CBSE Class 12 Accountancy Question Paper 2021 with Solution PDF-Set 67/1/1 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper comprises **two** parts – **Part A** and **Part 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 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 Organisations, Partnership Firms and Companies)

1. Gagan, a partner in a partnership firm withdrew ₹ 10,000 in the beginning of each quarter. For how many months would interest on drawings be charged? [1 mark]

(A) 6 months

(B) 6.5 months

(C) 7.5 months

(D) 4.5 months

Correct Answer: (C) 7.5 months

Solution:

Concept:

- Interest on equal drawings depends on how long each withdrawal remains outstanding.
- For equal quarterly drawings, the average period is the arithmetic mean of the four periods.

Step 1: List the periods The withdrawals are made at the beginning of the four quarters. They remain outstanding for 12, 9, 6 and 3 months respectively, up to the end of the accounting year. The equal amount of Rs 10,000 means each period receives the same weight.

Step 2: Calculate the average

$$\text{Average period} = \frac{12+9+6+3}{4} = \frac{30}{4} = 7.5 \text{ months}.$$

Six months applies to equal drawings spread evenly through the year; 4.5 months applies to quarter-end drawings. Neither 6 nor 6.5 months is the average here.

Step 3: Conclusion Interest on drawings is charged for an average period of 7.5 months. Correct option: (C).

Quick Tip to Solve: For beginning-of-quarter withdrawals, average the first and last periods: (12 + 3)/2.

2. At the time of admission of a partner, 'General Reserve' appearing in the Balance Sheet of the firm is transferred to the capital accounts of the following: [1 mark]

(A) Old partners in old profit sharing ratio

(B) Old partners in new profit sharing ratio

(C) All the partners in the new profit sharing ratio

(D) Old partners in sacrificing ratio

Correct Answer: (A) Old partners in old profit sharing ratio

Solution:

Concept:

- General Reserve represents accumulated profits earned before admission.

- Accumulated profits belong to the old partners in their old profit-sharing ratio.

Step 1: Identify the owners of the reserve The incoming partner did not participate in earning the existing reserve. Therefore, the reserve must be credited only to the old partners before their rights to future profits change.

Step 2: Choose the applicable ratio Use the old profit-sharing ratio, since it measures the old partners' entitlement to profits accumulated before admission. The new ratio concerns future profits. The sacrificing ratio concerns compensation for goodwill, rather than the distribution of an existing reserve.

Step 3: Conclusion General Reserve is transferred to the old partners' capital accounts in the old profit-sharing ratio. Correct option: (A).

Quick Tip to Solve: Separate accumulated profits from goodwill: reserves use the old ratio, goodwill uses sacrifice.

3. _____ is a part of Authorised Capital that is issued for subscription. [1 mark]

(A) Subscribed Capital

(B) Called-up Capital

(C) Issued Capital

(D) Paid-up Capital

Correct Answer: (C) Issued Capital

Solution:

Concept:

- Authorised capital is the maximum share capital permitted by the memorandum.
- Issued capital is the portion of authorised capital offered for subscription.

Step 1: Apply the definition The question describes capital that the company has issued for subscription. This is issued capital, irrespective of whether investors subscribe to the whole amount offered.

Step 2: Distinguish the other terms Subscribed capital is the part actually taken up by subscribers. Called-up capital is the amount demanded on subscribed shares. Paid-up capital is the amount actually received against calls. These terms refer to later stages and do not define the amount offered for subscription.

Step 3: Conclusion The blank is Issued Capital. Correct option: (C).

Quick Tip to Solve: Track the sequence: authorised, issued, subscribed, called-up, and paid-up capital.

4. Income and Expenditure Account is prepared by Not-for-Profit Organisations on _____ basis. (Cash/Accrual) [1 mark]

Solution:

Concept:

- The Income and Expenditure Account measures the surplus or deficit for the current accounting period.
- Accrual accounting recognises income when earned and expenses when incurred.

Step 1: Identify the recognition basis A not-for-profit organisation records the revenue income earned and revenue expenses incurred during the current year, regardless of when the cash is received or paid. Thus, the account follows the accrual basis.

Step 2: Explain the adjustments Outstanding expenses are included and prepaid expenses are excluded from the current period's expense. Similarly, accrued income is included and income received in advance is excluded. The Receipts and Payments Account, in contrast, records cash movements.

Step 3: Conclusion Income and Expenditure Account is prepared on the accrual basis.

Quick Tip to Solve: For Income and Expenditure Account, adjust cash amounts for outstanding and advance items.

5. Kiran Limited purchased machinery for ₹ 12,00,000 from Rohan Limited. The company paid the amount by issue of equity shares of ₹ 10 each at a premium of 20%. The number of shares to be issued to Rohan Limited will be: [1 mark]

(A) 1,80,000 shares

(B) 1,50,000 shares

(C) 1,20,000 shares

(D) 1,00,000 shares

Correct Answer: (D) 1,00,000 shares

Solution:

Concept:

- Issue price equals face value plus securities premium per share.
- Number of shares equals purchase consideration divided by the issue price.

Step 1: Find the issue price The premium is calculated on face value:

$$\text{Premium} = 10 \times \frac{20}{100} = \text{Rs } 2, \qquad \text{Issue price} = 10 + 2 = \text{Rs } 12.$$

Step 2: Calculate the shares

$$\text{Shares issued} = \frac{12,00,000}{12} = 1,00,000.$$

Dividing only by the face value would incorrectly give 1,20,000 shares. The alternatives 1,50,000 and 1,80,000 also fail because their value at Rs 12 per share exceeds the machinery consideration.

Step 3: Conclusion Kiran Limited issues $1,00,000$ equity shares. Correct option: (D).

Quick Tip to Solve: Divide the purchase price by Rs 12, including premium, rather than by the Rs 10 face value.

6. At the time of dissolution of a partnership firm, a creditor worth ₹ 90,500 took away stock worth ₹ 77,775 in full settlement. Which of the following will be the accounting entry for the same? [1 mark]

(A) Realisation Account Dr. ₹ 90,500; To Bank Account ₹ 90,500

(B) Realisation Account Dr. ₹ 77,775; To Bank Account ₹ 77,775

(C) Creditor's Account Dr. ₹ 77,775; To Bank Account ₹ 77,775

(D) No entry

Correct Answer: (D) No entry

Solution:

Concept:

- On dissolution, assets and external liabilities are transferred to Realisation Account.
- No separate entry is passed when a creditor accepts a recorded asset in settlement of the debt.

Step 1: Identify the transaction The creditor of Rs 90,500 accepts stock of Rs 77,775 in full settlement. Both the creditor balance and the stock have already been transferred to Realisation Account under the usual dissolution procedure.

Step 2: Check the options No cash or bank payment occurs when the stock is handed over. Therefore, each entry involving Bank Account in options (A), (B) and (C) is inappropriate. The difference between the liability and the book value of stock is absorbed through the overall balance of Realisation Account; it does not require another settlement entry.

Step 3: Conclusion No additional entry is passed for the creditor taking stock in full settlement. Correct option: (D).

Quick Tip to Solve: After transfer to Realisation Account, a creditor taking a recorded asset needs no separate entry.

7. Shiv, Mohan and Hari were partners sharing profits in the ratio of 2 : 1 : 1. Mohan died on 31st March, 2020. Profit earned by the firm for the year ended 31st March, 2020 was ₹ 1,44,000. Amount of profit to be credited to Mohan's Capital Account will be: [1 mark]

(A) ₹ 72,000

(B) ₹ 3,600

(C) ₹ 36,000

(D) ₹ 18,000

Correct Answer: (C) ₹ 36,000

Solution:

Concept:

- A partner receives profit according to the agreed profit-sharing ratio.
- When death occurs on the financial year-end, the partner is entitled to the full year's share.

Step 1: Find Mohan's fraction The ratio is $2:1:1$, so its total is $2+1+1=4$. Mohanś share is $1/4$. His death on 31 March 2020 coincides with the end of the year for which the profit is given.

Step 2: Apply the fraction

$$\text{Mohanś profit share} = 1,44,000 \times \frac{1}{4} = \text{Rs } 36,000.$$

No further time adjustment is required. Rs 72,000 is Shivś share, while Rs 3,600 and Rs 18,000 do not represent Mohanś full-year one-fourth entitlement.

Step 3: Conclusion Rs 36,000 is credited to Mohanś Capital Account. Correct option: (C).

Quick Tip to Solve: When the death date equals the financial year-end, use the entire year's profit before applying the ratio.

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8. X, Y and Z were partners in a firm sharing profits in the ratio of $1/2$, $1/3$ and $1/6$ respectively. Z decided to retire from the firm. On the date of his retirement, 'Workmen Compensation Reserve' of Rs 1,20,000 was appearing in the Balance Sheet of the firm. The claim on account of Workmen Compensation was determined at Rs 67,500. Excess of claim amount over the reserve will be: [1 mark]

(A) Debited to Revaluation Account

(B) Credited to Revaluation Account

(C) Debited to Partners' Capital Accounts

(D) Credited to Partners' Capital Accounts

Correct Answer: (A) Debited to Revaluation Account

Solution:

Concept:

- A claim is met first from the Workmen Compensation Reserve.
- Any claim exceeding the reserve is a loss debited to Revaluation Account; unused reserve belongs

to the old partners.

Step 1: Apply the rule asked in the last sentence The printed last sentence asks about an excess of the claim over the reserve. Such an excess is an uncovered liability and is therefore debited to Revaluation Account. It is not a revaluation gain and is not directly distributed to partners.

Step 2: Reconcile the printed figures The figures actually give reserve Rs 1,20,000 and claim Rs 67,500. Thus $1,20,000 - 67,500 =$ Rs $52,500$ is surplus reserve, rather than an excess claim. That actual surplus would be credited to the old partners' capital accounts in the old ratio $3 : 2 : 1$: Rs 26,250, Rs 17,500 and Rs 8,750. The figures therefore contradict the final wording; option (D) describes their surplus, while option (A) answers the printed rule about an excess claim.

Step 3: Conclusion For the excess of claim over reserve asked in the printed final sentence, the treatment is debit to Revaluation Account, option (A). The numerical data instead show surplus reserve of Rs 52,500, which would be credited to partners' capital accounts.

Quick Tip to Solve: First compare claim with reserve: excess claim is a revaluation loss; excess reserve goes to old partners.

9. Which of the following is a charge against profit? [1 mark]

(A) Interest on Partners' Loan

(B) Partners' Salary

(C) Interest on Partners' Capital

(D) Interest on Partners' Drawings

Correct Answer: (A) Interest on Partners' Loan

Solution:

Concept:

- A charge against profit is deducted in determining profit, even if the firm has a loss.
- Appropriations distribute profit among partners after profit has been determined.

Step 1: Identify the charge Interest on a partner's loan is a financing expense. The partner provides the loan in the capacity of a lender, and the interest is charged while determining the firm's profit.

