# CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-1-2

## 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 Navjeevan Club as on 31.3.2021.**

| Particulars | Amount (Rs.) |
|---|---|
| **Prize fund as on 1-4-2020** | **2,00,000** |
| **Donations for Prize Fund received during the year** | **80,000** |
| **Prizes awarded during the year 2020-21** | **60,000** |

[2 marks]

**Solution:**

**Concept:**

- A specific fund is maintained for a restricted purpose. Donations received specifically for prizes are added to the Prize Fund, rather than treated as general income.
- Expenditure on prizes is deducted from the same fund. The unutilised balance is shown separately on the liabilities side of the club's Balance Sheet.

**Step 1:** Calculate the closing Prize Fund Add the donation earmarked for prizes to the opening fund, then deduct prizes awarded during the year:

$$\text{Funds available} = 2,00,000 + 80,000 = \text{Rs } 2,80,000,$$
$$\text{Closing Prize Fund} = 2,80,000 - 60,000 = \text{Rs } 2,20,000.$$

The prize expenditure is fully covered by the fund, so no part of it needs to be charged to the Income and Expenditure Account.

**Step 2:** Present the Balance Sheet extract

**Navjeevan Club**

**Balance Sheet (Extract) as at 31st March, 2021**

| Liabilities | Amount (Rs) |
|---|---|
| Prize Fund as on 1st April, 2020 | 2,00,000 |
| Add: Donations for Prize Fund | 80,000 |
| Subtotal | 2,80,000 |
| Less: Prizes awarded | (60,000) |
| **Prize Fund as on 31st March, 2021** | **2,20,000** |

Only the information relevant to the Prize Fund is shown; the question does not provide the club's other assets or liabilities.

**Step 3:** Conclusion The closing Prize Fund of **Rs 2,20,000** appears separately on the liabilities side of Navjeevan Club's Balance Sheet as at 31st March, 2021.

**Quick Tip to Solve:** For an earmarked fund, use opening fund plus restricted receipts minus related expenses; here both the Rs 80,000 donation and Rs 60,000 prizes belong to the Prize Fund.

**2. State any two situations when dissolution of a partnership firm takes place on Court's orders.**

[2 marks]

**Solution:**

**Concept:**

- Dissolution of a firm ends the partnership relationship among all its partners. A court may order dissolution on specified grounds when an appropriate suit is brought.
- A partner's ability to understand and perform partnership obligations is important for the continuation of the firm. Unsoundness of mind and permanent incapacity are two distinct grounds for court-ordered dissolution.

**Step 1:** State the ground of unsoundness of mind The court may order dissolution when a partner becomes of unsound mind. In this situation a suit may be brought by that partner's next friend or by another partner. The ground concerns the partner's mental capacity to participate in the partnership and is not simply a disagreement among partners.

**Step 2:** State the ground of permanent incapacity The court may also order dissolution when a partner becomes permanently incapable of performing duties as a partner. Another partner may bring a suit on this ground. The incapacity must be permanent; a temporary inability to attend to business does not by itself describe this particular ground.

**Step 3:** Conclusion Any two situations are: **a partner becoming of unsound mind**, and **a partner becoming permanently incapable of performing duties as a partner**.

**Quick Tip to Solve:** State the grounds precisely: pair unsoundness of mind with permanent incapacity, retaining the word "permanent" in the second ground.

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**3. A, B and C were partners in a firm sharing profits in the ratio of 6 : 5 : 4. On 31st March, 2021, A decided to retire from the firm. Goodwill of the firm on A's retirement was valued at Rs. 90,000.**

**Pass necessary Journal Entry on A's retirement for the treatment of goodwill without opening goodwill account.**

[2 marks]

**Solution:**

**Concept:**

- The retiring partner is compensated for their share of the firm's goodwill by the continuing partners in their gaining ratio. No Goodwill Account is opened when the adjustment is made directly through partners' capital accounts.
- If no new profit-sharing ratio is specified, the continuing partners retain their relative old ratio. Therefore B and C share future profits, and gain A's share, in the ratio $5 : 4$.

**Step 1:** Calculate the goodwill adjustment **Working Notes**

A's old share is $6/(6+5+4) = 6/15$. Thus:

$$\text{A's share of goodwill} = 90,000 \times \frac{6}{15} = \text{Rs } 36,000.$$

The new shares of B and C are $5/9$ and $4/9$. Their gains are:

$$\text{B's gain} = \frac{5}{9} - \frac{5}{15} = \frac{10}{45},$$
$$\text{C's gain} = \frac{4}{9} - \frac{4}{15} = \frac{8}{45}.$$

The gaining ratio is $10 : 8 = 5 : 4$. B bears $36,000 \times 5/9 =$ Rs $20,000$ and C bears $36,000 \times 4/9 =$ Rs $16,000$.

**Step 2:** Record the journal entry

**Journal of the Firm**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 31.3.2021 | B's Capital A/c Dr. | | 20,000 | |
| | C's Capital A/c Dr. | | 16,000 | |
| | To A's Capital A/c | | | 36,000 |
| | (Being A's share of goodwill adjusted through the continuing partners' capital accounts in their gaining ratio of 5:4) | | | |

Debiting B and C reduces their capital balances for the benefit acquired; crediting A recognises the amount due to the retiring partner. Total debits equal the credit of Rs 36,000.

**Step 3:** Conclusion Debit **B's Capital Account by Rs 20,000** and **C's Capital Account by Rs 16,000**; credit **A's Capital Account by Rs 36,000**. No Goodwill Account is opened.

**Quick Tip to Solve:** First take only A's share of goodwill, Rs 36,000; then divide it between B and C in 5:4, rather than distributing the firm's entire goodwill of Rs 90,000.

