.

25. State the primary objective of preparing Cash Flow Statement. [1 mark]

Solution:

Concept:

- A cash flow statement reports movements in cash and cash equivalents during an accounting period.
- The movements are classified into operating, investing and financing activities.

Step 1: Identify the information required The statement explains where cash and cash equivalents came from and how they were used during the period. Accrual-based profit alone cannot explain these movements because it includes non-cash items and credit transactions.

Step 2: State the primary objective The primary objective is to provide information about cash inflows and cash outflows during the period under operating, investing and financing activities. This explains the change between opening and closing cash and cash equivalents.

Step 3: Conclusion To provide information about the cash inflows and cash outflows from operating, investing and financing activities during a period.

Quick Tip to Solve: For the primary objective, state cash movements during the period and name all three activities.

26. State any one limitation of 'Analysis of Financial Statements'. [1 mark]

Solution:

Concept:

- Financial statement analysis uses published accounting information to interpret financial performance and position.
- Its reliability depends on the figures and accounting policies underlying those statements.

Step 1: Select a limitation One limitation is that financial statement analysis ignores changes in the price level. Financial statements generally record transactions at historical amounts, while the purchasing power of money can change over time.

Step 2: Explain its effect As a result, figures from different years may represent different purchasing powers. A rise in sales or profit may partly reflect higher prices rather than a real improvement in performance, so comparisons based solely on the reported amounts can be misleading.

Step 3: Conclusion One limitation: it ignores changes in the price level.

Quick Tip to Solve: State one limitation explicitly, then explain briefly how it can distort comparisons.

27. Under which type of activity will 'Interest received on Investments' be classified while preparing Cash Flow Statement ? [1 mark]

Solution:

Concept:

- Investing activities include acquisition and disposal of long-term assets and investments other than cash equivalents.
- For a non-financial company, interest received on investments is classified as an investing cash inflow.

Step 1: Identify the nature of the receipt Interest received is the return earned on money placed in investments. It is a receipt of cash and is associated with the investment rather than the company's ordinary sale of goods or services.

Step 2: Classify the activity In the usual non-financial-company context of this question, the receipt is shown under cash flows from investing activities. For a financial enterprise, interest received is an operating receipt because earning interest is part of its principal revenue-producing operations.

Step 3: Conclusion Interest received on investments is classified as an investing activity.

Quick Tip to Solve: Link interest received to investing activities for a non-financial company.

28. 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 available as cash or readily realisable in cash to meet current liabilities.
- $$\text{Quick assets} = \text{Current assets} - \text{Inventory} - \text{Prepaid expenses}.$$

Step 1: Check the liquid items Cash in hand is already cash. Marketable securities are readily realisable, and trade receivables are amounts collectible from customers. These are included among quick assets in the standard ratio calculation, so options (A), (B) and (D) are not the required exclusions.

Step 2: Check prepaid expenses Prepaid expenses represent payments already made for benefits or services to be received in the future. They cannot normally be converted into cash to pay creditors, so they are deducted from current assets when calculating quick assets.

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

Quick Tip to Solve: A prepaid expense provides a future service, not cash for paying a current liability.

29. '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 a cash flow statement, cash comprises cash in hand and demand deposits; cash equivalents include qualifying short-term, highly liquid investments.
- Movements between cash and cash equivalents are excluded from cash flows because they are part of cash management.

Step 1: Identify the conversion In the standard treatment here, marketable securities form part of cash equivalents. Selling them at par converts a cash equivalent into cash without changing the total of cash and cash equivalents.

Step 2: Determine the net cash flow The increase in cash is matched by an equal decrease in marketable securities. Therefore the transaction does not create an inflow in the cash flow statement. The words at par also mean that no gain or loss arises on the conversion.

Step 3: Conclusion The statement is False: it is a transfer between cash and cash equivalents, with no net cash inflow.

Quick Tip to Solve: For cash flow purposes, test the change in total cash plus cash equivalents, not cash alone.

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

(a) Unpaid Dividends

(b) Mining Rights

(c) Stores and Spares [3 marks]

Solution:

Concept:

- Schedule III groups obligations under equity and liabilities and resources under assets, with current and non-current classifications.
- Classify each item by its nature: dividends payable are obligations, rights are non-physical assets, and consumable stores are inventory.