Step 2: Eliminate the other choices Partners' salary and interest on partners' capital are appropriations of profit under the partnership arrangement. Interest on drawings is charged to partners for their withdrawals and is credited in the appropriation process; it is not an expense charged against the firm's profit.

Step 3: Conclusion Interest on Partners' Loan is a charge against profit. Correct option: (A).

Quick Tip to Solve: Distinguish the partner as lender from the partner as owner: loan interest is a charge against profit.

10. In the absence of a _____ _____, mutual relations between partners are governed by the Indian Partnership Act, 1932. [1 mark]

Solution:

Concept:

- A partnership deed records the agreement between partners concerning the conduct of the business and their mutual rights and duties.
- The provisions of the Indian Partnership Act, 1932 apply where the partners have not agreed otherwise.

Step 1: Identify the document The two blanks ask for the name of the agreement that specifies how partners deal with one another. That document is the partnership deed.

Step 2: Apply the default rule When a partnership deed is absent, the statutory provisions govern mutual relations. For example, the default rule is equal sharing of profits and losses; a different agreed ratio would be stated in the deed.

Step 3: Conclusion The missing words are partnership deed.

Quick Tip to Solve: Link the word "deed" with the partners' agreement; the Act supplies the default rules.

11. _____ is opened to credit the share of profit of the deceased partner, till the time of his death to his Capital Account. [1 mark]

(A) Profit and Loss Appropriation Account

(B) Profit and Loss Suspense Account

(C) Profit and Loss Account

(D) Profit and Loss Adjustment Account

Correct Answer: (B) Profit and Loss Suspense Account

Solution:

Concept:

- A deceased partner is entitled to a share of profit earned from the start of the accounting year up to the date of death.
- When the current year's final profit is not yet known, the estimated share is credited to the deceased partner's Capital Account by debiting Profit and Loss Suspense Account.

Step 1: Identify the temporary account Profit and Loss Suspense Account temporarily records the deceased partner's estimated profit share pending the final determination of the firm's current-year profit.

Step 2: Check the other options Profit and Loss Appropriation Account distributes determined profits; Profit and Loss Account determines the business profit; Profit and Loss Adjustment Account records revaluation adjustments. None is the temporary account required here.

Step 3: Conclusion The account is Profit and Loss Suspense Account. Hence, the correct option is (B).

Quick Tip to Solve: For an estimated profit share up to death, remember the temporary Profit and Loss Suspense Account.

12. A and B are partners in a firm sharing profits in the ratio of 3 : 2. C was admitted as a new partner. A surrendered 1/4th of his share and B surrendered 1/3rd of his share in favour of C. The new profit sharing ratio will be: [1 mark]

(A) 27 : 16 : 15

(B) 27 : 16 : 17

(C) 27 : 16 : 14

(D) 27 : 16 : 13

Correct Answer: (B) 27 : 16 : 17

Solution:

Concept:

- A partner's sacrifice is the stated fraction of that partner's existing profit share, not of the firm's whole profit.
- New share = old share - sacrifice; the incoming partner receives the total sacrifice of the old partners.

Step 1: Find A and B's remaining shares A's old share is $3/5$, so the remaining share is $\frac{3}{5} \times \frac{3}{4} = \frac{9}{20} = \frac{27}{60}$. B's remaining share is $\frac{2}{5} \times \frac{2}{3} = \frac{4}{15} = \frac{16}{60}$.

Step 2: Find C's share and compare options C receives $\frac{3}{5} \times \frac{1}{4} + \frac{2}{5} \times \frac{1}{3} = \frac{3}{20} + \frac{2}{15} = \frac{17}{60}$. Thus the numerators must total 60. The C shares 15, 14 and 13 in options (A), (C) and (D) do not complete the whole after retaining 27 and 16.

Step 3: Conclusion The new profit sharing ratio is $\boxed{27 : 16 : 17}$. Hence, the correct option is (B).

Quick Tip to Solve: Multiply the surrendered fraction by each partner's old share before subtracting it.

13. Super-profit is equal to _____ less _____. [1 mark]

(A) Actual Profit; Normal Profit

(B) Normal Profit; Actual Profit

(C) Average Profit; Net Assets

(D) Assets; Outside Liabilities

Correct Answer: (A) Actual Profit; Normal Profit

Solution:

Concept:

- Super profit is the excess of the firm's actual maintainable profit over the normal profit expected on its capital employed.
- Normal profit is calculated as capital employed multiplied by the normal rate of return, divided by 100.

Step 1: Apply the definition

$$\text{Super profit} = \text{Actual profit} - \text{Normal profit}.$$

The order matters: it measures the excess earned above the normal return, rather than the shortfall.

Step 2: Compare the alternatives Option (B) reverses the subtraction and gives the negative of super profit. Option (C) subtracts a capital amount from profit, which is not the definition. Option (D), assets less outside liabilities, gives net assets or capital employed rather than super profit.

Step 3: Conclusion The blanks are $\boxed{\text{Actual Profit; Normal Profit}}$. Hence, the correct option is (A).

Quick Tip to Solve: For super profit, start with actual earnings and subtract the normal return on capital employed.

14(a). From the following information, calculate the amount of medicines consumed during the year that would appear in the Income and Expenditure Account for the year ended 31st March, 2020:

Particulars	Amount (₹)
Stock of Medicines on 1.4.2019	1,50,000
Creditors for Medicines on 1.4.2019	60,000
Stock of Medicines on 31.3.2020	1,90,000
Creditors for Medicines on 31.3.2020	24,000
Amount paid for Medicines during the year	5,00,000

[3 marks]

Solution:

Concept:

- Income and Expenditure Account records the cost of medicines consumed during the accounting year on the accrual basis.
- Purchases = cash paid for medicines + closing creditors - opening creditors. Consumption = opening stock + purchases - closing stock.

Step 1: Convert the payment into purchases The Rs 5,00,000 paid includes settlement of Rs 60,000 owed at the beginning of the year. That settlement is not a current-year purchase. Conversely, Rs 24,000 still payable at the end relates to purchases whose payment is pending. Therefore,

$$\begin{aligned}\text{Purchases} &= 5,00,000 + 24,000 - 60,000 \\ &= \text{Rs } 4,64,000.\end{aligned}$$

Step 2: Adjust for opening and closing stock Opening medicines are available for use during this year, so add them to purchases. Closing medicines remain unused, so deduct their cost.

$$\begin{aligned}\text{Medicines consumed} &= 1,50,000 + 4,64,000 - 1,90,000 \\ &= \text{Rs } 4,24,000.\end{aligned}$$

The increase in stock is Rs 40,000; hence consumption is Rs 40,000 below purchases.

Step 3: Determine the Income and Expenditure charge The Income and Expenditure Account is debited with the cost used in providing services during the year. It is not debited with the entire cash payment because the payment includes old creditors and excludes unpaid current purchases. The unused closing medicines remain an asset, while closing creditors remain a liability.

Step 4: Conclusion For the year ended 31st March, 2020, medicines consumed of $\boxed{\text{Rs } 4,24,000}$ will appear on the expenditure side of the Income and Expenditure Account.

Quick Tip to Solve: First turn payment into purchases using creditors; then turn purchases into consumption using stock.

OR

14(b). From the following information, calculate the amount of subscriptions to be credited to the Income and Expenditure Account for the year ended 31st March, 2020:

Particulars	Amount (₹)
Subscriptions received during the year	1,60,000
Subscriptions outstanding on 31st March, 2020	11,600
Subscriptions outstanding on 31st March, 2019	38,000
Subscriptions received in advance on 31st March, 2020	9,000
Subscriptions received in advance on 31st March, 2019	17,000

[3 marks]

Solution:

Concept:

- Subscription income is recognised for the year to which it relates, whether received in cash or outstanding.
- Current-year subscription income = receipts + closing outstanding - opening outstanding - closing advance + opening advance.

Step 1: Adjust receipts for outstanding subscriptions Begin with cash subscriptions of Rs 1,60,000. Add Rs 11,600 outstanding on 31st March, 2020 because this year's income includes amounts still due. Deduct Rs 38,000 outstanding on 31st March, 2019 because its collection relates to the preceding year. The resulting subtotal is

$$1,60,000 + 11,600 - 38,000 = \text{Rs } 1,33,600.$$

Step 2: Adjust receipts for advance subscriptions Deduct Rs 9,000 received in advance at 31st March, 2020 because it belongs to a future period. Add Rs 17,000 received in advance at 31st March, 2019 because it now relates to the current accounting year even though received earlier.

$$1,33,600 - 9,000 + 17,000 = \text{Rs } 1,41,600.$$

Step 3: Check the accrual calculation The complete calculation is

$$\begin{aligned}\text{Subscription income} &= 1,60,000 + 11,600 - 38,000 \\ &\quad - 9,000 + 17,000 \\ &= \text{Rs } 1,41,600.\end{aligned}$$

Opening outstanding and closing advance are excluded from this year's income; closing outstanding and opening advance are included. Thus each timing adjustment is counted once.

Step 4: Conclusion Subscriptions to be credited to the Income and Expenditure Account for the year ended 31st March, 2020 are $\boxed{\text{Rs } 1,41,600}$.

Quick Tip to Solve: For subscriptions, add closing outstanding and opening advance; subtract the other two balances.

15(a). P, Q and R were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. The partnership deed provides for charging interest on drawings @ 10% p.a. The drawings of P, Q and R during the year ending 31st March, 2020 amounted to ₹ 20,000, ₹ 30,000 and ₹ 50,000 respectively. After the final accounts have been prepared, it was discovered that interest on drawings had not been charged. Pass the necessary adjustment entry to rectify the omission of interest on drawings. Also show your working notes clearly. [4 marks]

Solution:

Concept:

- Interest on drawings is charged to each partner and increases the profit available for distribution in the profit-sharing ratio.
- When annual drawings are given without dates, use an average period of six months: interest = drawings $\times 10/100 \times 6/12$.
- After final accounts have been prepared, a single adjustment entry corrects the net effect in the capital accounts.

Step 1: Calculate the omitted interest No withdrawal dates are specified, so use the average period of six months for all three partners.

$$\begin{aligned}P &: 20,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,000, \\ Q &: 30,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,500, \\ R &: 50,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 2,500.\end{aligned}$$

Total omitted interest is Rs 5,000. These amounts should have been debited individually to P, Q and R respectively.

Step 2: Determine the net adjustment The interest charge increases distributable profit by Rs 5,000. Divide it in the ratio $5:3:2$: P receives Rs 2,500, Q Rs 1,500 and R Rs 1,000.

Particulars (Rs)	P	Q	R
Interest debit	1,000	1,500	2,500
Profit share credit	2,500	1,500	1,000
Net correction	1,500 Cr.	Nil	1,500 Dr.

Q's debit and credit cancel. R received Rs 1,500 too much, while P received Rs 1,500 too little. The total net debit equals the total net credit, so only these two capital accounts need correction.

