CBSE Class 12 Accountancy Question Paper 2020 with Solution PDF-Set 67-C-3 - 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. On dissolution of a firm, a creditor of ₹ 75,000 accepted furniture at ₹ 60,000 in full settlement of his claim. Pass the necessary journal entry. [1 mark]

Solution:

Concept:

- On dissolution, assets and external liabilities are transferred to the Realisation Account before they are settled.
- When a creditor accepts an asset in full settlement, no separate journal entry is passed for that settlement.

Step 1: Identify the method of settlement The creditor, whose claim is Rs 75,000, accepts furniture valued at Rs 60,000 in full settlement. The firm pays no cash, and no partner takes over either the creditor or the furniture.

Step 2: Apply the realisation treatment Both the creditor and the furniture have already been transferred to the Realisation Account. Their direct settlement therefore requires no further entry. The difference of Rs 15,000 is reflected in the overall realisation result; it is not credited separately as a discount.

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

Quick Tip to Solve: When a creditor takes an asset directly in full settlement, check for cash or a partner: if neither is involved, pass no settlement entry.

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 Give the average period, in months, for charging interest on drawings of a fixed amount withdrawn at the beginning of each half-year.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

Solution:

Concept:

- Interest on drawings is charged for the time between each withdrawal and the end of the accounting year.
- For equal withdrawals, the average period is the arithmetic mean of their individual outstanding periods.

Step 1: Find the two outstanding periods At the beginning of each half-year, the fixed amount is withdrawn twice: once at the start of the accounting year and once six months later. These drawings remain outstanding for 12 months and 6 months respectively.

Step 2: Average the periods The amounts withdrawn are equal, so each period has the same weight. Hence,

$$\text{Average period} = \frac{12 + 6}{2} = 9 \text{ months}.$$

The beginning-of-half-year timing must be used; end-of-half-year withdrawals would have different periods.

Step 3: Conclusion The average period for charging interest on drawings is 9 months.

Quick Tip to Solve: Write the outstanding periods as 12 and 6 months before averaging; beginning-of-half-year drawings give 9 months.

3. 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:

- An amount due to a deceased partner that remains unpaid to the executor is distinct from drawings or interest on capital.
- In the absence of an agreement, the statutory interest rate applicable to the unpaid balance is 6% per annum.

Step 1: Identify the relevant unpaid balance The question concerns the amount due to the executor of a deceased partner that has not yet been paid. It does not ask about interest on capital under the partnership deed, so the rule denying interest on capital without agreement does not apply.

Step 2: Select the applicable rate The applicable rate is 6% per annum. Thus, option (B) matches the rule. The rates of 8%, 9% and 12% in options (A), (C) and (D) are not the prescribed rate in the absence of an agreement.

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

Quick Tip to Solve: For an unpaid amount due to a deceased partner's executor, recall 6% p.a.; do not confuse it with interest on capital.

4. The average profit of a partnership firm of the last five years was ₹ 1,60,000. Capital employed of the firm was ₹ 5,00,000 while the normal rate of return was 20%. Calculate the goodwill of the firm on the basis of 3 years' purchase of super profits. [1 mark]

Solution:

Concept:

- Normal profit equals capital employed multiplied by the normal rate of return.

- Super profit is average profit less normal profit; goodwill equals super profit multiplied by the years' purchase.

Step 1: Calculate normal profit The firm employs capital of Rs 5,00,000 and the normal rate of return is 20%. Therefore,

$$\text{Normal profit} = 5,00,000 \times \frac{20}{100} = \text{Rs } 1,00,000.$$

This is the benchmark return against which the actual average profit is compared.

Step 2: Find super profit and apply the purchase factor The average profit of Rs 1,60,000 is already provided, so it must not be divided by five again.

$$\text{Super profit} = 1,60,000 - 1,00,000 = \text{Rs } 60,000,$$
$$\text{Goodwill} = 60,000 \times 3 = \text{Rs } 1,80,000.$$

Step 3: Conclusion Goodwill on the basis of 3 years' purchase of super profits is Rs 1,80,000.

Quick Tip to Solve: Subtract the normal return on capital from the given average profit first; multiply only the resulting super profit by 3.

5. 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:

- All partners' shares after admission must add to one.
- When one old partner retains his share, deduct that share and the incoming partner's share first; the remaining old partners share the balance in their old relative ratio unless stated otherwise.

Step 1: Find the share left for A and B C retains $1/6$, and D receives $1/6$. Consequently, the share available jointly to A and B is

$$1 - \frac{1}{6} - \frac{1}{6} = \frac{2}{3}.$$

Their old relative ratio is $\frac{1}{2} : \frac{1}{3} = 3 : 2$.

Step 2: Calculate each new share Distribute the remaining $2/3$ between A and B in the ratio $3 : 2$:

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

Using denominator 30, the four shares are $12/30, 8/30, 5/30, 5/30$. Their sum is $30/30 = 1$, and C's share remains unchanged.

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

Quick Tip to Solve: Keep C's 1/6 unchanged, reserve D's 1/6, and split only the remaining 2/3 between A and B in their old ratio 3:2.

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

Solution:

Concept:

- Goodwill is the value of a firm's reputation, which enables it to earn higher profits than a comparable normal business.
- It is an intangible asset: its value is associated with earning capacity rather than a separately identifiable physical object.

Step 1: Identify what goodwill represents A well-established firm may attract loyal customers because of its good name, service, quality or business relationships. These advantages form its reputation and can support profits above the normal return.

Step 2: Complete the statement The blank asks for the thing whose value is called goodwill. The appropriate term is the reputation of the firm. The firm's cash, stock and other physical assets are separate assets and do not themselves define goodwill.

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

Quick Tip to Solve: For a goodwill definition, connect the firm's reputation with its ability to earn profits above the normal level.

7. 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 is a classified summary of cash and bank transactions taken from the Cash Book.
- It records actual receipts and payments, including both capital and revenue items, regardless of the accounting period to which they relate.

Step 1: Identify the account described The question specifies a classified summary of Cash Book transactions. A not-for-profit organisation prepares this summary as a Receipts and Payments Account, grouping similar cash and bank receipts and payments under suitable heads.

Step 2: Distinguish the other options An Income and Expenditure Account determines the current period's surplus or deficit on the accrual basis. A Profit and Loss Account serves a profit-making business. A Subscriptions Account deals with one particular source of income. None of these is the classified summary of the entire Cash Book.

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

Quick Tip to Solve: The words "summary of Cash Book" point directly to Receipts and Payments; "surplus or deficit" points to Income and Expenditure.

8. 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 actual profit in the agreed profit-sharing ratio.
- A partner who individually guarantees a minimum profit bears the guaranteed partner's deficiency entirely from his own share.

Step 1: Calculate the ordinary shares The total of the ratio terms is $6 + 4 + 1 = 11$. Therefore,

$$X\text{'s ordinary share} = 99,000 \times \frac{6}{11} = \text{Rs } 54,000,$$
$$Z\text{'s ordinary share} = 99,000 \times \frac{1}{11} = \text{Rs } 9,000.$$

Step 2: Charge the deficiency to X Z must receive Rs 15,000, so his deficiency is $15,000 - 9,000 =$ Rs $6,000$. Since X alone gives the guarantee, X bears the whole deficiency:

$$X\text{'s adjusted share} = 54,000 - 6,000 = \text{Rs } 48,000.$$

Y retains Rs 36,000; the check is $48,000 + 36,000 + 15,000 = 99,000$. The other options do not deduct the actual Rs 6,000 deficiency from X's ordinary share.

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

Quick Tip to Solve: Deduct only Z's shortfall of Rs 6,000 from X's ordinary share, not the full guarantee of Rs 15,000.

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

Solution:

Concept:

- Reserve capital is the portion of uncalled share capital reserved to be called only in the event of winding up.
- It differs from a capital reserve, which is a reserve arising from capital profits rather than an uncalled amount on shares.

Step 1: Identify the nature of the amount The question describes share capital that has not yet been called from shareholders. In addition, the company has restricted its call to the event of winding up, so it is a special portion of uncalled capital.

Step 2: Supply the missing term This special portion is called reserve capital. The blank before the printed word "capital" should therefore contain "reserve". Calling it a capital reserve would reverse the terms and describe a different accounting category.

Step 3: Conclusion The missing word is "reserve": the amount is known as reserve capital.

Quick Tip to Solve: Reserve capital concerns uncalled shares available on winding up; capital reserve concerns capital profits. Keep the order of the words clear.

10. State any one difference between Sacrificing ratio and Gaining ratio. [1 mark]

Solution:

Concept:

- A partner sacrifices when the new profit share is smaller than the old profit share.
- A partner gains when the new profit share is greater than the old profit share.

Step 1: Identify a sacrifice Sacrificing ratio is the ratio in which partners surrender their profit shares. For each sacrificing partner, calculate Sacrifice $=$ Old share $-$ New share.

Step 2: Identify a gain Gaining ratio is the ratio in which partners acquire additional profit shares. For each gaining partner, calculate Gain $=$ New share $-$ Old share. Thus, the order of subtraction is reversed because the two ratios measure opposite changes in entitlement.

Step 3: Conclusion Sacrificing ratio measures profit share surrendered (old share minus new share), whereas gaining ratio measures profit share acquired (new share minus old share).

Quick Tip to Solve: Write old minus new for sacrifice and new minus old for gain before comparing partners' shares.

11. 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; this entitlement increases the amount due to that partner.
- Where the profit up to death is estimated before the final accounts are prepared, debit Profit and Loss Suspense Account and credit the deceased partner's Capital Account.

Step 1: Identify the amount to credit B's share of profit up to 25th February, 2019 is already given as Rs 5,000. Therefore, the profit-sharing fraction $2/5$ must not be applied to this amount again. Credit B's Capital Account with the entire Rs 5,000.

Step 2: Record the journal entry Journal of the firm

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

Step 3: Conclusion Debit Profit and Loss Suspense Account and credit B's Capital Account by Rs 5,000 each.

Quick Tip to Solve: When the deceased partner's own profit share is supplied, credit it directly without multiplying by the old sharing ratio again.

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

Solution:

Concept:

- Admission gives a new partner an interest in the partnership business on the terms agreed with the existing partners.
- The new profit-sharing ratio fixes each partner's entitlement to future profits after reconstitution.

Step 1: Identify the relevant entitlement A newly admitted partner acquires the right to share in the future profits of the firm. The share is determined by the agreement made on admission.

Step 2: State when the right operates This right applies to profits earned after admission in the agreed profit-sharing ratio. It does not automatically entitle the new partner to profits or reserves accumulated before admission, which belong to the old partners.

Step 3: Conclusion One right acquired by a newly admitted partner is the right to share in the firm's future profits in the agreed ratio.

Quick Tip to Solve: State the right to future profits explicitly; pre-admission accumulated profits belong to the old partners.

