CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-1-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 2 hours **Maximum Marks: 40**

General Instructions

(i) This question paper comprises of **two** Parts – **A** and **B**. There are **12** questions in the question paper. All questions are compulsory.

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

(iii) **Part - B** has **two** options i.e. (i) Analysis of Financial Statements and (ii) Computerised Accounting. Students must attempt only **one** of the given options.

(iv) Question Nos. **1** to **3** and **10** are short answer type – I questions carrying **2** marks each.

(v) Question Nos. **4** to **6** and **11** are short answer type – II questions carrying **3** marks each.

(vi) Question Nos. **7** to **9** and **12** are long answer questions carrying **5** marks each.

(vii) There is no overall choice. However, an internal choice has been provided in **3** questions of **three** marks and **1** question of **five** marks.

Part A (30 marks)

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

1. Show the following information in the Balance Sheet of Ashoka Club as on 31.3.2021 :

Particulars	Dr. (Rs.)	Cr. (Rs.)
Tournament Fund		**2,50,000**
Tournament Fund Investment	**2,50,000**	
Tournament Expenses	**20,000**	

[2 marks]

Solution:

Concept:

- A specific-purpose fund is shown separately on the liabilities side of a not-for-profit organisation's Balance Sheet. Expenses incurred for that purpose are deducted from the fund.
- The corresponding investment is an asset. Its carrying amount remains separate from the fund balance; spending on the tournament does not itself reduce the stated investment.

Step 1: Adjust the tournament fund The tournament expenses relate directly to the purpose for which the fund was created. Therefore, charge them against the Tournament Fund, rather than treating them as a general expense in the Income and Expenditure Account. The closing fund is

$$\text{Rs } 2,50,000 - \text{Rs } 20,000 = \text{Rs } 2,30,000.$$

Step 2: Present the Balance Sheet extract Balance Sheet of Ashoka Club as at 31 March 2021 (Extract)

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Tournament Fund	2,50,000	Tournament Fund Investment	2,50,000
Less: Tournament Expenses	(20,000)		
Closing Tournament Fund	2,30,000		

Only the relevant extract is shown, so its two sides need not total equally.

Step 3: Conclusion Tournament Fund appears at Rs 2,30,000 on the liabilities side; Tournament Fund Investment appears at Rs 2,50,000 on the assets side.

Quick Tip to Solve: Deduct purpose-specific expenses from the fund, but show its investment separately as an asset.

2. State any two situations when compulsory dissolution of a partnership firm takes place. [2 marks]

Solution:

Concept:

- Compulsory dissolution ends the partnership firm when the legal conditions for its continuation cease to exist. It is distinct from a partner simply retiring while the firm continues.
- The two situations are insolvency of all partners or all but one, and the business of the firm becoming unlawful.

Step 1: Insolvency of partners A firm is compulsorily dissolved when all its partners, or all partners except one, are adjudicated insolvent. If only one solvent partner remains, the business cannot continue as a partnership because a partnership requires at least two persons. The insolvency of just one partner does not invariably amount to this situation when two or more solvent partners remain.

Step 2: Business becoming unlawful A firm is also compulsorily dissolved when its business becomes unlawful, or an event occurs that makes it unlawful for the partners to carry on the business in partnership. For example, a legal prohibition on the sole business of the firm prevents that firm from continuing. This is a compulsory legal consequence and does not depend merely on the partners choosing to dissolve it.

Step 3: Conclusion The two situations are: (i) all partners or all but one are adjudicated insolvent; and (ii) the business of the firm becomes unlawful.

Quick Tip to Solve: For insolvency, remember the precise condition: all partners or all but one, not merely any one partner.

3. Ajay, Vijay, Sanjay and Dhananjay are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1 : 1. Vijay decided to retire from the firm. The Goodwill of the firm was valued at Rs. 12,00,000. Pass necessary journal entry for the treatment of Goodwill on Vijay's retirement without opening goodwill account. [2 marks]

Solution:

Concept:

- The retiring partner is entitled to goodwill in the old profit-sharing ratio. Continuing partners compensate him in their gaining ratio without opening a Goodwill Account.
- When the new ratio is not specified, the continuing partners retain their relative old shares. Here Ajay, Sanjay and Dhananjay share future profits in the ratio $2:1:1$.

Step 1: Calculate goodwill compensation and gaining ratio Vijay's old share is $2/6$. His share of goodwill is

$$\text{Rs } 12,00,000 \times \frac{2}{6} = \text{Rs } 4,00,000.$$

The continuing partners' new shares are $1/2, 1/4, 1/4$. Their gains are

$$\text{Ajay: } \frac{1}{2} - \frac{2}{6} = \frac{1}{6},$$
$$\text{Sanjay: } \frac{1}{4} - \frac{1}{6} = \frac{1}{12},$$
$$\text{Dhananjay: } \frac{1}{4} - \frac{1}{6} = \frac{1}{12}.$$

Thus, the gaining ratio is $2:1:1$. The compensation is borne as Rs 2,00,000, Rs 1,00,000 and Rs 1,00,000 respectively.

Step 2: Record the adjustment directly in capital accounts Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Ajay's Capital A/c Dr.		2,00,000	
	Sanjay's Capital A/c Dr.		1,00,000	
	Dhananjay's Capital A/c Dr.		1,00,000	
	To Vijay's Capital A/c			4,00,000
	(Being Vijay's share of goodwill adjusted through the gaining partners' capital accounts in the ratio $2:1:1$)			

Step 3: Conclusion Debit Ajay, Sanjay and Dhananjay by Rs 2,00,000, Rs 1,00,000 and Rs 1,00,000 respectively, and credit Vijay by Rs 4,00,000. No Goodwill Account is opened.

Quick Tip to Solve: First find the retiring partner's old share of goodwill; distribute that amount among the continuing partners in their gaining ratio.

4(a). From the following information, calculate the amount of sports material that will be debited to the Income and Expenditure Account of Arjun Sports Club for the year ended 31st March, 2021.

Particulars	1st April, 2020 (Rs.)	31st March, 2021 (Rs.)
Stock of Sports Material	1,50,000	2,20,000
Creditors for Sports Material	35,000	65,000

Additional Information :

During the year, Rs. 2,80,000 were paid to the creditors of sports material. [3 marks]

Solution:

Concept:

- Sports material consumed is a revenue expense on the accrual basis. It equals opening stock plus purchases during the year less closing stock.
- Payments to creditors are adjusted for opening and closing creditors to determine purchases: purchases = payments + closing creditors - opening creditors.