Step 3: Record the adjustment entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2020	R's Capital A/c Dr.		1,500	
	To P's Capital A/c			1,500
	(Being omitted interest on drawings and the corresponding profit-sharing effect adjusted through capital accounts)			

Step 4: Conclusion Debit R's Capital Account and credit P's Capital Account by Rs 1,500 each. Q requires no adjustment.

Quick Tip to Solve: Compare each interest debit with the partner's share of total interest credited, and journalise only the net balances.

OR

15(b). W, X and Y were partners sharing profits and losses in the ratio of 2 : 2 : 1. X was guaranteed a profit of ₹ 10,00,000. The firm earned a profit of ₹ 17,50,000 for the year ended 31st March, 2020. Prepare the Profit and Loss Appropriation Account of W, X and Y for the year ended 31st March, 2020. [4 marks]

Solution:

Concept:

- A guaranteed partner receives at least the guaranteed amount. First calculate normal profit shares, then find the deficiency.
- When the firm gives the guarantee and no individual guarantor is specified, the other partners bear the deficiency in their mutual profit-sharing ratio.

Step 1: Calculate the normal shares of profit The profit of Rs 17,50,000 is initially divisible among W, X and Y in the ratio $2:2:1$. The sum of the ratio terms is 5.

$$W: 17,50,000 \times \frac{2}{5} = \text{Rs } 7,00,000,$$
$$X: 17,50,000 \times \frac{2}{5} = \text{Rs } 7,00,000,$$
$$Y: 17,50,000 \times \frac{1}{5} = \text{Rs } 3,50,000.$$

These are the normal shares before applying X's guarantee. Their sum is exactly the firm's profit.

Step 2: Apply the guarantee and allocate the deficiency X must receive Rs 10,00,000, but the normal share is only Rs 7,00,000. The deficiency is therefore

$$10,00,000 - 7,00,000 = \text{Rs } 3,00,000.$$

No particular partner is stated to have given the guarantee. W and Y therefore bear it in their mutual ratio $2:1$. W bears $3,00,000 \times 2/3 = \text{Rs } 2,00,000$, and Y bears $3,00,000 \times 1/3 = \text{Rs } 1,00,000$. Hence W's adjusted share is Rs 5,00,000; X's is Rs 10,00,000; Y's is Rs 2,50,000. These shares total Rs 17,50,000, so the guarantee redistributes the profit without changing its total.

Step 3: Prepare the Profit and Loss Appropriation Account Profit and Loss Appropriation Account of W, X and Y
for the year ended 31st March, 2020

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To W's Capital A/c	5,00,000	By Profit and Loss A/c	17,50,000	
	To X's Capital A/c	10,00,000	(Net profit)		
	To Y's Capital A/c	2,50,000			
	Total	17,50,000	Total	17,50,000	

The entire profit is appropriated to the partners; consequently there is no closing balance to carry down in this account.

Step 4: Conclusion Final profit shares: W Rs 5,00,000; X Rs 10,00,000; Y Rs 2,50,000. The Profit and Loss Appropriation Account totals Rs 17,50,000 on each side.

Quick Tip to Solve: Find X's normal share first; split only the Rs 3,00,000 deficiency between W and Y in their mutual ratio of 2:1.

16. On 1st April, 2019, Chetan Ltd. was formed with an authorised capital of ₹ 22,50,000 divided into 22,500 equity shares of ₹ 100 each. The company invited applications for 18,750 equity shares. The amount payable was as follows:

Instalment	Amount per share
On application	₹ 30
On allotment	₹ 40
On first and final call	₹ 30

The issue was fully subscribed and the company allotted shares to all applicants. All money was received except the first and final call on 3,500 shares.

(i) Present the share capital in the Balance Sheet of the company as per Schedule III Part I of the Companies Act, 2013.

(ii) Also prepare 'Notes to Accounts' for the same. [4 marks]

Solution:

Concept:

- Authorised capital is the maximum nominal capital permitted by the memorandum; issued capital is the nominal value offered for subscription.
- Subscribed capital is classified into fully paid and not fully paid shares. Calls unpaid are deducted from the called-up amount on the shares concerned.

Step 1: Calculate the called-up capital and calls unpaid The issue of 18,750 shares is fully subscribed and allotted. All three instalments have been called, so the called-up amount per share is $30+40+30 =$ Rs 100.

$$\text{Subscribed and called-up capital} = 18,750 \times 100 = \text{Rs } 18,75,000,$$

$$\text{Calls unpaid} = 3,500 \times 30 = \text{Rs } 1,05,000,$$

$$\text{Paid-up capital} = 18,75,000 - 1,05,000 = \text{Rs } 17,70,000.$$

There are $18,750 - 3,500 = 15,250$ fully paid shares. The other 3,500 shares have Rs 70 each paid; the unpaid call does not cancel their allotment.

Step 2: (i) Present the Balance Sheet extract **Chetan Ltd. — Balance Sheet (Extract)**

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	17,70,000

Only the relevant share capital extract is required. The balance sheet carries the amount paid up, with the authorised and subscribed details disclosed in the note.

Step 3: (ii) Prepare the note to accounts **Notes to Accounts — Note 1: Share Capital**

Particulars	Amount (Rs)
Authorised capital: 22,500 equity shares of Rs 100 each	22,50,000
Issued capital: 18,750 equity shares of Rs 100 each	18,75,000
Subscribed capital:	
(a) Subscribed and fully paid: 15,250 equity shares of Rs 100 each	15,25,000
(b) Subscribed but not fully paid: 3,500 equity shares of Rs 100 each	3,50,000
Less: Calls unpaid on the above shares	(1,05,000)
Paid-up amount on shares not fully paid	2,45,000
Total subscribed and paid-up share capital	17,70,000

The note reconciles to $15,25,000 + 2,45,000 =$ Rs $17,70,000$, the amount shown under shareholders' funds.

Step 4: Conclusion Share capital shown in the Balance Sheet is $\boxed{\text{Rs } 17,70,000}$; calls unpaid are Rs 1,05,000.

Quick Tip to Solve: Split the 18,750 shares into 15,250 fully paid and 3,500 partly paid before preparing the note.

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

(i) Dissolution expenses were ₹ 4,000.

(ii) Machinery of the book value of ₹ 50,000 was sold in the market for ₹ 47,000 for which a commission of ₹ 500 was paid to the broker.

(iii) A creditor for ₹ 70,000 accepted stock valued at ₹ 90,000 and paid to the firm ₹ 20,000.

(iv) Loss on realisation ₹ 40,000 was divided between the partners X and Y in the ratio of 5 : 3.

[4 marks]

Solution:

Concept:

- After assets and outside liabilities are transferred, cash receipts from assets credit Realisation Account; dissolution expenses debit Realisation Account.
- An asset accepted by a creditor needs no separate entry when both have already been transferred. Any additional cash received is recorded; the final realisation loss is debited to partners in their profit-sharing ratio.

Step 1: Identify the entries and allocate the loss Dissolution expenses of Rs 4,000 are a realisation expense paid by the firm. Sale of machinery brings Rs 47,000 into Bank Account; the broker's Rs 500 commission is recorded separately as an expense. The machinery's Rs 50,000 book value has already been transferred, so it must not be credited again.

For the creditor accepting stock, both the Rs 70,000 liability and the Rs 90,000 stock have already entered Realisation Account. No further entry is made for the stock exchanged against the liability. Record only the additional Rs 20,000 received from the creditor.

$$\text{X's loss} = 40,000 \times \frac{5}{8} = \text{Rs } 25,000, \qquad \text{Y's loss} = 40,000 \times \frac{3}{8} = \text{Rs } 15,000.$$

The stated final loss is used directly; it is not recalculated from these selected transactions.

Step 2: Record the necessary journal entries **Journal of X and Y**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	(i) Realisation A/c Dr. To Bank A/c (Being dissolution expenses paid)		4,000	 4,000
	(ii) Bank A/c Dr. To Realisation A/c (Being machinery sold for cash)		47,000	 47,000
	Realisation A/c Dr. To Bank A/c (Being broker's commission paid on machinery sale)		500	 500
	(iii) Bank A/c Dr. To Realisation A/c (Being excess received from creditor taking stock in settlement)		20,000	 20,000
	(iv) X's Capital A/c Dr. Y's Capital A/c Dr. To Realisation A/c (Being realisation loss transferred to partners in the ratio 5:3)		25,000 15,000	 40,000

Bank is used for the firm's cash receipts and payments. Each entry balances independently; the final entry closes the debit balance representing the realisation loss.

Step 3: Conclusion The realisation loss is charged to X and Y as Rs 25,000 and Rs 15,000 respectively; the entries above record all four transactions.

Quick Tip to Solve: Once assets and creditors are transferred, record only cash in an asset-for-creditor settlement; do not transfer them twice.

18. State whether the claim is valid if the partnership deed is silent in the following cases, give reason in support of your answer:

(i) Anil and Priya are partners in a firm. Anil had advanced a loan to the firm. He claims interest @ 9% p.a.

(ii) S and V are partners in a firm. S wants interest on capital @ 8% p.a. [4 marks]

Solution:

Concept:

- Where the partnership deed is silent, the Indian Partnership Act, 1932 applies. Interest on a partner's loan to the firm differs from interest on the partner's capital contribution.
- A partner receives interest at 6% per annum on a loan or advance beyond the agreed capital. Interest on capital requires an agreement between the partners.

Step 1: (i) Examine Anil's claim on his loan Anil has lent money to the firm, so his advance is a loan, separate from his capital contribution. Since the deed does not specify a loan interest rate, the statutory rate of 6% per annum applies. His claim for interest at 9% per annum is therefore not valid.

He can claim interest only at 6% per annum on the amount advanced for the period for which it remains outstanding. Interest on a partner's loan is a charge against profit, payable even if the firm incurs a loss; it is not an appropriation conditional upon profits.

Step 2: (ii) Examine S's claim on capital S claims interest on capital at 8% per annum. Unlike interest on a partner's loan, interest on capital is not an automatic entitlement. It requires an agreement between the partners. The deed is silent, so S's claim is invalid and no interest on capital is allowed. Even if the firm earns sufficient profits, that fact alone does not create an entitlement to interest on capital. The statutory loan rate cannot be applied to capital because the two amounts have different legal and accounting treatment.

Step 3: Conclusion (i) Anil's claim at 9% p.a. is invalid; his loan carries interest at 6% p.a. (ii) S's claim at 8% p.a. is invalid; no interest on capital is allowed when the deed is silent.

Quick Tip to Solve: Identify loan versus capital first: when the deed is silent, a partner's loan attracts 6% p.a., whereas capital attracts no interest.