13. R Ltd. issued 10,000, 8% Debentures of ₹ 100 each at a discount of 5%, redeemable at a premium of 10% after 5 years. State the amount of Debenture Redemption Reserve required to be created by R Ltd. before redemption. [1 mark]

Solution:

Concept:

- Under the CBSE treatment applicable to this examination, Debenture Redemption Reserve is created at 25% of the nominal value of debentures to be redeemed.
- The issue discount and the premium payable on redemption are separate from the nominal debenture liability used to calculate this reserve.

Step 1: Calculate the nominal debenture liability R Ltd. has issued 10,000 debentures of face value Rs 100 each. Their total nominal value is

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

The 5% issue discount affects the proceeds received, not this face value.

Step 2: Apply the reserve percentage Calculate the reserve on Rs 10,00,000, without adding the 10% redemption premium:

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

The 8% coupon determines interest and does not determine the reserve rate.

Step 3: Conclusion R Ltd. must create Debenture Redemption Reserve of Rs 2,50,000 before redemption.

Quick Tip to Solve: For this question, apply 25% to face value; neither the issue discount nor the redemption premium changes the DRR base.

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 stated purpose. Income attributable to that fund is added to it, while related expenditure is deducted from it.
- Only expenditure exceeding the available specific fund is charged to the general Income and

Expenditure Account; an unspent fund is shown on the liabilities side of the Balance Sheet.

Step 1: Calculate the closing Tournament Fund The interest on the earmarked investments and ticket receipts both relate to the tournament. Add them to the opening Tournament Fund and deduct the prizes awarded. The fund is sufficient to meet all tournament expenditure.

Working Notes: Tournament Fund

Particulars	Amount (Rs)
Opening Tournament Fund, 1st April, 2018	3,00,000
Add: Interest on Tournament Fund Investments	30,000
Add: Sale of Tournament Tickets	75,000
Fund available before prizes	4,05,000
Less: Tournament prizes awarded	(60,000)
Closing Tournament Fund, 31st March, 2019	3,45,000

Step 2: Show the Income and Expenditure treatment No tournament receipt or expense is transferred to the general Income and Expenditure Account for the year ended 31st March, 2019. The Rs 30,000 interest and Rs 75,000 ticket receipts increase the specific fund, while the Rs 60,000 prizes reduce it. Therefore, the effect of these tournament items on the general surplus or deficit is nil.

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

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Tournament Fund	3,45,000	10% Tournament Fund Investments	3,00,000

The investments remain a separate asset at Rs 3,00,000; investment income does not increase their carrying amount. This is an extract showing only the specified fund and investment balances, so it is not a complete Balance Sheet.

Step 4: Conclusion Income and Expenditure Account: no entry for these tournament items. Balance Sheet: Tournament Fund Rs 3,45,000 on the liabilities side and Tournament Fund Investments Rs 3,00,000 on the assets side.

Quick Tip to Solve: Keep all tournament income and prizes within the specific fund; show the unspent fund and its investments separately in the Balance Sheet.

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:

- Income and Expenditure Account records the cost of sports material consumed during the year, rather than the cash paid to suppliers.
- Purchases equal payment to creditors plus closing creditors minus opening creditors. Consumption equals opening stock plus purchases minus closing stock.

Step 1: Convert payments into purchases The Rs 1,00,000 payment includes settlement of opening creditors of Rs 20,000. Exclude that earlier year's liability, and add the closing creditors of Rs 22,500, which represent current purchases not yet paid for.

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

A check using the creditors balance gives opening creditors plus purchases minus payments: $20,000 + 1,02,500 - 1,00,000 = 22,500$, equal to the given closing creditors.

Step 2: Calculate the material consumed Add opening stock because it was available for use during the year, and deduct closing stock because it remains unused at the year-end.

Working Notes: Sports Material Consumed

Particulars	Amount (Rs)
Opening stock, 1st April, 2018	10,000
Add: Purchases during the year	1,02,500
Sports material available for use	1,12,500
Less: Closing stock, 31st March, 2019	(7,500)
Sports material consumed	1,05,000

Step 3: Identify the expense for the year Debit sports material consumed of Rs 1,05,000 to the Income and Expenditure Account for the year ended 31st March, 2019. Closing stock remains an asset and closing creditors remain a liability; neither is separately charged again as an expense. The Rs 5,000 excess of consumption over cash payments comes from the Rs 2,500 increase in creditors and Rs 2,500 reduction in stock.

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

Quick Tip to Solve: First adjust payments for creditors to obtain purchases; then adjust purchases for opening and closing stocks to obtain consumption.

15. Radha and Mudit were partners in a firm sharing profits and losses in the ratio of 3 : 2. 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 cash at bank) and third party liabilities have been transferred to Realisation Account :

(i) A creditor of ₹ 70,000 accepted furniture valued at ₹ 1,50,000 and paid to the firm ₹ 80,000.

(ii) Bank loan of ₹ 90,000 was settled along with interest ₹ 9,000.

(iii) Realisation expenses amounting to ₹ 8,000 were paid by Mudit.

(iv) Loss on realisation was ₹ 20,000. [4 marks]

Solution:

Concept:

- Once assets and outside liabilities have been transferred to Realisation Account, subsequent receipts are credited and settlement payments are debited to that account. Do not transfer the same balances again.
- A partner paying realisation expenses personally is credited in the partner's Capital Account. A realisation loss is debited to partners' Capital Accounts in their profit-sharing ratio.

Step 1: Record the cash received from the creditor The furniture and creditor have already been transferred to Realisation Account. Their direct settlement needs no separate entry; only the excess received, Rs 80,000, is recorded. This agrees with $1,50,000 - 70,000 = 80,000$.

Journal of Radha and Mudit (31 March 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Bank A/c Dr.		80,000	
	To Realisation A/c			80,000
	(Being excess received from creditor after settlement against furniture)			

Step 2: Settle the bank loan and interest The bank loan is an outside liability already transferred. Its payment and the associated interest are charged to Realisation Account. Total paid is $90,000 + 9,000 = 99,000$; a fresh debit to Bank Loan Account would duplicate the transfer.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Realisation A/c Dr.		99,000	
	To Bank A/c			99,000
	(Being bank loan settled with interest of Rs 9,000)			

Step 3: Credit Mudit for expenses paid personally Realisation bears the expense, but the firm has not paid it through its bank. Mudit's personal payment increases the amount due to him, so his Capital Account is credited.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Realisation A/c Dr.		8,000	
	To Mudit's Capital A/c			8,000
	(Being realisation expenses paid by Mudit)			

Step 4: Transfer the realisation loss in the agreed ratio **Working Notes:** Radha bears $20,000 \times 3/5 = 12,000$ and Mudit bears $20,000 \times 2/5 = 8,000$. The loss reduces their capital balances. Crediting Realisation Account closes its debit balance.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2019	Radha's Capital A/c Dr.		12,000	
	Mudit's Capital A/c Dr.		8,000	
	To Realisation A/c			20,000
	(Being loss on realisation transferred in the ratio 3:2)			

Step 5: Conclusion Bank is debited with Rs 80,000 for the receipt; Realisation is debited with Rs 99,000 and Rs 8,000 for settlement and expenses. The Rs 20,000 loss is borne by Radha, Rs 12,000, and Mudit, Rs 8,000. Every entry has equal debit and credit amounts.

Quick Tip to Solve: After transfers to Realisation, record only the cash difference when a creditor takes an asset; credit the partner, not Bank, when that partner pays expenses personally.

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

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

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

Solution:

Concept:

- Interest on capital, partners' salary and commission are appropriations of profit. The remaining profit is shared equally when no profit-sharing ratio is specified.
- Test each guarantee on its stated basis: A's guarantee excludes interest on capital; B's includes interest on capital but excludes salary. C bears only a positive deficiency.

Step 1: Calculate the appropriations before sharing profit **Working Notes:** The opening capitals remain available for the full year. Interest at 5% p.a. is:

$$A : 8,00,000 \times 5/100 = \text{Rs } 40,000,$$
$$B : 6,00,000 \times 5/100 = \text{Rs } 30,000,$$
$$C : 4,00,000 \times 5/100 = \text{Rs } 20,000.$$

Thus total interest is Rs 90,000. B's annual salary is $3,000 \times 12 = \text{Rs } 36,000$. C's commission is Rs 12,000. These amounts are appropriated from the stated profit of Rs 2,16,000 before distributing the balance.

Step 2: Find the divisible profit and test both guarantees

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

No profit-sharing ratio is given; hence A, B and C each receive $78,000/3 = \text{Rs } 26,000$ of the divisible profit. Their different capital balances do not imply a capital-based profit-sharing ratio.

A's share excluding interest on capital is Rs 26,000, exceeding the guaranteed Rs 25,000 by Rs 1,000. B's share including interest on capital, but excluding salary, is $26,000 + 30,000 = \text{Rs } 56,000$, exceeding his guaranteed Rs 55,000 by Rs 1,000. Neither guarantee produces a deficiency, so no amount is deducted from C's share.

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

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

The account closes by transferring the entire divisible profit to partners, so there is no balance carried forward. Total credits to the partners are A: Rs 66,000; B: Rs 92,000; C: Rs 58,000. Their sum is Rs 2,16,000, agreeing with the profit appropriated.

Step 4: Conclusion The Profit and Loss Appropriation Account totals Rs 2,16,000 on each side. The residual profit share is Rs 26,000 each for A, B and C. Both guarantees are satisfied without adjustment, and C bears no deficiency.

Quick Tip to Solve: Compare each guarantee with exactly the stated components: use only Rs 26,000 for A, but Rs 26,000 plus Rs 30,000 interest for B. Exclude B's salary from his guarantee test.

OR

16. On 31st March, 2019, the balance in the capital accounts of Asha, Nisha and Disha after making adjustments for profits and drawings were ₹ 1,50,000, ₹ 1,20,000 and ₹ 90,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted.

The partners were entitled to interest on capital @ 10% p.a. Interest on drawings was also to be charged @ 10% p.a. The drawings during the year were : Asha ₹ 50,000, Nisha ₹ 60,000 and Disha ₹ 30,000. The net profit for the year ending 31st March, 2019 amounted to ₹ 1,00,000. The profit sharing ratio was 2 : 2 : 1.

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

Solution:

Concept:

- Restore opening capital by adding annual drawings to closing capital and deducting the profit already credited. Interest on capital is calculated on this opening balance.
- When the dates of drawings are not specified, take the average period as six months. Interest on drawings is charged to each partner, while interest on capital is credited.
- A single adjustment entry records only the net difference between the correct credits and the credits already made, after sharing the net appropriation effect in the profit-sharing ratio.