Step 1: Determine purchases of sports material The payment of Rs 2,80,000 includes settlement of the opening creditors of Rs 35,000, while closing creditors of Rs 65,000 represent purchases not yet paid for. Therefore,

$$\begin{aligned}\text{Purchases} &= \text{Payments} + \text{Closing creditors} - \text{Opening creditors} \\ &= 2,80,000 + 65,000 - 35,000 \\ &= \text{Rs } 3,10,000.\end{aligned}$$

Adding the increase in creditors, Rs 30,000, converts the cash payment into current-year purchases.

Step 2: Calculate material consumed Stock available for use comprises opening stock and current purchases. The unused closing stock is carried forward as an asset, so it must be deducted from the

material available.

$$\text{Sports material consumed} = 1,50,000 + 3,10,000 - 2,20,000$$
$$= \text{Rs } 2,40,000.$$

Stock increased by Rs 70,000; thus consumption is Rs 70,000 less than purchases. This independently checks the calculation. Only material used during the year is an expense, not the entire amount paid to suppliers.

Step 3: Conclusion Sports material of $\boxed{\text{Rs } 2,40,000}$ will be debited to the Income and Expenditure Account of Arjun Sports Club for the year ended 31st March, 2021.

Quick Tip to Solve: First convert creditor payments into purchases, then deduct the increase in stock to obtain consumption.

OR

4(b). From the following extract of 'Receipts and Payments Account' and additional information, calculate the amount of subscriptions to be shown in 'Income and Expenditure Account' for the year ended 31st March, 2021 and 'Balance Sheet' as on that date.

Receipts and Payments Account

for the year ended 31st March, 2021

Receipts		Amount (Rs.)	Payments	Amount (Rs.)
To Subscriptions :				
2019-20	9,000			
2020-21	40,000			
2021-22	6,000	55,000		

Additional Information :

The club has 500 members each paying an annual subscription of Rs. 100.

Subscriptions outstanding on 31st March, 2020 were Rs. 12,000. [3 marks]

Solution:

Concept:

- Subscription income is recognised for the period to which it relates. Receipts for an earlier year and receipts in advance for a later year are excluded from current income.
- Outstanding subscriptions are assets; subscriptions received in advance are liabilities. Uncollected arrears of the earlier year remain an asset until recovered or written off.

Step 1: Find subscriptions earned for 2020-21 The club has 500 members, each owing Rs 100 for the year. Hence annual subscription income is

$$500 \times 100 = \text{Rs } 50,000.$$

Of this amount, Rs 40,000 was received during the year. Therefore subscriptions outstanding for 2020-21 are Rs 50,000 - Rs 40,000 = Rs 10,000. The Rs 9,000 received for 2019-20 settles an earlier asset and is not current income. The Rs 6,000 for 2021-22 is income received in advance.

Step 2: Determine the closing asset and liability Opening outstanding subscriptions were Rs 12,000. Only Rs 9,000 of these arrears was collected, so Rs 3,000 remains outstanding for 2019-20. Add the current-year outstanding amount of Rs 10,000: total closing outstanding subscriptions are Rs 13,000. The income can also be checked using total cash receipts:

$$\begin{aligned}\text{Income} &= 55,000 + 13,000 - 12,000 - 6,000 \\ &= \text{Rs } 50,000.\end{aligned}$$

Here the increase in outstanding subscriptions is added and the closing advance is deducted.

Step 3: Present the financial statement extracts Income and Expenditure Account (extract) for the year ended 31st March, 2021

Income	Amount (Rs)
Subscriptions	50,000

Balance Sheet (extract) as at 31st March, 2021

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Subscriptions in advance	6,000	Outstanding subscriptions	13,000

The outstanding asset includes Rs 3,000 for 2019-20 and Rs 10,000 for 2020-21. No write-off of the earlier arrears is specified.

Step 4: Conclusion Show $\boxed{\text{Rs } 50,000}$ as subscription income; in the Balance Sheet show outstanding subscriptions of $\boxed{\text{Rs } 13,000}$ as an asset and subscriptions received in advance of $\boxed{\text{Rs } 6,000}$ as a liability.

Quick Tip to Solve: Keep the uncollected Rs 3,000 of old arrears in the closing asset as well as the Rs 10,000 due for the current year.

5. Vimal, Kamal and Nirmal were partners sharing profit & losses in the ratio of 3 : 2 : 1. Vimal died on 30th September, 2020. The partnership deed provides that the share of profit of the deceased partner till the date of his death was to be calculated on the basis of the average profits of the last three years. The profit for the last three years were : 2017-18 Rs. 70,000; 2018-19 Rs. 80,000; 2019-20 Rs. (60,000).

Calculate Vimal's share of profit till the date of his death and pass necessary journal entry for the same. [3 marks]

Solution:

Concept:

- The deceased partner is entitled to the estimated profit earned from the beginning of the current accounting year up to the date of death, in the agreed profit-sharing ratio.
- When the deed prescribes average profits, add profits and subtract losses before dividing by the

number of years. The deceased partner's estimated share is average annual profit multiplied by the fraction of the year and his profit share.

Step 1: Calculate average annual profit The amount in parentheses for 2019-20 represents a loss. Therefore it must reduce, rather than increase, the total profits of the three completed years.

$$\text{Total profits} = 70,000 + 80,000 - 60,000 = \text{Rs } 90,000,$$
$$\text{Average annual profit} = \frac{90,000}{3} = \text{Rs } 30,000.$$

Step 2: Determine the period and Vimal's share The current accounting year begins on 1st April, 2020. From 1st April to 30th September, 2020, the period is six months. Vimal's fraction of profits is $3/(3+2+1) = 3/6 = 1/2$.

$$\text{Vimal's share} = 30,000 \times \frac{6}{12} \times \frac{3}{6} = \text{Rs } 7,500.$$

The six-month fraction estimates the firm's profit up to death; the profit-sharing fraction then isolates Vimal's entitlement.

Step 3: Record the adjustment Since the current year's actual profit has not yet been determined, debit Profit and Loss Suspense Account and credit Vimal's Capital Account for the amount due to him.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-09-2020	Profit and Loss Suspense A/c Dr. To Vimal's Capital A/c (Being Vimal's share of estimated profit up to the date of his death credited to his capital account)		7,500	 7,500

Step 4: Conclusion Vimal's share of profit up to his death is $\boxed{\text{Rs } 7,500}$. Debit Profit and Loss Suspense A/c and credit Vimal's Capital A/c by Rs 7,500.

Quick Tip to Solve: Treat the parenthesised Rs 60,000 as a loss, and apply both the six-month fraction and Vimal's 3/6 share.