19. From the following Receipts and Payments Account of Cool Club, prepare Income and Expenditure Account for the year ended 31st March, 2020:

Receipts and Payments Account of Cool Club for the year ended 31st March, 2020

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	42,500	By Salaries	33,500
To Subscriptions: 2018–19 ₹ 1,500; 2019–20 ₹ 60,000; 2020–21 ₹ 1,800	63,300	By Printing	23,000
To Proceeds from Charity Show (Included ₹ 1,700 of last year)	81,700	By Sports Material	21,000
		By Furniture (1.10.2019)	20,000
		By 10% Investments (1.10.2019)	70,000
		By Balance c/d	20,000
Total	1,87,500	Total	1,87,500

Additional Information: Depreciation to be provided @ 20% p.a. on furniture. [6 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue income and expenses of the current accounting year on the accrual basis. Opening and closing cash balances and purchases of capital assets are excluded.
- Depreciation is charged for the period the asset is held. Interest earned on investments is recognised even when it has not yet been received in cash.

Step 1: Determine the revenue income for 2019–20 Of subscriptions received, Rs 1,500 relates to 2018–19 and Rs 1,800 is received in advance for 2020–21. Neither belongs to the current year's

income. Thus, subscriptions credited to this year's account are Rs 60,000.

$$\text{Charity show income} = 81,700 - 1,700 = \text{Rs } 80,000.$$

The Rs 1,700 relating to last year is excluded. Investments of Rs 70,000 were purchased on 1 October 2019, so interest has accrued for six months up to 31 March 2020:

$$\text{Accrued interest} = 70,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 3,500.$$

This is current revenue income even though no receipt of interest appears in the cash account.

Step 2: Determine current expenses and exclude capital payments Salaries of Rs 33,500, printing of Rs 23,000 and sports material of Rs 21,000 are charged as current revenue expenses, since no outstanding, prepaid or unused-stock adjustment is supplied. Furniture purchased for Rs 20,000 and investments purchased for Rs 70,000 are capital payments and are not themselves expenses. Furniture was purchased on 1 October 2019, so depreciation is charged for six months:

$$\text{Depreciation} = 20,000 \times \frac{20}{100} \times \frac{6}{12} = \text{Rs } 2,000.$$

Opening cash of Rs 42,500 and closing cash of Rs 20,000 are balances of an asset and are excluded from this account.

Step 3: Prepare the Income and Expenditure Account **Cool Club**

Income and Expenditure Account for the year ended 31 March 2020

Expenditure	Amount (Rs)	Income	Amount (Rs)
To Salaries	33,500	By Subscriptions	60,000
To Printing	23,000	By Charity show	80,000
To Sports material	21,000	By Interest on investments (accrued)	3,500
To Depreciation on furniture	2,000		
To Surplus (excess of income over expenditure)	64,000		
Total	1,43,500	Total	1,43,500

Revenue expenses total Rs 79,500. The balancing surplus is transferred to the capital fund.

Step 4: Conclusion Cool Club's total revenue income is Rs 1,43,500 and total revenue expenditure is Rs 79,500. The surplus for the year ended 31 March 2020 is therefore $1,43,500 - 79,500 = \text{Rs } 64,000$.

Quick Tip to Solve: Use only the current year's subscriptions, remove last year's charity proceeds, and calculate both investment interest and furniture depreciation for six months.

20. (i) Anand Ltd. purchased machinery worth ₹ 3,15,000 from Mahima Ltd. The payment was made by issue of 10% debentures of ₹ 100 each issued at a discount of 10%. Pass the necessary journal entries for purchase of machinery and issue of debentures in the books of Anand Ltd.

(ii) Manas Ltd. issued 10,000, 7% debentures of ₹ 100 each at a premium of 10% redeemable at a premium of 10%, after 6 years. Pass the necessary journal entries in the books of Manas Ltd. regarding issue of debentures. [6 marks]

Solution:

Concept:

- A vendor is credited with the purchase price of machinery. On settlement by debentures, the vendor is debited with the issue proceeds, while Debentures Account is credited with the nominal value.
- Discount on issue is the difference between face value and issue price. Premium payable on redemption is a loss at the time of issue; securities premium received on issue is credited separately.

Step 1: Calculate the debentures issued by Anand Ltd. The issue price of each debenture is $100 - 10 = \text{Rs } 90$. Hence the number issued is $3,15,000/90 = 3,500$. Their nominal value is $3,500 \times 100 = \text{Rs } 3,50,000$, and the discount is $3,500 \times 10 = \text{Rs } 35,000$. The rate of interest, 10%, does not affect the number of debentures issued to discharge the purchase consideration.

Step 2: Record purchase and settlement in Anand Ltd. Journal of Anand Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Machinery A/c Dr. To Mahima Ltd. (Being machinery purchased on credit)		3,15,000	 3,15,000
	Mahima Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 10% Debentures A/c (Being 3,500 debentures of Rs 100 issued at 10% discount to settle the vendor)		3,15,000 35,000	 3,50,000

Step 3: Calculate the issue and redemption amounts for Manas Ltd. The nominal value issued is $10,000 \times 100 = \text{Rs } 10,00,000$. Issue premium is $10\% \times 10,00,000 = \text{Rs } 1,00,000$, so cash received is Rs 11,00,000. Redemption premium is also Rs 1,00,000 and is recognised as Loss on Issue of Debentures at issue. These two premiums are recorded separately even though their amounts coincide. The six-year term specifies when redemption occurs; no redemption entry is required now.

Step 4: Record the issue in Manas Ltd. Journal of Manas Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application and allotment money received)		11,00,000	 11,00,000
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 7% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being 10,000 debentures of Rs 100 issued at 10% premium, redeemable at 10% premium after six years)		11,00,000 1,00,000	 10,00,000 1,00,000 1,00,000

Step 5: Conclusion Anand Ltd. issues 3,500 debentures; Manas Ltd. receives Rs 11,00,000 and recognises Rs 1,00,000 premium payable on redemption.

Quick Tip to Solve: Divide the vendor consideration by the issue price, not face value; record issue premium and redemption premium separately.

21(a). R and S were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2020 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals: R ₹ 60,000; S ₹ 40,000	1,00,000	Cash at Bank	10,000
General Reserve	20,000	Debtors ₹ 65,000 less Provision for Doubtful Debts ₹ 5,000	60,000
Creditors	20,000	Stock	20,000
Bills Payable	20,000	Machinery	50,000
		Land and Building	20,000
Total	1,60,000	Total	1,60,000

M was admitted on the above date as a new partner for 1/5th share in the profits of the firm. The terms of agreement were as follows:

(i) M will bring ₹ 80,000 as his capital and ₹ 60,000 as his share of goodwill premium.

(ii) Machinery was revalued at ₹ 45,000.

(iii) Stock will be reduced by 10% and Land and Building will be appreciated by 40%.

Prepare Revaluation Account and Partners' Capital Accounts. [8 marks]

Solution:

Concept:

- Revaluation profit and existing reserves belong to the old partners and are credited in their old profit-sharing ratio, here $3 : 2$.
- Goodwill premium brought by the incoming partner compensates the sacrificing partners. With no different arrangement stated, R and S sacrifice in their old ratio $3 : 2$. Capitals are maintained as fluctuating capital accounts since no separate current accounts are stipulated.

Step 1: Determine revaluation profit Machinery decreases by $50,000 - 45,000 = \text{Rs } 5,000$. Stock decreases by $20,000 \times 10\% = \text{Rs } 2,000$. Land and Building increases by $20,000 \times 40\% = \text{Rs } 8,000$. Consequently revaluation produces a profit of $8,000 - 5,000 - 2,000 = \text{Rs } 1,000$. R receives $1,000 \times 3/5 = \text{Rs } 600$, and S receives $1,000 \times 2/5 = \text{Rs } 400$. Debtors and their existing provision are unchanged because the terms require no adjustment to them.

Step 2: Prepare the Revaluation Account Revaluation Account as at 31st March, 2020

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Machinery A/c	5,000	By Land and Building A/c	8,000
To Stock A/c	2,000		
To R's Capital A/c	600		
To S's Capital A/c	400		
Total	8,000	Total	8,000

All revaluation profit is transferred to the old partners, so this temporary account closes without any balance carried forward.

Step 3: Allocate reserve and goodwill General Reserve of Rs 20,000 is credited to R and S at Rs 12,000 and Rs 8,000 respectively. M brings capital of Rs 80,000 and a separate goodwill premium of Rs 60,000. Since M acquires one-fifth and R and S retain their relative shares, their new shares are $3/5 \times 4/5 = 12/25$ and $2/5 \times 4/5 = 8/25$. M's share is $5/25$; thus the new ratio is $12 : 8 : 5$. The sacrifices are $3/25$ and $2/25$, so the premium is credited to R and S at Rs 36,000 and Rs 24,000. No withdrawal of goodwill is specified; these credits remain in their capital accounts. The total bank receipt is Rs 1,40,000, comprising both capital and premium.

Step 4: Prepare the Partners capital accounts Partners' Capital Accounts as at 31st March, 2020

Dr. Particulars	R (Rs)	S (Rs)	M (Rs)	Particulars	R (Rs)	S (Rs)	M (Rs) Cr.
To Balance c/d	1,08,600	72,400	80,000	By Balance b/d	60,000	40,000	–
				By General Reserve	12,000	8,000	–
				By Revaluation A/c	600	400	–
				By Premium for Goodwill A/c	36,000	24,000	–
				By Bank A/c	–	–	80,000
Total	1,08,600	72,400	80,000	Total	1,08,600	72,400	80,000

The closing capitals total Rs 2,61,000. This equals opening capitals Rs 1,00,000 plus reserve Rs 20,000, revaluation profit Rs 1,000, goodwill premium Rs 60,000 and M's capital Rs 80,000. The goodwill premium is not counted as M's capital: it is compensation belonging to R and S.

Step 5: Conclusion Revaluation profit is Rs 1,000. Closing capitals are R: Rs 1,08,600; S: Rs 72,400; M: Rs 80,000.

Quick Tip to Solve: Credit old reserves and revaluation to old partners first; distribute goodwill in the sacrificing ratio, then balance each capital column.

OR

21(b). X, Y and Z were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2020 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	66,500	Land	3,00,000
Bills Payable	10,000	Furniture	10,000
Profit and Loss Account	22,500	Stock	20,000
Provision for Legal Claims	57,500	Debtors ₹ 20,000 less Provision for Doubtful Debts ₹ 500	19,500
Capitals: X ₹ 1,20,000; Y ₹ 97,000; Z ₹ 71,000	2,88,000	Patents	45,000
		Bank	50,000
Total	4,44,500	Total	4,44,500

On the above date, Z retired. The terms of retirement were:

(i) Goodwill of the firm was valued at ₹ 80,000.

(ii) Land will be appreciated by 10% and furniture will be depreciated by 5%.

(iii) Provision for legal claims will be made at ₹ 61,000.

(iv) ₹ 90,000 from Z's capital account will be transferred to his Loan Account and the balance will be paid to him by cheque.

Prepare Revaluation Account and Partners' Capital Accounts. [8 marks]

Solution:

Concept:

- Revaluation profit and accumulated profits belong to all partners in their old profit-sharing ratio, $5:3:2$. Only changes in asset and liability values enter Revaluation Account.
- On retirement, the continuing partners compensate the retiring partner for his share of goodwill in their gaining ratio. When no new ratio is specified, X and Y continue in $5:3$, which is also their gaining ratio.
- The amount due to Z is settled by transfer to his Loan Account and payment of the remaining balance through Bank Account.