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

The profit of Rs 1,00,000 was already distributed in the ratio $2:2:1$, giving Asha Rs 40,000, Nisha Rs 40,000 and Disha Rs 20,000. Therefore,

$$\text{Opening capital} = \text{Closing capital} + \text{Drawings} - \text{Profit credited}.$$

Particulars (Rs)	Asha	Nisha	Disha
Closing capital	1,50,000	1,20,000	90,000
Add: Drawings	50,000	60,000	30,000
Less: Profit credited	40,000	40,000	20,000
Opening capital	1,60,000	1,40,000	1,00,000

Step 2: Calculate omitted interest and the net adjustment Interest on opening capital at 10% is Rs 16,000, Rs 14,000 and Rs 10,000 respectively, totalling Rs 40,000. Since drawing dates are unspecified, interest on drawings is calculated for six months:

$$\begin{aligned}
\text{Asha} &: 50,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 2,500,\\
\text{Nisha} &: 60,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 3,000,\\
\text{Disha} &: 30,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,500.
\end{aligned}$$

The distributable profit should decrease by $40,000 - 7,000 = \text{Rs } 33,000$. Thus the profit credits already made must be reduced by Rs 13,200, Rs 13,200 and Rs 6,600 respectively.

Adjustment (Rs)	Asha	Nisha	Disha
Credit: Interest on capital	16,000	14,000	10,000
Debit: Interest on drawings	2,500	3,000	1,500
Debit: Excess profit credited	13,200	13,200	6,600
Net effect	300 Cr.	2,200 Dr.	1,900 Cr.

The net debit equals the net credits: $2,200 = 300 + 1,900$. The adjusted distributable profit is also $1,00,000 + 7,000 - 40,000 =$ Rs $67,000$, which verifies the reduction used above.

Step 3: Pass the single 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 through partners' capital accounts)			

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

Quick Tip to Solve: First undo the profit and drawings in closing capitals; then offset the interest credits against drawing-interest debits and the reduced profit shares.

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

Balance Sheet of Vijeta, Vaishali and Diksha as at 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
General Reserve	25,000	Fixed Assets	5,50,000
Bills Payable	15,000	Stock	80,000
Loan from Bank	40,000	Debtors	50,000
Capitals : Vijeta : 3,00,000 Vaishali : 2,50,000 Diksha : 1,50,000	7,00,000	Cash	1,00,000
	7,80,000		7,80,000

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

(i) Interest on capital was to be provided @ 10% p.a.

(ii) Goodwill of the firm be valued on three years' purchase of average profits of last four years.

(iii) The average profits of the last four years were ₹ 20,000.

(iv) The profit for the year ending 31st March, 2019 was ₹ 60,000.

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

Solution:

Concept:

- A deceased partner's capital account is credited with the opening capital, the share of accumulated reserves, goodwill, interest on capital and profit earned up to the date of death.
- Goodwill equals the stated years' purchase multiplied by average annual profit. The deceased partner's share is calculated in the old profit-sharing ratio.
- Profit to the date of death is estimated proportionately from the previous year's profit when no other basis is specified. The balance due is transferred to the executor's account.

Step 1: Calculate Diksha's reserve and goodwill shares **Working Notes**

Vijeta, Vaishali and Diksha share profits in the ratio $2:2:1$, so Diksha's share is $1/5$. Her share of the general reserve is

$$25,000 \times \frac{1}{5} = \text{Rs } 5,000.$$

The firm's goodwill is valued at three years' purchase of the average profit of Rs 20,000:

$$\text{Goodwill} = 20,000 \times 3 = \text{Rs } 60,000.$$

Hence Diksha's share of goodwill is $60,000 \times 1/5 = \text{Rs } 12,000$. With no change specified in the relative ratio of the continuing partners, Vijeta and Vaishali gain equally. Their capital accounts are therefore debited by Rs 6,000 each and Diksha's capital account is credited by Rs 12,000. This adjusts goodwill without retaining a goodwill asset.

Step 2: Calculate interest and profit up to death Diksha died on 1st October, 2019, six months after the opening balance-sheet date. Her capital of Rs 1,50,000 earns interest at 10% p.a. for these six months:

$$\text{Interest} = 1,50,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 7,500.$$

Use the last year's actual profit of Rs 60,000 to estimate profit up to death; the four-year average of Rs 20,000 is used only for goodwill. Diksha's estimated share is

$$\text{Profit share} = 60,000 \times \frac{6}{12} \times \frac{1}{5} = \text{Rs } 6,000.$$

This profit is credited through Profit and Loss Suspense Account because the current year's final profit has not yet been ascertained. No drawings or other deductions are given.

Step 3: Prepare Diksha's capital account **Diksha's Capital Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Diksha's Executors A/c	1,80,500	By Balance b/d	1,50,000	
			By General Reserve A/c	5,000	
			By Vijeta's Capital A/c	6,000	
			By Vaishali's Capital A/c	6,000	
			By Interest on Capital A/c	7,500	
			By Profit and Loss Suspense A/c	6,000	
	Total	1,80,500	Total	1,80,500	

The capital account closes by transferring its credit balance to Diksha's Executors Account; therefore

no balance is carried forward in her capital account. The calculation is verified by

$$1,50,000 + 5,000 + 12,000 + 7,500 + 6,000 = \text{Rs } 1,80,500.$$

Step 4: Conclusion Rs 1,80,500 is payable to Diksha's executors and is transferred from Diksha's Capital Account to Diksha's Executors Account.

Quick Tip to Solve: Use Rs 20,000 only to value goodwill; use Rs 60,000 to estimate six months' profit, then take Diksha's one-fifth share.

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

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

Solution:

Concept:

- Under Schedule III, share capital is shown under Equity and Liabilities, Shareholders' Funds, with its composition disclosed in a note to accounts. Authorised capital is the maximum registered capital; issued capital is the capital offered for subscription.
- After forfeiture, the called-up amount of forfeited shares is removed from subscribed capital. The amount already received on those shares is added separately as shares forfeited until those shares are reissued.

Step 1: Determine the capital after forfeiture The company issued and received subscriptions for 80,000 shares of Rs 10 each. The second and final call is Rs $10 - 3 - 2 - 3 = 2$ per share; therefore the entire nominal value was called up. Chavi paid application and allotment money of Rs $3 + 2 = 5$ per share, but did not pay the two calls totalling Rs $3 + 2 = 5$ per share.

$$\text{Shares remaining fully paid} = 80,000 - 2,000 = 78,000,$$
$$\text{Subscribed and fully paid capital} = 78,000 \times 10 = \text{Rs } 7,80,000,$$
$$\text{Amount received on forfeited shares} = 2,000 \times 5 = \text{Rs } 10,000.$$

No calls in arrears remain against Chavi after forfeiture: her shares have been cancelled. The unpaid Rs 10,000 is therefore not deducted again from the capital of the remaining 78,000 fully paid shares. The forfeited amount is not yet transferred to Capital Reserve because no reissue is stated.

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 supporting note to accounts **Notes to Accounts — Note 1: Share Capital**

Particulars	Amount (Rs)
Authorised capital	
1,00,000 equity shares of Rs 10 each	10,00,000
Issued capital	
80,000 equity shares of Rs 10 each	8,00,000
Subscribed and fully paid-up capital	
78,000 equity shares of Rs 10 each	7,80,000
Add: Shares forfeited (amount originally paid on 2,000 shares)	10,000
Total share capital	**7,90,000**

Authorised capital remains unchanged by the forfeiture. Issued capital continues to disclose the 80,000 shares offered; subscribed and fully paid-up capital reflects the 78,000 shares remaining after forfeiture.

Step 4: Conclusion Share Capital shown in Alpha India Ltd.'s Balance Sheet is **Rs 7,90,000**, comprising Rs 7,80,000 subscribed and fully paid-up capital and Rs 10,000 received on forfeited shares.

Quick Tip to Solve: Remove all 2,000 forfeited shares from subscribed capital, then add back only their Rs 5 per share already received; do not deduct their unpaid calls twice.

19. From the following particulars of Platinum Sports Club, prepare Receipts and Payments Account for the year ending 31st March, 2019 :

Particulars	**Amount Rs**
Opening Balance :	
Cash in Hand	**70,000**
Cash at Bank	**2,00,000**
Subscriptions Received (including Rs 85,000 for the year 2019–20)	**5,00,000**
Rent Paid (including Rs 20,000 for the year 2017–18)	**60,000**
Expenses Paid for Maintenance of Tennis Court	**30,000**
Furniture Purchased for Cash	**50,000**
Entrance Fees Received	**72,000**
Municipal Taxes Paid	**21,000**
Audit Fees Paid (including Rs 2,000 for the year 2019–20)	**12,000**
Sale of Old Sports Materials	**5,000**
Closing Balance :	
Cash in Hand	**11,000**

[6 marks]

Solution:

Concept:

- A Receipts and Payments Account summarises actual cash and bank transactions. Receipts appear on the debit side and payments on the credit side, irrespective of whether they are capital or revenue items and whether they relate to the current, previous or next accounting year.
- Opening cash and bank balances are brought down on the debit side. Closing cash and bank balances are carried down on the credit side; the two sides must have equal totals.

Step 1: Identify the amounts to record on the cash basis Record the entire subscription receipt of Rs 5,00,000, including Rs 85,000 relating to 2019–20. Similarly, record all rent paid, Rs 60,000, including Rs 20,000 for 2017–18, and the entire audit fee paid, Rs 12,000, including Rs 2,000 for 2019–20. These timing adjustments would matter when determining current-year income and expenditure, but do not reduce the actual receipts or payments here.

Furniture purchased for cash, Rs 50,000, is a payment even though it creates an asset. Entrance fees received, Rs 72,000, and sale proceeds of old sports materials, Rs 5,000, are recorded as receipts without making any accrual or capitalisation adjustment. Tennis court maintenance and municipal taxes are recorded at their respective amounts paid.

Step 2: Calculate the closing bank balance

$$\begin{aligned}
\text{Total funds available} &= 70,000 + 2,00,000 + 5,00,000 + 72,000 + 5,000 \\
&= \text{Rs } 8,47,000. \\
\text{Actual payments} &= 60,000 + 30,000 + 50,000 + 21,000 + 12,000 \\
&= \text{Rs } 1,73,000. \\
\text{Closing cash and bank} &= 8,47,000 - 1,73,000 = \text{Rs } 6,74,000. \\
\text{Closing bank balance} &= 6,74,000 - 11,000 = \text{Rs } 6,63,000.
\end{aligned}$$

The closing cash in hand of Rs 11,000 is already given. Only the bank balance is found as the balancing figure; the account does not determine a surplus or deficit of income over expenditure.

Step 3: Prepare the Receipts and Payments Account **Platinum Sports Club**
Receipts and Payments Account for the year ended 31st March, 2019

Dr. Receipts	Amount (Rs)	Payments Cr.	Amount (Rs)
To Balance b/d:		By Rent	60,000
Cash in Hand	70,000	By Tennis Court Maintenance	30,000
Cash at Bank	2,00,000	By Furniture	50,000
To Subscriptions	5,00,000	By Municipal Taxes	21,000
To Entrance Fees	72,000	By Audit Fees	12,000
To Sale of Old Sports Materials	5,000	By Balance c/d:	
		Cash in Hand	11,000
		Cash at Bank	6,63,000
Total	**8,47,000**	**Total**	**8,47,000**

The closing balances together are Rs 6,74,000. Adding them to payments of Rs 1,73,000 gives Rs 8,47,000, agreeing with the opening balances plus all receipts on the debit side.