Step 1: (a) Unpaid dividends Unpaid dividends are declared dividends that remain payable to shareholders. They are a liability of the company rather than a reserve or an expense outstanding to a supplier. Their head is Current Liabilities and their sub-head is Other Current Liabilities.

Step 2: (b) Mining rights Mining rights give the company a legal right to extract minerals. The right has no physical form, even though it relates to a physical mine. It is therefore shown under Non-current Assets, within Fixed Assets, with the sub-head Intangible Assets.

Step 3: (c) Stores and spares Stores and spares held for consumption in normal operations are classified as inventory. They appear under Current Assets, with the sub-head Inventories. They are not trade receivables because no amount is due from a customer. The required classifications can be

summarised as follows:

Classification in the Balance Sheet

Item	Head	Sub-head
Unpaid dividends	Current Liabilities	Other Current Liabilities
Mining rights	Non-current Assets	Fixed Assets: Intangible Assets
Stores and spares	Current Assets	Inventories

Step 4: Conclusion (a) Current Liabilities: Other Current Liabilities; (b) Non-current Assets: Fixed Assets, Intangible Assets; (c) Current Assets: Inventories.

Quick Tip to Solve: Distinguish a legal right from physical property, and dividends payable from shareholders' funds.

OR

30. Calculate the value of opening inventory and closing inventory from the following information : Revenue from operations ₹ 4,50,000; Gross profit was 25% above cost; Opening inventory was ₹ 10,000 more than the closing inventory; Inventory Turnover Ratio was 6 times. [3 marks]

Solution:

Concept:

- Inventory turnover ratio equals cost of revenue from operations divided by average inventory. Average inventory is the arithmetic mean of opening and closing inventory.
- Gross profit of 25% above cost means that sales are 125% of cost; it does not mean that gross profit is 25% of sales.

Step 1: Calculate cost of revenue from operations Let cost of revenue from operations be K. Since gross profit is 25% of cost, revenue from operations is $K + 0.25K = 1.25K$. Thus,

$$K = \frac{4,50,000 \times 100}{125} = \text{Rs } 3,60,000.$$

The corresponding gross profit is Rs 90,000, and adding it to cost gives the stated revenue of Rs 4,50,000.

Step 2: Determine average inventory Using the inventory turnover ratio of 6 times,

$$\text{Average inventory} = \frac{\text{Cost of revenue from operations}}{\text{Inventory turnover ratio}} = \frac{3,60,000}{6} = \text{Rs } 60,000.$$

Therefore, the sum of opening inventory and closing inventory is $2 \times 60,000 = \text{Rs } 1,20,000$.

Step 3: Use the difference between the two inventories Let closing inventory be Rs x. Opening inventory is then Rs $(x + 10,000)$. Consequently,

$$\begin{aligned} x + (x + 10,000) &= 1,20,000, \\ 2x &= 1,10,000, \\ x &= 55,000. \end{aligned}$$

Opening inventory is $55,000 + 10,000 =$ Rs $65,000$. As a check, the mean of Rs 65,000 and Rs 55,000 is Rs 60,000 and their difference is Rs 10,000, satisfying both conditions.

Step 4: Conclusion Opening inventory is $\boxed{\text{Rs } 65,000}$ and closing inventory is $\boxed{\text{Rs } 55,000}$.

Quick Tip to Solve: Convert profit on cost to cost by dividing sales by 1.25; then add and subtract half the inventory difference from average inventory.

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 shows the previous year's amount, current year's amount, absolute change and percentage change for each item. Percentage change is calculated using the previous year's amount as the base.
- Total revenue equals revenue from operations plus other income. Profit before tax equals total revenue less expenses, while profit after tax equals profit before tax less income tax.

Step 1: Calculate revenue, profit and tax for both years For 2017–18, total revenue is $30,00,000 + 60,000 =$ Rs $30,60,000$. Deducting expenses of Rs 20,60,000 gives profit before tax of Rs 10,00,000. Income tax at 40% is Rs 4,00,000, so profit after tax is Rs 6,00,000.