Step 1: Calculate revaluation adjustments Land appreciation is $3,00,000 \times 10\% = \text{Rs } 30,000$. Furniture depreciation is $10,000 \times 5\% = \text{Rs } 500$. The provision for legal claims increases by $61,000 - 57,500 = \text{Rs } 3,500$; only this increase is charged to revaluation.

$$\text{Revaluation profit} = 30,000 - 500 - 3,500 = \text{Rs } 26,000.$$

The profit is credited to X, Y and Z as Rs 13,000, Rs 7,800 and Rs 5,200 respectively. The existing credit balance of Profit and Loss Account, Rs 22,500, is distributed separately as Rs 11,250, Rs 6,750 and Rs 4,500. It is not revaluation income.

Step 2: Adjust goodwill without raising a goodwill asset Z's share of goodwill is $80,000 \times 2/10 =$ Rs $16,000$. X's gain is $5/8 - 5/10 = 1/8$, and Y's gain is $3/8 - 3/10 = 3/40$. Thus the gaining ratio is $5 : 3$. Debit X's Capital Account by $16,000 \times 5/8 =$ Rs $10,000$, debit Y's Capital Account by Rs 6,000, and credit Z's Capital Account by Rs 16,000. No goodwill asset is retained.

Step 3: Prepare Revaluation Account Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Furniture	500	By Land	30,000
To Provision for legal claims	3,500		
To X's Capital	13,000		
To Y's Capital	7,800		
To Z's Capital	5,200		
Total	30,000	Total	30,000

The account closes by transferring the full profit to the partners, so its two totals agree.

Step 4: Prepare Partners Capital Accounts and settle Z X's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Z's Capital	10,000	By Balance b/d	1,20,000
To Balance c/d	1,34,250	By Profit and Loss	11,250
		By Revaluation	13,000
Total	1,44,250	Total	1,44,250

Y's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Z's Capital	6,000	By Balance b/d	97,000
To Balance c/d	1,05,550	By Profit and Loss	6,750
		By Revaluation	7,800
Total	1,11,550	Total	1,11,550

Z's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Z's Loan	90,000	By Balance b/d	71,000
To Bank	6,700	By Profit and Loss	4,500
		By Revaluation	5,200
		By X's Capital	10,000
		By Y's Capital	6,000
Total	96,700	Total	96,700

Z's total entitlement is $71,000 + 4,500 + 5,200 + 16,000 =$ Rs $96,700$. After transferring Rs 90,000 to his loan, the cheque payment is $96,700 - 90,000 =$ Rs $6,700$. X and Y carry forward their remaining credit balances.

Step 5: Conclusion Revaluation profit is Rs 26,000. Closing capitals are X: Rs 1,34,250 and Y: Rs 1,05,550. Z receives a loan credit of Rs 90,000 and a cheque for Rs 6,700.

Quick Tip to Solve: Keep the existing Profit and Loss balance out of Revaluation Account; distribute both profits separately in the old ratio.

22(a). Anurag Ltd. invited applications for issuing 1,00,000 equity shares of ₹ 10 each at a premium of 10%. The amount was payable as follows:

Instalment	Amount per share
On application	₹ 3
On allotment	₹ 3 (including premium)
On first call	₹ 2
On second and final call	Balance

Applications for 1,50,000 shares were received. The directors decided to reject applications for 50,000 shares and to refund the excess application money in full. Gopal, holding 600 shares, failed to pay the first call and the second and final call.

Pass the necessary journal-entries for the above transactions in the books of Anurag Ltd. Open Calls-in-Arrears Account, wherever necessary. [8 marks]

Solution:

Concept:

- Share application money on rejected applications is refunded in full. Accepted application money is transferred to Share Capital Account.
- The premium is 10% of the Rs 10 face value, i.e. Rs 1 per share, and forms part of allotment. Thus allotment credits capital by Rs 2 and securities premium by Rs 1 per share.
- Calls-in-Arrears Account is debited for calls due but unpaid. The associated call accounts are credited for the full amount due, including the unpaid portion.

Step 1: Determine instalments and receipts The issue price is $10 + 1 =$ Rs 11. The second and final call per share is $11 - 3 - 3 - 2 =$ Rs 3. Application receipts are $1,50,000 \times 3 =$ Rs $4,50,000$; rejected applications require refund of $50,000 \times 3 =$ Rs $1,50,000$. The accepted 1,00,000 shares contribute Rs 3,00,000 to share capital at application. Allotment due and received is Rs 3,00,000, consisting of Rs 2,00,000 capital and Rs 1,00,000 premium. First call due is Rs 2,00,000, with arrears $600 \times 2 =$ Rs $1,200$ and cash received Rs 1,98,800. Final call due is Rs 3,00,000, with arrears $600 \times 3 =$ Rs $1,800$ and cash received Rs 2,98,200.

Step 2: Record application and allotment Journal of Anurag Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,50,000 shares)		4,50,000	 4,50,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Application A/c Dr. To Share Capital A/c To Bank A/c (Being application money on accepted shares transferred and rejected applications refunded)		4,50,000	 3,00,000 1,50,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being allotment due on 1,00,000 shares including Rs 1 premium per share)		3,00,000	 2,00,000 1,00,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Allotment A/c (Being allotment money received in full)		3,00,000	 3,00,000

Step 3: Record first and final calls Journal of Anurag Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr. To Share Capital A/c (Being first call due at Rs 2 per share)		2,00,000	 2,00,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share First Call A/c (Being first call received except on Gopal's 600 shares)		1,98,800 1,200	 2,00,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Second and Final Call A/c Dr. To Share Capital A/c (Being second and final call due at Rs 3 per share)		3,00,000	 3,00,000

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Second and Final Call A/c (Being final call received except on Gopal's 600 shares)		2,98,200 1,800	 3,00,000

Gopal paid application and allotment, so the only arrears are the two calls. No forfeiture entry is required by the stated transactions.

Step 4: Open and balance Calls-in-Arrears Account Calls-in-Arrears Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Share First Call To Share Second and Final Call	1,200 1,800	By Balance c/d	3,000
Total	3,000	Total	3,000
To Balance b/d	3,000		

As a check, total cash retained is $4,50,000 - 1,50,000 + 3,00,000 + 1,98,800 + 2,98,200 =$ Rs $10,97,000$. Adding calls in arrears of Rs 3,000 gives the total issue consideration of Rs 11,00,000. Capital called up is Rs 10,00,000 and securities premium is Rs 1,00,000.

Step 5: Conclusion The required entries and Calls-in-Arrears Account are shown above. Gopal owes

Rs 3,000 in total: Rs 1,200 on the first call and Rs 1,800 on the final call.

Quick Tip to Solve: Find the final call from the Rs 11 issue price, including premium; the unpaid call amounts are based on Gopalś 600 shares.

OR

22(b). Pass journal entries for the following transactions:

(i) AXN Ltd. forfeited 2,400 shares of ₹ 10 each for non-payment of final call of ₹ 3 per share. Out of the forfeited shares, 800 shares were reissued at ₹ 8 per share as fully paid-up.

(ii) Vanya Ltd. purchased a running business from Hardik Ltd. for a sum of ₹ 18,00,000. The payment of ₹ 10,00,000 was made by issue of equity shares of ₹ 10 each and balance by a cheque. The assets and liabilities acquired from Hardik Ltd. consisted the following:

Particulars	₹
Machinery	9,00,000
Land and Building	13,50,000
Furniture	8,50,000
Sundry Creditors	3,00,000

[8 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with called-up capital, credit the unpaid call and credit Share Forfeiture with capital already received.
- Reissue discount is debited to Share Forfeiture. Only the surplus relating to shares actually reissued is transferred to Capital Reserve.
- For purchase of a business, excess of net assets acquired over purchase consideration is Capital Reserve. Shares issued at par are credited at their face value.

Step 1: Calculate amounts for AXN Ltd. Called-up capital forfeited: $2,400 \times 10 = \text{Rs } 24,000$. Unpaid final call: $2,400 \times 3 = \text{Rs } 7,200$. Amount received and forfeited: $2,400 \times 7 = \text{Rs } 16,800$. For the 800 reissued shares, bank receives $800 \times 8 = \text{Rs } 6,400$, and discount is $800 \times 2 = \text{Rs } 1,600$. The forfeiture credit attributable to these shares is $800 \times 7 = \text{Rs } 5,600$, so the transferable surplus is $5,600 - 1,600 = \text{Rs } 4,000$.

Step 2: Record forfeiture and reissue

Journal of AXN Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		24,000	
	To Share Final Call A/c			7,200
	To Share Forfeiture A/c			16,800
	(Being 2,400 shares forfeited for non-payment of final call)			
	Bank A/c Dr.		6,400	
	Share Forfeiture A/c Dr.		1,600	
	To Share Capital A/c			8,000
	(Being 800 forfeited shares reissued as fully paid at Rs 8 each)			
	Share Forfeiture A/c Dr.		4,000	
	To Capital Reserve A/c			4,000
	(Being surplus on 800 reissued shares transferred to capital reserve)			

Step 3: Calculate Vanya Ltd. acquisition and settlement Total assets acquired are $9,00,000 + 13,50,000 + 8,50,000 =$ Rs $31,00,000$. Net assets are $31,00,000 - 3,00,000 =$ Rs $28,00,000$. Capital reserve is therefore $28,00,000 - 18,00,000 =$ Rs $10,00,000$. The share component of consideration is Rs 10,00,000, requiring $10,00,000/10 = 1,00,000$ equity shares at par. The balance paid by cheque is $18,00,000 - 10,00,000 =$ Rs $8,00,000$.

Step 4: Record purchase of business and settlement

Journal of Vanya Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Business Purchase A/c Dr.		18,00,000	
	To Hardik Ltd.			18,00,000
	(Being business purchased for the agreed consideration)			
	Machinery A/c Dr.		9,00,000	
	Land and Building A/c Dr.		13,50,000	
	Furniture A/c Dr.		8,50,000	
	To Sundry Creditors A/c			3,00,000
	To Business Purchase A/c			18,00,000
	To Capital Reserve A/c			10,00,000
	(Being assets and liabilities taken over and capital reserve recognised)			
	Hardik Ltd. Dr.		18,00,000	
	To Equity Share Capital A/c			10,00,000
	To Bank A/c			8,00,000
	(Being consideration discharged by shares and cheque)			

Step 5: Conclusion AXN Ltd. transfers Rs 4,000 to Capital Reserve; Rs 11,200 remains in Share Forfeiture for the 1,600 unreissued shares. Vanya Ltd. records Capital Reserve of Rs 10,00,000 and settles Hardik Ltd. by 1,00,000 equity shares and a cheque of Rs 8,00,000.

Quick Tip to Solve: Transfer forfeiture profit only for reissued shares; compare net assets with purchase consideration separately.