**4. Riya, Siya and Diya were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Riya died on 1st July, 2021. Riya's share of profit till the time of her death was to be calculated on the basis of average profits of past 5 years.**

**The Profits of the firm for the last five years were :**

| Year | Rs. |
|---|---|
| 2016-17 | 60,000 |
| 2017-18 | 50,000 |
| 2018-19 | 90,000 |
| 2019-20 | 80,000 |
| 2020-21 | 1,20,000 |

**Calculate Riya's share of profit till the time of her death and pass necessary journal entry for the same.** [3 marks]

**Solution:**

**Concept:**

- A deceased partner is entitled to the share of profit earned from the start of the accounting year up to the date of death. When actual interim profit is unavailable, estimate it on the agreed basis.

- Estimated share of profit equals average annual profit multiplied by the fraction of the year elapsed and the deceased partner's profit-sharing fraction. Credit this amount to the deceased partner's Capital Account by debiting Profit and Loss Suspense Account.

**Step 1:** Calculate the average annual profit **Working Notes:** The question specifies the simple average of the preceding five years; hence give each year's profit equal weight.

$$\begin{aligned}\text{Total profit} &= 60,000 + 50,000 + 90,000 + 80,000 + 1,20,000\\ &= \text{Rs } 4,00,000,\\ \text{Average annual profit} &= \frac{4,00,000}{5} = \text{Rs } 80,000.\end{aligned}$$

**Step 2:** Determine the period and Riya's share The accounting year begins on 1 April 2021. Riya died on 1 July 2021, so the elapsed period is April, May and June, namely three months. Her share in the ratio $3:2:1$ is $3/(3+2+1) = 3/6$.

$$\begin{aligned}\text{Estimated firm profit for three months} &= 80,000 \times \frac{3}{12} = \text{Rs } 20,000,\\ \text{Riya's share} &= 20,000 \times \frac{3}{6} = \text{Rs } 10,000.\end{aligned}$$

Use three months, not six months: the period starts with the financial year, not the calendar year.

**Step 3:** Record the profit due to Riya The credit increases the amount owed to Riya's estate. Profit and Loss Suspense Account is debited because this is an estimate of profit before preparation of the firm's final accounts.

**Journal of the Firm**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1 July 2021 | Profit and Loss Suspense A/c Dr.<br>To Riya's Capital A/c<br>(Being Riya's share of profit up to her death credited to her Capital Account) | | 10,000 | 10,000 |

**Step 4:** Conclusion Riya's share of profit up to her death is **Rs 10,000**. Debit Profit and Loss Suspense Account and credit Riya's Capital Account by Rs 10,000 each.

**Quick Tip to Solve:** For death on 1 July, count April to June: multiply the five-year average by $3/12$, then by Riya's $3/6$ share.

**5(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 | Debit Amount (Rs.) | Credit Amount (Rs.) |
|---|---|---|---|---|
| 2021 Jan. 1 | Machinery A/c. Dr.<br>To _____<br>(Purchased Machinery for Rs. 12,50,000 from Mohan Equipment Ltd.) | | _____ | _____ |
| " 1 | Mohan Equipment Ltd. A/c. Dr.<br>To _____<br>To Securities Premium Reserve<br>(Issued 8000, 9% Debentures of Rs. 100 each at a premium of 25%). | | _____ | _____<br>_____ |
| " 1 | _____ Dr.<br>To _____<br>(_____) | | _____ | _____ |

[3 marks]

**Solution:**

**Concept:**

- Machinery purchased on credit is debited at its purchase price and the vendor is credited. Settlement of that liability is then recorded separately.
- When debentures are issued at a premium, credit the Debentures Account with nominal value and Securities Premium Reserve with the premium. Their total is the amount of the vendor's claim discharged by the issue.
- An acceptance given to a vendor creates a Bills Payable liability. Debit the vendor and credit Bills Payable for the unpaid balance.

**Step 1:** Calculate the consideration discharged by debentures **Working Notes:** The 9% denotes the annual rate of interest on debentures; it does not determine their issue price. Each Rs 100 debenture is issued at a premium of 25%, giving an issue price of Rs 125.

$$\begin{aligned} \text{Nominal value} &= 8,000 \times 100 = \text{Rs } 8,00,000, \\ \text{Premium} &= 8,00,000 \times \frac{25}{100} = \text{Rs } 2,00,000, \\ \text{Vendor's claim discharged} &= 8,00,000 + 2,00,000 \\ &= \text{Rs } 10,00,000. \end{aligned}$$

**Step 2:** Find the amount of the acceptance Machinery costs Rs 12,50,000, while the debentures and their premium discharge Rs 10,00,000 of the vendor's balance. Therefore the acceptance payable

after three months is:

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

The vendor is thus debited in two settlement entries, totalling Rs 12,50,000. This exactly cancels the credit raised on purchase.

**Step 3:** Complete the journal entries The completed journal is shown below. The final entry records the acceptance, so Bills Payable, rather than Bank, is credited on 1 January.

**Journal of Surya Ltd.**

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

**Step 4:** Conclusion The machinery purchase is recorded at **Rs 12,50,000**. Debentures of **Rs 8,00,000** and premium of **Rs 2,00,000** discharge Rs 10,00,000; the remaining **Rs 2,50,000** is settled by Bills Payable.

**Quick Tip to Solve:** Deduct the debentures' issue value, Rs 10,00,000, from the vendor's balance; deducting only their face value would overstate the acceptance.

OR

**5(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 are credited at their face value. When issued at a discount, the amount received is less than the liability recorded; the difference is debited to Discount on Issue of Debentures Account.
- The discount can be written off against the available Securities Premium Reserve. The balance specified for write-off in the first year is charged to the Statement of Profit and Loss.

**Step 1:** Calculate the issue proceeds and discount **Working Notes**

The face value of the issue is $50,000 \times \text{Rs } 100 = \text{Rs } 50,00,000$. The discount per debenture is $100 \times 10\% = \text{Rs } 10$, so each applicant pays Rs 90. Therefore,

$$\text{Discount on issue} = 50,000 \times 10 = \text{Rs } 5,00,000,$$
$$\text{Bank receipts} = 50,000 \times 90 = \text{Rs } 45,00,000.$$

Redemption is at par, so there is no premium on redemption. The 9% rate is the annual interest rate and does not affect the proceeds or discount on this issue.