Step 4: Conclusion The Receipts and Payments Account totals **Rs 8,47,000** on each side. On 31st

March, 2019, cash in hand is Rs 11,000 and the closing cash at bank is **Rs 6,63,000**.

Quick Tip to Solve: Keep the full subscription, rent and audit-fee cash amounts; find closing bank by deducting all payments and the given closing cash from total funds available.

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:

- For the redemption dated 31st March, 2019, the prescribed Debenture Redemption Reserve (DRR) is 25% of the outstanding debenture issue before redemption. An existing DRR balance reduces the further transfer required from profits.
- Debenture Redemption Investment (DRI) is 15% of the debentures maturing during the relevant financial year. DRR is an appropriation of profits; DRI is an investment of cash.
- On redemption at par, debit Debentures and credit Debentureholders for the principal due; debit Debentureholders and credit Bank on payment. Transfer the proportionate DRR relating to the debentures redeemed to General Reserve.

Step 1: Calculate the redemption amount and reserve requirement **Working Notes:** The total issue consists of 40,000 debentures of Rs 100 each. Only half of these debentures mature on 31st March, 2019.

$$\begin{aligned}
\text{Total outstanding issue} &= 40,000 \times 100 = \text{Rs } 40,00,000,\\
\text{Debentures to be redeemed} &= 40,000 \times \tfrac{1}{2} = 20,000,\\
\text{Principal due} &= 20,000 \times 100 = \text{Rs } 20,00,000,\\
\text{Required DRR} &= 40,00,000 \times 25\% = \text{Rs } 10,00,000,\\
\text{Further DRR transfer} &= 10,00,000 - 3,10,000\\
&= \text{Rs } 6,90,000,\\
\text{Required DRI} &= 20,00,000 \times 15\% = \text{Rs } 3,00,000.
\end{aligned}$$

Apply the reserve percentage to the issue outstanding before redemption and the investment percentage to the amount maturing this year. The 11% rate identifies the debentures and is their interest rate; it is not the rate used for DRR or DRI.

Step 2: Record the additional reserve and the investment **Journal of D Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being further profits transferred to raise DRR from Rs 3,10,000 to Rs 10,00,000 before redemption)		6,90,000	6,90,000
	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made equal to 15% of the debentures maturing on 31st March, 2019)		3,00,000	3,00,000

The investment for this maturity is made by 30th April, 2018. It is a distinct asset and does not reduce the DRR balance. The reserve is created out of profits before redemption commences.

Step 3: Record realisation, redemption and the proportionate reserve transfer With no gain, loss or investment income specified, the investment is realised at its carrying amount for redemption. Half the issue is redeemed, so the related reserve transferred is

$$10,00,000 \times \frac{20,00,000}{40,00,000} = \text{Rs } 5,00,000.$$

Journal of D Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-19	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment realised at book value for redemption)		3,00,000	3,00,000
31-3-19	11% Debentures A/c Dr. To Debentureholders A/c (Being half the debenture issue due for redemption at par)		20,00,000	20,00,000
31-3-19	Debentureholders A/c Dr. To Bank A/c (Being amount due paid to debentureholders)		20,00,000	20,00,000
31-3-19	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being proportionate DRR transferred to General Reserve after redemption of half the issue)		5,00,000	5,00,000

The remaining debentures have a face value of Rs 20,00,000. DRR remaining after this transfer is Rs 5,00,000, equal to 25% of that outstanding amount. The question asks for redemption entries; no separate interest transaction is specified.

Step 4: Conclusion Transfer Rs 6,90,000 additionally to DRR, make DRI of Rs 3,00,000, and redeem debentures of Rs 20,00,000. After redemption, transfer the related DRR of Rs 5,00,000 to General Reserve and retain Rs 5,00,000 for the remaining debentures.

Quick Tip to Solve: Keep the two bases separate: DRR uses the outstanding issue, while DRI uses this year's maturity. Deduct the existing DRR before recording a further transfer.

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:

- Record an asset purchased at its agreed purchase price. Credit the vendor with that price, then debit the vendor when the consideration is settled through bank, bills payable or debentures.
- Debentures are credited at face value. A premium payable on redemption is credited to Premium on Redemption of Debentures A/c and debited to Loss on Issue of Debentures A/c at issue.
- When a business is acquired, the excess of net assets over purchase consideration is Capital Reserve. Debentures issued at a discount settle the vendor at their issue price, not their face value.

Step 1: (i) Calculate the land price and redemption premium **Working Notes:** LT Ltd. issues its debentures at par, so the amount paid to JSS Ltd. through debentures is $5,000 \times \text{Rs } 100 = \text{Rs } 5,00,000$.

$$\begin{aligned} \text{Land purchase price} &= 10,00,000 + 5,00,000 + 5,00,000 \\ &= \text{Rs } 20,00,000, \\ \text{Premium on redemption} &= 5,00,000 \times 10\% \\ &= \text{Rs } 50,000. \end{aligned}$$

The redemption premium is a financing loss recognised on issue; it does not increase the amount payable to JSS Ltd. for the land. The accepted six-month bill creates a Bills Payable liability.

Step 2: (i) Journalise the purchase and its settlement **Journal of LT Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Land A/c Dr. To JSS Ltd. (Being land purchased from JSS Ltd.)		20,00,000	 20,00,000
	JSS Ltd. Dr. Loss on Issue of Debentures A/c Dr. To Bank A/c To Bills Payable A/c To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being vendor settled by cheque, acceptance of a six-month bill and issue of 5,000 debentures at par, redeemable at 10% premium after three years)		20,00,000 50,000	 10,00,000 5,00,000 5,00,000 50,000

The settlement entry balances at Rs 20,50,000 on each side. The vendor's account is fully cleared, while the future redemption premium remains a separate liability.

Step 3: (ii) Calculate Capital Reserve and the debentures issued **Working Notes:** The purchase consideration agreed with XYZ Ltd. is Rs 3,60,000.

$$\begin{aligned}
\text{Net assets acquired} &= 4,20,000 - 40,000 = \text{Rs } 3,80,000,\\
\text{Capital Reserve} &= 3,80,000 - 3,60,000 = \text{Rs } 20,000,\\
\text{Issue price per debenture} &= 100 - 10 = \text{Rs } 90,\\
\text{Number of debentures} &= \frac{3,60,000}{90} = 4,000,\\
\text{Total face value} &= 4,000 \times 100 = \text{Rs } 4,00,000,\\
\text{Discount on issue} &= 4,00,000 - 3,60,000 = \text{Rs } 40,000.
\end{aligned}$$

The Rs 20,000 surplus arises on the business purchase; the Rs 40,000 discount arises on financing that purchase. They are recorded separately.

Step 4: (ii) Journalise the business purchase and debenture issue **Journal of ABC Ltd.**

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

The acquisition entry balances at Rs 4,20,000 and the settlement entry at Rs 4,00,000. No bank payment occurs in part (ii).

Step 5: Conclusion LT Ltd. records land at Rs 20,00,000 and a loss on issue of Rs 50,000 for the redemption premium. ABC Ltd. records Capital Reserve of Rs 20,000 and issues 4,000 debentures, recognising discount of Rs 40,000. The journal entries fully settle both vendors.

Quick Tip to Solve: Divide purchase consideration by issue price to find debenture quantity; treat a future redemption premium separately from the price paid to the vendor.

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

On application – ₹ 5 per share

On allotment – ₹ 9 per share (premium included)

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

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

Solution:

Concept:

- Pro-rata allotment gives shares in the ratio of shares allotted to shares applied for. Excess application money is transferred to Share Allotment Account.
- On forfeiture, debit Share Capital with called-up capital and Securities Premium Reserve with premium due but not received; credit unpaid instalments and Share Forfeiture with capital already received.
- Reissue discount cannot exceed the forfeiture amount on the reissued shares. The remaining forfeiture balance on those shares is transferred to Capital Reserve.

Step 1: Prepare Working Notes for allotment The allotment ratio is $80,000 : 1,40,000 = 4 : 7$. All applicants receive shares in this ratio; there is no refund.

$$\begin{aligned}\text{Application received} &= 1,40,000 \times 5 = \text{Rs } 7,00,000,\\ \text{Application capital} &= 80,000 \times 5 = \text{Rs } 4,00,000,\\ \text{Excess application} &= 7,00,000 - 4,00,000 = \text{Rs } 3,00,000,\\ \text{Allotment due} &= 80,000 \times 9 = \text{Rs } 7,20,000.\end{aligned}$$

Allotment comprises Rs 5 per share of capital and Rs 4 per share of premium. The total allotment cash due after adjustment is Rs 4,20,000.

Step 2: Calculate Rajiv's arrears and forfeiture Rajiv receives $1,400 \times 4/7 = 800$ shares. His application payment is $1,400 \times 5 = \text{Rs } 7,000$, against application capital of $800 \times 5 = \text{Rs } 4,000$. Thus Rs 3,000 is

adjusted against his allotment:

$$\text{Allotment unpaid} = 800 \times 9 - 3,000 = \text{Rs } 4,200.$$

The excess application money meets Rs 3,000 of the Rs 4,000 capital component of allotment. Consequently, unpaid allotment comprises Rs 1,000 capital and Rs 3,200 premium. Securities Premium Reserve must therefore be debited by Rs 3,200 on forfeiture. Capital received, credited to Share Forfeiture, is Rs 7,000. Allotment cash actually received is $4,20,000 - 4,200 = \text{Rs } 4,15,800$.

Step 3: Record application and allotment **Journal of A Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c *(Being application money received for 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 capital 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 Reserve A/c *(Being allotment including premium made due)*		7,20,000	 4,00,000 3,20,000
	Bank A/c Dr. To Share Allotment A/c *(Being allotment received except Rajiv's arrears)*		4,15,800	 4,15,800

Step 4: Record forfeiture, reissue and capital profit Reissue discount is $800 \times (10 - 9) = \text{Rs } 800$. It is charged to Share Forfeiture. Since all forfeited shares are reissued, the balance $7,000 - 800 = \text{Rs } 6,200$ becomes capital profit.

Journal of A Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Allotment A/c To Share Forfeiture A/c *(Being 800 shares forfeited for non-payment of 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 at Rs 9 fully paid)*		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 5: Conclusion Rajiv's 800 shares are forfeited and reissued. Allotment arrears are Rs 4,200; forfeiture credit is Rs 7,000; reissue discount is Rs 800; and Capital Reserve is Rs 6,200.

Quick Tip to Solve: First split Rajiv's Rs 4,200 arrears into unpaid capital and premium. Only capital received enters Share Forfeiture; deduct the Rs 800 reissue discount to find capital profit.