Part B (20 marks)

OPTION 1 (Analysis of Financial Statements)

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

(A) It does not consider price level changes.

(B) It is just a study of interim reports.

(C) It may be misleading without the knowledge of the changes in accounting procedures followed by a firm.

(D) It identifies the reasons for change in the financial position of the firm.

Correct Answer: (D) It identifies the reasons for change in the financial position of the firm.

Solution:

Concept:

- Financial analysis interprets accounting information to assess performance and financial position.
- A limitation restricts the reliability or completeness of analysis; identifying causes of change is a purpose and benefit.

Step 1: Examine the stated limitations Options (A), (B) and (C) describe genuine restrictions. Historical figures ignore price-level changes; financial statements are interim reports; and changes in accounting procedures can impair comparisons unless their effects are known.

Step 2: Identify the benefit Identifying the reasons for a change in financial position helps users understand the business. It is therefore an advantage of financial analysis, rather than a limitation.

Step 3: Conclusion Option (D): It identifies the reasons for change in the financial position of the firm.

Quick Tip to Solve: When a question asks for what is not a limitation, look for a useful purpose of analysis.

24. _____ will be the operating profit ratio, if the operating ratio is 83.79%. [1 mark]

Solution:

Concept:

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

Step 1: Use the complementary relationship

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

Both ratios use the same revenue from operations as their denominator.

Step 2: Substitute the given percentage

$$\text{Operating profit ratio} = 100\% - 83.79\% = 16.21\%.$$

Thus, out of every Rs 100 of revenue from operations, Rs 83.79 represents operating cost and Rs 16.21 represents operating profit.

Step 3: Conclusion The operating profit ratio is 16.21%.

Quick Tip to Solve: Subtract the operating ratio from 100; do not divide the two percentages.

25. Liquid Assets do not include: [1 mark]

(A) Trade Receivables

(B) Cash and Cash Equivalents

(C) Inventory

(D) Short-term Investments

Correct Answer: (C) Inventory

Solution:

Concept:

- Liquid assets are assets readily realisable in cash for meeting current liabilities.
- For the quick ratio, liquid assets are current assets less inventory and prepaid expenses.

Step 1: Identify the excluded current asset Inventory requires sale and, where sales are on credit, subsequent collection before it becomes cash. It is therefore excluded when calculating liquid assets.

Step 2: Check the remaining options Trade receivables are expected to be collected in cash, cash and cash equivalents are already liquid, and short-term investments can be realised readily. These three categories are included in liquid assets in the question.

Step 3: Conclusion Option (C): Inventory.

Quick Tip to Solve: For liquid assets, start with current assets and remove inventory and prepaid expenses.

26. Which of the following transactions will not result in flow of cash? [1 mark]

(A) Purchase of Building of ₹ 12,75,000 for cash

(B) Cash deposited into Bank ₹ 12,50,000

(C) Issue of Equity shares of ₹ 20,00,000 for cash

(D) Redemption of 8% Debentures of ₹ 7,50,000 for cash

Correct Answer: (B) Cash deposited into Bank ₹ 12,50,000

Solution:

Concept:

- A cash flow changes the total of cash and cash equivalents.
- A transfer between cash in hand and a bank balance changes their composition without changing their combined total.

Step 1: Analyse the bank deposit Depositing Rs 12,50,000 into bank decreases cash in hand by Rs 12,50,000 and increases cash at bank by the same amount. The net change in cash and cash equivalents is zero.

Step 2: Compare with the other transactions A cash purchase of a building is an investing outflow. An issue of equity shares for cash is a financing inflow, while cash redemption of debentures is a financing outflow. Each changes the total cash balance.

Step 3: Conclusion Option (B): Cash deposited into Bank, Rs 12,50,000.

Quick Tip to Solve: Check whether the combined total of cash and bank changes, rather than just one component.

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27. While preparing Cash Flow Statement, 'Commission and Royalty' received is shown under:

[1 mark]

(A) Financing Activity

(B) Investing Activity

(C) Operating Activity

(D) Both (B) and (C)

Correct Answer: (C) Operating Activity

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Cash receipts from fees, commissions, royalties and other operating revenue are classified as operating cash inflows.

Step 1: Identify the nature of the receipt Commission and royalty receipts arise from revenue-producing activities. They are operating receipts when preparing the cash flow statement under the standard classification used in this question.

Step 2: Eliminate the alternatives Financing activities change owners' capital or borrowings; these receipts do neither. Investing activities concern acquisition or disposal of long-term assets and investments; commission and royalty receipts are not such transactions. Consequently, the combined choice (D) is also unsuitable.

Step 3: Conclusion Option (C): Operating Activity.

Quick Tip to Solve: Classify commission and royalty receipts with revenue-producing operating receipts.

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28. Horizontal analysis is also known as _____ analysis. [1 mark]

Solution:

Concept:

- Horizontal analysis compares financial figures of the same enterprise across two or more accounting periods.
- Dynamic analysis studies changes over time, whereas static analysis examines relationships within one period.

Step 1: Identify the time basis In horizontal analysis, successive years are placed side by side. Changes in individual items are studied in absolute amounts and percentages, using an earlier period as the base.

Step 2: Name the analysis Because this comparison reveals movement in financial figures over time, horizontal analysis is called dynamic analysis. A single-period comparison would instead be static or vertical analysis.

Step 3: Conclusion Horizontal analysis is also known as dynamic analysis.

Quick Tip to Solve: Associate horizontal comparison across years with dynamic change over time.

29. _____ helps to assess the short-term solvency of a business. [1 mark]

(A) Turnover Ratio

(B) Solvency Ratio

(C) Liquidity Ratio

(D) Profitability Ratio

Correct Answer: (C) Liquidity Ratio

Solution:

Concept:

- Liquidity means the ability of a business to meet its short-term obligations as they fall due.
- Liquidity ratios compare current resources with current obligations; current ratio and quick ratio are common examples.

Step 1: Identify the relevant ratio category Short-term solvency concerns whether the enterprise can discharge its current liabilities. Liquidity ratios assess this ability by relating current assets, or readily realisable assets, to current liabilities.

Step 2: Check the remaining alternatives Turnover ratios measure how efficiently assets are used. Solvency ratios generally assess long-term financial stability, while profitability ratios measure earning capacity. Thus none of these is the specific category sought for short-term solvency.

Step 3: Conclusion Liquidity Ratio helps to assess short-term solvency. Hence, the correct option is (C).

Quick Tip to Solve: For short-term payment capacity, look for liquidity; for long-term stability, look for solvency.

30(a). The Current Ratio of a company is 2 : 1. State giving reasons, whether the following transactions would reduce, improve or not change the Current Ratio:

(i) Payment of Current Liability

(ii) Purchased Goods on Credit [3 marks]

Solution:

Concept:

- Current ratio is $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$. The initial ratio $2:1$ means current assets are twice current liabilities.
- Payment of a current liability reduces current assets and current liabilities equally; a credit purchase of goods increases both equally.

Step 1: Set up the original position Let current liabilities be Rs L, so current assets are Rs $2L$, where $L > 0$. The original current ratio is therefore $2L/L = 2$, or $2:1$. Comparing the new fraction with 2 establishes the effect without assuming any particular business size.

Step 2: Payment of current liability: improves If a current liability of Rs x is paid in cash, both current assets and current liabilities fall by Rs x. For $0 < x < L$, the new ratio is

$$\frac{2L - x}{L - x} = 2 + \frac{x}{L - x} > 2.$$

Hence the current ratio improves. For example, assets of Rs 2,00,000 and liabilities of Rs 1,00,000 become Rs 1,80,000 and Rs 80,000 after a payment of Rs 20,000, giving $2.25:1$.

Step 3: Purchase of goods on credit: reduces A credit purchase of goods of Rs x increases inventory, a current asset, and trade payables, a current liability, by the same amount. The new ratio is

$$\frac{2L + x}{L + x} = 2 - \frac{x}{L + x} < 2.$$

Thus the ratio reduces. Using the original figures and a credit purchase of Rs 20,000, the ratio becomes $2,20,000/1,20,000$, approximately $1.83:1$. The equal increase is proportionately larger for the smaller denominator, explaining the decline.

Step 4: Conclusion (i) Payment of a current liability improves the current ratio. (ii) Purchase of goods on credit reduces the current ratio.

Quick Tip to Solve: When the current ratio exceeds 1:1, equal decreases improve it and equal increases reduce it.

OR

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

(i) Loose Tools

(ii) Capital Reserve

(iii) Bills Payable [3 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities by their nature and classification in the balance sheet.
- Inventories form part of current assets; reserves belong to shareholders' funds, while trade payables form part of current liabilities.

Step 1: Loose tools Loose tools are classified under the main head Current Assets and the sub-head Inventories. They are tools and implements held for use in business operations and are included in inventories for this classification; they are not shown under reserves or liabilities.

Step 2: Capital reserve Capital Reserve appears under the main head Shareholders' Funds and the sub-head Reserves and Surplus. It represents a reserve arising from capital profits, and is therefore part of owners' funds rather than a current liability. Its capital nature determines the type of reserve, not a separate asset classification.

Step 3: Bills payable Bills Payable appear under the main head Current Liabilities and the sub-head Trade Payables. These bills represent amounts payable for goods purchased or services received in the normal course of business. Acceptance of a bill changes the form of the trade obligation; it does not turn the amount into a reserve or an asset.

Step 4: Collect the classifications The required main heads and sub-heads are shown together below.

Item	Main head	Sub-head
Loose Tools	Current Assets	Inventories
Capital Reserve	Shareholders' Funds	Reserves and Surplus
Bills Payable	Current Liabilities	Trade Payables

Step 5: Conclusion Loose Tools: Current Assets–Inventories; Capital Reserve: Shareholders' Funds–Reserves and Surplus; Bills Payable: Current Liabilities–Trade Payables.

Quick Tip to Solve: First identify whether the item is an asset, owners' fund or trade obligation, then name its sub-head.

31(a). From the following information, prepare a Comparative Statement of Profit and Loss:

Particulars	2019–20 (₹)	2018–19 (₹)
Revenue from Operations	60,00,000	45,00,000
Employee Benefit Expenses	30,00,000	20,00,000
Other Expenses	15,00,000	10,00,000
Tax Rate	60%	60%

[4 marks]

Solution:

Concept:

- A comparative statement shows the previous year, current year, absolute change and percentage change for each revenue, expense and profit item.
- Absolute change = current-year amount minus previous-year amount. Percentage change = absolute change divided by previous-year amount, multiplied by 100. Tax is calculated on profit before tax.

Step 1: Calculate expenses and profits For 2018–19, total expenses are $20,00,000 + 10,00,000 =$ Rs $30,00,000$. Profit before tax is $45,00,000 - 30,00,000 =$ Rs $15,00,000$. Tax at 60% is Rs 9,00,000 and profit after tax is Rs 6,00,000.