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

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

**Step 3:** Write off the entire discount in the first year Use the available reserve of Rs 3,00,000 first. The balance charged to the Statement of Profit and Loss is $5,00,000 - 3,00,000 = \text{Rs } 2,00,000$. The five-year redemption period does not change the question's express requirement to write off the balance in the first year.

**Journal of Sujata Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Securities Premium Reserve A/c Dr.<br>Statement of Profit and Loss Dr.<br>To Discount on Issue of Debentures A/c<br>(Being discount on issue written off against Securities Premium Reserve and the Statement of Profit and Loss) | | 3,00,000<br>2,00,000 | <br><br>5,00,000 |

**Step 4:** Conclusion Sujata Ltd. receives Rs 45,00,000 and records 9% debentures of Rs 50,00,000. The entire discount of Rs 5,00,000 is written off: Rs 3,00,000 against Securities Premium Reserve and Rs 2,00,000 against the Statement of Profit and Loss.

**Quick Tip to Solve:** Calculate discount on face value, not cash proceeds. Redemption at par creates no extra loss; apply the Rs 3,00,000 reserve before charging the remaining discount to profit and loss.

**6(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:**

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

**Step 1:** Adjust payments for outstanding creditors **Working Notes**

Payment of Rs 2,80,000 includes settlement of the opening creditors of Rs 35,000, which relate to purchases of the previous period. Deduct that opening balance. The closing creditors of Rs 65,000 represent purchases made during the current year that remain unpaid, so add that balance.

| Computation of sports material purchases | Amount (Rs) |
|---|---|
| Amount paid to creditors during the year | 2,80,000 |
| Add: Creditors on 31st March, 2021 | 65,000 |
| Less: Creditors on 1st April, 2020 | (35,000) |
| Purchases during the year | 3,10,000 |

Check the creditors movement: opening creditors of Rs 35,000 plus purchases of Rs 3,10,000 less payments of Rs 2,80,000 leave the given closing creditors of Rs 65,000.

**Step 2:** Adjust purchases for opening and closing stock The opening stock is available for consumption this year and must be added to current purchases. The closing stock has not yet been consumed and remains an asset; it must be deducted.

| Computation of sports material consumed | Amount (Rs) |
|---|---|
| Opening stock on 1st April, 2020 | 1,50,000 |
| Add: Purchases during the year | 3,10,000 |
| Sports material available for use | 4,60,000 |
| Less: Closing stock on 31st March, 2021 | (2,20,000) |
| Sports material consumed during the year | 2,40,000 |

Thus, the increase in stock of Rs 70,000 reduces the expense below purchases by Rs 70,000. The amount paid alone cannot measure consumption because both creditors and inventories changed during the year.

**Step 3:** Conclusion Sports material consumed of **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:** Work in two stages: adjust cash paid by adding closing creditors and deducting opening creditors, then add opening stock and deduct closing stock to find consumption.

OR

**6(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 on the accrual basis: include the amount due from members for the current year, whether received or outstanding.
- Outstanding subscriptions are an asset. Subscriptions received in advance relate to the next accounting year and are a liability, not current income.

**Step 1:** Calculate subscriptions earned during 2020-21 The club has 500 members, each paying an annual subscription of Rs 100. Therefore, the income attributable to the year is

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

Of this, Rs 40,000 has been received for 2020-21. Hence subscriptions for the current year still outstanding are

$$\text{Rs } 50,000 - \text{Rs } 40,000 = \text{Rs } 10,000.$$

The Rs 9,000 collected for 2019-20 settles an earlier year's receivable; it is not income of 2020-21. Similarly, Rs 6,000 collected for 2021-22 is income received in advance.

**Step 2:** Determine the closing outstanding balance and reconcile income **Working Notes**

Of the opening outstanding subscriptions of Rs 12,000, only Rs 9,000 was collected. No write-off is stated, so the remaining old arrears continue as an asset:

$$\text{Old arrears remaining} = \text{Rs } 12,000 - \text{Rs } 9,000 = \text{Rs } 3,000.$$

Add the current-year arrears to obtain total subscriptions outstanding on 31st March, 2021:

$$\text{Rs } 3,000 + \text{Rs } 10,000 = \text{Rs } 13,000.$$

The receipts-to-income reconciliation confirms the annual membership calculation:

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

Here opening arrears are deducted and closing arrears are added, while receipts for the following year are excluded. The Rs 50,000 is credited to the Income and Expenditure Account for the year ended 31st March, 2021.

**Step 3:** Present the closing Balance Sheet extract The two closing balances belong under different heads; they are not set off against each other.

**Balance Sheet (Extract) as at 31st March, 2021**

| **Liabilities** | **Rs** | **Assets** | **Rs** |
|---|---|---|---|
| Subscriptions received in advance | 6,000 | Subscriptions outstanding: | |
| | | For 2019-20 | 3,000 |
| | | For 2020-21 | 10,000 |
| | | Total outstanding | 13,000 |

**Step 4:** Conclusion Subscription income for 2020-21 is **Rs 50,000**. The Balance Sheet shows **Rs 13,000 as outstanding subscriptions (asset)** and **Rs 6,000 as subscriptions received in advance (liability)**.

**Quick Tip to Solve:** First multiply members by the annual fee; then add unpaid old arrears to current-year arrears when finding the closing subscription asset.

**7. 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:**

- Credit Debentures A/c with the nominal (face) value issued. Debit Bank A/c with the amount actually received; the interest rate identifies the debenture account and does not determine the issue proceeds.
- An issue premium is credited to Securities Premium A/c. An issue discount is debited to Discount on Issue of Debentures A/c, or included in Loss on Issue of Debentures A/c when redemption is also at a premium.
- Premium payable on redemption is recognised at the time of issue: debit Loss on Issue of Debentures A/c and credit Premium on Redemption of Debentures A/c. Total loss equals issue discount plus redemption premium.