6(a). Surya Ltd. purchased machinery from Mohan Equipment Ltd. The company paid the vendors by issue of 9% debentures and the balance through an acceptance in their favour payable after three months. The accountant of the company while Journalising the above mentioned transactions left some items blank. Fill in the blanks in the given below Journal of Surya Ltd. :

Journal of Surya Ltd.

Date	Particulars	LF	Dr. (Rs)	Cr. (Rs)
2021 Jan. 1	Machinery A/c. Dr. To _____ (Purchased Machinery for Rs. 12,50,000 from Mohan Equipment Ltd.)		_____	_____
" 1	Mohan Equipment Ltd. A/c. Dr. To _____ To Securities Premium Reserve (Issued 8000, 9% Debentures of Rs. 100 each at a premium of 25%).		_____	_____ _____
" 1	_____ Dr. To _____ (_____)		_____	_____

[3 marks]

Solution:

Concept:

- Machinery purchased on credit is debited at its purchase price, while the vendor is credited. Settlement subsequently removes the vendor liability.
- Debentures issued at a premium are credited at face value; the excess is credited separately to Securities Premium Reserve. A written acceptance given for the unpaid balance is credited to Bills Payable Account.

Step 1: Work out the debenture settlement Surya Ltd. issues $8,000$ debentures with face value Rs 100 each. The premium is 25% of face value, so the issue price is Rs 125 per debenture.

$$\begin{aligned} \text{Face value} &= 8,000 \times 100 = \text{Rs } 8,00,000, \\ \text{Premium} &= 8,00,000 \times \frac{25}{100} = \text{Rs } 2,00,000, \\ \text{Vendor liability settled} &= 8,00,000 + 2,00,000 \\ &= \text{Rs } 10,00,000. \end{aligned}$$

The 9% rate identifies the debentures and determines interest; it is not used to calculate their issue proceeds.

Step 2: Find the amount of the acceptance The machinery costs Rs 12,50,000, of which the debenture issue settles Rs 10,00,000. Thus the balance is

$$\text{Bills payable} = 12,50,000 - 10,00,000 = \text{Rs } 2,50,000.$$

The acceptance creates a bills payable liability in Surya Ltd.'s books. It is not a bank payment on 1st January because the bill is payable after three months.

Step 3: Complete the journal Journal of Surya Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2021 Jan. 1	Machinery A/c Dr. To Mohan Equipment Ltd. A/c (Being machinery purchased on credit from Mohan Equipment Ltd.)		12,50,000	 12,50,000
Jan. 1	Mohan Equipment Ltd. A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being 8,000 debentures of Rs 100 each issued at a premium of 25% to the vendor)		10,00,000	 8,00,000 2,00,000
Jan. 1	Mohan Equipment Ltd. A/c Dr. To Bills Payable A/c (Being acceptance given to the vendor for the balance, payable after three months)		2,50,000	 2,50,000

The two debits to the vendor, Rs 10,00,000 and Rs 2,50,000, together cancel the original credit of Rs 12,50,000.

Step 4: Conclusion The debenture issue settles Rs 10,00,000: Rs 8,00,000 goes to 9% Debentures and Rs 2,00,000 to Securities Premium Reserve. The remaining Rs 2,50,000 is credited to Bills Payable.

Quick Tip to Solve: Use face value plus premium to measure the vendor settlement; use Bills Payable for the three-month acceptance.

OR

6(b). Sujata Ltd. invited applications for issuing 50,000, 9% debenture of Rs. 100 each at a discount of 10% redeemable at par after five years. The debentures were fully subscribed and all money was duly received. The company had a balance of Rs. 3,00,000 in 'Securities Premium Reserve' which it decided to use for writing off the discount/loss on issue of debentures. It also decided to write off the remaining discount/loss on issue of debentures in the first year.

Pass the Journal entries for issue of debentures and for writing off discount/loss on issue of debentures.

[3 marks]

Solution:

Concept:

- Debentures issued at a discount are credited at their nominal value; the difference between nominal value and issue proceeds is debited to Discount on Issue of Debentures Account.
- Securities Premium Reserve may be used to write off discount on issue of debentures. The remaining discount is charged to Statement of Profit and Loss when it is written off in the first year.

Step 1: Calculate the nominal value, discount and cash received The company issues 50,000 debentures of Rs 100 each. Their nominal value is $50,000 \times 100 =$ Rs $50,00,000$. The discount is $50,00,000 \times 10\% =$ Rs $5,00,000$, so the issue price per debenture is Rs 90 and the total application money received is $50,000 \times 90 =$ Rs $45,00,000$. Since redemption is at par, there is no premium on redemption and no additional loss to recognise.

Step 2: Record receipt and allotment of debentures Journal of Sujata Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 50,000 debentures at Rs 90 each)		45,00,000	45,00,000
	Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being 50,000 debentures of Rs 100 each allotted at a discount of 10%, redeemable at par)		45,00,000 5,00,000	50,00,000

Step 3: Write off the entire discount in the first year Of the total discount of Rs 5,00,000, the available Securities Premium Reserve absorbs Rs 3,00,000. The balance charged to Statement of Profit and Loss is $5,00,000 - 3,00,000 =$ Rs $2,00,000$.

Journal of Sujata Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Securities Premium Reserve A/c Dr. Statement of Profit and Loss A/c Dr. To Discount on Issue of Debentures A/c (Being the entire discount written off using Securities Premium Reserve and charging the balance to Statement of Profit and Loss)		3,00,000 2,00,000	5,00,000

Step 4: Conclusion Debentures of Rs 50,00,000 are issued for Rs 45,00,000. The discount of Rs 5,00,000 is fully written off: Rs 3,00,000 against Securities Premium Reserve and Rs 2,00,000 against Statement of Profit and Loss.

Quick Tip to Solve: Compute discount on face value, then deduct the available Securities Premium Reserve to find the first-year charge to profit and loss.

7(a). Chanda, Tara and Nisha were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the firm on 31st March, 2021. Pass necessary Journal Entries for the following transactions after all assets (other than cash and bank) and third party liabilities have been transferred to Realisation Account.

(i) A typewriter completely written off from the books was sold for Rs. 9,000.

(ii) Chanda took over stock worth Rs. 96,000 at Rs. 84,000.

(iii) Nisha was to get remuneration of Rs. 42,000 for completing the dissolution process.

(iv) Creditors of Rs. 23,500 took over all the investments at Rs. 10,000. Remaining amount was paid to them in Cash.