For 2019–20, total expenses are $30,00,000 + 15,00,000 =$ Rs $45,00,000$. Profit before tax is $60,00,000 - 45,00,000 =$ Rs $15,00,000$. Tax at 60% is again Rs 9,00,000 and profit after tax is Rs 6,00,000.

Step 2: Prepare the comparative statement Comparative Statement of Profit and Loss for the years ended 31 March 2019 and 31 March 2020 (amounts in Rs)

Particulars	2018–19	2019–20	Change	Change (%)
Revenue from operations	45,00,000	60,00,000	15,00,000	33.33
Expenses:				
Employee benefit expenses	20,00,000	30,00,000	10,00,000	50.00
Other expenses	10,00,000	15,00,000	5,00,000	50.00
Total expenses	30,00,000	45,00,000	15,00,000	50.00
Profit before tax	15,00,000	15,00,000	0	0.00
Less: Tax (60%)	9,00,000	9,00,000	0	0.00
Profit after tax	6,00,000	6,00,000	0	0.00

For example, the increase in revenue is $15,00,000/45,00,000 \times 100 = 33.33\%$, whereas the increase in employee benefit expenses is $10,00,000/20,00,000 \times 100 = 50\%$. The percentage change in tax is zero because its amount is unchanged; the tax rate itself is not an expense amount.

Step 3: Conclusion Revenue increased by 33.33% and total expenses by 50%; profit before tax remained Rs 15,00,000 and profit after tax remained Rs 6,00,000.

Quick Tip to Solve: Use 2018–19 as the denominator for every percentage change; apply the tax rate to profit before tax, never to revenue.

OR

31(b). From the following information, prepare a Common Size Balance Sheet:

Particulars	31.3.2020 (₹)	31.3.2019 (₹)
I — Equity and Liabilities		
1. Shareholder's Funds	4,00,000	2,00,000
2. Non-Current Liabilities	2,50,000	1,00,000
3. Current Liabilities	1,50,000	1,00,000
Total	8,00,000	4,00,000
II — Assets		
1. Non-Current Assets	5,00,000	2,50,000
2. Current Assets	3,00,000	1,50,000
Total	8,00,000	4,00,000

[4 marks]

Solution:

Concept:

- A common size balance sheet expresses every equity, liability and asset item as a percentage of the total balance sheet amount for that same date.
- Common size percentage = item amount divided by total assets (or total equity and liabilities), multiplied by 100. The base is Rs 8,00,000 for 2020 and Rs 4,00,000 for 2019.

Step 1: Calculate the percentages for each date For 31 March 2020, shareholders' funds are $4,00,000/8,00,000 \times 100 = 50\%$; non-current liabilities are $2,50,000/8,00,000 \times 100 = 31.25\%$; and current liabilities are $1,50,000/8,00,000 \times 100 = 18.75\%$. Non-current and current assets are respectively 62.50% and 37.50%.

For 31 March 2019, shareholders' funds are $2,00,000/4,00,000 \times 100 = 50\%$. Non-current and current liabilities are each $1,00,000/4,00,000 \times 100 = 25\%$. Non-current assets are $2,50,000/4,00,000 \times 100 = 62.50\%$, and current assets are $1,50,000/4,00,000 \times 100 = 37.50\%$.

Step 2: Present the common size balance sheet Common Size Balance Sheet as at 31 March 2020 and 31 March 2019 (amounts in Rs)

Particulars	31.3.2020	31.3.2019	2020 (%)	2019 (%)
I. Equity and Liabilities				
1. Shareholders' funds	4,00,000	2,00,000	50.00	50.00
2. Non-current liabilities	2,50,000	1,00,000	31.25	25.00
3. Current liabilities	1,50,000	1,00,000	18.75	25.00
Total equity and liabilities	8,00,000	4,00,000	100.00	100.00
II. Assets				
1. Non-current assets	5,00,000	2,50,000	62.50	62.50
2. Current assets	3,00,000	1,50,000	37.50	37.50
Total assets	8,00,000	4,00,000	100.00	100.00

The equity and liabilities percentages add to 100 for each year, as do the asset percentages. Each year's amounts are compared with that year's own total; the increase between years is not the basis for a common size percentage.

Step 3: Conclusion Shareholders' funds comprise 50% in both years. Non-current liabilities rise from 25% to 31.25%, while current liabilities fall from 25% to 18.75%; the asset composition remains 62.50% non-current and 37.50% current.

Quick Tip to Solve: Check each side totals 100% separately, and divide 2019 amounts by Rs 4,00,000 and 2020 amounts by Rs 8,00,000.

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32. (i) From the following information, calculate cash flow from Investing Activities:

Particulars	31.3.2020 (₹)	31.3.2019 (₹)
Plant and Machinery	3,00,000	2,00,000
Goodwill	1,20,000	40,000

Additional Information: A machine costing ₹ 50,000 (depreciation provided thereon ₹ 15,000) was sold for ₹ 40,000. Depreciation charged during the year was ₹ 50,000. Show your working notes clearly.

(ii) From the following information, calculate cash flow from Financing Activities:

Particulars	31.3.2020 (₹)	31.3.2019 (₹)
Equity Share Capital	18,00,000	10,00,000
12% Debentures	4,00,000	3,00,000
Securities Premium Reserve	1,40,000	1,00,000

Additional Information: Interest paid on Debentures was ₹ 36,000. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire fixed and intangible assets and cash received on sale of fixed assets.
- Financing activities include cash proceeds from shares and debentures; interest paid by a non-financial enterprise is a financing outflow.

Step 1: Working Notes: find the carrying amount sold The machine sold had cost Rs 50,000 and accumulated depreciation Rs 15,000. Its carrying amount was $50,000 - 15,000 = \text{Rs } 35,000$. Since sale proceeds were Rs 40,000, profit on sale was $40,000 - 35,000 = \text{Rs } 5,000$. For investing cash flow, use the actual sale proceeds, not this profit or the original cost.

Step 2: Working Notes: calculate purchases The plant and machinery balances are carrying amounts. Therefore opening carrying amount plus purchases, less carrying amount of the machine sold and depreciation charged during the year, equals closing carrying amount.

$$2,00,000 + \text{Purchases} - 35,000 - 50,000 = 3,00,000,$$

$$\text{Purchases} = \text{Rs } 1,85,000.$$

Goodwill purchased is the increase in its balance: $1,20,000 - 40,000 = \text{Rs } 80,000$. No other goodwill transaction is given.

Step 3: Prepare the investing activities section Cash Flow Statement (extract): Investing Activities

Particulars	Amount (Rs)
Proceeds from sale of machinery	40,000
Purchase of plant and machinery	(1,85,000)
Purchase of goodwill	(80,000)
Net cash used in investing activities	(2,25,000)

Depreciation is a non-cash charge: it is used to calculate purchases but is not separately deducted in this investing section.

Step 4: Calculate financing proceeds and prepare the statement Equity share capital increased by $18,00,000 - 10,00,000 =$ Rs $8,00,000$. The securities premium increase is $1,40,000 - 1,00,000 =$ Rs $40,000$; hence cash received from shares, including premium, is Rs 8,40,000. Debentures increased by $4,00,000 - 3,00,000 =$ Rs $1,00,000$. With no non-cash issue or redemption specified, these increases represent cash proceeds. Use actual interest paid, Rs 36,000.

Cash Flow Statement (extract): Financing Activities

Particulars	Amount (Rs)
Proceeds from issue of equity shares (including premium)	8,40,000
Proceeds from issue of debentures	1,00,000
Interest paid on debentures	(36,000)
Net cash from financing activities	9,04,000

Step 5: Conclusion (i) Net cash used in investing activities is Rs 2,25,000. (ii) Net cash generated from financing activities is Rs 9,04,000.

Quick Tip to Solve: Use the carrying amount of the asset sold in the purchases calculation, but its sale proceeds in cash flow.

OPTION 2 (Computerised Accounting)

23. SQL stands for: [1 mark]

(A) Specific Query Language

(B) Software Query Language

(C) Structured Query Language

(D) Standard Query Language

Correct Answer: (C) Structured Query Language

Solution:

Concept:

- SQL is a language used to communicate with a relational database.
- A query requests selected information from stored tables.

Step 1: Expand the abbreviation The letters SQL expand to Structured Query Language. It is used to retrieve records and can also define and modify database tables and their data.

Step 2: Check the alternatives Specific Query Language, Software Query Language and Standard Query Language are not the accepted expansion of SQL. The word Structured distinguishes the correct expansion from these similar-looking alternatives.

Step 3: Conclusion SQL stands for Structured Query Language. Hence, the correct option is (C).

Quick Tip to Solve: Recall the three words Structured, Query and Language in that order.

24. Define 'Range'. [1 mark]

Solution:

Concept:

- A spreadsheet organises data into cells identified by column letters and row numbers.
- A range groups cells so that a single operation or formula can refer to the whole group.

Step 1: Define the term A range is a group or block of selected cells in a spreadsheet, usually adjoining one another. It may extend across one row, one column or several rows and columns.

Step 2: Illustrate the notation For example, `A1:C3` denotes the rectangular range from cell A1 to cell C3, including both end cells and all intervening cells. The colon separates the first and last cell references.

Step 3: Conclusion A range is a group or block of cells in a spreadsheet identified together for processing.

Quick Tip to Solve: Use the top-left and bottom-right cell addresses with a colon to describe a rectangular range.

25. Which of the following is not an advantage of Computerised Accounting System? [1 mark]

(A) Record keeping

(B) Timely generation of reports

(C) Effective control over the system

(D) Faster obsolescence of technology

Correct Answer: (D) Faster obsolescence of technology

Solution:

Concept:

- Computerised accounting supports efficient storage, processing and reporting of financial transactions.
- A limitation raises cost or creates a difficulty rather than improving the system.

Step 1: Identify the benefits Record keeping is improved by organised electronic records. Timely generation of reports supplies information quickly, while effective control over the system supports accurate and controlled processing. Thus (A), (B) and (C) are advantages.

Step 2: Identify the limitation Faster obsolescence of technology means hardware or software becomes outdated quickly. Replacement, upgrades and retraining impose extra costs and difficulties; consequently this is a limitation of computerised accounting.

Step 3: Conclusion Faster obsolescence of technology is not an advantage. Hence, the correct option is (D).

Quick Tip to Solve: For a negative question, select the feature that creates a cost or difficulty rather than a benefit.

26. The function PMT is used to compute which of the following? [1 mark]

(A) Maximum Salary

(B) Amount of Depreciation

(C) Loan Repayment Schedule

(D) Minimum Salary

Correct Answer: (C) Loan Repayment Schedule

Solution:

Concept:

- PMT calculates the constant periodic payment on a loan at a constant interest rate.
- The payment depends on the rate per period, number of periods and present value of the loan.

Step 1: Relate PMT to loan instalments PMT returns the regular repayment instalment required to settle a loan over the specified term. This instalment is used while preparing a loan repayment schedule, which separates interest and principal for each period.