**Step 1:** Record (i): issue at par, redemption at a premium Nominal value and bank proceeds are $3,000 \times \text{Rs } 100 = \text{Rs } 3,00,000$. The redemption premium is $3,00,000 \times 5\% = \text{Rs } 15,000$, which is a loss recognised on issue.

**Journal – transaction (i)**

| 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 of Rs 100 each issued at par, redeemable at 5% premium) | | | |

**Step 2:** Record (ii): issue and redemption at premiums Face value is $4,000 \times \text{Rs } 100 = \text{Rs } 4,00,000$. Issue premium is $4,00,000 \times 5\% = \text{Rs } 20,000$, so bank receives Rs 4,20,000. Redemption premium is $4,00,000 \times 10\% = \text{Rs } 40,000$. Record the issue premium separately from the loss arising on redemption.

**Journal – transaction (ii)**

| 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 A/c | | | 20,000 |
| | To Premium on Redemption of Debentures A/c | | | 40,000 |
| | (Being 4,000 debentures of Rs 100 each issued at 5% premium, redeemable at 10% premium) | | | |

**Step 3:** Record (iii): issue and redemption at par The stated Rs 3,00,000 is the total face value, so bank receives Rs 3,00,000. As both issue and redemption are at par, neither premium nor discount arises.

**Journal – transaction (iii)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 3,00,000 | |
| | To 9% Debentures A/c | | | 3,00,000 |
| | (Being Rs 3,00,000 debentures of Rs 100 each issued at par, redeemable at par) | | | |

**Step 4:** Record (iv): issue at discount, redemption at par The discount is $7,00,000 \times 10\% = \text{Rs } 70,000$. Therefore, bank proceeds are $7,00,000 - 70,000 = \text{Rs } 6,30,000$. Debentures are still credited at their full nominal value; no redemption premium is payable.

**Journal – transaction (iv)**

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

**Step 5:** Record (v): issue at discount, redemption at a premium Issue discount is $10,00,000 \times 10\% = \text{Rs } 1,00,000$, leaving bank proceeds of Rs 9,00,000. Redemption premium is $10,00,000 \times 5\% = \text{Rs } 50,000$. The combined loss on issue is therefore $1,00,000 + 50,000 = \text{Rs } 1,50,000$.

**Journal – transaction (v)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 9,00,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 1,50,000 | |
| | To 9% Debentures A/c | | | 10,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 50,000 |
| | (Being Rs 10,00,000 debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium) | | | |

**Step 6:** Conclusion The five issue entries above balance respectively at Rs 3,15,000, Rs 4,60,000, Rs 3,00,000, Rs 7,00,000 and Rs 10,50,000 on each side. Debentures are credited at face value in every case, with issue and redemption differences recorded in their respective accounts.

**Quick Tip to Solve:** First credit face value, then calculate cash using only the issue terms. Add any redemption premium to the debit-side loss and also credit its separate liability account.

**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 of the current year on the accrual basis. Cash balances and purchases of capital assets are excluded.
- Add closing subscriptions in arrears to subscriptions received and closing outstanding salaries to salaries paid, since both relate to the current year.
- Charge depreciation for the period machinery is held. On disposal of furniture, charge the difference between book value and sale proceeds as a loss; the sale proceeds themselves are capital receipts.

**Step 1:** Adjust revenue income and salaries Subscriptions of Rs 2,000 are due for the year but remain uncollected. Thus, subscriptions earned are

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

Donations of Rs 41,800 have no specified purpose or restriction in the question, so they are treated as general revenue income. Salaries outstanding must be charged along with the amount paid:

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

The investments were purchased on 31st March, 2021, the last day of the accounting year. Therefore no interest income for a holding period during this year is taken into the account.

**Step 2:** Calculate depreciation and loss on furniture Machinery held on 1st April, 2020 attracts depreciation for twelve months. The machinery bought on 1st July, 2020 is depreciated for nine

months, up to 31st March, 2021:

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

Furniture with book value Rs 2,000 was sold for Rs 800. Hence the revenue loss is

$$\text{Loss on sale} = 2,000 - 800 = \text{Rs } 1,200.$$

The machinery purchase of Rs 40,000 and investment purchase of Rs 30,000 are capital payments. Opening and closing cash balances are balance-sheet items. These four amounts do not enter the Income and Expenditure Account.

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

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

| **Dr. Expenditure** | **Rs** | **Income Cr.** | **Rs** |
|---|---|---|---|
| To Salaries | 35,000 | By Subscriptions | 75,000 |
| To Loss on sale of furniture | 1,200 | By Donations | 41,800 |
| To Depreciation on machinery | 7,800 | | |
| To Surplus transferred to Capital Fund | 72,800 | | |
| **Total** | **1,16,800** | **Total** | **1,16,800** |

Revenue expenditure is Rs $35,000 + 1,200 + 7,800 = 44,000$. The balancing surplus is the excess of income over expenditure, namely Rs $1,16,800 - 44,000$. It is transferred to the Capital Fund; it is not a cash balance.

**Step 4:** Conclusion Space Club's surplus for the year ended 31st March, 2021 is $\boxed{\text{Rs } 72,800}$. Both sides of the Income and Expenditure Account total Rs 1,16,800.

**Quick Tip to Solve:** For this account, add both outstanding amounts, depreciate the July machinery for nine months, and charge only the loss on furniture sale, not its book value or sale proceeds.

**9(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, subsequent realisations and settlements are recorded through Realisation Account; their original accounts are not opened again.
- An asset taken by a partner is debited to that partner's Capital Account at its agreed value. Remuneration payable to a partner for dissolution is a realisation expense and is credited to that partner's Capital Account.
- When a creditor accepts an asset already transferred to Realisation Account, no separate entry is needed for that transfer. Only the additional cash settlement is recorded.

**Step 1:** (i) Record the sale of the written-off typewriter The typewriter has no book value, so no asset-transfer entry is required. Its sale produces a receipt of Rs 9,000, credited to Realisation Account. Bank Account is used for the receipt.