For 2018–19, total revenue is $37,50,000 + 75,000 =$ Rs $38,25,000$. Deducting expenses of Rs 25,75,000 gives profit before tax of Rs 12,50,000. Income tax at 40% is Rs 5,00,000, leaving profit after tax of Rs 7,50,000. Tax is applied to profit before tax, rather than to total revenue.

Step 2: Prepare the comparative statement For each amount, absolute change equals the 2018–19 amount less the 2017–18 amount. The percentage increase is Absolute increase $\div$ 2017–18 amount $\times$ 100. For example, revenue from operations increases by Rs 7,50,000, giving $7,50,000/30,00,000 \times 100 = 25\%$.

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	Increase (%)
I. Revenue from operations	30,00,000	37,50,000	7,50,000	25
II. Other income	60,000	75,000	15,000	25
III. Total revenue (I + II)	30,60,000	38,25,000	7,65,000	25
IV. Expenses	20,60,000	25,75,000	5,15,000	25
V. Profit before tax (III - IV)	10,00,000	12,50,000	2,50,000	25
VI. Income tax (40%)	4,00,000	5,00,000	1,00,000	25
VII. Profit after tax (V - VI)	6,00,000	7,50,000	1,50,000	25

The tax rate remains 40% in both years; the tax amount increases by 25% because the taxable profit also increases by 25%.

Step 3: Conclusion Profit after tax increases from Rs 6,00,000 to Rs 7,50,000, an increase of Rs 1,50,000 or 25%. All the monetary items in the comparative statement increase by 25%.

Quick Tip to Solve: Use the older year's amount as the percentage base, and calculate income tax on profit before tax before comparing the two years.

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:

- Each balance-sheet item is expressed as a percentage of the total of its own side for the same year: Percentage $=$ Item amount/Balance-sheet total $\times 100$.
- The base is Rs 40,00,000 for 2019 and Rs 20,00,000 for 2018. Both equity and liabilities and assets separately total 100%.

Step 1: Calculate the percentages For example, share capital in 2019 is $20,00,000/40,00,000 \times 100 = 50\%$; in 2018 it is $9,00,000/20,00,000 \times 100 = 45\%$. Inventories in 2019 are $19,00,000/40,00,000 \times 100 = 47.5\%$, while cash and cash equivalents are $1,00,000/40,00,000 \times 100 = 2.5\%$. Apply the same respective annual denominator to every other item.

Step 2: Prepare the common size balance sheet **Common Size Balance Sheet of Surbhi Ltd. As at 31st March, 2019 (with comparative figures)**

Particulars	2019 (Rs)	2018 (Rs)	2019 %	2018 %
I. Equity and Liabilities				
Shareholders' Funds				
Share Capital	20,00,000	9,00,000	50	45
Reserves and Surplus	2,00,000	1,00,000	5	5
Total Shareholders' Funds	22,00,000	10,00,000	55	50
Non-Current Liabilities				
Long-term Borrowings	12,00,000	5,00,000	30	25
Current Liabilities				
Trade Payables	6,00,000	5,00,000	15	25
Total	40,00,000	20,00,000	100	100
II. Assets				
Non-Current Assets				
Fixed Assets	20,00,000	10,00,000	50	50
Current Assets				
Inventories	19,00,000	8,00,000	47.5	40
Cash and Cash Equivalents	1,00,000	2,00,000	2.5	10
Total Current Assets	20,00,000	10,00,000	50	50
Total	40,00,000	20,00,000	100	100

Step 3: Conclusion The common size balance sheet above shows each side at 100% in both years. Fixed assets remain 50% of total assets; inventories rise from 40% to 47.5%.

Quick Tip to Solve: Use the total for the same year as the item; do not divide both years by the latest total.

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 profit for non-cash expenses and financing costs, then for changes in operating current assets and liabilities.
- Machinery and non-current investment purchases are investing outflows. Current investments are also treated as investing assets because no qualifying short maturity is specified. Share and debenture issues are financing inflows; interest paid is a financing outflow.