(v) Sundry Creditors amounting to Rs. 40,000 were settled at a discount of 10%. [5 marks]

Solution:

Concept:

- Once recorded assets and outside liabilities have been transferred to Realisation Account, subsequent receipts and payments on their disposal or settlement are recorded through that account. Their original accounts are not opened again.
- An unrecorded asset has no book balance to transfer; its sale proceeds are credited directly to Realisation Account. An asset taken over by a partner is debited to that partner's Capital Account at the agreed value.
- Remuneration due to a partner for dissolution work is an expense of realisation: debit Realisation Account and credit the partner's Capital Account. Settlement discounts are reflected in the smaller cash payment, without a separate discount entry.

Step 1: (i) Record sale of the written-off typewriter The typewriter has a nil book value, so no asset-transfer entry is required. Its actual sale receipt of Rs 9,000 increases cash and is a gain credited to Realisation Account.

Journal of Chanda, Tara and Nisha

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Cash A/c Dr. To Realisation A/c (Being written-off typewriter sold for cash)		9,000	 9,000

Step 2: (ii) Record stock taken over by Chanda Chanda's capital is debited with the agreed takeover price of Rs 84,000. The book value of Rs 96,000 has already been transferred to Realisation Account; the resulting loss of Rs 12,000 is therefore included automatically in that account's balance.

Journal of Chanda, Tara and Nisha

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Chanda's Capital A/c Dr. To Realisation A/c (Being stock taken over by Chanda at the agreed value)		84,000	 84,000

Step 3: (iii) Provide Nisha's dissolution remuneration The firm owes Nisha Rs 42,000 for completing the dissolution process. This is charged to Realisation Account and credited to her Capital Account. Since payment is not stated, cash is not credited at this stage.

Journal of Chanda, Tara and Nisha

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Realisation A/c Dr. To Nisha's Capital A/c (Being remuneration due to Nisha for dissolution work)		42,000	 42,000

Step 4: (iv) Settle creditors partly through investments and partly in cash Cash payable is Rs $23,500 -$ Rs $10,000 =$ Rs $13,500$. No separate entry is passed for investments taken over by the creditors because both the investments and the creditors have already been transferred to Realisation Account. Only the cash balance paid is now recorded.

Journal of Chanda, Tara and Nisha

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Realisation A/c Dr. To Cash A/c (Being balance paid to creditors after investments taken over)		13,500	 13,500

Step 5: (v) Settle sundry creditors at a discount The discount is Rs $40,000 \times 10\% =$ Rs $4,000$, so the actual cash payment is Rs $40,000 -$ Rs $4,000 =$ Rs $36,000$. The liability of Rs 40,000 was already credited to Realisation Account; debiting it with Rs 36,000 leaves the discount benefit within that account.

Journal of Chanda, Tara and Nisha

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Realisation A/c Dr. To Cash A/c (Being sundry creditors settled at a discount of 10%)		36,000	 36,000

Step 6: Conclusion The amounts recorded are Rs 9,000 for the typewriter receipt, Rs 84,000 for Chanda's stock takeover, Rs 42,000 for Nisha's remuneration, and cash payments of Rs 13,500 and Rs 36,000 to the respective creditors. Each journal entry has equal debit and credit amounts.

Quick Tip to Solve: After transfer to Realisation Account, record only the agreed takeover values and actual cash settlements; do not reopen the transferred asset or creditor accounts.

OR

7(b). Heena, Meena and Tina are partners in a firm sharing profits and losses equally. Their Balance Sheet on April 1st, 2020 was as follows :

Balance Sheet of Heena, Meena & Tina as on 1st April, 2020

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Bills Payable	12,000	Building	40,000
Sundry Creditors	18,000	Machinery	30,000
General Reserve	12,000	Furniture	12,000
Capitals : Heena	30,000	Stock	22,000
Meena	30,000	Debtors 20,000 Less : Provision for doubtful debts 1,000	19,000
Tina	28,000	Bank	7,000
	1,30,000		1,30,000

Tina retired from the firm on the above date and the following was agreed upon :

(a) Building was to be appreciated by 20%.

(b) Machinery was to be depreciated by Rs. 1,500.

(c) Provision for doubtful debts was to be increased to Rs. 1,500.

(d) Goodwill was valued at Rs. 21,000 on Tina's retirement and the same was to be treated without opening goodwill account.

(e) The balance in Tina's Capital account will be transferred to her Loan account.

Prepare Revaluation Account and Partners' Capital Accounts. [5 marks]

Solution:

Concept:

- Revaluation gains and losses belong to all partners in their old profit-sharing ratio. Here the old ratio of Heena, Meena and Tina is $1:1:1$.
- Accumulated general reserve is credited to the old partners' capital accounts. A retiring partner's goodwill share is borne by the continuing partners in their gaining ratio, without raising a Goodwill Account.
- The amount finally due to Tina is transferred from her Capital Account to her Loan Account, since no immediate payment is required.

Step 1: Calculate revaluation profit Building appreciation is Rs $40,000 \times 20\% =$ Rs $8,000$. Machinery depreciation is Rs 1,500. Only the increase in the doubtful-debts provision is charged: Rs $1,500 -$ Rs $1,000 =$ Rs 500. Thus revaluation profit is Rs $8,000 -$ Rs $1,500 -$ Rs $500 =$ Rs $6,000$, credited equally at Rs 2,000 each.

Revaluation Account (as on 1st April, 2020)

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Machinery	1,500	By Building	8,000
To Provision for doubtful debts	500		
To Heena's Capital A/c	2,000		
To Meena's Capital A/c	2,000		
To Tina's Capital A/c	2,000		
Total	8,000	Total	8,000

Step 2: Adjust reserve and Tina's goodwill share General reserve of Rs 12,000 is distributed equally, so each partner receives Rs 4,000. As no new ratio is specified, Heena and Meena continue in their existing equal relative ratio, $1:1$. Each partner's gain is $1/2 - 1/3 = 1/6$; hence their gaining ratio is also $1:1$.

Tina's share of goodwill is Rs $21,000 \times 1/3 =$ Rs $7,000$. Debit Heena's and Meena's capital accounts by Rs 3,500 each and credit Tina's capital account by Rs 7,000. This compensates Tina without opening a Goodwill Account.

Step 3: Prepare partners' capital accounts and transfer Tina's balance

Partners' Capital Accounts (as on 1st April, 2020)

Dr. Particulars	Heena Rs	Meena Rs	Tina Rs	Particulars	Heena Rs	Meena Rs	Tina Cr. Rs
To Tina's Capital	3,500	3,500	–	By Balance b/d	30,000	30,000	28,000
To Tina's Loan	–	–	41,000	By General Reserve	4,000	4,000	4,000
To Balance c/d	32,500	32,500	–	By Revaluation	2,000	2,000	2,000
				By Heena's Capital	–	–	3,500
				By Meena's Capital	–	–	3,500
Total	36,000	36,000	41,000	Total	36,000	36,000	41,000

Tina's amount due is Rs $28,000$ + Rs $4,000$ + Rs $2,000$ + Rs $7,000$ = Rs $41,000$. Transferring it to her loan closes her capital account. Heena and Meena each carry forward Rs $30,000$ + Rs $4,000$ + Rs $2,000$ − Rs $3,500$ = Rs $32,500$.