**Journal of Chanda, Tara and Nisha (31st March, 2021)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Realisation A/c<br>(Being the fully written-off typewriter sold) | | 9,000 | 9,000 |

**Step 2:** (ii) Record stock taken over by Chanda Chanda's Capital Account is debited with the agreed takeover value of Rs 84,000. The stock's book value of Rs 96,000 has already been transferred to Realisation Account. Therefore, neither Stock Account nor a separate loss account is used now; the difference of Rs 12,000 is included in the net realisation result.

**Journal (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Chanda's Capital A/c Dr.<br>To Realisation A/c<br>(Being stock taken over by Chanda at its agreed value) | | 84,000 | 84,000 |

**Step 3:** (iii) Provide Nisha's remuneration Remuneration for completing dissolution is an expense of realisation. Since the question states that Nisha is to receive it, her Capital Account is credited; this entry records the amount due without presuming that payment has already occurred.

**Journal (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr.<br>To Nisha's Capital A/c<br>(Being remuneration due to Nisha for completing dissolution) | | 42,000 | 42,000 |

**Step 4:** (iv) Settle creditors partly through investments Both the investments and creditors have already been transferred to Realisation Account. No additional entry is made for the investments taken over at Rs 10,000. The balance paid in cash is:

$$\text{Cash paid} = 23,500 - 10,000 = \text{Rs } 13,500.$$

**Journal (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr.<br>To Cash A/c<br>(Being creditors settled by investments and the balance paid in cash) | | 13,500 | 13,500 |

**Step 5:** (v) Record payment to creditors at a discount The discount is $40,000 \times 10\% = \text{Rs } 4,000$, so the actual amount paid is:

$$\text{Payment} = 40,000 - 4,000 = \text{Rs } 36,000.$$

Since the full creditor balance was already credited to Realisation Account on transfer, debiting only the settlement amount automatically includes the Rs 4,000 gain in that account. No separate Discount Received Account is required.

**Journal (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr.<br>To Bank A/c<br>(Being creditors of Rs 40,000 settled at a discount of 10%) | | 36,000 | 36,000 |

**Step 6:** Conclusion The five entries record Rs 9,000 received, stock taken over at Rs 84,000, remuneration due of Rs 42,000, cash settlement of Rs 13,500 and discounted settlement of Rs 36,000. Each entry has equal debit and credit amounts. The profit-sharing ratio is needed only when the final realisation profit or loss is distributed, which is not asked here.

**Quick Tip to Solve:** After transfer to Realisation Account, use the agreed takeover value or actual settlement amount. Do not record a second entry for investments accepted by creditors or separately book their settlement discount.

OR

**9(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<br>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:**

- Increases in asset values are credited and decreases are debited to Revaluation Account. Revaluation profit or loss belongs to all partners in their old profit-sharing ratio.
- The general reserve is accumulated profit and is credited to the partners' capital accounts in the old ratio, $1:1:1$.
- When goodwill is not raised, the gaining partners compensate the retiring partner through their capital accounts. The retiring partner's final capital balance is transferred to her Loan Account when payment is deferred.

**Step 1:** Calculate the revaluation and goodwill adjustments **Working Notes** Building appreciation is Rs $40,000 \times 20\% =$ Rs $8,000$. Machinery depreciation is Rs 1,500. The provision already stands at Rs 1,000, so only its increase, Rs $1,500 -$ Rs $1,000 =$ Rs $500$, is charged to Revaluation Account.

$$\text{Revaluation profit} = 8,000 - 1,500 - 500 = \text{Rs } 6,000.$$

Each partner receives $6,000/3 =$ Rs $2,000$ of this profit and $12,000/3 =$ Rs $4,000$ of the general reserve. Since no new ratio is specified, Heena and Meena continue in their existing relative ratio, $1:1$. Each partner's gain is $1/2 - 1/3 = 1/6$; hence the gaining ratio is $1:1$. 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. No Goodwill Account is opened.

**Step 2:** Prepare Revaluation Account The net profit is transferred equally to the three partners' capital accounts, closing Revaluation Account. All amounts below are in Rs.

**Revaluation Account as on 1st April, 2020**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Machinery A/c | 1,500 | By Building A/c | 8,000 |
| To Provision for Doubtful Debts A/c | 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 3:** Prepare Heena's Capital Account Credit the opening capital, reserve and revaluation profit; debit the goodwill compensation due to Tina. The balance retained in the firm is $30,000 + 4,000 + 2,000 - 3,500 =$ Rs $32,500$.

**Heena's Capital Account as on 1st April, 2020**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Tina's Capital A/c | 3,500 | By Balance b/d | 30,000 |
| To Balance c/d | 32,500 | By General Reserve A/c | 4,000 |
| | | By Revaluation A/c | 2,000 |
| Total | 36,000 | Total | 36,000 |

**Step 4:** Prepare Meena's Capital Account Meena has the same opening capital, profit share and goodwill adjustment as Heena. Her adjusted capital is therefore also Rs 32,500.

**Meena's Capital Account as on 1st April, 2020**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Tina's Capital A/c | 3,500 | By Balance b/d | 30,000 |
| To Balance c/d | 32,500 | By General Reserve A/c | 4,000 |
| | | By Revaluation A/c | 2,000 |
| Total | 36,000 | Total | 36,000 |

**Step 5:** Prepare Tina's Capital Account and transfer her dues Tina receives her share of the reserve, revaluation profit and goodwill. Her entire adjusted capital is transferred to her Loan Account, as required; there is no bank payment and no capital balance carried forward for her.

**Tina's Capital Account as on 1st April, 2020**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Tina's Loan A/c | 41,000 | By Balance b/d | 28,000 |
| | | By General Reserve A/c | 4,000 |
| | | By Revaluation A/c | 2,000 |
| | | By Heena's Capital A/c | 3,500 |
| | | By Meena's Capital A/c | 3,500 |
| Total | 41,000 | Total | 41,000 |

**Step 6:** Conclusion Revaluation profit is **Rs 6,000**. Heena's and Meena's closing capitals are **Rs**

**32,500 each**; **Rs 41,000** is transferred from Tina's Capital Account to Tina's Loan Account.

**Quick Tip to Solve:** Charge only the Rs 500 increase in the doubtful-debt provision. Distribute reserve and revaluation profit to all three partners, but charge Tina's goodwill only to the two gaining partners.