OR

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

₹ 3 per share – on application

₹ 3 per share – on allotment

Balance – on first and final call

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

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

Solution:

Concept:

- Pro-rata allotment gives shares in the ratio of shares allotted to shares applied for. Excess application money is transferred to Share Allotment Account.
- On forfeiture, debit Share Capital with called-up capital and Securities Premium Reserve with premium due but not received; credit unpaid instalments and Share Forfeiture with capital already received.
- Reissue discount cannot exceed the forfeiture amount on the reissued shares. The remaining forfeiture balance on those shares is transferred to Capital Reserve.

Step 1: Prepare Working Notes for application and allotment Applications for 10,000 shares are rejected, so only 40,000 applications participate in allotment. The pro-rata ratio is $30,000 : 40,000 = 3 : 4$.

$$\text{Application received} = 50,000 \times 3 = \text{Rs } 1,50,000,$$
$$\text{Application refunded} = 10,000 \times 3 = \text{Rs } 30,000,$$
$$\text{Application capital} = 30,000 \times 3 = \text{Rs } 90,000,$$
$$\text{Excess transferred} = 40,000 \times 3 - 90,000 = \text{Rs } 30,000.$$

Allotment due is $30,000 \times 3 = \text{Rs } 90,000$. After excess application adjustment, cash due on allotment is Rs 60,000. The first and final call is $10 - 3 - 3 = \text{Rs } 4$ per share.

Step 2: Calculate Natasha's defaults Natasha receives $1,600 \times 3/4 = 1,200$ shares. Her application payment is $1,600 \times 3 = \text{Rs } 4,800$. Of this, Rs 3,600 is application capital and Rs 1,200 is adjusted towards allotment.

$$\text{Unpaid allotment} = 1,200 \times 3 - 1,200 = \text{Rs } 2,400,$$
$$\text{Unpaid call} = 1,200 \times 4 = \text{Rs } 4,800,$$
$$\text{Allotment cash received} = 60,000 - 2,400 = \text{Rs } 57,600,$$
$$\text{Call cash received} = 30,000 \times 4 - 4,800 = \text{Rs } 1,15,200.$$

Her called-up capital is Rs 12,000. Capital actually received is Rs 4,800, including the excess application adjustment; this is the Share Forfeiture credit. The unpaid balance of Rs 7,200 is removed

from the allotment and call accounts.

Step 3: Record application and allotment **Journal of AB Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c *(Being application money received for 50,000 shares)*		1,50,000	 1,50,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c *(Being application adjusted and rejected applications refunded)*		1,50,000	 90,000 30,000 30,000
	Share Allotment A/c Dr. To Share Capital A/c *(Being allotment of Rs 3 per share made due)*		90,000	 90,000
	Bank A/c Dr. To Share Allotment A/c *(Being allotment received except Natasha's arrears)*		57,600	 57,600

Step 4: Record the call and forfeiture **Journal of AB Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c *(Being first and final call of Rs 4 per share made due)*		1,20,000	 1,20,000
	Bank A/c Dr. To Share First and Final Call A/c *(Being call received except on Natasha's 1,200 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 shares forfeited for unpaid allotment and call)*		12,000	 2,400 4,800 4,800

Step 5: Record reissue and transfer the surplus All 1,200 forfeited shares are reissued at their face value of Rs 10, so there is no reissue discount. Bank receives Rs 12,000, and the entire forfeiture credit of Rs 4,800 is transferred to Capital Reserve.

Journal of AB Ltd. (continued)

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

Step 6: Conclusion Natasha is allotted 1,200 shares. Her allotment and call arrears are Rs 2,400 and Rs 4,800 respectively. Forfeiture credits Rs 4,800, which is transferred in full to Capital Reserve after reissue at par.

Quick Tip to Solve: Exclude the 10,000 rejected applications before calculating pro-rata allotment. Natasha's entire Rs 4,800 application payment is capital received, including the amount adjusted on allotment.

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

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

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

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

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

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

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

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

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

[8 marks]

Solution:

Concept:

- Reserves and pre-admission revaluation gains belong to the old partners in their old profit-sharing ratio, here $3 : 2$.
- An investment fluctuation fund first absorbs the decline in investments; only its surplus is distributed to the old partners.
- Goodwill premium compensates sacrificing partners. In the absence of another agreement, A and B sacrifice in their old ratio.
- Recovery of an amount previously written off increases bank and is credited to Revaluation Account; it does not reduce the present debtors balance.

Step 1: Calculate the adjustments and sharing ratios **Working Notes**

C obtains $1/5$, leaving $4/5$ for A and B in their existing ratio. Thus the new shares are $12/25, 8/25, 5/25$, and the new ratio is $12 : 8 : 5$. A sacrifices $3/25$, while B sacrifices $2/25$; goodwill premium is credited Rs 30,000 to A and Rs 20,000 to B.

$$\text{Investment decline} = 60,000 - 50,000 = 10,000,$$
$$\text{Surplus fluctuation fund} = 12,000 - 10,000 = 2,000.$$

The decline is charged against the fund, so it is not charged again to Revaluation Account. The

remaining fund gives A Rs 1,200 and B Rs 800. General reserve Rs 25,000 gives A Rs 15,000 and B Rs 10,000. The old bad debt of Rs 18,000 was already written off; only its actual recovery of Rs 12,000 is recognised now. No fresh loss of Rs 6,000 is recorded.

Step 2: Prepare the Revaluation Account Outstanding salaries create a liability and a revaluation loss of Rs 2,000. Bad debts recovered provide a gain of Rs 12,000. Net profit is therefore Rs 10,000, credited to A and B as Rs 6,000 and Rs 4,000 respectively.

Revaluation Account

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

Step 3: Prepare the Partners' Capital Accounts Capitals are fluctuating; all reserve, goodwill and profit adjustments are credited to the respective capital accounts. C's premium is credited to the sacrificing partners, while C's capital contribution alone is credited to C's capital account. No withdrawal of goodwill is stated.

Partners' Capital Accounts

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

Step 4: Prepare the new firm's Balance Sheet Bank includes C's capital and premium as well as the bad-debt recovery:

$$\text{Bank} = 20,000 + 1,00,000 + 50,000 + 12,000 = 1,82,000.$$

Debtors remain Rs 85,000 less the existing provision Rs 5,000, giving Rs 80,000 net. Investments are shown at their revised value of Rs 50,000. The general reserve and investment fluctuation fund have both been fully adjusted.

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 Rs 85,000	
Partners' Capitals:		Less: Provision Rs 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 5: Conclusion Revaluation profit is Rs 10,000. Closing capitals are A Rs 2,12,200, B Rs 1,74,800 and C Rs 1,00,000. The new Balance Sheet totals Rs 5,19,000 on each side.

Quick Tip to Solve: Use the investment fluctuation fund against the Rs 10,000 investment decline first; credit only its Rs 2,000 surplus to A and B, avoiding a second charge to revaluation.

OR

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

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

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

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

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

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

(iii) Stock was revalued at ₹ 36,000.

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

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

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

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

Solution:

Concept:

- Reserves and revaluation profit belong to all old partners in their old profit-sharing ratio, $5:3:2$.
- The retiring partner receives his goodwill share from the continuing partners in their gaining ratio.
- An existing provision absorbs bad debts first; the required new provision is calculated on debtors remaining after write-off.
- The retiring partner's adjusted capital is settled by the specified bank payment and transfer of the unpaid balance to a loan account.

Step 1: Calculate the gains and revaluation profit **Working Notes**

Ayush and Sudha continue in their old relative ratio $3:2$, since no other ratio is given. Their gains are $3/5 - 3/10 = 3/10$ and $2/5 - 2/10 = 2/10$; hence the gaining ratio is $3:2$. Chintan's goodwill share is $1,00,000 \times 5/10 = 50,000$, borne by Ayush Rs 30,000 and Sudha Rs 20,000.

$$\begin{aligned} \text{Debtors after write-off} &= 60,000 - 5,000 = 55,000, \\ \text{New provision} &= 55,000 \times 5\% = 2,750, \\ \text{Net revaluation profit} &= 6,000 + 9,000 - 2,750 - 2,000 \\ &= 10,250. \end{aligned}$$

The existing provision Rs 5,000 absorbs the bad-debt write-off of Rs 5,000, leaving no old provision. Therefore the new provision Rs 2,750 is charged in full to Revaluation Account. The net profit is shared in the old ratio $5:3:2$: Chintan Rs 5,125, Ayush Rs 3,075 and Sudha Rs 2,050. The provident fund is a liability to employees and remains unchanged; it is not a reserve available for partners.

Step 2: Record the reserve and goodwill adjustments General reserve belongs to all three partners in their old ratio. Goodwill is adjusted directly through capital accounts, as required; no goodwill asset is raised.

Journal of the firm (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 general reserve distributed in the old ratio of 5:3:2)			
	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 Chintan's goodwill share adjusted in the gaining ratio of 3:2)			

Step 3: Record bad debts and the new provision Use the existing provision against the identified bad debts, then provide 5 percent on the remaining debtors. The two entries make clear why bad debts are not charged a second time to revaluation.

Journal of the firm (31st March, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Provision for Doubtful Debts A/c Dr. To Debtors A/c (Being bad debts written off against the existing provision)		5,000	 5,000
	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (Being new provision created at 5 percent of Rs 55,000)		2,750	 2,750

Step 4: Record asset increases and the compensation liability Stock rises from Rs 30,000 to Rs 36,000, an increase of Rs 6,000. Furniture being undervalued by Rs 9,000 requires an increase of that amount. The new workmen's compensation liability is a revaluation expense.

Journal of the firm (31st March, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Stock A/c Dr. Furniture A/c Dr. To Revaluation A/c (Being stock and furniture values increased by Rs 6,000 and Rs 9,000 respectively)		6,000 9,000	 15,000
	Revaluation A/c Dr. To Workmen's Compensation Liability A/c (Being workmen's compensation liability provided)		2,000	 2,000

Step 5: Transfer revaluation profit and settle Chintan Chintan's entitlement consists of his capital, reserve share, goodwill share and revaluation profit:

$$\begin{aligned}\text{Amount due} &= 90,000 + 10,000 + 50,000 + 5,125 \\ &= 1,55,125, \\ \text{Loan balance} &= 1,55,125 - 20,000 = 1,35,125.\end{aligned}$$

The cheque reduces bank by Rs 20,000. The remaining sum becomes the firm's liability to Chintan, and his capital account is closed.

Journal of the firm (31st March, 2019)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr. To Chintan's Capital A/c To Ayush's Capital A/c To Sudha's Capital A/c (Being revaluation profit transferred in the old ratio of 5:3:2)		10,250	 5,125 3,075 2,050
	Chintan's Capital A/c Dr. To Bank A/c To Chintan's Loan A/c (Being Chintan paid Rs 20,000 by cheque and the balance transferred to his loan account)		1,55,125	 20,000 1,35,125

Step 6: Conclusion Revaluation profit is Rs 10,250. Chintan is entitled to Rs 1,55,125, of which Rs 20,000 is paid by cheque and Rs 1,35,125 is credited to his Loan Account. Every journal entry above has equal debits and credits.