Step 1: Work out profit, depreciation and interest

$$\begin{aligned}\text{Profit for the year} &= 3,30,000 - 2,20,000 = 1,10,000,\\ \text{Depreciation} &= 1,20,000 - 95,000 = 25,000,\\ \text{Debenture interest} &= 1,60,000 \times 10\% = 16,000.\end{aligned}$$

The additional debentures were issued on 1st April, 2018, so the entire closing debenture balance bears interest for the whole year. No tax provision, tax payment, dividend or disposal of machinery is given. Thus the increase in surplus supplies the profit figure, and the change in accumulated depreciation supplies the year's depreciation.

Step 2: Calculate purchases and financing receipts

$$\begin{aligned}\text{Machinery purchased} &= 10,70,000 - 7,00,000 = 3,70,000,\\ \text{Non-current investments purchased} &= 1,35,000 - 1,00,000 = 35,000,\\ \text{Current investments purchased} &= 80,000 - 40,000 = 40,000,\\ \text{Share capital issued} &= 8,00,000 - 6,00,000 = 2,00,000,\\ \text{Debentures issued} &= 1,60,000 - 1,00,000 = 60,000.\end{aligned}$$

Note 3 shows machinery cost and accumulated depreciation separately. Use machinery at cost for purchases: the change in its net carrying amount also contains depreciation and therefore is not the cash purchase amount.

Step 3: Present the statement and reconcile cash **Cash Flow Statement of G Ltd.**
For the year ended 31st March, 2019

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net profit before tax	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: Cash and cash equivalents at beginning	1,70,000

Cash and cash equivalents at end	**2,00,000**

The fall in receivables releases cash, whereas the fall in payables uses cash. Interest is added back while calculating operating cash flow because its cash payment is included separately under financing activities.

Step 4: Conclusion Operating inflow is Rs 2,31,000, investing outflow is Rs 4,45,000 and financing inflow is Rs 2,44,000. The net cash increase is Rs 30,000, reconciling opening Rs 1,70,000 to closing Rs 2,00,000.

Quick Tip to Solve: First calculate full-year interest from the issue date, then add it back in operating activities and deduct it in financing activities.

OPTION 2 (Computerised Accounting)

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

Solution:

Concept:

- In a spreadsheet formula, an arithmetic operator specifies the calculation to perform on two values.
- The asterisk $*$, typed as *, denotes multiplication.

Step 1: Identify the operator The asterisk (*) is the multiplication operator. It instructs a spreadsheet to multiply the number or cell value on its left by the number or cell value on its right.

Step 2: Check with a formula For example, entering `=6*4` evaluates to 24. Similarly, `=A1*B1` multiplies the values stored in cells A1 and B1. Addition uses +, subtraction uses -, and division uses /; none of these is represented by the asterisk.

Step 3: Conclusion The asterisk (*) represents multiplication.

Quick Tip to Solve: In a spreadsheet, type * between the two numbers or cell references to multiply them.

24. Expand SQL. [1 mark]

Solution:

Concept:

- SQL is the standard language used to communicate with a relational database.
- A query retrieves specified information from one or more related tables.

Step 1: Identify the abbreviation The letters SQL refer to Structured, Query and Language respectively. It is concerned with defining, retrieving and manipulating data stored in database tables.

Step 2: Relate the term to accounting databases An accounting database can use queries to retrieve selected customer, supplier or transaction records. SQL is a database language; it is not the name of an accounting statement.

Step 3: Conclusion SQL stands for Structured Query Language.

Quick Tip to Solve: Remember SQL as Structured + Query + Language; link queries with database tables.

25. 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:

- The contextual Chart Tools in the Excel version referred to in the question contain Design, Layout and Format tabs.
- Selecting a chart displays contextual commands for its design, elements and appearance.

Step 1: Identify the three tabs Design deals with chart type, styles and the arrangement of data. Layout provides chart elements such as titles, axes and legends. Format controls the appearance of selected chart elements.

Step 2: Check the alternatives Only option (B) lists all three tab names correctly. Options (A) and (D) include DataMaker, which is not one of these tabs. Option (C) substitutes Label for Design.