## 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 summarises the inflows and outflows of cash and cash equivalents during an accounting period.
- Cash flows are classified into operating, investing and financing activities so that the sources and uses of cash can be identified.

**Step 1:** Identify what the statement explains Its principal objective is to explain the change in the enterprise's cash and cash equivalents between the beginning and the end of the period. It shows where cash came from and how it was used, rather than treating accounting profit as cash available. Credit sales, for example, may increase profit before cash is received.

**Step 2:** State how the information is useful By presenting operating, investing and financing cash flows separately, the statement helps users assess the enterprise's ability to generate cash and cash equivalents and its needs for using them. This supports an assessment of liquidity and the ability to meet obligations, such as payments to suppliers and lenders, as they fall due.

**Step 3:** Conclusion The objective of preparing a Cash Flow Statement is to report the sources and applications of cash and cash equivalents and explain their net change during the period, thereby helping users assess cash-generating ability and liquidity.

**Quick Tip to Solve:** Link the objective to both sources and uses of cash and the change between opening and closing cash balances.

**11(a). Prepare a 'Common size statement of Profit and Loss' for the year ended 31st March, 2021 from the following informations :**

| Particulars | 2020-21 (Rs.) | 2019-20 (Rs.) |
|---|---|---|
| Revenue from Operations | 40,00,000 | 20,00,000 |
| Purchase of Stock in trade | 4,00,000 | 1,00,000 |
| Other expenses | 6,00,000 | 3,00,000 |
| Tax Rate 50% | | |

[3 marks]

**Solution:**

**Concept:**

- In a common size statement of profit and loss, revenue from operations is the base, taken as $100\%$ separately for each year.
- Each item is expressed as Item amount/Revenue from operations $\times$ 100. Profit before tax equals revenue less expenses; tax is calculated on that profit.

**Step 1:** Calculate expenses, profit and tax **Working Notes** For 2020-21, total expenses are Rs $4,00,000 + 6,00,000 = 10,00,000$. Therefore profit before tax is Rs $40,00,000 - 10,00,000 = 30,00,000$. Tax at $50\%$ is Rs $15,00,000$, leaving profit after tax of Rs $15,00,000$.

For 2019-20, total expenses are Rs $1,00,000+3,00,000 = 4,00,000$. Profit before tax is Rs $20,00,000-4,00,000 = 16,00,000$. Tax at $50\%$ is Rs $8,00,000$, leaving profit after tax of Rs $8,00,000$.

**Step 2:** Express each item as a percentage of revenue For example, purchases in 2020-21 are $4,00,000/40,00,000 \times 100 = 10\%$, whereas purchases in 2019-20 are $1,00,000/20,00,000 \times 100 = 5\%$. Apply the same denominator for every item within a year. The tax rate is $50\%$ of profit before tax, but the tax percentages in this statement use revenue as their base.

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

| Particulars | 2020-21 (Rs) | 2019-20 (Rs) | 2020-21 (%) | 2019-20 (%) |
|---|---|---|---|---|
| I. Revenue from operations | 40,00,000 | 20,00,000 | 100 | 100 |
| II. Other income | – | – | – | – |
| III. Total revenue | 40,00,000 | 20,00,000 | 100 | 100 |
| IV. Expenses: | | | | |
| Purchases of stock-in-trade | 4,00,000 | 1,00,000 | 10 | 5 |
| Other expenses | 6,00,000 | 3,00,000 | 15 | 15 |
| Total expenses | 10,00,000 | 4,00,000 | 25 | 20 |
| V. Profit before tax | 30,00,000 | 16,00,000 | 75 | 80 |
| VI. Tax expense | 15,00,000 | 8,00,000 | 37.5 | 40 |
| VII. Profit after tax | 15,00,000 | 8,00,000 | 37.5 | 40 |

**Step 3:** Conclusion Profit after tax is Rs $15,00,000$, or $37.5\%$ of revenue, for 2020-21, compared with Rs $8,00,000$, or $40\%$, for 2019-20. Thus the absolute profit rose while the net profit percentage fell by $2.5$ percentage points.

**Quick Tip to Solve:** Use each year's own revenue as the denominator; calculate tax on profit first, then express that tax as a percentage of revenue.

OR

**11(b). From the following Balance Sheet of Ganesh Ltd. as at March 31, 2021, prepare a Comparative Balance Sheet :**

| Particulars | Note No. | 31.03.2021 (Rs) | 31.03.2020 (Rs) |
|---|---|---|---|
| I. Equity and Liabilities : | | | |
| 1. Shareholder's Funds : | | | |
| Share Capital | | 15,00,000 | 12,00,000 |
| 2. Non-Current Liabilities : | | | |
| Long term borrowings | | 10,00,000 | 8,00,000 |
| Total | | 25,00,000 | 20,00,000 |
| II. Assets : | | | |
| 1. Non Current Assets : | | | |
| Fixed Assets | | | |
| Tangible Assets | | 15,00,000 | 10,00,000 |
| 2. Current Assets | | 10,00,000 | 10,00,000 |
| Total | | 25,00,000 | 20,00,000 |

[3 marks]

**Solution:**

**Concept:**

- A comparative balance sheet presents each asset, equity and liability at two dates, together with its absolute and percentage change. The earlier year, 31 March 2020, is the base year.
- Absolute change equals the amount in 2021 minus the amount in 2020. Percentage change equals absolute change divided by the corresponding 2020 amount, multiplied by 100. A positive result denotes an increase.

**Step 1:** Calculate the changes using the previous year as the base Share capital increases by Rs $15,00,000 - 12,00,000 = 3,00,000$, giving

$$\frac{3,00,000}{12,00,000} \times 100 = 25\%.$$

Long-term borrowings increase by Rs $10,00,000 - 8,00,000 = 2,00,000$, also $25\%$. Tangible fixed assets increase by Rs $15,00,000 - 10,00,000 = 5,00,000$, giving $50\%$. Current assets remain Rs 10,00,000, so both their absolute change and percentage change are zero. The total on each side increases by Rs $25,00,000 - 20,00,000 = 5,00,000$, or $25\%$ of the earlier total.