Step 4: Conclusion Revaluation profit is Rs 6,000. Heena's and Meena's closing capitals are Rs 32,500 each, and Rs 41,000 is transferred to Tina's Loan Account.

Quick Tip to Solve: Charge only the increase of Rs 500 in the provision; debit the continuing partners only for Tina's Rs 7,000 goodwill share.

8. From the following 'Receipts and Payments Account' of Space Club, prepare an Income and Expenditure Account for the year ended 31st March, 2021.

Receipts and Payments Account of Space Club

for the year ended 31st March, 2021

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d	5,000	By Salaries	31,000
To Subscriptions	73,000	By Machinery (1.7.2020)	40,000
To Sale of old furniture (Book value Rs. 2,000)	800	By 8% Investments	30,000
To Donations	41,800	By Balance c/d	19,600
	1,20,600		1,20,600

Additional Information :

(i) Subscriptions in arrears on 31.03.2021 were Rs. 2,000.

(ii) On 31st March, 2021, outstanding salaries were Rs. 4,000.

(iii) 8% Investments were purchased on 31st March, 2021.

(iv) The club owned Machinery of Rs. 1,00,000 on 1st April 2020. Depreciate Machinery @ 6% p.a. [5 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue income and revenue expenses belonging to the current accounting year on the accrual basis, irrespective of when cash is received or paid.
- Outstanding subscriptions are added to subscriptions received, and outstanding salaries are added to salaries paid. General donations, for which no specific purpose is stated, are revenue income.
- Purchases of machinery and investments are capital payments. Only machinery depreciation and the loss on disposal of old furniture enter the current year's Income and Expenditure Account.

Step 1: Adjust subscriptions and salaries for outstanding amounts The closing subscription arrears represent income earned during the year but still receivable. No opening arrears or advance subscriptions are given. Hence,

$$\text{Subscription income} = 73,000 + 2,000 = \text{Rs } 75,000.$$

Salaries outstanding at the year end must also be charged, even though unpaid:

$$\text{Salary expense} = 31,000 + 4,000 = \text{Rs } 35,000.$$

Donations of Rs 41,800 have no stated capital purpose or restriction, so the entire amount is credited as revenue income.

Step 2: Calculate depreciation and loss on sale of furniture The opening machinery was held for the full year. The additional machinery purchased on 1st July, 2020 was used for nine months up to 31st

March, 2021. Therefore,

$$\text{Opening machinery depreciation} = 1,00,000 \times \frac{6}{100} = \text{Rs } 6,000,$$
$$\text{Addition depreciation} = 40,000 \times \frac{6}{100} \times \frac{9}{12} = \text{Rs } 1,800,$$
$$\text{Total depreciation} = 6,000 + 1,800 = \text{Rs } 7,800.$$

Furniture with book value Rs 2,000 was sold for Rs 800. Its loss on sale is $2,000 - 800 = \text{Rs } 1,200$. The sale proceeds themselves are a capital receipt; only this loss is charged as expenditure.

Step 3: Identify capital items and prepare the account The investment purchase of Rs 30,000 and machinery purchase of Rs 40,000 are excluded from revenue expenditure. The investments were acquired on the last day of the accounting year, so no investment interest is recognised for this year. Opening cash Rs 5,000 and closing cash Rs 19,600 are balance sheet items and do not enter this account.

Income and Expenditure Account of Space Club for the year ended 31st March, 2021

Expenditure	Amount (Rs)	Income	Amount (Rs)
To Salaries (31,000 + 4,000)	35,000	By Subscriptions	75,000
To Depreciation on machinery	7,800	(73,000 + 2,000)	
To Loss on sale of furniture	1,200	By Donations	41,800
To Surplus (excess of income over expenditure)	72,800		
Total	1,16,800	Total	1,16,800

Revenue expenditure before surplus is $35,000 + 7,800 + 1,200 = \text{Rs } 44,000$. Income is $75,000 + 41,800 = \text{Rs } 1,16,800$. The balancing surplus is transferred to the club's capital fund.

Step 4: Conclusion Space Club's surplus for the year ended 31st March, 2021 is Rs $1,16,800 -$ Rs $44,000 = \boxed{\text{Rs } 72,800}$.

Quick Tip to Solve: Apply nine months' depreciation to the machinery bought on 1st July, and do not calculate a full year's interest on investments bought on 31st March.

9. Pass journal entries for issue of debentures for the following transactions :

(i) Issued 3,000, 11% debentures of Rs. 100 each at par, redeemable at 5% premium.

(ii) Issued 4,000, 12% debentures of Rs. 100 each at 5% premium, redeemable at 10% premium.

(iii) Issued Rs. 3,00,000, 9% debentures of Rs. 100 each at par redeemable at par.

(iv) Issued Rs. 7,00,000, 9% debentures at a discount of 10% redeemable at par.

(v) Issued Rs. 10,00,000, 9% debentures of Rs. 100 each at 10% discount redeemable at 5% premium.

[5 marks]

Solution:

Concept:

- Debentures are credited at their face value. Bank is debited with the issue proceeds; a premium received on issue is credited to Securities Premium Reserve.
- A discount on issue and a premium payable on redemption represent loss on issue of debentures. The redemption premium is recognised at issue by crediting Premium on Redemption of Debentures Account.
- The stated interest rate identifies the debenture account; it does not change the amount received on issue. No interest entry or actual redemption entry is required here.