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

Quick Tip to Solve: Remember the sequence D-L-F: Design for structure, Layout for elements, Format for appearance.

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

Solution:

Concept:

- Computerised accounting stores records electronically and therefore requires proper protection of data.
- Loss of stored records can interrupt accounting work and undermine the reliability of reports.

Step 1: State one limitation A limitation is the risk of data loss or unauthorised alteration. Hardware failure, malicious software or unauthorised access can damage or compromise the accounting records.

Step 2: Explain its consequence If records are lost or altered, the resulting financial information may be unavailable or unreliable. Regular backups and access controls are therefore necessary to protect the system.

Step 3: Conclusion One limitation is the risk of loss or unauthorised alteration of accounting data.

Quick Tip to Solve: For a limitation, name a concrete risk and link it to loss or unreliability of accounting records.

27. 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:

- PMT calculates a constant periodic payment for a loan or investment at a constant periodic interest rate.
- The order of function arguments matters because each position represents a different input.

Step 1: Arrange the required arguments The first three arguments are rate, nper and pv: the interest rate per period, the total number of payment periods and the present value respectively.

Step 2: Arrange optional arguments and check options The optional arguments follow in the order fv, then type. The future value is fv; type indicates payment at the beginning or end of a period. Options (A) and (C) interchange pv and nper; options (C) and (D) reverse the optional arguments.

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

Quick Tip to Solve: Remember rate, number of periods, present value first; future value precedes payment type.

28. Define Pivot table. [1 mark]

Solution:

Concept:

- A pivot table is a spreadsheet tool for summarising and analysing a large set of related data.
- Grouping fields and applying aggregate functions converts detailed records into useful summaries.

Step 1: State the meaning A pivot table is an interactive summary table that groups data by selected fields and calculates totals, counts, averages or other summaries.

Step 2: Explain its use Its rows and columns can be rearranged to view the same data from different perspectives without changing the original records. For example, sales transactions may be summarised by product or by month.

Step 3: Conclusion A pivot table is an interactive table used to organise, summarise and analyse data by grouping fields and calculating summaries.

Quick Tip to Solve: Think of a pivot table as a rearrangeable summary, such as total sales by product or month.

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

Solution:

Concept:

- In extended selection mode, navigation keys extend the selected range instead of merely moving the active position.
- The Down Arrow key moves vertically, and Ctrl combines it with movement to the data boundary.

Step 1: Identify the required direction The question asks for selection down to the last row of data. The down-arrow direction corresponds to moving through rows, whereas the right arrow moves through columns.

Step 2: Apply the shortcut With extended selection already active, hold Ctrl and press the Down Arrow key. This extends the selection downward to the last row of the data range.

Step 3: Conclusion The required keyboard shortcut is Ctrl + Down Arrow (Ctrl+ ↓).

Quick Tip to Solve: Since extended selection is already active, use Ctrl with the Down Arrow to extend downward.

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

Solution:

Concept:

- A key is a field or combination of fields used to identify or retrieve records in a database table.
- The primary key provides unique identification; a secondary key provides an additional basis for searching or grouping records.

Step 1: Explain primary key A primary key is a field, or a combination of fields, selected to identify each record of a table uniquely. Its values cannot be duplicated and cannot be null. A table has one designated primary key, although that key may consist of more than one field. For example, in a Customer table, CustomerID can be the primary key because each customer has a distinct ID. Two customers can share a name, so CustomerName is generally unsuitable as the primary key.

Step 2: Explain secondary key A secondary key is a field or combination of fields used as an additional basis for accessing, searching or grouping records. It need not identify each record uniquely and may therefore contain duplicate values. For example, City can be a secondary key in the Customer table: searching for Delhi retrieves all customers belonging to Delhi. It supplements retrieval through the primary key; it does not replace the unique identifier.

Step 3: Distinguish their roles The primary key answers which particular record is being identified, while a secondary key helps locate records sharing a specified characteristic. Thus, CustomerID identifies one customer, whereas City can retrieve a group of customers. A secondary key should not be confused with a foreign key, whose purpose is to link related tables.