Quick Tip to Solve: Apply the 5 percent provision to Rs 55,000 after writing off bad debts; do not distribute the Rs 30,000 provident fund to partners.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

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

Solution:

Concept:

- A cash flow is an inflow or outflow of cash and cash equivalents considered together.
- Marketable securities held as cash equivalents form part of this combined balance; conversion between its components is excluded from cash flows.

Step 1: Identify the nature of the securities In this cash-flow question, marketable securities are treated as cash equivalents. Their sale converts a cash equivalent into cash at bank.

Step 2: Compare the combined balance A sale at par increases cash by exactly the amount by which marketable securities decrease. Thus, although the bank balance rises, total cash and cash equivalents do not change. It is an internal movement between the two components, not an inflow for the cash flow statement.

Step 3: Conclusion The statement is **False**: sale of marketable securities at par does not constitute a cash inflow in the cash flow statement.

Quick Tip to Solve: For a cash-equivalent transaction, compare cash plus cash equivalents before and after it, rather than looking only at the bank receipt.

24. 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 compares long-term debt with shareholders' funds: Debt-equity ratio $= D/E$, where D is debt and E is equity.
- An issue of shares increases shareholders' funds without increasing long-term debt.

Step 1: Identify the change in equity Let the existing shareholders' funds be Rs E. Since the original ratio is $2:1$, long-term debt is Rs $2E$. Issuing shares of Rs 6,00,000 increases equity to Rs $(E + 6,00,000)$; debt remains Rs $2E$.

Step 2: Compare the revised ratio The revised ratio is

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

The numerator is unchanged and the positive denominator increases, so the ratio moves down. The exact revised numerical ratio cannot be calculated without knowing the original equity amount.

Step 3: Conclusion The debt-equity ratio will **decrease**, because the share issue increases shareholders'

funds while debt remains unchanged.

Quick Tip to Solve: For a share issue, increase the denominator of debt-equity ratio and keep debt unchanged.

25. Give the meaning of 'Cash Flow Statement'. [1 mark]

Solution:

Concept:

- Cash flows are inflows and outflows of cash and cash equivalents during an accounting period.
- A Cash Flow Statement groups those flows into operating, investing and financing activities.

Step 1: Identify what the statement reports The statement explains the movement in cash and cash equivalents over a specified period. It reports the sources from which cash was received and the uses for which cash was paid, rather than simply reporting the period's accounting profit.

Step 2: Identify its classification Receipts and payments are classified under operating, investing and financing activities. The net effect of these flows explains the change between the opening and closing balances of cash and cash equivalents. Transactions that do not involve cash flows are excluded from these flows.

Step 3: Conclusion A **Cash Flow Statement** is a statement showing inflows and outflows of cash and cash equivalents during a particular period, classified into operating, investing and financing activities.

Quick Tip to Solve: Include both cash equivalents and the three activity classifications when defining a Cash Flow Statement.

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

Solution:

Concept:

- Financial statement analysis interprets relationships between accounting figures to assess a business's performance and financial position.
- Profitability assessment examines the enterprise's capacity to earn profits from its business activities.

Step 1: Choose one objective One objective is to assess the profitability of the enterprise. This means examining how effectively the business earns profits in relation to its revenue, resources or investment.

Step 2: Explain how analysis serves this objective Relating profit to revenue and comparing relevant figures across periods helps the user judge whether earning performance has improved or declined. Thus, the analysis turns individual financial figures into information useful for evaluating the enterprise's profit-earning capacity.

Step 3: Conclusion One objective of Analysis of Financial Statements is **to assess the profitability or earning capacity of the enterprise**.

Quick Tip to Solve: When asked for any one objective, state one clear purpose, such as assessing profitability, and explain it briefly.

27. Under which type of activity will 'Rent Paid' be classified while preparing Cash Flow Statement ?

[1 mark]

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise and other activities that are neither investing nor financing.
- Payments for routine business expenses are operating cash outflows.

Step 1: Identify the nature of rent paid Rent paid is a routine expense incurred for using premises or other facilities in carrying on business. It relates to the enterprise's day-to-day operations.

Step 2: Apply the activity classification This payment does not itself acquire a long-term asset and does not raise or repay capital or borrowings. It is therefore included among cash payments arising from operating activities and reduces the cash flow from those activities.

Step 3: Conclusion Rent paid is classified as a **cash outflow from operating activities** in the Cash Flow Statement.

Quick Tip to Solve: Classify ordinary rent paid with other routine business expenses under operating cash outflows.

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

Solution:

Concept:

- Operating ratio expresses operating cost as a percentage of revenue from operations.
- Operating profit equals revenue from operations less operating cost, so operating profit ratio and operating ratio together equal 100%.

Step 1: Use the complementary relationship Since the two ratios use the same revenue from operations as their denominator, the portion spent on operating costs and the portion remaining as operating profit exhaust the revenue. Hence,

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

Step 2: Substitute the given operating ratio For every Rs 100 of revenue from operations, Rs 75 is absorbed by operating costs. The remaining Rs 25 is operating profit:

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

Step 3: Conclusion The operating profit ratio is $\boxed{25\%}$.

Quick Tip to Solve: Subtract the operating ratio from 100 percent to find the operating profit ratio directly.

29. 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 that are cash or can readily be converted into cash to meet current liabilities.
- Quick assets equal current assets less inventories and prepaid expenses.

Step 1: Examine the readily realisable assets Cash in hand in option (A) is already cash. Marketable securities in option (B) are readily realisable, and trade receivables in option (D) are expected to be collected in cash. These are included in quick assets under the usual ratio classification.

Step 2: Identify the excluded asset Prepaid expenses represent payments already made for benefits to be received in a future period. They are used up as expenses rather than converted into cash for paying liabilities. Therefore, although they are current assets, they are excluded when calculating quick assets.

Step 3: Conclusion Quick assets do not include **prepaid expenses**. Hence, the correct option is (C).

Quick Tip to Solve: Remove both inventory and prepaid expenses from current assets before computing the quick ratio.

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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) Capital Advances

(b) Interest accrued and due on borrowings

(c) Licenses and franchise [3 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities under prescribed heads and sub-heads according to their nature and classification.
- Capital advances concern acquisition of fixed assets; accrued interest due is an outstanding obligation; licences and franchises are rights without physical substance.

Step 1: Classify capital advances Capital advances are advances paid for acquiring fixed assets. Until the asset is acquired, the advance is not the fixed asset itself. It is disclosed under **Non-current assets**, sub-head **Long-term loans and advances** in the Schedule III classification applicable to this paper.

Step 2: Classify interest accrued and due Interest accrued and due on borrowings is interest expense

that has become payable but remains unpaid. The amount is an outstanding current obligation, distinct from the principal borrowing. It appears under **Current liabilities**, sub-head **Other current liabilities**.

Step 3: Classify licences and franchise Licences and franchise give the company identifiable business rights and benefits without physical form. They appear under **Non-current assets**, within **Fixed assets**, under **Intangible assets**.

Step 4: Conclusion The required heads and sub-heads are:

Item	Head	Sub-head
(a) Capital advances	Non-current assets	Long-term loans and advances
(b) Interest accrued and due on borrowings	Current liabilities	Other current liabilities
(c) Licences and franchise	Non-current assets	Fixed assets: Intangible assets

Quick Tip to Solve: Separate an advance for a fixed asset from the asset itself, and unpaid interest from the principal borrowing.

OR

30. From the following information, calculate Gross Profit Ratio :

Particulars	Rs
Revenue from Operations :	
Cash	**2,00,000**
Credit	**8,00,000**
Purchases :	
Cash	**40,000**
Credit	**3,60,000**
Carriage Inwards	**8,000**
Salaries	**42,000**
Decrease in Inventory	**1,22,000**
Returns Outwards	**20,000**
Wages	**20,000**

[3 marks]

Solution:

Concept:

- Gross profit ratio measures gross profit as a percentage of revenue from operations.

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Revenue from operations}} \times 100.$$

- Cost of revenue from operations equals net purchases plus direct expenses plus opening inventory minus closing inventory. Returns outwards reduce purchases; a decrease in inventory increases the

cost of goods sold.

- Carriage inwards and wages are direct expenses. Salaries are an indirect expense and are excluded when calculating gross profit.

Step 1: Calculate revenue from operations and net purchases Both cash and credit sales form revenue from operations. Likewise, add cash and credit purchases before deducting returns to suppliers.

$$\begin{aligned}\text{Revenue from operations} &= 2,00,000 + 8,00,000\\ &= \text{Rs } 10,00,000,\\ \text{Net purchases} &= 40,000 + 3,60,000 - 20,000\\ &= \text{Rs } 3,80,000.\end{aligned}$$

Returns outwards are purchase returns, so they are deducted from purchases and not from sales.

Step 2: Determine the cost of goods sold The decrease in inventory of Rs 1,22,000 means that opening inventory exceeds closing inventory by this amount. Add it to net purchases together with the direct expenses.

$$\begin{aligned}\text{Cost of goods sold} &= 3,80,000 + 8,000 + 20,000 + 1,22,000\\ &= \text{Rs } 5,30,000.\end{aligned}$$

Salaries of Rs 42,000 are excluded because they are charged after gross profit in determining net profit; they do not enter this ratio.

Step 3: Calculate gross profit and its ratio Subtract the cost attributable to the goods sold from revenue from operations, then express the difference as a percentage of that revenue.

$$\begin{aligned}\text{Gross profit} &= 10,00,000 - 5,30,000 = \text{Rs } 4,70,000,\\ \text{Gross profit ratio} &= \frac{4,70,000}{10,00,000} \times 100.\end{aligned}$$

Step 4: Conclusion Gross profit is Rs $4,70,000$, and the **Gross Profit Ratio is** 47%.

Quick Tip to Solve: Add a decrease in inventory to cost of goods sold, subtract returns outwards from purchases, and leave salaries out of gross profit.

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 presents the previous-year and current-year figures, their absolute change, and the percentage change relative to the previous year.
- Absolute change $=$ Current-year amount $-$ Previous-year amount; Percentage change $=$ $\dfrac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$.
- Total revenue includes revenue from operations and other income. Profit before tax equals total revenue less expenses; income tax is calculated on profit before tax, and profit after tax is the balance.