Step 1: (i) Issue at par, redeemable at a premium Face value and bank receipt are $3,000 \times 100 =$ Rs $3,00,000$. Redemption premium is $3,00,000 \times 5\% =$ Rs $15,000$, recognised as loss on issue.
Journal entries (Date and L.F. are unspecified):

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,00,000	
	Loss on Issue of Debentures A/c Dr.		15,000	
	To 11% Debentures A/c			3,00,000
	To Premium on Redemption of Debentures A/c			15,000
	(Being 3,000 debentures issued at par, redeemable at 5% premium)			

Step 2: (ii) Issue at a premium, redeemable at a premium Face value is $4,000 \times 100 =$ Rs $4,00,000$. Issue premium is Rs 20,000 and bank receives Rs 4,20,000. Redemption premium is $4,00,000 \times 10\% =$ Rs $40,000$. Record the issue premium and the loss separately.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,20,000	
	Loss on Issue of Debentures A/c Dr.		40,000	
	To 12% Debentures A/c			4,00,000
	To Securities Premium Reserve A/c			20,000
	To Premium on Redemption of Debentures A/c			40,000
	(Being 4,000 debentures issued at 5% premium, redeemable at 10% premium)			

Step 3: (iii) Issue at par, redeemable at par Both issue proceeds and redemption liability equal the face value of Rs 3,00,000. There is no discount, issue premium or redemption premium.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To 9% Debentures A/c (Being debentures issued at par and redeemable at par)		3,00,000	 3,00,000

Step 4: (iv) Issue at a discount, redeemable at par Discount is $7,00,000 \times 10\% = \text{Rs } 70,000$. Bank receives $7,00,000 - 70,000 = \text{Rs } 6,30,000$. The full face value remains credited to Debentures Account.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being debentures issued at 10% discount, redeemable at par)		6,30,000 70,000	 7,00,000

Step 5: (v) Issue at a discount, redeemable at a premium Discount is $10,00,000 \times 10\% = \text{Rs } 1,00,000$; bank receives Rs 9,00,000. Redemption premium is $10,00,000 \times 5\% = \text{Rs } 50,000$. Total loss on issue is $1,00,000 + 50,000 = \text{Rs } 1,50,000$.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Being debentures issued at 10% discount, redeemable at 5% premium)		9,00,000 1,50,000	 10,00,000 50,000

Step 6: Conclusion The entries above record all five issues. The respective bank receipts are Rs 3,00,000; Rs 4,20,000; Rs 3,00,000; Rs 6,30,000; and Rs 9,00,000. Each entry balances, including the redemption premium recognised at issue.

Quick Tip to Solve: First credit face value, calculate bank from the issue price, then credit redemption premium and debit the resulting loss; never deduct redemption premium from bank receipts.

Part B (10 marks)

Option - I (Analysis of Financial Statements)

10. State the objective of preparing 'Cash Flow Statement'. [2 marks]

Solution:

Concept:

- A Cash Flow Statement explains changes in cash and cash equivalents during an accounting period by reporting cash inflows and cash outflows.
- Cash flows are classified into operating, investing and financing activities, so that users can identify

the sources from which cash was generated and the purposes for which it was used.

Step 1: Identify the main objective The main objective of preparing a Cash Flow Statement is to provide information about the historical changes in cash and cash equivalents of an enterprise during a particular period. It explains how the opening cash and cash equivalents balance changed into the closing balance.

Step 2: Explain its usefulness By showing cash generated and used under operating, investing and financing activities separately, the statement helps users assess the enterprise's ability to generate cash and cash equivalents and its needs for utilising those cash flows. This information is useful in judging liquidity and the ability to meet payment obligations; accounting profit alone does not show the cash available.

Step 3: Conclusion The objective is to explain changes in cash and cash equivalents during the period, classified into operating, investing and financing activities, and thereby assist assessment of the enterprise's cash-generating ability and cash requirements.

Quick Tip to Solve: State both what changes are explained (cash and cash equivalents) and the three activity classifications.

11(a). From the following information, prepare Comparative statement of Profit and Loss for the year ended 31st March 2021.

Particulars	2020-21 (Rs.)	2019-20 (Rs.)
Revenue from Operations	4,00,000	2,00,000
Other Income	80,000	40,000
Expenses - 50% of Revenue from operations		
Tax Rate 50%		

[3 marks]

Solution:

Concept:

- A comparative statement shows the previous year's figures alongside the current year's figures, their absolute change and percentage change.
- Absolute change equals current-year amount less previous-year amount; percentage change is absolute change divided by the previous-year amount, multiplied by 100.
- Total income equals revenue from operations plus other income. Profit before tax is total income less expenses, and profit after tax is profit before tax less tax.

Step 1: Calculate expenses, profits and tax for both years For 2019-20, expenses are $50\% \times$ Rs $2,00,000 =$ Rs $1,00,000$. Total income is Rs $2,00,000 +$ Rs $40,000 =$ Rs $2,40,000$, so profit before tax is Rs 1,40,000. Tax at 50% of profit before tax is Rs 70,000, leaving profit after tax of Rs 70,000. For 2020-21, expenses are $50\% \times$ Rs $4,00,000 =$ Rs $2,00,000$. Total income is Rs $4,00,000 +$ Rs $80,000 =$ Rs $4,80,000$, so profit before tax is Rs 2,80,000. Tax is Rs 1,40,000 and profit after tax is Rs 1,40,000. Tax is calculated on profit before tax, whereas expenses are calculated on revenue from operations.

Step 2: Prepare the comparative statement Comparative Statement of Profit and Loss for the year ended 31st March, 2021

Particulars	2019-20 (Rs)	2020-21 (Rs)	Increase (Rs)	Increase (%)
I. Revenue from operations	2,00,000	4,00,000	2,00,000	100
II. Other income	40,000	80,000	40,000	100
III. Total income (I + II)	2,40,000	4,80,000	2,40,000	100
IV. Expenses	1,00,000	2,00,000	1,00,000	100
V. Profit before tax (III - IV)	1,40,000	2,80,000	1,40,000	100
VI. Tax expense (50%)	70,000	1,40,000	70,000	100
VII. Profit after tax (V - VI)	70,000	1,40,000	70,000	100

Each current-year figure is twice its corresponding previous-year figure. For example, the percentage increase in profit after tax is $\frac{1,40,000-70,000}{70,000} \times 100 = 100\%$. The same calculation gives a 100% increase for each line of the statement.

Step 3: Conclusion Profit after tax increased by Rs 70,000, from Rs 70,000 in 2019-20 to Rs 1,40,000 in 2020-21, representing a 100% increase. All the other reported amounts also increased by 100%.

Quick Tip to Solve: Use the previous year as the denominator for percentage change, and calculate tax on profit before tax.

OR

11(b). Prepare a 'Common Size statement of Profit and Loss' of Birla Ltd. for the year ended 31st March, 2021 from the following information :

Particulars	2020-21 (Rs.)	2019-20 (Rs.)
Revenue from Operations	20,00,000	10,00,000
Purchase of stock in trade	4,00,000	2,00,000
Other expenses	40,000	20,000
Tax Rate @ 50%		

[3 marks]

Solution:

Concept:

- A common size statement expresses each item as a percentage of revenue from operations of the same year. Revenue from operations is therefore the base, taken as 100%.
- For each year, Common size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Profit before tax equals revenue less total expenses; profit after tax equals profit before tax less tax.