Step 4: Conclusion A primary key uniquely identifies each record and has unique, non-null values. A secondary key supplies an additional search or grouping criterion and may have repeated values.

Quick Tip to Solve: Use CustomerID for unique identification and City for group retrieval to remember the difference.

OR

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

Solution:

Concept:

- Data are raw facts or observations collected for processing. Information is the meaningful result obtained by organising and processing those facts.
- The distinction depends on purpose: processing converts input data into output that supports a particular decision.

Step 1: Distinguish the two terms Data consist of individual, unorganised facts such as dates, quantities, names and amounts. By themselves they may not provide a useful basis for a decision. Information consists of data classified, calculated or summarised in a relevant form, so that the user can understand what the facts mean. Thus, data are normally the input to an accounting system, while information is its useful output. Data may be detailed and scattered; information presents those details in a form suited to the user's need.

Step 2: Illustrate the distinction with accounting figures Suppose a shop records three cash sales of Rs 2,000, Rs 3,000 and Rs 5,000 on a day. The three individual sales amounts, together with their dates and bill numbers, are data. When the accounting system adds them, it produces the daily cash-sales total:

$$\text{Daily cash sales} = 2,000 + 3,000 + 5,000 = \text{Rs } 10,000.$$

The statement that the shop made cash sales of Rs 10,000 that day is information. It helps the proprietor compare daily performance and check the cash received against recorded sales. The useful total is obtained by processing the original transactions; it is not an additional transaction.

Step 3: Conclusion Data are raw input facts; information is their processed, meaningful output. In the example, individual sale amounts are data and the daily cash-sales total of Rs 10,000 is information.

Quick Tip to Solve: Use the same example for both terms: show individual transactions first, then the useful total obtained by processing them.

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

Solution:

Concept:

- A computerised accounting system uses accounting software and a database to record, process, store and report financial transactions.
- Its features combine the accounting framework with automated processing and organised access to accounting records.

Step 1: Simple, integrated and automated processing **Simplicity:** A well-designed system provides convenient screens for entering transactions and retrieving accounting records, making routine work easier for the user.

Integrated processing: Transaction data are held in a common database. Recording a transaction updates the related accounts and reports without independently entering the same data in each book.

Automation: After the required data and rules have been entered, the system performs calculations, posting, balancing and report generation automatically. This increases the speed of routine accounting work and reduces repetitive clerical effort.

Step 2: Accurate, organised and useful accounting records **Accuracy and reliability:** The system performs arithmetic and applies programmed accounting rules consistently. Validation checks help detect invalid entries, although correct input and proper controls remain necessary.

Storage and retrieval: Large volumes of transactions can be stored systematically and retrieved quickly by account, date or other relevant criteria. This supports timely preparation and checking of records.

Reporting and transparency: The system can generate ledgers, trial balances, financial statements and management reports from the recorded data. Authorised users can trace the details behind a report to the underlying transactions.

Step 3: Scalability, security and dependability **Scalability:** The system can accommodate increasing transaction volumes and changing reporting requirements as the business grows.

Security and control: Passwords and access rights restrict the functions and records available to each user. Backup facilities help protect records against accidental loss.

Dependability: With appropriate maintenance, controls and backups, the system provides consistent accounting processing and timely access to records. These features help a business maintain an organised accounting information system.

Step 4: Conclusion A computerised accounting system provides simple and integrated recording, automated and accurate processing, quick storage and retrieval, useful reporting, scalability, security and dependable access to accounting information.

Quick Tip to Solve: State each feature by name and add its accounting benefit, such as integrated entry updating both ledgers and reports.

OR

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

Solution:

Concept:

- Conditional formatting automatically changes the appearance of a cell when its value, or the result of a specified formula, satisfies a rule.
- It is a presentation and analysis tool: it changes the display format without changing the underlying data or the formula used to calculate it.

Step 1: Explain how the rule works A user first selects the cells to be examined and specifies a condition, such as a balance being below zero, a value exceeding a limit, or an amount lying within a stated range. The user then chooses the format to apply when that condition is true, for example a

coloured fill, bold type or a different font colour. The spreadsheet evaluates each applicable cell and displays the chosen format only where the rule is satisfied.