**Step 2:** Prepare the comparative statement **Ganesh Ltd.**
**Comparative Balance Sheet as at 31 March 2020 and 2021**
Amounts and absolute changes are in Rs; the final column shows percentage increase.

| Particulars | Note | 31.03.2020 | 31.03.2021 | Increase | % |
|---|---|---|---|---|---|
| **I. Equity and Liabilities** | | | | | |
| **1. Shareholders' funds** | | | | | |
| Share capital | | 12,00,000 | 15,00,000 | 3,00,000 | 25 |
| **2. Non-current liabilities** | | | | | |
| Long-term borrowings | | 8,00,000 | 10,00,000 | 2,00,000 | 25 |
| **Total** | | **20,00,000** | **25,00,000** | **5,00,000** | **25** |
| **II. Assets** | | | | | |
| **1. Non-current assets** | | | | | |
| Fixed assets: Tangible assets | | 10,00,000 | 15,00,000 | 5,00,000 | 50 |
| **2. Current assets** | | 10,00,000 | 10,00,000 | 0 | 0 |
| **Total** | | **20,00,000** | **25,00,000** | **5,00,000** | **25** |

The increase in equity and liabilities is Rs $3,00,000 + 2,00,000 = 5,00,000$, equal to the increase in total assets. Each year's statement therefore balances, and the change columns reconcile as well.

**Step 3:** Conclusion Ganesh Ltd.'s total assets and total equity and liabilities each rise from Rs 20,00,000 to Rs 25,00,000, an increase of Rs 5,00,000 or $25\%$. Tangible assets increase by $50\%$, while current assets are unchanged.

**Quick Tip to Solve:** Use each item's own 2020 amount as its denominator. Do not add the individual percentage changes to find the percentage increase in the balance-sheet total.

**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 :<br>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 :<br>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 :<br>Surplus i.e. Balance in Statement of Profit and Loss | 6,00,000 | 3,00,000 |
| 2 | Short term borrowings :<br>Bank Overdraft | 1,70,000 | 1,75,000 |
| 3 | Short term provisions :<br>Provision for tax | 2,00,000 | 1,65,000 |
| 4 | Tangible Assets :<br>Machinery | 25,00,000 | 21,00,000 |
| 5 | Intangible Assets :<br>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 fixed assets and investments and cash received from their disposal. Depreciation is non-cash; the sale proceeds, rather than the asset's book value, enter the cash flow statement.
- Financing activities change share capital and borrowings. For a non-financial company, interest paid is a financing outflow. Borrowings raised on the last day of the year do not attract a full year's interest.
- Current investments are shown separately from cash and cash equivalents in this balance sheet. With no information identifying them as cash equivalents, their decrease is treated as proceeds from investments. Bank overdraft is treated as short-term borrowing.

**Step 1:** Work out cash spent on machinery and goodwill The machinery balances are book values. Therefore add back both the year's depreciation and the book value of the machine sold when finding additions:

$$\begin{aligned}\text{Machinery purchased} &= \text{Closing book value} - \text{Opening book value} \\ &\quad + \text{Depreciation} + \text{Book value sold} \\ &= 25,00,000 - 21,00,000 + 2,00,000 + 40,000 \\ &= \text{Rs } 6,40,000.\end{aligned}$$

Check: $21,00,000 + 6,40,000 - 2,00,000 - 40,000 = 25,00,000$. Goodwill increased from Rs 3,00,000 to Rs 4,00,000; the cash acquisition is Rs 1,00,000. No other goodwill adjustment or non-cash acquisition is stated.

**Step 2:** Prepare the investing activities section The machine's cash selling price is Rs 50,000. Its Rs 10,000 profit is not added separately to investing inflows, since it is already included in these sale proceeds. The decrease in current investments is $1,70,000 - 1,40,000 = \text{Rs } 30,000$.

**Bajaj Ltd.: Cash Flow Statement (Extract)**
**For the year ended 31st March, 2021**

| Particulars | Amount (Rs) |
|---|---|
| **Cash flows from investing activities** | |
| Sale of machinery | 50,000 |
| Proceeds from current investments | 30,000 |
| Purchase of machinery | (6,40,000) |
| Purchase of goodwill | (1,00,000) |
| **Net cash used in investing activities** | **(6,60,000)** |

**Step 3:** Determine capital proceeds, borrowing changes and interest Cash from issue of share capital is $19,00,000 - 17,00,000 = \text{Rs } 2,00,000$. Long-term borrowings increased by Rs 1,00,000, as confirmed by the additional information. Since this borrowing was obtained on 31st March, 2021, the year's interest is calculated on opening borrowings only:

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

Bank overdraft decreased from Rs 1,75,000 to Rs 1,70,000, so repayment is Rs 5,000. The change in reserves represents accumulated profit, not proceeds from owners. Provision for tax and inventories

relate to operating activities and therefore do not enter either of the two sections asked for.

**Step 4:** Prepare the financing activities section Show capital and borrowing receipts as inflows and the repayment and interest as outflows. Parentheses indicate cash outflows.

**Bajaj Ltd.: Cash Flow Statement (Extract)**
**For the year ended 31st March, 2021**

| Particulars | Amount (Rs) |
|---|---|
| **Cash flows from financing activities** | |
| Proceeds from issue of share capital | 2,00,000 |
| Proceeds from long-term borrowings | 1,00,000 |
| Repayment of bank overdraft | (5,000) |
| Interest paid on long-term borrowings | (48,000) |
| **Net cash from financing activities** | **2,47,000** |

Thus, the financing subtotal is $2,00,000 + 1,00,000 - 5,000 - 48,000 = \text{Rs } 2,47,000$.