Step 1: Calculate expenses, profit and tax For 2020-21, total expenses are Rs $4,00,000 + 40,000 = 4,40,000$. Thus profit before tax is Rs $20,00,000 - 4,40,000 = 15,60,000$, tax at 50% is Rs $7,80,000$, and profit after tax is Rs $7,80,000$. For 2019-20, total expenses are Rs $2,00,000 + 20,000 = 2,20,000$. Profit before tax is Rs $10,00,000 - 2,20,000 = 7,80,000$, tax is Rs $3,90,000$, and profit after tax is Rs

$3,90,000$.

Step 2: Prepare the common size statement Purchases are $4,00,000/20,00,000 \times 100 = 20\%$ and other expenses are $40,000/20,00,000 \times 100 = 2\%$ in 2020-21. The corresponding percentages for 2019-20 are also 20% and 2%. Consequently, total expenses are 22%, profit before tax is 78%, and tax and profit after tax are each 39% in both years.

Birla Ltd.
Common Size Statement of Profit and Loss
for the year ended 31st March, 2021

Particulars	2020-21		2019-20	
	Amount (Rs)	%	Amount (Rs)	%
I. Revenue from operations	20,00,000	100	10,00,000	100
II. Other income	—	—	—	—
III. Total revenue	20,00,000	100	10,00,000	100
IV. Expenses:				
Purchase of stock in trade	4,00,000	20	2,00,000	20
Other expenses	40,000	2	20,000	2
Total expenses	4,40,000	22	2,20,000	22
V. Profit before tax (III–IV)	15,60,000	78	7,80,000	78
VI. Tax expense	7,80,000	39	3,90,000	39
VII. Profit after tax (V–VI)	7,80,000	39	3,90,000	39

Step 3: Conclusion Birla Ltd.'s profit after tax is Rs $7,80,000$ for 2020-21 and Rs $3,90,000$ for 2019-20, representing 39% of revenue from operations in each year. Its expense and profit proportions remain unchanged.

Quick Tip to Solve: Use each year's own revenue as the denominator; the tax rate of 50% applies to profit before tax, so tax is 39% of revenue here.

12. Following was the Balance Sheet of Bajaj Ltd. as on 31st March, 2021 :

Bajaj Ltd.

Balance Sheet as on 31st March, 2021

Particulars	Note No.	31.03.2021 (Rs.)	31.03.2020 (Rs.)
I. Equity and Liabilities :			
1. Shareholder's funds :			
(a) Share Capital		19,00,000	17,00,000
(b) Reserves and Surplus	1	6,00,000	3,00,000
2. Non-Current Liabilities : 12% long term borrowings		5,00,000	4,00,000
3. Current Liabilities :			
(a) Short term Borrowings	2	1,70,000	1,75,000
(b) Short term Provisions	3	2,00,000	1,65,000
Total		33,70,000	27,40,000
II. Assets :			
1. Non Current Assets : Fixed Assets			
(i) Tangible Assets	4	25,00,000	21,00,000
(ii) Intangible Assets	5	4,00,000	3,00,000
2. Current Assets :			
(a) Current Investments		1,40,000	1,70,000
(b) Inventories		2,60,000	1,30,000
(c) Cash and Cash Equivalents		70,000	40,000
Total		33,70,000	27,40,000

Notes to Accounts

Note No.	Particulars	31.03.2021 (Rs.)	31.03.2020 (Rs.)
1	Reserves & Surplus : Surplus i.e. Balance in Statement of Profit and Loss	6,00,000	3,00,000
2	Short term borrowings : Bank Overdraft	1,70,000	1,75,000
3	Short term provisions : Provision for tax	2,00,000	1,65,000
4	Tangible Assets : Machinery	25,00,000	21,00,000
5	Intangible Assets : Goodwill	4,00,000	3,00,000

Additional Information :

(i) A machine of the book value of Rs. 40,000 was sold for Rs. 50,000.

(ii) Depreciation charged on machinery during the year was Rs. 2,00,000.

(iii) Rs. 1,00,000, 12% long term borrowings were obtained on 31-3-2021.

Calculate cash flows from investing and financing activities. [5 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire machinery and goodwill, proceeds from sale of machinery, and the change in current investments which are shown separately from cash equivalents.
- Financing activities change share capital and borrowings. Interest paid by a non-financial enterprise is a financing outflow; bank overdraft is treated as a short-term borrowing.
- Machinery balances are carrying amounts. Reconcile opening carrying amount plus purchases less the book value sold and depreciation to obtain closing carrying amount.

Step 1: Calculate purchases of machinery Let cash purchases of machinery be P. The machine disposed of had a book value of Rs 40,000; its sale proceeds of Rs 50,000 are a separate cash receipt. Thus,

$$21,00,000 + P - 40,000 - 2,00,000 = 25,00,000,$$

$$P = \text{Rs } 6,40,000.$$

The profit on sale is Rs 10,000, but investing activities record the full sale proceeds, not this profit. Depreciation is not a cash payment and is used here only to reconstruct purchases.

Step 2: Prepare the investing activities section Goodwill increased by Rs 1,00,000, representing its purchase. Current investments decreased by Rs 30,000, representing proceeds from their sale. No non-cash acquisition, investment loss or other adjustment is given.

Bajaj Ltd.: Cash Flow from Investing Activities

Particulars	Amount (Rs)
Proceeds from sale of machinery	50,000
Proceeds from sale of current investments	30,000
Total investing inflows	80,000
Purchase of machinery	(6,40,000)
Purchase of goodwill	(1,00,000)
Total investing outflows	(7,40,000)
Net cash used in investing activities	(6,60,000)

Step 3: Calculate interest paid and financing movements Share capital increased by $19,00,000 - 17,00,000 = \text{Rs } 2,00,000$, giving a cash inflow. Long-term borrowings increased by Rs 1,00,000. The additional borrowing was obtained on 31st March, 2021, so it bears no interest for the year just ended. Interest is therefore calculated on the opening borrowing only:

$$\text{Interest paid} = 4,00,000 \times \frac{12}{100} = \text{Rs } 48,000.$$

Bank overdraft declined from Rs 1,75,000 to Rs 1,70,000; this repayment is a financing outflow of Rs 5,000. There is no outstanding-interest adjustment in the information supplied.

Step 4: Prepare the financing activities section **Bajaj Ltd.: Cash Flow from Financing Activities**

Particulars	Amount (Rs)
Proceeds from issue of share capital	2,00,000
Proceeds from long-term borrowings	1,00,000
Total financing inflows	3,00,000
Repayment of bank overdraft	(5,000)
Interest paid on long-term borrowings	(48,000)
Total financing outflows	(53,000)
Net cash generated from financing activities	2,47,000

Inventories, tax provision and the surplus in the Statement of Profit and Loss relate to operating activities and are not included in these two sections.