Step 2: Identify exceptions and important amounts In an accounting worksheet, negative cash or bank balances can be highlighted in red to draw attention to a shortage or overdraft. Similarly, debtors whose outstanding balances exceed a credit limit, or expenses exceeding their budget, can be highlighted. This makes exceptions visible quickly and helps the accountant decide which entries require investigation.

Step 3: Compare data and monitor changes Conditional formatting can distinguish high and low values and make patterns easier to see in a large statement. For example, monthly sales above a target may be given a green fill, while those below the target receive a red fill under separate rules. As the sales figures are changed, the spreadsheet re-evaluates the rules and updates the formatting automatically; the user need not recolour each cell manually.

Step 4: Describe its practical benefit The technique reduces the effort of scanning long lists of figures, improves readability and supports timely review of accounting information. Because the condition is applied consistently to the selected range, similar cases receive the same visual treatment. The highlighted amount still retains its original value and remains available for calculations, sorting and further analysis.

Step 5: Conclusion Conditional formatting is used to highlight values satisfying specified conditions, identify accounting exceptions and reveal comparisons or trends automatically, while preserving the original cell contents.

Quick Tip to Solve: State both parts of the rule: the condition to test and the format to apply; then give an accounting example.

32. Explain the importance of absolute and relative addresses. Also, give the example of absolute and relative addresses as they appear in Excel sheet/Spreadsheet. [6 marks]

Solution:

Concept:

- A cell address identifies a cell by its column letter and row number; for example, $A1$ identifies the intersection of column A and row 1.
- A relative address changes with the position of a copied formula. An absolute address fixes both column and row by placing a dollar sign before each, such as `$A$1`.

Step 1: Explain relative addresses and their importance A relative cell reference describes the position of a referenced cell in relation to the cell containing the formula. Excel normally uses this form when a reference is entered without dollar signs, for example $A1$, $B2$ or $C5$. When a formula is copied to a different row or column, its relative references adjust by the same displacement. This is important when the same calculation must be repeated for many records: one formula can be entered and copied down or across instead of separately writing a formula for every record.

Step 2: Illustrate a relative reference Suppose column B contains quantities and column C contains rates. Enter `=B2*C2` in cell D2 to calculate the amount for the second row. On copying this formula

one row down to D3, it becomes `=B3*C3`; on copying it to D4, it becomes `=B4*C4`. Both references change because neither is fixed. Each row therefore uses its own quantity and rate. The addresses $B2$ and $C2$ in the original formula are examples of relative cell addresses.

Step 3: Explain absolute addresses and their importance An absolute cell reference specifies a fixed cell, irrespective of where a formula is copied. The dollar sign before the column letter fixes the column, and the dollar sign before the row number fixes the row. Thus `$F$1` always refers to cell F1. Absolute references are important where many calculations must use one common value, such as a tax rate, commission rate or conversion factor. They prevent the common reference from moving to another cell when the formula is copied and allow the common value to be maintained in one place.

Step 4: Illustrate an absolute reference together with a relative reference Suppose the taxable amounts are in column D and a common tax rate, entered as a percentage, is in F1. Enter `=D2*$F$1` in E2. Copying it one row down gives `=D3*$F$1` in E3. The reference D2 is relative and changes to D3 so that the next record is used, while `$F$1` is absolute and remains unchanged so that the same tax rate is used. If the rate in F1 is revised, all these formulas recalculate from that one revised rate.

Step 5: Distinguish the two forms clearly The choice depends on what should happen when the formula is copied. Use a relative address, such as $A1$, for data that should move with the destination of the copied formula. Use an absolute address, such as `$A$1`, for a common input that must remain fixed. The dollar signs affect the copying behaviour of the reference; they do not prevent a user from changing the value stored in the referenced cell.

Step 6: Conclusion Relative addresses, for example $A1$, make repeated calculations efficient by adjusting when formulas are copied. Absolute addresses, for example `$A$1`, keep a common input fixed and ensure consistent calculations throughout the worksheet.

Quick Tip to Solve: Copy a sample formula down one row: an ordinary reference moves down, whereas a reference with both dollar signs stays fixed.