Step 2: Eliminate unrelated choices Maximum and minimum salaries are not calculated using PMT; they concern comparisons of salary amounts. Depreciation uses asset-depreciation functions rather than a loan-payment function. Therefore the repayment schedule is the relevant printed choice.

Step 3: Conclusion PMT is used for computing the periodic payment required in a loan repayment schedule. Hence, the correct option is (C).

Quick Tip to Solve: Remember PMT as payment; match the interest-rate period with the instalment period.

27. State any two attributes of information to be stored in Payroll database. [1 mark]

Solution:

Concept:

- An attribute is a named field describing an employee or an aspect of payroll.
- A payroll database stores employee identification and pay-related information in structured records.

Step 1: State an identifying attribute Employee ID (employee code) is an attribute stored in a payroll database. It uniquely identifies the employee and links the payroll record to the correct person, even when two employees have the same name.

Step 2: State a pay-related attribute Basic salary is another attribute. It records the basic pay amount for the employee and provides a basis for computing salary components, deductions and net pay

according to the organisation's rules.

Step 3: Conclusion Any two suitable attributes are Employee ID (employee code) and Basic salary.

Quick Tip to Solve: Choose one employee-identification field and one pay field when asked for two payroll attributes.

28. A _____ is defined as a large sheet which contains data and information arranged in rows and columns. [1 mark]

Solution:

Concept:

- A spreadsheet organises data in rows and columns; each row-column intersection is a cell.
- The nature of the arrangement or activity determines the appropriate accounting term.

Step 1: Recognise the arrangement A spreadsheet is a large sheet divided into horizontal rows and vertical columns. The intersection of a row and a column is called a cell, in which data can be entered.

Step 2: Apply the definition The blank asks for the name of the entire sheet containing data and information arranged in rows and columns. A cell is only one location within that sheet, whereas a spreadsheet is the complete arrangement.

Step 3: Conclusion The missing word is **spreadsheet**.

Quick Tip to Solve: Look for rows and columns: together they identify a spreadsheet, while their intersection identifies a cell.

29. Which of the following is the correct activity sequence of the basic information processing model? [1 mark]

(A) Collect data, organise data, process data and communicate data

(B) Organise data, collect data and process data

(C) Organise data, collect data and communicate data

(D) Process data, collect data and organise data

Correct Answer: (A) Collect data, organise data, process data and communicate data

Solution:

Concept:

- The information processing cycle converts collected raw data into useful information and communicates it to users.
- The nature of the arrangement or activity determines the appropriate accounting term.

Step 1: Follow the information flow First collect the raw data. Next organise the collected data into a usable form, then process it to obtain meaningful results. Finally communicate the resulting information to the users who need it.

Step 2: Compare the choices Option (A) gives all four activities in their logical order. Options (B) and (C) place organisation before collection and omit an essential activity. Option (D) starts processing before the data have been collected and also omits communication.

Step 3: Conclusion The correct option is **(A): Collect data, organise data, process data and communicate data**.

Quick Tip to Solve: Remember the sequence as collect, organise, process, communicate: raw data must be available before it can be processed.

30(a). State any three features of Computerised Accounting System. [3 marks]

Solution:

Concept:

- A computerised accounting system uses accounting software to record, process and report financial transactions.
- The nature of the arrangement or activity determines the appropriate accounting term.

Step 1: Speed A computerised accounting system processes a large volume of transactions quickly. Once the relevant transaction data are entered, calculations and posting can be performed rapidly, allowing the business to obtain accounting information without manually repeating each calculation. This helps in the timely preparation of accounts and reports.

Step 2: Accuracy The system performs calculations and follows the accounting rules built into the software consistently. With correct input data and properly configured procedures, it reduces arithmetic errors that may arise in manual accounting. Accuracy therefore depends on the correctness of the data entered; computerisation does not make an incorrect input correct.

Step 3: Reliability A computerised system carries out the same programmed accounting procedure consistently for similar transactions. It does not suffer from fatigue or loss of attention during repetitive processing. Consequently, when input data and system controls are sound, the accounting output is dependable and can be used for preparing financial information.

Step 4: Conclusion Three features are **speed, accuracy and reliability**.

Quick Tip to Solve: State a feature and explain its effect on transaction processing; remember that accuracy still depends on correct input.

OR

30(b). State any three types of accounting vouchers used for entry in Tally software. [3 marks]

Solution:

Concept:

- An accounting voucher is the entry form used to record a transaction in the appropriate category in accounting software.
- The nature of the arrangement or activity determines the appropriate accounting term.

Step 1: Receipt voucher A receipt voucher is used to record money received by the business in cash or through a bank. For example, when a customer pays an outstanding amount into the bank account, the receipt is entered through a receipt voucher. The bank or cash account increases and the customer account is credited, reducing the amount due from that customer.

Step 2: Payment voucher A payment voucher is used to record money paid by the business in cash or through a bank. For example, payment of office rent by cheque is entered through a payment voucher. The rent account is debited and the bank account is credited. It therefore records the outflow of money and identifies the account for which the payment was made.

Step 3: Contra voucher A contra voucher records transfers between cash and bank accounts of the same business, such as depositing cash into the bank or withdrawing cash from the bank for office use. It can also record a transfer between the business's bank accounts. Such a transaction changes the location or form of the business's funds, rather than recording an expense or income.

Step 4: Conclusion Three accounting vouchers used in Tally are **Receipt, Payment and Contra vouchers**.

Quick Tip to Solve: Distinguish money received, money paid, and transfers within cash/bank accounts to choose Receipt, Payment, or Contra.

31(a). Explain any four limitations of a Computerised Accounting System. [4 marks]

Solution:

Concept:

- A computerised accounting system records and processes accounting data with hardware and software. Its speed and accuracy depend on reliable inputs, suitable controls and trained users.
- Limitations arise from the cost of operating the system, the need for human expertise and the risks attached to electronic records.

Step 1: High installation and operating costs The business must purchase computers, accounting software and related equipment. It also incurs expenditure on installation, maintenance, software licences and periodic upgrades. These costs may be substantial for a small business and continue after the initial purchase.

Step 2: Need for trained personnel Employees must learn how to enter transactions, use the accounting package and interpret its reports. Training takes time and money. Staff accustomed to

manual accounting may resist the change, and dependence on a few skilled operators can interrupt work when they are unavailable.

Step 3: Risk of system failure and data loss Hardware breakdown, power failure, software faults or a computer virus can interrupt accounting work and damage stored records. A failure may make information unavailable when needed. Regular backups, recovery procedures and suitable power protection are therefore necessary.

Step 4: Security and confidentiality risks Accounting records may be accessed, copied or altered by unauthorised persons if controls are weak. Electronic data can be stolen or manipulated without obvious physical evidence. Passwords, restricted access and other controls are required to protect confidential financial information.

Step 5: Conclusion Four limitations are high installation and operating costs, the need for trained personnel, the risk of system failure and data loss, and threats to the security and confidentiality of accounting records.

Quick Tip to Solve: Recall four separate headings: cost, training, failure and security; explain the business effect of each.

OR

31(b). Explain adjusting entries. [4 marks]

Solution:

Concept:

- Adjusting entries are entries made at the end of an accounting period to recognise income and expenses in the period to which they belong and to update the related assets and liabilities.
- They apply the accrual concept and matching principle: receipt or payment of cash alone does not determine the period in which an income or expense is recognised.

Step 1: Purpose and timing of adjustment Before preparing final financial statements, the accountant reviews balances in the trial balance for amounts that are unrecorded or relate partly to another period. Adjusting entries bring these accounts up to date. They help determine the correct profit or loss for the period and the correct financial position at its end.

Step 2: Accrued expenses and accrued income An expense incurred but unpaid is charged to the current period and recorded as a liability. For example, salary due is recorded by debiting Salaries Account and crediting Outstanding Salaries Account. Similarly, income earned but not yet received is recognised by debiting Accrued Income Account and crediting the relevant Income Account.

Step 3: Prepayments and income received in advance An expense already paid that relates to a future period is transferred from expense to a prepaid expense asset. Income received before it is earned is transferred from income to an income received in advance liability. These adjustments exclude amounts belonging to the next period from the current period's profit.

Step 4: Other end-of-period adjustments Depreciation allocates the cost of a fixed asset over its useful life: Depreciation Account is debited and the asset or accumulated depreciation account is credited.

Adjustments may also be needed for provisions and other closing items. In a computerised system, such entries are entered through appropriate vouchers so that the ledger balances and financial statements reflect them.

Step 5: Conclusion Adjusting entries update accounts at the close of a period so that income and expenses are recognised on the accrual basis and assets and liabilities are correctly reported in the financial statements.

Quick Tip to Solve: Ask whether each receipt or payment belongs to this period; then identify the related asset or liability.

32. Explain how a software provides data security to its users. [6 marks]

Solution:

Concept:

- Data security means protecting accounting data against unauthorised access, disclosure, alteration and destruction.
- Accounting software uses access controls to protect confidentiality and integrity, and backup facilities to preserve the availability of records.

Step 1: Authenticate users through passwords The software provides a user name or user identity and a password to an authorised user. Before allowing access, it checks the credentials entered by the user. Thus, a person who does not know the correct password cannot ordinarily open the protected accounting data. Passwords should be confidential and changed periodically.

Step 2: Define user roles and access rights The administrator can create different users and assign specific permissions according to their responsibilities. For example, a data-entry operator may be permitted to enter vouchers, while only the accountant or administrator may alter accounts or approve transactions. Restricting the right to view, add, modify or delete records prevents unauthorised changes and limits access to confidential information.

Step 3: Encrypt confidential data Encryption converts readable data into coded form. Only a person with the required key or authorisation can convert it back into readable information. Accounting packages may provide a protected vault or encryption facility for company data. Consequently, merely obtaining a copy of the data file does not give an unauthorised person readable financial information.

Step 4: Maintain an audit trail Software can record the identity of the user, the time of a transaction and subsequent changes to records. This audit trail helps the administrator trace an entry or alteration to the responsible user. It supports detection and investigation of unauthorised changes and promotes accountability among users.

Step 5: Provide backup and restoration facilities The software allows periodic backup copies of accounting data to be taken and stored securely, preferably at a separate location. If the working data are lost or damaged because of accidental deletion, hardware failure or another disruption, an authorised user can restore the latest backup. This protects the continuity and availability of accounting records.

Step 6: Apply controls over data entry and alteration Validation checks reject invalid inputs, while

authorisation controls and locking of completed periods can restrict changes to finalised records. Together with controlled access and the audit trail, these measures help maintain the accuracy and integrity of stored accounting data. Their effectiveness depends on the administrator configuring the controls and users following security procedures.

Step 7: Conclusion Software provides data security through password authentication, controlled user rights, encryption, audit trails, backups and controls over data alteration. These facilities protect the confidentiality, integrity and availability of accounting information.

Quick Tip to Solve: Organise the answer around access, permissions, encryption, tracing changes and recovery; explain how each facility protects accounting records.