Step 5: Conclusion Net cash used in investing activities is $\boxed{\text{Rs } 6,60,000}$, and net cash generated from financing activities is $\boxed{\text{Rs } 2,47,000}$.

Quick Tip to Solve: Reconstruct machinery purchases using book value sold, but enter actual sale proceeds in investing activities; calculate interest only on borrowings outstanding during the year.

Option - II (Computerised Accounting)

10. Give the meaning of the terms 'Report' and 'Report Wizard'. [2 marks]

Solution:

Concept:

- A database stores related data in tables; a report presents selected data as useful information in a planned format.
- A wizard is a guided facility which asks the user to choose settings step by step and then creates the required object.

Step 1: Report A Report is a database object used to organise and present information retrieved from tables or queries in a formatted, readable form, usually for viewing or printing. It can arrange records under headings, group similar records and show totals or summaries. For example, an accounts report may list customers and their outstanding balances with a total amount receivable. Its purpose is to communicate the stored information clearly.

Step 2: Report Wizard Report Wizard is a facility that helps the user create a report through a sequence of guided steps. The user selects the source table or query, the fields to include, grouping and sorting preferences, and the layout or style. The wizard then produces the report according to these choices, reducing the need to design its layout manually.

Step 3: Conclusion A Report is the formatted presentation of database information; Report Wizard is the guided tool used to create such a report.

Quick Tip to Solve: Distinguish the finished output, Report, from the step-by-step creation tool, Report Wizard.

11(a). Explain the terms 'Basic Pay', 'House Rent Allowance' and 'Tax Deducted at Source' as used in preparation of payroll. [3 marks]

Solution:

Concept:

- Payroll records the earnings payable to employees, deductions from those earnings and the resulting net salary.
- Basic Pay and House Rent Allowance are components of earnings. Tax Deducted at Source is a deduction from salary and is deposited with the government.

Step 1: Basic Pay Basic Pay is the fixed core amount of salary payable to an employee for the work performed, according to the employee's pay scale or employment terms. It excludes allowances, bonuses, overtime and other additional benefits. It is entered separately in the payroll and commonly forms the base for calculating allowances or contributions specified as a percentage of basic salary. Thus, basic pay is only one component of gross salary, rather than the total salary earned.

Step 2: House Rent Allowance House Rent Allowance (HRA) is an allowance paid by an employer to an employee to help meet the cost of rented residential accommodation. It is generally determined according to the employer's rules, often as a percentage of basic pay. In payroll preparation, it is shown as an earning and added to basic pay and other earnings to determine gross salary. It is therefore distinct from a deduction or recovery from salary.

Step 3: Tax Deducted at Source Tax Deducted at Source (TDS) is income tax deducted by the employer from the employee's salary before paying the salary to the employee. The employer deposits the amount deducted with the government on the employee's behalf. In payroll, TDS is recorded among deductions and reduces the amount actually payable to the employee. It is a part of the employee's tax payment, rather than an extra allowance paid by the employer.

Step 4: Conclusion Basic Pay is the fixed core salary; HRA is an earning towards residential rent; TDS is income tax withheld from salary and deposited with the government. Basic Pay and HRA increase gross earnings, while TDS reduces take-home pay.

Quick Tip to Solve: In a payroll statement, place Basic Pay and HRA under earnings and TDS under deductions.

OR

11(b). Explain 'Accounts Group' and 'Loan' (Liabilities). [3 marks]

Solution:

Concept:

- A computerised accounting system classifies ledger accounts into groups according to their nature so that transactions can be summarised systematically.
- A liability represents an amount owed by the business to an outside party; loans received are therefore classified on the liabilities side.

Step 1: Accounts Group An Accounts Group is a collection of ledger accounts having similar

characteristics or a common nature. Instead of treating each ledger as an unrelated record, the accounting software places related ledgers under a suitable group. For example, the accounts of individual customers can be placed under Sundry Debtors, while the accounts of suppliers can be placed under Sundry Creditors. Grouping helps the software consolidate balances and prepare reports such as the trial balance, trading and profit and loss account, and balance sheet under appropriate heads. Thus, a group provides the classification, while each ledger records transactions of a particular account.

Step 2: Loan (Liabilities) Loan (Liabilities) is the account group used for amounts borrowed by the business from banks, financial institutions or other persons. These amounts are repayable and therefore constitute liabilities of the business. For example, a bank term-loan ledger is classified under the appropriate loan-liability group. In accounting software, loans may be organised into subgroups such as secured loans and unsecured loans; a secured loan is backed by security, whereas an unsecured loan is not. The balance of a loan received normally represents a credit balance and is reported as a liability in the balance sheet. A loan given by the business is an asset and does not belong to this group.

Step 3: Conclusion Accounts Group brings together ledger accounts of a similar nature. Loan (Liabilities) groups the business's borrowings that are repayable to lenders and shown as liabilities.

Quick Tip to Solve: Check the direction of lending: a loan received belongs to liabilities, while a loan given belongs to assets; then group ledgers by their common nature.

12. State the steps in the installation of 'Computerised Accounting System'. [5 marks]

Solution:

Concept:

- Installation places the accounting application and its supporting files on the computer so that the software can run.
- The application directory stores program files, the data directory stores accounting records, and the configuration directory stores settings. Their locations are selected during setup.

Step 1: Insert the installation CD Insert the CD containing the accounting software into the computer's CD drive. The installation program on this disc provides the files required to set up the application.

Step 2: Start the installation program Open My Computer from the desktop, select the drive containing the CD, and double-click `install.exe`. Alternatively, choose Start, then Run, and enter the installation file's path by typing the drive letter E, a colon, a backslash and the filename `install.exe`, if the CD is in drive E. These are two alternative ways to launch the same installer.

Step 3: Review the installation directories The setup window displays default locations for the application, data and configuration files. Retain these locations or enter the desired drive and directory names. For example, the application may be placed in the Accounting folder on drive D instead of a default folder on drive C. Check the displayed paths before proceeding, because they determine where the program, records and settings will be stored.

Step 4: Install and complete the setup Click Install to begin copying and configuring the software

files. Allow the installation process to finish. When the software displays its successful-installation message, the CD may be removed. This completes software installation; the installed application is then available for use.

Step 5: Conclusion The sequence is: insert the CD, run the installer, confirm or change the application/data/configuration directories, and click Install. Remove the CD after successful completion.

Quick Tip to Solve: Remember the sequence CD, installer, directories, Install; mention both ways of starting the installer and all three directory types.