Step 1: Calculate total revenue and profit before tax **Working Notes** Use 2017–18 as the base year even though the question places 2018–19 first. Include other income before deducting the expenses given.

$$\begin{aligned}
\text{Total revenue (2017–18)} &= 30,00,000 + 60,000 \\
&= \text{Rs } 30,60,000, \\
\text{Total revenue (2018–19)} &= 37,50,000 + 75,000 \\
&= \text{Rs } 38,25,000, \\
\text{Profit before tax (2017–18)} &= 30,60,000 - 20,60,000 \\
&= \text{Rs } 10,00,000, \\
\text{Profit before tax (2018–19)} &= 38,25,000 - 25,75,000 \\
&= \text{Rs } 12,50,000.
\end{aligned}$$

Step 2: Calculate tax and profit after tax Apply the stated tax rate of 40% to each year's profit before tax, rather than to its revenue.

$$\begin{aligned}
\text{Tax (2017–18)} &= 10,00,000 \times 40\% = \text{Rs } 4,00,000, \\
\text{Tax (2018–19)} &= 12,50,000 \times 40\% = \text{Rs } 5,00,000, \\
\text{Profit after tax (2017–18)} &= 10,00,000 - 4,00,000 \\
&= \text{Rs } 6,00,000, \\
\text{Profit after tax (2018–19)} &= 12,50,000 - 5,00,000 \\
&= \text{Rs } 7,50,000.
\end{aligned}$$

Step 3: Prepare the comparative statement For example, the increase in revenue from operations is

Rs 7,50,000, giving $7,50,000/30,00,000 \times 100 = 25\%$. Apply the same base-year rule to every row below. All changes are increases.

AT Ltd.

Comparative Statement of Profit and Loss

for the years ended 31st March, 2018 and 2019

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

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

Quick Tip to Solve: Keep 2017–18 in the denominator of every percentage-change calculation; the 40% tax rate applies to profit before tax, not to sales.

OR

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

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

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

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses each item as a percentage of the total balance sheet amount for the same year.
- For each year, Percentage $= \dfrac{\text{Item amount}}{\text{Total assets}} \times 100$. Total assets equal total equity and liabilities, so either total gives the same base.

Step 1: Identify the base and calculate the percentages **Working Notes:** Use Rs 40,00,000 as the base for 2019 and Rs 20,00,000 for 2018. Never divide a 2019 amount by the 2018 total. For example,

$$\text{Share capital, 2019} = \frac{20,00,000}{40,00,000} \times 100 = 50\%,$$
$$\text{Share capital, 2018} = \frac{9,00,000}{20,00,000} \times 100 = 45\%,$$
$$\text{Inventories, 2019} = \frac{19,00,000}{40,00,000} \times 100 = 47.5\%,$$
$$\text{Cash, 2018} = \frac{2,00,000}{20,00,000} \times 100 = 10\%.$$

Calculate every remaining percentage using the same year's base. Retain the balance sheet heads and show the two years side by side.

Step 2: Prepare the common size balance sheet **Common Size Balance Sheet of Surbhi Ltd. As at 31st March, 2019 and 31st March, 2018**

Particulars	2019 (Rs)	2018 (Rs)	2019 (%)	2018 (%)
I. Equity and Liabilities				
1. Shareholders' Funds				
(a) Share Capital	20,00,000	9,00,000	50.0	45.0
(b) Reserves and Surplus	2,00,000	1,00,000	5.0	5.0
2. Non-Current Liabilities				
Long-term Borrowings	12,00,000	5,00,000	30.0	25.0
3. Current Liabilities				
Trade Payables	6,00,000	5,00,000	15.0	25.0
Total	**40,00,000**	**20,00,000**	**100.0**	**100.0**
II. Assets				
1. Non-Current Assets				
Fixed Assets	20,00,000	10,00,000	50.0	50.0
2. Current Assets				
(a) Inventories	19,00,000	8,00,000	47.5	40.0
(b) Cash and Cash Equivalents	1,00,000	2,00,000	2.5	10.0
Total	**40,00,000**	**20,00,000**	**100.0**	**100.0**

Check each side separately: the equity and liabilities percentages total 100 in each year, and the assets percentages also total 100. The fixed assets share remains 50%, even though its rupee amount doubles; common size analysis measures composition rather than absolute growth.

Step 3: Conclusion The common size balance sheet above shows each year's total as 100%. Inventories rise from 40% to 47.5% of total assets, while cash and cash equivalents fall from 10% to 2.5%.

Quick Tip to Solve: Use Rs 40,00,000 for every 2019 percentage and Rs 20,00,000 for every 2018 percentage; check that each side separately totals 100%.

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 (Rs)	31.03.2018 (Rs)
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 charges, then adjust for changes in operating current assets and liabilities.

- Machinery and non-current investment purchases are investing outflows. Share and debenture issues are financing inflows; interest paid is a financing outflow for this non-financial company.
- For this question, current investments are treated as short-term marketable securities included in cash equivalents. Their increase is therefore included in the cash reconciliation, not in operating working capital.

Step 1: Calculate profit, depreciation and interest **Working Notes:**
With no dividend, tax provision or reserve transfer given, the increase in the Statement of Profit and Loss balance is the profit used in the indirect calculation:

$$\text{Profit} = 3,30,000 - 2,20,000 = \text{Rs } 1,10,000.$$

No disposal of machinery is given. The increase in accumulated depreciation is the depreciation charged during the year:

$$\text{Depreciation} = 1,20,000 - 95,000 = \text{Rs } 25,000.$$

The additional Rs 60,000 debentures were issued on the first day of the year, so the full closing debenture balance bears interest for the entire year:

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

Add depreciation and interest back to profit when calculating operating cash flow. The interest payment is then shown once under financing activities. With no interest payable balance stated, the year's interest is taken as paid.

Step 2: Determine operating adjustments and asset purchases The decrease in trade receivables releases cash of Rs $2,00,000 - 90,000 = 1,10,000$. The decrease in trade payables uses cash of Rs $1,95,000 - 1,65,000 = 30,000$. Hence operating cash flow is

$$1,10,000 + 25,000 + 16,000 + 1,10,000 - 30,000 = \text{Rs } 2,31,000.$$

Use the machinery cost figures, not the net carrying values, to find the cash purchase:

$$\text{Machinery purchased} = 10,70,000 - 7,00,000 = \text{Rs } 3,70,000,$$
$$\text{Non-current investments purchased} = 1,35,000 - 1,00,000 = \text{Rs } 35,000.$$

The same machinery purchase is obtained from the increase in net fixed assets plus depreciation: Rs $9,50,000 - 6,05,000 + 25,000 = 3,70,000$. Share capital issued for cash is Rs $8,00,000 - 6,00,000 = 2,00,000$; debenture issue proceeds are Rs 60,000.

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

Particulars	Amount (Rs)	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
Less: Income tax paid (none given)		–
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)	
Net Cash used in Investing Activities (B)		**(4,05,000)**
C. Cash Flows from Financing Activities		
Proceeds from issue of shares	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)		**70,000**
Add: Opening cash and cash equivalents		2,10,000
Closing cash and cash equivalents		**2,80,000**

Step 4: Reconcile the cash and cash equivalent balances Include current investments in both opening and closing balances consistently:

$$\text{Opening balance} = 1,70,000 + 40,000 = \text{Rs } 2,10,000,$$
$$\text{Closing balance} = 2,00,000 + 80,000 = \text{Rs } 2,80,000,$$
$$\text{Increase} = 2,80,000 - 2,10,000 = \text{Rs } 70,000.$$

This equals the net increase from the three activities. Current investments are not counted again as an investing purchase under the cash-equivalent treatment used here.

Step 5: Conclusion Net operating inflow is Rs 2,31,000, net investing outflow is Rs 4,05,000 and net financing inflow is Rs 2,44,000. Cash and cash equivalents, including current investments, increase by Rs 70,000 to Rs 2,80,000.

Quick Tip to Solve: Charge a full year's interest on the Rs 60,000 debentures issued on 1st April, and add current investments to both cash balances before reconciling.

OPTION 2 (Computerised Accounting)

23. 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:

- Selecting a chart activates contextual Chart Tools used to control the chart's design, layout and formatting.
- In the Excel interface referred to in this question, these three tabs are named Design, Layout and Format.

Step 1: Recall the three Chart Tools tabs Design controls the chart type, styles and data arrangement. Layout controls chart elements such as titles, axes and legends. Format controls the appearance of selected chart elements. These names form the required set: Design, Layout, Format.

Step 2: Compare all the options Option (B) contains all three tab names. Options (A) and (D) incorrectly include DataMaker, which is not one of these Chart Tools tabs. Option (C) replaces Design with Label; a label is a chart element, not the required contextual tab name.

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

Quick Tip to Solve: Remember the sequence Design, Layout, Format: choose the chart, arrange its elements, then style their appearance.

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

Solution:

Concept:

- Extended selection keeps the starting cell anchored while navigation keys extend the selected range.
- Ctrl combined with an arrow moves to the edge of the current continuous data region.

Step 1: Identify the direction The question asks for data down to the last row, so the relevant direction is downward along the column.

Step 2: Apply the shortcut With extended selection already active, hold Ctrl and press the Down Arrow. The selection extends downwards to the last occupied cell of the continuous data block, including that cell. The Ctrl key makes the movement reach the data boundary rather than advance only one row.

Step 3: Conclusion The keyboard shortcut is **Ctrl + Down Arrow**.

Quick Tip to Solve: Notice that extended selection is already active; combine Ctrl with the arrow pointing towards the required end of the data.

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

Solution:

Concept:

- A spreadsheet formula uses arithmetic operators to specify the calculation performed on its operands.
- The asterisk is the multiplication operator; it gives the product of the values on either side.

Step 1: Identify the operator The symbol * directs the spreadsheet to multiply the two operands, which may be numbers or cell references.

Step 2: Check with a formula For example, entering `=5*4` returns 20. Similarly, `=A1*B1` multiplies the value in cell A1 by the value in cell B1. Addition uses +, subtraction uses -, and division uses /; these do not represent multiplication.

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

Quick Tip to Solve: Use * between quantities in a spreadsheet formula, such as quantity*price to calculate the total value.

26. Expand SQL. [1 mark]

Solution:

Concept:

- A relational database stores related data in tables composed of records and fields.
- A query specifies the information to be retrieved or the operation to be performed on stored data.

Step 1: Expand the abbreviation The letters S, Q and L stand for Structured, Query and Language respectively. The full form names the language used to communicate instructions to a relational database.

Step 2: Relate the name to its purpose SQL statements can retrieve selected records, insert new data, update existing data and define database tables. For example, a `SELECT` statement can retrieve the required fields from an accounts table.

Step 3: Conclusion SQL stands for **Structured Query Language**.

Quick Tip to Solve: Remember SQL as Structured + Query + Language; the middle word is Query, referring to requests made to a database.

27. Define Pivot table. [1 mark]

Solution:

Concept:

- Large spreadsheet lists can be grouped into categories to produce useful summary information.
- Summary calculations include totals, counts and averages for the selected fields.

Step 1: State the meaning A Pivot table is an interactive summary table that organises and summarises a large set of spreadsheet data according to selected row and column categories.

Step 2: Explain how it is used It can display totals, counts or averages and allows the fields to be rearranged to view the same data from different perspectives. For example, individual sales records may be summarised by product and region to compare their total sales.

Step 3: Conclusion A **Pivot table** is an interactive tool for grouping, summarising and analysing spreadsheet data in a table.

Quick Tip to Solve: In a definition, mention both summarisation and rearrangement of fields; a Pivot table does more than copy the original list.

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

Solution:

Concept:

- Computerised accounting processes and stores accounting records using hardware and software.
- Its operation depends on the reliability and availability of that computer system.