**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:** Use the sold machine's Rs 40,000 book value to find purchases, but its Rs 50,000 proceeds for cash inflow; charge interest only on the opening Rs 4,00,000 borrowings.

*Option - II (Computerised Accounting)*

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

**Solution:**

**Concept:**

- A database stores related facts; a report presents selected facts in an organised form for use by its readers.
- A report wizard is a guided tool for creating a report from the tables or queries in a database.

**Step 1:** Meaning of Report A report is a formatted and organised presentation of information retrieved from a database. It arranges relevant data under suitable headings, and may group records and show totals or summaries. Its layout makes the information easy to read, review and print. For example, a payroll report can present employee-wise salary details and a total salary amount.

**Step 2:** Meaning of Report Wizard A Report Wizard is a software facility that helps the user create a report through a sequence of guided steps. The user selects the source table or query and the fields to include, and specifies grouping, sorting and layout choices. Using these selections, the wizard automatically prepares the report design, reducing the need to design every part manually.

**Step 3:** Conclusion A Report is the formatted presentation of database information; a Report Wizard is the guided facility used to create that presentation.

**Quick Tip to Solve:** Distinguish the output from the tool: a Report presents data, while a Report Wizard guides its creation.

**11(a). Explain 'Grade Pay', 'Dearness Allowance' and 'Transport Allowance' as components of payroll.** [3 marks]

**Solution:**

**Concept:**

- Payroll records the remuneration payable to employees, including pay and the allowances applicable under the employer's rules.
- Different salary components have different purposes: grade pay recognises the employee's grade, dearness allowance compensates for rising living costs, and transport allowance supports commuting.

**Step 1:** Grade Pay Grade Pay is a fixed amount of pay attached to the grade or level of an employee's post. It is paid in addition to pay in the applicable pay band under a grade-pay system. The amount depends on the grade and the corresponding pay structure, reflecting the level of responsibility or seniority of the post. Thus, it is linked to the position occupied by the employee rather than being a reimbursement of an expense.

**Step 2:** Dearness Allowance Dearness Allowance, or DA, is an allowance paid to compensate employees for an increase in the cost of living caused by inflation. It is generally calculated as a specified percentage of the applicable basic pay under the employer's pay rules. Its rate is revised from time to time in response to changes in living costs. It therefore supplements pay to help maintain the employee's purchasing power.

**Step 3:** Transport Allowance Transport Allowance is an allowance paid to help meet the employee's expenditure on travel between residence and the normal place of work. Its amount is determined according to the applicable employment rules, which may take account of the employee's grade and place of posting. It concerns routine commuting and is distinct from reimbursement for an official tour undertaken for the employer's business.

**Step 4:** Conclusion Grade Pay is linked to the employee's grade or post; Dearness Allowance compensates for increased living costs; and Transport Allowance helps meet the cost of travel between home and work.

**Quick Tip to Solve:** Remember each component by its purpose: grade or post, rising prices, and daily travel to work, respectively.

OR

**11(b). List the information to be filled while creating a company using 'Gateway of Tally'.** [3 marks]

**Solution:**

**Concept:**

- Creating a company in Tally establishes a separate set of accounting records and specifies the organisation to which those records belong.
- Company creation requires identification and contact details, accounting-period settings, security choices and base-currency information.

**Step 1:** List the identification and mailing details The information to be filled includes the directory or location for storing company data; the company's name; its mailing name and address; country, state and PIN code; and contact information such as telephone number and e-mail address. The company name identifies the set of books, while the mailing details appear on printed business documents.

**Step 2:** List the accounting-period and maintenance details Specify the method of maintaining accounts, such as Accounts Only or Accounts with Inventory, as applicable. Enter the date from which the financial year begins and the date from which the books begin. The former identifies the accounting year, while the latter identifies the starting date of the records maintained in Tally; these dates need not always be identical.

**Step 3:** List the security and currency details Specify whether security control is to be used and enter the administrator's name and password if it is enabled. A TallyVault password may also be specified for encryption. Fill or confirm the base-currency information, including its symbol and formal name, number of decimal places, and the required display settings, such as whether the symbol is suffixed to the amount and whether amounts are shown in millions.

**Step 4:** Conclusion Thus, the company-creation information covers its data directory, name, mailing and contact particulars, method of maintaining accounts, financial-year and books-beginning dates, security details and base-currency settings.

**Quick Tip to Solve:** Recall the form in groups: identity, contact, accounts, dates, security and currency. Remember to list both the financial-year start and the books-beginning date.

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

**Solution:**

**Concept:**

- Installation makes the accounting software ready to run on the computer by copying and configuring its required files.
- The application directory stores program files, the data directory stores accounting records, and the configuration directory stores settings. These locations are selected during installation.

**Step 1:** Insert the installation CD Place the CD containing the accounting software in the computer's CD drive. The installation files must be accessible before the installation program can be started.

**Step 2:** Start the installation program Open **My Computer** on the desktop, select the drive containing the installation files, and double-click `install.exe`. Alternatively, choose **Start**, then **Run**, and enter the installation file's full path, specifying drive E: and the file `install.exe`, if the CD drive is E:. Both procedures launch the same installer; they are alternative ways of performing this step.

**Step 3:** Check the directory settings The installer displays the default locations for the application, data and configuration files. Accept these locations if suitable. Otherwise, enter the required drive and directory names. For example, the application may be installed in the Accounts folder on drive D: instead of its default folder on drive C:. The chosen directories determine where the software and its associated files will be stored.

**Step 4:** Run the installation Click **Install** after checking the settings. Allow the installer to copy the necessary program files and complete the installation process. Keep the CD in the drive while the files are being copied.

**Step 5:** Confirm completion Wait for the software to display its successful-installation message. The installation CD can then be removed. Company creation and transaction entry are subsequent uses of the installed package; they are separate from installing the program itself.

**Step 6:** Conclusion The sequence is: insert the CD, launch `install.exe`, accept or change the directories, click **Install**, and remove the CD after successful installation.

**Quick Tip to Solve:** Remember CD, installer, directories, Install, success; include both ways of launching the installer and all three directory types.