Step 1: Identify one limitation One limitation is the risk of system failure. A hardware fault or a serious software malfunction can interrupt the processing of accounting transactions.

Step 2: Explain its effect During the failure, users may be unable to enter transactions or access reports. Stored records may also be damaged or lost if adequate backups are not available. Thus, dependence on the computer system can disrupt routine accounting work.

Step 3: Conclusion One limitation is **risk of system failure**, which can interrupt accounting work and may cause loss of stored data.

Quick Tip to Solve: Name one limitation and connect it to its accounting effect, such as system failure causing interrupted access to records.

29. 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 the constant periodic payment for a loan or investment with a constant periodic interest rate.
- Its required arguments are rate, nper and pv; its optional arguments are fv followed by type.

Step 1: Arrange the required arguments The first argument is `rate`, the interest rate per payment period. Next is `nper`, the total number of payments, followed by `pv`, the present value or loan principal.

Step 2: Check the optional arguments and options The optional future value `[fv]` precedes `[type]`, which specifies payment timing. Option (B) follows both sequences correctly. Option (A) interchanges pv and nper; option (C) also reverses the optional arguments; option (D) has the correct required arguments but reverses fv and type.

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

Quick Tip to Solve: Recall the argument order as rate, number of periods, present value, future value, and payment timing.

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

Solution:

Concept:

- A database table contains records (rows) and fields (columns). Keys help identify records reliably.
- Candidate keys are fields or minimal combinations of fields capable of uniquely identifying each record. One is selected as the primary key.

Step 1: Explain primary key A primary key is the field, or combination of fields, selected to identify each record in a table uniquely. Its values must not be duplicated and must not be null. Thus, an account number selected as the primary key of a customer-account table identifies one particular account record even when different customers have similar names.

Step 2: Explain secondary key A secondary key, also termed an alternate key in this context, is another candidate key that has not been selected as the primary key. It provides an alternative unique value for identifying or retrieving the same record and is usually indexed. A table may therefore have alternative identifiers in addition to its chosen primary key.

Step 3: Illustrate the distinction Consider a student table in which both Admission Number and Board

Registration Number are unique and recorded for every student. If Admission Number is chosen as the primary key, Board Registration Number acts as a secondary or alternate key. Either value identifies the same student record, but only Admission Number has been designated as the main identifier. Student Name is unsuitable for this example because two students can have the same name.

Step 4: Conclusion The **primary key** is the chosen unique identifier of each record; a **secondary key** is an alternative candidate key that can also identify the record.

Quick Tip to Solve: For a clear example, choose two genuinely unique fields; designate one as primary and explain the other as the alternate identifier.

OR

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

Solution:

Concept:

- Data are raw facts and figures collected about transactions or events before they are organised for a particular purpose.
- Information is data processed, classified or summarised into a meaningful form that is useful to its recipient for decision-making.

Step 1: Distinguish their nature and role Data are individual observations or transaction details, such as the date, quantity and amount on a sales invoice. They are the input to a processing system. Information is the meaningful output obtained by applying operations such as sorting, classification, calculation and summarisation to those inputs. Thus, recording separate sales amounts collects data, while preparing a sales summary converts those amounts into information.

Step 2: Compare their usefulness Raw data may not, by themselves, directly answer a manager's question. Information places the facts in a relevant context so that the manager can interpret them and act. For example, isolated invoice amounts do not immediately tell the manager the day's total sales; a report headed with the date and total sales does. The distinction depends on purpose: the output of one processing stage can become input data for another stage.

Step 3: Illustrate the difference with sales Suppose the sales invoices for a particular day show Rs 2,000, Rs 3,000 and Rs 5,000. These three individual amounts are data. Adding and presenting them in a daily sales report produces:

$$\text{Total sales for the day} = 2,000 + 3,000 + 5,000 = \text{Rs } 10,000.$$

The dated statement that total sales are Rs 10,000 is information: it answers the specific question of how much was sold that day and can be compared with a sales target.

Step 4: Conclusion Data are raw inputs; information is the meaningful, processed output. In the example, individual invoice amounts are data, whereas the day's total sales of Rs 10,000, presented in context, are information.

Quick Tip to Solve: Use the same example for both terms: list individual transaction amounts as data, then show the useful total or report obtained by processing them as information.

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 according to accounting principles.
- Its features combine convenient data entry with automatic processing and organised financial reporting. Correct results still require correct input and proper configuration.

Step 1: State the features relating to operation **Simplicity:** The system provides convenient data-entry screens, menus and predefined formats. Users can record transactions without manually preparing every ledger and report.

Speed: Once a transaction is entered, the system performs calculations, postings and report preparation rapidly. A large volume of transactions can therefore be processed in a short time.

Accuracy and reliability: Programmed calculations and consistent processing rules reduce arithmetic and posting errors. Validation controls help detect invalid entries, although incorrect input or incorrect settings can still produce incorrect results.

Step 2: State the features relating to records and reports **Comprehensive and integrated processing:** A transaction recorded in the system can update the relevant books and accounts together. Ledgers, trial balance and financial statements are generated from the same records, reducing repeated entry and helping maintain consistency.

Transparency and control: Properly configured systems retain transaction details and an audit trail, allowing authorised users to trace a report figure back to its underlying records. Access controls restrict who can view or change accounting data.

Storage and retrieval: Large quantities of accounting data can be stored systematically and retrieved by date, account or transaction reference, making examination of past records convenient.

Step 3: State the features relating to changing needs **Scalability:** A suitable system can accommodate increasing transaction volumes and organisational growth, subject to its software and hardware capacity.

Instant and timely reporting: Updated reports can be generated whenever required from the transactions already recorded, helping management monitor balances and performance. Such reports reflect the latest entered data, so timely entry remains necessary.

Step 4: Conclusion The main features are simplicity, speed, accuracy, reliability, comprehensive and integrated processing, transparency, systematic storage, scalability and timely reporting. Together they support efficient recording and preparation of accounting information.

Quick Tip to Solve: Link each feature to an accounting task: speed to processing, accuracy to calculations, integration to simultaneous updating, and scalability to growth in transaction volume.

OR

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

Solution:

Concept:

- Conditional formatting applies a specified format to a cell or range when its value, or the result of a formula, satisfies a stated condition.
- It changes the appearance of information, such as the font colour, fill colour or border, while leaving the underlying values and calculations unchanged.

Step 1: Identify values requiring attention A rule can highlight values greater than, less than or equal to a specified limit, or values within a range. For example, a business may highlight customer balances exceeding Rs 50,000 with a red fill. This helps the accountant locate large outstanding amounts quickly without checking each figure separately.

Step 2: Compare performance and detect exceptions Conditional formatting can distinguish high and low values, above-average or below-average results, and duplicate entries. In a sales worksheet, values below the target can be highlighted for follow-up; duplicate invoice numbers can be flagged for checking. A highlighted duplicate is an exception to investigate, rather than proof that the transaction itself is wrong.

Step 3: Display patterns visually Data bars show relative magnitudes inside cells, colour scales use different colours for different value ranges, and icon sets indicate categories such as high, medium and low performance. These tools make trends and comparisons easier to understand in large accounting worksheets and reports.

Step 4: Apply and update the rule automatically Select the relevant cells, choose Conditional Formatting, define the condition and select the desired format. For a formula-based rule, the format applies when the formula evaluates to TRUE. The spreadsheet re-evaluates the rule when the data changes, so the highlighting updates automatically and the report continues to identify the values that meet the condition.

Step 5: Conclusion Conditional formatting makes accounting data easier to analyse by automatically highlighting important amounts, comparisons and exceptions according to predefined rules.

Quick Tip to Solve: Link each use to an example: overdue balances, sales below target, duplicate invoice numbers or data bars comparing sales.

32. Explain the elements used in Payroll calculation in Excel sheet/Spreadsheet. [6 marks]

Solution:

Concept:

- Payroll is the employee-wise calculation of earnings, deductions and the net salary payable for a specified pay period.
- A spreadsheet organises payroll inputs in columns and uses formulae to calculate allowances, gross

earnings, deductions and take-home pay consistently for each employee.

Step 1: Record employee and attendance details Employee code, name, designation and department identify the person to whom the salary relates. The pay period, payable days, leave without pay and overtime hours provide the attendance inputs. Where salary depends on days worked, the applicable monthly amount is adjusted using the organisation's prescribed payable-day basis.

Step 2: Enter basic pay Basic pay is the main salary component fixed for an employee according to the appointment terms or pay scale. It forms the base for computing those allowances and deductions that are expressed as a percentage of basic pay. The basic-pay figure and any attendance adjustment must therefore be entered correctly before calculating the dependent components.

Step 3: Calculate allowances and additional earnings Dearness allowance (DA) helps compensate for changes in the cost of living and may be calculated as a percentage of basic pay. House rent allowance (HRA) provides assistance towards housing and may also be linked to basic pay. Transport or conveyance allowance assists with travel expenses; other permitted allowances, bonus, commission and overtime pay are added where applicable.

$$\begin{aligned} \text{DA} &= \text{Basic pay} \times \text{DA rate}, \\ \text{HRA} &= \text{Basic pay} \times \text{HRA rate}, \\ \text{Overtime pay} &= \text{Overtime hours} \times \text{Hourly overtime rate}. \end{aligned}$$

The rates and eligibility are taken from the relevant payroll rules, rather than assumed to be the same for every employer.

Step 4: Determine gross earnings Gross earnings are the total amounts earned before employee deductions. They include the basic pay due for the period and all applicable allowances and additional earnings. A spreadsheet can add the earnings columns with SUM.

$$\begin{aligned} \text{Gross earnings} = {} & \text{Basic pay} + \text{DA} + \text{HRA} \\ & + \text{Other allowances and earnings}. \end{aligned}$$

Step 5: Calculate employee deductions Deductions may include the employee's provident fund contribution, tax deducted at source (TDS), professional tax where applicable, insurance premium, and recovery of loans or salary advances. Provident fund is calculated on the prescribed eligible pay base at the applicable rate; TDS follows the employee's applicable tax calculation. Add the individual deduction columns to obtain total deductions. The employer's own provident fund contribution is not subtracted from the employee's gross salary as an employee deduction.

Step 6: Calculate net salary and organise the worksheet Net salary, or take-home pay, is the amount payable after all employee deductions:

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

Put each employee in a separate row, with separate columns for the earnings and deductions. Formulae referring to the appropriate input cells calculate the totals and can be copied to other employee rows. Store common rates separately and use absolute cell references where required, so copying a formula does not shift its rate reference. Column totals then show the total earnings, deductions and salary

payable for the pay period.

Step 7: Conclusion A payroll spreadsheet combines employee and attendance details, basic pay, allowances and other earnings, gross earnings, deductions and net salary. These elements provide both the employee's salary calculation and the employer's payroll totals.

Quick Tip to Solve: Arrange payroll columns in the order basic pay, allowances, gross earnings, deductions and net pay; subtract employee deductions only after adding all earnings.